

Pricing and profit in automotive Corporate sales business.

How to achieve profitable sales to corporate customers.

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Abstract

One of the most challenging tasks in automotive sales is the part of Corporate business or Corporate sales, defined as a “Business to Business” action too, because involved senior sales peoples with strong skills in sales, marketing, financing, after sales and buy back.

Even we are using a price strategy, a price positioning or a full mobility program, the final result which must be achieved is the signed contract with the customer with a profit from the seller and a long term partnership with customers. How big is the profit for the seller depending not only from margin, but also how a seller company define his business model and how continuous improvement in cost reduction and internal processes are developed.

Corporate sales in automotive, beyond the strategies and negotiations, involves strong communications skills and a special relationship with the customer. Even that the corporate customers are buying more rational than emotional, to win the customer trust is one of the most important aspect to develop a long time business relationship.

A business model for Corporate sales department is the first step in order to define the key elements which influence the profit in the year end. Key partnerships or key resources beyond with a cost structure could conduct to a better value proposition to a corporate customer and to make the difference from competitors.

Chapter 1. Introduction

1.1. Importance of Corporate business and future development

Traditionally Corporate sales or Fleet sales are high volume sales designated to come from companies and government agencies. From Importers' or OEMs' perspective, companies can be split in large, medium or small businesses and are treated as such.

These sales are always at discount prices, the margin is very low or even zero. If the margin is so low, why these sales are so important? Because OEMs needs volumes in order to keep the cost for a product under control, especial research & development cost, and, in Importer's case, to reach the assumed target with OEM and to develop for the future the after sales business, for profit generation and in order to keep his own Dealers network profitable too.

Indirectly, corporate sales business generates profit for other departments or business units like: after-sales department (spare parts), dealers network (services and spare parts), second hand sales department (buy-back programs), leasing department (interest, re-selling value).

The purpose of this study is how to achieve profitable cars' sales in corporate business takes into account the key elements which influence the yearend profit:

- Cost;
- Margin (contribution margin);
- Volumes (target).

A special attention will be given to forecast, as a component of the next year business plan for corporate sales and a powerful tool used to increase volumes. The forecast will be treated in volume analysis.

Second chapter consist in a scientific research in order to define the key elements for profit and how influences each of them the profit and what optimization tools are available.

The third chapter will give as an overview about how competitors (Importers, dealers or Leasing companies) work to be cost efficient, improve margin and volumes in order to achieve a positive profit in yearend.

The fourth chapter consists in collect data from an Importer corporate sales department and applies for each profit's key element practical example and specific tools for optimization.

The fifth chapter consist in profit optimization of Importer corporate sales department implementing scientific and competitors' research. A new business model, specific tools and strategies will be the key outputs in order to be competitive

in car market, improve profit and will provide the contribution to the body of knowledge.

An overview on Importer's structure is absolute necessary in Introduction, in order to understand the role of each department in whole business activity and specific in corporate business. Corporate sales department cannot exist without marketing department which create the right products for a specific market. Nevertheless, Service & Spare parts department is also important because sustain the after sales business and offer to customers services in Dealers Network.

1.2. Value Creation System for a cars' Importer

A short description of value creation (Figure 1) for a car Importer is necessary in order to understand the Importer's role in distribution chain. Importers buy products – cars and spare parts – from OEMs and deliver its through Dealers network to final customer. Apart from this, Dealers network offer service and maintenance to customers for delivered products.

