

# The MIT Center for Digital Business

A major research initiative at the MIT Sloan School of Management

## Case Study

### Volvo Cars Corporation: *Shifting From a B2B to a “B2B+B2C” Business Model*

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## **Introduction**

Founded in Sweden in 1927, Volvo Cars Corporation (VCC) is “a small player in the global car industry, with 373,525 cars sold in 2010.”<sup>1</sup> The company relies on a network of 2300 local dealers to sell its cars in 100 countries worldwide.<sup>2</sup> Because dealers control the selling process, customer knowledge has historically been owned by the local dealers. Headquarters manufactures cars and conducts market research about classes of customers, but has little direct knowledge of specific customers. Dealers provide sales and after-sales service to customers.

During the past years, however, Volvo is undertaking a deep transformation in its business model leveraging four digital technologies: mobility, social media, analytics and smart embedded devices. The intent is to develop a more direct relationship with the end-customer without disrupting the relationship dealers have with their customers.

Pressure for change came both from customers and competition. According to Timo Paulsson, Senior Manager Ownership Services and Brand Protection for VCC global, *“Nowadays, you don’t sell a car. You sell a transportation solution, and it should be as efficient and smooth as possible. Looking into the future, we might say we don’t sell a transportation solution, we sell an experience.”* This new orientation to services is recent at Volvo Cars Corporation: *“After-sales has been very much a traditional business. To be frank, we have done business the same way since 1927, with 80 years of non-development... The last 10 to 15 years, it has been very obvious that we need to change that business model to align with competitors.”*

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<sup>1</sup> See the 2010/11 Annual Report

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## **Volvo's Digital Initiative**

Volvo is beginning a transformation from a “B2B-only” model (between VCC and the local dealers) to a “B2B + B2C” model, where some services are provided centrally by Volvo to end customers. To achieve this, VCC undertook initiatives in two categories:

- New digital services
- Building digital capabilities at the global level

### **New Digital Services**

Moving beyond its traditional after-sales services, Volvo launched a set of new digital services, such as roadside assistance, stolen vehicle tracking, and remote services such as door control, heater starting, remote dashboard and car locator. These services use social media, mobility and connectedness to improve customer experience. They also help to bind customers more closely to the global brand, rather than just the local dealer.

### **Social Media**

One of Volvo's first major initiatives was a web 2.0 portal. This social platform aims at engaging in direct conversation with customers through the web. In addition to its own customer portal, Volvo was an early adopter of public social media. For several years, the brand has been present on major platforms such as Facebook, Twitter or YouTube (see Figure 1). According to Robert Jagler, Director of Connectivity for VCC, the primary objective when interacting on social media is not to sell but to reinforce proximity with (and loyalty of) existing customers: *“70% to 80% [of the people who follow the brand on Facebook] are Volvo owners and they are there because they love the brand. You cannot apply a regular marketing approach because people are not there to be marketed.”* To Jagler, *“traditional push marketing would be counterproductive.”*

VCC has decided to adopt transparent rules when engaging in conversation with customers through these new digital customer touch-points. The objective is not to control what is said, but to have an open two-way discussion in order to build trust. “If someone says something negative, approach them and talk about it. Don’t try to hide it or lock it,” explained Paulsson.



Figure 1: Screenshots of Volvo’s official Facebook, YouTube and Twitter channels (as of December 2011).

Volvo has received several awards for its innovative use of digital media to connect with its customers. For example, CorpComms, a leading UK marketing magazine, awarded VCC the 2010 Digi Award for "Best Use of Facebook" and "Best Use of Broadcast Media." Peter Ganjbar, Volvo’s Manager of Broadcast and Social Media Relations, explained "Our approach of combining traditional broadcast coverage with two-way communication online is really resonating with audiences and fans ... [We] are committed to this concept and we're all very excited for what's coming in 2011 and beyond."<sup>3</sup> Volvo also received an award in 2008 for its customer-directed web strategy.<sup>4</sup>

## Mobility

Volvo is also investigating the "Connected Cars" concept -- embedding mobile technologies in the vehicles, to communicate with in-car's systems from the outside --

