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THE FUTURE OF THE AUTOMOTIVE DEALERSHIP NETWORK FOR PREMIUM MANUFACTURERS

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Abstract

This paper aims to analyze the current trends and challenges of the Automotive Industry and identify the main drivers of transformation within the sector. The ongoing developments of digitalization and society's increasing interest in e-commerce and constant connectivity challenges the industry and means that automotive manufacturers are reconsidering their retail models. This research investigates how premium car brands should align their strategic decisions to create a dealer network that fulfills the current needs and desires of the customers. A thoroughly developed online survey provides valuable market insights into the customer preferences and how to effectively use them through specific recommendations.

Keywords: Strategy, Automotive Industry, Automotive Retail, Digitalization, Technology Adoption, Sales Network Strategy, Premium Brands

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1. Introduction

The automotive industry has been a key player in the worldwide economy ever since its very beginning in the late 19th century after Carl Benz had successfully build the first engine powered automotive vehicle (Daimler 2016). The industry has traditionally been a driver of developing state of the art technologies and has subsequently created many new industries which are heavily based on the manufacturing of cars. One example is the automotive retail industry, that has existed as long as the car itself and has been subject to several developments over time. As the number of vehicles being sold in Europe grew from just a few thousands in the beginning of the 20th century to up to 224 million around 100 years later, the sector that is in charge of selling these products also grew and changed into more complex structures and strategies (Brachat 2009). In order to manage the growing number of retail establishments in the market, most car manufacturers have created sales network within national boarders to be able to reach as many customer groups as possible. There are three different structures of sales networks. The first one is called a centralized sales network, which means that sales are carried out by a company's own marketing and sales department. All tasks and activities are centralized, meaning that they are organizationally combined in one place. For a decentralized sales network, these activities are carried out through the company’s own branches of sales offices. The third variation are outsourced sales network, which is when the distribution is handled by independent companies (W.Seifert, W.Thonemann and A.Sieke 2006).

Furthermore, within these structures companies can decide between different sales strategies which are a direct or indirect approach. In a direct approach the company maintains direct contact to the customer and the sales contract is between the company and the respective customer. For the indirect approach, sales intermediaries handle the transactions and contracts with the customers, leading to lower costs for the corporation and quick access to a large sales network (Ross 2021).

The automotive retail sector has developed several different retail types over the years that operate based on the previously mentioned theoretical models. From the dealership sales network, which is the currently most common type of retail in the industry, the direct sales subsidiaries, which are the large flagship retail establishments that most car manufacturers operate, to the more recently introduced city stores or agency models (Gao, et al. 2016). Digitalization of society is changing the retail sector and thus consequently will also change the way how automotive retail sales networks will develop in the future.

1.1 Research Question and Objective

Since the automotive industry is one of the largest contributors to global GDP and particularly the retail of its products is present in every developed country worldwide, an analysis of its change within the age of digitalization and the subsequent recommendation for manufacturers is highly relevant. Furthermore, the currently existing literature has a great emphasize on the digitalization of the product itself or the dealership itself. However, the impact on the sales network of automotive manufacturers as well as strategic recommendations for an optimal network that satisfies the needs of the future customers have not yet been addressed thoroughly. Therefore, the following research question will be addressed in this dissertation:

What are the necessary strategic decisions premium car manufacturers such as Mercedes-Benz have to make in order to align their dealer network with the ongoing digitalization process in the automotive industry?

The objective of this thesis is therefore, to provide the theoretical background information that is required to tackle this question and answer it through identifying the needs of the customers for their individual car buying process specifically targeted at the brand of Mercedes-Benz.

1.2 Course of Investigation

With the intention of identifying an optimum network of different car dealership types for the future of automotive manufacturers such as Mercedes-Benz, this dissertation is prepared to present the results of a customer survey, which will help to identify the most important needs for the dealer network of the future. The thesis will be structured into two separate parts, the first one being a theoretical part and the second one a practical part.

Following to this introductory section, the theoretical part will present all the necessary background information necessary for understanding the concepts applied in the practical part and for answering the research question. The information will be derived from the existing literature. Subsequently, the dissertation will continue with the methodology, which consists of a section explaining the research design and followed by a section that will elaborate on the structure and process of the survey. Afterwards, the survey will be analysed, and the relevant findings will be presented. The analysis will reveal the current needs of consumers for an optimized car dealership network and then derive strategic decisions that must be made by manufacturers such as Mercedes-Benz to be perfectly prepared for the future. After the practical part, there will be concluding part, summarizing the key findings and recommendations from the research, which will also include research limitations of this paper.

2. Literature Review

In the following chapter of this paper, past research and literature within the relevant areas of investigation will be reviewed with the purpose of providing background knowledge for the practical part following in the subsequent chapter. Additionally, all mentioned terminologies shall be defined leaving as little room for uncertainty as possible. Therefore, a distinct overview of clear information from different fields of investigation is created and shall be brought together, namely relevant background information about automotive dealerships, car buying trends, and differences between premium and standard automotive manufacturers.

