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New car retail and contemporary consumer behaviour – Understanding car buyers and how to meet their expectations

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<p>New car retail and its sustainability in terms of consumer behaviour is a topic that in particular, should interest automotive brands and authorised brand dealers. In addition, this thesis might provide valuable insights to used car dealers and retailers in general. Interest in this topic should exist among knowledgeable industry operators, as showroom floor traffic has slowed and OEM`s and dealers should question what and how they should invest in on the retail front, in order to efficiently interact with customers and maintain their significance to the market in the future. The author`s personal interest in the topic developed during a two-year period spent as a Customer Quality Intern and Customer Quality and Dealer Network Development Coordinator, at an Automotive OEM`s Nordic Head Quarters.</p> <p>This thesis focuses on indicating which factors have changed in consumer behaviour and understand how these reflect on new car retail. Gives arguments for why the approach to new car retail should be reformed to maintain sustainability from a consumer behavioural perspective and presenting existing alternatives, through real life examples and case studies.</p> <p>Findings in this paper illustrate that new car retailers should shift their retailing strategy towards the combination of online sales and brick-and-mortar showrooms relocated in areas of high customer flow. These findings could be relevant to sales and marketing departments of OEMs, importers and dealers who are interested in improving the customer experience and approachability of their represented brands, throughout the buying process and improving overall brand opinion and loyalty.</p>	
Keywords	Automotive retail, buying behaviour, consumer behaviour, retail channels, retail environment

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Key terms and abbreviations

Authorised Dealer – Company that is officially authorised by an OEM brand to retail and possibly also service vehicles up on their behalf. Authorised dealers being official representatives of a brand/s that take care much of the normal customer interaction regarding buying a new car and or servicing the car bought.

DND – Dealer Network Development

EV – Electric Vehicle

ICE – Internal Combustion Engine

Minimum criteria – OEM brand set standards, which authorised dealers must comply to in, order for being eligible to retail and possibly service cars as a authorized member of the OEM brands dealer network.

New car – Vehicle that hasn't been registered to the public meaning anyone else other than an authorised dealer of manufacturer. If the car has been registered by an authorised dealer, for it to count as a new car, it cannot have served a demo- or courtesy car purpose.

OEM – Original Equipment Manufacturer

PHEV – Plug-in Hybrid Electric Vehicle

POS-material – Point of Sale - material

Retail concept – Standardised outlet/showroom design composed for the purpose of facilitating retail to the end customer.

Test-drive – Customer conducted drive intended to assess and evaluate whether the driven vehicle meets his or her expectations.

VR – Virtual Reality

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1 Introduction

Cars are one of the most common ways of human transportation making them an important part of our lives and human civilisation. Even though the industry is already an enormous global business with many of its western markets saturated in terms of TIV (Total Industry Volume) there are still many developing markets such as the BRIC countries (Brazil, Russia, India & China), which offer great opportunities. In China there is one car for every five persons and in India, the same ratio is one for every 20 (Leggett 2018).

For many aspects the automotive industry can be generally described as conservative and resistant to change. Until the 2010`s surprisingly little had changed during the previous decades. We are currently living in exiting times as the industry is on the verge of a revolution, which has already started as we speak. Change is inevitable as the fourth industrial revolution is also affecting the automotive industry (Barra 2016). Revolutionising changes such as electrification and intelligent driving have taken noticeable steps forwards and the importance and competition in the field of R&D are increasing. Investment costs have sky rocketed and OEM`s are trying to outrun each other either alone or by uniting forces – the race is on and only the strong will survive (Leggett 2018). Automotive industry leaders have lately highlighted in their speeches matters such as: high expectations and excitement towards the future, tightening competition and rivalry and uncertainty.

"I believe the auto industry will change more in the next five to 10 years than it has in the past 50"

- Mary Barra, CEO and Chairman of General Motors (Barra 2016)

"Some old-fashioned car companies will not be able to adapt, without any doubt,"

"Obviously, for those who ignore the change, or avoid the change, it`s going to be terrible"

- Carlos Ghosn, Chairman and CEO of Renault-Nissan-Mitsubishi Alliance

(Leggett 2018)

So far noticeable changes have concerned mainly cars themselves with connectivity, autonomous drive, engine powering and emissions being the hot topics in product development and future of driving. Despite of all this turmoil the way cars are being sold has barely changed as still today the great majority of new vehicle private channel sales are negotiated face to face in brick and mortar outlets almost the same way as it has been done for a hundred years. This can be considered rather startling, as many retailing segments have gone through great turmoil whilst adapting to the rapidly changing consumer behaviour. This begs the question that has time bypassed automotive OEM retail as it is presently known and if so, what to do about it?

Winds of change are blowing fiercely in most industries affecting markets around the world. Large-scale change is occurring at an exponential pace never seen before. Many recent revelations have opened certain industries to unforeseen competition. This is also the case in the automotive industry with companies such as Apple and Google joining the race (Scwab 2015). Even though the main qualities as to whether or not automotive OEM`s will adapt and succeed in the future are based in revolutionising product technologies and connectivity. It is vital that they don't focus only on what they selling but also how they are doing it. Why and how automotive OEM retail needs to reshape in order to rise to the level expected by contemporary consumer behaviour is a relevant and topical industry question, thus being the reason why this paper is of certain value.

1.1 Objectives and research questions

The main objectives and what this thesis is primarily concerned with, is to understand how automotive OEM`s retail cars to private customers and how this correlates with customer expectations moulded by contemporary consumer behaviour. Identify what parts cause friction in the current set-up and what can be assumed to be worth preserving the point of consumers. Showcase that top-level industry professionals have neglected to understand their customers and kept on pushing traditional industry ideology.

"Marketers and business managers can easily fall into a trap it's all about them. After all, they pour the blood, sweat and tears into their products or services. They sit in endless meetings

about brand image, their marketing plan, their websites look and feel and how it functions. But of course its about consumers and whether your product or service suits their needs, solves their problems, and does it in a special, innovative or remarkable way.” (Funk 2009: 1)

The thesis statement, new car retail to the public is no longer on a sustainable base as it fails to recognise changes in consumer behaviour is based on the hypothesis there has occurred a significant shift in the behaviour of car buyers that majority of new car retails (OEMs and dealers combined) have so far failed to recognise. New car retail today is more or less as it has been known for the past decades, and is no longer a fit for the consumers of today. This hypothesis was formed through authors work in automotive DND and customer quality. Observing the effects of far changed customer habits to sluggishly developed OEM retail led to question the sustainability of still currently widely accepted practice. In order to form a sufficient understanding of the topic this paper will answer questions listed below.

How consumer behaviour has changed generally and in the automotive industry?

This provides the reader the major outlines in what consumers now do differently compared to previously and what are the drivers of their changed behaviour.

What is conventional new car retail?

Explains how cars are sold in order to identify the Achilles heel in the still widely implemented retailing methodology from a consumer behavioural stand.

Are new car buyers open to online retail environment and sales?

As many retailing industries have moved to e-commerce this sheds light on whether or not this could be implemented in new car sales. For a majority of people, cars are currently their second largest purchase in life after a house. Is this perceived as too high a risk?

How automotive professionals view new car retailing?

In order to understand the whole picture the topic needs to be viewed from both sides of the table: customers and retailers. Retailers in this perspective mean the OEM`s and their dealer networks. Hearing out the professionals gives a feel as to where the industry is heading.

How OEMs and dealers could meet consumer expectations towards new car retail in the future?

Towards the end of this paper the aim is to form recommendations on what could be possible solutions for bringing automotive new car retail up to date at a sustainable level.

1.2 Research methodology and data collection

This thesis has been conducted using qualitative research methodology. The topic has been approached with the base assumption that recent changes in consumer behaviour, which have contributed to what we can identify as typical consumer behaviour of today, has passed what is known as the primary channel for new car retail. A quantitative research would have been too narrow in terms of scope to cover the topic from a broader point of view. Both secondary source information and the primary source information acquired through interviewing some industry professionals of relevance have been analysed in order to interpret where new car retail and contemporary consumer behaviour stand now and relate these concepts together. Readers should be aware some text is influenced by the authors' two-year work experience in the industry working for an automotive OEM. This experience has provided a certain level of basic understanding regarding industry specific information related to this topic, which steered research and compilation of automotive industry specific material used for this paper.

Interviews of industry professionals with relevant experience and responsibility were conducted in order to obtain primary source information. Interviews took place in summer and fall 2018. These interviews were first recorded and afterwards cleanly transcribed. The written versions were provided to the interviewees to check, in case the author had misheard or misinterpreted something said in the recordings. It also allowed them to add information that they might have forgotten to mention during the recorded interview. The average duration of each interview was approximately 20 minutes, excluding time used to provide questions to the interviewees before hand and time used to answer their questions regarding them. Interviews consisted of eight open-ended questions. Two of which were designed to provide brief information of the interviewees' industry experience and roles/responsibilities in their jobs. The rest of the questions (numbers 3-8) asked about industry specific matters: retail development,

power roles, industry practices and future trends based on their professional experience and personal opinions. Question seven specifically asked to provide examples to support their views. The interviews were conducted from a general industry point of view with the intention not to directly reflect practices of the interviewees' employer. As the interviewed professionals had substantial amounts of relevant experience, the interviews provided valuable information, which would have been extremely challenging to obtain going through secondary source information.

This thesis has been divided into six chapters. The first chapter serves the role of introducing the reader to the where the automotive industry currently stands, what this paper has attempted to achieve and what relevance has it offered. Chapter 2 looks into consumer behaviour and discusses some consumer behaviour related areas and theories that have significance towards this thesis and topics discussed in it. Chapter 3 discusses behavioural aspects of car buyers and car buyers a consumer group. This is done through analysing existing findings of researches and surveys conducted on car buyers. Chapter 4 reviews OEM brand showrooms, automotive retail concepts and discusses already existing alternatives that have lately taken foot in the industry. Chapter 5 links chapters three and four together, presenting concept of Omni-channel retailing through two case studies. Chapter 6 summarises significant findings and draws up recommendations.

1.3 Constraints

The author's affiliation to a specific automotive OEM is its own constraint for direct industry research, limiting interaction (direct contact for information, data, etc.) with other industry operators is both questionable and in some certain cases against competitive law (Finlex 2011). Due to this, direct questionnaires were conducted with representatives of a non-competitive company. In other words, the same OEM as the author is affiliated with. Interviews with automotive professionals were conducted only with Nordic professionals thus excluding full European perspective not to mention a global picture.

Primary sources don't include direct dealer perspective. Dealer perspectives are formed from secondary sources and interpretations and opinions of the OEM professionals as

well as those of the author himself. Multi-brand dealers would have held the same competitive law constraint as other industry OEMs. The general industry balance of power implies that the strings in new car retail are mainly pulled by OEMs.

OEM product and service offering are traditionally split into two categories: sales and aftersales. Sales denote the core product, the vehicle itself and Aftersales contains accessories (personalisation packages, alloy wheels, seating materials etc.), services and spare parts. In most cases, both of these elements are offered under the same roof in dealerships. Generally speaking, out of these two, Aftersales is the more profitable side, as there are greater margins. In new care sales the competition is tougher, as not only is it about selling the product but also of engaging the customer to the brand and its aftersales (to a certain extent) as long as he/she owns that vehicle. As aftersales generate higher profits it certainly plays a significant role in the industry decision-making. To narrow down the topic it has been excluded, thus limiting the research. However, this doesn't overly affect the importance since new car sales play a significant role in the business and for its continuity. Despite having narrower margins, new car sales aren't a non-profit activity, plus without the vehicle there are no accessories and most importantly no spare parts and service.

Consumer behaviour as a whole is such a wide topic that examining it from all possible angles and theories would have bloated this bachelor thesis to inappropriate proportions. To avoid this from happening, this area has been narrowed down to what the author has seen to be the most relevant aspects for this particular topic as they are referred to in the discussions of consumer behaviour of car buyers.

2 Consumer behaviour and theory

This chapter discusses consumer behaviour, in particular buying behaviour and acquiring. As a topic of research consumer behaviour is rather wide and therefore it is relevant to keep the discussion related to it having the thesis topic in mind. In order to discuss the thesis topic, this chapter's purpose is to elaborate consumer behaviour and buying behaviour; how humans perceive things, high-effort decision-making, and buying behaviour and the diffusion of innovations.

2.1 Consumer behaviour as a concept and field of research

Markets are designed around the consumer making decisions regarding offerings thus making the study of consumer behaviour a relevant part of sales and marketing. As a concept, consumer behaviour contains buying and it also includes the use of different services, activities and experiences. Consumers are engaged in decision making regarding people when they are voting in an election, choosing to read books of a certain author, picking movies because of a certain favourite actor, or attending concerts of particular artists. How individuals or groups choose to spend their time can also be used as another example of consumer behaviour. How people choose to use their time can tell a lot about who they are, what sort of a lifestyle they have, and how people are similar to each other but at the same time different (Hoyer, MacInnis & Pieters 2008: 3-4).

As this paper and much of the research discussed in it focuses on the actions of buying and acquiring. Definition of buying behaviour partly defined as: Dudovskiy quoting from *Marketing Principles: The Management Process*, by Enis B. M. published in 1997 *"a process, which through inputs and their use through process and actions leads to satisfaction of needs and want* (Dudovskiy 2013). The definition of consumer buying behaviour includes different factors that are believed to affect and define the purchasing decisions of customers. In addition to buying, the following factors also influence what can be regarded as consumer behaviour:

Acquiring: Buying represents one type of acquisition behaviour. Renting, leasing, trading and sharing are other ways of obtaining goods and services. Acquisition also involves decisions regarding what information is necessary to make a purchase decision and where to find it, or spend and optimise time (Hoyer, MacInnis & Pieters 2008: 4).

Usage: After a consumer acquires goods or a service, he or she uses it. This makes usage, a key part of what is regarded to be consumer behaviour. Use of a certain product can tell sometimes tell something about the user, such as what they might believe in or the values they carry (Hoyer, MacInnis & Pieters 2008: 4).

Disposing: Disposal meaning how consumers get rid of a product/service they have previously acquired, can sometimes provide marketers important information about consumers. Consumers can dispose of possessions in different ways; for example they can give away their possession, sell them on the Internet, or even lend them to others (Hoyer, MacInnis & Pieters 2008: 4).

