

Getting Ready for Future-Ready Dealerships: Indian Auto Retail's Future

January, 2023



Nomura Research Institute Consulting & Solutions India Pvt. Ltd.



Dear Reader,

As the automotive industry continues to evolve and adapt to new technologies and consumer preferences, dealerships must stay fit and future-ready. This whitepaper, jointly developed by NRI Consulting and FADA, delves into the current landscape of the dealership industry in India and provides practical recommendations for dealerships to stay relevant and successful in the long term.

We will delve into the key areas that dealerships must focus on. Our Insights suggest **financial prudence, operational efficiency, and utmost customer experience orientation as key levers for sustained business growth**. By addressing these areas and implementing best practices, dealerships can survive and thrive in today's competitive market. We hope that you find the information useful and that it helps you to better serve your customers and grow your business.

Thank you for taking the time to read this whitepaper.

Sincerely,

Harshvardhan Sharma
Head, Automotive Retail Consulting Practice
Nomura Research Institute Consulting

About Nomura Research Institute

About NRI, Established in 1965, with a footprint across 24 Global Offices in 13 Countries with more than 10,000 employees worldwide, Nomura Research Institute is a Global Think Tank and Consulting Firm. Automotive Industry is the core industry vertical within the Consulting Division in which The GPG (Global Practice Group) for Automotive with more than 100 Management consultants engaged in the Automotive space, help clients in developing winning strategies and their implementation across the value chain.

Automotive Retail and CASE (Connected Autonomous Shared Electric) are our key expertise areas where NRI delivers bespoke engagements for clients and acts as a think tank helping industry associations and government bodies in developing policies in India.

To learn more, please visit : <https://india.nri.com/industries/automotive/>

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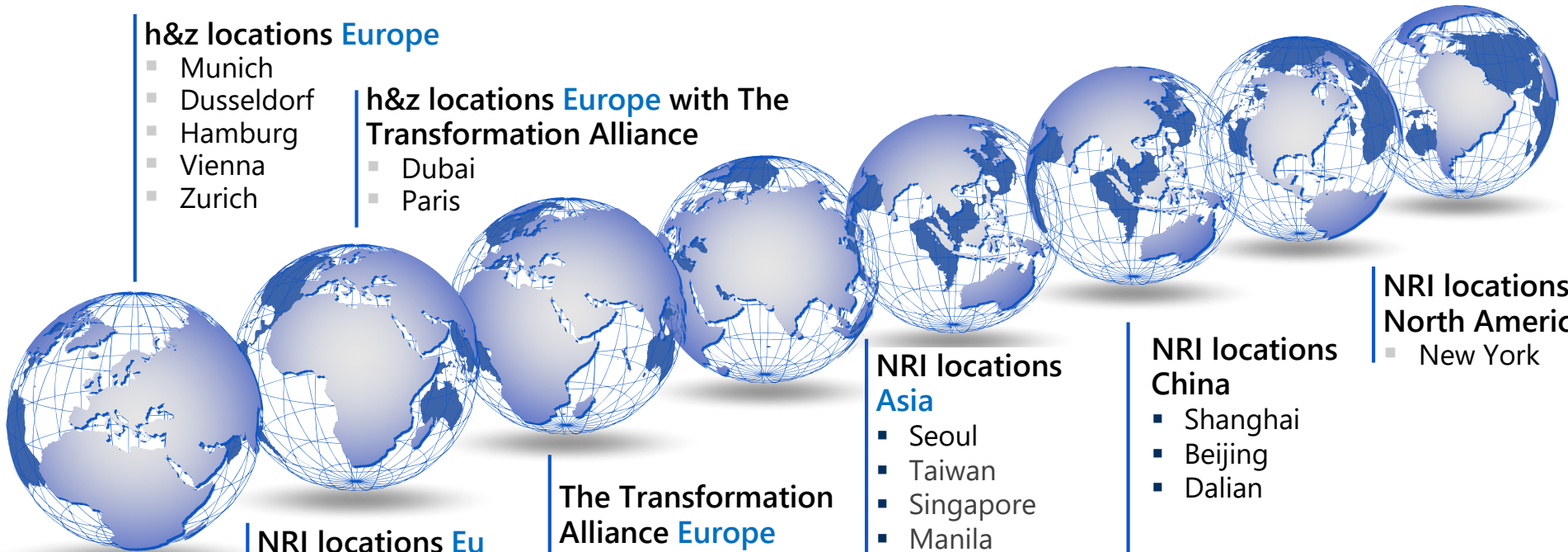
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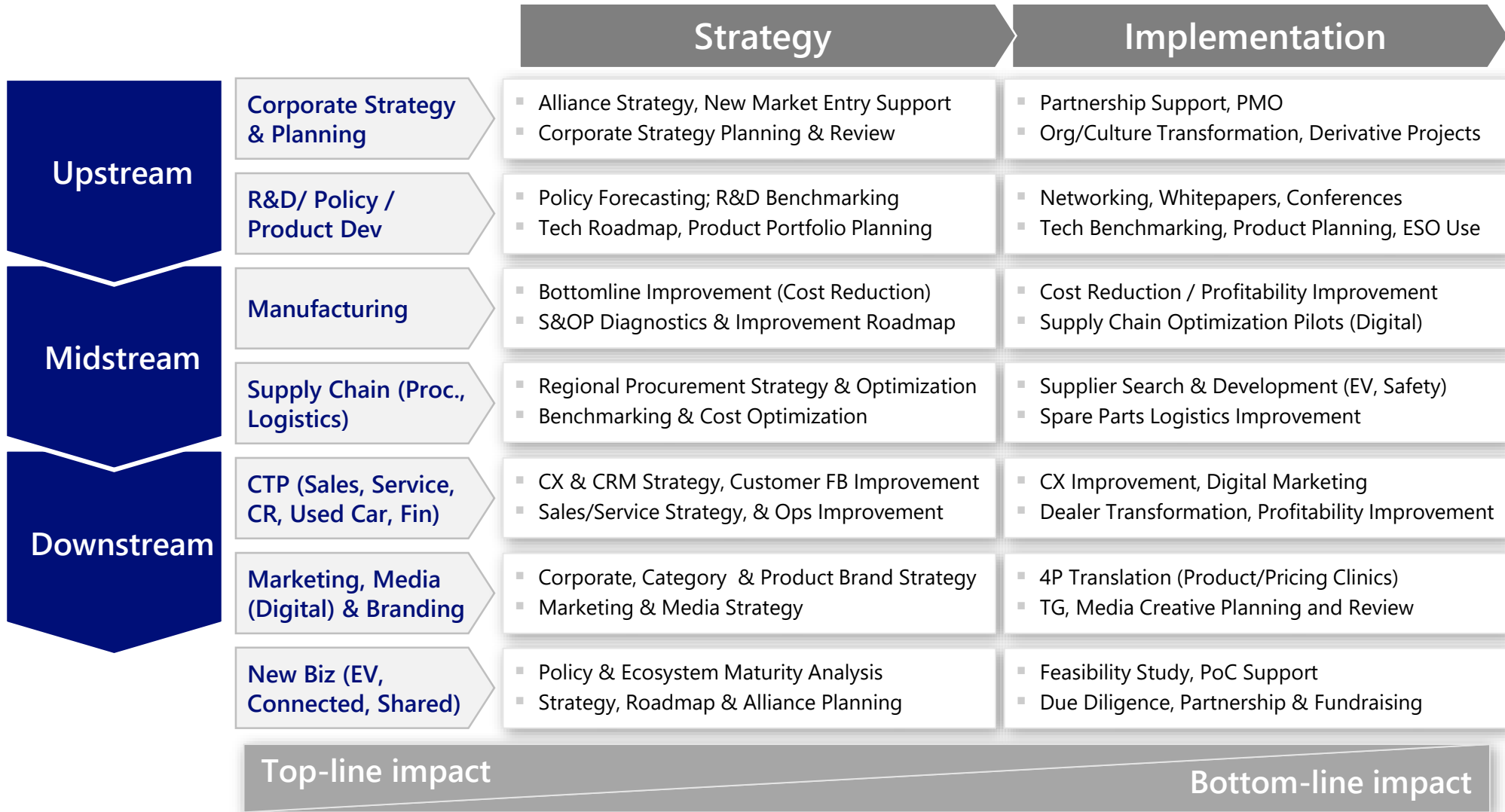
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While we help clients across the entire auto value chain, our focus is on downstream (Marketing Transformation, CX, and CRM) & New Biz (xEV) themes



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- 3 India Sector Trends Overview
- 4 Global Sector Trends (Current & Future)
- 5 Future Dealerships (Must do)
- 6 Financial Efficiency & Ratios
- 7 Recommendations (The Way Forward)

Executive Summary: FIT & FUTURE READY DEALERS

1 Industry Overview

- **Brick and Mortar continues to remain relevant and unsubstituted.**
 - **87% dealers believe that viewing the product physically** is the key reason for customers visiting the dealership
 - Hence dealers believe that Customer experience is the key differentiation factor to succeed
- There is a **positive sentiment** and optimistic future outlook amongst dealers about the Indian market being promising enough
 - Milestones are yet to be achieved to **attain parity** with developed markets
 - **Underserved market, Growing younger population, Demand for personal transportation, Increase in Average selling price, and Urbanization** are the key growth drivers
- **Shift in the preferences of customers** towards being **connected and digitally native**
 - This creates a need for new sales methodologies and **online channels**
- **Online pre-purchase research** is the highest-digitized process
 - **Traceability** and **purchase journey autonomy** has increased the **reliance on digital sales channel**
- The transition towards "**true digital**", **frugal retail formats**, and **parity with non-auto retail** (both online and offline) are a few global trends influencing the Indian market
- Need to track "drill down" KPIs such as **Sales Per Sq. Ft**, **Average Revenue Per Customer** and **Customer Lifetime Value**

2 Industry Trends (Future)

Dealership Size

- Due to **rising rentals in Metros as well as Tier 1/2/3 cities**, the transition towards small store formats for cost optimization
- Customers (including. luxury) are open to viewing **product variants digitally** at the dealership

Need for Digital Content Creation and Better Digital Marketing Management

- Creation of Dealership specific social media content (reels, posts, mentions, local influencer collabs.) and marketing tech. in dealership operations can improve sales yields and reduce Customer acquisition costs significantly

Multi Brand Outlets (MBOs)

- There is a **positive sentiment regarding MBOs** in the dealer fraternity
 - This is owing to improved cost efficiencies and better asset utilization

Succession Planning

- Dealers are cognizant of the need for Long term succession planning
 - Open to welcoming the next generation, but want them to focus on **learning the fundamentals** before taking over the reins

Subscription and Leasing

- Subscription as a concept is gaining popularity but might not be a key trend
 - **Nearly 40% of dealerships are not aware of the subscription/leasing**
 - **Asset ownership** stays prominent as a customer psyche

Cost Levers

- Financial Prudence and Ops. optimization remain key cost management tenets
- Dealers perceive **Interest payments, Power & fuel, and Rentals as the highest cost contributors** for dealers
 - **HR cost** is one of the highest contributors for the **Luxury dealers**

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Executive Summary: Dealership Viewpoint (Surveys)

1 Brick & Mortar and Digitization

- **87%** dealers believe that viewing the product physically is the primary reason why customers visit the dealership, irrespective of the dealership location
- Initial enquiry stage has the maximum online penetration of **~97%**, as the customer progresses along the purchase journey, online penetration decreases

2 Dealership size & Multi brand outlets

- **~50%** of surveyed dealerships believe that the dealership size would decrease in the future
- **More than 53%** of surveyed dealerships believe that multi-brand outlets have potential in India with high potential within the **PV dealerships**

3 Agent sales model & Subscription model

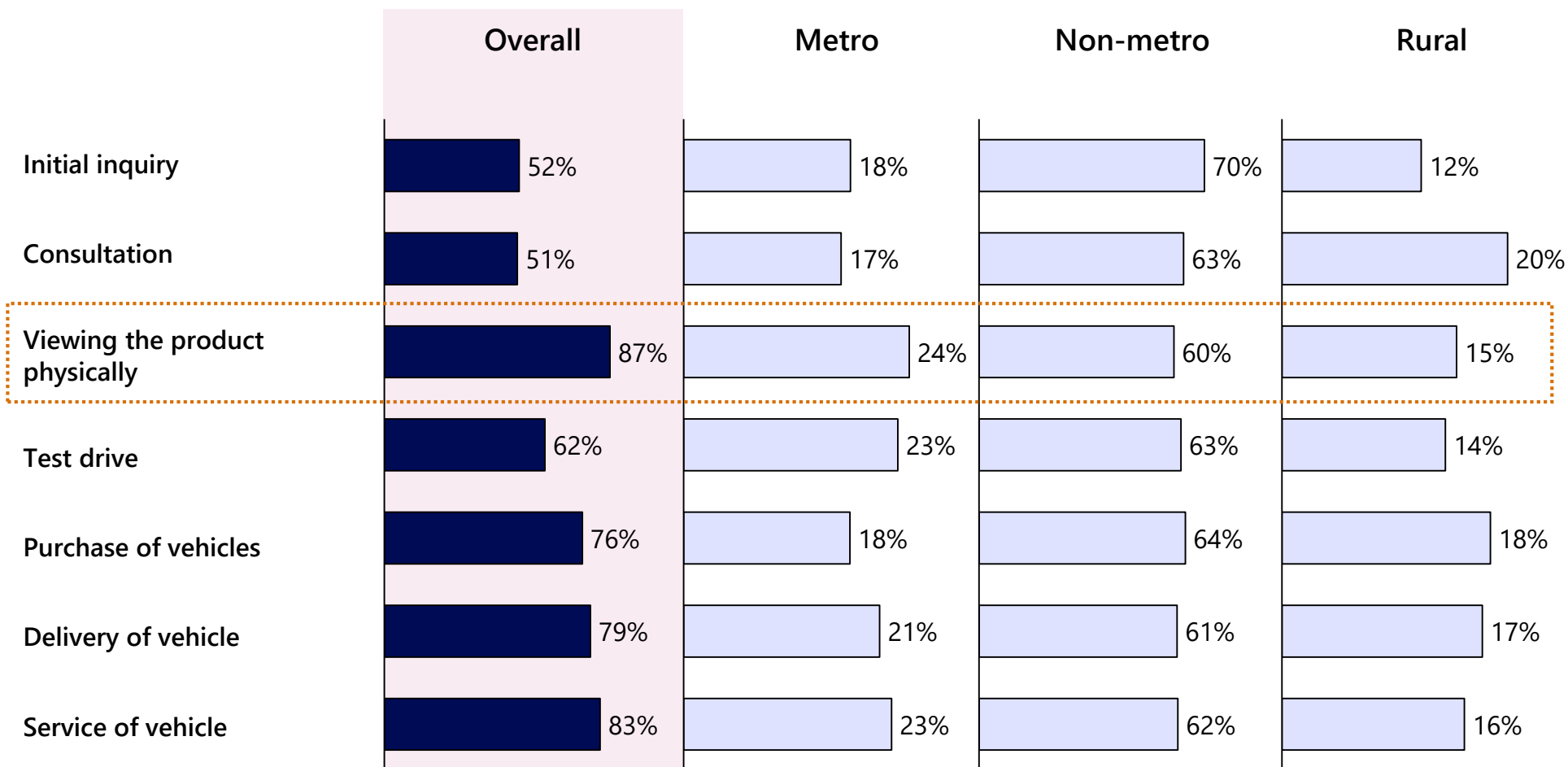
- **35%** of dealerships believe that the agent sales model (direct selling) is feasible in India; favorability for **Commercial Vehicles** is lower than the other segments
- **Nearly 40%** of dealerships are not aware of the subscription/leasing models; **PV dealers** have high awareness and consider it a good revenue augmentation measure

