The use of customer data in the automotive industry has been a tough topic. [...] With much broader data availability and a dedicated approach, automakers now have the chance to move to a subscription-based business model – and to recapture and fully leverage the end-customer relationship.
EDITORIAL

Dear readers,

The rapid speed of globalization has made it more challenging than ever for automakers and suppliers to grow profitably and to gain new customers. One way to get ahead of the competition is to master the use of data. This issue of the Automotive Manager focuses on clever ways that data can be used to improve decision making in the industry. Many examples exist where data can help, such as determining answers to questions like: When is the right time to offer a customer a renewed leasing contract? How effective will a sales campaign with different discount elements be in a specific region? How can production performance be optimized based on new data insights? Which research and development measures have to be executed to maximize customer experience? How can this be achieved in a way that protects customer data? These are challenging questions that are tackled frequently in the automotive world.

A fresh perspective needs to be given to data analysis, starting with the insights that must be generated. It is time to provide support to those making the key day-to-day decisions and not only to top management. As our lead article emphasizes, the focus needs to be placed on decision making, not on data.

Another area where data is used to make smarter decisions is the Harbour Report. This year, the Harbour team made its 1,000th plant visit, confirming the annual report’s leading position as an authoritative guide to automotive manufacturing and adding value to Oliver Wyman’s expertise.

Suppliers, on top of that, are challenged by the necessity to grow internationally. At the same time, they have to invest in expensive research programs. It is particularly difficult for mid-sized players to do these things simultaneously. Regardless of the challenge, however, suppliers need to optimize their presence in the global market. While most of the large players already have well-established footprints around the world, many small- and mid-sized suppliers are struggling to develop their structures.

Despite all the struggles and challenges, smart use of data offers a realm of opportunities – which can be found and capitalized upon across the entire automotive value chain.

Best regards,

August Joas
Head of the Oliver Wyman Automotive Practice
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The global automotive industry is changing – and fast. New markets, customers, technology and competitors are forcing automakers to take a fresh look at how they create relevance and desire. The annual Lippincott Brand Study covers more than 3,000 brands across five global markets on their brand positioning strategy.
Automakers are the best in the world at launching one of the most complicated products there is: a car. Despite their vast experience, the majority of vehicle launches still are either delayed, exceed their budget, or require more resources than originally expected to meet the planned production ramp-up curve. By considering eight key elements, flawless, firefighting-free launches could become a reality.

Sales costs make up approximately 30 percent of a vehicle’s list price. Commercial excellence based on leveraging big data constitutes a huge opportunity to counter the margin pressure for automakers. Companies must make smart use of the data available and systematically build their analytical capabilities to gain a clear advantage in the market.

With high margins and global sales of more than $250 billion, automotive service parts is a highly lucrative business. Pricing strategy often takes the form of establishing price points relative to competitive benchmarks while little analytical rigor is applied to pricing decisions. The potential margin improvements from using a more scientific approach to pricing are significant.
THE POWER OF CUSTOMER DATA

Retaining a customer and selling him the next car is at the heart of automotive sales. Customer value management – designed for this purpose – has cost a lot of money, created data monsters and rarely lived up to its expectations. With connected services and mobility offers, data availability at the automaker level has improved dramatically. In addition, technical advancements have made it possible to move beyond IT systems and data integration and fully focus on the generation of insights instead. Customer value management can be taken to the next level – and move an automaker toward a subscription-based business model.

Losing a customer costs a premium automaker about 5,000 euros in contribution over a vehicle holding period of five years. This includes non-realized contribution of the vehicle, financial services and parts sale. Customer loyalty is, depending on the brand and market, seldom higher than 50 percent. That means half of the automaker’s customers will buy their next vehicles from competitors. Despite this fact, many automakers still use a “hunter” approach. They want to “re-conquest” their customers again and again. As a result, customers are extremely well taken care of once they formally start the purchase process by stepping into a showroom and begin sales negotiations. Before and after this period, however, very little active customer management occurs. Furthermore, this short period of interaction, in which the high-risk but often-successful “showdown” approach is taken, is when the customer is introduced to the entire portfolio of automotive products and services. Of course, this is when a customer is most receptive to purchasing extras such as insurances, service contracts and an extended warranty or automotive finance products. This, however, is not the only time during the life cycle when cross-selling is possible. Because they have powerful captive banks and growing side businesses such as car-sharing programs, automakers’ customer portfolios extend beyond customers just buying a car.

UNKEPT PROMISES

The use of customer data in the automotive industry has been a tough topic. Independent dealers have been reluctant to share their end-customer data with automakers. The dealer is the perceived owner of the customer relationship so this data is a key asset. As a consequence, automakers have tried to get retailers to provide a similar level of customer management at their dealerships through standards, training and sales systems.

The results of this effort have been mixed. Another limiting factor has been a lack of data integration between the functional areas (i.e. new and used...
car sales, aftersales, financial services). This is a result of organizational boundaries, different organizational priorities and differing target systems. In addition, traditional customer life cycle management only has generated a few touchpoints between a car purchase and a re-purchase. Customer data analysis and CRM systems also have failed to deliver on their promises. This has led to oversized IT projects as companies tried to optimize primary system landscapes. Data extraction has been slow, often taking weeks, and complicated. Additionally, it has often been unclear how increased customer understanding could really add to decision support.

**THE SITUATION HAS CHANGED**

Two key aspects have changed fundamentally: The availability of customer data has improved and better technology has provided the possibility to utilize new, more agile IT approaches. The better availability of customer data is driven through: the growing reach of connected services and mobility offers; high penetration of captive financial services and other service products; and retail improvement programs that require dealers to share customer data. On the technology side, agile datamarts no longer try to improve primary systems or try to enable specialized systems (such as contract management) to become “all-in-one” devices, but instead create highly flexible commercial data layers that provide a very effective “sandpit” environment to answer high-value commercial questions. Now there is a chance to push for the transformation to a customer-driven and insights-driven organization – which has been discussed for many years but is finally taking off. Moreover, customers trust OEMs to keep their personal data safe, and OEMs need to ensure not to break this promise.

**AGILE DATAMART**

To drastically shorten the integration of customer data across functional areas and sales levels, Oliver Wyman starts a customer value management approach by setting up an agile commercial datamart. This is a dedicated layer across all relevant data sources with a fully agile architecture.

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**Agile development process for integrating customer data**

- **Specs**
- **First prototype** (partial)
- **Optional:** Go Live of partial solution for quick wins
- **Go Live, rollout**
- **Prototyping**
- **Direct user feedback**
- **Short programming cycles (days & weeks)**
It can be set up and loaded with all relevant data within four to five weeks, depending on data complexity. Since it integrates and cleans the data from disparate sources, it also represents “one version of the truth.” In contrast to existing systems and data warehouses, the datamart is designed to answer commercial questions and to allow for rapid response – in days, not months – to change requests and new report builds.