When it comes to consumer behaviour as a field of research - CB and the different variables contained by it is a widely probed research field. Earliest consumer research behaviour dates back to 1920`s however research in masses goes back to the 1950`s, when marketing began to diverge into areas such as psychology and sociology as prior old-school thinking only tied it strictly into economics. Since the 50`s consumer behaviour has been studied extensively for what can be regarded as a substantial period of time. A large amount of academic research can be found in the forms of books, academic studies, releases and publications. There are also plenty of non-academic articles and studies on offer to read. Books on consumer behaviour generally discuss the topic or a certain part of it from an overall perspective, while academic researches tend to focus on very particular topics. Most articles covering consumer behaviour cover the topic "high level". Consumer research is conducted by various entities, including Academic researches, advertisement agencies, consumer advocacy groups, governments, external marketing research firms and retailers. Academic research on consumer behaviour is known to be used for marketing purposes, improving general understanding of consumers and has even affected public policies (Hoyer, MacInnis & Pieters 2008: 36-39). Some individuals may also have personal interest towards consumer behaviour research.

Automotive industry related consumer behaviour research is rather obviously a less researched sub segment. There aren't specifically dedicated books towards it, however some books do use car buying as an example or case study, most likely for being easily relatable as most people are acquainted with cars. Academic research does exist however. When leaving out the core physical product (cars), the rest of what is regarded as the automotive industry isn't thought to be that "sexy" of a topic, and it isn't even close to being one of the most popular industry fields, regarding consumer behavioural research. Most other thesis published in "databases" such as Theseus, discuss automotive industry on engineering related matters. Automotive OEMs and some dealers con-

duct their own market research regarding consumer behaviour in the automotive industry but these are almost exceptionally non-public, due to their delicate nature towards business plans.

This paper, entitled “New car retail and contemporary consumer behaviour – Understanding car buyers and how to meet their expectations” is to contribute to already existing literature by deepening understanding regarding the topic, thus increasing overall knowledge towards it. When searching the title of this paper “New car retail and contemporary consumer behaviour – Understanding car buyers and how to meet their expectations” on Google, the amount of results is a rather high 11 200 000 (see Appendix 3). Despite this high amount of results, the vast majority of them are either discussing various aspects of consumer behaviour or automotive retail separately. One mentionable existing thesis is in Theseus, which discusses some similar matters as this paper is from earlier this year (2018), a published Master`s thesis from Bauer H. titled “The Digital Customer Journey in the Automobile industry – A Quick Check for the Retail Environment” (Seinäjoki University of Applied Sciences). Bauer`s thesis discusses a lot about digitalisation being one of the worlds largest current trends and how it affects everyone, including the automotive industry and arguing on behalf of digital customer journeys and digital retail environments for the car buying process.

2.2 Buying behaviour – Wants, Goals and Beliefs

Buying behaviour is a rather difficult and ambiguous concept, which isn't necessarily always driven by conscious actions, perhaps resulting from sub-conscious associations picked up during life. Even though not all buying behaviour is being initiated by intentional actions, this still leaves a very large part which is intentional and driven by factors contributing to intentional buying. As some analysis conducted in this paper discusses consumer behaviour aspects closely related to the part of it which is regarded being buying behaviour, its beneficial to take a closer look at what factors contribute to intentional buying behaviour. This is done by reviewing certain areas of what senior marketing lecturer Simcoe W. argues to affect buying behaviour.

Simcoe`s buying behaviour figure (figure 1), unlike some buying behaviour models that tie needs and wants together as “need/want”, suggest that conscious buying be-

haviour arise from wants, goals and beliefs, thus being the key driving forces of intentional buying behaviour. If needs were to be included as one of these compulsive requisites, it would imply that in order for buying behaviour to occur, it would always require a need. This of course isn't the case, as the world is full of examples on non need-based buying behaviour, from very extreme examples of buying a high end sports car or to more relatable examples such as buying a "top of the range" electric tooth brush instead of just any regular one. As Figure 1 implies there are factors that contribute the wants, goals and beliefs of a consumer. These factors being: needs, motivations, experience and in addition to these other affecting variables to conscious buying behaviour are: habits, picking and preferences. The buying behaviour figure suggest that the different primary level being (wants, goals, beliefs) and secondary level being (needs, motivations experience) work together laterally within the levels thus telling that buying behaviour isn't a simple matter as it's an action produced by variable interrelated factors. However, as Simcoe points out in terms of understanding the action of buying, this is only one theoretical part, which contributes to the examination of buying behaviour and the consumer psychology behind it (Simcoe 2013: 1-4).



Figure 1 – Buying behaviour figure (Simcoe 2013: 1-4 Figure, 2.1)

Let's play with the idea that instead of a product or service, the three key determinants of conscious buying behaviour could be applied to a consumer choosing the channel of purchase. In this particular case, it means applying wants, goals and beliefs into the hypothetical situations of a consumer wanting to A) purchase a car by visiting a showroom or B) purchase a car online.

A) Customer decided to purchase a car by visiting a showroom

Goals: Buying the most suitable car with the correct features and accessories with less personal effort and get “better price” for the car.

Wants: Negotiate and haggle a favourable price. Have someone order the correct car with the correct features for you. Have car salesman walk through the process of acquiring the new car, finance options etc.

Beliefs: The car salesman has better understanding on car ordering. Salesman might lower the price or offer free add-ons during negotiation.

As crooked as it may sound, salesmen are likely to pay more attention to a customer who hasn't yet made a deal as one who means to seal a deal. This is because they are a present opportunity for monetization. A car in general is a significant purchase and buying a new car to most people is an experience that they aren't accustomed to.

Some people enjoy haggling/negotiating the price. In the western culture this is one of the most visible markets where price negotiation is considered a normal part of deal making. In countries such as in China, haggling is embedded into the culture itself and considered an essential part of the trade culture (Blackman 1997: 3-7).

B) Customer decides to purchase car online

Goals: Buy a car from home, work or any other place of convenience using an electronic device (computer, tablet, smart phone e.g.) with Internet connectivity. Saving time.

Wants: Avoid face-to-face sales negotiations. Not having to travel to a dealership. Read about the process and finance options themselves.

Beliefs: Online purchase is faster. Requires less energy and physical effort.

Many people have got accustomed to online buying and consider it a normal activity. It removes the necessity of interaction with a salesman, who the customer might see as an influencer to his/her buying behaviour (Ervin 2016). Previous experience of negotiating with a car salesman might have felt uncomfortable and the person might see it as unnecessary to go through stress caused by separate sales negotiations and discussing financials “in public”.

2.3 Effort and decision-making

This part introduced customer decision-making and high effort decision-making in particular. Customer decision making being a key toward understanding certain parts of consumer and buying behaviour in this paper. The significance of high-effort decision making in consumer behaviour, relies in being able to fully understand certain car buyer behaviour when analysing research. High-effort decision-making having relevance as the purchase of a car can be regarded as a high-effort decision. For researches and marketers to understand consumer behaviour, they need to realise that studying it is a two-way process 1. Stating the market problem resulted by decision made by consumers, which requires analysis on the context and focus of the decisions, consumers themselves and alternatives. And 2. What are the reasons behind those customer decisions and why the specific set of determinants affect their decisions (Olson & Reynolds 2001: 4).

Very generally speaking, consumer decision-making can be divided into two categories: "high effort decision-making" and "low-effort decision making". As the name of the terms suggest, the determining factor being the extent to which effort is put into the making of a decision. Products regarded as high effort decisions are high in value or involve a long commitment, thus involving substantial time of consideration before completing the purchase decision. Classical examples of high effort decision-making products being commonly cars, houses and or apartments, as these represent for most consumers the two largest purchases of their lives. Normally a consumer, interested in a car or house would conduct research on market offerings, prices, and experiences of other consumers. Products like the previously mentioned represent things people don't purchase that often and therefore take a relatively long time to consider their options and weighing possible risks that could be encountered before and after buying (I Research Services 2018).

Alternatively, low effort decision-making is commonly known as impulse buying and unlike high effort products, these goods are at the lower end of the price range, having low perceived risk or can be regarded as completely risk free. Due to low cost and lack of risks, consumers don't conduct extensive analysis on them before purchase. An example of a low effort decision-making could be buying a chocolate bar. This transaction

is seen to have low risk due to its minimal cost and short use. Therefore consumers aren't seeing the benefit of completing the effort of hours of search prices reviews or compare prices (I Research Services 2018).

2.4 Perceptual processes

The relevance of perception towards this paper, was generated through understanding what sort of factors might effect what customers find appealing in the process of buying a car, thus leading to their final purchase decision. When consumers acquire, buy, use and use something, much of their choice is affected by perception. How consumers perceive things shape their behaviour. As an example of this, the classical case of whether a consumer decides to buy something is based on whether they perceive the particular good/service to be worth the proposed transaction. Concepts such as appeal and usefulness are results of perceptions. Humans and also many animals, perceive things through our senses: seeing, touching, tasting, smelling and hearing. These elements are a key to how humans observe. All of the mentioned senses are as a whole equally important to consumers, to whatever importance regarding particular situations are down to significance of socio-physiological meanings, which may vary individually based on the motives steering their behaviour. When perceiving a matter, a consumer may feel more connected to one socio-psychological association than to another (Foxall & Goldsmith 1994: 50). A customer at a restaurant might choose to order a dish that he/she doesn't really like in terms of smell, looks or texture but perceive appealing due to the taste of it. In this example the motivation to eat something that tastes good is a more decisive matter than the earlier mentioned. However, as humans are rather visual beings regarding stimulants, some conducted studies suggest that 90% of consumers recognise stimulants through things seen (Foxall and Goldsmith 1994: 58). As seeing is a large part of how consumers perceive, it might indicate that there could be some demand for visually impressive online car retail environment alternatives. And that visually active showroom elements could contribute to the improvement of the retail experience.

Consumers can learn about brands and the products and services on offer through advertisements, product display, product testing, third party information, etc. thus influencing their perception. Once a consumer has learned about brands or product

characteristics they are able to make a conscious purchase decision based on what they perceive most appealing or distinctive. Consumer self-perception affects their behaviour, as some choices can be based on how they relate to them. As an example of this an individual perceiving themselves being eco-friendly, may decide to buy an EV or to give up on owning a car and use public transportation instead (Foxall and Goldsmith 1994: 49). What this means is that consumers can conduct intentional logical analysis by comparing perceptions to themselves, thus being able to reject products which by their perception are incompatible with themselves. Foxall and Goldsmith, present a rather classical case of this, where consumers were grouped into two groups based on a given personality test, evaluating self-perception and classified them as "cautious conservatives" or "confident explorers". The consumers were then surveyed about their car preferences. The results showcased that consumers placed in the group "cautious conservatives" got small cars, which they described as convenient and inexpensive to run. The second group consisted of "confident explorers" preferred larger cars, which they described as expressive and dominant. This test, supporting that consumers develop a certain perception of their own self-image and that they prefer things correlated with that self-image (1994: 55).

2.5 Diffusion of innovations

Diffusion theories apply that markets can be segmented for limited amounts of time. Segmentation is done by grouping the adopters of an innovation by dividing them across the timeline which represents the time it takes for them all (from first to last) to diffuse the innovation among the different adopter groups. Identifying innovators at an early phase makes it possible to tailor elements of the marketing mix at the early stage, according to the needs of consumers, (who are the ones to initiate social comparison). Without getting them on board the diffusion might never take off. By marketing terms innovators in this case mean the earliest consumers of a brand/product but not the ones to invent the particular machine or advancement that represent the innovation. (Foxall & Goldsmith 1994: 35-36) An innovator could be for example a high profile professional photographer being the first one to take a new high definition lens to use.

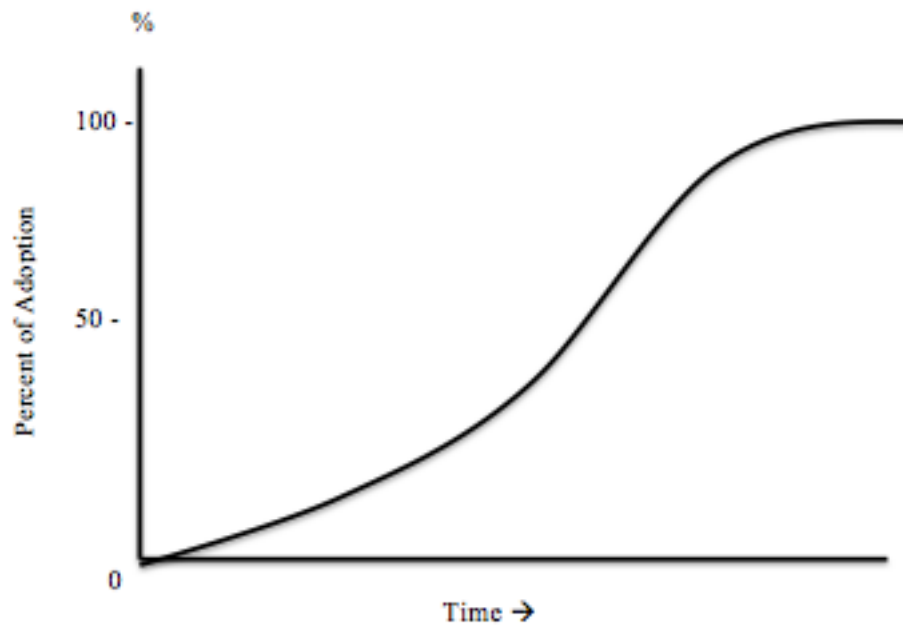


Figure 2 – The S-shaped curve of innovation diffusion (Foxall & Goldsmith 1994: 36)

The S-shaped curve in “Figure 2” provides a good historical approximate of what it takes for an innovation to diffuse. It begins by the appearance of the “new thing” and being adopted by a small group of people, followed by more people adopting it by a higher rate until the point is reached when a fewer and people are left to diffuse the innovation. Once this point is reached an innovation is considered to have diffused successfully and this particular innovation is thought no longer to be new. Each person’s decision whether or whether not to adopt an innovation represents for the adoption and rejection of an innovation. According to Foxall & Goldsmith an innovation in marketing can be identified as a new product, brand, service, practice etc. generally anything that can perceived as new by members of a social system. (1994: 36)

2.5.1 E. Rogers – The diffusion of innovations theory

Communications theorist and sociologist Everett M. Rogers first introduced a theory of innovation diffusion back in the year 1962, known as “the diffusion process”. Roger`s theory showcases how innovations get adopted among five mathematically divided groups of adopters: Innovators, Early Adopters, Early Majority, Late Majority and Lag-gards and by laying standard deviations (sd) from average adoption times. Adoption timeline is presented as continuous but parted by the five-adopter categories. Accord-

ing to Roger`s theory there are four main elements which effect on how an innovation spreads which are: the innovation itself, communication channels and social systems (Foxall & Goldsmith 1994: 37).

