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The new key to automotive success: Put customer experience in the driver's seat

Customer experience has replaced hardware engineering prowess as carmakers' critical battleground. Here's how incumbent brands can effect a bold, fast transformation.

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Key takeaways

— Car manufacturers once competed largely on their engineering capabilities: superior driving performance and reliability were their marketing boasts. These qualities still matter, but they are table stakes. The new battleground is customer experience.

— Incumbents will need to commit to bolder change to keep pace with new tech-led, data-rich, electric vehicle manufacturers, leaping from technology-centric product development to customer-centric innovation.

— Leadership from the CEO and a chief experience office will be key to establishing the components of a transformation: a new business model, and the ability to scale fast, to amass data at every customer touchpoint, and to measure the customer experience in a manner that reveals precisely how to improve it.

There was a time in the not-too-distant past when car manufacturers competed largely on their engineering capabilities: superior driving performance and vehicle reliability. These qualities still matter to today's consumers, but they are table stakes. The new battleground is increasingly one where tech-enabled, data-rich, electric vehicle (EV) companies currently have the upper hand: customer experience.

The bar is already high. For many consumers, visiting a car showroom has lost its appeal. They prefer the convenience of digital interactions. Google search trends suggest some 60 percent of car buyers under the age of 45 are likely to purchase their next car online and are interested in contactless sales and services.[1] The majority of online shoppers in other industries expect real-time customer service, switch brands if they don't get a consistent experience across channels, and abandon their online carts if the checkout process proves too taxing.[2] There is no reason to believe expectations will be any lower among car buyers.

EV companies have tapped into the zeitgeist. Tesla sells direct to its customers, who can buy a car with fewer than ten clicks, choosing from a simplified range of just four models and with no price haggling. China's NIO also sells direct and only through its website and app. Both companies offer a range of add-on, customer-centric services, from worry-free energy packages, where an app click brings someone to charge the vehicle on the spot, to a "battery as a service" package that rents the battery to the buyer by the month, or even retail and dining suggestions.

With frequent software updates that improve services as the norm, the notion is taking hold among EV customers that they are no longer buying the latest car model that will last five years or so, but a smart device on wheels where they can work, socialize, and be entertained—and which will constantly improve.

In a world of electric, connected, and autonomous vehicles, OEMs face a considerable challenge if they intend to keep pace. Company transformations are hard, and harder still when the future is uncertain and resources are limited, making it difficult to know where to place bets. This might be why many OEMs are still tentative about shifting their focus to customer experience. But to win in this race, they will need to be bolder and committed to more rapid change.

Ultimately, they will need to rapidly discover, design, scale, and constantly refine solutions that thrill customers, generate new sources of revenue, and keep costs in check—an approach honed by leading

[1] Andreas Barchetti, Michael Complojer, Thomas Furcher, Christian Richter, and Jakob Stöber, "Digitization in automotive retail in 2021 and beyond," May 2021, McKinsey.com.

[2] Emily Cummins, "45 customer service statistics you need to know (updated for 2021)," Netomi, May 10, 2021, netomi.com; Philippe Aussant, "Top 40 customer experience statistics to know in 2021," Emplifi, June 1, 2021, emplifi.io; Jacqueline Renfrow, "Most shoppers abandon their purchase if checkout is too hard," Retail Dive, August 13, 2018, retaildive.com.

customer-centric companies.[3] Here, we focus on five of the most important elements of the approach and how OEMs can address them. The first is to ensure the CEO leads the effort, assisted by the newly appointed role of chief experience officer (CXO). Together, they will need to adopt a new operating model and new ways of reaching scale, capturing more data, and measuring the customer experience more accurately—all of which will likely require substantial investment. But the changes cannot be avoided if companies are to make the leap from engineering-centered product development to customer-centric innovation.

Leadership: The CEO must drive the transformation, with the CXO as copilot

OEMs have hitherto thrived largely on their engineering prowess. The customer's experience, beyond the driving experience itself, has been the responsibility of the marketing and communications team, which might improve touchpoints such as booking a test drive or car handover. Today however, customer experience cannot be just a complementary OEM activity. It has to be the driving force for every department, including product development, IT, quality, and purchasing. That is a huge reorientation for an OEM, which is why the CEO has to drive home the need for change and make it happen.

To help them in this regard and to oversee day-to-day work, CEOs should consider appointing a CXO, a position already created by companies renowned for the strength of their customer focus. A few automotive companies—Volkswagen (VW) and General Motors among them—are following suit.

