August 2020

THE COVID IMPACT ON MODERN RETAILING

ACCELERATING A HOLISTIC BUSINESS SHIFT, BEYOND JUST DIGITAL CAR SHOPPING

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IDEAS
ITERATIONS
IMPLICATIONS

COVID SHOWED US THAT AUTOMOTIVE RETAILING HAD RUN OUT OF GAS

When the pandemic struck earlier this year, it happened quickly, and relatively without warning. Most experts, pundits, and observers completely underestimated how contagious the disease was, and how quickly an overwhelming number of societal entry vectors could be created. Before widespread travel restrictions and lockdowns were instituted, it was able to spread with a velocity and ferocity inside each region it entered, that, even once appropriate measures were undertaken, it still had a massive impact on commerce, business, and markets - not to mention consumer confidence and behavior.

Like many industries, automotive retail was caught relatively unprepared, specifically in terms of it being able to conduct business under restrictive social distancing and stay-at-home conditions. For industry, legal, and political reasons, automotive retail has generally been held behind the curve in terms of the migration to enhanced consumer experiences backed by fully digital, fully redundant business processes and procedures. That lag proved extremely detrimental during this scenario.

While loss of demand due to restricted travel is certainly a key driver, process fragility and a lack of redundancy across automotive shopping systems was also a large contributor - as is evidenced by dealerships whose tools were more prepared to move from offline to online transactions, as well as those who were able to shift to more modern business models like contactless pickup & delivery and 24/7 service before the pandemic - seeing much smaller dips in sales performance, and experiencing more rapid sales & service business growth as we've entered what may be the beginning of a recovery period.

And, as the world begins to tentatively emerge from the initial peak of the pandemic, and lockdowns are adjusted or lifted in some areas - both businesses and consumers are entering uncharted waters - from both behavioral and best-practices perspectives due to new realities of social distancing requirements, health & safety consciousness, and personal & business finance. Both sides will need to explore how these changes affect shopping, buying, and owning of anything - and specifically for our industry, personal vehicles - and how these processes will be conducted and prioritized differently from prior to the pandemic and into the future.

SO LET'S REFILL THE TANK

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The Rate of Change is Unprecedented

The pandemic itself and the resulting fallout is unprecedented and unique territory for all of us. Widespread lockdowns, extended school closures, and restricted travel - for most of the country, and for far into the foreseeable future - were not likely considered in pre-existing contingency plans for OEs and Dealers, and will require extra planning, mitigation efforts, and the development of new partnerships in order to compensate quickly, effectively, and affordably. Also likely not considered in traditional OE and Dealer planning are large target & addressable market shifts created by knock-on economic effects.

These new socioeconomic and societal conditions are rapidly evolving primary and secondary challenges at an unprecedented rate for all industry players in the form of inventory management (both long and short), supply chain disruptions (both vehicles and replacement parts), the future of facilities and facilities management, demand management (both long and short), and massive disruptions to all existing online and offline sales, service, fulfillment and consumer shopping processes.

Additionally, in the short and medium term, we see consumers placing extreme importance on health & safety, flexibility & convenience, remote shopping, remote delivery, and finally on liquid expectations - which is the direct comparison of shopping, buying, and owning experiences between brands from different industries and categories - and not just between brands within those categories.

Combined with the gravity of the outbreak backdrop, these expectation shifts will create a more binary decision-making mindset in consumers, in order to avoid viral exposure risk at all costs. Both Brands and Dealers may be completely and abruptly abandoned - for good - if they are not responsive and fully transparent about the key steps they are taking to keep everyone safe, at every step of the value chain, at every moment and at every touchpoint.

This additional scrutiny will introduce an unprecedented amount of business risk to the Tier 3 marketplace, and could be the catalyst for business failure and consolidation on a scale we have not seen before - if not mitigated through nimble innovation, and 100% compliance with safety standards.

“The tectonic shifts referenced here are dead on. The Franchise Dealer is no longer a destination business, and they are well on their way to becoming distribution and service centers - hence it is time to rethink the showroom and every process around it. Great thinking!”

— Ron Frey
Principal, RL Frey, Inc.

