

**PROJECT EVOLUTION,
ACTIVITIES AND
RESEARCH SUMMARY**

by
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Co-Founder and
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THE INTERNATIONAL CAR DISTRIBUTION PROGRAMME

PROJECT EVOLUTION, ACTIVITIES AND RESEARCH SUMMARY

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SYNOPSIS

The International Car Distribution Programme (ICDP) is the world's largest research study into car distribution. Supported by 29 companies and organisations, ICDP will complete its first 2 year investigation into all aspects of franchised car retailing and after-sales in March 1996. Plans are already being made for a further 2 years of study.

ICDP's objectives are to help all participants in car distribution plan for the future by developing new ideas for improving the present system or for introducing entirely new distribution formats. These solutions will be based on a deep understanding of the present system, using independent data collection and research. International comparisons between distribution system performance - in many cases, aggregating commercially confidential data previously unavailable to researchers - is revealing a range of best practices and benchmarks around which new policies can be built.

ICDP's principal data collection and analysis is being carried out by a European research network of academics and independent researchers, supported by US and Japanese research activities. Research topics are focused on two main streams - franchised dealer operations, their profitability and organisation, and manufacturer topics, including supply and stocking systems and franchised standards. Evaluation of consumer issues will form part of both streams.

ICDP is a highly participative programme and its meetings provide a unique forum for sponsor members to debate issues facing car distribution. The involvement of all players in the sector - manufacturers, dealer groups, dealer associations, finance companies, logistics companies, after market suppliers - makes these ICDP discussion sessions unique. There is an opportunity to debate contentious issues in an independent framework supported by research-based information.

A further aim of ICDP's founders was to raise the profile of car distribution as a research subject in universities and business schools. Many aspects of car manufacturing have received academic study - but very little published work is available in distribution. Already, ICDP is encouraging doctoral and student projects, and the programme is providing unrivalled access to industry opinion-formers for distribution academics.

ICDP's research is organised into a sequenced series of topic modules, with reports issued and presentation of results given throughout the programme. Three major research modules have been completed. The first, a study of Competition in Car Distribution, was prepared as a contribution to the European Commission decision on exemption for the car industry's selective and exclusive distribution system. The report examined consumer benefits of the system, including customer service and choice. It compared Japanese and US systems, concluding that these operated under a selective regime without apparent customer disadvantage. Scenario studies examined the impact of multi-franchising and car supermarkets. On multi-franchising, a number of alternative forms of multiple operation were considered, with the impact on the consumer assessed as very largely neutral. On car supermarkets, significant disadvantages were seen in long term restriction of choice and increases in costs.

The second project was a study of European dealer perceptions of their future business prospects which indicated low morale and much uncertainty among dealers. This is driven partly by low profitability (as confirmed by ICDP studies of dealer accounts) and partly by uncertainties over the future legislative framework pending the approval of new European selective distribution laws. Poor communication between manufacturers and dealers was also highlighted.

The third, and most important, study in the first half of the project has been on the new car supply and stocking system, which the research team has identified as a major area of future change. Extensive field work and data collection has built up a detailed picture of the supply system operation in France, Germany, Italy, Holland and the UK. International comparisons have revealed big differences in the efficiency of the system in meeting consumer demands. Advanced simulation techniques have been used to produce a range of system improvements - a 'tool box' - which promises dramatic improvements in customer response at significantly lower costs. The supply work has concluded that the European industry could achieve over £ 2 billion (DM 5 billion) in direct cost savings.

Building on the achievements of ICDP so far, the project founders are now planning a further project, to run from 1996 to 1998. This will include research on a number of major new issues, as well as further investigations in product supply and dealer profitability.

AUTHOR'S PROFILE

MALCOLM HARBOUR is a Director of ICDP and a Managing Partner in Harbour Wade, leading researchers and consultants in world-wide car marketing and distribution strategy. He has spent 28 years in the car industry, spanning product engineering, through business strategy to sales and marketing.

Since 1989, he has been advising car manufacturers, distributors, dealers, logistics and after sales organisations on a wide range of strategic and operational issues. His consulting projects have included market entry studies, business plan development for new products and services, and evaluation of potential acquisitions in the distribution sector. He has been project leader on a number of long term research studies, including the development of the business car market, and vehicle manufacturer distribution network strategies.

In his earlier career, he was part of the management team which revitalised the Rover Group. After holding positions in product engineering and product planning, he became Corporate Planning Director, Marketing Director, UK and Eire Sales Director and Overseas Sales Director. Malcolm Harbour graduated in Mechanical Engineering from Cambridge University and then attended the University of Aston Business School.

1. PROJECT GOALS

1.1 FILLING A GAP IN CAR INDUSTRY RESEARCH

ICDP is filling a major gap in business research on all aspects of car distribution. Car manufacturing has been subject to intensive study and international comparison - with the MIT co-ordinated work on "lean production" being of great importance in shaping the future of the industry. [1] Car distribution does not have the same base of authoritative, internationally comparative data and research that enables future areas of best practice to be defined. Furthermore, public policy makers are significantly influenced by high quality, independent research - the car distribution sector urgently needs a much higher profile as a distinctive part of the automotive industry, that will lead to a more sympathetic approach from legislators.

The overall goal of the ICDP is to provide the world automotive industry with a thorough analysis of the whole process of car selling and servicing - from factory to dealer to customer. At the core of this analysis will be an international comparison of franchised car distribution systems, and their operation. Lessons from other retailing sectors will also be considered. Based on this comparative research, the study will examine areas of best practice and methods for improving the efficiency and effectiveness of current distribution systems. These international research findings will be used to develop and evaluate future distribution scenarios.

Specific objectives have been defined as follows :

- ◆ To provide the most detailed and well-researched analysis of the world-wide motor car distribution and after-sales system yet available
- ◆ To establish benchmarks for distribution systems performance, and use them to analyse differences by country
- ◆ To identify best practice in efficiency and effectiveness that can be transferred internationally
- ◆ To examine all drivers for change on the system, both external and internal, including lessons from other retail sectors
- ◆ To develop and evaluate a range of future scenarios
- ◆ To define solutions that balance the interests of consumers, dealers and producers.

1.2 SECURING ACCESS TO DATA

ICDP's founding team had previously worked, as researchers or participating sponsors, with the MIT co-ordinated research study, the International Motor Vehicle Program. Professor Dan Jones, one of the co-authors of the landmark book 'The Machine that Changed the World', which reported the findings of that study, was a member of the planning team.

The IMVP study had achieved an enormous impact on the world car industry by examining best practice in product development, manufacturing and supplier relations - and quantifying the differences between systems using car companies confidential internal data. For ICDP, the project team were convinced that a similar approach had to be adopted - and that, for the first time, differences between distribution systems should be examined using independent measurement standards.

To achieve its objectives, therefore, the ICDP team needed to seek access to commercially confidential data, held by sponsors, so that independent benchmarking studies could be undertaken. In many areas of the proposed work - in supply systems and in dealer profitability - researchers would be granted access to this data for the first time. It was essential for the goals of the programme that the integrity of the project proposers should be well established and that safeguards should be put in place to protect the confidentiality of submitted data.

These aspects, together with the development of an international research network, were the major tasks of the project managers as they set about fulfilling the project goals.

2. THE EVOLUTION OF ICDP

2.1 1991 - GERMINATION OF THE IDEA

The initial ideas for the ICDP project were developed in late 1990 by 4 UK researchers and motor industry consultants. The link between them was a shared interest in distribution research, and their joint activity on a number of projects, both for companies in the distribution sector and, especially, for the British Car Dealers Association, the Retail Motor Industry Federation. In considering the seeds from which ICDP grew, it is important to note the role that the dealers' representatives played, and their encouragement of the team's activities which led directly to the formation of the ICDP.

The founders of ICDP were **Malcolm Harbour** and **Philip Wade**, who had formed a specialist consulting business in car distribution, Harbour Wade, in 1990 - together with two academics; **Professor Jonathan Brown**, who was Research Professor in Retail Management at Brighton Business School, where he had specialised in car retailing; and **Professor Daniel Jones** of Cardiff University, who had previously been European Director of the International Motor Vehicle Program.

As a result of working contacts and joint activities, the idea for a global study in car distribution began to evolve. Because the team lived in different parts of the UK, and met infrequently, it took some time for their plans to crystallise. The initial ideas for the project were floated in late 1990 and in February 1991 Malcolm Harbour circulated a discussion paper to the four principal players. The defining meeting at which the programme began to move forward took place in April, when the team met for a working dinner by the River Thames at the 'Upper Reaches', Abingdon.

2.2 GETTING THE STRATEGY TOGETHER

Following this meeting, the working title of International Car Distribution Programme was agreed and the basic structure of the project developed - it should be strongly Europe focused, jointly carried out by researchers and academics. It should be developed through a pilot study, involving a group of sponsors who already worked with the founder team. In this way, we should have an initial project involving participants who already trusted and knew our approach.

