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AUTO: BUSINESS PLATFORMS ARE THE FUTURE

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Platform-based competition has transformed many sectors, as explored in earlier BCG perspectives 'Do you need a business ecosystem?', 'How to "design" a business ecosystem?' and 'Why do most business ecosystems fail?'. This article makes the case for adopting a platform-based approach in the automotive industry.

Winning in the 20s: New Logic of Competition for Automotive

Automotive OEMs today are not deeply entrenched in their customers' lives. Barring occasional service interventions, there is very little direct interaction post the sale of the vehicle. The price of a vehicle represents less than 25-35 percent of the lifetime spend. The rest is distributed over 15+ sectors that cater to varying needs over the ownership lifecycle.

In other sectors, companies have tried to play a larger role in the customer lifecycle by orchestrating platforms. To supplement the falling margins from its primary airline business, Qantas became a digital-first insurer in partnership with 20+ wellness partners, generating $1 billion revenue[1]. PingAn Insurance created China's largest healthcare platform with 250 million users. In both these cases, the primary platform orchestrator worked with suitable partners to provide customized end-to-end service and address their customers' needs. This approach can be incredibly rewarding to the company orchestrating the platform. Today seven of the world's top ten companies by market capitalization are platform-based companies[2]; back in 2009, Microsoft was the only one.

The platform approach can generate exponential value and customer loyalty in the automotive industry too. We will underscore the benefits, argue why the OEMs are perhaps best positioned to orchestrate it, highlight the urgency for acting now and outline a roadmap for the way forward.

Redefining the Future: Current OEM Interventions may not Suffice

The automotive industry has seen rapid

evolution in data availability and customer expectation. The explosion of data emanating from the automotive ecosystem has made it feasible for OEMs to now understand and serve each customer as a "segment of 1". Customers in-turn have unprecedented access to information online and have grown increasingly comfortable with searching, comparing and selecting offerings online that address their expectations with greater satisfaction or lower cost. Already over ~90 percent customers research vehicles and lifecycle services online before making any purchase. However, they also expect brands to know and personalise offerings and experiences. Third-party players have arguably had greater success in recognising and serving this evolving need for information, comparative shopping, and customised offerings with greater speed and agility.

OEMs have also responded. Many have built or invested in businesses and services that address more of the customer lifecycle. Volvo financial services has provided customer financing for trucks and buses for nearly two decades. Audi facilitates pre-owned car sale with Audi Approved Plus and even offers a subscription service—Audi Select. BMW has attempted to integrate itself in customers' lives through the BMW Excellence Club—member's only platform that curates tailored experiences in travel, lifestyle and sports.

While these forays have helped OEMs participate in new value pools, most of them are yet to establish a prominent position in these businesses. This doesn't mean OEMs shouldn't try, they must however realise that catering to every customer requirement effectively on their own is not feasible. This is especially true since many customer needs are as yet latent and will only be uncovered over time.

Instead OEMs need to consider the role of an orchestrator of the end-to-end customer journey via a platform approach. This will help them maintain a superior ownership of the customer lifecycle, participate in more value pools than they can serve themselves, and capitalise on the resultant superior customer connect that will be their true currency going ahead.