4 Succession planning

- **~43%** of dealerships currently lack a succession plan for their dealerships
 - Dealers acknowledge the need for succession planning and welcome guidance to navigate through succession planning

Viewing the product physically is the primary reason (87%) why customers visit the dealership, irrespective of the location of the dealership

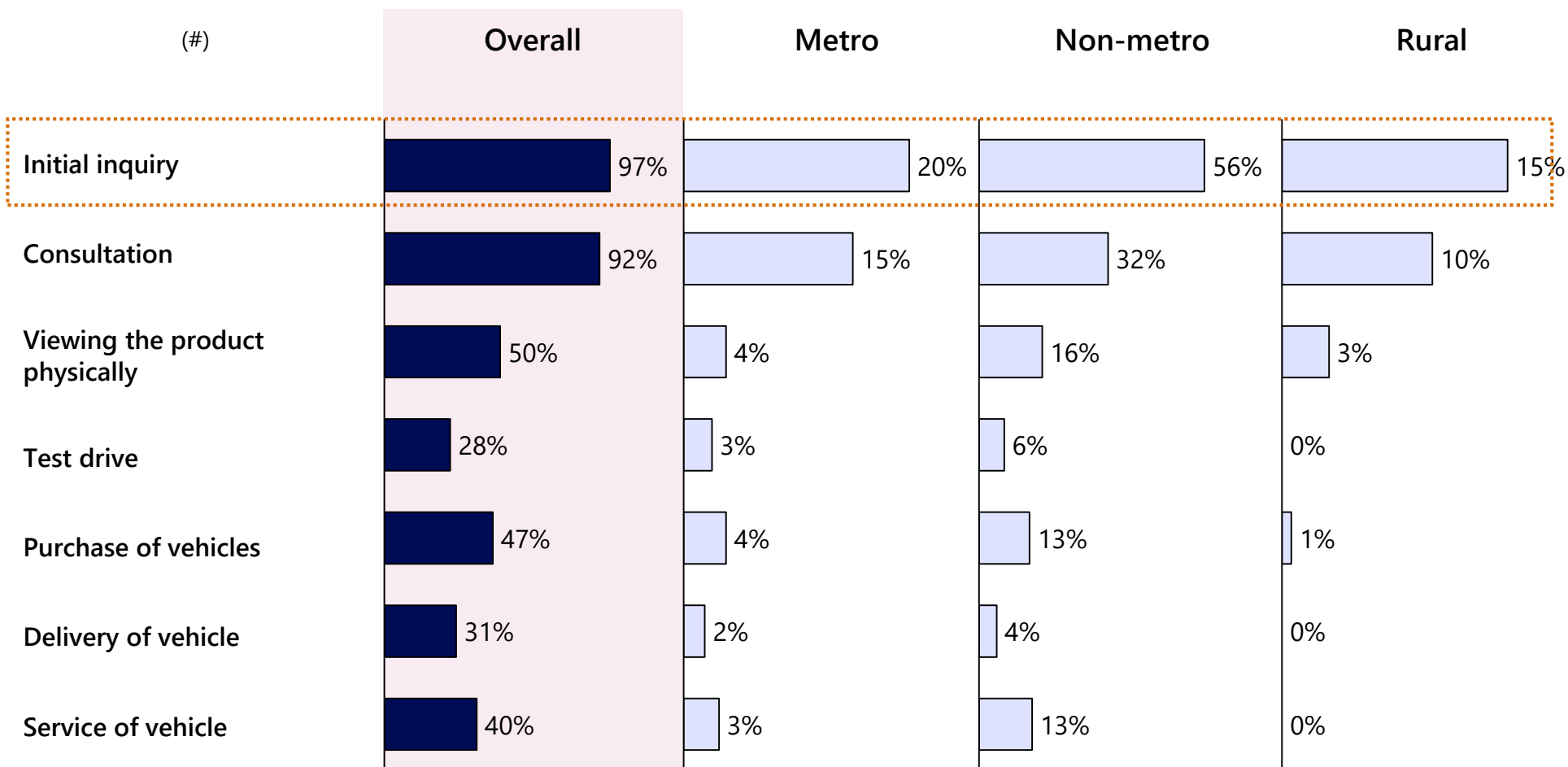
Relevance of customer visit at dealership across the purchase journey



Q. What are the level of digitization at each stage of the customer journey?

Initial enquiry stage has the maximum online penetration, ~97%; as the customer progresses along the purchase journey, online penetration decreases

Penetration of some form of online solutions at dealerships across the purchase journey



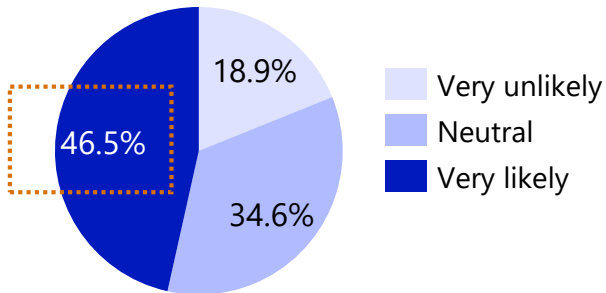
Q. What are the most relevant reason(s) for customers visiting the dealership at each stage?

Dealer Survey : Trend (1/6) – Dealership Size

~50% of surveyed dealerships believe that the dealership size would decrease in the future with the opinion being led by the 3S+ dealership owners

Dealership size reduction

Unit: %



Q. Do you think the size of the dealership has decreased or will decrease further in the future?



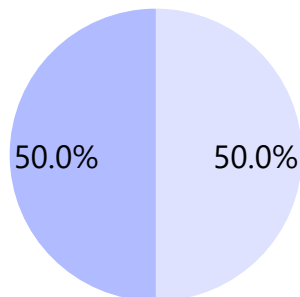
Manufacturers have become far more pragmatic, they are going for smaller dealerships. A leading luxury automotive brand asked us to reduce the existing 25k sq. ft to 4k sq. ft and reduce display cars from 15 to 4. For these new showrooms, although the size is smaller, the space is super hi-tech. Entry-level car owners visit the dealership multiple times; As we keep going up the ladder, fewer customers come to the dealership; A Top Tier Model customer may not even come for the delivery

Dealer Principal, PV, Luxury segment

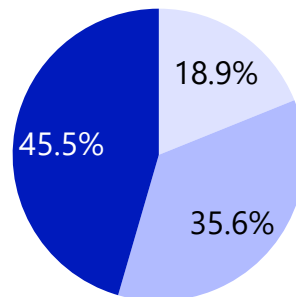


Segmentation of responses by service range

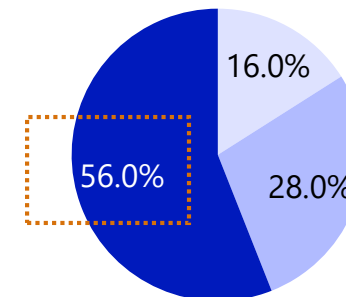
2S



3S



3S+

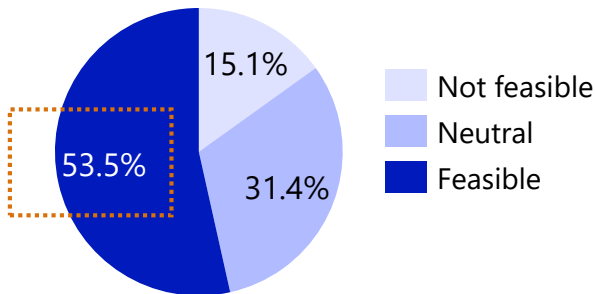


Dealer Survey : Trend (2/6) – Multi-Brand Outlets (MBOs)

More than 53% of surveyed dealerships believe that multi-brand outlets have potential in India with high potential within the 4-wheeler dealerships

Multi-brand outlet feasibility

Unit: %



Q. Do you think multi-brand outlets (multiple brands selling in the same showroom) have potential in India?



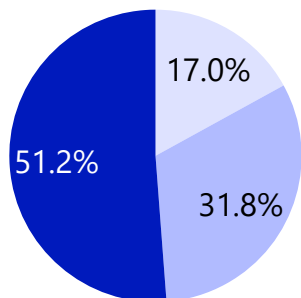
Although MBO for service is possible, but for sales it is not possible due to conflict since geographical spread is necessary for expansion, OEMs could come together, and service loyalty with the dealer would make customers who hold fleets of multiple brands still come to the dealership for service, A few CV brands have started brand agnostic service camps- Small roadside workshops could come together for service or breakdown needs (mostly in the secondary network, but eventually in the primary network as well)

Dealer Principal , CV, Non-metro city

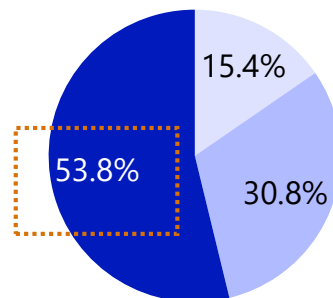


Segmentation of responses by vehicle segment

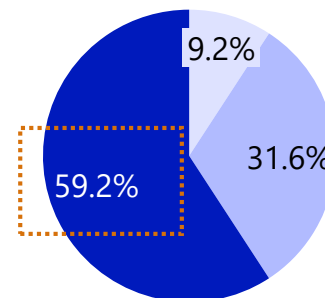
2-wheeler dealers



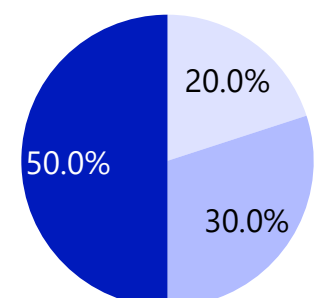
3-wheeler dealers



4-wheeler dealers



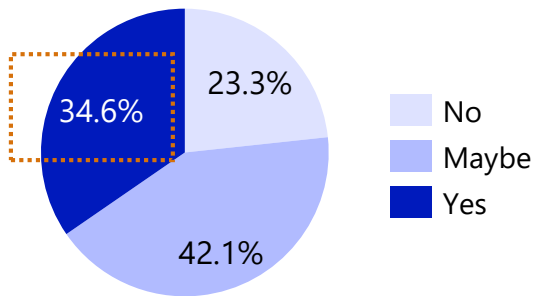
Trucks, buses and SCV dealers



35% of all surveyed dealerships believe that agent sales model is feasible in India; favourability for trucks, buses and SCV is lower than the other segments

Agent sales (Direct selling) model feasibility

Unit: %



Q. Do you think the agent sales model (direct selling/selling stock owned by OEM on commission basis) is feasible in India in the next 5-7 years?



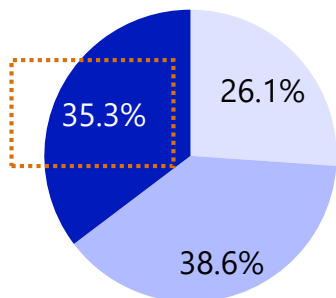
Agent sales model is a threat to dealership business. 3W is a great last-mile product. Going forward, we can expect bulk orders of 100-200 units, compared to 5-10 units ordered now, leading to high negotiations between the dealer and the customer. When this happens a dealer is looked at as baggage by the OEM. Can expect to see the direct sales model being prevalent in India within the next 5 years

Dealer Principal, 3W, Non-metro city

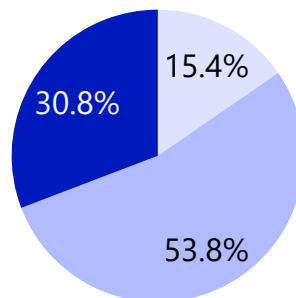


Segmentation of responses by vehicle segment

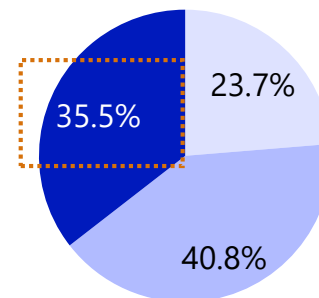
2-wheeler dealers



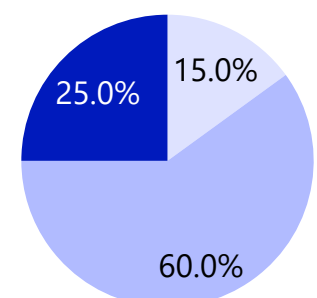
3-wheeler dealers



4-wheeler dealers



Trucks, buses and SCV dealers

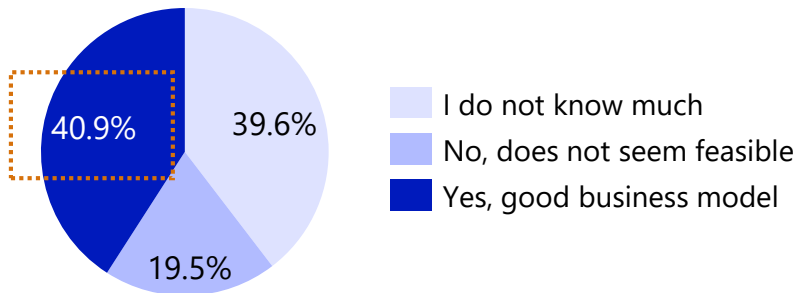


Dealer Survey : Trend (4/6) – Subscription/Leasing

Nearly 40% of surveyed dealerships are not aware of the subscription/leasing models; 4-wheeler dealers have high awareness and consider it a future trend

