

Driving After Sales excellence

How to grow profit & market share through high performance After Sales?



In the current automotive market environment, the After Sales sector represents one of the few remaining opportunities to generate substantial operating profits. However, as pointed out in Arthur D. Little’s recent two After Sales Viewpoints, this remaining stronghold of profitability is already under increased competitive threat. Given the structural complexity of After Sales and today’s fast changing business situation – how should an After Sales company know where to focus on?

To provide a comprehensive, company specific answer to these questions, Arthur D. Little employs an industry proven After Sales excellence framework that is based on our extensive experience with Automotive After Sales players worldwide.

This Viewpoint may be used for a self assessment in order to reflect the current position and potential of the company. It helps executives to derive some answers of their own – or at least to start asking more of the right questions.

Arthur D. Little’s After Sales excellence framework combines the definition of After Sales excellence with a high performance model which is able to boost After Sales performance towards excellence. With this framework the following questions can be answered:

1) How can “After Sales excellence” be measured?

There already is a variety of measurement systems available on the market, but very rarely do companies really know how they compare. Moreover, excellence needs to be measured not only against direct peers, but also against companies with a different value chain setup (e.g. benchmarking of an Original Equipment Manufacturer’s (OEM’s) after sales against an Original Equipment Supplier’s (OES’s) after sales). This is why our after sales excellence assessment is based on a modular approach with four different categories, as described in the following (see figure 1).

- 1) How can “After Sales excellence” be measured?
- 2) What are the levers driving After Sales excellence?
- 3) What are the benefits of After Sales excellence?

Figure 1: Categories of After Sales excellence

Excellence indicators		
	Examples	KPIs
	<ul style="list-style-type: none"> ■ Revenues and market share ■ Service contracts ■ Share of captive financing or leasing ■ Active customer addresses ■ Price index 	<ul style="list-style-type: none"> ■ % share of total potential ■ % of vehicles contracted ■ % share of captive finance ■ # of addresses ■ % of average price level
Top line	<ul style="list-style-type: none"> ■ Cost of Goods Sold (parts purchasing cost, logistics and direct labor) ■ Administrative cost (HQ, wholesale, retail) 	<ul style="list-style-type: none"> ■ % of price / % of sales ■ % of sales
Bottom line	<ul style="list-style-type: none"> ■ Customer satisfaction index ■ Rating of independent tests ■ Brand repurchasing based on After Sales 	<ul style="list-style-type: none"> ■ CS index ranking ■ Competitive position (rank) ■ Repurchasing rate (%)
Customer satisfaction	<ul style="list-style-type: none"> ■ Modularization of market offering ■ Process standardization ■ Stringent After Sales make or buy strategy 	<ul style="list-style-type: none"> ■ # of offering variants ■ % of process variants ■ % of in-house value creation
System complexity		

Top line – assessing growth

The top line analysis deals with the revenue side of the relevant After Sales businesses and compares them with the total market potential. This can be done, for example, concerning active customers, spare parts revenues, service contracts, financing, insurance, etc. The more sophisticated the analysis, e.g. breaking down market shares for different vehicle age classes, regions, categories of spare parts, etc., the better (and the more focused) the results will be.

Bottom line – optimizing the cost position

More than ever, a close look at Cost of Goods Sold (parts purchasing cost, logistics and direct labor) as well as on administrative costs can yield valuable insights for short-term cost measures. For OEMs, for example, average purchasing cost stands for 40 - 70% of ex wholesale sales prices, a renewal of purchasing negotiations offering chances for up to 15% extra discounts on purchase prices.

Customer satisfaction and retention – securing future growth

For Automotive After Sales systems, customer satisfaction indicators like J.D. Power, ADAC Werkstatt-Test or others are an essential measure of their operational excellence. Even brand repurchasing rates are very much based on individual After Sales experiences, highlighting the importance of service satisfaction and performance measurement for the overall After Sales market performance of the individual company.