Because of the team's heavy work programme, the main programme was progressively developed through a series of working sessions throughout the rest of 1991. In November, a final programme prospectus was agreed [2]. This document, entitled 'Strategic Plan and Initial Research Study Proposal', set out the goals for a full-scale, multi-client programme. It also put forward specific ideas for an initial study, and, armed with this document, the team began to seek support for their ambitious plans.

2.3 THE INITIAL PROJECT - 1992

In the first six months of 1992, prospective sponsors were approached and a short list of interested companies and organisations developed. The team felt that, before seeking a final commitment to launch the Initial Project, the prospective sponsors should meet together, because they needed to get on with each other and to be convinced that the approach would work. On 3rd June 1992, the following organisations met at Henley in Arden: Volkswagen Audi Group, Renault, Nissan Europe, The British Dealers' Association (the RMI), The German Dealers' Association (the ZDK), and the international distribution company, Inchcape. The team's concern for balanced participation was already evident - it was essential that all sides of the distribution sector were involved from the beginning, and the initial sponsor group reflected this.

The team made presentations [3] about the future directions for the industry, their ideas for ICDP and a research plan and costs for the initial study. After the meeting, a formal proposal was circulated requesting commitment to participate. By August 1992, all six prospective sponsors had agreed their support and a further company, Castrol had agreed to join. ICDP was on its way !

2.4 FIRST RESEARCH RESULTS - WIDE RANGING SCOPE

The initial study set out with very broad objectives - to make an initial investigation of world trends in distribution and to pose some initial scenarios. At the same time, the team would develop plans for a full 2 year study, funded partly by the initial project income. Sponsors were particularly interested in developments in Japan, and whether the Japanese system had merits previously overlooked by the west. Malcolm Harbour and Jonathan Brown spent 2 weeks in Japan on an extensive round of visits and discussions, subsequently documented in ICDP papers [4]. (This work was also used by the ZDK in a comparative report on the Japanese and German systems [5]). Developments in the supply system also featured strongly - the team were, alongside the ICDP work, carrying out a major study for the British dealers and this work was presented and reviewed with the ICDP sponsors [6].

Other aspects studies were trends in the US market [7] and the relevance of conventional retailing to automotive distribution [8]. At the conclusion of the project, a major presentation on the evolution of the car distribution system [9] was made at a special sponsor meeting, held in Solihull, UK.

2.5 TOWARDS A FULL PROJECT LAUNCH

The initial project demonstrated that a co-operative research effort had not only produced useful results, but that the process of sharing research activity, and encouraging dialogue, between different organisations, was clearly valued by all participants. Thus encouraged, the team moved on to draw up plans for a full-scale, 2 year project. This programme would be of an entirely different scale to the initial work - it would involve the recruitment of new researchers and the broadening of work outside the existing team circle. It would also require a critical mass of sponsorship to enable a core team to be put in place across Europe.

Decisions on supporting projects of this scale do not get taken quickly. The planned timescale was to launch the proposal in March 1993 at a special meeting at the Geneva Show. Following this meeting, invitations to participate would then be issued. Tentative launch of the full project would be in January 1994, by which time a new team would be put in place.

At a very well-attended meeting at Divonne les Bains on March 1st 1993, considerable enthusiasm was shown for the concept - though some present felt that the idea was very ambitious - and might never get off the ground. Many rounds of visits to prospective sponsors then took place, in the relentless pursuit of funds.

A further key development resulted from a visit to MIT in April 1993. This led to a partnership agreement with the International Motor Vehicle Program. ICDP would co-ordinate its activities with IMVP and the two projects would jointly develop US activities.

By May, the budget details were in place and formal letters, with details of the project fees and terms were sent out. It was still not clear whether there would be sufficient sponsors for the project to be viable, but there was enough confidence from our many contacts that ICDP would 'take off' in 1994.

2.6 JULY 30TH 1993 - ICDP CLEARED FOR 'TAKE OFF'

By July 30th, committed sponsorship amounted to 60% of the budget target, and the team decided to formally go ahead with the programme. Research recruitment commenced and the necessary legal advice taken to set up an independent UK registered company to administer the project. **Derek Whittaker**, then a Director of Inchcape, but due to retire in 1994, and with a wealth of experience in car manufacturing and distribution, agreed to join the project as Chairman. **Maurice Kniebihler**, about to retire from the Presidency of GM France, agreed to become ICDP's Honorary Adviser in the French market. Initial contacts were made and interviews undertaken to find researchers in France, Germany, Italy and the UK.

2.7 SEPTEMBER 1993 - FIRST SPONSOR MEETING OF THE NEW PROJECT

In September 1993, confirmed sponsors were invited to a meeting in Frankfurt, held in conjunction with the Motor Show. As well as reviewing the 2 year work plan, the research team led a discussion about Europe's Selective Distribution legislation and the future legal framework for European Car Distribution, which was to prove a continuing point of discussion throughout the project. In September also, sponsorship fees were invoiced and the project became self funding. On 8th October 1993, International Car Distribution Programme Ltd was formally registered in the UK, with the four project co-founders as Directors. Derek Whittaker was formally elected Chairman and Malcolm Harbour as Company Secretary. The first Board Meeting was held on 17th October 1993 in Derek Whittaker's room in the Imperial Hotel, Tokyo. The ICDP team were in Japan to organise a presentation to the Japanese Motor Industry as part of its recruitment activities !

The 1991 vision had become a project of real substance - now the team had the task of establishing an organisation that would deliver their wide ranging goals.

3. PROJECT MANAGEMENT

3.1 COMPANY STRUCTURE

ICDP Ltd has been established as a non-profit making company, limited by guarantee. This means that the project cannot, in the future, be subject to commercial speculation. It will remain a joint academic and industry venture, focusing on independent, high quality research, for as long as the demand for its work remains. Project headquarters are at Solihull, UK.

MANAGEMENT TEAM

The project is managed by an executive team of three, who share responsibilities for the overall management of the research and for progressing country activities. The team, and their responsibilities, are :

Malcolm Harbour, *Company Secretary*, who is responsible for overall project management, budgets and sponsor liaison. He also co-ordinates research in France, Italy and Spain.

Professor Jonathan Brown, *Research Director*, who is responsible for overall research methods, with particular responsibility for analysing the commercial structures of dealers and for used car market surveys. Jonathan co-ordinates research in the UK, Japan and Sweden.

Philip Wade, who is responsible for research planning and consumer studies. He is also been responsible for managing the two key research modules on Supply Systems and After Sales. His countries for research co-ordination are Germany and the USA.

The non-executive directors of ICDP are **Derek Whittaker**, *Board Chairman*, and **Daniel Jones**, *Professor of Motor Industry Management* and *Director of the Lean Enterprise Research Centre at Cardiff University*.

The Project Management team have extensive experience as senior managers in the car industry, as well as wide ranging achievements in research and consultancy. The blend of practical industry experience and tight management of the project, combined with academic rigour has provided ICDP with a robust platform from which to seek industry sponsorship.

3.2 SPONSORS

ICDP now receives support from 29 sponsor organisations, as shown in Table 1. From the beginning, the project team wanted the broadest possible sponsor representation, so that all aspects of a highly complex system could be represented. With 12 car manufacturers, 7 dealer organisations (including 4 major dealer associations) and 7 parts or service suppliers, that balance has broadly been achieved. A further aim of the team was to influence public policy makers - the European Commission and the British Government are active research participants.

ICDP Participants	
European Commission DTI, UK	BMW Fiat Auto Ford of Europe GM Europe Mercedes Benz Nissan Europe PSA (Peugeot/Citroen) Renault Automobiles Rover Group Saab Automobile VAG Volvo
ZDK, Germany RMI, UK BOVAG, Holland GC Renault, France	
Castrol International Michelin Mobil Europe Unipart Group	
COFICA, France Walon SA HP Information Urban Science International	CICA, France Inchcape Motors, UK Lex Service, UK

Table 1

3.3 PROJECT FUNDING

ICDP receives no grant funding, but is entirely reliant on fees paid by sponsors, with the annual amount being related to organisation size (or subscribing membership, in the case of representative associations). From the beginning, it was a firm policy that smaller organisations - particularly dealer firms - should be able to participate in the research. The annual sponsor fees for the first 2 years of the project range are in 3 bands - £ 8,000, £16,000 or £ 24,000, depending on turnover.

ICDP operates an open accounting policy and audited accounts are published every six months and sent to all sponsors. Total budget for the first 2 years of work will amount to over £ 1 million.

3.4 THE INTERNATIONAL RESEARCH TEAM

ICDP's research is carried out by country based teams, largely based at Universities or Business Schools. ICDP has full dedicated researchers in the UK, France, Germany and Italy, and links with other researchers in Holland. In the USA, the joint venture with MIT has been an important vehicle for gaining access to the world's largest car market. A further aspect of the US work is that it is carried out in partnership with the International Motor Vehicle Program, which is researching many other aspects of the car industry. This provides a direct linkage between distribution research and investigations into other long term topics such as manufacturing productivity, mobility and environmental issues.

