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Custom-tailored offerings

> **Customer** > R&D > Procurement > Production > Sales > Services

Truck Makers Should Heed Customers' Concern About Operating Costs

The truck sector worldwide is going through a cyclical downturn. Over the next few years, the main goals of makers of heavy commercial vehicles will be to retain customers and to tap new sources of revenues and earnings. To accomplish these goals, they must have a better understanding of customer needs and address these needs with customized products. Oliver Wyman's study, "Truck Customer 2008," offers insights into the priorities of commercial vehicle customers and identifies the most pressing areas for manufacturers to act.

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For the second time, Oliver Wyman conducted a survey of truck customers that focused on the present and future significance of roughly 50 buying criteria in six categories, as well as the fulfillment of these criteria by individual manufacturers. In all, about 1,000 commercial vehicle customers in China, France, and Germany were surveyed.

Costs concerns rise to the top

The quality of the vehicle itself remains extremely important. However, truck customers see no need for major changes in terms of comfort, safety, or technical innovation. By contrast, customers expressed concern about cost-related issues such as purchase price, operating costs, and the range of services. In

all countries and customer segments, purchase and life-cycle costs are the most central buying criterion for trucks, now and in the near future. Yet the importance of the issue to customers has not been matched by a response from manufacturers. Truck customers expect manufacturers to help them lower their operating costs. In addition, customers want improved service quality and availability of replacement parts at repair shops. In emerging markets, customers also criticized the extent and the quality of the repair-shop network. Customers voiced a desire for increased reliability and shorter downtimes; other related services are particularly important for larger fleets and mature truck markets.

Significant regional differences

The ranking of customer needs and expectations differ significantly by country, suggesting that truck manufacturers must increasingly adjust their product lines to meet regional requirements. While German and Chinese customers focus on the overall costs of trucks, French customers say that purchase price is the critical factor and that operating costs play a secondary role. Of the countries surveyed, the French are the most safety- and environmentally conscious buyers of trucks. In Germany, the length of repair times is the third most important factor, while it ranks seventh in France and 15th in China. Germans are concerned about warranties and goodwill, while Chinese commercial vehicle customers pay more attention to the vehicle brand – a sign of a fragmented market with wide differences in product characteristics.

In China, foreign truck manufacturers still lag in service

Generally speaking, Chinese commercial vehicle customers do not rate foreign brands higher than domestic ones such as FAW or Dongfeng. Chinese customers do consider foreign vehicles to be technically superior to domestic models, particularly in terms of maintenance requirements and cabin comfort. But European models cost significantly more and have a much smaller service network than domestic competitors do. Service is a general problem for Chinese customers.

Only 15 percent of commercial vehicle customers surveyed in China use the brand's repair shop; the rest rely on their own or independent workshops. Those who do use brand-name repair shops complain about high prices and long delivery times for replacement parts. In particular, they criticize the higher hourly costs for mechanics' work and the long distance to the nearest repair shop of foreign brands. At the same time, local brands in emerging markets cannot meet the rising demands being placed on vehicles and must be retrofitted.

All truck manufacturers in emerging markets should think about investing heavily in services. The survey's findings in China clearly show that both domestic and European brands will be in a good starting position if their service is solid and affordable. In this area, partnerships with competitors or specialists should be considered, as they allow for sharing high initial investments. In such markets, the range of financing services is critically important, and the survey found that needs in this area were insufficiently covered.

Low-cost trucks have little appeal

The Oliver Wyman survey asked about demand for Asian and Eastern European low-cost trucks in Germany and France. German customers have no interest in low-cost trucks made in emerging markets, with about two-thirds of German customers considering ve-

The most important customer requirements in a country comparison

	Rank in Germany	Rank in France	Rank in China
Fuel consumption	1	6	2
Reliability & need for repair	2	4	1
Down-times	3	7	15
Vehicle's mileage cost	4	22	6
Availability of spare parts	5	9	5 ¹
Safety	6	2	9
Warranty and goodwill	7	16	24
Service quality	8	5	12
Vehicle's purchase price	9	3	7

■ Vehicle ■ Costs ■ Workshop offering of manufacturer ■ Most important differences

¹Question in China: Importance of the availability of spare parts on the open market

Source: "Truck Customer 2008," Oliver Wyman analysis

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ehicles produced in China, India, and Russia to be of unacceptable quality. Vehicles from Eastern Europe fared only slightly better. French customers have a more positive attitude toward vehicles made in these countries, with 15 to 20 percent of French customers viewing these vehicles as having comparable quality. Customers expressed doubts about low-cost trucks' reliability, safety, and service network.

Rethinking the business design

The study highlights areas that are especially relevant in the context of the current slowdown in sales worldwide, and suggests a number of recommendations. First, the broad task is to reduce and also to make transparent to the customer the overall vehicle costs. Frequently, premium manufacturers do not exhaust their full potential. Vehicle manufacturers must examine their entire value chain to determine how they can influence costs in order to lower end-customer prices. Significant savings might be found by reducing the vertical integration of manufacture, since customers no longer consider in-house production of engines to be a decisive factor.

Taking a long-range perspective, the study results also raise the question of whether the truck industry's current business design, with its focus on added value in development and production, is sustainable. If cost increasingly becomes a decisive factor and the vehicle itself has little differentiation, manufacturers could narrow their focus to vehicle conception, integration of parts, and operation of sales and service networks. These are the most important elements that drive customer satisfaction, and will likely remain so in the foreseeable future. Production of components could be gradually turned over to value-added partners. If this step were taken, the impact on the OE business must be kept in mind. Such a new focus would free up capacities that could be used to optimize such areas as sales or repair-shop performance and higher-value services.

Creating needs-based products

In mature markets such as central Europe, products and services should be tailored for specific regions and customer segments. The definition of each segment should derive from detailed knowledge about customer priorities, leading to corresponding product and service ranges. For higher-value services such

Five recommended actions for truck manufacturers

- 1 Improve workshop service:** This is a decisive purchasing factor and the place where the customer's cost position can be improved. Starting points are expanded and standardized repair-shop formats as well as intelligent planning of the sales and service networks.
 - 2 Create operating cost-optimized offerings:** Operating costs are customers' most important concern and can be addressed in numerous areas, from purchase and use to residual value. That also applies to the sales pitch.
 - 3 Develop specific offers for regions and segments:** The best offering for target customer groups requires deep knowledge about the groups per segment and region.
 - 4 Improve and communicate added-value services:** Customized offerings and enhanced communication activities about the service range in such areas as fleet management and service contracts will increase customers' willingness to buy and satisfaction.
 - 5 Sustainable business design:** Because there are fewer and fewer differences in commercial vehicles, manufacturers must constantly scrutinize their business design. By employing a reduced vertical range of manufacture, for instance, they can use newly tapped resources to bolster important customer-contact interfaces.
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as fleet management, mobility guarantees, service contracts, or short-term rentals, the study shows that offerings – possibly through partnerships with specialized providers in individual areas – and customers' perception of those offerings must be improved. To date, customers have not been won over by the current range of offerings, but many consider it to be an important area. Even if commercial vehicle manufacturers do a decent job of meeting the needs of their customers across brands and markets, this is not sufficient to gain a competitive edge. Manufacturers will have to tailor their offerings to specific customer requirements in different segments and regions. In mature markets, two goals should be to improve the interface between the customer and the manufacturer, and to generate additional revenue by offering intelligent services. In emerging markets, the service structure must be improved in order to match brand promises and to remove doubts about vehicle availability and quality.