Complexity of the After Sales system – the underestimated issue

Complexity means errors, and errors mean cost. This is why balancing the structure of a highly complex system like

After Sales is essential for keeping cost down and customer satisfaction on high levels. Very often, OEMs host much more complicated After Sales systems than competitors (e.g. fast-fitters) and are losing service market share at the same time. On the market side as well, clearly defined and properly modularized market offerings for parts and services often are the basis for success, as a transparent offering will help customers to better identify their own needs.

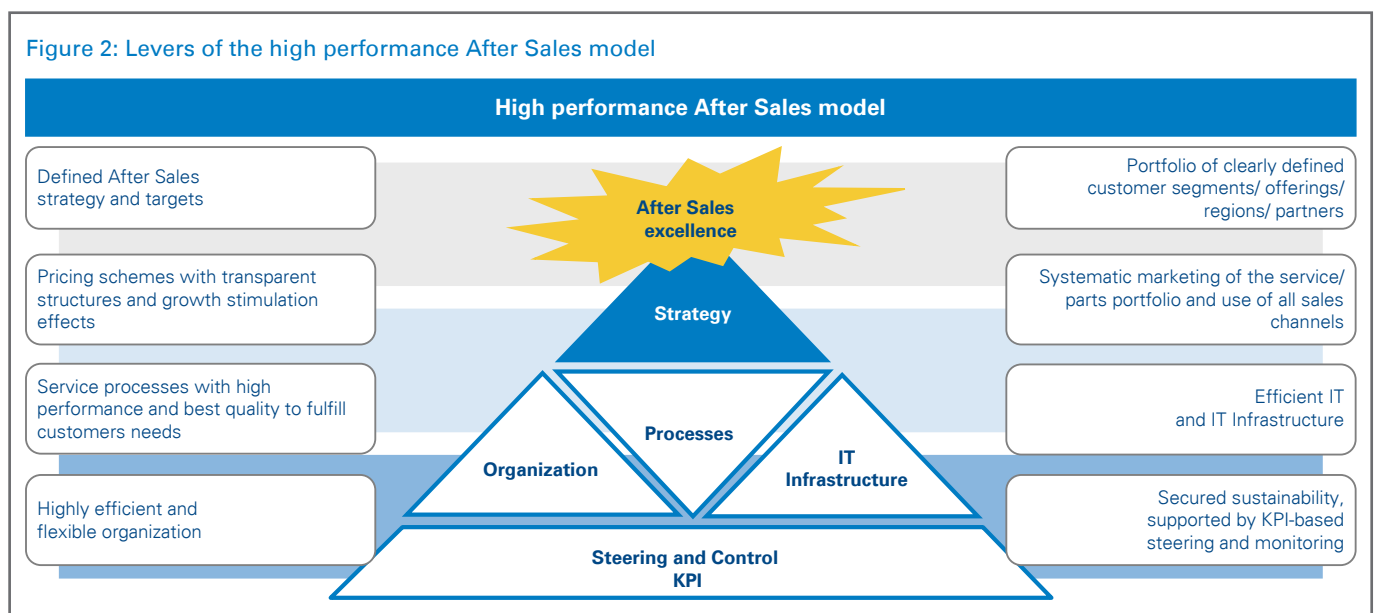
2) What are the levers driving After Sales excellence?

When the current After Sales performance has been analyzed, identification and selection of appropriate measures are the next logical steps. For this, Arthur D. Little's After Sales excellence model contains relevant state-of-the-art benchmark levers including description, reference data as well as their allocation to the widely accepted High Performance Business Model (see figure 2).

Strategic determinants – setting the pathway for the organization

The After Sales strategy determines the companies' aim for After Sales excellence – if the strategy is flawed or misaligned, everything else will fail as well. However, many companies we meet are not even able to clearly tell us what their specific After Sales strategy is. In which customer segments do they want to grow? What will they deliver to these customers? What is the USP of their offering? If those questions can not be answered clearly, there is a need for strategy definition and/ or communication.