OEMs need to take Centre Stage in Driving a Platform Approach to Automotive Business
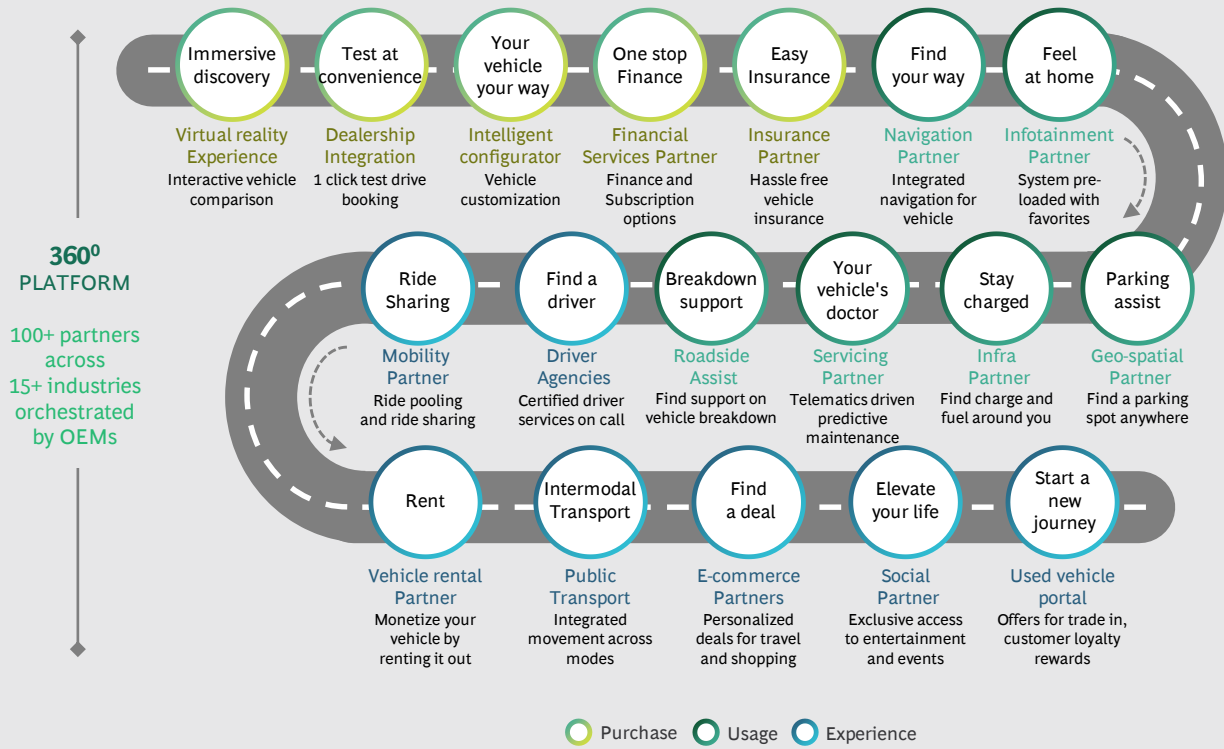
Today, a customer interacts with several service providers over multiple touchpoints as he moves through vehicle discovery, purchase and ownership. This journey can be cumbersome and inefficient. A platform will instead give the customer a single place to connect for these requirements, and experiment with newer offerings throughout his/her lifecycle.

As illustrated in Exhibit 1, let us examine the journey of a repeat customer who wants to purchase a new vehicle. The OEM already knows the vehicles that have been owned by the customer in the past, the condition of the current vehicle and her ability to pay. Accordingly, the OEM can offer a customised buy-back scheme, other options to ownership like subscription or leasing offers that meet her unique requirements, along with offers for financing and insurance. The customer can customise her requirements and drive home her car with just a few clicks all in one place.

At this point, most OEMs would not see the customer again until the next time she needs to service the vehicle or purchase a new one. But with a platform the OEM can be more deeply entrenched in its customers' lives. Based on inputs from telematics on her daily usage, the customer could be offered a peer-to-peer car sharing scheme to balance the convenience and economic yield of a car she subscribed to. The infotainment system can be pre-loaded with favourites that are refreshed as her tastes change, telematics can be used to power predictive maintenance, and all her needs including parking, fuelling, charging, navigation and roadside assistance can be supported by the platform—working with appropriate service providers on the platform.

The platform can even go beyond. The customer is constantly connected with her

EXHIBIT 1 | Illustration: The End-to-End Lifecycle of a Customer

360⁰ PLATFORM

100+ partners across 15+ industries orchestrated by OEMs

Immersive discovery	Test at convenience	Your vehicle your way	One stop Finance	Easy Insurance	Find your way	Feel at home
Virtual reality Experience	Dealership Integration	Intelligent configurator	Financial Services Partner	Insurance Partner	Navigation Partner	Infotainment Partner
Interactive vehicle comparison	1 click test drive booking	Vehicle customization	Finance and Subscription options	Hassle free vehicle insurance	Integrated navigation for vehicle	System pre-loaded with favorites

Ride Sharing	Find a driver	Breakdown support	Your vehicle's doctor	Stay charged	Parking assist
Mobility Partner	Driver Agencies	Roadside Assist	Servicing Partner	Infra Partner	Geo-spatial Partner
Ride pooling and ride sharing	Certified driver services on call	Find support on vehicle breakdown	Telematics driven predictive maintenance	Find charge and fuel around you	Find a parking spot anywhere

Rent	Intermodal Transport	Find a deal	Elevate your life	Start a new journey
Vehicle rental Partner	Public Transport	E-commerce Partners	Social Partner	Used vehicle portal
Monetize your vehicle by renting it out	Integrated movement across modes	Personalized deals for travel and shopping	Exclusive access to entertainment and events	Offers for trade in, customer loyalty rewards

○ Purchase ○ Usage ○ Experience

Source: BCG Analysis.

car; her interactions generate vast amounts of data that the platform could collect. Then with the right analytics it can offer customized solutions across travel, leisure, shopping and more. Over time this data and its potential will attract more partners and customers due to strong network effects.