GENERATING INSIGHTS

After setting up a datamart, the core customer value management step takes place. The generation of insights starts with the questions: What are the results that I am looking to achieve? What decisions have the potential to lead to those results? This is followed by the generation of insights and finally the data that is required. Automotive customer value management, therefore, is not a big-data approach that aims to analyze large amounts of data until patterns can be recognized. It is a hypotheses-driven approach that needs to be tailored to different use cases in customer conquest, retention and cross-selling such as the ones outlined in the following three examples.

Example 1 – Early leasing termination: Offering a customer a new leasing contract prior to the termination of his existing deal can be a highly powerful tool to increase retention. Because this tactic depends on the initiative of a dedicated sales person and is not based on a systematic approach it is only moderately used. Early leasing termination should be used as a systematic tool for customer retention. Important aspects here include vehicle choice, discount levels and, for the automaker, optimal residual value.

Example 2 – Dynamic customer journey: The defined contact points with the customer often are not tailored to customer segments (neither in type nor contact channels). Therefore, a customer-driven segment-specific approach is employed. By comprehensively analyzing customer behavior patterns and buying propensities, segment-specific measures can be defined. Contact points also can be adjusted to trigger events in a customer’s life.

Example 3 – Cross-selling: There is a broad range of cross-selling opportunities that currently are only sporadically used. By establishing multiple customer segmentation layers, analyzing customer values and deriving purchasing propensities, cross-selling results can be improved significantly. Cross-selling is possible through a number of methods such as tapping into the large financial services customer base of savings account owners who do not own a vehicle made by the automaker. Mobility customers with high usage levels can be approached with tailored leasing offers. In addition, the entire range of financial and aftersales services can be sold to customers during the vehicle usage.

INTEGRATION INTO DAILY MANAGEMENT

By setting up an agile datamart, the generated insights can be tested in the field immediately. This significantly shortens the payback period and enables direct feedback. For example, when cross-selling opportunities are identified, test campaigns can be designed, set up and quickly executed after the involved departments are briefed.
Generated insights then are fully operationalized into the daily business. To embed the insights into the operational decision making, simple and smart applications are developed and handed over to the respective users. App design is much easier than five years ago. Apps are a well-established part of nearly everyone’s private life, but are surprisingly much less common in business settings. Insights are, however, only effective if they are shared with the respective decision makers – which often are not limited to the top management but are spread across the entire organization. To really generate results, a marketing expert’s campaign needs to have direct, instant and easy access to customer value insights.

**CUSTOMER VALUE MANAGEMENT AS A POWERFUL SOURCE OF DIFFERENTIATION**

To be successful and to yield strong results, Oliver Wyman has identified a range of success factors. First, the approach needs to start from defined targets and will need to be measured against these targets (financial and non-financial). Second, pragmatism and agility are vital. Complexity should be reduced. Quick wins are essential. Fuzziness needs to be accepted. Probabilities and indications remain superior to pure gut feeling. Third, evolutionary change by gradually improving existing systems might eventually result in costs and efforts that are much higher than a targeted build-up of a dedicated and agile approach. And finally, customer value management needs to be deeply rooted in the organization. Only if it is implemented within the organization – across functional areas and sales levels – will it become fully effective. Despite the many efforts that have been undertaken throughout the last few years, this will require a significant change in mentality, from traditional automotive sales to a much stronger active customer management by the automaker during the customer life cycle. With much broader data availability and a dedicated approach, automakers now have the chance to move to a subscription-based business model – and to recapture and fully leverage the end-customer relationship.

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**Different IT systems have different priorities**

- **AGILITY**
  Greatest opportunities for competitive differentiation, strongest impact on long-term success
  - Commercial management information systems
  - Dotcom operations
  - Ordering
  - Logistics management
  - Payroll

- **RESILIENCE**
  Fundamental for day-to-day operations – failure is not an option
  - Planning
  - Contract management
  - Finance

- **COST**
  Opportunities to save costs without compromising on performance
DRIVING THE FUTURE – BEING A LOVED BRAND IN THE NEW AUTOMOTIVE REALITY

The global automotive industry is changing – and fast. New markets, customers, technology and competitors are forcing automakers to take a fresh look at how they create relevance and desire. So what will it take to be a leading automotive brand in the future? Within every industry, leading brands find ways to differentiate themselves through compelling stories, signature experiences, or both. The annual Lippincott Brand Study, which covers more than 3,000 brands across five global markets, quantifies these factors through leading indicators of brand success such as Story Power and Experience Power.

Story Power measures the resonance of the brand idea in the market overall, while Experience Power measures the brand’s connection with its users and customers. The study shows that the premium German brands score the highest for both Story and Experience power across regions. People recognize that these brands have a strong core idea, matched by immersive and exciting brand experiences.
Contrasting the performance of automotive brands between China and the United States, the study shows that while the German prestige brands lead in both countries, domestic brands in both markets significantly underperform. Exceptions are brands with a strong and distinctive story and proposition such as Jeep in the United States and China’s BYD, which is seen as a true “tribal” brand.

Based on experience gained from working with many of the world’s leading automakers and insights drawn from its brand study research, Lippincott believes that building tomorrow’s leading automotive brands will mean acting on four key imperatives.

**BE DISTINCTIVE**
Generally, automakers are nearly equal in delivering quality, safety and reliability. The key to standing out will be defining the characteristics that make the brand truly unique and why these traits matter to people.

**BE AUTHENTIC**
In the future, brands will have far less control over how they are presented to customers. This means the core brand idea needs to be powerful and coherent whether the automaker is competing for customers in Nanjing, Nuremberg or North Dakota. Of all the global automakers, the study shows that BMW most successfully anchors itself to a powerfully authentic core idea, while maintaining relevance and vitality right across the globe.
BE RELEVANT
Generation Y will represent more than 30 percent of global car buyers by 2015. Their values are very different compared with previous generations. Functional factors are no longer variables, reliability is assumed and comfort is expected. It is therefore important for brands to connect to the things people care about and by embodying the traits that people find exciting.

BE IMMERSIVE
For most automotive brands, the experience delivered beyond the car remains remarkably generic. It fails to be as rich or immersive as the experience delivered by the vehicles themselves. To stay at the top, brands will need to create compelling, seamless experiences that integrate physical and digital touchpoints and deliver the brand beyond the vehicle.

In the new automotive reality, a renewed focus on brand building will be key to being both relevant and desired. As automakers think about how to align their brands effectively to this new reality, they need to ask themselves the following questions:

1. Has the company discovered and harnessed its most powerful, differentiated sources of brand distinctiveness?
2. Has the company defined and expressed an authentic brand idea?
3. Can the automaker connect with Generation Y customers in a way that makes them excited to invite the brand into their lives?
4. Can the automaker translate its brand into experiences beyond the vehicle, embracing new and emerging physical and digital environments?
Automotive manufacturers around the globe are as innovative as ever, as evidenced by, for example, their annual investments in research and development. On average, R&D accounts for 4 to 5 percent of an automaker’s total costs, a share that is expected to grow. This effort alone, however, will not be enough to establish a clear competitive edge.

