CHAPTER 4

DEALERSHIP BUSINESS PERFORMANCE AND CHALLENGES
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4.1. INTRODUCTION

This chapter deals with evaluation of business performance of dealership sector in respect of increase competition, alternate source of income, company’s expectation from dealers, marketing and promotion aspects, customer’s expectations, profit margins, financial problems, eco–friendly and environment protection. The challenges and difficulties confronted by the dealers have been dealt in this chapter.

4.2. AUTO DEALERS IN INDIA

Indian automotive industry has developed over the last few decades into a flourishing industry with a host of new challenges emerging along. While managing product development and manufacturing is critical in the supply chain, successful customer addition, acquisition are becoming keys to the success at the market place which is full of competition. Automotive dealers are the most momentous part of any brand representation in the market place. A company or brand is as good as its representation and perception in the market. Establishing a well-planned dealership network is a open essential secret to market products successfully. The dealer is a core and crux of success in marketing of products. Theessentiality of dealers – “Customer touch Point”, sustaining them for a longer period of time is becoming more relevant which was not the case earlier. This need of dealers was not felt earlier. Hence, in the current scenario, performance of dealers is an indication of performance of brand itself and vice versa. (Vichak Phongpetra, Lalit M. Johri, 2011)
Dealership is a place where a customer experiences truth, wherein have opportunity to see, feel and know about the product. Dealerships have been responsible for growth and diversify of automobile and associated industry. The Indian economy is the second fastest growing economy in the world. The rapidly increasing households incomes are prompting a dramatic shift in lifestyle and corresponding change in the market place.

In the auto industry, the company generally does not meet the customers on a regular basis. It is done through the company’s network of dealers. So how well companies can have a network is a very critical factor.

A dealer is the connecting link between the company and the customers and is a two-way channel communicating the uniqueness of the company’s products and services to the prospective customers and conveying back to the company the customers’ feedback on the company’s products and services. It can be said that for the customers, the dealer is the face of the company.

**Needs of Dealers**

- **a) Good Products:** The dealers expect that the company provides them good products relevant to the market in which they are dealing and as per needs of the customers. This includes the tangible product, intangible benefits coupled with other commitments including financial terms.

- **b) Continuous Business:** The dealers anticipate that the company’s products should give them continuous business. Products should be launched logically neither in hurry nor very late. Especially, in the case of new products, it is imperative that the company is able to supply them the volumes committed.

- **c) Product Quality, Durability and Reliability:** The dealer is the company’s face and image in the appointed geography. The dealer would not like customers purchasing cars which are not of ‘good’ quality. Both the customers and the dealers expect that
the cars should have the best minimum problems and it should be set right in the minimum time too.

d) **Spare Parts:** After the cars are sold, the company has the spare parts obligation for servicing. It is very essential that the spare parts were very promptly supplied to the dealers by the company, so that the customers were not put to any inconvenience.

e) **Service Training:** The dealers should be given proper guidance and training in servicing of the cars. This is required especially in case of new model of cars, because some specialized modern components process have been imported in the new models which may not be known to the dealer. Hence, timely service guidance and training is very crucial in order to maintain the companies reputation.

f) **Building Relationship:** The dealers also want the company to have good, transparent, ethical and honest relationship with them and to abide by mutually agreed agreements.

India is in a phase of transition where the country is heading from a developing country to a developed country. Both developed and developing markets are driven by a need that is slightly different today due to different lifestyles and different empowerment levels. In this new market the manufacturers need to understand opportunities and challenges due to the power shift given to customers. (Deepika Jindal, Chandan Jee, Rajiv R. Thakur, 2011) Dealers need to understand the changing and evolving nature of competition and explore some of the major business trends affecting global companies like General Motors, Ford, Toyota and so on. Dealers also need to appreciate some of the major opportunities and challenges faced by global businesses given the major business trends. Business entities have specific objectives primarily driven by motives profit for the organisation and service to the community at large. Today, for winning in the market, be it either developed or
developing, it is imperative for auto manufacturers to understand the linkage between the products portfolio and the services while executing their business model.

It is important to forge stronger relationships with the customers. This also implies that sticks to what dealers know well and continue to do well. (Fornell, C., 1992). This means that dealers should continue with their present business model which they have been following for a long time and should improve activities in the existing business model.

In the developed Countries, companies try to focus on augmentation of product and services and try to provide bunch of services resulting in convenience to the customers and introduce new value added services so that the income gets generated. But for the developing countries like India, companies should focus on low maintenance cost in terms of mileage and servicing cost. The policy is underlined by the government.

Dealers need to be always conscious of the cost and should continue to provide basic transportation. That is where the future growth exists. As the country moves from a developing economy to developed one, dealers need to be consciously aware of the changing trends. With today's communication level, it is not difficult to keep abreast with the changing trends.

The factors that are keeping the dealers on the toes are:

- The demand for ever improving service standards would result in the evolution of dealerships into a brand rather than just a delivery outlet
- With disappearing international boundaries in business a new market place is being evolved.
Figure No. 4.01
Figure Showing Changes in distribution System in Pre & Post Sales Scenario

A) Channel Structure Earlier (Single Channel Marketing System)

Vehicle Dealer
↓↓
CUSTOMERS
↓↓
Dealer Workshop  Local Garage

B) Channel Structure Today (Multi Channel Marketing System)

Dealer Workshop  Dealer Workshop  Dealer Workshop
↓↓↓
CUSTOMERS
↓↓↓
Dealer Workshop  Independent Organized Retailer  Local Garage

The distribution has changed from a single channel to multiple channel of contact, for both sales and after-sales services offered to the customers. With the multiplication of channels, the competition has thus grown multifold.
The earlier competition, only from small time local garages who were offering expertise in selected areas, is evolving into a larger organised independent service providers offering solutions to all problems under one roof.

In the given situation, the business model of automotive dealers is clearly under tremendous pressure from all business angles. Diverse forces are acting against the dealerships which are indicated in the following diagram.

