

Performance in reserve

Protecting and extending automotive spare parts profitability by managing complexity

Spare parts sales are a significant contributor to profit throughout the automotive value chain, even though they comprise a relatively small proportion of automotive manufacturers' revenues. Revenue and profit opportunities are greatest for vehicle manufacturers, but are also sizeable for suppliers and dealers. As markets mature, profits are threatened by increasingly intense competition. Automotive OEMs should focus their aftermarket efforts on managing complexity by deploying a strategy that helps them better understand customer; optimize their supply chain, enable stronger collaboration with partners and improve their ability to compete with third parties.

Extensive challenges

The spare parts marketplace presents significant opportunity for automotive OEMs, but also presents challenges in protecting and extending their profits. The landscape is one of the most fragmented and complex among major industries, making it difficult to manage. The interactions of part, vehicle and service channels, as well as the rise of gray and counterfeit markets, present consumers with a set of highly complicated and sometimes confusing choices. Competition for these consumers is fierce.

In addition to marketplace complexity, an explosion in the number of parts to be managed has occurred because of the growth of product models and variants and the increasingly complex software embedded within vehicle electronics. The IT systems deployed by automakers are typically further frustrating the ability of

OEMs to gain full visibility of their supply chain and plan their multi-layered supply structures.

Driving profitable performance

Addressing the complexity of the aftermarket business is not news. Global OEMs recognize these trends, and many automakers are already investing heavily to improve their aftermarket performance. Regardless, much work remains. We see five key principles for driving more profitable performance and managing complexity:

1. *Understand* – Understanding customers requires recognizing their mindset and responses, as well as their value to the enterprise. Fragmentation in the dealership network makes it difficult for OEMs to get close to their customers. Dealers “own” the customer, but OEMs must provide the leadership and capabilities to pool spare parts and service data across the network for better decision making.

2. *Optimize* – Inventory visibility is one of the critical elements for optimizing network design and planning. Full supply chain visibility of spare parts inventory must also be an explicit goal for vehicle manufacturers. Both OEMs and the dealer network should work toward this mutual goal so that all dealerships can serve as remote depots for the entire network.

3. *Collaborate* – Successful collaboration among suppliers, vehicle manufacturers and dealers is based on mutual effort for mutual benefit. All parties should agree to be accountable for implementing a plan that aims for growth at the local level and measures results at regular intervals.

4. *Compete* – OEMs should compete with third-party players in the spare parts aftermarket to maintain and grow revenues and profitability. Price gaps between OEM and third-party parts often drive consumers to alternative channels. With the building blocks in place to integrate inventory and budget optimization with dynamic pricing capabilities, OEMs can close this gap.

5. *Plan* – A long-term strategy must be built around value optimization for all stakeholders. OEMs must tackle known difficulties that have frustrated partnerships in the past, recognizing the fact that dealers also compete against each other. Activities should be kept focused to avoid



an overload of initiatives and programs that can often exceed the capabilities of small dealers.

Now is the time to “get moving”

New strategies, transformed processes and next generation technology will pave the way for overall complexity reduction. Success will hinge upon understanding customers, optimizing supply chains, improving collaboration and strengthening competitiveness. To meet those objectives, three key actions should be part of OEMs’ long-term strategy:

Get integrated. Integration and visibility of spare parts inventory throughout the supply chain is critical to get the right part to the right place at the right time.

Get connected. OEMs and dealers must work together to look for new ways to collect, analyze and use their data to identify customers, as well as the repair opportunities that will keep the service relationship going.

Get competitive. The window of opportunity is only a few years from the time a vehicle’s warranty is up until the customer moves on to independent service outlets. OEMs must price more aggressively to retain customers at the dealership.

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How can IBM help?

- **Supply Chain Network Optimization Workbench (SNOW):** Provides visibility and cost reduction, while improving service levels.
- **Warehouse Site Planner, DView and DIOS:** IBM tools to drive greater performance
- **Pricing Optimization:** ISV solutions focusing on spare parts and network-specific pricing, configurable and web-based
- **System Integration and SAP:** Service-oriented architecture (SOA)-enabled standardization and implementation of global and flexible system platforms

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