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BALANCED OPERATIONS
Long-term strategy in managing dealers network
Work in progress

Abstract

In highly competitive automotive environment a company's ability to introduce innovations is a key success factor for sustaining competitive advantage. Launching new strategies on the market is important since constant, well-planned improvement of one's business is necessary for companies: on importer and dealers level to adapt to changing conditions in markets, technologies and competences.With a large dispersion of automobile dealers, it is critical that a coherent long-term brand strategy on customer treatment and care, possible financing sources and assurance of long-term growth is developed and implemented in the whole network equally. The customer should clearly understand the brand's values, the dealers' values and turn to the salesmen in every stage of the product's life to generate loyalty. From the dealer's perspective this strategy can be easily called "follow the money", meaning supporting the customer on every stage of his contact with the dealer: from new vehicles sales, through service, spare parts, finance and insurance (F&I), to the used cars sales.

The strategy emphasizes two aspects. First, assuring the highest quality of customer service, not focusing only on artificial standards such as ISO or GVO audits or producer requirements, but to real assurance that the customer is welcomed at the dealership as a guest in a private home, shaping a unique dealer experience and thus giving a customer added value, through this unique experience. Second, focusing on recognition of profit centers in the dealers' stations. Modern dealers in Europe are recognizing new cars sales as a primary income center, forgetting about other important pillars, such as: spare parts, service, F&I products or used cars.

Keywords: automotive, strategy, dealers network, Polish dealers, balanced operations

BALANCED OPERATIONS
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Introduction

Nowadays in highly competitive automotive environment a company's ability to introduce innovations is a key success factor for sustaining competitive advantage (Clark and Fujimoto, 1991). Launching new strategies on the market is important since constant, well-planned improvement of one's business is necessary for companies: on importer and dealers level to adapt to changing conditions in markets, technologies and competences (Dougherty and Hardy, 1996, Utterback, 1996; McDermott and O'Connor, 2002; Bessant et al., 2005; Pavitt, 2005).

With a large dispersion of automobile dealers, it is critical that a coherent long-term brand strategy on customer treatment and care, possible financing sources and assurance of long-term growth is developed and implemented in the whole network equally. The customer should clearly understand the brand's values, the dealers' values and turn to the salesmen in every stage of the product's life to generate loyalty. From the dealer's perspective this strategy can be easily called "follow the money", meaning supporting the customer on every stage of his contact with the dealer: from new vehicles sales, through service, spare parts, finance and insurance (F&I), to the used cars sales. This strategy emphasizes two aspects. First, assuring the highest quality of customer service, not focusing only on artificial standards such as ISO or GVO audits or producer requirements, but to real assurance that the customer is welcomed at the dealership as a guest in a private home, shaping a unique dealer experience and thus giving a customer added value, through this unique experience. Second, focusing on recognition of profit centers in the dealers' stations. Modern dealers in Europe are recognizing new cars sales as a primary income center, forgetting about other important pillars, such as: spare parts, service, F&I products or used cars.

While strategies on vehicles distribution, brand positioning or role of headquarters have received significant attention in academic research, dealers balanced operations have not been sufficiently considered. This thesis is designed to fill this gap. This project focuses on case studies of Skoda and Audi brands in Poland. In particular, it is focused on understanding the current strategy, its formulation and identifying three areas of action:

1) Used cars sales,
2) Service throughputs and spare parts sales,
3) Long-term profits for a dealership.

This thesis will use case studies to analyze these three areas. Each case study will provide examples of dealers' activities, where the dealer could benefit from implementing the strategy. The research was based on visits and interviews, so called *genba genbutsu* method (touch the ground method, which will be described further in the thesis) with Audi and Skoda dealers in Poland, mainly in Warsaw area from January 2014 to March 2015. The main research was conducted in October-November 2013 and follow-up sessions in March-April 2014.

Theoretical background

The literature does not provide one, unique definition of strategy. Nowadays the word "strategy" is used very often and in many different contexts describing the highest level of manager activities or high level plan to achieve one or more goals under conditions of uncertainty.

