cutting through complexity

# Global Automotive Retail Market

*From selling cars on the spot to centrally managing the retail grid*

**September 2013**

# Acknowledgements

We would like to thank the senior executives from several international original equipment manufacturers (OEMs) and retail groups who participated anonymously via in-depth interviews, to provide their views and insights.

Special thanks are also due to Prof. Dr. Willi Diez (Institut für Automobilwirtschaft) for his longstanding cooperation and valuable contribution to this study.

Last but not least, this study would not have been possible without the valuable ideas, editorial efforts and writing of Dieter Becker, leader of the Automotive Think Tank in Germany. In this context, we would also like to acknowledge the support of Moritz Pawelke and thank him for his efforts during the course of this study.


# Editorial

"If I had asked people what they wanted, they would have said faster horses," said Henry Ford more than a century ago. Today we know that he was right. In fact, I believe Henry Ford's paradigm has proven to be true not just for the automobile itself, but for automotive retailing in general. His success demonstrates how a game-changing innovation can never simply be an improvement of an existing idea.

Looking at the current auto retailing sector, it is apparent that the management of dealer networks – as well as the dealers' business model – has barely changed in decades, and is even being adopted in the so-called emerging markets, without any major modifications. It is perhaps time for automotive decision-makers to ask themselves: are we merely betting on faster horses, rather than taking more radical steps?

Against such a backdrop, this study addresses the most recent developments in the automotive retailing sector and, looking forward, aims to come up with a generic approach to determining an auto retail market's maturity level.

Our findings suggest that every automotive retail market will go through certain stages in its evolution. The challenge is to know when the tide has turned, as each phase will require a unique set of competencies, solutions and strategies, in order to succeed on the national or global retail grid.

**Mathieu Meyer**
Global Head of Automotive

# I Global automotive retail market outlook

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**Is the term "emerging market" still valid?**

**Will the Triad markets still play an important role in 2020?**

**Will Western European countries be under the top 10 sales markets in 2020?**

**How will vehicle ownership rates develop in emerging countries until 2020?**

**An in-depth analysis of past developments in the global car sales market, and the outlook for all major auto retail markets up to 2020.**

- The shift in demand to growth regions will reach unprecedented rates by 2020, with China the undisputed leader.
- Many former emerging markets may well have evolved into 'establishing' markets (the stage between emerging and fully established), but due to prevailing disparities they will still be some way from being established by 2020.
- Although the established markets of North America and Western Europe will not be able to compete with the growth rates of establishing markets, they will still be the most important global sales regions after China.
- Even assuming optimistic annual sales growth rates, the established markets of North America and Western Europe are only on a path of slow recovery, compared to the sales peaks they attained in the early 2000s.
- Despite the recent gloomy outlooks for Western Europe, Germany, the UK, France and Italy, they will still be among the top 10 countries for automotive sales in 2020. Japan will also retain its top 10 position, although its sales will fall dramatically over the next 7 years.
- Although the established markets are no longer the centers of growth, three out of four vehicles sold globally in 2020 will still be made by established OEMs from Japan, North America and Western Europe.
- Even far beyond 2020, China, India and Brazil continue to offer tremendous sales potential, as vehicle ownership rates in these countries will still be well behind that of established markets.
- Nearly every fourth car sold in establishing markets will belong to the low-cost/economy segment catering to price-sensitive, middle class customers.

**The global automotive retail market will not become 'globally flat' in the foreseeable future.**

**In fact, many important auto retail markets will still be in completely different maturity stages in 2020.**

**The saturated markets of the Triad will still play a major role in 2020.**

# II Automotive retail market maturity model

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**How can a markets' maturity level be assessed?**

**Do all markets go through the same maturity stages?**

**Should retail strategies be the same in every maturity stage?**

**Are different people, management styles and key performance indicators (KPIs) needed for each stage?**

**What does centralization mean in the automotive retail sector?**

**Details on a generic retail market maturity model, and a brief assessment of the maturity of the most important automotive retail markets up to 2020.**

- The maturity of an automotive retail market is influenced by a variety of specific features and macroeconomic conditions, including new car demand, first car versus replacement car demand, used car demand, used:new car sales ratio, car parc density and income levels.
- Every automotive retail market goes through certain maturity stages: firstly an 'easy selling' period, characterized by strong new car demand leading to the development of a large and decentralized retail network structure, followed by a 'hard selling' period, leading to a consolidation and centralization of the retail network, due to decreasing first-car demand.
- Each maturity stage requires a unique retail strategy and distinct set of management competencies and KPIs. These have to be re-evaluated as soon as a retail market shows signs of changing from easy to hard selling mode.
- The notion of centralized automotive retail networks has to be redefined. Centralization should not mean fewer point of sale (PoS) locations, but fewer retail network owners (grid managers) managing the retail grid.

## Insight — Future retail scenarios

Our KPMG colleagues from the Consumer Goods & Retail sector have recently conducted a survey that provides very interesting insights into the future of food retailing.

We have translated their findings for automotive retail because we think it is highly likely that many drivers and challenges in the food retailing sector are also relevant to the future of the global automotive retail business.

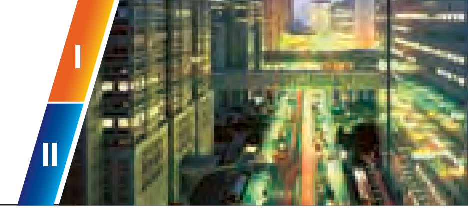
**Every automotive retail market goes through an easy selling and a hard selling period during its passage to maturity. The level of maturity can also differ within a single market (such as China).**

**By 2020, none of the establishing markets such as China, India and Brazil will have reached a state of maturity that is comparable to current levels in North America, Western Europe or Japan.**

**Each period requires a particular retail strategy and a distinct set of management competencies and KPIs to effectively steer the retail grid.**

# I Global automotive retail market outlook

# **Definitions |** KPMG's view on the global automotive market



**Established markets**

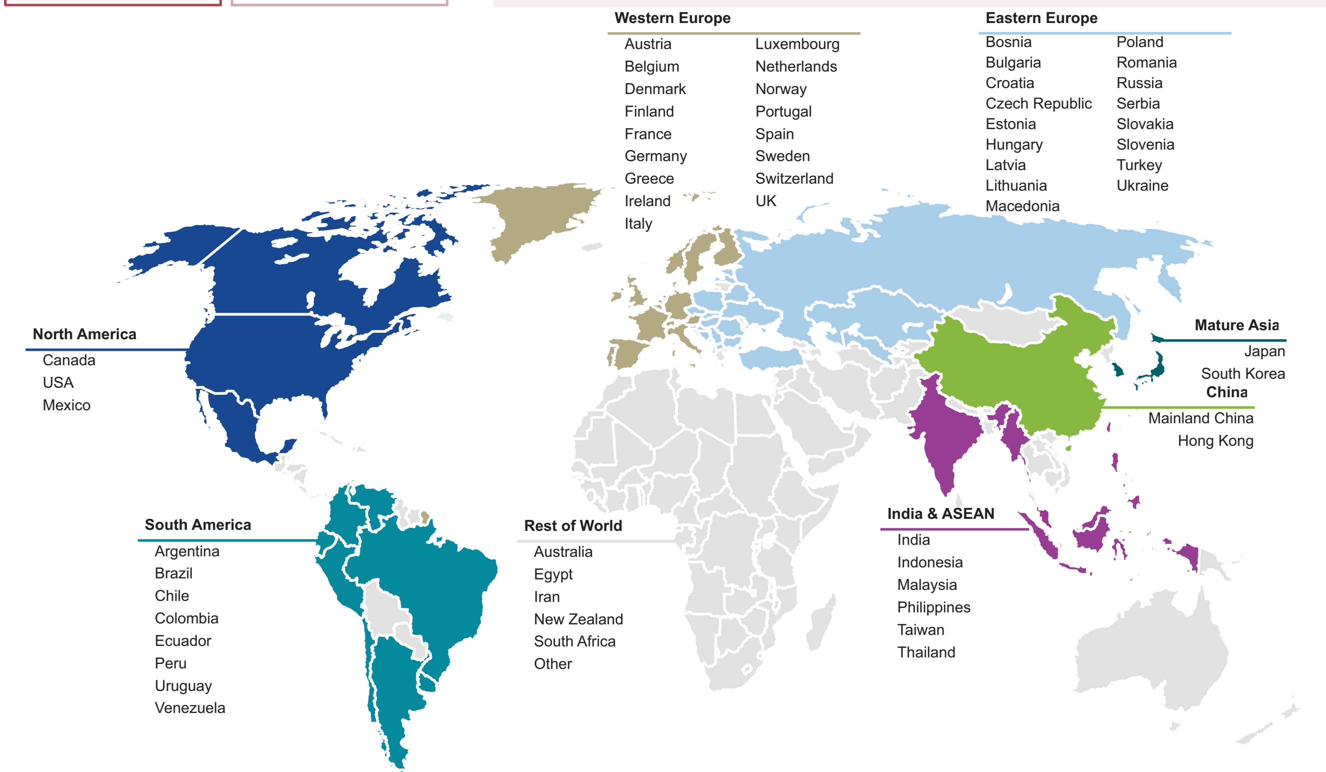
- Western Europe
- North America
- Mature Asia
- Rest of World[1]

**Establishing markets**

- Eastern Europe
- China
- India & ASEAN
- South America
- Rest of World[1]

**'Establishing' is the new 'Emerging'**

We believe the term "emerging markets" is no longer valid for all of these markets, as some of them have already emerged as very significant auto markets in terms of absolute sales volumes today (e.g. China).




