



*50 Years of Growth, Innovation and Leadership*

## Evolving with E-commerce: Opportunities & Influence on Logistics Companies

A Frost & Sullivan eCommerce Article | 

F R O S T  S U L L I V A N

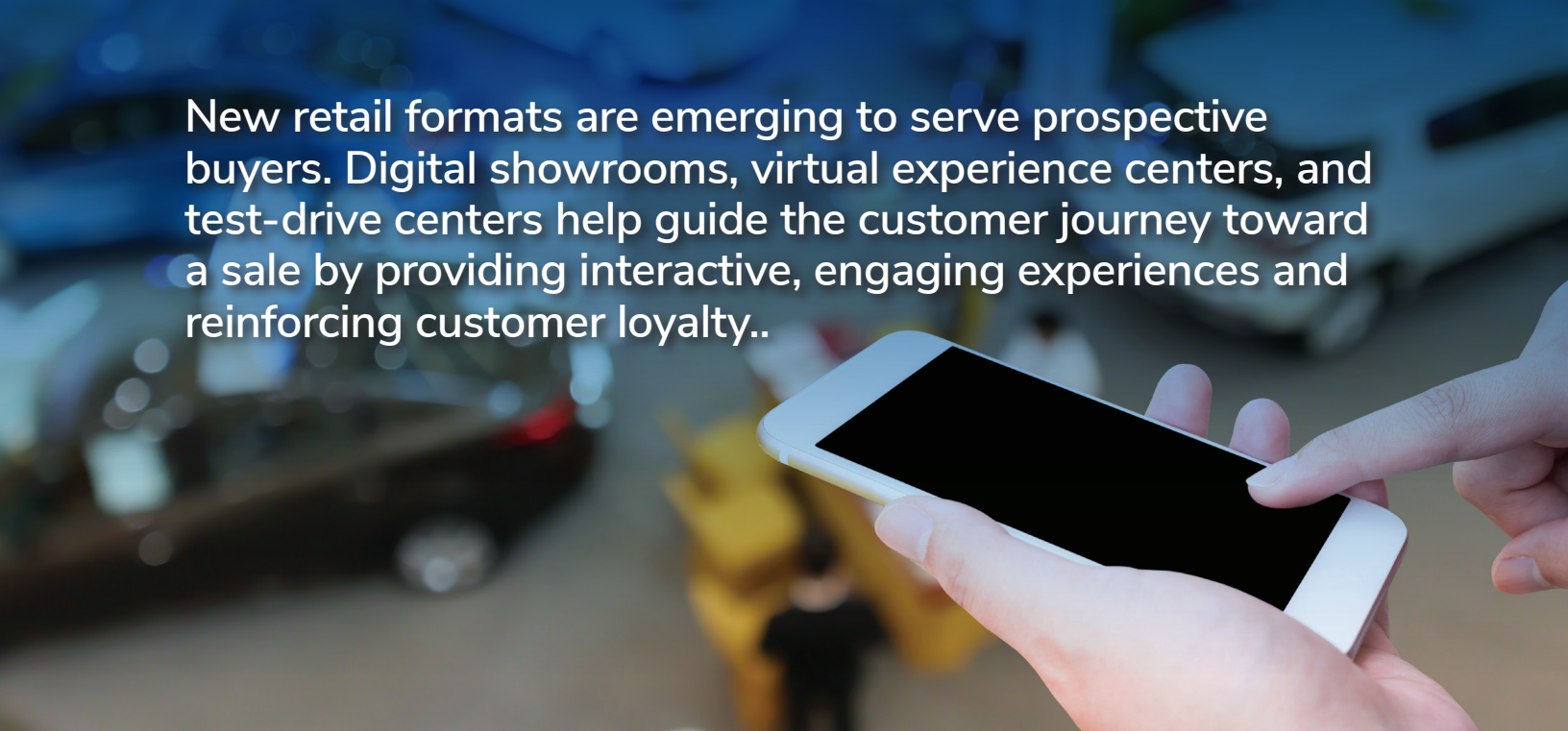
## INTRODUCTION & OVERVIEW

### Changing Marketplaces

E-commerce has radically changed the shopping experience for consumers. Digital marketplaces like Amazon, Alibaba, and eBay have altered spending habits and expectations. Industry forecasts suggest retail e-commerce will reach nearly \$5 trillion by 2021. Online vehicles and parts sales, in particular, are growing rapidly. Startups and online vendors have automated the car-buying process, affording consumers the option to purchase vehicles online. AutoGravity, AutoFi, Carvana, Vroom, Carmax, and Nowcar provide users with a platform to buy and sell vehicles online, shipped directly to buyers within days. Frost & Sullivan estimates that at least \$51 billion of e-commerce revenue will come from aftermarket automotive parts by 2022. DIY drivers and repair shops have the option to order parts directly from manufacturers, dealerships, and third-party sellers. As OEMs and suppliers are presented with new channels to engage with customers, logistics and transportation providers are tasked with supporting shifting distribution networks.

