Retail Innovation in the U.S. Plug-in Electric Vehicle (EV) Market

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Apple then...

EVs pose distinct challenges for customers...
- Involve new modes of behavior
- Dependence on new infrastructure
- Unfamiliar & confusing = High Risk
- Split between early and mainstream markets

EV buyer

New product success hinges on a proper match between technology type and distribution strategy

- Type of Innovation
  - Incremental
  - Disruptive (EVs)

- Distribution Strategy
  - Traditional
  - Niche; "whole product" design

- New Product Performance
  - Survey data
  - Interviews

Adapted from Slater & Mohr (2006)

Where automakers rely on dealers to sell EVs, customers report lower retail satisfaction

- Conventional car buyer
- EV buyer
- Tesla buyer

Mass Market

Premium Market

Mean Buyer Rating (Source: J.D. Power)

* Does not include "rejecters" who shopped for an EV but bought a conventional car

Source: 2013 Sales Satisfaction Index (SSI) Study, J.D. Power & Associates
Controls for demographic factors; Bars = 95% confidence interval
Key Questions

1. How does the retail experience of EV buyers compare with buyers of conventional vehicles?
2. Do EVs need alternative retail approaches?

EVs pose challenges for dealers

- Dealers = familiar products + high-demand
- EVs are:
  - Unfamiliar + low initial demand
  - Involve a steep learning curve
- EVs also:
  - Require up-front investments
  - Expose dealers to added liability
  - Offer fewer profit opportunities

For many dealers, the cost of selling EVs outweighs any potential benefit

EVs pose distinct challenges for carmakers...

- Entail developing new marketing competencies
  - Early Market: To stoke demand and identify end-to-end support needs
  - Main Market: To deliver end-to-end support at scale
- EVs are loss leaders
- Dealers control the customer experience
- Franchise laws limit the carmaker’s role
  - Carmakers cannot limit EV sales to most-qualified dealers
  - Carmakers cannot offer support services that might compete with dealers (e.g., sales, test drives, referrals, advertising, troubleshooting, pricing, etc.)

Retail Trailblazers: Tesla

Company ownership of all customer touch-points ensures one entity is responsible for:

- Retail Quality Control
- Provision of end-to-end support infrastructure

Innovations:

- High-power fast charging
- Remote troubleshooting
- Flash firmware updates

Some retail innovations include...

- Targeted “ride and drive” events and special pricing
- Web-based reservations
- Co-locating of complementary technologies on dealer lots
- Dealer/customer support hotlines

Dealers are the first customers of EV technologies...

Retail Trailblazer: Tesla

Features retail space designed for:
- Convenience
- Mass exposure
- Simplicity (e.g. “no haggle” pricing)
- Learning

Other retail efforts: BMW

Innovations include:
- Dedicated “i” sub-brand
- “Pop-up” retail stores
- Clean, simple, uniform learning-friendly experience

Conclusions

- A sizeable retail quality gap exists between EV and conventional car buyers in the mass market
- EVs need new approaches and greater market access to reach more customers
- Easing franchise law restrictions for EVs could avoid choking off much-needed innovation by carmakers

Thank You

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Key findings from analysis of 2013 J.D. Power data:

- Dealers are less likely to make money on EVs
- Dealers are more likely to earn lower ratings
- Dealers are more likely to steer customers away from EVs
- EV buyers are less likely to return next time

Purchase experience impacts brand loyalty for better... Or worse

Do EVs = fewer opportunities for dealer profit?

State franchise laws limit options for automakers

- Originally protected dealers, now much more
- Automakers cannot:
  - Sell cars directly
  - Require dealers to sell certain models or vehicle types
  - Favor one dealer over another
  - Terminate dealers (in practice)
  - Many other restrictions
- Dealers control the retail experience
- Arms-length relations
- Relegated to financial ‘carrots’
We need to be thinking about how to get EVs the market access they need

- Ease franchise restrictions for EVs
- Grant OEMs access to alternative distribution pathways

What policies, incentives & programs appear to be working?

Industry:
- Entry at the luxury end
- Exposing customers to EVs away from dealers
- Leveraging of “champion” dealers
- Targeted marketing by OEMs
- Dealer incentives

Government:
- Targeted incentives
- Reducing uncertainty

What can governments do?

- Relax franchise restrictions
- Role for government:
  - Help OEMs help dealers
  - Help dealers help themselves
  - Do for automakers what automakers cannot do for themselves