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Online Vehicle Sales

The Temporary Measure Driving Permanent Change in Finished Vehicle Logistics

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Online Vehicle Sales:
The Temporary Measure Driving Permanent Change in Finished Vehicle Logistics

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1. Introduction: Driving Digital Vehicle Distribution in Europe

The trend towards retail ecommerce in Europe was on the rise long before the coronavirus crisis, with a growing number of purchases each year across consumer goods, fashion, electronics and food. There had been growth in online sales for the automotive industry as well, however most activity was concentrated in the used vehicle sector and aftermarket. While consumers increasingly researched and compared new vehicles online, and a few niche retailers and OEMs offered online services, relatively few customers made complete vehicle transactions or arranged deliveries online.

However, the pandemic has forced OEMs and dealerships to make radical changes to allow vehicle sales and registrations even whilst many showrooms were closed. As a result, there has been a huge rise in 'click-and-collect' purchases, in which consumers order online and collect vehicles for handover, as well as 'home delivery' service.

While exact data on online sales channels for new vehicles are not available, ECG Business Intelligence estimates that online new vehicle sales have risen more than sixfold in 2020 to above 5.5m units. This number accounted for just over 50% of total passenger car sales in Europe, up from an estimated 5% before the pandemic. Online sales in 2021 are set to rise even further.

This remarkable shift has driven significant change in technology and customer interfaces for vehicle sales. For example, OEMs and dealers have pivoted to enable virtual viewings and even virtual test drives in some cases, while ramping up secure online transaction services. GForces, which supplies online car sales platforms to both automakers and dealers globally, saw sales soar, reporting average monthly sales rising from 640 units in March 2020 to 2,675 units per month thereafter. By the end of 2020 the company saw sales via its online platform jump 1,228%.

Whilst these services have been in response to the crisis, they represent long-lasting changes. ECG Business Intelligence forecasts that by 2030 the share of online sales in Europe will account for more than 60% of vehicle sales. By then, even more vehicles are likely to have been sold directly between OEM and final customers and in an 'agency' sales model, with dealers playing new roles in the distribution chain.

Even before the pandemic, carmakers in Europe had been planning to shift more sales via online and even to sell directly to consumers. Tesla has been the most notable example, however other carmakers had been pivoting towards online platforms, including Volvo Cars, Mercedes-Benz, Volkswagen Group and Hyundai. Volvo has already announced that it would sell all its electric vehicles through online channels, including 100% of new vehicles by 2030. Volkswagen Group, meanwhile, is also transitioning to more online sales, including for its electric ID series.

For vehicle logistics, online transactions have allowed the vehicle supply chain to function. In the early phase of the first wave, for example, many European markets saw new registrations fall to nearly zero after showrooms closed and registrations stopped. Scaling up click-and-collect and other online services allowed sales to resume and continue under subsequent lockdowns.

In many cases, such transactions meant relatively little change for vehicle logistics processes compared to physical dealer sales, since most vehicles would still be delivered to dealerships for final handover, with pre-delivery inspection (PDI) and accessory services through standard channels.

However, there are already signs of changes to distribution patterns. ECG Business Intelligence estimates that as many as 20% of sales transactions in 2020 resulted in home delivery services, particularly for premium vehicles. Most of these deliveries would have been organised through dealerships as single deliveries; however, logistics providers have also sought to serve direct OEM-to-consumer sales. As OEMs sell even more online, logistics is likely to change further, with the possible need for more fulfilment centres around consumption areas and the opportunities for logistics providers and distribution centres to carry out more value-added services and inspection for final customers.

Whether vehicle logistics deliveries are ultimately routed through dealerships, distribution centres or directly to consumers, the move to online sales channels will also require more agile delivery capabilities as well as real-time tracking of vehicles. Just as consumers now expect to see the location of goods they order online at each stage of delivery, so too would OEMs and logistics providers need to provide better visibility across the entire order-to-delivery cycle. Most carmakers have sought to improve such tracking since long before Covid-19; but the tremendous growth of online vehicle sales only makes this need more compelling.

1.2 Methodology

To calculate the volume of car sales that took place via traditional offline versus online sales methods, ECG Business Intelligence analysed the status of dealerships in markets across Europe. We found that despite dealerships being officially ‘closed’ in markets like Germany, the UK and France, that sales nonetheless continued, albeit at a slower pace.