Even with increased R&D efforts, it’s unlikely that innovative technical development alone will continue to pay off for automakers as much as it has in the past. This is mainly because customers are reluctant to accept ever more complex functionality in their cars. Vehicle prices continue to increase and customers are finding it nearly impossible to navigate the maze of available products and features. Moreover, additional options are often seen as superfluous and go unused, even though they must be paid for.

AN EMERGING PARADIGM SHIFT
Recent research by Oliver Wyman has shown that customers across all vehicle segments still want innovation in traditional automotive areas such as fuel efficiency and safety. Almost all of the approximately 2,000 car users surveyed in Europe, the United States, Japan and South Korea said that, for them, inexpensive vehicle usage is their top priority. More than 60 percent of respondents said that functions such as automatic braking to avoid an accident are important to them.
For the surveyed automakers, suppliers and mobility providers, these topics also play an important role, but in the future they will become hygiene factors, which means they will be absolutely imperative to provide but offer limited differentiation possibilities. In addition, more than 80 percent of the surveyed automotive experts believe that a paradigm shift is coming – one that will force vehicle innovation and R&D to focus more strongly on the customer’s overall experience. This is the same paradigm shift that mobile phone manufacturers faced in the middle of the past decade, when products that were technically superior but increasingly complicated started to appear on the market. The paradigm shift was the emergence of the smartphone, which is instantly redefining the market by targeting customer experience instead of technical skill. Similarly, automakers’ fascination with what is technically feasible will need to give way to making customer value and customer experience the priorities.

NEW TRENDS FOR GREATER CUSTOMER VALUE
In the coming years, vehicle innovation will be characterized by four global trends. These trends put the focus on customer requirements during the R&D phase to give the user an overall experience that goes beyond the mere ride and handling of the vehicle. The first trend is to provide a stress-free and relaxed journey for all of the car’s passengers. The next trend is to offer features and services that integrate the car into the user’s everyday intermodal because going beyond mere vehicle usage is gaining in importance. Long-term complexity reduction, which ranges from the models on offer, to the configuration tools, to the installation and use of features, is the third trend. And, finally, no-frills pricing is becoming more important as well. Here, the customer wants to receive a high-quality vehicle with functions he deems as important, useful and affordable.

Top 5 customer use cases per region
ranked on regional importance (in %)

Source: Online survey, Oliver Wyman analysis, Note: Percentages adjusted by greatest importance i.e. fuel efficiency
SCRUTINIZING DIFFERENTIATION POSSIBILITIES

Automakers face a major challenge when addressing these trends: They have to make sure what they offer is unique. Speed also matters. Volume manufacturers in particular are under pressure to act because they face a growing number of model variants with smaller sales volumes and higher costs. They need to quickly address these new trends if they want to secure their market position over the long term. As a starting point, all automakers will need to develop more detailed information about their customers and then use this data to determine the extent to which they can differentiate themselves in categories such as comfort, infotainment, safety and efficiency. Automakers must look at technical innovation through the eyes of their customers and decide whether their functions need to be simplified or redesigned to be more user friendly. Finally, they must consider that the features themselves will not be the source of differentiation, but rather, how they are bundled and tailored to more specifically meet customer needs.

CREATING A BETTER CUSTOMER EXPERIENCE

In line with adapting features to the customer, the entire marketing and sales process will need to be adjusted as well. Too often today, a customer walks through the door of a dealership and encounters a sales person who rattles off an incomprehensible list of features as selling points to support the vehicle’s hefty price tag. In the future, the sales person will need to start by asking customers what they want, what they don’t want, and then help them “build” the car that meets their desires. Furthermore, marketing the customer experience will need to begin from the moment a customer starts thinking about buying a new car, through the sales process, and right up until the customer actually uses a particular vehicle function. It is within automakers’ power to enthrall their customers by combining the vehicle, its functions and the enjoyment it provides into one package. Their efforts will be rewarded by creating satisfied, loyal customers, giving them a clear competitive edge.

THE STUDY

The study surveyed about 2,000 vehicle users in Europe, the United States, Japan and South Korea in mid-2013. In addition, more than 20 interviews were conducted with decision makers at leading automakers, suppliers and mobility providers. The key finding was that while customers are focused on cost and safety, automotive experts expect a paradigm shift soon and have identified four major trends related to the customer experience:

1. A stress-free and relaxed journey for all car passengers
2. Comfort beyond vehicle usage
3. Complexity reduction for user-friendly functions
4. No-frills pricing
Automotive suppliers have spent years significantly growing the scope of their value creation and R&D activities as they have become more and more global. The largest component makers today are often even more global than many of their customers. The changes are expected to boost suppliers’ share of value creation for vehicles to 81.1 percent by 2025 from 77.3 percent in 2012. Suppliers are responsible for 69 percent of global automotive R&D. They spent more than 37 billion euros worldwide on research and development in 2012.

The fast pace of change will accelerate in the coming years, which will significantly affect the product development activity at global automotive suppliers. They will face increasing global competition not only from established rivals from mature markets but also new players from emerging countries. Suppliers will have to meet the demands of a broader range of customers with very different requirements when it comes to the product development process. Demands from these customers will intensify as they hand over more responsibility to the suppliers while simultaneously increasing the complexity of the products they developed. In addition, suppliers will need to make sure their products fit seamlessly with their customers’ global platforms. Not only will the competition be fierce to win these contracts, suppliers will take on increasing risk because their products will need to be of the highest quality so they work flawlessly regardless of whether they are fit on vehicles made in Stuttgart, Shanghai or Spartanburg. The technological risk to suppliers also will rise as they are asked to deliver not only components but also software and services. Furthermore, they need to make sure their products help automakers meet tougher emissions regulations around the world.

Adapting to these trends will require suppliers to make their engineering capabilities more global than ever before and force them to significantly reduce their product development costs.
COMPLEX ORGANIZATIONS

Establishing a worldwide presence is a challenge that suppliers have faced for many years, especially as they have set up operations in places such as Brazil, Russia, India and China (the BRIC markets). Making things more difficult is that it is no longer enough just to produce components at facilities around the world: Suppliers also need to establish engineering capability in those locations. (On the plus side, this can decrease direct engineering costs through lower hourly rates.) In most cases, the rush to globalize has led to complex, multidimensional organizations. These are the results of “piling” various historical layers, the acquisition of new businesses and having development teams scattered across several engineering sites.

Suppliers are familiar with the constant pressure to reduce product costs, but now they are also being told to cut product development costs. The reason is that automakers are less willing to pay to cover rising development costs triggered by the growing complexity of products. They are putting this burden on their suppliers instead. In some cases automakers have declined to pay engineering costs, such as those incurred by suppliers during the expertise phase (before business is awarded). Meanwhile, other portions of the engineering costs are covered via amortization in part price, which puts a huge strain on working capital.