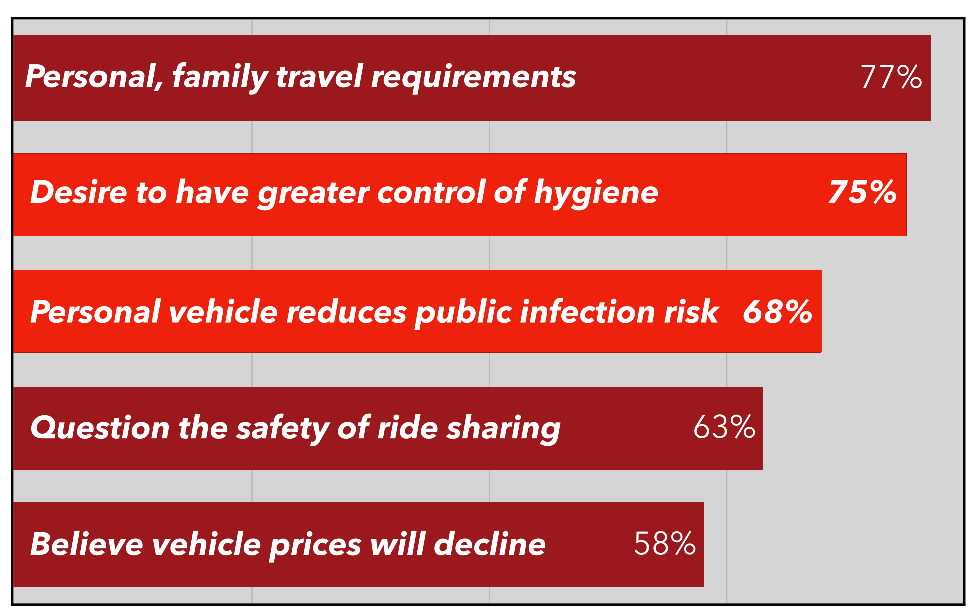
These Changes are Here to Stay: Trend Acceleration

Due to the globalized, connected nature of the world, supply chains, and markets - this unprecedented situation is unfortunately unlikely to be the last of its kind. Also, we've seen these massive disruptive events like the pandemic, the great financial crisis, and others beginning to occur with more frequency.

These tectonic shifts have massively increased tail risk for industries and businesses that are unprepared to absorb both interruptions in the supply chain, as well as behavioral shifts in the marketplace due to these scenarios. For Automotive in particular, this translates to a need to have flexible and completely redundant digital and physical consumer experiences - ideally that let consumers shift back and forth seamlessly between them - that also lend themselves to nimble adaptions at the dealership level.

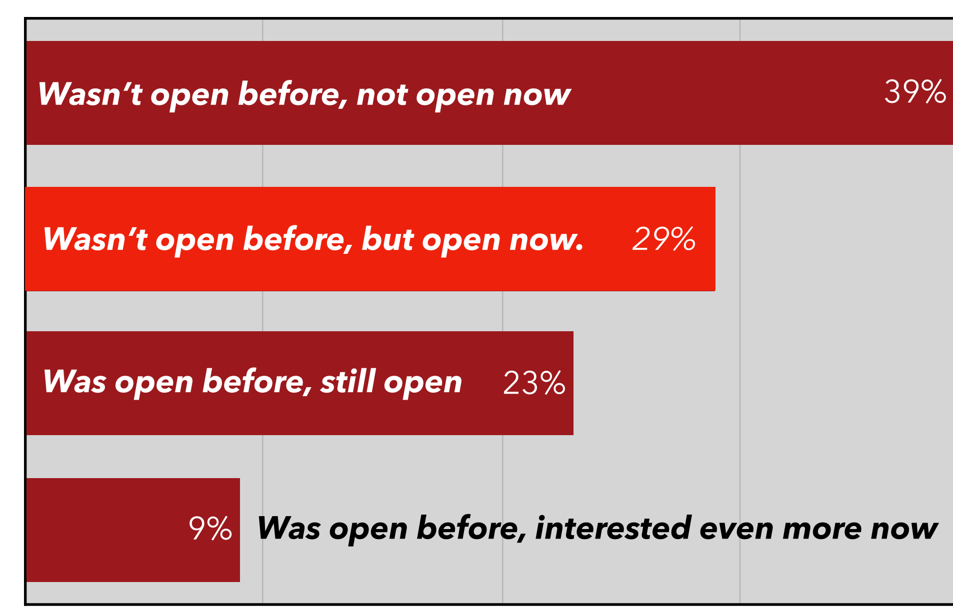
We've long been on a consumer experience continuum from traditional to digital shopping and delivery - but due largely to the health & safety concerns raised by COVID, these trends have accelerated at an increasing rate - moving from a little over a quarter of consumers being open beforehand to well more than half being actively interested in sanitized remote shopping, delivery, and service, overnight.

