

Winning the Retail Game

Improving retail performance in an increasingly competitive automotive market

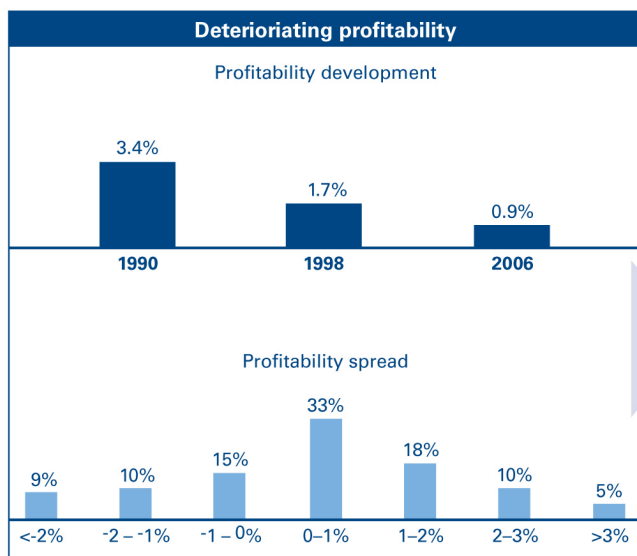


With cut-throat competition characterizing stagnant automotive retail markets, high-performing dealer networks are becoming essential to OEMs’ market success. Although automotive manufacturers invest heavily in developing and training their retail partners, many programs do not generate the expected results. However, a step change in dealer performance has the potential to deliver a high return on investment for both OEMs and dealers. Arthur D. Little proposes an integrated approach to Retail Performance Management (RPM).

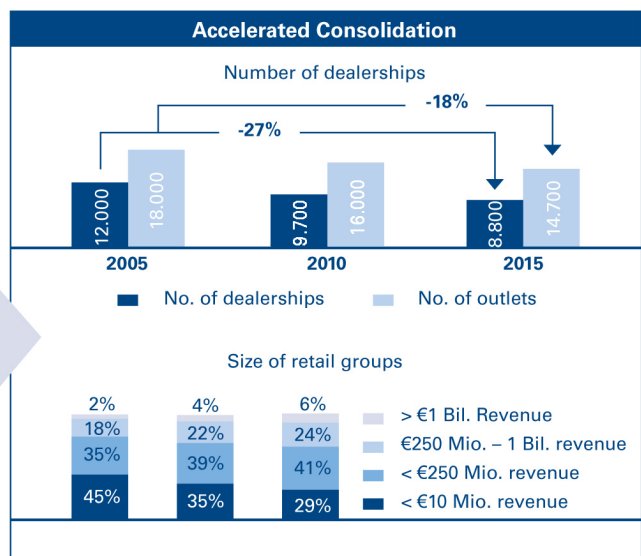
Today’s saturated automotive retail markets are characterized by cut-throat competition. In Germany, for example – one of the most competitive markets - the need to increase customer incentives and the consequent erosion of margins in the dealers’ core business have led to a mediocre average Return on Sales of between 0% and 1%. The accelerated consolidation of dealer networks is a sign that many dealers are not sufficiently competitive to survive alone in an increasingly pressurized market. The message to both OEMs and dealers is clear: only high-performing dealers will survive in the long run.

Given the accelerated consolidation of dealer networks, OEMs increasingly face a new challenge - maintaining franchise attractiveness. Improving franchise attractiveness to prevent high-performing retailers from defecting to more attractive franchises is becoming a vital component of OEMs’ competitiveness. Thus retail-development initiatives should also be recognized as an important lever for maintaining the loyalty of high-performing retailers.

Figure 1: Deteriorating profitability and consolidation of dealer networks (Example: Germany)