IMPROVING EFFECTIVENESS

In the race to improve product development effectiveness and efficiency, suppliers face some specific challenges. They need to define how to leverage scale and improve design quality with modular architectures that allow product customization while also being compatible with their customers’ platform and commonality strategies. The suppliers’ engineering teams need to identify the most powerful levers to drastically reduce development costs so that an effective global product development process can be rolled out. Component manufacturers must find the right balance on the application of central standards to make sure they don’t kill the customization and creativity that customers require.

Engineering management teams also need to skillfully manage a complex network of R&D/engineering centers across the globe. This means that activities should be allocated across units of the global network based on each center’s core capabilities. A key component here is that management develops an effective organizational matrix without creating an overly complex reporting structure. This helps make the engineering processes more agile so that the supplier can respond faster and with less effort to changing requirements from automakers. And finally, performance measurement and key performance indicator (KPI) development must be designed to monitor progress and convergence toward excellence.

MANAGEMENT’S ROLE

Each supplier’s management team also faces pragmatic and cultural issues as well as risks that exceed the norm, such as developing smart strategies to protect their core intellectual property and creating multicultural teams...
and managing them to limit the scattering effect that can come for having responsibilities spread to far and wide within an organization. Ultimately, management should push for a paradigm shift in which the company’s centralized engineering team accepts that teams based outside of headquarters can be autonomous. This will allow those teams to customize products or develop new solutions that fit their local markets. In many cases these good ideas can help improve a wider range of the suppliers’ products. The bottom line is that management needs to combat the “not-invented-here” syndrome that is common for the company’s legacy teams that are based in Western countries.

Another positive change that needs to happen is that the people working in engineering human resources should define a compelling talent acquisition strategy for the company’s sites in developing markets to address which engineering profiles should be recruited locally. This way the supplier can attract the best talent, better manage size and capacity and properly determine how to further develop employees’ skills. This way the company can ultimately attain additional economies of scales through specialization/centralization while also raising productivity and reducing attrition rates (a major issue if not taken seriously).

ENGINEERING TRANSFORMATION
Some suppliers have gone through a transformation by systematically addressing the most powerful productivity levers to decrease product development costs and applying specific actions, tools and methodologies that are now seen as best practices in the industry. There are five key elements of engineering transformation.

1. Strategic anticipation and planning are key for sustainable performance.
2. Lean engineering must be the driver of superior product development performance.
3. Smart organizations and skill development also are powerful levers.
4. Regular and focused performance monitoring is key to positively impacting the P&L.
5. Integrated management of data and knowledge is now a must.

The automotive suppliers that follow this route have reduced product development costs by double-digit percentages while improving the overall outcome of product development processes. Implementing such a program, however, requires a clear roadmap with integrated and cadenced work streams to maximize the positive effect. All the above changes and transformations must be implemented carefully to maximize impact while minimizing the loss of personnel and know-how. A culture of openness is promoted when steps are taken during project management to counteract not-invented-here syndrome.
Success in the automotive supplier industry requires an optimized production footprint, something that has been made more challenging by the pressure to expand operations around the world. While most of the large players already have established a global presence, many small- and mid-sized suppliers are struggling to develop their structures and achieve the desired operational performance. Cost is one challenge these suppliers face, but it is equally important to be able to establish a strong presence in new markets and find new sub-suppliers while maintaining a reliable supply chain.

Many European automotive suppliers have spent the past decade either ramping up or extending their capacities in Eastern Europe and China. Many have made mistakes that have led to difficulties and, in some cases, the mistakes have even threatened the existence of the entire organization. Numerous suppliers have given up or had to reverse their global expansions. While these mistakes need to be avoided, an optimized footprint is still essential to enable many automotive suppliers to either become or remain competitive. In addition, the overall shift by the automotive industry toward developing markets has put even more pressure on suppliers to have the right structures ready to deliver the right components on time.
GLOBALIZATION REMAINS IMPORTANT
The bottom line is that being a global player has become increasingly important. Automakers are widening the use of global platforms and modules, which need to be supplied locally, thus requiring their suppliers to follow suit. Suppliers often can only approach foreign automakers once they have localized production. In many cases, they also need to have local development capacities. Suppliers also have to leverage all available cost-reduction measures because of the increasing pressure to reduce their prices. Footprint optimization plays an essential role here. Access to low-cost supplies can enable significant savings on materials. Lower factor costs enable a reduction of costs of goods sold, especially in labor-intensive areas. The complexity of the supply chain for the majority of suppliers can actually be reduced when supplying local content. Access to competence pools is another driver that suppliers can deploy when shifting their structures abroad: Expertise needed to meet local requirements is often best supplied locally.

CONSOLIDATION PRESSURE INCREASES
While many factors favor the extension of the footprint, the effect on the existing production sites and supply chains has to be addressed in parallel. These structures have been expanded over time and often are not set up in an optimal way. Moving production to new sites in growth regions also can lead to decreasing utilization at the existing sites. This increases the need to right size or even consolidate the structure of existing sites, but should also be seen as opportunity because it allows for significant savings on indirect cost and is crucial to remaining competitive overall.

DOING THINGS RIGHT THE FIRST TIME IS CRUCIAL
Footprint redesign is a fundamental challenge for most automotive suppliers. Finding and deploying the resources and management to widen the network is critical. Many small- and mid-sized suppliers have limited experience in dealing with the tasks involved herein. In addition, downsizing the existing plant network is often one of the largest challenges in footprint redesign. The restructuring or closure of long-standing plants and other facilities can cause risks to quality and delivery performance for automotive suppliers. This can seriously endanger supplier performance and negatively affect customer relations.

Many automotive suppliers have therefore decided to move production back to their home markets. Key reasons for this move often include insufficient preparation and misjudgment of the potential abroad. Underestimated investments for the relocation of production, lower quality and efficiency in new plants and rapidly increasing labor costs also are factors. In addition, high initial investments do not allow most suppliers to take a second chance. A sound and well-defined footprint realignment concept is crucial. This includes several aspects that need to be balanced and considered at the same time. The first step is to plan market penetration and to understand the specific competitive landscape. This is key for an adequate forecast of the production volumes that can be expected. Far too often, unexpected volumes – both high and low – lead to utilization issues in the re-designed production footprint. In the end, this can cause a negative business case.

Doing things right the first time
Footprint optimization

1 Footprint scenario definition
- Transparency on existing structures and capabilities
- Understanding of priorities for future structures
- Determination of products and process steps
- Development and assessment of different scenarios

2 Assessment of financial impact
- Definition of relocation scenarios
- Focus on relevant cost drivers
- Holistic assessment and selective detailing

3 Relocation concept
- Detailed mapping relocation concept in implementation plan
- Definition of transfer teams
- Continuous monitoring and tracking
- Progressive risk management
Building on this, the fundamental point is to understand the supplier’s core competence along the product portfolio and the processes. These are inevitably connected and need to be actively allocated across the entire footprint. The relocation of individual products or machines that were deemed unprofitable has often proved to be the wrong approach, leading to problems on the shop floors at both the receiving and sending plants. Hand in hand with the effects of direct cost differences, the inclusion of related value-creation steps needs to be considered. Often, suppliers can globalize sourcing and logistics personnel at the same time to meet the requirements of the new locations more directly. Cost advantages in these and other indirect functions add to the effects of footprint optimization, especially once administration and management functions are also included. An extraordinarily important role is played by development functions. For most suppliers these functions need to be localized to a certain extent to ensure smooth launches and optimal responsiveness to the automakers in addition to the cost advantages they might provide.