**Figure No. 4.02**

*Figure Showing Competition amongst Dealers*

Bargaining power of manufacturing companies is compelling dealers to put more money constantly into their infrastructure so as to enhance the customer experience by providing them bigger bouquets of facilities. On the other hand, customers are getting savvier, more informed and the standards of minimum service expectation is rising day by day. There is
increasing threat of new entrants as manufacturing companies are appointing more and more distribution points to enhance their business.

The competition amongst the dealers of competing brands as well as within the same brand is crossing boundaries and reaching new heights. Discounts and freebies are not a seasonal affair anymore and are not enough to attract people to the hub. All this has lead to drastic shrinking of margins in the new vehicle sales business. Some progressive dealers have confronted these challenges and have worked their way to sustain bottom lines through increased focus on after-sales business.

However, the sole support of after-sales service business itself is under threat of substitutes in the form of organised (branded) franchised service network. Branded franchised service networks have been started by corporate people retiring from leading original equipment manufacturers (OEMs) like Maruti, M & M and so on. Thus they are aware about the customers wants, practices prevailing in the dealership network and the loopholes in the present system. Due to this upgraded business knowledge coupled with services at competitive charges is creating threat to the present dealership business. Companies supplying automotive related products in the aftermarket like oil, lubricants, auto components and auto accessories are entering the lucrative automotive service business. Well-known brands in the market like Cummins, Bosch, Castrol, Gulf Oil, and Reliance have already forayed into the after sales business in some way and many companies are keen to enter in the automobile market. With fast pace of new vehicle sales, dealers cannot ignore the sales function. Dealers need work on their front desk and sales employees to enhance their skills and communication abilities. However, if the focus of dealership remains only on sales, the opportunity to earn from growing after-sales service business would be exploited by branded and unbranded service networks. So the dimensions of the dealerships are changing rapidly. This will be the biggest ever challenge faced by the
automotive dealers in India. The automotive dealer's business was redefined from selling vehicles to servicing customers in the late nineties with the entry of multinationals in India. However, this new definition of the business itself is under threat with the newly emerging competition from both branded and unbranded service networks.

Any car owner evaluates type of service centre on 4 Ps of service channel selection.

**The 4 Ps are:**

- Prices of the spare parts
- Proximity of the dealer
- Prices of labour
- Promptness of the services

Authorised dealer workshops are always likely to have higher price of parts and labour than the independent after-market, given the higher overhead costs. However, proximity and promptness of service are the two key criteria on which they need to work in order to retain the customer within their fold and earn their lifetime value. There are very few options left with the automotive dealers of this era. They either change themselves and their systems to be more customers focused or concede the business to others.

Car dealers always play very vital role of intermediary in increasing, maintaining and promoting brand equity of a particular car company. In the process of brand building they either build up the reputation and contribution towards the growth of the company’s market share or can damage it.

Maruti is concentrating on corporate clients for the orders of the cars without bothering even small or large orders as majority of the companies are located around Pune as they predict a great opportunity over here. Senior Sales executives of Ford, Honda are following the same route of cold calling i.e.[cold calling is the marketing process of approaching
prospective customers or clients—typically via telephone, by email or through making a
collection on a social network, who were not expecting such an interaction] as is being done by Maruti Udyog.

In India, the role played by the car dealers was limited to a mere selling of cars. Today this has been a substantial change in the current with the dealers emerging as an important point of connectivity between the company and the customers for their cars. Today they are expected to act like a catalyst to promote the selling process of cars. The brand of the car and different models plus the dealers’ location influences in ensuring that the customers get the best of strategic advantage. The ambiance and the customer service are as important as the cars. The first two points help to create a tangible experience. The better the experience, more is the word of mouth publicity and recommendations to other prospectus buyers.

Car manufacturers are giving enough information on their websites, preferably with illustrations, on each model of their cars with their dealers. This development, considering the technological advancements, is considered good.

4.3. PROFIT MARGINS

Profit Margins were very high during the last decade when sale of cars was on the top thus the business remained attractive for a long time. The recession in the western world started to hamper the financial strengths of the manufacturing companies. Indeed companies are concentrating to take out more from the dealers by increasing their efficiency levels. So the profit margins are stable for a long time. The profit margins are not very attractive now. The profit margins are under pressure because the companies expectations of providing improved services to their customers is considered important due to the sever competition amongst dealers.
The data collected from the dealers of Maruti Suzuki, Hyundai and TATA received decent amount of commission ranging between 10% to 12% on small cars and up to 15% on luxurious cars. Skoda gave commission to its dealers ranging from 13% to 14% on small cars.
cars and up to 18% on luxuries cars. Mercedes Benz dealers received commission between 12% on small cars and up to 16% on E class and S class models. Even though the above figures look attractive, competition amongst dealers to attract customers is shadowing the increase in sales figure. The policy of dealers of penetrating the market is making the dealership business more operationally hard.

**Graph No. 4.03**

*Graph Showing Amount of Margins Received by the Dealers from their Servicing Departments*

![Graph Showing Amount of Margins Received by the Dealers from their Servicing Departments](image)

**Source:** Questionnaire

The margins earned at the dealership in all the departments are decently good but it remains same. Cost of servicing is always low in local garages. The organised players are making play field difficult for dealers. In accessory department higher profits are earned as customers are less aware about authenticity of accessories so dealers are pushy about accessories so there is additional income from accessories department.
In spare part department, as they have to offer genuine parts no additional income is generated but the margins are very high in spare part department.

In servicing departments dealers have to maintain infrastructure at par. So infrastructural cost is very high coupled with the problem of labour cost. Thus to run it profitably dealers need to have volume business i.e. more vehicles lined up for servicing on a particular day.
The average margin earned by accessories departments was more than other departments ranging between 20% to 50%. The spare parts department margin earned was also considerably high ranging between 20% to 30% and servicing departments’ margins was up to 50%. But in some dealerships servicing department was incurring losses as they have to maintain labour and pay good salaries.