### Bricks to Clicks: Rethinking the Customer Journey

OEMs and part suppliers understand that customer journeys start long before they enter a showroom. According to industry research, the average car buyer spends upward of 8 hours researching vehicles online. This is the first chance for an OEM or vendor to start building a relationship with a customer and guide their journey. Providing an enjoyable customer experience has become equally as important as providing a quality product. With that in mind, new retail formats are emerging to serve prospective buyers. Digital showrooms, virtual experience centers, and test-drive centers help guide the customer journey toward a sale by providing interactive, engaging experiences and reinforcing customer loyalty.

A hand holding a smartphone in a car dealership setting. The background is blurred, showing cars and people in a showroom environment. The text is overlaid on the left side of the image.

New retail formats are emerging to serve prospective buyers. Digital showrooms, virtual experience centers, and test-drive centers help guide the customer journey toward a sale by providing interactive, engaging experiences and reinforcing customer loyalty..

Although dealerships will remain an important sales channel, e-tail has physically changed retail spaces and in-person shopping experiences. In 2012, Audi introduced its future retail program, Audi City. Showrooms across Europe, Asia, and North America are fully digital, retail-style cyber stores offering a one-stop shop for all models. Specially trained dealers guide highly interactive shopping experiences personalized to customers' unique needs. According to Audi, these showrooms are 75% more effective at generating new car sales, with 75% of purchases from first-time buyers. These showrooms boost global presence while building stronger leads through better shopping experiences.

Over the same period, OEMs around the world have invested in new retail strategies. Mercedes launched over 20 new outlets in major cities, including lifestyle stores, online stores, and cafes. Renault launched an ambitious global platform called Customer-Approved Renault Experience (C@RE), which features online and digital showrooms. Nissan introduced Digital Interactive Showrooms and Ladies First Dealerships as an alternative to traditional dealerships. Although these new showrooms require investments in technology and personnel training, hard and soft KPIs are proving their success. OEMs engage more deeply with customers and recruit younger first-time buyers. Prospective buyers are spending more time in these settings than traditional dealerships and buying premium vehicles at higher rates. Customers are more likely to request a test drive and vehicles sold are more likely to include additional features.



OEMs engage more deeply with customers and recruit younger first-time buyers.

## IMPACT ON LOGISTICS PLAYERS AND BUSINESSES

### Meeting Demand

The rise of e-commerce has not only increased demand for shipping, but the way logistics providers must deliver. Before online shopping became popular, suppliers could ship bulk quantities of goods to retail stores and warehouses. Today, the marketplace has become more fragmented. Logistics providers are now tasked with fulfilling more orders to individuals, thus increasing the number of individual shipments and destinations. This exacerbates challenges such as higher delivery costs due to residential spread, route optimization, and keeping package statuses visible to customers. Moreover, shippers are presented with new challenges such as “reverse logistics”—the need to manage return shipping.

Automotive vendors and suppliers must evolve with e-commerce to meet growing demand. Frost & Sullivan predicts a 56% increase in online automotive parts sales alone by 2021. As consumers are presented with new ways to purchase vehicles online or from digital showrooms, logistics providers again must address the challenge of fulfilling delivery of vehicles and parts expediently, at times directly to consumers' homes. Major vendors already struggle to find logistics providers that can adequately meet demand. Amazon shipped over 5 billion packages worldwide in 2017, utilizing over 20 different partners in just the US. To fulfill orders faster, Amazon, Alibaba, and Walmart have invested in their own warehousing fulfillment and shipping solutions. This pressures logistics providers to improve speed, accuracy, cost of fulfillment and last-mile delivery before online vendors replace them with their own delivery fleets.



### Fulfillment Centers & Fulfilling Consumer Expectations

It's no surprise that Tesla announced its top priority for quarter 1 in 2019 was to improve customer service. Its new vehicle home delivery has generated much press, but some buyers are hesitant to sign the order agreement. In short, it absolves Tesla of any transportation damage, placing the onus on the

logistics provider and customer. This proves OEMs still rely on logistics providers to meet customer expectations. With those expectations in mind, digital marketplaces stock central distribution centers to reduce shipment time. These fulfillment centers enable faster shipping at lower costs for vendors yet necessitate support from third-party logistics as packaging and last-mile deliveries are often outsourced. Vendors and OEMs will require logistics providers to fulfill mass daily shipments, including vehicle delivery, distribution to dealerships, test drive centers, showrooms, and delivery centers.



