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Incentive-management systems drive opportunities for car manufacturers

Blanket incentive programs are the past.
Customer-based incentives are the future.

Incentives and the automotive industry

Selling cars is a tough, competitive business. Incentives have been an important sales tool for decades, and they have become so ingrained in the business that whenever sales slow, incentives are a reliable way to keep vehicles moving off dealer lots.

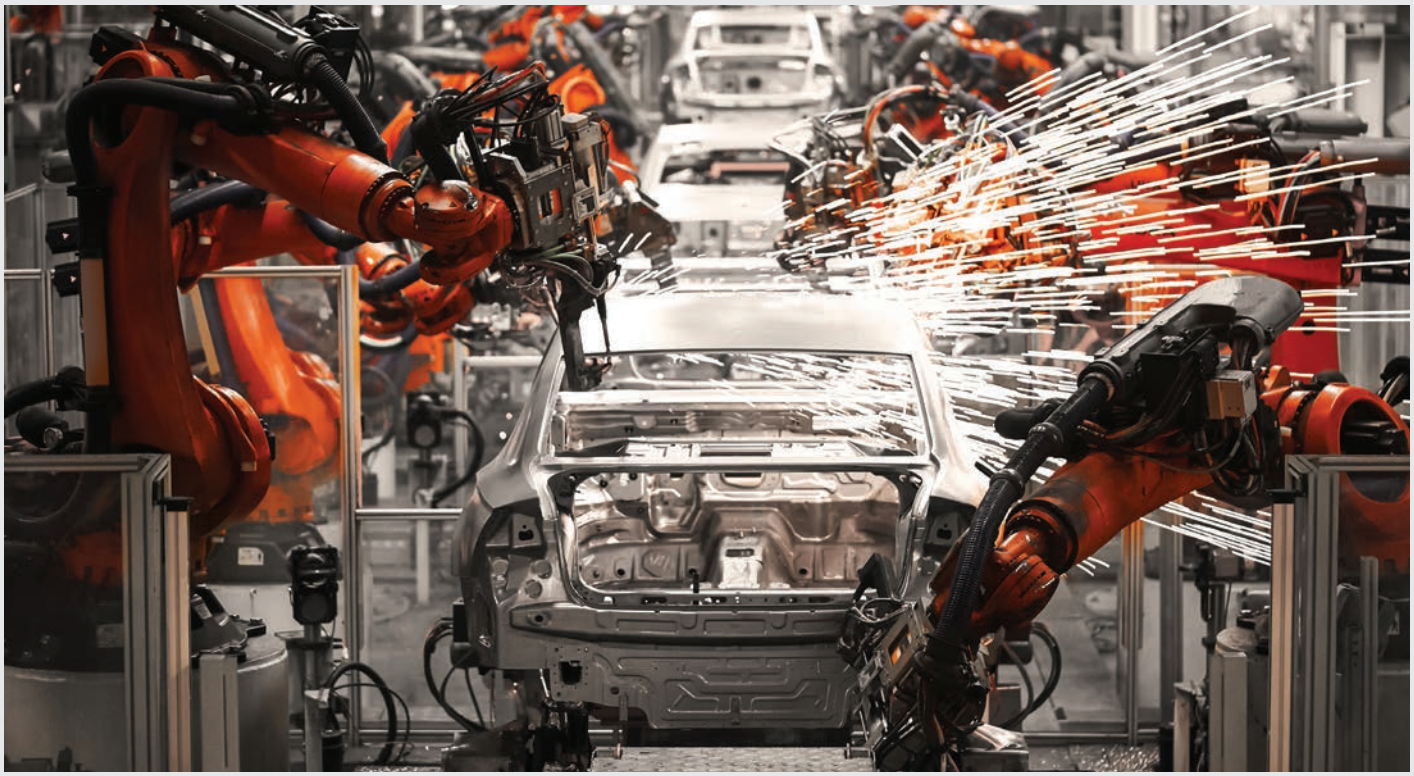
However, the majority of Original Equipment Manufacturers (OEMs) would rather not rely on incentives. These bonuses are driven by the need to match competitor pricing, but OEMs fear these offers will result in a race to the bottom. The logical end point of this is that profit margins decline, and the business model of the dealers and manufacturers suffers.

In addition, cash-based incentives encourage consumers to shop largely on price, making it harder for both dealers and OEMs to build or maintain relationships based on their brand or offerings.

