

# Driving Efficiency for Greater Profitability and Safety

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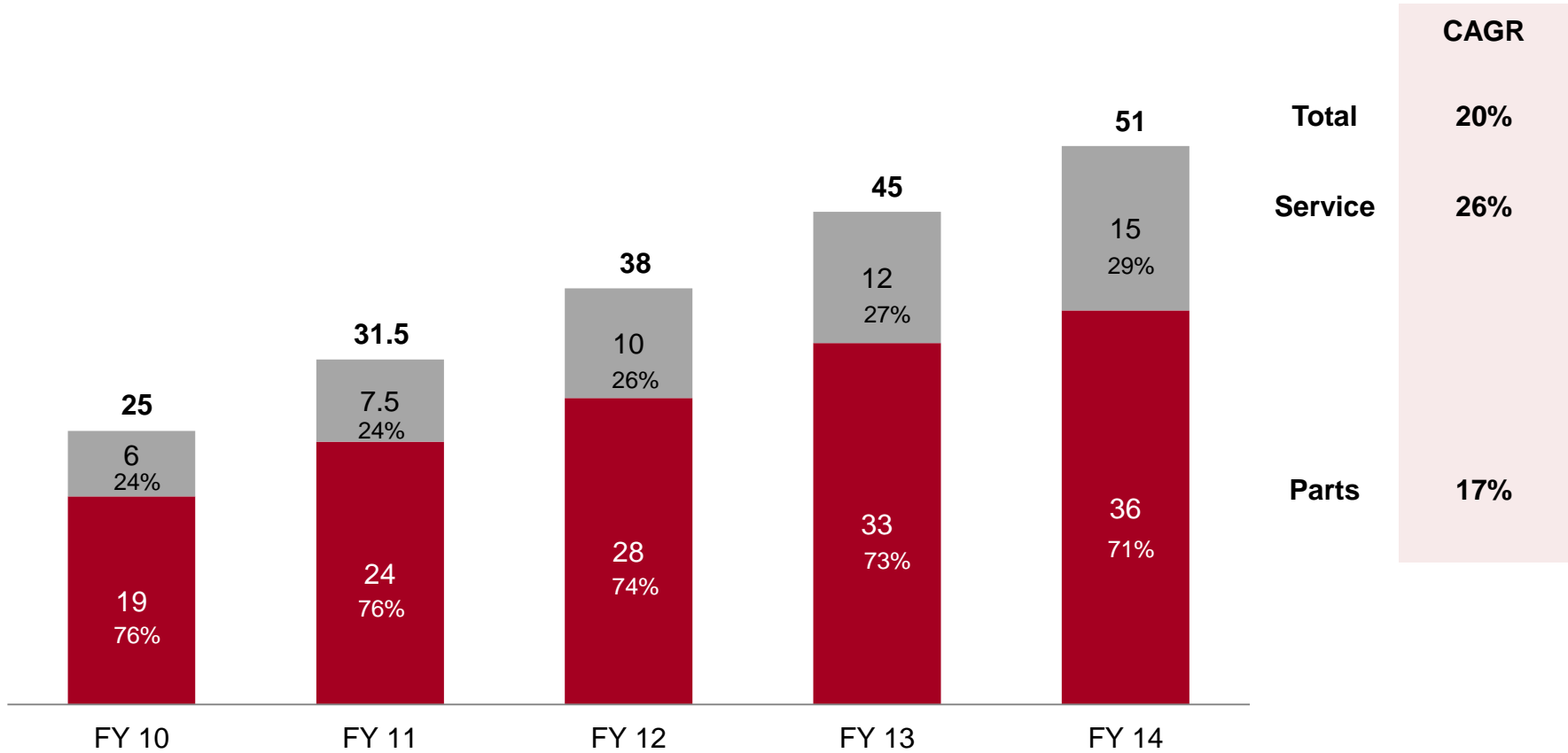
November 2014



The Indian Auto Aftermarket is estimated at ~Rs 50,000 Crs in FY14 and has grown at a significant rate of 20%; service segment, though smaller in size has outpaced the spare parts segment