There are many different models, perspectives and schools that aims at classification of existing strategy processes models. For the needs of this thesis two models are especially important – rational, analytic, top-down approach, which will be illustrated in research section by implementation of pre-agreed key performance indexes (KPIs) by the importer onto the dealers network and the other is more bottom-up, deterministic approach, which derives from the customer needs. Trying to structure existing models on the strategy process, which was already undertaken by many researchers, the following table was developed.

Author	**Classification dimensions**
Andrews (1971)	Concentrates on the notion of fit between internal capabilities and external possibilities; the match between internal qualifications and the requirements of the external environment.

Bower (1970)	Strategy as a bottom-up initiatives flow; Resource allocation
Chakravarthy and White (2001)	Previously mentioned ten schools of thoughts covering four perspectives: 1. Rational, 2. Political, 3. Evolutionary, 4. Administrative.
Lechner (2003)	1. Creation vs. implementation, 2. Normative vs. descriptive, 3. Synoptic vs. incremental, 4. Degree of rationality (rational vs. bargaining), 5. Generic pattern of strategy making (command, symbolic, rational, transactive, generative).

Table 1. Existing models on the strategy process

Source: own studies.

Analyzing deeper the above models, it is worth to focus on two of them: strategy model of the Harvard Business School and the Bower model, since it puts some light on the origins of the strategy and emphasize the autonomous bottom-up initiatives. Andrews (1987) developed a Harvard Business School strategy model, which is now called the “mother of strategy models” and is considered as the most important prescriptive model. In it, the process is divided into two, main phases: strategy formulation during which focus is put on decision-making and strategy implementation during which the main concern is about how decision will be transferred into actions. The stakeholders in this approach are the top managers of the company, who are responsible for decisions regarding the strategy, which is developed based on the assessment of the external environment, the internal resources, top management values, and sometimes the assumed responsibility toward society. For the implementation phase goals and targets need to be developed to support the management in following up the progress. Often, the organization structure, process and behaviors of the organization must be reshaped and restructured. This approach unfortunately reduces responsibility of the lower and middle management and focuses too much on the in advance goal-shaping.

What brings strategy and change together is the strategic process. In the literature, there is no common agreement on how to define strategic change or the strategic process. Following commonly accepted classification of strategy and change, developed by Mintzberg (1987) and Mintzberg and Lampel (1999) with additional input from Garud and Van de Ven (2000), incorporating different perspectives and patterns of change (process of strategy), and de Wit and Meyer (2001) concept with regard to different strategic levels (context of strategy) one can agree on a definition that is used in this thesis.

Those different perspectives on strategy, change and strategic change are a result of how researchers believe research on such phenomena should be conducted, i.e. the above mentioned schools of categorization (de Wit, Meyer, 2001). It is argued in various researches that strategic change cannot be considered at one system level, but on several and over a period of time (e.g. Pettigrew, 1987, p. 655). In addition, those levels define relevant interfaces and relations between the given "system" and the "external environment": "…it is more productive to view changes as nested sequences of events that unfold over time in the development of individuals, organizations and industries" (Garud, Van de Ven, 2000, p. 3).

For balanced operations the concept of looking into strategy from three points of view: industry, organizational and individual is necessary. This project argues that integrating the external actors and the market condition in the strategy process bring benefits and offers rich opportunities to enrich our understanding of strategy processes. Moreover, long-term approach to planning the strategy of the dealer network brings real profits and sustainability of the business.

Japanese strategic management concepts

Primarily, the balanced operations concept was developed for two Japanese brands: Toyota and Lexus. Because of that, the concept is heavily based on the Japanese management techniques, concepts and thoughts. Japanese automotive companies have been the focus of many analyses since their successful entry into world markets during the 1970s. The author presents the literature background of the main concepts of the Japanese management, which were used in the balanced operations strategy. Namely: kaizen approach, 5S concept, genba genbutsu, muda, 5-Whys rule and some basic lean concepts, which are considered to be under one roof with kaizen.

A concept of Genchi/ Genba genbutsu (from Japanese genchi/ genba – place of action, genbutsu – the true situation), which can be summarize into a simple statement of "go and see" (for yourself) is widely used in BO. The concept suggest that to truly understand situation, business, event, one needs to go the real place where the work, process is done and see the situation with one's own eyes (Marchwiński, 2010).