ICDP has also taken a particular interest in the Japanese domestic market and the organisation of motor vehicle distribution by domestic manufacturers and importers. A research partnership has been established with Hosei University, under the direction of Professor Koichi Shimokawa. These activities have now led to the establishment of a distribution research network, the Japanese Automotive Distribution Research Institute (JADRI).

The full ICDP research team is shown in Table 2.

Research Teams	
Global	Project Team - Malcolm Harbour, Philip Wade, Professor Jonathan Brown
France	Thomas Chieux, working in facilities provided by L'Observatoire de l'Automobile
Germany	Klaus Zellmer at the Fachhochschule, Nürtingen under Professor Willi Diez
Italy	Leonardo Buzzavo at the University of Venice under Professor Giuseppe Volpato
UK	John Kiff at Cardiff Business School, under Professor Daniel Jones Andrew Tongue, University of Bath
Holland	Collaboration on Logistics with Eindhoven Technical University
Sweden	Jan Hedman at the Marketing Technology Centre, Stockholm
USA	A team at MIT lead by Martin Anderson
Japan	JADRI lead by Professor Koichi Shimokawa, Hosei University

Table 1

3.5 PUBLICATIONS

ICDP research is published in a series of internal papers, initially made available exclusively to sponsors. Because of the academic base of the project, and the desire of all participants to raise the profile of distribution research, selective publication of ICDP papers will be undertaken. However, no research material will be released until 6 months after its availability to sponsors.

ICDP research data will be available to academic researchers, and the project tries to encourage doctoral thesis candidates and business students to undertake distribution related projects.

Detailed IDCP topic papers are supplemented by a wide range of presentations, given to sponsors at regular intervals. These presentations provide regular updates on work in progress and commentary on current topics of interest.

3.6 SPONSOR LIAISON

Encouraging active sponsor participation is an essential part of IDCP's philosophy. Sponsors are involved and consulted at all stages in the planning, execution and presentation of research. In addition, the regular IDCP meetings provide an unrivalled opportunity for sponsors from different organisations, but with shared interests, to discuss topics of common interest. Regular sponsor meetings are held in European centres with varied agendas covering all aspects of IDCP's work.

The main meeting each year is a 2 day Policy Forum, held at a secluded location away from main cities, where informal dialogue and consideration of issues can be encouraged. 60 - 70 sponsors and researchers have attended the 2 Policy Forums organised so far. Alongside the annual Forum meetings, IDCP organises one day topic seminars which focus on the results from a specific research project. Sponsors are encouraged to bring specialist manager with an interest in the topic area, thus broadening the visibility and value of IDCP's research.

Sponsors are also kept informed by a regular newsletter, and they are encouraged to organise an annual 'in-house' seminar where senior managers can be briefed by a member of IDCP's executive team.

4. RESEARCH STRATEGY

4.1 ORGANISING THE RESEARCH

IDCP's ambitions, to cover the whole process of car distribution required careful attention to the sequencing of research topics. In addition, the newly recruited country research teams had to be given clear, co-ordinated data collection tasks that would enable high quality international comparisons to be made.

The research plan drawn up at the beginning of the project is shown in Table 4. This illustrates the proposed topic organisation throughout the 2 year research programme.

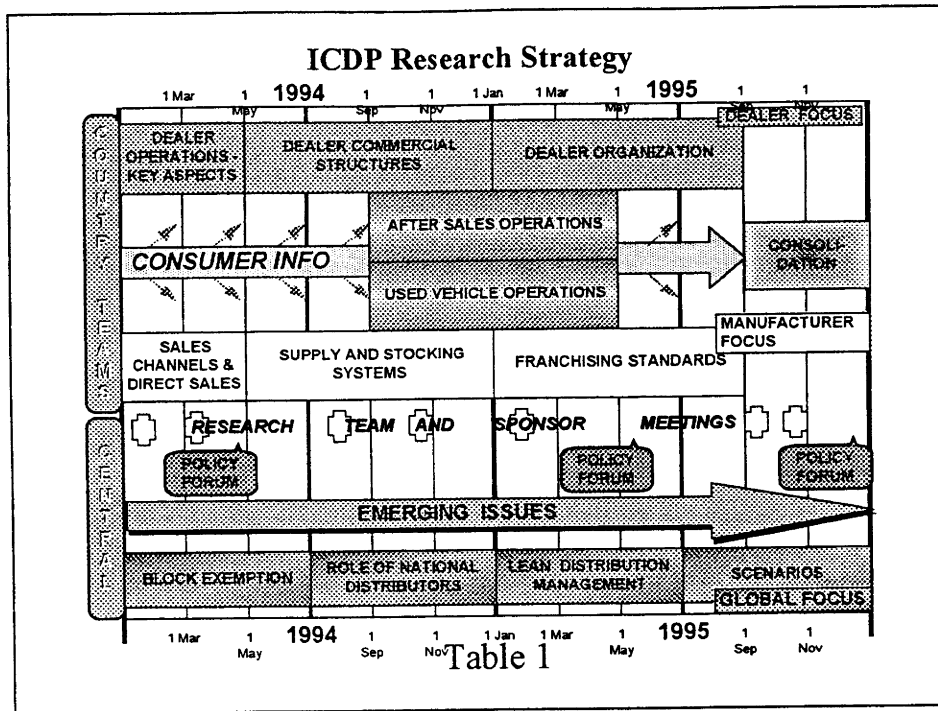
As can be seen from the diagram, there are three principal research streams. These streams, together with the principal questions to be covered in each one, are :

1. **Dealer Focus :** What is the future for the dealer ?
2. **Manufacturer Focus :** What are the optimum strategies for sales and service system ?
3. **Emerging Issues :** What are the global issues and future scenarios for distribution ?

The core issues and key topics for each research stream are now described.

4.2 DEALER FOCUS

Core Issues: What is the business outlook, from the dealer viewpoint? What is the format of the future dealership? What is the dealer role in manufacturer marketing? How much business control do dealers have?



Key Topics:

Dealer Operations - Key Aspects

Key aspects of dealer operations and future concerns of dealers in each market.

Dealer Commercial Structures

Dealer commercial structures, profit sources, sales volumes and margins (new and used), benchmarks. Examining all the factors affecting dealer viability, analysing country differences. Problems of operating in high cost areas.

Dealer Organisation

The organisation, management and systems of dealers under current and future conditions. Group dealership management policies, added value. Personnel qualifications, training and development.

4.3 MANUFACTURER FOCUS

Core Issues: What are the optimum strategies for sales and service systems? How can efficiency be improved, and customer satisfaction increased? How can the total Production and Marketing system be managed to match supply to demand?

Key Topics:

Sales Channels

Level of sales outside franchised dealer channels, activities of manufacturer owned dealers, degree of multi-franchising. Size of business sector, activities by intermediaries (eg. leasing companies)

Supply and Stocking Systems

Impact of new stocking methods in practice, new system developments across Europe; pan European supply systems.

Dealer Networks and Standards

The size, structure and density of networks, dealership and operating standards, policies towards dealer groups, exclusivity, reward/risk policies etc.

4.3.1 LINKED DEALER/MANUFACTURER TOPICS

There are two key topics which require input from both dealer and manufacturer viewpoints. They will also require an analysis of non franchised operations and the impact of their competition on the franchised sector.

After Sales

What will be the future direction for franchised dealer workshops ? (and, by extension, non franchised?)
 What will be the labour and parts content of typical operations ? How can service volumes be expanded for the various categories of dealer ? How will manufacturer policies - particularly warranty - affect dealers ?
 What will be the long term impact of manufacturer backed convenience service programmes ?

Used Vehicles

How will dealers expand the volume and profitability of used car operations ? What will be the impact on new car marketing - especially leasing programmes ? How will manufacturers be involved in used car supply through own vehicle disposal and buy back plans ? What is the direction of manufacturers' used car marketing schemes ?

4.4 EMERGING ISSUES

The central team will consolidate research from the country streams and respond to emerging issues at a global level. They will also cover key topics known to be of importance to the industry and to sponsors. The currently planned topics are :

Selective Distribution - The Role of Competition in the Distribution System

Scenarios under alternative legal frameworks and comparisons of franchise conditions in the EC, Japan and the USA.

Role of National Distributors

What will be the role for national distributors or sales companies in a single Europe ? What is the impact of changes in vehicle and part supply ? Will dealer management and standards become more centralised ?

Lean Distribution Management

Will genuine co-decision between dealers and manufacturers evolve ? What impact will new organisation styles in manufacturers have on dealers ? What will be the critical factors in a lean distribution organisation - in supply systems, selling methods, pricing ?

