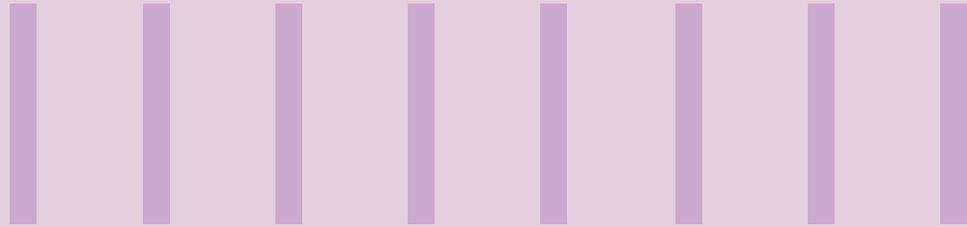




AUTOMOTIVE DEALER- MANUFACTURER DATA COLLABORATION

The Time is Now



Abstract

North American Automotive distribution is typical of value chains involving independent dealers. Manufacturer influence over and view into retail operations is limited. Distinct performance measurements, the multiplicity of legal entities and ownership fragmentation along the value chain cause inefficiencies thereby impacting customer experience and increasing overall costs. Manufacturer sales, marketing and distribution are managed distinctly resulting in discord in customer experience, difficulty in business goal alignment, and inconsistent performance measurement.

The automotive industry lags in its ability to collaborate through the value

chain in order to maximize customer satisfaction and efficiency. One of the most significant opportunities for improvement is how Dealers and Manufacturers can effectively, consistently, and co-operatively utilize common information for mutual benefit.

Dealers and Manufacturers have improved this circumstance with minimal success. However, the heterogeneous nature of Dealer-originated information, the barriers of working through protective Dealer Systems Providers (DSPs), dealer concerns of protecting sensitive information (tinged with concerns about data "ownership"), the underlying technology immaturity, and manufacturer system constraints

have been impediments to realizing the benefits of tighter Dealer-Manufacturer collaboration. This scenario is changing.

The impact of these factors is diminishing as each continues to evolve: industry standards are helping to ensure the homogenized exchange of Dealer information, the balance of power in the DSP landscape is changing, and Dealers are rising to the challenges at hand. Now is the time for dialogue to evolve further from "who owns the data" to "let's co-operate for mutual gain."

There are substantial benefits to the Consumer, the Dealer and the Manufacturer.



Today, a vehicle identification number (VIN) entered into a Dealership Management System (DMS) service application can serve as the key to query the manufacturer system to retrieve, for example, service contracts or recalls. This is fairly common.

The same key can be used by the manufacturer to obtain repair order (RO) data. This RO data can be aggregated by the manufacturer and cross-referenced with other customer data to enrich customer relationship management (CRM) modeling exercises. Service behavior may support lifetime value calculations, predict repurchases, and support precision service marketing. Few manufacturers have fully implemented this.



Current Landscape

Fundamentally, automotive dealers and manufacturers are in the business of attracting, serving, and retaining their shared customers. Though this relationship is largely symbiotic, its business processes are distinct, each driving its own viability, profitability, and efficiency. While dealers are quite aware that they are dependent on the manufacturer for much, they naturally want to manage and influence their customer relationships. Dealers compete against one another for the sale. They want service and parts revenue from customers to whom they sold the vehicle. They want to sell the next vehicle. Dealers must rely on manufacturers and manufacturers must treat dealers as their customers, though as wholesale customers. Who “owns” the larger customer relationship then? Who owns customer data holistically? In a literal sense, the dealer owns the data, but data ownership does not exclude others from tapping its value.

At a practical level, the separation of the dealer from the manufacturers creates impediments to the overall efficiency of the value chain. Operationally, there are several affected areas including production planning, inventory management and marketing departments. In these areas, the manufacturer, dealer or both lack sufficient information to perform the function fully. Greater integration between the manufacturer and the dealer increases visibility to information crucial to making decisions and implementing future actions.