Indian Auto Aftermarket – by revenue segments

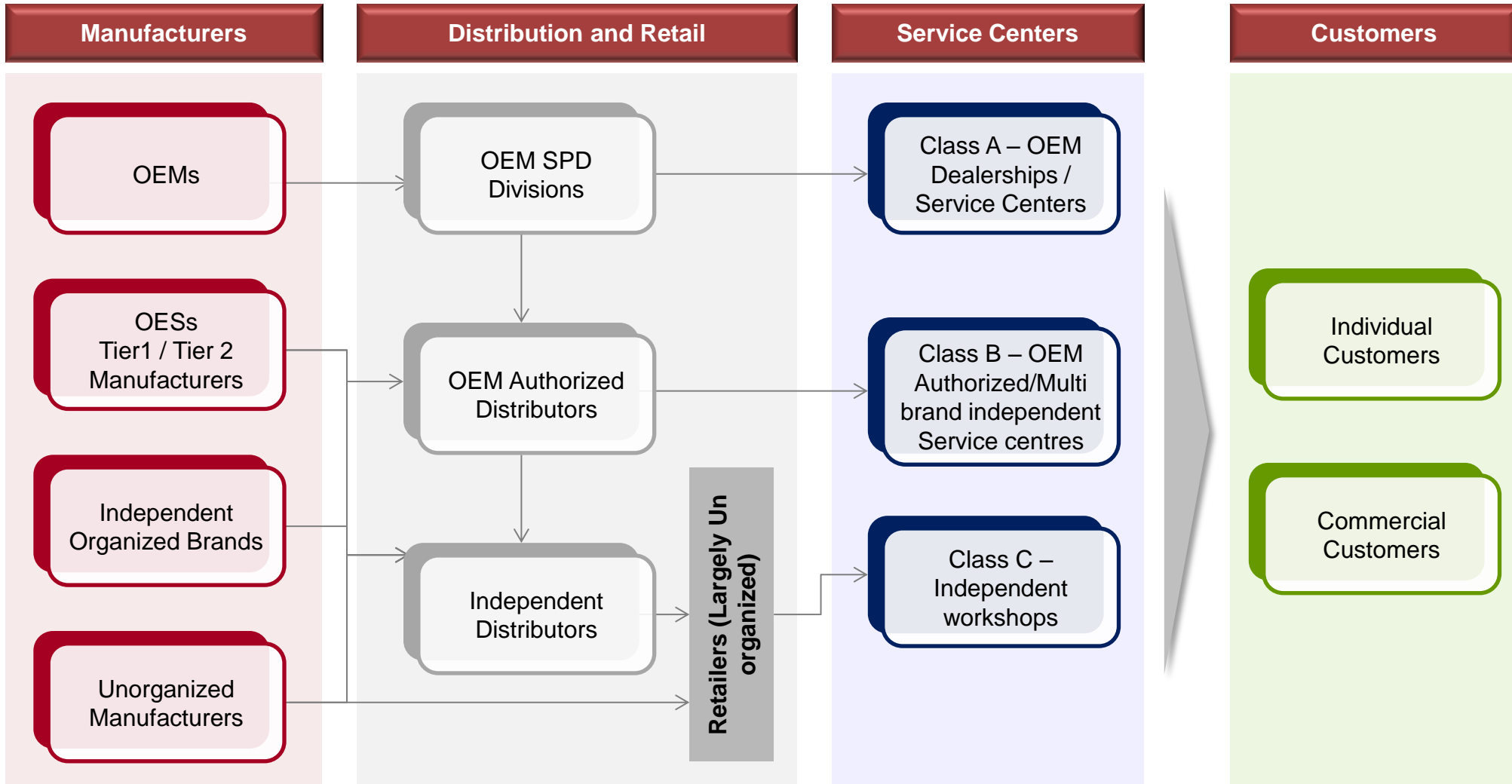
Indian Auto Aftermarket – Parts and Service Revenue FY10 - FY14 ('000 Cr)



