**Summary**

In its simplest description, Automotive Sales and Service Organizations are the part of the Automotive Ecosystem that begins when a vehicle comes off the production line. Sales and service organizations are responsible for marketing, selling and servicing vehicles and for a positive ownership experience after the purchase.

This document is a simple and basic overview on the main processes and players in the automotive sales and service organization ecosystem. It can't detail and touch all business aspects, regional as well as branch specialties. The intention is to give the basics on the businesses in this ecosystem so that readers are now best prepared to involve themselves in BPX Automotive discussions.

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The Ecosystem Automotive Aftermarket Sales & Service Organizations

This ecosystem must be viewed from various perspectives. The characteristics of delivery channels vary by region and the business requirements of each segment (light vehicle, truck and commercial vehicle, construction and agriculture and power sports) vary in unique ways as well. A public transportation company had vastly different business requirements compared to a private person who is selecting a vehicle based on their personal preferences and individual use.

A number of factors impact and complicate this ecosystem:

- **Intense Competition:** Today, customers have a wide choice of products to choose from and the overall quality of these competing products is very nearly the same. Competition is focused on innovative product design, brand image and quality perception and a differentiated buying and ownership experience.

- **The internet:** Customers are extremely well informed on vehicle features and prices, much more flexible in decision making and they are more fickle and less brand loyal. They expect a high degree of speed and synchronization of communication between the manufacturer and dealer. The ecosystem must always be expected to put customer satisfaction and share of wallet first.

- **Global overcapacity in vehicle assembly** increases the competition and cuts the profit of any sold unit. At the same time, access to credit and the overall credit worthiness of customers impacts the ability of customers to get a new vehicle.

- **Customer expectations of both vehicles and vehicle service** are continually increasing. Many times this heightened expectation is driven by products and services unrelated to the automobile industry. For example, ease of transacting business with a bank or utility company can significantly raise the expectation of a vehicle shopper.

- **The ecosystem must be creative and agile to adapt to and exploit new business models and to preserve and grow market share by creating profitable and sustainable customer relationships.**
The Roles of the Automotive Ecosystem

This ecosystem is built of many roles and business scenarios; here, the most important participants and their tasks in vehicle sales and logistics as well as their functions in the automotive aftermarket – covering maintenance and service of vehicles – are explained.

Dealers are the one who directly interact with customers in this ecosystem. Dealer employees are the faces that customers relate to the product. Let us start by explaining the dealer's role and continue with the dealer's cooperation with the other members of the ecosystem.

The Dealers

“Every time a customer comes in [for service] it’s an opportunity to win their loyalty – but also to lose it.”

Steve McKelvey, Manager, Ford Motor Company.

The dealer obtains to sell from the manufacturers or importer who builds or brings vehicles into a country. The dealer places an order based on customer choice with the OEM (manufacturer) or importer. This vehicle can be obtained from pre-existing inventory or can be built specific to that particular order.

The dealer is the ecosystem participant who has the personal contact with the customer. The dealer is the one who enables the delivery of a vehicle or service to a customer and the dealer is the one to whom the customer opens their wallet for a vehicle or vehicle service. If the customer is delighted about his new car or the good service of the dealership service department, the dealer will usually get to know this first. If the customer is unhappy, the dealer is always the first contact for the complaining customer. The dealer’s actions significantly impact the customer satisfaction of the OEM’s products.

Dealers maintain showrooms to display vehicles to customers. Dealers also provide service and parts facilities for the maintenance of customer vehicles. While most dealership sell and service vehicles, there are a number who only sell vehicles and those that only service them. Dealers may be exclusive, that is they offer only a single brand, or they may offer multiple brands to the customer. Dealers may have one location or they may have multiple locations selling or servicing many brands in one or more countries. Vehicle sales activities have very high revenue but that revenue is impacted by high inventory and inventory carrying cost, advertising cost, facilities costs, sales collateral, internet presence and sales commissions. Additionally, competition and industry production over-capacity tends to drive most of the profit out of the sales transaction. Dealers also provide the link from the showroom/customer/sales process to financial institutions to assure the necessary customer credit for vehicle purchases.