Scenarios

What are the customer expectations that must be met in future ? What distribution and dealer systems will evolve to meet these needs ? How will they vary, by country, by franchise ? What will be the role for other players - finance companies, leasing companies ?

4.5 CONSUMER INPUTS

A strong focus, running through all modules, will be the consumer requirement. There are a number of key questions for the future of the distribution system that must be answered :

- ◆ How well are retailing and after sales systems performing in meeting the needs and expectations of customers ?

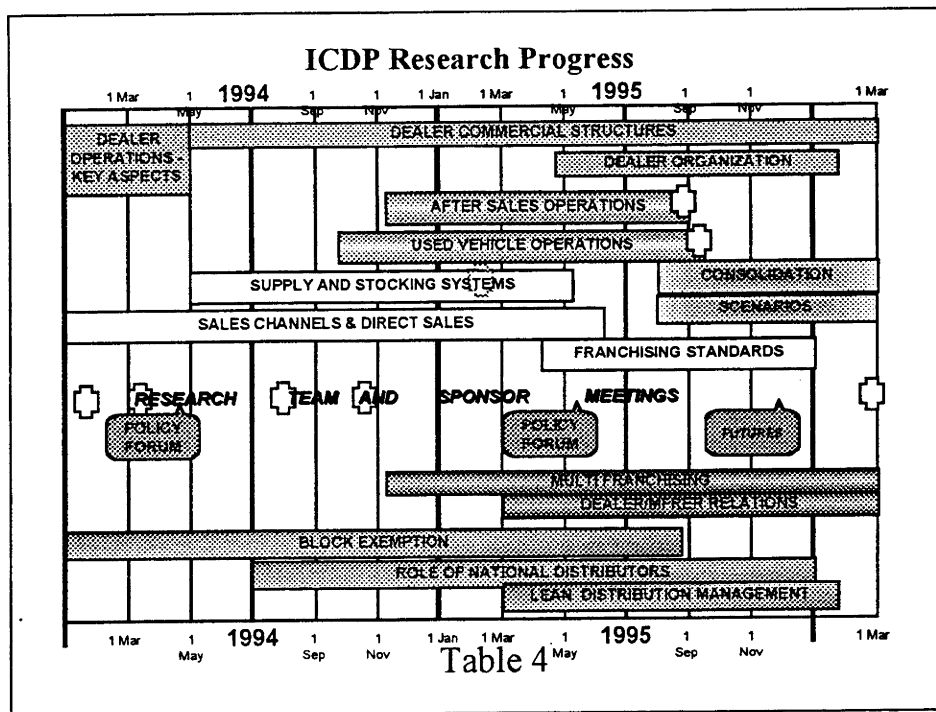
- ◆ What are the differences in consumer behaviour between country and franchise and the reasons for these differences ?
- ◆ Is high customer satisfaction due to the design of the system or the way it is operated ?
- ◆ How will customer expectations change, and what are the implications for distribution systems ?

In the first 2 year phase of ICDP's work, no large scale consumer studies have been envisaged, primarily because of the costs involved - however, meeting the requirements of customers has to be the guiding principle for the car distribution system, and the research will draw on all published and unpublished sources of market data. It is also hoped that specialist research organisations will be prepared to collaborate with ICDP.

4.6 RESEARCH PROGRESS

With nearly 18 months of research now completed, progress has been made on most aspects of the planned work programme. However, the neat sequence of topics originally envisaged has been compromised by a number of factors :

- ◆ Extended time in obtaining data from sponsor organisations, particularly on dealer commercial structures
- ◆ Need to focus the attention of country research on single topics, if effective progress is to be made. The original plans of scheduling topics to run in parallel has proved too ambitious



- ◆ The extension of the Selective Distribution decision timetable which has made it a topic of enduring interest. Even in May 1995, when this article was written, a final decision had yet to be made
- ◆ The availability of an additional research team member, to work on National Distribution organisation, allowing an extended work programme

The management team also underestimated the scale of the task involved and, particularly, the time taken to edit and publish topic reports. On top of the research, the workload involved in maintaining sponsor contacts and arranging meetings is also considerable.

With the additional budget available from 29 sponsors, the ICDP Board took the decision in April 1995 to extend the original project by 3 months, to enable maximum exploitation of the results of the Programme and to document its conclusions properly. The revised timescale and research programme is shown in Table 4.

4.7 SPONSOR LIAISON

Research results and broader topic discussions have been organised progressively throughout the project so far. The meeting venues and dates are shown in Table 5.

All the meetings have been well attended although sponsors cannot always be represented at every meeting. Regular newsletters have kept sponsors informed of research progress and provided advance notice of meetings for diary planning. The team realise that sponsor contacts have busy schedules, so that efficient organisation and good planning of events is essential.

ICDP Meetings Schedule

September 1993		Frankfurt
February 1994		London
March 1994		Geneva
April 1995	1st Policy Forum	Dijon
July 1994		Stuttgart
October 1994		Oxford
February 1995	Supply Systems	Paris
March 1995		Geneva
April 1995	2nd Policy Forum	Perugia
<i>October 1995</i>	<i>After Sales/Used Cars</i>	<i>Amsterdam</i>
<i>November 1995</i>	<i>Future Scenarios</i>	<i>Nice</i>
<i>March 1996</i>		<i>Geneva</i>

Table 5

5. ICDP RESEARCH RESULTS

5.1 OVERVIEW

With such a broad range of topics being studied in depth, each ICDP topic is worthy of a complete chapter in itself. As noted earlier, the results of current work remains confidential to sponsors until the six month time limit has elapsed. In this chapter, comprehensive summaries are made of two ICDP studies completed in 1994:

Competition in European Car Distribution [11]
European New Car Dealer Operations [12]

In addition, a shorter review is given of work in progress on New Car Supply and Stocking Systems [13].

Results from other studies - including Dealer Commercial Structures, and the Future Outlook for European National Distributors, After Sales and Used Cars will be available for publication in 1996.

5.2 COMPETITION IN CAR DISTRIBUTION *RESEARCH SUMMARY*

Background

As a contribution to the decision process on Europe's new Selective Distribution Legislation, the ICDP executive team researched and wrote a paper on the impact of competition in the car distribution system. The objective was to focus on the role competition plays in the system, and how consumers benefit. The paper also analysed competition in the UK and Japanese systems, and reviewed the likely impact of alternative distribution structures such as car "supermarkets".

Benefits of the Existing Systems

The principal justification for the legal Exemption granted to Europe car makers, allowing them to operate a selective and exclusive distribution system, has focused on the links between sales and servicing. This focus has diverted attention from the considerable consumer benefits of the selective system, achieved by a combination of system design and intensive market competition:

Choice : an exceptionally wide choice of brands, products and specifications. The offering of over 30 major car brands and over 400 model lines is well in excess of other consumer durables.

Convenience : a wide geographical spread of specialist sales and service outlets, for all brands, in the consumer's local area and as he travels across Europe.

Competition : At a European level, there is continuous pressure on manufacturers to improve quality, design, incorporate new technologies and reduce production costs. At a market level, there is fierce competition between car makers, promoting major brands, product advantages and national consumer offers (low cost financing, free servicing, for example). At a local level, dealers enhance manufacturer promotions with price discounts and credit offers and other promotional activity.

Independent consumer research surveys across Europe show that these benefits are recognised and valued by customers. This is reflected in consumer support for the system and satisfaction with the service they receive.

The freedom to select dealers, enforce standards and provide commercially attractive market opportunities allows manufacturers to sustain effective national distribution networks. The security of 'selling power' offered by a franchised system encourages continued product development and sustains a large range of models in the market place. At the same time, the operating costs are relatively low compared to other major consumer products. Selling margins are smaller, taking normal levels of discount into consideration. The costs of marketing cars are estimated at 10 - 21% of the net pre-tax consumer purchase price.

International Contexts

The view that the selective and exclusive car distribution system is inherently anti-competitive is uniquely held by European legislators. In the US, Japan, and markets throughout the world, the franchised car distribution system is accepted as a permanent and desirable part of economic life.

In the US, local state legislation determines the function of the car market. Dealer licences are only available to franchised new car retailers, and dealers have the sole rights to sell new cars. Exclusive dealer territories are also legally protected. Franchise standards are similar to Europe, but dealers cannot be constrained from taking on other franchises. However, manufacturers have inhibited the growth of dealer chains by requiring franchise holders to be named individuals. When dealerships are sold, manufacturers retain the right to approve the new owner.

Strong manufacturer/dealer partnerships are also a feature of the Japanese distribution system, which is dominated by very large scale dealer firms, with multiple sales and service outlets. Dealer firms have clearly defined, large sales territories. Outlets are exclusive - through custom rather than legal constraints. There is very close integration of the vehicle and parts supply system between dealer and manufacturer.