To analyze global market developments, we distinguish eight different regional clusters that cover all relevant automotive markets around the globe, taking account of their geographic proximity, and, more importantly, their different levels of market maturity.

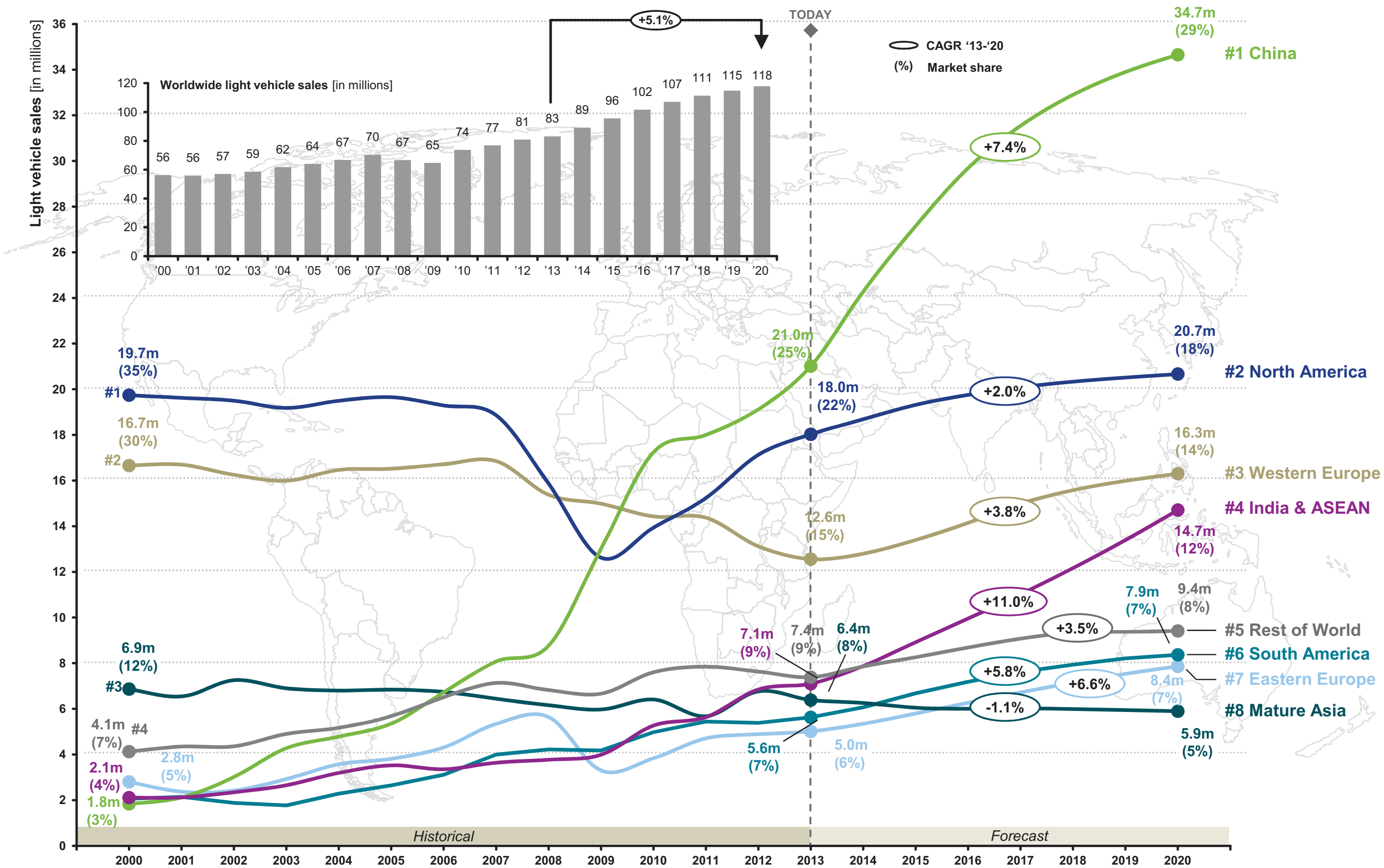
Due to the strong market dynamics and the particular importance of China, we further divide the Asia-Pacific region into three separate clusters.

These clusters acknowledge the large differences between the established auto markets of Japan and Korea (Mature Asia) and the establishing auto markets of China, India and ASEAN (Association of Southeast Asian Nations).

Any country of lower significance that does not fit into the regional clusters – or that cannot be analyzed due to a lack of detailed data – is categorized under 'rest of world.'

Source: KPMG research & analysis. [1] The market status (established vs. establishing) cannot be clearly defined for all countries categorized under Rest of World (e.g. Australia, New Zealand).

## The demand shift to China will reach unprecedented levels by 2020




Source: KPMG research & analysis, LMC. Figures include: Passenger cars, light commercial vehicles (less than 6 tons) and vehicles defined as light trucks in North America.

## Key takeaways

In 2020, China will be the major automotive market by some distance, responsible for nearly one-third of annual new vehicle sales worldwide (34.7 million).

North America will be the second-largest sales region, with nearly 20 percent of annual global sales volume (20.7 million).

Western Europe will retain third place until 2020 (ahead of India and ASEAN), although annual sales will not reach the peaks experienced at the turn of the millennium.

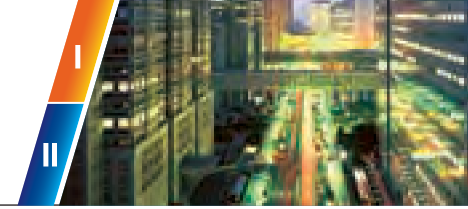
Up to 2020, India and ASEAN will enjoy the strongest percentage sales growth, with a compound annual growth rate (CAGR) of 11 percent plus.

Sales in Mature Asia will decline up to 2020, reflecting the future prospects of mature, densely populated auto markets.

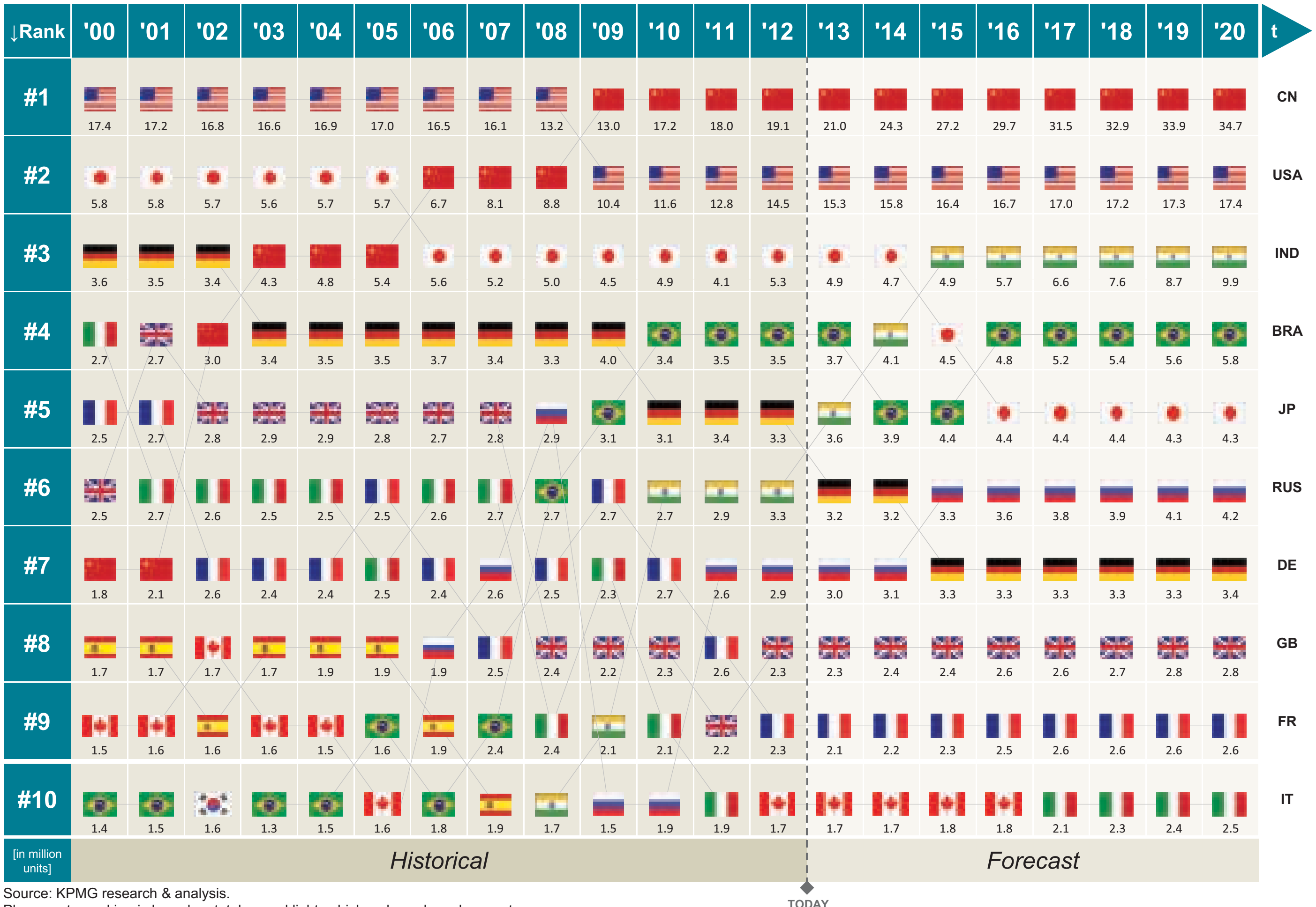
With an annual sales volume of 1.8 million vehicles in 2020, the largest proportion of the rest of world sales will come from Iran.