The availability of personnel must be considered at the same time. Very often, it is difficult to find and retain qualified employees at the new sites. Moreover, rightsizing the established footprint should be considered early to avoid missing out on cost advantages mainly due to increasing overhead costs. Automakers and other customers play a key role. They need to be involved early to ensure they maintain their sourcing relationship and provide the backbone for footprint optimization.

**TYPICAL PITFALLS CAN BE AVOIDED**

In most cases where the results do not turn out as planned, the suppliers make similar mistakes and struggle with the same hurdles. Qualified people are often not available or cannot be trained fast enough to enable the planned ramp-up. In addition, motivation is often low at sites that are to be closed or downsized. This combined with the loss of relevant know-how carriers and production shortages results in many suppliers facing unexpected efficiency, quality and delivery issues. Other potential issues that often are overlooked include machines that cannot be relocated easily and high initial scrap rates, which cause delays during relocation. Consequently, footprint optimization initiatives are highly complex and need to be managed accordingly. Choosing the right level of detail and a structured, focused approach is key for a successful plan and transformation and ensures that required resources are optimally leveraged and don’t exceed available personnel. An ideal process focuses on the right options early on, details only relevant scenarios, generates meaningful business cases and is transferred into a concrete implementation plan.

To optimize the footprint successfully and efficiently, it is essential for automotive suppliers to develop a long-term holistic strategy. The important factors include: Considering the entire value chain; investing sufficient time and resources in planning the optimization measures; building a business case based on total cost calculation; and installing a comprehensive process management. This will enable suppliers to identify, assess, decide and implement the optimal options and minimize future risks.
Automotive suppliers that have set their sights on becoming drivers of growth and innovation for years to come will need infusions of outside funding to achieve their goals. At the moment, such companies can find some real bargains. But as they look they should keep one crucial point in mind: They will face huge risks if they have failed to put their financial house in order.

Lutz Jaede
Daniel Kronenwett
Propelled by the relatively smooth-running automotive market, many suppliers are growing steadily right now, but this growth comes at a price. Tremendous amounts of money must be poured into developing new products and technologies, expanding international locations and, above all, generating the sales growth that is needed to cover rising levels of inventories and receivables. Suppliers also will need funds to complete new acquisitions refinace their maturing loans.

To meet their financing needs, most companies tap their liquidity reserves or obtain injections of capital. But a significant number of them call on outside lenders. This solution, however, offers both risks and rewards. While the approach can indeed open up new opportunities to obtain favorable financing, it leaves the company vulnerable should a crisis set in.

ATTRACTIONEL FINANCING TERMS AVAILABLE

Today, banks are going toe to toe in the lending arena. A key cause of this brawl for business is the ebbing demand for loans from companies. Another is the intensification of competition that has occurred in recent years. Regulations such as Basel III also have dealt a blow or two to banks. To help fend off competitors, banks have been reluctant to boost interest rates and alter their financing terms. All the while, the capital market has emerged as a significant force for outside financing via corporate bonds or promissory note loans. Increasingly, small businesses are finding these financing options hard to resist. The reason: They are viewed as being more accessible than bank financing. This is often the case for companies with low levels of profitability because banks are forced to charge them higher rates to satisfy regulatory requirements. The rule of thumb here is: The higher a company’s chances are of being hit by a business-buckling crisis, the higher the likelihood that it will turn to capital providers outside the ranks of traditional banks.

TRUST IS KEY TO AVOID A CRISIS

Companies must tread gently here. Basing a financing portfolio simply on favorable interest rates is a risky proposition. Providers of outside financing react in totally different ways when companies get into trouble. As a rule, banks are generally more willing to stand by a company that has had the rug pulled out from under it than other providers of capital because, by their very nature, banks concentrate on profitable, growing companies. For this reason, they have a stake in helping borrowers get back on their feet and therefore maintain the relationship with the customer. Other capital providers, including hedge funds and financial investors, are likely to simply accept the business-threatening crisis of their borrower or even exploit it by employing a debt-equity swap to seize control of the company. On the other hand, capital-market investors can do little to fight off such a crisis. Such investors usually consist of large groups of bondholders, a fact that makes it extremely difficult to come up with any sort of agreement on a turnaround strategy.

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Reasons for financing needs
In % of the surveyed companies’, multiple answers possible

<table>
<thead>
<tr>
<th>Reason</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment in innovation or new technology</td>
<td>52</td>
</tr>
<tr>
<td>Capacity expansion or internationalization</td>
<td>41</td>
</tr>
<tr>
<td>Due dates of larger loans/bonds</td>
<td>32</td>
</tr>
<tr>
<td>Acquisition of companies (M&amp;A)</td>
<td>27</td>
</tr>
<tr>
<td>Financing of restructuring measures</td>
<td>20</td>
</tr>
<tr>
<td>Rise of working capital as part of sales growth</td>
<td>18</td>
</tr>
<tr>
<td>Compensation for losses</td>
<td>11</td>
</tr>
<tr>
<td>Other</td>
<td>7</td>
</tr>
</tbody>
</table>

1 Oliver Wyman survey of decision makers at self-financed companies in Q3 2013
For this reason, the course that capital providers ultimately take largely depends on the lines of communication set up by the struggling company. At an early stage, such a company must proactively deliver detailed information regarding market and competitive challenges, the causes of the crisis, planned restructuring steps and expected financial trends in various scenarios. The reason for this information offensive is easy to understand: Capital providers that are convinced a crisis can be overcome will tend to support far-reaching rescue efforts. But if they are not sold on the potential of the turnaround effort, they will try to pull the plug on their investment as quickly as possible.

Companies have one other option. When times are good, they should establish a small base of strategic providers of outside capital to form the foundation of their business financing. Once these strategic partners are in place, companies must develop a trusting relationship with them to ensure that they will not get cold feet if the companies’ business does indeed freeze up. Providers of outside capital must be informed at an early stage about the onset of any crisis and the steps planned to stop it. The sooner they are informed about the crisis and the financing needs it has created, the better they will be able to help. Companies that are slow to communicate their problems and that issue a short-notice plea for financial support will not be doing themselves any favors. In the end, they will simply crush the willingness of capital providers to pitch in at all.