The long term stability of distribution arrangements is a competitive benefit to US and Japanese producers. There is no uncertainty about access to sales channels or the future climate for dealer investment. Europe, by contrast, has a legal regime which questions, on a periodic basis, the operation of a key element in the car production and supply system. This instability could be a significant competitive disadvantage to Europe's car producers.

System Evolution Under a Selective and Exclusive System

Since 1984 there has been a steady reduction in the number of European franchised dealers, and an increase in capital investment in upgraded premises. In many markets gross selling margins have been reduced. Customer satisfaction has been emphasised, with most manufacturers introducing programmes to train dealer staff and to monitor customer experiences. Dealer bonuses are regularly linked to actual customer satisfaction measures.

The balance of dealer activity has been changing - there is more emphasis on sales to a growing business market, with finance sales becoming more important. Dealers are increasing their presence in used car marketing and expanding after sales activities targeted at older cars. In both these areas manufacturers are becoming more involved.

This evolution has taken place within the current Block Exemption framework. If the basic principles of selection and exclusivity were retained unchanged, the distribution system is likely to continue its evolution, with a focus on customer satisfaction and improved efficiency. Furthermore, the distribution and retailing system is becoming more and more significant as a focus of competition. Dealer standards - in premises, levels of service and customer handling - are likely to rise, without any increase in cost to the consumer.

The extension of lean manufacturing principles to the supply chain is now in progress across the European industry. The vehicle ordering, stocking and delivery process is rapidly changing, to improve

customer responsiveness, reduce unproductive assets and improve customer service. New systems are changing the dealer's traditional role in ordering and stocking cars. The move from a "stock push" to a "demand pull" system will require different marketing approaches and free dealers assets for more productive uses.

Continued pressure on new car sales margins - from weak demand, production over-capacity and growing competition from the progressive opening of the market by 1999 - will force dealers to expand other profit centres. Used car retailing is likely to grow significantly, with new buying channels being opened to supplement trade-in vehicles combined with more sophisticated vehicle preparation and marketing.

After sales activities are further expanding as a crucial dealer profit centre, with a growth in convenience servicing and increased marketing efforts to owners of older cars. Customers continue to value the link between sales and service. Service is becoming more important as a new car sales retention tool, with dealers being more active in customer contact programmes. Rising fitment of electronic systems across all car ranges will require continued investment in new diagnostic systems and training of skilled technicians. While cars require less repair and rectification in their early years of ownership, added equipment (comfort, safety and emissions) will continue to increase in complexity. Dealers are expected to play a growing role in vehicle testing and in checking and maintaining safety and emission equipment.

Higher standards will continue to require higher levels of investment by dealers. In turn, dealer investors want acceptable returns and longer term security.

There will be a tendency for territories to expand, with larger dealers taking on responsibility for larger market areas. Dealers wish to improve asset returns - particularly as workshop space is freed by more reliable vehicles and new supply systems release vehicle stocking areas.

More franchises are likely to be added to existing sites - although the bulk of dealer operations will remain dedicated to one franchise. Dealer chain ownership is likely to expand as successful dealers expand their business and look for scale advantages, particularly in their non new car businesses - used cars, finance, insurance, and after sales.

The Impact of Multiple Franchising on Competition

A particular limitation on competition is the widespread restrictions applied by manufacturers, within the existing Block Exemption, on dealers' ability to own and operate additional outlets, for either competing or existing makes. The reasons behind these restrictions need examination, to see how such limitations affect the operation of the system and whether consistent application of European rules might open market competition and benefit consumers.

Two specific aspects need to be considered :

Chain Ownership : where restrictions are placed on the acquisition of dealerships, by one firm, taking into account proximity to other dealerships of the same or different makes.

Cluster Sites : the incorporation of an additional franchise outlet onto an existing site. More common in the US, this practice is starting to emerge in Europe. To the consumer, cluster sites are, effectively, free standing, exclusive dealerships grouped on one location.

A further aspects of multi-franchising is dualling - the distribution of several makes in shared showrooms. This has been strongly resisted by most manufacturers, because of loss of brand identity and dedicated sales expertise. In Europe dualling only applies to smaller franchises, particularly in countries with difficult and volatile market conditions (eg. Denmark). In these cases, dualled outlets are often operated by one multi-make national distributor or through a marketing collaboration.

Multiple franchising - particularly cluster sites - can enhance consumer choice and convenience. However, clusters of dealerships (on one site or in one region) can potentially lead to local monopolies. A monopoly dealer's ability to raise prices will, however, be constrained by a consumer's ability to compare prices in an adjacent region and by the general level of price information available.

Car Supermarket Scenarios

Supermarket scenarios assume complete liberalisation of the market with, in effect, light retailer standards and a complete divorce from after-sales servicing (which might continue separately with the current mix of authorised and independent servicers). There are several important reasons to doubt whether the supermarket scenario would ultimately benefit the consumer :

- ◆ Car supermarkets would be able to stock only a limited range of products. Even the largest car hypermarket could probably only stock around 50 model lines, with an extremely limited range of colours and specifications. In the short term, consumers would find their choice limited to the best selling models.
- ◆ In the longer term, manufacturers would be unable to sustain the wide range of products currently available, and would be forced to concentrate on a very simple range of products in Europe. This would mostly affect European manufacturers since Asian and US makes would continue to produce much wider product ranges to meet the needs of other markets. Europeans would be particularly vulnerable to the risk of products not becoming 'best sellers', forcing more frequent product changes and higher investment costs in both product development and advertising.
- ◆ Supermarket economies of scale mainly arise from the ability to drive down producer prices, not from lower operating costs. Assuming constant producer prices, customers would be unlikely to experience lower retail prices at car supermarkets over a sustained period.
- ◆ Supermarkets would not be able to handle trade-ins effectively, almost certainly raising the net cost of purchasing a new car to the consumer as well as causing inconvenience.
- ◆ Overall distribution costs would rise if producers were required to sustain 'shelf space' at supermarkets by much heavier advertising and direct incentive payments to the retailer (as is common in other product sectors). Overall, distribution costs could rise from the current 11 - 22% to the 30 - 40% level, found in many other sectors.
- ◆ Supermarkets would cluster in major market areas, as 'category busters', driving out other retailers. Lower population areas would also suffer, as retail outlets would decline through loss of sales to buyers travelling longer distances to supermarkets. In the long term, supermarkets would build up monopoly power resulting in higher margins and increased consumer prices.

Producer versus Retailer Competition

The car industry, at a producer level, is highly competitive. Product design, technology, equipment, price - all these aspects, and many more, play a role in stimulating consumer interest and in shifting market shares between participants. Consumers largely focus their competitive choices on the cars themselves, not the retail formats in which they are offered.

However, the car dealership system has an essential role to play in the competitive battle between manufacturers. There are increasing signs that customers are becoming more concerned about the quality of the buying experience and after sales service as an element in their choice of brand.

Much of the debate about future legislation for the car distribution systems centres on the need for

increased competition between retailers, proceeding from the assumption that more competition inherently produces consumer benefits.

But it is essential to take a balanced view. The selective and exclusive system has evolved as a stable and integral part of the product development and manufacturing process, providing customers with sustainable product choice and availability coupled with an overall distribution cost which is low in comparison with other sectors.

The recent development of the supply chain, in almost all industries, has been in the direction of greater co-ordination and integration. In these cases, it is generally the retailer who acts as an integrator, co-ordinating manufacturing activity with retail demand. This is impractical in the car industry because of the enormous size of the manufacturers relative to the retailers and because of the oligopoly already forced on the industry by the large benefits of scale in car manufacture. This requires different strategies for achieving the benefits of integration, compared to the other retail sectors. New partnership strategies in Europe, based on supply system reform, are providing a potential competitive advantage.

Analysis of alternative scenarios, introducing more competition at the retail level, show that these formats have the potential to seriously undermine the customer benefits of the system, by reducing the integration of distribution with all other elements of the system. The very complex economics of distribution mean that destabilising the legal framework could be highly unpredictable. Superficially attractive changes could have very different consequences than those expected.

The ICDP research was intended to encourage those making decisions on the future framework of European distribution to look at the issues in a broad context. In particular, to consider whether competition between retailers should take precedence over competition between producers, and whether this would be in the long term interest of consumers. It is the power of competition to induce lasting consumer benefits by acting across the industry that must be the final test of any future legal framework.

5.3 EUROPEAN NEW CAR DEALER OPERATIONS *RESEARCH SUMMARY*

Study Objectives

The ICDP team carried out an extensive interview and desk research programme to investigate the operations of franchised new car dealers in France, Germany, Italy and the UK. The objectives were:

- ◆ To investigate the principal concerns of franchised car dealers about their future business environment.
- ◆ To identify their major operational concerns and the business strategies which they were following.
- ◆ To highlight the principal issues that needed to be examined by quantitative and qualitative research at later stages of ICDP.
- ◆ To compare and contrast aspects of dealer operation in different countries.

The principal findings are summarised below grouped by principal topics.