Sakichi Toyoda developed for Toyota Motor Corporation the 5 Whys iterative question-asking technique to explore the cause-and-effect relationships underlying a particular problem (Fantin 2014). The main goal is to determine one root cause of a defect or problem by repeating one simple question: "Why?". Each question forms the basis of the next question and from an empirical observation five questions are enough to resolve the problem.

Balanced operations uses also in its philosophy basic elements of lean approach, such as standardization, removal of bottlenecks or kanban. *Kanban* aims at increasing productivity by limiting multitasking, keeping work uninterrupted, urging to plan ahead, encouraging to tackle larger tasks first, and to get things done (Ohno, 1988).

Volkswagen Group - company overview

Volkswagen AG (Volkswagen Group) is a publicly listed company and one of the world's leading automotive manufacturers and the largest carmaker in Europe. It is headquartered in Wolfsburg, Germany. The Group comprises twelve brands from seven European countries: Volkswagen Passenger Cars, Audi, SEAT, ŠKODA, Bentley, Bugatti, Lamborghini, Porsche, Ducati, Volkswagen Commercial Vehicles, Scania and MAN.

The Group operates 94 production plants in 18 European countries and a further eight countries in the Americas, Asia and Africa. Each working day, 501,956 employees worldwide produce some 34,500 vehicles, are involved in vehicle-related services or work in the other fields of business. The Volkswagen Group sells its vehicles in 153 countries (Volkswagen AG Annual Report 2014).

Volkswagen AG's daughter company Volkswagen Group Polska (VGP) is a market leader in Poland. VGP is headquartered in Poznań area as the only automotive brand in Poland. All the other brands have their centrals in Warsaw, the capital city. The Group is a clear market leader and in 2014 registered almost 88,000 cars, which is +2.5% vs. 2013.

MS % PC based on regs. (1-12)						
	2014		2013		Δ	
Volkswagen	31 258	9,60	25 869	8,97	5 389	+0,63
Skoda	43 268	13,29	36 410	12,63	6 858	+0,66
SEAT	5 532	1,70	2 278	0,79	3 254	+0,91
Audi	7 015	2,15	5 574	1,93	1 441	+0,22
Porsche	709	0,22	415	0,14	294	+0,07
VGP Σ	**87 782**	**26,96**	**70 546**	**24,47**	**17 236**	**+2,49**

Table 2. Registration results

Source: own studies

Skoda for 7 years in a row keeps a position of the market leader. Volkswagen Passenger Vehicles reached second position with a market share of 9.6%. SEAT, a newly re-launched brand is the fastest growing brand on the market. Audi is a solid number two on a premium market, with market share of 21.9% and a clear growing tendency. In 2014 Porsche hit a record year, reaching sales of 709 cars. On the light commercial vehicles market Volkswagen LCV registered 5,856 cars (SAMAR Institute). This thesis will focus on two brands of the Group: premium Audi and passenger, volume brand Skoda.

Audi and Skoda dealers network in Poland

Skoda dealers network consists of 87 dealers, out of which 73 are independent, exclusive Skoda dealers, 14 are also Volkswagen or Audi dealers. The network is supported with 33 service partners, who are not authorized to sell vehicles, but are entitled for authorized vehicle repairs, spare parts and accessories sales. The network covers the whole country and no significant so called white spots are identified. The bigger clusters of dealers are located in main cities such as Warszawa, Trójmiasto, Poznań or Wrocław. For one year now, the Corporate

Identity, Corporate Design (CI/CD)[1] change is ongoing and dealers are adjusting their facilities to the new standards.

Audi dealers network consists of 23 dealers, out of which 7 are independent, exclusive Audi dealers, 16 are also Volkswagen or Skoda dealers. The network is supported with 10 service partners. Audi network consist of much fewer dealers than Skoda's, but for the premium market, no bigger white spots were identified. Audi primary interest is with Warsaw market, where most of the luxurious and premium cars are sold. Strong presence in this area is a ground for the future success of the brand in Poland. Also image wise, if the Polish VIPs, celebrities, businessmen and other image stakeholders, who are mainly based in the capital city, drive an Audi, a strong message on brand desirability is sent to the market.

