



The Aftermarket in the Automotive Industry
How to Optimize Aftermarket Performance in Established and Emerging Markets



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1 Executive Summary

The automotive industry is experiencing significant changes in global market volumes, with flat sales in Western Europe and increasing importance of the emerging markets of Eastern Europe, Russia, China and India. This growing importance includes not only new car sales, but also the aftermarket. Given the fact that the aftermarket business creates attractive revenues and margins, aftermarket activities are on the management agenda in both established and emerging markets. Winning the aftermarket is far from easy, since it entails significant complexity, a large number of maintenance and parts activities, and crucial supply chains.

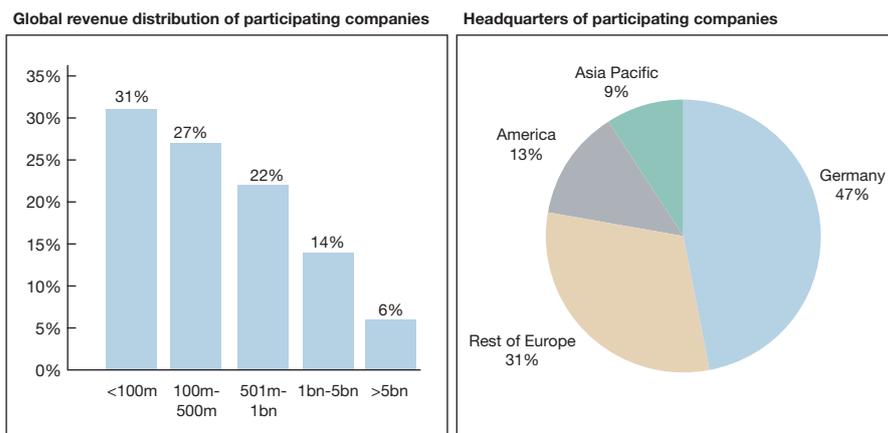
To identify key patterns about how to best operate in the established as well as in these fairly new markets, Capgemini Consulting, together with the University of St. Gallen (ITEM-HSG), conducted an aftermarket

analysis. The main aim of this analysis was to develop a frameset that allows automotive companies to best prepare for challenges in the global aftermarket business. The analysis is based on an in-depth survey in combination with additional interviews with over 150 aftermarket managers of the world's leading automotive companies.

Based on the results of this study, the following key conclusions can be drawn for the aftermarket:

- 1. The Western European aftermarket is a rather mature market with flat aftermarket volumes.** The competitive intensity remains at a high level and will be further accelerated by new regulations and competitors.
- 2. Improvement of marketing and sales activities is the main trigger to remain competitive in Western Europe.** Because of the flat nature of the Western European aftermarket, marketing and sales activities must concentrate on keeping the customer loyal to dealers and repair shops across the car lifecycle.
- 3. Emerging markets offer attractive growth rates with relatively moderate competitive intensity in Eastern Europe, Russia and India but with high competitive intensity in China.** In the future, the competitive intensity is expected to increase to a similar level as in Western Europe. To benefit from the attractive growth rates requires immediate managerial action, before the growing competition makes it more difficult to succeed in the aftermarket. Still, low-performing companies in particular need to focus on selected markets that best fit their strategy and their current capabilities.

Exhibit 1: Global Revenues and Headquarters of Participants



Capgemini Consulting

4. Each emerging market (Eastern Europe, Russia, China and India) is specific in terms of the competitive environment and customer needs.

The different characteristics of the markets require a localization of the aftermarket. Companies trying to exploit the aftermarket with a standardized global approach will most likely fail. Finding an individual approach becomes essential.

- Surprisingly, most companies are not prepared to exploit the potential of the **Eastern European** aftermarket and no one reaches high performance. The majority of companies are confronted with improvement activities across marketing and sales, sourcing, distribution, planning and reverse-logistics processes.
- **Russia's** geographic expansion requires improvements in the distribution processes. A more dense distribution network would enable a stronger penetration of the Russian aftermarket beyond the major cities.
- **China** is the most challenging emerging market. To succeed here, major improvements are necessary in marketing and sales, sourcing, distribution and planning processes to become and also to remain competitive.
- In general, **India** is a rather neglected market for Western European car manufacturers and is increasingly being led by top-performing Asian companies. Western European companies must learn from the successful aftermarket practices of their Asian competitors.

The results of the study led to the development of a model designed by Capgemini and the University of St. Gallen that evaluates the overall aftermarket performance (CHAMP – Capgemini's Health Check for Aftermarket Performance). The model visualizes the current performance and development needs of a company by identifying three

different phases to optimize the aftermarket performance in Western Europe and the emerging markets. This model helps companies to better position themselves and develop strategic options to boost their aftermarket performance in the respective markets to the point where they can become a global aftermarket champion. To accomplish this, the model uses three different levels: the exploration, exploitation and finally the aftermarket champion phase leading into the global aftermarket champion phase.

In each of these levels companies have to focus on different improvements in their aftermarket operations. Most companies have left the level of exploration in Western Europe, but have re-entered this level in the emerging markets. Companies should strive to become emerging market champions in their aftermarket activities in the next five years. Of course, not every company can and will succeed, but the pace of progress towards that objective will make the distinction between market share losers and gainers, not only for aftermarket revenues and profits.

In the final level companies should align their strategy and operations towards a vision in which global aftermarket champions concentrate on a control-tower type of supply chain operation. In this case, the company takes over full end-to-end responsibility for the supply chain from its suppliers up to its customers. Global aftermarket champions operate optimized multi-echelon networks of warehouses and use worldwide benchmarks to transfer best experiences among warehouses, dealers and repair centers.



2 The Aftermarket in the Automotive Industry

This section provides an overview of the automotive industry's aftermarket to set the scene for further analysis. Growth rates in the different regions are discussed as well as how basic value propositions are set in this industry.

Aftermarket Volumes

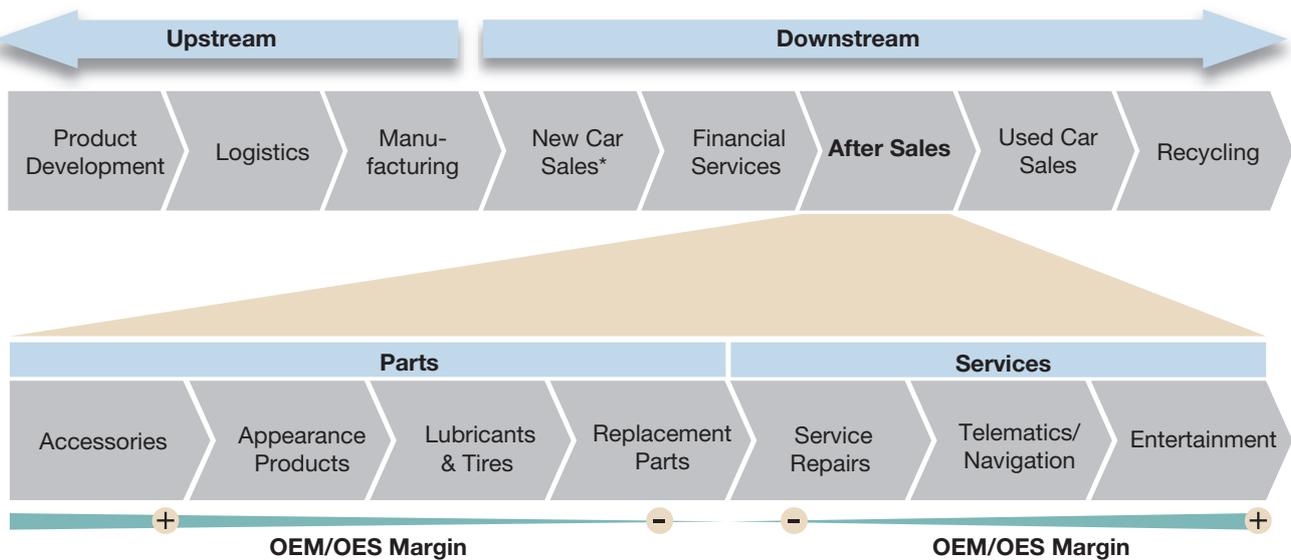
Aftermarket operations have a very broad scope and contain all activities related to maintaining a car after its initial sale and until the end of its lifecycle. The relevant activities are also referred to as aftermarket parts and services. The aftermarket encompasses all parts and services purchased for light- and heavy-duty vehicles after the original sale, including replacement parts, accessories, lubricants, appearance products and service repairs. This

definition also includes any additional innovative services that help to optimize the use of the vehicle.

Exhibit 2 summarizes the main components of the automotive aftermarket and also gives an outline of average margin expectations per component. In addition, the illustration shows how the value chain of an OEM (Original Equipment Manufacturer) and OES (Original Equipment Supplier) is structured and where the after sales activities are based in the chain.

Globally, aftermarket volume, including retail sales, is growing rapidly and becoming increasingly important to automotive companies compared to new car sales due to the

Exhibit 2: Value Chain of OEM/OES and Focus of Study



* New car sales is relevant for OEMs only. For OESs the equivalent is parts/components sales to OEMs

The relevancy of the different elements varies for OEMs/OESs due to the nature of their meaning

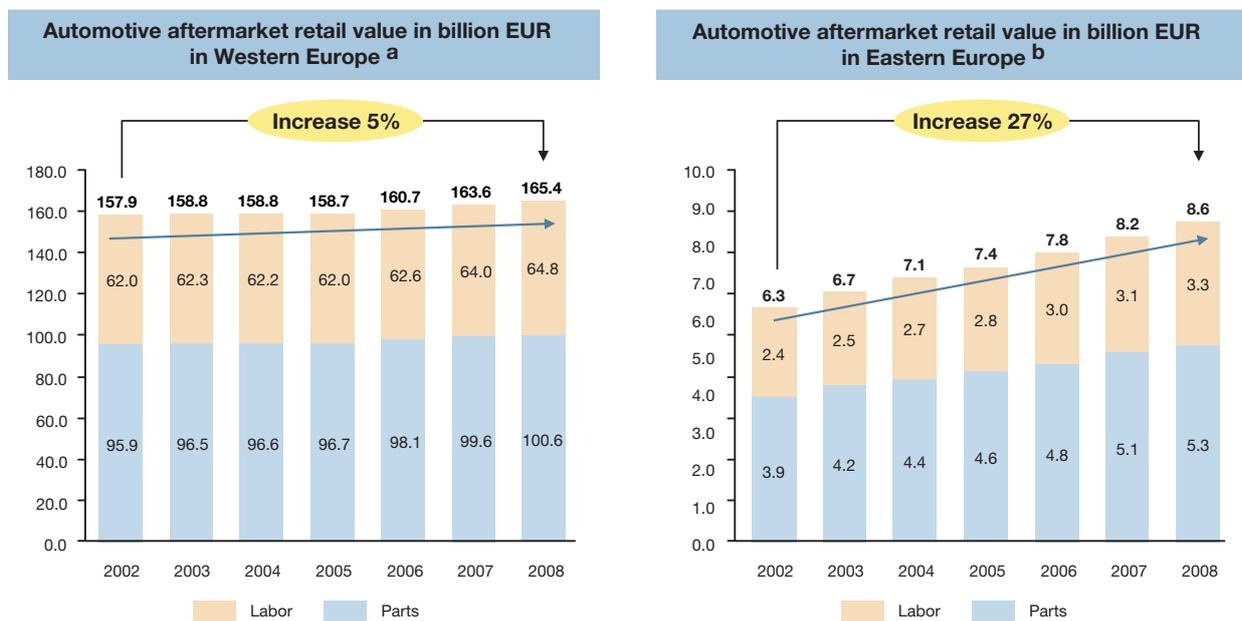
higher margins. As can be seen in Figure 3, the Western European aftermarket is more or less flat, while attractive growth rates exist in emerging markets such as Eastern Europe. The average growth rate per year is estimated at about 1% in Western Europe, whereas in Eastern Europe it is about 5.3% per annum over the past seven years. Among Western European markets with a total aftermarket volume of approximately 165 billion euros, Germany has the highest sales with 48 billion euros and thus contributed about 30% of the overall Western European aftermarket sales in 2008.

Aftermarket Revenue and Profits

Innovative services such as telematics and mobility service bundles offer additional opportunities to generate business and revenue improvements and account for a growing share of the aftermarket. These services are increasingly embedded into new technologies. In addition to more complex parts, they can compensate for the declining share of traditional parts, repair and maintenance services during a car's lifecycle due to higher general quality and reliability of cars and parts. Considering the total revenue stream of a typical 13-year car lifetime,¹ only 37% of the total revenue stems from the new car sale. The aftermarket business accounts for the remaining 63% in Western Europe.²

In 2007, the aftermarket business accounted for about half of the profits of European automotive OEMs/OESs, compared to 26% for new car sales and 18% for car manufacturing. In the aftermarket, the turnover for car and parts manufacturers has increased to about 63 billion euros and operating profits grew from 13 billion euros to 16 billion euros, compared with the previous year.³ In 2009/2010 this is expected to level off due to the effects of the vehicle scrapping programs, such as the Abwrackprämie in Germany, on the service and parts business in the major markets in Western Europe. In addition, the cost of warranty is expected to increase over the next three years.

Exhibit 3: Automotive Aftermarket Growth in Western and Eastern Europe



a) Based on data from Germany, UK, France, Italy, Spain, the Netherlands, Belgium, Norway, Portugal, Sweden, Austria/Switzerland

b) Based on data from Poland, Hungary, Czech Republic

Datamonitor, Caggemini Consulting

¹ The automotive passenger car lifecycle model splits the average use of an automotive passenger vehicle over a period of 13 years into three phases. The first phase runs from one to four years of the car's age, mainly through the warranty period of the car. Phase two describes the years from four to seven. Finally the third phase describes the years from seven to typically 13. This model is relevant for the management of the automotive aftermarket business as it can be used to describe the usage patterns of end customers in their consumption of parts and services over the different phases. Typically, the older the car gets, the more sales of parts at OEM-owned retail and franchised dealerships decrease in favor of independent retailers. OEMs are continually seeking solutions to minimize this situation as the parts business offers attractive margins.

² Caggemini Consulting, internal research

³ Caggemini Consulting, internal research

3 Characteristics of the Aftermarket

Key Finding

Western, Eastern Europe and Russia will increasingly be treated as “one” common investment region, whereas China and India are still focused on independently.