2.1 Urbanisation

In this first next section of literature review, this thesis will elaborate on the demographic developments of society. As the benefit of reaching customers in all regions of a country has been one of the strongest advantages for a sophisticated dealer network, a demographic change of people's tendency to live in these hard-to-reach regions will have a significant impact on the efficiency of such networks.

As the graph in appendix I shows, in the past few decades, urbanization has massively shifted the living habits of people. While people used to live in small communities for most human history, since the 1960th there has been a mass migration from rural to urban areas. Since 2007, the total number of urban population has surpassed the total number or rural population and has increased the gap between the two ever since (World Bank 2021). As this data includes all countries of the world, looking at the high-income western countries proves to be even more relevant for this paper. In western Europe, America, Australia, Japan, and the Middle East, more than 80% of the population live in urban areas (World Bank 2021). Subsequently, it can be assumed that this trend is going to further develop in the future and therefore, operating in a dealer network system which focusses strongly on covering rural regions could become inefficient. Typical car dealerships are usually not located in city centres and if urbanization impacts people's willingness to reach these dealerships will be elaborated later in this thesis.

2.2 Online Car Sales Trend

The next literature to be reviewed tackles the trend of online car sales, which has been developed in the past few years. Analysing this topic helps to understand the changing dynamics of the industry and the changing mindset of customers towards new car purchasing methods. A 2017 report by Roland Berger has indicated that around 70% of customers globally, use the internet for gathering information about the vehicle (Roland Berger 2017). This shows that a large proportion of customers in the industry carries out parts of their customer journey online.

However, the percentage of cars being sold online was still comparably low at around 2.2% in Europe and 5.2% in the United States. These numbers increased to 4.2% and 9.7% respectively, and are expected to grow even further until 2025, for which another survey by Berger estimates online sales to be at 9.8% in Europe and 18% in the United States (Roland Berger 2021). Thus, the literature clearly indicates a trend towards an increasing readiness to purchase a vehicle online and suggests that this trend is likely to increase exponentially in the upcoming years. Furthermore, this statement is supported by further research that suggests a 504% increase in global revenue from online vehicle retail, after sales and services between 2018 and 2025 (Frost & Sullivan 2020). In accordance with the research mentioned in this section, the car sales trend will develop further away from traditional retail models such as car dealerships. However, it must be mentioned briefly, that the steep increase in the years 2020 and 2021 are partially a result of the COVID-19 pandemic and therefore, create an uncertainty about the development in the subsequent years once the pandemic is fully over (Frost & Sullivan 2020). Additionally, despite a clear indication of trends towards online car buying, there is also literature on the current barriers of this trend. Market research indicates that currently there are three main barriers of online retail in the automotive industry. The first one is a lack of IT competence within the manufacturer's infrastructure. The second one is safe and trustworthy processing of the deposit and thirdly, the complexity of a 14-day right to return which is in accordance with online selling policies in several European countries e.g., Germany (Autohaus 2021).

2.3 Business Model Car Dealerships

After the demographic population trend and the trend towards online sales has been elaborated, this section will focus on understanding the traditional retail model of dealerships and the cost structure that goes hand in hand with it. It is important to understand in order to clearly identify the opportunities and challenges for this well-established business model and then subsequently recommend strategic decisions on whether to include them in a future dealer network.

Many car manufacturers face a dilemma for their dealer network strategy. On the one hand, a manufacturer has the interest to keep the bargaining power of its retailers low by creating a network of rather small retailers instead of large car dealer groups. On the other hand, the complexity, and requirements that manufacturers have for their retailers are increasing permanently to keep up to date with the newest corporate identity, to present the constantly growing product range, and to deliver an appropriate brand presentation at the point-of-sale. These requirements can often only be fulfilled by larger car dealer groups whereas the smaller retailers do not have the financial power (Diez 2007). To further understand the financials of a car dealership, appendix II represents the basics of a cost and revenue structure.

Despite the increasing complexity of car dealerships and trends mentioned in the previous sections, that suggest future automotive retail networks away from the traditional dealership model, recent research by the German Institute for Automotive Economics (IFA) indicates that there is still a high necessity for dealers. The research shows, that even though the majority of customers gathers information about the product online, 70% of customers initiate first contact with the dealer through offline channels. Furthermore, the importance of test drives in the industry remains highly significant in spite of an increasingly digital society. Research has proven that on average for every car sold, there is one test drive performed. Particularly for used car sales, around 75% of customers feel the need to take at least one test drive. This means, that even though test drives are associated with high costs for dealers, the demand confirms the necessity of the stationary dealer presence (Maier 2021).

2.4 Premium Automotive Manufacturers

As the optimum dealer network of the future might strongly depend on the type of cars that the manufacturer is producing, this section will set the knowledge basis for the segment relevant for this thesis. For example, there is potentially a difference between manufacturers that focus on high volume of sales, premium brands, or niche sports car manufacturers.

