

Automotive & Assembly

Scaling the Indian automotive aftermarket: Path to profitable growth

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Introduction from CII

The CII Auto Serve 2012 conference is being held against the backdrop of an apparent slowdown in the growth of India's economy and in particular, India's automotive sector, where most OEMs have seen significant dips in volume growth. In such a scenario, the role of the aftermarket industry, which is much less cyclical than the overall economy, becomes critical for players looking to maintain growth and profitability. Hence, we felt it appropriate to develop a compelling view on opportunities in the automotive aftermarket in India, and how players can profitably tap these opportunities.

As in 2010, McKinsey & Company, the global leader in management consulting and our knowledge partner for this event, has brought out an insightful view on opportunities in the Indian automotive aftermarket – with an emphasis on profitability.

I take this opportunity to extend my good wishes to all the participants at this event. I do hope that, as in the past, you will find this publication useful and thought provoking. I also thank McKinsey & Company for providing us with this knowledge-sharing publication.

R. Dinesh

Chairman, CII TN State Council and JMD, TVS Iyengar & Sons Ltd



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Scaling the Indian automotive aftermarket: Path to profitable growth

Ramesh Mangaleswaran
Ananth Narayanan

Preface

At Auto Serve 2010, we shared our perspectives on the Indian automotive aftermarket with the report, “*Opportunities in the Indian Automotive Aftermarket*”, in which we identified three key trends: India’s automotive aftermarket market is poised for robust growth; the market structure in India is quite fragmented and will remain so in the foreseeable future; and there is significant risk that margins will erode across the aftermarket value chain unless players take specific initiatives to improve profitability.

Since then, we have closely followed the developments in India’s aftermarket through our proprietary analytical tools and databases, interviews with industry leaders, and over a 100 field interviews with retailers, wholesalers, etc. We see three clear developments: aftermarket players have grown well, though growth is more challenging than before - players are keen to know specific opportunities for sustainable growth; margins are under pressure, particularly for those companies who did not take initiatives to improve profitability; and more organised players are entering aftermarket industry, increasing the possibility of consolidation. However, it is unclear how the market structure will evolve.

In this report, we explore these developments and share our perspectives on the growth outlook for the Indian aftermarket; likely evolution of the market structure, attractive granular growth opportunities, and potential actions and initiatives for sustained profitability.

All references to specific companies in this report come from public sources. We aspire to provide facts, analyses and examples to better understand the automotive aftermarket industry in India.

We thank the Confederation of Indian Industry (CII) for the opportunity to share our perspectives on the automotive aftermarket industry. We would also like to thank Nirmal Jain, engagement manager at McKinsey, who led the research effort for this report. We are grateful for the contributions of Rajesh Rebala, Delna Hataria, and Saral Chauhan in developing this report. We would also like to acknowledge Kulsum Merchant and Fatema Nulwala for their support in external relations; and Tanya Gulati for editorial support.

Ramesh Mangaleswaran
Director, McKinsey & Company

Ananth Narayanan
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Executive Summary

The automotive aftermarket industry in India has grown significantly in the last few years, primarily driven by increasing vehicle parc. While the potential for aftermarket parts has grown at 13 per cent annually since FY#2007 to reach approximately INR 28,000 crore in FY#2012, the service market (excluding parts) has grown at 13 per cent annually to reach approximately INR 10,000 crore in FY#2012. The growth outlook continues to be positive, driven by sustained increase in vehicle parc and a shift towards higher-end vehicles.

However, except for large automotive distributors, players across the aftermarket industry have faced margin pressures in the last few years. This trend is likely to continue, as most players in the Indian aftermarket are still sub-scale and will be at risk of margin decline due to pricing pressures as well as rising costs.

While the market structure of the automotive aftermarket in India will begin to consolidate to realise scale benefits, it will still be necessary for players to make smart granular choices on “where to compete” and “how to compete” to achieve sustainable and profitable growth. To decide on “where to compete”, players must explore opportunities along three dimensions:

- Geographic coverage: Enter the top 100 districts, as these account for over 50 per cent of the total potential
- Product/service segment: Penetrate fast moving niches as these offer high growth and high margins; e.g., branded generic parts and auto-electronic gadgets/accessories for safety, navigation, etc
- Value chain: Explore forward integration along the value chain; for example, independent distributors can integrate into retail and multi-brand service

Possibilities for “how to compete” vary by player segment in the aftermarket value chain. For example, independent distributors should proactively manage their product supplier portfolio mix, strengthen supply chain practices to optimise inventory and availability, become lean to reduce overheads, and continuously expand scale to keep margins up.

The Indian aftermarket offers significant opportunities for profitable growth, and players who proactively make right “where to compete” and “how to compete” decisions will emerge as winners in the long run.



