Targeted Sales Incentive Management for Automobile Manufacturers: Building the Required Capabilities
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Targeted incentive management is increasingly becoming a high focus area for most automotive Original Equipment Manufacturers (OEMs) today. Automotive manufacturers in the US spend an astounding 45 billion USD per annum on incentives. Targeted incentive capabilities for dealers result in the right offer being made for the right model mix in the right market. OEMs need to leverage targeted incentive capabilities as a strategic tool to gain a competitive advantage in the automotive retail market and increase the volume of vehicles sold, while maintaining the same overall incentive expense.

A targeted incentive management application is required to overcome operational complexity resulting from acquiring superior levels of flexibility, intelligence, and targeting capability in automotive incentive management. This will result in a more effective utilization of the incentive fund — the savings potential can be so substantial that OEMs can break even in the very first year of operations.

This white paper describes a targeted incentive management framework and also dwells upon some important aspects of automotive incentive management.
# Contents

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Incentive Cost Challenge</td>
<td>7</td>
</tr>
<tr>
<td>Acquiring Targeted Incentive Management Capabilities</td>
<td>7</td>
</tr>
<tr>
<td>Building Intelligence Capabilities in Targeted Incentive Management</td>
<td>8</td>
</tr>
<tr>
<td>Building Targeted Incentive Execution Capabilities</td>
<td>10</td>
</tr>
<tr>
<td>Primary Capability</td>
<td>10</td>
</tr>
<tr>
<td>Advanced Capability</td>
<td>10</td>
</tr>
<tr>
<td>Framework for Achieving Targeted Incentive Capability</td>
<td>11</td>
</tr>
<tr>
<td>Targeted Incentive Management Process Overview</td>
<td>13</td>
</tr>
<tr>
<td>Incentive Program Design</td>
<td>13</td>
</tr>
<tr>
<td>Incentive Launch</td>
<td>15</td>
</tr>
<tr>
<td>Incentive Validation and Payment</td>
<td>15</td>
</tr>
<tr>
<td>Analytics</td>
<td>16</td>
</tr>
<tr>
<td>Data Mining</td>
<td>17</td>
</tr>
<tr>
<td>Big Data in Incentive Management</td>
<td>17</td>
</tr>
<tr>
<td>Incentive Management Capability Maturity Model</td>
<td>18</td>
</tr>
<tr>
<td>The Way Forward</td>
<td>19</td>
</tr>
</tbody>
</table>
The Incentive Cost Challenge

Incentives in the automotive industry play a significant role in the marketing mix of most OEMs. Apart from sweetening a deal, incentives allow OEMs to customize pricing as a response to demand and supply fluctuations in the market. The incentive amount per vehicle is a function of historical data, inventory levels, market elasticity of demand, and product pricing.¹

In the US market alone, auto makers spend billions of dollars on incentives. Latest trends indicate that the percentage of vehicles covered by incentives is growing². Considering the dollar spend on incentive management, this area is fast becoming a high focus area for most automotive OEMs.

Automotive OEMs equipped with targeted incentive management capabilities are better placed to get favorable returns for their incentives. In our experience, the savings potential is so substantial that some OEMs break even on the investment in the first year of operations.

Acquiring Targeted Incentive Management Capabilities

OEMs today need to leverage targeted incentive capabilities as a strategic tool to gain a competitive advantage in the automotive retail market and increase the volume of vehicles sold. While doing this, however, they must be watchful about maintaining the same overall incentive expense.

Typical challenges that drive OEMs to acquire targeted incentive management capability include:

- Lack of flexibility in generating a large number of scenarios with incentive costs calculated by the system to arrive at the most optimal mix of incentive scenarios within the given constraints
- Lack of ability within the incentive management system to target a specific segment of vehicles, customers, geographies, or a mix of these
- Lack of comprehensive analytics and data mining capabilities

Incentives are now an essential ingredient in the sales promotion recipe of automotive OEMs and are considered to be qualifiers more than differentiators

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Targeted incentive management capabilities entail acquiring intelligence and execution capabilities as depicted in Figure 1.

Building Intelligence Capabilities in Targeted Incentive Management

Incentive management systems are complex enterprise applications that extensively interface with several other key internal and external enterprise applications, and should ideally allow a seamless flow of information across the incentive management value chain. In many OEMs, incentive management systems merely work as workflow management systems – building intelligence into such systems can result in better planning of incentive schemes. An effective incentive management application typically includes the following capabilities:

1. Generates incentive program scenarios using a scenario generator
2. Calculates incentive cost for any given scenario based on production planning inputs and penetration rates, and compares the costs with allocated budgets across car models, geographies, and time period
3. Builds business intelligence into the system using a business rule engine, enhancing the system’s predictive capabilities
4. Provides a large variety of incentive types for launching various incentive programs
5. Plans and tracks the yearly budget (Budget Planner)
6. Interfaces with key enterprise applications to gather real-time process and business data
7. Acts as a decision support system, leveraging analytics, data mining and big data capabilities
8. Enables close integration between modules

Close integration between the various incentive modules enables a seamless flow of information across the incentive management value chain, as depicted in Figure 2.