Just as the chief quality officer protects product quality and the chief financial officer protects the company's financial health, the task of the CXO is to protect the end-to end customer experience. This will mean disrupting the company with new business developments—not refining the status quo. Such a task requires the appointee have not only the trust of the CEO, but also the clout to both drive a transformation and win the support of other C-suite executives.

One of the CEO's primary tasks, meanwhile, is to communicate and act on a clear, bold vision of what the company aspires to be. Adequate funding for the transformation may depend upon it. Different companies will clearly set different aspirations, but all will need to take account of trends afoot, which indicate that the automotive landscape is likely to develop the following attributes by 2030:

— *Flexible ownership:* Many people, particularly urban dwellers and younger drivers, may not own a car, preferring to rent, car share, or use mobility services. But car ownership will not disappear. People in less densely populated areas as well as premium customers and driving enthusiasts may well want to own a vehicle, but often through various short-term, flexible subscriptions to both lease vehicles and buy additional services.

— *Amazon-like services:* The delivery of services will be radically simplified. Booking the use of a vehicle or a test drive, leasing a different model, ordering a ride, or canceling a service will be as easy and convenient as ordering on Amazon. And many services will be personalized: artificial-intelligence-powered software will anticipate, prebook, and streamline time-consuming tasks such as finding a parking spot or scheduling maintenance.

— *A seamless digital ecosystem:* Customers will expect a smooth, superfast digital ecosystem that integrates all services—connectivity, mobility, entertainment, social, hospitality—without the slightest hiccup. Indeed, performance here could distinguish one EV manufacturer from another, given its impact on customers' experience. An analogy might be consumers' choice of laptop today: processor and chip performance and the

[3] Fabricio Dore, Garen Kouyoumjian, Hugo Sarrazin, and Benedict Sheppard, "The business value of design," October 2018, McKinsey.com.

associated brands are what tend to influence purchase decisions, not the brand of the laptop manufacturer.

Within such a context, the strategy of an OEM deciding to target urban markets with mobility services might be to offer an on-demand, more sustainable, time-efficient, and fit-for-purpose transportation experience. A company seeking to build a market for privately owned, premium vehicles might emphasize an intelligent, delightful experience for driving enthusiasts. Whatever the vision, it will dictate a road map, the products and services—and brand-new business model—needed to bring it to life for customers.

A new business model: Think recurring sales of services and products, not a one-off car purchase

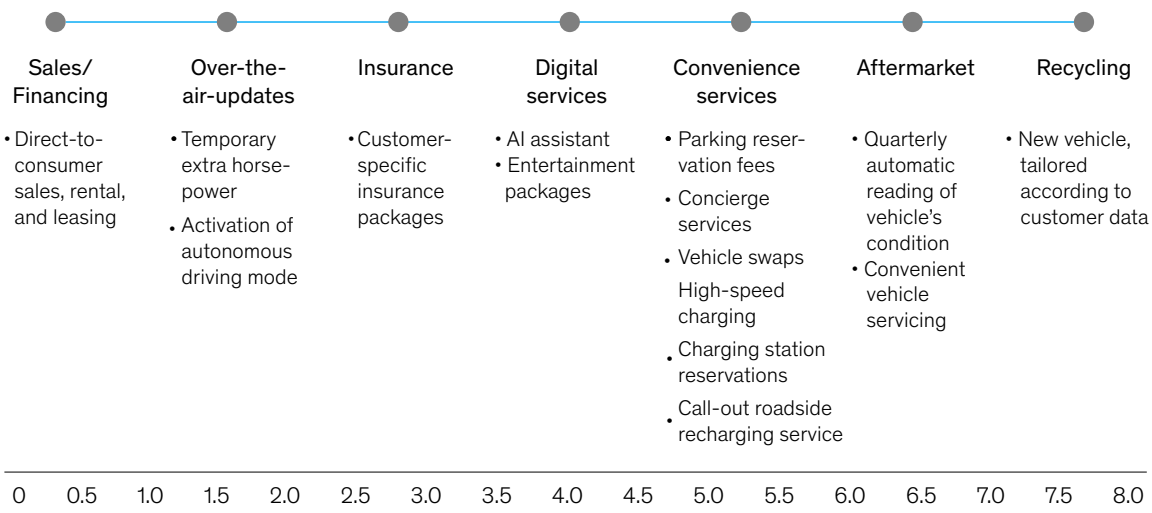
In the new world of mobility, value no longer lies entirely in the sale of a vehicle and aftersales parts, as has been the case with combustion-engine vehicles. As Exhibit 1 shows, selling a vehicle or a subscription for its use is only one part of the customer journey. There are many more opportunities to engage with customers, influence their experience, and earn revenue. For younger consumers, spending on EV products and services could prove akin to spending on new fashion items or consumer electronics to buy into a community of people identified and united by their latest purchases. NIO's CEO, William Li, has even stated his customers aren't just buying a vehicle, they are buying a ticket to a new lifestyle.