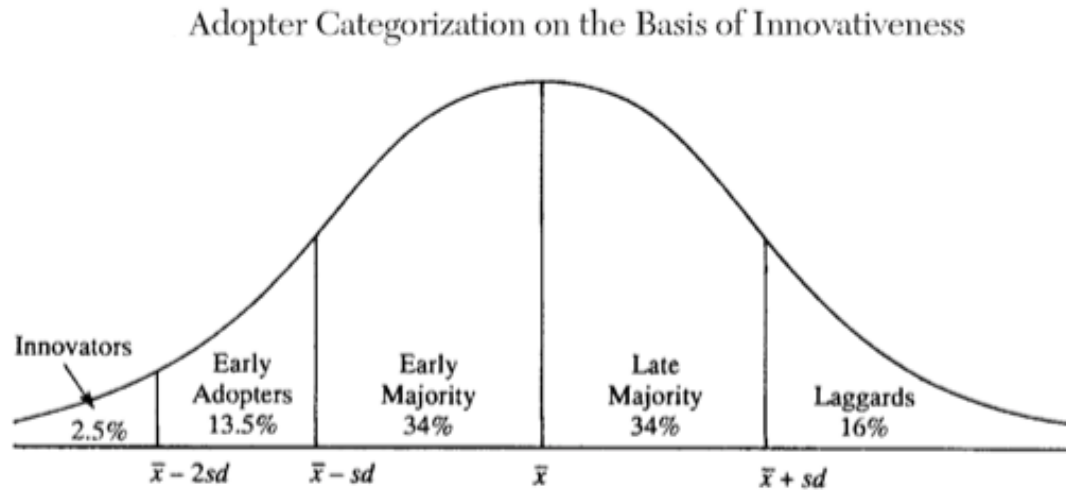


Figure 3 – Adopter Categorisation on the Basis of Innovativeness (Rogers 2003: 281)

Innovators: represent 2.5% of the whole adopter collective. They are individuals first to adopt the innovation. Generally innovators have the tendency to be socially active and have close contacts with other innovators and developmental sources. High financial liquidity is a common trait as this decreases the overall impact in case the innovation proves out to be a failure. Age wise innovators are usually young and thus prone to taking risks. Young age and high financial liquidity suggest that innovators generally belong to an upper social class (Rodgers 2003: 277).

Early adopters: are the second quickest group to adopt and represent 13.5% of all adopters. Early adopters play the role of opinion leader to the following adoption groups. Early adopters have certain similarities to innovators as they are also young in age and financially well off. Early adopters have higher social status and are more discrete in their adoption decision-making than later adopters. Other traits are that early adopters tend to be socially forward, higher educated than their later groups. Early adoption allows them to boost their social status as influencers (Rodgers 2003: 278).

Early majority: As the naming implies early majority are the first large wave of adopters, which represents the first half of the greater portion of all adopters. Their

share of all adopters is 34%. This group chooses to adopt once a certain amount of time has passed. This "certain amount of time" is substantially more than what the innovators and early adopters take. Early majority aren't as discrete as the earlier adopters groups and are rarely in the position to be seen as opinion leaders. Early majority have contacts with early adopters and have an average social status (Rodgers 2003: 278).

Late majority: People belonging to this category adopt after half of the all adopters have already adopted the innovation and have a high level of scepticism. Like the early majority, late majority as a group represent 34% of all adopters. Late majority has rarely opinion leaders, have lower social status and commonly have less financial flexibility. Late majority are usually in contact with peer late majority and early majority. (Rodgers 2003: 279)

Laggards: Laggards are the last group to adopt an innovation and as a group they represent 16% of all adopters. Laggards are usually oldest of all adopters with reluctance for change as they value traditional means and methods. Laggards generally don't have opinion leadership and are usually in contact with family and close friends. Their social status and financial flexibility are commonly the lowest out of all adopter groups. (Rodgers 2003: 280)

2.5.2 Critique towards Rodger`s diffusion process theory

Like all functioning theories, despite its positive aspects, Rodger`s Diffusion process theory does get critiqued for sound reasons. Rodger`s theory fails to acknowledge that people belonging to different adopter groups can share traits of other adopter groups or depending on the social system. This means that the theory doesn't allow an early adoptee to have traits of a laggard and vice versa. It doesn't take into account that certain people may be ready to adopt an innovation but for some reason decide to postpone it. This can also work out the other way – groups of adopters could adopt an innovation earlier than their characteristics would suggest. For example, youth might adopt an innovation at an earlier stage, despite a tight financial situation, as they see significant value in it and a laggard might have delayed purchase a long time despite high financial liquidity and being an opinion leader, as he/she doesn't see it's benefit.

Who adopts and when is therefore impacted by the innovation itself and doesn't always follow Rodger's categorisation.

As stated above, the diffusion of innovation theory divides adopters into five groups. The amount of groups versus the share they are divided into is asymmetrical as the earliest 50% are represented in three groups and the remaining 50% as two groups. Are all adopter laggards as a whole, such a homogenous group that they can justifiably be grouped as one?

Damsgaard and Lyytinen argue in their academic publication "What's wrong with the diffusion of innovation theory? – The case of complex and networked technology" that the diffusion theory doesn't apply in all cases of Innovations. As the title suggests this 2001 publication of the two professors argues that some innovations in particular in the field of "complex and networked IT solutions" don't diffuse in distinctively identified stages stating that:

"In some situations adoptions took place in dyadic relationships where it was difficult to see what the notion of an early adoption would mean. Sometimes adoptions were effected by moves in one industry or across industries, and all adopters were early innovators by Rogers' terms though they did not share their characteristics. In some situations the adoptions sought to cover the whole trading community (what would early and late mean in this case?)." (Damsgaard & Lyytinen 2001: 11)

Results of the research also suggested that the some "innovators" were intentionally using innovations to stop competitors getting their hands on it. Also in some cases that they conducted research on, field of "Electronic Data Interchange in particular" there were indications of "laggards" showcasing greater extent of foresight than earlier groups of adopters (Damsgaard & Lyytinen 2001: 10-14).

2.5.3 Diffusion of Internet and relevance to this thesis

According to 2007 published global research on diffusion of the Internet as an innovation titled: "Diffusion of the Internet: A Cross-Country Analysis" by Andres, Cuberes,

Diouf Serebrisky, since the introduction of the Internet to the public in the early 90`s, data extending to year 2004, indicates that when results on diffusion of the internet in 200 different countries combined, the extent of diffusion, averages at 16,3% globally. Diffusion of Internet use, in markets where the general population is seen as wealthy or upper middle category in terms of indicators (such as GDP), is adopted further, than in markets where the general population is regarded to be poor or lower-middle category in terms of wealth. Data showcases, when results of wealthier countries combined, the extent of diffusion in 2004 was already at 40,9% and when results of poorer countries was combined it was 7,0%. Noticeably the "poorer" markets that have "catching up to do" are doing so at exponential pace, as the cost related to the adoption is seemingly lower than for the earlier adopted markets, while the more mature markets are seemingly flatter with their increase (Andres, Cuberes, Diouf & Serebrisky 2007: 8-11).

Since the year 2004 we have gone a long way and the extent to which the internet is in use around the world has sky-rocketed and already in data from 2011 it was estimated that internet penetration in developed markets was at least 60%, with some being higher than 80% or higher and the vast majority experiencing penetration of at least 20% and higher (Woollaston 2014). In the furthest Internet adopted markets key services such as banking are increasingly moving online.

What this means, is that especially in the markets where a large group of people can be regarded to have significant buying power, the group is likely to have adopted Internet to a far extent. Considering the seeming correlation between wealth and adoption, the likelihood of having a large group of consumers within the market who are wealthy enough to buy a new car, are likely to have adopted the Internet, thus increasing the probability of them searching car information online.

The way diffusion of Internet is related to this thesis is that it contributes to the discussions of: 1) assumption that consumers have ways and means to search product information online, which could effect the likelihood of thorough online research being conducted and 2) possibility of new car buyers wanting to complete the actual purchase of their car online. As the Internet is a continuously evolving innovation the slight possibility that behaviour of later adopters being shrewd in their use of adopted

innovations to a greater extent than the earlier adopter groups can't fully be counted out.

3 New car buyers and car buying behaviour

Chapter 3 discusses the buying behaviour and preferences of new car buyers by analysing currently existing data and research done on the topic. Most of the reviewed material has been gathered through consumer and customer surveys conducted by large consulting groups (Capgemini, Deloitte, McKinsey and Roeland Berger). But before going into the behavioural aspects of new car buyers, let's take a look at what are the new car buyers like as demography and has there occurred any change in them over the past decade or so.

3.1 Demography of new car buyers

In the developed western New Car Markets, the trend of the past decade has been that an increasing share of new cars sold are being bought by older people, which logically has increased the average age of new car buyers. Table 1 illustrates how the shares of new car buyers in the US were split between different age groups during years 2000, 2005, 2010 and 2015. The main take of the figure is that during the previously mentioned time span, the buyers between the ages of 16-49 years decreased by an average figure of 7,65% and that during the same time the share of new car buyers of the age 55 and above increased by 15.2%. Rather surprisingly the largest decrease (9,3%), was experienced among buyers between 35-49 years of age.

Year	Age group: 16 - 34 years	Age group: 35 - 49 years	Age group: 50 - 54 years	Age group: 55+ years
2000	28.6	39.2	11.1	21.2
2005	24.3	36.6	11.5	27.4
2010	19.8	31.4	12.2	36.5
2015	22.6	29.9	11.2	36.4

Table 1 – Share (percentage) of New Light Vehicles Purchased by Age Group in the US (Kurz, Li & Vine 2016)

In Finland the average age of a new car buyer in the year 2015 was 53, half of all new car buyers being between the ages of 43-63 years. Only 10% of all Finnish new car buyers were under the age of 35 years (von Bell 2016). In 2018 there has been even wild reporting claiming that a customer who is over 70 years of age is buying one out of every four new cars sold in Finland (MTV uutiset 2018). Germany is also experiencing a similar trend as in 2013 the average new car buyer in the country was 52 years of age and only 27% of all new cars were sold in Germany were bought by customers under the age of 45 (Bryant 2014).

Two aspects can be defined as the key drivers to the continuous increase in the average age of new car buyers. First being the natural aging of large generations. "Baby Boomers" who represent the largest population demography are currently in their 50`s, 60`s and 70`s (Werlne 2018). Figure 4 illustrates the direct correlation between the steadily aging US population and the simultaneously increased average age of US new car buyers. This US Federal Reserve bureau chart indicates age in years on the Y-axis and the X-axis indicates time in years. The red dotted line indicates the yearly median age of US population between the years 1996 and 2014. The vertical bar charts illustrate early years of major recessions (The 2000 Internet bubble burst and the 2008 financial crisis). The black and blue lines illustrate findings of two separately conducted research on the average age of car buyers during particular years. Despite the discrepancy of final figures between the black and blue lines, their illustrated development during time and impact of recessions are remarkably alike. Both lines suggest that the average age of new car buyers peaks at the time of recession and that the average age of new car buyers increases in the long run. Another relevant remark taken is the fact that the median population age has increased "only" by 8,57% when the average age increase in the age of new car buyers (black and blue lines) has been 12,06%. The difference of 3,49% between the increase of mean age of US population and the simultaneous increase in the average age of new car buyers suggests that there are other variables apart from aging population that affect the equation (see Appendix 2 for calculations).

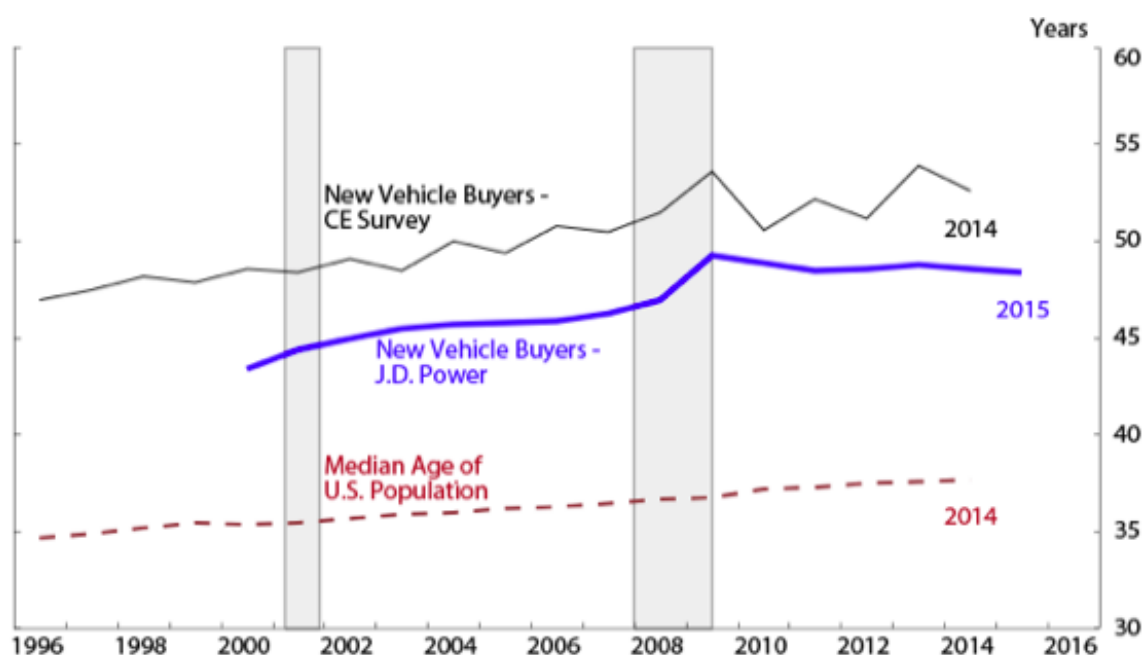


Figure 4 – Average age of new car buyers and median age of US population, 1996 - 2014 (Kurz, Li & Vine 2016)

Natural aging of the population can't be considered as a behavioural change of buyers; however some conclusions of consumer behavioural change can be drawn from the decreasing share of young new car buyers. Young consumers of today have a different approach to ownership and may not see a real need for owning a car nor having a desire towards it (Tseng 2013). Such consumers may see leasing as a more desirable option if they eventually end up wanting a car. Change of attitude in general towards driving can be seen from the decrease of young people getting a driving license. Unlike before, when teenagers saw getting a driving license as a must, today's youth don't always see a reason for getting themselves a driving license and choose to spend their money on something that has more relevance to them. However choice isn't the only reason for the decreasing share of young new car buyers. The latest 2008 and late 90's early 2000's recessions impacted the overall employment possibilities and income of young people in particular. As a result of this, millennials in western countries are relatively poorer than the earlier generation and it will take time until they become the highest earning demography (Kurz, Li & Vine 2016).