To establish a management guide, the characteristics of each aftermarket first have to be defined. This section describes the competitive environment, market growth and potential as well as the market specifics. Differences across markets do not only occur between the mature Western European aftermarket and the aftermarket in the emerging regions but also among the different emerging markets themselves.

Market Potential and Growth

The **Western European** aftermarket is a rather mature market with flat volumes. However, with 165.4 billion euros in 2008 it remains the biggest of the study's markets when it comes to volume.⁴ In the research, 54% of the respondents expect incremental growth of up to 5% until 2013.

Competitors that are able to utilize the new European Union Block Exemption Regulation in 2010 (BER2010)⁵ for their own purpose can expect additional growth rates of 5% to 10%, compared with the market average. BER2010 will not only help companies to shape their competitive edge but should also further increase competition in the aftermarket. The regulation will most probably attract more suppliers to the aftermarket, since original parts can command a premium and insurance companies often require them for repairs. This means that OEMs and OESs will face significant price competition from copy manufacturers. They need to show strong operational excellence and

marketing and sales capabilities to maintain their market position in light of the increased competition. Moreover, the market will likely witness the emergence of additional and changed business models.

On average, OEMs' parts revenue is expected to decline by up to 5% in the next three years, indicating that margins could come under increased pressure. On the demand side of standard high-volume parts, specialty chains and fast fitters such as Kwik-Fit, PitStop and A.T.U. will benefit and have more power to negotiate prices. Independent vendors, supplying, for example, Bosch Repair Centers, may also increasingly replace OEMs in the aftermarket. These shifts may result in lower prices for standard and high-volume parts by 10% to 15% in the next five years. This means that most market players except for copy manufacturers and specialty chains will face a reduction in overall turnover. Additionally, margins as well as profits will be squeezed throughout the industry.

Total aftermarket volume in **Eastern Europe** is low compared to Western Europe (see Exhibit 3). The region's market volume is estimated at 8.6 billion euros.⁶ But with an annual growth rate of more than 5% anticipated by the study's participants in the next few years, the overall growth is expected to be considerably higher in Eastern than in Western Europe. The aftermarket development in Poland, Hungary and the Czech Republic is the main growth driver.

Key Finding

Whereas the Western European aftermarket is in the maturity stage, strong annual growth rates of 5% to 15% are expected for the emerging Eastern European, Russian, Chinese and Indian markets.

⁴ Datamonitor, Germany – Total Aftermarket Value 2008, 2009

⁵ The Block Exemption Regulation 1400/2002 restructured the automotive sales and after sales market and led to an increase in competition. For the aftermarket this meant several changes such as, for example, more liberal access to relevant service information for independent dealers. This regulation will end May 2010 and be replaced by an automotive aftermarket specific regulation (BER2010). This will continue to further liberalize the automotive aftermarket and increase competition in the parts and service market. Source: Capgemini Consulting, internal research; European Commission, SEC(2009) 1053, 2009

⁶ Datamonitor, European Aftermarket Houseview 2009, 2009

The **Russian** car market, in general, was expected to surpass the German market in 2008. Within the first six months of that year, about 1.64 million new cars were registered in Russia, resulting in 100,000 additional cars compared to Germany. However, the Russian automotive market has been heavily hit by the financial crisis, leading to a decline of more than 50% in the last months of 2008.⁷ The total after sales market volume in 2008 was estimated at about 8.2 billion euros. The expected growth rates are on average similar to Eastern Europe. However, in our research respondents were split about equally in expecting that the growth rates would be up to 5%, 5% to 10%, and between 10% and 15%. This equal split indicates uncertainty about how much the Russian aftermarket will grow.

The **Chinese** aftermarket has already achieved relatively high volumes and this success story is expected to continue. The vast majority of the companies surveyed expect growth

rates to be higher than 5% and half expect growth rates to climb up to 10% to 15% within the next three years. The total volume of the Chinese aftermarket is about 5.1 billion euros.⁸

In general, **India** is a rather neglected market for Western European car manufacturers. The country is still dominated by three car manufacturers, namely Maruti Suzuki, Tata Motors and Hyundai, which account for 75% of the market share. Aftermarket volume is about 2 billion euros, but the aftermarket share for Western European companies is relatively small.⁹ The growth rate in the Indian aftermarket is lower than in China, but still exceeds most mature markets. In our research 70% of the participants expect the aftermarket in India to grow between 5% and 10%, and 24% anticipate growth rates between 10% and 15%. Only 6% assume a growth rate of less than 5%.

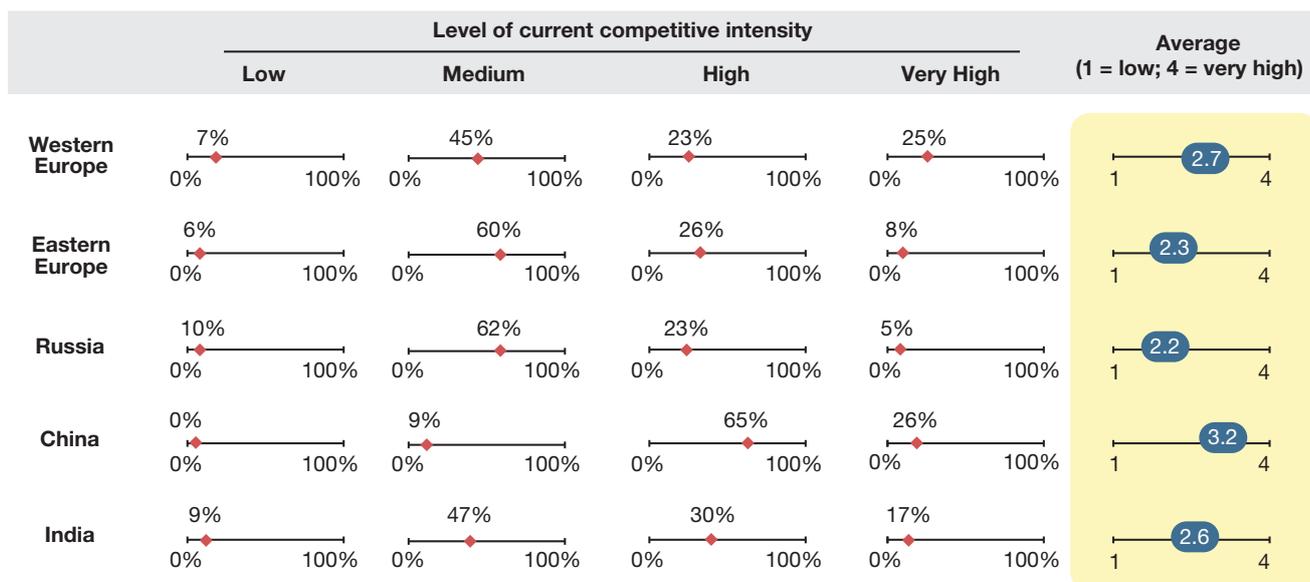
Competitive Situation in the Aftermarket

Similar to market potential and market growth, the current and future competitive situation in the aftermarket differs depending on the region.

In **Western Europe**, the competitive intensity is currently at a rather high level, according to the respondents. They categorized the market as being one of the two most challenging in terms of competitive activity (the other being China). All participants were almost certain that Western Europe can be considered a mature market, and on average they expect a moderate increase in the competitive intensity.

The picture for **Eastern Europe** is different. Here, it was noted that on average the current competitive intensity is somewhat moderate but with future increases anticipated. This can be seen in Exhibit 4, which shows the positioning of the markets in terms of their estimated competitive intensity.

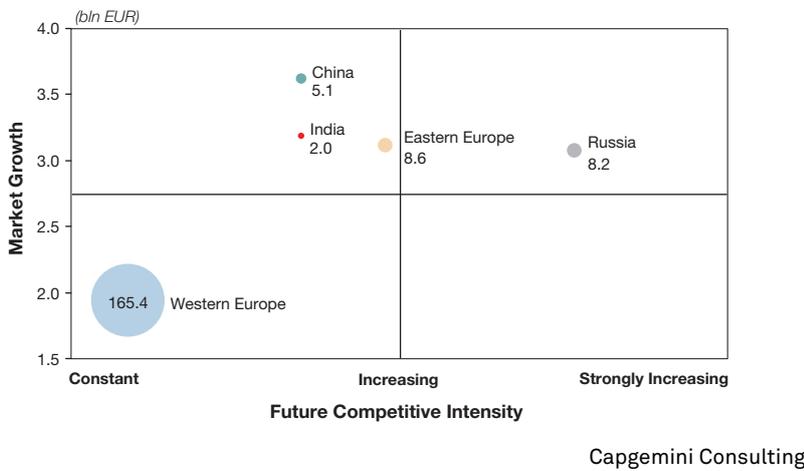
Exhibit 4: Current Competitive Intensity



Capgemini Consulting

⁷ Ibid
⁸ Datamonitor, 2008 – 2012 Global Aftermarket – Recession and Growth Beyond, 2009
⁹ Ibid

Exhibit 5: Market Growth and Competitive Intensity



Expert’s Quote

Christian Hummel, Capgemini Consulting China: “China’s automotive market generally is fairly young and mainly driven by first-time buyers. So the aftermarket will see high growth rates soon. And due to customers’ high expectations, the installation of a dense and professional service chain becomes a critical differentiation factor for market success.”

Russia will make an important leap with regard to competitive intensity. Today, the participants estimated the competitive intensity on average as being the most moderate of all markets. This is likely due to the existing weakness of the domestic car manufacturers. Russian car manufacturers such as AvtoVAZ and GAZ still have strong disadvantages compared to international manufacturers due to their organizational infrastructure.

In the future, the competitive intensity will increase dramatically, according to the participants. The increase in competitive intensity is expected to come from the market entry of nearly all international car manufacturers. This includes the expected strong presence of Chinese, South Korean and Japanese manufacturers in Eastern Russia, with the Western European manufacturers concentrating not only on major cities such as St. Petersburg and Moscow, but also on the more rural areas in Western Russia.

The competitive intensity in the **Chinese** aftermarket is already at a

very high level. The majority of the participants considered this market to be even more competitive than Western Europe. In the future, competition in China, along with India, is expected to increase further but with less momentum than in Russia, according to the respondents. The main rationale for this development stems from two factors. First, there are an increasing number of local Chinese car manufacturers competing successfully with international car manufacturers. Examples include Chery, Geely, SAIC¹⁰ and BYD¹¹ for cars, and Yutong, Dongfeng and Beiqi Foton for commercial vehicles. Second, a lot of local suppliers still substitute original with imitated parts meaning that traditional OEMs will experience further pressure in their aftermarket activities.

Through the dominating role of the big three market players in **India** – Maruti Suzuki, Tata Motors and Hyundai – the current competitive intensity is rather low. However, because other market players are motivated to break through the domination of the three main players, the competitive intensity is expected to increase in the future. The majority of the participants rated India similar to China, meaning that the competitive increase through the next years will be high, however still a bit less than in Russia.

Exhibit 5 summarizes the characteristics of the different markets by combining the market growth, market volume and competitive intensity.

¹⁰ SAIC: Shanghai Automotive Industry Corporation
¹¹ BYD: Build Your Dreams, Chinese automotive manufacturer in Shenzhen

Achieving Competitive Advantage

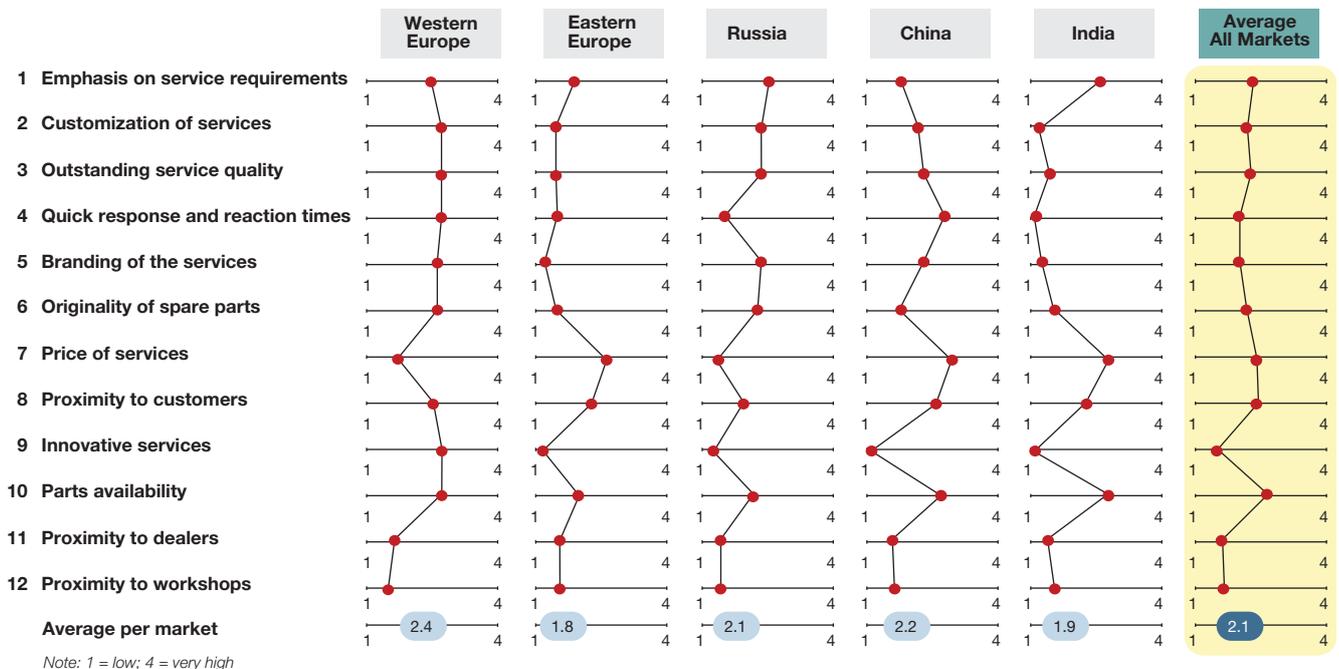
When it comes to the parts business, the way to achieve competitive advantage is very similar across markets, according to the findings. Regarding business opportunities for car manufacturers, parts sales are tightly linked to their respective car sales. Moreover, price is the dominant factor especially in highly competitive markets. Both factors can be seen as hygienic factors though the main differentiating factors are parts availability and originality of spare parts. When respondents were asked about the service business, it became clear that factors that differentiate the service offering vary significantly for each market.

