Automotive dealerships are facing a “low growth–low profit” scenario that is diluting their present and future market potential. The root cause for this is reactive strategic direction setting, limited process/capability enhancement plans and slow alignment of organization structure and people competencies. Dealerships need to adopt a holistic improvement approach that focuses on strategic planning for revenue growth and diversification, drives operational excellence and develops people capabilities for an effective and efficient business model, say Shripad Ranade and Anirban Majumdar of Tata Strategic Management Group.
Introduction

The Indian automobile market is witnessing a surge in competition and intense demand cyclicity with huge pressure on margins. The impact of this is particularly severe on the dealerships, who are even passing on discounts to the customers at the cost of the dealer margins in an effort to retain market share. And despite volumes rising in specific segments, the disproportionately high efforts in selling/servicing is seeing dealer profitability being severely eroded. And to make matters worse, the lack of career or compensation growth in dealerships is driving away good talent who could have offset the industry challenges.

Challenges

Strategic Shift: The commercial vehicle industry is witnessing a shift in volumes growth from MHCV to SCV, which accounted for 45% of sales in 2011-12. This implies a change in the way that dealerships need to operate their business, as customers in the SCV segment are more akin to a passenger vehicle customer than to a MHCV customer. Likewise, the passenger vehicle industry too is witnessing intense competitive activity, with OEMs and dealers resorting to discounts and other freebies to attract customers.

Organizational Alignment: The current business situation warrants a strong dealer organization to cope with and manage the changes. However, most dealerships lack a professional organizational setup, making them ill-equipped for the task at hand. A strong promoter driven culture at dealerships has seen dealer organizations become person centric, having been built around a few key individuals over the years. Roles and positions are many times ad-hoc and created to accommodate loyal employees rather than to serve any specific business objective. Very often, there is overlap of different roles, lack of clarity in responsibilities and absence of any definite career path for employees. This results in talented employees either under-performing or seeking opportunities elsewhere, making the organization more susceptible to market vagaries.

Most dealerships admit that talent management and talent retention are major concern areas for them. Attrition rates at auto dealerships are high and lie in the range of 20%-30%, even going up to 40% for certain levels. The reasons for this are two-fold:

- **Low compensation** - Compensation levels at commercial vehicle dealerships are low, with gross monthly salaries (excluding incentives) for sales executives in the range of Rs 7000 – Rs 8000, for senior sales executives in the range of Rs 12000 – Rs 15000 and for sales managers between Rs 18000 – Rs 22000. The figures are around 15%-20% higher in passenger vehicles.
- **Lack of professional development** – Employees do not see any professional development for themselves if they stay for a continued period in the dealership, with limited or no training imparted for skill and competency enhancement. Dealer principals themselves are not interested in investing in employee training as they do not see any return from it. The lack of pecuniary and non-pecuniary motivation for employees means that many employees leave jobs even for meagre increments in pay packets.

The impact of high attrition is further compounded by the difficulty that dealerships face in getting quality resources from the market. The passenger vehicle market is already crowded with many players, so dealership employees have a plethora of options. In the commercial vehicle segment, with the entry of new players e.g. Bharat Benz, Mahindra Navistar, MAN, and the expansion of existing commercial vehicle players into new product lines and segments, the demand for quality resources has gone up. However the resource supply pool from ITIs, polytechnics, etc. has not kept pace. Consequently, many dealerships have started recruiting people from other industries too, especially in the field sales force. This is likely to have an impact on sales force effectiveness. This is evident in Tier 1 & 2 town auto dealerships, where there is an increasing trend of field sales executives being dismissed in the past year due to non-performance.

Operational Effectiveness: The slowdown in the automobile industry in recent years, coupled with the increased

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**Quarter-on-Quarter Commercial Vehicle Sales (000s) vs Quarter-on-Quarter Passenger Vehicle Sales (000s)**

**Competitive Intensity in Passenger Vehicle Segment**

To be able to sustain in such a business environment, auto dealerships will need to change not only the way vehicles are sold but also how and where these are sold, how they are maintained, including understanding a customer’s total cost of ownership. This requires a re-evaluation of existing sales and marketing strategies and operations in order to create an alignment with the current business environment. However, most dealerships lack the required exposure and competency to carry this out, as dealership roles have been restricted to only executing strategic and tactical changes handed down by the OEMs.
competitive pressure has resulted in reducing profitability for auto dealerships (refer figure below). This brings into focus the need for dealerships to improve their operational efficiencies on a priority basis.

