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MANAGEMENT SUMMARY

Oliver Wyman study: “Commercial Vehicle Manufacturer Cooperation in Sales and Service”

Cooperation is no longer taboo

- **Increasing expectations of service and sales combined with rising cost pressures demand new concepts**
- **Joining forces with competitors to provide service in marginal markets is now a viable option**
- **Cooperating with companies outside the industry helps expand service portfolios**

In Europe, those involved with sales and service networks for commercial vehicles are increasingly feeling the pressure to make changes. On one side, new technologies, service contracts, mobility guarantees, and customer needs are continuing to raise the bar on expectations when it comes to sales and service. On the other side, per-location revenue in regional sales and at service outlets are continuing their steady decline. The latest Oliver Wyman study, “Commercial Vehicle Manufacturer Cooperation in Sales and Service,” shows that cooperative agreements are one way to face these challenges. Cooperating partners can contribute service expertise and help reduce the high costs associated with dense networks of service locations. The majority of truck manufacturer managers surveyed for this study said that cooperation, even with competitors, was no longer taboo. The prerequisite for successful cooperation with competitors is a clear separation of sales and service.

The sales and service network accounts for about 20 percent of total costs incurred by a truck manufacturer; however, 30 percent of that figure provides no direct value added. Historically, all truck manufacturers have expanded their sales structure and added locations over time. However, these companies have not always followed an overarching logical strategy as they made decisions on network density, branch office geography, flexibility options, and services performed in-house. Afraid of endangering their existing local business, manufacturers have until now been reluctant to organize their European sales and service networks using a single superordinate strategy. But the need to take action is growing more urgent. Truck manufacturers find themselves in a bind, particularly in markets where they have only a small share of the market. On the one side, new technologies, service contracts, mobility guarantees, and customer needs are raising expectations with regard to sales and service. On the other side, revenues per outlet are continuing their steady decline: both in regional sales as a result of the increasing number of direct customers and at dealer-affiliated workshops.

Cooperation is one way to avoid being dashed between the rocks of rising expectations and falling revenue. This is an inexpensive way to offer new services and allows companies to use each other’s infrastructure. Even today, 70 percent of industry companies say they frequently enter into cooperative agreements with other companies. Well-known examples include the information center at Mercedes-Benz, where MB works with truck body manufacturers to test complete vehicles, and the cooperation between MAN and Europcar on supplying replacement vehicles. Cooperation with other industries is much less common, but it does happen—take the example of Iveco Finance Holdings, a joint venture between Iveco and Barclays Bank. 30 percent of truck manufacturers occasionally cooperate with a company outside the industry, but only ten percent say they do so regularly.

Managers still not pursuing fully-fledged cooperation

Even cooperative agreements with other truck makers – previously taboo – are now an option. 50 percent of those surveyed are already working to some degree with competitors on sales and service, but generally only in non-competing vehicle segments or competitors in the same group of companies, such as the shared service locations of Renault and Volvo. The majority of industry managers assert that their brands are not damaged by such activity. This opens the door to future cooperation on service issues. At the very least, this will be true in countries where neither of the partners is the dominant player.

The Oliver Wyman study shows that previous truck-related partnerships were only peripherally concerned with reducing costs. The primary goals of such partnerships today are better market penetration and the expansion of available services to achieve a “one-stop shopping” experience for customers. Although the managers surveyed were generally satisfied with the expansion of available services achieved via a partnership, they felt those partnerships often failed to achieve the goal of better market penetration. Many companies also reported that insufficiently defined processes hampered their efforts to cooperate, resulting in a partial or total failure to meet the goals laid out for the partnership.

When it comes to partnerships, companies tend to place more emphasis on operational implementation and less on strategy and conception. But it is precisely those early conceptual phases that set the stage for a partnership’s success. Most manufacturers do not have a detailed internal definition of the changed demands that will be made of sales and service locations.First off, the interplay between key account management, regional sales, and industry sales, which is only going to grow more important in the future, must be re-defined. And second, it’s important to perform some analysis to determine the optimal density and quality of the service network for each region and secure it over the long term. However, this also means that companies do not have to see sales and service as a single entity.

Opportunities for market differentiation and cost reduction

The study identifies two areas where sales and service partnerships are of interest for truck manufacturers. The first is cooperation with partners from other industries such as car rental companies, telematics service providers or financial services companies; such partners can offer an array of customer-focused services around the more than difficult-to-differentiate “truck” product. Examples of such partnerships include fleet management, remote diagnosis, replacement vehicles and financial products. They are designed to differentiate one brand from the rest and should not be spread across multiple truck brands.

