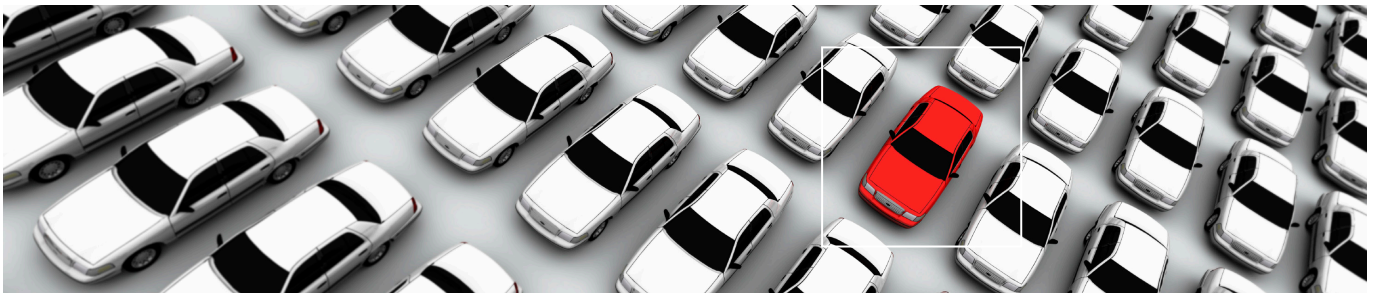


# Strategic Options in the Fleet Service Market

*Confronting Risk and Seizing Opportunity in an Evolving Market*



Business customers account for almost 50% of the passenger car fleet in Europe, but after sales service to this customer group is generally neglected by the major market players. However, declining residual values and the need for cost savings are reshaping the whole after sales business. In this article, we highlight the emerging opportunity in fleet service and identify the key questions each player will need to address in order to tap this market’s potential.

Arthur D. Little recently completed a comprehensive survey of all the major players in the fleet service sector in the top five European automotive fleet markets. To model the market, determine the relevant trends and derive strategic options, we held over 80 in-depth interviews with leaders and experts among all the relevant market players.

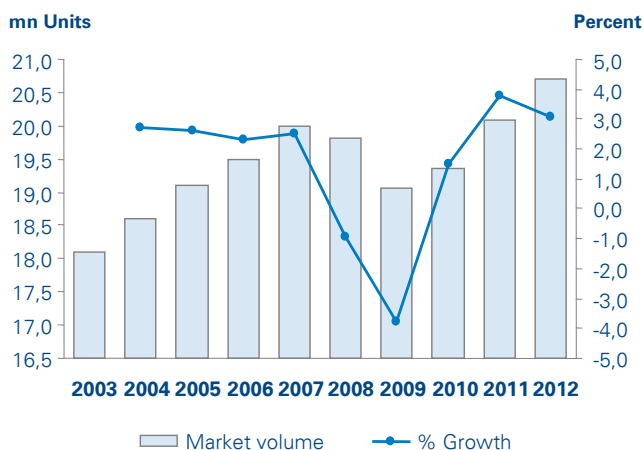
### After sales is the dominant profit lever in fleet markets

After sales is still the main profit lever for OEMs. In 2008, for example, parts, labor and additional services generated 54% of OEMs’ profit, but only 23% of OEMs’ revenues.

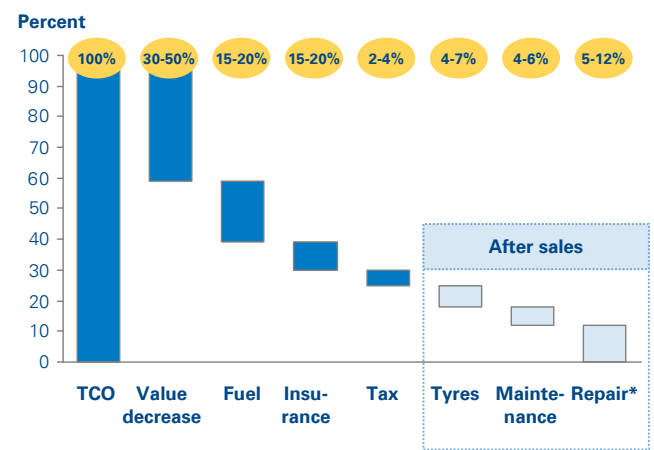
Given that the number of business customers will increase further in the coming years, fleet service will become even more important for all OEMs.