Subscription/Leasing feasibility

Unit: %



Q. Do you feel that subscription/leasing of the dealer fleet can generate additional revenue in the future?



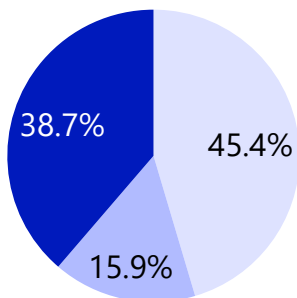
Subscription industry could grow, as post-covid, customers are facing challenges in financing with the freight rates decreasing and the cost of the vehicles increasing (due to the high cost of new fuel technology vehicles). Dealers can engage in this model, with initially only the subscription fee needing to be paid, while the rest of all maintenance could be taken care of by the dealers. Even in tires, a new subscription model has started, where you only have to pay for tires per km usage

Dealer Principal, CV, Metro city

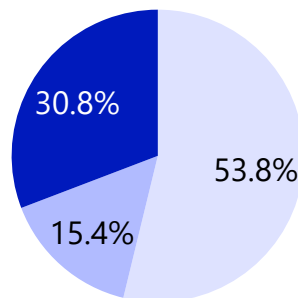


Segmentation of responses by vehicle segment

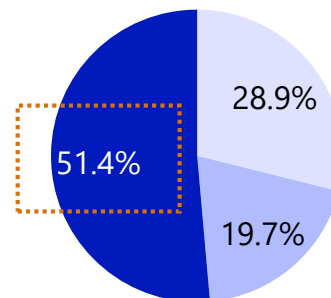
2-wheeler dealers



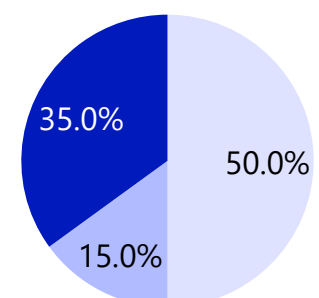
3-wheeler dealers



4-wheeler dealers



Trucks, buses and SCV dealers

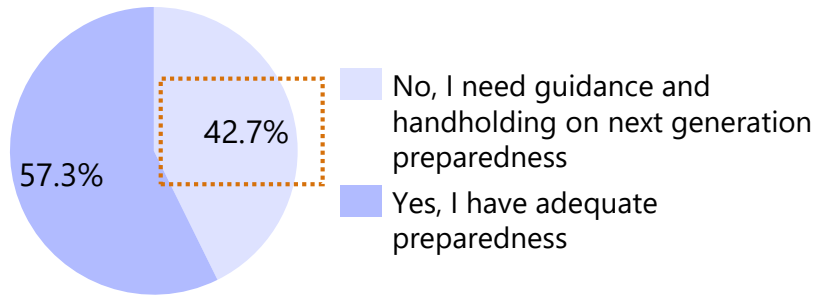


Dealer Survey : Trend (5/6) – Succession Planning

~43% of surveyed dealerships currently lack a succession plan . Future generation is encouraged to innovate while also focusing on first principles

Succession plan readiness

Unit: %



Q. Do you have adequate preparedness for succession planning and next generation of leaders at your dealership?



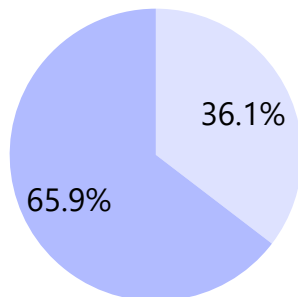
Succession planning involves building roadmaps for L2 L3 task force, not just L1 managers. Moreover, managers can have 1 to 1 discussion with the task force for planning their career opportunities.

Dealer Principal, PV, Luxury segment

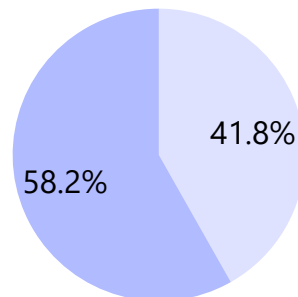


Segmentation of responses by location

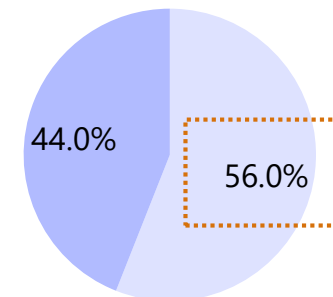
Metro city



Non-metro city



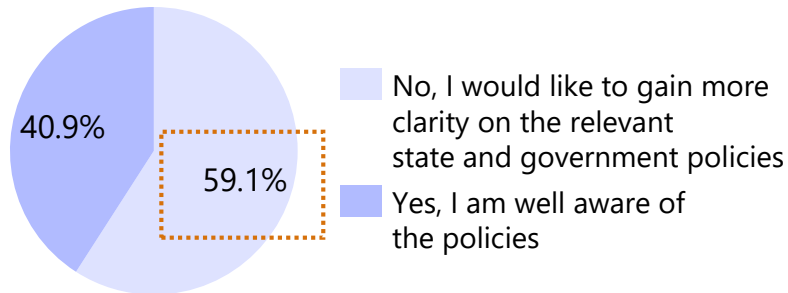
Rural



Dealer Survey : Trend (6/6) – Policy awareness

~59% of surveyed dealerships are not aware of the state and government policies with rural areas having lower awareness levels

Policy awareness



Q. Do you feel that you have enough clarity on the state and government level policies affecting your dealership? (ex. taxation related policies or consumer privacy related laws)

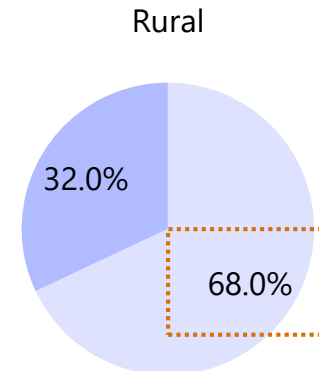
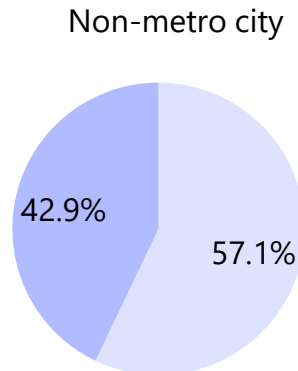
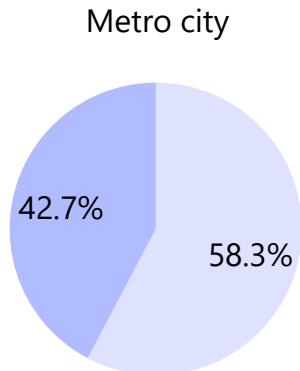


Most dealerships are still not fully aware of regulatory compliance .This is partly also due to manpower retention as this is a perennial challenge. One could use more coaching and timely interventions to understand more about regulatory and compliance-related issues

Dealer Principal, PV, Metro city



Segmentation of responses by location



Dealer Voice : Dealership Size and Infrastructure

The trend across all vehicle segments is reduction of dealership size (highest for luxury) & increase the physical presence via nimble and efficient touchpoints



Metro Personal
Vehicle Dealer

Dealerships of the future are **smaller** (in size and lower number of vehicles), **smarter** (smart kiosks to see colours, models), and **slimmer** (less manpower, higher sales efficiency). In the past 5 years, focus on **rural outlets** has been very higher which are closer to the customers as the vehicle penetration in small districts is lower. Service touchpoints have also increased to **increase vicinity to the service facility**

“”

Infrastructure originally was huge with **big showrooms and workshops, with multi-year planning** being done to build them. However, OEMs also acknowledge that for long-term sustainability, a new format with **smaller touchpoints and rural outputs** is key

Non-Metro
Personal Vehicle
Dealer



Metro Commercial
Vehicle Dealer

The size of dealerships is **decreasing and the number of bases are going up**. In general, **CVs need more space compared to PVs**, and although the land cost is low due to outskirts nature of locations, the infrastructure and manpower cost is high.


“”

Brick and mortar stores will continue to grow, however, **we should not be investing much in increasing the number of large showrooms**, but **rather on increasing the number of touchpoints**

Non-Metro 3W
Vehicle Dealer



Inventory and workforce management are key hurdles which good dealers need to overcome, each vehicle segment having its own nuances

 Metro Luxury
Personal Vehicle
Dealer

Investment in manpower is crucial for luxury brands. Creating quality future dealers is of utmost importance, which requires proper training and investment, which is also directly proportional to retaining this manpower in future

“”

Days in Inventory (DII) should not be higher than 21-28 days, don't go more than that even for incentives. Looking at the productivity of manpower, increasing the productivity will help more than reducing manpower. Keep a strong check on the inventory and spare parts as a lot of dealers carry a high amount of stock which turns out deadstock

Non-Metro
Personal Vehicle
Dealer




 Metro Commercial
Vehicle Dealer

As a dealer, especially in commercial vehicles, the biggest cost is inventory cost and a major issue is the instant availability of stock. Large inventory may be needed in a short duration and hence many dealers hold up to 45 days of inventory, however, some dealers still build to orders to reduce deadstock and locked-in capital

“”


OEMs should provide support to dealerships in the form of higher margins, constructive policies & marketing support for better engagement & profitability

 Non-Metro 4
Wheeler Dealer

“OEMs should give better than standard vehicle margins as new costs have been added on dealers such as digital costs, and additional manpower. Cashless Policies through OEM present a challenge in the North Regions. Test Drive Policy / Support from OEM, Marketing Expense Support etc. needs reworking as post covid many such initiatives have been withdrawn by OEMs.”

““”

“Engagement from the OEMs should be higher with the dealerships such as taking dealership inputs for making some policies as margins are getting squeezed. OEMs should also provide more marketing support, and facilitate a stock swap mechanism to swap unwanted stocks among dealerships to ensure profitability & sustainable growth.”

Metro Personal
Vehicle Dealer 

 Urban
Commercial
Vehicle Dealer

“With evolving technology and market changes, OEMs need to support dealers in upskilling, funding support for inventory (low cost of funds for OEMS compared to dealers), delivering a good product mix- with the right tech and right service package to stay ahead of the competition. Good penetration and network in the rural areas are also needed as trucks run across the country and are not limited to big cities.”

““”

“There has been a steep decline in profits despite higher sales & service numbers. Some practices that lead to reduced dealership profitability are low dealer margins, inventory pileup due to incorrect product market fit, frequent software and tool expenses, profit erosion in accessories and insurance margins and high spare parts prices leading to lower service ratios”

Non-Metro 2
Wheeler Dealer 

Dealer Voice : Multi Brand Outlets

MBOs are feasible for 2W & 3W Dealerships due to increased commoditization, while for PV & CVs, multi-brand service centres should be explored by OEMs



Rural 2 Wheeler
Dealer

"I feel that MBOs are going to become a reality in the future and cannot be overlooked. Main reason is the high cost of running a dealership, and the fact that the products available in the 2W segment have become more of a commodity due to increasing purchase power and numerous product offerings"



"In India, MBO model is not feasible; There will be complexities in terms of product quality and features. Even in other countries, MBOs exist mostly at the distributor level, not at the dealership level; there will be pressure and competition if multiple brands are under one showroom"

Rural Personal
Vehicle Dealer



Urban
Commercial
Vehicle Dealer

"MBOs are not possible in the CV segment as there are only a few OEMs (market leaders) and they don't prefer MBOs; If it happens, it will be good for the dealers as it is an opportunity to share resources which will decrease cost. Multi Brand service centers can be explored to increase geographical spread of brands and maintain service loyalty of fleet owners"



"MBOs seem more applicable for small dealers. Impact of MBOs needs to be assessed properly. MBOs can serve as a threat to dealers of large OEMs. However, it might provide new opportunities too since 3W products are standardized. In the future, MBOs might become common and even be advocated by OEMs if it is a success."

Non-Metro 3
Wheeler Dealer

Digital tools help in lead generation but conversion is low. Customers are now more informed about products available but final buying decision is still offline.



Rural 4 Wheeler Dealer

“Lot of paperwork has reduced. In terms of customer interaction, as cars are still a lifetime investment, the decision is taken by the complete family. But there is a trend that customers have become more informed of the features, products; Dealership role has shifted to test drives, deals and physical verification of features. Only lead generation is done digitally.”



“The role of Digital is not of selling cars, the role has already come up in making up the mind of buyer in which product to buy. It will further enhance in the future using Influencer marketing. Digital's role today is more towards influencing. The medium does generate a lot of inquiries at the dealer level, but the conversion is very low.”