These markets also had periods when the dealerships were ‘open’, but that was not a return to the usual status quo. When open these dealerships enforced significant measures to comply with Covid-19 protocols, including maintaining 1.5-2 metre distance between dealer staff and any customers, use of hand sanitizers regularly, wearing masks, as well as the use of plastic disposable covers on car seats and steering wheels if the customer chose to sit in or drive the car. And in almost all cases, the dealerships did not encourage walk-ins, but asked car buyers to book appointments.

In response to these restrictions, dealerships have encouraged buyers to use online sales platforms where possible, and even to discuss options with their staff by phone rather than at the showroom. In our research, we found that dealers and OEMs were in many cases offering to pay for 'home delivery' service, where they would provide an insured driver to deliver the vehicle to the buyer. This has especially been the case for premium cars. In other situations, dealers preferred click-and-collect options even when the dealership was open, with a view to minimise interaction.

According to our analysis, the markets where dealerships were predominately closed or operated under significant restrictions accounted for around 59% of the total 10.4m passenger cars that were sold in the EU and UK in 2020. Automakers and dealers adapted quickly to new market conditions, moving sales online.

To understand which type of online method was used in markets in Europe, our analysis included discussions with dealerships that were either franchises or owned by OEMs. We also looked at sales data in markets in Europe, together with online retail trends and penetration levels in the region. We found a remarkably high proportion of dealers were carrying out sales via both click-and-collect orders as well as arranging home delivery.

Another factor was the rise in EV sales, which saw an annual increase of nearly 150% across the EU and UK in 2020, even in an overall market down close to 30%. Many OEMs, including Volkswagen, Mercedes-Benz and Volvo, are already selling electric vehicles via online channels.

Many new car buyers continue to want to physically visit a dealership, but our analysis suggests that a greater proportion of the transaction will be completed online in future as well, with the dealer becoming more of an experience and service centre.

In response, automakers are integrated the showroom visit into their direct sales approach. As lockdowns ease and normal dealership visits resume, we forecast a slight dip in online car sales in 2022 and 2023 as some buyers who put off their ICE purchases look for the traditional offline buying approach. And we expect new car sales to gain significantly as buyers revisit showrooms with greater ease and flexibility.

But as OEMs push the direct sales model especially with their new electric vehicles, the overall penetration rate of online sales will grow and surpass current levels later in the decade.

2. The Rising Share of Online Vehicle Sales

The Covid-19 crisis has been a significant accelerator of ecommerce across sectors in Europe. A survey from the European Commission found that 89% of people in the EU aged 16-74 used the internet in 2020, and more than 70% also made a purchase, including around 78% of both the age groups of 16-to-24-year-olds and 25-to-54-year-olds, up from just over 50% in 2010[1]. The sharpest rises have occurred in 2020 alone as the pandemic led to the closure of non-essential retail across most European countries. Whilst 55-to-74-year-olds still shop online less, this cohort also saw a sharp rise in 2020, with more than 55% completing purchases.

There are still divergences across Europe, with the highest share of the population shopping online in the UK, the Netherlands and Scandinavian countries at close to 90%, while most western European countries have a higher proportion of the population shopping online compared to eastern European countries (see Figure 1.1). There is also a growing comfort with online shopping, including strengthening distribution and service networks. More than 71% of shoppers claimed they did not encounter any problems in shopping online in 2020, according to Eurostat data.

Figure 2.1 Share of European Population that Made Online Purchases Online in 2020 (%)

Source: Eurostat

* designation as per UNSCRT 1244/99, France, Italy, Switzerland, North Macedonia estimates based on 2019 data

[1] Eurostat: Ecommerce statistics for individuals (https://ec.europa.eu/eurostat/statistics-explained/pdfscache/46776.pdf)

A relatively lower share of the population in Europe currently shops for automotive-related goods online. According to the Eurostat survey, around 10% of the population had ordered bicycles, mopeds, cars (used or new) or spare parts online in the previous three months, compared to nearly 30% for consumer electrics and food deliveries, and nearly 65% for clothes, shoes and accessories. Online automotive purchases in Europe were predominantly from people in the 25-to-54-year-old range, followed by the 55-to-74-year-old range. These two age groups were also found to have the highest spending online in the period and tended to be the groups responsible for the purchase of higher-cost products.