The second interesting possibility involves partnerships with competitors to jointly operate service outlets. They could help reduce costs in locations where profitability is critical for only one brand. This type of partnership is particularly appealing in markets where both partners are niche players. Our calculations show that each partner could rack up savings in the tens of millions in a single medium-sized European market.

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Key trends in commercial vehicle sales and service

Product differentiation on the decline
Trucks from the leading manufacturers are of nearly equal quality today. Therefore, in the future, technical differentiation of brands must be replaced by differentiating a brand's sales and service.

Long-distance routes are driving the market
The international division of labor ensures that freight is traveling over ever-longer distances. Short-haul routes have declined by more than ten percent over the last ten years. This makes a dense service network more and more important.

Fewer service hours per vehicle
For decades, technical improvements have been causing a steady decline in the service and repair needs for each vehicle. Therefore, it is very expensive to maintain a sufficiently dense network of service locations in countries with low market share.

The percentage of large customers is growing
For many years, the number of medium-sized trucking companies has been falling while large companies capture an ever larger share of the market. These customers require centralized key account sales and special services, often across national borders.

Cooperation with body manufacturers disintegrating
In standard body sales, more and more finished trucks will be sold as complete units by the manufacturer. For custom vehicles, customer contact is migrating to the body manufacturers. This results in industry-specific sales departments.

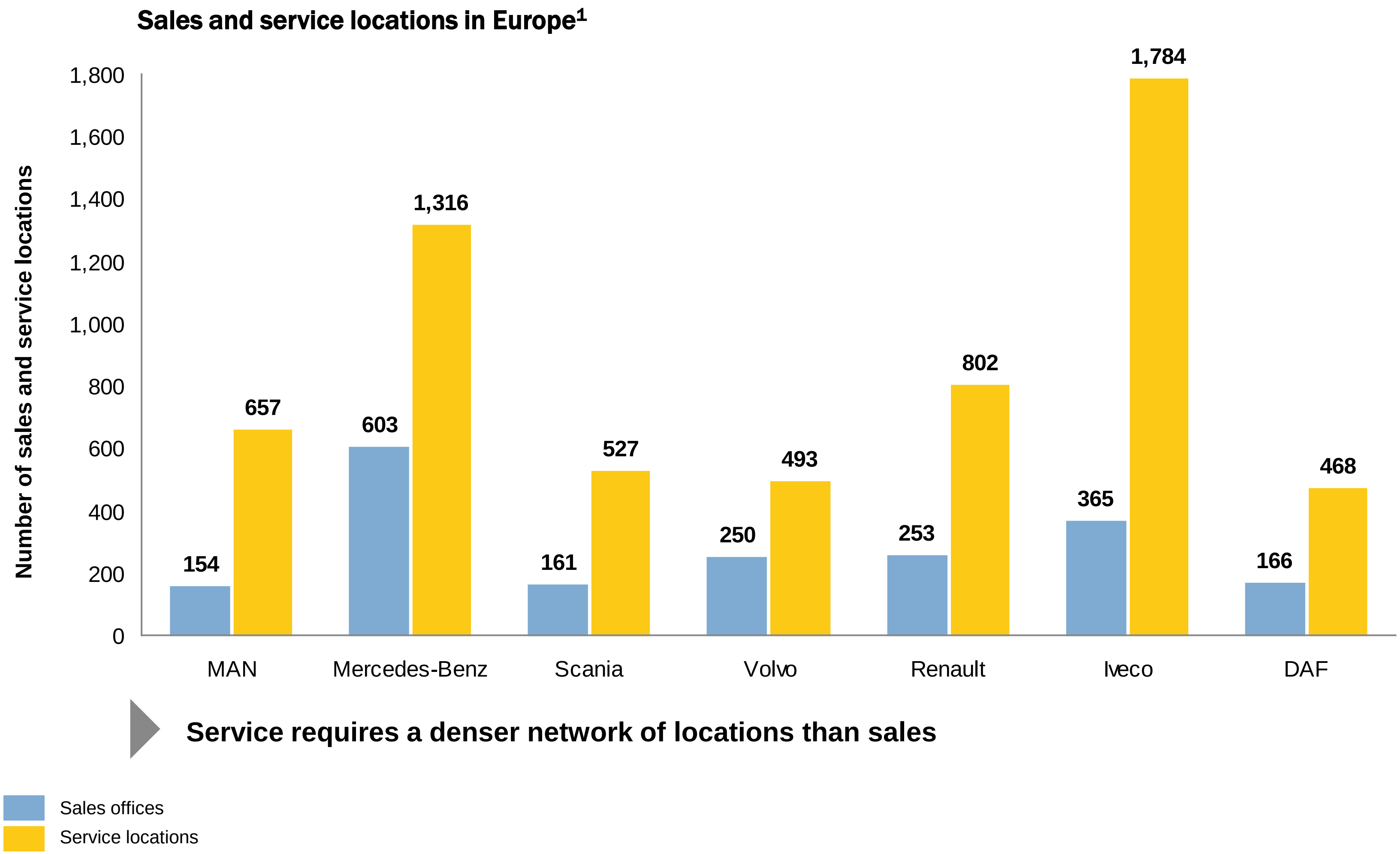
Sales decoupling from service
Along with the regional sales approach, all of the truck manufacturers are also building large customer sales offices and placing more emphasis on industry-specific sales. Because all groups will have to access service at some point, the separation of (regional) sales and service is a certainty.