Non-Metro Personal Vehicle Dealer



Non-Metro Commercial Vehicle Dealer

“People will not buy CVs digitally in the near future. Digital tools are used for assistance like tablets to make the customer understand the features, testimonials, etc but it is not good for lead generation and conversion. Most driver-cum-owners in the high payload tonnes are not tech savvy. However, for corporate customers who have a fleet and are mostly repeat customers, digital marketing can be used”



“Customers are becoming more and more informed about product specifications and features. But still, 100% vehicle sale cannot be done online. Some new startups tried it with so-called “experience centers” but it did not go well. Vehicle purchase is and always will be an emotional decision and for that, physical touch will always be important”

Non-Metro 2 Wheeler Dealer



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Executive Summary: India Sector Trends Overview

1 Industry Overview

- The number of dealerships in India has increased to greater than pre-COVID levels
 - The average sales per dealership have not grown in parallel to the number of dealerships
- Market growth continues to be driven by **demand-side factors** such as
 - Increasing income levels, strong rural demand, high finance penetration, demand for personal mobility and changing demographics
- More than **99% of the sales** for new vehicles continue to take place through traditional brick-and-mortar dealerships
 - Online sales channel is yet to gain traction with less than 1% of the total sales
- For used vehicle sales, dealerships account for less than 20% of the market share
 - 3rd party online marketplaces occupy 38% and the remaining market is unorganized
- **Multiband service outlets** and **used car market** continue to remain highly **under-penetrated** and **high growth streams**
- Dealers want to adopt digitization in businesses however systemic challenges remain deterrents

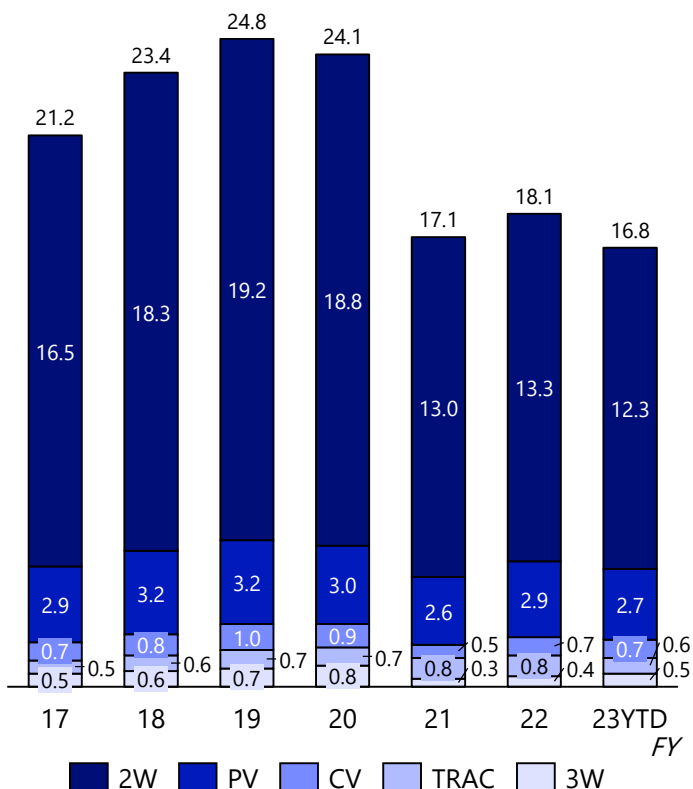
2 Industry Trends

- Online pre-purchase research (highest digitized process), avoidance of price negotiations, need for configuration options & easy delivery process has increased the reliance on digital sales channel
- Online sales channel is still not expected to replace brick and mortar setups owing to factors such as family involvement in purchase decision, emotional/sentimental value associated with car purchase as well as a high transaction cost association. Customers still prefer physical test drive and assurance from a dealership
- Given this, companies that were earlier following online-only sales have turned to **hybrid experience centres**
- Uptake of subscription and leasing options continues to remain low primarily due to consumer **psyche for need of asset ownership**
 - **40% of dealerships are not aware of subscription model**
 - Leasing/subscription is perceived to be associated with complex paperwork and vast compliance requirements by dealerships

Industry Overview

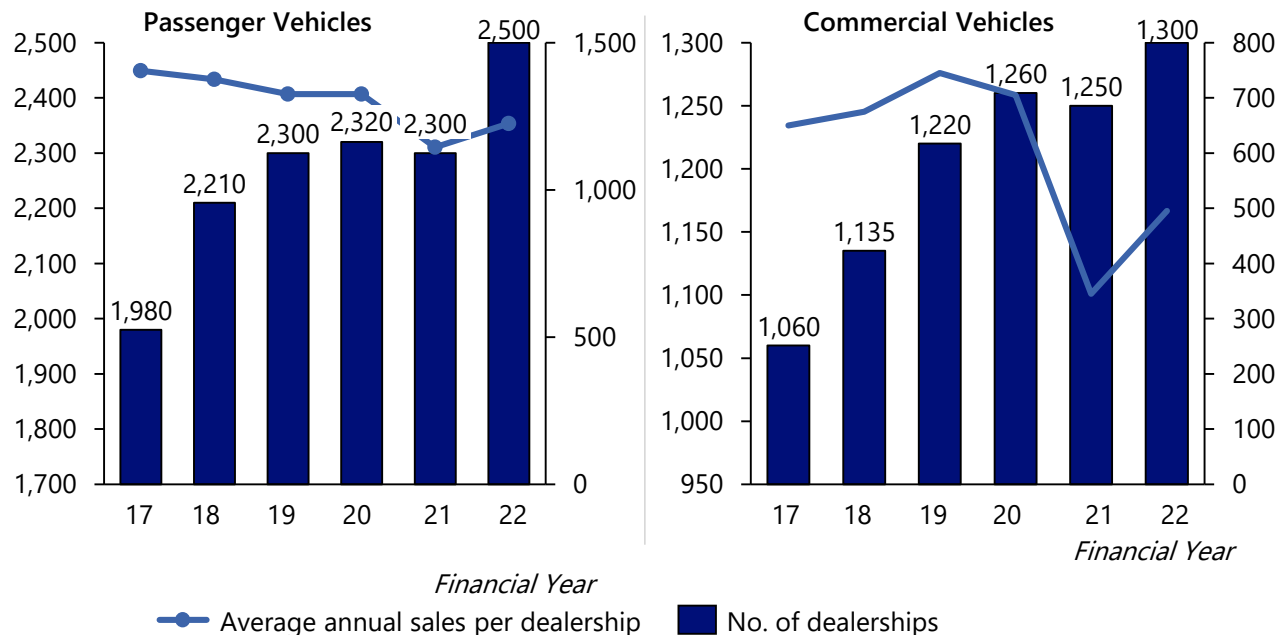
The automobile industry (except 2W) registered sales growth in FY 22 after 3 yrs. Total no. of dealerships & avg. sales/dealership has increased during this period

Automobile Retail Sales (Million)



- During FY 22, although the 2W retail sales increased by 2.3%
- 3W, PV and CV segments registered an increase of 25%, 12% and 40% respectively

No. of Dealerships and avg. annual sales per dealership- PV & CV

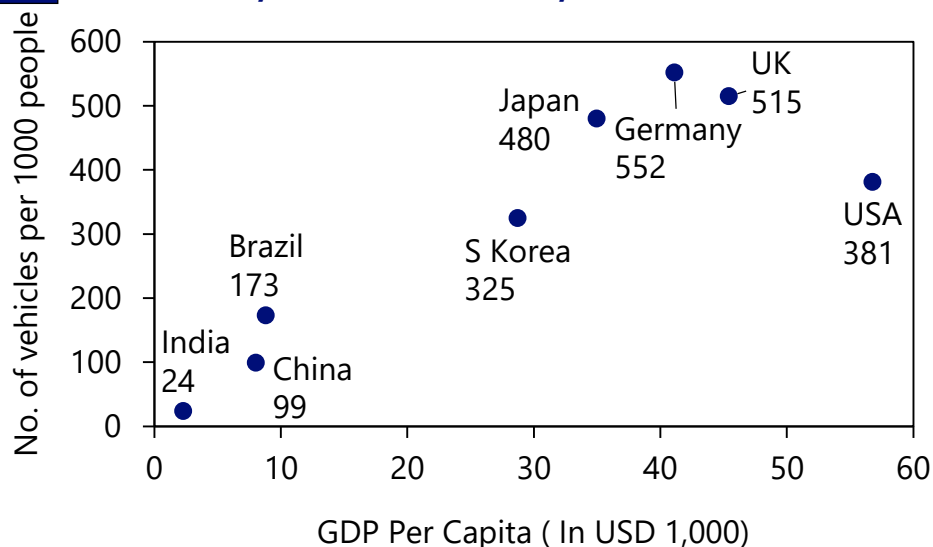


- In last 5 years, both PV and CV OEMs had expanded their dealerships
 - But, the plans were halted in FY 21 due to the pandemic
- During FY 22, retail sales for PV and CV shot up by nearly 15% & 49% respectively
- **Dealership network had also expanded**, however, at a slower pace, due to which the avg. sales per dealership had not matched pre-pandemic levels

Industry Overview : Key Factors Driving Growth

Low per capita vehicle ownership coupled with increasing income, rural demand, increased finance penetration are the key growth drivers for automobile industry

1 Low Per Capita Car Ownership



- No. of cars is directly correlated with income levels
- As of FY 2021, India had 23-25 cars per 1,000 people, indicating room for more

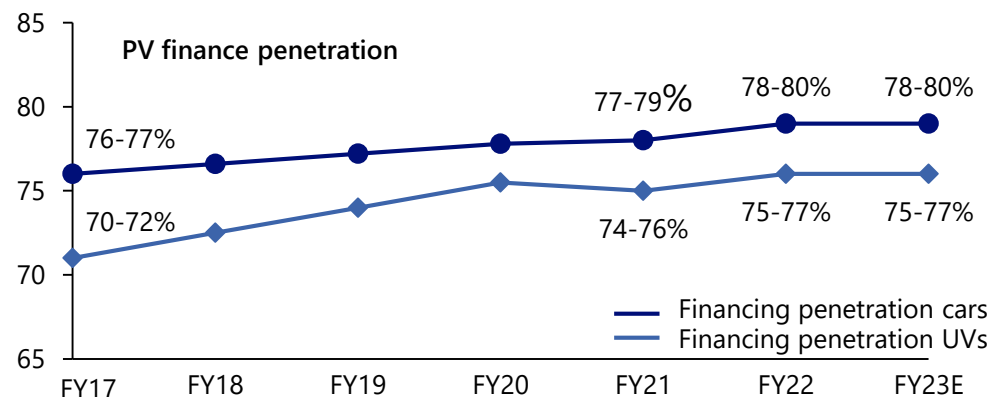
2 Increased Younger Population (Workforce)

- As the number of people in the working age group increases, the demand for personal mobility is also expected to increase

3 Advanced vehicle features

- New models across fuel type, with new and advanced telematics solutions is expected to increase demand

4 Increased Finance Penetration



- ~60% of the vehicle purchase is financed through loans
- Increasing finance penetration would therefore drive demand

5 Demand for Personal transportation

- The demand for personal mobility increased in the aftermath of the covid19 pandemic due to the need for social distancing.

6 Rural Demand

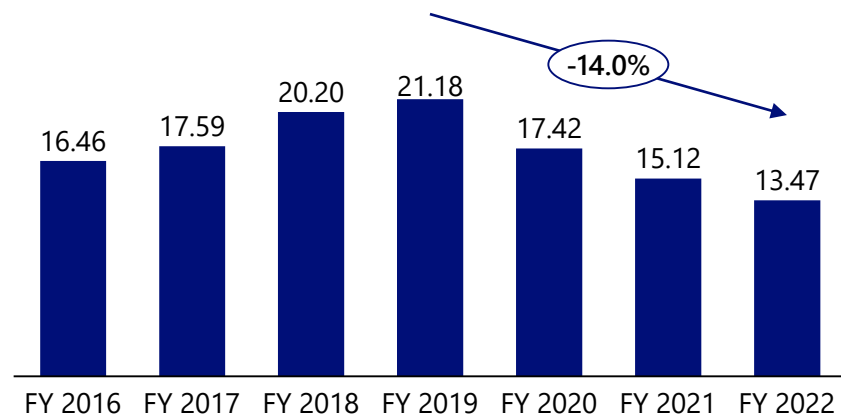
- Financial inclusion of the rural population will increase the affordability of vehicles
- Investment into rural infrastructure especially roads would:
 - Increase the **demand for vehicles**
 - Increase the **purchasing power** of population

Industry Overview : India 2 Wheeler Market

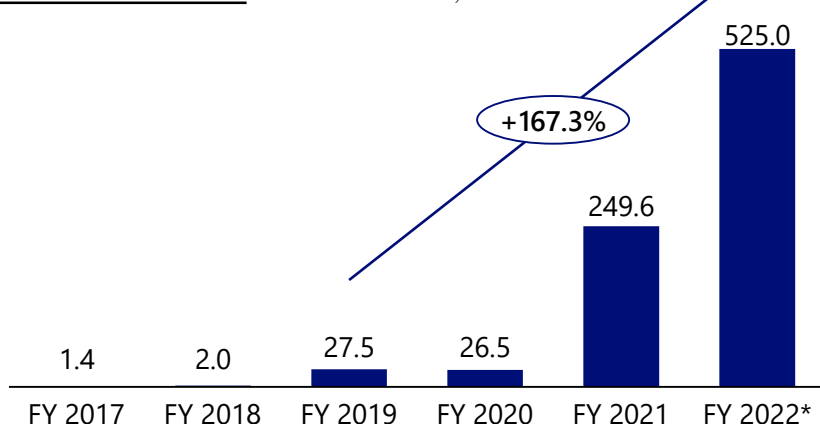
2W Dealerships will need to rejig their revenue and cost streams , Enhance focus on value added services , efficient cost management and aftersales reskilling

India – 2 Wheeler Sales

Total Vehicle Sales in Million Units, 2016-22



BEV 2 Wheeler sales in Thousand Units, 2016-22



Implications for Dealerships



Decreasing share of ICE sales

Overall decrease in Dealership revenue from the Service & Spare parts business as it is less relevant in BEV models



Reducing Dealership Sizes

Dealerships will need to focus cost saving by reducing dealership size, optimizing inventories and shifting to Digital Experience center formats



Cross-Sell / Upsell Using Data

Revenue streams will have to shift from traditional sales towards innovative value added services (Usage based insurance, Credit evaluation for consumers) . Data-led sales processes will help in lowering customer acquisition costs as EV data footprint increases



Dealerships will drive EV sales in Tier I & II towns

Given the 2W buying is still a sentimental decision and EVs are a relatively new technology for many, dealerships can play a major role in driving the ecosystem in collaboration with the OEMs

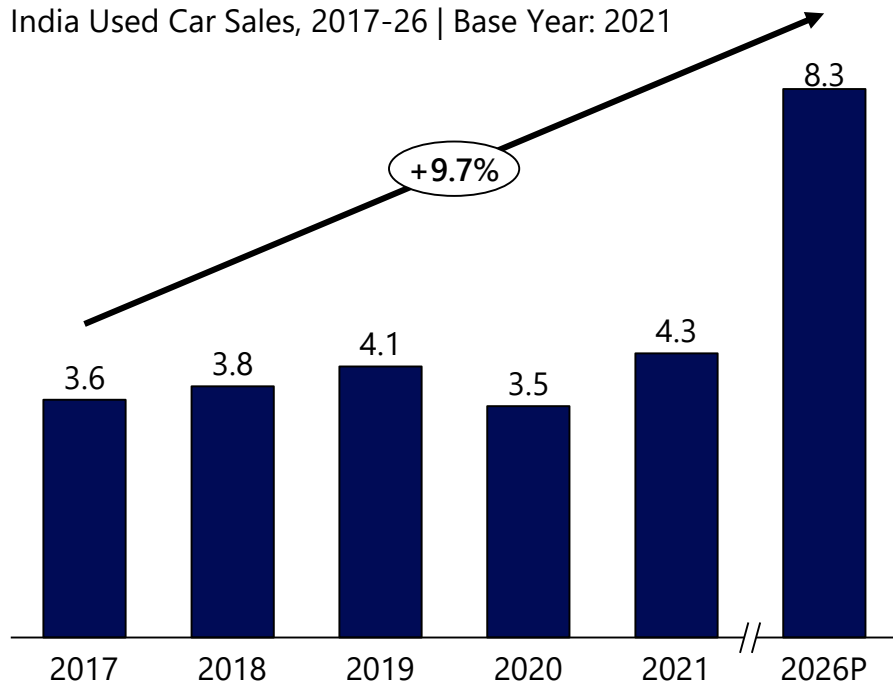
The 2 wheeler market in India is going a major evolution. The recent disruptions, because of environmental compulsions and economic viability have driven the segment to a crossroad. The future of this segment promises high percentage of BEV penetration. This would require Dealerships to transform their revenue streams as well as sales approach to ensure sustainable growth and profitability.