Balanced operations strategy

Balanced operations' main target is to assure long-term dealer's profits in any type of market conditions. Namely, it aims at creating such a managerial system of the dealership, that the owner can quickly and effectively react to any market changes and optimize his profit centers.

Balanced operations main target is to assure long-term profits for the dealers' network from all four profit centers: new cars sales, service, spare parts and used cars sales, which can be further supported with financial offer as well as with body and paint business. In automotive there are four main stakeholders: production, importer, dealers, customers, who speak with slightly different languages, but aims at the same thing: augmenting the value. The value can be defined and understood differently for production, sales, dealers and customers. In production facility, the value is a relation between volume produced to the time in which this production takes place. Constant reduction of non-operative time (NOT), break downs and waste is a main goal of managers in the plant. This relation can be easily defined as constant improvement of processes, which must lead to better results in time. If the importer wants to get more production from the factory, he needs to secure the whole shift or batch. The function describing this

[1] CI is an overall image of a corporation in the minds of diverse publics, such as customers, investors and employees. It is usually visibly manifested by way of branding and the use of trademarks. A corporate design (CD) is the official graphical design of the logo and name of a company used on letterheads, envelopes, forms, folders, brochures, etc.

relation is a step function – the production volume can be increased only one full step at a time, so when the importer is requesting 20 more vehicles, the production must analyze if it will fill the whole shift of work.

In sales processes the definition is very similar –volume sold in relation to time. In other words, how many products or services an entity can sell in unit of time. Improvement of this process is done via traffic generation and conversion of this traffic into leads and purchases. Therefore, the main task of the importer is to prepare actions, sales campaigns, marketing strategies, which will generate more traffic that then the dealer can convert into sales. Main task of the importer is how to generate more traffic, how to monitor it and boost it when needed. Looking at value from the dealer's point of view, it can be defined as a relation of invested work, that can be defined via various KPIs such as: invested capital, FTEs, number of vehicle lifts to earned money. In other words the dealer checks how much time and money needs to be invested to earn profits in longer period of time. Therefore main task of a dealer is assuring that via positive customer experience the traffic will convert into sales. The dealer needs to do everything for the customer to keep his loyalty. Lastly, from the customer point of view, value is defined as a ratio between added value and purchase intent. The customer considers how much value can be obtained from the product and service, what are the additional benefits and perks that are offered.

Balanced operations focus on creating this value for all the actors. Considering the customer experience, it is a dealer obligation to create added value for the customer to make the customer chose the dealership of the specific dealer – make him feel like at home. Most of the people go to their favorite dentist, hairdresser, GP and through the value creation process BO aims at making the people to custom their favorite dealer. If the value is created the customer is eager to spend more and it is easier for him to forgive all the mistakes that might occur during the sales process.

The concept is based on the Triple Crown philosophy (JT Lilypad, 2015), which says that sales volume depends on the customer loyalty, which brings the long-term dealer profits to the dealership. In simpler words, taking care about the customer needs on each stage of the sales process, regardless if the customer buys a new car, used car, gear box or service his vehicles at the station, the dealer is obliged to treat the customer as a guest in his house. Namely, create such atmosphere with right people, facility, process and small adjustments such as Wi-Fi access, fresh coffee, dedicated marketing actions, competent and friendly staff to make the customer loyal to the brand and the dealer.

The main role of the dealer is creation of the additional brand value. Considering that the product is given (the manufacturer provides it for each dealer equally, in the same quality, with the same features), only the positive customer experience provided by the dealer is the added value for the customer. Small differences in prices between the dealers and independent stations are merely a teaser for the customers. Pure price is no longer a reason to purchase a vehicle, part or service at the given dealer. Only the positive customer experience is a real value that make the customer to love the brand and the dealer and custom the place. If the customer's expectations are met or even exceeded, then it is said that the brand is worthy.

In 2014 edition of Interbrand's brands' value ranking Toyota once again is the first of automotive brands with 8th position, gaining +20% value year to year. Audi reached in this ranking 45th position but also was named the top riser with significant growth of +27% year to year (www.bestglobalbrands.com). Interbrand's brand valuation methodology provides analysis of brands on how the brand is contributing to business results today, together with a road map of activities to ensure that it is delivering even more tomorrow.