In **Western Europe**, the main factors for differentiating the service offerings are innovative services, the high emphasis on specific customer requirements and customization of services. In line with the importance

of customization, proximity to customers and offering services for attractive prices play an important role as well. This is even more important during times in which customers are increasingly buying parts on the Internet or from independent repair centers. Outstanding service quality, quick response and reaction times, and branding of service can no longer be considered as differentiating factors. Furthermore, companies unable to live up to these commodity requirements will fail.

Eastern Europe is similar to India with regard to branding and innovative services. These are not differentiating factors. The same applies for service quality and quick response and reaction times. As long as prices are attractive, customers are satisfied with relatively low service levels and more or less standard services, according to respondents. Customization of services is also of

Exhibit 6: Importance of Factors Differentiating the Service Offering



Capgemini Consulting

Key Finding

The large Russian territory drives aftermarket champions to adopt new distribution network strategies. Russian customers also look for high-quality brands and are less price sensitive compared to other markets.



little interest to most customers, resulting in few differentiation opportunities. For market competitors this leads to a low margin per unit sold, but profit can still be made by either cutting costs through limiting the service offering and quality of service or by achieving economies of scale.

Russia is particularly demanding when it comes to branding of services.¹² Prices are not considered to be a differentiator for service offerings as price sensitivity for services seems to be relatively low. More important is that reasonable prices are in line with sophisticated service quality and close proximity to customers. Russian customers do not fully value quick response and reaction times, as shown in Exhibit 6, limiting this as a differentiating factor. The sheer size of Russia combined with customers' service price sensibility is leading aftermarket champions to change their network strategy to set up high-quality dealerships in close proximity to their target customer groups' accepted locations such as big shopping centers. Thanks to lower Russian price sensitivity, participants expect companies to be able to achieve a reasonable margin if they provide good marketing and logistics services. Achieving high volume does not seem to be as critical.

In **China**, the price of services is the most important factor to achieve market differentiation. However, besides attractive prices customers request quick response and reaction times and sufficient service quality. In addition, the service level is relevant for Chinese customers as well as branding of service, although prices have to be quite attractive. The main target groups are less demanding when it comes to innovation and customization of services. Compared to Western Europe these factors do

not provide sustainable competitive advantage. This means that the Chinese market is challenging as high price sensitivity together with high requirements for logistics, marketing and service quality does not provide an attractive margin. In addition, the effort to satisfy customer requirements is higher than in other markets. Maximizing market penetration therefore requires significant economies of scale.

As shown in Exhibit 6, **India** seems to be the least ambitious market in terms of differentiation. Neither service innovation, service quality, branding nor service levels seem to offer significant differentiation opportunities. The most important ways to achieve differentiation are service price and availability of parts. Furthermore, there seem to be specific service requirements that are most relevant to Indian consumers. Emphasizing these specific requirements is a potential way to achieve differentiation. In this market companies can be profitable by utilizing a strong logistics network that helps them maintain a high service level and by a focus on cost cutting and basic service offerings, while keeping an eye on customers' specific service requirements.

¹² In addition to the results described in this study please also refer to Capgemini Consulting, Cars Online 08/09: Besides a very high Internet affinity for online car and after sales research, both Russian and Indian consumers are rather ambitious in selecting their after sales services.

4 Investments Into Key Initiatives in the Aftermarket

To respond to the various characteristics of the markets, the study participants developed key initiatives and implemented them differently according to their individual assessments. The following section outlines the investment behavior into the aftermarket, the different strategic initiatives as well as companies' readiness for the aftermarket.

Total Amount of Investments in the Aftermarket

According to Exhibit 7, the investments in the aftermarket tend to be quite low. As a consequence, only a few participants consider their actual investment level to be sufficient, and no one stated that the investments are fully sufficient. The findings indicate that, at least until now, the aftermarket appears not to have received appropriate top management attention when it comes

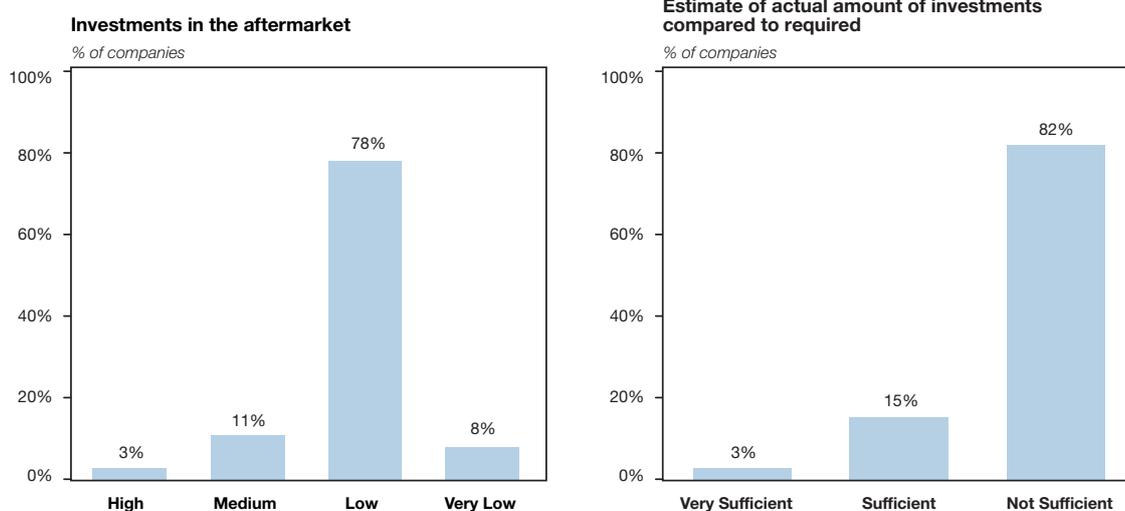
to evaluating future business potential and making strategic investment decisions. Thus, according to their own judgment, with the current budget spent, the participants are hardly prepared for future regional market developments and risk their future profitability in the aftermarket.

Main Strategic Initiatives and Direction of Investments

The participants were also asked to prioritize strategic initiatives that should help them compete in the aftermarket. Four initiatives were identified as most important:

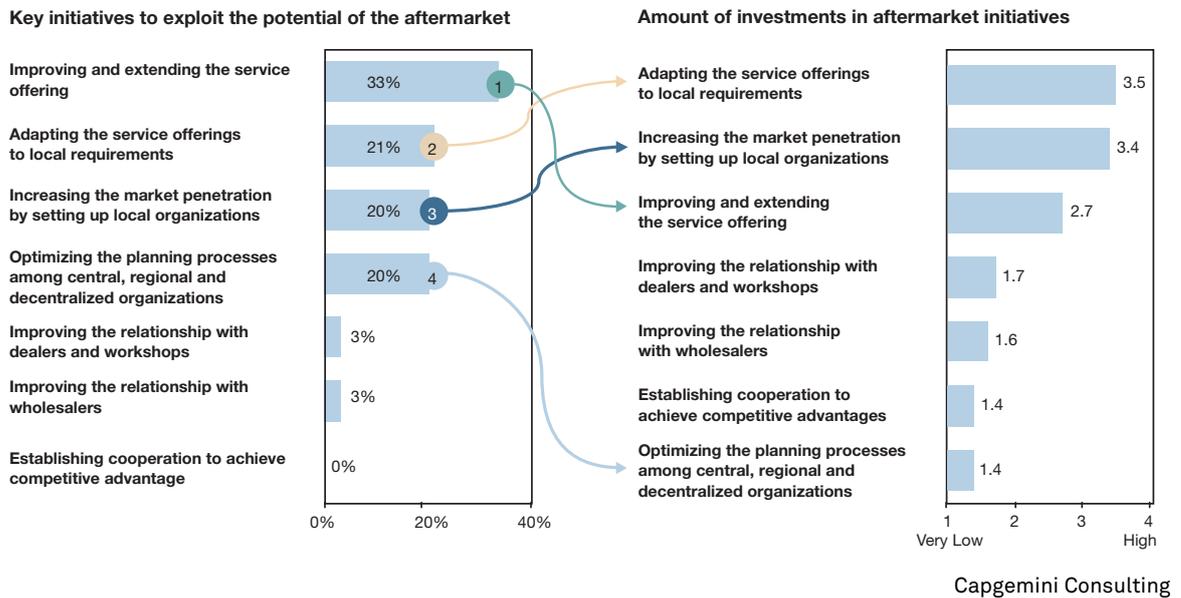
- Improving and extending the service offering
- Adapting service offerings to local requirements
- Increasing the local market penetration
- Optimizing the planning processes

Exhibit 7: Investments in the Aftermarket and Evaluation of the Investments



Capgemini Consulting

Exhibit 8: Key Initiatives Assessed as Important



Key Finding

To really be successful in the aftermarket, companies' investments need to be drastically increased.

In the next step, participants had to detail their investment budgets for these initiatives. Interestingly, both amount and order of investments do not correspond to the priority of initiatives, as can be seen in Exhibit 8.

The direction of investments reflects roughly the participants' assessment of the overall key initiatives to exploit the aftermarket potential. However, improving and extending the service offering, which was evaluated as important by many respondents, receives significantly lower investments compared to other top-ranked initiatives. Furthermore, optimizing the planning processes was among the most important initiatives but receives the lowest investments.

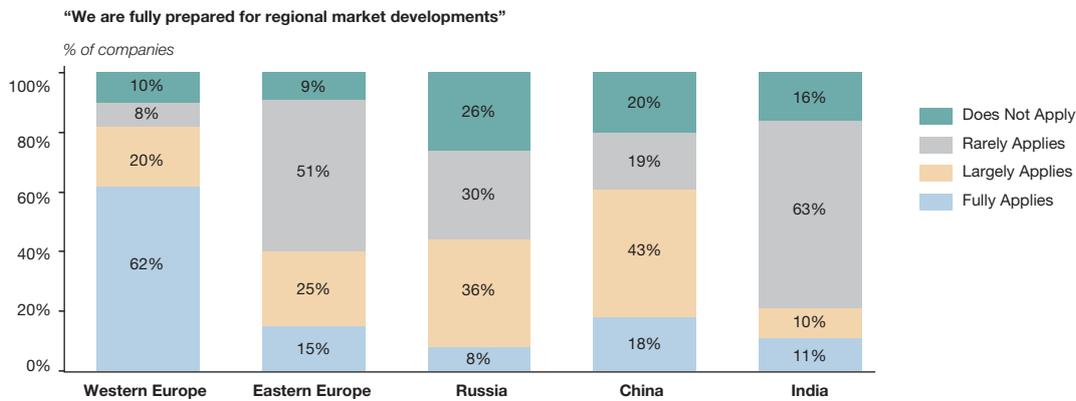
As a consequence, there is a large gap between required and actual investments. The reasons might be that the current situation calls for a change of investment direction towards new strategic initiatives or former initiatives that need revision. For example, optimizing the planning processes seems to have gained in importance because it represents an essential factor for a global aftermarket business with

centralized and decentralized organizations. Additionally, industry challenges such as increasing competition, price erosion, higher customer requirements and financial uncertainty may have sensitized management to rethink the traditional business. These factors may have caused managerial attention to switch from marketing and customer relationship topics towards more seriously considering the exploitation of the aftermarket potential. The major focus is on increasing efficiency in global supply processes.

Companies' Readiness for the Aftermarket

The lack of investment corresponds to companies' insufficient preparation for regional market developments. This is particularly true for Eastern Europe, Russia and India. In all these regions only 35% of the participants said that companies are prepared for regional market developments. In contrast, more than 50% indicated that they are at least largely prepared for regional market developments in China. And more than 80% said they are largely or fully prepared for regional market developments in Western Europe.

Exhibit 9: Companies' Preparedness for Regional Market Developments



Capgemini Consulting

The lack of preparation in most of the emerging markets is evident in various statements. Because the investments are rather low, companies only act reactively in the emerging markets. They do not approach the aftermarket systematically and not in strategic response to changing customer needs. As a consequence, new competitors seem to increasingly win market share. This is in principle confirmed by more than 60% of the study participants.

The next goal was to better understand how this investment behavior leads to low market preparation and finally results in increasing competition. Here, the indicated loss of market share and decreasing revenues and margin are accelerated by a poor fit between existing service offerings and the actual

customer requests. This poor fit is driven by the companies' performance in the main elements of a service offering. According to the analysis of the study results, these elements are basically the type of services offered on site – service quality as well as service innovation.

For example, more than half of the participants indicated that existing service offerings often do not fit to local requirements. The respondents also do not recognize the importance of pushing new service innovations to protect their existing market share and/or to regain lost share. Finally, in terms of service quality offered, again more than half of the participants indicated that the quality offered is substandard to customer requirements.

Key Finding

High and low performers need to apply different market strategies due to their specific learning curves. Whereas high performers' development is evolutionary, low performers need to be revolutionary in order to catch up.



5 Performance in the Aftermarket

Key Finding

Even companies that perform relatively well in Western Europe still do not achieve medium performance in the emerging markets, indicating strong potential for improvement.

It is fundamental to understand a company's current market performance in relation to its peers. Interestingly, the performance differs widely across markets and across the companies represented by the study participants. These points are discussed in the following section and lead into clustering high and low performers to start examining lessons learned.

Regional Performance

Consistent with the different degrees of preparation for market development, the performance in the aftermarket differs between Western Europe and the emerging markets. Participants also rate the current exploitation of the financial potential

in the aftermarket differently in Western Europe than in the emerging markets.

As can be seen in Exhibit 10, the participants stated that high performance varies considerably: Whereas in Western Europe 67% of respondents said they were high performing, no one seems to be a high performer in Eastern Europe. In contrast, 17% said they were a high performer in Russia, 4% in China and 7% in India. This reflects a strong focus on excellence in established markets while the newer markets are currently left for the local or regional competition. Established Western OEMs and OESs need to react soon if they are planning to take a share of this business potential.