*Global automotive retail market outlook*

# **Global sales ranking |** top 10 automotive markets




## China, India & Brazil will have made the greatest leaps forward by the end of this decade




Source: KPMG research & analysis.
Please note: ranking is based on total annual light vehicle sales volume by country.

## Key takeaways

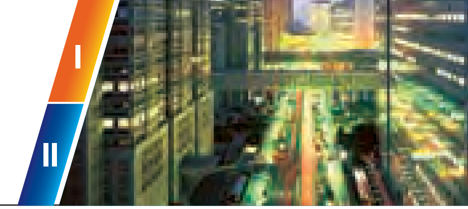
The BRIC markets will dominate the global car market in 2020, occupying four of the first six places.

Despite the strength of the BRICs, the US will be an unrivalled second to China, although only enjoying half the new car sales of the People's Republic.

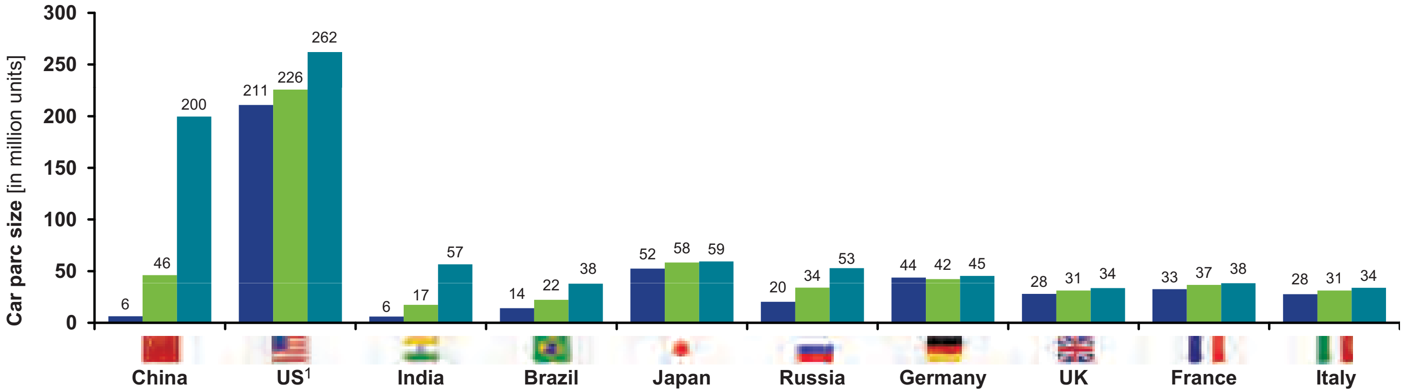
The formerly highly ranked European countries will further decline in significance, unable to compete with the strong growth rates within establishing auto markets.

Russia, although commercially unpredictable, is projected to finally exceed every other Western European market in terms of sales volume by the middle of this decade.

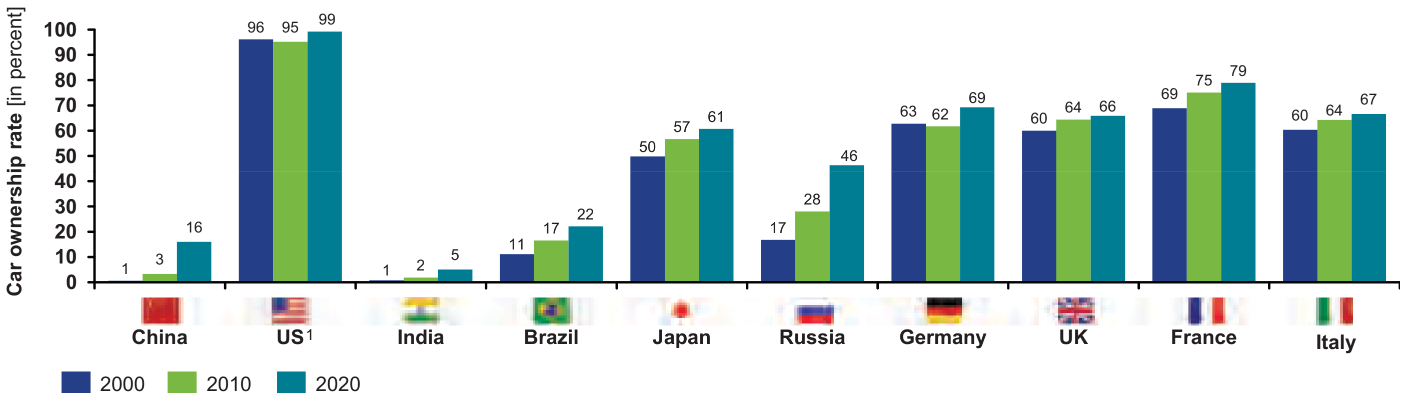
Japan, which was the world's second largest auto market behind the US in 2000, has since experienced a sharp drop and will decline further up until 2020.




## The US and China will have by far the largest passenger car parc size in 2020




## Even far beyond 2020 China, India and Brazil could offer tremendous sales potential




Source: KPMG research & analysis, LMC, UN.
Please note: light commercial vehicles (less than 6 tons) generally excluded.
[1] US car parc includes vehicles defined as light trucks in North America. Car ownership rate = Number of cars owned per 100 of driving population (population aged between 15 and 79 years).

## Key takeaways

Absolute car parc size and car density are very good indicators of a market's overall growth potential and maturity level. (For further details see 'What makes a retail market mature?')

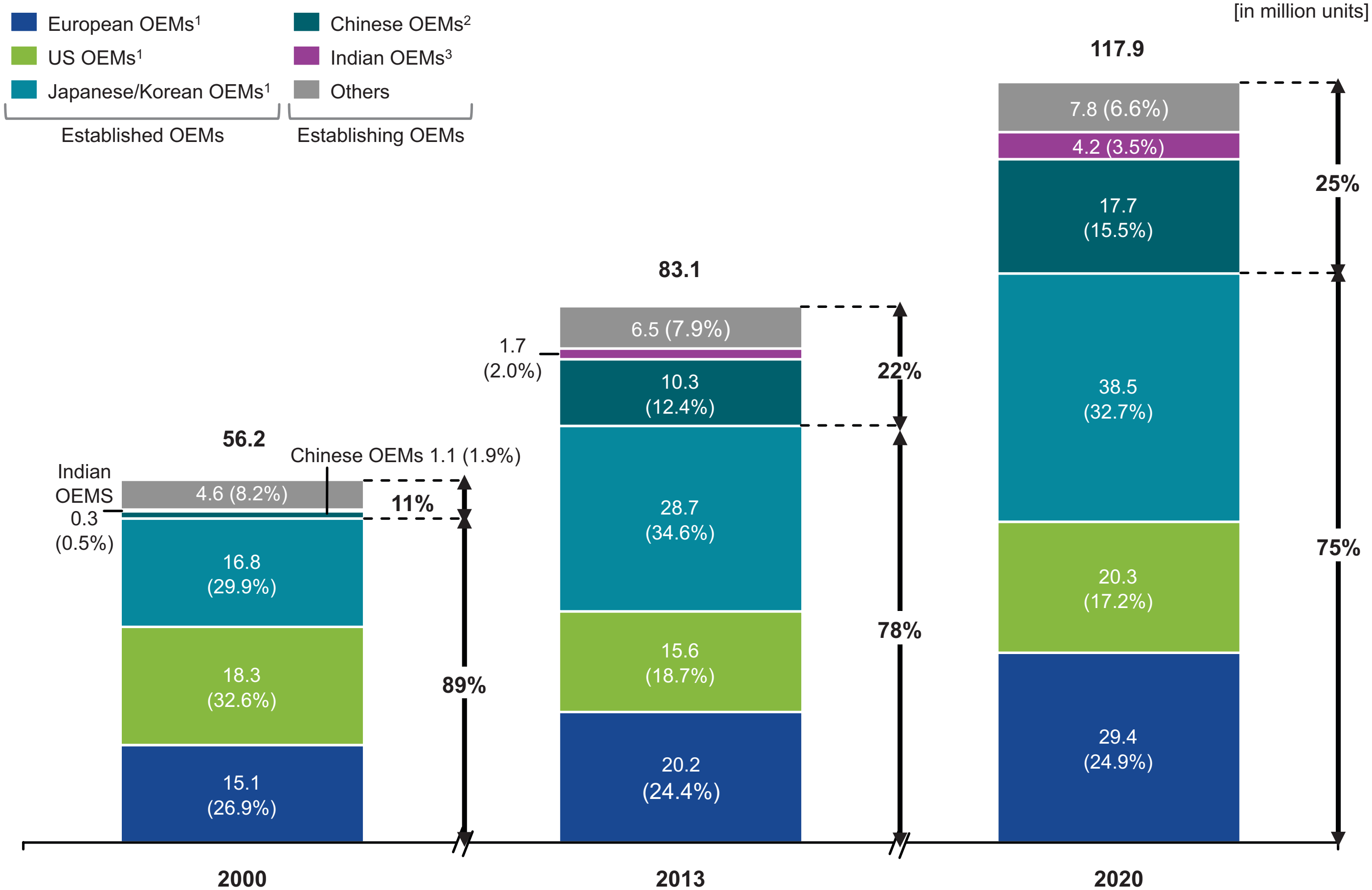
Thanks to fast-growing new car sales, China's total car parc size will more than triple by the end of this decade, almost reaching the US level of the early 2000s.