The Vision

Tighter integration means that dealers and manufacturers can fine tune operations, respond to market stimuli and make more informed strategic decisions. Dealers benefit from reduced costs, relevant manufacturers’ support and timely manufacturer action. This ensures customers stand a better chance of getting

what they want: greater satisfaction in getting the right vehicles, service and parts at the right time. Examples of shared information include facets of customer data, retail sales and service transaction data and operational data (for example, inventories). This forms a launchpad for better marketing, selling and servicing. Though some pieces are in place or available today, there is substantial opportunity for improvement.

Dealer-Manufacturer integration: A win-win situation

The manufacturer’s business case is direct and straightforward. They should emulate the value chains of other industries which are more integrated than the Automotive Two-Tier system. Such value chains enjoy clear line-of-sight information from sourcing of raw materials through delivery of finished goods to the end customer. Manufacturers should seek Point-of-Sale (PoS) information, essential to understanding consumer behavior and performance. The outcome can be a viable and service-oriented dealer network; improved efficiency in the value chain; superior competitive positioning; and ultimately enhanced shareholder value.

Garnering Dealer Support

The dealer business is undergoing a period of significant challenges as manufacturers rationalize dealer networks and the anaemic economy tries to get the required traction. Information-savvy customers continue to have better access to timely and detailed product and competitive information. According to a 2009 National Automobile Dealers’ Association (NADA1) Dealer Survey, declining dealer satisfaction with Dealer System Providers (DSP) is due in part to the dealers’ perception of the DSPs’ support of third parties, including the extraction and loading of information.

This reflects in part the protectionist attitude of the major DSPs, as such co-operation might further erode their fading monopolistic power.

While dealers are apprehensive about data handling, they are hungry for the benefits of tighter integration with the manufacturers. Dealers want easier access to relevant manufacturer program information. They want the financial benefits associated with participating in manufacturer programs requiring such integration. Examples include sophisticated pay-for-performance, manufacturer support for improving customer service processes in fixed operations, manufacturer support for growth in dealer sales and fixed operations (from co-op marketing to training and consulting).

Articulating the dealer benefits of participating in this co-operative effort is inherently challenging. The dealer benefits, though substantial, tend to be indirect and not immediate. As a result, it is incumbent on the manufacturer to be thorough and clear in making this case to dealers.

Solving challenges to Improve Customer Experience

Fundamentally, there must be co-operation and clarity to make the data available between the manufacturers, dealers and DSPs.

Tighter integration between dealers and manufacturers aligns their sales and marketing activities with customer needs. Dealers and Manufacturers can jointly work in sending the right messages and offers to the right customers. They can offer the incentives best tuned to the market. In addition to wanting the right product and the right price, customers want to be heard and understood. Better integration allows for dealers and manufacturers alike to

have a detailed picture of the customer's experience with the brand. Anyone interacting with the customer should have visibility to the customer's interaction history, whether manufacturer or the dealer. Tighter integration enables to unify customer experience with the brand image. Manufacturers and Dealers need to show the customer they can "think retail."

So Why Now?

Industry Standards Have Taken root

The Standards in Automotive Retail have offered a foundation on which a summarized, aggregated view can be built for a dealer network's business. The independence of the dealer from the manufacturers and the prevalence of small dealer groups and single points make aggregation of data across dealerships much more onerous. In some cases, such aggregation takes place in tedious, one-off projects. In others, aggregation has been forced to a level of summary that renders detailed analysis impossible.

Standards themselves don't overcome infrastructural nor operational demands of increasingly sophisticated data integration requirements. However the maturity of business intelligence platforms and networking connectivity through the "last mile" to the Dealerships can combine to make tighter Dealer-Manufacturer information integration, a real and immediate possibility. Adoption has maintained a sufficiently critical mass to ensure STAR has staying power. Dealers look to the industry generally and the manufacturers specifically for leadership in not only technologies and trends, but also in their usage. Manufacturers and system providers should avoid creating nuanced implementations and instead help grow the standard; too many "versions" of a "standard" is contradictory.