The right graphic of Exhibit 10 shows that average performance is not consistent. Companies achieve a relatively high performance in Western Europe (3.7). Interestingly, even companies with high performance in Western Europe do not achieve even medium performance in the aftermarket in emerging regions. Across all markets,

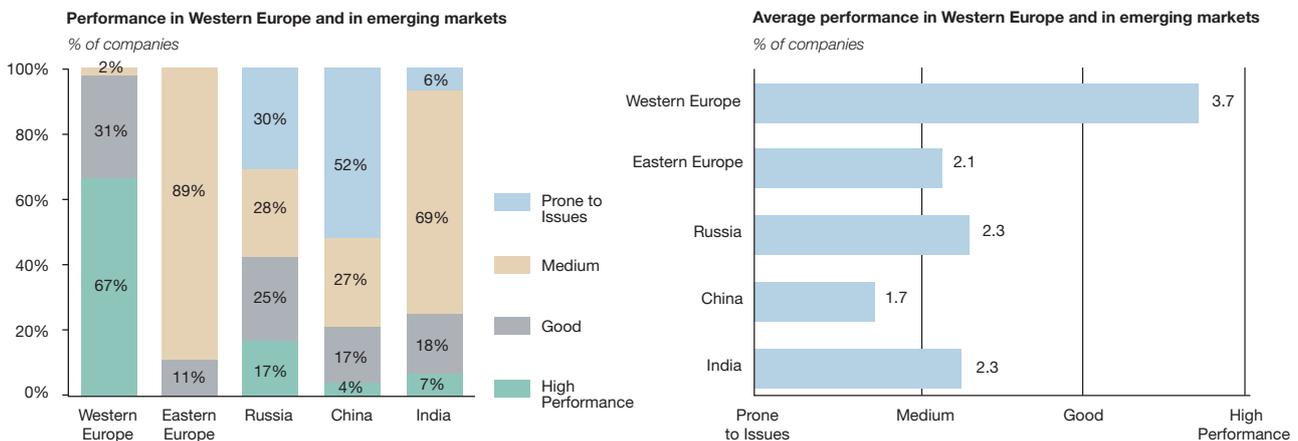
companies show considerable improvement potential for the aftermarket. Specifically, the performance in Eastern Europe is surprising because companies should be able to transfer their successful Western European aftermarket practices to Eastern Europe. The results indicate that this transfer is far from easy and not a straight road to success.

High- and Low-Performance Peer Groups

The performance of the participants, based on their self-estimation, varies widely across markets. Nevertheless, as pointed out earlier, the analysis uncovered a dichotomy between high- and low-performing groups. Also, the results of the study show a direct relationship between these performance groups and their activities in the markets.

The following section examines the market behavior of high-performing companies and identifies what low performers must do to become high performers. These results are examined by market, as the group of high performers can vary per market, with a few exceptions.

Exhibit 10: Detail and Average Performance in the Different Markets



6 Management Approach for Winning the Aftermarket

The following section presents a model designed to help companies manage the challenges in the aftermarket and provides recommendations on how to best pursue these markets.

6.1 Capgemini's Health Check for Aftermarket Performance

Despite their high potential, aftermarket operations in the emerging markets are fairly young. There are examples of first movers such as Honda, Nissan and Toyota with their initiatives in high-speed and off-road test track camps open to car owners. Other examples include Daimler's telematics joint venture with Deutsche Telekom, General Motors' former investments in U.S. dealers, or Renault's joint venture with Autobacs Seven to establish an automotive accessories retail chain in Europe. Examples in the emerging markets include Maruti Suzuki's investments into Maruti Driving Schools¹³ or Mahindra & Mahindra's investments in early aftermarket customer loyalty programs.¹⁴

Clearly, approaching the emerging markets is not a short-term management trend, but a key element in a manufacturer's long-term strategy. Still, aftermarket operations in emerging markets are immature. Only 7% of the participants say they have a global approach that is already operational. Approximately one-third have an implementation in progress, and 56% indicate they are at best still in the planning phase.

Given the link between aftermarket performance, service management activities and benchmarks to the developments in other industries, it is likely that most companies will decide to professionalize their service management operations in the emerging markets and to develop from a cost- to a profit-center oriented organization. Together with continual and incremental improvements in Western Europe, companies will be able to take optimal advantage of the opportunities in the global aftermarket.

To help companies achieve this objective **Capgemini's Health Check for Aftermarket Performance** (CHAMP) has been developed. This model indicates the level that companies have reached on their individual path to aftermarket excellence in the different markets and serves as a vital guide to further sharpen companies' competitive edge. This model helps companies understand their current position and plot the actions required to exploit the opportunities in the aftermarket. Because of the strong differences in the performance between mature and emerging markets, the model distinguishes among the markets. For each distinct market, the data suggest three levels: explorer, exploiter and aftermarket champions.

- **Explorer** level means that companies have created their first experiences in the aftermarket and are mainly in the planning phase with some early, but limited returns from the aftermarket.

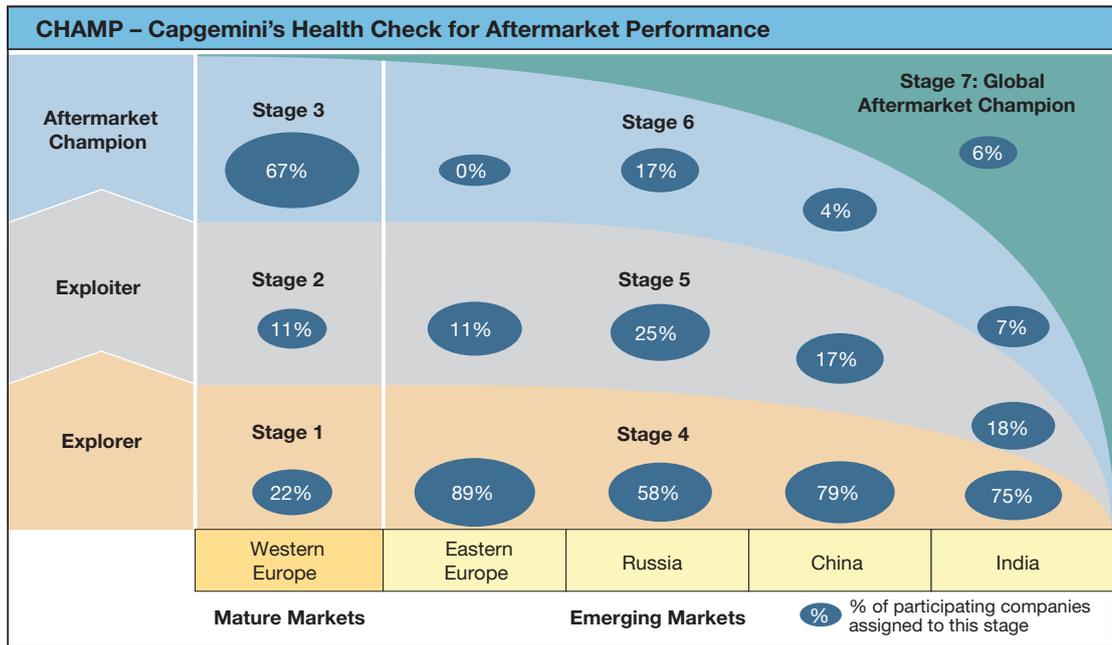
Key Finding

True global aftermarket operations are still in their infant state. But the aftermarket offers significant potential and promising opportunities.

¹³ Asian joint venture Maruti Suzuki is a main facility for obtaining driving licenses in India (e.g., 500,000 mostly commercial driving licenses are sponsored by Maruti Suzuki).

¹⁴ Mahindra & Mahindra's daughter company First Choice, India's largest multi-brand used car provider, offers a broad choice of good quality used cars and services such as different warranty packages for engine and transmission (e.g., silver service level: three months and 5,000 km warranty, or gold service level: 12 months – three months for free plus nine months – and 12,000 km warranty).

Exhibit 11: Model for Approaching the Aftermarket



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- **Exploiter** level involves leaving the planning stage and trying to implement a broad scope of aftermarket activities. In this level, the aftermarket creates higher returns than in the explorer level, but there is still strong potential to improve the aftermarket activities and create additional benefits.
- At the level of the **aftermarket champion**, companies have successfully implemented efficiency improvements and are exploiting aftermarket opportunities. Aftermarket champions are conscious of continually improving their aftermarket activities.

As illustrated on the vertical axis in Exhibit 11, companies can be still in the stages of exploring or exploiting the aftermarket potential in an emerging market and already an aftermarket champion in Western Europe. This model in principle is intended to be a guide to optimize the performance in any of the focus markets regardless of the origin of the OEM/OES and does not recommend a market sequence on which to follow up.

Western European Aftermarket Stage 1: Exploring the Western European Aftermarket

In stage 1, companies have discovered the strategic opportunities in the aftermarket. Companies are starting to set up an aftermarket infrastructure and develop processes. According to the aftermarket performance, companies achieve small returns on their activities. The aftermarket approach is still in the planning phase and few activities have been implemented.

Stage 2: Exploiting the Western European Aftermarket

In stage 2, companies can be considered as exploiting the strategic opportunities in Western Europe. The aftermarket approach has moved from the planning phase and is now under implementation. Activities related to various issues such as organizational and network design, IT support and operational functions are not fully implemented. As a result, performance is only at a medium level. Of course, given the maturity of the Western European aftermarket most companies have already left the exploring and exploiting levels.

Stage 3: Optimizing the Western European Aftermarket (Mature Aftermarket Champion)

Mature aftermarket champions have increased their performance over the last years and are now in the stage of optimizing aftermarket activities. These companies have strongly integrated with dependent dealers/repair centers. They keep consumers loyal for most of the product lifecycle. If customers change to independent repair centers, the goal is to sell parts to these repair centers. Mature aftermarket champions strive to control the whole breadth of distribution channels.

Aftermarket in Emerging Regions

The three levels of explorer, exploiter and aftermarket champion also occur in the emerging markets.

Stage 4: Exploring the Aftermarket in Emerging Regions

Explorers in the emerging markets perform key functions such as R&D, sourcing, manufacturing and sales in emerging countries, but the aftermarket presence is still in the early implementation stage. This includes defining operational activities for marketing and sales, sourcing, planning, distribution and reverse logistics as well as considerations for the whole supply and distribution chain.

Stage 5: Exploiting the Aftermarket in Emerging Regions

Exploiters in the emerging markets have succeeded in their first implementation efforts, but the aftermarket presence still can be improved and optimized. Nevertheless, the early implementation effort has proved the aftermarket approach to be successful and has led to defined operational activities. Cost considerations limit exploiters to operate a central warehouse in each emerging country and a small number of dependent dealers/repair centers. Compared to the mature markets, these dealers and repair centers offer only a narrow selection

of preliminary defined services to meet local requirements. The operations are kept under tight control by the central aftermarket unit.

Stage 6: Emerging Market Champion

Besides performing key functions such as those already listed, essential aftermarket operations are also installed in emerging markets. These are relatively independent from the headquarters to adapt aftermarket approaches to specific local requirements. Emerging market champions complement central warehouses with decentralized warehouses (local parts distribution centers) for optimizing parts availability and delivery times. In addition, they strongly penetrate the emerging markets with dependent dealers and repair centers. They look for integration in planning and purchasing processes between developed and emerging markets and adapt local service offerings to the specific customer requirements.

As illustrated in Exhibit 11, stages 4 to 6 are repeated for each emerging market.

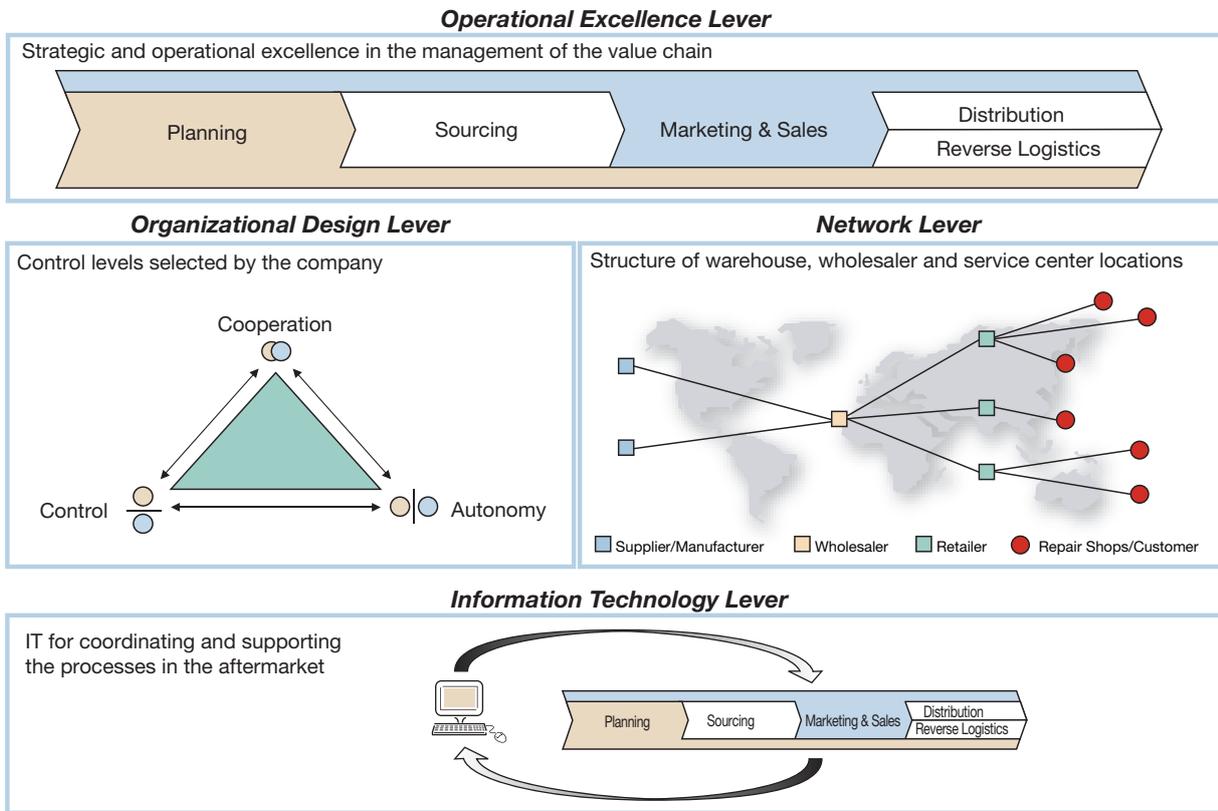
The percentage of companies positioned in each of the stages indicates that achieving the “emerging market champion” level in their aftermarket activities will be the primary driver behind many companies’ “global champion” initiatives in the next five years. The results indicate that failing to reach the local champion position means risking global aftermarket success and losing traction in the race to become a true global aftermarket champion. Of course, not every company can and will reach that level and that is where the markets in Eastern Europe, Russia, China and India will automatically make the distinction between market share losers and gainers.