It is observed from the study that dealers had to maintain well-equipped servicing centre including tolls and electronic gadgets for the purpose of servicing and repairing of the cars which required investment ranging between Rs. 3 Cr. to Rs. 8 Cr.

Dealers of companies such as Maruti Suzuki, Hyundai and Tata Motors have maintained investment of Rs. 8 Cr. to Rs. 10 Cr. in cars and capital investment of Rs. 4 Cr to Rs. 5 Cr. whereas dealers of companies such as Skoda, Mercedes Benz and Ford Motors had capital investment of Rs. 10 Cr. to Rs. 14 Cr. and maintained investment in cars between Rs. 12 Cr. to 16 Cr. Dealers have invested on their spare parts section ranging between Rs. 8 Lakhs to Rs. 75 Lakhs.

Dealers were not having enough concern for security of their place. They had 2 to 5 security guards for the safety and their monthly budget for security was between Rs. 20000 to Rs. 50000.

Dealers had tie-ups with lots of financial institutions for advancement of loans to their prospective customers. Majority of them were found to be Tata-Capital, Tata Finance, ICICI Bank, HDFC Bank, Magma Financials, SBI bank, Axis Bank and so on. Basically to sell vehicles to the customers and maintain them by providing services is a major role of dealers with acting as buffer to store vehicles and share the risk with manufacturers are equally important. But in arranging finances they act as facilitators by having tie-ups with financial institutions. They cannot deal with financial uncertainties in availabilities of finance. As interest rates are outcomes of financial policies of banks and RBI (Reserve Bank of India)
Bank of India). Financial fluctuations are the greatest problems in auto sector. But reaching
the untapped market, try to reach unreached people, by keeping MIS of customers who were
paying regular instalments and pitching them for new vehicles, using internet to find
financially capable customers can serve to reduce the risk of financial uncertainties.

4.4. MARKETING AND PROMOTION ASPECTS

There always exist a demand for better products and improved quality. Customers today are
more knowledgeable, discerning and demanding. They know the fine distinctions of
technology and additional features. They are challenging the price competitiveness of the
manufacturers. The organizations are confronting these challenges and are working out
strategies depending upon their car models and demand patterns. In this scenario, the role of
the dealership is more important than ever before. At a dealership, the working culture of
the organization and response to the changes external to the environment is determined by
the approach and attitude of a dealer towards the customer. (Sofie Van Den Waeyenberg,
Luc Hens, 2008) The dealers have to develop the right attitude towards needs of the
customer. If the dealer owners are not sensitive to the aspiration and needs of the customer,
the massage will not percolate to the staff. The staff will also follow the footsteps of the
owner. The dealer should put thought to its staff that after selling the vehicle the job of a
staff member does not get over. Sale of a vehicle is a beginning of a relationship. The entire
process of relationship management starts with sale of a vehicle right from the time of the
delivery of the vehicle to the customers. Dealer gets enormous opportunities to develop and
build long-term relationship with their customers. It is entirely up to dealer - how long and
how effectively he would like to continue this relationship.
Relation Management offers is one of the best opportunities for increasing profitability and competitiveness of dealers. The correct perspective in the aspect of relation management is to look at the lifetime ownership value of a customer.

Relationship management should be seen as an organization's wide approach for being aware of the customers' behavior, habits, and it must be influenced through regular, relevant communications and actions. The dealers should keep in mind to take the customers along by being responsive to their needs and aspirations.

The dealers do not get support in promotion expenditure of vehicle or even if they get, it is not much to be happy about. Promotion of a vehicle is undertaken when new car is launched in the market or when the car inventory is not moving. Companies are very curious about promotion of their cars they launch as it is a vital event for their success. It is done through trade shows, auto exhibitions, test drive offers, discounts apart from advertisements in regular print and other broadcasting media. Normally when cars are not able to hit the market with a bang and dealers have already have lot of unmoving stocks, unfortunately companies are reluctant to support them. Dealers are in flux as to how to sell these stocks. It is then that the dealers generally offer heavy discounts, sometimes more than their margin.
The dealers are not prepared for such kind of contingent situations. The dealers must learn and negotiate about timely support of marketing and sales department of original equipment manufacturers. For if timely support is not given, then original equipment manufacturers (OEMs) fails to execute the marketing plans. Manufacturing companies usually bear all the expenses related to the local advertising expenses such as posters, hoardings, fliers in
Newspapers, pamphlets and so on. Dealers also spent on advertising for their own dealerships. They normally spend on an average between Rs. 5000 to Rs. 8000 monthly.

4.5. PENETRATING THE LOCAL MARKET
Perhaps best potential way of retaining customers is to have a process to build long-term relations with customers of new and used vehicle sale customers. The dealers are trying novel and traditional methods as marketing tools (postcards, radio ads, direct mail coupons, pamphlets, fliers in newspapers, auto rickshaw hoods, e-mails, cold calling, websites, newsletters and so on). They are doing different kinds of demographics analysis about what kind of customers visit their dealership, their income group, gender, needs and geographical locations. Dealers try several tools over a period of a year; comparing their results to know which type of advertising is helpful to attract more customers, specially the high class customers. Such kind of analysis helps dealers to analyse which source of information is assisting them to attract maximum customers.

4.6. ALTERNATE SOURCES OF INCOME

1. Body shop Profitability
In 1999, the automobile collision repair market represented a sales potential of over Rs. 600 Crores. Increasing dealer penetration in the collision repair market is one reason for having a body shop in a dealership. Today, managements must deal with increased capital investments to produce quality repairs. Dealers should analyze dealership's operations, considering the following factors:

- Insurance companies' impact in market in Local body shop market
- Local competition (amount and quality)
- Equipment needs
Credit availability

Trained body shop technicians availability

Ability to control paint and body shop materials

A successful body shop provides timely, fairly priced, quality work. The body shop should be perceived as a separate business. It has its own profit objectives and the body shop manager is the responsible operating executive.

A quality body shop can help in pulling customers for the dealership’s new car department because of traffic in body shop.