The Balance of Power in the DSP Landscape is Changing

The 2009 NADA¹ Dealer Survey indicates that only half of dealer personnel would recommend their DSP to another dealer, representing a two point decline from the same survey in 2007. Entrepreneurial third parties have sprung up to fill the gaps in DSP service provision and provide low-cost alternatives during ongoing economic lull period. Dealers and Manufacturers alike have further opened the playing field by investing in related products and services outside the dominant DSPs. The competitive footing is chaotic for DSPs and third party-providers alike; market forces offer a rough sea of price-volume-feature tradeoffs. This continues to influence the way DSPs and third parties approach pricing and product feature offerings. Now is an ideal time for manufacturers and dealers to co-operatively wield strategic influence and make investments in this area.

Dealers are Hungry

Economic pressures and dealer network rationalization are impacting the dealer business. Dealers are interested in doing more with less. Efficiency and innovation are welcome topics. It is an ideal time to approach dealers with mutually beneficial value proposition.

Mind the Gaps in Dealer-Manufacturer Integration

Get the data right

The auto dealer business in North America is not a fleeting business model. Fragmented ownership and multiple Dealer Management Systems (DMSs) will be the status quo for the foreseeable future. While the dealer data access technologies and vendors have matured, the dealer data by

nature requires attention. It comes from disparate systems in dealers with distinct processes. Ensuring comparability, consistency and clarity requires that the extracted data be cleansed, normalized, and cross-referenced. Moreover, the translational business rules change over time. Stakeholders must agree to the rules to maintain a single version of the truth. The tasks necessary to keep this in order must be included during planning and resourcing of Dealer-Manufacturer data integration efforts (see sidebar Pesky Dealer Data: An Illustration).

Diverse and Changing DSP Market

The competitive nature of the DSP market is not likely to change soon. The days of manufacturer-provided systems are unlikely to return, and entrepreneurial capitalism is eroding the dominance of the DSP duopoly. Thus it is a fact of life that any strategy and investment by manufacturers must contemplate the multiplicity of DSPs. Third Parties have built considerable business in enrolling dealers, collecting DMS data, and presenting it to the manufacturers. These efforts represent an ongoing cost to the manufacturers. In this context, some DSPs have not been co-operative with the centralized efforts to obtain data from the dealer systems. While DSPs issue press releases emphasizing their ongoing support of third party access, the major DSPs still intermittently employ tactics which impede open access. Such instances include limits on screen scraping, differentiating “hostile” reading or writing (done without express certification from the DSP) and requiring investment by manufacturers/dealers to make changes to the DMSs to accommodate third party access. Some level of access restriction is defensible, but many DSP actions appear purely protective. While the overall trend is favorable, pockets of DSP resistance can be expected as their business models continue to evolve.

In short, plan on the North American Dealer-based business model remaining constant—inconsistent dealer processes and a competitive DSP market will remain. Plan for the ongoing effort necessary to accommodate volatility in data handling, DSP market composition and data sourced from dealer systems. Rest assured the model isn’t changing anytime soon. These are reasons to invest carefully; they are not reasons to shy from the business case for change.

Data Security and Dealer Apprehension

Dealers, like other customer-facing businesses, are concerned about the security of customer data. While this might be telling about how (mis)trustful they are of manufacturers, it is most reflective of the retailers’ angst about data security underscored by privacy legislation. For these reasons, dealers require a greater deal of reassurance from the manufacturers that the means and use of Dealer-Manufacturer integration is secure. Dealer Councils and influential Dealer Groups should be directly involved in crafting the access and usage policy. These policies should cover customer data and control over dealer visibility of other dealers’ data as well. This is a manageable set of risks that requires bilateral communication between Dealers and Manufacturers.