Stage 7: Global Aftermarket Champion

As global aftermarket champions, companies maintain optimized aftermarket activities in various regions/countries and integrate different local approaches into a greater regional or one global aftermarket approach. They operate optimized multi-echelon networks of warehouses and use worldwide benchmarks to transfer best practices among warehouses, dealers and repair centers. The central aftermarket unit employs major integration of central and decentralized warehouses, and optimizes planning and purchasing processes across the network of local warehouses. At this final level, global aftermarket champions concentrate on a control-tower type of aftermarket operation whereby the company takes over full end-to-end responsibility for the supply chain from suppliers up to customers.

As stated before, the performance of participating companies helped to shape a profile of high and low performers. Low performers are associated with the exploring level. In more detail, **explorers** are those participants rating their performance as medium or prone to issues. In contrast, **exploiters** are those considered to be strong performers. Finally, high performance corresponds with the level of **aftermarket champions** in Western Europe, various emerging markets or even on a global scale. Note that companies can be at different stages of performance in different markets.

Exhibit 12: Dimensions in the Aftermarket Model



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Performance Levels in the Aftermarket Model

As a result of the analysis, this study lays out four levers that are essential to all the participants in order to operate successfully in the aftermarket (see Exhibit 12). They form the basis for CHAMP and serve as a guide to allow positioning of the companies in the model.

- 1. Operational Excellence:** This lever represents indicators for functional excellence in various operational activities. These include sourcing, planning, marketing and sales, distribution and reverse-logistics processes.
- 2. Organizational Design:** Organizational design indicates how the relationship between organizational entities and decision-making authority is structured. Decentralization

characterizes the management within the aftermarket units. This includes decision-making authority between central aftermarket functions and market units.

- 3. Network Excellence:** The network lever represents the inter-firm collaboration with suppliers, wholesalers, distributors and dealers/repair shops, and thus covers all partner relationships both in the supply chain and in distribution chains.
- 4. Information Technology:** This lever is a key business enabler and is essential to run the aftermarket business. The most common usage is automation and coordination of processes with high opportunity cost. That cost occurs in organizing the process other than with the support of ERP or planning software. Also, it is used to

increase transparency both in process execution as well as on the management level. Typical decisions include the usage of standard or individual software.

The four levers in the aftermarket model essentially enable performance management in the aftermarket. Aftermarket champions seem to have reached a distinctly different maturity level in the operational excellence performance lever, compared with companies performing at a relatively low level. Similarly, organizational design, network and IT also seem to be potential differentiators for explorers and aftermarket champions. In the following sections, the main levers for both low and high performers are described. The levers are further detailed according to the strategic initiatives with a focus on the most important ones.

6.2 Aftermarket Model for Western Europe

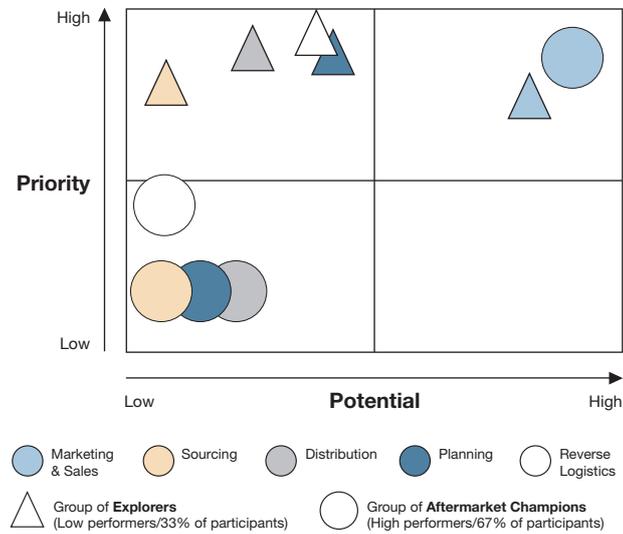
Performance Levers

The profile of the operational excellence lever attributed to both groups suggests which processes should be improved and what areas companies should further develop. Both explorers and aftermarket champions share similarities in the potential and priority attributed to the marketing and sales process. Improvements in sourcing, distribution, planning and reverse-logistics processes are of low priority, and seem to have low potential for aftermarket champions.

In contrast, to change from low to high performance, explorers typically put a high priority on reverse-logistics processes, which only entails medium potential for their business success. In addition, changing from low to high performance requires further reducing the emphasis on sourcing, distribution and planning processes and freeing up resources to further push marketing and sales activities. For explorers, these processes currently are given medium priority and offer medium potential for improvements.

Interestingly, aftermarket champions in the Western European markets do not run the densest networks. In fact, confronted with stagnant Western European markets, these companies have already started to restructure their network and distribution

Exhibit 13: Comparison of Operational Excellence Levers Between Explorers and Aftermarket Champions



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channels. This leads to more cost-effective warehouses, wholesalers and service centers. The balance between costs and customer proximity leads to improved performance. According to the IT lever, aftermarket champions concentrate on a combination of standard and individual IT solutions. Explorers have invested in individual software solutions, but the higher costs associated with individual software do not seem to create the corresponding higher returns.

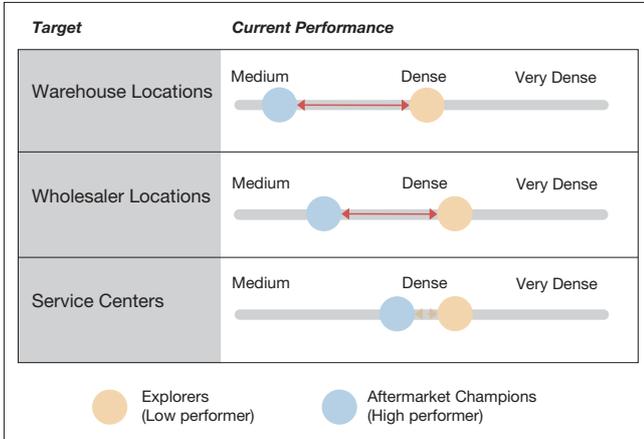
That means that changing from low to high performance primarily requires a more cost-efficient network, leading potentially to a reduction in the density of warehouse locations, wholesalers and service centers.

Expert's Quote

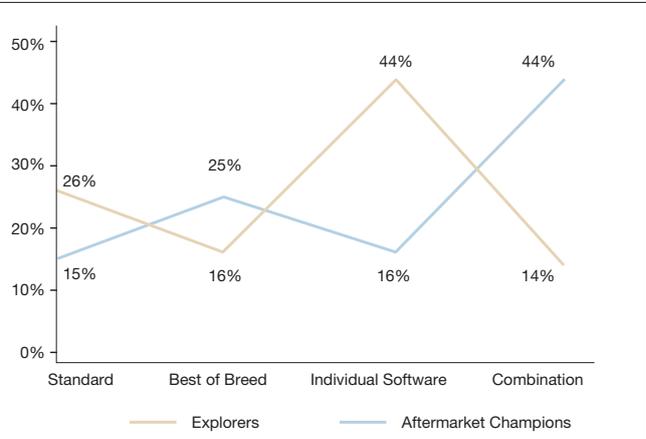
Frank Tennstedt, Vice President, Strategic Service Management, Capgemini Consulting:
 “Decreasing product-oriented profits, the tendency to bulk commodity, and intense global competition have compelled executives to increasingly rely on post-sales service to stimulate corporate growth. It is no longer regarded as an inevitable cost of doing business, but as an active lever to drive revenue, profit and customer retention. It represents a fundamental shift in how service operations are managed – moving away from a tactical cost-center approach to managing it as a strategic profit center.”

Exhibit 14: Comparison of Network and IT Levers for Explorers and Aftermarket Champions

Comparison of network for explorers and aftermarket champions



Which IT solution(s) do you use for coordinating processes in the aftermarket? (multiple answers permitted)



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Key Finding

High performers reduce distribution network density and optimize cost. They also manage their distribution based on fewer organization levels adhering to the subordination principle.

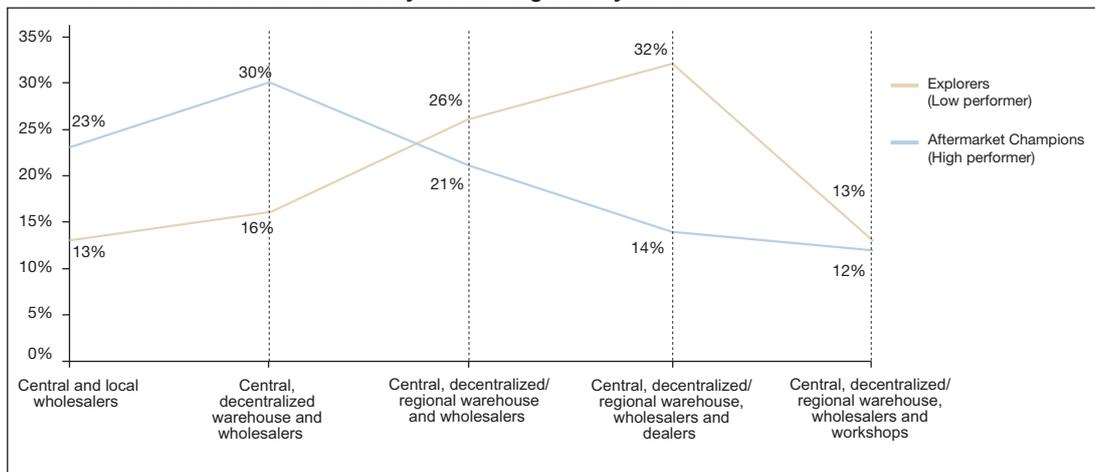
To analyze the organizational set-up and control mechanisms of the whole distribution chain, the study participants were asked when to best use integrated organizational and IT systems. These systems are defined as a main lever to increase transparency within the supply chain and to allow better control and realization of end-to-end decisions. The main assumption here is that the more elements of the chain are controlled, the higher the trend to centralize

decisions and to allow local groups less flexibility in self-management.

The study shows that aftermarket champions control fewer levels in the aftermarket. The local decision-making authority is stronger in high-performing companies. In contrast, explorers restrict local initiatives and agree to only limited local decision-making authority. From this it can be concluded that controlling the distribution chain up to the very end

Exhibit 15: Comparison of Organizational Design Lever for Explorers and Aftermarket Champions

For which levels of the aftermarket do you use integrated systems?



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is time consuming and difficult to manage, whereas the potential benefits, which are increased transparency and commonly implemented decisions, do not seem to outweigh the disadvantages. Therefore, through well-planned change-management activities focused on the organizational design, explorers should take steps to reduce their control and allow more flexibility.¹⁵ This helps enable local adaptation of centrally made decisions.

Strategic Initiatives

Besides the performance levers, the strategic initiatives introduced in chapter 4 play an important role in managing the aftermarket business of the study participants. In most cases, the strategic initiatives are contributing to multiple levers at the same time – a straight one-to-one relationship could not be identified. For example, “adapting the service offering to local requirements” mainly affects the sales and marketing process, but it might also involve the repair center infrastructure necessary to provide local services and the IT

integration to manage relevant data. Contrary to this, “increasing the market penetration by setting up local organizations” can be linked to the lever of distribution and supply chain network definition.

Aftermarket champions and explorers differ essentially in the strategic initiatives. These are listed by their discriminating power and with decreasing priority:

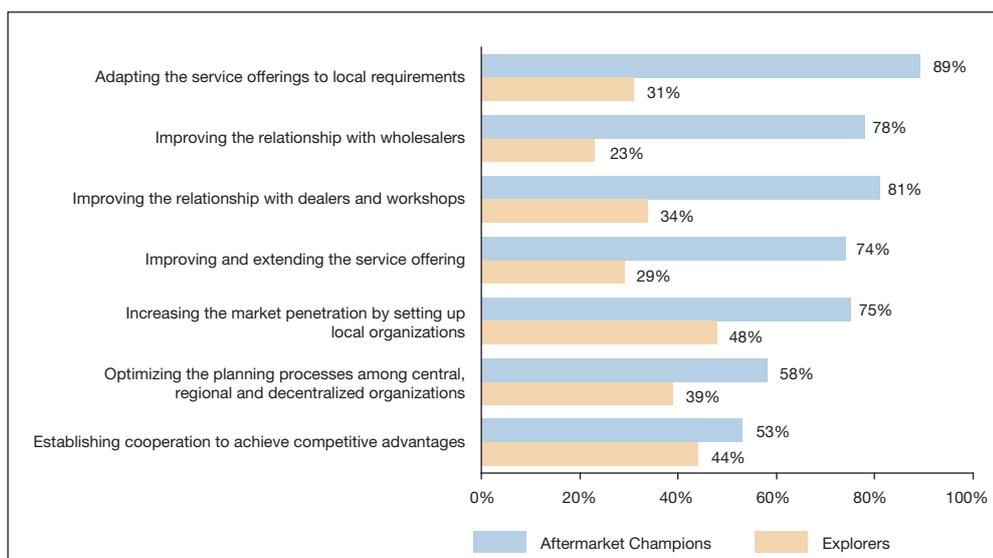
1. Adapting the service offerings to local requirements
2. Improving the relationship with wholesalers
3. Improving the relationship with dealers and workshops
4. Improving and extending the service offering

These strategic initiatives are driven by nearly all aftermarket champions, whereas only a few explorers focus on them. Others – such as increasing the market penetration by setting up local organizations; optimizing the planning processes among central, regional and decentralized organizations; and establishing

Key Finding

High performers win by regularly innovating new services that can be customized to local requirements and by running intense loyalty programs for both the wholesale and retail levels.