<sup>3</sup> Volvo press releases <http://www.volvocars.com/intl/top/about/news-events/Pages/default.aspx?itemid=235> and <http://www.volvocars.com/intl/top/about/news-events/Pages/default.aspx?itemid=220>

<sup>4</sup> Volvo press release <http://www.volvocars.com/intl/top/about/news-events/Pages/default.aspx?itemid=44>

to enhance the customer experience or to release new services. For example, the company implemented the following initiatives:

- Enabling remote control: Customers can use a phone for functions such as starting the heater, controlling door locks, viewing the car dashboard, and locating the car (see Figure 2). These functions contribute to a digitally-enhanced customer experience. One of the biggest successes has been the remote heater start, especially in the Nordic countries where the winter is very cold. By starting the remote heater from a mobile app, the customer can get out and have a warm car before leaving. According to Paulsson, *“That is exactly the type of user experience that we need to identify and focus on for the future in using technology to create customer value.”*
- “Volvo on Call:” Volvo makes this roadside assistance delivered through local call centers operating under global framework agreements. Similar to services already available for other manufacturers (such as GM’s OnStar), a person in a newer Volvo car can push a button to talk directly with an operator in the call center. Through GPS, the call center can provide services such as finding the closest retailer, dispatching a tow truck, or calling the police. In addition, the on-call service is automatically triggered during an accident. Volvo is now making the service available through a mobile app, which opens commercialization to customers owning a car with no GPS/GSM technology embedded. Unlike the free “customer experience” functionalities mentioned previously, the “On Call” service is monetized: it is included for several years when purchasing a new vehicle, and then can be renewed for a fee after contract expiration.

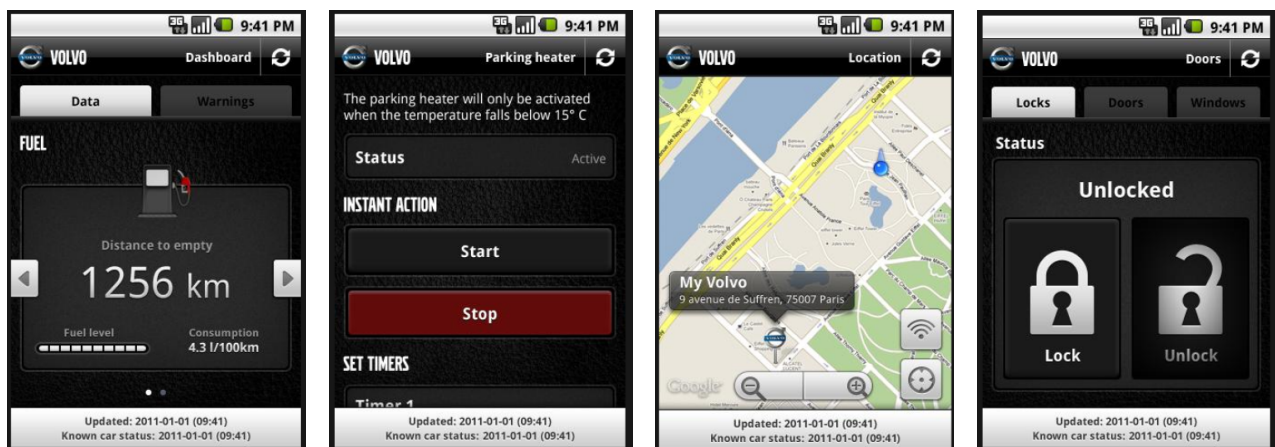


Figure 2: Screenshots of the Volvo mobile app (Source: shop Android apps – May 2012)

The connected car concept is expected to play a growing role in Volvo's strategy to connect directly with customers. When releasing the "Volvo on Call" mobile app in mid-2011, Volvo CEO Stefan Jacoby stated *"This is much more than a gadget. The mobile application is the first step in our connectivity strategy. We have started to build a bridge to the future, and the mobile app will be extended with a range of possibilities....The new mobile application transforms Volvo on Call from an emergency system to a useful convenience feature. It will help us boost sales of the system, and we are convinced that our ambitious plans in this connectivity field will help us attract more and more new customers in the future."*<sup>5</sup>