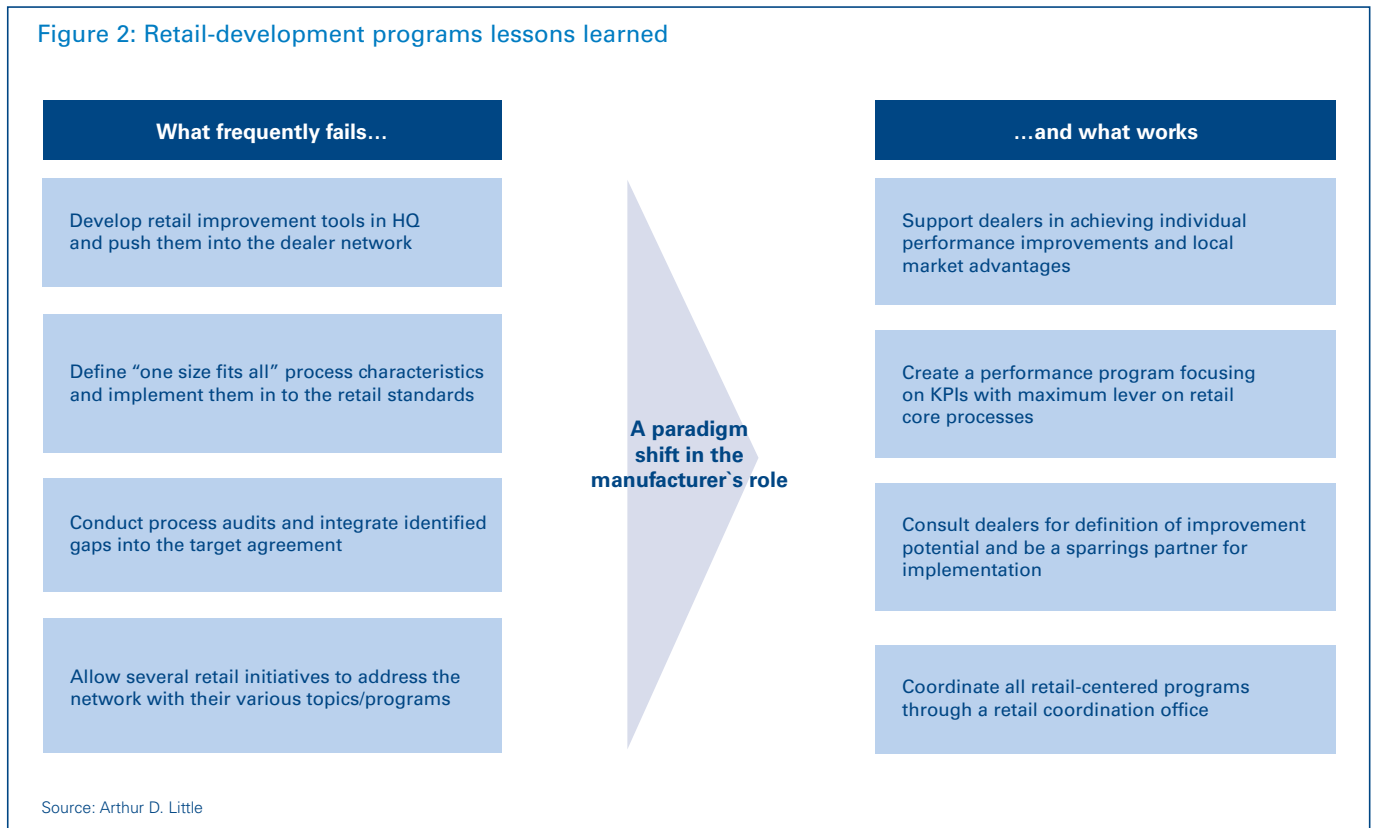


Source: Autohaus 3/2007



Source: Center of Automotive Research

Figure 2: Retail-development programs lessons learned



Source: Arthur D. Little

Retail performance – a key driver of market success

Many manufacturers have addressed the challenges within their sales networks with large investment programs. Together with their franchise partners, they have optimized network structures, rearranged margin systems, cut transaction costs and improved brand standards, with a large portion of the investment being borne by the dealers.

For years, retail-development programs have also been an area of focus. However, the success of many of these programs has been only limited. One of the key challenges OEMs face is that vehicles are still sold and serviced in a system where most dealerships are owned by independent entrepreneurs, many of whom have been in the retail business for decades. Enhancing dealer performance proves difficult because OEMs in general have to deal with a very large number of independently owned dealerships, each with a unique set of challenges, capabilities, processes/systems and hence performance-improvement opportunities.