Increased efficiency in the body shop together with better quality work improves customer satisfaction. (Jose M. M Bloemer and Jos G.A.M Lemmink, 1992), Customers generally perceives dealer offering full Service as it increases customer satisfaction.

A body shop can increase parts department sales and gross profit.

For more earnings from body shop following should be considered.

2. Insurance Business

Ninety percent of business in the body shop is controlled by the insurance cost, so it's important to know how body shop manager can best work with insurance estimators/adjusters and companies. It is also important to understand the correlation of time allowed on an estimate to actual repair time. While an apprentice may turn one hour for every hour billed, a master technician could complete in an hour, scheduled for three hours. If an insurance company pays Rs. 100/- as labour hour rate; and the job requires three hours as per schedule, the insurance company would pay Rupees 300/- for the repairs. Hence, the body shop's labour cost will be based on the skill level of technician doing the job and time negotiated.
Getting listed of preferred dealers

Though insurance companies at the national level do not have any policies regarding making suggestions, locally officers generally recommend customers regarding a "preferred list" of body shops in their area. Sometimes these recommendations are dependent upon the type of equipments the body shop has. For the same reason, it is important to keep local insurance contacts informed about services offered, training given to the employees, charges, and equipments purchased. Dealers call the officials to the body shop for demonstrating the body shop and equipments in it. Display of quality work, equipments, right procedures can help dealers justify the charges to the insurance officials. But relationship management with insurance officers can give edge.

Some companies also have a list of ‘Approved shop” for repairs. But for getting into the list dealer must have lower labour rates, discounts on spare parts, latest equipments. This relationship can definitely help attract more business.

Both insurance companies and vehicle owners want complete and accurate estimates followed by quality work done in a timely manner. Correct estimation means every detail has to be cleared to the estimator without any contingent surprises. Dealers needs to take care of insurance estimators as they are the “repeat customers”, who regularly visit body shops and brings money to the dealers. To make adjuster interested in the body shop, dealers need to have some office space equipped with diagnostic equipments, computers, calculators, crash guide lines, measuring tape and so on.

In many areas, the only way to ensure adequate volume is to become an "approved shop" for the insurance companies. This relationship can definitely help attract more business, but caution can be taken that it usually goes hand-in-hand with such concessions as lower labor rates, greater parts discounts and purchase of dedicated computerised equipments.
Both insurance companies and vehicle owners want complete and accurate estimates followed by quality work done in a timely manner and with no surprises.

b) Correct Estimates
Dealers should make their estimate of the damage upon the arrival of a vehicle, determining the profit potential available on the job. It gives dealer a better control of situation. Dealer can give estimates by considering availability and rates of spare parts, labour requirements to complete the job, subsequent delays that may occur because of unavailability of some parts and give exact duration for completing the job. Then insurance companies prepare their estimates but while doing so they rely on the estimates prepared by their dealers. Dealer also charge for preparing estimates if the job is done at their body shop. But the important thing is that the estimates should give clear idea and should have adequate space provision recording any additional expenses if any.

3. Hiring Contractors
Instead of appointing full time employees for painting and denting jobs for the bodies, the same must be done through contractors. The contractors diary is maintained by the works manager/supervisor so that contractors’ monthly bill are prepared. The advantages of contract labour is that dealer do not have a fixed salary burden, which indicates perquisites.

4. Scrap disposal
For scrap disposal, a system is made where every month the scrap is sold. Every day, the scrap is collected from the working area to a designated scrap yard. This scrap even though looks trivial in nature but cumulative effect is much wider.

5. Use and Rent Cars
Dealers of BMW, Mercedes, Toyota, Honda motors are offering these services. They make an agreement with their prospectus customers while purchasing that their customers in future would purchase cars from same dealers after a particular period, generally after three
years. If the customer desires he could either retain the car or could sell the same to the dealers at a decided price. These fleets of cars are retained by dealers and afterwards are offered to corporate, fleet agencies on rent. As these cars are expensive in nature it is emerging as one of the important alternate source of income for dealers. As the depreciation on the cars is higher, lot of tax concession are availed by the dealers.

6. Dealerships of other Automobile Companies

Companies are also allowing dealers to take dealerships of other companies. They do not restrict the dealer from getting engaged with other companies as long as it does not hurts the interests of the manufacturing company. Earlier companies were reluctant to give this freedom but as profit margins are narrowing this option is available with some dealers.

4.7. CUSTOMER EXPECTATIONS

For automobile dealers, this environment demands, providing matchless customer satisfaction. (Johnson, M.D. 1997).

Customers need to enjoy the vehicle buying experience and not just tolerate it. The focus of all business processes has to be the end satisfaction and convenience of the customers. Brand franchisees can also explore consolidation of services to stay competitive and improve levels of delivery.

Dealers can start to provide centralized location for test drives of customers used cars of different brands in the City, which could be an interesting and innovated service to their customers. Test drive centres should not be away from the Municipal limits. Centralized database of used cars should be provided which helps customers to find the desired used cars.

It costs company five times the amount to get a new customer than it costs us to retain an existing customer. Therefore, people in the automotive industry and specifically at the
dealership level need to understand that keeping an existing customer is probably the most valuable resource. The new age service industries, such as, financial services and airlines have brought about a complete change in the service paradigm and the automobile industry cannot ignore these shifts. The influx of ATMs in today's lives is just an example of changing mentality of now, anytime without patience. Automobile industry cannot run away from customer expectations of higher, better and 'at your doorstep' service levels. This implies having customer at the heart of the business, understanding the customer needs better than others and fulfilling those needs through better service. (Handa Vasudha, Grover Navneet, 2012), This means, if customers are free only on a Sunday, then being open on Sundays is imperative.

4.8. COMPANY EXPECTATIONS FROM DEALERS

In 2010, many international players like Nissan and Volkswagen entered the Indian market and started to set up many new dealerships.