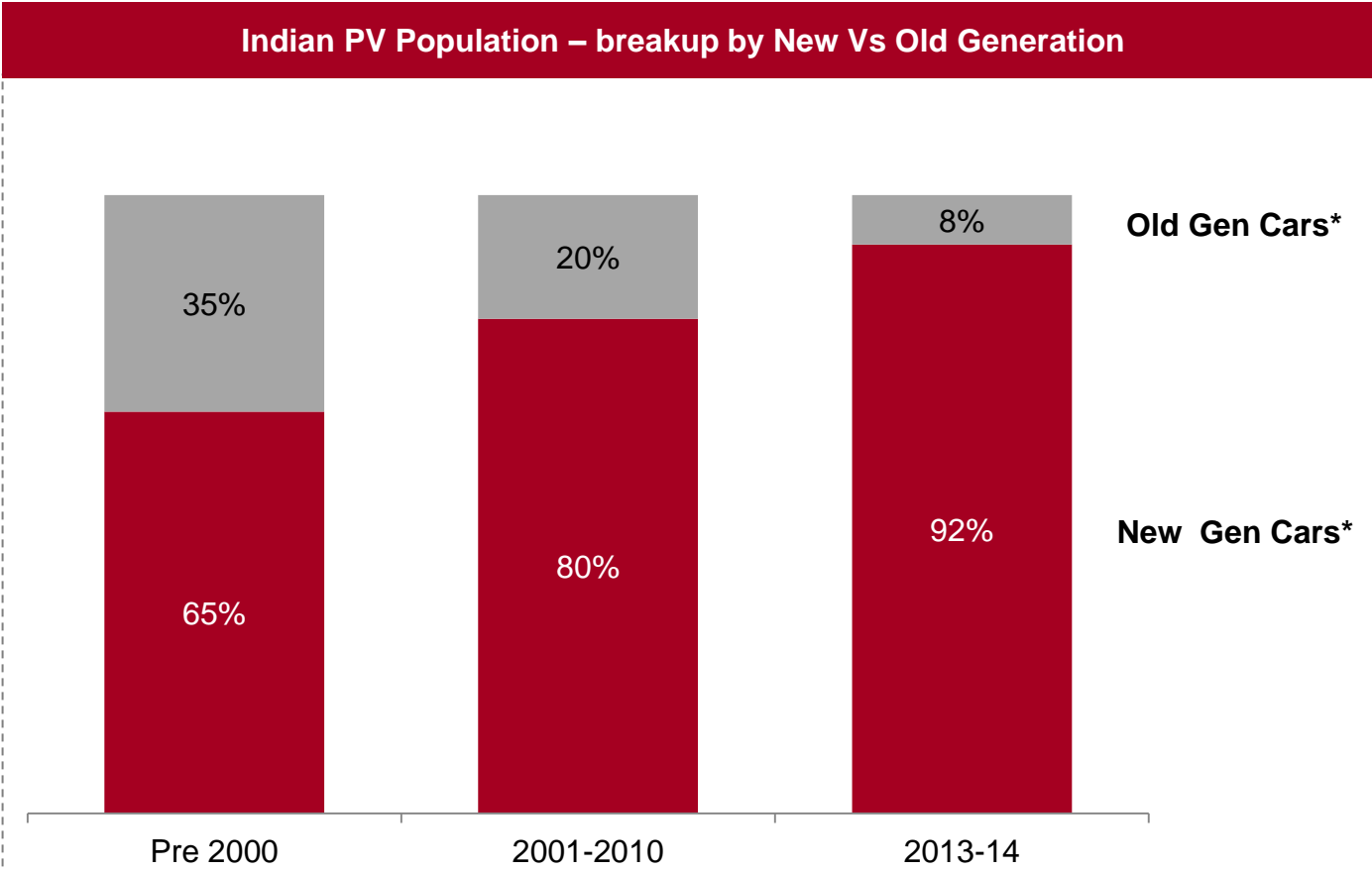
Source: ACMA, ICRA Estimates, Avalon Consulting Research and Analysis

# The Aftermarket value chain is quite complex with multiple entities transacting with each other to service the vehicle owners