The dealer is responsible to create the brand using the given product and unique, exceptional customer experience. Till Starbucks was founded, a cup of coffee was just a cup of coffee, but giving the positive, unique, innovative experience of coffee drinking in Starbucks shop, the brand was created. Through the BO the same is expected from the dealers. The primary reason a business exists is to serve the customer, and for the customer main core values are:

1) I want a PERFECT Product or Service,
2) Respect my TIME,
3) Treat me as a CUSTOMER and not as a sale,
4) The products or services I use should be in line with WHO I AM or WHO I WANT TO BE.

To run a successful dealership and to gain a quick competitive advantage over the competition the dealer needs to take care about three issues, which are the basic for the future success of the station:

- Right location,
- Right facility,

- Rright people.

Right location of the dealership is such a location that assures quick access to the dealer, preferably next to one of the main roads of the city. Comfortable parking, easy access to all the components of the dealership are crucial. The facility should be customer friendly, clean, welcoming and well maintained. People hired by the dealer should always look from the customer perspective.

Balanced operations – profit concept

Balanced operations concept assumes that the dealer should get equal profits from each of the profit centers: new car sales, service, parts and sales with support of the financial offer. Just like the pistons in the engine work and move, in periods of time one of the profit centers may bring more money than the other, but in long perspective the dealer should be able to profit from all of them equally.

BO emphasize that through period of time the dealer should be able to generate similar profits from each of the operations as well as guide the customer through them, showing value in every aspect to boost the customers loyalty. The sales path should at all-time consider future gains, i.e. a customer arrives at the dealership to buy some spare parts for his 15-year old Volkswagen Passat. If it is a planned visit, this lead should be given to the new or used cars sales person who should welcome the customer in the dealership and give him some prospects, information on the current offer and a business card. Used cars responsible should immediately advertise the buy-back/ trade-in option and the new cars staff should focus on the leasing, financing possibilities. Total cost of ownership is here crucial for convincing the customer to move along the sales path.

Balanced operations states that with each new car sales a world of new possibilities opens for up-selling, service packages, insurance, financing, used cars and spare parts and accessories. Happy customer will more likely come back to the dealership to purchase a used car or a smaller segment car for his children and what is more important, happy customer will service his car at the dealership.

One must bear in mind that the compelling reason for dealers to change is money, that is why Balance operations concepts is also based on follow the money concept. Two business laws are emphasized in BO:

1. **BUSINESS LAW #1**: “Follow the money” to maximize long term dealer profits;
2. **BUSINESS LAW #2**: If you do not “Follow the money” then someone else will and the customers and profits will be theirs and not yours!

The Follow the money concept focuses on the assumption that every new vehicle sales creates a lifetime of profit opportunities (see Figure 10).

In the automotive world there are primary two business models of management of dealers’ network profits. One can be described as an old business model, where the manufacturer/ headquarters does everything for the dealer incentives the network with sophisticated bonuses schemes. In this model when the product is weak the Customer loves the dealer and hates the producer, headquarters. However, when the product is strong, the customer loves the factory and hates the dealer. The second, modern approach is focused on the idea that the dealer does everything for the customer and the customer pays for those services, added value, staying longer with the dealer: buying used cars, parts, accessories. Product in this model is given and regardless of the product additional value is generated. The customer loves the dealer and the factory, because of this added value, the unique customer experience. In this concept it is crucial to note that the business has shifted from Product and Price to the Customer Experience.

Control the controllable

In balanced operations concept the controllable KPI is the customer experience. Management through genba genbutsu is able to quickly determine if the customers are happy with the provided service, product or not. The dealer is obliged to create such an environment that encourages customer to return to the dealership. Taking into consideration that the customer is willing to come to the dealership to purchase a new or used cars, one must also understand that bringing this vehicles for a service or maintenance is a pure bother. To minimize this negative connotation the dealer should assure maximum comfort, information and user friendly approach from process point of view and personnel point of view.

In this case control the controllable means that the dealer must change the negative experience of a broken car, wasted time, waiting, money spent etc. into a positive, unique and enjoyable experience. As a basics one can offer free meal, coffee, fresh newspapers, Wi-Fi or even go one step further and for instance, as Lexus did in the USA – offer a free manicure for ladies who bring their car for a planned visit or tickets for a local football game for people who service their cars on Mondays and Tuesdays (slower traffic days).

