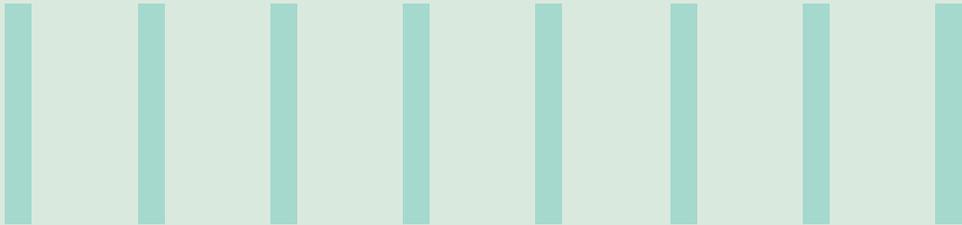




# AUTOMOTIVE INCENTIVES. RELOADED!





In the journey of transformation, automotive retail is increasingly serving customers with access to information anytime, anywhere. The decision making process to buy or lease a car, purchase an accessory or consume a service has radically shifted from “on-foot research” to digital social medium. Nonetheless, engagement with dealerships is relevant, predominantly for

- **“experiential purchasing”** i.e. test drives or virtual reality experiences during buying to configure and envision multiple models of choices
- Striking the **“best deal”** that benefits everyone i.e. customer, retailer and the OEM, both in the near term from sales and long term from aftersales perspective

On one hand, when it comes to “closing the deal with the customer”, nothing works better than a well thought-through incentive by OEM and dealer alike. In addition to conventional selling practices, OEMs are now directly engaging with customers to sell new and used cars or subscriptions for the car. With this evolving ownership model, there is an “incentive war” among OEMs and dealerships alike, to entice customers and win the deal.

On the other hand, market forces are constantly challenging the automotive retail business. A major share of OEM spend on incentive programs is the “supplement” provided to dealers in order to upkeep the health of retail network. This is primarily an impetus provided for faster inventory turnover or lowering lending rate for improving margins. Industry analysts and chief marketers are now contemplating whether these supplements will sustain growing cost of OEM and dealer operations.

In this article, we share our perspective on why “incentives” will evolve as one of the differentiating factor for customer-service innovation and how technology can enable this transformation.

## Fundamentals of transformation

In our endeavour, we adopted a 360-degree approach to modernize incentives: starting from building a holistic view of the entire customer journey viz. pre-purchase - purchase – ownership & maintenance – repurchase until evaluating cross industry analogies that can be leveraged to jump-start the transformation.

OEMs introduce incentives aimed at both customers and dealers with varied objectives such as improving inventory turnover, motivating sales team, penetration into new markets, building

customer loyalty and brand awareness. These incentives are designed considering the target stakeholder with the intention of motivating them at every phase of sales and aftersales services.

While building the incentive system for a leading automaker, Infosys navigated the complexity of building the right incentive plan and elucidated the challenges faced by OEMs while measuring the effectiveness of incentive programs while dealers need to manage relevant incentives for a vehicle and claim them as and when applicable.

On an average about 750 incentive programs were rolled out every month to promote sales.

With this background, if one has to define the success factors of a futuristic incentive strategy, it should be expressed in terms of

- How **“targeted”** these incentive programs are;
- How **“easy”** it is to launch, communicate & utilize;
- How **“simple”** it is to govern and maintain



## Reloaded Incentives

In order to decode these success factors and formulate an effective incentive program, Infosys developed a “design thinking” based unified framework, which is elaborated below.

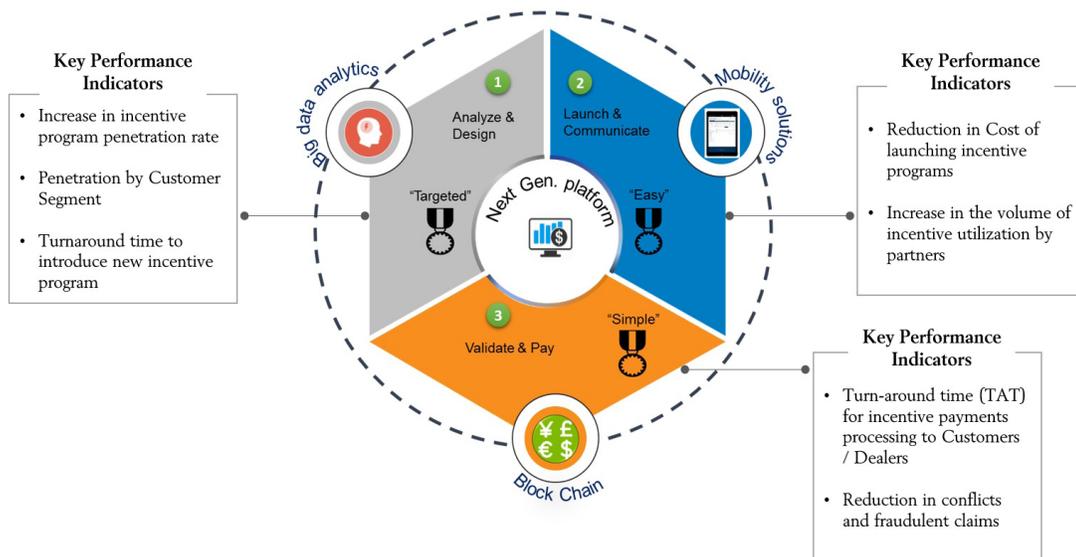


Fig1: “Design thinking approach” for incentive planning towards customer service innovation