% of Respondents, Reasons to Buy Personal Vehicle



Capgemini, 4/2020

Openness to Digital Buying, US Car Shoppers



eMarketer, 4/2020

"We have a tremendous opportunity in the industry to accelerate the strategy of creating the most modern automotive retail experience. Our guests are ready to have their automotive transactions mirror what they are used to in their everyday lives. Creating a seamless online to offline business model will require extreme use of technology and investment in new day to day processes."

— Jeremy Beaver

President, Del Grande Dealer Group

These Changes are Here to Stay: Themes to Consider

We're also seeing a massive preference shift away from ride sharing and on-demand transportation services like Uber & Lyft, due mainly to the same health & safety concerns. Based on varied expert opinion, and best available information, these concerns are likely long-lasting, at least for the next few years, as a fully-working and highly-available vaccine isn't expected to be widely disseminated and efficacious until late 2022 to early 2023.

Since there is a lot to tackle here, we've distilled the consumer experience themes both OEs and Dealers (along with suppliers and automotive technology companies) need to properly address - to not just stay competitive, but stay alive - and not only within the recovery period, but beyond: by future-proofing their business through the use of antifragile practices - both online and off - for the era of modern retailing.

<u>Post-COVID Consumer Experience Themes to consider:</u>

1. **Consumers need seamless, frictionless, integrated & intelligent ways to interact with retailers, even when the environment changes**
2. **Consumers need absolute transparency & clarity, in both financial & product terms, from retailers - and they need it at the start of the retailing process**
3. **Retailers need tools and platforms that enable them to continue to do business, with both new and existing customers and prospects, even when the environment changes**
4. **Retailers need redundancy between traditional in-person retailing processes and their socially-distant digital counterparts, so that both they and consumers can move seamlessly between them as the changing environment and behavior dictates**
5. **As platforms expand to become fully redundant - and consumers move back and forth - the portability, security, and privacy of both vehicle and shopping data will become paramount**

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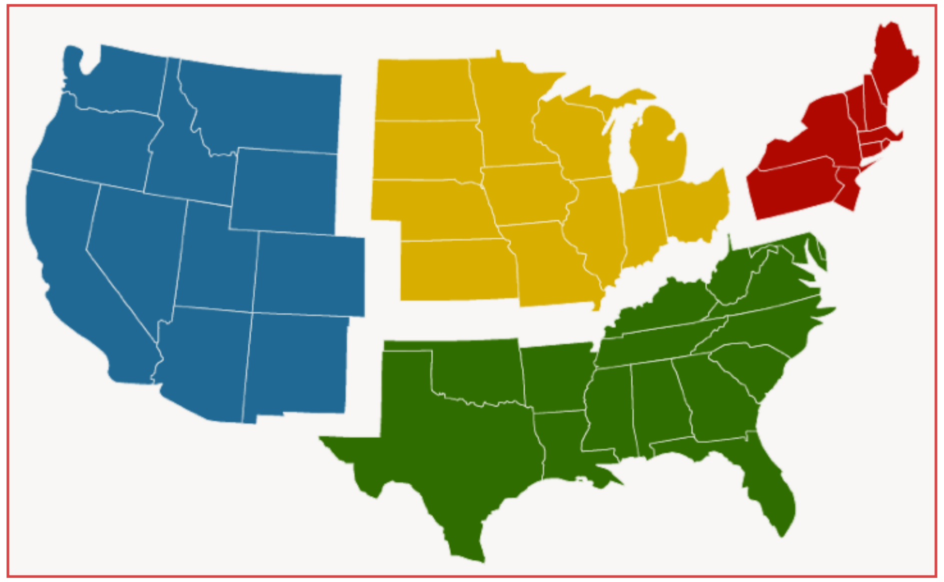
These Changes are Here to Stay: Overlays

In addition to CX trend acceleration and emerging consumer & business themes to consider - both OEs and dealers must account for what will likely be a patchwork of state-by-state regulations and changes during the short and medium-term post-COVID timelines. This may be in direct conflict with how both groups are used to conducting business, as these will strictly be state-by-state mixed with local government differences in the areas with either the biggest and smallest populations.