After sales represents up to 25% of the Total Cost of Ownership (TCO) and is the main cost that fleet managers can address directly. Since residual values are declining, the need to reduce after sales costs has become even more important. For example, a 20% improvement in after sales efficiency decreases TCO by 5% (see figure 1).

Figure 1: European fleet market volume/TCO

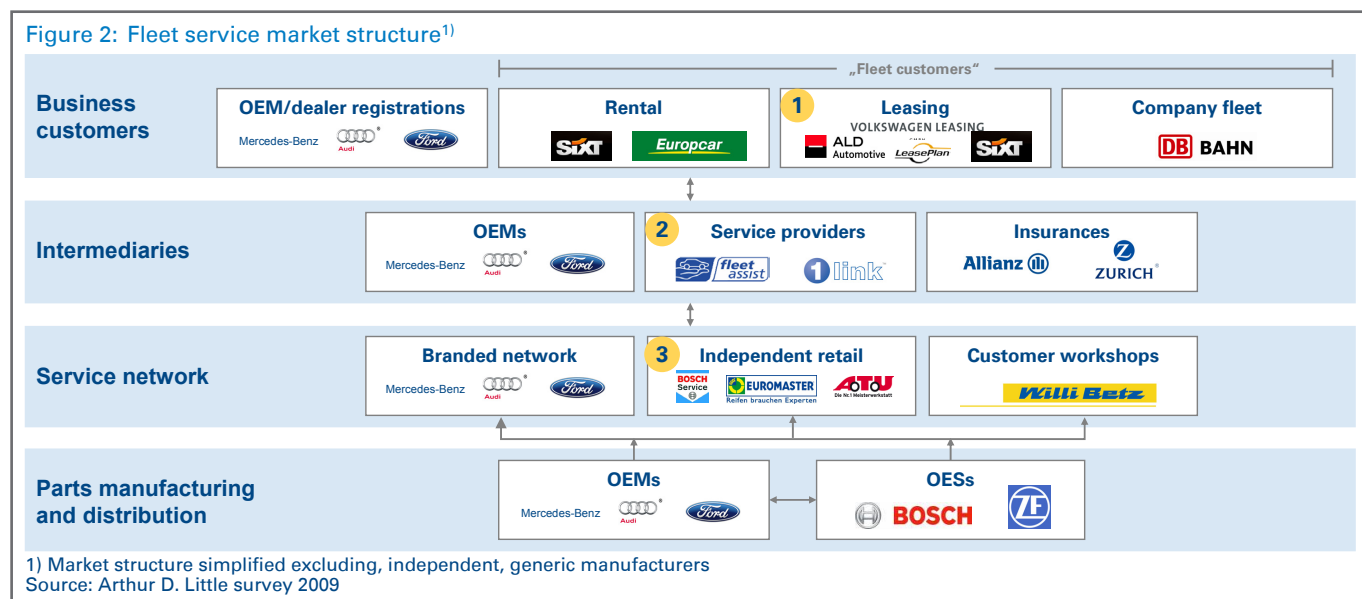


Source: Datamonitor 2008, Global Insight 2009, Arthur D. Little market analyses 2009, Europe acc. to Datamonitor definition (B,CZ, DAN, F, D, HU, I, NL, NOR, POL, RUS, ESP, SW, UK)



Source: Arthur D. Little survey 2009; data vary by market, customer segment and vehicle type \*) incl. warranty, goodwill

Figure 2: Fleet service market structure<sup>1)</sup>



## Understanding the fleet service market

To identify the relevant challenges, Arthur D. Little first analyzed the fleet service market which is characterized by a highly complex structure and an increasingly competitive landscape (see figure 2).