In the past, mainly the top models of each car brand were considered premium or luxury vehicles. Examples for these were the Mercedes S-Class or the BMW 7-Series. These models contain characteristics such as a large vehicle size, high levels of comfort, and considerably higher price tags (European Comission 2011). However, these characteristics no longer apply only to the top models of each brand as the level of luxury, technology, and comfort within the vehicles increased substantially over the past decades. Therefore, the smaller models like the Mercedes C-Class or BMW 3-Series also fit these characteristics, which is why the definition moved from specific models to entire manufacturing brands (Flint 2009). These premium brands include Audi, BMW, Mercedes, Tesla, etc. The research will be centred around this segment of automotive brands and not focus on the other segments such as volume car brands.

3. Methodology

After the theoretical basis for the research question has been set, the following study investigates consumer preferences about car dealership importance and identifies highly valued features in the car buying process. The results of these investigations serve as insights for recommendations for premium car manufacturers to elaborate a sophisticated and future orientated dealer network strategy.

3.1. Research Method

The main two existing categories of research methods are qualitative and quantitative research. These two have been separated into very simplified and basic definitions of their techniques: Quantitative is about collecting data in form of numbers and qualitative is about collecting data in form of pictures and words (Neuman 1997). As this dissertation uses the quantitative research method, qualitative research will not be further elaborated. As the goal of this study is to identigy needs and desires of society with regard to car dealerships, the most appropriate research type is a quantitative approach. With the intention of understanding the customer

preferences and tendencies under investigation as thoroughly as possible, the specific research type in this dissertation is a self-completed online survey (Saunders, Lewis and Thornhill 2016).

3.2. Sample and Analysis Method

It is important that the main objective of the research is in line with the selection of the sample for the survey as they need to have attributes that are significant and relevant for the population under investigation (Patton 2005), which in case of this study are potential car buyers. These can be segmented as men or women between the age of 18 and 65. The online survey in this thesis has been carried out by 104 participants that are all over the age of 18 and are from 12 different nationalities. The detailed information about the demographics of the survey's sample can be found in the appendix III.

4. Analysis and Discussion of Findings

This next chapter of the dissertation puts the theory into practice by performing an in-depth analysis of the results from the research. These findings are being separated into two different categories in order to provide a clear and structured overview on which the recommendations in the following chapter can be based on.

4.1. Buying Preferences Among Different Brand Categories

Regarding an analysis of how the buying preferences vary between customers of different brand categories, the first step is to categorize the indicated brands into three different groups, which are high-volume, premium, and high-end Luxury car brands (Appendix IV). The research sample shows a representative distribution in which 44% are customers of high-volume car brands, 38% are customers of premium car brands, 9% are customers of high-end luxury brands and the remaining 9% are currently not in ownership of any vehicle (Appendix V). Therefore, for the remaining analysis it must be kept in mind that the percentage of premium car owners in this sample is slightly higher than it would be in the average population.

The research shows that regarding the past purchasing preferences, traditional automotive retailers are favoured by most customers. Over 71 % of the sample stated to have purchased their last car at either an official manufacturer or external dealer. Only 12,5% have used external website such as autoscout24, carwow, or mobile for their buying process and only 1,9% used the official manufacturer's website (Appendix VI). After looking deeper into the relation of the purchasing channel used and the different brand categories, it can be stated that there is no clear indication for a difference between the high-volume and the premium customers. Both groups indicate a similar percentage of offline retail buyers with 72% and 80% respectively. However, the high-end luxury customer group shows exclusive preferences for offline retailers as 100% of the sample have used these for their last purchase (Appendix VII). A very similar trend can be seen in the relation between the car brand category and the willingness to purchase the next vehicle online. In that regard, high-volume and premium customers answered similarly as 43% and 60% indicated a willingness to purchase online in the future, respectively. Again, the high-end luxury customer group shows a resistance towards buying vehicles online as 0% answered this question with "Yes" (Appendix VIII). The analysis of these figures therefore suggests that there is no difference in the preference of the purchasing channel between the standard high-volume brand customer and premium customers. Only the high-end luxury brand customers clearly differentiate themselves with a very strong preference towards traditional retailers.

However, subsequent parts of the research have shown different results when the survey respondents were specifically confronted with models from the high-volume and the premium segment as it can be seen in Appendix IX. The data indicates that for the high-volume model almost 33% of customers would prefer an online purchase, whereas for the premium model a significantly lower 6.7% are considering an online purchase. This preference trend is even stronger when the two models are directly put next to each other, as over 95% of respondents

state that an offline in-store experience is more important for the premium vehicle that for the high-volume one (Appendix X). Thus, it can be assumed that while in theory, the premium customer group is as willing to switch away from traditional retailers as the high-volume group, in practice once the customers are confronted with a buying decision for specific examples of these segments, the premium model is significantly more preferred through the offline channels.

Furthermore, the research has provided significant feedback on the most factors that are considered the most advantageous within an online buying process. Results show that the better prices and higher price transparencies of the online channels are most valued by the sample. Additionally, the benefit of being able to configure one's dream car in a private and comfortable environment is also considered at least "rather important" by the majority of the respondents. The convenience itself of not leaving the house, however, is a rather neglectable factor in this process (Appendix XI). With regard to the most significant factors of the offline purchasing process at a physical dealership, there are some clear indications from the sample. The ability to sit in the car, to see the car in person, and the option for a test drive were all factors that were marked "very important" by at least 70% of the sample. Meanwhile, the relationship to the dealer, face-to-face service and feeling valued within the customer experience in a dealership were all considered significantly less important (Appendix XII). These results indicate that if traditional retailers improved their services to the extent of being more transparent with prices, offering better deals, and preventing longer waiting times, their advantages of being able to physically experience the vehicles gives them the competitive edge over the online competition as this is a factor that can never be matched through online channels.