While this is as of today imagined, it can soon become a reality. Further, Automotive OEMs are uniquely positioned to lead the way and orchestrate such a platform as the most trusted conduit between the customers and the product today. This can create several benefits for both OEM and partners. Platforms aid value creation and rapid growth. Alibaba, for instance, is highly scalable and adapts rapidly to customer needs, resulting in 44 percent[3] annualized revenue growth in the past five years. Platforms also give OEMs the ability to own the customer across multiple use cases and take up a larger share of the emerging value pools. Successful platforms attract the best service providers and drive customer centric innovation, creating a virtuous loop of customer retention and advocacy.

Doing Nothing isn't an Option
Amazon and Airbnb are examples of third-party platforms that disrupted the retail and hospitality industry respectively. In India, independent platforms are already forming in the automotive space and expanding their service offerings rapidly. Used vehicle marketplaces, have moved into vehicle finance and are on their way to creating comprehensive platforms. Against this backdrop, if an OEM does not act, it risks losing market share to either other OEMs who do, or lose customer access and bargaining power to third-party platforms, as illustrated in Exhibit 2.

It is critical for OEMs, regardless of their size, market position or technological maturity, to adopt the platform approach. While this is no sure-shot panacea to continued or greater success, doing nothing is not an option. Platforms are the future, and the time to act is now.
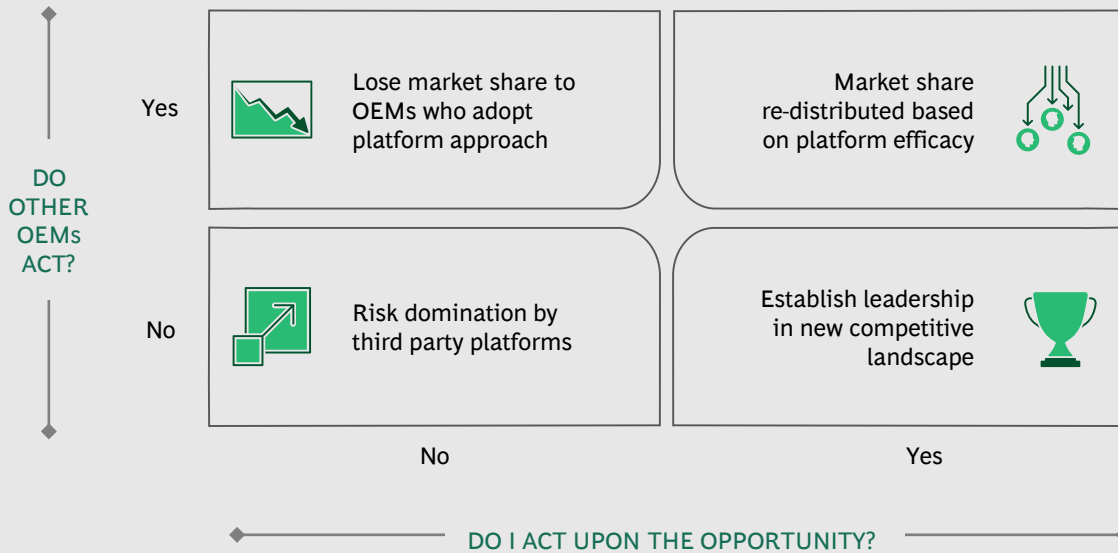
Source: BCG Analysis.

Roadmap to the Future: Adopting the Platform Approach

In all, 6 key success factors are to be kept in mind, as illustrated in Exhibit 3.

VALUE PROPOSITION

The future state customer journey described earlier outlined a wide array of offers. These offers will proliferate over time; but customer uptake and willingness to pay will differ widely. Carefully segmenting and selecting target segments and (re) defining the winning platform value proposition over time for them is a critical first step. Ensuring platform stickiness in early days particularly will be crucial to the continued success of the platform; without usage, it will not be possible to offer the data driven personalization that we touch upon next.