The service department or in some cases the service point or garage owner’s role is to service and repair vehicles profitably. This includes the sale of repair and service parts and accessories. A service department has to be very efficient with their costly resources. This includes skilled technicians and the tools and technology necessary to support the business process of the service department. While service and parts departments generally deliver less total revenue than sales departments they deliver a much larger percentage of profit from that revenue.

In mature markets, a consolidation of dealerships can be seen. Resulting „mega dealers“ have the potential to reach more customers for sales and service business. In addition, they can offer a larger selection of vehicles and vehicle brands over a much larger geographic area with resulting economies of scale. For example a mega dealer may have multiple showroom and service locations supported by a single accounting or business office.

More about the role of a dealer and the SAP Dealer Business Management can be read here.
The Importer

The importer is the link between the dealers and the vehicle manufacturer. An importer brings vehicles from an OEM into a region or country where an OEM does not have the distribution channel necessary for profitable success. The cooperation of these business partners determines the success of this ecosystem in the region where the importer operates.

Importer's key functions are:

- Communication channel between any stakeholder or interested entity in the country – customers, dealers, legislator and OEMs.
- Sales planning for the region - together with the dealer network and the OEMs.
- Control of marketing campaigns – together with the dealer network and the OEM including cultural and legal aspects.
- Custom declaration and legal conformity of imported vehicles.
- Distribution of vehicles beginning with the entrance to the country until delivery and billing to the dealer or in some cases even to the end-customer. This includes also the repair of transportation damages and respective cost coverage and re-imbursement.
- Control and initiate of local refurbishment and up-fitting and accessorization of vehicles before delivery to dealer/end-customer.
- Distribution of spare parts beginning with the entrance to the country until delivery to the dealer.
- Payment and management of warranty claims as OEM intermediary.
- Control of the technical infrastructure for information exchange between dealers and OEMs.

Importers can be independent companies that may also have their own dealer network. They can operate in many countries and serve also multiple national dealer networks. Importers can belong to the holding of the automaker; in this case, they are called “National Sales Centers”, NSC.

The role of the importer is often underestimated. The importer is the key conduit for the flow of the essential information from the market (the dealers and the end-customers) to the OEM (the plants and central units) and back as well as the flow of goods from one end to end.

The OEM

The task of the OEM is the development of high quality innovative vehicles and alignment with suppliers for the manufacturing and delivery of vehicles to the sales network. Automakers and suppliers have a very strong interest in the cost effective vehicle assembly and high number of unit sales to maximize their profits.

- For the OEM, it is important to have a good understanding of customer demand to optimize the assembly plants and the supply of goods and services as effectively as possible.
- The OEM defines their portfolio and to do so must consider trends in the various sales regions and important markets for his product development and engineering. These can be requirements that have more a life style character, that apply to look & feel of the vehicles, but may also technical and legal requirements, e.g. the exhaust of carbon dioxide or telematics capabilities.
The investment of money, payments to suppliers and real time profitability analysis are necessary decision making data for the success of an automaker.

An automaker has a strong interest on a fast cash flow for his finished goods; changes to the delivery and vehicle configuration must be communicated to the end-customer and dealer in short time.

OEMs run marketing campaigns for their brands and arrange sales promoting activities, e.g. appealing financing offers for end customers. These may include the guarantee of the market price or an incentive to the retailing dealer as a special rebate or provision per sold vehicle.

The OEM is responsible for the quality, safety and suitability to purpose of the vehicles they produce. This is called the new vehicle warranty and in many cases governments have some regulatory oversight or involvement in interpretation. The OEM is responsible to pay for the cost of parts and labor to repair vehicles that are defective per the terms of the warranty during the specified warranty coverage period. In many cases the OEM warranty may also cover consequential damages caused by defect in the vehicle. OEMs are not responsible for misuse or lack of proper and prescribed maintenance; these failures are usually excluded from warranty.