## Aftermarket Value Chain



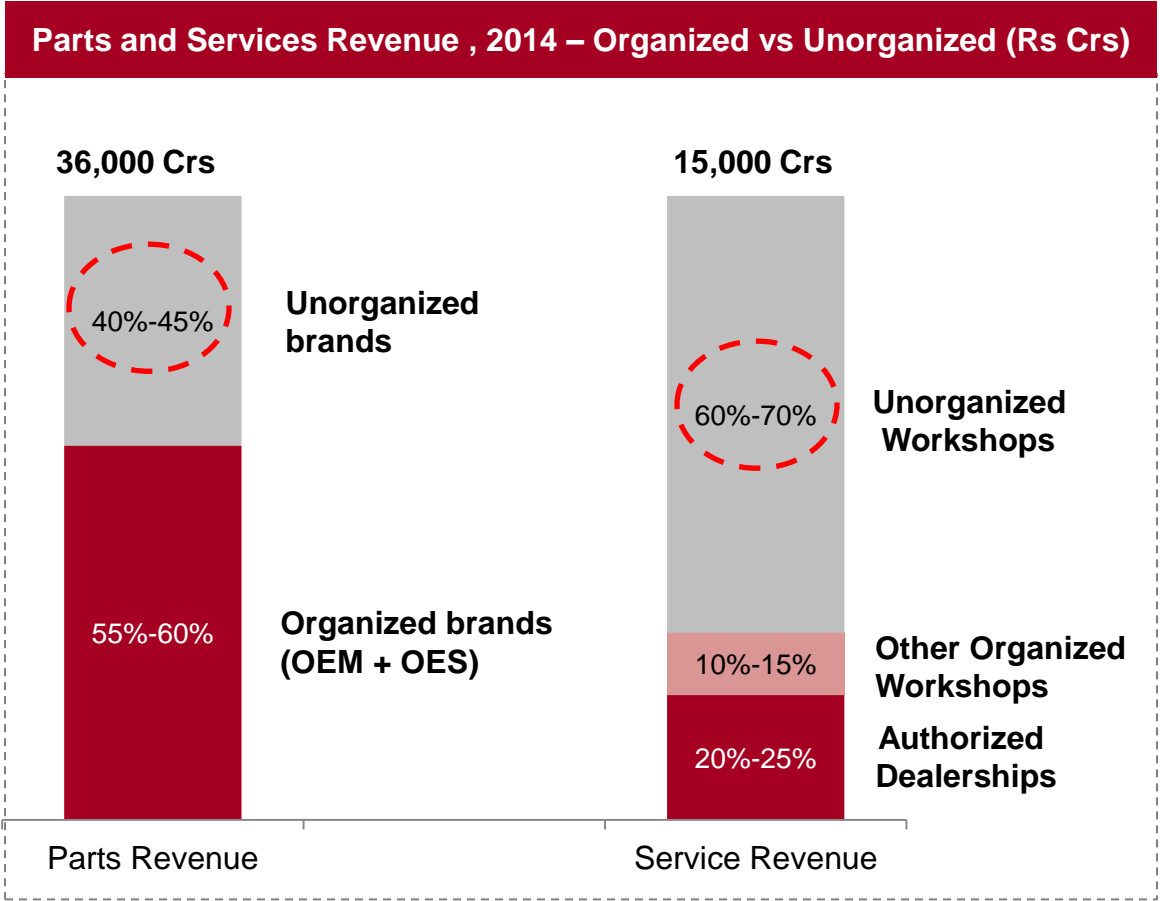
The share of new technology cars has steadily improved over the past 10-15 years in India ; currently ~92% of the cars on road can be categorized as new generation cars



2W will reflect a similar trend. While the trend may not be as dramatic for CVs, the share of multi axle, new gen vehicles will still be large

Note : \* Old generation cars includes Legacy brands such as Maruti 800, Omni, Ambassador, Fiat (Premier Padmini) Old Alto etc  
New generation cars include the other brands which are technologically more evolved and advanced

# However, unorganized players continue to enjoy a significant share in both parts and service segments – impacting safety and profitability of key industry participants



Source: Avalon Consulting Research

# There are key inefficiencies across the value chain that leads to the high share of the unorganized sector

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**Manufacturers**



**Service Centres**



**Distributors and Retailers**

## High share of unorganized sector players in the spares market is largely driven by poor and timely availability of branded parts / service and a significant price differential

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### Key Drivers for High Share of Unorganised Sector

- **Poor and Timely Availability of Genuine Parts / Service :**
  - Supply Chain inefficiencies
  - Restricted Supply to independent organized distributors
- **Huge Price Difference between Organized and Spurious Brands –** drives away the price conscious Indian customers
- **Disproportionate margins for Distributors on spurious parts –** Small , Unorganized Distributors and retailers generally get lured by significantly high profits available on spurious parts