Balanced operations introduce the term of repeat profit maximizers (RPM). The term refers to four basic rules that must be met to generate good, long-term profits for the dealership: clean store, good people, customer experience, advertisement (traffic generation). The concept recognizes that by keeping a clean, well-organized store, that hire dedicated, well-trained, friendly people, assuring the customer added value of unique customer experience, the dealer must only concentrate on generating more traffic in his showroom, service, etc.

To define how much traffic is needed the BO uses two rules of thumbs. The first rule of thumb says:

1) The daily service potential (number of throughput) equals the monthly vehicle sales volume.
2) The monthly vehicle sales volume from your service department equals average daily throughput.

Currently the service potential is not fully utilized in the network of Skoda and Audi dealers. In average the dealers uses only one-fourth, one-third of their potential. Simply calculation can show how much money is not earned: considering that in average the dealer charges approx. 200zł per throughput and that service works 24 days a month and that the dealer sells monthly 40 new vehicles (See Table 1):

(40 potential – 10 actual) x 200 PLN x 24 working days = 144,000 PLN Monthly

OR

Approximately 1,728,000 PLN per year

Average Repair Order	Labor Hours per Repair Order	Retail Charge to Customer (Note: per Hour for Labor)	Actual Cost per Labor Hour	Variable Profit
Labor	2.1	150 zł	100 zł	80 zł
Parts	N/A	800 zł	600 zł	120 zł
Total				200 zł

Average Monthly New Car Sales	40		
Average Service Throughput	10	Rule of Thumb @ 100%	40

Table 3. Calculation of service potential

Source: own studies

Once can look at the same data from a slightly different perspective and determine how many new cars could be sold in a dealership. The second rule of thumb says that the monthly vehicle sales volume from your service department equals average daily throughput.

10 daily throughputs divided by 40 monthly sales = 25%

OR

a potential pf 40 new cars sales per month from the existing serviced customers

The second rule of thumb clearly indicates that the dealer should be able to sell new cars to the existing service customers. This potential of sales can be measure and should be used as a KPI for the employees who work actively with the CRM databases of service customers.

Both of the rules are based on the good observation of the business. According to the balanced operations good dealer through observation of his daily traffic, throughputs and customer behaviors is able to determine the maximum potential of his dealership. The only job that is still to be done is to find right processes, people and monitor them daily.

For the purpose of better management of used cars business a third rule of thumb was developed. In well-established dealership monthly used cars sales, equals new cars sales. When this rule is met it means that the dealer is able to gain profits from all of his business and is able to offer his customers buy-backs or trade-ins to support the customer on each step of his vehicles life cycle.

Implementation of balanced operations concept in Skoda and Audi dealers network

Volkswagen Group Polska to support the ASO dealers network in Poland, in the first wave concentrating on the Audi and Skoda brands, decided to implement the balanced operations concept starting in year 2012. As a first step the top managers of the Importer were coached from the BO Strategy, secondly the decision makers in brands together with the top managers were to get to know, understand and accustom the BO to the Polish market reality of their brands. As a third step, a group of selected dealers was chosen to participate in the “on-site” training from the BO. The series of trainings for the pilot Skoda and Audi dealers was conducted in October-November 2013 and then the recommendations and implementation of the BO was checked in March-April 2014. Further steps are planned in years 2015-2018.

The balanced operations strategy was implemented top-down, however during the second phase of the implementation the ideas, improvements, queries from the lower management were collected, assessed and incorporated into the strategy. During the third phase the feedback from the employees of the dealerships, dealers and customers was collected and where needed used in further development of the concept.

The thesis presents results of four dealerships: two Audi and two Skoda, before and after implementation of the BO strategy with the recommendations and findings from each of them. For the confidentiality reasons the dealers will be named as First Audi dealer, Second Audi dealer, First Skoda dealer and Second Skoda dealer.

For Audi the total average balanced operations “piston” picture before the implementation of the new strategy was: new cars sales: 26%, parts: 50%, service 24% and used cars: 0%. Audi team focused in the BO implementation on the Warsaw area. The project was implemented by two coaches and supported by sales and aftersales field forces of the Importer. The field forces were to further learn how to introduce BO directly from the coaches.