Industry Overview : India Used Car Market

The Used car market is expected to grow at a CAGR of ~10%; Dealers must improve online discoverability for lead generation as well as provide car quality assurance

Used Car Market Projections

India Used Car Sales, 2017-26 | Base Year: 2021



The used car market in India is relatively smaller than those of other developed countries. In India, the parc turn rate, which is the total number of used cars sold divided by the total volume of cars, is approximately 16%, indicating significant headroom for used car sales.

Drivers for Growth



Decreasing Replacement Cycles

The overall cycle for replacing cars in India has been reducing



Preference for used cars

There has been a trend for increased interest from first-time users in buying used cars over new cars



Limited use of Public Transport

COVID-19 has led to a decrease in the use of public transport, hence personal vehicle ownership has been increasing in India

Implications for Dealerships



Using Online Portals to Generate Leads

Customers logging on online portals are in-market customers and should be targeted for used car sales



Ensuring Car Quality

Dealerships should provide assurances & certifications to assure car quality as it is very important for used cars sales



Other Major Challenges

Dealers face challenges in conversion of leads, unavailability of vehicle range and low volume of leads among others

Industry Overview : Customer Preference Evolution

There is a shift in the preferences of customers to becoming more connected and digitally evolved creating a need for new sales methodologies

1

Shift to Online



With the increasing penetration of Digitalization, consumers are becoming open to shifting various parts of their car buying process online including vehicle research, delivery etc.

2

Penetration of EVs



Consumer interest in EV centers on lower fuel costs, environmental consciousness, and better driving experience. However, driving range and lack of charging infrastructure remain barriers to adoption

3

Increased "willingness to Pay"



Younger consumers are willing to pay extra for modern technologies due to cross-sector (due to experience in white goods / CPG / non-auto) harmonization

4

Subscription Model



Subscription models are becoming prominent not just in B2B, but in B2C / P2P segment as well owing to uptake in "short-term lease" and growth of digital channels.

5

Micromobility Shift



As people grow environmentally conscious & wary of traffic congestion, "micro mobility" may gain popularity in urban areas

6

In-Person experience



Most customers still prefer to buy a car from a dealership. However, a perception of improved convenience and ease of use will favor the expansion of virtual processes

"Visit DLR at least once w/ family pre-purchase. I need to evaluate the dealership before buying for service quality and also get a feel for the car"

Male, 52



"Online reviews help a lot with research. Need to visit only some brands' dealerships, once / twice"

Male, 35



As customers become more social media savvy, their preferences are changing and moving towards more online channels for various parts of car buying

Changing Customer Behavior

Impact on Preference with Agency Sales Model

Offline Only

Online Platform



Improving Shopping Standards

Digital giants like Amazon are setting new standards in terms of shopping experience

-

- Will require user friendly online channel

+

- Personalization
- Leverage Big Data
- Seamless shopping experience



Online Pre-purchase Research

Even finding price quote is currently difficult online & young customers don't like visiting showroom just for it

-

- Will require user friendly online channel

+

- Convenient Research on online platform



Avoidance of Price Negotiation

Customers don't prefer negotiating prices with a salesperson and prefer fixed prices

+

- Direct Transaction with OEM
- Transparency with OEM offers

+

- No Negotiation
- Fixed Price



Need for Easy Delivery Process

Customers don't like the complex handover process that currently exists with physical dealerships

+

- Less Hassle in delivery as OEM directly overlooking

+

- Home Deliveries



Need for Configuration Options

Limited options available currently depending on dealer and unable to meet increasing demand

+

- Centralized System -> More Options

+

- Centralized System -> More Options



Personal Attention

Customers increasingly look for personal attention and relationships (especially for luxury car segment)

+

- National level data can be leveraged to provide great customer experience

-

- Will require complimentary offline layer

Regulatory nudges are likely to result in increasing organized retail in the long term ; However in the short term this means an increased compliance ownership

Policies	Impact on Dealers	Impact on Customers
EV policy	<ul style="list-style-type: none"> ▪ Unorganized retail in the EV industry to further reduce due to enhanced regulatory guidelines ▪ Additional revenue stream from battery swapping service 	<ul style="list-style-type: none"> ▪ Reduces acquisition cost barrier & increases demand for EVs ▪ Reduced Total cost of ownership
Scrappage Policy	<ul style="list-style-type: none"> ▪ Increase in new vehicle sales due to shorter ownership cycle ▪ The unorganized sector in the preowned vehicle segment will shrink further, which could be tapped by dealerships 	<ul style="list-style-type: none"> ▪ Increased monetization potential for end of life vehicles ▪ Financial burden on CV vehicle drivers
Privacy Laws	<ul style="list-style-type: none"> ▪ Additional due diligence for safeguarding of customer personal information 	<ul style="list-style-type: none"> ▪ Data sharing autonomy
Used Car authorization certificate CMVR G.S.R 901(E)	<ul style="list-style-type: none"> ▪ Dealers of registered vehicles must obtain an authorization certificate valid for five years and maintain an electronic trip register once in possession of a used vehicle. 	<ul style="list-style-type: none"> ▪ Ensuring transparency in a used vehicle sale

Inputs from dealer surveys & Interviews

~60% of the dealers do not have enough clarity on the govt. policies affecting them

"Nearly 27/28 licenses are needed for doing business for a CV dealership"

"3Ws are always subject to regulatory changes. We are used to adapting to such changes"



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- 5 Future Dealerships (Must do)
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- 7 Recommendations (The Way Forward)

Executive Summary: Global Sector Trends

1 Global Dealership Situation

- Globally, **traditional dealerships continue to play a major role** in customer's purchase journey, however, trends favoring online sales and improved CX are emerging
- In Australia particularly, the traditionally fragmented dealership market is evolving as OEMs **introduce agency models and set up urban display stores at key retail points of interest**
- An **Omni channel customer experience, customer experience centers, financing innovations, a reduced dealership footprint and redefined KPIs** as a result of digital disruption are leading trends across the globe

2 Key global case studies

- Some brands have provided **extended reality experiences** for their customers
- Upcoming brands and EV-focused brands are transitioning towards **direct or hybrid sales model**

3 Non-automotive retail trends

- Key trends such as exclusive community membership perks, recognising non-verbal behaviour, cashless and contactless checkouts and use of AI to aid decision making are common trends in the non-automotive retail initiatives which can be **tracked and implemented in the Automotive retail industry** as well

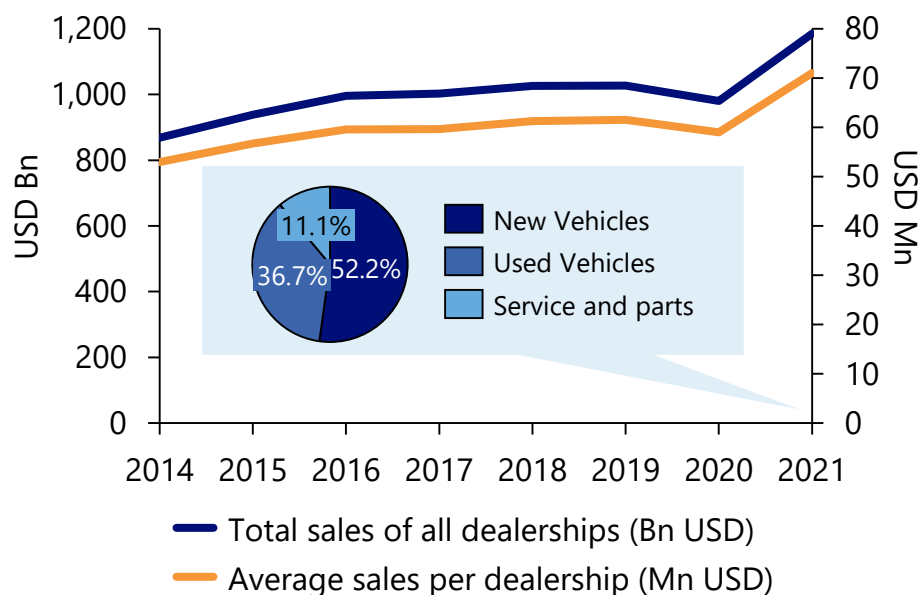
Automotive dealership trends - USA



In the US, traditional dealerships play a major role in customer's purchase journey, however, trends favoring online sales and improved CX are emerging

Status of Traditional Auto Dealerships

Total Sales of New Dealerships, by year and Share of sales, 2021



- As per a US survey, ~80% of car buyers prefer to go to dealers in person – to experience brands and products, test drive and pay
- Dealerships remain quite relevant in the US, particularly for customers who still demand an in-person test drive

Trends in Auto Dealerships



Improving in-dealership experience

Dealers are becoming more customer-focused when it comes to physical retail touchpoints. 'Point of Sales' stores are developing into 'Point of Contact' stores



Increase in online sales expected

Dealers see online car purchases increasing through 2030 with some brands expecting half of their sales coming from online sales by 2025



Shrinking size of dealers' showrooms

Many OEMs are considering ways to make their retailer business more efficient in the US, including leaner inventory and smaller showrooms

- In the United States, only about half of the states currently allow car manufacturers to sell autos directly to consumers online
- However, the EV industry and OEMs are pushing for changes in regulation to allow D2C sales

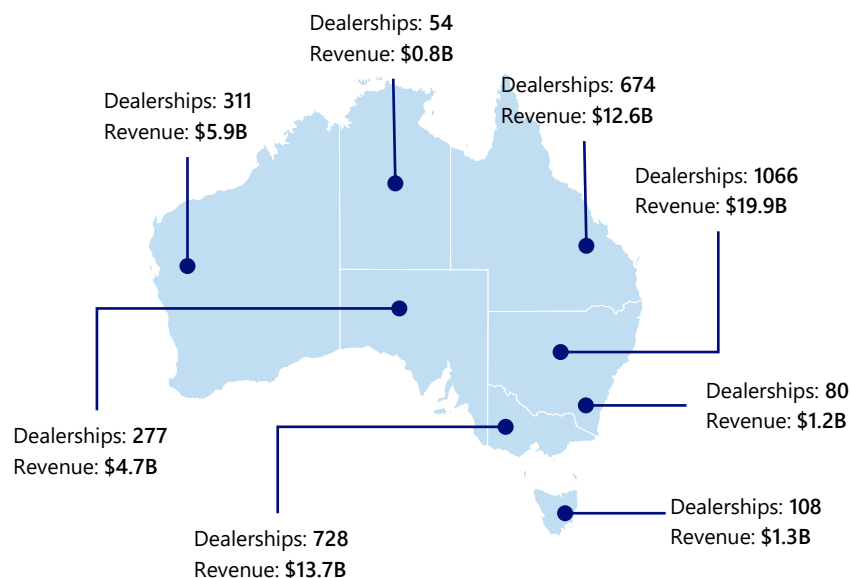
Automotive dealership trends - Australia



The traditionally fragmented dealership market in Australia is evolving as OEMs introduce agency models and set up stores at points of interest

Status of Traditional Auto Dealerships

Highly fragmented vehicle dealership industry



- There are ~3,500 new vehicle dealerships nationally, of which 85% are owned by individual operators or family groups
- Market share concentration is rising through consolidation of existing dealerships. Number of dealership points owned by a dealer can be restricted by the OEM, thereby marinating market power

Trends in Auto Dealerships



Introduction of agent model

Some OEMs introduced the agency model in Australia, with the idea to create a more "customer-centric experience"



Surge in used car demand

Used car dealers have a shortage of vehicles rising from the demand for cars since the semiconductor shortage troubled car manufacturers




Move towards specialized premises

OEMs have commenced moving toward shopping center, high street and convenience locations in Australia, challenging property values in dealership strongholds

- ~95% of Australian Car Buyers start their search for a car online instead of at a dealership as of 2022, double that of buyers in 2019, as per Google reports
- Accordingly, several OEMs have introduced the agent model, standardizing prices and improving customer experience

Case Study: Agent Sales Model – Customer Verbatim

Customer reaction to implementation of the Agent Sales Model in New Zealand was quite positive with most giving it a thumbs up



“Oh well, that would take a lot of stress out of purchasing a new car wouldn't it?”