# Inefficient Supply Chain is one of the key drivers for high cost of organized brands

## Typical As Is Supply Chain for an OEM SPD

### Manufacturers (OEMs and OESs)



### Spare Parts Hub



### Large Distributors

### Wholesalers / Retailers

### Workshops

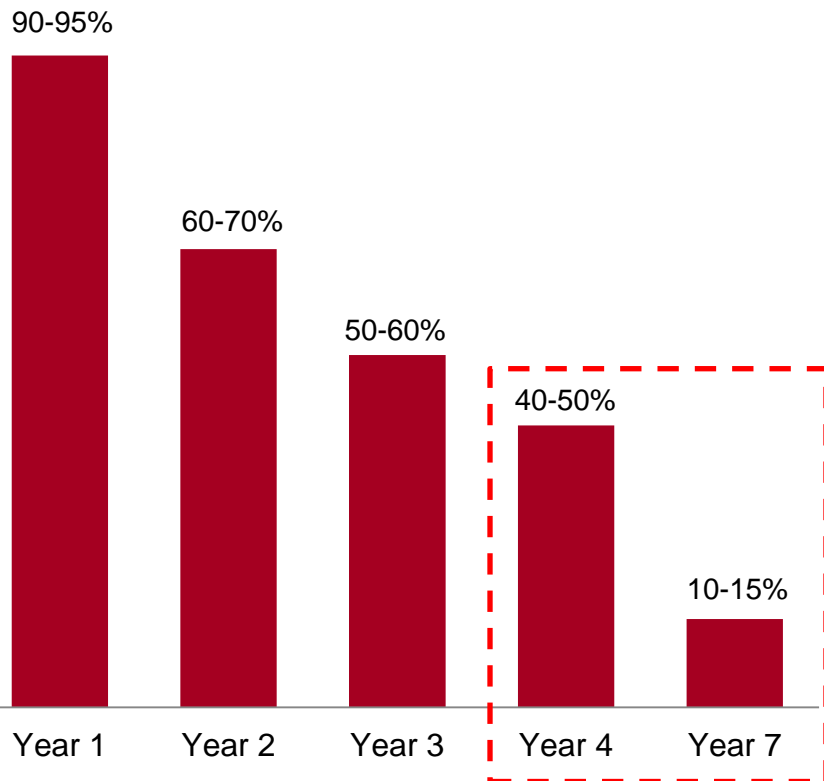
## Inefficiencies due to As Is Supply Chain

- Single Spare Parts warehouse adjacent to their plants
- Increased supply chain costs (to and fro logistics), lead times and logistical inefficiency (small truck loads etc.)
- Ever increasing number of models and variants in – managing spare parts inventory is complex
- Poor forecasting and integration across the supply chain



~50-60% of vehicle owners move out of the organized workshops for their service needs post the warranty period mainly due to their premium pricing

### Customer Retention by Class A Workshops (authorized car dealerships)

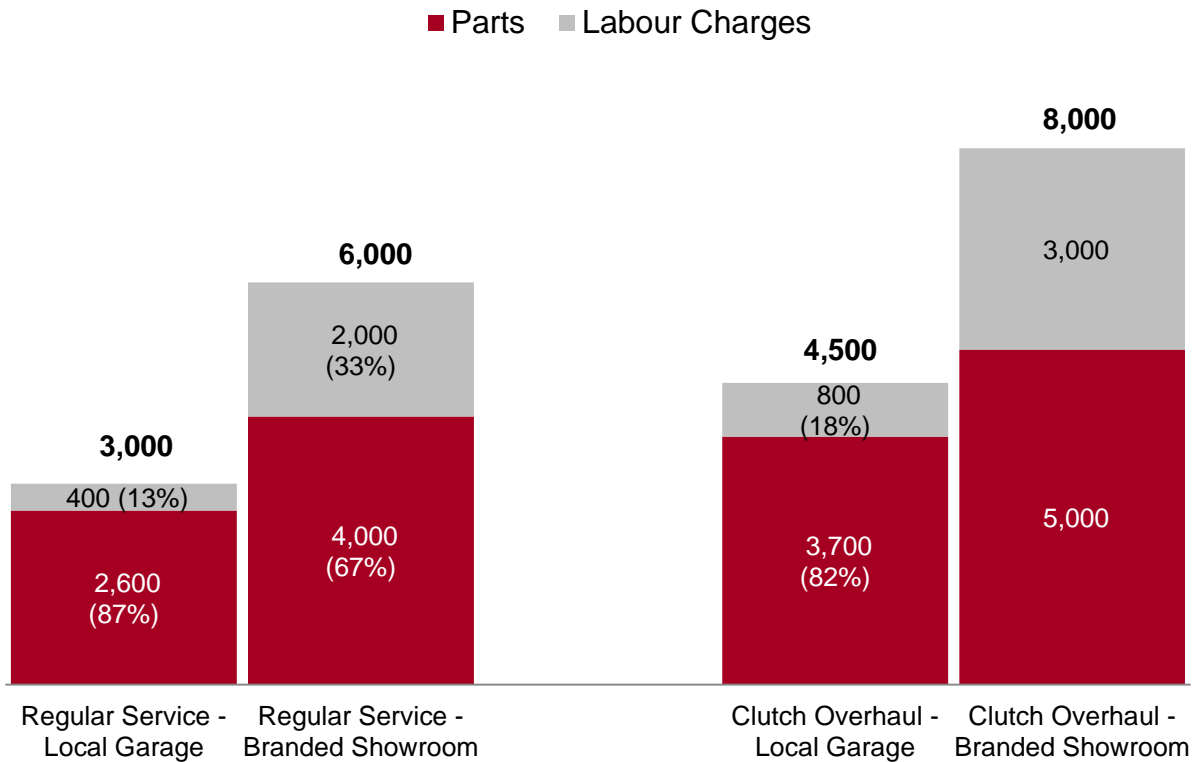


### Key Reasons for Customer Exodus to Unorganized segment

- Price conscious Indian customer
- High cost of Parts and Labour at authorized workshops and other inefficiencies
- Key Reasons:
  - Poor turnaround times
  - Unacceptable service standards and customer satisfaction
  - Authorized workshops allowed to source and use only OEM branded parts
  - High Overhead Costs
  - Inefficient labour processes
  - Unattractive value proposition

