

Gentlemen's dispute or bar room brawl?

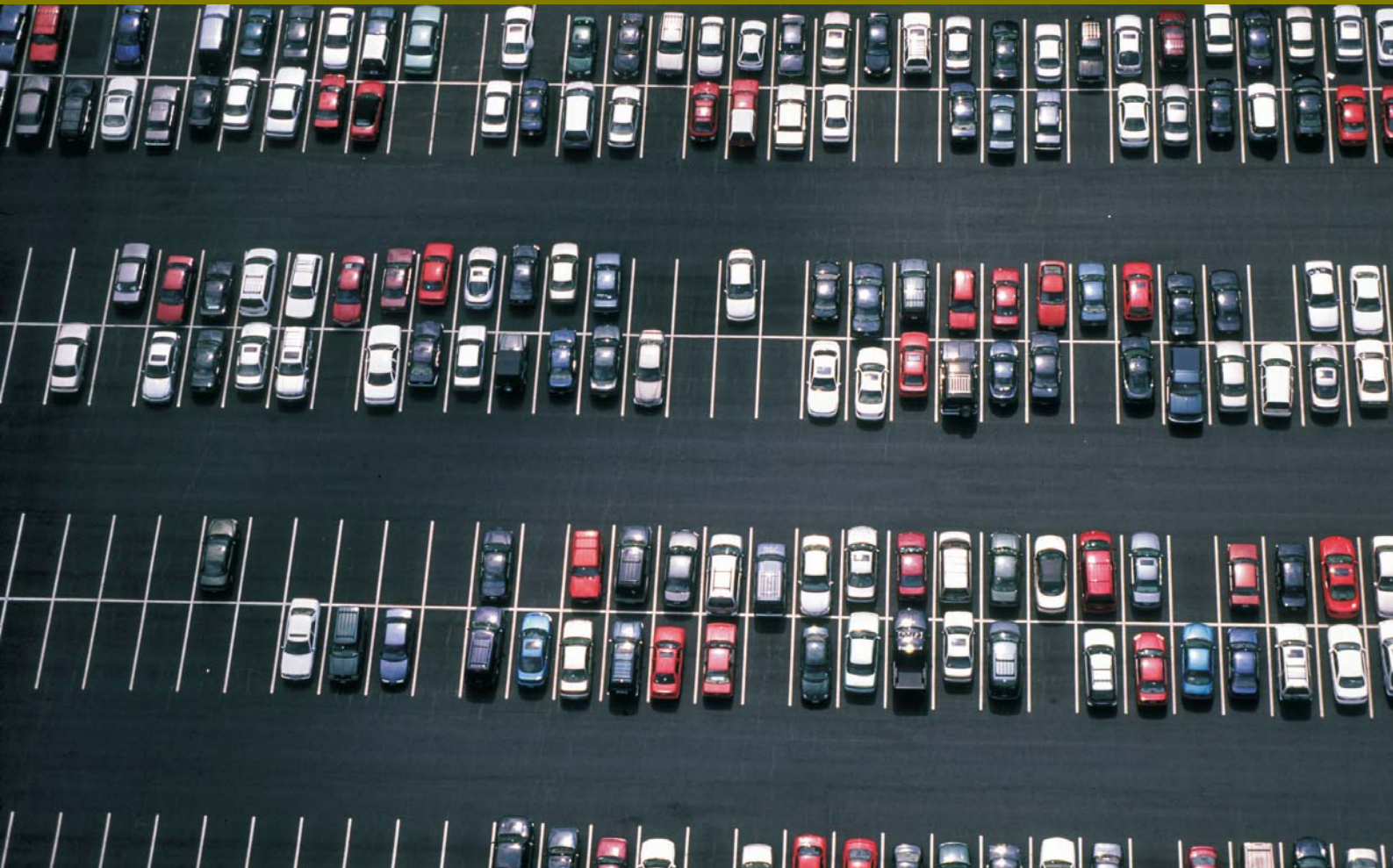
Part three:

*The impact of the new block exemption regulation on automotive technology suppliers**

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The new block exemption regulation (BER) governing automotive sales and after-sales took effect on 1 October 2003. It encompasses the way in which carmakers distribute their vehicles in Europe, how those vehicles are serviced, and how spare parts are sourced. It has huge consequences for everyone in the automotive industry (see box on p5). We have already discussed the impact of the changes on carmakers and dealers. In this article, we shall explore the implications for automotive technology suppliers.