This number becomes less significant in light of China's car density. By 2020 there will be 200 million vehicles – less than one for every five peopl. In the US on the other hand, a similar number of vehicles in 2000 (211 million) translated into approximately one car for every driver.

This leaves tremendous growth potential for incremental new car sales in China beyond 2020.

Western European countries will all have an ownership rate of above 60 percent by 2020, with only minor growth from 2013. These figures are more influenced by population decrease than by a rise in total car parc size.

## Three out of four vehicles sold in 2020 will still originate from established OEMs




Source: KPMG research & analysis, LMC. [1] For trans-regional sales groups (Fiat-Chrysler and Renault-Nissan) sales are split by brand origin. [2] Includes Volvo (=Geely) sales in 2013 and 2020. [3] Includes JLR (=Tata Motors) sales in 2013 and 2020. Please note: Sales volumes originating from trans-national joint ventures are assigned to established OEM.

## Key takeaways

At the turn of the millennium, almost 90 percent of all cars sold worldwide were made by established OEMs from North America, Western Europe and Japan.

Today, almost 80 percent of all car sales still originate from established OEMs, but the balance of power has changed considerably.

Every third vehicle sold now comes from a Japanese/Korean OEM, while back in 2000 the US 'big three' were responsible for the major chunk of global car sales.

The global market share of European OEMs has been around 25 percent ever since the 2000s, and will most likely remain at this level up to 2020.

Chinese and Indian sales groups have only slowly taken over market share from established OEMs. By 2020, around every fourth car sold is likely to originate from an establishing OEM. Chinese OEMs will make up the greatest proportion, taking a global market share of around 15 percent.

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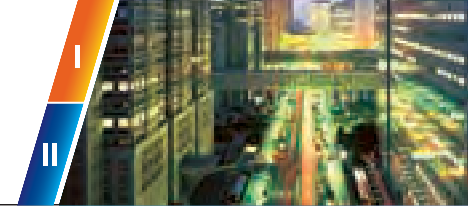
*Global automotive retail market outlook*

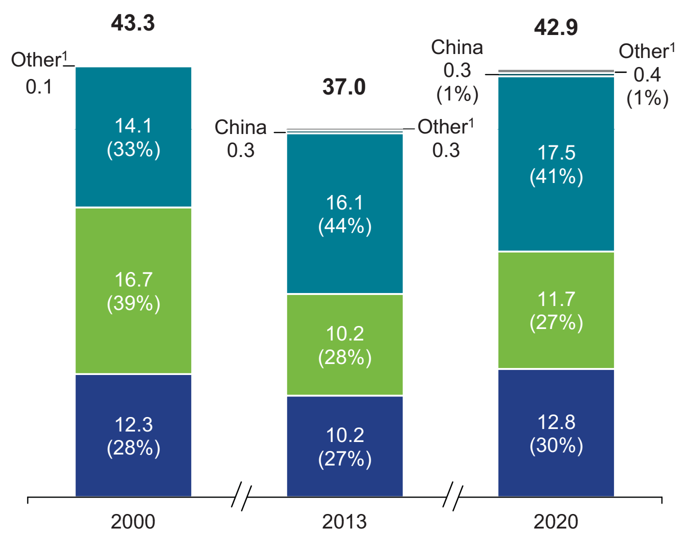
# **Sales by OEM origin |** established versus establishing markets



## **Sales by OEM origin |** Established markets

European OEMs[1] · Japanese/Korean OEMs[1] · Indian OEMs[3]
US OEMs[1] · Chinese OEMs[2] · Others

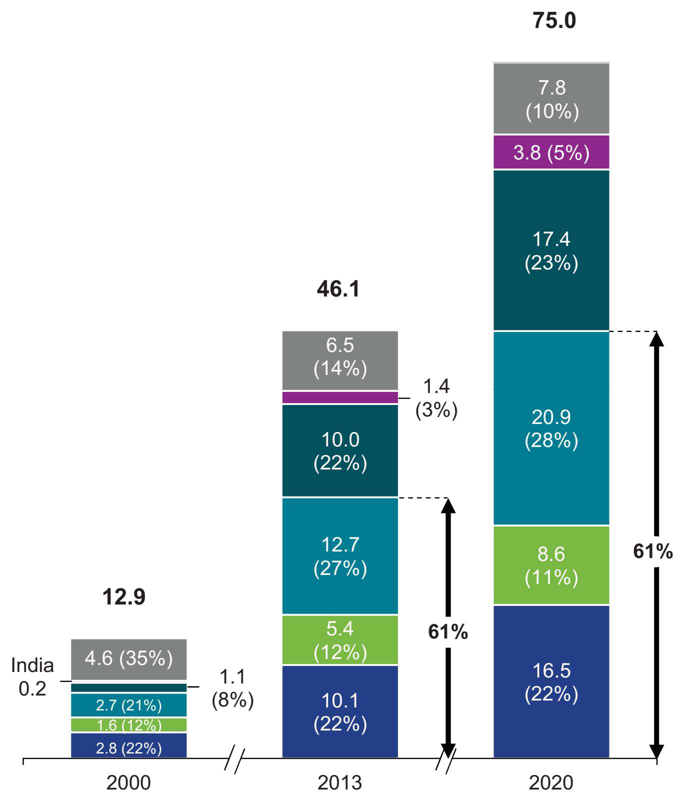
[1] For trans-regional sales groups (Fiat-Chrysler and Renault-Nissan) sales are split by brand origin.
[2] Includes Volvo sales in 2013 and 2020.
[3] Includes JLR sales in 2013 and 2020.
Please note: Sales volumes originating from trans-national joint ventures are assigned to established OEM.




Established markets = North America, Western Europe, Mature Asia.
Source: KPMG research & analysis, LMC. [1] Other includes Indian OEMs.

## **Sales by OEM origin |** Establishing markets

[in million units]




Establishing markets = China, India and ASEAN, South America, Eastern Europe, RoW.
Source: KPMG research & analysis, LMC.

## **Key takeaways**

By taking a separate look at established and establishing market car sales, it is possible to gain a different perspective on the trends in market share among the major global auto sales groups.

Despite the acquisitions of Jaguar Land Rover ((JLR) – by India's Tata Motors) and Volvo (by the Chinese Geely Group), establishing OEMs will still play a minor role in established markets, achieving less than 2 percent market share by 2020.

Although suffering a downturn in their home markets, mature Asian OEMs remain strong global players, occupying the highest market shares in both the established and establishing markets.

In the establishing markets, establishing OEMs will fail to take over any market share from established competitors between 2013 and 2020.

# KPMG's view on global vehicle segment definitions

## The traditional, size-based definition of vehicle segments is insufficient

The market analyses on the previous pages show two important trends for the global automotive retail sector. While establishing market customers will make up by far the largest proportion of all car buyers worldwide in 2020, three out of four vehicles sold in 2020 will still originate from established OEMs based in North America, Western Europe or Mature Asia.

OEMs with global operations will have to increasingly manage different quality levels and pricing expectations for their products in different markets, which will impact branding and retail strategies.

To gain a better insight into the changing global quality and pricing differences, we define four qualitative segments (see the analysis on the 'Sales by segment' page) that range from economy to super-premium. These definitions augment accepted quantitative dimensions such as vehicle size/length and usage.