Creating a direct link between the car and the company opens many new opportunities for customers, local dealers and the global brand. For example, the firm envisions intelligent booking functions for car service. Instead of having an indicator that says, "Service Engine," the car could say *"It's time for service. We have found a time slot at your preferred dealer on Tuesday, 1 o'clock. Will this time work?"* Connectivity at Volvo is only at its beginning, according to Paulsson: *"the next revolutionary step within the automotive industry will be that all cars are online. It creates potential business opportunities and also potential challenges that we haven't fully seen yet."*

## **Building Digital Capabilities at the Global Level**

To make efficient use of the data provided in a new direct-to-customer relationship, VCC has built capabilities centrally. The first major steps were centralizing the customer database, and implementing a global CRM solution. Volvo needed to create unified repositories in place, integrate existing data (mostly from local dealers), and set up processes to enrich and constantly update these global data.

Paulsson explained *"We have collected dealer data in much bigger scale than we did historically."* With the connected car concept, much more information can be collected: *"If you tie these three things together – the car, the dealer data, and the customer, we can get quite good overview of all our business. The analytics side will help us to make the right decisions for the future"* he added.

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<sup>5</sup> See Volvo press release <http://www.volvocars.com/intl/top/about/news-events/Pages/default.aspx?itemid=291>

VCC has begun to implement analytical capabilities. “We now have much better data: who our customers are, which cars do they own, how long have they owned their cars, how often they go to service, how much they spend on their car. Instead of maybe targeting towards the cars in different car segments or model segments, we’ll use the data to segment the customers into different customer segments. Then we’ll actively go from mass marketing to one-to-one marketing.” The analytics will benefit more than just VCC headquarters. VCC provides information to dealers, helping them to target their marketing and understand specific customers better.

Figure 3 illustrates Volvo’s initiatives in new digital services and global digital capabilities.