The European Commission's aim in revising the BER is to ensure that consumers get a better deal, not just when they buy a new car but for the duration of the ownership of that vehicle; after-sales services currently account for about 40% of the total cost of owning a car over its lifetime. The new regulation has accordingly been designed to accomplish several objectives: to promote intra-brand competition and the harmonisation of prices across the European Union (EU); to give dealers more independence from vehicle manufacturers; and to liberalise the provision of after-sales services and the procurement of spare parts. It covers passenger cars, light commercial vehicles, trucks, buses and coaches; and it applies in Norway, Iceland and Lichtenstein, as well as all the member states of the EU.



However, the new regime will also have a profound impact on the information technology providers that make dealer management systems (DMS) and dealer communication systems (DCS) for managing the overall dealership operations that support the sale and servicing of cars.

Most such providers have invested heavily in designing specialist systems tailored to the needs of traditional dealers operating in a retailing environment that, for historical reasons, is very complex. But the new BER has so altered the structure of European automotive retailing that any system developed to meet its demands will require very different features – different both from those that were used in the past and from those that are used in the rest of the world. Moreover, as the carmakers consolidate their distribution networks, the number of dealership outlets operating in the EU will fall to as little as half the current level, massively reducing the DMS vendors' customer base. In short, the regulation could ultimately dictate the need for radical changes in design and the reinvention of dealer systems as we know them today.

The transformation from dealer management systems to retail management systems

Under the old regime, most new cars were sold and serviced by dealers controlled by the carmakers whose brands they represented. But the revised regulation paves the way for the emergence of totally new retailing formats, including outlets that also sell non-automotive products and already have retail systems designed to serve their own business models. The evolution of a new retailing environment under the auspices of the revised BER will have a huge impact on technology providers serving the automotive industry. Instead of making closed systems customised to the needs of dealers exclusively engaged in selling cars, they will rapidly need to develop product offerings that are both applicable and appealing to the broad spectrum of retailers and independent repairers that makes up automotive retailing in Europe.

The typical DMS covers inventory management, order processing, customer tracking, accounting and financial reporting applications supporting a dealership's operations; and the typical DCS covers transactions between a dealership

and the marque it represents. They are designed solely for selling and servicing new and used cars and, as such, its design has largely been driven by what dealers need. But such systems offer relatively little value to retailers selling multiple goods or brands, department stores being one such example. In the short term, some of these new entrants may use DMS in parallel with their existing point-of-sale systems. In the long term, however, they will want to use integrated systems that cover everything they sell. Many of them are also likely to expect a much greater degree of innovation than traditional dealers have sought, because they have extensive experience of selling a much wider range of products in a more diverse marketplace.

Moreover, although all dealer systems are designed to provide dealers with the information they need, carmakers and distributors require similar features to manage their distribution networks. Most such systems are therefore written with the manufacturers' perspective in mind – and, as a result, are better equipped to help single-point dealerships than multi-franchise configurations. But some of the biggest new entrants will want to operate multiple franchises in multiple locations, so they will want systems that address their own management practices rather than those of the carmakers.

The relaxation of the rules on multi-branding has other ramifications. Both traditional dealers and new entrants are now free to sell multiple brands from the same showroom (provided that they adhere to certain restrictions). But most carmakers use proprietary systems, and some carmakers even use different systems to manage different brands. Conversely, for obvious historical reasons, most dealer systems are designed to manage transactions with just one vehicle manufacturer.

So the technology providers that serve the automotive industry will have to expand their focus and become very much more innovative in order to maintain market share. They will have to design systems that meet the needs of retailers selling cars in totally different environments and retailers selling totally

different products and services. They will also have to ensure those systems can be integrated with the retail systems that are currently used for non-automotive retailing; and can cope with multiple carmakers, multiple brands and multiple levels of capability, including both standalone and integrated services.

In effect, the industry must shift from making DMS to making *retail management systems* (RMS) that provide for every kind of dealership, whether it be exclusive or selective, full-service or specialist, a multi-franchise operation with vast resources or a single outlet with limited means. And it must meet the needs of these many different entities within a common customer and product communication framework, because the new BER will foster the creation of a much more collaborative community.

Common protocols and platforms

The change in the regulation also has implications for the underlying technologies that are used. Most DMS are standalone, UNIX- or OS/400-based systems. They are difficult to operate and, more importantly still, they use numerous different platforms. A few industry players, such as Kerridge, ADP, Incadea (which has just been purchased by the US giant Reynolds and Reynolds) and Universal Computer Systems (which recently bought Kalamazoo) dominate the scene. But over the past decade, the number of systems on the market has proliferated, as dealers have searched for cheaper, nimbler and more user-friendly solutions.

