What Is the Virtual Car Dealership of the Future?

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Online sales are gaining momentum in the auto sector, but many legacy players struggle to move past physical channels. The virtual dealership is a fully digital concept that allows automakers and dealers to take online sales to the next level, unlocking more profitability and customer-centricity.

Quick Answer

What is the virtual car dealership of the future?

The virtual car dealership consists of a dealer that operates without any customer-facing physical buildings. This means:

- There is no showroom or workshop the customer can visit.
- Buyers can explore all vehicle features through advanced online applications, remote interactions with sales reps and at-home contactless test drives.
- The concept enables a reduction in assets, sunk capital, future capital expenditure (capex) as well as reduced operating expenditure (opex) due to greater operational efficiency.
- It improves customer experience over a physical dealership by serving the customer where and when they need it rather than the opposite approach; hence, delivering greater convenience.
More Detail

The proliferation of electric vehicles and advanced driving assist systems may serve to undermine some of the big profit centers for independent dealerships by reducing maintenance, vehicle servicing intervals and repair spending of consumers. This fact will deeply affect dealers and OEMs. As a result, automakers will need to reduce costs in its retail channel. Online sales are an option to bring costs down, but it only achieves a clear financial benefit once it comes together with dealership closures or a reasonable downsizing of those. As such, the online sales formula must be taken to the next level. What will this new, online virtual dealership require?

The concept of virtual dealership makes use of technology to achieve major concrete goals:

- Substantial reduction in sunk costs, capex and opex by enabling a reduction in the number and footprint of dealership buildings, as well enabling a more efficient use of their workforce.

- Deliver a more customer-centric experience through technology on par with a radical change in automotive retail mindset. The virtual dealership serves customers wherever and whenever they want. This contrasts with the traditional automotive retail “wisdom” where the number of customer visits to a dealership is seen as a proxy for more business. According to a survey of U.S. car buyers, less than 1% enjoyed their traditional car-buying experience — this shows major room for improvement.

The virtual dealership model is not a concept to be deployed all across the board. See it more as a way to deliver sales and after-sales in locations where a conventional physical dealership will no longer be financially sustainable in view of the transformation that will hit the automotive sector throughout this decade.

Figure 1 explains about the main components of the virtual dealership concept and what advantages they bring.
Let's look now at the operational components of the virtual dealership in more detail:
Online sales platform. As you increase the sales mix covered by online sales, you can reduce the number and footprint of dealerships. This brings major advantages in terms of:

- **Sunk costs recovery.** By selling dealerships or showrooms/workshops you don't need, you can recover a part of the capital initially invested to open those.

- **Future capex avoidance.** Maintaining a network of dealers implies recurring future investments to renovate them and improve them. You would be able to reduce future capex needs by also reducing the number of dealerships.

- **Future opex reduction.** A network of dealerships entails a series of operational costs. These can be reduced by downsizing the number of facilities or their footprint.

In addition, company leaders who understand and know how to deploy online sales can provide greater buyer convenience by serving smart customers when and where it is most convenient to them. CIOs will have a major role in selling this vision internally and in turning this concept into reality. This heavily contrasts with traditional automotive retail thinking, where customers are required to visit physical dealerships, even when this costs them a big part of a day and at times is mostly incompatible with their work schedule. Several major dealer groups have already started the transition to an online-first model — and this is just the beginning. Lithia Motors with its Driveway platform and CarMax are examples of that, responding to the competitive pressure of major digital-only dealers like Carvana.