Setting up a dealership is not an easy task. First of all it requires individual or institution who are financially very strong and having very good reputation in the society. Olajide Omotuyi Ehinlanwo, Mohamed Zairi, (1996). Apart from these two basic requirements, the increase in real estate prices in cities like Pune and other overheads add to the start-up costs. But these challenges have not dampened the spirit, wish and eagerness of new businessmen to enter into the dealership business. However, hiring and retaining competent and suitable personnel is already a major problem and will continue to worsen into the near future.

Whether it is setting up a dealer point or a new sales channel, thinking out-of-the-box and out thinking competitors is an issue of apprehension. In an experiment of promoting product in a novel way, Tata Motors displayed the Nano at select outlets of the Big Bazaar retail chain.
When establishing a dealership, Tata Dealers quoted that company takes into consideration parameters like: the potential of the town, number of existing dealerships, the expected volumes from specific products, dealers viability and competition. Moreover, the company thinks that internal growth opportunities, a diverse range product portfolio and an open work culture are the key differentiators of the company’s dealerships. Due to the care taken by the company in selecting the dealers, dealers claim that its attrition rate was very low.

Since every dealership is handled by a territory sales manager and a customer support manager, company officials visit dealerships twice or thrice a week as scheduled.

Honda Motors dealer say that Honda Motors Dealers play a crucial role for the original equipment manufacturers, they provide customers with an enhanced purchase experience along with best after sales. Dealers are considered as the face of the company for customers and the public in general.

The Ford India’s retail strategy has changed and has received a major boost as a result of the launch of the new cars which are suitable to changing taste of people and development as a result of market research. Ford India gives lot of importance to build and maintain mature and cordial relations with dealer which is resulting into fruits of success.

Like other vehicle manufacturers, Ford India has put in place a number of processes to keep its dealers abreast of evolving Ford technologies that encompass leadership training, service and business management sessions.

Ford assigns different budgets for each relationship building exercise for the dealers and for their service network that include dealers development, training, competency building and branding initiatives at the showroom as well as public relations exercises.

All the companies always quote that their dealers in India are in line with global standards so they should update themselves regularly and the dealer relationships are also strong in
fast developing economies where quality, capability and good business exists. Finally the bottom-line is profitability and good business for both dealers and the company.

General Motors India is investing in Data Marts. The Data Mart is a data bank wherein company has access to all data of its dealerships pertaining to vehicle inventory, spare parts, service records, enquiry position, conversion position, order position and details of pending orders. The Data Mart helps the company to track the movement of inventory, attractiveness of the dealer in the market and business profitability in totality. The company has a philosophy that a satisfied and motivated retail partner is crucial for creating 'Customers for Life'. As part of GMI's long-term strategy for its dealers, it has been maintaining a friendly and genial relationship with them so that an environment of mutual support and trust with our retailer partners exists.

Ensuring the financial stability of authorised dealers, frequent visits from field staff, sales and marketing support to resolve any queries or concerns are some of the ways the company motivates its dealers network.

The supply chain of the GM is streamlined to ensure that there is minimal back order of a vehicle or parts supply. The company has also opened additional area offices and has placed field staff at other key markets to ensure better reach to dealers.

The company’s sales and after sales field staff monitor and coach dealers on improving processes to ensure customer satisfaction. Warranty claim settlement processes are also clearly defined. Training is given both on technical and non-technical issues to develop manpower skills at dealerships. All these initiatives have increased customer loyalty at corporate showrooms as well as employee retention at workshops (Stum, D. and Thiry, A. 1991).

In appointing a dealer, Toyota lays emphasis on the dealers principles, his ability to be cultural fit to represent the Toyota brand, management style, business acumen, preferably
automotive experience, and inclination towards customer service. Financial ability of a retail partner to invest in infrastructure, capabilities to raise working capital and have strategically located facilities are also important factors considered while appointing a dealer. Key differentiators of its dealer network form rest of the players in the automobile industry are quick start-up and high degree of standardization. (Jackson, Barbara, 1985).

At Toyota, the dealer development team is responsible for infrastructure creation and establishment of systems. Operations are handled by the sales and after sales team who visit dealerships frequently. Toyota allows its dealers to generate income from other sources including from other brand dealerships.

Toyota India is trying to adapt with changing lifestyles and problems of the people so it is trying to adapt itself. Customers are reluctant to drive long distances, through traffic snarls, to visited showrooms. Therefore, these cities will witness boutique showrooms in malls where the brand can be experienced with one or two cars kept on display.

Toyota India's retail philosophy is based on developing dealer groups within the family which would commit more personal involvement and resources. It says the future of automotive retailing lies with the groups who could transform themselves into corporate bodies.

In setting up a dealership, Toyota takes care that the network is set up where the market exists in the form of population, economy and purchasing power, and the potentiality to buy. A lot of attention is spent on building, selling and servicing capacities in those markets. Recent rapid economic development and industrialisation has turned small towns in India into emerging markets for carmakers. Moreover, the real estate boom has been the prime mover in these markets. Hence, it is imperative for a dealers development team to identify such markets and establish the brand presence there.
For Hyundai, the key parameters in setting up a dealership include customer-oriented approach, financial soundness of the dealer and on ideally located infrastructure. The key differentiator at its dealerships is the quality of service to be provided. Dealerships are manned by trained staff who have been carefully selected. In addition, most dealerships are one-stop shops for finance, exchange, accessories and of course service and spares, after purchase. Dealerships are ideally located so they are easy to access with valet parking facility. Inside, they are spacious and have facilities for watching product-related DVDs and have detailed interaction with the showroom staff. There is also a play area for kids. So efforts are made to ensure that it is indeed a happy and memorable buying experience.

As regards the future, Hyundai says the trend of online sales of vehicles is not yet very popular but may gain acceptability by the customers. This trend might become popular with time.

The Mercedes-Benz recently started a second shift at its Chakan plant, it is expanding its business aggressively at a greater pace.

While appointing a new dealership, MBIL considers several factors. Some of them are potential of the city to sell a minimum volume required for a sustained period to justify the investment in the dealership; the location of the dealership; the dealer’s industry image as well as social reputation, financial credibility, and availability of adequate space for setting up authorised service stations.