The development of numerous proprietary systems and interfaces has cost the automotive retailing industry dear; the bill for this “chaos” in North America alone has been put at as much as \$100m a year. In future, therefore, it is vital that a much greater degree of standardisation be used. The North American automotive industry has effectively recognised this with the creation of STAR, a consortium of carmakers, trade bodies and DMS vendors, that has developed most of the tools and standards required to support open communications (see box).

The Internet will also play a role in the move towards common protocols and platforms; indeed, web-enabled point-of-sale tools will eventually become the norm. Web-based systems are generally more user-friendly and easier to administer than UNIX- or OS/400-based systems. They can also be designed to provide a much wider range of services, such as customer access to information on the progress of new orders from the factory floor to the showroom. In the US, several leading

The STAR project

Standards for Technology in Automotive Retailing (STAR) was set up in 2000, under the auspices of the Automotive Manufacturers Dealer Systems Group (AMDSG), specifically to develop standards for dealer systems in North America – the aim being to ensure that each application had the same “interface” for all carmakers. DMS vendors could then develop a single software interface for all, thereby reducing development times and costs.

The scope of the project has since been extended to include new applications and forms of interconnection; and the ultimate goal is to create a wholly open DMS environment. But that will take some years to achieve, because the big carmakers have long-standing internal systems which require adaptation or re-development. The leading DMS vendors also fear that open interconnection will allow specialist vendors to enter their market; and the dealer networks cannot afford to migrate to new systems overnight.

Nevertheless, STAR has made considerable progress. It has now developed most of the tools required to support an open environment. It has also developed common standards for most of the key applications, including credit applications and contracts; financial statements; labour operations; model codes; parts orders and shipments; sales leads; delivery reporting; and vehicle inventories, invoicing and service histories. Almost every carmaker, large or small, is using these standards.

In short, STAR has not satisfied all its critics, but it represents a major advance on the anarchy that prevailed with proprietary interfaces. By 2006, it should be able to deliver an open platform, facilitating faster development, lower costs, and greater sharing of facilities in multi-franchise dealerships.

carmakers, including Volkswagen, have already migrated from private DCS networks to open Internet links, and the transition has been relatively smooth.

However, the varying quality and extent of Europe’s electronic infrastructure is likely to be a huge obstacle to full standardisation. In May 2004, the expansion of the EU will see the number of member states swell to 25 – each with its own telecoms network and information technology protocols. The quality of the electronic infrastructure also varies within states; broadband access to the Internet and wireless radio networks are, for example, very limited in many rural locations.

Better information flows

Another consequence of the new regulation is the change in the power of the retailer's brand; as multi-brand showrooms and new retailing formats emerge, so the retailer's brand will gradually become more important than the manufacturer's. This ultimately has significant implications for the flow of information between retailers and carmakers.

At present, a carmaker gets information at two points in the selling and servicing process. It gets information about a car when it is first sold and registered – as well as information about a customer through the financing relationship, if he or she pays for the car using a scheme that originates with the

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manufacturer's captive finance company. It also gets service information from warranty repair transactions, but that information ceases once the warranty period has ended and the customer has repaid the loan or the lease has expired.

Some carmakers have now begun to use vehicle identification numbers to track their cars. However, all carmakers are eager to get much more data both on the lifecycle of the cars they have made and the customers who have bought them, so that

they can market to customers who are changing their cars in the hope of persuading them to buy new cars from the same stable.

Consumers could also benefit from a better exchange of information between carmakers and their distribution networks. At present, for example, if a customer takes his car to be serviced by an authorised repairer other than the one he normally uses, that repairer has no information on the service history of the car. This is the equivalent of going to a different branch of the bank at which one has an account, and having to fill in a lengthy series of forms just to cash a cheque. Conversely, with a standardised system that links all the retailers and authorised repairers in a particular distribution network, customers would easily be able to take their cars to any outlet in the network.

Unfortunately, traditional dealers are often loath to share customer information and this trend is likely to get worse. As the importance of retail brands supersedes that of manufacturing brands, retailers (both new and old) will want to control the flow of information themselves. Some of them will also be reluctant to invest in new systems, when they already have their own. But most carmakers are likely to stipulate that all retailers of their vehicles use the RMS they designate as part of the terms required to hold a franchise. And one way in which they can both secure goodwill and begin to capture better customer data is by helping their retailers to foot the bill.

Simple systems for the after-sales market

The liberalisation of the after-sales market has yet more implications. With the removal of the mandatory link between sales and servicing, dealers can now choose to service new cars without selling them. Any independent repairer that wants to become an authorised repairer and fulfils the carmaker's qualitative criteria is also free to do so.

