Unlocking the Potential of the Automotive OEM Service Parts Market

Abstract

Aftermarket service parts sales are the most profitable sales area for automotive and truck OEMs. As a result, the market for service parts is highly competitive among OEMs, as well as wholesale and retail distributors of all sizes. In this environment, customer service is key and having the 'right product at the right place at the right time' trumps price every time—driving superior profit margins to OEMs and distributors alike. For the OEM, the aftermarket is as great a challenge as it is an opportunity. In this paper, we look at the traditional hurdles OEMs have faced in this area, and suggest a new approach to unlocking the potential of the service parts market.
Conventional Service Parts Initiatives by Automotive OEMs Meet with Resistance

Financial analysts and automotive industry journals are well aware of opportunities for OEMs to increase earnings per share based on increases in aftermarket parts sales. By leveraging technology and sheer market might, OEMs have continuously sought new opportunities to increase aftermarket service parts sales and market share. However, challenges exist. For example, unlike in some other regions around the world, car dealerships in the US operate as independent franchises, responsible for their own profits and losses. This limits the OEM’s leverage over dealerships, to encourage them to participate in initiatives aimed at increasing the OEM’s service parts revenues. Equally important, OEMs are not the only potential source for service parts. Large auto parts wholesalers, retail chains and thousands of ‘mom and pop’ parts stores are also keen to supply dealerships with service parts.

Recognizing this competition, OEMs have attempted several measures to bolster dealership service parts sales. GM, for example, has attempted to incentivize dealers to increase their inventory of GM parts. However, these programs have been received coolly by dealers who complain that the cost associated with the increased inventory levels, required to hedge against uncertainty in demand, often exceeds the value of the GM incentives.² Moreover, here too OEMs face competition from non-OEM players who offer own incentive pricing programs and customized delivery programs and services.

As a result, OEMs are continually seeking programs that clearly demonstrate value and performance to dealers. As with most relationships, mutual benefit and trust are the key levers of success. While it may sound simple for an OEM to simply offer to buy back what the dealer does not sell, the increased administrative costs, logistics costs, and opportunities for revenue leakage ultimately eliminate any perceived or realized gains. Without significant change in this environment, OEMs may continue to face major obstacles to unlocking the financial opportunities that exist within the automotive aftermarket.
Digital Technologies Create New Opportunities

One reason for the lackluster results of automakers' attempts to increase sales of spare parts is the excessively high inventory levels and costs required to hedge against the high uncertainty of demand. However, recent advances in digital technologies can provide new capabilities to sense and anticipate demand far more accurately, creating new opportunities to improve service parts inventory management and supply chain efficiency.

The convergence of the 'Digital Five Forces' (mobility and pervasive computing, Big Data and analytics, cloud computing, artificial intelligence and robotics, and social media) with the 'connected car' trend is transforming the supply chain by enabling more robust data and analytics for improved planning, forecasting, inventory modeling, and logistics execution. Consequently, automotive OEMs can now utilize more scientific and lean supply chain models, similar to how they have already optimized the supply chain for vehicle assembly operations.

Capabilities in four major categories will result in a dramatically more efficient service parts supply chain—a supply chain tuned to marketplace demand:

**Big Data Market Insights—Enable near real-time detection of demand**

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With Planning
- Update Forecast
- Demand Tuning

With Engineering
- Ideas
- Issues
- Change Requests
Integrated Business Planning— Align the entire enterprise to demand

Optimized Order Management— Leverage a Distributed Order Orchestration Hub to dramatically improve order management efficiencies

Agile Fulfillment and Logistics— Align warehouse and transportation operations to demand

- Synchronize transportation planning arrival/departure information with warehouse management wave planning and dock scheduling
- Reduce latency through mobile supply chain applications
A New OEM-Dealership Collaboration Paradigm

Based on the large profit margins associated with the automotive aftermarket, OEMs are increasingly looking to grow service parts sales as a means to improving overall financial performance. Next-generation IT application software now exists to align and optimize the automotive service parts supply chain to actual market demand, with dramatic improvements to supply chain efficiency and responsiveness without increases in inventory.

Utilizing these new technologies, OEMs can confidently offer dealers delivery windows and guarantees. By reducing delivery times and increasing delivery frequencies, dealers can lower inventory levels, thereby reducing inventory carrying costs and obsolescence risks. For OEMs, the increased availability of genuine OEM parts will reduce loss of sales to competitors when OEM parts are out of stock or unavailable. With increased responsiveness without additional costs, OEMs can competitively increase their market share and profit opportunity.

Conclusion

To unlock the treasure chest associated with aftermarket parts, automotive manufacturers should embark on a small pilot software implementation program. This project should focus on a controlled geographic segment containing a community of willing dealerships. Further, these dealerships should reside within a defined distance from a service parts distribution center. The pilot should leverage cloud computing' and Software-as-a-Service (SaaS) applications and services to minimize pilot cost and risk. Today, SaaS supply chain applications and managed services can eliminate most of the IT, development, and cost constraints of the past. Automotive OEMs can choose from many software and services solutions and options.

References


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