# The cost difference between an organized and unorganized workshop could be to the extent of 90% - 100%; its more prominent in case of labour component than parts

**Comparison of Service Charges at Branded & Local Showroom in INR**



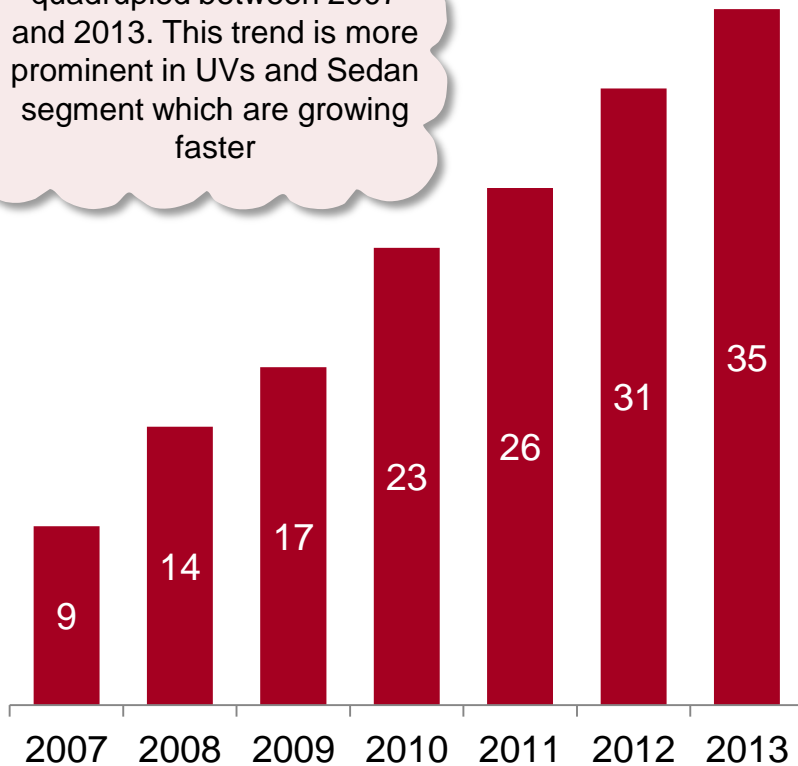
## Key Issues

- Price difference of ~90%-100%
- Parts pricing ranging from 30%-50%, much higher for spurious parts
- Labour price difference 4 – 5 times
- High overhead costs and low productivity

# Indian auto market has witnessed a surge of new model launches in recent past, thus adding to the complexity of spare parts market and pushing up the costs of the organized channel partners