**Moritz Pawelke**
*KPMG in Germany*
Member of KPMG's Automotive Think Tank


**Qualitative definition**

| Segment | Description | Examples |
|---|---|---|
| Super-premium | Luxury cars mainly from mature OEMs from North America, Western Europe and Japan. | e.g. Aston Martin, Bentley, Ferrari, Lamborghini |
| Premium | Cars of high reputation manufactured primarily by OEMs in mature automotive markets. | e.g. BMW, Audi, Mercedes-Benz, Lexus, Lincoln, JLR |
| Sub-premium | A highly competitive volume segment offering very good value for money. | e.g. VW, Skoda, Ford, Nissan, Renault, Chevrolet* |
| Economy | A fast-growing segment with very low priced cars for very price-sensitive customers. | e.g. Dacia, Lada, Maruti-Suzuki, Tata, Dongfeng* |

Extended

**Quantitative definition**

| A | B | C | D | E | F | G | M | P | S | V | LCV |
|---|---|---|---|---|---|---|---|---|---|---|---|

Classical

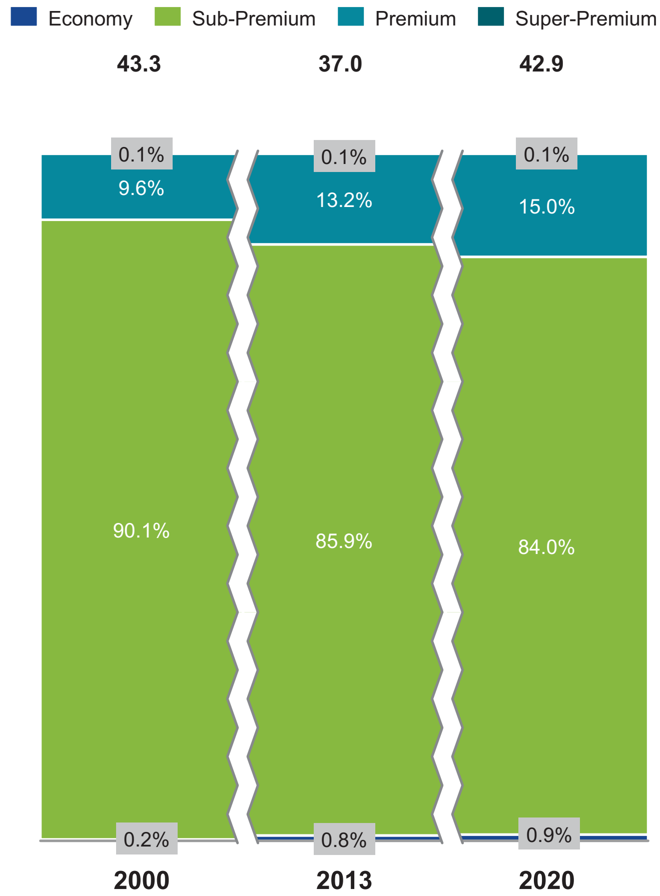
A = Basic
B = Subcompact
C = Compact
D = Midsize
E = Large
F = Large plus
G = Sports
M = MPV
P = Pickup
S = SUV
V = Van

LCV = Light commercial vehicles (less than 6 tons).

* Some car brands cater to more than one qualitative segment. Source: KPMG research & analysis, LMC.

# Sales by segment | established versus establishing markets

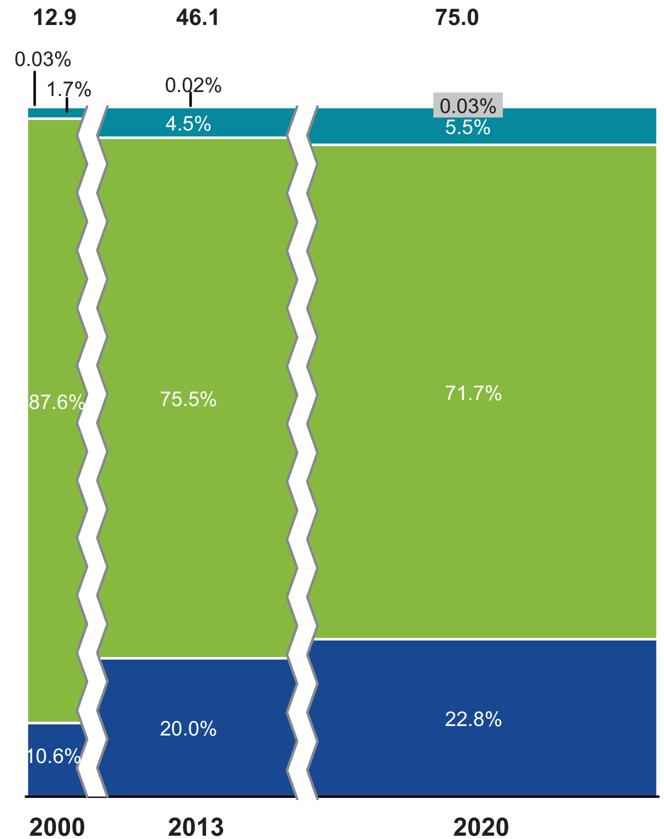
## Sales by segment | Established markets




Established markets = North America, Western Europe, Mature Asia.
Source: KPMG research & analysis, LMC.

## Sales by segment | Establishing markets

[in million units]




Establishing markets = China, India and ASEAN, South America, Eastern Europe, RoW.
Source: KPMG research & analysis, LMC.

## Key takeaways

In 2020, the vast majority of vehicles sold in established and establishing markets will belong to the so-called sub-premium segment.

In the established markets, the premium segment will continue to grow, reaching 15 percent market share by 2020, equivalent to a total annual sales volume of 6.4 million vehicles.

In contrast, premium vehicles will only make up 5.5 percent of annual sales in establishing markets by this date. This equates to an annual volume of 4.1 million vehicles – well below the figure for the established markets of North America, Western Europe and Mature Asia.

The economy segment, on the other hand, will not play a significant role in the established markets until 2020. In establishing markets, however, almost one in every four cars will be an economy model, catering largely to price-sensitive middle class customers.

# Conclusions from retail market analysis – and future implications

## Conclusions from retail market analysis

- The term “emerging markets” is no longer valid for all of these markets, as some of them have already become very significant auto markets in terms of absolute sales volumes (such as China).
- Nevertheless, the automotive retail world will continue to be split into two market spheres (established versus establishing) up to and beyond 2020.
- With a combined global market share of over 30 percent in 2020, the established markets of North America and Western Europe will still remain the most important pillars in the global automotive retail market, after China.
- In absolute sales volumes, the BRICs will dominate the global auto market by 2020, occupying four out of the first six places.
- Despite the overwhelming strength of the BRICs, the US will clearly be the second most important car sales market in 2020.
- Less than one in five people in China will own a car by 2020, which leaves tremendous growth potential for incremental new car sales in China well beyond this date
- Three out of four vehicles sold in 2020 will still originate from established OEMs, as establishing OEMs (e.g. from China) fail to take over a significant portion of global market share.

## Implications for automotive retail

- Thanks to the continuously increasing demand for new cars, establishing markets will remain relatively easy selling over the next 7 years.
- As car ownership rates rise relatively slowly in establishing countries, this easy selling period will most likely continue far beyond 2020.
- In establishing markets, easy selling has led to a common retail strategy of focusing almost exclusively on new car sales (i.e. “by starting big with no service”[1]), while quickly expanding decentralized retail networks.
- This simple retail strategy has to be thoroughly re-evaluated, as establishing markets will reach higher levels of market maturity, at a much faster pace than in existing mature markets.
- Established markets have shown that a sustainable dealer business model has to balance new and used car sales and after-market revenues, and have central retail network management, to avoid overheads and intra-brand competition.
- As North America and Western Europe will remain major markets by 2020, OEMs with global operations will have to manage a variety of different retail strategies concurrently, to acknowledge the varying maturity levels within the top 10 auto sales markets.

[1] Interview with Director, Retail Network Development, Premium OEM from Western Europe

# II Automotive retail market maturity model

# Explanation | expert opinions

### Explanation of KPMG's retail market maturity model

During its maturity process, each automotive retail market goes through an easy selling and hard selling period (shown in the graph on the 'Generic maturity process of automotive retail markets').

Both periods involve completely different retail strategies, dealer business models, sales staff competencies, management styles and KPIs. These differences have a major impact on the development of the retail network structures in each market.

In an easy selling period (where demand for new cars is high), a decentralized network evolves, with many retail outlets to generate high sales volumes and win market share (as shown in the first quadrant). At this stage, it is not possible to centralize and move into the fourth quadrant. As soon as new car demand cools down (as the market enters the hard selling phase), decentralization becomes wasteful, with the cost of maintaining so many outlets reducing dealer margins – as illustrated in the second quadrant.

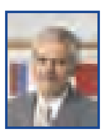
At a certain point in a market's maturity, the only way to be consistently competitive is to steadily consolidate and centralize the retail network, to reach the key third quadrant.

### Structure should follow strategy, but retail strategies change over time

For the global auto retail sector, the common principle of 'structure following strategy' needs to be redefined. Typical network planning horizons are limited to 5 years; these should be extended to 10-15 years, in order to prepare for the challenges of increasing maturity and the change from easy to hard selling.

Most companies' retail strategies in establishing markets focus on generating sales volumes solely through customer acquisition only. Once the era of easy selling comes to an end, retail networks may struggle to maintain margins, as sales decline.

As soon as a market's demand for replacement cars exceeds the demand for first-time purchases (heralding the arrival of the hard selling period), the retail emphasis needs to change from customer acquisition to loyalty and retention. This shift should be reflected in network planning and requires greater centralization, to gather and process the vast amount of data needed to effectively manage customer relationships.



**Prof. Dr. Willi Diez**
Director,
Institut für Automobilwirtschaft (IfA)

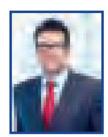
### Centralization needs to be redefined to create an efficient retail grid

Our interviews with key industry decision-makers revealed some of the challenges in designing an optimal retail network.

It is widely acknowledged that too many decentralized PoS create overheads and intra-brand competition, which eats into dealer profits in a hard selling environment.

Yet simply reducing the number of PoS – by setting up centralized superstores – brings other problems, such as lack of local knowledge and relationships.