During the past approximately 20 years there has happened a considerable increase in the share of women buyers. In Finland 35% of new car purchases were done by women. Fifteen years earlier women's share of Finnish new car buyers was 25%. According

to Finnish Transport Safety Agency (Trafí) statistics from 2015, alternatively powered cars attract younger buyers. The average age of consumers who bought EVs or Hybrids was significantly lower than the country average age of new car buyers for new cars, when all powering types were considered - average age of hybrid car buyers being 49 years and the same figure for EVs 46 years (von Bell 2016).

As a general outline, it can be seen that new car buyers of today are mostly mid-aged or older people who have progressed further in their careers and or have gathered wealth over the years. An increasing portion of new car buyers are female and that alternative "greener" options for ICE cars attract younger new car buyers.

3.2 Car buying behaviour and customer preferences

Through logical reasoning, it can be interpreted that new car buying will increase for a short period of time when consumers shift on mass from ICE to EV as governmental incentives and restrictions steer the way. The reason behind this assumption is that EVs and their battery technology in particular are improving rapidly. Regarding the increased battery capacity and range - what used to be the maximum range five years ago might no longer appeal to car users knowing the current advancements and upcoming future advancements right behind the corner. For a certain amount of time, the rapid advancements could alter the pros and cons of buying new - during the time frame of great technological leaps before the impact of the new product innovations become less significant. In the short run, the models from a few years ago will do mostly the same as the new ones. For OEMs who understand the consumers and their products and the sales and marketing of them correctly, are presented the possibility of capturing market share from their competitors. Failure to understand how to market to current and future new car buyers, or what products they are after, will eventually lead to failure. As this paper focuses on the marketing and distribution part of new cars, the discussion is focused on understanding new car buyers utilisation and what are their expectations in terms of new car sales and marketing.

In addition to traditional brick-and-mortar retail, consumers of today are accustomed to buying and searching online. In 2018 slightly over 10% of all retail occurred online (Dennis 2018). The figure doesn't tell the entire truth about the underlying change in

retail as the share varies between retail industries and doesn't take into account how and where the customers reached their purchase decision, but rather focuses only on where the purchase took place. Never the less, in 2016 Roland and Berger estimated that already 10% of new car sales in Germany happened online (Roland Berger 2016). According to Deloitte studies, the three most digitally impacted industries of retail are: electronics, furniture and automotive (Dinsdale, Glueck & Willigmann, 2016: 3). Due to this, dealers have been losing their influence with car buyers as many of them acquire a lot of information online, preferring third party independent sources in particular. As people have turned to alternative sources of information, instead of almost solely relying on dealer information as before, the number of dealer visits per purchase has dropped. Deloitte's reports indicating that the average amount of dealer visits towards purchase of cars, has decreased between years 2005 – 2013 from 4.5 to just 1.4 visits. According to the same report, 75% of buyers already pre-decided on what car they going to buy when walking into a dealership (Dinsdale, Glueck & Willigmann 2016: 7). Despite dealers and OEMs losing some influence over new car buyers, it's not only gloomy news. Changes in customer behaviour also represent opportunities, as research indicates that car buyers are turning to dealers and OEMs when it comes to understanding detailed technical information. Demand for such information is only increasing as customers expect to get technical consultation from dealers and OEMs, especially regarding popularising new technologies - EV's and intelligent mobility, etc (Mc Kinsey & Company Inc 2014: 14). This need must be acknowledged by automotive OEMs and dealers, so as not to lose even more of their customers by keeping on feeding them "sales spiels", when the customer is expecting information and to be helped to understand the product.

The following subheadings will discuss current online and offline car buying behaviour by analysing mainly two extensive researches on the topics: Capgemini – Cars Online – Beyond the Car, conducted at beginning of calendar year 2017, which asked 8,101 consumers who were seriously considering buying or leasing a new car within a year, about their opinions and expectations towards car buying, including eight countries (matured and developing markets) across the world, Brazil, China, France, Germany, India, Italy, United Kingdom and the United States Capgemini Consulting 2017: 6). The second research being Mc Kinsey's 2013 retail consumer survey, which covered automotive retail by surveying 4,500 consumers in China, Europe and US (Mc Kinsey &

Company Inc 2014: 7). In addition to the previously mentioned, some discussion revolves around other automotive industry analysis.

3.2.1 Online information acquisition and behaviour

Over the past two decades research and shopping of cars has gradually been moving online. These days customers can play around with car builders to visualise cars, the personalized vehicles of their dreams, review current stock situation of dealers online and user pricing services to find the best available price. In China online pricing services are used by approximately 50% of consumers (Dinsdale & Berdichevskiy 2018: 17). Car buyers today can pave their own customer and decision making journeys and go through various touch points before final decision making. The Internet plays a significant role during the purchase process, particularly at the beginning of it, as up to 80% of new car customer journeys start online. In the used car market the same figure is already at a staggering 100%. This means that dealers have lost their decades long position as the primary source of information in the field of car sales. As one may assume, the percentage among new car buyers is higher for young customers, 90% of whom start their customer journey online (Mc Kinsey & Inc 2014: 8).

This means that OEMs and dealers need to be very much present in the online world. Third party information is widely popular among consumers complicating the tasks of OEM's and dealers of getting their own messages across to the customers at the early phase. Cars online report indicates dealers being surpassed by third party information (independent press), to be the most important source of information for a car purchase. 50% of the responding "soon to be car buyers" stating that they will use independent press as a significant source of information during their purchasing- and decision-making processes. As a close second came OEM websites (46%) and third dealerships (40%). In the newer study, independent media had passed OEM websites as when the same questionnaire was conducted two years earlier OEM websites were ranked as number one. Other listed options being: dealer website, family and friends, OEM brand store, auto shows, general social media, manufacturer social media and dealer social media. Social media combined being the least favourable source with general social media (16%), manufacturer social media (15%) and dealer social media (12%) receiving the least amount of mentions of being used as a source. Dealer showrooms noticeably a dividing source between matured market consumers (47%) and

developed market consumers (30%) (Capgemini Consulting 2017: 8-9). Reasons for the before mentioned discrepancy could be shorter existed extensive dealer networks in developed markets, thus being less accustomed in interacting with dealers or lack of trust towards dealers as a similar discrepancy could be identified regarding results for dealer website. Despite this overall OEMs website (2nd place) and dealers websites (4th place) indicate that customers value the online presence of dealers and especially OEMs. According to Deloitte 68% of new car buyers search their options of dealers online (Dinsdale, Glueck & Willigmann 2016: 6). Despite customers being keen on visiting OEM and dealer websites, this doesn't mean that OEMs and dealers couldn't be doing a better job with their websites, as Deloitte's data in Figure 5 suggest that they aren't quite reaching customer expectations. The figure illustrates the extent to which customers feel OEM and dealer websites meet their expectations. Overall OEM's are doing a better job at it in every market as customers in developing markets (China and India) are more satisfied in the website offering of dealers and OEMS than their mature market counterparts (Germany, Japan, South-Korea and US). There is plenty of room for improvement as the highest-level at which expectations are met is 72 while dealers are living up to expectations averaging at 52% and OEMs at 60%.

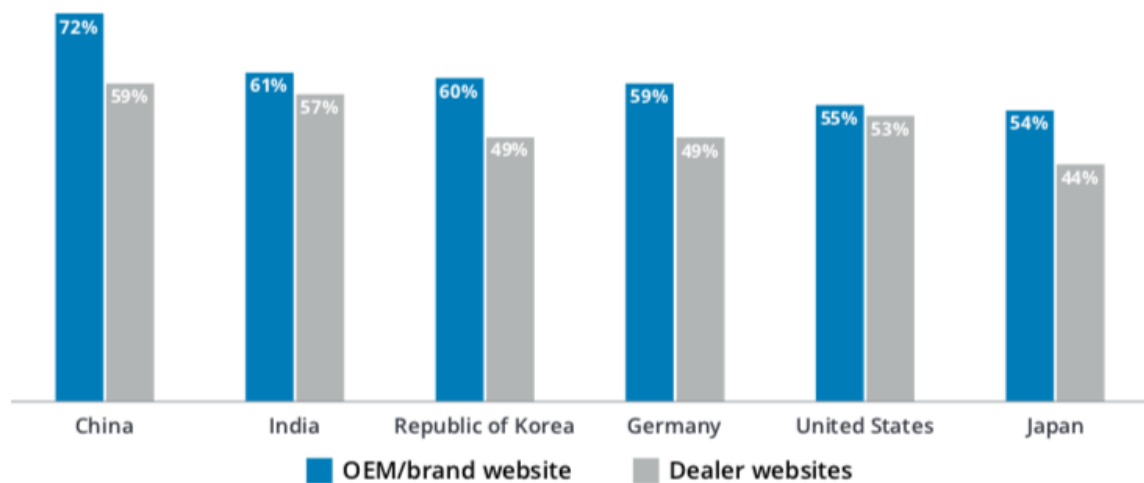


Figure 5 – Percentage of OEM and Dealer websites meeting customer expectations (Dinsdale & Berdichevskiy 2018: 18)

OEMs and dealers should pay closer attention to their online presentation as 1) their overall influence on customers is decreasing and 2) their number of face-to-face interactions is decreasing yearly. Online presence and overall customer satisfaction towards it could be increased, by offering the possibility to complete purchase online or at least

allowing customers to take care of financial paperwork online. Possibility of handling financial paper work being a option, that according to Deloitte 70% of consumers would like to have in order to save time (Dinsdale, Glueck & Willigmann, 2016: 6).

Availability of several information sources, third-party sources in particular, has increased transparency regarding prices, features, qualities, etc. to buyers. This was also what one of the interviewed OEM professionals commented saying that: "*OEMs and dealers need to be transparent*" (see Appendix 1: 3). Customers desire for transparency can't be thought to be a surprise, as no normal consumer wants to feel tricked or feel that they aren't leaving without the best possible deal available or close to one.

Capgemini's "Cars Online – Beyond the Car" report also covered consumer thoughts on buying cars online, asking the likelihood of which customers would be likely to complete the actual purchase of their next car online, if the possibility to do so was on offer. Out of the respondents, 42 % thought it to be likely for them to complete their next car purchase online, if the option for it was "on the table". 34% regarded online purchase of next car unlikely and the remaining 24% felt neutral about it. At the very opposite ends 16% of repliers thinking themselves being very likely to purchase their next car online and 20% to be very unlikely to do so. This means that a greater proportion of "people soon to buy a car" are most definitely sticking to the traditional option, than the amount of buyers strongly open to doing it a new way (2017: 13-14). Certainly, the appeal of online buying shouldn't be too much of a surprise regarding that many consumer purchases are these days made online. As an example, 20% of global apparel (clothes, accessories, shoes, etc.) sales today run through e-commerce (Dennis 2018). What could be considered surprising is the seemingly high percentage of respondents saying that they aren't likely buy their next car online. Referring to E. Roger's diffusion theory, this might have something to do with most new car buyers being older people, who might not have yet adopted e-commerce to the required extent and they could likely belong to the late majority or laggards. Another influencer could be a certain perceived risk in buying online, especially when taking into consideration that purchase of a car involves high-effort decision-making. However as the percentage of consumers who think that they are likely to buy a car online has gone up from the 35% which was the result when the same survey was conducted two years

earlier in 2015, to 42%, this suggest that the trend is that car buyers are warming up to the idea of online purchase (Capgemini Consulting 2017: 14).

3.2.2 Offline information acquisition and behaviour

Referring to Deloitte`s findings regarding the decreasing amount of dealer visits towards a purchased car mentioned earlier in this chapter (see page 24) and interviewed automotive OEM professionals telling the same, (see Appendix 1: 3 & 8) showroom floor traffic has slowed down from the "good old days". Findings of Capgemini's 2017 Online survey results support the previously mentioned statements regarding the decreasing number of dealer visits but suggest that it hasn't happened to such a radical extent. When "likely soon car buyers" were asked to estimate how many times they are to visit a dealer, 73% of respondents said that they will visit a dealer a maximum two to three times during the purchase process. 4% said that they would visit a dealer over five times. Which supports Deloitte`s and automotive OEM professionals view points but the fact is that only 8% of Capgemini survey respondents tell that they will visit the dealer only once. (Capgemini Consulting 2017: 12). Either way information from all three sources (Capgemini, Deloitte and interviewed OEM professionals) indicates that amount of dealer visits has decreased dramatically and there are currently no signs that the decrease would be coming to an end any time soon.

Capgemini`s report also has a take on the reasons for visiting a dealer. When asked: *"Apart from the actual car purchase, are there any other reasons why visit a car dealer?"* the most popular one reason given was test drive a car, with 70% respondents mentioning it. A close second was seeing the car in real life, which "lost" to test -drives by the close margin of 2%. Both of the afore mentioned options serve customers wants of feeling and seeing the car, indicating that customers expect dealer showrooms to offer what can't be done online. 58% mentioned opportunity of negotiating the price to be a reason for visiting a dealer and 44% told that during their dealer visit, they are looking to get additional info of the car. Many specified that they are after technical expertise from dealers and not to hear a sales pitch (Capgemini Consulting 2017: 13).