4.2. Dealership Network Preferences

After the previous part of the research analysis has indicated that, particularly in the world of premium automotive manufacturers such as Mercedes-Benz, the existence of dealership is of

high importance for the customers, this part takes a deeper look into the preferences that customers have for these dealerships.

In terms of the accessibility of the dealerships, the majority of the sample stated a willingness to drive to dealerships that are between 10 and 30 minutes away (51.9%) or even 30 to 60 minutes away (34.6%). Only a very small proportion of 2.9% value dealerships very close to their home and are only willing to drive 10 minutes (Appendix XIII). In support of the findings from the literature review about the current trend of urbanization most of the sample are in an urban or suburban living situation, making it surprising to learn that people are still prepared to take longer drives to reach a desired dealer instead of developing a high need for urban car dealerships that are just around the corner. In addition, the research also investigated the several characteristics of dealerships and how important these are for the respondents. The possibility of having free parking spaces available is considered highly important by the majority as 87.5% stated a rating of at least four (on a scale from one to five where one implicates “not important at all” and five implicates “very important”). This supports the advantages of dealerships outside of the cities as free parking spaces are rarely available in city centres. Furthermore, the respondents imply a necessity for large dealerships as 69.2% consider it highly valuable if the manufacturers present their entire model range (Appendix XIV). Due to the increasing complexity of the model ranges in the automotive industry, such a desire by the customers requires very large dealerships, that would not be feasible in urban regions. Furthermore, the research shows that almost half of the people (48.1%) would not even consider buying a car if their desired model was not displayed in present at the dealer (Appendix XV). This means that manufacturers would face the trouble of losing out to a significant number of customers if they opted for small dealers where their entire product range cannot be displayed.

When specifically asked about the value of dealerships located in city centres, the answers were very spread out across all levels of importance as it can be seen in detail in appendix XIV.

As a result, it can be stated, that when it comes to the added value of dealerships in city centres, it rather comes down to personal preference and there is no clear trend towards a necessity, particularly in comparison to traditional, large dealers. Similarly, to the results from the first analysis part, despite a more and more digitalized society, with regard to the physical advantages of car dealerships, such as test drives, visually seeing the products in person, or sitting in the vehicle, there is not yet a way to sustainably substitute these advantages.

5. Conclusion and Recommendations

In the next chapter of this thesis, the findings and learnings extracted from the research will be used to provide valuable insights and recommendations with regard to an optimized dealer network strategy for premium car manufacturers such as Mercedes-Benz. The segment will be structured into two parts, whereas the first on will provide general recommendations on the type of retail methods and channels that should be implemented, and the second will provide more specific guidance on a strategically correct network set up. The recommendations aim to be midterm solutions for the upcoming 5-7 years as the research might not be relevant for any duration longer than that due to potential change in the behaviour and preferences of society.

The analysis of the data gathered from the research has shown an ongoing strong need for the availability of traditional car dealerships. Especially, for premium models an offline physical presence is inevitable to ideally portray all the features and emotions of such a vehicle. However, the research has also indicated a strong base willingness for online car purchases, even for premium car owners. The optimum solution for a premium manufacturer is therefore an approach, which has a strong focus on the traditional retail method being a centralized retail approach with an indirect sales strategy. Furthermore, to comply with the readiness of online car sales within the society, a comparatively smaller online platform for the more basic models of a premium line-up is recommended. In addition, an optimized strategy for the dealerships consists of the elimination of the current weak points in order to achieve an all-around

successful buying experience for the customer. This means that premium manufacturers need to implement high price transparencies with competitive prices among their dealership network, at least on a national level. Additionally, the dealerships are recommended to provide a private and secure environment for the customers and to not try and force any additional extras upon them as it leads to a negative perception of the salesperson, the dealer, and thus the brand itself.

Furthermore, with regard to how an optimized dealer network strategy looks like and where the dealers should be located specifically, the data provides valuable insights. Due to the clear indication of very little desire for dealerships in city centres, it is recommended to have the dealerships located in suburban industrial areas of the city. This leads to a significant reduction in costs for the manufacturers and investors while maintaining a location which is reachable within the desired 10-60 minutes for the majority of the population. Due to this willingness to drive respectable distances to a desired dealership, it is also not recommended to expand too much into very rural regions as the focus should rather be on quality instead of quantity and most of the time within a radius of 60 driving minutes a city is reachable. This recommendation will become particularly increasingly relevant due to the further growing urbanization in the upcoming years. In order to fulfil all of the customers desires and maximize the premium manufacturer's potential, the perfect dealership strategy has to provide high convenience for the customer by offering a free and stress-free parking situation. In addition, it is crucial to have enough space available in the showroom to display the majority – if not the total – model range of the manufacturer. This is highly valued by the customers, particularly in the premium segment and becomes more important as the complexity of the model line-ups of the manufacturers increases steadily. Even though the majority of these recommendations strongly point away from dealerships located in city centres, a smaller part of the population would strongly benefit from smaller stores within the main shopping streets of a city. These people are most likely interested in cars already and therefore gladly take a look around a

smaller city store in spite not having planned to buy a vehicle. Thus, to reach those people most effectively, it is also recommended to implement small city stores in selected cities to allow the premium manufacturer to have a higher presence and brand perception.