### Reaction of lenders to different types of borrower crises

In % of the surveyed lenders of outside capital¹, multiple answers possible

<table>
<thead>
<tr>
<th>Temporary crisis e.g., economy downturn</th>
<th>Structural crisis with a viable turnaround concept</th>
<th>Structural crisis without any potential solution</th>
</tr>
</thead>
<tbody>
<tr>
<td>Extension of credit lines</td>
<td>71</td>
<td>41</td>
</tr>
<tr>
<td>Provision of subordinated loans</td>
<td>21</td>
<td>39</td>
</tr>
<tr>
<td>Issuance of super-senior loans</td>
<td>36</td>
<td>71</td>
</tr>
<tr>
<td>Debt restructuring</td>
<td>27</td>
<td>70</td>
</tr>
<tr>
<td>Demand for additional collateral</td>
<td>57</td>
<td>59</td>
</tr>
<tr>
<td>Assumption of entrepreneurial risk²</td>
<td>5</td>
<td>36</td>
</tr>
<tr>
<td>Transfer of loans (secondary market)</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>Termination of loans (if possible)</td>
<td>2</td>
<td>2</td>
</tr>
</tbody>
</table>

¹ Oliver Wyman survey of banks and other providers of outside capital in Q3 2013
² E.g., through profit participation certificates or the conversion of receivables into equity
Automakers are the best in the world at launching one of the most complicated products there is: a car. Despite their vast experience, the majority of vehicle launches still are either delayed, exceed their budget or require more resources than originally expected to meet the planned production ramp-up curve. Effective launch management consists of eight key elements. With the exploding complexity of new car variants, additional technologies, and the challenge of building the same model in multiple plants around the world, the implementation of these launch elements and how they are interlinked largely determine the launch success. In the future, flawless, firefighting-free launches could become a reality.

Not long ago the world’s largest automakers would launch fewer than 10 vehicles a year. That number has risen to more than 20 for global leaders such as Volkswagen Group, General Motors and Toyota. VW CEO Martin Winterkorn raised eyebrows throughout the automotive industry when he said, during a speech at the 2014 Geneva Motor Show, that model life cycles would need to be “much shorter” in the future. The change is needed because he says all of the world’s automakers have to adjust faster than ever to customer requirements.
Not only are they launching more cars as well as more variants of those cars each year, they are debuting multiple powertrains – many requiring new production and assembly methods – weaving in new materials such as carbon fiber and introducing as much high-end software as in a brand new computer. They are trying to accomplish this at multiple plants in their network while simultaneously adapting to the different customer specifications of each region. All these aspects are dramatically increasing overall complexity, making it more challenging than ever to successfully launch a new car.

Automakers have the methodologies, expertise and experience to achieve this huge task, but seldom do so without encountering problems. Despite piloted parts supply plans and production ramp-ups that follow an approved curve, today’s launches always require firefighting. Although this is factored into the process, virtually every new model launch costs more money, takes more time or requires more resources than originally planned, according to experts. The cost of a stalled production ramp-up is multi-million euros – per day.

CHALLENGED LAUNCHES
New car launches require firefighting when complexity gets out of hand. This often is the case when: Two or more “launch variables” change simultaneously; new technology is involved; or the organizational and launch project governance has become slower and less agile with the increasing number of stakeholders involved.

Especially challenging situations include launching a new model underpinned by a new platform in a new plant. Also, new breakthrough technologies, such as the electric powertrain or carbon fiber parts assembly, can result in major launch hurdles. And with an increasing number of stakeholders involved from the automaker’s engineering, manufacturing, procurement and logistics functions; hundreds of parts suppliers; and maybe joint venture partners, even the most sophisticated launch programs are becoming less agile and slower to respond to emerging issues during the launch process.

Many of these problems can be addressed by using the right processes, templates, organizational structures, communications tools and by implementing an adequate professional project controlling body. Most automakers have established a corresponding governance and launch process structure to drive launch controlling, decision making and risk management.

BEST OF THE BEST
The best of best in launch management consistently manage the product dimension (the parts to be assembled), the manufacturing process dimension, and the overall program (escalation management, quality, risk management, communication) with the same emphasis and stringency. Across these dimensions, eight key elements can help insure successful launches. The performance of these elements – and how they are interlinked – largely determine launch success.
<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
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</thead>
<tbody>
<tr>
<td><strong>1. Testing</strong></td>
<td>Creation of required transparency to ensure that cross-functional decision making happens when problems arise. Identification, evaluation, definition of measures and effective decision making across functional departments; leveraging simulated testing and advanced statistical methods to identify issues early in the process and avoid changes later in the process.</td>
</tr>
<tr>
<td><strong>2. Tryout</strong></td>
<td>Ensuring manufacturing feasibility and piloting the actual manufacturing process. Critical issues are being identified and necessary changes implemented in the most effective way possible. A highly standardized plant and equipment layout help to leverage knowledge gained from previous launches and avoid issues identified late in the process altogether (“build-to-launch”).</td>
</tr>
<tr>
<td><strong>3. Change control message process</strong></td>
<td>Identifying potential change needs and very effectively implementing them to avoid the change itself from causing additional changes. Very stringent prioritization, cost transparency/control and communication are also key.</td>
</tr>
<tr>
<td><strong>4. Manufacturing maturity</strong></td>
<td>Transparent process control assuring that critical manufacturing workflows are identified during the preparation of series production. This includes production and logistics concepts, staffing and equipment. Applying hours-per-vehicle (HPV) improvement measures to control manufacturing cost and doing required checks in manufacturing readiness.</td>
</tr>
<tr>
<td><strong>5. Parts availability</strong></td>
<td>Assuring efficient management of suppliers very early in the project to make sure the right parts arrive at the right time, with the right quality and in the right quantity; doing parts checks and supplier audits.</td>
</tr>
<tr>
<td><strong>6. Launch quality</strong></td>
<td>Using standardized tools for long-term monitoring to improve launch quality. Keys are recording and evaluating the sources of defects, using dos and don’ts from previous launches as well as statistical methods and simulation to predict potential weak points.</td>
</tr>
<tr>
<td><strong>7. Launch planning</strong></td>
<td>Stringently planning the launch, based on previous successful launches and the established process/governance – while also adapting to new requirements from platforms, technologies and footprint. Assuring an interdisciplinary approach and leveraging key performance indicators (KPIs) across involved stakeholders.</td>
</tr>
<tr>
<td><strong>8. Communication</strong></td>
<td>Small, closed-loop communication across functions and with key stakeholders for effective escalation and decision management; moving previously physical “boardroom” progress indicators online by using social media applications and tablet computers to quickly pass on information in a targeted way.</td>
</tr>
</tbody>
</table>

Most automakers have installed their own solutions to address these key elements, some in more effective ways than others, but rarely do they perfectly cover the entire breadth of critical aspects that can affect a launch.

**THE NEXT FRONTIER**

Collaboration among multiple disciplines is crucial for successful launches. It will become even more critical in the future to ensure that mechanical as well as “functional” aspects of the assembly are flawless. This only happens if there is a constant and consistent sharing of information. To fully create the virtual car in the virtual factory, however, there is still a long way to go as it will require a massive cross-functional effort as well as an extreme amount of data to be processed.