![Year-on-year Profitability of Dealers (PBT %)](image)

Source: Ministry of Corporate Affairs, Tata Strategic Analysis

However, different vehicle segments may need to focus on different aspects of their operations. In commercial vehicles, there is a definite shift in volume mix from MHCV to SCV vehicles, which have lower margins but require proportionately higher effort from dealer sales executives for each sale. The customer value proposition of SCV vehicles is also completely different to that for MHCVs. This implies the need for different selling skills, operational strategies and sales process changes.

On the other hand, the slowing sales of passenger vehicles imply that dealers may need to focus more on enhancing their service revenues. This can be achieved through faster turnaround times of vehicles in workshops, better availability of spares and better connect with the customers to ensure increased vehicle inflow. These need to be addressed on priority else customers will flock to other co-dealers or garages that focus on these aspects.

**Way Forward**

Dealerships will need to adopt a holistic approach that aligns their strategic plans, organization structure and processes, people capabilities and business processes to drive and enable growth.

**Strategic Growth:** Dealerships need to have an in-depth understanding of their OEM’s strategic objectives in order to identify their own strategic thrust areas. That should form the basis for a comprehensive growth strategy that charts out the segment specific growth requirements (that includes adding new product lines or exiting from existing ones), strategic plans and support required from the OEMs. In addition, dealerships may also need to look at diversification opportunities with non-auto OEMs that would help offset the inherent cyclicality of the automotive industry.

**Operational Excellence:** Dealerships need to focus on improving the effectiveness of their sales and service processes. Introduction of customer contact points, remote working of sales executives and IT enablement of the sales process could help dealers improve their sales coverage, increase conversion ratios and improve sales productivity and channel ROI for dealerships. Similarly, service workshop initiatives like Kaizen and process workflow improvement can vastly improve service productivity and customer satisfaction while focused service marketing activities can enhance service revenues.

**Organization effectiveness:** Dealerships need to put in place an organization structure that is geared to achieve their business objectives. Roles and KPIs need to be strongly aligned to strategic goals and people competencies mapped to specific positions. Dealerships will also need to invest in capability building and training of its workforce to be better prepared for the challenges ahead.

**Case Study 1:** When a leading automobile manufacturer in India saw the profitability of its major dealership declining sharply as a result of increased competition, the difficulties of managing a large product portfolio, operational inefficiencies and the lack of managerial capability at the dealership, it launched an initiative for improving dealer effectiveness. The initiative encompassed restructuring of the dealer organization structure, competency and capability building for dealer personnel and sales and service process improvements and helped the dealer to be future ready. The successful initiative is now being currently rolled out to all full range dealerships for the OEM across India.

**Case Study 2:** A leading passenger vehicle manufacturer in India wanted to improve the effectiveness of the spare parts function at its channel partners. The OEM launched a country wide initiative at its dealers and distributors that focused on creating an effective spare parts organization structure, defined detailed job descriptions, set up clear career paths for employees and identified role specific training needs. It also recommended compensation packages for all roles and positions and re-engineered processes for spare parts operations. The initiative helped the OEM to achieve consistent and high customer service levels through a standard structure, process and continuous improvement by developing strategic alliances across the dealer network.

**Conclusion**

Dealers are at a critical inflexion point today and need heightened strategic interventions. Dealers need to drive strategic direction setting and explore diversification opportunities. At the same time, they need to work closely with the OEM to chart out their segment specific growth requirements, skill set enhancement plans and operational improvements. This will require significant time and effort from the dealers. As dealers are critical customer touch points, the OEMs will also need to support them with time and resources in this initiative. Commitment and maturity shown by the dealers will be critical in order to derive sustained benefits over an extended period of time, help them break the growth ceiling and maintain their viability in an increasingly competitive market.

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Auto Engineering
Tata Strategic’s Auto & Engineering Practice partners stakeholders in the automotive, engineering and metals sectors to formulate and implement distinctive corporate and business strategies and achieve operational excellence. We have assisted several clients to enter the Indian market, and supported private equity firms through business due diligence.

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