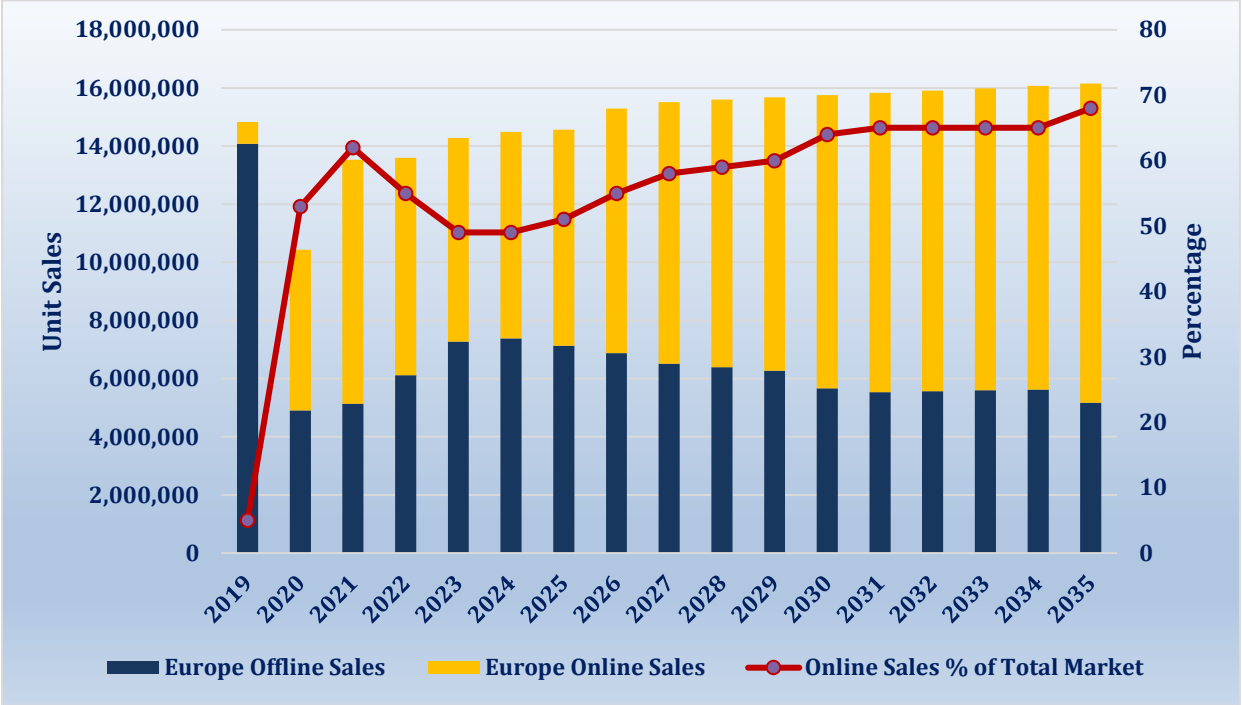
Despite the relatively low share of the population buying automotive products online, the figures suggest a growing openness to buy online. There had already been a trend for online transactions for used vehicles; and the coronavirus pandemic has shifted considerably more consumers to buy or arrange new vehicle transactions online.

2.2 European Vehicle Sales Online vs Offline Forecast

While car sales in general declined by 29.6% in 2020, ECG Business Intelligence estimates that the number of sales achieved via online platforms rose by 645%, based on final sales levels reached during closures and restrictions for dealerships last year. Online sales therefore accounted for just over 50% of total passenger car sales in the EU and UK in 2020, up from a mere 5-6% pre-Covid. In 2019, we estimate that fewer than 750,000 new cars in Europe were purchased via online platforms, while in 2020 that volume jumped to over 5.5m units.

This huge rise was the result of social and economic restrictions, notably the closure of non-essential retail shops in many European countries, including major European markets including Germany, the UK, France and Italy. After originally seeing sales shrink by 80-90% year-on-year in the early months of the pandemic, more OEMs were able to resume sales as European governments allowed click-and-collect and as OEMs and dealerships scaled up their online sales capabilities, including for home delivery. However, our analysis found that the trend to move to online sales permeated even in markets that have mostly kept dealerships open, such as Sweden and Finland, where there were already strong online purchasing trends.