However, authorised repairers that do not sell new cars will not require most of the facilities that are available on a fully-fledged DMS. They will only need access to the service history of the cars they are servicing and the ability to order spare parts; they will not need to track orders for new cars, compare financing packages or operate leasing arrangements, for example.

Moreover, since most carmakers use different systems, any authorised repairer that wants to service cars made by two or

more manufacturers will need to invest in multiple systems until such time as those systems have open interfaces that can be used with all carmakers. Both these factors are likely to stimulate the development of basic communication systems that cost much less than those currently available and are tailored specifically to the needs of the repairer market.

Such systems will also need to include new links between repairers and spare parts suppliers. Carmakers have traditionally assumed the task of distributing spare parts, but all repairers can now buy spare parts from a wide range of suppliers, including third-party producers making “matching quality” spare parts. Many suppliers will ultimately want to distribute their own brands, so repairers will need systems that enable them to order spare parts directly from the vendors of their choice.

Lastly, training will become a much more important element of the product-service mix. Most of the existing systems are quite difficult to use – partly because the automotive business itself is so complex – and newly authorised repairers, in particular, will be unaccustomed to using them. In addition, many of the applications often require that users make considerable changes in their processes, if they want to capitalise fully on the functionality designed into the systems. So technology providers will have to provide much more extensive training, and one of the biggest challenges will be covering a potentially vast number of very small sites.

Consolidation and greater competition

The new regulation will have a major bearing on DMS providers, then – and that, in turn, will change the shape of the automotive technology industry. It will almost certainly precipitate a number of mergers and acquisitions, both within the industry and with other players. Traditional DMS vendors will, for example, merge with general retail technology providers in an attempt to marry their respective skills and build a common new platform.

The key consequences of the new regulation

- It will reduce the number of existing dealership outlets operating in the EU to as little as half the current level by 2010. So the DMS suppliers will have a correspondingly smaller customer base.
- It will gradually change distribution from a dealer-based system to a retailer-based system that includes bricks, clicks and multi-channel retailers, using classic retailing techniques with “customer-driven” after-sales services.
- It will improve performance standards. Carmakers will demand higher standards of performance from their dealers/retailers, and the best dealers will be able to leverage their size and market position to demand higher standards from the manufacturers in their turn.
- It will produce a long-term shift in employment patterns, by reducing the number of jobs in traditional dealer networks and increasing the number of jobs in new retail formats, including Internet sales, shipping and support, and after-sales and accessories services.
- It will rebalance the relationship between carmakers, dealers, parts distributors and consumers. Vehicle manufacturers have traditionally enjoyed the “whip hand”, but the emergence of new-style retail outlets and the wider range of choices likely to be available to consumers will slowly alter the balance of power.
- It will encourage competing carmakers to engineer vehicles that need less frequent servicing, and are therefore less subject to inconsistencies in the quality of the after-sales service, as a means of building customer loyalty.
- It will stimulate demand for new retail management systems, rather than the dealer management systems on which dealers have traditionally relied to manage their businesses.
- It will promote the use of open systems with applications that cover multiple carmakers and spare parts suppliers, multiple brands, multiple locations and multiple product and service offerings (both general and specialist in nature).
- And it will ultimately transform the experience of consumers, since greater competition will ensure that carmakers and dealers pass on some of the savings they accrue from the development of more efficient sales and service processes – in the form of lower prices and better services.

The competition between different technology providers will also increase. Some of the big information technology houses such as Oracle, SAP, Microsoft and IBM may decide to enter the market by acquiring existing DMS providers or simply building their own RMS solutions. Both trends are currently visible in the marketplace. Others may choose to integrate products and services by way of alliances. Should this happen, they will pose a serious threat to the traditional vendors; their breadth of experience and market clout is much greater, as is their potential to capitalise on economies of scale and drive prices down.

The introduction of shared protocols and platforms could likewise expand the pool. Common standards will reduce the lead times and costs associated with developing dealer systems, and encourage smaller entrants. Indeed, this is one reason why some of the big North American DMS vendors have resisted the STAR initiative; they developed most of the proprietary technologies that are currently in use and do not want to see other providers poach their business.

Conclusion

In short, the ripples from the new regime will reach far beyond carmakers, dealers and consumers. They will ultimately transform the automotive industry, and the change is likely to

start with the emergence of new or much-changed players. Carmakers and large retailers selling a wide range of goods will be bombarded with new offerings. They will then choose the systems they want, and use of those systems will eventually be incorporated into the standards required of all retailers and authorised repairers.