Scaling the Indian automotive aftermarket

INDIAN AUTOMOTIVE AFTERMARKET IS LARGE AND GROWING

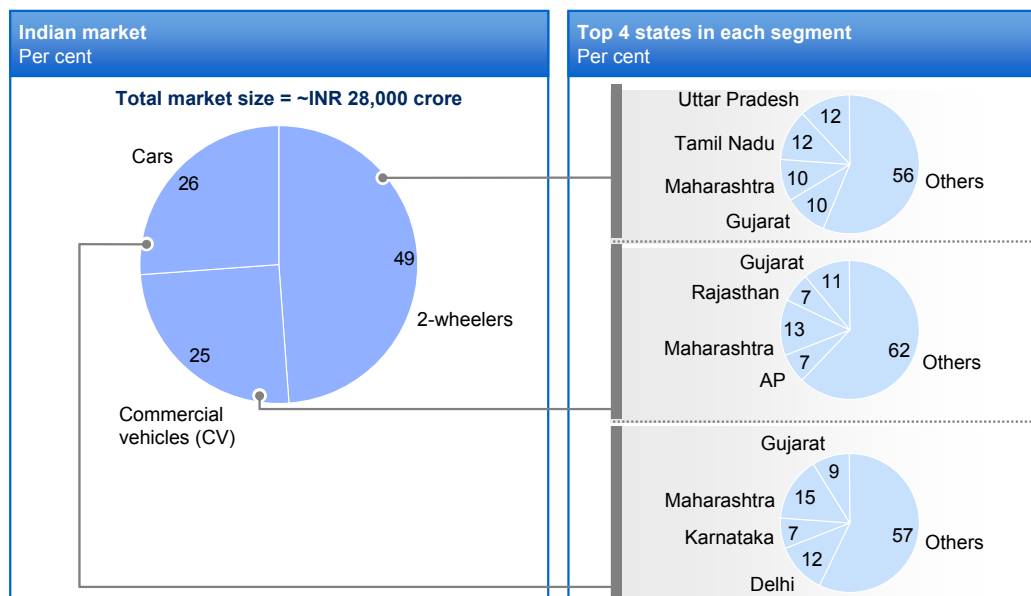
The Indian automotive aftermarket has grown strongly over the last five years and is expected to grow steadily over the next few years. Currently, the total size of the parts aftermarket is estimated at approximately INR 28,000 crore¹, while service (excluding parts) is pegged at approximately INR 10,000 crore¹. The parts market is expected to grow at 9 per cent to 11 per cent till FY#2015, to reach approximately INR 37,000 crore, while service is likely to reach approximately INR 13,000 crore¹.

Indian market offers significant opportunities

The Indian parts aftermarket is currently valued at about INR 28,000 crore². The two-wheeler segment is the largest at an estimated INR 14,000 crore (49 per cent¹ of the overall market), followed by the car segment at approximately INR 7,000 crore (26 per cent of the market). Commercial vehicles (CVs), which include multi-axle vehicles, light commercial vehicles (LCVs), buses and trailers, account for the remaining 25 per cent of the overall market (Exhibit 1).

EXHIBIT 1

The Indian market, estimated at ~INR 28,000 crore, is dominated by the two-wheeler segment



Note: Above figures include spurious parts. PARC vehicle used from 2,000 to 2010 to account for 3 to 13 year old vehicle. Average spend per annum on CV – INR 22,550; PC – INR 7,850; 2 wheeler – INR 2,650
SOURCE: McKinsey analysis; SIAM; ACMA Aftermarket report

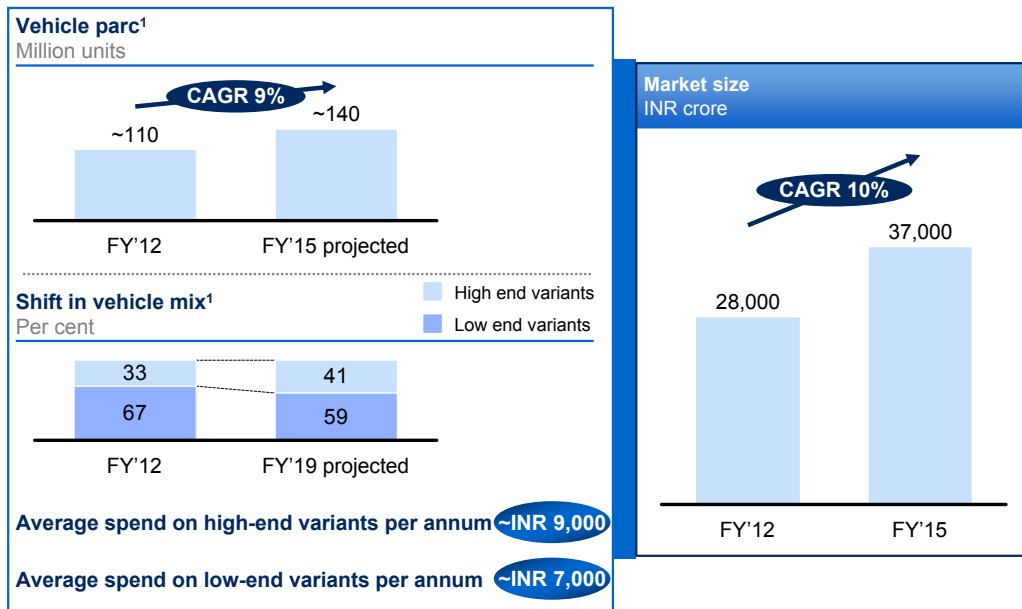
1 Source: 2010 PARC data and ACMA press release, 11 February 2011
2 ACMA - Nielsen report on Automotive Aftermarket

Indian aftermarket will maintain a robust growth trajectory

The Indian aftermarket is likely to maintain its robust growth trajectory over the next several years. Our analysis indicates that the parts aftermarket will grow from about INR 28,000 crores in FY#2012, to INR 36,000 to 37,000 crore by FY#2015, at 9 to 11 per cent CAGR annually. This growth will primarily be driven by increasing vehicle parc and a shift in the mix of vehicles towards high-end variants³ (Exhibit 2)

EXHIBIT 2

Parts aftermarket is expected to grow at ~10% CAGR annually and reach INR 37,000 crore by FY'15



¹ Vehicle PARC and shift in mix data for cars is used for this analysis
SOURCE: SIAM sales forecast data and ACMA – Nielsen report estimates