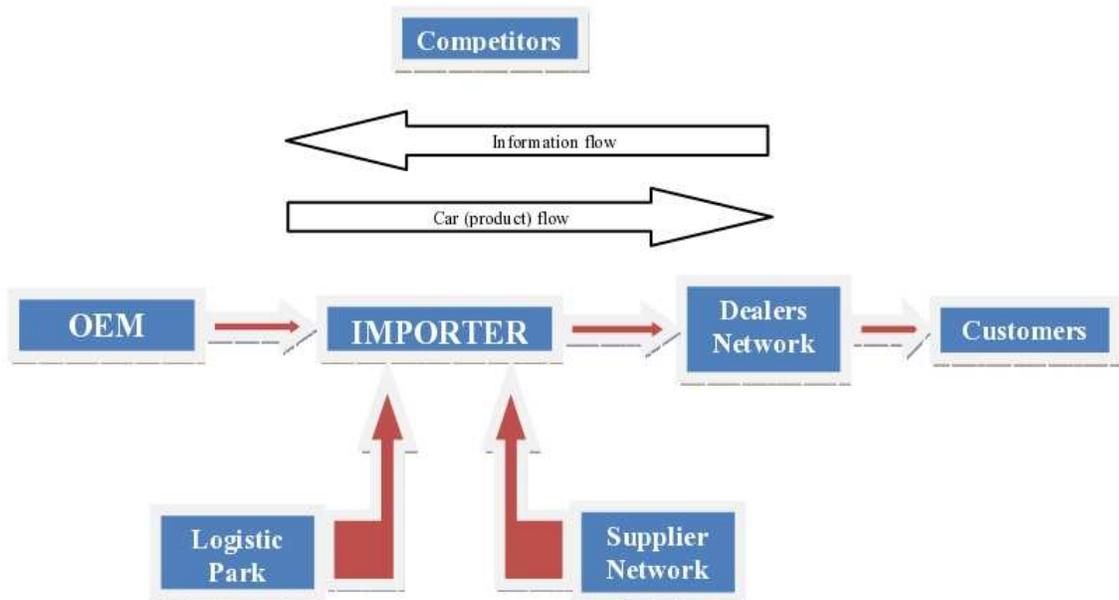


Figure 1. Value Creation System for a cars' Importer

Supplier Network for Importer

1. **AAA supplier** – main task: transport cars from OEM to custom and from custom to Dealer Network at the explicit order from Importer.
2. **BBB supplier** – main tasks are:
 - a. Provide services regarding car's homologation in Romania;
 - b. Provide identity card for vehicles according to the law legislation in Romania;
3. Provide temporary plates for delivery car to the customer.

4. **CCC supplier** – main task: provide services according Road Assistance Program. That means that each car with technical problems in the traffic must be picked up and must be transported to the nearest dealer location from the Dealers Network to be fixed up.
5. **DDD supplier** – main task: provide legal kits (triangle, fire extinguisher and medical kit) direct to the Dealers Network at the explicit order from Importer.

All suppliers are TIER 1 suppliers.

Logistic Park

1. **AAA Logistic Park** is placed in most of the cases in the Customs and the main task is to store all the new cars that arrive in Romania.
2. **BBB Logistic Park** is a spare parts warehouse and the main task is to store the stock of spare parts and components/modules and to deserve the Dealers Network.

Dealers Network

The main tasks for Dealers Network are:

1. Provide services for Importer in terms of being the interface between Importer and Customer. In fact the Dealers Network sells the Importer goods (cars, spare parts and accessories, and services).
2. Provide services for customers in terms of maintenance of the cars.
3. Provide “self-services” from Logistic Park. In fact each dealer from the Dealers Network is supplying by himself with spare parts and components from warehouse.

More than that, Importer can decentralize some acquisitions, each dealer from the Dealers Network have the own suppliers for tires, batteries and all non Producer goods or parts.

On the other hand, some of the dealers outsourcing activities, for example delivery and installation for alarm systems, means that suppliers comes in the dealer yard when called with the alarm system, install it and the car is ready for delivery.

1.3. Organization structure

Organization structure in cars’ Importer (Figure 2) is complex and, based on interdependence between departments, is a functional one. The key areas which influence profit are commercial department and service & spare parts department, because depending on how are linked this two sections the business in corporate and retail sales are profitable. Corporate sales department must be linked to commercial department and service & spare parts department in order to give to the customer the best possible solution to his request. Of course, a big role have marketing department which create the right product for the right market, for the right customer, at the right price. For the right delivery time is responsible Logistic department.