In conclusion, the optimized dealer network for premium car manufacturers must consist of large dealerships that are predominantly located outside of cities and provide a convenient parking situation for its customers. Furthermore, it must capitalize on its physical advantages by providing its entire model range in the dealership and allowing regular test drives for the customers. This typical dealer should be supplemented with selected stores in city centres that capture the more enthusiastic customers and with a competent online appearance to offer online purchases, targeted at the more basic models of the line-up.

5.1. Limitations and Future Research

After the main findings and recommendations of this dissertation have been presented, it is important to consider, that there are certain limitations to this research paper. First of all, even though the choice of research method is highly appropriate for this study, the approach of an online survey provides only results from non-experts. Therefore, a mixed approach with combined data gathered from expert interviews could be significant for future research. Furthermore, the sample of 104 survey respondents is not very large, due to time constraints and language barriers. Therefore, a long-term study with a significantly larger sample might give different results. Additionally, the majority of the respondents were German as a result of the survey distributor being German as well. Thus, there might be cultural differences in the results if the research was performed in other regions of the world, which could be another potential topic of investigation for future research.

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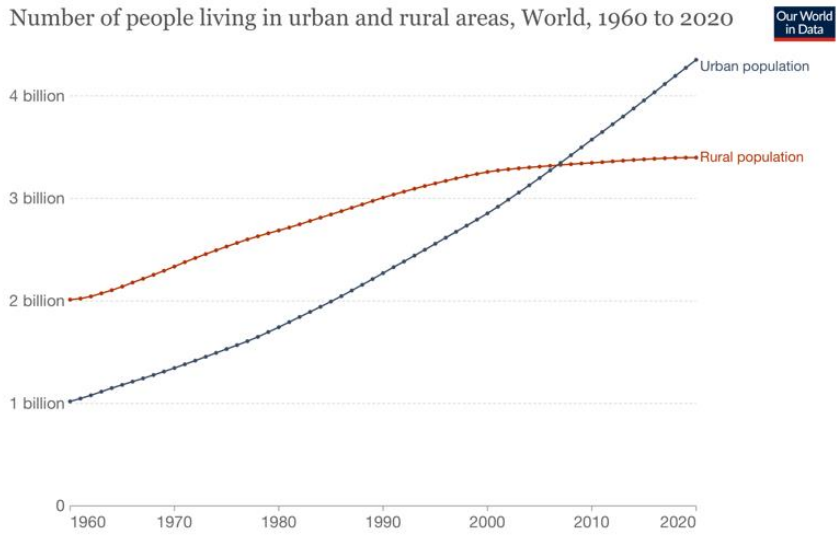
Appendix

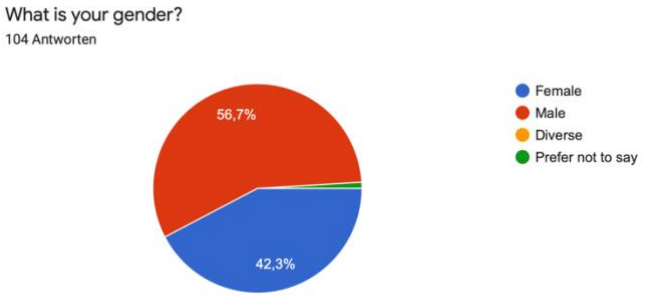
Appendix I: Urban Population vs. Rural Population; Source: World Bank.

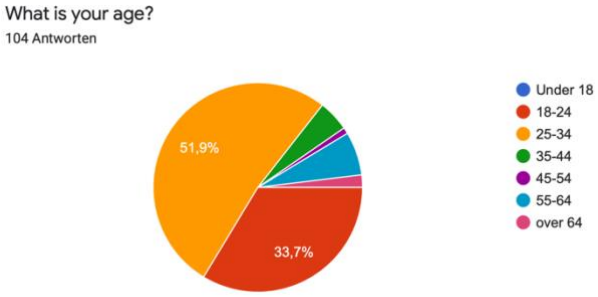


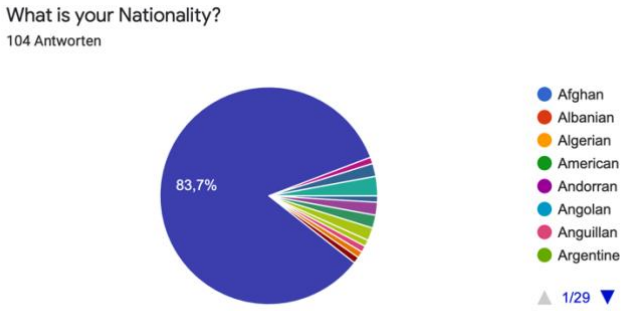
Appendix II: Cost and Revenue Structure of a Car Dealership Source: *Institute for Automotive Economics Germany (IFA).*