Oliver Wyman study: "Commercial Vehicle Manufacturer Cooperation in Service and Sales"

In its latest study, Oliver Wyman studies opportunities for downstream cooperation. Extensive secondary data were analyzed, and many interviews were conducted with high-level representatives from all relevant areas of the commercial vehicle industry, i.e., with manufacturers, suppliers, and service providers.

Network structure

The number of sales and service locations, and thus the overall network density, differs dramatically from one OEM to the next

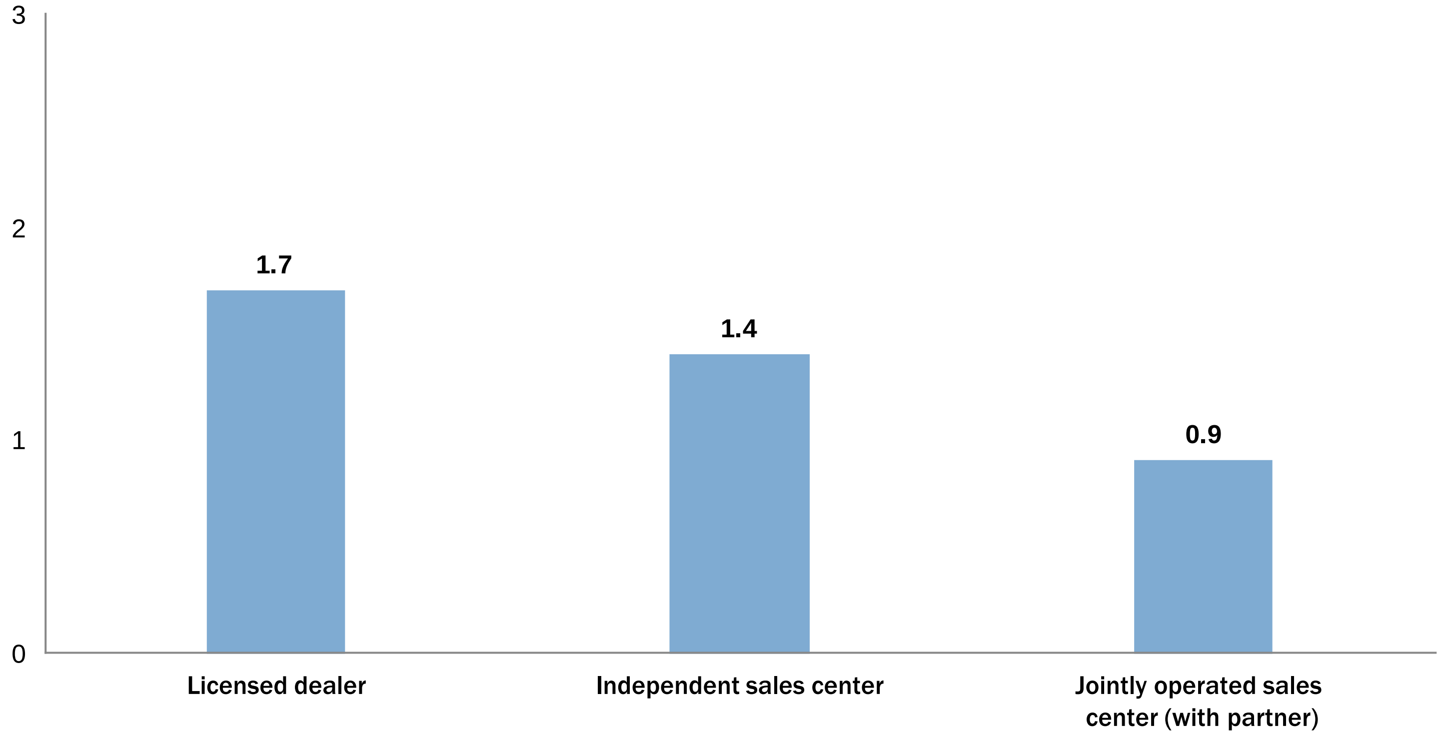


Service requires a denser network of locations than sales

[1] Aggregated data from GER, FRA, ITA, UK and SPA

Status Quo
Respondents see the greatest potential for downstream cooperation in licensed dealers