McKinsey analysis estimates revenue generated from recurring services could boost OEM revenue from car sales by some 30 percent in the next decade.[4] But OEMs will need to work closely with partners new and old to earn it. They will need new partners for services and products, and they will need to reassess existing relationships with retail, travel, and hospitality companies in their loyalty programs and, in particular, those with their dealers. That is because customer relationships and vehicle data insights will be key to delivering an outstanding customer experience. Most customer relationships

[4] Paul Gao, Hans-Werner Kaas, Detlev Mohr, and Dominik Wee, "Automotive revolution—perspective toward 2030," January 2016, McKinsey.com.

Exhibit 1

In the new mobility paradigm, adding services over a vehicle's life span grows revenue.



and data aren't currently owned by OEMs but by third-party partners, and little data is exchanged, largely because of privacy concerns.

It is too early to tell what the endgame might be for dealers. In banking, the number of bank branches shrunk considerably as services were digitized. Amazon, on the other hand, has expanded its retail footprint. What is clear is that OEMs will need to capture all customer data in all channels and offer a consistent experience.

Scaling up: Rethink the operating model to be agile and outperform

Selecting the right customer-experience strategy depends on identifying the experiences most likely to delight customers. This calls for developing a minimum viable product for testing in a pilot market or a specific product line, gathering customer feedback on it, and ensuring development continues in the right direction, wasting neither time nor money. Insights are quickly incorporated, and features can be added one by one, perhaps starting with a new, unified, digital interface where customers can make one-click comparison of car models, stock availability, prices, and delivery times, later incorporating financing, trade-in, and service options.

This process will not necessarily come easily to OEMs accustomed to using a waterfall approach to product and IT development. But the next step—scaling successful product, service, and business model concepts to other markets and product lines—can prove trickier still. While it is often relatively easy to test new digital customer experience offerings in a single market with workarounds or by tailoring them to the existing tech stack, rolling out the same offering to dealerships in multiple regions with different operating models and systems can kill momentum. Take, for example, booking a service appointment or test drive. Developing the software for an app might not be difficult. But getting the app to sync with all the different systems used by thousands of dealers is hugely complex. It could take years to negotiate technology setup costs, data- and revenue-sharing arrangements, and legal governance, and to implement an end-to-end, digitized customer experience with integrated data flows and agreed standards. In the meantime, unencumbered, nimbler competitors may get to market first.

This is where an agile operating model, able to marshal the early commitment of all relevant internal and external stakeholders, working in empowered, cross-functional teams, becomes important. The teams will be aware of the needs of each OEM function and those of any external parties, as well as their interdependencies. If team members are not only experts but also influencers, they will be able to plan ahead, aligning key stakeholders on what needs to happen and tackling foreseeable obstacles.

However, if a company is to scale dozens of such use cases in an agile way—not just one or two—it will also have to invest in building a single data platform that integrates all data sources and allows easy access to that data through application programming interfaces (APIs).

Advanced data analytics—the new competitive muscle

A successful customer-experience transformation is analytics led. Analytics will be key to understanding what individual customers value, and hence to prioritizing which features to build and offer to which customers. Behind good analytics is good data.

In this respect, OEMs are arguably in an enviable position, given the amount of data they can potentially tap. For example, data from dozens of in-car sensors, from apps, and from financing and leasing arrangements could be used to engage customers, personalize products and services, improve and develop new ones, and upsell.

But OEMs have obstacles to overcome, too. Like any organization looking to improve analytics, OEMs will discover existing customer data is siloed in different parts of the organization or often not tracked. In addition, much customer data is owned by dealers or third-party partners outside the OEM's own customer-relationship management (CRM) systems. Some OEMs are already addressing this problem. VW is adopting a direct-to-customer sales model in which dealers act as agents and earn a handling fee per transaction,

but VW owns the transaction, including the data it generates.

But whatever sales model or dealer relationship they choose, all OEMs will need to build a technology stack to capture and integrate customer data at every touchpoint—the digital touchpoints, mostly managed by the OEM and its national sales companies, and the physical touchpoints at dealerships and within the car. It is no small task. But success stories from other industries with franchises, from fast foods to luxury retail, prove that engaging franchise partners is not only a critical element in leveraging the power of data and analytics but that it definitely can be done.