## “Targeted Incentives” powered by big data & analytics:

Defining the right incentive plan and understanding what works & what does not is the foundation for which deep market & customer insights are vital. Let us reflect on the following notion:

- Industry studies over time show that more than one third of customers will take their inquiry elsewhere if the dealer does not respond to their online query in a short time. Response time to online enquiries will be the differentiating factor in converting a lead to a sales opportunity

To provide the “premium” experience to customer, every small aspect of customer relations, for example, prompt response to enquiries, is vital. OEMs could incentivise dealers to respond to inquiries faster & efficiently. Another dimension that becomes evident here is that incentives should be based not only on transactional factors like sales conversions and business value of deals but also on ‘soft’-elements that defines the overall customer experience during buying and servicing journey.

**Achieving the right balance** between sales targets for every car model combination and factors such as branding elements,

customer satisfaction ratings, dealer performance, customer segmentation, market conditions seasonal trends is at the **heart** of designing the incentives, and needs to be considered for designing “**targeted**” programs. Also, the real challenge OEMs face is to leverage these data into actionable ideas.

Consider an automaker operating in 100 countries, having more than 5000+ dealerships and 10+ product launches across the globe generating millions of sales transactions per year. The volume, velocity and variety of data generated at every touch point is immense given the connected world and multitude of retail applications. Thanks to big data platforms & cloud technology, OEMs are empowered to mine data and visualize them for business insights. This has resulted in the trend where OEMs track customer journeys, (both digital & in-store) evaluate the investments and then rightfully attribute the share of incentives to dealers pertaining to acquiring the customer.

With access to the right data, auto makers must now take the giant leap from **localized planning using descriptive modelling** (ex: *What-if analysis*) tools like

scenario generators and the “sales instincts” of regional marketing team to a **centralized prescriptive analytics driven approach** (e.g. Applied statistics & machine learning model) to create incentive plans that can bring sustainable returns on investment (ROI) in the long run to all stakeholders. This is necessary because though inputs from local teams are crucial to design customized incentive, but usually, their planning cycle is short sighted as they lack end to end visibility.

A “**Prescriptive analytics engine**” not only predicts potential ROI for foreseeable conditions in the given locale but also recommends which type of incentives (cash offers, financing plans, loyalty bonus, or merchandize) will maximize gains at the identified touch-point to all stakeholders i.e. during lead generation; test drive; purchase or service. Such a system will allow sales & marketing teams to collaborate further and design incentives that have higher success rates. One of the leading global transportation network company, leverages this approach to define their dynamic pricing schemes for customers and drivers across regions, right from its San Francisco headquarters.



## “Unified communication & collaboration” powered by mobility solutions

At any given time, the sheer number of dealer & customer incentive programs rolled out by OEMs is enormous. With “targeted incentives”, this number is expected to grow even more in the future. For dealers and sales teams in particular, this is a nightmare because at every touch-point, when the incentive question pops up, they have to rely on their memory or refer to online catalogues. A significant portion of budgeted incentives go unutilized because the dealer did not “know” the applicable incentive program options and so they “leave bucks on the table”.

OEMs & retailers should leverage technology partners and invest in a “digitalization” of incentive campaigns. A unified cloud based mobility solution that caters to sales, service and CRM functions along with incentive simulation at each instance will be the *perfect enabler*. It will help the dealers and sales teams to initiate the right conversations with customers and drive dealer performance to the next level. The sales executive should be able to quickly simulate & discuss various offers considering the customer profile, relevant incentives, cross selling opportunities and inventory position while ensuring profit margin on the sale, in real time during a test drive.

The potential benefits are three-fold:

- Empowering the sales team with right information at the right time thus increasing their efficiency;
- Providing early insights to OEMs and dealers on potential incentive expense or earnings and
- Reducing the number of incorrect incentive claims



# "Maintenance & Governance" based on blockchain principle & automation

Perhaps the most revolutionary opportunity not only for incentive management, but also for enterprise data management & payment system, comes from "blockchain principles" in which currently disparate parts of one enterprise are linked by "distributed ledger". It leads to the unprecedented state where "information comes with complete provenance"

Automakers are exploring "blockchain"

technology for a range of use cases that warrants monitoring the authenticity and provenance of business transactions.