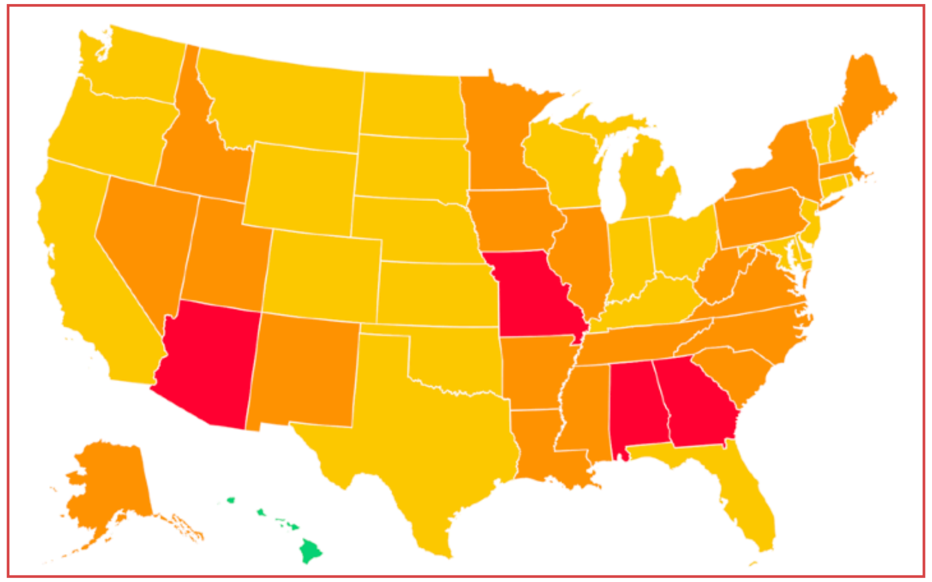
This individual local market complexity will need to be seriously considered as any solution is rolled out either from the OE or by an individual dealer or group - since all politics are local - and because customers often cross imaginary lines like primary market areas and state and local boundaries in search of the best deal and/or the exact model and configuration they prefer.

This will add complexity to Liquid Expectations and create additional consumer safety expectations of dealers that may be more or less restrictive for consumers coming from differently managed areas. In short, every single dealer, dealer group, and OE could be facing highly individualized circumstances at the rooftop level in many cases, and will need to run scenarios to make sure policies & procedures not only meet minimum health & safety thresholds, but also exceed guest expectations wherever possible.

US Automotive Regions



COVID State-by-State Status



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THE RATE OF CHANGE IS UNPRECEDENTED

THESE CHANGES ARE HERE TO STAY

MODERN RETAILING OPPORTUNITIES

KEY DRIVERS & TRENDS TO WATCH

THINGS YOU CAN DO RIGHT NOW

ACCELERATE YOUR MODERN RETAILING

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Modern Retailing Opportunities

<u>FIRST-ORDER CHALLENGES:</u>

- **Liquid Expectations:**
  - How can you assure consumers that you are making health & safety as important as other leading brands regardless of industry or category, across all touch points?
  - How can your shopping, buying, and owning process ***truly*** be more competitive, and more modern, in relation to non-automotive companies like Facebook, Google, Amazon, and Apple?
  - How can your business and the experiences you provide become more transparent, more seamlessness, and more frictionless?
  - How can you develop contactless, socially-distancing compliant services & business models?
  - How can you adequately reflect to the public your focus and efforts on social responsibility, and health & safety?
- **Business Reevaluation:**
  - How can you holistically reevaluate both sales and fixed ops, and ask yourself core questions in new ways?
    - "If customers can't ___________, how can my business ___________ differently?"
    - "If customers can only ___________, how can my business ___________ in a new way?"
  - How can I facilitate, fund, and bring to market new services?
    - New table stakes: Contactless Pickup & Delivery, Contactless Service, 24/7 service, etc.
- **Business & Consumer processes, resiliency & redundancy:**
  - How can I rebuild my shopping & sales processes to be more resilient/redundant?
  - How can I ensure there are no bottlenecks or process cliffs in the next normal, by implementing parallel digital and in-person systems?
  - What tools do I have? What tools do I need? Where are my gaps? What are the best, most cost-effective solutions to those gaps?
  - How can I control new process and digital tool rollouts to provide a better experience, that is antifragile and results in high staff adoption and compliance?