The demand for technical knowledge from dealers is also acknowledged in Mc Kinsey's 2014 "Innovating Automotive Retail Report" which discusses findings of the company's 2013 Retail Innovation Consumer Survey. In this report Mc Kinsey & Company Inc mention the demand to keep on increasing as customers expect to get technical consultation from dealers especially regarding the popularising new technologies - EVs and intelligent mobility, etc. (2014: 14). Figure 6 illustrates the answers that Mc Kinsey received from consumers when asking which out of the following five options: Appeal and friendliness of staff, Assortment/availability of cars, Expertise on additional features/services, Product expertise, or Proximity and store layout did the respondents consider to be the most important element to them during dealer consultation. According to the respondents the most important element is the dealer staffs' expertise of the products. This is in line with findings in Capgemini's earlier discussed report from 2017. Product expertise received 41% of all votes. The figure also illustrates how support for this particular element were divided among respondents in China, Europe and US. Product expertise having the greatest emphasis for the Europeans as almost half of them (44,4%) told that the most important element they are looking to take out from dealer consultations is product expertise. Noticeably "Proximity and store layout" received the lowest support. This might sound rather odd considering that OEM's and dealers invest large sums in it. A couple of explanations for this, being that store layouts and the presentation of it, isn't logically thinking the primary reason to go to a dealership, keeping in mind that the customers objective is to buy a car. Secondly, layouts and store designs are intended to affect the customer's movement and mood subconsciously.

Importance of key elements during the dealer consultation

Percent of respondents who ranked respective elements as their no. 1 priority

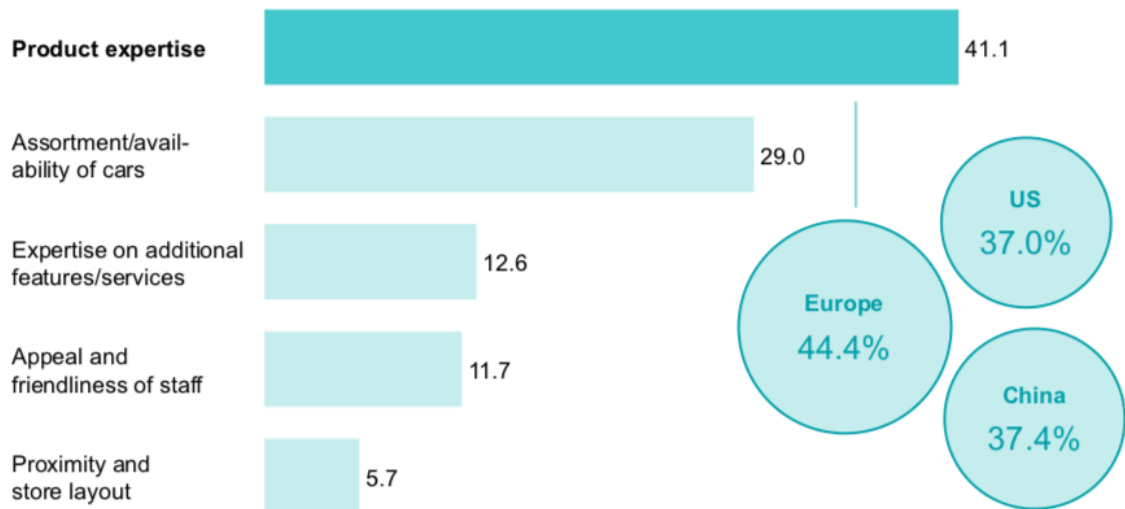


Figure 6 – Importance of key elements during dealer consultations (Mc Kinsey & Inc 2014: 14)

McKinsey's findings of the company's 2013 Retail Innovation Consumer Survey indicate that a vast majority of car buyers conduct test drives during their purchase process. Figure 7 illustrates how many buyers conduct test drives and what are the reasons for conducting them, among the people who decide to do so. Figure on top of the bars illustrates the "N amount" e.g. Specific sample sizes. The different colour shadings within the bars illustrates what percentage of people in the sample size: don't conduct test-drives, go for test-drives to confirm their choice and experiment with a car of one or several other brands, Test drive to get final confirmation for their decision or people who test-drive only another brand.

Importance of test-drives Percent

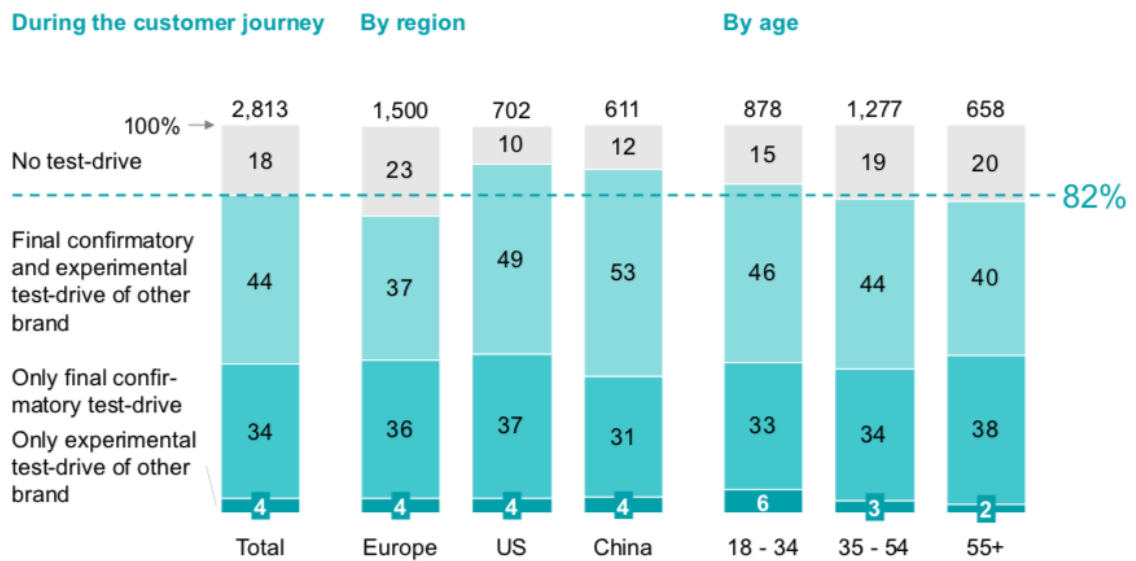


Figure 7 – Importance of test-drive to customers (Mc Kinsey 2014: 13).

Main take on figure 7 is that 82% of all surveyed customers conduct one or multiple test-drives before purchasing a car. Popularity of test drives appears to be most popular among young car buyers. This could be down to their inexperience, as they are likely not to have that much experience in car buying and therefore are less sure of what they are exactly after. The fact that test drives are most popular among young people indicates that the significance of test drives doesn't seem to be reducing any-time soon. The figure suggest that the majority of customers who conduct test drives would do it twice or more as the reason for these people to take cars out for test-drives is "Final confirmatory and experimental test-drive of other brand".

In addition to the findings of Capgemini and Mc Kinsey, Deloitte also recognises aspects in car buying behaviour, which contribute to the current and also future importance of brick-and-mortar automotive retail, despite increasing digitalisation of the customer journey. As a prime example of this, they point out test-drives, which according to the company's research, 88% of consumers are looking to do as a part of their purchase process (Dinsdale, Glueck & Willigmann, 2016: 5).

3.3 Do dealers still fit the picture?

Much of the reason why traditional new car retail has tested through time and why brick-and-mortar might never depart from the industry is that people want to be able to touch and feel what they are buying. This gives a reasonable chance for dealers to survive but this also depends how much OEM`s will want to take control over customer sales. During this decade OEMs have already taken most control over the showroom design, as acknowledged by interviewed automotive professionals (see Appendix 1: 1,4 & 7) and who knows, perhaps this won't be the end of it.

Competition among dealers is getting tighter as is also the general industry competition. Some old fashioned dealers are very open at not being thrilled by what changing consumer behaviour online activity in particular, has done to automotive retail (Hast 2017). Slimming margins are making it harder to survive, not only from the perspective of dealer rivalry but also as OEM`s are stepping in with direct online sales and OEM managed brand outlets. The road for many dealers came to an end, expedited by the 2008 financial crisis and its repercussions. Between the years of 2006 and 2013 the amount of car dealers in Germany dropped from 16,000 to 13,000 and in the US from 21,500 to 17,600 (Mc Kinsey & Company Inc 2014: 9-10). In the end, dealer survival will be determined by whether they ensure to remain relevant to their customers by catering to their expectations. This will simultaneously contribute in reaffirming their relevance to OEM`s and ensuring continuation of dealer OEM partnerships.

As discussed in this paper, current research indicates that many customers still rely on dealers to provide certain information (technical) and facilitate services (test drives) that help them to reach a purchase decision. If dealers play their cards right, they will have the ways and means to maintain relevance to customers and OEMs. Figure 8 illustrates which new store formats appeal most to the consumers surveyed by Mc Kinsey in 2013. Most appealing store formats according to consumers are long-term brick-and-mortar solutions, which are 1) located in easy to reach locations which they often pass close by such as city centres and 2) offer the opportunity to test drive cars. Online stores fitting in the middle as found more appealing than temporary pop-up stores and home visits by salesman. These findings suggest that along side the convenience what has been brought by online search consumers also find appealing the possibility to

handle their car shopping in store formats that are generally located in easily reachable and thus convenient locations.

Appeal of new store formats to customers

Percent of respondents scored format on a 6-point scale

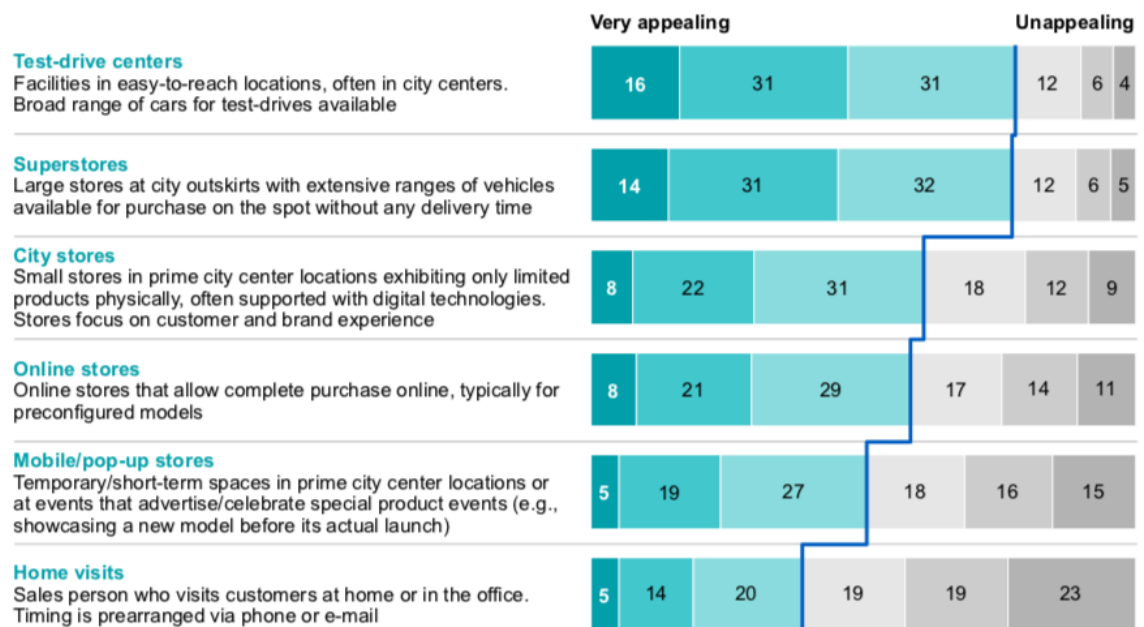


Figure 8 – Appeal of new store formats to customers (Mc Kinsey & Inc 2014: 15).

The majority of respondents found seemingly dealer-operated store formats (Test-drive centres, Superstores and City Centre Store) most appealing to them. This is good news for the dealers. Interviewed OEM professionals (see appendix 1: 2,3,5,6 & 7) saw high customer flow area locations such as shopping centre showrooms and city centre showrooms as the future. This is promising for the dealers, since at least for now, most existing ones are operated by dealers and there isn't a strong indication that it will change in the near future. Most of the relevance of dealers in the future depends on the same things as for the OEMs – how are they able to respond to requirements set by contemporary and future consumer behaviour.

4 Conventional automotive retail and alternatives

4.1 Defining retail

Retailer is a business that's marketing based on the purpose of selling goods or services to end customers. Retail is the activity of buying products in larger quantities and then re-selling them to households, families and other forms of consumers. Channels of retail can be for example physical stores, e-commerce, and telemarketing, door-to-door sales and vending machines etc (Cant 2005: 3-4).

4.2 Cycle of new car retail

Traditionally speaking automotive retail operated with manufacturers stocking their cars to dealers, either by selling or consigning (in cooperation with banks or other financial partners) them. Dealers have then sold or leased the cars financing through their financing partners/banks to consumers. Dealers generate their profits for with what can be very crudely and simply calculated as:

$$\begin{aligned}
 & \text{Price car is sold or leased to customer} \\
 & - \text{Dealers total operating costs} \\
 & - \text{Acquisition price of car from manufacturer or importer} \\
 \hline
 & = \text{Dealers profit margin}
 \end{aligned}$$

Primary channel of sales has been the dealer's brick and mortar premise/showroom applied with POS- materials or retail concepts required by the brand.

Since the day when Henry Ford set up his famous production line, the automotive industry has worked for decades with primarily what can be described as push supply philosophy. Meaning that automotive OEM's have been running high production levels in order to keep the costs down and pushing cars to the market. As a continuation of this philosophy, dealer networks were introduced into the picture. Dealerships were designed to hold stock, ease financial burden from OEMs, and distribute cars to tending customers and stepping in for customer support (Hirsh, Rodewig, Soliman &

Wheeler 1999). Globally, dealer networks are based on multiple entrepreneurs selling one to two brands covering a certain area. Nordic countries have a slightly different variation with large multi-brand dealer groups responsible for a large majority of the overall market share. This set-up has been remarkably immune to change over time. High volume brands of today such as Ford, Nissan, Toyota and Volkswagen still very much rely on a push-based supply chain. However, some premium brands such as BMW, Mercedes Benz and Volvo, have shifted away from this format as they assemble cars based on very specific customer orders. Downsides to this are longer lead times and production costs, which correlates with the higher prices.