What’s in it for Me

The business case for manufacturer access to dealer data involves direct, readily quantifiable benefits that should be articulated and understood from the perspective of the dealer as well as the manufacturer. Benefits include cost savings through process streamlining, operational work (plumbing) to support programs and Rol benefits from better precision in planning due to deeper Business

Intelligence access. Examples of this Rol abound, especially in Aftersales. Actual Rol on service marketing spends can be calculated, marketing strategy refined, and marketing efforts can be laser-targeted. A more complete view of the customer experience can be drawn, including the use of service behavior to derive repurchase likelihood and lifetime value of the customer. For most manufacturers, every point of improvement in service customer retention is worth hundreds of thousands of dollars in parts gross margin.

From a dealer’s perspective, the benefits are perhaps harder to discern. Accordingly the planning necessary for this work should be a co-operative business effort detailing the tangible outcomes that dealers will enjoy.

What enhancements will be possible for existing manufacturer programs? How will new manufacturer program effectiveness get better? In addition to making a straightforward business case to dealers, manufacturers can influence dealer adoption in several ways. For example, manufacturers can make data sharing a requirement for dealer enrolment in new programs such as sales incentives or marketing campaigns.

Finally, in many cases, manufacturers have used with success the temporary suspension of fees, short term fee discounts, and other quid pro quo offers to entice dealers. While there are several ways to induce dealer support, the business benefits of improved integration should be clear and understandable to dealers and manufacturers alike. Using Business Value Articulation (BVA), Infosys applies discipline in the identification and quantification of business case drivers. Getting the business case right to begin with is important; keeping it updated during and after the project is best practice.



Pesky Dealer Data

(An Illustration)

Having access to detailed transaction data is one thing, being able to make sense of it is another. Suppose a large retailer sells a bottle of shampoo in Albuquerque, NM it is reasonable to assume that this sale could be compared with a similar transaction at a second store in Ft. Wayne, IN. The common SKU, transaction price, inventory levels could be analyzed. Moreover, if the Retailer has demographic data and/or frequent-shopper activity, deeper analysis could be carried out to plan marketing actions, pricing, and gauge marketing effectiveness.

In the automotive world, this is not as straightforward.

The Retail channel is comprised of independent businesses with distinct business processes, systems, and data. As an example, in the case of Aftersales, dealers do not have access to information about a customer's behavior outside of the dealership. Manufacturers do not routinely have direct access to Point-Of-Sale data,