The option space for After Sales strategy includes the dimensions of market offerings (e.g. services, parts, financing), regions (mature markets, emerging markets), customer segments (e.g. business and fleet customers, private customers, high-usage vs. low-usage customers, vehicle segments, etc.)



and price segments. Again clear focus and differentiation of the approach is beneficial for the company – as resources will be used more efficiently and success can be measured much easier. Notwithstanding that even for the most focused approach room for innovation can be identified.

As in many other Automotive areas, cooperations will shape future After Sales strategies, as depressed markets demand fast and comprehensive action to meet customer needs. This might encompass inter-OEM (horizontal) cooperation, e.g. definition and optimization of common non-differentiating processes, technology, and competences, but also vertical cooperation models – e.g. between OEMs and fast-fit chains.

Often exceeding their traditional After Sales business, companies will have to find innovative business models to grow towards After Sales excellence. For the example of OEMs, we already illustrated this in our last Viewpoint “OEM After Sales Strategy – The case for innovation”. For other market players, different levers for After Sales excellence exist within Arthur D. Little’s After Sales excellence model.

Process innovation – the high-performance foundation

Especially since customer spending has become tighter, process innovation is the bottom line counterpart to the top line lever product innovation. Approaches concerning process integration are seen throughout the industry, since especially OEMs have realized the enormous efficiency potential that can be achieved not only on retail level. Process alignment – across organization levels (HQ/ wholesale/ retail), but also across geographies, can account for multi-million Euro savings all by itself, and offer a more consistent customer service at the same time.

Organization & culture – getting the team right

Due to its organically grown structure, the After Sales value chain from HQ and wholesale usually shows potential – respective analysis reveals strong and weak points and directly leads to recommendations for organizational action, as described in our last After Sales Viewpoint “OEM After Sales Strategy – The case for innovation”.

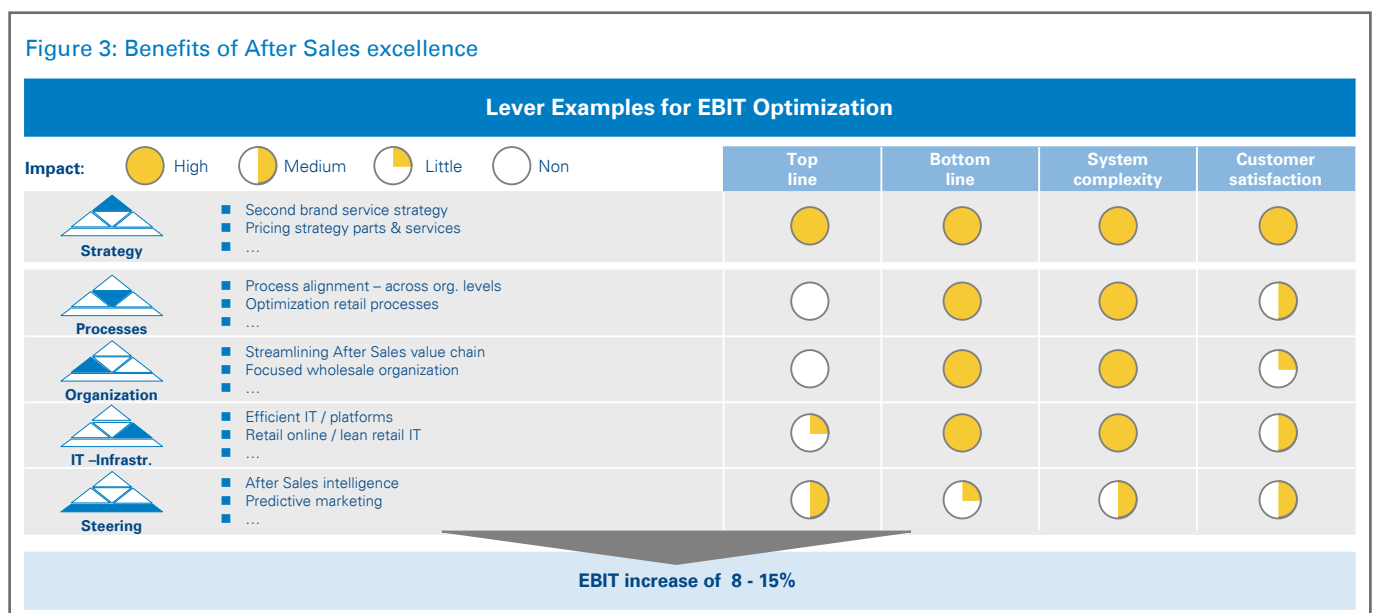
A close look at retailers and – if necessary – their consolidation will be a second lever to improve organization & culture – not only from a financial, but also from a customer satisfaction point of view.