Exhibit 16: Strategic Initiatives Implemented by Aftermarket Champions and Explorers



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¹⁵ Change-management activities play an important role in transformation projects and should be thoroughly planned. Often those activities are given lower priority than functional-oriented work streams. For further information please also see: Martin Classen/Felicitas von Kyaw, “Warum der Wandel meist misslingt” (“Why change mostly fails”), Harvard Business Manager, December 2009

Expert's Quote

Prof. Dr. Heiko Gebauer, University of St. Gallen: "In the automotive industry high performers increasingly concentrate on successful global aftermarket operations. Winning in these markets requires managing both a creative and efficient service innovation process that is one core component to satisfy the growing customer requirements."

cooperation to achieve competitive advantages – have less discriminating power. The difference in the percentage of companies concentrating on these last three activities is relatively small compared to the first four initiatives. To move from the levels of exploration and exploitation to local aftermarket champions, companies need to balance both prioritization as well as investments into key initiatives according to the level they are planning to enter.

The prioritization was obtained subjectively from the participants and does not reflect the effectiveness of each strategic initiative. Whereas, for example, increasing the market penetration by setting up local organizations and optimizing the planning processes create mid-term cost reductions and revenue increase, improving the relationship with wholesalers, dealers and workshops most probably creates long-term benefits.

The four main initiatives require further analysis, starting with the **adaptation of the service offerings to local requirements**.

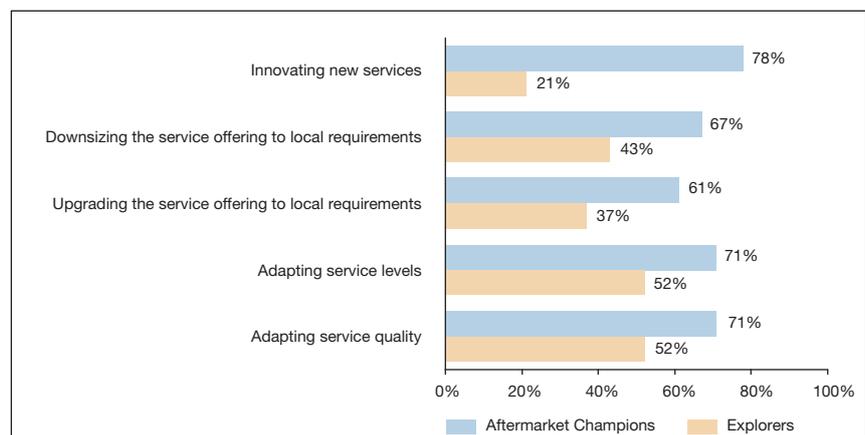
As can be seen in exhibit 17, the most important element of this initiative is to focus on innovating new services. Here, major changes can be seen in defining improved options to make use of the vehicle more enjoyable over

its lifetime and improving the adaptation of existing service offerings towards local customer needs. The main objective is to be able to further differentiate from competition. This cannot be achieved by improving service quality only, since quality as a characteristic of either services or physical goods starts to become a commodity. Service innovations are driven by offering customer-specific solutions and professionalizing product-related services (for example, inspection, maintenance, spare parts and insurance). In any case, customers' requirements have to be known quite well.

The participants rated down- and upsizing service offerings to local requirements as the second most important item of this initiative. Quite often, OEMs centrally seem to bundle services into packages that are not yet ready to be locally implemented. Therefore, the local organization, as mentioned before, must have deep insights about their customers to optimize the localization of these offerings.

In summary, it can be said that the companies will achieve a competitive advantage if they regularly use their service marketing to gain insights about customers' requirements and their perception about the current level of services. Here, aftermarket champions frequently integrate representatives of both the value

Exhibit 17: Required Changes for Adapting the Service Offerings to Local Needs

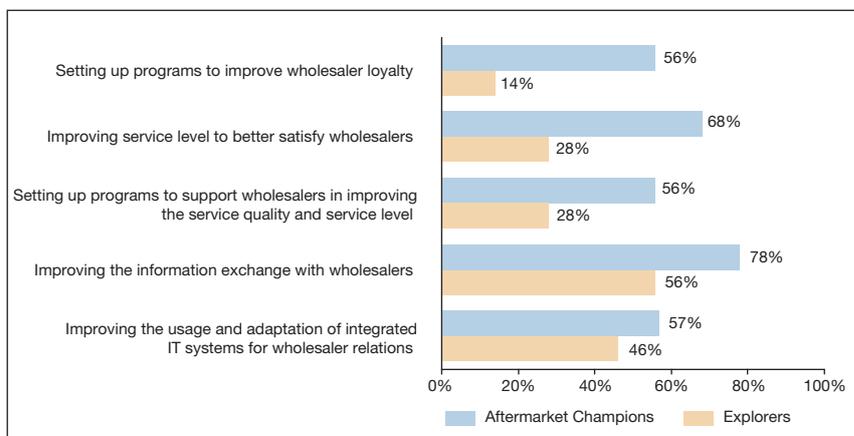


chain as well as of different phases of the customer lifecycle¹⁶ in the service creation process. Furthermore, those companies will be favored that spend effort on matching up these requirements with centrally offered “prepackaged” service solutions. Also, it is advisable to set up a standardized innovation process that systematically develops service innovations in an effort to change management’s mindset in favor of services. Finally, companies have to search for new service innovations based on technological developments and new IT opportunities.

The **relationship with wholesalers** still offers improvement potential, since it is the second most important initiative. Recommended changes include setting up strategic programs to improve wholesalers’ loyalty and improving the service level to better satisfy their needs. These changes seem to increasingly be important to successfully market both services as well as parts due to their relationship to retail. Therefore, pushing the wholesalers’ business and increasing their loyalty towards the own brand seems to have an immediate positive effect on the OEM’s results.

It is also recommended that companies improve the reaction time towards wholesalers’ needs, which means an immediate benefit since again own business is positively influenced as well. Fewer changes are necessary in setting up service quality and service level programs to support wholesalers in business with retail and for improving the information exchange with wholesalers. Improving the usage and adaptation of integrated IT systems for wholesaler relations seems to be of low importance. Because IT integration with a focus on the supply and distribution chain has been on companies’ agendas for quite a while, the level of perfection can be considered relatively high.

Exhibit 18: Required Changes for Improving the Relationship with Wholesalers



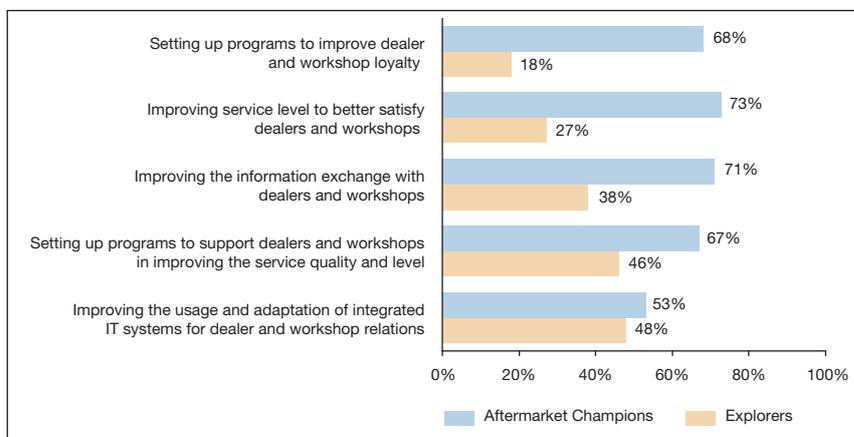
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Concluding this line of reasoning, high performers seem to successfully invest in business concepts that help to both improve wholesalers’ loyalty as well as the service level to fulfill their needs better and faster. Both elements have an immediate effect on the OEM’s business, since on the one side the wholesaler feels tied to the OEM and on the other side the OEM gives the wholesaler more freedom to do business, from which the OEM finally participates as well. Explorers need to improve in this area.

The **relationship with dealers and workshops** seems to require even more improvement. Here, the trend to source at least parts from third parties has an immediate negative effect on the OEM’s business. To help turn this trend around, loyalty and service level improvement programs are on the aftermarket champions’ agenda already.

Information exchange programs also support this aim. In contrast to programs on the wholesale level,

Exhibit 19: Required Changes for Improving the Relationship with Dealers and Workshops



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¹⁶ The characteristics of representatives of different stages of the customer lifecycle have been laid out in Cappgemini’s Cars Online study and can be used as valuable input for the service innovation process. This should help to develop services suitable to both extend phases of the customer lifecycle as well as to move customers between particular stages of the lifecycle: Cappgemini Consulting, Cars Online 08/09

Key Finding

Superior Western OEMs continually push retail programs to drastically improve service sales and delivery capabilities on the retail level. This positively benefits the OEM's parts and service business. Understanding local requirements and implementation time is key here.

which are already mature, the retail level has been ignored so far, at least by explorers. Similar to the current development on the wholesale level, changes in the service quality and service programs for dealers and workshops and the usage and adaptation of integrated IT systems for dealer and workshop relations are less relevant. Associated costs of improving the dealer integration into IT systems do not seem to pay off completely. The expected returns are too low. Other changes offer a more attractive cost/benefit ratio and create significant returns with relatively low investments.

The last major strategic initiative, **improving and extending the service offering**, is closely related to the first initiative in terms of adapting the service offering to local requirements. Similar to that initiative, focusing on service innovation is the most critical topic. Furthermore, companies have to support their wholesalers in improving service quality and level. Few changes are necessary to qualify their own service personnel and concentrating on premium services.

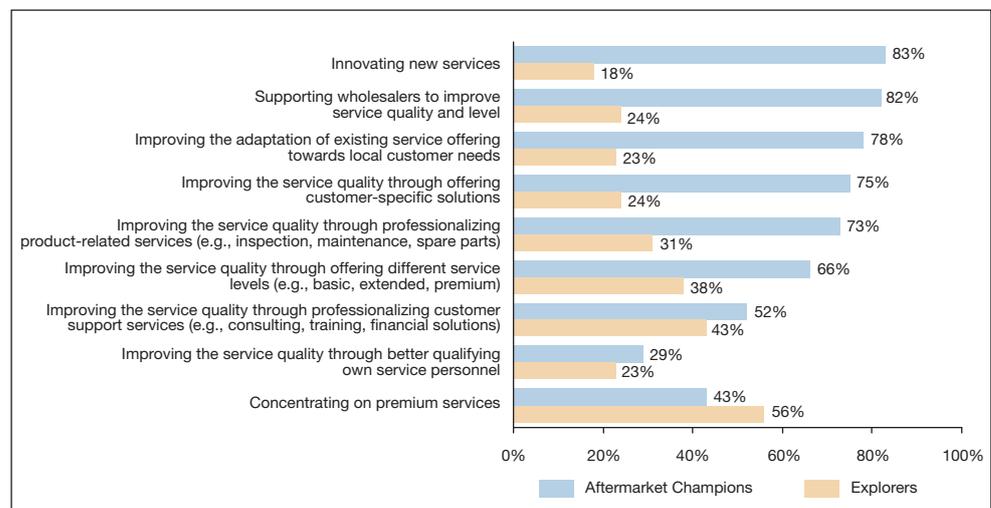
The results of the study imply that premium services are basic and are

not a differentiating factor any longer. Premium services tend to turn into commodity services among providers and do not guarantee customer loyalty. Instead, premium services have reached a stage of maturity. Here, it is important to understand that explorers still put a higher emphasis on providing these services compared to aftermarket champions.

Summarizing the key implications from the management perspective leads to the following conclusions:

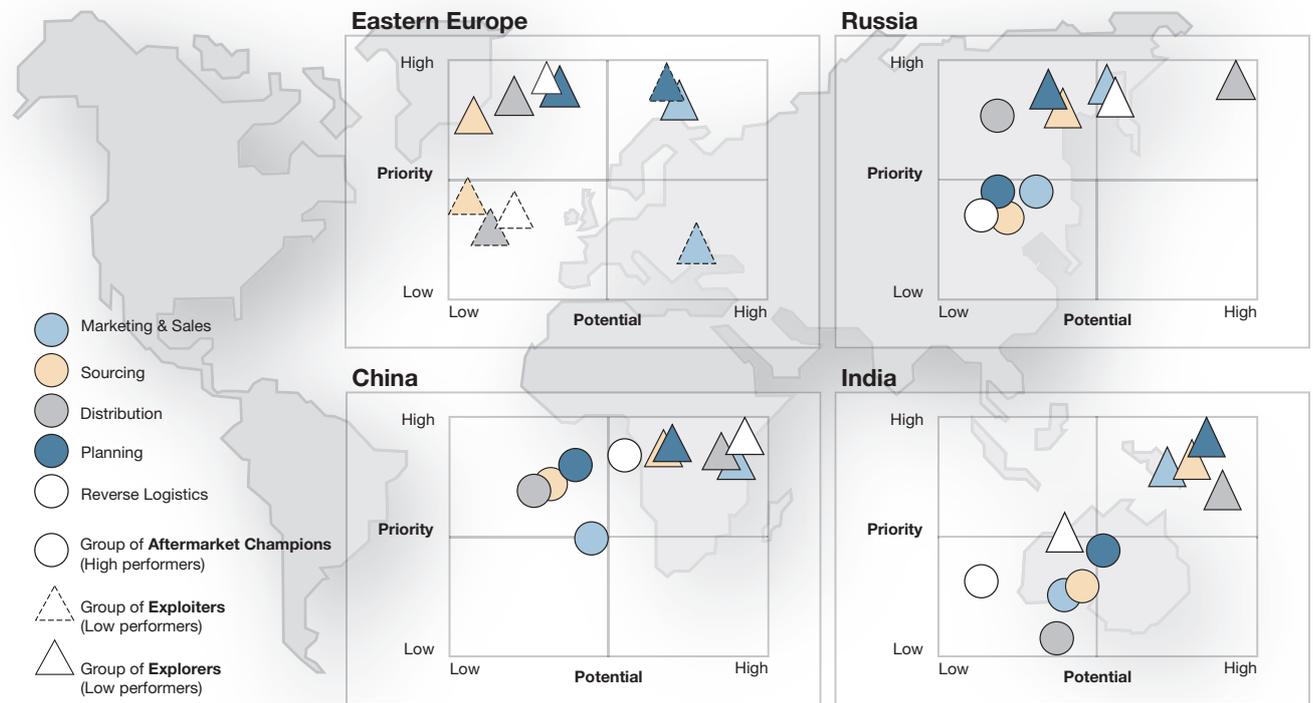
- Overall, improvements in the field of service offerings are the main bundle of strategic initiatives on which explorers should concentrate. Within this bundle, managers have to emphasize the innovation of new services, instead of simply focusing on the services already offered.
- For both wholesalers and dealers, IT integration creates relatively little corresponding return, leading to a relatively low importance of IT-related initiatives. Loyalty programs and service levels are more important and create quick wins. Their ratio between investments and return is much better than for IT-related initiatives.