But the future will be challenging for traditional DMS providers. The battle for brand supremacy between carmakers and retailers will preclude the development of one-size-fits-all DMS products and services. Few new-style retailers will be willing to invest in specialist dealer systems, given that they already have their own point-of-sale systems. New entrants will produce RMS that encompass the needs of generalist retailers and drive prices down. And the market in Europe will become so distinct from that in the rest of the world that some technology providers will have to decide whether they want to trade there at all.

Moreover, the greatest risks will not be immediate but long-term. The new regulation has created a much more dynamic environment in which only the most agile DMS vendors will survive. Those that fail to adjust to this new environment, to execute new strategies or to accommodate subsequent shifts in the marketplace will suffer. Those that can duck, weave and move faster than their rivals, as they evolve from DMS providers to RMS providers, will be able to claim the bar room for themselves.

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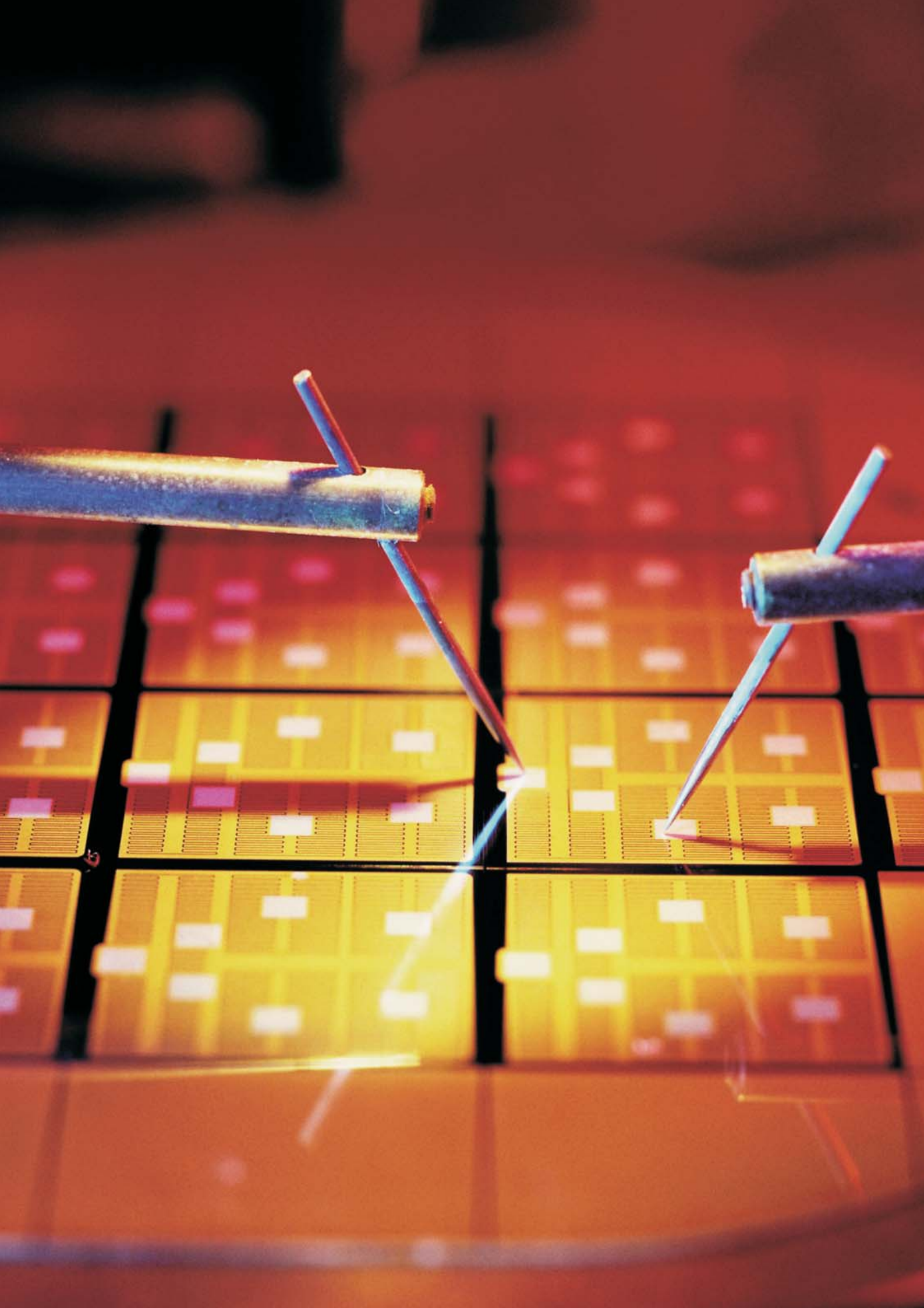
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