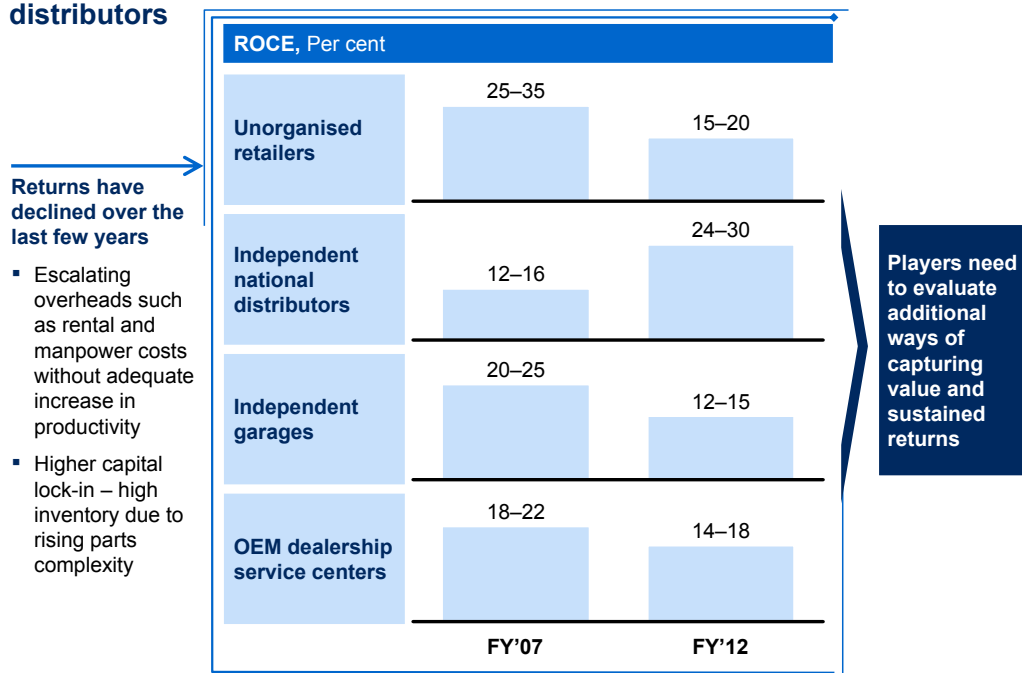
DESPITE GROWTH, RETURNS ARE UNDER PRESSURE

Despite strong growth, the return on capital (ROCE) has been under pressure for players across the industry. Analyses and interviews with leading players in the industry indicate that, barring large independent national distributors, ROCE has declined across players – spare part retailers, independent service workshops, and dealership service centres (Exhibit 3). This is primarily due to rising operating costs, particularly rentals and manpower costs, and higher capital lock-in for higher inventory and other fixed capital (e.g., land, building, and equipment). In contrast, a few leading aftermarket distributors in the country have maintained or increased their ROCE during the past few years through operational excellence.

³ Oct 2012 SIAM Summary report on domestic sales of all vehicles and growth forecasts

EXHIBIT 3

Returns decline across segments except among independent national distributors



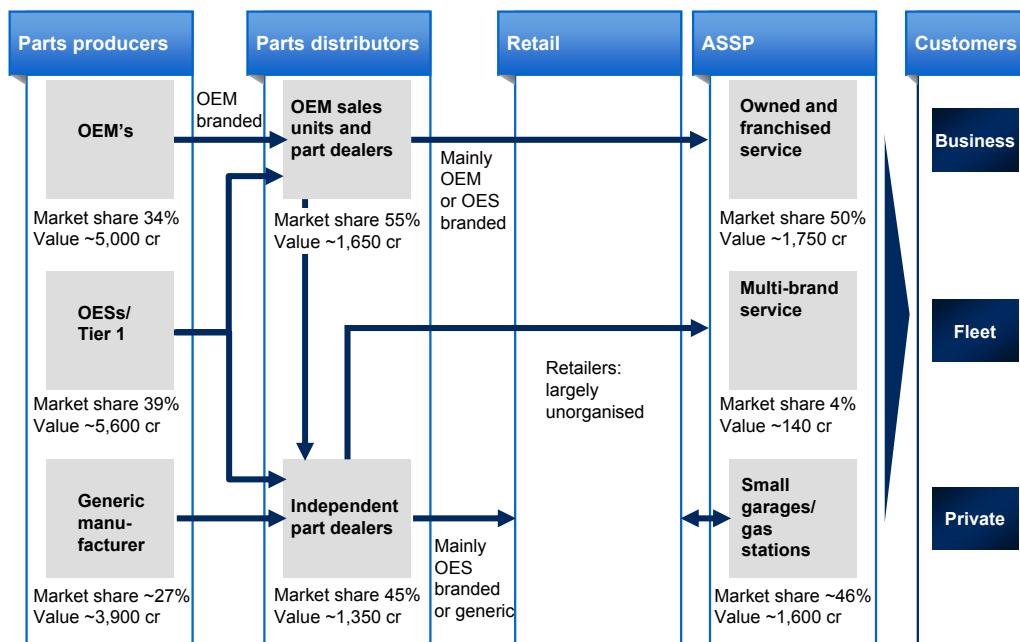
SOURCE: Annual reports; field interviews; McKinsey analyses

Market is fragmented but will begin to consolidate

The value chain in India is highly fragmented and requires significant intermediation for parts to reach end customers. The production of parts is split between original equipment manufacturers (OEM), original equipment suppliers (OES), and generic manufacturers. While OEMs may rely on their own distribution networks, selling parts through directly-owned or franchised dealers, the independent channel has grown in significance in recent times. Original equipment suppliers have an edge as they can both directly supply OEMs, and go through independent distributors (Exhibit 4).

EXHIBIT 4

The current value chain in India indicates that significant intermediation is required for parts to reach end-customers



SOURCE: ACMA report; team analysis

While the parts and service markets are largely fragmented, there are clear indications of consolidation. It is expected that the number of distributors + semi-wholesalers will decrease by about 6 per cent, and small retailers will decrease by about 30 per cent over the next 5 years⁴.

Players will be driven to consolidate in the pursuit of better returns through scale. Our interviews with retailers⁵ suggest suggest that ROCE has declined sharply in the last decade, by as much as 30 to 50 per cent, mostly due to reduced margins and increased inventory, with ever increasing parts complexity. Without scale, the returns will continue to remain under pressure, and sub-scale unorganised retailers will gradually decline. This will provide incremental scale to other existing retailers and to organised retail chains that are entering or expanding in the market.