Figure 2: Seamless Flow of Information across the Incentive Management Value Chain

Building Targeted Incentive Execution Capabilities

Primary Capability

Primary targeted incentive capability comprises the ability to filter by slight variations in model, customer geography, and dealer geography for any given time period. This enables the OEM to design customized incentive schemes for a specific model or model year (right up to option code and color) with either a specific customer geography (even a ZIP code) or a specific dealer geography (right up to the dealer code) (Figure 3).

Advanced Capability

Advanced targeted incentive capability can be achieved by integrating the incentive management system with the Customer Relationship Management (CRM) system (to build customer-facing incentive programs) and by integrating dealer systems (to build dealer-facing incentive programs). This is depicted in Figure 3.

With advanced capability, building a specific program becomes much easier as it merely involves setting the parameters in the system. The system in turn builds the incentive program by fetching the relevant data from the CRM database. Some scenarios are listed below.

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**Figure 3: Targeted Incentive Management – Advanced Capability**

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Planning, launching, and managing incentive schemes with high levels of granularity is a complex activity. The incentive management system needs to handle high level of functionality and complex logic along with extensive workflows.

An end-to-end incentive management application is necessary to increase process automation and accuracy of information. The application should cater to the entire lifecycle of all incentive types applicable to new vehicles.

A comprehensive targeted incentive management framework, as shown in Figure 4, provides the basic building blocks for the implementation.

The framework must be conceptualized to enable a seamless flow of real-time, accurate, and relevant information across enterprise applications. A business rule engine, coupled with the availability of relevant real-time information, helps the system respond intelligently beyond just performing workflow management tasks.
The key drivers of as well as barriers to implementation of an effective incentive management system are indicated in Figure 4.
Targeted Incentive Management Process Overview

Figure 5 elaborates the process overview of a state-of-the-art targeted incentive management system in a connected enterprise.

Incentive Program Design

The system should have the following capabilities:

- Improve planning: The system should enable the OEM to plan incentive budgets for any time period. Flexible scenario generators can generate several incentive scenarios at required levels of granularity. Mining and analysis of historical data to spot historical trends and co-relations also helps in the effective design of incentive programs.

- Effective design of finance or lease schemes: Many incentives are passed on to the customer as finance or lease schemes. The system should enable the user to design an effective finance or lease scheme for the customer by providing historical information on loan tenure and customer credit ratings. For example, the system should be able to provide information on the customer demographics/spread and the interest rates based on tenure and credit rating based on similar schemes run in the past. The system should enable the user to allocate different subvention amounts to different tenure or credit rating segments and should also have finance/lease sandbox facility which gives the field users or regional managers the flexibility to tweak the incentive schemes within the defined constraints.

- Improved cost projections: The system should factor in production planning data and historical penetration rates in order to project the incentive cost. The system should be able to analyze the incentive cost across geography, model, time periods, or a combination of these.

- Better decision-making: The system should facilitate comparison of various incentive programs across timelines for better decision making. It should allow executive management to make decisions quickly online by allowing the submitted incentive programs to be approved, rejected, or put on hold.

The system utilizes production planning data and historical penetration rates for similar incentive programs, to project the incentive cost.
Analyze current Incentive Programs
Data mine historical Data for spotting patterns, trends, correlations, Spatial Data Mining etc.

Generation of Targeted Incentive Scenarios with specific granularity levels for Model / Geography / Time Period / Customer Segment / Dealers relations, Spatial Data Mining etc.

Check if Cost of Incentive Scenarios is exceeding budget. If yes, the scenarios need to be modified suitably in an iterative process.

Figure 5: Targeted Incentive Management Process Overview
Incentive Launch

The incentive management system should have an automated document generation capability to facilitate the program document creation and distribution process. The launch of the incentive program is the first functional area for incentive administration. It serves the following purposes:

- Allows building of customized target lists for a particular incentive program
- Allows users to create program documents with selected or uploaded templates
- Distributes the right program documents to the right audience at the right time at the right place through the chosen mode of distribution

Incentive Validation and Payment

The classification of various incentive types and their validation methodology is given in Table 1.