While most of its dealerships invest in infrastructure including land, MBIL contributes by providing corporate guidelines, corporate identity set-ups, and marketing collaterals. Mercedes-Benz expects its dealerships to become lifestyle destination centres. They tend to provide variety of services like drive-in valet service, a luxurious customer lounge, Cafe Mercedes along with a wide range of vehicles on display, accessories and wheel configurator, engaging audio-visual presentation, boutique collection and a special play area.
MBIL believes its dealers’ 24X7 Road Side Assistance Programme is one of the best in the industry and a well implemented initiative.

**Some of the main highlights of the Road Side Assistance (RSA) are as following:**

- Quick recovery of vehicle on a flat-bed truck by the nearest Mercedes dealer.
- A privileged pick up from the breakdown location.
- Provision of availing a premium stand-in vehicle as a substitute.
- Convenient air travel options.
- Arranging comfortable accommodation.
- Medical help in the event of an accident.
- Legal advice.
- Urgent message relay.

They have established well planned process and effective system for coordinating with the dealership network. There are peers in sales and after sales marketing department who are responsible for their markets and they spend a lot of time in monitoring the operations.

Companies have different financial expectations from different dealers. Financial policy of the companies regarding dealers is not consistent as different dealers have quoted different investments. These investments are varied in nature depending upon the geography and potential sales. One of the original equipment manufacturers, Force motors launched a SUV in 2011 having very good facilities and technical prescriptions with engines of Mercedes. Due to the promotion hype, the company has been able to sell few cars, by Film star Mr. Amitabh Bachan, one of the most sought after brand ambassador in India. It asked its dealers to make lot of changes in the ambience at their dealership place. Investment worth crores of rupees were made by the dealers. After launching, the model was not popular, which was the sole launch. Now dealers are in flux about how to recover the money invested in ambience.
4.9. FINANCIAL PROBLEMS

The investments in the dealerships varies with the size of the location and the offering at that particular hub. Some aspects remain standard, like equipment and civil work. Without the infrastructure, the investment is in the region of Rs 1 to 2 crore and with infrastructure it varies in the range of 5 to 7 crores.

As regards profitability of the dealership business as compared to other business options, a key challenge is handling the rising costs of real estate in India. The land prices are rising in tier two, tier three cities as well, which is forcing dealers to go in the outskirts of Pune City. Once the dealers reach outskirts, customers become reluctant to approach them for routine servicing and prefer to visit local service stations.

The challenges of setting up a dealership necessitates major infrastructure for servicing, parking and stocking. In expanding dealership network, the company places lot of importance for securing strategic sites and converting them into brand-specific facilities.

The dealership business is getting complicated. The reasons attributed are complicated land dealings, site mobilisation and conventional construction methodology.

4.10. ECO – FRIENDLY AND ENVIRONMENT PROTECTION

Emission norms came into force with the idle emission norms in 1984. Mass emission norms were introduced in 1991 for petrol vehicles and in 1992 for diesel vehicles. These norms have been progressively made stringent. Post 2000 which has marked the start of the Safety decade, Indian regulations have been based on Economic Commission for Europe (ECE) and since 2000 concerted efforts are underway to technically align standards with ECE. There is a roadmap for safety standard for 2005 and beyond 2007. One of the deterrents to continuous alignment could be the lack of R&D infrastructure.
The economic development has also brought with it the unavoidable problems of urbanisation – and as people go about their lives at high speeds, air quality in general and emissions from vehicles in particular has become an issue of primary concern.

The Auto Fuel Policy has recommended introduction of Euro IV equivalent emission norms in 2010 in 11 cities and Euro III equivalent in rest of the country. Industry can comply with this roadmap subject to the availability of the required fuel in all retail outlets.

Even though there are very less restrictions from government about pollution and environmental considerations, but in future this is going to be selling point for dealers. Because of perceived requirements from government and awareness among customers, vehicle cost may go up in the future. Electronic cars or hybrid cars, even though expensive may become popular. So sale of cars may reduce further in addition to more investment in infrastructure in showrooms. But for the moment CNG / LPG cars may be preferred. So it may increase training for servicing personnel and sales presentations.

Consumer trends reveal the “coming to age” of environmental considerations. In western world, industry has been forced to incorporate environmental awareness and considerations into their policies. The automobile producers and their dealers can no longer ignore the importance of the environment in their future policies if they do not want to distance from their customers.

Many times, customers scrap the vehicles because of non-availability of spare parts. The company either stops manufacturing spare parts or dealers stop storing expensive or rarely demanded parts. The concern about environment will have deep analysis in the future as customers are more environments conscious.

If the parts are available even beyond the life of the vehicle, someone can change a part. As a result, vehicles need not be scrapped for non-availability of spare parts. The company should attempt to find new ways in which the dealers’ place could be made more
environment-friendly, with very good service team, for continuous improvement of the service tools necessary for the dealers.

4.11. CHALLENGES

Manpower is one of the key challenges. Similar kind of challenge is timely the availability of spares. In addition, training the manpower to make them capable of handling multiple makes and models has been an area of focus. Among the main challenges that Mercedes Benz India Limited (MBIL) faces in expanding its dealerships is recruiting and retaining the right talent. Though the company has an effective training system in place to train the dealership personnel at par with MBIL standards and requirement, finding the right talent is still a big challenge. They constantly feel deficiency of competent and right people to support the brand image.

Customers needs are not the only that is changing over time. Entire environment of dealership business is changing. Company employees also need attention and enterprise that is not competitive and competent to fulfill their aspirations will ultimately loose their best employees. Today, a company's and dealers’ growth and development are essentially linked to how the company attracts the people, retains the best and motivates them to create value for the organization.

Another challenge that will pressurise dealers is the increasing complexity at dealerships. The launch of more and more products by each manufacturer will result in each dealership having to display vehicles ranging from a mini car to an expensive model like a sports utility vehicle, Luxury sedans. This means having to deal with diverse customer profiles and having the required infrastructure to handle such customers and various car models.