“I like the concept, as I live in Auckland and we do pay higher prices due to the rents and outgoings, I like the fact that I can get the vehicle at a cheaper price”

“It's got to be a lot better for the consumer, so at least they'll know what the price of the vehicle is”

“New Zealanders aren't much of a haggler, as you see we go overseas, we like to see fixed price on things, so yeah, I think it'll benefit the people of New Zealand”

“Well, you'd know when you're at one place there was one price and that you don't need to worry about bargaining”

“No need to worry about bargaining, quality, service etc. I'll be rest assured that I'll be getting the best”

Automotive Dealership Trends and Future Direction – Global

Digitization across dealership operations is leading to smaller yet more efficient retail formats; OEMs are working in tandem with dealers for long term sustainability



Omni-channel

- Tools bridging the Omni channel divide are integral to building customer-centric digital solutions
- *On an OEM website, customers select all of the features they want, and then their vehicle is custom built and delivered to the nearest dealership for pick up*



Innovative Customer Engagement Formats

- Innovative store formats enable OEMs to create **highly immersive digital experiences** for shoppers using AR and VR
- *An automobile store in London has no inventory. Instead consumers can interact with large digital screens to explore different models and design their perfect car*



Financing Solutions

- Consumers are **focusing more on the monthly cost of the credit or leasing**, rather than on the model and engine version
- *Some companies offer a financing model that customers where when the car is not being used by the main driver, a sharing platform can be used to lend it out*



Shrinking Dealership Size

- Due to supply chain constraints and many OEMs moving to D2C sales, **selling cars will not require as much space**
- *In the US, an OEM implemented a new dealership design that takes up less square footage and is modular and flexible; eg showroom can serve as offices*

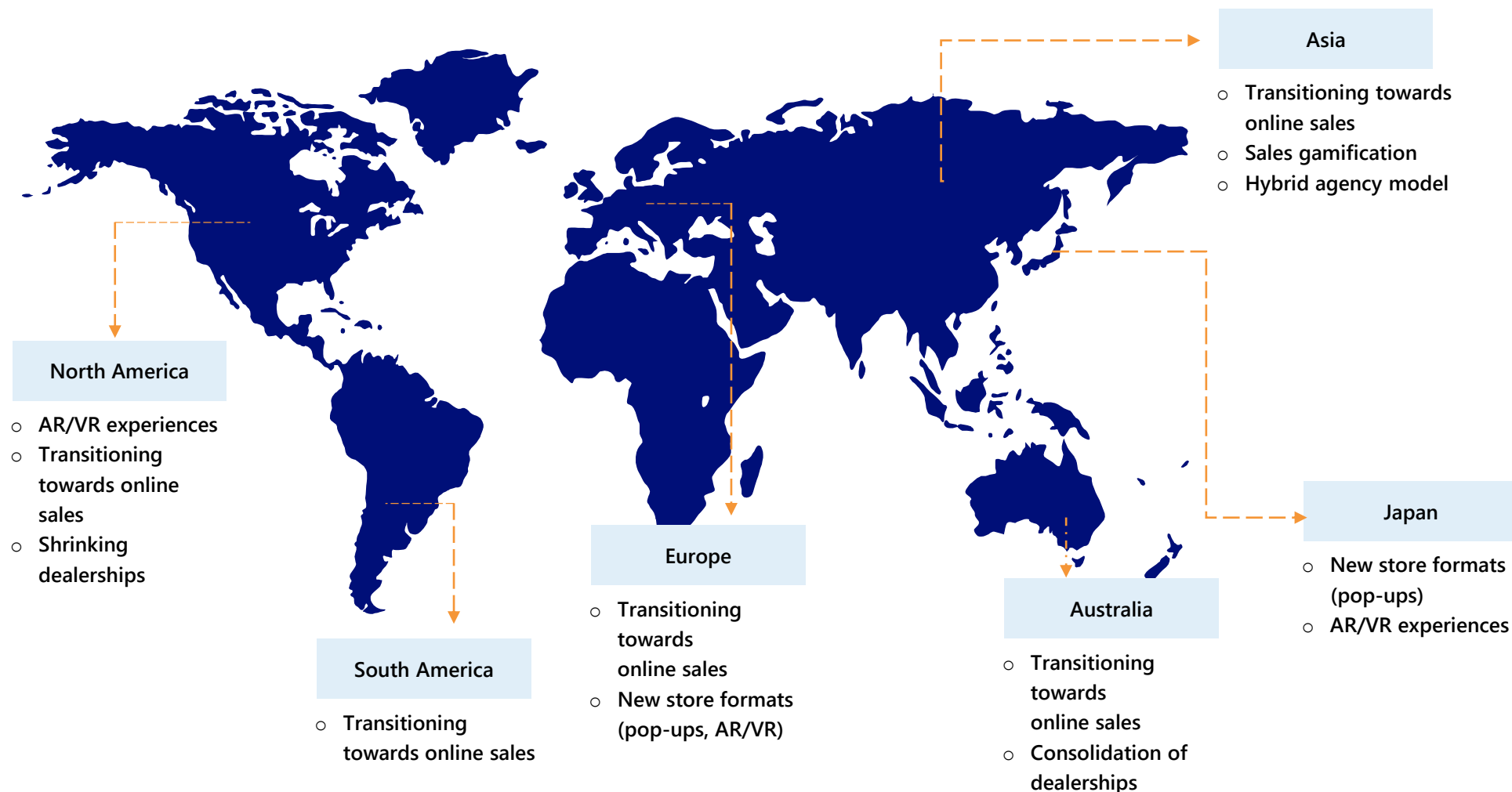


Redefined KPIs

- The digital solutions must also bring in **new KPIs, efficiencies and competitive edge**
- *An AI-based firm supports crowdsourcing aftersales technicians' responses using digital customer preferences to feed new product development*

OEM / Dealership trends Worldwide

Apart from few OEMs going direct, some OEMs and dealers opt to use extended reality, third-party marketing and innovative store designs, among others



Non-automotive retail initiatives

Key non-automotive retail initiatives can be tracked and implemented in the Automotive retail industry as well

#	Industry	Description	Region	Automotive Implication
1	Automotive	<ul style="list-style-type: none"> A community club/membership for owners; attempt to build lifestyle brand 	China	Experience stores can create an impressive digital experience
2	Retail	<ul style="list-style-type: none"> Secure lockers to charge phones without supervision to focus on in-store experience 	US	EV branding can be promoted using OEM branded charging lockers
3	Social media	<ul style="list-style-type: none"> Capability to shop from social media feed on YouTube which promotes tangible marketing 	Global	Customers can be redirected to book test drives from car review videos
4	Aviation	<ul style="list-style-type: none"> Real time identification of flight details and display on street billboard; 350M global views 	UK	With vehicle owners' consent, produce real-time vehicle tags to display specs and offers on an interactive billboard
5	Technology	<ul style="list-style-type: none"> Ability to recognise non-verbal behaviour in real time and answer questions digitally 	New Zealand	Offer tailor made experiences at the first touchpoint with swifter resolutions
6	Retail	<ul style="list-style-type: none"> Cashless and contactless checkout with stores through ML and sensors 	US	A zero interaction physical mini store to experience vehicles and book test drives
7	Digital	<ul style="list-style-type: none"> Human specialists and AI to aid informed decision making 	Global	Trouble shooting of aftermarket garage issues between mechanics and OEMs

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Executive Summary : Future Dealerships (1/2)

- 1 Online sales**
 - There is a growing **preference for online channels** for vehicle **research and sales**
 - **Web-based sales inquiries have increased** from 3% to 39% over the last few years, with **at home test drives and digital showroom features** being the most preferred alternatives to visiting a dealership
- 2 Dealership Size**
 - Due to **rising rentals in Metros as well as Tier 1/2/3 cities**, the dealerships are moving towards small store formats as a way of cost optimization
 - Customers are also comfortable with the idea since they are **open to viewing variants on a screen as well as at home test drives and delivery**
 - Highest reliance on this trend will be seen by the **luxury segment** since customer rarely visit dealerships
- 3 Digital Marketing and technology**
 - Undertaking digital marketing initiatives and using technology in dealership operations can **increase lead generation and save costs through process automation**
 - Digital marketing content (although generated by OEMs) acts as a **source of information** for 95% of potential car buyers
 - **Lead generation through online portal** is increasing across vehicle segments (including the 3W customer group – dealership interviews)
- 4 Cost saving levers**
 - Typical automotive dealerships can save costs by taking measures for its highest cost heads – **employee compensation, rent payments, marketing and power costs**
 - Since talent pool is usually scarce, **mitigating interests and rental costs** is the **key priority**
 - Dealers seek **flexibility from OEMs in managing the inventory**, to monitor costs
- 5 Multi Brand Outlets**
 - Multi-brand sales and aftersales models are **picking up in India**; main advantage of MBOs for dealers is **higher profitability from sharing common resources**
 - Usually **sales are higher** for multi-brand outlets and the **rental costs are lower** for operating MBOs
 - MBOs do pose a threat to market leaders, however it makes more sense to have MBOs if product differentiation is low such as in the case of 3Ws

Executive Summary : Future Dealerships (2/2)

6 Succession Planning

- In view of an uncertain future and growing education levels, dealerships need to create a **dealership succession strategy** to ensure running of dealerships
- **Training** of successors at an **early stage** and **ensuring financial know-hows** are of high priority

7 Subscription

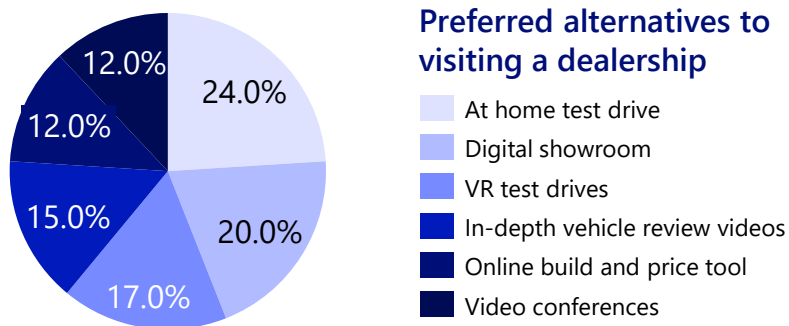
- **40% of the dealerships are not aware of subscription** (dealer surveys)
- Subscription as a concept is gaining popularity but not be a key trend since ownership stays prominent as a customer psyche
- Rentals in 3W is a growing trend, luxury segment might not see much growth from subscription

1/6 Future dealership must-dos – Online sales

There is a growing preference for online channels for vehicle research and sales. Dealers can offer multiple services in order to build an omni-channel strategy

Growing preference for online channel

- 1 Online sales of cars (China)**
A retail concept where buyers browse cars on their smartphones, press buy button and car appears at bottom of the vending tower
- 2 Online sales of electric 2Ws (India)**
Use of website to sell electric 2Ws apart from the Experience Centres which increases the sales and provides options of pre-booking



Web-based sales inquiries have increased from 3% to 39% over the last few years, with at home test drives and digital showroom features being the most preferred alternatives to visiting a dealership

Dealer initiatives for Omni channel strategy

Test drives

Provide ease in scheduling a test drive via mobile or a social media platform

Personalized offers

Design exclusive offers, rebates and incentives via online payment gateways

Finance and insurance

Provide fast credit approval with rating and digital sign for payment gateways

Online sales support

Build preparedness for on-call sales support with minimal wait time

Vehicle delivery

Automate drop-off newly purchased vehicle at customer specified location

After-sales support

Enable online customer-friendly portal to purchase service contracts

Trade-ins and approvals

Integrate third-party evaluators for vehicle appraisal and re-sale

2/6 Future dealership must-dos – Experience Centers

Technology has improved the customer experience and convenience. Companies are opening up immersion centers. Dealership size likely to shrink.

Customer Preference Change

	Gen Y	Gen Z
Personality Traits	<ul style="list-style-type: none"> Optimistic & Idealistic Dependent & entitled Conversational attention span 	<ul style="list-style-type: none"> Pragmatic & Realistic Environmentally conscious Text message attention span
Workforce Values	<ul style="list-style-type: none"> Expect good work-life balance, entitlement Expect freedom & flexibility 	<ul style="list-style-type: none"> Entrepreneurial, opinionated, independent, seek flexibility but also financial security
Technology	<ul style="list-style-type: none"> Tech Savvy Pioneers of social media, smartphones 	<ul style="list-style-type: none"> Digital natives (can use over 4 devices a day)

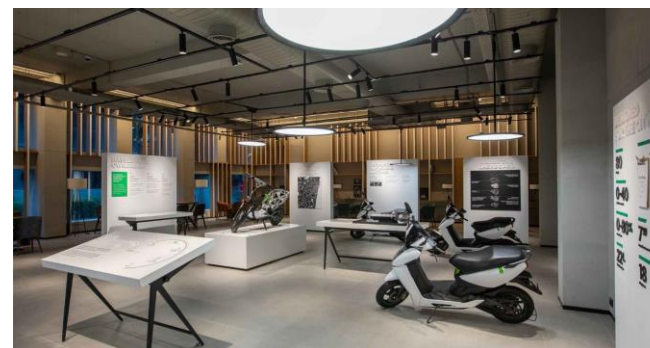
Impact on Automotive Retail:

The difference in the technology usage patterns of GenZ & previous generations necessitates OEMs to change retail models

Dealers have moved ahead to use the digital medium as a way to create experiences, personalize and connect. A visit to the dealership is still preferred for tangible experiences

Dealership Transformation

Experience Centers embody the brand ethos of innovation and dynamism to create a prime feature space for some models and marquee products.



- Dealerships are digitalizing some key areas of the customer journey: **Lead Generation, Information gathering** (for customers), **Finance & Admin** and **transparency on pricing**

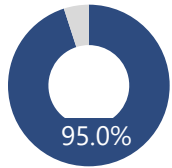
Transformation will lead to smaller dealership size & more engagement

"Dealership size is likely to decrease in the 2-3 years since the customers are more flexible now (phygital). Luxury segment is likely to see highest shrinkage in sizes. Rentals will also decrease leading to increased profitability" – Luxury PV Dealer

3/6 Future dealership must-dos – Digital marketing and technology

Undertaking digital marketing initiatives and using technology in dealership operations can increase lead generation and save costs by process automation

Digital marketing initiatives



Digital marketing content acts as a source of information for **95%** of potential car buyers

1 Building a website

Websites are good digital marketing starting points because they can generate leads and direct potential buyers to other platforms, such as social media accounts

2 Implementing SEO

A website with an effective SEO strategy helps boost the website to the very top of potential buyers' search results

3 Video marketing and VR campaigns

Buyers generally watch videos such as virtual test drives, 360-degree interior and full reviews.

Usage of technology in dealer processes



Usage of technology can reduce manpower requirements and increase sales generation

1 Adopting a Smart / AI enabled CRM system

Automated CRM systems that track customer purchase cycles and service cycles help in increasing loyalty

2 Using AI and ML

AI and ML based responders can help in improving engagement and saving time by interpreting the customer's responses, and intelligently responding. Although still nascent, Chat GPT could democratize Chatbots.