Potential for future forms of sales cooperation
By relevance of potential parameters, based on survey responses



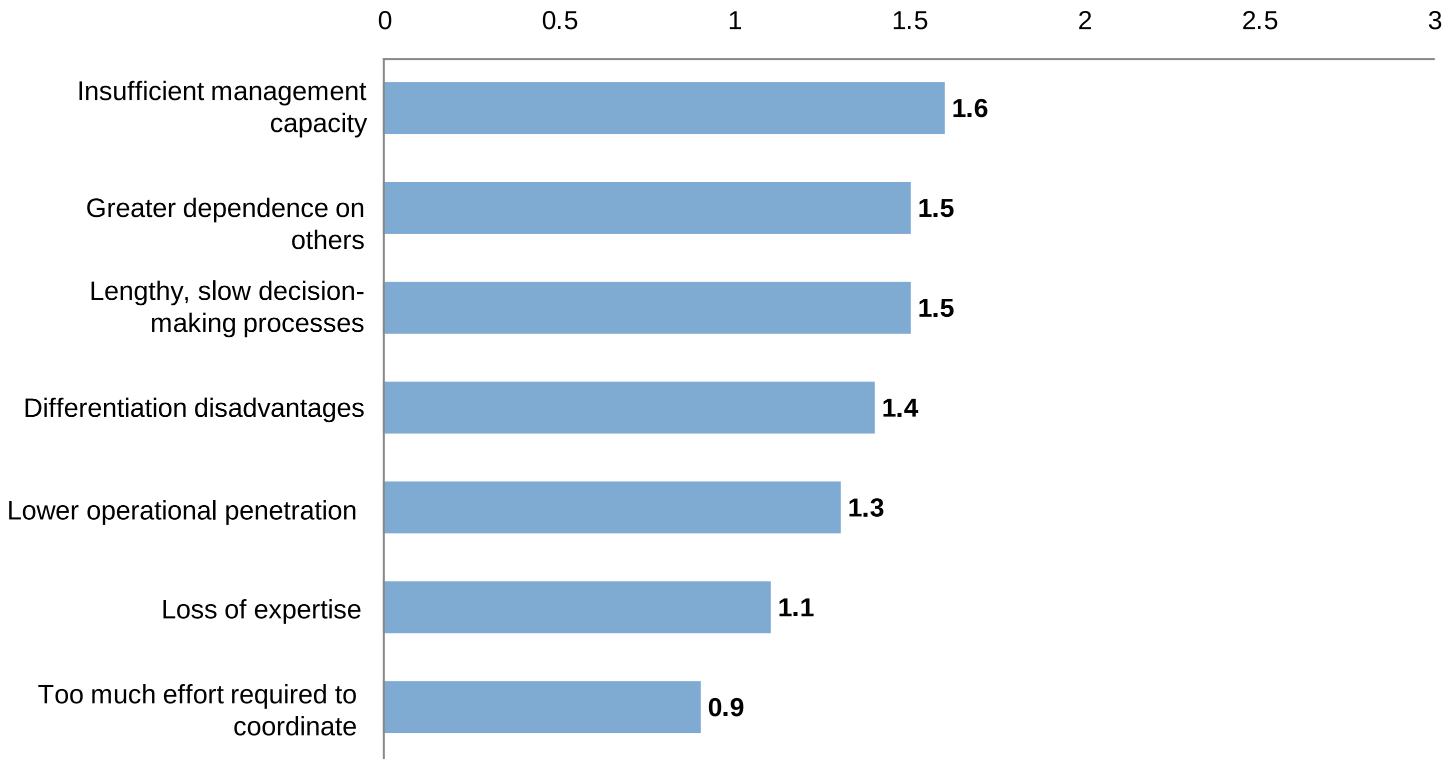
0 = no potential   1 = little potential   2 = some potential   3 = high potential

Risks and challenges

The various risks associated with cooperation are perceived in a relatively undifferentiated manner

"Perceived risks"

By relevance of risk parameters, based on survey responses



0 = not relevant 1 = slightly relevant 2 = somewhat relevant 3 = very relevant