To get to the next level, automakers will have to keep pace with recent developments and best practices, apply the latest tools and learn from other industries to find solutions for the parts of the puzzle that do not click into place properly today.
EXCELLENCE IN PROMOTIONS AND TRANSACTION PRICES

Sales costs make up approximately 30 percent of a vehicle’s list price. Commercial excellence based on leveraging big data constitutes a huge opportunity to counter the margin pressure for automakers. Companies must make smart use of the data available and systematically build their analytical capabilities to gain a clear advantage in the market.

Automakers and car retailers face intense competition in the new car business. They must cope with constant pressure on transaction prices and margin. They are pushed to reach ambitious volume targets while trying to optimize the usage of their sales and marketing budgets. Significant profit improvement opportunities exist along the commercial value chain. Sales costs make up approximately 30 percent of a vehicle’s list price. Greater promotion efficiency and higher transaction price realization are two key levers that can improve return on sales by one to two percentage points. Promotions are offered by the manufacturer, national sales organization or captive finance provider either to dealers or the end customer.

Jan Sickmann
Sirko Siemssen
Lars Stolz
Transaction prices also are affected by incentives given by the dealer such as cash discounts and free optional equipment and accessories. Promotions and dealer incentives are seen as tactical solutions to boost volumes but both often are used without any clear fact-based profitability or customer focus. In addition, only basic monitoring and steering tools are being used. By comparison, leading companies in other industries such as fast-moving consumer goods (FMCG), retail, telecoms and media employ advanced methodologies and tools to manage promotions and discount levels to better balance both volume and profit objectives. Automakers should adapt cross-industry best practices to optimize commercial effectiveness in promotions and transaction prices.

**ANALYTICAL INSIGHTS FOR DAILY DECISION MAKING**

At automakers, promotions can be controlled directly (or by their national sales organizations or captive financing partners) while independent dealers usually determine transaction prices. The automaker can influence transaction prices only through guidelines and decision support for its dealers. Oliver Wyman recommends three key elements to achieve greater transparency and fundamental insights for smarter commercial decisions. The first key element is to consolidate comprehensive data items for individual events (promotion, sales transactions). Basic data includes additional revenue and sales volume from promotions as well as targeted vehicle models, customer segments and supporting ad campaigns. Retail incentives are recorded per dealer, taking into consideration items such as vehicle transaction price, type of incentive and type of customer. The second key element involves introducing sophisticated tools to analyze the data.

The aim is to identify successful patterns and to better understand the direct and indirect effects of specific actions. The third element is integrating analytical insights into agile and easy-to-use tools that help deliver better,

### New car sales margin improvement opportunities, in %

<table>
<thead>
<tr>
<th>Description</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ex plant cost</td>
<td>~70</td>
</tr>
<tr>
<td>Sales cost HQ, nat. sales org, marketing</td>
<td>~4</td>
</tr>
<tr>
<td>OEM promotional incentives</td>
<td>~4</td>
</tr>
<tr>
<td>OEM profit</td>
<td>~8</td>
</tr>
<tr>
<td>Dealer profit</td>
<td>~2</td>
</tr>
<tr>
<td>Dealer margin</td>
<td>~12</td>
</tr>
<tr>
<td>List price</td>
<td>~100</td>
</tr>
<tr>
<td>PoS discount</td>
<td>~90</td>
</tr>
<tr>
<td>Transaction price</td>
<td>~65</td>
</tr>
<tr>
<td>Residual value</td>
<td>~65</td>
</tr>
</tbody>
</table>
Companies are living through a technology revolution that is transforming how they do things. Data is omnipresent. Technology has become deeply intertwined with workflows. And magnetic Web apps, new hardware devices and social media are creating new possibilities every day.

To address these changes, Oliver Wyman Labs is transforming how Oliver Wyman delivers capabilities and leads change to create sustained impact for its clients.

Oliver Wyman Labs focuses on (i) providing robust technology foundations, for instance secure infrastructure for handling large, confidential sets of data, (ii) providing leading capabilities in handling big data and advanced analytics, (iii) creating bespoke apps to embed insights into workflows, and (iv) developing “magnetic” software solutions for recurring client problems.

**COMMITMENT IS KEY**

Automakers need to overcome a range of challenges to achieve excellence in promotions and transaction prices. Gaining access to sensitive transaction data requires a substantial level of trust from national sales organizations and dealers. A clear business case and open communication of mutual benefits for all involved parties is crucial. Moreover, the aim is to enable competence rather than take it away from national sales organizations and dealers. From a technical perspective, the consolidation of big data from dispersed sources across sales levels creates another hurdle. Industries such as retail and consumer goods have overcome these obstacles and now benefit from the value of profound insights. A third challenge is to transform sometimes complex information into easy-to-use decision support. Front-end tools need to be tailored to the user’s specific environment and capabilities.

Achieving excellence in promotions and transaction prices is not a short-term endeavor. Capabilities, processes and systems need to be systematically developed. Piloting the approach in some markets and with selected captive and independent dealers may get the ball rolling. New groundbreaking findings will help to earn trust and can serve as a proof-of-concept.

In summary, automakers need to lay the foundation for sustainable success by aligning these five key levers.

1. **Strategy and objectives:**
   A clear strategy linking organizational objectives with day-to-day operational targets.

2. **Processes:**
   Integration of a new approach in effective standard processes for planning, executing, reviewing and learning from past decisions.

3. **Data:**
   Access to all relevant promotion and transaction data from headquarters, national sales organizations and dealers is crucial.

4. **Tools and systems:**
   An integrated and consistent datamart becomes the single “source of truth” that feeds easy-to-use decision support tools.

5. **Organization:**
   Clear end-to-end roles and responsibilities are established for effective central coordination.
With high margins and global sales of more than $250 billion, automotive service parts is a highly lucrative business. Service parts typically represent about 2 percent to 5 percent of a vehicle manufacturer’s revenue but easily account for 20-plus percent of overall profit. Pricing strategy often takes the form of establishing price points relative to competitive benchmarks while little analytical rigor is applied to pricing decisions. The potential margin improvements from using a more scientific approach to pricing are significant.

The service parts business is worth multi-billion dollars to most vehicle manufacturers. Even a slight increase in margins or volumes can add tens of millions of dollars to the bottom line. Pricing decisions are typically made either on a “cost-plus” basis – adding a mark-up to achieve a specific margin – or by setting a price point relative to the competition. Neither approach takes into consideration the customer’s willingness to pay or utility between competitive options. For example, on which products are customers willing to pay a premium for the manufacturer part versus a generic alternative? How does this premium vary based on whether the part is in stock or needs to be ordered? How does pricing through distributors or dealerships affect end-consumer pricing and demand? How does pricing vary over the life cycle of the part, by region, by dealer, by time or date?

