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30% earnings contribution

The After-Sales Growth Program

With an average contribution margin of about 30 percent for manufacturers and more than 50 percent for dealers, after-sales is a crucial source of income for the automotive industry. Service, as an important customer touch point, is also a fundamental driver of customer satisfaction. At the same time, the intensity of competition between manufacturer channels and independent providers is increasing. Oliver Wyman has identified ten crucial areas where manufacturers should act if they want to secure sustainable market leadership in after-sales service.

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The after-sales business is going through profound change worldwide. While established markets in Europe and North America are declining as a result of decreased service needs per vehicle, business is markedly climbing in emerging automotive regions in Asia and South America, because of significant volume growth there. By 2015, global after-sales markets are expected to grow to a total of USD 424 billion, roughly 16 percent higher than in 2008. At the same time, competition is growing more intense. Fast fitters and intermediaries like insurance firms and leasing companies are pushing their way into the market, challenging the dominance of manufacturer-linked channels. In the worstcase scenario, this means that the manufacturers will lose up to 35 percent of their total after-sales revenue and up to two-thirds of their earnings to independent channels by 2015. Their networks could consolidate by up to 50 percent, and market leadership in after-sales service would be lost.

where manufacturers' market shares have eroded, must be addressed in a targeted manner as well. Signal prices, in the form of fixed-price campaigns for segment II vehicles, can be effective here. Change-of-owner strategies, extended warranties, segment- and current-value-justified prices for genuine parts, and an intelligent bundling of products and services will strengthen customer loyalty to the brand. A needs-based extension of the product range with accessories, competitively focused price differentiation, particularly for cross-brand small components, and greater service for handling and logistics will all help to secure customer loyalty to the dealer.

"Manufacturers can win the battle for market shares in after-sales service by waging an offensive against independent providers and simultaneously strengthening the loyalty of current customers."

Expanding market shares

To counter this scenario, manufacturers will have to implement aggressive growth programs in vehicle segment II, i.e. the five to seven years old used cars, employ customer-loyalty tools such as maintenance contracts and extended warranties, and use their own garage formats in the independent aftermarket. The loyalty of major customers, fleets, and intermediaries to OEMs must be won through attractive offers in sales, service, and especially customized high-quality processes.

Through a superior, integrated soft-franchise model, the manufacturer can bolster system leadership in after-sales on a sustainable basis. The manufacturer becomes a system center and ensures a uniform market presence and a consistent brand experience for customers by managing a few key performance indicators. In broad terms, this approach offers the OEMs an opportunity to boost market shares by up to five percent by 2015 and to effectively use after-sales as an instrument for customer satisfaction and customer loyalty.

Focus on the customer

The key to bolstering market leadership is a sharp focus of the entire organization on the customer and earnings. Manufacturers can improve customer satisfaction and loyalty by introducing far-reaching measures that extend all the way to dealers. Among business and fleet customers, for example, manufacturers must offer an integrated, needs-based line of services.

A comprehensive networking of after-sales service with the new vehicle business, as well as financial services and a central, uniform handling organization on the manufacturer and dealer levels, can address critical customer needs. The same applies to uniform market prices and conditions for fleet customers. And to acquire small-business customers, the dealer organization should be provided adequate funding and bonus structures. Customers of older vehicles (segments II and III),

Market specific strategies

Automotive growth markets in Asia and South America offer the greatest growth potential for after-sales service. Manufacturers must create high-performance service networks and

Eight trends in after-sales service

1 Customer structures change. In mature markets, society is aging, the income structures are polarizing, and the number of female customers as important purchase decision makers is increasing.

2 Business and fleet customers as well as intermediaries are becoming more important. In 2015, business customers will have a 60 percent share of registrations. This will increase the demand for complete solutions.

3 Garage systems and fast fitters are becoming an increasingly threat to the OEM after-sales.

4 Format innovations in after-sales lead to broad diversification from the service factory to the fleet-management operation.