Auto retailer groups should not be considering whether to centralize; they should instead be assessing how to manage a centralized retail grid. The question remains whether this management should be the responsibility of OEMS, dealer groups or even third parties.



**Dieter Becker**
Partner, KPMG in Germany
Leader of KPMG's Automotive Think Tank

**"Centralization cannot be the solution for all our retail problems – we will always have to live with a certain degree of waste to be able to cater to all our customers."**

**Managing Director,**
OEM-owned (captive) retail group, Western Europe

**"Having too many points of sale is poison for our retail network's profitability; they simply create too much overhead and intra-brand competition."**

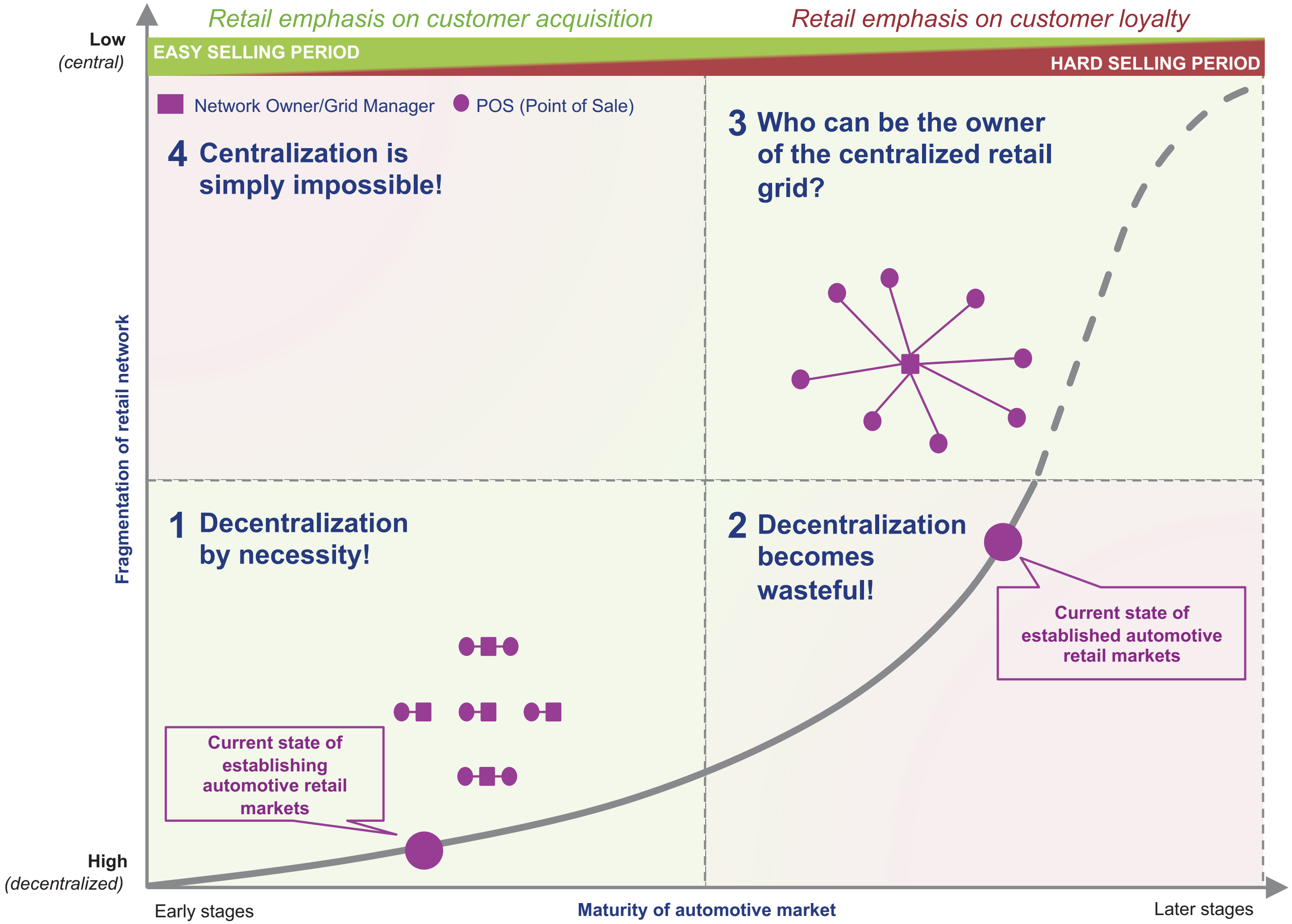
**Director,**
**Retail Network Development,**
Premium OEM, Western Europe

**"We will increase the number of dealers by at least a hundred per year until 2016 – and even beyond if the demand remains high."**

**Senior Director,**
**Network development,**
European-Chinese joint venture

*Automotive retail market maturity model*

# Generic maturity process of automotive retail markets




Source. KPMG research & analysis

Our research shows that every automotive retail market passes through certain stages of maturity.

In the initial, easy selling period, demand for new cars is high, with minimal distribution problems or risks. At this point, retailers are focused on providing sufficient cars to keep up with customer needs, which leads to fast growth of outlets and a decentralized, fragmented structure.

As demand for new cars eventually slows, competition increases and the market reaches the hard selling phase. As new car profits decrease and customers become more sophisticated, the retail network is steadily consolidated to reduce operational costs.

# Expert view on a retail market's maturity process

**"The automotive retail market maturity level is a function of a variety of market-specific features and macroeconomic conditions."**

"The lower the new car sales growth the more mature the retail market."

"The higher the replacement-car demand the more mature the retail market."

f(x)

...

"The higher the car parc size and density the more mature the retail market."

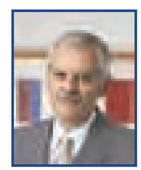
"The higher the per capita income level the more mature the retail market."

**Many factors that determine a market's maturity level can be easily observed**

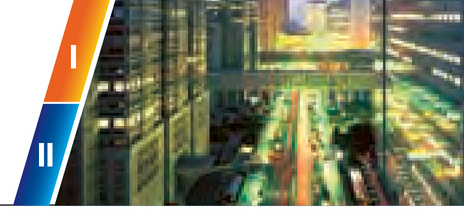
A first indicator of a market's maturity level is the contribution of new car sales to the overall automotive retail value creation. In mature markets, the demand by first-time buyers tends to be considerably lower than for replacement cars. This leads to lower annual growth rates, as purchasers of replacement vehicles are more likely to postpone their decision.

Another guide is the car parc size, which heavily increases during the road to maturity, before reaching saturation point.

The combination of car parc and population size is another revealing barometer. In the mature markets of North America, Western Europe and Japan, vehicle ownership rates have reached well above 50 percent (as in Japan, France and Germany) and close to 100 percent in the US.



**Prof. Dr. Willi Diez**
Director,
Institut für Automobilwirtschaft (IfA)



*Automotive retail market maturity model*

# What makes a retail market mature?

| Market features / Market status | Mature markets | Establishing markets |
|---|---|---|
| **New car sales** | ■ new car sales are often stable or even declining in year-on-year<br>■ replacement car demand comfortably exceeds demand for first cars | ■ new car sales growth rate over the last 10 years is often double digit<br>■ first car demand considerably exceeds replacement-car demand |
| **Used car sales** | ■ used:new car sales ratio is between 1:1 and 3:1 | ■ used:new car sales ratio is often below 1:1, depending on the new car sales growth |
| **Car parc density** | ■ vehicle ownership rate is usually above 50 percent | ■ vehicle ownership rate is usually below 50 percent |
| **Income level** | ■ average annual disposable income per capita (of the driving population) is well above 30,000 US Dollars (US$) | ■ average disposable income per capita (of the driving population) is below US$20,000 |
| **After-market and service culture** | ■ original equipment supplier (OES) market share is often above 30 percent | ■ due to a high proportion of drivers carrying out repairs themselves ('do-it-yourself' – DIY), the independent after–market is dominating the OES sector |
| **Finance and insurance** | ■ over 90 percent of all vehicle purchases are financed | ■ most car buyers pay for their vehicles in cash |
| **Mobility-as-a-service (MaaS)** | ■ demand for individual mobility is steadily decreasing | ■ strong demand for individual mobility, as one's own car is an important status symbol |
| **Urbanization level** | ■ the urban population often comprises more than 80 percent of the total population | ■ urban population is often below 60 percent of the total population |
| **Retail network structure** | ■ a high proportion of authorized/franchised dealers<br>■ an organized commercial used car market | ■ low share of authorized/franchised dealers<br>■ unorganized (mostly private) used car market |
| **Retail network density** | ■ the total number of dealerships is constantly decreasing, due to competition and low profits. | ■ the number of dealerships is constantly rising to satisfy steadily increasing demand. |

Source: KPMG research & analysis.

The maturity of an auto retail market depends on a variety of features and macroeconomic conditions, which influence evolution of the structure and determine the speed of maturity.

Establishing markets such as China will reach higher levels of market maturity quicker than existing established markets.