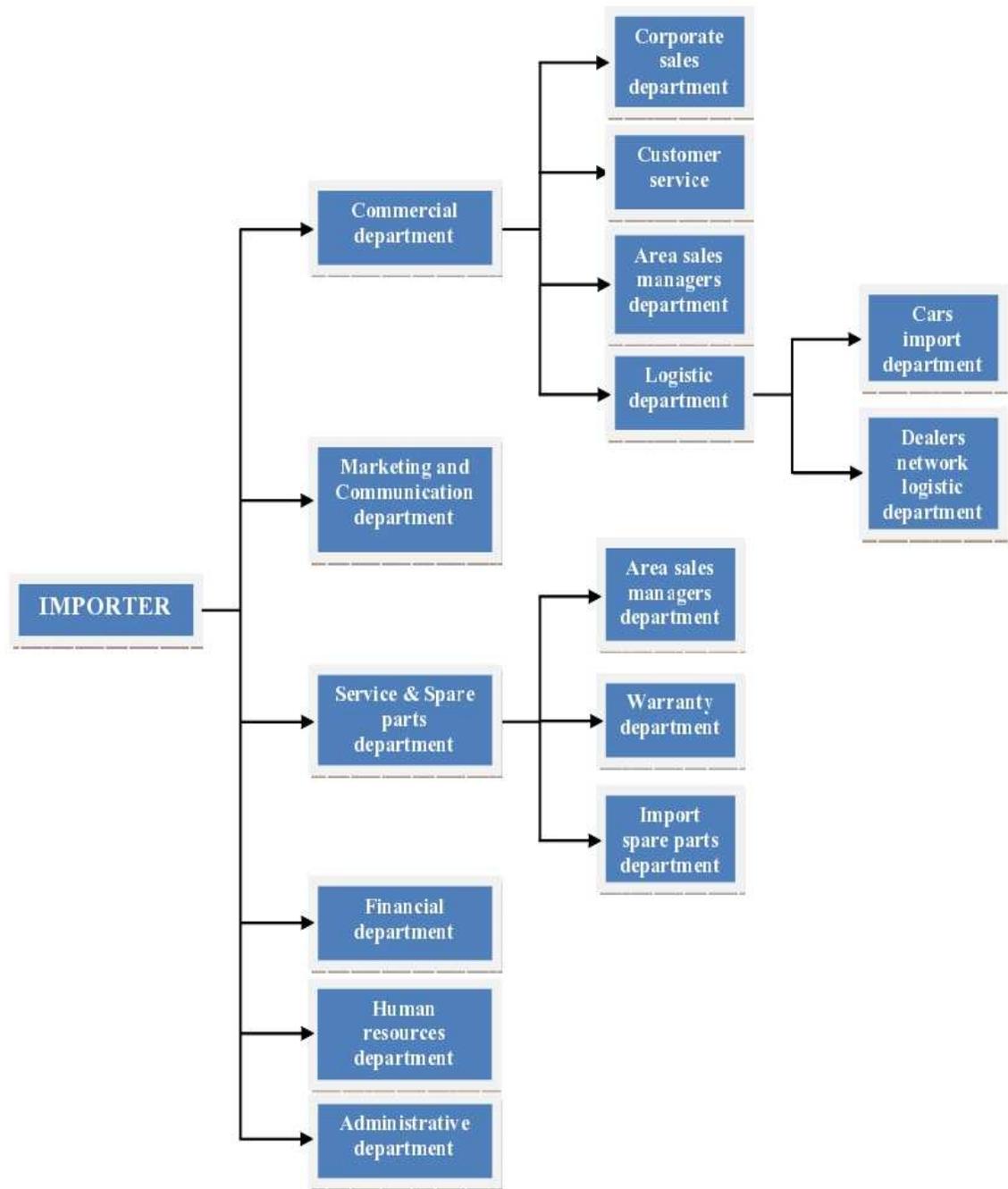


Figure 2. Organization structure in cars' Importer

Functions and responsibilities for each department are:

1. Commercial department - Director

Responsibilities:

- Elaborate the business plan for next year from margin and volume perspectives;
- Elaborate the structure of commercial offer for each model of the car (engine, gearbox, type, trim level) based on price positioning;

- Elaborate the sales strategy from both perspectives: retail and corporate;
- Elaborate the monthly forecast which is used to order the cars to OEM for Importer's stock;
- Monitoring the Dealers Network performance from sales perspective.

Corporate sales department – Key Account/Fleet manager

Responsibilities:

- Maintain loyalty for actual customers;
- Generate new business by hunting new customers;
- Implementation of the International agreements in Romania;
- Support for Dealers Network negotiation with corporate customers.

Customer service

Responsibilities:

- Manage customer and OEM requests: requests information on the sales, after-sales side, and complaints on the sales or after-sales received on different communication channels;
- Receives the results of surveys for customer satisfaction – based on collaboration with different agencies - and send them to targeted departments (sales and after sales).

Area sales managers department – Area sales managers

Responsibilities:

- Monitoring the performance of the Dealers Network by regular visits;
- Implementing in Dealers Network Importer's sales strategy in order to achieve the target;
- Train and advise the Dealers Network's sellers in order to improve their performance;
- Keep the Dealers Network up to date with OEM's standards of brand;
- Draw up the monthly bonuses for Dealers Network according their sales performance.

Logistic Department

Dealers Network logistic department

a) Logistic assistant

Responsibilities:

- Keep the cars stock daily up to date;
- Homologation of the cars in Romania;
- Registration or temporary plates for corporate customers.

b) Transport flow coordinator

Responsibilities:

- Order the cars to carrier based on Dealers Network and Corporate sales department orders;
- Monitoring the carrier delivery schedule in conformity with the signed contract.

c) Logistic coordinator for Dealers Network

Responsibilities:

- check the Dealers Network daily sales in terms of: car price, car options, car availability in stock;
- invoicing the cars for Dealers Network;
- check the dealers' commissions;
- keep all the Dealers Network orders (cars from stock or send the orders to Logistic manager).

Cars import department

a) Logistic manager

Responsibilities:

- Coordinate the Logistic department;
- Monthly order the cars for Importer's stock;
- Order the cars for Dealers Network or Corporate sales department based on their command.

When a customer intend to buy a car from Dealers Network, the seller investigate the stock (own one and Importer) and propose the car to the client. If the client accepts the car *from stock*, the seller sent an order to Logistic coordinator for Dealers Network which check the car availability and invoice the dealer. After the dealer payment, the Logistic coordinator for Dealers Network sent to Transport flow coordinator an order to transport the car to dealer yard. After the car is delivered to the customer, Logistic coordinator for Dealers Network upload the delivery date in Importer's data base in order to be sent to OEM and start the warranty from that date.

If the car is not on stock and must be ordered to OEM, the Logistic coordinator for Dealers Network invoice the dealer for a down payment and after that sent the order to Logistic manager which upload the order in OEM's data base. After the car is made, the Transport flow coordinator monitors the car from the factory to dealer's yard.

2. Marketing and Communication department

Responsibilities:

- Price positioning and segmentation research;
- Advertising and promotion in order to sustain sales;
- Implementation of campaigns in Dealers Network;
- Develop the relationship with media;
- Organizes events for product promote and presentation.