Since most OEM`s have distributed their cars solely through brick-and-mortar dealerships, for reasons listed above, automotive consumer retail has changed very little. Still today, the main form of car sales has been that customers have visited a dealership/showroom and they have had to negotiate a deal for the car because of OEM set requirements to dealers and dealers being accustomed to the decades long industry tradition. Despite decades of success this traditional set-up hasn't necessarily made dealers or OEM`s satisfied, as dealers margins have slimmed down due to price competition presented by other dealers representing the same brand and OEM profits fluctuating, depending on the amounts of incentives paid to dealers, when pushing excess stock to dealers generated by continuously high production levels. (Hirsh, Rodewig, Soliman & Wheeler 1999).

4.3 Showrooms and retail concepts

Since the introduction of car showrooms, roughly 100 years ago their basic concept has stayed almost the same - large open spaces where a variety of models are displayed, operated by between one to multiple salesmen presenting the cars to customers visiting the showrooms and attempting to make deals with them (Dias, Joas & Nienhaus 2018). Showrooms have been almost solely inside large dealer owned or rented buildings, which have usually formed dealership clusters, as dealers have had the tendency to build very close to each other. Typical characteristics for these clusters have been that they are based next to large roads for easy access by car and relatively near to places or routes that people living in the area pass through. Interviewed auto-

motive OEM professionals of relevance (Appendix 1: 2,5 & 7) named reasons for this to be creation of a customer flow. Intention is that customers can do their "shopping" in one area, similar to what they are experienced to do when normally shopping in malls.

In the recent years, OEMs have started to pay attention to how they and authorised dealers are showcasing their brands. Customer brand experience has also been a noticeable topic in general retailing. For consumers this has been visible in the recent increase of brand stores. Some big household names to mention are Apple, Lego and Nike, who have set-up their own network of brand stores in various parts of the world. The way this trend has affected new car retail, is that we have started to see brand separated automotive showrooms within dealerships.

Based on findings gathered by interviewing automotive OEM professionals of relevance (Appendix 1: 5,6 & 7) automotive brand separation and retail concepts were first introduced by premium brands (for example BMW and Mercedes Benz) and later caught the attention of high volume brands. One of the main ideas behind retail concepts have been for OEM`s to communicate their brand values and messages to customers. Retail concepts have consisted of various elements, such as POS materials, furniture; children`s play areas, special stages or lighting which highlight new models or flagship vehicles etc. Common for almost all automotive retail concepts is that they have been implemented with some sort of a customer lounge, as brands want customers to feel themselves comfortable and possibly spend more time in the showrooms. POS materials have started to change from paper leaflets and posters into digital screens, which present material, such as videos, picture etc. Nissan Motor Corporation Ltd. announced in April 2018 that they encourage all their dealers across the globe to implement its newest retail concept. Their New Retail Concept (NRC), aims to improve the full customer experience by altering the way salesmen work, adding digital technology such as screens and digital car configurators, and enhancing visual brand elements. Nissan targets to have 9,000 "New Retail Concept" showrooms in over 170 different countries by the end of March 2022 (Automotive World 2018). Implementation of the global concept is to provide Nissan customers the same customer experience regardless of which country or city they visit a Nissan showroom in.

Methods of brand separation are walls, own entrances and fully brand-dedicated buildings. Typically premium brands and high volume brands are stricter with their demands than smaller brands. This comes down to the balance of power depending of the brands desirability in that particular area. Brands which generate less turnover might sometime settle just for a dealer taking them on board into their brand portfolio and also don't have the desire to push dealers to implement their retail concept as it would most likely require the brand to contribute to a substantial investment in a low market share market, meaning a tediously slow return on investment.

4.4 Alternative automotive retail formats

So far this paper has discussed that customer behaviour and expectations have changed and that the further time goes by, "old-school" shoppers will disappear from the picture despite aging demography of new car buyers. Majority of consumers these days seek their information from multiple touch points before purchase decision, which has led to the traditional way of relying solely on information provided by salesmen to diminish, as customers are conducting pre-investigations through reviews and catalogues (mostly online). Millennials, who as a generation make up 24% of the current population, have less trust in advertisements than prior generations and trust more their peers, ranking word-of-mouth and search engines as the two most important factors affecting their purchase decisions (Ervin 2016). Despite this, human beings have the natural tendency to perceive things by seeing, hearing, touching, tasting, smelling, making physical presentation also an important aspect, which should not be forgotten. This added with the fact that new car buyers value the possibility of inquiring "hard to find online information" from the dealerships, maintain dealerships and flag ship stores as important platforms for test-drives, physical product presentation and consultation. The rest of chapter 4 will discuss existing alternative retail channels for the traditional showrooms.

4.4.1 Digital alternatives

Online sales:

This subject, having been mentioned already several times in this paper reflects the significance it is considered to have, and how it is more or less a certain and an inevitable form of progression which will without doubt impact how cars are to be retailed in the future. In most cases e-commerce is more cost efficient than brick-and-mortar stores, as it doesn't require the physical infrastructure that brick-and-mortar requires. It also takes less labour to operate. E-commerce has definitely affected retailing, the severity of impact depending on which retailing industry is in question. In the most radical cases, such as book and electronics retail, the number of brick and mortar stores have decreased drastically after introduction of e-commerce and one online retailer in particular – Amazon (Altierre Corporation 2018).

In Europe we have lately seen some dealers, for example Rockar and some importers, Bassadone Automotive Nordic importer of Citroen, Dacia, DS, Hyundai, Isuzu, Lotus, Peugeot, Renault and SsangYong (Bassadone Automotive Nordic 2018) succeed in online car sales. Autoverkkokauppa.com a branch of Bassadone Automotive Nordic has been a vanguard of online new car retail in Finland and turning the purchase process into a 24/7 service. In an interview conducted in Finnish Bassadone CEO Antti Ruhanen states:

"Still ten years ago customers visited approximately three different car dealers per one new car purchase. Today the equivalent number of visited dealers is one. Acquisition of information and even purchase decisions are made online, therefore retailer consumer orientation needs to step up a notch or few. We brought new car retail to the modern era where the purchase channel and all necessary services for new car purchase are available 24/7." (Ambientia 2015)

Autoverkkokauppa.com online service isn't completely 24/7 due to a conscious decision of closing the option of getting a financing decision during weekend nights in order to avoid "mispurchase" by people under intoxication. Overall, Bassadone Automotive Nordic regards their online venture a success, as it has brought plenty of visibility for the brands they import and the experience indicates that it has been a move closer to

what consumers are these days after (Ambientia 2015). Despite all the success that e-commerce has had, everything doesn't point to it being the only form of retail in the future. Online retail giant Amazon aims to have 3,000 cashier-less brick- and-mortar stores by 2021 to run alongside their online operations. The company sees this to be a very costly investment but nevertheless an important one for long-term sustainability (Soper 2018). Such examples showcase that conventional brick-and-mortar retail isn't dying but that retail as a whole is developing.

Virtual reality:

Since the day when computer scientist Jarod Lanier back in the late 80's introduced the term "virtual reality", VR has played a visible part in our lives, mainly in its earlier forms in videogames. It is defined as a 3D computer generated environment, which a person can interact with or simply explore. A user becomes a part of this environment and can wield items and/or perform set of activities (Virtual Reality Society 2017).

For car sales in the short term, Virtual Reality most likely won't be a viable mainstream option, as VR glasses haven't been adopted by the masses. Adoption is still in its early phase and only time will tell when and how widely they will be adopted. Despite this, certain consumer groups have already adopted them or are interested in them. Today VR is noticeable in the fields of gaming and educational/training purposes. According to market research institute "Growth For Knowledge" 2017 report on tech trends (GFK, 2017), VR is getting closer to reaching phase of mass adoption. According to their UK survey of 1,268 adult consumers, of interviewed people identified as "general population" 31% find the idea of owning a VR device very appealing and 19% fairly appealing (GFK 2017: 5-8). This result means that half of the interviewed consumers find the idea of owning VR appealing to some extent. However, the question – "how appealing do you find the idea of owning X?" – could be regarded as biased, because people generally may find the idea of owning something appealing but in the end, when it comes down to actually buying or simply taking that something into use, consumers often evaluate the cost/benefit ratio which may change their stand. Related to retail the same GFK survey states that 32% interviewees representing general population think that VR technology could be useful when shopping. 38% of interviewees who were categorised as "Leading Edge Consumers" saw VR technology potentially useful when shopping for something.

Like online sales, VR can also be seen as a way for automotive OEMs to save costs. It might some day provide the potential opportunity of taking showrooms to customer homes instead of luring customers to visit showrooms. An increasing number of car buyers no longer feel the need for test-drives or to observe the physical product, as they already know what they want. This however doesn't apply to less experienced car buyers. For them, contact to the physical product can have a significant role in their decision-making. In the case of experienced buyers who don't feel the necessity for test-drives etc. some marketers vision VR to work in new car retail through salesmen who are invited to customer homes to show the cars of their specific preferences and additional features through VR glasses (Ravichandran 2018).

Volkswagen group brand Audi introduced VR into pilot dealerships in large European countries Germany, Spain and United Kingdom back in 2017. Prior to this, Audi already had experience of VR as it had been used to train their logistics staff across the world. Purpose of the launch is for dealers to use VR as an additional tool as part of the showroom. For the first time it allows authorised Audi dealership salesmen the possibility of presenting the full Audi line-up to customers with all possible models, colours, accessories and other additional features. Their VR application, when used with VR glasses, takes customers to a 3D 360-degree virtual world where they can experience first acquaintance with their dream car, that they have picked out down to the last possible detail. If customers wish to they can view the car in Virtual Reality form various perspectives, take close-ups and even look beneath the surface and see for example the electric systems built into their cars (Audi MediaCenter 2017).

4.4.2 Brick-and-mortar alternatives

Shopping centre showroom:

As earlier discussed in chapter 4 (see page 35), during interviews conducted with OEM professionals of relevance, one topic which all of the interviewees mentioned was customer flow. Customer flow is regarded high in more or less every field of retail because if customers don't visit the physical store and or online store they won't see the product or service offering, thus won't be buying from that retailer/company. Therefore, retailers and brands aim to position themselves in a way that increases their odds of attracting potential customers at a high rate. Brands also pay attention as to where

their products are placed. In grocery stores brands might want to locate themselves on a certain aisle and shelf to maximize efficiency of their product presentation. The same also applies to automotive brands in multi-brand dealerships, each aiming to get what they think of as the prime showroom location in terms of customer flow and visual presentation.

During the past few years, automotive retail has “slid its foot” into shopping centres. In Europe we have seen dealers like Rockar taking Ford and Jaguar into shopping centres in UK. Finnish used car dealers Kamux, Mobila and Vaihtopius announced that after a year of planning the competing companies had decided that they will start sales of used cars in a large extension built into shopping centre “Ideapark” Lempäälä. Making this “used car extension” becoming the largest indoor car sales concentration in the country (Tegellberg 2017). In July 2017 the new Ideapark extension for used car sales opened its doors bringing car sales to where people already naturally go to shop. The new extension is right next to the main entrance of the shopping centre which means that most of the 7million yearly visitors of Ideapark will at least walk past it. One of the used car dealers behind the project Kamux’s Finnish Country Director Tommi Iiskonmäki expressed their excitement in a 2018 Autotoday interview saying that:

“People come to shopping centres with their whole families and reserve plenty of time for it, now they also have the opportunity to take care of business also in a car dealership.” (von Bell 2018)

New car sales is also being taken to shopping centres in Finland. The countries largest automotive retail chain Laakkonen (Laakkonen 2017), are soon to open two new BMW showrooms in shopping centres in the Helsinki metropolitan area: Jumbo (Vantaa) and Redi (Helsinki). The extension built in Jumbo will be the first full size new car showroom located inside a shopping centre in Finland. Previously new car dealerships might have been located near to shopping centres but never inside one. The “showroom” built in shopping centre Redi will be a service point where customers can get consultation regarding BMW models and how they can be bought online, book servicing for their car and also drop off their car for service. The move to shopping centres not only exposes car retail to large natural consumer flows but also changes the opening hours,

as the shopping centre showrooms will be open longer than the usual “office hours” which car buyers are accustomed to see (Karhunen 2018).

Pop-up stores:

Another form bringing new car sales to areas of high customer flow are Pop-up stores. What is meant by the term is temporary stores, usually of a compact size, which stay in one place varying anything from days to a few months. “Pop-ups” are a handy way of attracting the attention of new potential customers, increasing brand awareness in a certain area and testing new retail formats. Pop-ups have a long history in seasonal retail, as different holiday markets such as Halloween and seasonal produce stands, selling for example strawberries are forms of pop-up retail (Business Dictionary 2018). Shopping centre showrooms and automotive pop-up stores are easily accessible for the car buyers of the future – kids and young adults who otherwise would rarely visit a dealership. Such visits could potentially generate dreams of a certain car model or trigger memory associations when actually buying a car at later point of life. One downside of pop-up showrooms is that long-term sustainable sales can’t rely solely on them. Also, as in shopping centre showrooms, these facilities have higher rents and cost per square-meter is also higher than in running traditional dealership facilities.

Daimler owned brand Mercedes Benz showed the way in the United States in the year 2017 by opening a pop-up store Atlanta. Afterwards Mercedes continued by opening two more pop-up stores in the US, one in a shopping centre in Florida and the other one at a busy avenue in Chicago. The German brand plans to continue opening pop-up stores in the states, most likely associating them with new product launches showcasing one to two cars, for approximately two months at a time. So far Mercedes has been pleased with their pop-up trials, as it has made the brand more approachable, especially for people who haven’t had any history with the brand. As the atmosphere in their pop-up stores is easier going than in their conventional dealership showrooms, visitors feel more relaxed, as there isn’t a similar pressure to buy (Karkaria 2018). Therefore pop-ups work both for publicity buzz and generating sales.

5 Omni-channel retail

This chapter discusses the concept of Omni-channel approach to retail and presents two case studies of how Omni-channel sales has been used to improve customer experience, response to the changing consumer behaviour and improve retail. The first case study presents sports and leisure goods company Nike's success in Omni-channel retail. The second case study is an example from automotive retail and the story of how Rockar became an Omni-channel car dealer. Before jumping into the case studies it is beneficial to look into what Omni-channel retail actually is.