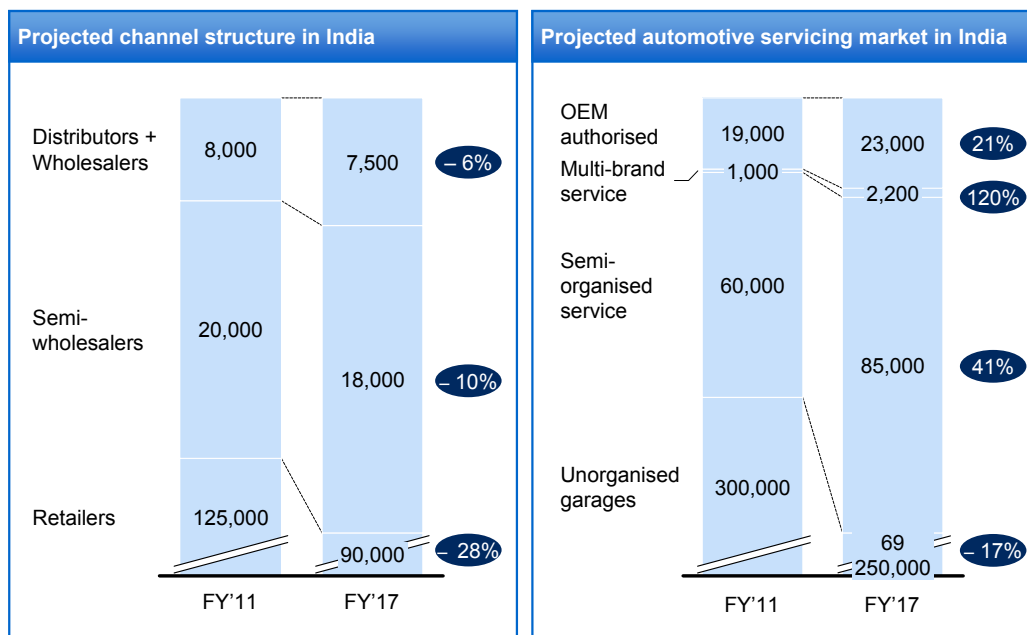
Similarly, in the service market, the number of unorganised garages is expected to decrease by about 15 per cent, while multi-brand service centres are expected to double in number to total over 2,000 by 2017 (Exhibit 5).

4 ACMA - Nielsen report on Automotive Aftermarket 2012

5 Market interviews in Salem, Tiruchi, Namakkal, Madurai and Chennai

EXHIBIT 5

Aftermarket in India is currently fragmented but is likely to move towards consolidation



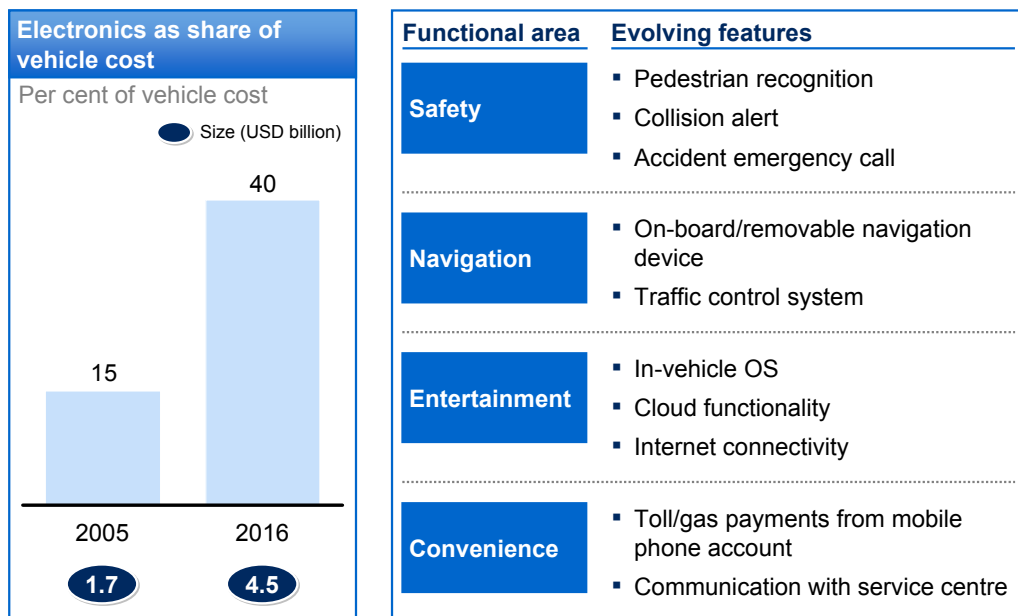
SOURCE: ACMA – Nielsen report on India Automotive aftermarket 2012

Consolidation in the service market will be driven by evolution in vehicle technology in three areas: Adoption of electronic controls (e.g., ECUs) to enhance fuel efficiency in internal combustion engines (ICEs); adoption of alternate powertrain technologies (e.g., EV, CNG, etc.); and use of vehicle electronic devices for safety, navigation, etc. Our research suggests that increasing demand for safety, navigation, and multimedia features will help the vehicle electronics market grow at 22 per cent each year, to reach USD 4.5 billion by 2016 (Exhibit 6).

We see two clear implications of the evolution in vehicle technology – first, it will drive consolidation in the vehicle service market, as the increased need for advanced diagnostic equipment and technical expertise to service these vehicles would require high upfront capex. It may not be economically viable for small, unorganised workshops, with low and fragmented service volumes, to invest in such equipment. Second, for spare parts retailers, it will mean additional volumes at attractive margins from new range of vehicle electronic products – some organised players have already taken the lead in tapping this opportunity e.g., Reliance Autozone already has a network of 13 retail stores across India selling vehicle electronic gadgets and other accessories.