Interestingly, as dealers added product range to their portfolio, they realised that it is important to have separate sales teams to address different kinds of customers. The requirements of one group of customers may not be quite the same as those of another one
within the car industry. The demand for ever improving service standards would result in the evolution of a dealership into a brand than just a delivery outlet. The service, one dealer provides over the other, will be the brand strength that he will bring to the table. and, local marketing activities that will be conducted by a dealer will be its brand advertising and promotion. Therefore, in the future, not only would discussions will be about automotive brands; but the dealers will become a brand point as well. When a customer has a positive experience at a dealership and the dealer is able to brand it well over time is what is likely to sell future products. Westbrook, R.A. (1987).

### 4.12. DIFFICULTIES

The volatility in automobile industry is remarkably high because of extent of its dependence on outside environment. So any changes in other stakeholders of the dealers’ business – Customers, employees, manufacturing company, competitive dealers, local garages- create volatility in the dealership business.

In Order to start the business to meet the companies identity and to create the dealers identity, the dealers have to invest heavily in “state of art “infrastructure land / ready made property, building, storage warehouse, fully equipped workshops suitable for different cars in portfolio and to meet customers expectations.

The dealers have to employ a lot of staff for different positions and train them according to the job profile which is also a measure factor contributing cost to .This huge investment in business is not proportionate with the returns the dealers get. The companies should understand that a dealers and a customer are mirror images in terms of need and expectations. In devising marketing plan Companies consider only the customer needs but they do not consider the dealers, as he is customer without choice.
The dealers have to invest heavily in giving "state-of-the-art" infrastructure, like, showrooms and fully equipped workshops befitting the product's profile and for meeting the service demands of the customers. The dealer has to employ trained personnel for various positions, which further increases the outflow. This huge investment is not commensurate with the dealers' returns. Therefore, the viability of an automobile dealership is under tremendous pressure.

Not only this, the dealer has to carry huge stock of both vehicles and spares of models accepted in the market as also of models not accepted in the market, besides new variants and with them their spare parts. They also have to carry a test drive vehicle for each model. Sounds crude but true - dealers have become the warehouse of the company's products to meet their monthly, quarterly and annual targets and also to give choice to the customers (customer's expectations). The interest cost of carrying these huge stocks is detrimental to the dealer's financial health.

Companies were not having expectations other than the sales performance from their dealers. But as competition is increasing dealers are not just a point of sale but center of experience. So companies want dealers to spend on employees training, qualified technicians, inventory of spare parts, purchase of all models of cars, location and better ambience. All these expectations are requires investment and more attention from owners.

Companies are appointing multiple dealers in cities to penetrate market to boost sales and increase customers convenience. The competition amongst dealers is forcing them to differentiate from others. Presently they do not have any other point to differentiate except price discount. Acquiring marketing expertise in short time is a difficult task.

Employees are switching jobs and mostly outside the industry as automobile industry are not very lucrative. Retention of star employees is becoming difficult due to organization
structural constraints. Shrinking profit margins restricting dealers to good packages and salary hikes of their employees.

Today's market is filled with bouquet of various companies, varieties, models for the customers, but a dealer is a customer without a choice. The manufacturer has a choice to add a new dealer in the territory of an already existing dealership. In addition to this, a dealer is also hit by this territorial intrusion by another dealer in the vicinity who offers higher discounts. This leads to discount wars hitting the margins of the dealers.

As a channel partner, the introduction of new dealers puts in danger the profitability of the existing dealer. An auto dealership necessitates massive investments and a dealer who has pledged his honesty and loyalty should be given the confidence of being the business partner. A customer today expects "functional benefits" and "emotional bonding" in which purchase experience and the same should be revealed in the dealer-manufacturer relationship.

Major difficulty for dealers is cost cutting. Customers are expecting best infrastructure, faster delivery, better and faster services at less cost, latest equipments, best technicians – so expectations those can be matched with expectations from malls. Amid looking at the problems from employees, margin reduction from companies, elated expectations from company is making dealers difficult to run businesses in profit. If they do not change according needs of the business, then very few of the dealers would survive in this highly competitive market.

4.13. TRENDS

The value chain and system in the car industry in India can be listed into four major players of the value chain; component suppliers (suppliers of spare parts and accessories), car
manufacturers (Original equipment manufacturers), dealers, and buyers. These players in the value chain are all affected by any turmoil in the car industry. Any change within the value system creates environment of confusion in all the players of the value system about the future. This industry is one of the most sensitive industries which can get affected by environment very easily.

Some of the primary issues or key factors affecting dealers are:

- Over capacity of dealers in the urban market i.e. multiple dealers.
- Concentration tendency amongst dealers (take-overs, mergers and fusion).
- Reductions in profit levels and return on sales.
- Increasing capital requirements.
- Under capacity and under utilization of facilities.
- Loss of market share in used car, spare parts and accessory (after-sales) business.
- New company forms and competitive forms.
- Pressure from producers to increase product intake levels.

Underlining all these issues and the competitive pressure is the understanding in the car industry that the volatility in the dealership business can only taken care by an increase in customer loyalty and the development of stronger brand/corporate awareness amongst customers. The stagnating demand for cars, stronger price/quality awareness, increased emphasis on better service and general economic pressures, fuel prices which have reduced the buying power. This has called for the need to develop strategies which are designed for achieving greater brand loyalty amongst customers. This is why dealers are talking about relationship management as a need to ensure that present customers are not only satisfied but continuously delighted than ever.

It is always felt that dealership is a profitable business. It was true because of less taxes, more margins, less competition from dealers of the same brand and other branded and
unbranded players. But during the course of business competition is increasing, expectations from company and customers are rising without considerable increase in margins in spares and accessories. This is pressurizing dealers to offer less salary to the present employees and are not appointing enough staff in their service departments.