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Modern Retailing Opportunities

SECOND-ORDER CHALLENGES:

- **Liquid Expectations:**
  - How can I ensure that my business measures up to new success KPIs, like Binary Decision Making, and Flexible Financing?
  - How can I build redundancy into my business to deliver high quality consumer experiences during volatile markets to maintain sales throughput?
- **Competing priorities, pre-COVID vs. post-COVID:**
  - How do I evolve traditional sales & service processes to support new Health & Safety realities?
  - How do I evolve and supplement traditional financing and its focus on prime consumers to also target alternative financing and service more subprime customers to protect my market share?
- **Large-Scale, ongoing challenges: How can I plan for these eventualities?**
  - Inventory / Model Shortages
  - Parts Shortages & Inability to Service Customer Vehicles
  - Pent-Up / Exhaustion Consumer Demand cycles
  - Finance & Liquidity issues for OEs, Dealers, and Consumers

LOOK FOR POTENTIAL SOLUTIONS, TECHNOLOGIES AND PARTNERS THAT:

- Offer end-to-end Modern Retailing platforms that are flexible & provide redundancy
- Provide blockchain-backed digital deal process document storage & signature
- Adhere to open data standards in regards to both vehicle and consumer data
- Build shopping data & analytics platforms that target consumers more effectively
- Offer mobile video and chat platforms for both sales and service teams / processes
- Create real-time product-correct digital media that replaces expensive lot-processing of inventory
- Provide social distancing planning & execution services for sales & service areas
- Produce surface treatment products & services suitable for both vehicles and buildings
- Perform sanitization services and/or sanitized remote test drives
- Offer contactless, sanitized post sales & service vehicle delivery services

Key Drivers & Trends to Watch

GOVERNMENTAL RESPONSE, HEALTH & SAFETY, MARKETS, AND CONSUMER EXPECTATIONS

- **COVID testing, case, and recovery curves.** Remember, the "flattening of the curve" results in an extended recovery period where current consumer behavior conditions remain in play. In addition, more recent large-scale events have reignited fears of a second-wave curve. *(CDC, Johns Hopkins, COVID Tracking Project, IHME, COVID Act Now, Morgan Stanley, Goldman Sachs)*
- **Federal and State regulations governing physical and digital consumer behavior, stimulus & consumer finance, and the reopening pace & requirements at the state and local market level.** These developments will have the greatest positive or negative impact on the industry moving forward. *(White House, Congress, State Houses)*
- **Unemployment, consumer spending and consumer confidence: Many consumers are better prepared.** While consumer debt is at an all-time high, it's far lower relative to GDP than it was a decade ago. *(FRED, World Economic Forum, PwC)*
- **Consumer credit and consumer finance.** The availability of credit and consumer financing is likely to change dramatically, due to the extreme number of consumers being pushed down relative to pre-COVID credit qualifications and FICO scores. *(White House, Congress, Consumer Financial Protection Bureau)*
- **Remerging interest in passenger car ownership and emerging distaste for both public transit and ride sharing.** As a risk-exposure conundrum, not as a consumer experience. *(Capgemini, Bloomberg)*
- **Liquid Expectations expressed as increased comparisons to processes/experiences outside of automotive.** (FAANG, AdWeek, etc)

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Key Drivers & Trends to Watch