New Car Sales

The overriding concern, across all markets, is the low profitability of new car sales. This is expressed strongly in the more buoyant markets (UK and France) as well as those with stagnant sales (Germany and Italy). In Germany, dealers are confident that future new car sales will increase, but concerned about increasing intra brand competition and rising customer discounts. In the UK, where radical reductions in dealer margins have been made by manufacturers, dealers are acutely aware of low new car sales returns. In both Italy and France, dealers are aware of the UK experiments and apprehensive about the consequences for their businesses.

UK dealers appear ambivalent about the impact of lower margins. For some, it has reduced aggressive price competition between dealers. For others, it is a straight loss of profit. Of particular concern is the effect of replacing unit sales margins by variable bonuses, often paid retrospectively. These bonuses are less predictable and dealers perceive them as another means by which manufacturers can directly control their profitability.

Points of common interest :

- ◆ Aggressive sales pushes to move surplus stocks - short term policies, reducing dealer profitability and longer term residual values. Pre-registering cars to artificially expand reported sales is particularly disliked.
- ◆ Direct sales - to major fleets with high discounts (UK), and via manufacturer-owned dealers (France)
- ◆ Supply systems that are inflexible and result in excess stocks - in the UK, however, new stocking systems have had a cautious welcome, but dealers are waiting for the long term results before giving unconditional support
- ◆ Parallel imports - especially in Germany, where dealers are starting to respond by sourcing cars from Italy
- ◆ Growth in activity by intermediaries - independent leasing companies, car brokers, buying clubs

Used Car Sales

The declining profitability and acute competitiveness in new car sales is raising the importance of used car sales in all four markets. In the UK, where franchised dealer activity in used cars is highly developed, dealers are looking for ways of making their marketing more effective and managing stocks better. In other markets, the majority of dealers realise that they have to make significant efforts to raise the level of their used car activity - it is seen as a potential profit source to offset against the loss of new car sales income. Many German dealers, however, have a rather different view - believing that used car sales will stagnate and that the effort involved in expanding this activity will not be worthwhile. In France and Italy also, many new car dealers remain uninterested in the profit potential of used cars.

Points of common interest :

- ◆ Impact of legislation on the used car business - particularly cost and time in registering change of ownership (Italy)
- ◆ Benefits to franchised dealers of tighter controls on fraudulent practice (eg 'clocking')
- ◆ Importance of low mileage 'nearly-new' cars from fleet disposals - profit source for dealers

Servicing

As with used cars, there is a growing emphasis placed by dealers in all countries on the need to expand servicing activities in both hours sold and profits made. The starting point, however, varies greatly. In Italy, franchised dealers face heavy competition from non-franchised workshops and service profitability is poor. Italian dealers also complain that manufacturer warranty reimbursement does not cover their labour costs, particularly in urban centres.

By contrast, UK dealers have successfully pushed up labour charge-out rates and enhanced profit margins, (as shown by comparative labour hour rates of around £28 per hour vs. £22 per hour in France), although at a cost of customer retention beyond the first year of ownership.

In Germany, dealers still retain a significant level of service business but do not expect this to grow. In France (unlike Italy), service is regarded as an important profit centre, but competition from non-

franchised service is high.

Points of common interest :

- ◆ Threat from independent service providers - especially 'fast-fits'
- ◆ Awareness of actions needed to respond - quick service formulas, menu pricing, special prices for servicing older cars
- ◆ Increasing investment in customer satisfaction programmes - but cost recovery is difficult
- ◆ Sign of consumer resistance to higher prices - some dealers trying cheaper, 'no frills' packages

Parts

Spare parts are a critical profit contributor to franchised dealers - particularly in countries or regions where service labour rates are lower. In Italy, and to a lesser extent in France, dealers see labour sales largely as a means to leverage parts sales. Sales to non-franchised workshops and sub-dealers are very important to large dealers in these markets.

Points of common interest :

- Perception of growing competition, but few initiatives being taken to bolster parts market share
- Expectation that manufacturers will be forced to lower prices
- Only German dealers appear to be taking real initiatives in developing accessory sales

Finance and Insurance

Across all markets, finance and insurance activities have a high profile with dealer managers. These are clearly seen as exploitable new profit centres to overcome low new car sales profitability. In addition, the extensions of leasing, or personal contract purchase terms, is seen as an important weapon to generate new car sales.

Points of common interest :

- ◆ More dealers employing full or part-time F & I specialists, some backed by computer systems
- ◆ Ambivalence to manufacturer involvement - some dealers welcome the support, others see their finance profits threatened

Other Income Streams

Dealers in all four countries seem largely focussed on their traditional business of new car sales and service. There appears to be no strong move to diversify. Dealers appear more interested in exploiting their assets by expanding their existing areas of expertise. Hence the growing interest in incorporating additional franchises onto existing premises.

Customer Care

Many dealers are setting customer care as a priority and managing their business accordingly. However, concerns over profitability and viability are undoubtedly affecting the willingness and ability of dealers to provide customer care. A number of dealers complained that the costs required to implement manufacturer programmes could not be recovered in sales or service pricing. The arbitrary nature of some customer satisfaction measurement methods, and the uncertainty attached to bonus payments, was also criticised.

rather than raised as an issue. In the UK, more dealers, particularly the larger groups, mention their own customer care programmes. In France and in Italy, where CSI programmes have been introduced more recently, the CSI process itself was causing much concern.

Selective Distribution Legislation

There was a strong contrast in the awareness and views expressed by dealers about the renewal of the EC's selective distribution legislation governing car dealership. In the UK, Block Exemption is seen as a key issue - the uncertainty over the future legal regime was affecting their business outlook. Most dealers felt that manufacturers had provided very little information on the implications of proposed changes. In general, some more freedom of action, particularly in establishing new franchise points, would be welcomed by UK dealers, but complete deregulation was not generally wanted.

In Germany, extension of the Block Exemption was also a high priority. German dealers feel more threatened by changes to the legislation than do dealers in other countries. In Italy and France there was rather less concern - dealers apparently feel that they will be able to adapt their activities, and that any changes will work in their favour. In France, however, the action by the EC in scrutinising existing dealer contracts (where VAG have been notified of 17 grievances) has caused wide interest.

It is probably no coincidence that the dealer associations in the UK and Germany have been very active in promoting the dealer case for changes in the Selective Distribution regime, and have communicated the impact of potential change to the dealer community.

Dealer-Manufacturer Relations

There were widespread variations in dealers' perceptions of their relationships with manufacturers; while some dealers had a satisfactory or good relationship, in all countries there are many underlying concerns, with a remarkable unanimity in points raised.

Points of common interest :

- ◆ Management style and operating policies are critical aspects of the relationships. Good quality field managers are valued, but are the exception - good people are quickly promoted
Not enough authority is delegated - dealers like to deal with managers who can take decisions
- ◆ Manufacturers demand a lot of information from dealers - but are often unreceptive when dealers want information from them
- ◆ Bonus schemes are complex and bureaucratic
- ◆ Dealer network management is not responsive to size of dealer - small dealers feel particularly overwhelmed by paperwork
- ◆ Supply of cars is a major area of conflict - dealers feel that they have to absorb production programming mistakes

Dealer Councils have mixed reviews for their effectiveness - there is no clear view about their future role

CONCLUSIONS

Common Concerns

The research has revealed a significant number of common concerns among dealers in the 4 countries :

- ◆ Continued decline in new car profitability, and increasing competition in all areas of the dealer business
- ◆ A realisation that new profit sources must be developed - particularly used cars and service

business

- ◆ A realisation that new profit sources must be developed - particularly used cars and service
- ◆ Uncertainty about the strategies to follow - exacerbated by uncertainties about the future EC legal regime. Dealers appear to see few advantages from radical changes to the Selective and Exclusive Distribution regime
- ◆ A vacuum in leadership - manufacturers are not giving clear long-term guidance, and dealer councils are not regarded as a source of forward thinking. There is much criticism of policies aimed at short term market share gains
- ◆ A need for manufacturers to review their sales network management policies - improving quality of personnel, communicating better and adapting policies to dealer scale

Key Differences between Markets

Despite many common points of interest, the market reports confirm that very important differences remain between markets :

- ◆ Dealer structure and profit sources
- ◆ Consumer preferences and support for the dealer system. In Germany, franchised dealers retain a higher level of customer loyalty
- ◆ Large variations in competitive environments, with different manufacturers leading on market or franchising initiatives
- ◆ Significant legislative differences, particularly on used cars, and more 'flexible' tax regimes for small workshops
- ◆ Large differences in service labour pricing by market

These differences will remain significant for the medium term and could well persist for the long term, despite the operation of a single European market. 'Best practice' programmes will always need to adapt to local requirements.

5.4 SUPPLY AND STOCKING SYSTEMS

RESEARCH SUMMARY

Research Objectives

ICDP's work in car supply and stocking has three main objectives:

1. To investigate current systems, by obtaining comprehensive and consistent data from the four principal European markets.
2. To identify system developments, by examining best practice.
3. To evaluate system improvements using simulation techniques.