The business of the OEM does not end with the delivery of the new vehicle to the end customer. An OEM has a significant interest to keep the customer for his life time and sell the next vehicle and further services or gain new prospects through this satisfied customer.

Further Ecosystem Players

The ecosystem is not limited to just dealers, importers and automakers. There are additional players in the ecosystem who generally impact the ecosystem outside the new vehicle sales and ownership/warranty period. For completeness, they are mentioned here and their roles are also briefly described.

Sales of used vehicles

In addition to the sales and service of new vehicles the sales of used vehicles is also very important. Dealers take in used vehicles as trade-ins against the price of a new vehicle. Used vehicle operations - generally called used car and truck dealers - buy and sell used vehicles as their only business. Vehicles may come from private customers as trades or from lease vehicle fleets, rental fleets or government fleets. In many cases used vehicles are bought in one state or region and resold in other regions where the demand and consequently the market value of the used vehicles are higher.

- At the end of its useful life the vehicle goes to a salvage or scrap yard. Here vehicles are dismantled. Used parts may be sold to maintain vehicles still in operation, but most are recycled in compliance with environmental regulations.

Universe of aftermarket parts suppliers

Beyond the traditional dealer there is also a broad universe of aftermarket parts suppliers that sell new and remanufactured parts to customers and repair shops other than dealers. This business has three significant tiers, the warehouse distributor, the jobber and the independent parts retailer. The warehouse distributor buys parts from suppliers and distributes them via its network of jobbers. The jobbers distribute spare parts via its network of regional or local retailers. After a new vehicle warranty period has expired many customers turn to the aftermarket spare parts suppliers for necessary repair parts. Although in general the quality of these non-OEM parts is equal to OEM parts the prices points are generally less, making aftermarket parts attractive to customers.
Independent repair shops
Additional participants in the automotive ecosystem are the independents repair shops. These independent repair shops service and repair vehicles that are no longer covered by the OEM warranty via the dealers. Customer take their vehicles to these independent repair shops for a number of reasons usually centered on lower overall prices, and more convenience. Independent repair shops generally provide parts purchased through the aftermarket parts channel described previously but in many cases also buy repair and service parts from dealers, usually driven by availability or customer’ request. An example of the viability of these independent repair shops can be seen in the fact that most new vehicle warranties, binding customer to franchised dealers is three to four years, while the average useful life of a vehicle can exceed ten years. After the warranty period expires, many customers take their vehicles to these independents for service and repair.

Fleet Customers
Fleet customers, meaning company cars, leasing and rental companies, public and mobile service companies, military as well as public transportation companies, have unique needs that are met by this automotive ecosystem. Due to the nature of the business, i.e. vehicles generate revenue, and in many cases a customized fleet, special arrangements exist for the repair and service of these vehicles. These include service level and special maintenance agreement and contracts. These special fleets may be served directly by the OEM or importer or by local dealers or independent repair shops.

Finance Industry
Sales of vehicles are often supported by financial programs that are supplied by the finance industry at large or by the captive finance arm of an OEM or importer. Captive finance companies are more flexible and responsive in lending terms as they are clearing in business not only to make money but also to support the sales of OEM’s brands. For today, customers and dealers have a wide range of financial services available to support the sale of new vehicles. Vehicle finance terms can be found to meet the needs of virtually any customer with a respectable credit history. Other customers will want to lease a vehicle rather than buy it. The advantage is that they generally pay less per month and they can just turn in the vehicle at the end of the lease term rather than having to sell it before obtaining a new vehicle. Equipment and fleet operators take full advantage of the ability to lease vehicles. Combining captive finance products and offerings bundled with the new vehicle price can make an attractive package to the customer.

Insurance Companies
An unfortunate reality of the automotive ecosystem is that at times vehicles become damaged either by accident or collision and require paint and body or mechanical repair. The repairs to these damaged vehicles are generally covered by insurance policies. Repairs are performed by collision repair shops that are either part of a dealer operation or are independent. Parts are obtained from the OEM or importer or from the aftermarket channel previously described. In most cases the automotive insurance company is a party to the repair as they pay for the largest part of the repair.