### Logistics Leaders

Logistics providers must take a proactive approach to adequately meet demand and fulfill customer expectations. Leaders in this space are those well-positioned to support OEMs with innovative solutions that solve new challenges stemming from e-commerce. Consider DHL, a logistics provider that understands the various challenges that come with different e-commerce strategies. As order volumes increase, OEMs trust DHL's proven track record managing e-commerce logistics across many industries. Leveraging its expertise to improve processes and quality, DHL's established network and extensive reach help OEMs expediently serve customers at the lowest possible cost.

OEMs either choose to manage their own inventories or extend traditional dealership models, placing the responsibility of inventory management of online channels on distributors. In both cases, DHL provides reliable delivery directly to customers or dealerships using a standard multi-channel supply-chain model. In this model, DHL manages a dedicated online fulfillment center while also handling two separate inventories. DHL can also cater to OEMs that prefer a single inventory maintained by an integrated, flexible distribution center that utilizes the entire network. This approach helps OEMs maximize benefits from reduced inventory costs, as inventory pooling can diminish lost sales resulting from stock-outs and lower overall inventory levels.

## CONCLUSIONS & RECOMMENDATIONS

### *Big Data for Deeper Engagement*

Digital channels can collect data from consumers along every step of their journey. Methods such as data mining, predictive modeling, and querying yield valuable information on consumer habits and spending patterns. This information provides manufacturers with insight that can be used to predict demand, plan production schedules, learn more about regional preferences, and strengthen relationships with customers. Using this information to segment customers provides the means to develop and launch targeted marketing campaigns, which further drives sales through more productive advertising expenditure. Vendors have near-immediate feedback on digital campaigns, allowing them to fine-tune each channel based on performance. As connected vehicles become standard, OEMs will have the ability to pull information in real time directly from vehicles, enabling services such as predictive maintenance and in-vehicle transactions.



### *Multi to Omnichannel, Product to Customer-Centric*

Online platforms are integrating sales, service, and parts to provide customers with a one-stop virtual shopping experience. This strategy of seamlessly serving customers across every medium is known as an omnichannel approach. Making a sale and reinforcing loyalty depends on providing a high-quality product and a customer-centric experience marked by convenience, reliability, and support throughout the process. Whether online, through an app, or at a dealership, a customer can choose how they begin their car-buying journey. Vendors realize each digital and physical touchpoint along a customer's journey is an opportunity to collect information and better serve, sell products and drive loyalty. While the omnichannel approach is a boon for OEMs, suppliers, and vendors, success of this strategy relies on logistics providers that can expediently and reliably fulfill orders.

Silicon Valley  
3211 Scott Blvd  
Santa Clara, CA 95054  
Tel +1 650.475.4500  
Fax +1 650.475.1571

San Antonio  
7550 West Interstate 10, Suite 400,  
San Antonio, Texas 78229-5616  
Tel +1 210.348.1000  
Fax +1 210.348.1003

London  
Floor 3 - Building 5,  
Chiswick Business Park  
566 Chiswick High Road,  
London W4 5YF  
Tel +44 (0)20 8996 8500  
Fax +44 (0)20 8994 1389

877.GoFrost • [myfrost@frost.com](mailto:myfrost@frost.com)  
<http://www.frost.com>

## NEXT STEPS >

- > Schedule a meeting with a DHL Auto-Mobility expert [auto-mobility@dhl.com](mailto:auto-mobility@dhl.com)
- > Schedule a meeting with our global team to experience our thought leadership and to integrate your ideas, opportunities and challenges into the discussion.
- > Interested in learning more about the topics covered in this white paper? Call us at 877.GoFrost and reference the paper you're interested in. We'll have an analyst get in touch with you.
- > Visit our Digital Transformation web page.
- > Attend one of our Growth Innovation & Leadership (GIL) events to unearth hidden growth opportunities.

---

Frost & Sullivan, the Growth Partnership Company, works in collaboration with clients to leverage visionary innovation that addresses the global challenges and related growth opportunities that will make or break today's market participants. For more than 50 years, we have been developing growth strategies for the Global 1000, emerging businesses, the public sector and the investment community. Is your organization prepared for the next profound wave of industry convergence, disruptive technologies, increasing competitive intensity, Mega Trends, breakthrough best practices, changing customer dynamics and emerging economies?

For information regarding permission, write:

Frost & Sullivan  
3211 Scott Blvd  
Santa Clara CA, 95054