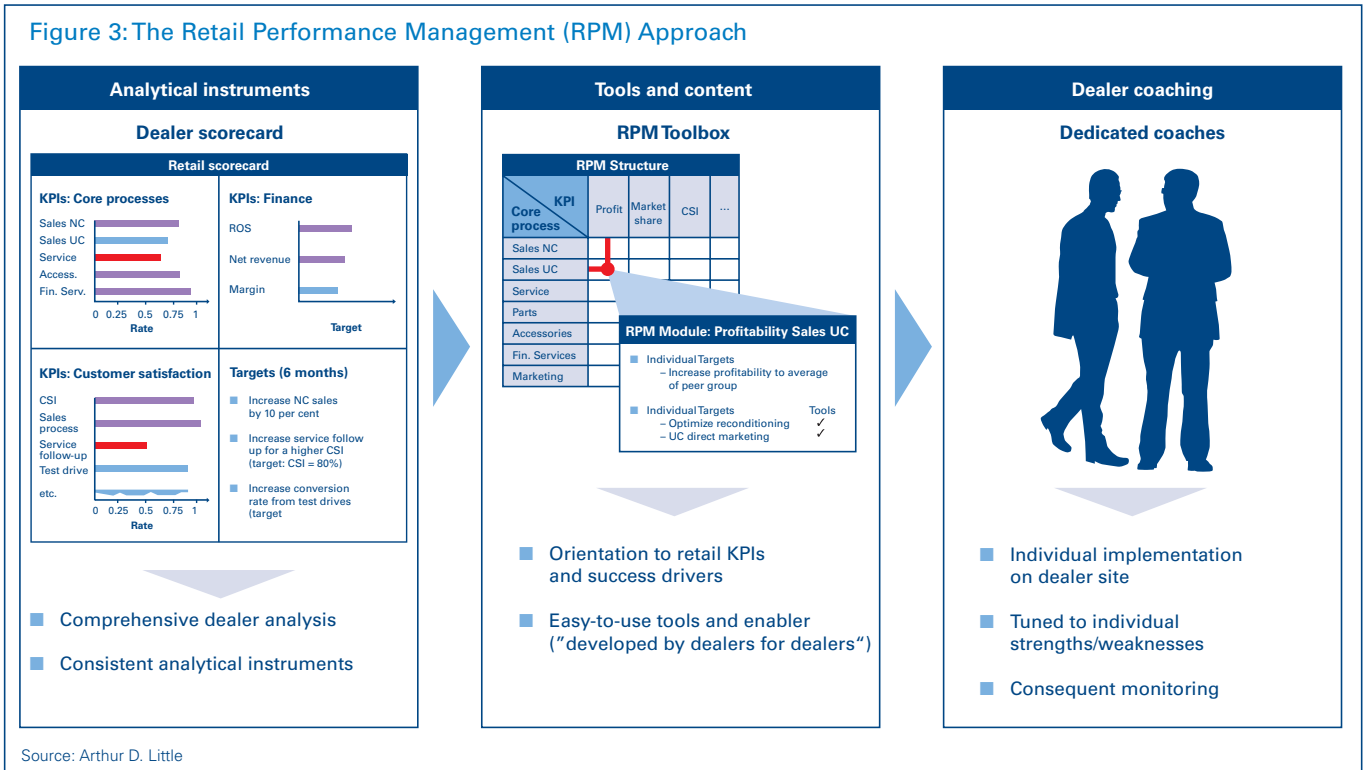
Why traditional retail-development programs fail

The concept of dealer qualification, through the provision of training, support and information material, is well established. Unfortunately, it is usually hard to measure whether this approach is effective.

OEMs have tried a wide range of approaches to improving retail performance, from holistic “broad band” programs involving many resources to extremely focused initiatives that deliver immediate but very short-term results. Recently manufacturers’ improvement programs have become more sophisticated, focusing on the improvement of business results and emphasizing client satisfaction as well as customer loyalty (see figure 2 above).

At Arthur D. Little, our experience shows that dealer-development programs are too often set up as a standardized “audit” geared towards ensuring dealers fulfill specific standards defined by the OEM. Many of these programs fail to undertake an in-depth analysis of each dealer’s strengths and weaknesses and identify corresponding opportunities for improving performance or to provide appropriate on-site support during the program. In addition, many programs fail to take account of the particular situation of each dealer and the specific business needs, abilities and potential of each dealership.

Figure 3: The Retail Performance Management (RPM) Approach



The building blocks of Retail Performance Management

Irrespective of the market situation, OEMs need to address five key questions when designing their dealer programs.