Figure 2.2 European Vehicle Online vs. Offline Sales Forecast 2019-2035



Source: ECG Business Intelligence

That is partly why we expect that, even as vaccines roll out and physical retail becomes possible again, the European new vehicle market is unlikely to revert to pre-Covid levels of offline sales. Buyers have switched to online services across the retail spectrum and its hassle-free experience means that they are likely to continue. Online car sales will be part of the new normal.

We expect 2021 to continue to see a very high share of online sales as many markets continue to manage with restrictions to non-essential retail, with online vehicle sales set to rise to nearly 8.4m units according to ECG Business Intelligence estimates. Some recovery in offline sales will follow as dealerships reopen showrooms, but the share of online sales will rise further in the years ahead. By 2030, we forecast that online sales will account for around 64% of total new car sales in Europe.

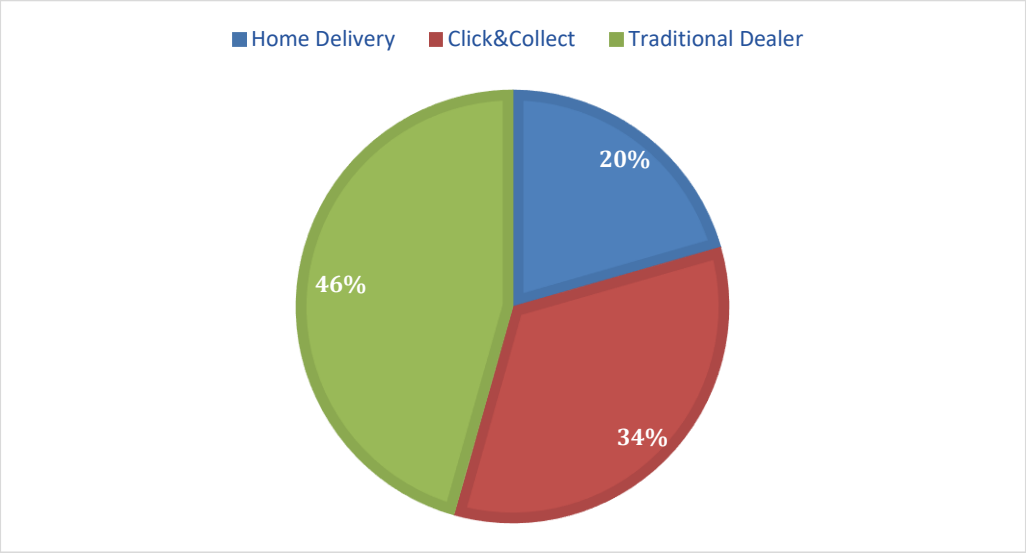
3. Changes in Vehicle Delivery Methods

The shift to online sales will inevitably change further the way OEMs and dealerships interact with customers and for the wider supply chain. One of the key changes that can already be observed is how final delivery methods and handovers to customers have changed as a result of this shift online.

According to ECG Business Intelligence, click-and-collect purchases and handovers accounted for more than one-third of all vehicle transactions in Europe in 2020, while home

delivery is estimated to have accounted for 20% of all new car sales – a significant shift considering that this delivery method was generally niche pre-Covid.

Figure 3.1 New Passenger Car Delivery Methods in Europe 2020



Source: ECG Business Intelligence

While click and collect was more popular than home delivery overall, in some markets dealers and carmakers have preferred to offer home delivery service where new cars are driven by approved drivers, in a Covid-secure way, to customers' homes or selected locations. This delivery method was particularly encouraged in countries with high Covid-19 rates so as to limit the number of visitors to the dealerships.

According to available data, home delivery was predominantly popular for premium vehicles and less likely for lower- or mid-priced cars if the click and collect option was available.

The rise in online sales has led to corresponding changes to transaction and delivery services. However, the overall shift for the finished vehicle supply chain has been more evolutionary than radical. For example, in most cases customer interactions and purchases have still been through authorised dealerships. Carriers have still delivered vehicles to dealers for the last mile. Dealers have also arranged most home deliveries in coordination with customers, rather than organised directly with OEMs or through their contracted logistics providers.