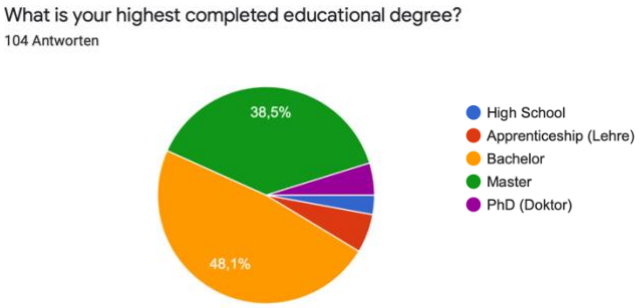
Cost and Revenue Structure (in tsd. Euro)	
Revenues	**67.235**
Acquisition costs	56.507
Gross income	**10.728**
Seller's commission	808
other itemised costs	128
Contribution margin I	**9.792**
Personnel costs	5.509
Contribution margin II	**4.283**
Sales promotion/advertising	497
Other indirect costs	521
Contribution margin III	**3.265**
Rent/Lease	1.008
Operating result	**2.257**

Appendix III: Demographics of Survey Sample.





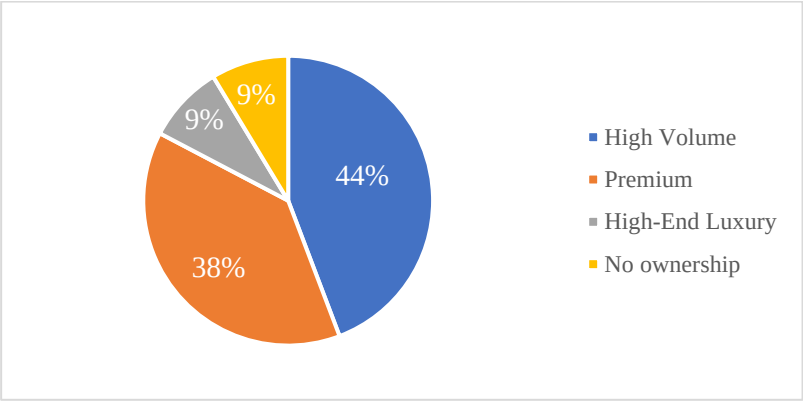




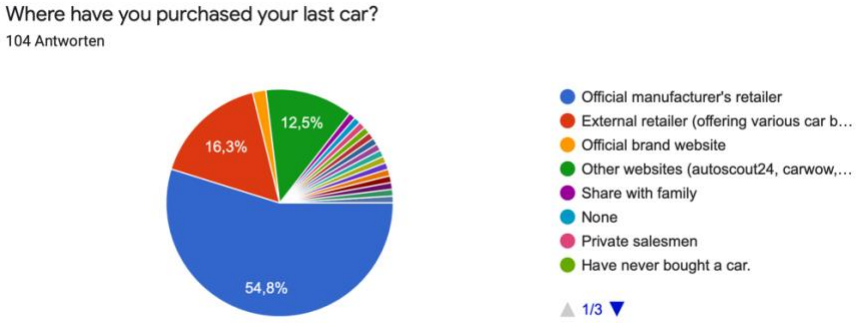
Appendix IV: Categorization of Brands**.**

Categories		
High volume	**Premium**	**High-End Luxury**
Chevrolet	Alfa Romeo	Aston Martin
Citroen	Audi	Bentley
Dacia	BMW	Bugatti
Fiat	Cadillac	Ferrari
Ford	Chrysler	Lamborghini
Honda	Jaguar	Maserati
Hyundai	Jeep	Porsche
Kia	Land Rover	Rolls-Royce
Mazda	Lexus	
MINI	Mercedes-Benz	
Mistubishi	Polestar	
Nissan	Tesla	
Opel	Volvo	
Peugeot		
Renault		
Seat		
Skoda		
Smart		
Subaru		
Suzuki		
Toyota		
Volkswagen		

Appendix V: Sample Distribution of Brand Categories.



Appendix VI: Sample Distribution of Previous Car Purchase Channel.



Appendix VII: Correlation Between Current Brand Category and Previous Purchase Channel.

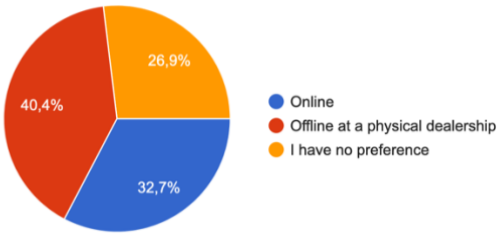
Category	Offline (retailer)	Online (website)	Others (family)
High Volume	72%	13%	15%
Premium	80%	18%	3%
High-End Luxury	100%	0%	0%

Appendix VIII: Correlation Between Current Brand Category and Online Buying Willingness.