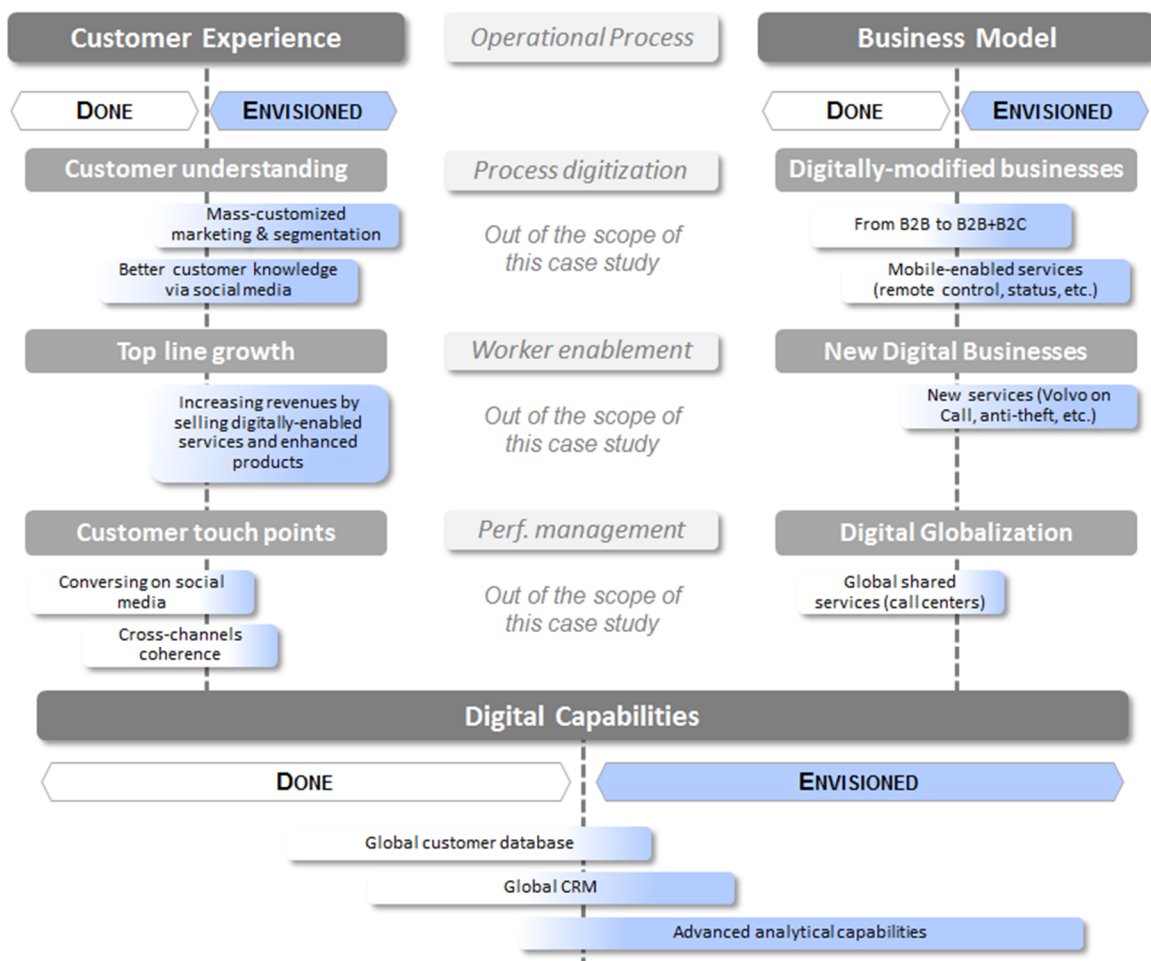


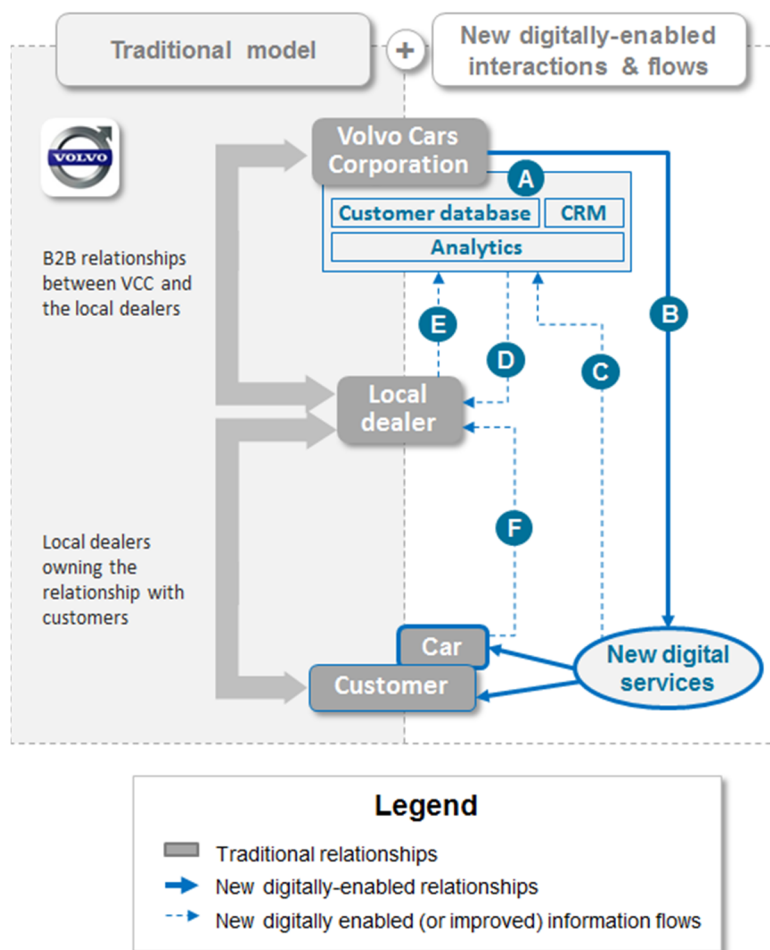
Figure 3: Positioning Volvo’s customer experience and business model initiatives in the digital transformation framework<sup>6</sup>