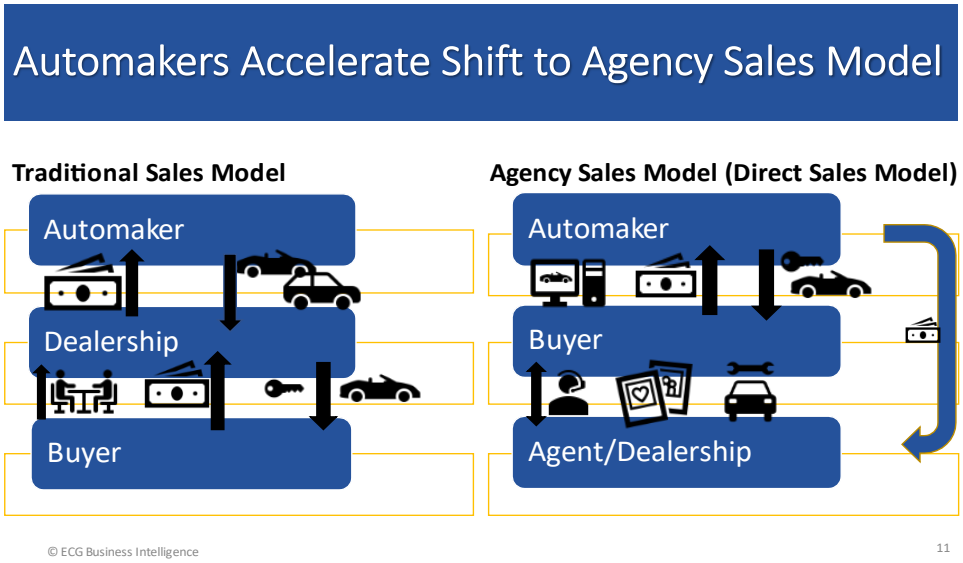
However, online interactions are paving the way for more direct connections between OEMs and customers, which is likely to lead to wider distribution and logistics changes.

4. Automakers Accelerate Shift to Direct Sales Model

The traditional vehicle sales model is in effect a three-tiered system, with the automakers selling cars wholesale to dealers, and dealers selling them on to consumers. The emerging direct sales model is a two-tiered model, as the carmaker sells to the consumer, making the dealer more of an agent.

Such an arrangement could change the dealer's role to become more of an experience centre and test drive location, while also continuing its role as a service centre. However, most European OEMs still expect many aspects of a vehicle sale to go through dealers, including transaction details and delivery. Major changes also could come in pricing strategies. For example, OEMs may set fixed prices for new cars and eliminate dealer haggling. In return the dealer gets an agent fee and looks after the longer-term care plan for the buyer and remains their local point of contact for service needs.

Figure 4.1 Traditional Sales Model (Three-Tier) And Agency Sales Model (Two-Tier)



This new model is already starting to emerge at several European brands, with OEMs seeking to sell electric vehicles in particular online.

Audi, for example, already shifted its fleet sales to an agency sales model in 2018. **Volkswagen** announced in May 2020 that its ID. family of electric cars would use the new agency sales model, whereby Volkswagen sells directly to online customers, while dealers remain the local point of contact.

VW said in a statement: "The agency model lays the contractual foundation for integrating online business and showroom-based business. From sales launch, customers can order

vehicles from the ID. family direct from Volkswagen. At the same time, they select their preferred dealer for personalised customer care and local services."

Rather than a means to eliminate dealerships, Volkswagen has introduced the new method to use the agency sales model for its ID electric vehicles with the support of the Wolfsburg-based Volkswagen and Audi Partner Association (VAPV), which represents 2,400 German dealers.

Dirk Weddigen von Knapp, chairman of VAPV said: "The agency model brings significant financial relief for dealers, and that is particularly important at the present time. Our partners can therefore focus on what makes retail so indispensable: personal, competent customer care."

Kia Motors was an early adopter of the agency model in Europe with the implementation of the system in the Balkan region in 2010 across Croatia, Serbia and Slovenia (it has outsourced dealer operations in the region from even earlier). Kia is also planning on expanding the rollout across more regions of Europe and has just gone live with a pilot in the Netherlands.