## Increase in no. of Small Cars Models – 2007-2013

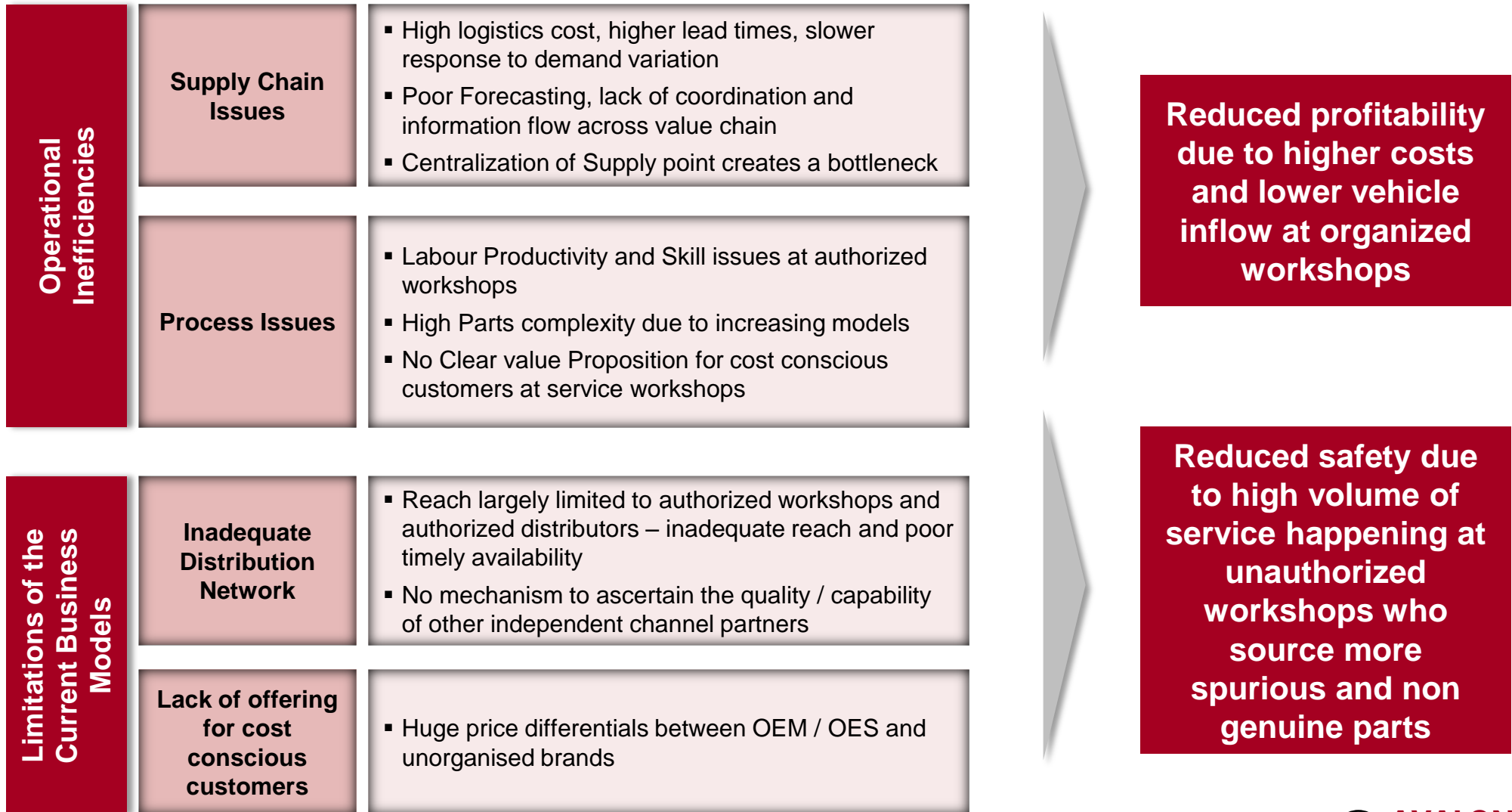
The no. of small car models quadrupled between 2007 and 2013. This trend is more prominent in UVs and Sedan segment which are growing faster



## Key Inefficiencies in Organized Sector

- **High Inventory costs** - Large no. of model and variants makes it increasingly difficult for the distributors and retailers to
  - Track the demand
  - Manage sufficient inventory
  - Source from different vendors
- **Reducing Margins** – With lowering buying power against the OEMs, Organized players are facing reduction in their margins and losing their competitiveness
- **Highly Fragmented Structure** – Small scale distributors and retailers that are unable to invest in technology required to manage the business efficiently
- **Difficulty in Sourcing** – Independent distributors find it difficult to source parts from either the OEMs or OESs, thus have to rely on aggregators, imports or unauthorized channels

# Overall, Operational Inefficiencies and limitations of the existing Business Models have resulted in the current situation



# Improving labour productivity through skilling, automation and innovative service offerings will help improve competitiveness organized workshops

## Possible Initiatives for Process Efficiencies

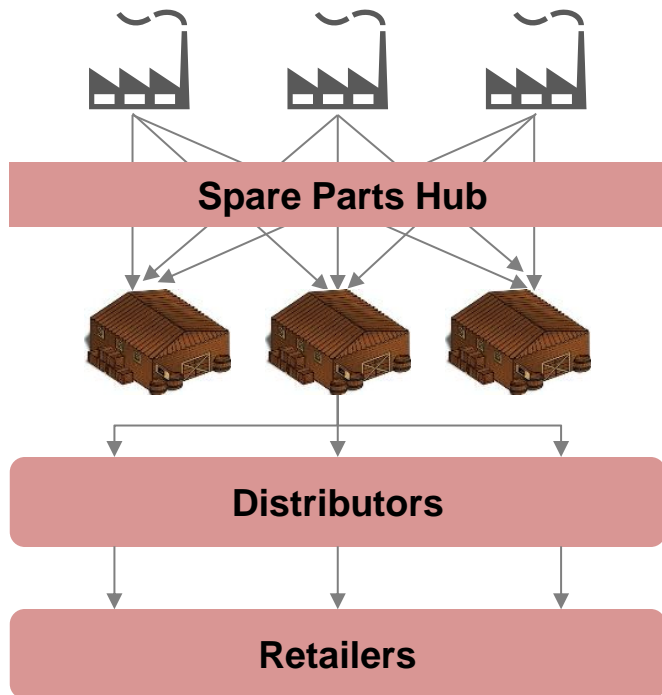
- Better training and improving skill sets of labour
- Increased levels of automation
- Innovative methods to retain post warranty customers:
  - Bundling 4-5 year service with new car price – co-investment by the dealers?
  - Customized packages and AMC's which are competitively priced
  - Effective marketing and communication to customers – both from the OEMs and the dealership side