At the first Audi Dealer First Rule (R1) potential was determined at the level of additional five more throughputs per month, which yearly could bring over 84.000 PLN income for the dealership. The Second Rule (R2) indicated that service could add 12 more sales a month from the service existing pool of customers. Additionally, after genba genbutsu the dealer got five main recommendations: developing a “winning” management attitude, use the service to close the new cars sales, up-sell pre-paid maintenance packages to lock the customer down with the dealership, measure effectiveness of marketing actions, rotate used cars stock quicker.

After six months the dealer implementation status was checked and the R1 efficiency was raised by 2 additional throughputs – mainly due to after sales oriented marketing campaigns. R2 implementation was harder, the development of multi-department system of customer data collection was recognized as a long-term project. However, the dealer was able to generate two more sales. The total balanced operations “piston” picture before the implementation: new cars sales: 14%, parts: 65%, service 19% and used cars: 2%. After the implementation of BO the situation looked as follows: new cars sales: 20%, parts: 40%, service 30% and used cars: 10%.

At the second Audi Dealer First Rule (R1) potential was determined at the level of additional nine more throughputs per month, which yearly could bring over 162.000 PLN income for the dealership. The Second Rule (R2) indicated that service could add 17 more sales a month from the service existing pool of customers. Additionally, after genba genbutsu the dealer got some recommendations: to revise service inspection process to make it more customer friendly, re-design service courtesy cars policy and re-train the cashier.

After six months the dealer implementation status was checked and the R1 efficiency was raised by 5 additional throughputs. What was surprising, the dealer lowered his charge for labor in service by almost 20 PLN and even with this decrease reached 50,000 PLN additional income. R2 implementation again proved to be hard to implement. The dealer introduced a call center to use the existing customer databases and generate more traffic. This actions brought more throughputs and prolongation of insurance and purchase of some pre-paid maintenance. The dealer managed to sell only one additional car a month from the implementation of the R2. However, he made long-term actions to further concentrate his efforts on usage of his CRM databases. The total balanced operations “piston” picture before the implementation: new cars sales: 48%, parts: 58%, service 39% and used cars: -45%. After the implementation of BO the situation looked as follows: new cars sales: 41%, parts: 30%, service 20% and used cars: 9%.

For Skoda the total average balanced operations “piston” picture before the implementation of the new strategy was: new cars sales: 39%, parts: 39%, service 18% and used cars: 4%. Skoda team selected main volume dealers in Poland and aimed at implementation of the BO in those locations. Those dealers were to become pilot, model dealers who were to encourage the rest of the network to focus on BO. The project was also implemented by two coaches, but the field forces supported them much more than in case of Audi. The whole Skoda team was trained and developed an “attack plan” before reaching to dealers.

At the first Skoda Dealer First Rule (R1) potential was determined at the level of additional thirty one more throughputs per month, which yearly could bring over 270,000 PLN income for the dealership. The Second Rule (R2) indicated that service could add 4 more sales a month from the service existing pool of customers. Additionally, after genba genbutsu the dealer got some recommendations: further focus on fleet sales, open service on two shifts, open an in-house call center.

After seven months the dealer implementation status was checked and the R1 efficiency was raised by 7 additional throughputs reaching 29.400 PLN additional income. R2 implementation brought 3 more sales per month. The total balanced operations “piston” picture before the implementation: new cars sales: 47%, parts: 29%, service 19% and used cars: 6%. After the implementation of BO the situation looked as follows: new cars sales: 36%, parts: 30%, service 22% and used cars: 12%.

At the second Skoda Dealer First Rule (R1) potential was determined at the level of additional twenty four more throughputs per month, which yearly could bring over 201,600 PLN income for the dealership. The Second Rule (R2) indicated that service could add 26 more sales a month from the service existing pool of customers. Additionally, after genba genbutsu the dealer got some recommendations: optimization of opening hours of service, empowerment of the staff – quicker decision making, more marketing.

After seven months the dealer implementation status was checked and the R1 efficiency was raised by 12 additional throughputs reaching 50,400 PLN additional income. R2 implementation brought 11 more sales per month. The total balanced operations “piston” picture before the implementation: new cars sales: 42%, parts: 40%, service 18% and used cars: 0%. After the implementation of BO the situation looked as follows: new cars sales: 36%, parts: 30%, service 22% and used cars: 12%.