Mercedes-Benz is also launching a direct-to-buyer online sales strategy for certain model lines in Europe following successful trials of the agency model in South Africa and Australia. The fixed price, online retail option was launched in 2019 in Australia solely for its EQC electric SUV model with plans to keep the agency model as standard across the EQ range of EVs. Once the car has been chosen by the consumer, Mercedes transports it to the closest dealer, which is then responsible for delivering the vehicle to the online buyer.

In Europe, Mercedes-Benz has trialled the agency sales model in Sweden since April 2019 and will roll it out in Austria this year. The carmaker is expected to increase online sales platform across Europe at an accelerated pace following a surge in visits to its sales websites from the second quarter of 2020, when the volume of daily hits in Germany to Mercedes' sales websites surged 70% between April and June 2020. The carmaker has already said that it expects 25% of its passenger car sales to be made via online channels by 2025.

Volvo Cars has also announced ambitious plans to shift vehicle sales online. It will already sell all of its pure EVs online starting with the C40 Recharge from March 2021. By 2025, it expects to sell 50% of all vehicles online – and 100% by 2030, when it plans to sell only electric vehicles.

Volvo Cars has also announced that it would acquire several dealerships in its home market in Sweden, which it plans to merge with its own dealer group, Volvo Bil, through which it aims to integrate and trial more online sales technology and processes.

Volvo is expanding its subscription model, known as Care by Volvo, which it expects to grow with the increase in electric vehicles sales. Subscription models are a particular variety of the agency model that could see further growth. With subscriptions, the buyer pays a monthly fee for the use of a car, and the dealer, acting as the agent, gets a fee to manage the servicing of the vehicle within the monthly subscription price.

Many subscriptions today are leases by another name but increasing numbers of subscription models are emerging that take away the hassle of arranging insurance and road tax and offer the consumer more flexibility to end the contract or change cars. For instance, **Lynk & Co**, which is owned by Geely and partly by Volvo, is built completely around a subscription model. It has no dealers but instead 'clubs' that allow people to see the car. The brand is launching in Europe this year.

Kia is also trialling a subscription servce in South Korea. In February, it announced the 'Plan S' strategy which involves a "shift in its conventional sales methodology", especially for EVs. It launched the KiaFlex service, which allows cars to be leased to business users during the week, and to private users over the weekend. The car manufacturer intends to bring this 'customised subscription model' to Europe as well, where it expects EV sales to reach 25% of its total by 2025.

5. OEMs Invest in Online Technologies

The sheer complexity of the car purchasing process makes it difficult to replicate the experience online. For most people, buying a new car is the second-highest value purchase they make after a home. Because of the high stakes, car buyers feel a need to experience the product before purchase, and they need to feel they are getting the best price. Offering these assurances online is the biggest challenge for carmakers and dealers.

To provide solutions to the complex new car buying cycle, OEMs and dealers have been investing in new systems and services, including:

a) **Secure Transactions**: Automakers and large dealer groups have invested in secure online payment systems, such as Stripe, which has partnered with a number of online sales platform creators such as GForces in 2020. Automakers are also offering direct sales to buyers with fixed prices of new cars.

b) **Test Drives**: New car buyers need to experience the product ahead of purchase, so many automakers have begun to offer virtual solutions – including augmented and virtual reality (AR/VR) test drives as well as 3D test drives. Such technology allows customers to experience driving vehicles online. Where possible, automakers are still

offering physical test drives organised by the local dealer, in some cases with an equivalent or similar vehicle.

c) **Fixed Prices**: Car buyers are used to haggling with dealers, getting bargains and trading in used cars. However, automakers are increasingly introducing fixed prices for new cars, with the dealer then receiving a fee from the automaker. This way, the buyer is certain they are getting the best price regardless of whether they shop online or in person. To trade in used cars, dealers can either visit the buyer to pick up and value the used car or the buyer can drop off the car to the dealer for part exchange options.

d) **Simplifying Options**: In recent years, carmakers, including premium brands, have started to slim down their model ranges and options lists in general. This has been done in part to simplify homologation for the WLTP emissions cycle, but it sets them up well for online sales and more immediate delivery. By rationalising options and trim combinations, OEMs can offer online buyers shorter lead times for these pre-configured combinations.

e) **Legal Rights**: Car buyers are often extremely concerned that there may be issues with the new car they buy online. The European Commission has introduced an Online Dispute Resolution (ODR)[2] process which all new car buyers can access. Automakers have also enhanced their online sales contract agreements with stronger rights for buyers, including return options. Governments have publicly highlighted their existing consumer contracts which already contain regulations and consumer rights for online transactions[3].