EXHIBIT 6

Electronics will cover 40% of the vehicle cost by 2016, led by technological evolution in four functional areas



SOURCE: McKinsey's PTK Hawk survey; McKinsey analyses

PLAYERS NEED TO MAKE RIGHT "WHERE TO COMPETE" AND "HOW TO COMPETE" CHOICES FOR SUSTAINED PROFITABLE GROWTH

While consolidation will lead to incremental upside in returns for players in the Indian aftermarket, we believe that for sustained profitable growth, they will need to make smart choices on "where to compete" in geographies, across product and service segments and value chain moves and "how to compete" with operational excellence, M&A, etc. Companies that make the most appropriate choices are far more likely to improve and sustain their performance.

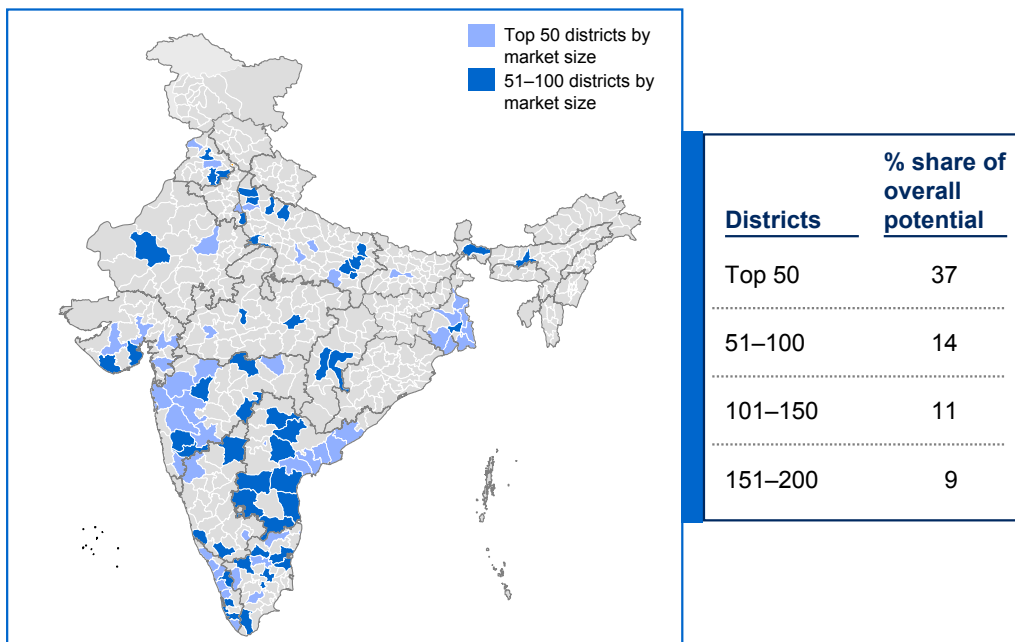
Choose "where to compete"

Companies can significantly optimise their resources by focusing on niches to grow – in terms of geographies to cover, product segments to expand and value chain adjacencies to tap.

- **Geography:** Out of over 600 districts in India, the top 50 account for approximately 37 per cent of aftermarket potential, while the next 50 account for about 14 per cent of the total potential. Prioritising these districts to expand coverage can help significantly optimise resources and enhance capital efficiency (Exhibit 7). Similarly, choosing between micro-markets within cities can significantly alter economics. For example, return on capital employed could vary from 10 to 25 per cent for a service workshop, depending upon choice of location and associated costs.

EXHIBIT 7

Players in the Indian aftermarket should prioritize top 100 districts for geographic coverage

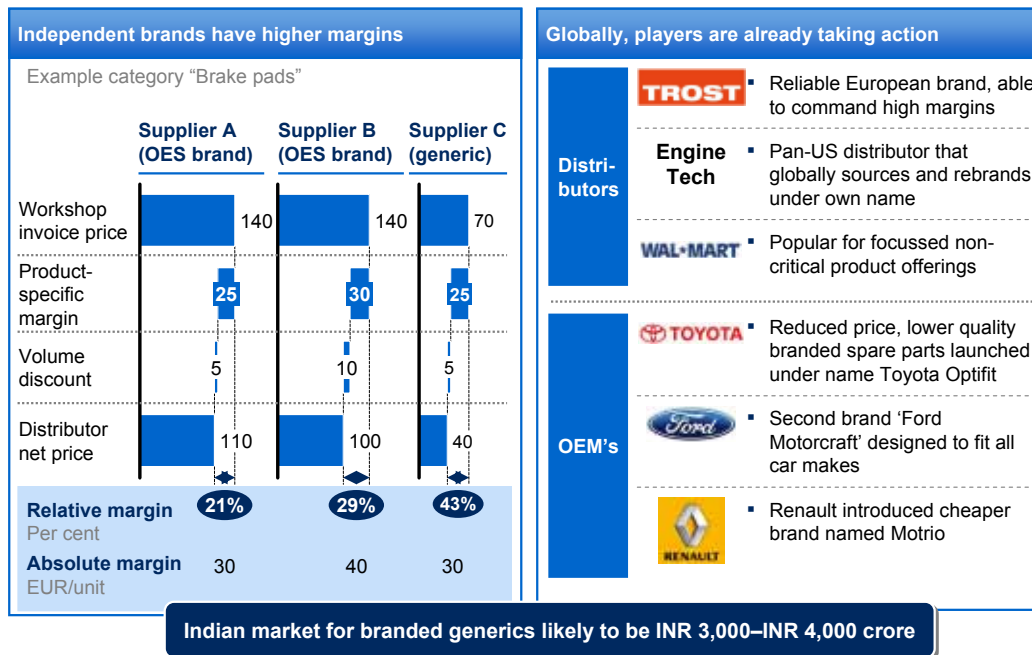


SOURCE: McKinsey analyses

- Product segment:** Players can choose product segments to focus on based on the relative margins and market potential. For example, OEMs and distributors could tap the rapidly growing and highly profitable branded generics parts market in India (the Indian market for branded generics is already worth INR 3,000 to 4,000 crore, and is set to grow significantly in the next 5 years). Globally, distributors such as Trost have successfully built a reliable brand of generics, while more recently, OEMs such as Toyota and Ford have also introduced lower-price second brands to capture some of this market (Exhibit 8).