The auto dealer fraternity has enjoyed the support of Government policies for a long time. As auto sector creates lot of direct and indirect employment opportunities in state, it has always enjoyed bunch of benefits. They have not been a part of the indirect tax system for a very long time. So the business was more than profitable. However, the fact that the vehicle population has become very substantial in India and is contributing a great deal to the growth of the service sector, the Government has imposed a service tax. India is a great country with a huge potential for stable long term growth of the automobiles industry. Due to several reasons including favourable age-demographics, increasing of road network and so on, given our geographical diversity in culture and language, any one selling strategy will not work in the entire country. This is where, being local entities, dealers will have a bigger role to play to mould the strategy of the company as per local needs.

Dealer Owners and Manufacturers use ambiguous, qualitative logic to hide the financial inappropriateness of their decisions. It is a common practice amongst auto dealers in the developed markets to submit their operational and financial data to a third party system and generate performance benchmarks. They use these benchmarks as strategic drivers of business performance. In recent times some similar kind of initiatives were seen, some of them sponsored by manufacturers and dealers on their own in some.

In markets like America, Europe and Australia, dealers use "dealer composites" to benchmark their performance against other dealers. Dealer composites are nothing but set of statistical benchmarks on performance parameters such as Sales, Gross Margin, Asset Turns, Return on Assets and so on. The web-based systems that generate dealer composites
are generally operated by expert third-party operators. Dealers upload their transactional
data on these systems and receive various benchmarks such as market best, zonal best,
national best, brand best or market average, zonal average, brand average and so on. These
systems are called performance reporting systems and are either sponsored by
manufacturers or are subscribed to by dealers independently.

The benchmarks come very handy for dealers to evaluate profit opportunities for
themselves. In most of the cases, the dealers participate in "Performance Groups" facilitated
by expert consultants to evaluate their profit opportunities or improvement areas, and
evolve methods to realize the same. These groups essentially bring peer dealers together to
discuss their numbers and best practices for mutual benefit.

Consumerism has finally come to India. It has come with a knock. India saw surge in the
affluent class and upper middle class, a class with higher purchasing power and willing to
spend big money. While the population growth during 1996-97 to 2000-2001 was ten per
cent, the affluent and upper middle classes grew by thirty five per cent and thirty per cent
respectively. Growing affluence and willingness to spend promises well for all
manufacturing companies, dealers, employees in the business and in the automobile
industry. The passenger cars and utility vehicles in India currently have a very low
penetration of 4.2 per cent.

There are nearly thirty five to forty million two-wheelers on Indian roads. Pune is a city
having maximum number of two wheeler in India. Every year thousand of two wheelers are
coming on road. Even half of them decide to upgrade to car, this itself is a big opportunity.

These again are opportunity segments for cars and utility vehicles in the years to come. Cars
were once considered a thing to be purchased for a life time or long time at least. Cars,
today, are not being seen as a one time, once in a lifetime purchase. The ownership lifecycle
for new cars in affluent households has reduced from 4.7 years in 1999 to 3.8 years in 2002.
The lifecycle for new cars will reduce further because of increased consumerism. Also, multiple car households are on the rise. Freedom to women and working women population is rising. All these factors are further fuelling the demand for cars. This is probably creating interest in the minds of financial institutions which has helped by the reduction in consumer financing rates, which have fallen from fifteen per cent in 2000 to 9.5 in 2007.

Prices of petrol are rising continually 9-10 times after deregulation of petrol as compared to diesel vehicles thus inquiries and demand for diesel car is increasing. The scene is also getting influenced by rising interest rates. So the demand for diesel cars, new and pre-owned cars, was on rise till December 2012. Used car market was flooded with petrol cars and people started to switch to diesel cars or postponed the decision of purchasing. But decision of government and oil companies in January 2013 to increase diesel prices on regularly every month by one rupee and the ban on diesel cars in Delhi City is affecting the car market in Pune city as well. This series of events has created a situation of turbulence in the car market.

All the manufacturing companies are riding on multiple dealers. The key differentiator of the network is focus on customers for a range of offerings Dealers must focus on training and retraining of employees and making them competent on most makes and models. In terms of marketing strategies, dealers should focus on the catchment area of the hub and hence using below-the-line activities to reach customers. (Sanjay Bhattacharyya, Zillur Rehman, (2003) Market dynamics will change in the future with customers wanting to explore with newer entrants, new players in the automobile market, new dealers which will be aggressive to make up for the time lost.

As the market share gets distributed between more manufacturers, a new format of sales will emerge that will be convenient for buyers. Even though internet is now helpful in getting information about car and basic information about dealers, it will play a key role in
influencing and enabling car sales. As more people are surfing through the social networking websites, Facebook, Orkut, Tweeter will play major role in communicating massages of dealers, attracting more customers, monitoring what customers talk and want, complaints redressals, spendings on online marketing may take a driver’s seat.

The other trend could be sales through multi brand players. Customers will prefer going to places which showcase more than one brand of cars, such as exhibitions and car shows. Also, new standalone dealerships will have challenges to be viable as they will not have enough volumes from a single company with a view to bring down costs and hence multi-brand sales outlets/malls may emerge.

Leasing and financing options, workshops revenue and other initiatives, such as, propagating a profitable accessories business offer other avenues in the value chain. Marketing lifestyle merchandise and promoting used car business are other such options.

All things mentioned should be strongly supported by the new age slogan of Customer Relationship Marketing (CRM) i.e. you’re your customer. In CRM, dealers have to work hard on to know customers in detail. Dealers should be able to translate all customer requirements into selling techniques, pitching notes and marketing activities. (Michel Ewing, 2000)

Customer relationship management will help keep customers for lifetime. With an array of cars and brands to choose from, the consumer is the king today. Today, when someone calls a dealer, the vehicle is delivered at doorstep the same evening. Every industry is reaching out to the customer in order to provide better services. The customer has to be seen as not a one-time player but an individual who will provide sustained revenue source over the entire vehicle ownership period and even after that. Needless to say, a more than satisfactory ownership experience would also mean repeat purchases from the existing owners at lower activation costs while providing added, advantages of positive word of mouth.