PERSONALIZED OFFERS & FULFILMENT

Data from multiple touchpoints is the platform's biggest asset. OEMs should focus on deploying analytics to use this data to create the right offer and design the related fulfilment model. For example, in taking a lease or loan, the customer might want transparency and lower cost of choice that requires a marketplace of competing financiers; but to find parking the customer may just want to be prompted to pre-book a convenient spot that requires tie-ups and capacity booking with multiple partners across the city. As they design offers and fulfilment, OEMs also need to carefully design the appropriate go to market model. In serving consumer segments, the approach of bundling the platform offer into their core sales outreach might be the best way to take these offerings to market. However in a commercial segment, solutions may also need to address multi-OEM fleets and hence might require a separate division or sales approach.

ECONOMICS & MONETIZATION

Platforms will also need to take the lead in defining pricing models for each service, grounded both in customer choice and relative value, and feasibility for service providers. They will need to ensure that service providers on the platform also thrive

VALUE PROPOSITION

CORE PILLARS OF THE PLATFORM APPROACH

Personalized Offers & Fulfilment

Economics & Monetization

Partnerships & Governance

FOUNDATION — Organizational Capability — Tech & Data Architecture
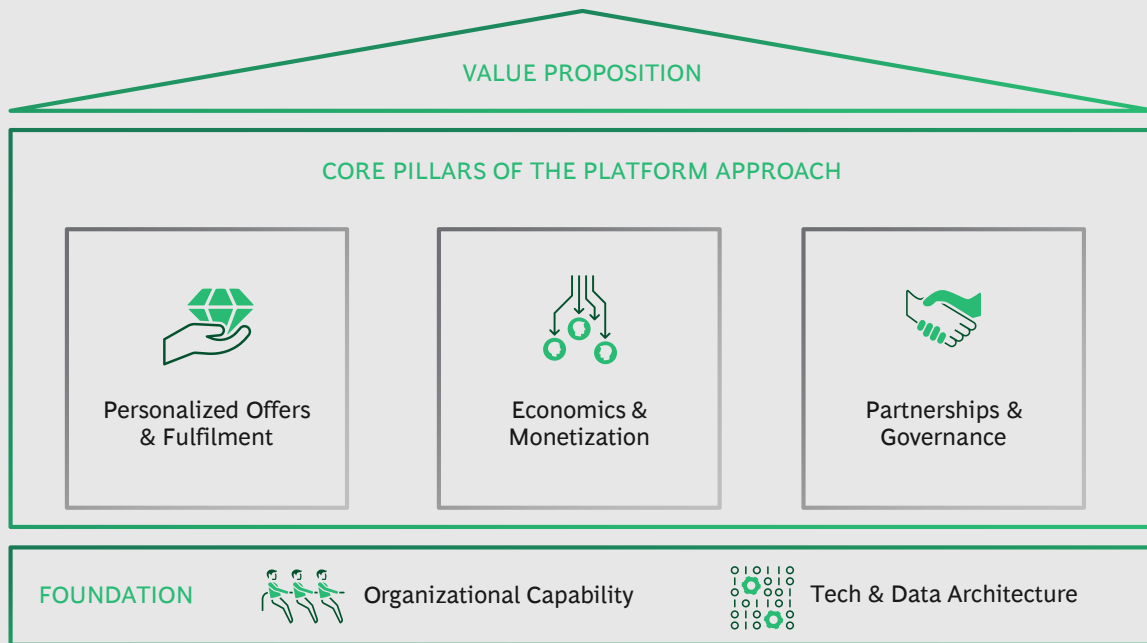
Source: BCG Analysis.

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i.e. see their value capture increase over time. This value could come from a combination of several benefits such as reduced cost of access, insights that help improving the offer, reduced friction in transactions, better forecasting etc. Being able to create additional value for both customers and partners is vital for the platform to profit and scale fast.

PARTNERSHIPS & GOVERNANCE

In order to deliver value to customers, the platform will need to attract and engage with a wide array of partners. As the platform expands its services, more partners will have to be found, evaluated, onboarded and integrated. The types of partnership and nature of agreements for value distribution can throw up considerable complexity. Actively managing and governing these partnerships is hence an important responsibility of the platform. Inadequate governance has been the single most important reason for the failure of platforms (34 percent), as researched by the BCG Henderson Institute[4].

TECHNOLOGY & DATA ARCHITECTURE

To enable the platform approach, an OEM will need to develop an interoperable and purpose-built technology and data architecture that is scalable, as illustrated in Exhibit 4. The architecture will require:

- A well-defined technology architecture target state blending OEM's technology functionalities and roadmap of 3rd party systems.

- Front-end customer and partner engagement layer to enable seamless interaction and interoperability across devices and mediums.

- Robust data-and-analytics layer capable of managing structured and unstructured data; in turn driving sharp personalization through recommendation engines.