The fleet service market is currently dominated by three main trends:

- Business customers, especially leasing companies, need to optimize their cost structure. A massive decline in residual values and a deteriorating situation regarding re-financing and extended contract durations threaten their profit and liquidity.
- Intermediaries are occupying the interfaces with the repair networks by offering services to various market players. Intermediaries must master the complexity of the after sales service portfolio and deal with an increasing number of service providers.
- Independent retail networks are expanding their market share with business customers, aiming to win fleet customers with attractive service contracts and new service offerings.

Whereas the OEM networks dominate the inspection & maintenance and warranties markets with at least 75% market share, independent networks are making strong inroads into general repair paid for directly by fleet customers and have already achieved a market share of more than 50%. In the accident repair, tyres and glass segments, the independent networks dominate the market with more than 70% market share.

Despite the obvious risks, this market situation bears considerable potential for all market players, but the starting position for each is very different.

## Asking the right questions to identify the relevant challenges

In order to establish an effective strategy, each market player must answer a number of key questions:

### Business customers

- How can we reduce Total Cost of Ownership and exploit profit levers?
- What can we do to maximize utilization, especially for rental and LCV?

### OEM, including branded retail

- What can we do to exploit the potential of the parts business?
- Which levers should we defend in order to recapture market share in relevant dimensions?

### Independent retail (and chains)

- How can we gain additional market share and utilize potential overcapacity?
- What specific measures are required to broaden the service and product portfolio?

### Intermediaries

- How can we generate revenues through new services in the value chain?
- What can we do to reduce cost exposure?

### Setting the right strategic agenda

For each market player, substantial strategic capability is required. To tap the full potential of this dynamic market, players need to initiate and enforce specific measures as well as cooperate generally with partners in the sector.

Overall, two key elements will determine the future allocation of market share and business success: Who can develop the right strategic agenda for their business? And who will be first to put their agenda into practice (see figure 3)?

Based on our study, we have developed specific recommendations for the different market players:

**Fleet providers** will have to build a reliable service partner network that is responsive to specific service requirements and optimize operations and margins by deploying process platforms. Our recommendations for fleet providers are as follows:

- Bundle and re-negotiate purchasing volumes according to parts and service categories. Negotiate conditions and rebates directly with selected service partners.
- Create end-customer options for services in non-branded networks.
- Enforce planning stability for the third year of the holding period and negotiate extended warranty/service contracts or flat rates.
- Negotiate service and parts conditions and rebates directly with selected service partners.
- Set up own certified partner networks, with defined standards and (if applicable) additional services.

**OEMs & branded service networks** will only tap the market's potential if they can safeguard OEM parts sales and margins to

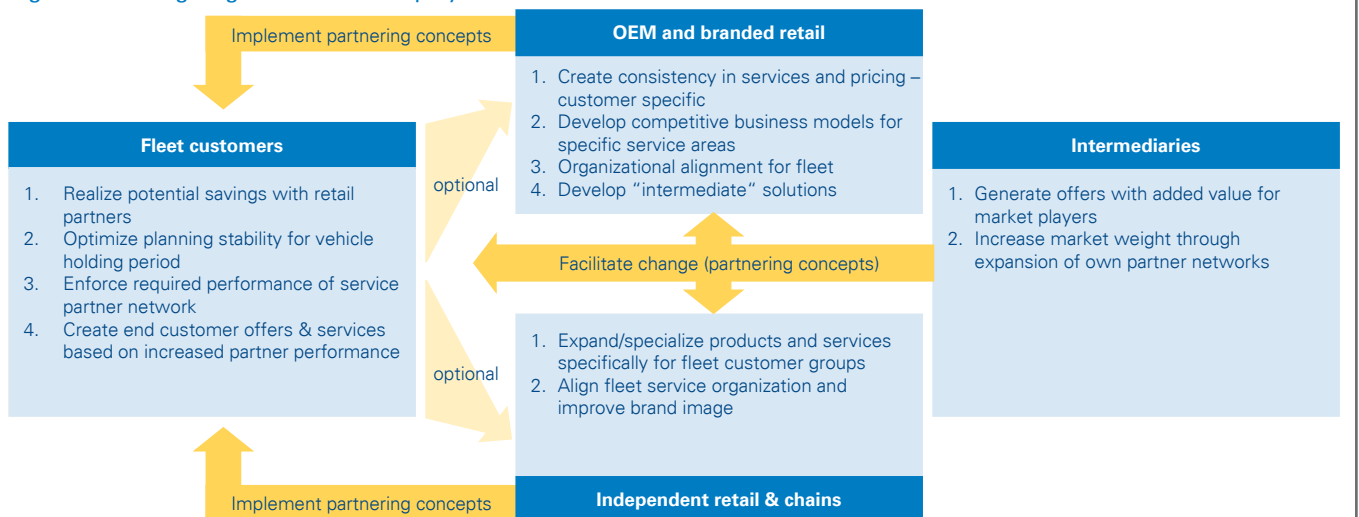
fleet customers – and at the same time, defend their inspection & maintenance market share in retail. Our recommendations for OEMs and branded service networks are as follows:

- Refine understanding of specific fleet customer requirements and align organization with fleet (service) customers, including at HQ and retail level.
- Create and enforce standard services within the fleet service network and develop standard rebate and pricing schemes for fleet service customers.
- Develop competitive business models, e.g. for tyres, to increase customer traffic and loyalty in branded retail, including cross-selling options.
- Establish appropriate density within specifically focused and competent service network for fleet customers.
- Establish technical requirements for standard processes and services through technology platforms for operations support.

**Independent service networks** will gain market share and increase their profits if they can increase brand acceptance, especially at user/chooser level, and ensure sufficient network density. Our recommendations for independent service networks are as follows:

- Select and join an appropriate workshop system or service chain.
- Specialize in specific service areas (e.g. accident repair) and actively acquire intermediaries (in particular insurers) and dedicated fleet customers as business partners.
- Define a brand image for fleet customers and integrate into brand-image and fleet-service marketing campaigns.
- Create specific value-added services for fleet customers (e.g. routine check of driver's license) and integrate into services portfolio.

Figure 3: Strategic agenda for market players



Source: Arthur D. Little

- Align network density/network expansion strategy with targeted business customer groups and evaluate potential alliances.

**Intermediaries** face the challenge of developing market-specific cooperation strategies with leasing companies, OEMs and independent retailers and of broadening their service partner network. Our recommendations for specific groups of intermediaries are:

### Insurers

- Focus on the requirements of business customers and implement appropriate standards/services in the service partner network.
- Implement network density appropriate to the requirements of business customers into the service partner network.
- Create competitive product offerings in cooperation with leasing companies, based on capabilities and conditions of own service partner network.

### Service and platform providers

- Anticipate potential cooperation between market players and derive requirements for respective process models.
- Generate and pilot specific solutions that deliver win-win situations for identified market players and develop system interfaces, if required.
- Broaden product/service portfolio and act as facilitator for the development of stable cooperation between market players.

Some companies have already reacted to the market dynamics and are capturing market share. Bosch Service, for example, is one of the first to offer a broad service portfolio for fleet customers. Besides standard services and benefits, such as pick-up & delivery, mobility guarantee and a high network density, Bosch offers an extended portfolio including standard labor rates, standard rebates on materials, parts and oil, a central contact partner, digital billing, process consistency and multi-brand capability. These services will increasingly attract fleet customers – and represent a substantial threat for the OEM-branded networks.

### Conclusion

After sales is still, and by far, the main profit lever for OEMs. However, fleet services are a main cost driver for fleet managers and one that they can address directly. Now that the fleet market is picking up again in every major European market, the time has come to shape a new agenda for fleet services. In our view, neither OEM-branded service networks nor independents can risk neglecting this market any longer.

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### Arthur D. Little

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