EXHIBIT 8

OEMs and distributors should develop branded generics to capture cost advantages in the rapidly growing independent market



SOURCE: Market interviews; team analysis

- **Value chain adjacencies:** Since many key skills and capabilities required for success overlap along the value chain, forward integration offers players the potential to create additional value. Globally, OESs such as Hella (direct distribution through Hella Logistics Center) and Bosch (Bosch Car Service) have successfully acted as parts distributors and service providers.

Most American distributors already have retail or service arms, while many European distributors such as Stahlgruber and Europart partner with retail outlets such as Meisterhaft and AC AutoCheck. These integrated distributors have margins even higher than best-in-class Indian distributors who have not moved along the value chain⁶. Therefore, independent parts distributors in India must also actively look for opportunities to act as service providers and retailers. Such a move will allow distributors to increase their bargaining power as they can provide suppliers with a ready market for their parts. In India, TVS distribution has already made efforts to forward integrate through PartSmart and MyTVS. Forward integration may be crucial going forward, as it enables market leaders to tap into additional revenue sources, as well as build significant entry barriers for new competition.

Sustain returns by deciding “how to compete”

Players across segments - parts producers, distributors, retailers and service workshops - will need to adopt differentiated “how to compete” actions to ensure sustainable high returns from the aftermarket opportunity in India.

⁶ Average EBIT margins of integrated distributors in US including AutoZone, Advance Autoparts, O'Reilly etc is ~14.7% compared to best-in-class Indian distributor EBIT margin of 9.1%

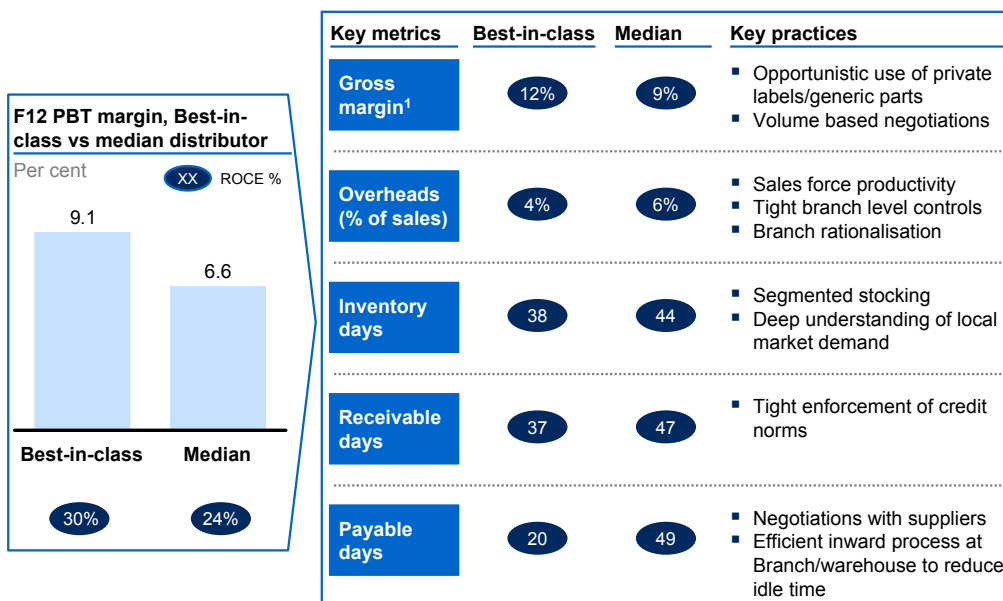
- **OEMs and OESs:** The aftermarket parts business is highly profitable for OEMs and OESs, contributing a modest 24 per cent in revenues, but a sizeable 55 per cent to profits. With independent players actively expanding, OEMs need to consider various initiatives to attain tighter control of parts distribution. Some OEMs have already taken actions to:

 - Aggressively expand OEM service networks
 - Structure exclusivity contracts for manufacturing and distribution with suppliers and distributors
 - Lock-in customers for a longer tenure by increasing warranty periods on vehicles
 - Counter the threat of generic parts by launching second brands that are cheaper and useable across more models
 - Create awareness through promotions for use of original spare parts, and tie up with insurance providers to ensure higher off-take of original spares

- **Independent distributors:** Independent distributors will likely face the highest risk of margin decline – both from OEMs and OESs, and from spare parts retailers. Hence, distributors must manage supply related pricing risks and demand related margin risks. Best-in-class distributors have been able to do this successfully, establishing more superior performance. For example, the pre-tax margin of the best-in-class player is approximately 9 per cent, whereas the same for a median player is about 6.5 per cent (Exhibit 9):

EXHIBIT 9

Benchmarking best-in-class vs median distributor indicates gaps across 5 key areas



¹ Includes TOD
SOURCE: Prowess search; expert interviews

- Aftermarket parts distributors stand to gain by learning from these best-in-class players, specifically across four key levers
 - **Actively manage supplier-product portfolio:** Best-in-class distributors consistently monitor supplier and product wise competitiveness (market share and margins). This helps them adapt their portfolio to include only relevant and competitive supplier brands. Some players have started adopting private label brands for select product segments, based on market insights, to maximise margin
 - **Strengthen supply chain practices:** Best-in-class players have much higher inventory turns (11 times a year) compared to median players (6 to 8 times a year) due to superior supply chain practices. For example, they continuously monitor local market demand and maintain stocking policy to ensure the fastest customer response and high inventory turns. Other best-in-class players dynamically track consumption frequency to establish the right inventory levels using a segmented stocking approach
 - **Become lean to control overheads:** Best-in-class players adopt lean practices with strong operating controls to ensure low overheads. For example, they create daily visibility on key operating parameters (inventory, sales, logistics, etc.) to ensure quick diagnosis and corrective actions for high overheads. They also actively conduct footprint rationalisation to ensure unviable locations do not lose for too long
 - **Continuously expand scale:** International experience suggests that large distributors in India can form buying consortia to improve their buying power
- **Spare parts retailers:** New organised players are entering the retail spare parts market, and are looking to capture profit pools. OESs and distributors have started to forward integrate, e.g., Focuz automobiles, a leading South India based distributor, has a network of more than 30 stores for spare parts retailing. Experience from developed markets such as USA also indicates that several large distributors have forward integrated into retail to capture profit pools (Exhibit 10).