Other very important levers are After Sales improvement projects. Large After Sales projects usually are very complex, as several organizational layers and independent market players are involved. This is why two of three After Sales projects fail – and why establishing an effective project management structure inside any After Sales organization can help to push towards After Sales excellence.

IT, Technology and Infrastructure – the tools

Workshop equipment, from our experience, often is an untapped potential for performance improvement in many After Sales organizations. However, the question here is not only on technology and new workshop gadgets – it is more about clever integration and business models for the workshop equipment. Also for the backend, technology might be an option to increase efficiency and strengthen market performance, e.g. by implementing an online strategy with standard interfaces, connecting retail, wholesale and headquarter IT. A telematics strategy can yield additional revenues, and a digital After Sales backbone can do very much to decrease the HQ’s After Sales cost situation and increase efficiency.

Figure 3: Benefits of After Sales excellence



Steering and Control KPIs – the eyes and ears of After Sales

After Sales intelligence is a must-have in today's dynamic markets. Without it, any initiative will lack clear and precise targets on what to achieve on the market side. Getting processes in place which can also serve as an "early warning indicator" is crucial for every company – if not, market share will be lost without any noticing. On the internal side, an efficient After Sales controlling will help to keep cost at a competitive level. With regular benchmarking of all major processes and systems, a call for action on the cost and/ or complexity side can be issued in time to act appropriately and keep ahead of competition.

Each of these levers described has the potential to substantially enhance After Sales excellence – companies will individually have to select their required menu from the list. Moreover, a clever combination of levers suited to the individual situation can guarantee fast results – if based on thorough analysis.

3) What are the benefits of After Sales excellence?

The answer to this question, obviously, is very different from company to company. Potentials need to be assessed based on thorough analysis of the current After Sales performance as described above, and the specific impact of the levers discussed. Figure 3 visualizes the correlation of the different levers based on the described dimensions of our high performance After Sales model and the potential impact on the different categories regarding After Sales excellence (see figure 3 overleaf).

Based on our experiences of many After Sales projects in various companies we observed that an EBIT increase of 8 - 15% could be reached applying our holistic After Sales excellence approach.

Most important is the definition of the relevant strategic determinants of the future After Sales business to address the adequate levers in the different dimensions to get the biggest benefit out of it.

Conclusion

Is your After Sales really good – is it even excellent? If not – where should you focus on, in order to increase revenues and profitability?

Highlighting one of the very few real profit potentials in today's Automotive markets, Arthur D. Little proposes a comprehensive framework, which combines objective excellence measurement with state-of-the-art levers to improve After Sales performance.

Today's After Sales environments still yield up to double digit EBIT potentials compared to substantial competitive threat. In consequence, tapping the potentials of After Sales excellence seems to be more important than ever – there are no alternatives to it.

Contacts

Dr. Andreas Gissler

Director Automotive & Manufacturing Group
Central Europe
gissler.andreas@adlittle.com



Arthur D. Little

Arthur D. Little, founded in 1886, is a global leader in management consultancy; linking strategy, innovation and technology with deep industry knowledge. We offer our clients sustainable solutions to their most complex business problems. Arthur D. Little has a collaborative client engagement style, exceptional people and a firm-wide commitment to quality and integrity. The firm has over 30 offices worldwide. With its partner Altran Technologies Arthur D. Little has access to a network of over 17,000 professionals. Arthur D. Little is proud to serve many of the Fortune 100 companies globally, in addition to many other leading firms and public sector organizations. For further information please visit www.adl.com

Copyright © Arthur D. Little 2009. All rights reserved.

www.adl.com/aftersales