5 Greater use of electrical systems and electronics increases the technological complexity of the vehicle.

6 The proliferation of models and options as well as the shortening of the model cycle will continue to increase the range of parts.

7 Consolidation in retail and the dominance of multi-brand operations will spread, particularly in the major markets of continental Europe.

8 The purchasing loyalty of dealers is fading, and manufacturers are increasingly competing against one another in after-sales service.

create sufficiently attractive offerings to win over the best dealer partners. Professional employee recruitment, qualification and retention as well as development of effective wholesale structures will form the basis for servicing of vehicles that are newly introduced to the market. Integrated customer retention initiatives in Asia and South America help to sustain the market position of the manufacturers from the beginning.

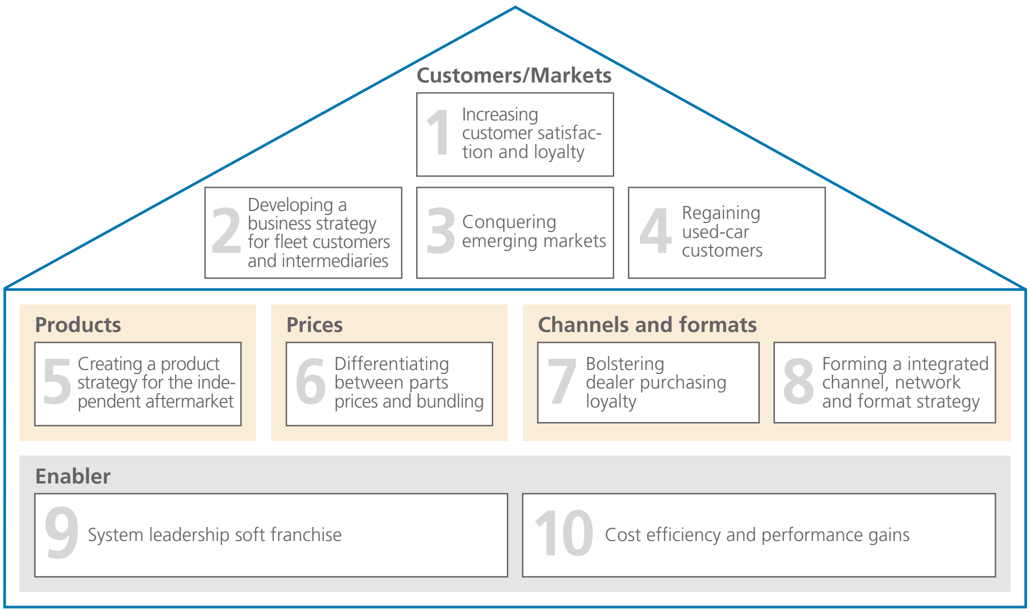
The situation is different in the mature, commoditized markets of Europe and North America. In addition to securing current business, manufacturers should consider direct targeting of providers in the independent aftermarket. Current-value-justified lines of parts and all-makes assortments might work here, aimed at the core business of alternative providers.

Competitive price strategies and active price communications can win back the cost-conscious regular customers of independent providers, provided that adjustments of the conditions and margin systems can refocus the sales system on these customers. By directly entering the independent market, manufacturers can also participate in the strong growth of this segment – either through professional sales of parts in independent channels or through their own brand-independent service formats.

Determined introduction

A sustainable after-sales strategy calls for manufacturers to bundle all sales activities and sensibly integrate the sales channels, formats, and structure of the network. Furthermore, future market changes as for instance the Block Exemption Regulation 2010 in Europe must be considered, and cost-cutting endeavors at the manufacturer, wholesale, and retail levels must be exploited. Manufacturers, importers, and dealers must work together to achieve leadership in after-sales service. Oliver Wyman uses a proven implementation program to safeguard the manufacturers' market leadership in after-sales service.

Agenda for profitable growth in after-sales



Source: Oliver Wyman