# OEMs need to re-invent their downstream supply chain in order to improve their response time to market demand

## To Be - Hub and Spoke Model

### Manufacturers (OEMs and OESs)



## Possible Initiatives for improved supply chain efficiency

- *More distribution hubs - to reduce lead times and improved DIFOT and response to demand variations*
- *Re-think the supply chain with OES through revenue share models and direct supply to SPD hubs*
- *Better IT integration across the supply chain – vendors, distributors and workshops and improved analytics*

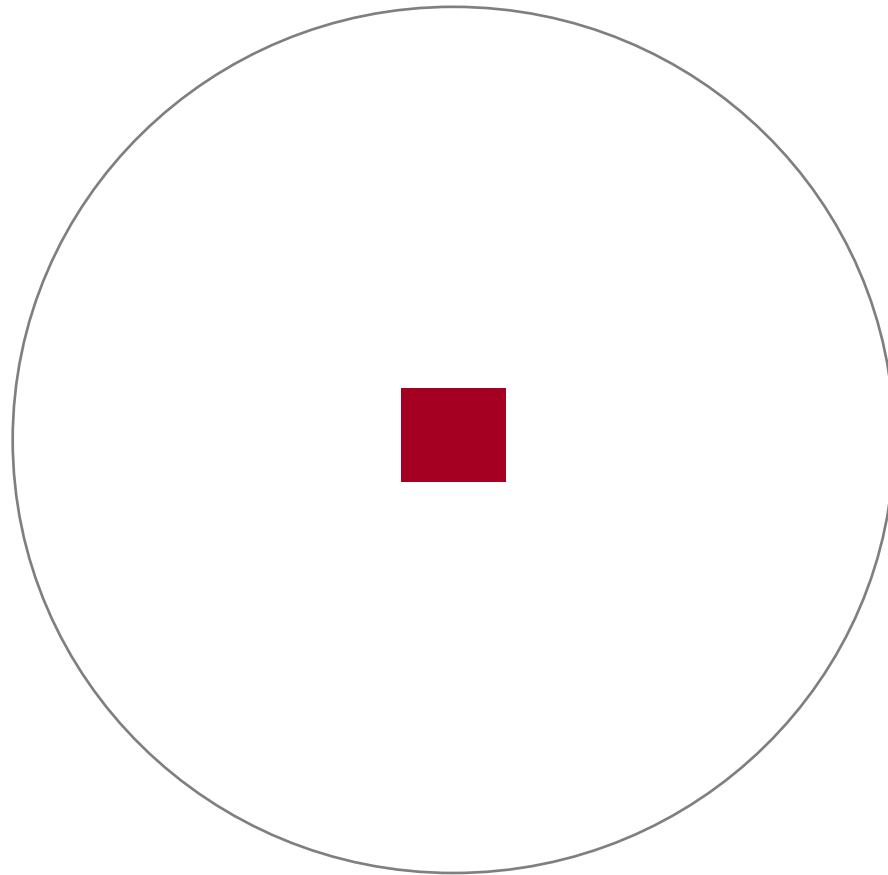
*Increased efforts to consolidate the currently fragmented distribution channel – to deal with increasing parts complexity and investments required*

# Alternative business models can be developed to increase the downstream network penetration and target cost conscious customers

## Alternative Business Models – Food for Thought

- Launch multiple brands at different price points to cater to various segments – allow for cannibalisation
- Allow more OES brands through revenue shares – co-opt and expand the pie
- Co-invest in organised service networks to drive deeper penetration
- E-commerce led distribution and sales to drive costs down
- Cloud sharing of under utilised service capacity through innovative low cost pricing models
- Consolidating service quality monitoring processes across brands





**END OF PRESENTATION**