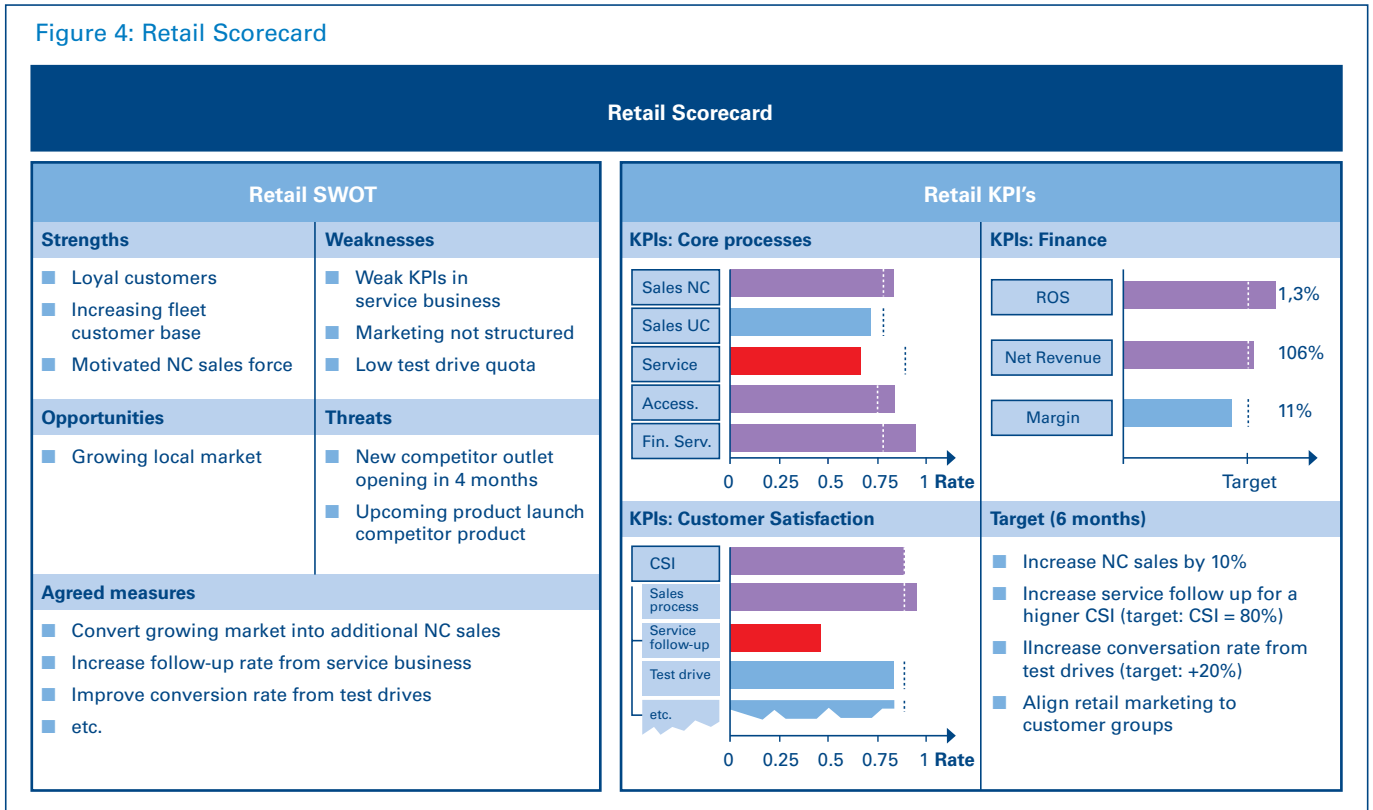
An approach that delivers sustainable improvements in performance must be built on the concept of continuous improvement in each dealership. It therefore needs to include three dimensions:

- a dedicated analytical instrument to assess the specific challenges and potential for the individual dealership.
- tools and relevant content that addresses the specific challenges and potential of each dealer.
- intensive dealer coaching, focusing on process improvements and retail training, to secure lasting results (see figure 3).

The Retail Performance Management Approach

Arthur D. Little's Retail Performance Management (RPM) process is an integrated approach that drives measurable improvement in retail performance on site and helps establish a culture of continuous performance improvement throughout the entire retail network. The RPM consists of three key elements (Figure 3):

Figure 4: Retail Scorecard



Retail Scorecard

The Retail Scorecard is a consistent instrument for measuring retail performance. It comprises a set of well-defined metrics reflecting the key performance indicators (KPI) in a dealership. Focused on value drivers, the scorecard helps to identify and quantify the improvement potential for each retail outlet. Furthermore, it provides a consistent data-driven approach to support day-to-day management in the dealership. Although every dealership follows almost the same business principles and core processes, the Retail Scorecard may vary from OEM to OEM or even dealer to dealer (See figure 4).