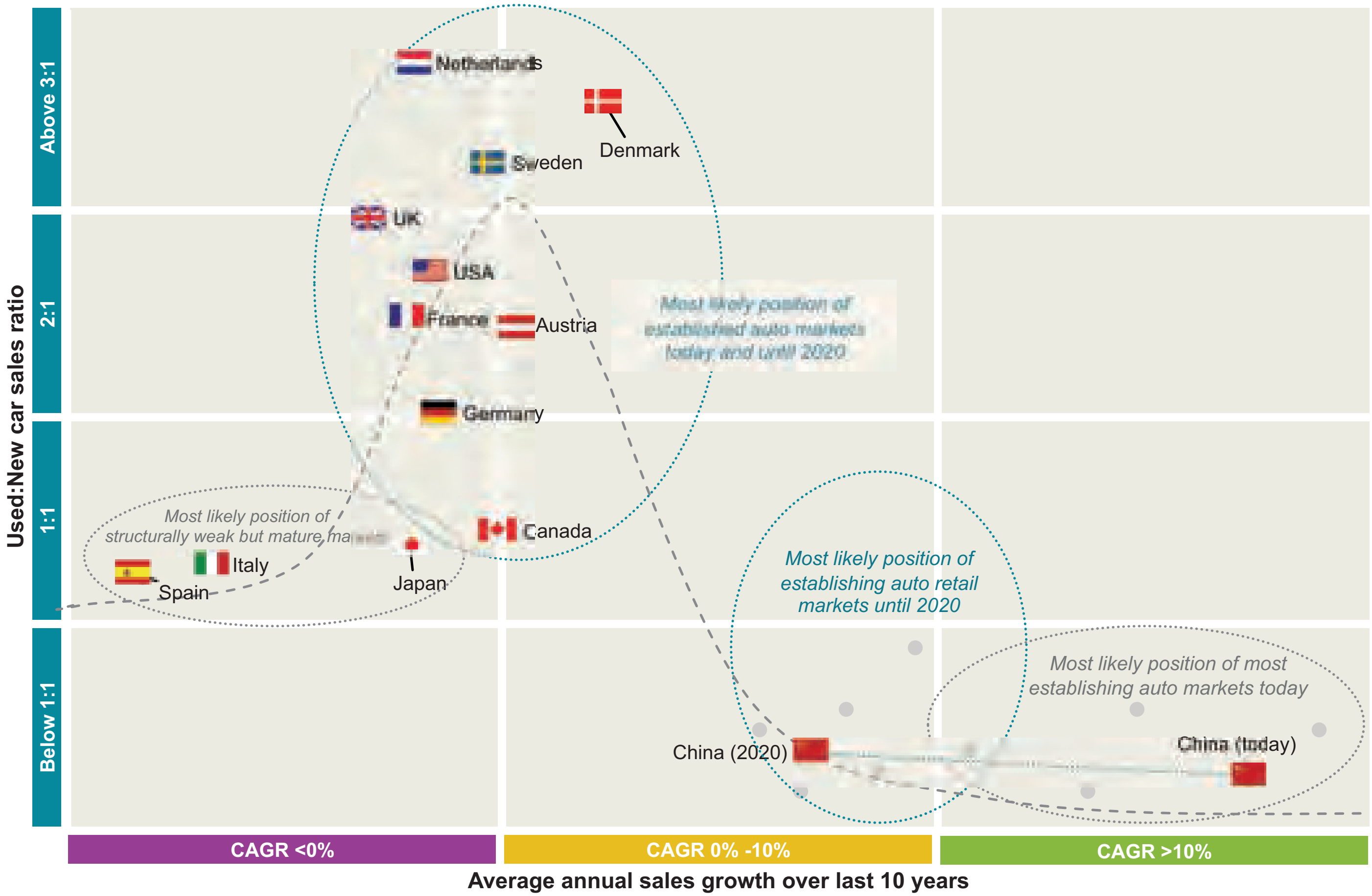
By 2020, none of the establishing markets – such as China, India and Brazil – will have reached a degree of maturity comparable to current levels in North America, Western Europe or Japan.

Nevertheless, the level of maturity can also differ within a single market. One example is China, where the market maturity in urban centers like Shanghai or Beijing is certainly higher than in the lower tier cities and rural areas.

*Automotive retail market maturity model*

# Maturity level analysis | new and used car sales

## New car sales growth and used:new car ratio indicate a market's maturity level




Source: KPMG research & analysis, LMC, Euromonitor, BCA, National Trade Bodies.

## Key takeaways

To assess the current state of the most important auto markets, we have analyzed new car sales growth over the last 10 years, along with average used:new car ratios.

Reliable and comparable information on used car market volumes and trends is only available for a very limited number of markets. Our research suggests that new car sales typically lag behind used car sales in most established markets, while in establishing markets, the opposite is true.

In established markets, every new car sale is matched by 1-3 used car sales, while in China the ratio is around 1:5 in favor of new car sales.

Even by 2020, the used:new car ratio in China will not reach the levels currently seen in established markets. Beyond 2020, China will be expected to slowly follow the dotted line to a higher level of maturity.

*Automotive retail market maturity model*

# Maturity level analysis | car density and per capita income

## The BRIC markets will make great leaps until 2020, but will still lag significantly behind


Source: KPMG research & analysis, LMC, Economist Intelligence Unit (EIU).

## Key takeaways

The comparison of car ownership rates and income levels provides a further indication of the different levels of market maturity around the world.

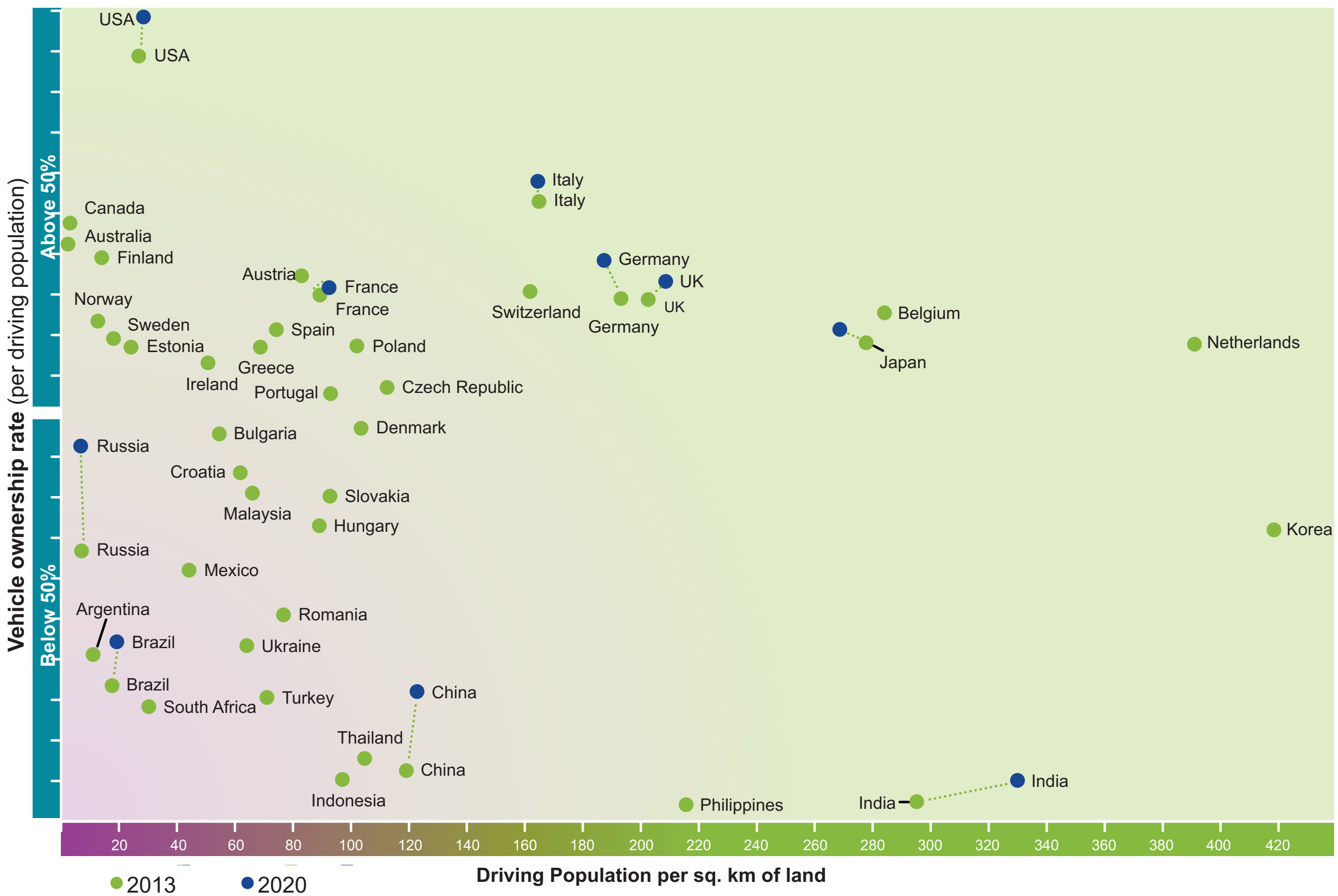
With the exception of the US, Australia, Norway and Switzerland, all established auto markets are very close to each other, with per capita income well above US $20,000 and a vehicle ownership rate of more than 50 percent.

All BRIC markets have an ownership rate below 50 percent, with Russia alone predicted to come close to 50 percent by 2020.

Although China is forecast to make a big leap between 2013 and 2020, its income level and vehicle ownership rate will still lag behind many other establishing auto markets for the foreseeable future.