Exhibit 20: Required Changes for Improving and Extending the Service Offering



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Exhibit 21: Profiles of Operational Excellence Levers for the Emerging Markets



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6.3 Aftermarket Model for the Emerging Markets

The aftermarket model for the emerging markets is similar to Western Europe. It also covers the main levers that were already described. In addition, the main strategic initiatives play an important role, similar to Western Europe.¹⁷

Performance Levers

Operational Excellence Lever

Using a similar approach with aftermarket champions and explorers for the emerging markets also leads to specific profiles for each market. The characteristics of the profiles correspond to the market features outlined in the section on aftermarket characteristics.

In **Eastern Europe**, a strong majority of companies are still in the exploration phase and no companies have achieved high performance, as

shown in exhibit 21. Therefore, in the following discussion explorers will be compared to exploiters in this market. Still, exploiters, although being the best performers in this market, need to drastically improve to turn into high performers. To achieve this, the results indicate the importance of learning from Western European aftermarket champions as this is the market with the closest geographic reach and fewest cultural differences. Also, in a direct peer-to-peer market comparison, the Western and Eastern European markets show the most similar requirements for customer service offerings. This can be seen in Exhibit 6. This implies that the actions taken in Western Europe require fine adaptation to Eastern European market requirements.

Explorers are concentrating strongly on improving the marketing and sales activities. Less improvement

¹⁷ The following initiatives are relevant for Western Europe: Adapting the service offerings to local requirements, improving the relationship with wholesalers, improving the relationship with dealers and workshops, and improving and extending the service offering.

Expert's Quote:

Nick Gill, Global Leader of Automotive, Capgemini Consulting: "Foreign high performers have an ongoing chance to further develop the Russian automotive aftermarket due to the weakness of the local OEMs. One critical component for these market share gainers is to develop the retail service capabilities to both service technologically advanced foreign vehicles and simultaneously to cover the existing local standards throughout the whole country while keeping an eye on the Russian customer service requirements."

potential is associated with improving sourcing and distribution processes, but the priority of these improvements is very high. That means that explorers are still in the phase of setting up the basics for these processes. Implementing the basics will not directly lead to increased market share, but rather enable them to maintain their existing performance levels.

Even for exploiters in Eastern Europe, improvements in marketing and sales hold high potential. Nevertheless, at the current state, the priority assigned to such improvement activities is quite low. This indicates that changes in marketing and sales are most probably long-term initiatives taking into account potential synergies with Western Europe. In addition to these, planning processes seem to be most relevant for exploiters, indicating that the efficient supply of the market is a key competitive component. Explorers should consider this as well when budgeting initiatives that are planned for implementation.

In **Russia**, explorers are on the edge of losing the markets. The priorities of all improvement activities were rated very high. Without a broad scope of improvement activities, explorers seem to risk losing market share to competitors. Therefore, the expansion and focus on the distribution process is estimated as having the highest potential. This is in line with the former reasoning that despite quite a few market entries already, the competitive intensity is expected to increase dramatically in the next few years. High performers have achieved considerable successes in terms of market penetration and share. Improvement activities are more long term and concentrate on defending an existing competitive position. They also have the potential to gain market share whenever explorers are struggling or are too late in their improvement efforts.

In **China**, low-performing companies concentrate on improving all

functional processes. The improvements are assigned high priority and potential. Even current high-performing companies have improvements in marketing and sales, sourcing, distribution and finally the planning process on their management agenda. However, aftermarket champions have already implemented elements of necessary improvement activities to successfully exploit the aftermarket. The marginal rate of aftermarket exploitation is decreasing and additional investments in processes create only limited increases in the exploitation of the aftermarket.

Nevertheless, aftermarket champions focus the most on reverse-logistics processes. This could link back to demanding customers who are used to returning parts at the smallest sign of malfunction. In general it also could be a clear symbol of quality issues combined with low cost of repair as well as an effort to generally improve margin wherever possible due to the tight market situation. In contrast, explorers can still increase their aftermarket success by making improvements in any kind of processes that already show a high priority.

Finally in **India**, there is a general balance between priority and potential associated with improvement activities. Explorers are confronted with multiple challenges in the marketing and sales, distribution, sourcing and planning areas. Aftermarket champions seem to have already positioned themselves and to have overcome most of the initial challenges such as setting up local warehouses and dealer networks as well as integrating local warehouses and dealer networks into their planning, sourcing and reverse-logistics processes. Additionally, the Indian market does not provide significant volume nor very demanding customers. This indicates that efforts in the operational level can be managed with cost focus and that aftermarket champions prioritize

Key Finding

The challenge for explorers is to understand their core capabilities per market and to focus on dedicated topics they are good at. This requires a strictly managed strategic development process that considers the market specifics.

their efforts in this market according to the current market maturity stage. They seem to hold back until this market really becomes attractive.

Organizational Design Lever

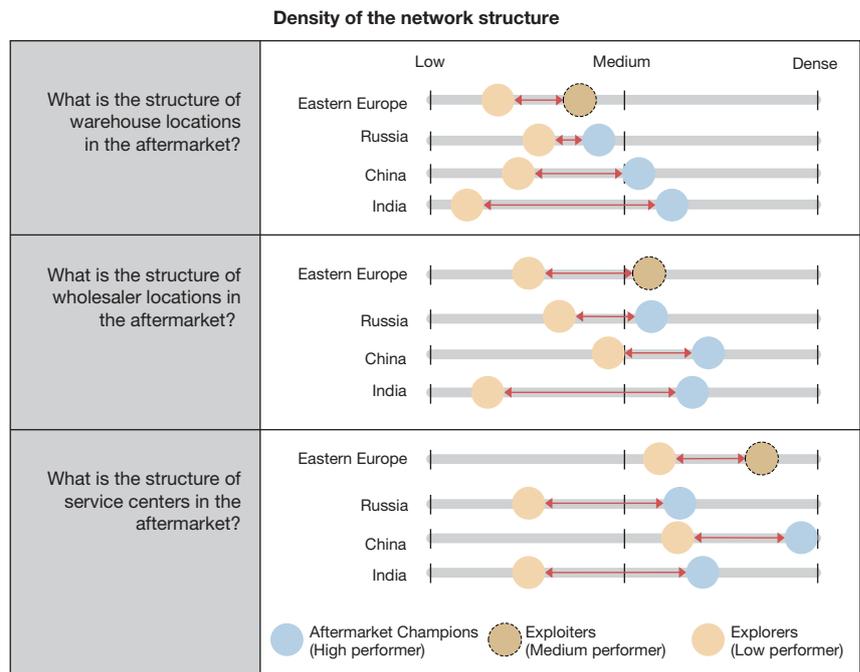
Similar to Western Europe, each emerging market requires a specific organizational design. The organizational design starts with integration and control of different levels. Whereas in Western Europe the existing industry structure makes it difficult to control all levels, the structure in the emerging markets is not fixed and companies can try to control more levels efficiently. This starts with setting up a central warehouse, participating in wholesale channels and investing in own repair and service shops.

The difficulty comes from the cost-intensive set-up and control of the various levels. But as the comparison of aftermarket champions and explorers indicates, this creates essential competitive advantages. Specifically in Russia, China and India the number of control levels differentiates aftermarket champions and explorers. In these markets, aftermarket champions tend to favor more control levels than explorers. To a lesser extent, this also applies for Eastern Europe.

Supply Chain and Distribution Network Lever

In the emerging markets, setting up a dense network seems to be a determinant for success. This especially applies for service centers. However, in Eastern Europe and China, the difference in the density of service centers between aftermarket champions and explorers is smaller than in India and Russia, as shown in exhibit 22. This means that in both India and Russia, aftermarket champions and explorers often cluster their network around first- and second-tier cities and have not strongly penetrated the more rural areas in both countries. In contrast, Eastern Europe and China are characterized by high performers covering not only first- and second-

Exhibit 22: Network Structure in the Emerging Markets



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tier cities but also third- and fourth-tier cities due to either regional scope or very high customer requirements.

Further differences can be found in the warehouse and wholesaler location structure. In addition to the fact that high performers run a denser warehouse, wholesaler and service center structure, companies approach the aftermarket in different ways. Here, infrastructure as well as distance from the central warehouse seem to play an important role. Whereas Western, Eastern Europe and Russia are easier to reach, the Asian markets are harder to supply from Europe and suffer from a lower-quality infrastructure.

The described trend of density of warehouse and distribution network is contradictory when it comes to sales and distribution networks. Companies can either use existing and proven sales channels and distribution networks or create new channels and networks, depending on their current situation. High performers often start by setting up a joint venture with a partner, who

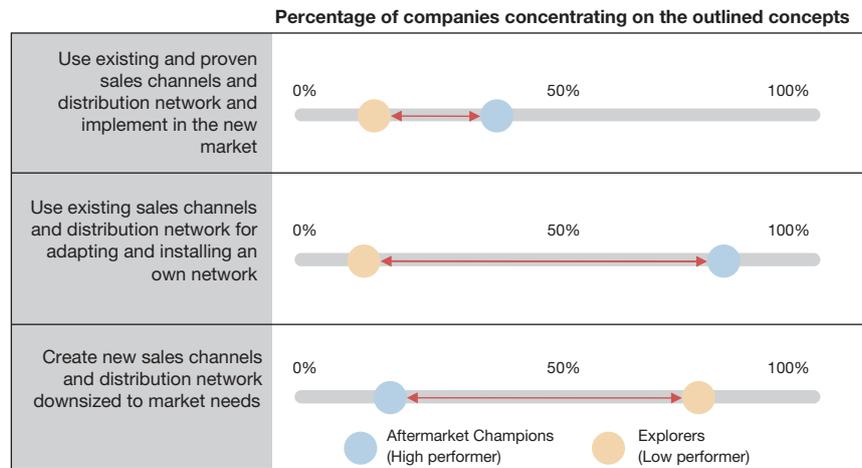
Key Finding

The early market phases of the emerging markets offer a unique opportunity to control more value levels and to collaborate intensively with wholesalers. This helps to build a customer-centric organization to finally turn into an aftermarket champion.

Key Finding

In early market entry phases, companies should avoid investments in own sales channels, but should rather rely on joint ventures with access to proven sales channels.

Exhibit 23: Design Networks in Emerging Markets



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Key Finding

Standard IT solutions have a superior cost-benefit ratio over individual IT solutions and are supportive in building up a winning governance structure that gives transparency and simultaneously allows flexibility on the market side.

runs those networks. In addition, they also invest in adapting these networks to fit their own needs.

In contrast, explorers often underestimate the investments needed to create complete new sales channels and distribution networks or simply are forced to make these investments because of difficulties in, for example, finding the right partner to deal with, as illustrated in exhibit 23. The high investments are not likely to lead to corresponding higher returns. Thus, the study recommends using existing sales channels and a distribution network as a market entry for the aftermarket in emerging regions.

After a

successful entry, companies should start to adapt the existing network.

Information Technology Lever

Even if the emerging markets show unique characteristics, companies do not necessarily have to invest in individual IT solutions. Both aftermarket champions and explorers recognize that standard IT solutions offer well-accepted and beneficial functionality. Also, individual IT solutions might create further benefits, but those do not outweigh the higher costs for implementation and maintenance. Standard and individual IT solutions do not differentiate aftermarket champions and explorers, but all participants seem to agree that using standard IT solutions is a road to success in the developing regions.

Strategic Initiatives

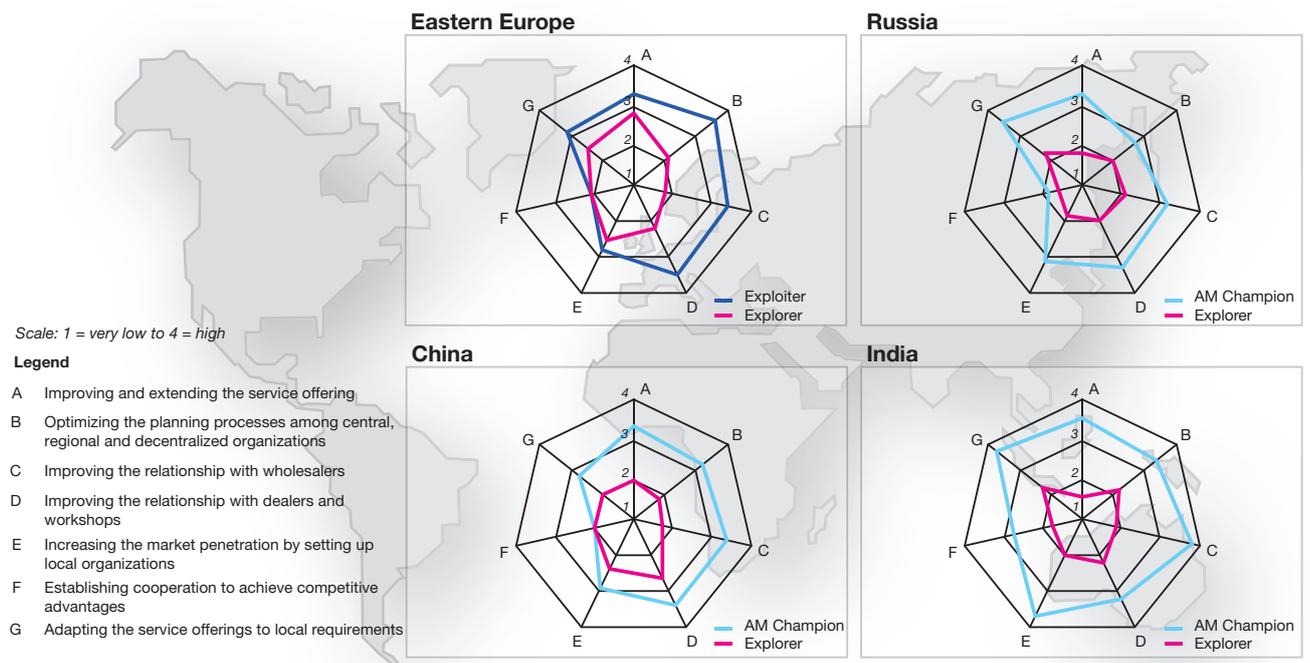
Companies often face limited financial and personnel resources. Thus, it is important for them to understand which strategic initiatives they should invest in to best allocate people and budgets.

