Will connected cars shift the balance of power to carmakers?

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Will connected cars shift the balance of power to carmakers?

By Professor Jim Saker

Although the Harvard Business Review is one of the more popular academic journals, it rarely generates much attention in the wider business market. In November 2014, however, it published an analysis that could have a profound effect on the automotive retail sector.

The article, entitled ‘How Smart, Connected Products are Transforming Competition’, was written by Harvard Business School’s Prof Michael Porter, who has for many years been regarded as the leading academic in the area of strategy. His famous ‘Five Force Model’ has been used by industry since the early 1980s.

In the piece, Porter looks at the potential impact embedded technology could have on industry structure. Embedded technology has been used in the car industry for a number of years, in engine diagnostics or boosting fuel efficiency, for example, but Porter says this only goes so far. The real change, he argues, comes with the ability of the technology to be connected to not only other parts within the same vehicle, but to other vehicles and the manufacturer.

This is already happening in other industries. Rolls-Royce, the aircraft engine manufacturer, monitors the performance of its engines as they fly anywhere in the world, to predict when an engine needs servicing. It can then arrange parts and specialists to be in place to do it. Porter’s article, however, analyses the likely impact of this embedded technology on the bargaining power of buyers and suppliers in the supply chain.

Knowledge is power, but who gets it?
The concept of ‘big data’ is not new, but its exploitation is still at an early stage of development.

Manufacturers now have the capability of knowing all about the car’s performance, how it is being driven, when it needs servicing, but on top of that can know everything about the customer. With PCPs being commonplace, it gives the manufacturer a range of options to develop financial services part of the business. Connected cars also give manufacturers the option of moving into areas such as insurance in a much bigger way than previously attempted.

Porter argues that this technology has the potential to move the balance of power within the supply chain from the retailer/distributor to the manufacturer. This raises the issue of who will own the customer in the future?

Until now, the relationship between manufacturers and the dealer networks has been based on mutual interdependence. However, this new technology allows the manufacturer to have in-depth knowledge of both the product and the customer. The question is how will that knowledge be utilised and what impact will it have on the existing dealership networks?

Are manufacturer-owned dealer groups the future?
There are currently a number of manufacturer-owned dealer groups. While some have been successful, others appear to have been used by manufacturers to shift unwanted stock or have been used to fill open points in metropolitan areas with high operating costs, which both impact on profitability.

One scenario could see the rise in importance of these types of groups, offering a full range of services provided by the manufacturer. The downside of this would obviously be the expense of developing such a network, not only from a physical presence perspective, but also the cost of holding stock within the network. However, in the long run, manufacturers that have existing dealer groups may hold an advantage over those that do not.

At the moment, being heavily involved in the retailing of cars is not very appealing for many manufacturers. It involves dealing with thousands of customers as opposed to a few hundred dealers. There is also the potential lack of expertise in running a retail outlet compared with a manufacturing plant.

The biggest driver for change in any society is technology – we only need to look at what has happened with mobile communications in the past 10 years. As I looked around the Geneva Motor Show, I saw the continued emergence of new powertrains and the increased connectivity of the car to its environment. Continuing experiments with the driverless car will provide additional challenges to the status quo.

The future is uncertain and a number of scenarios could develop. One certainty is that embedded technology will shift the balance of power away from the dealer to the manufacturer. What the manufacturer will choose to do with that power is as yet unknown. Another thing I am sure of is that there will be no shortage of research projects at Loughborough exploring this issue.

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Professor Jim Saker is director of the Centre for Automotive Management at Loughborough University’s Business School and an AM Awards judge. He has been involved in the automotive industry for more than 20 years.