EXHIBIT 10

In the US, large auto aftermarket players are active in both distribution and retail

USA

■ Distribution
■ Retail (spare parts & service)

Company name	Revenue 2011, USD mn	Distribution/Retail ¹ Per cent
Genuine Parts Company	12,458	60 Distribution, 40 Retail
AutoZone Inc.	8,073	13 Distribution, 87 Retail
Advance Auto Parts, Inc.	6,170	27 Distribution, 73 Retail
O'Reilly Automotive, Inc.	5,788	50 Distribution, 50 Retail
General Parts (Carquest)	2,870	82 Distribution, 18 Retail
Uni-Select Inc.	1,801	90 Distribution, 10 Retail
Replacement Parts	187 ²	85 Distribution, 15 Retail
Auto-Wares Group of Companies	275	35 Distribution, 65 Retail

¹ In per cent of maintenance and repair service occasions

² Revenues as of 2008

SOURCE: Bloomberg; Research Insight; Top 50 Retailers, Aftermarket Business, Company Profiles, Annual Reports

However, these are early days for organised retail players in India and the segment is yet to develop a model that can deliver consistently high margins and above-cost return on capital. Therefore, it is imperative for organised players to evolve the right operating model.

Our analyses and interviews with best-in-class unorganised spare parts retailers indicate that there is a substantial difference in ROCE between an average organised retailer (10 to 15 per cent) and a best-in-class unorganised retailer (25 to 30 per cent). Benchmarking operating metrics and underlying practices indicate five key levers for organised retailers to improve profitability and ROCE:

- **Deepen relationship with customers:** Best-in-class retailers proactively build loyalty among mechanics through innovative commercial terms and loyalty programmes, such as extended credit terms for reliable garage owners coupled with “loyalty passbook schemes” to increase retention. They also work closely with distributors and OES stockists to conduct campaigns to stimulate demand and to be recognised as authorised dealers
- **Optimise product mix:** Best-in-class retailers have a much higher share of generic brands on non-critical parts and consumables, where gross margins are in the range of 40 to 50 per cent. A differentiated product-wise supplier portfolio can lead to significant upsides on gross margins
- **Innovate on stocking and procurement:** Best-in-class retailers maintain segmented inventory norms – based on consumption and value of the parts. This enables a higher fill

rate at a much lower inventory. Besides this, they also innovate on ordering models to reduce ordering costs and inventory; e.g., several sub urban retailers in Mumbai order and procure through a common area agent to reduce costs

- **Control overheads:** Over the last decade, most spare parts retailers have witnessed a significant increase in overheads. For example, rental costs have increased by 100 to 250 per cent and manpower costs by 100 to 150 per cent. Despite this, best-in-class players have been able to retain overall net margins by improved productivity and tight cost controls
- **Develop franchising for scale-up:** Franchising provides opportunities for both large and small players to grow in the spare parts retail business. Franchising offers large players means to access new geographies through smaller retailers, by utilising their strong brand, while simultaneously providing expertise. Smaller retailers benefit from a robust supply chain that ensures high availability at relatively lower inventory levels
- **Independent service chains:** Several organised independent service chains have entered the vehicle service market over the last few years, offering high quality service and convenience, at prices lower than those offered by OEM service stations. Players like MyTVS, Carnation, Bosch, etc., have already established their presence, and our estimates indicate that by 2016 outlet counts of these players will exceed 2,000 from the current ~1000 outlets. Despite rapid growth, this segment is still not as profitable – in most cases, ROCE even for workshops over two years old have been low, at 8 to 12 per cent

However, there are several outlets within independent service chains which have broken even in about one year, and have a ROCE of over 25 per cent from the third year onwards. Our analysis of these stores revealed five key success factors for high profitability of independent chains:

- **Prioritise vehicle/service segments:** Best-in-class outlets make clear choices on their focus segments from a service delivery standpoint. For example, the choice could be in terms of vehicle segment type or in terms of specific brands. The ability to compete, and the local market potential determine the choice of segment
- **Optimise location and format choice:** Best-in-class outlets have a clearly established approval process for selecting a location and a supporting format (e.g., large central hub or lean spokes format). The process is based on a clearly defined business case, including market potential, operating costs, and format type
- **Evolve a 'right parts supply chain' model:** Based on segment choice and location or format choice, best-in-class outlets ensure high availability from stock, without relying on spot purchases at lower margins. For example, they adopt segmented stocking to optimise availability and inventory. These players also actively scout for low cost country (LCC) sourcing opportunities for select part categories
- **Build brand awareness through pull campaigns:** Successful independent service players proactively execute actions to target new customers and build repeat customers. They create innovative micro-market campaigns and have a customer life cycle cell that tracks repeat purchases. They continuously innovate their service portfolio to lock in customers, e.g., mobile service, AMCs⁷, etc

- **Streamline internal processes to gain productivity:** High performing players make conscious efforts to maximise bay productivity. For example, they ensure appropriate bay tooling depending on the type of bays (express or regular service) and provide periodic training for their service staff – either in-house or through “parts suppliers” training cells

RIGHT CHOICES WILL DIFFERENTIATE WINNERS OVER THE LONG RUN

Several interesting trends are shaping the Indian automotive aftermarket – a sustained increase in vehicle parc, a shift in the mix of vehicles towards higher end variants, the increased use of electronics in vehicles, etc. These trends will drive the growth of the Indian aftermarket over the next few years. In addition, consolidation in aftermarket channel and service markets will lead to the emergence of organised and at-scale players across the value chain, who are likely to command higher margins. However, recent experience also suggests that margin pressures will continue to exist – given steep escalations in overheads without commensurate increase in productivity, and ever increasing parts complexity. In this context, we believe, players who make smart granular choices on “where to compete” and “how to compete” will emerge winners in the long run.