A blockchain platform, referred to as "technology of trust" allows incentive programs and claims to be logged in a ledger that is validated by parties in the "network" through consensus or "mining" techniques, ensuring it is a single point validation of the incentive claim. It significantly reduces duplication of effort

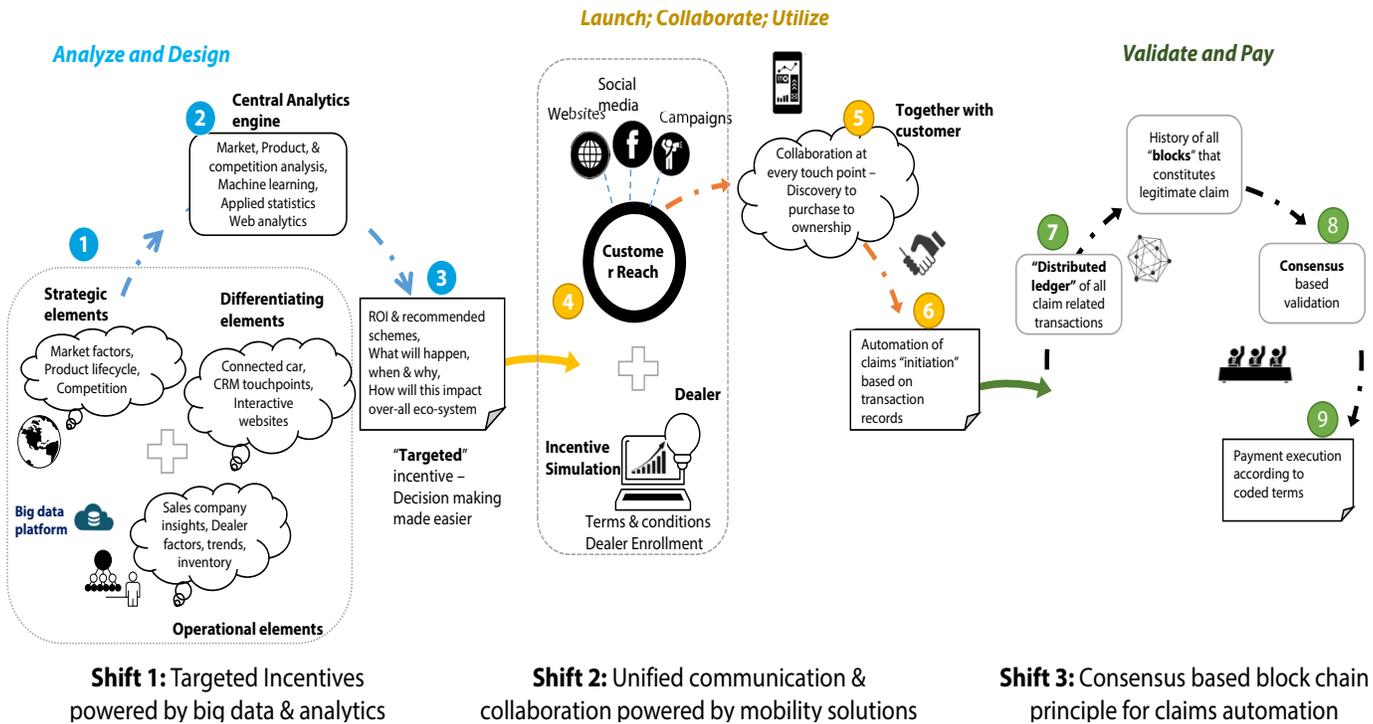
for both dealers & OEMs. A distributed ledger system could also help in optimizing claims workflow, for instance automation of payments when certain criteria are met and validated. In the current retail environment where delayed claim fulfilment and increase in fraudulent claims are posing a challenge for dealers and OEMs, it is necessary that enterprises to think about the potential business case of investing in automation and blockchain.

## Illustrative representation of "Reloaded" incentive landscape

One of the greatest challenges in this transformation journey is to know how and where to begin. OEMs, over the years, have tried and tested approaches that suit

their organization culture, ranging from focussed pilot programs to a broad scale transformation programs. Irrespective of the approach, the best way forward is to

have an integrated scope that transcends all three phases of incentive lifecycle in order to achieve the breakthrough, as represented here.





## Conclusion

In the long term, incentives will be used as a strategic differentiator to sustain and grow market share. Considering the competitive business mindset and evolving ownership models, there is also a strong need to rationalize incentive spend. In this context, incentives should evolve from being vehicle centric to a specific customer viz. from being looked as an expense to an investment. The essence of utilizing analytics, digital tools and blockchain principles together is to facilitate a quantum leap in incentive domain, and ensure that data and insights connect people with the right information &

processes that ultimately lead to a better experience for all stakeholders.

Infosys is well positioned to collaborate with OEMs and dealers in transforming to such a 'Reloaded' Automotive Incentives paradigm. We combine our extensive domain experience working with global automotive OEMs in Incentive Management with our capabilities in emerging technologies i.e. Data and Analytics, Enterprise Mobility, Cloud and Blockchain to partner and be the **enabler** in such a transformation: from setting the foundation of the platform all the way through implementation and operations.

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