- Modularized structure of business functionalities coupled with micro-services drives rapid scale of capabilities.

Exhibit 4 | An Illustrative View of a Purpose Built Architecture…
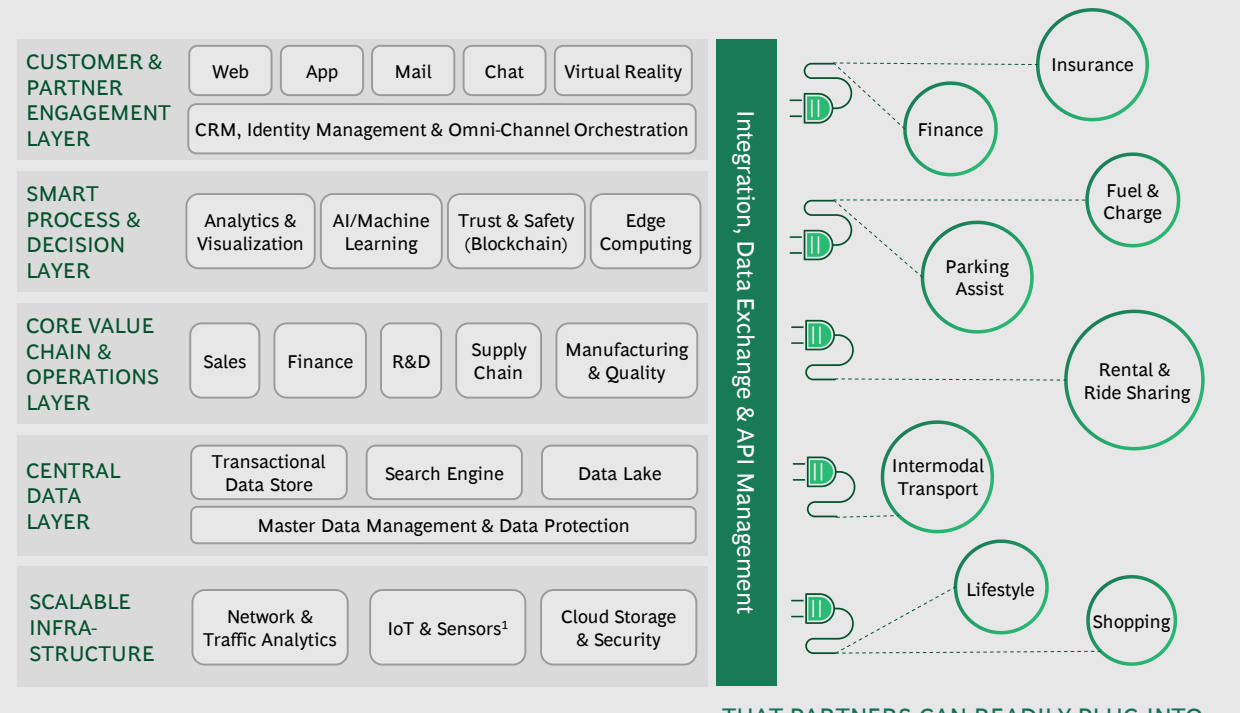
… THAT PARTNERS CAN READILY PLUG INTO

Source: BCG Analysis.
[1]Includes company and external/third party data sources.

- Consolidated, secure data layer, fully compliant with data privacy norms for their target markets that provide a single source of truth.

- Robust security measures, tokenization across apps, scalable cloud infrastructure and integration tools to enable collaboration.

Organizational Capabilities

The final piece of the puzzle is the organizational capability that underpins all of this. The DNA of a digital platform is 180⁰ different from a traditional OEM. For example, the ability to "fail fast" on innovations is something a traditional OEM may struggle to embrace. A successful platform will also require capabilities that are very different; competition for top talent will be with the likes of Amazon, Google etc. OEMs will need to carefully define the organisation structure and differentiated employee value proposition to attract such talent.

AUTO PLATFORMS THAT address customer needs throughout the ownership lifecycle can create disruptive and valuable change. OEMs have the opportunity to lead this strategic shift and orchestrate the platforms. To do so, OEMs must carefully choose customer segments, understand the lifecycle and imagine the value proposition that they want to provide with the platform. And that is just the beginning; executing this will need the platform to be carefully designed to deliver the customer value proposition, promote stickiness and drive scalability. The move offers significant benefits. Doing nothing brings a risk of being marginalised or outcompeted. Hence, the time to act is now.

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Acknowledgements

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