Applying an analytical lens to these questions can generate significant benefits – on the order of 300 to 400 basis points on margin for vehicle manufacturers. In an environment of compressed margins, opportunities of this magnitude are rare.
OVERCOMING COMPLICATIONS

Benefiting from this opportunity is not straightforward. In a typical retail pricing environment, the price and demand signals are clear and easy to measure because the retail price of a product and for all competitive options is public. Also, sales of a single product are typically quite high and forecastable, so shifts in demand are easy to measure with statistical significance. The same is not true for service parts. Vehicle manufacturers frequently encounter several complications in determining the optimal pricing approach. These include:

- Sporadic sales of slow-moving parts
- Distributor channels that mask the pricing signal to the market (including stocking effects at the different distribution levels)
- Contracted discounts and powerful customers with consolidated buying power
- Lack of knowledge and transparency around competitive pricing actions and promotions.
- Distortions in demand signals due to field actions and recalls

Overcoming these challenges requires (1) a new “Analytical Toolkit” and (2) an “Organizational Culture” that embraces a “test-and-learn” approach as well as continuous improvement.

Approach to profitable service parts management

Do you have... the right commercial Relationships/Terms?

Can you achieve... Quick Wins by correcting previous mistakes?

Do you have... Unnecessary Downstream Costs getting parts to dealers/customers?

Are you offering... the Right Products?

Are you offering... the products at the Right Price?

Are your... Designs too expensive?

Sourcing Optimization

“Mistake” Correction

Downstream Value Chain Optimization

Price Optimization

Upstream Value Chain Optimization

Design Optimization

Service Parts Profitability
PRESCRIPTION FOR SUCCESS

An analytical toolkit for service parts pricing will support pricing decision making based on market analysis and competitive data. This toolkit integrates into existing pricing execution systems, such as Vendavo or PROS that manage the prices for each part. There are three core components of the toolkit.

1. **Pricing pilot management**: Infrastructure to design and run multiple pilots of price changes on sets of parts and measure the results against a control group. This infrastructure has to be able to aggregate similar parts based on statistical characteristics given the slow movement of many part types. The data gathered from these pilots are crucial inputs into the next two components.

2. **Pricing optimization**: A model to suggest an optimal price based on factors including market conditions (part sales, demand trend, brand premium), competition (competitive pricing, repair or alternative options), service part costs (part costs, packaging, delivery, warranty) and strategic goals (profit maximization versus market share, total cost of ownership strategy, etc.).

3. **Pricing automation**: A set of pricing formulas combined with a retail-type rapid price change system designed to price every part based on a set of data and quick field implementation. Manual review would be required only in exception cases.

In addition to this toolkit, instilling a “test-and-learn” culture into the pricing organization is crucial to success. This means that the pricing team has solid analytical capabilities and a desire to move pricing decisions beyond “cost plus” or “gut feel.” The pricing team will have a curiosity for learning about the market and customers and will strive for continuous improvement, even when past practices have worked “just fine” before. To capture an opportunity as large as this one, “just fine” just doesn’t cut it.

Though the transformation process takes time, the real benefits from pricing improvement are substantial and nearly immediate.
General Motors named Mary Barra chief executive in January 2014. The 34-year GM veteran was named to the Time 100 in 2014, and Fortune names her among “50 Most Powerful Women in Business.” In her short time as CEO, Barra has already faced the challenge of addressing high-profile recalls, which she has called an opportunity to accelerate cultural change at GM. She told OW the company must “recapture the innovative spirit and leadership” that long defined it, and the key is putting the customer first.

What do you see as the greatest challenges facing the global automotive industry?

The biggest challenges and opportunities will be with advancements in fuels and propulsion systems, rapidly evolving mobile broadband technology and changes in energy and transportation policy around the world. The key to success in all these areas is speed and innovation. The winners in tomorrow’s industry will be those companies that provide consistent breakthroughs in safety, fuel economy, connectivity, features and designs that surprise and delight customers – in all vehicle segments all across the world. That is why I am pushing the GM team to recapture the innovative spirit and leadership that defined our company for much of our history – all with an eye toward putting customers first in everything we do, from Detroit to Sao Paulo to Beijing, and places in between.

MARY BARRA was named CEO of General Motors effective January 15, 2014. Under her leadership, GM is driving to become the global industry leader in automotive design and technology, product quality, customer care and business results. She is also a member of the GM Board of Directors.

Mary Barra began her career with GM in 1980 as a General Motors Institute (Kettering University) co-op student at the Pontiac Motor Division.
How do you think GM has changed since the recession?

Today’s GM is dramatically different than it was several years ago. We have fewer, stronger brands; better product quality; higher, more consistent spending on new products and technology; less corporate complexity; consistent profitability; a fortress balance sheet and much more. But by far the biggest change in recent years, the thing that makes us a more responsive and exciting company, is our clear focus on the customer. Throughout GM, we are working to incorporate the voice of the customer into everything we do – before, during and after the sale. Our goal is to offer our customers everything they want, need and deserve every time they buy a GM product or service.

How does an insider like you continue to drive change at GM?

Driving change is not about being an insider or outsider; it’s about driving the GM team to be the best we can be. It all starts with focusing on the customer and doing what’s right for them. It also means having a culture that empowers employees and motivates them to contribute, to be open to new ideas, and to always look for ways to improve and innovate. The auto industry is a dynamic, competitive business that is changing more quickly today than ever before. If you aren’t helping to lead this change, you and your company won’t be long for the challenge. As I said before, I’m pushing the GM team to recapture our innovative spirit and leadership. That, by definition, requires us to be open to change.

You said to USA Today: “GM must deliver innovative products that satisfy customers and we can’t get complacent.” What is your strategy to boost innovations?

We have always had a strong research and development team at GM, and that strength has made us an industry leader when it comes to generating ideas, patents, inventions. But that’s just the start. Equally important is taking our ideas and inventions, identifying those that make a real difference for our customers, quickly getting them into our products. That’s real innovation, and that’s our primary focus at today’s GM. This allows us to tie R&D more closely to the bottom line and, more importantly, directly to the customer. At the same time, we’re continuing to look for long-term solutions and technological breakthroughs in areas like advanced propulsion – research that will drive our customers, and the industry, far into the future.
What has been the most valuable educational experience in your career at GM?

I have learned important lessons in every position I have held at GM, and the common denominator has always been people. GM is brimming with employees who devote their lives to this company, people who come to work every day determined to make a difference. I believe we can learn something from everyone, and with so much talent and passion inside GM, the learning opportunities for me have been endless.

How would you describe your leadership?

My job is to engage people, gather the right team and inspire others to do more than they think they can. Success is always a team effort. I work to drive change and improve performance through collaborative thinking and clear decision making. I believe in seeking out and rewarding innovation, and I expect transparency and a commitment to excellence. I also try to lead by example and create an environment where results are expected, and integrity and accountability are absolute.

How do you juggle the requirements of work and your family life?

With two teenagers at home, it can sometimes be a challenge, as I am sure it is for everyone who juggles a career and a home life. Somehow, we make it all work. In this day of instant and continuous connectivity, your work schedule can quickly become 24-7. It is up to each of us as individuals to balance and prioritize. You have to put boundaries around what is most important to you. No one will do that for you.

The interview was done by Michelle Hill, Vice President at Oliver Wyman
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