5.1 What is Omni-channel retail?

So far, this paper has discussed the mass adoption of consumer internet research as a form of acquiring information and despite all years of repeated discussions on the supposed death of brick-and-mortar due to e-commerce, it hasn't happened and brick-and-mortar continues to have significance to consumers and car buyers. Why else would e-commerce companies be setting up brick-and-mortar stores and why would big brands be building their brand experience partially around costly and precisely planned brick-and-mortar brand stores. In many cases customers cannot be defined either offline or online but some sort of a hybrid of these.

Above-mentioned factors are what the concept of Omni-channel retail is fundamentally based on. There are many different customer paths. Omni-channel is the next level of the multichannel sales model. Multichannel being the use of multiple sales channels – brick and mortar, online, posted catalogues, television, phone, radio etc. Omni-channel is the seamless overlap of multiple sales channels, so that once a customer's interest is sparked, it can be responded to online or offline in a manner which eventually facilitates sales. For this to work, companies need to pay a lot of attention to gathering and intelligent utilisation of customer data (Neef 2015: 145). We are currently living at a time when customer data is a hot topic in Europe the General Data Protection Regulation was set in 25th of May 2018 to set ground rules for data collection and storage. Social Media operator Facebook has been interrogated and fined for its morally questionable and illegal mishandling of user data. As the case took place before GDPR coming to force Facebook got away with a substantially lower fine that it would have if the

mishandling would have taken place now (BBC 2018). All of this meaning that companies must be well aware of how to appropriately handle customer data so that they won't have to face heavy financial sanctions.

Marketers and researchers can categorise and generalise consumers, based on certain types of behaviour, just as has been done in referenced material in this paper and by the author whilst augmenting for the thesis. Consumers are people and people are different. Not all elderly buyers are alike, nor are all young consumers the same. Technologies have changed, reshaping a large wave of consumer behaviour, as people have adopted new innovations such as e-commerce. This however doesn't mean that all people are identical in how they use and utilise them. What should really matter in the end isn't whether a customer buys online or offline, but do they choose to buy at all. Providing seamless integration between these channels to attaining the customer despite where they started and where they made the purchase decision, during their customer journey.

5.2 Case study: How Nike is succeeding in Omni-channel retail

Nike Inc. is an American based multinational company that operates in the field of sporting and leisure apparel and footwear (American football, baseball, basketball, cricket, cycling, football, golf, ice hockey, tennis, track and field, skateboarding, volleyball, and casual wear etc.). The company was originally founded back in 1964 by former college athlete Philip H. Knight and his coach of that time William Bowerman, under the name Blue Ribbon Sports. Back then the business model of their company, which later became Nike, was based on importation of Japanese running shoes. From those days, Nike has grown into somewhat of a market dominator and employs over 44,000 people across the world. As well as owning their crown jewel brand "Nike" the company also owns subsidiaries: Converse, Hurley and Jordan (Funding Universe 2018). In Fiscal year 2017 the Nike Inc. revenue was 34.45 billion US dollars. Out of which 32.2 billion USD was contributed by the Nike Brand, a growth rate of 8% compared to previous fiscal year (Nike News 2018). The company's revenue stream clearly eclipsing its primary direct competitors Adidas, Asics New Balance, Puma and Under Armour. To distribute their products, the company has multiple retail channels: own brick- and mortar Nike outlets, own Nike online store and a large number of different

retailers both brick-and-mortar and e-commerce where to allocate stock and have their products distributed.

Nike's journey towards Omni-channel began already in the early 2000's, when the company decided to tackle an issue regarding inventory management. In a way the problem faced was a positive one - the more brick-and mortar brand stores Nike built the higher their customer demand grew. Business was booming and they started to struggle, coping with quickly moving large product quantities – their Enterprise Resource Planning system didn't match with their inventory management system - something had to be done, as what had become a chaotic system set-up, was causing inaccurate stock quantities and deliveries and lags on delivery times, all of which were costing the company money, an estimated 100,000 USD. In addition to the brick-and-mortar success, the company had big plans in place to further grow their own online sales. Increase in online sales would accumulate to the inventory problem and slow them down (Magento Imagine 2016: chapter 6).

Nike therefore decided to focus on accuracy and timing, which were to be achieved by continuous monitoring throughout their supply chain. In order to do so, they had to have a centralised system which covered different points in their supply chain: manufacturing plants, transportation, warehouses, brand stores, Nike online store and retailers. Not only did this fix their inventory management problem but it also improved their forecasting and became the core of their Omni-channel retail technologies of today (Magento Imagine 2016: chapter 6).

As Nike has had a centralised inventory and warehouse management system for all its retail channels throughout its supply chain for quite some while, many of the technologies added to their brick-and mortar stores and improvements driven into their online store have naturally started to link each- other. Figure 9 illustrates how the Nike shopping experience ties aspects commonly seen in either online retail or brick-and-mortar retail together, fading the line between the two and offering a convenient customer experience, by providing various delivery and pick up options for both their online and offline experience such as home delivery, store pick or delivery to another pick up location of convenience.



Figure 9 - Nike Omni-channel map (Senn 2016)

Introduction of various mobile and online features to Nike's brick-and-mortar stores, link their online and offline retail channels together. In their brick-and-mortar stores, customers may check out mobile POS - materials of their interest by scanning QR codes with their smart phones, which triggers the material to be presented on their screen. Customers can use Nike store tablets linked to Nike ID online app to create their own designs by changing materials, colours, prints or adding personal touches such as initials, numbers etc. As Nike manages its inventory centrally customers visiting a Nike brand store can choose to have their purchases shipped home in case the store is missing a particular size, colour, model or just for the sheer convenience (Senn 2016). Such features introduce and interact customers with their online stores during their brick-and-mortar store visit. The same works vice versa, meaning that online shop allows interaction with Nike brick-and-mortar stores. Nike has started to link stock of brick-and-mortar stores to their online app, allowing customers to browse product catalogues on a store level. In case something arouses their interest, customers can reserve product in particular stores for the rather standard time of 24h, in order to make sure that a product is still at the brick-and-mortar store when popping in (WBR insights 2018) This ties together the online and offline shopping experience, as it allows shopping online at one particular brick-and-mortar store out of a wide network. Apart from limited editions, Nike makes it possible to shop their full product selection regardless of which Nike store they visit or whether they decide to shop on Nike's web store – providing their customers a Nike Omni-channel customer experience.

5.3 Is Omni-channel the future of new car retail?

As discussed in chapter 2 (see pages 13-14), we humans perceive things by using our senses: sight, touch, taste, smell and hearing. Previously mentioned senses predicate that physical presentation is an important factor which shouldn't be neglected or disregarded in terms of consumer decision-making. Referring to discussion in chapter 3 (see pages 28-29), new car buyers highly regard the option being able to inquire "hard to find information online" from the dealerships if a desire to do so arises. Dealerships and flagship stores serve as platforms for test-drives, physical product display and consultation thus stimulating some senses which can't be stimulated online. Yet car buyers and consumers in general, use online information for much of their initial or even final decision-making.

Cars are complex products and for the average person, they represent a decision of high effort. Assumption of high effort based on that for many consumers a car is the second largest purchase in life after a house and that people usually stick with the same car for at least a year or two. Complexity of cars is currently increasing, as the industry is through major revelations such electrification and intelligent mobility. Until now most people have drove regular ICE vehicles. EV's, PHEV'S and intelligent mobility bring a lot of new to the mix for most customers, increasing the need for customer education of the engineering advancements near future vehicles and some current ones. Despite the facts speaking behalf of brick-and-mortar, automotive new car retailers mustn't ignore that customers are increasingly spending more online car buying process online.

Regarding the question is Omni channel the future of new car retail the answer is – yes it is or at least it should be definitely looked into very closely. Main reasons for this are that both brick-and mortar and online retail are required to cover various aspects of today's consumer behaviour. In order to maximize brand influence and engagement during the purchase process which navigates through the different channels OEM's should try their best to tie the different channels together so that customers could associate them to be part of the same experience. Not only would Omni channel retail bring how cars are sold to the modern age it would also contribute to customer education and turn the new car buying process substantially more customer centric

(Dinsdale, Glueck & Willigmann 2016: 8-9). The following part will provide a case study demonstrating how British car dealer Rockar has won customers over by reaching closer to the modern day consumer expectations and taking a more humane approach to car buyers, which deviates from the industry standard.

5.3.1 Case study: Rockar`s journey to a Omni-channel car dealer

Rockar is a UK based automotive retail company that provides online sales and modern brick-and-mortar car retail services. The company was founded by Simon Dixon, a former automotive dealer professional who used to work for 20 years in a large automotive dealership chain owned by his family, "Dixon Motors", before he left the industry for 10 years and then starting Rockar in 2011 (Bloomberg 2018). During his disjunction with automotive retail, Simon Dixon experienced an enlightenment, when experiencing car sales from a purely customer's point of view. In an Irish Times interview he opens some of the core industry issues which drove him to re-evaluate the way cars were sold to end customers: *"The main focus was the deal. Everything else was secondary. I got really fed up with people who didn't know their product and couldn't care less about customer service. Looking around me, I could see how successfully other sectors had moved to the web – even banking, which one might have expected to be more conservative – but the car business was stuck in the Dark Ages."* (Keogh 2015)

Dixon gathered a team to tackle the problems he had identified and came up with feasible solutions to them. Quoting Dixon`s own words: *"We put the emphasis more on encouraging customers to interact with the brand and less on the actual process of buying a car. We focus on the experience. Normally a deal is 90 per cent transaction and 10 per cent brand interaction. We thought that could be swapped."* (Keogh 2015) These thoughts materialised when Rockar became one of the few automotive dealers that provided car buyers the possibility to complete the car buying process fully online. Aside from online sales the company also contemplated the paradox of increasing show room sizes when customer floor traffic was decreasing, due to this Rockar decided to locate their brick-and-mortar showrooms in busy shopping centres rather than following the industry norm of building large facilities slightly aside from the high natural customer flow areas (Valentine 2016). In addition to altering the retail channels, Rockar also re-thought the way face-to-face interaction was done with customers. In-

stead of traditional car salesmen who are paid on commission, based on their sales performance, Rockar staffs their showrooms with product specialists, whom they refer to as "Angels". Rockar Angels offer customers product information/consultation and help with personalisation options when the customers so want and feel like it. This is a rather new angle as unlike common car salesmen, their "Angels" aren't there to sell but rather to serve the customers (Thomas 2016). Thus taking an unconventional but customer friendly approach to car sales.

In 2014 Rockar and Korean OEM Hyundai Motor Corporation started collaboration with Rockar opening one brick-and-mortar Hyundai showroom located at the outskirts of London in the Bluewater shopping centre and retailing Hyundai across the country via their web store. Rockar's retail channels proved to be a success as their single shopping centre showroom had more customers' visits than the rest of the UK Hyundai dealer network combined and approximately half of their cars sold were being purchased online (Ecommerce News 2015). After proven their effectiveness and expertise Rockar has partnered with other OEM's such as Tata Group (Jaguar and Land Rover) and Ford Motor Company. Their partnership with Hyundai ended in spring 2018 as the OEM decided to take full control over online sales of new Hyundai cars in England (Evans 2018).

During Rockar's referable short time in new car sales, the company has identified many key elements in the behaviour of their customers and how Rockar is perceived by customers. 60% of their customers buy online, many of whom visit their shopping centre showrooms leaving empty handed but continue home to make their purchase online (Thomas 2016). According to Rockar, customers visiting their showrooms feel less intimidated as there are no pushy salesmen and their brick-and-mortar experience doesn't include customers finding themselves as the only "non-personnel" in a large "hall" displaying countless cars. Together the previously mentioned two points lower the threshold of entering and leaving a showroom. Rockar's presence in shopping centres increases consumer awareness of the brands represented and potentially even attracts buyers who haven't thought about choosing the particular car brand before bumping into it when taking care of their weekly shopping (Thomasson, 2015). This doesn't generally happen with traditional dealer showrooms as they are located in such places that people don't stumble into them "unintentionally".

Rockar`s Omni-channel experience allows customers to gather any purchase related information they may want either online or offline. Purchases can be completed at their showrooms with the help of an "Angel" or online from the comfort of their home. In addition to being able to view and purchase their cars both online and offline, customers can arrange financing online and offline, arrange test drives online or offline and have their trade in car evaluated online or offline. Rockar`s retail strategy has brought them younger new car buyers. In 2016 when selling Hyundai their average buyer was 39 years of age, far younger than the UK average age of new Hyundai buyers at the time, 59 years (Valentine 2016).

Rockar is a fine real-life example of how many of the core issues in traditional OEM new car retail regarding contemporary consumer behaviour, have been solved. OEM`s should seek for similar solutions as Rockar has done, by either partnering with such dealers or implementing themselves. Another alternative would be come up with fully new "out of the box" ideas in order to elevate retail of their new cars back to a sustainable level.

6 Conclusion and recommendations

Despite OEM`s having great interest in locating their showrooms in areas of high customer flow, the currently popular method of having dealerships as their own separate buildings near by main roads isn't "cutting the mustard". This should be clear from the drastically decreased amount of customer visits towards every new car bought. Part of the reason discussed in this paper is that consumers do a lot of research online. Purchases also being done online however brick-and-mortar will continue to play its own role in future retail and especially in terms of experiencing brands. Acting as evidence powerful brands across different industries are investing in their own flagship stores to support the online experience and e-commerce giants stepping into to the brick-and mortar playing field. Referring to the automotive industry many customers want to physically see the products and take cars out for test-drives. Consumers still want brick-and-mortar for the activities, which they aren't able to do online.