6. Vehicle Logistics Players Adapt to New Market Conditions

Finished Vehicle Logistics players have adapted quickly to the changing market dynamics, offering new solutions to automakers and even directly to dealers. In some cases, providers have created regional hubs where a stock of vehicles can be stored ready for local direct delivery to end buyers.

In May 2020, for example, French logistics provider GEFCO began delivering Ford vehicles direct to customers under its new Moveecar service. The logistics provider delivered vehicles to both dealers and end customers from vehicle distribution centres in Creutzwald

[2] ODR http://ec.europa.eu/consumers/odr
[3] Consumer Contract: https://www.legislation.gov.uk/uksi/2013/3134/contents/made

in the east of France and Douai in the north, as well as from the seaports of Sète in the south of France, and Zeebrugge in Belgium.

GEFCO has also recently started working with premium EV brand Polestar in China to offer a 'home delivery' service for new cars. GEFCO states that this new service builds on its relationship with Polestar's parent company, Volvo Cars.

Such services suggest potential for logistics providers to offer more services across the distribution chain, whether in PDI and accessories, or in bespoke delivery.

Just as important as the physical services that logistics providers offer is likely to be the data they share and act upon. Ecommerce has already demonstrated how important supply chain visibility is both to retailers and final customers. In an online delivery scenario, it is likely that logistics providers would need to provide key stage visibility across the supply chain with highly accurate ETAs.

It is also clear that visibility is also important in times of volatility, uncertainty, complexity and ambiguity (VUCA). End-to-end visibility allows the OEM and logistics company to follow the movement of goods in real time and to be able to respond to disruptions. Companies are increasingly creating a 'digital twin' to help prepare for any obstacles that could occur.

Logistics companies are thus increasingly offering service tracking at the container level to allow clients to track individual products thanks to traceable tags. Automakers have also begun to invest significantly in better supply chain visibility. BMW has teamed up with Amazon Web Services (AWS), while in late 2019 Volkswagen announced a partnership with Minespider to make the supply chain more visible through technology such as blockchain.

As a greater proportion of car buyers move online, the ability to track the process from payment to delivery of a new car in real time becomes crucial. Automakers have begun to offer new car buyers methods to track their orders, but for this, the OEM needs to know exactly where the vehicle is in the finished vehicle logistics journey. Volkswagen offers the 'myVolkswagen dashboard' while BMW offers a 'Track My BMW' service, which shows the exact location of the car and whether it is, for example, held up at ports. Such services will only become more important as more vehicles are sold online.

7. Conclusion: No Going Back from Online

The coronavirus pandemic has forced carmakers and dealerships to sell vehicles online, increasing the share of vehicles through online channels dramatically to more than 50% of vehicle sales in 2020. The change was an act of survival for many companies, and continues to be so in 2021, where the share of online sales is likely to be even higher as Europe continues to face economic and social restrictions. In the longer run, however, OEMs will

continue to increase online sales in Europe not to mitigate the impacts of a pandemic but because it will be a competitive factor in serving customers and help many brands to thrive. We expect that online new vehicle sales will account for over 60% of total new car sales in Europe by 2030.

To support online sales, automakers have begun to accelerate the shift to more of an agency model, whereby they sell directly to the buyer and dealers provide other services. For some OEMs, this could remove the need for a traditional dealership altogether, but most automakers are keen to stress that they would still use dealers for many aspects of sales, including transforming many into experience centres. They are also likely to remain key coordination points for vehicle delivery and handovers.

Finished vehicle logistics players have also adapted quickly to these new market conditions. A further shift to direct sales would lead to even more significant changes and opportunities in the supply chain. Logistics service, visibility and price will be decisive factors in the automotive industry's online business model.

8. Credits

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