The solution: replace outdated one-size-fits-all purchase bonuses with customer-centric initiatives. These smarter incentive programs, tied to the priorities of the individual car purchaser, replace blanket offerings based on a region or car model. Personalized incentives have two advantages. First, they appeal to buyers who want to feel they are being heard in the sales process. Second, they are responsive to local conditions and sales targets, which means dealerships can better manage inventory and revenue flow.

> **One of the big trends associated with all this change is owning the customer. Car companies need to ask themselves: how do I create a differentiated experience and how do I create brand affinity with the customer that's not based on my product?"**

Mike Hessler,
North America Automotive and Industrial Equipment Lead at Capgemini



Incentive effectiveness is hard to measure

A 2018 report from market-analyst firm McKinsey & Company found that automotive incentives climbed to a record high point between 2010 and 2017, and it expects this spending to continue as OEMs struggle with slowing demand, the trend towards price discounting, and increased transparency on price. The report concludes that automakers typically spend 10% to 20% of revenue on incentives and – here is the critical point – those expenditures are typically undermanaged.

The primary result of undermanaging incentive programs is increased complexity for OEMs and dealers; offers and conditions are added on an ad-hoc basis, leading to a tangle of complicated details. One dealership cited in the McKinsey & Company report struggled with 57 different programs simultaneously and "complained that its managers spent more time understanding these programs than they did focusing on customer sales and service."

The solution to this jumble of incentive programs is twofold. First, OEMs need to mandate that buyer bonus programs be simple to understand, tailored to local conditions, and that the total number of programs is kept to a minimum. Second, a software system should be deployed to enforce and track the new guidelines and to monitor the relative success of programs and approaches. Analysis and reporting tools will then be used to provide feedback and guide the refinement of these offerings.

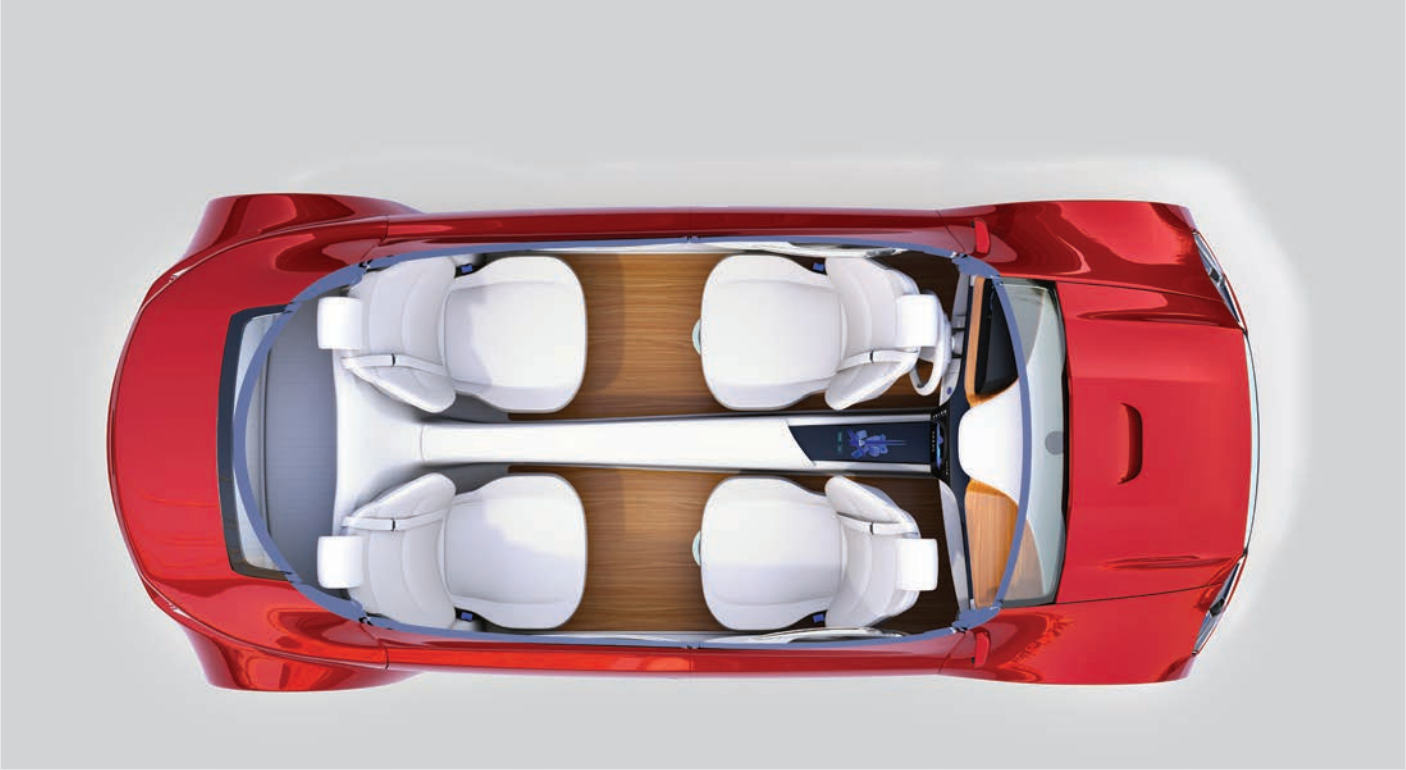
Industry change drives updates to incentives