To achieve these objectives, an extensive data collection and interview programme was set up. The results have been published in a series of individual market reports, and a separate study covering the simulation work.

Principal Findings - International Comparisons

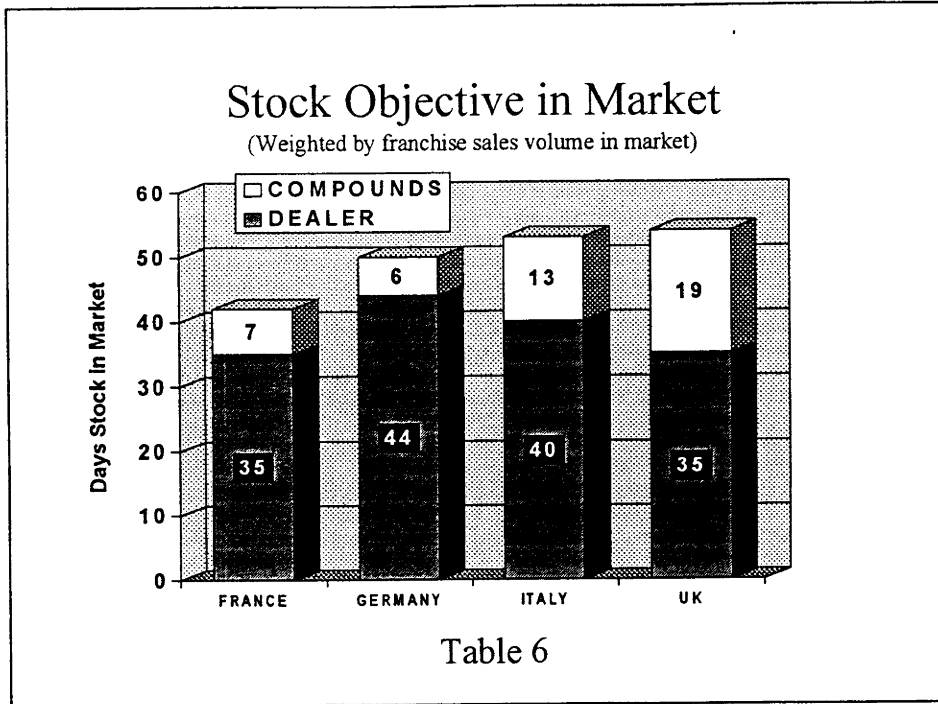
The international comparative findings indicate a significant difference between markets in the operation and efficiency of the supply and stocking systems. The differences are particularly marked between the principal volume car makers. In the case of specialist makers (such as Mercedes, BMW, Jaguar and Volvo) a high level of cars built to customer order are achieved. Specialist car customers are more prepared to select the model and specification they want from a very wide range on offer; and then wait for the car to be delivered.

The Japanese makers are still managing a system driven by a long delivery pipeline from Japan - the influence of European based production on lead-times has yet to take effect. Consequently, Japanese makers offer a much more limited colour and specification choice than their European counterparts, with very limited facilities for cars to be built to order.

Among the European volume makers, each of the major markets has very different characteristics:-

- ◆ In the UK, there has been a strong move by a number of producers towards centralised stocking pools, removing stock from dealers and widening the availability of products on offer to individual dealers. This has resulted in improved matching of cars to meet customer needs. The UK manufacturers offer dealers much better stock financing terms than in other markets, and the availability of efficient stock tracking schemes has resulted in a high level of transfer between dealers. This high level of transfers remains among franchises not holding stock in centralised inventories. Within an environment of more stock information available to dealers, and more willingness to use available systems, UK customers are, relatively, more impatient to receive the cars of their choice and less willing to wait for delivery
- In France, dealers take advantage of flexible order amendment facilities to fulfil customer requirements. There has been no significant move to pooled inventories, although some dealers take advantage of storage facilities offered by delivery companies. These are often linked to rail wagon unloading points, since rail movement of vehicles is well developed within France. Overall, market stock in France is the lowest in Europe, (see Table 6) although dealers still hold a significant level of inventory on their premises. Dealer stock financing is offered by most
- ◆ In Germany, in contrast to all other markets, volume car customers are prepared to order cars to their specific requirements and wait for delivery. A very high proportion of cars are built to order. For most makers, no form of stock financing schemes are offered and dealers must finance inventory themselves. Within this strong, order driven culture, it is therefore surprising to find that stocks in the German market are the highest of the four markets studied (in terms of days sales). As a consequence,

German dealers also have the greatest difficulty in liquidating old stock, since most customers clearly have a preference for a freshly ordered product. Customers are more inclined to wait for cars of their choice than in the UK.



- ◆ In Italy, a very traditional system is still operated. Dealers order cars in advance and customers largely buy from dealer stocks. There is a low level of transfer and cars ordered specifically for customers. Stock financing systems are not well developed. Market stocks in Italy are high and dealers are particularly concerned about the inaccuracies of the system - late deliveries and cars sent to the wrong specification.

A Total System View

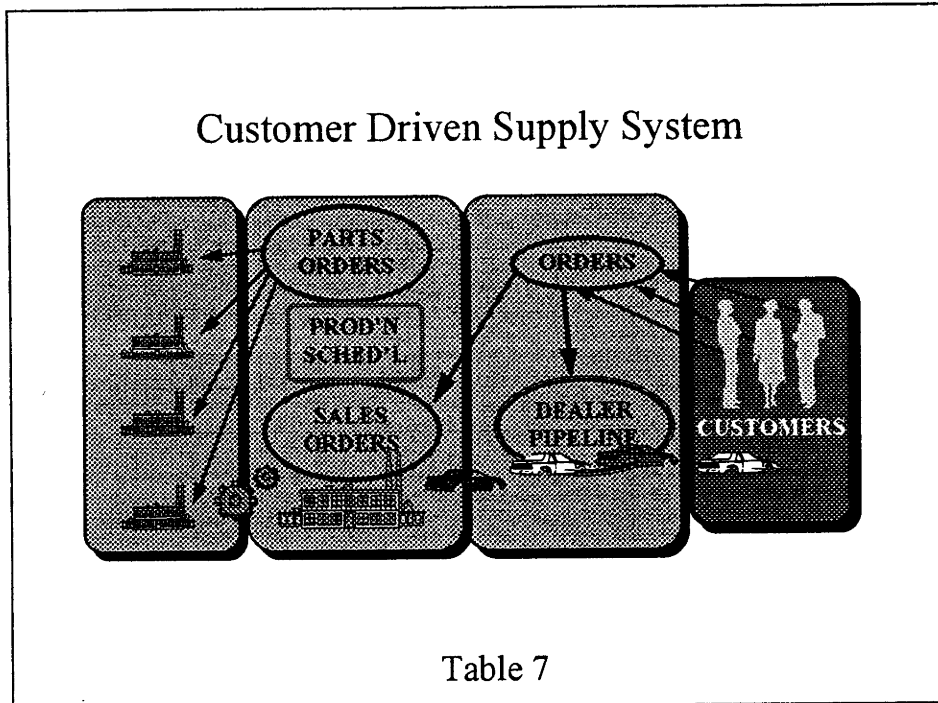
The ICDP research suggests that, to achieve cost savings and improve efficiency, the European car industry should consider a new approach to planning and organising the supply chain. This requires a consideration of the total system, with all participants taken fully into account. The optimum system needs to be fully integrated, responding to customer needs. The diagram shown in Table 7 illustrates the principles involved.

To move towards such a system requires the role of information at every stage to be analysed. The whole chain should be gathering data about true customer preferences, actual and desired waiting times. The role of stock needs to be questioned - is stock there to improve customer service or merely as a buffer to overcome the inefficiencies of the whole system?

Within an integrated system, all participants in the chain should be involved in its effective operation. This means a re-evaluation of the role of dealers. Currently, they order vehicles for stock and then persuade customers to accept them. In a total system, they will help customers place orders meeting their exact specification and delivery time requirements. They will focus even more on customer retention, encouraging (rather than discouraging) advance orders. This in turn means changes to manufacturer's marketing and incentive programmes to reward genuine

customer orders rather than stimulate dealer wholesales for stock.

The effect on component suppliers also needs to be considered. More flexible component supply and shorter lead times may be necessary to achieve customer responsive production. The trade-offs between the lean stock at assembly plants and high finished vehicle stocks need to be fully examined. Stocking and inefficiency costs carried by dealers should be transparent to everyone in the system.



Overall, the car industry needs to completely rethink its supply systems. Trade-offs should not be accepted - nor should it be assumed that customers are getting the best deal from the present system just because they receive cars quickly. A system which delivers a customer's exact choice on the exact day it was promised is largely unknown in the car industry. ICDP's work suggest that many customers would like this type of system - and there will be great benefits to the pioneering companies that deliver it.