Exhibit 24 illustrates that each region requires a different set of strategic initiatives. This map can serve as a basic investment guide since the priorities of the various initiatives can be identified.

Further evidence arises from the preparation for exploiting the market growth in various emerging regions.

Participants also were asked to evaluate the ability to fully participate in the market growth in the various emerging regions. Here, aftermarket champions and explorers responded differently. Most explorers indicated they were not really prepared for exploiting the growth in these markets whereas aftermarket champions said they were fully prepared. This explains why in general the importance of the implementation of the following strategic initiatives is relatively high across all four emerging markets.

Exhibit 24: Investments in Aftermarket Initiatives Across Different Emerging Markets



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Key Finding

High performers have already transformed or at least are transforming their after sales business from a cost- to a profit-and-loss-centered organization. Explorers need to evaluate whether this organizational change is a relevant option as well.

The results of the study make it clear that each market profile of the most important initiatives in which the aftermarket champions allocate their budgets shows similarities, but each still can be considered a unique set-up. The exceptions are Russia and India where the set of the four most relevant strategic initiatives appear to be the same regardless of the order of initiatives within the set. The major overall difference is the priority these investments are given. Whereas the respondents' investments in the strategic initiatives were, on average, the highest in the Chinese market, the average investments in the other markets were ranked somewhat lower, with a difference of 15% to 35%. Again, Eastern Europe is different in that no aftermarket champions could be identified.

As indicated before, due to the specific situation in the **Eastern European** market the study concludes that explorers should orient towards business practices of exploiters, which, in turn, should refer to aftermarket champions in Western Europe. If strong explorers follow the practice of the exploiters, this could be a shortcut for explorers and provide them with a chance to form the future group of aftermarket champions. This requires a strong focus on marketing to be able to analyze customer habits and to transfer these findings in the adaptation and creation of new service offerings.

The participants weighted the priorities for **Russia** somewhat differently, yet the same initiatives still apply:

1. Adapting the service offerings to local requirements
2. Improving the relationship with dealers and workshops
3. Improving and extending the service offering
4. Improving the relationship with wholesalers

It should be noted, however, that the study participants weighted items 2 and 3 the same and the difference compared to item 4 was only very minor. This indicates that the strategy for the Russian market includes a mixture of market share increase and stabilization with a clear tendency towards stabilization-oriented initiatives, as again the last three initiatives are more oriented to market share stabilization.

Russia is the only emerging market in which explorers already follow the strategy of the high-performing companies in terms of initiative prioritization. They only need to increase the effort to follow up. Here, they can make up for competitive disadvantages if they increase their effort in adapting the service offerings to local requirements by almost 40%.

The **Chinese** market shows a slightly different set-up when it comes to the main initiatives:

1. Improving the relationship with wholesalers
2. Adapting service offerings to local requirements
3. Increasing market penetration through setting up local organizations
4. Improving and extending the service offering

The main difference is basically the sequence of selected initiatives and the inclusion of building up an own local organization to better penetrate the market. The strategy is a mixture of securing increased market share and winning new share through the third initiative. As explorers are focusing on adapting service offerings to local requirements, which is also a market share stabilization strategy, they are advised to change their focus to better improve the relationship with their wholesalers.

Finally, in **India** the focus of the participants is to shape an established platform from which to conquer additional market share. The first three initiatives again are typical market share stabilization strategies and only the fourth is somewhat more expansion oriented:

1. Improving the relationship with wholesalers
2. Improving the relationship with dealers and workshops
3. Improving and extending the service offering
4. Adapting the service offerings to local requirements

As can be seen, a similar situation applies for India as for Russia. The picture is again a mixture of stabilization as well as expansion, although the focus shifts to more stabilization-related topics when considering the first three initiatives. Only the last one focuses on market acquisition. Furthermore, the intensity to follow up the initiatives is almost 10% lower in India, compared with Russia. Explorers might need to rethink their investment behavior since their highest priority is on improving the relationship with

dealers and workshops, which is voted second by the aftermarket champions. And of course their push in these investments is very different since they basically invest with an average prioritization factor of 2.6, compared with 3.2 for the aftermarket champions.

Summarizing, the study indicates that, on the one hand, explorers are well advised to follow up on initiatives that help stabilize their market position, as aftermarket champions on average paid the most attention to balancing their effort to both stabilize increased market share as well as to expand their footprint. On the other hand, explorers already set basically the right focus because the initiatives they paid the most attention to regularly are chosen by aftermarket champions as well. The biggest difference in this case is the consequent push that is required to implement these initiatives. It's clear that explorers have to improve quite a bit in order to become aftermarket champions and reach a higher position in CHAMP.

Key Finding

In the beginning, explorers should consider a tight partnership model to leverage economies of scale and build a strong execution model.



7 Conclusions

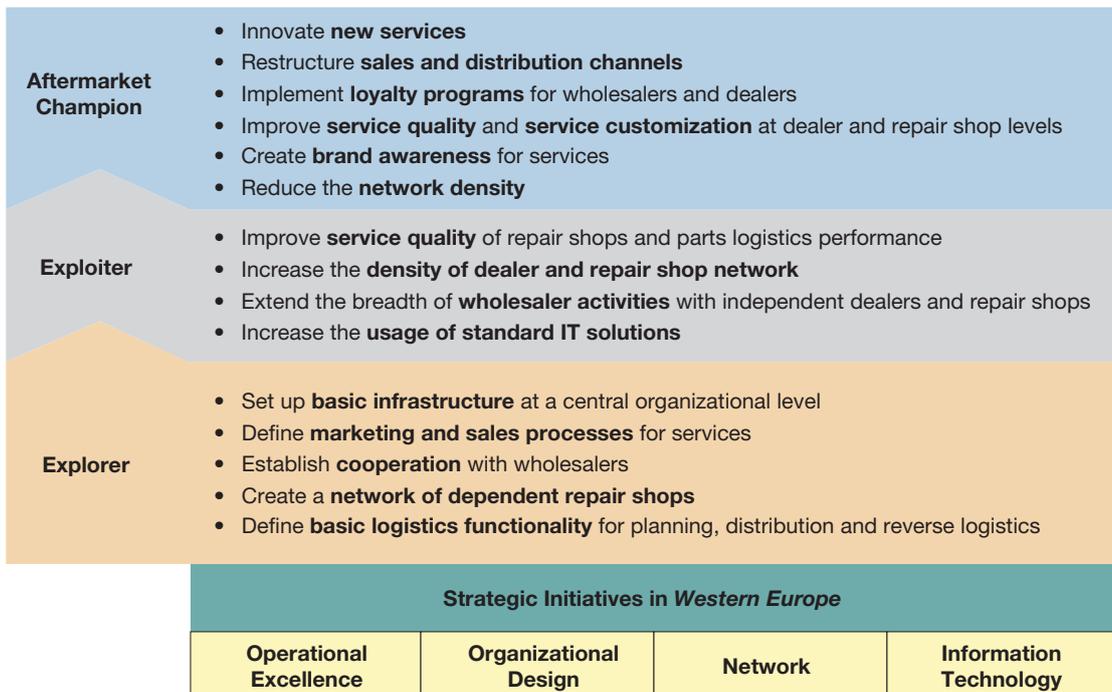
Bringing together the findings on how companies can strengthen their position in the mature Western European aftermarket and also can challenge in the emerging regions leads to the following key implications:

In Western Europe, markets are mature and most respondents' companies have already reached the exploiter or aftermarket champion level. Nevertheless, the position of an aftermarket champion has to be defended daily and requires strong efforts in innovating new services. New service innovations should go beyond traditional offerings and concentrate on the emerging technologies in the field of telematics, navigation and entertainment. The expected stagnation in the traditional demand

for repair, maintenance and parts services will most probably require a consolidation of the sales and distribution channels and networks. In addition, keeping existing wholesalers and dealers loyal can be accomplished through fundamental loyalty programs based on improved service quality, customization of services and service branding.

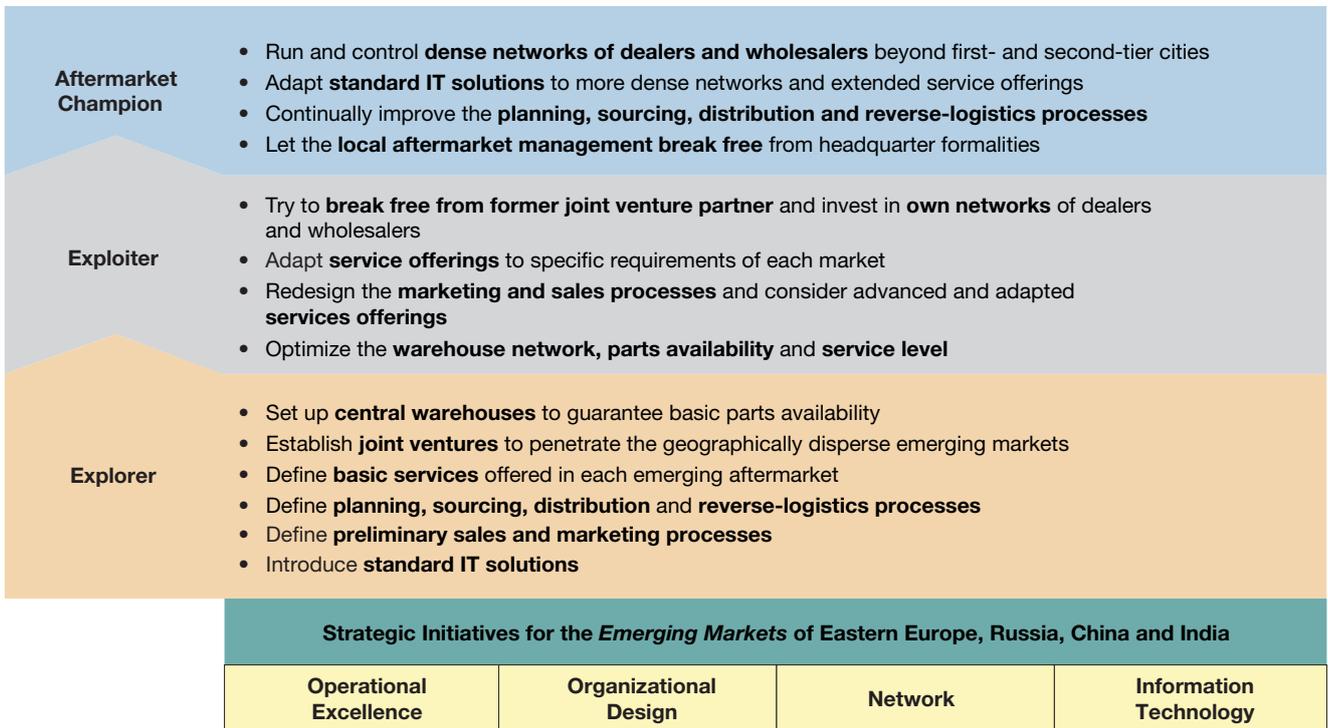
Explorers should focus on their key strengths, know their customers' requirements in order to catch up with champions and try to build up governance structures to better manage the organization. This course of action can also be applied to the emerging markets. Wherever possible, partnering models should be applied to profit from economies of scale.

Exhibit 25: Summary of the Aftermarket Approach in Western Europe



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Exhibit 26: Summary of the Aftermarket Approach in Emerging Markets



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Typical pitfalls on the way from exploiting the aftermarket to aftermarket champion come from emphasizing individual IT solutions and trying to control too many levels of the value chain. The additional benefits offered by individual IT solutions do not seem to cover the corresponding higher costs. The historical development of the Western European aftermarket industry with strong players and fragmentation limits companies to control every level of their value chain. Instead of trying to penetrate the aftermarket with an own organization it seems to be more important to cooperate with wholesalers and dealers. The cooperation should be focused on improving their loyalty by strongly emphasizing a loyalty program.

A similar summary can be formulated for the emerging markets. The main dimensions such as IT, network or organizational design have strong global attention and do

not entail specific solutions for each region. Across all emerging markets, it is sufficient to set up standard IT solutions in the early stages of exploring and exploiting the aftermarket. In addition, aftermarket champions across all emerging regions have strongly penetrated the market and try to control the various value levels starting with central to regional and ending up at a decentralized level. For explorers and exploiters to catch up they have to carefully plan their investments due to limited resources and should adapt the aftermarket champion's strategies wherever meaningful.

In any case, these companies should try to avoid taking the same learning curve as aftermarket champions and rather try to identify shortcuts or development leaps. This is a complex task.

Differences across the emerging markets can be found in the operational layers. Aftermarket

champions in Russia have to respond to customers' strong brand awareness, whereas Eastern Europe should be approached with an aftermarket model focusing on costs. China seems to be the most demanding market where all processes including marketing and sales, sourcing, planning, distribution and reverse logistics are designed to achieve low costs and high service levels. Finally, all respondents are waiting for India to show significant growth rates. Customers there seem to honor a strong focus on standardization through their prioritization of service requirements and an attractive price/benefit ratio.

These various activities lay the foundation for achieving global aftermarket excellence. As global aftermarket champions, companies transform into a profit-center structure and maintain optimized aftermarket activities across various regions/countries fitting their individual set-up. They also integrate different local approaches into a greater regional or one global aftermarket approach. They operate, for example, optimized multi-echelon networks of warehouses and use worldwide benchmarks to transfer best practices among warehouses, dealers and repair centers. The central aftermarket unit incorporates a major integration of central and decentralized

warehouses, optimizes planning and purchasing processes across the network of local warehouses, and uses worldwide quality standards across local dealers/repair centers.

With regard to future market developments, both the results of this study and the current economic situation highlight that there is no traditional path for achieving success. Market players have to break through their traditional course of action and focus more on developing true unique selling propositions – simultaneously making sure they don't lose focus on the consumer's requirements. One key element in this can be looking for new collaboration that opens up the value chain either horizontally or vertically and especially focusing on continually developing service innovations – for example, through collaboration with insurance providers.

Whatever the future scenario of the automotive industry will be, a stronger investment in the aftermarket is imperative. OEMs and OESs will be continually challenged to defend and even more to further develop their business models. Being a global aftermarket champion becomes a vital success factor for delivering outstanding business results.



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