Appendix

SUSTAINABLE VALUE CREATION IN DEALERSHIPS

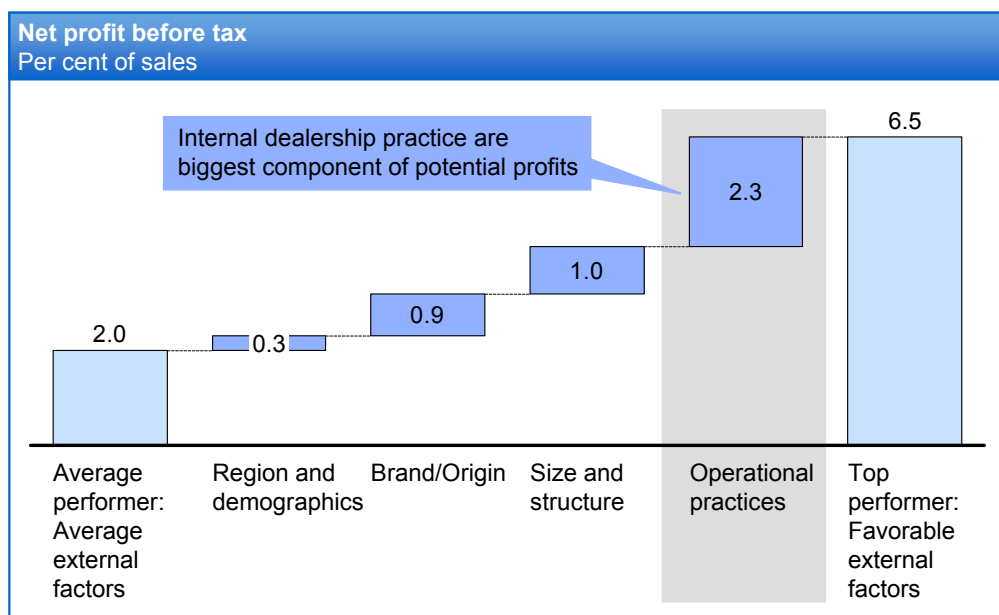
Vehicle dealerships in India have seen impressive growth over the last decade – same store revenues have increased by at least 100 per cent over the last 6 to 8 years, with increased volumes and higher realisations due to a shift in vehicle mix and rising vehicle prices. However, on average, profit margins have been declining for existing dealerships and break-even times for new dealerships (especially 3S⁸) have gone up by as much as 6 to 12 months from five years ago⁹. Our market interviews and analyses indicate three primary factors for this:

- The margin per vehicle is not increasing in proportion to vehicle prices
- There is a significant rise in overheads, particularly rental and manpower, without a corresponding increase in productivity
- Working capital requirements are increasing as several OEMs have moved away from credit.

However, this is not true across all dealerships. Some dealers have been able to sustain ROCE and profitability levels in the last few years. Our research on dealership performance¹⁰ indicates that these “best-in-class” dealers have a much higher profitability of 6.6 per cent than the average dealer’s profitability of 2 per cent. Three underlying themes contribute to this variability – operational practices (e.g., robust pipeline management for new sales), which is the single biggest differentiator in profitability, followed by vehicle brand and size of dealerships (Exhibit 11).

EXHIBIT 11

Operational excellence is the key to dealership profitability



SOURCE: The Firm’s Dealer Performance Survey; 20 Group composite

8 Sales, Service and Spares outlets

9 Based on interviews with vehicle dealerships

10 Car dealerships

Within these three themes, we believe there are five key practices that dealerships can adopt to reach best-in-class profitability and accelerate break-even cycles:

- **Institutionalise structured sales processes:** Dealers can substantially reduce customer acquisition costs and improve vehicle sales by establishing a well defined sales process, with supporting tools across the entire customer life cycle. For example, lead generation systems, systematic processes for lead to conversion, targeted incentive schemes, and structured product and soft skills training for the sales force
- **Enhance customer experience:** Best-in-class dealers focus on strengthening both customer facing and back end processes to improve service profitability. On the front end, they create a “trust” and “convenience” based customer experience, using tangible cues, for example, front office set-up and customer service processes. On the back end, they adopt a targeted mix of bay tooling, team organisation, parts sourcing, and training to ensure high quality service
- **Mine allied revenue streams:** Best-in-class dealers proactively work to increase allied revenue streams – financing, insurance, accessories, etc. For example, they tie up with a pool of financing partners to capture finance commissions. Several OEMs in India now encourage their dealers to sell “used cars”, which offer customers a “reliable” product and an additional revenue stream for dealers, e.g., “Maruti True Value”
- **Consolidate to gain scale benefits:** The size of the dealership is the second biggest differentiator of profitability. The wave of dealerships consolidation in the US market during 1970’s to 1990’s was driven by the need to achieve scale, which led to several benefits, e.g., rationalisation of overheads, professional management, parts availability, etc. While there are a few large dealers today in India spanning multiple vehicle segments and brands, there is still vast potential for consolidation
- **Innovate to manage soaring real estate costs:** Dealerships can adopt innovative strategies to manage soaring real estate prices. For example, 3S dealers can split their operations and relocate service workshops to areas with lower real estate costs, while retaining sales outlets in high density areas with high real estate costs

Dealerships should work closely with their respective OEMs throughout the improvement journey. Continuous transparency with OEMs is critical to the successful implementation of these improvement interventions, and it ensures a “win-win” situation for both the dealer and OEM.