Disruption in the automotive industry is being driven by new competitors and technologies. Some of these new challenges include:

- The rise of electric vehicles
- Fewer new car purchases, especially as ride-hailing services such as Uber and Lyft leave many younger consumers questioning the need to own a car
- Changing customer tastes
- High expectations for customer service
- The medium-term prospect of autonomous cars
- The rising expectations of car buyers about the ease of use, range of choice, and flexibility of the connected digital services in cars.

The change in the industry was driven home in November 2018 when industry giant General Motors announced the layoff of thousands of workers and plant closures in the United States and Canada, citing falling demand for the cars produced in those factories and the changing tastes of North American car buyers.

It is a strategy supported by a recent Bloomberg New Energy Finance report, which predicted that sales of electric vehicles (EVs) will "increase from a record 1.1 million worldwide in 2017, to 11 million in 2025 and then surging to 30 million in 2030 as they become cheaper to make than internal combustion engine (ICE) cars."



Fine-tuning incentives

In response to these challenges, OEMs have recently begun to take a more sophisticated approach to incentives. According to a November 2018 report from industry-research group ALG in California, incentive spending declined by 2.8% from 2017 to 2018. The reduction was even more marked in certain categories of vehicles.

For example, ALG reported the average incentive spending per unit dropped $103 to $3,609. The ratio of incentive spend to average transaction price was expected to be 10.6%, down 3.8% from a year earlier.

Another change is an increased focus on personalization, according to an August 2018 report by market-research firm Alvarez & Marsal, which stated car manufacturers have "modified their incentive bonus programs to provide more targeted incentives."

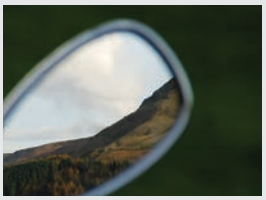
The Alvarez & Marsal research reported a shift from volume-based incentive bonus plans that primarily focus on sales to targeted incentive-based bonus plans which have the objective of "maintaining the OEMs' competitive position, maintaining profitability and ensuring customers remain loyal to the brand." This is a markedly different goal than either a traditional volume-based incentive, which is about shifting cars off a dealer's lot, or a holdback incentive which delays the payment of incentives to dealers until a fixed period after that sale, thus encouraging quicker sales.

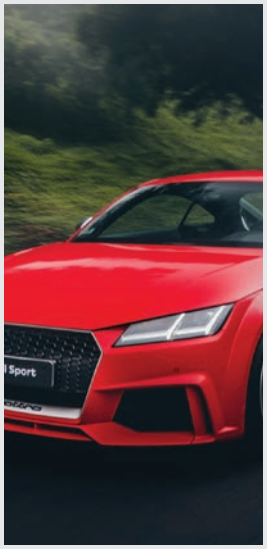
New targeted incentives are intended to create specific outcomes for the manufacturer, so they will often require that dealers take actions that:

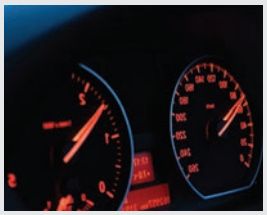
- Feature the OEM brand or comply with standards in facilities or marketing
- Increase brand awareness and loyalty
- Improve customer service.

These initiatives build a lasting relationship with customers by creating a set of consistent expectations about what they see at a dealership, how they will be treated when they bring their car in for service, and how the dealership communicates with them.

BMW, for example, announced in April 2018 that it was adjusting its Added Value Program based on feedback from dealers. According to *Automotive News,* this was a result of dealer unhappiness with rules that required them to capture a certain percentage of the service business of local BMW owners to qualify for some bonuses.







Gather the right information

Establishing information-centric buyer incentives will deliver quality data on customers. OEMs can craft programs that deepen the customer relationship via opt-in opportunities. For example, free limited-time trials of in-car digital infotainment, premium navigation, messaging, or roadside-assistance services could provide valuable individual and aggregate data about how consumers use these services.