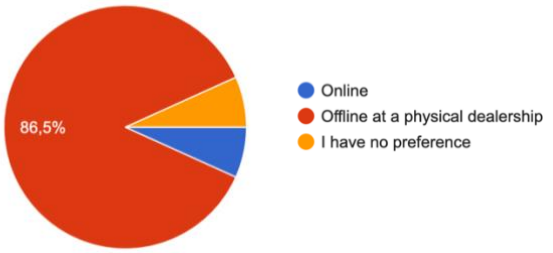
Category	Yes	Not sure	No
High Volume	43%	30%	26%
Premium	60%	13%	28%
High-End Luxury	0%	33%	67%

Appendix IX: Questions and Answers about Purchasing Preferences for High Volume and Premium Vehicles.

How would you preferably purchase this *

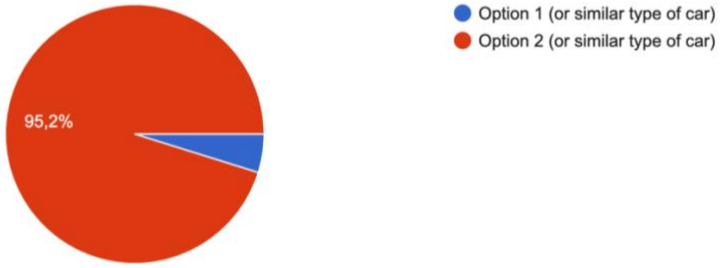


How would you preferably purchase this car? *

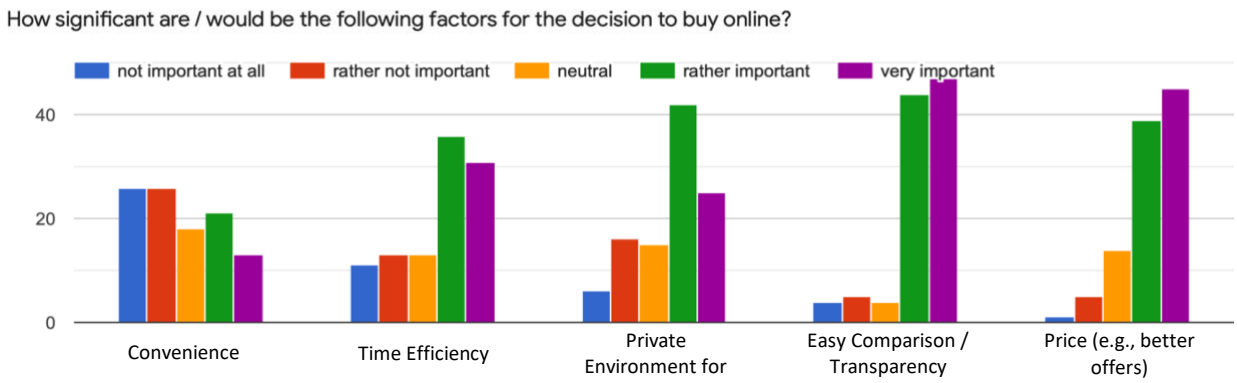


Appendix X: Direct Comparison of Importance of In-Store Experience Between High Volume and Premium Vehicles.

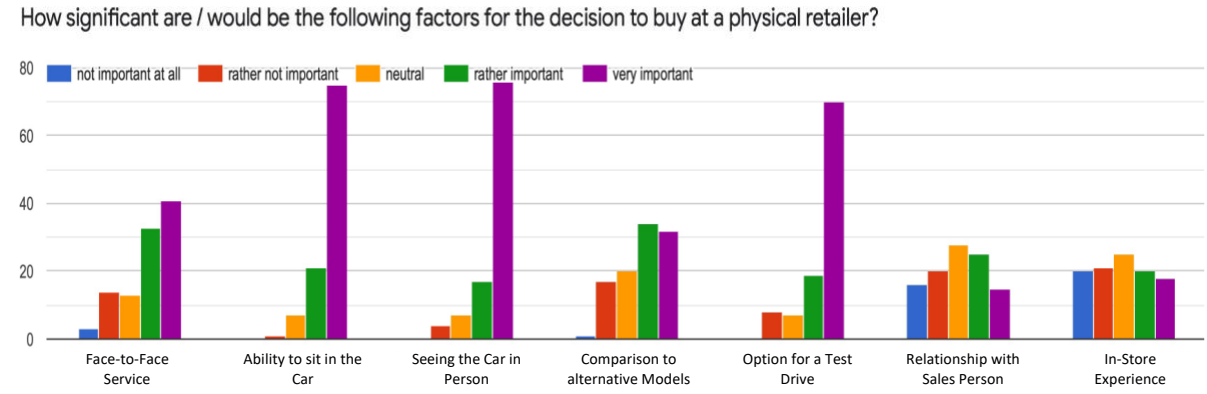
For the purchase of which car would the in-store experience be more important (e.g. test drive, personal consultation)?
104 Antworten