External Arbiters
For some businesses, an external arbiter is needed to mediate the repair of a vehicle as in the above case or in determining the market value of a vehicle. When a vehicle is damaged a person either employed by the insurance company or an independent “claim adjustor” is engaged to define a fair and equitable estimate and settlement. Another example is the determination of the actual market value of the car for re-purchase/trade-in, re-sale or inventory valuation. These estimations follow a strict procedure and calculation sheet and are done by external arbiters experienced in the market dynamics and complexities.
Governmental agencies

Governmental agencies are deeply involved in regulating the automotive ecosystem. In many cases, the local governments attempt to protect both the rights of the OEMs, importers and dealers while at the same time protecting the rights of vehicle purchasers. Many times regulation is applied in many unique ways. In the US for example, state motor vehicle laws heavily favor dealers. In the EU the Block Exemption Regulation (BER) has had a significant impact on the collaboration between OEMs and dealers and continues to be a major driver to increase competition and improve customer choice.

- Environmental, financial, privacy, safety and quality regulations play a significant role in the automotive ecosystem. Environmental rules regulate vehicle emissions, materials used to manufacture vehicles, emissions from manufacturing facilities and ultimately impact how vehicles are disposed of and recycled. Safety regulations cover all aspects of a vehicle’s safety are continuously evolving and becoming more rigid and far reaching. Quality regulations and reporting manifest themselves in the form of the US Transportation Recall Enhancement Accountability and Documentation (TREAD) Act which requires manufacturers, importers and suppliers to report on all aspects of vehicle quality and safety. This act is extra territorial in nature and compels foreign companies certain conditions to report as well under threat of both civil and criminal penalty. The ecosystem is held accountable for financial reporting regulations and is subject to individual privacy laws. These regulations have a significant impact in this ecosystem, impose significant compliance costs and should not be underestimated.
Shared Concerns of this INDUSTRY Segment

From a software solution provider perspective, this ecosystem focuses its business processes on two main objects:

<table>
<thead>
<tr>
<th>PRODUCTS</th>
<th>CUSTOMERS</th>
</tr>
</thead>
<tbody>
<tr>
<td>a vehicle</td>
<td>a person,</td>
</tr>
<tr>
<td>either a car, truck, bus, farming equipment, tractor, fork lift and so on.</td>
<td>who owns or uses respectively wants to use to carry him or other persons or simply just goods.</td>
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Business drivers are in favor of an integrated IT solution and landscape:

- Strong pressure and focus on cutting operating costs and maximize profits – transparency where the money comes from and goes to.
- Realization of lower TCO and comply with today’s and future need for business process changes through IT harmonization.
- Transparency, speed and legal compliances in all business processes and areas – what are key ERP topics.
Key Questions and Trends in this Business

Who owns the customer and the vehicle data?

- In time past the answer to this question was fairly obvious. The OEM owned the relationship with its franchised dealerships; that relationship included both automotive vehicles parts, tools and information and in many cases the financial relationship as well. And likewise it was very obvious that the dealer owned the customer and his/her vehicle relationship. The dealer had and therefore owned the relationship with the customer during the sale and ownership time; when the customer thought of their vehicle it was usually in terms of the last interaction with the dealership.

- Today information is ubiquitous. It flows and exists seamlessly between OEMs, dealers, customers and today the vehicle. We are now entering the age where vehicles in operation even talk to each other.

- Because of this information availability the old issue of customer ownership is a moot point. OEMs generally know as much about a customer (some personal details are exceptions) as the dealer. And if the captive finance are of the OEM finances the purchase or lease of a vehicle they know even those exceptions.

(Note: there are laws that govern how information may be used, so some information while known is not able to be used in ways other than intended, i.e. recall detail cannot be used for marketing purposes and finance information cannot be freely shared between the OEM and the finance company.)