As a conclusion this paper recommends automotive OEM`s to be more active in adapting to the changing consumer behaviour. As the power balance between dealers and OEMs is often heavily tilted in favour of OEMs, they play the key role in initiating change by reforming their actions, requirements and criteria in a fashion that steers towards Omni-channel or multi-channel retailing and high customer flow showroom locations, thus lowering the threshold for customers to fully interact with OEM brands and offering their services at customer terms. This could be achieved with or without dealers. However, findings in this paper suggest that despite changes in consumer behaviour, customers value certain elements in the car buying process that dealers contribute to. Also referring to the long tradition of dealers helping OEMs to alleviate financial and customer support burden. Something which Tesla Motors, an OEM known for operating and having ownership of its own sales channels, is struggling alone, as the company hasn't been able to deliver what they promised with their projected "people's car" Model 3 (Einstein 2018). If OEM`s wish to stay on board they and the dealers need to be proactive in terms of getting dealers to start their own online stores alongside their brick-and mortar showrooms. Dealers failing to do so will eventually die, falling by the wayside. They will be by-passed by other dealers in the same brand dealer network, who are selling online and offline, or in the worst case for both the dealers and OEMs, be cannibalised by the very brand they are representing, in a scenario where customers do the test drives at the dealer but end up buying online direct from the OEM. The likelihood of a viable business case for dealers in such a scenario would look unlikely. If OEMs wish to continue partnering with dealers they need to pay close attention to their dealer networks and keep partnerships with the dealers who are open to diversifying their retail channels. If they don't OEM brands will eventually find themselves being alone with their own online stores, unless willing to cover brick-and-mortar also themselves.

Summarised previously; new car buyers had earlier only one seriously taken channel for product information, product testing and purchase. This correlated with the high dealership visit numbers per every new car purchased. Due to the introduction of new technologies, consumers are accustomed to online sale channels. These are eventually and surprisingly slowly making their way to new car retail. Automotive retailers should understand that they can't discount the multi-channel and Omni-channel approaches, as these days' customer journeys aren't alike and consumers don't solely follow one

sales channel but rather hop between them. Disruption to new car retail brought by new technologies and channels increase the threat of new market entrees, operators who have a new perspective and approach to the business. Should automotive OEMs want to stay on top of the game, they need to embrace and facilitate disruption, otherwise someone will beat them to it, sooner than expected – after several decades of success, keeping things as they have always been, is no longer a option.

This paper discussed the topic from an overall industry perspective. Further research could be continued with specifically targeted quantitative researches, to understand what exactly causes distinctive patterns in customer behaviour of new car buyers. This could help brands understand how they could better control the full brand experience and target their influence on the critical decision-making points during the buying process. A large scale quantitative marketing survey, combining statistical data of customer online activity collected via analysis of digital footprints, could be beneficial for supporting or arguing against existing findings such as this paper in the pursuit of greater understanding of this specific field of research.

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Appendix 1: Interviews with automotive OEM professionals with relevant experience

People interviewed: Mika Särkelä (Dealer Network Field Manager at Nissan Nordic Europe, Finland), Svend Madsen (Dealer Network Field Manager at Nissan Nordic Europe, Norway) and Christina Kämpe (Network Specialist Nissan Nordic Europe, Headquarters). Interviews took place during summer and fall calendar year 2018.

Interviewee 1. Särkelä M. NNE, Dealer Network Development Field Manager (Finland)
[Former Marketing Manager]

Background:

1) How long have you worked in the automotive industry?

In the core automotive industry I have worked for seven years and in automotive related industries altogether 22 years.

2) What are your main responsibilities in current role?

Dealer network development which includes: dealer premises, dealer profitability, negotiations with new investors (dealers) and responsible for dealer performance development process.

Showroom appearance and size

3) How much OEM`s (Original Equipment Manufacturers – BMW, Ford, Nissan, Toyota etc.) have effect showroom appearance? (Look, size etc.)

They affect showroom appearances a lot. Many OEM`s have their own minimum criteria which basically determine size in square meters, what type of location they should have and how they visually look and what sort of equipment and features they should include. Due to these OEM`s have significant effect on what the showrooms are like.

4) Are automotive OEM`s (Original Equipment Manufacturers – BMW, Ford, Nissan, Toyota etc.) flexible in their demands regarding showrooms?

Not that much. Retail concepts are usually at least Pan-European (continental) if not worldwide. Therefore there aren't that many local versions of showrooms. Showroom criteria commonly vary depending on what type of a geographical area the dealership is located in terms of population, population density etc. In my past experience we were able to convince European headquarters to ease requirements in rural areas with low total industry volume TIV. This was achieved by creating a new category to the company's geographical categorisation - "sparsely populated areas" which are rather common in Finland and Sweden. In this type of cases there is some flexibility in market specific showroom concept requirements. However generally main showroom features are the same for all showrooms that represent the same retail concept despite of differences in showroom size, number of vehicles displayed and amount of technology, which depend on what has been thought as a reasonable investment depending of the geographical area. These types of examples are more or less the only type of flexibility that I know OEM`s to have.

Location of dealerships/showrooms

5) How much do OEM`s influence where dealers locate the dealerships/showrooms when a new building is built?

Not that much. Fortunately dealer groups aren't building in places, which wouldn't be in line with OEM criteria. Normally showrooms are built in areas with lots of customer flow, as this is considered very desirable, as is also visibility to the main roads. It is also the dealers who target to locate themselves in these types of locations. OEM`s can't really influence where the dealers build as it is their investment but generally OEM`s don't have problems with the new buildings that dealers build.

6) What is the reason for dealer-ships to be located so close to their competitors?

I think it's because of the customer flow it is easier to get people visit places where they have a variety of options to choose from. It is the same thing with

furniture stores, which are located close to each other as that attracts most of the customer flow. City planning has also some effect to this.

Changes and future

7) How have new car retail and showrooms changed during this decade? (Please provide examples).

A decade is a long time in retail, but during this last the most visible change has been the introduction of supportive technologies into the showrooms. This is because most customer journeys start these days online. This has to be taken into account when designing new concepts. The customer journey needs to continue logically when customers visit showrooms after online investigation. Therefore we have started to see technological features such as car builders. Despite being able to see physical cars in a showroom, not all ranges or colours or models are on display. With a car builder, customers can build a car of their preferred choice in the showroom together with a salesman who can guide with features of the car and accessories. Technology is definitely the most visible part that has changed in the showrooms. However generally speaking the retail side has changed more as in the recent years consumers have changed their habits from visiting showrooms approximately seven times before buying a car into visiting dealers around once before actual purchase. Customers are these days well prepared when making the approximately one visit to the showroom before buying the car. This means that customers are these days much more educated about the prices, products and their features. This has been a big change as OEM's and dealers need to be transparent because customers carry a lot of information. Showrooms need to support the customer journey in a way that customers can dig deeper into the products and acquire information that isn't easily found online. Usually the "digging deeper part" happens through consulting with a dealer's salesman. Due to these aspects the actual retail experience has changed the most.

8) How do you see the future of new car retail? Any particular patterns or trends?

I think that in future car retail will have to move closer to natural customer flow. People are doing most of the work online, but they still need to have concrete

touch and feel of the cars, test-drives or consultations with a salesmen to confirm that the model, features, engine or power train are the right ones for them. So physical contact points will continue to be a thing but showrooms need to move to places with natural customer flow such as shopping malls where customers could easily get confirmation to their purchase decision. I think that people will increasingly continue experiencing the cars and brands online and need easily accessible touch points for the physical feel or confirm their decisions. In the short term we still need showrooms as they are known today but in the long term showrooms will need to move closer to points of natural customer flow.

***Interviewee 2.** Madsen S., NNE, Dealer Network Field Manager, Norway*

Background:

1) How long have you worked in the automotive industry?

I started working in the automotive retail side back in 2001 (approximately 18 years).

2) What are your main responsibilities in current role?

The easy explanation is that my task is to make sure that we as optimal dealer network as possible. This includes following up on the performance and brands KPI's are a part of it. Also, an important part of the role is to overview that dealers comply with brands standards.

Showroom appearance and size

3) How much OEM's (Original Equipment Manufacturers – Nissan, Ford, BMW etc.) have effect showroom appearance? (Look, size etc.)

This has changed a lot in the recent years initiated by premium brands. Brand experience has become important topic during the recent years. This is something that is related to general retail, not only automotive industry and also how digitalisation has improved brand exposure. These days you see much more of what you call "brand stores" for example in shopping malls when it comes to general retail and this has also started in the automotive industry.

4) Are automotive OEM`s (Original Equipment Manufacturers – Nissan, Ford, BMW etc.) flexible in their demands regarding showrooms?

It depends on the brand, some are flexible and some are not. In general it is the premium brands and at least in Norway high volume brands that are the strictest one. A lot of discussion and focus are on the outside (external) visual identity and in the case of multi-brand dealers, brand separation. Sometime smaller brands with low market share can be quite flexible and also dealers located in sparsely populated areas aren't pushed as much as for example dealers located in large cities, which get a lot of focus due to higher brand visibility.

Location of dealerships/showrooms

5) How much do OEM`s influence where dealers locate the dealerships/showrooms when a new building is built?

Locations are agreed with the brands but usually dealers make the actual decision where to build as they are the owner of the buildings. Showroom discussions evolve around brand standards/criteria. In case of multi-brand dealers discussions evolve around which part of the building showrooms are located. Positioning and space should reflect the size of the brand. In terms of larger cities there might be some discussions of where the building should be located.

6) What is the reason for dealer-ships to be located so close to their competitors?

Customer flow is a key to this. Especially these days when consumers are used to do their shopping in shopping malls and centralised shopping districts the same philosophy has been applied to dealerships so that customers could see them as one "shopping venue".

Changes and future

7) How have new car retail and showrooms changed during this decade? (Please provide examples).

When it comes to showrooms they have become much cleaner, higher standard, better customer experience. This is definitely the case for most brands. Dealers also are more focused on how things look and how brands are repre-

sented. Regarding car retail in general nothing special has happened as business is ran more or less the same as it was done 20-30 years ago. Part of the reason is the power manufacturers hold over the supply chain all the way through to importers and dealers. When Internet sales start widely things will change.

8) How do you see the future of new car retail? Any particular patterns or trends?

My personal view is that when people start changing from wanting to own the cars to leasing them it will affect the way cars are retailed. So far at least in Norway most people own their own car as they would own their houses and flats. In leasing customers pay to use the car for a certain period of time. This would reduce the perceived risk in buying online. In Norway we have already seen some examples of online sales and direct sales such as "Care by Volvo" and Volkswagen owned brand Seat operating almost solely online with just a few dealership showrooms in the whole country. Examples like these will most likely become more common in the recent upcoming years. The way people perceive owning the cars will definitely be one of the drivers to change new car retail. Another significant factor are the overall buying habits that people these day have. Many automotive customer processes are based on how people make their other consumer purchases. These days a lot of consumer purchases are these days made through e-commerce (internet and apps) designed for easy use and low customer friction. The way the automotive industry has been doing customer retail is quite old fashioned and something needs to be changed. I think that it will change quite dramatically within the next three to five years. This will happen together with the enormous expansion of electric vehicles.

Interviewee 3. Kämpe C., NNE, Network Specialist, Nordic Headquarters

Background:

1) How long have you worked in the automotive industry?

Almost 12 years.

2) What are your main responsibilities in current role?

As Network Specialist mainly contains the internal and external visual identity roll outs and maintaining visual identity at the Nordic level. Coordinating visual identity suppliers. Upkeeping support programs for dealers related to retail concept roll outs.

Showroom appearance and size**3) How much OEM's (Original Equipment Manufacturers – Nissan, Ford, BMW etc.) have effect showroom appearance? (Look, size etc.)**

I think that nowadays OEM's have pretty much full ownership of their branding of showrooms and showroom size. Based on each manufacturers criteria. It also depends on how strong the brand is in a particular area, country and market.

4) Are automotive OEM's (Original Equipment Manufacturers – Nissan, Ford, BMW etc.) flexible in their demands regarding showrooms?

Criteria are getting tighter by the year and there is no longer much room for flexibility in the current criteria for showrooms set by OEMs. Each brand wants to have their own brand concepts and present their brand to the maximum level. Manufacturers assess based on their appeal that how much they can push dealers in terms of internal and external visual identity and size of their showrooms.

Location of dealerships/showrooms**5) How much do OEM's influence where dealers locate the dealerships/showrooms when a new building is built?**

What I have seen dealers have a strong understanding of where their dealerships should be located in particular areas. In that sense brands aren't as such influencing where new is built. Dealers themselves are reviewing and evaluating which are the best places for their dealerships. This is part what creates car dealership areas to certain places. Dealers take the calls regarding locations and the brands go with what the dealers have decided. Brands in that sense don't influence or dictate that certain areas should be filled with car dealerships

but these are formed naturally as dealers themselves tend to build close to each other's.

6) What is the reason for dealer-ships to be located so close to their competitors?

If one dealer builds somewhere others follow, as they want the same visibility, which is what creates natural customer flow as brand showrooms are built next or very close to each other.

Changes and future

7) How have new car retail and showrooms changed during this decade? (Please provide examples).

Showrooms and concepts have changed quite a lot regarding POS (Point of Sales) materials. Posters, leaflets and other paper materials have started to fade away as they are being replaced with digital elements such as screens. In this sense POS materials are gradually being updated to the digital age. Also today's visual elements and other features in the showrooms take the customers more into consideration, as brands want the customers to spend as much time as possible during their visit as this way brands get a better chance to communicate their message to customers. Most brands have implemented for example their own brand specific customer lounge areas. Retail concepts have received quite a lot of attention, as brands have wanted to standardise their customer experience in the pursuit of providing the same customer experience to everyone regardless of which one of their showrooms the customer visits.

8) How do you see the future of new car retail? Any particular patterns or trends?

Customers seem to be more aware of each brand offering and have already made up their mind when entering the showroom. In the old days customers came to the showrooms to see the car and the salesmen were presenting products and their features. Now the customers already know a lot about the brands and products when visiting showrooms, often knowing what they are after.

Appendix 2: Calculations behind authors analysis on figure 4

Calculations for authors logical reasoning regarding Figure 4 which illustrate that the aging populations isn't the only reason behind the increasing average age of new car buyers.

Statistic	Percentage difference	2014	1996 (2000 for blue line)
US Median Population age	8,57	38	35
New Car buyer average age black line	12,77	53	47
New Car buyer average age blue line	11,36	49	44

Average of the average age increase in new car buyers average age (black line and blue line)	12,06
Population median age increase and average age increase percentage gap	3,49

3. Result of Google search on the title of this thesis

Results of Google search on “New car retail and consumer behaviour – Understanding car buyers and how to meet their expectations”.