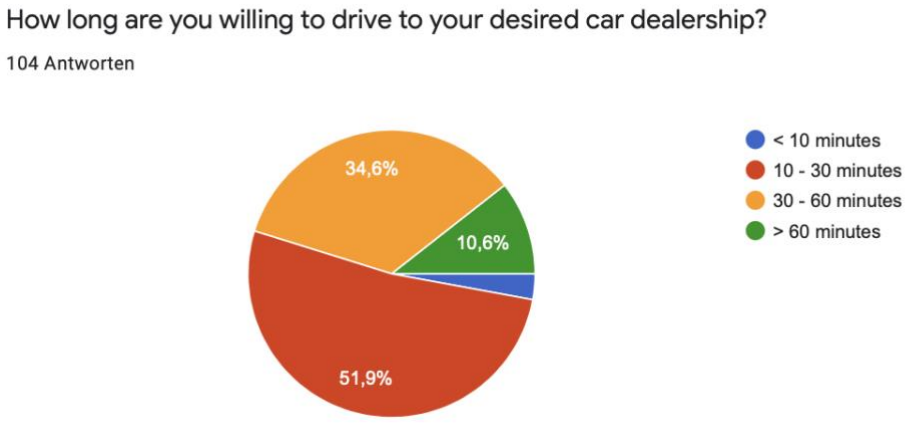
Appendix XI: Significance of Online Buying Factors.



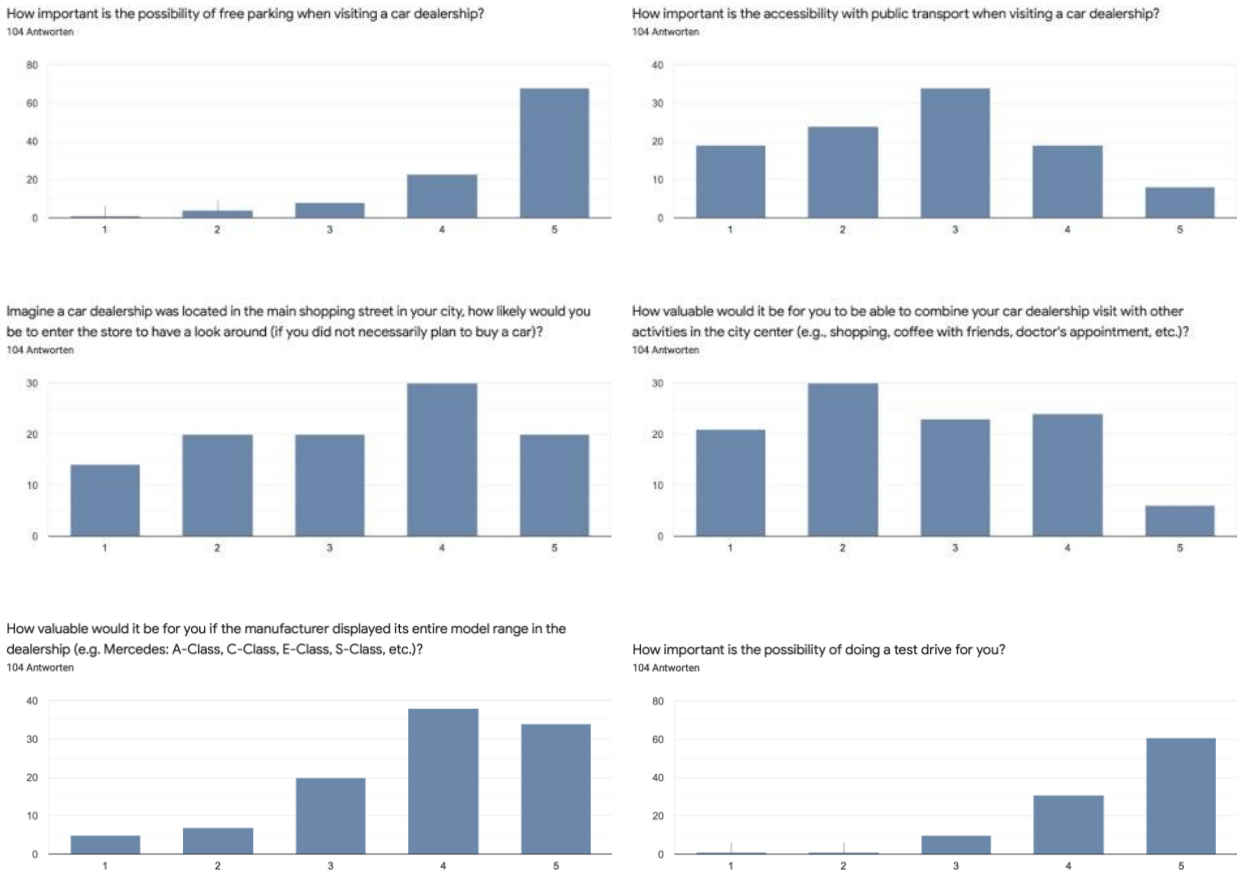
Appendix XII: Significance of Offline Buying Factors.



Appendix XIII: Distance Willing to Drive to a Dealership.



Appendix XIV: Preferences for Car Dealerships.



Appendix XV: Willingness to Buy a Car if the Model is not Displayed in the Dealership.