EMERGING TECHNOLOGIES ENABLING NEW CONSUMER EXPERIENCE EXPECTATIONS

- **Blockchain.** As remote shopping and buying becomes more popular and standardized, expect the industry to tackle security and identity issues related to financial transactions around purchase, payments, and signatures head on. Look for blockchain to play a significant role in document, financial, and identity security in this space.
- **Artificial Intelligence & Machine Learning.** While not exceptionally knew, AII/ML is still a nascent field in terms of its widespread application to marketing tasks and marketing automation. Look for both sides of the marketing customer data value chain to be disrupted here - both collection and insights generation - as its use becomes ever more sophisticated and widespread across touch points.
- **Customer Data Platforms.** Also know as CDPs, are software that collects and structures real-time customer data into individual, centralized customer profiles. CDPs build customer profiles by integrating data from a variety of first-, second-, and third-party sources. This includes your CRM and DMP, transactional systems, web forms, email and social media activity, website and e-commerce behavioral data, and more - all to inform real-time marketing and attribution modeling.
- **Real-Time Marketing and Multi-Touch Attribution.** MTAs are gaining widespread traction as optimizers for MMMs and rightly so. As the logic and ML behind these systems gathers more data and becomes more efficient - look for real-time marketing to come to the fore, and blossom into fully dynamic, programmatic one-to-one marketing.
- **Open Data Standards.** As both Brands and Dealers look to monetize both consumer and vehicle data to facilitate remote shopping, buying, and ownership experiences - watch for proprietary data silos to be broken down, and open data industry standards to be established to encourage the spread of anonymized data to power more intelligent, more connected, more personalized, and more predictive experiences.

Things You Can Do Right Now: OEs

While there is no "one size fits all" solution due to brand positioning, market share, and product differences, there are some key things you should be considering doing now:

- **Focus on Health & Safety:** Both factory & dealer surface treatments, worker safety, product support & warranties.
- **Commit to Change:** There will likely never be a time where OEs and Dealers are more aligned, in terms of the need for change. This period will not be short. Take full advantage.
  - Reevaluate your consumer experience across tiers, and move to implement a tierless experience that is completely seamless and frictionless to consumers where possible. *(Requires a truly comprehensive end to end DR platform & quality, centralized data/analytics.)*
  - You'll need flexibility and successful iteration of your tech & process integration points from Tier 1 to Tier 3 to provide a safe, cohesive experience across fifty wildly disparate regulatory markets, for a long time to come. (Because the case growth curve has been “flattened” the potential spread period has lengthened, meaning consumer behavior will necessarily stay squirrelly for awhile.)
  - Plan for supply chain and demand disruptions. These will affect model availability and customer satisfaction for sure, but will also make dealer profitability extremely volatile, in both sales and service. Explore true market-service area options like smaller, secondary real-estate dealerships backed by larger, vehicle preparation centers and remote service facilities to change costs structures and drive down overall expenses.
- **Invest in Two Things:** Your people and your data analytics. You are dead in the water if you don't have good people - who will stay through the tough times - and you can't chart a successful path forward without knowing how what you're doing is performing. *(If you can't expand staff, look for outside support. Make sure data is focused on CX feedback & performance as it relates to bottom line sales/service increases through direct attribution and ROI on ad spends. Non-converting traffic means even less than it did pre-COVID.)*
- **Explore market-specific approaches & support plans:** Each market will have widely variable consumer behavior With the notion of building large, expensive dealerships into end destinations for consumers dead in the water, you'll need to explore the notion of smaller dealerships, carrying less inventory, with local and regional service centers at separate locations to service a larger areas, and staffed to run 24/7. These facilities could also prep & sanitize for delivery and serve video in response to customer transparency inquiries.
- **Explore Key Partnerships:** Staying nimble and adapting to change while making potentially major shifts to your business necessitates exploring partnerships with companies already established in emerging key spaces like health & safety, modern retailing implementation & measurement, and prime-edge consumer finance.

"Auto retailers have relied on their scrappy entrepreneurial skills to weather many challenges in the last hundred years. Shoppers today are pivoting even more rapidly to an omni-channel environment where size, scale, and strategic partnerships will be critical. Retailers must align themselves with the right thought leaders and partners to navigate unprecedented levels of change in the buying and ownership processes."

— Mike Maroone
Maroone Automotive Group

Things You Can Do Right Now: Dealers

While there is no "one size fits all" solution due to individual state and local market regulation differences, there are some key things you should be considering doing now:

- **Focus on Health & Safety:** You're probably already 100% social-distancing compliant, and are using surface treatments in your dealerships and for pre/post service sanitization. But the number of people returning to showrooms could remain unpredictable, so explore what steps you can take to ease customer concerns through process and messaging, marketing outreach, and PR to invite customers back to your safe showrooms.
- **Invest in Two Things:** Your marketing platform and your data analytics. You must discover, explore, and invest heavily in a true, fully-integrated, agnostic end-to-end marketing and retailing platform to handle every consumer touchpoint - it's absolutely critical for survival. Pay for these upgrades by rightsizing your business from human-capital intensive (costly and virally susceptible) to software and AI intensive.
- **Reimagine every part of your business:** (sales, F&I, and fixed ops)
  - From a health & safety perspective, and with a focus on redundancies that provide a way forward for both staff and customers under various degrees of social distancing and stay-at-home type scenarios.
  - Explore how a fully-redundant DR platform/improved in-dealership parallel process could improve continuous market exposure while reducing contact risk through remote shopping, buying, signing, and delivery options.
  - Evaluate all of your technology platforms, sales, service, & inventory management processes to become more efficient. Get help if you need it. Work to eliminate manual workarounds and paper-only processes.
  - Explore & automate additional business models like 24/7 service, sales by appointment only, valet service, contactless pickup & delivery, on-demand vehicle sanitization, etc.
  - Redefine "Sales Person" (Apple Genius Bar) to modernize CX and improve recruitment opportunities.
  - Think bigger about the whole staffing & service opportunity here: where Relationships > Transactions.
- **Plan for Parts Shortages & a Simplified Product Mix:** Supply chain disruptions at OEs will likely cause problems for both the sales and service sides of your business. Moving from a situation on the sales side from a glut of current inventory to demand potentially outstripping supply as pent-up interest unwinds. And on the service side, supply chain disruptions could create parts shortages, leading to widespread disruptions in service revenue models.
- **Consolidation Creates Opportunities:** Point attrition & consolidation will be increasing at the rooftop level over the next 6-36 months, so look for opportunities to grow and acquire new points, or expand your market & reach into areas created by consolidation of others in your area.

"While it may feel the end of COVID is nearly visible on the horizon, the disruption of traditional retail models is just beginning to be felt - and automotive is not immune. Dealers and OEMs need to modernize retailing experiences with a sense of urgency in order to ensure survival. This is a great start down that path."

— Andrew Tai
CEO, Motoinsight

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Things You Can Do Right Now: Technology Providers

While there is no "one size fits all" solution due to radically and constantly shifting OE and Dealer needs and priorities, there are some core truths that remain, and key things you should be considering now:

- **Be the solution to a key problem:** OEs and Dealers will focus on core, key business problems that have no solution, or where they need additional redundancy. If you are well-positioned, or can become well positioned to address these core issues - now is the time to pivot. Money will be tight for the next 12-36 months - especially for non-core issues.
- **Be aware of shifting needs & priorities, and reposition/expand your platform accordingly:**
    - Focus on Partnership and Iteration
    - Sell being nimble & flexible and being an extension of internal teams
    - Develop system & process redundancy and directly support their development of same
    - Develop extremely flexible processes and implementation procedures
    - Be data & insights driven, and provide data & insights tied to performance
        - A/B outcomes testing
        - Multivariate testing
        - Attribution of successes within your platform to high-value, key consumer behaviors
    - Offer “skin in the game” pricing tied to performance
- **Selling to both OE and Dealer needs at the same time will be ideal:**
    - Health & Safety, Social Distancing, Remote Operations,
    - Tierless, Redundant CX experiences
    - Enterprise rollup data & analytics dashboards *(specifically for sales performance and CX)*
- **Look for key partnerships:** Since it’s hard to execute on 1-4 on this list at the same time on your own, look to develop key partnerships with other vendors that are complementary to your platform and co-sell, work with agencies and captives to the OEs and Dealers and white-label your services to them, and/or develop relationships with those firms who already have access to key industry conversations and planning stages where major problems are identified and solutions to them are discussed.

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Accelerate Beyond The Next Normal

motormindz is the industry's premier automotive venture consultancy serving OEMs, technology providers, mobility, and automotive retail. We've brought together a network of 80+ active, executive-level automotive and technology subject-matter experts into a model that delivers on our unique operational and strategic experience to digitally transform OEs and Dealers people, processes, and platforms; as well as to grow and scale new and emerging technologies into proven solutions.

We regularly provide ideation & advisory services to OEs and dealers on the specific and unique challenges and pitfalls of implementing digital transformation strategies like this one.

For more perspectives on business and digital transformation visit www.motormindz.com, or reach out to us at info@motormindz.com.

About the author:
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In both Silicon Valley and Silicon Beach, Doug has spent the last 20 years building enterprise technology solutions and creating innovative business, marketing, and digital transformation strategies for over a dozen OEMs. He brings a holistic, consumer-centric, technical mindset to the business of accelerating industry evolution.

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