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# Place your bets on aftersales

The effects of the credit crunch and the resulting macro-economic downturn saw both dealers and manufacturers struggle with declining sales and profitability, higher financing costs and a depressed long-term growth. However, the global automotive market had experienced a reduction in the number of the dealerships even before the financial downturn and the effects on overall liquidity and the deterioration of sales only aggravated the underlying structural problems.

The main market difficulty in automotive retailing in developed and industrialized countries is characterised by low margins and a high degree of saturation. In the midst of the crisis in 2007 German dealerships generated a mere 0,1% margin on sales before interest and taxes. In 2013 dealerships experienced an operating margin of 1,3%. The situation was slightly more modest in the US which saw the downfall of margins in 2008 at 1,0 percent with a slight recovery of 1,2% in 2013.

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The increase in margins in 2013 was driven by three short-term factors: (1) delayed purchases of customers, (2) higher fleet and truck aftersales income1 and (3) generous OEM support and incentives2. They are, however, not sustainable long-term factors. In fact, margins by 2020 are expected to fall below

[1] The number of fleet units sold was severely reduced during the crisis, which saw old vehicles requiring intense aftersales requirements such as service and repair.
[2] Bonuses and a reduction of investment requirements from OEMs helped the fall of margins. For instance, GM, Hyundai, Kia and Nissan had committed cash incentives of up to USD 1 million for each dealerships. Ford even covered facility upgrades of up to USD 750,000 per outlet. See. Roland Berger - Re:Think Automotive retail networks; The next challenge for the US Auto industry


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0,8%. The resulting impact is twofold, dealership consolidation and unattractive franchising models.

Further strains on the current operating models of dealerships are also exercised by changes in consumer behaviour. Customers are increasingly taking advantage of the internet as a primary source of information for cross-border price comparisons. This behaviour is shaping the future, with well informed and price sensitive consumer. The transparency in prices is forcing downward price pressures and increasing intra- and inter-brand3 competition. Consumers are now willing to compare not only regional but also national dealership prices hence increasing the size of the market.

Empirical research has shown that internet buyers pay on average 2.2% less, with average savings of $500 for their vehicle than regular buyers do. Online referral services also known as aggregator platforms, which offer customers detailed vehicle information and show dealers willing to sell at the lowest price have recently entered the market. A good example is TrueCar.com, which has 9,000 registered certified dealers in the US and recorded 500,000 purchases since November 20134. The company estimates that consumers are able to save on average USD 3,221 per vehicle due to nationwide competition and price transparency. The entry of TrueCar in some markets has led to a decrease of dealer profits by as much as 90% compared to in-store sales.

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In order to attract customers, dealerships have resulted to reducing new vehicle prices in some cases selling at low or even negative margins. To make up for the initial lack of margins they are hoping for a loyal aftersales customer, volume based bonuses by the OEM and higher margins on the sale of used vehicles.

Dealerships must become aware of the changes around them. Their traditional role, which relied on the sale of vehicles, is being challenged by low margins. The shift has to be undertaken and resources have to be redirected to more

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[3] Competition between dealerships between the sale of multiple brands
[4] https://www.truecar.com


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profitable operations such as aftersales services and the sale of F&I Products (Finance and Insurance).

The aftersales automotive services are essential to customers and vital in helping dealerships compensate declining profit margins. In Germany, aftersales makes up 23% of a dealer's revenues but contributes 54% to profits. Similarly, in the US, in the first six months of 2013, aftersales made up 12% of dealership revenues but contributed 40% to gross profit. Moreover, aftersales is a key differentiator for dealerships, in fact 88% of consumers stated that aftersales is one of the top 5 factors considered before the acquisition of a new vehicle. Moreover, 62% of consumers are likely to buy their new vehicle from the dealership that is servicing their current car.

Innovative F&I play a crucial role in maintaining dealer profits and could develop into a key value proposition. In 2013, the sale of finance related products made up 22.8% of new- and used- car gross profit for dealerships. Confronted with a higher demand for alternative powertrains opportunities to help customer finance these requirements could be an advantage.

Zulla Consulting & Partners has extensive experience in implementing and supporting change in dealerships. Over the years, we have developed a series of best practices and tools that enable us to offer innovative solutions. We offer tailored solutions and our international partners will strive to meet your strategic targets.
For additional information and an initial consultation, feel free to contact Daniele Zulla at zulla@zulla-consulting.com

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