Besides a customer-centric online sales platform, CIOs must look into advanced vehicle configurators, using gaming-inspired graphics, and application of artificial intelligence (AI) to provide customers with recommendations according to their tastes. Additionally, CIOs must consider the usage of virtual reality and augmented reality in order to more effectively display several vehicle features.
Video call with remote-based sales rep. This will enable a more efficient usage of the time of each sales team member as they don’t have to book or wait for customers to visit the showroom. This additional efficiency translates into cost reduction. Moreover, it will be easier for the company to hire new staff as location will no longer be a hurdle. For customers, this means they can talk to a sales rep from wherever they want and possibly across a broader time window. For instance, a company can use sales reps based in different time zones. This concept also opens the need for better digital platforms that allow the sales rep to demonstrate several aspects of the car over a video call. Tesla has already started to transition to this model as a way to save costs in tandem with sales effectiveness, where they call these sales reps as “virtual store leaders.” Companies such as ZeroLight⁴ offer realistic vehicle configuration imagery used in the shopping process. FlickFusion⁵ allows for virtual sales consultations with customers, no matter what kind of virtual communication platform they have. Photorealistic and interactive graphics, virtual reality, and, in some cases, even augmented reality are technologies CIOs must look into in order to better display a car and its features to buyers in a virtual environment. Taking a future-oriented perspective, it would be foreseeable to replace the actual sales rep with a virtual assistant.

Digital contactless test drive. It enables test drives to prospects without the need for a physical showroom. This means the car will be delivered at an address of the prospect’s choice. Tesla is already offering this formula to its buyers, providing them more flexibility and less time investment for the sales team.⁶ In addition, it allows for a centralized regional test fleet, which brings cost benefits. Moreover, the company can offer a test drive to a prospect wherever they are rather than forcing them to come to a dealership. Using connected car technology, it’s possible the prospect enters the car and drives off just by using a phone app. This, once again, represents a time saving for the sales rep. Furthermore, the buyer can access specific instructions or know more about particular vehicle features by using the vehicle’s infotainment screen.

Product delivery inspection (PDI). PDI is done at a central regional hub. Once again, this eliminates the need for a physical showroom. In addition, bringing together PDIs for a whole region builds greater scale that translates in higher cost-efficiency.
Maintenance done at a central hub. The car is picked up and returned home. Instead of depending on several dealerships for maintenance, the model centralizes maintenance on a main regional hub instead of depending on several separate repair shops. This greater scale has the potential to deliver better cost-efficiency through economies of scale. Customer vehicles can be collected and returned by nonqualified staff that can also be allocated to different tasks to keep costs low. The customer doesn’t need to waste time with car drop-off and pickup, which allows revenue growth through loyalty. Once again, using connected car technology, a dealership representative can pick up the car from the customer’s driveway even without having to disturb the customer for that. This, once again, delivers even greater customer convenience.

Car companion app as first point of contact for the customer. Instead of relying heavily on the sales rep for customer relationships, using the companion app as the first point of contact will allow for a more efficient use of the time of the sales team, which means maximizing conversion efficiency. In addition, the customer will be able to reach its OEM/dealership from the comfort of their couch at any time of the day or night. In order to achieve this, CIOs need to incorporate in the companion app and vehicle infotainment the possibility for the customer to directly access several products and services. Additionally, CIOs need to create a digital touchpoint where customer queries can be sent directly to a customer support representative or, alternatively, answered by a virtual assistant. This also emphasizes even further the existence of a back office composed of a customer support team and a CRM solution that can allow all customer queries to be efficiently handled by different people in the organization.

The virtual dealership is a concept that will experience growth in the future of automotive retail. However, its successful deployment probably will only be achievable by organizations that fully embrace online sales and have a real tech mindset. Moreover, legacy automotive players don’t need to transition immediately from a mostly physical retail model to 100% virtual dealership. This transition must be gradual, for geographies, brands and models where the virtual dealership model brings an advantage in terms of cost reduction and customer-centricity.

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Evidence

1 The Pioneers of Online Car Buying, CleanTechnica.

2 Auto Done Easy, Driveway.

3 Shop for Used Cars, Then Buy Online or at a Store, CarMax.

4 Lucid Motors Partners With ZeroLight to Reshape the Luxury Automotive Purchase Experience, ZeroLight.

5 Application Creates Virtual Connection Between Dealership Staff, Car Shoppers, Auto Remarketing.

6 Tesla Replaces Humans With Technology In New Touchless, Humanless Test Drives, CleanTechnica.