Please note, that there are significant differences in prices of spare parts used for each throughput for Skoda and Audi customers. Labor cost is essentially the same for the most of the standard repairs. Moreover, the total gain was calculated for the whole year and the results were checked after six months. What is also important some of the services are not highly profitable, but essential for keeping the customers loyalty. For example tires change, oil change, air conditioning cleaning are standardized services, which need to match the independent services prices, so often the dealers generate zero margin on those kind of services, keeping in mind other added value for the dealership – the loyalty. The customer must be thought that for every single service, he needs to visit his local dealer. Smart dealers who are advanced in balanced operations implementation are willing to lower their margins for some of their services to keep the customer in the dealership. The cost of finding a new customer is much higher than maintaining the old one. The dealer may lose some money on standard services, but when it comes to more complicated repairs the customer will know who he should ask for it.

Conclusions

This project was an effort to understand the implementation of the long-term strategies, on the example of balanced operations strategy in automotive industry, within the dealers network of Skoda and Audi dealers. In doing so, the goal was to find opportunities for improvement, mainly from two main rules of boosting the profits of the dealership: active work with existing databases and fining the potential of the dealership and then using it fully.

Although the details of the researched dealers cannot be disclosed due to confidentiality, in total opportunities discovered could bring significant profits and boost customer loyalty and satisfaction if implemented. This only touches the surface of the opportunities available for the dealers of Skoda and Audi. Further implementation of the strategy could occur through analysis of the whole dealers' network and step by step improvement of existing operations. The field forces of both brands should collect lessons, best practices, threats and opportunities throughout the network and share them and optimize with them further.

Balanced operations approach offers a simple but on the other hand complex understanding of the rules of the whole industry. The most important tasks of each stakeholder cannot be forgotten in daily routines to bring the value in each step of sales process. The customer might be always right – as the saying goes – but more importantly the customer votes with his money on the best product and customer experience he or she had and this is the most reliable survey one can get. BO offers tools on determining potential of each dealership (two rules of thumb) and through genba genbutsu one can easily determine if the current status if processes, facility and people is on a level that assures customer-friendliness. Main task of each field force that visits his dealer should be sharing the best practices and inspire the dealer to be more customer oriented. BO offers natural solution to all the problems: treat the customer as a guest in your own home. Wouldn't we offer our guest an umbrella when it is raining, a cup of coffee when they are tired or a lift when their car is broken? It doesn't go simpler than this. But BO shows even more: it says that by doing so we follow the money and invest in the business future.

Balanced operations projects shows that the classic B2B or B2C approach is no longer enough to keep the customers at the dealership or grow on the market. The new approach of H2H (human-to-human) is necessary to bring the sales on the higher level.

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Abbreviations index

5S – seiri, seiton, seiso, seiketsu, shitsuke – sort, systematic arrangement, shine, standardize, sustain,

ACEA – European Automobile Manufacturer’s Association,

AG Aktiengesellschaft - (public listed company),

ASO – Autoryzowana Stacja Obsługi pojazdów, B2B – Business to business,

B2C – Business to customer,

BO – Balanced Operations,

CD – Corporate Design,

CEP (or CEPiK) – Central Registry of Vehicles,

CFM – car fleet management,

CRM – Customer Relationship Management,

CI – Corporate Identity

EU – European Union,

F&I – Finance and Insurance,

FTE – Full-time equivalent,

GDP – gross domestic product,

GP – General practice,

GUS – Główny Urząd Statystyczny - Central Statistical Office,

GVA – gross value added,

GVO – Automotive Block Exemption Regulation 461/2010,

H2H – Human to human,

ISO – International Organization for Standardization,

KPI – Key Performance Indicator,

LCV – Light Commercial Vehicles,

NOT – non-operating time,

OES – Original Equipment Services (see: ASO),

RPM – repeat profit maximizer,

SAMAR – Institute of automotive market research,

TPS – Toyota Production System,

R&D – Research and Development,

VGP – Volkswagen Group Polska,

VIN – Vehicle Identification Number,

VM – Vehicle Manufacturers.