Retail Performance Management Toolbox

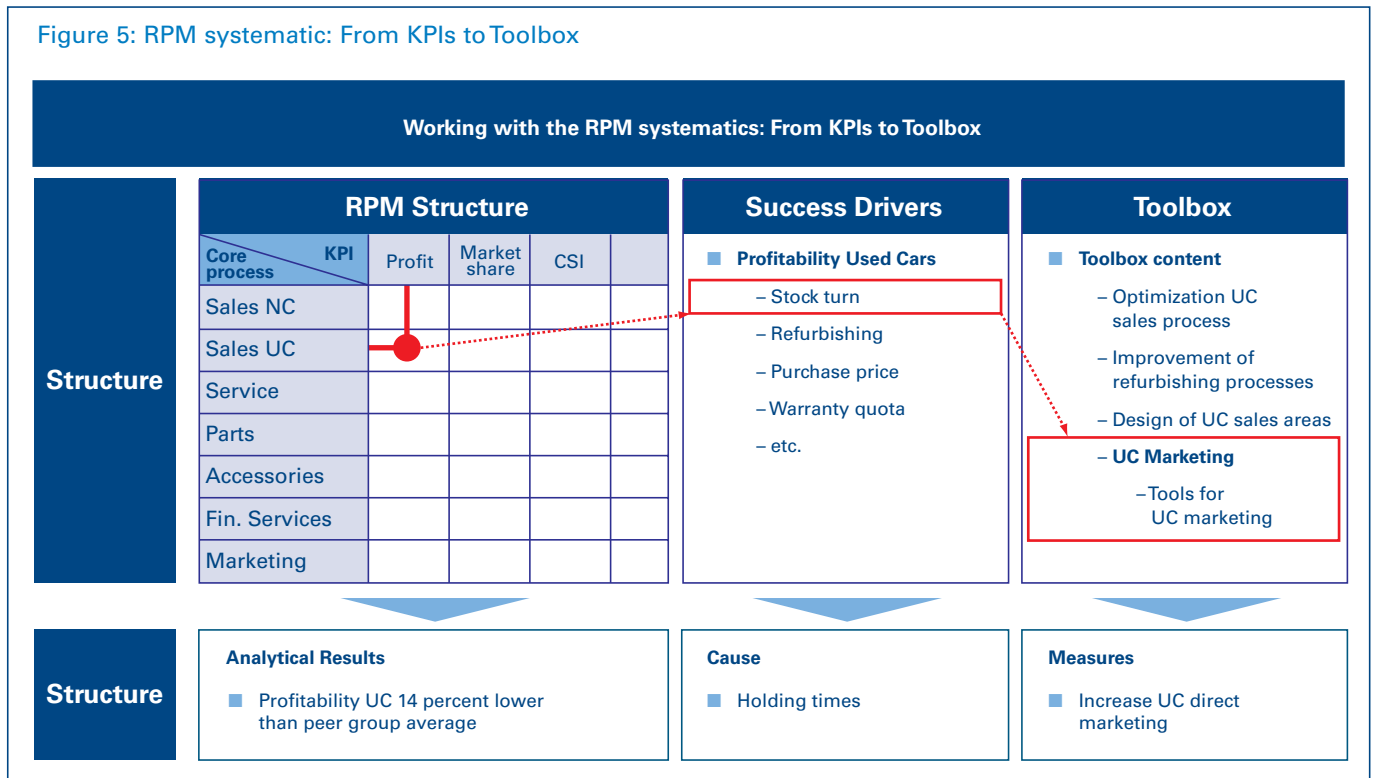
The toolbox contains a set of tools and enablers to support the dealer in realizing the potential for improvement identified through the Retail Scorecard. The toolbox contains recommendations, measures and tools, such as guidelines, handbooks and calculation sheets, as well as details of best practices as applied by other dealers. Dealers can use the toolbox according to their specific situation. OEM retail experts and RPM program managers should develop the toolbox jointly to ensure it is relevant and accepted once out in the field.