<sup>6</sup> See “Digital Transformation: A Roadmap for Billion-Dollar Companies” – MIT CDB and Capgemini Consulting, 2011

## Vision for Future Digital Opportunities

However, to Volvo, this new model is only the starting point. The promise of connected cars, mass-customized marketing, and a data-reinforced link with local dealers are still challenges for the future. According to Paulsson, “We want to keep track of all dealers worldwide, how they sell. Today, they sell parts, but tomorrow they will sell services. Every year, we get more and more specific data in terms of product sales because our system reaches all the way out to the dealer. Then, it will be easier to do factor analytics.”

Figure 4 illustrates the new information loop between VCC headquarters, local dealers and customers.



New digitally-enabled relationships, capabilities and information flows, existing and planned:

- Building databases, CRM and analytical capabilities** at global level, able to communicate with local dealers and to collect information coming from the new services
- Delivering services directly to end-customers (and cars):** connected cars, mobile services, new customer interaction modes, etc.
- Collecting information** through the services to feed the databases.
- Providing more accurate information** to local dealers
- Receiving more information** from local dealers
- Reinforcing the relationship** between customers and local dealers (helping customer to locate dealers, maintenance alerts, etc.)

Figure 4: The new information loop between VCC, customers and local dealers



## **Governance and Engagement Challenges**

The connectivity strategy has become a topic at the top of the company's agenda. However, the firm faces challenges in culture and coordination. Volvo management is taking steps to address both, but more is needed.

The transformation is a major cultural challenge for Volvo. Employees have little experience with end-customer services or contact, and are not accustomed to using rich global customer data bases. According to Paulsson, *"Of course, the key thing is to have the right people. It might not be the people that have been working in this industry for their whole lives. It must be a combination of our existing people and new people with new thoughts. And looking at service industries, we need that type of competence within Volvo Cars Corporation."*

There is a growing need for coordination between entities that were previously not used to working closely together. Dealing with the end-customer experience requires strong coordination and alignment between marketing, manufacturing, R&D, sales and other entities that had different relationships and areas of responsibility before, when Volvo was only focusing on B2B relationships at global level. The company has begun to take steps to address the challenge. For example, management has appointed a person to coordinate all of Volvo's connectivity initiatives across the traditional "silos."

Another important challenge is the balance between global initiatives and local autonomy. Many of Volvo's digital initiatives have been driven globally and supported by top management. The starting points for any global or local initiatives that use communication devices embedded in cars are the global manufacturing plants in Sweden and Belgium. The roadside offer (part of "Volvo on Call" initiative) relies on local call centers operating under global framework agreements. Other global initiatives such as unified customer databases and analytics capabilities have occurred only in the past few years. This is a big change from Volvo's traditional approach, in which sales companies ran each market independently. However, increasing central coordination does not

always mean delivering “one-size-fits-all” solutions. For example, global central databases and analytics can enable local efforts to develop one-to-one marketing.