The key to success for OEMs lies in gaining enough voluntarily shared information from customers to gather data on the purchase cycle and anticipate what they might need next. Both proactive and passively provided information can be turned into insights that drive brand loyalty.

This works in other sectors. For example, mobile phone service providers secure permissions from consumers so they can understand when customers might want to upgrade to a new smartphone, try out a new app, or what streaming services might fit their needs. Customers appreciate these proactive outreaches based on their usage.

Dealers are still important to the relationship

Even with the changes coming to the automotive industry, dealerships will continue to play a key role. They have the local, on-the-ground relationships with customers, provide service and support for car buyers, and have been the traditional conduit for customer communication.

OEMs can improve their dealer relationships by simplifying their incentive initiatives and re-focusing those incentives around the kinds of investments that will make a real difference with buyers, such as the quality and consistency of the buying experience and the quality of aftersales service.

There is clearly room for greater collaboration between OEMs and their dealer networks as they grapple with the disruption happening in the industry.

New, customer-informed business incentives aimed at increasing brand loyalty will yield a great deal of new data. It will include traditional data about vehicle sales, incentives, and profitability, but also customer loyalty, engagement, and the effectiveness of service operations.

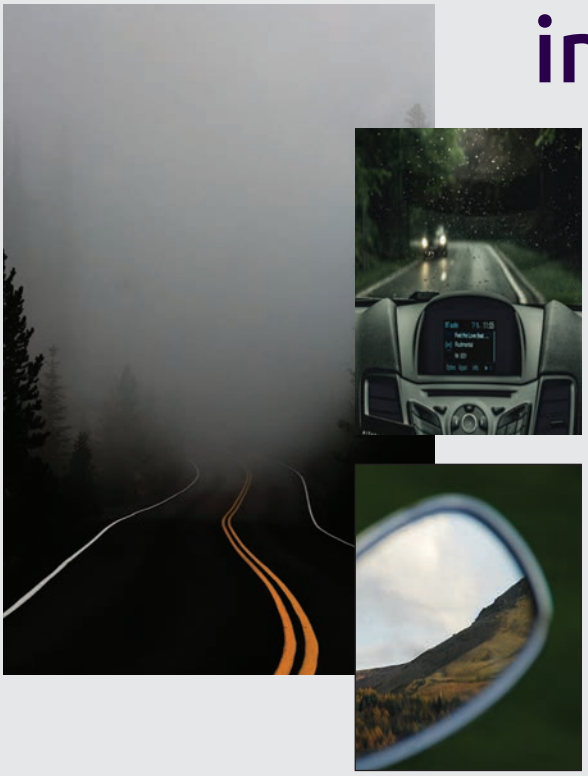
None of that data should be standalone. The real power lies in the business intelligence derived through integrated analysis of the links between each step of the process and being able to examine that data by dealer, region, and model.

To do that most effectively, OEMs will need solutions that tie together the ERP systems they use for resource planning with the customer relationship management (CRM) systems at the dealerships to get a clear end-to-end picture of both the buyer journey and the vehicle itself.

This data allows manufacturers to track what happens with every vehicle they make from the moment it leaves the line to when it is delivered to the buyer. After the purchase, the CRM system provides details on the purchase and beyond, to repairs and maintenance services, accessories, and digital service subscriptions.

Regarding incentive strategies, these systems can assess the profitability of a sale, the resulting loyalty of customers, and the quality and type of post-sales services purchased by consumers.

Data plus analysis delivers business intelligence



Deliver a differentiated customer experience

OEMs can build a truly differentiated customer experience. Brands such as Pontiac, Mercury, and Saturn no longer exist because they had become irrelevant and meaningless to consumers. The industry needs to learn from this experience.

OEMs must succeed in achieving two key goals to deliver on the promise of a truly differentiated customer experience. They need to:

Use incentives for improved customer connection and loyalty. This means reframing the way that both dealers and manufacturers think about incentives. It will require careful thought and implementation to make the cultural changes needed at the manufacturer and dealer level. The goal is to transform incentives from short-term tools that meet immediate sales needs to key elements of a long-term relationship strategy.

Connect with customers through experience channels. These channels include web sites, email communication, mobile device apps, and the kind of "above and beyond" customer service that takes place with each in-person customer engagement.

Automated management and assessment systems can help OEMs and dealers ensure that incentives become a clear, consistent, and meaningful long-term contributor to the success of their business.

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