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Turnaround in the crisis

The perfect service provider

The situation is precarious. New-car registrations have plummeted. Government stimulus programs are indeed boosting or stabilizing sales volumes, but they also are pushing people toward buying smaller cars. The result is lower earnings potential in the downstream business. While new-car sales are declining, the growing use of temporary mobility services such as car sharing is creating new opportunities. As a result of successful service management during the crisis, the potential in this business is being fully tapped and service is shifting into the next gear.

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Post-purchase is pre-purchase. Today, Germany's automobile sector generates end-customer sales of about 140 billion euros in the downstream business. The resulting profit from service is 15 billion euros a year. The range of services is extremely broad. People can get everything from financing to maintenance to mobility assistance. But this sales volume and earnings engine is sputtering because of the global recession. Volumes are down at workshops; leasing companies are being pressured by increasing refinancing costs and lower residual values; and companies such as tuning and equipment specialist D&W have sought insolvency protection to avoid collapse.

Turnaround forms the basis of profit

The global downturn in new-car sales has hit car dealers hard. In 2008, their average return on sales was already minus 0.6 percent. Because only dealers with strong service departments make a profit, quick action is needed in downstream services. Depending on the service provider's current situation, various turnaround measures can offer great promise. These include the reorganization and strengthening of finances as well as traditional operational restructuring measures such as capacity management and the reduction of working capital. The basis of such measures should always be an analysis of available liquidity. Successful gains in terms of sales

and costs follow a proven pattern. The »top line« of the business is secured by adjusting prices, strengthening customer loyalty and optimizing the sales pitch to customers through advertising. In terms of costs, companies can add flexibility in areas such as the costs of their administrative activities. They can become more cost efficient by lowering purchase prices through negotiations; outsourcing activities or taking them back in-house; and restricting working capital by employing systematic management of receivables.

Working with manufacturers, dealers and independent providers, Oliver Wyman has successfully optimized a number of different downstream businesses. Two case studies highlight the range of options available to increase earnings despite the challenging market environment.

Case 1:
Price optimization in the workshop business

Employing a price structure that differentiates between end customers and business customers can significantly strengthen the earnings power of the downstream business. One good approach to attract private customers is to have target-group specific campaigns such as fixed-price offers for wear-and-tear repairs of older vehicles. Service prices for private customers also can be broken down by regional conditions as well as vehicle model or age. A comparison of competitors for each location and repair category will demonstrate whether a price increase can be introduced on the basis of customers' low price elasticity and which quantity effects would result in price cuts. One critical point here is to incorporate the expected reaction

of competitors into the company's own strategic considerations. Regardless of the competition, signal prices combined with campaigns can have a positive, sustainable effect on customers' perception of prices. For this reason, it can make sense in times of crisis to subsidize service contracts with lower prices for parts and thus create customer loyalty to the workshop.

For business customers, discounts and price have the biggest effects. Price policies that are determined by using these facts generally facilitate margin improvements of two to three percentage points in the service business on the retail level. The key is to correctly calculate prices and discounts in the first step and then to implement them under consideration of all relevant processes and systems.

Case 2:
Cost management in the fleet business

Improved management of costs associated with execution and remarketing in fleet business has considerable potential for improved earnings. This applies to those times when costly refinancing compels fleet-management providers to optimize overhead costs. Important levers in this area are reducing dead-time costs that arise between the time of registration and the start of the contract as well as a review of free supplemental services. In the service and maintenance fields, optimization potential exists in such areas as claims management. Benchmarking of the costs associated with each contract in comparison with competitors will provide insights on how every provider can make improvements and thus boost the earnings power of its downstream business.

Downstream business design