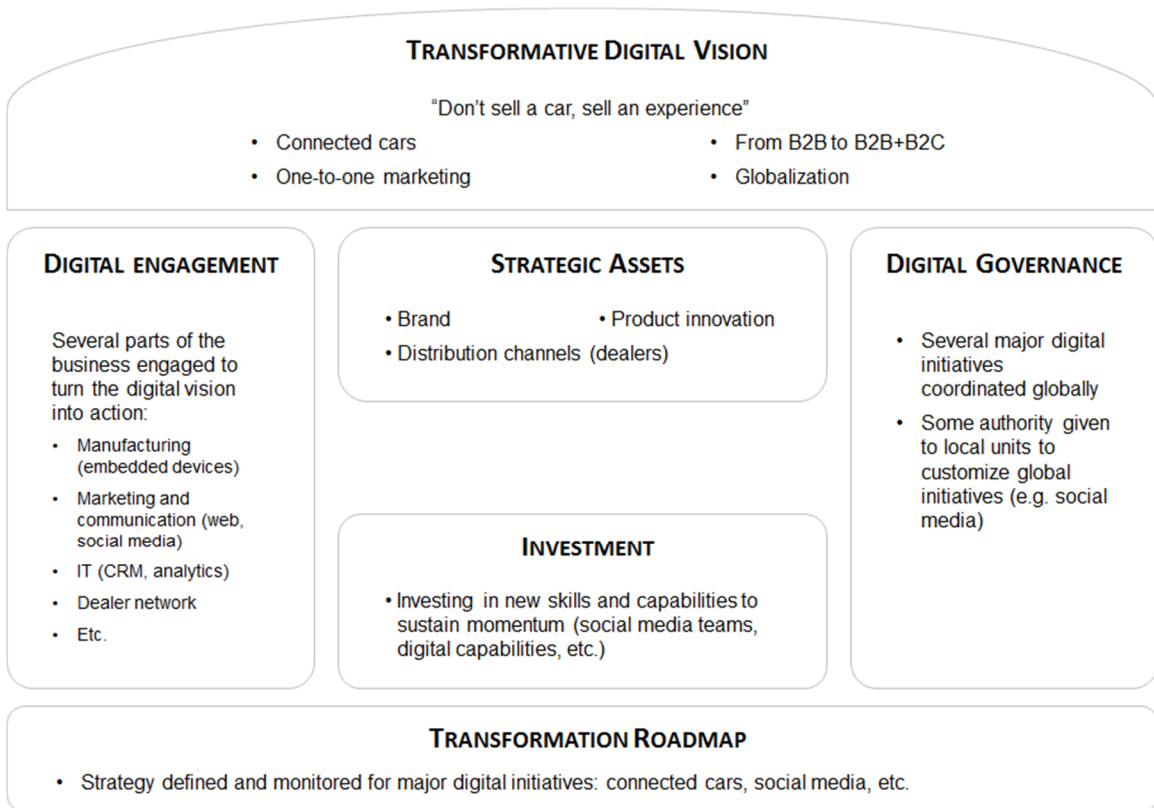
Some strategies and tools are also designed locally. This is the case for social media: cultural, legal and usage differences between geographies have encouraged Volvo to give more control to regions in that area. *“That is why it so important to have local community managers who speak the language, who know the culture, who can deal with people within that market,”* Jagler said. According to Paulsson, *“If you look in the Asia region and China, they have 10 alternatives to Facebook and Twitter and YouTube, which we, here in Gothenburg [Volvo global headquarters], might not be so knowledgeable about. And that’s why we need a regional structure to support that. The developments in these areas are really rapid, and knowing which social network is the hottest right now takes a lot of time.”*

Some recent investments made by Volvo North America illustrate the locally-managed social media strategy. In 2011, Volvo NA assembled a four-person social media team to kick off an internet marketing and communications effort for their region. Doug Speck, CEO of Volvo Cars of North America, said that the social media effort is crucial to Volvo’s success: *“we need to understand what people say about Volvo and to make sure that we are engaged and proactively responding to queries.”*<sup>7</sup>

Figure 5 illustrates how VCC management is driving digital transformation.

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<sup>7</sup> See “Volvo Refines 10-Year Strategy to Double U.S. Sales,” Automotive News, April 18<sup>th</sup>, 2011



**Figure 5: How Volvo is driving digital transformation<sup>8</sup>**

<sup>8</sup> See “Digital Transformation: A Roadmap for Billion-Dollar Companies” – MIT CDB and Capgemini Consulting, 2011

## **Next Steps on the Road to Digital Transformation**

Volvo has already taken several steps on its digital transformation journey. It is building the “embedded devices” area with connected cars and is leveraging social media web portals and mobile apps to gain proximity with end-customers. It is also building unified customer databases and analytical capabilities.

However, the digital transformation journey is only at its beginning. The “*bridge to the future*” cited by Volvo CEO Jacoby will open up opportunities to create ever-deeper and richer relationships with customers.