India's low income levels means that it will not even come close to market maturity by 2020.

## Population density can be a limiting factor on the road to maturity




Source: KPMG research & analysis, LMC, World Bank.

## Key takeaways

Population density can have varying impacts on maturity, depending upon other social, economic and geographic conditions.

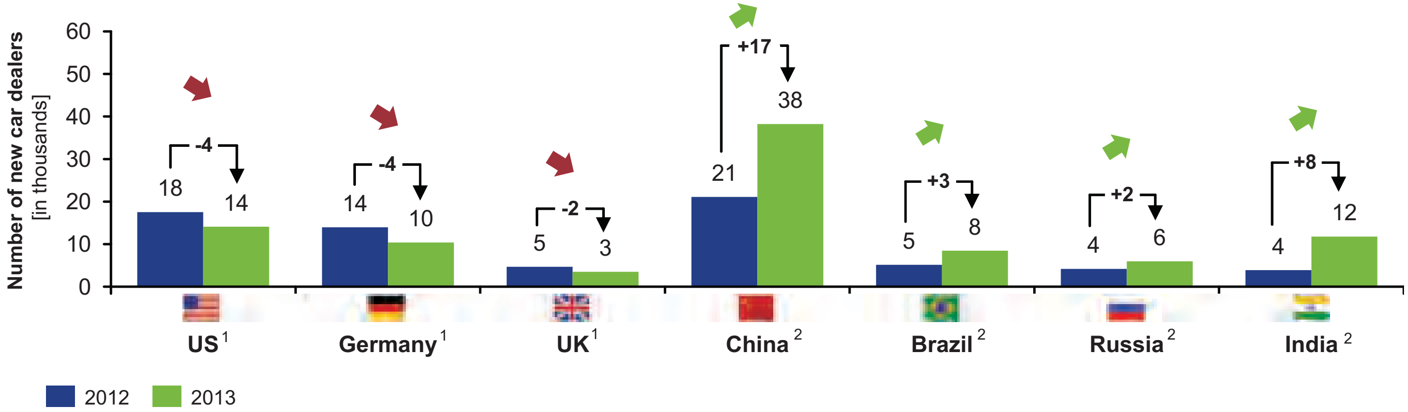
For example, India's population density is already as high as Japan and Belgium, and will continue to increase in the next 7 years.

However, India's social, spatial and environmental restrictions will restrict the growth in car ownership.

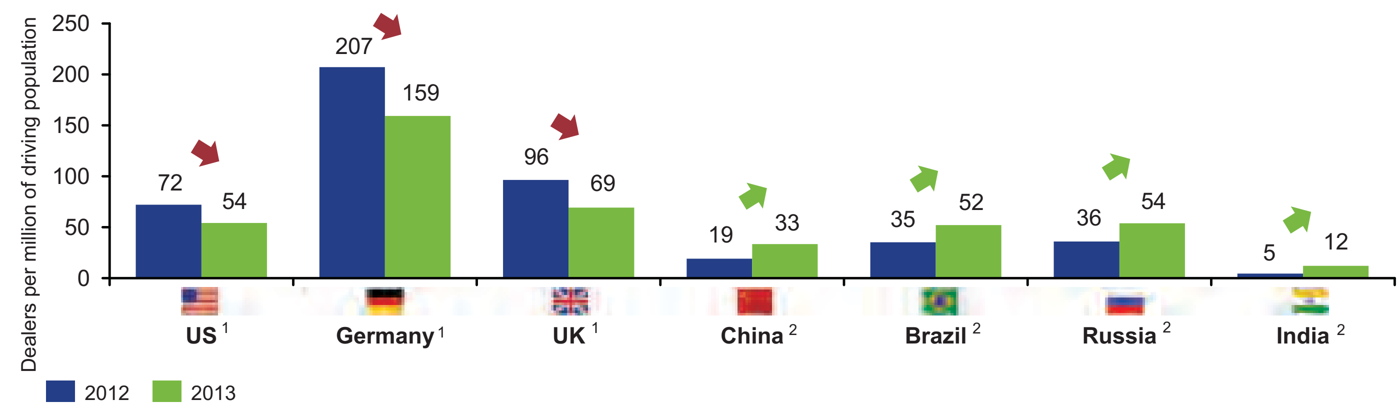
In contrast, population density is unlikely to limit the pace of growth in China, Brazil or Russia.

Of the top 10 sales markets in 2020, only Germany, Italy and Japan are projected to have a declining population density, which is not expected to impact these countries' high vehicle ownership rates.

## The number of dealerships in the BRIC has to rise sharply to cater to the rising demand




## The dealer network density in Germany is very high compared to other surveyed countries




Source: KPMG research & analysis, NADA, ZDK, SMMT, Urban Science, ANFAVEA, Avtostat, CarDekoh. [1] Assumption: Annual decrease of 3% until 2020. [2] Assumption: Stable sales per dealer ratio.

## Key takeaways

Assuming constant sales per dealer, the number of new car dealerships in the establishing markets will have to increase sharply up to 2020.

China already has more new car dealerships than the US, and will have to nearly double this number over the next 7 years to satisfy steadily increasing demand. For the established markets, the trend is expected to be in the opposite direction, as competition will increase while dealership profits continue to decline.

**Why is Germany's dealer network density so high compared to other mature markets?**

The high dealer network density is a consequence of Germany's reunification. Eastern Germany's dealer network was heavily expanded in the 1990s, in order to cater to the sudden demand for new cars. Even by 2020 the number of dealers per million of population will still be considerably higher then anywhere else in the world.

*Did you know?*

# Insights from the food retailing sector

## Retail drivers and challenges

**1 Aging population**

The proportion of people aged 65 and above will significantly increase over the coming decades

**2 Un-structuring of daily routines**

Higher flexibility and spontaneity will make consumer behavior increasingly unpredictable

**3 Technological progress, internet and social media**

Internet-capable ultra-mobile devices will significantly change consumer buying behavior and increase the transparency and information level

**4 Rising energy prices**

The steadily rising cost of individual mobility demands new types of transport and logistics solutions

**5 Change of social and moral mindset**

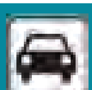
Consumers increasingly demand sustainable, healthy and environmentally-friendly solutions

## Future food retailing scenarios

High logistics cost

| Emotionality | Functionality |
|---|---|
| **Small mart**<br>Local stores (corner shops) with highly social and emotional components, which are centrally located and easy to reach | **Smart mart**<br>Technically well connected customers collect their personalized basket of products at stores or pick-up locations |
| **All mart**<br>Large stores with low logistics costs that offer a wide yet different range of products and services, and are systematically geared towards an emotional experience | **Call mart**<br>Online-based store concepts with low logistics costs, enabling them to supply customers in a flexible manner, offering high functionality |

Low logistics cost



**Don't you think that many of the drivers influencing the food retailing sector could be equally relevant to global automotive retail businesses in the future?**

Source: The Future of Shopping; Outlook for the German and Swiss food retailing. A survey by GDI Gottlieb Duttweiler Institute and KPMG, 2013.

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*What could this mean for automotive retailing?*

# Derivation of future automotive retailing scenarios

## Retail drivers and challenges

**1 Aging population**
The proportion of people aged 65 and above will significantly increase over the coming decades

**2 Un-structuring of daily routines**
Higher flexibility and spontaneity will make consumer behavior increasingly unpredictable

**3 Technological progress, internet & social media**
@ Internet-capable, ultra-mobile devices will significantly change buying behavior and increase the transparency and information level

**4 Rising energy prices**
The steadily rising cost of individual mobility demands new types of transport and logistics solutions

**5 Change of social and moral mindset**
Consumers increasingly demand sustainable, healthy and environmentally-friendly solutions

@
Connectivity will be an enabler for all retailing concepts rather than a game changer for the auto retail sector itself.

## Future automotive retailing concepts

High logistics cost

Emotionality | Functionality

| | |
|---|---|
| **Flagship stores**<br>Exclusive stores in urban areas primarily focused on the emotional presentation of a selection of vehicles to strengthen the brand/ product reputation and awareness (often directly owned by OEMs) | **Traditional dealerships**<br>Local PoS focusing solely on new car sales in the easy selling period. Range of offerings is further extended to used cars, service and after-market parts in a hard selling environment |
| **Virtual stores with sales agents**<br>Web-based stores offering new and used cars. Physical customer contact (e.g. for test drives, home delivery) is organized online and executed by mobile sales agents | **Super stores**<br>Very large outlets that focus on a high volume of transactions. Typically these outlets have large vehicle inventories, big showrooms and often have multi-brand offerings |

Low logistics cost

**Conclusion**

**The decision for the right retail concept has to be balanced between the customers' preference regarding emotionality/functionality and each market's maturity level.**

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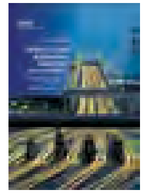
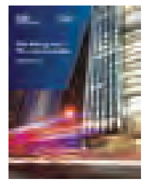
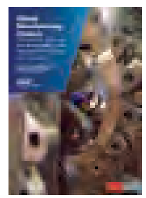
# KPMG's Global Automotive Thought leadership



**Global Automotive Executive Survey 2013**



**Self-driving cars:
The next revolution**



**Global Manufacturing Outlook:
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