System Developments

Examination of 'best practice', supported by simulation model analysis, has indicated a range of techniques that can be applied to improve supply system efficiency. These techniques have been assembled into a 'tool box' of potential improvements, as shown in Table 8.

The areas of improvement include:

- ◆ Improving order amendment flexibility and extending from simple change (like paint colour) to adding options or even alternative power trains.
- ◆ Introducing build time as a key driver of the production system - Timed Availability.

Supply System 'Tool Box'

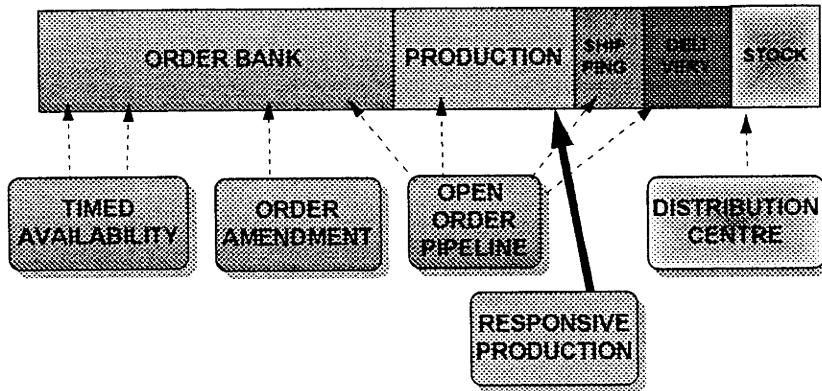


Table 8

- ◆ An open order pipeline - allowing dealers to access other dealers orders and redirect them to meet customer requirements.
- ◆ Reducing overall production lead-times - and allowing dealer orders to be submitted up to the production cut off point.
- ◆ Improving management and availability of stock by use of distribution centres.

Improved Supply System Performance

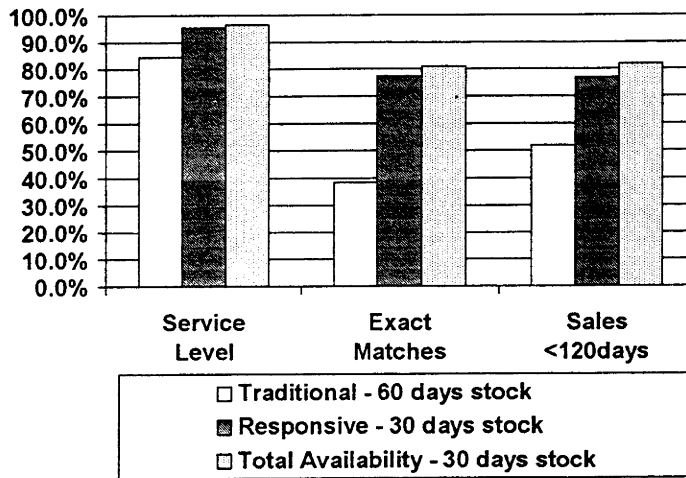


Table 9

Simulation of a supply system incorporating all these improvements indicates that a very significant improvement in customer service can be achieved with less than half the stock currently used. (See Table 6). The average age of stock can also be cut by half. The findings demonstrated that reduced costs and improved customer service are not incompatible. System design can achieve major progress on both. An extract from the results is shown in Table 9.

Supply System Costing

In any lean system, the total costs of the operation should be considered - all inefficiencies must be quantified, however they arise. In car supply and stocking systems, costs have usually been considered in terms of directly measurable items - for example, delivery and preparation costs and stocking interest. To derive true supply system costs, the ICDP Research Team have expanded the conventional analysis to include all aspects of system inefficiency, as shown in Table 10.

The costs considered in their examination include:-

- ◆ Incremental discounts given by dealers to persuade customers to take a stock vehicle not matching their ideal specification.
- ◆ The costs incurred by dealers due to late delivery of promised vehicles - the reduced value of an agreed trade-in vehicle, for example
- ◆ The liquidation expenses of moving old stock vehicles.

These incremental costs have been assessed in the four markets studied - not surprisingly, in view of the problem of holding old stocks, the inefficiency costs incurred in Germany are substantially higher than other markets. On average, the ICDP Research shows that total supply and stocking system costs in the major European markets are £465 per unit.

SUPPLY SYSTEM COSTS		
DIRECT	MANAGEMENT	SUPPLY INEFFICIENCY
<ul style="list-style-type: none"> • Delivery • Stocking • Security • Interest 	<ul style="list-style-type: none"> • Stock Location • Compound Operation 	<ul style="list-style-type: none"> • Wrong Spec • Discounts • Late Delivery • Over Age Stocks • Transfers

Table 10

The Potential for Cost Savings

ICDP concludes that the European car industry can achieve massive savings in assets and direct costs by reforming the supply system. By adopting new techniques, it is estimated that stock could be reduced by 60%. At the same time, inefficiency costs would be cut by producing cars matching true customer wants.

Based on 1994 averages, these changes would:

- ◆ Reduce European vehicle stocks from £18 billion in value to £8 billion.
- ◆ Release £10 billion in cash, and free large amounts of storage space at Manufacturers and Dealers
- ◆ Save annually £1 billion in direct interest payments, £1 billion in reduced dealer discounts and £0.5 billion in direct costs
- ◆ A total annual saving of £2.5 billion

Not surprisingly, the scale of these potential savings is causing much interest in ICDP's work. The Research Team has already made a number of special presentations to sponsoring management teams who are using the findings to help plan their future supply strategies.

6. CONCLUSION AND FUTURE PLANS

6.1 PROGRESS SO FAR

While the current ICDP Project still has to complete a number of research modules in order to meet its objectives, the project team feel that its achievements so far, and the support given by sponsors, mean that a further project should be considered.

The team have made a critical analysis of the project so far, and have assessed its strengths as:-

- ◆ The establishment of a new research network and a tightly managed secretariat.
- ◆ Achieving budget goals and managing the project with open accountancy principles.
- ◆ Providing productive meetings for sponsors and taking advantage of a unique debating forum to examine new issues.
- ◆ Setting pan-European research agendas and beginning the first, systematic international comparative research in car distribution.
- ◆ Securing the confidence and trust of sponsors so that key benchmarking data is made available.
- ◆ Producing a wide range of strategically valuable reports and presentations.
- ◆ Setting the right balance of academic and practical analysis, and harnessing the experience of senior advisers to sharpen the results.

On the other hand, the project has been less successful in:-

- ◆ Producing actionable results - some studies have been too theoretical and the team needs to derive more recommendations for specific actions from its research work.
- ◆ Ensuring consumer input - there is a need for access to more consumer studies or for ICDP to commission its own consumer research.

On balance, the ICDP Directors feel that they have demonstrated the value of their approach and have built an organization that can continue to produce important and relevant research for a wide range of sponsors. A formal proposal for a further ICDP programme was, therefore, launched to sponsors at the Policy Forum held in May 1995 at Perugia. Generally, feedback has been positive - no sponsor has said a definite 'no', many have expressed support, and a number, understandably, wish to see the proposed content before committing. With this encouragement, the founder team will be working through the summer of 1995 to put the launch strategy together.

6.2 ISSUES FOR THE NEXT ICDP

The next ICDP needs to contain a balanced mix of new projects and developments of existing studies. The identification of new issues can assume more importance now that the foundation of data collection and analysis have been built. On the other hand, repeating the benchmark studies already developed will help the industry make changes and enable progress to be monitored. The importance of historic data should not be under-estimated. In its supply work, the team had access to previous findings from the UK market, which enabled recent innovations in stock management to be clearly measured.

Another study module of continuing, and critical, importance to the industry is the analysis of dealer commercial structures. In this area, ICDP can draw on a developed methodology of international financial comparisons, plus a growing understanding of manufacturer supplied 'composite' data for dealer accounts (global data on the financial performance of dealers, by market). In the next programme, the ICDP team plan to continue and expand this research stream. A deep understanding of dealers financial

circumstances provides an essential basis from which to develop distribution scenarios.

The 'building blocks' of a further phase of ICDP's research are therefore in place. Detailed decisions, particularly on the new issues to be tackled, will be completed during the second half of 1995. The new ICDP programme will run from April 1st 1996 until March 31st 1998.

6.3 CONCLUSIONS

This article has demonstrated the value of a well organised, co-operative, business research effort to the development of the car distribution sector. ICDP has contributed significant strategic findings already, and offers the potential to generate a continued research stream of valuable material. The sponsor meetings provide a unique forum for industry issues to be resolved. ICDP has also raised the profile of car distribution in the public sector and among bright researchers. The development of the project so far also shows how a long term vision can be converted into reality by a determined effort, sound planning and attention to detail.

As in any enterprise, however, there is no room for complacency. ICDP needs to develop, grow and incorporate new ideas. The launch of another two years work will be the next step forward.

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