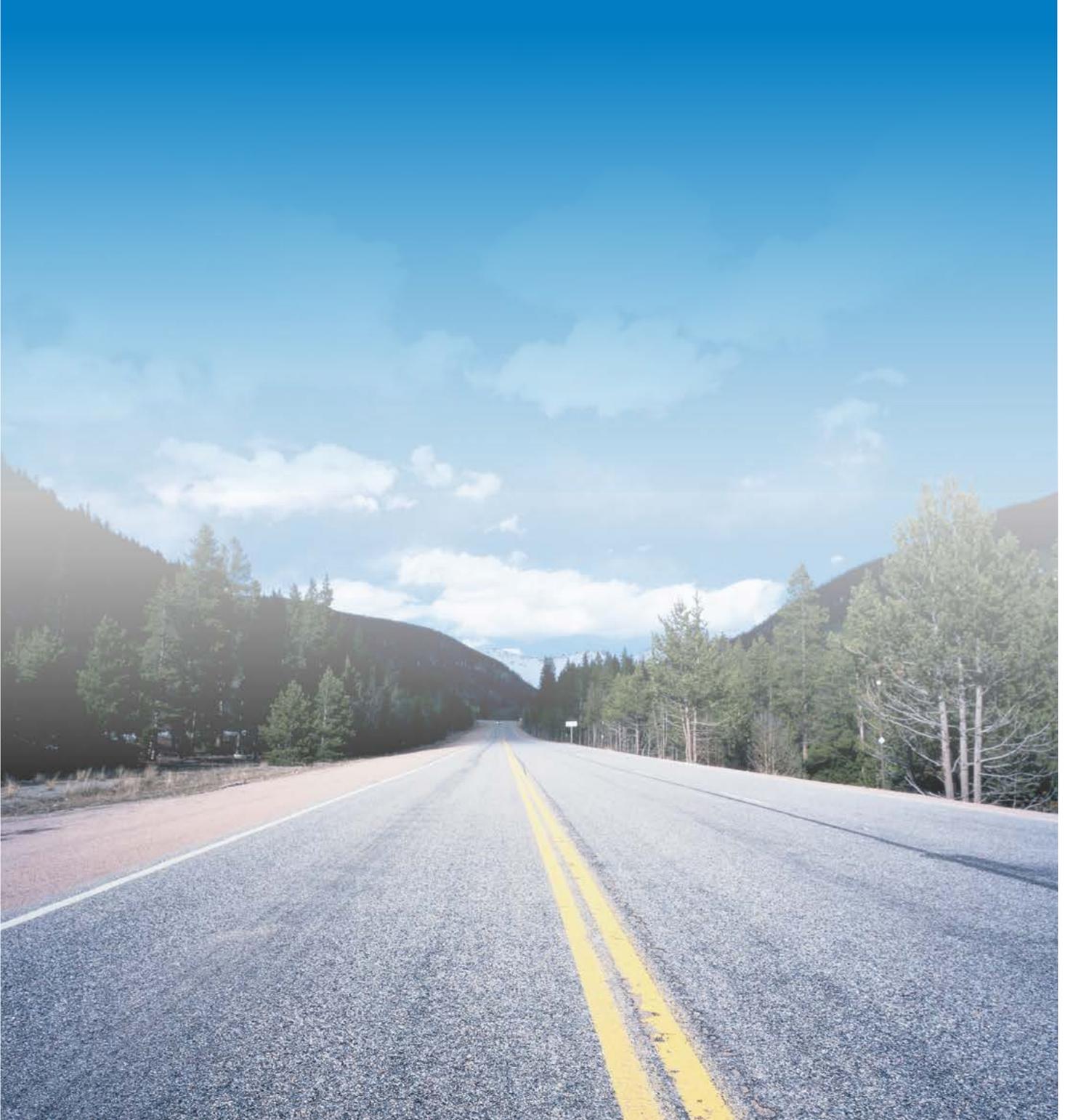
so they are unable to analyze customer behavior within or across Dealers in Service and Parts.

Manufacturers may rely on third parties to obtain and standardize data in Service Marketing efforts. This is a monumental task as the dealer processes, systems, data capture and codification of sale attributes vary widely. Simply aggregating service data across dealers requires cross-referencing the Service Operation codes to ensure a 10K service at one dealer maps to the same at another.

In short, integrating dealer and manufacturer data involves more than simply sharing data or "connecting" the database. There are many basic "blocking and tackling" steps necessary to homogenize the information in order to make it useful for transaction processing (example: sophisticated pay for performance) and analysis (example: formulation of marketing strategy and measurement of its effectiveness).

Road Ahead

Tighter data integration between dealers and manufacturers benefits customers, dealers and manufacturers. The relevance and impact of manufacturer and dealer sales and marketing programs can be greatly enhanced with better visibility into the automotive value chain. Dealers benefit with better efficiency and improved performance overall. Manufacturers can enjoy better return on sales and marketing spends. The operational needs of both dealers and manufacturers can be met faster with reduced costs and with greater precision. The challenges of enhancing dealer-manufacturer data integration are waning while market pressures are mounting. The time for investment is now.



About the Author

Kenneth Gurney is Principal in the Manufacturing Industry Practice (MIP) at Infosys.

Kenneth has nearly 20 years of global experience in industry leadership and management consulting roles with the last 10 in the Automotive and Heavy Equipment industries. His areas of specialty include Marketing and Customer Service strategy, Dealer Network Design and Management, Aftersales, and Growth strategy. Kenneth earned a BS in Accounting from Butler University and an MBA from the University of Michigan. He has lived and worked in Europe, Australia, and North America.

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