Measurement: Identify the operational drivers of the CX

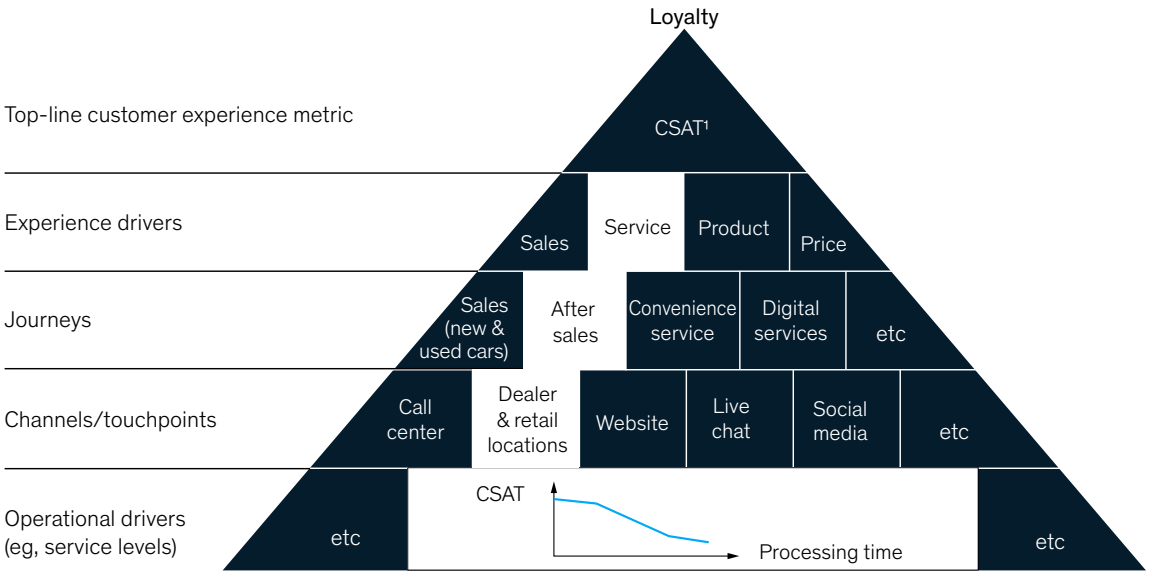
Though appearing at the end of this list, measurement of the customer experience is not the final act in a customer-experience transformation. The transformation starts with an audit of the available customer-experience data to assess what is already being measured and how this information is being used to manage performance at the dealer, regional, and country level in all markets. That assessment will no doubt reveal many improvement opportunities. Measurement then tracks the transformation's progress, revealing whether the changes made are the right ones or go far enough. It must be a continuous process, because customer expectations continuously evolve.

The ultimate goal is a measurement system that can identify the precise operational drivers of the customer experience. As Exhibit 2 shows, any number of problems can feed through to a low overall customer satisfaction score, depending on the channel the customer is using, the stage of the customer journey, and the precise problem the customer is trying to resolve. But at its root will

Exhibit 2

Effective customer-experience management hinges on identifying the right operational drivers.

The customer-experience measurement pyramid



[1]Customer satisfaction score

be an operational driver, such as processing time, staffing levels, transparency, or reliability. Only by breaking down the overall score into its component parts and measuring each and every one will it be possible to detect the sources of dissatisfaction and the operational cause and solution.

With advanced analytics and the right data, the power of such systems becomes stronger still, for however good a company's customer-experience surveys and sampling techniques are, they will still only reveal historical insights. In contrast, an analytics engine makes it possible to translate data signals into prompt action for each and every individual customer, not only identifying where problems might lie but predicting which improvements might unlock most value. It might, for example, figure out that simplification of the product portfolio will have the biggest impact on customer satisfaction in one market, or that offering an online aftersales appointment could increase penetration in aftersales services by 15 percent in another. In other words, companies can go from asking "How are we doing?" to "How do we deliver on what customers want now?"

Many OEMs have begun to reevaluate what they need to do to thrive in a world of future mobility, where the customer experience is central to success. Few, however, have yet committed to the bold vision and actions that will help ensure their rich heritage and brands endure. CEO and CXO leadership will be key to establishing the vital components of a successful customer-experience transformation: a new business model, and the ability to scale fast, to amass data at every customer touchpoint, and to measure the customer experience in a manner that reveals precisely how to improve it. Other industries have already made the transformation. Their lessons learned should help CEOs and CXOs of automotive OEMs follow suit.

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