The RPM toolbox is structured around the retail core processes and relevant dealer KPIs, and as such represents a scaleable knowledge base to support measurable improvements in dealer performance. The real power comes from the way it links retail KPIs with core processes, value drivers (per core process) and concrete measures and tools (See figure 5).

On-site dealer coaching

The coaching process focuses on the strengths and weaknesses of the individual dealer and requires specially trained coaches. The coaches serve two roles: to help retail managers identify specific performance-improvement opportunities and select corresponding measures from the toolbox; and to act as ambassadors to communicate the benefits of the improvement program and pull other dealers in.

Figure 5: RPM systematic: From KPIs to Toolbox



How to achieve substantial performance improvement

Achieving sustainable performance improvement is not about applying tools. It is a process of constant change, which needs to be planned and closely monitored. Successful performance improvement focuses consistently on core processes and retail decision parameters, is easy to deploy and simple to apply.

The RPM process typically starts with a 3-4 day on-site analysis of dealer performance, resulting in the initial Retail Scorecard. The quantitative analysis is augmented with a specific dealer SWOT analysis, assessing the overall business situation of the dealer. The initial scorecard sets the baseline for agreement on specific performance-improvement targets and subsequent selection of appropriate measures. It is easy to update during the program and can also be used to support communication with employees on site to help ensure high involvement and identification with a performance-oriented dealership.

Following the initial performance analysis, targets are set and action plans defined to provide specific guidance on addressing performance issues in high-priority areas. Defining the RPM program is a joint process between the dealer management and the RPM coaches. In contrast with typical field-force managers whose role is to "safeguard OEMs' retail standards," RPM coaches are more like a consultant to the dealers, acting as sparring partners for dealer management, helping them to

drive performance by selecting and applying tools and recommendations from the RPM toolbox.

The degree to which retail management is likely to accept the proposed performance-improvement measures depends to a large extent on how practical and timely the material and tools provided are. For example, when preparing for a new product launch, providing dedicated training material and event suggestions even three months in advance would be much too late. For a successful RPM program, it is crucial to create a content pipeline that is aligned to product measures (launches, facelifts etc.) as well as to the OEM's strategic sales and service plans.

Similarly, the program must be capable of delivering new content to the retail network at speed in response to market changes. So, overall program management should incorporate lean and efficient processes, from initial content generation to market-specific adaptations and editing etc. Having access to a range of consistent and standardized analytical tools can also help reduce time to market.

Last but not least, effective performance improvement requires a coordinated retail project strategy. Because of the functional nature of most OEMs' organization, too many retail projects hit the dealer networks in an uncoordinated way, thus imposing unnecessary complexity on the dealers. As a result, it is not surprising that many well-conceived retail initiatives fail to have the desired effect.

A retail coordination office at OEM headquarter level can help to avoid these problems. It should serve as the central point for aligning all retail programs, allocating budgets, managing roll-outs, developing training and securing approval for dealer-facing initiatives from all relevant parties: head office, national sales companies, the IT department and, most importantly, dealers.

A “win win” situation for OEMs and dealers

Effective retail performance management creates a “win win” situation for OEMs and dealers. For dealers it offers an opportunity to achieve a sustainable improvement in performance. The power of the approach outlined above resides in its flexibility, which allows OEMs to design a program tailored to the needs of the individual dealer. Focusing on the few vital improvement levers has been shown to be much more effective than the “any and all” approach of traditional dealer-development programs. By linking retail core processes, supporting tools and the key performance drivers of the dealer’s business, RPM enables the dealer to apply measures with immediate and measurable effect.

For OEMs, RPM offers an opportunity to create a performance partnership with dealers and hence to improve franchise attractiveness. Experience shows that successful pilots and fast results are crucial to creating demand for RPM from dealers. There is nothing more powerful for establishing a performance culture throughout the network than dealers who acknowledge the value of the RPM approach and who act as ambassadors for the program among their peers.

Conclusion

Retail Performance Management delivers sustainable performance improvement in the dealer network. Arthur D. Little recommends an integrated approach, linking retail core processes, supporting tools and the key performance drivers of dealerships. Retail Performance Management enables the design of a performance-improvement program tailored to the needs of the individual dealer. For OEMs, it offers an effective means of increasing the performance of the dealer network and maintaining franchise attractiveness for retail partners.

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