<table>
<thead>
<tr>
<th>#</th>
<th>Incentive Group</th>
<th>Incentive Type</th>
<th>Incentive Claim Validation Methodology</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Cash and Target Incentives</td>
<td>Cash</td>
<td>Basic cash Incentives for customers and dealers. Payment made after sale of the specified vehicle</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Sales Target-Based</td>
<td>Volume-based incentives for dealers</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Performance-Based</td>
<td>Incentives paid to dealers based on ranking on a certain criteria such as sales or balance scorecard scores; also includes incentives paid directly to dealer sales executives or managers on achievement of targets</td>
</tr>
<tr>
<td>2.</td>
<td>Finance Incentives</td>
<td>Finance</td>
<td>Incentives triggered by the finance company include Annual Percentage Rate (APR), lease, special discounts, etc.</td>
</tr>
<tr>
<td>3.</td>
<td>Third Party Incentives</td>
<td>Claims-Based</td>
<td>Incentives for which claims have to be submitted to get benefits, such as customer loyalty programs, coupons, certificates, etc.</td>
</tr>
</tbody>
</table>

Table 1 : Classification of Incentive Types and their Validation Methodology
Figure 6 depicts the incentive type classification on the basis of the process flow and incentive award. Direct and indirect multi-entity processes, depicted in the last row of the figure, aid or complete the overall validation and payment function. These include dispute resolution, registration status, adjustments, etc. Stacking of various incentive programs can be achieved by building business rules in the rule engine.

### Analytics

The purpose of having an analytics solution is to increase and improve the OEM’s ability to obtain, analyze, and report on incentive data generated during the lifecycle, as well as on other incentive program-related information coming from external systems and data sources.

This calls for a data mart, as well as a robust reporting and analytics framework. These components allow access to historical incentive-related data for executive dashboards and comprehensive reporting on all aspects of incentive management and compensation process.

An analytics solution for the incentive management system should have features such as dashboards, data mining, and geo-mapping reports.
Data Mining

Data mining requirements are met using exploratory data analysis, statistical technique, and simulation models. We believe the following solutions for customer segmentation and profiling will improve an organization’s understanding of its customers, as well as their purchasing and response behavior, to make incentive programs more effective.

- Predictive modeling: Develop various predictive models to find out the customers (within different customer segments) likely to respond to the incentive programs. This will help target the right customer with the right incentive program and will improve the overall return on investment.
- Fraud identification: Mitigate payments or services to fraudulent claims by constructing data driven strategies.
- Attribute identification: Identify the key attributes of vehicle models that help in increase in sales.
- Pattern recognition functionality: Find patterns and develop classification schemes for data in very large data sets. This will help determine previously unknown or unexpected relationships between incentive management factors and other incentive indicators (such as incentive spend and profitability).
- Geo-spatial data mining: Search for and analyze relationships and patterns between data elements and geographic components. For example, in case of a mispricing in the market, a geo-spatial data mining algorithm can be developed to look for inherent spatial groups in the point data and assign customers to geographically similar areas.

Big Data in Incentive Management

Big Data can help automotive companies achieve the desired sales and revenue targets by helping users make the right decisions and thereby optimizing incentive spends. Increased competition, social media consumption, and advance analytical techniques make Big Data an obvious choice for automotive manufacturers.

Big Data helps build intelligence into the Incentive Management System, thereby aiding manufacturers to make the right decisions, not just on the basis of monthly or yearly data but also by using a number of internal and external data sources with direct inputs from consumers and dealers. As can be seen in Figure 7, the Big Data capabilities of the automotive industry for dealer and customer incentives have a lot of scope for growth.

Big Data helps build intelligence into an Incentive Management System, facilitating effective decision-making, something that wasn’t possible a few years ago.
Incentive Management Capability Maturity Model

The Incentive Management System will vary depending on the maturity level of the existing incentive management capabilities in an OEM. Four levels of maturity are defined and depicted at the Incentive Management Capability Maturity Model shown in Figure 8. As an OEM moves up these levels, its incentive management maturity, capability, and performance improve, whereas the risks associated with incentive management reduce.
The Way Forward

A state-of-the-art targeted incentive management system is vital for optimizing the incentive offerings and gaining a competitive advantage. Quite a few automotive OEMs have already started upgrading their existing legacy systems because the savings potential is huge. A framework can help perform a quick, detailed gap assessment of the existing system and benchmark it against industry best practices. This will help unearth hidden areas of improvement opportunities.
About the Manufacturing Solutions Unit

Global manufacturers are trying to reduce operational expenditure, invest in process improvement, utilize existing capacity optimally and increase efficiencies, while maintaining product quality and meeting safety and regulatory norms. TCS’ Manufacturing Solutions provide you the bandwidth to innovate on business models, leveraging contemporary technology solutions.

We believe in leveraging learning from across the segments in developing business solutions. Be it in applying the concepts of lean new product introduction from discrete industries to a chemical manufacturer, or leveraging the aerospace industry experience in service management for the automotive sector, our dedicated Manufacturing Centers of Excellence (CoEs) under these focus vertical industries are continuously looking at breakthrough solutions. Clients can benefit from our rich experience in both the discrete (automotive, industrial machinery and equipment, aerospace) and process industries (chemicals, cement, glass and paper).

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