- Because of this OEMs and Dealers can effectively engage in mutually supportive 2:1 marketing efforts that, for example allows, the OEM to cast a wide net and the dealer to be more precise in targeting prospects.

- What the dealer can share with the OEM about a customer’s ownership experience can influence decisions made during the customer’s ownership period and beyond. And the OEM routinely shares customer contact detail that they may have from direct customer interactions with the dealer. The result is a better ownership experience for the customer, better actionable intelligence and improved customer loyalty.

- Today we are even beginning to capture detailed vehicle information while that vehicle is in operation. We can now see fault codes (DTCs) in real time and begin developing the system picture necessary to begin the resolution process both for the individual customer and in design and production, many time without the customer being aware of anything being wrong.

- So today it is not about vehicle or customer ownership…it is about having the right information available to make the best decisions regarding the customer and the vehicle by the entity in the best position to address the customers need.

Who owns the profit in this ecosystem?

- Profit is ubiquitously generated and shared throughout the automotive ecosystem. The key thing to keep clearly in focus is that ALL profit ultimately is derived from customers, which are those people who purchase automobiles, operate them and service and repair them, i.e. owners.

  - Automotive suppliers generate profit by designing components and systems and selling them to OEM for assembly into completed vehicles. They also profit from the sale of spare parts to the OEM for distribution to dealers to be used in servicing and repairing vehicles as well as selling to independent parts and service providers as described below.
o OEMs derive profit from designing and manufacturing complete vehicles for sale to customers. Manufacturing takes its profit when a vehicle passes final post production check and is transferred to the sales channels. Sales and marketing profits when vehicles are shipped to dealerships, and also profits when its spare parts division sells spare parts to dealerships.

o Importers profit in much the same way as the sales and marketing organizations of the OEM.

o Finance companies generate profit from the sale of finance contracts supporting the purchase and lease of new and used vehicles to customers.

o Dealers generate profit from the sale of new and used vehicles to customers. They also make money by the sale of parts for the repair and maintenance of vehicles and the service labor required to keep vehicles operating at peak performance. Here profit comes from the OEM paying for warranty claims on covered vehicles and from customer paid maintenance and repair and for the repair of vehicles involved in collisions.

  ▪ Dealers also make a profit from the selling of finance or lease contracts on new and used vehicles. If a dealer is the agent for a captive lender - meaning one that has direct ties to the OEM/importer - and sells the financing for a vehicle he will get a commission of the profit from that contract. A similar business process and profit exists for the dealer selling extended service contracts.

  ▪ The automotive eco-system also contains a large number of non-franchised businesses that provide parts and service for vehicles. These are the independent parts providers who buy and sell service and repair parts and the independent service shops that install those parts and repair vehicles.

    - Included here are warehouse distributors who buy parts and distribute them to jobbers. The jobbers then distribute parts to independent repair shops for servicing and repairing vehicles. Each of these channel partners derives a profit for their unique position and purpose within the eco-system.

    - Independent repair shops (and collision repair shops) derive profit from the service and repair of vehicles. This profit also includes a profit from the resell of the parts obtained from jobbers and warehouse distributors.

It is easy to see that profit is generated throughout the automotive eco-system, from vehicle concept through vehicle operation. At some point all eco-system participants profit. And the key point to remember is that **ALL** of this profit comes directly from the customer or vehicle owner. Without the customer there would be no profit and therefore no reason for the existence of the automotive eco-system.

The eco-system exists to provide value to the customer in exchange for profit from the customer.
Who owns the costs of the ecosystem IT infrastructure?

- Today the idea is that the dealer is responsible for those infrastructure items that are required to operate their business and the OEM/importer is responsible for those infrastructure costs necessary to promote and sell their brand.

- Costs are shared by the dealer and the OEM/importer with constant debate over who is responsible for what. Whenever infrastructure is needed for profitable business, further investments and costs are easier to allocate compared to areas where profits are hard to gain.

**Related Content**

This document is related to the BPX Automotive Community. You will find similar content in the getting started page with Automotive Sales & Service Organizations.

This writing might also be of interest: Automotive Retailing.