3 Payment automation

Payment automation cuts costs, frees up staff, and turns accounts payable into a revenue contributor

Inputs from
dealer surveys &
Interviews

"Digital marketing, is very important and dealers need to understand this better"

"Very few dealers in 2W & 3W space are equipped to handle digital marketing themselves"

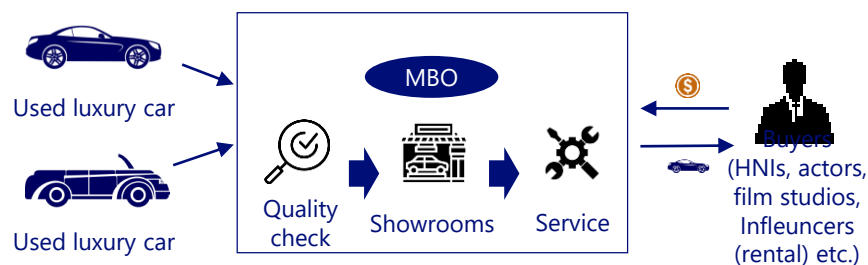
"Thinking your customer is not online, whichever vehicle segment it may be, is a fallacy"



4/6 Future dealership must-dos – Multi Brand Outlets

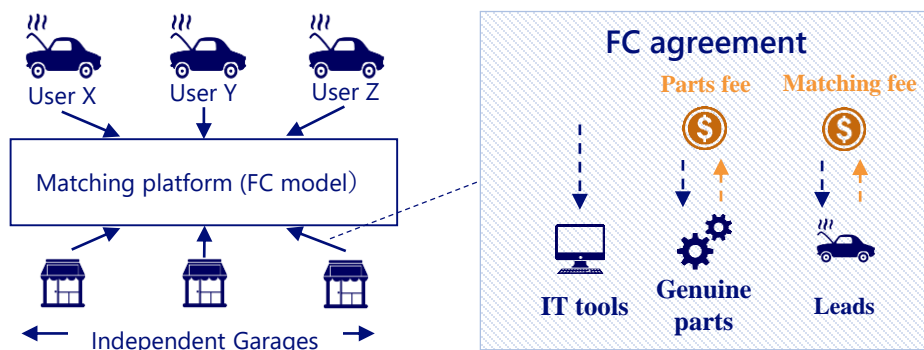
Multi-brand sales and aftersales models are picking up in India; main advantage of MBOs for dealers is higher profitability from sharing common resources

Multi-brand sales



MBOs offer the customers comparisons of cars from 30+ brands across various parameters thereby helping make the ideal purchase

Multi-brand after sales (ex. GoMechanic)



The platform integrates small-size repair shops by franchise model and their revenue comes from not only matching fee but also genuine parts

Inputs from dealer surveys

- "Multi-brand outlets can serve both as an opportunity and a threat"
- "We need to take steps to stop sales through unauthorized multi-brand outlets who have no legal entity to resell vehicles"
- "Multi branding should be seriously considered by dealers and OEMs both to be fit and future-ready"



Key considerations for dealers



- Sales are higher for multi-brand outlets and the rental costs are lower for operating multi-brand outlets
- Maintaining the same look and feel in each store, etc. becomes important for which proper education needs to be imparted to the franchisees
- The brand mix and stock mix for each store have to be mapped to suit the customer profile in that catchment. This is done based on the analysis of the sales potential profile of the specific catchment

5/6 Future dealership must-dos – Succession Planning

In view of an uncertain future and growing education levels, dealerships need to create a dealership succession strategy to ensure running of dealerships

Building a dealership succession strategy



Build a team

Dealerships must first create a planning team. This team might include finance individuals, necessary business advisors, and relevant family members and/or key management, including your chosen successor, once you've determined who this will be



Develop a crisis plan

The dealership owner must develop a crisis plan for unexpected events by assigning a management team and outlining responsibilities



Start training

For a successor, start the training process and integrate them into dealership operations. The successor must understand the ins and outs of the business to carry on the relationships built with employees, vendors and the community



Document everything

Documentation is key to every step of the planning process. It's helpful to document a strategy the successor can follow even years after exit

Inputs from dealer surveys

- *"Successors should be sound with their basics and gradually make their way up the ladder by earning the trust of the industry. No business is easy, the right passion is needed to run any business."*
- *"Everyone wants to open an EV 3W dealership these days. New entrants in this field need to be wary of latest technology, safety standards and Govt. regulations,"*

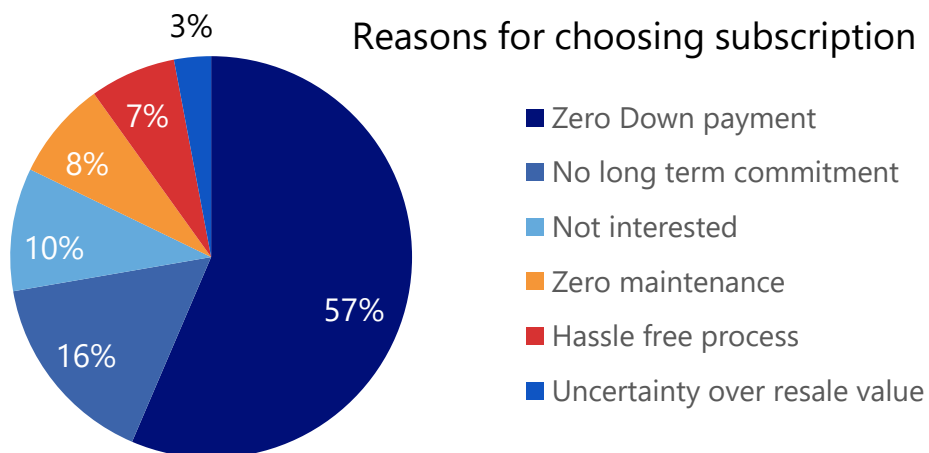


6/6 Subscription/ Leasing

Subscription market is nascent, its growth has been limited due to preference for vehicle ownership. 40% of the dealers are not aware about the concept

Subscription as a service

Reasons for choosing subscription

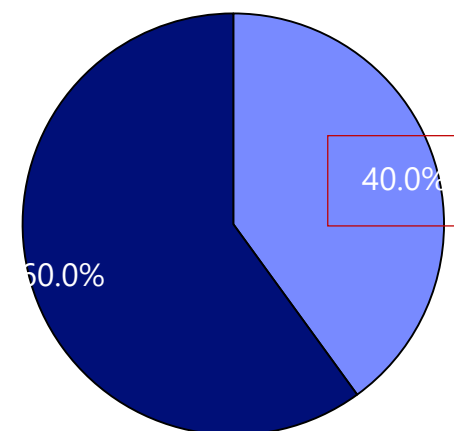


- The **penetration** of car leasing and subscription is **less than 1%** in India (mostly corporate fleet management)
- This is **meager in comparison to 30%** in developed markets like US, UK and Germany
- Few players have already rolled out vehicle subscription options

For PV, subscription may take time to take off primarily due to the Indian psyche for vehicle ownership"



For CV, subscription is an ideal option due to the high initial cost involved"



- No, I am not aware
- Yes, I am aware

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Executive Summary: Financial Efficiency & Ratios

1 Revenue and Cost Drivers

- In passenger vehicle segment, **new vehicles sales** leads overall revenue (~50-70%) along with fair share from **service**, while **employee compensation, interest costs & rent constitute ~80%** of costs
- In commercial vehicle segment, new vehicle sales is quite significant in revenue (~90%) and cost structure remains similar to PV segment

2 Gross Profit Share

- In passenger vehicle segment '**Service**' has majority share in gross profits (~70%) despite relatively less contribution in revenue, while in CVs, **vehicle sales in also quite critical** in gross profits with ~35% share along with ~50% share from service

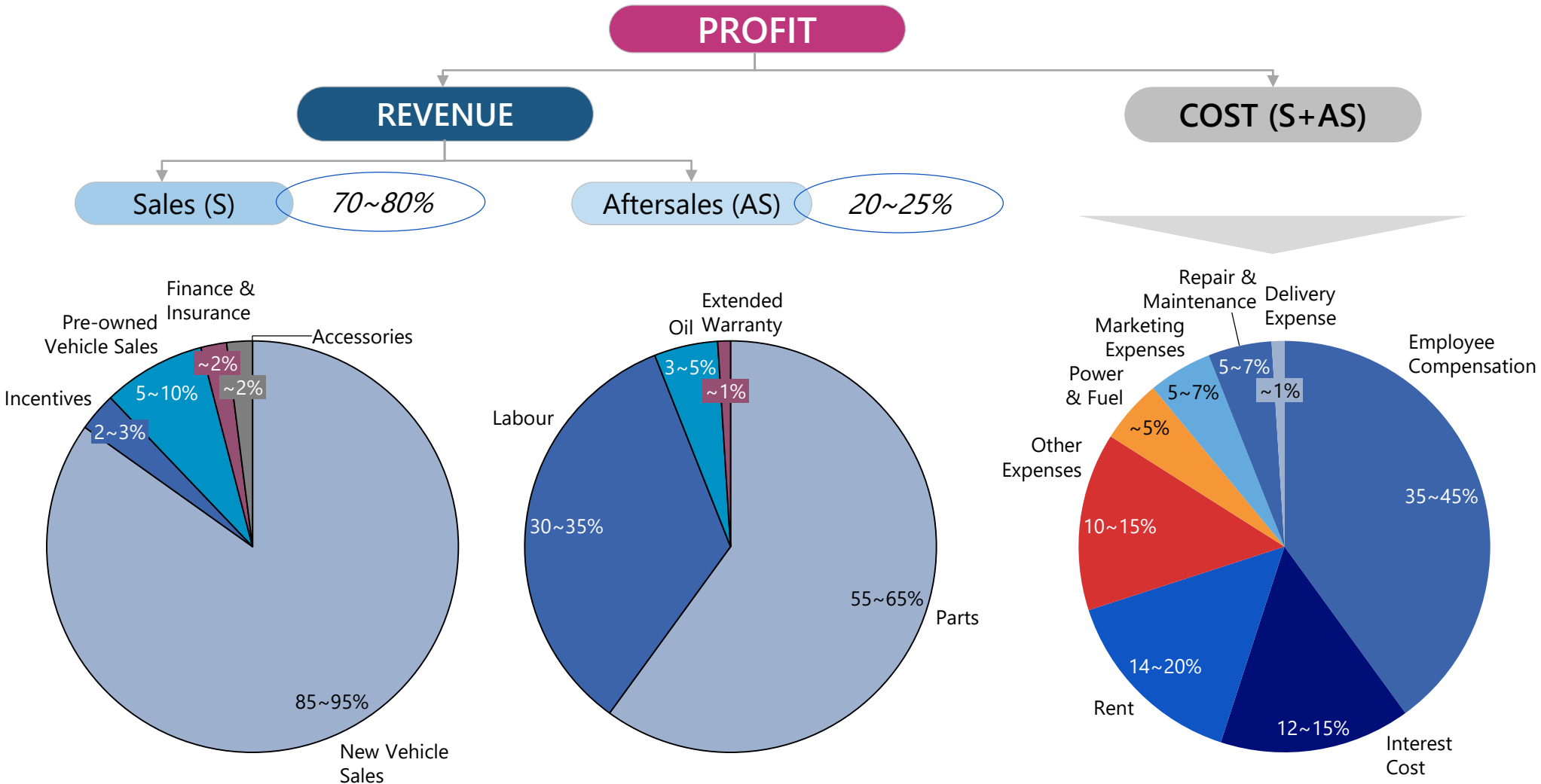
3 Driving the KPIs (Key Performance Indicators)

- **Return-on-Sales (RoS) improvement** can be achieved by analysing the KPIs like COGS, VME, Model Mix, Costs and Interest etc. and their linkage/impact on P&L

4 Enhancing Revenue & Optimizing Costs

- Enhancing **revenue from showroom & workshop in tandem** helps to increase overall revenue exponentially e.g. increase in average selling price, finance penetration, accessory sales, labour/part revenue, EW sales, Insurance renewals etc.
- Additionally, implementing various cost mitigation strategies for different cost types leads to scaling up the profit in the long run

While vehicle sales account for majority of total revenue, their returns are among the lowest; in contrast, service/spares and accessory sales make up a relatively smaller portion of total revenue but greatly increase overall profitability.



Given that car sales generate far smaller profitability margins than service, which offers a 30–50% margin, dealers who depend more heavily on vehicle sales are at a disadvantage.

- 1 New Vehicle Sales**

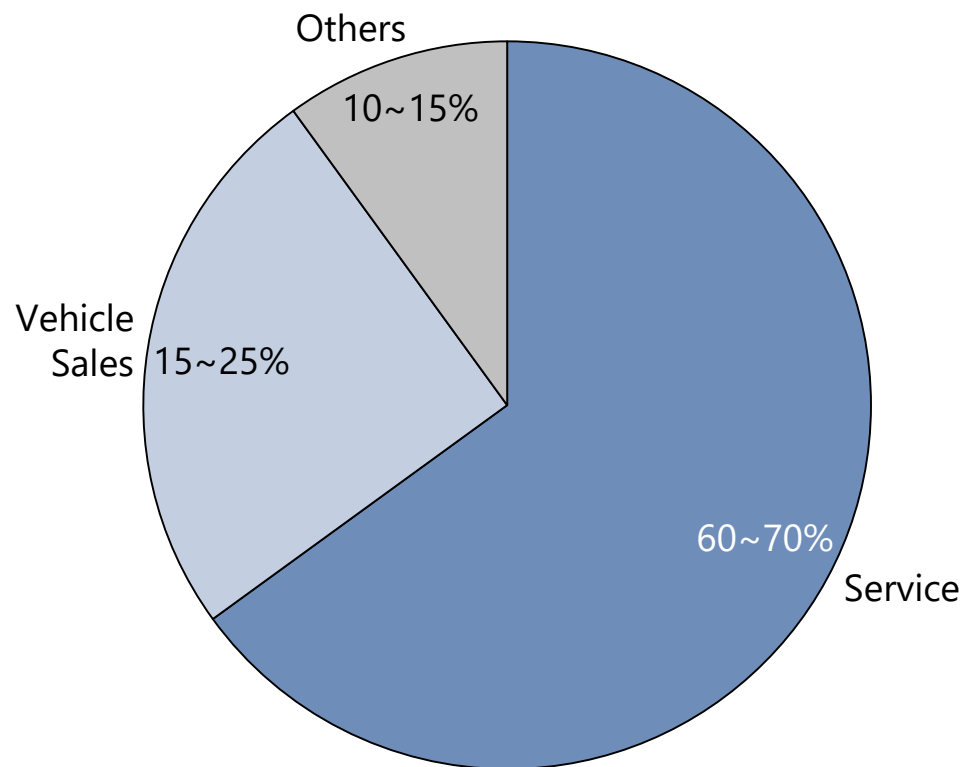
For PVs, the per-vehicle sales margin hovers around 2-4%, varying marginally from manufacturer to manufacturer. Luxury PV manufacturers provide a relatively higher margin of 5-7% per vehicle.
- 2 Pre-Owned Vehicle Sales**

Margins in the pre-owned vehicle sales segment vary significantly from vehicle to vehicle, depending on the vintage and the state of the vehicle
- 3 Service**

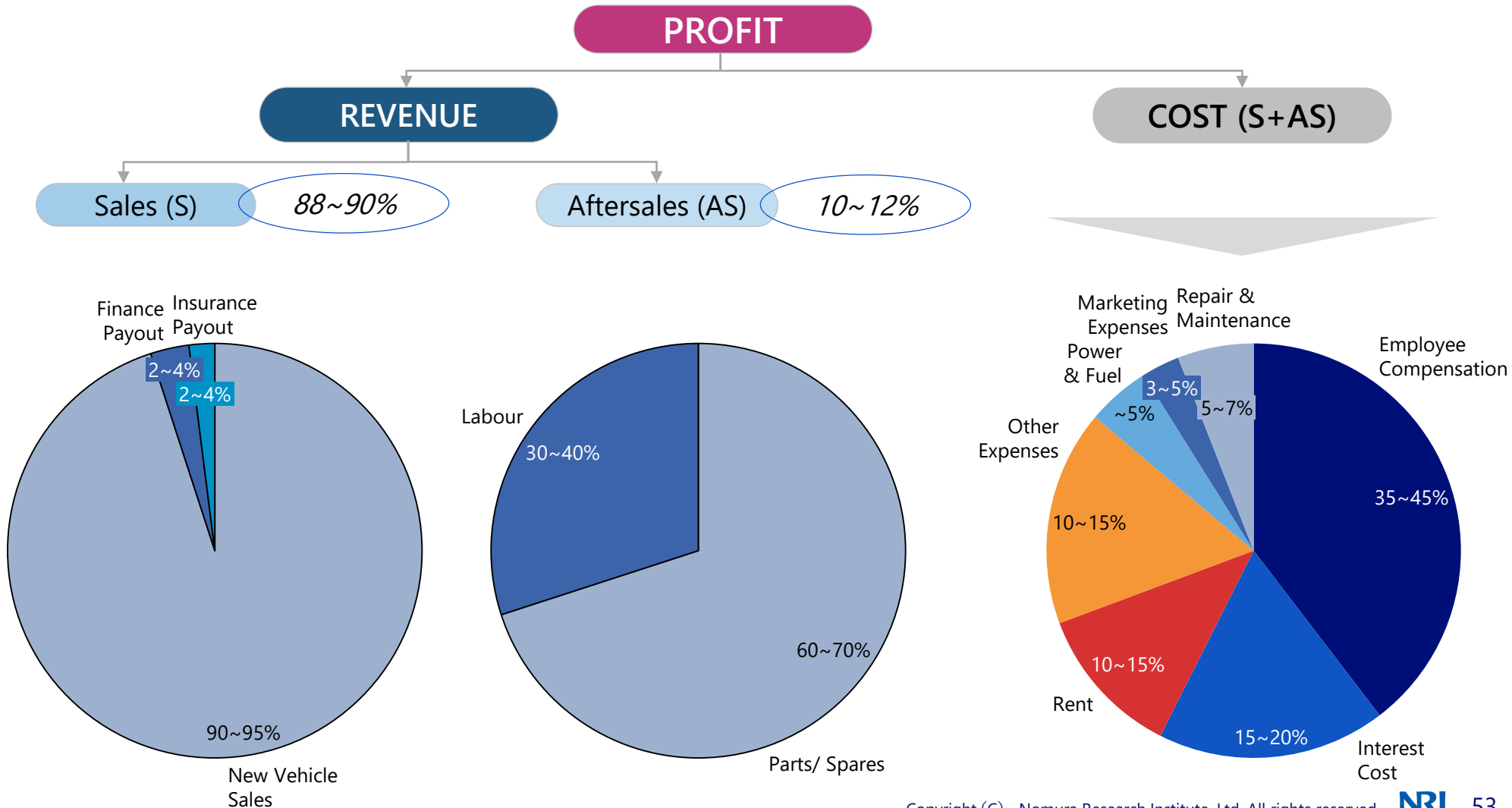
A high margin segment for the dealership and contributes a sizeable amount to overall dealer profitability. For a PV dealer, margins on spare parts are usually between 20-25%
- 4 Accessories**

Another high-margin segment for the dealers, with margins between 15% to 25% on some products

Typical segment-wise share in gross profits



As fleet operators typically only employ authorized workshops during the AMC period, and thereafter prefer their own workshops or non-certified mechanics, CV dealerships' income from services is generally limited.



Depending on the dealers' focus in the service segment, its contribution varies significantly. On the flip side, since the margin per vehicle is almost constant, the sales margins of dealers mostly change with average revenue.

1
2
3

New Vehicle Sales

For CVs, per vehicle margin hovers around 2-4%. M&HCVs have higher margin than LCVs. Over and above this per vehicle margin, the manufacturer offers incentives to the dealer based on dealer performance on various criteria.

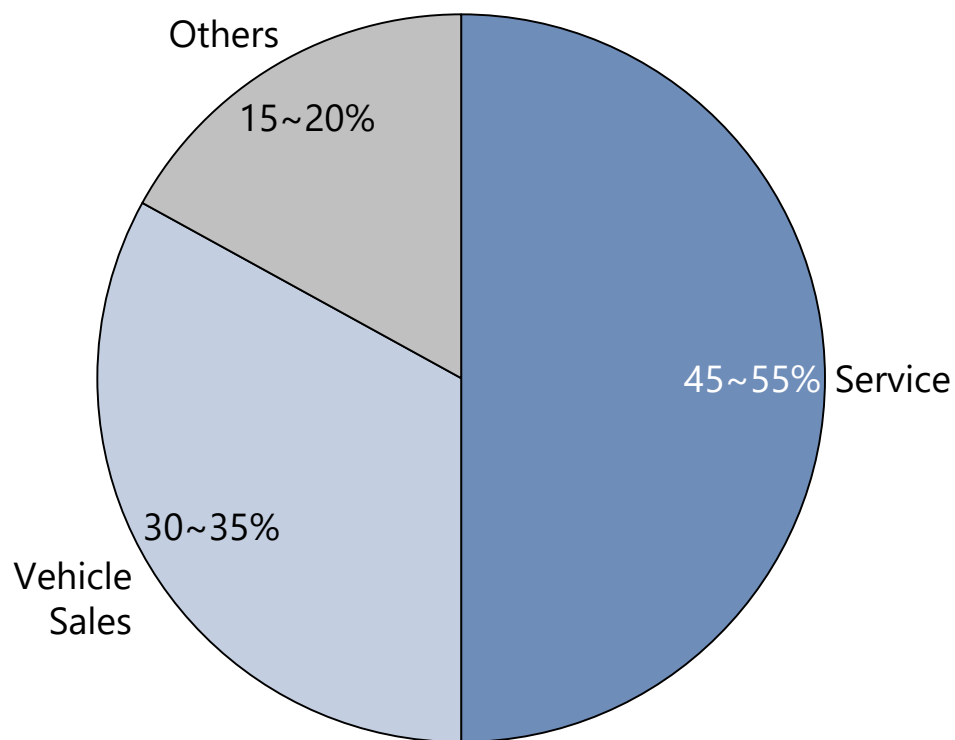
Service

For CV dealers, margin of the spares sub-segment is normally in the range of 15-20%. For other major sub-segment, labour, dealer expense is limited to salary/benefits given to workers in workshop.

Finance/Insurance Payouts

This does not warrant any notable additional expenses from the dealer, and the payout contributes directly to dealer profitability.

Typical segment-wise share in gross profits



Driving the KPIs (Key Performance Indicators)

Drilling down the KPI tree helps identify drivers that have significant impact on current and future performance(s) of the dealership

Drivers (+Δ)	P&L Linkage	Impact on P&L	Improvement Levers
MODEL MIX	Gross Revenues	(+ve) Turnover	Sales Planning
DISCOUNTS	Net Revenues (NR)	(-ve) Realization	Sales Planning
COGS	Gross Margin (%NR)	(-ve) Margins	Margin Optimization
DEALER VME	Gross Profit (%NR)	(+ve) Profit Margin	Target Achievement
ALLIED INCOME	Total Income (%NR)	(+ve) Income	Value Added Services
VARIABLE COSTS	Operating Profit 1 (%NR)	(-ve) Break even, (-ve) Cash flow per cycle	Cost Optimization
FIXED COSTS	Operating Profit 2 (%NR)	(-ve) Operating Profit, Operating leverage	Productivity, Resource Utilization
INTEREST ON WORKING CAPITAL	Operating Profit 3 (%NR)	(-ve) RoS, (-ve) Liquidity	Inventory Management, Capital Structure
DEPRECIATION	PBT (%)	(-ve) RoS, Non-cash flow	Asset Utilization, Fixed Asset Turnover
TAXES	PAT (%NR) / RoA	(-ve) Retained earning	Company Structure, Risk Management
PROFIT DISTRIBUTION	Retained Earnings	(-ve) Debt to Equity, (-ve) Scalability, Future Risk (s)	Growth Vision, Long Range Buss. Planning

KPIs under each driver must be measured and monitored, and the improvement levers must be controlled to increase Return-on-Sales (ROS).

Key Practices to Enhance Revenue from Showroom & Workshop

The following illustrative practices for enhancing revenue from showrooms and workshop can be adopted by the dealerships

Revenue from Showroom



INCREASE AVERAGE SELLING PRICE

Having a variant-wise business plan, incentivizing sales of top variants, identifying & training high-performance SCs and adopting deal-closing sales pitch



BOOST FINANCE PENETRATION

Tie-up with leading financial institutions, maximizing LTV, higher incentives, monitor and analyze model-wise penetration



INCREASE ACCESSORY SALES PER CAR

Displaying fully-accessorized vehicles, POP display and promotion along with appointing dedicated accessories team



GROWTH IN INCENTIVE EARNED PER CAR

Plan week-wise retail and wholesale along with liquidating ageing stocks

Revenue from Workshop



HIGHER UIO RETENTION

Lost customer analysis, improve service absorption ratio (SAR) and service marketing



INCREASE IN LABOUR & PART REVENUES

Monitoring SA productivity and efficiency; Allocate target to SA and Technicians along with training and mentoring



HIGHER EW SALES & INSURANCE RENEWALS

EW marketing, benefit-oriented sales pitch, Structured insurance team, Highest focus on first-year insurance retention and Higher focus on zero dep insurance



INCREASE IN MANPOWER EFFICIENCY

Teams with a healthy mix of experience, Regular Evaluation & Trainings of SCs/SAs along with suitable rewards and recognition

Optimizing the Costs

To increase the profit, dealerships must employ a variety of cost-mitigation measures for several expense categories; Understanding connections between performance & capabilities is aided by the analysis & segmentation of expenses.

Cost Type	Description	Examples	Illustrative Recommendations	
Variable Costs	Varies with level of output, or sales volume	Discounts, Sales promotion, Incentives, Consumables, etc.	Optimize, Effective Procurement, Customer Experience, Loyalty Focus	Challenges <ul style="list-style-type: none"> ◦ <i>Impact on Performance</i> ◦ <i>Direct reduction w/o cost-benefit analysis may have -ve impact on Revenues / Growth Capabilities</i>
Fixed Costs	Constant with level of output, or sales volume	Salaries, Rentals, Depreciation, etc.	Productivity, Utilization, Effectiveness decisions, Process focus, Restructure	
Semi-Fixed Costs	Mixed effect on the cost with sales volumes	Marketing expenses, Power & Fuel	Combination strategy – Optimization and effectiveness, Make v/s buy, Restructure	
Direct Costs	Attributable to the products sold	Incentives, Delivery expense, etc.	Prudent accounting, Cost strategy – Optimization v/s Utilization, Restructure	Challenges <ul style="list-style-type: none"> ◦ <i>Impacts fair view of financial reporting</i> ◦ <i>Impacts investor evaluation and hence WACC impact</i>
Indirect Costs	Can not be attributed to the products sold	Overheads	Value based accounting, Optimize, Reduce, Cause and Effect analysis, Restructure, Outsource	



Cost analysis assists in proactively avoiding unfavorable effects of cost reduction and hence aids in RoS maximization without jeopardizing business scalability and growth capabilities.

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Recommendations : *What should dealerships do to be Fit and Future Ready?*

1 Online sales

- **Web-based sales inquiries have increased** from 3% to 39% over the last few years
- Dealerships should be wary that their customer segment is online
 - And there is a **growing preference for online channels for vehicle research and sales**
- **Investing in training of personnel** to capture this opportunity is important

2 Dealership Size

- Due to **rising rentals in Metros as well as Tier 1/2/3 cities**, dealers are looking at small store formats
- Customers are also comfortable with the idea since they **are open to viewing variants on a screen as well as at home test drives and delivery**
- **Dealers should focus on investing in managing space and incorporating technology**

3 Digital Marketing and technology

- Digital marketing initiatives & technology can **increase lead generation and save costs**
- Digital marketing content (although generated by OEMs) acts as a **source of information for 95% of potential car buyers**
- Dealerships should **participate in cost-effective digital marketing**
 - **Training & required support from OEMs can enable higher digital efficiency**

4 Cost saving levers (1/2)

- Focus on highest cost heads – **employee compensation, rentals ,marketing and power costs**
- Since the talent pool is usually scarce, **mitigating interests and rental costs** are the key priority
- Dealers seek **flexibility from OEMs in managing the inventory**, to monitor inventory mgmt. costs

Recommendations : *What should dealerships do to be Fit and Future Ready?*

4 Cost saving levers (2/2)

- Increasing the average selling price of the vehicle with **higher share of top-end variants** and more value adds as accessories, finance etc. helps in boosting showroom revenue
- **Improving service absorption ratio (SAR) along with focus on manpower efficiency** ups the workshop revenue while reducing the key cost components

5 Multi Brand Outlets

- Multi-brand sales & aftersales models are **picking up in India due to higher profitability from sharing common resources**
- Usually **sales are higher** for multi-brand outlets and the **rental costs are lower**
- **MBOs do pose a threat to market leaders**, however it makes more sense for dealerships to have MBOs if product differentiation is low, such as in the case of 3Ws

6 Succession Planning

- Given an uncertain future and growing education levels, **dealerships need to create a dealership succession strategy to ensure smooth running**
- **Training** successors at an **early stage** and **ensuring financial know-how** are of high priority

About the Authors

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