3. Service & Spare parts department

Responsibilities:

- Ensure the stock of spare parts and subassemblies in the central warehouse;
- Centralize Dealers Network orders and command the spare parts and subassemblies to OEM;
- Define and implement the warranty conditions in Dealers Network;

- Develop and implement in Dealers Network the spare parts and maintenance cost promotions;
- Spare parts and maintenance cost positioning (versus competitors);

4. Financial department

Responsibilities:

- Elaborate the financial strategy and the financial business plan;
- Recording of all transactions and control the financial data;
- Monitoring the invoices and payments;
- Prepare of financial and other reports;
- Keep the inventory;
- Keep accounting in conformity with Romanian law.

5. Human resources department

Responsibilities:

- Personnel recruitment and selection;
- Elaborate human resources policy;
- Employees training and develop policy;
- Wages and bonuses for employees;
- Labour contracts and relation with authorities.

6. Administrative department

Responsibilities:

- Keep the buildings and installations in order;
- Importer's own fleet.

1.4. Business model for cars' Importer

A business model for a company transforms inputs in outputs and is shown in Figure 3. For a cars' Importer:

Inputs:

- Cars
- Spare parts and subassemblies

Outputs:

- Cars to customers through Dealers network;
- Cars and services to Corporate customers;
- Services and spare parts/ subassemblies to customers through Dealers Network;

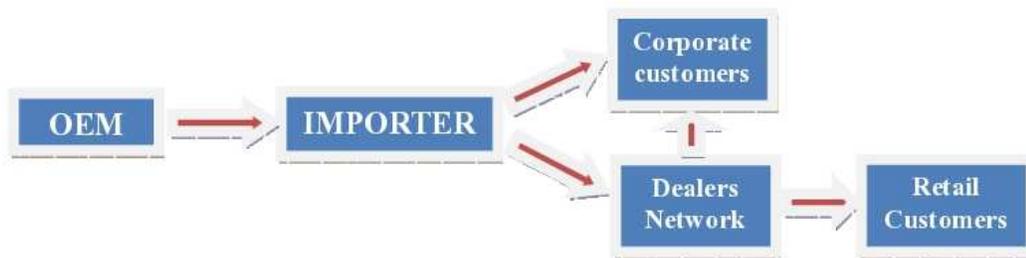


Figure 3. Business model

In their paper, *The Role of the Business Model in Capturing Value from Innovation*, Henry Chesbrough and Richard S. Rosenbloom searched literature from both the academic and the business press and identified some common themes. They list the following six components of the business model:

1. **“Value proposition** - a description the customer problem, the product that addresses the problem, and the value of the product from the customer's perspective.
2. **Market segment** - the group of customers to target, recognizing that different market segments have different needs. Sometimes the potential of an innovation is unlocked only when a different market segment is targeted.
3. **Value chain structure** - the firm's position and activities in the value chain and how the firm will capture part of the value that it creates in the chain.
4. **Revenue generation and margins** - how revenue is generated (sales, leasing, subscription, support, etc.), the cost structure, and target profit margins.
5. **Position in value network** - identification of competitors, complementors, and any network effects that can be utilized to deliver more value to the customer.
6. **Competitive strategy** - how the company will attempt to develop a sustainable competitive advantage, for example, by means of a cost, differentiation, or niche strategy.”¹

For an Importer we can translate these six components like follows:

1. **Value proposition** - a description of the customer request, the product that addresses to the customer needs and the value of the product from the customer's perspective.
2. **Market segment** - the group of customers to target, recognizing that different market segments have different needs. We can talk here for example about passenger cars and commercial cars for segmentation.
3. **Value chain structure** - the company's position and activities in the value chain, in our case an Importer is between OEM and his own Dealers Network (representing the customers) or Corporate customers.

¹Quick MBA, Henry Chesbrough and Richard S. Rosenbloom, *The Role of the Business Model in Capturing Value from Innovation*

4. **Revenue generation and margins** – in our case operational revenues are from cars and spare parts sales, on one hand and on other hand from after sales services (maintenance, leasing, buy back), the cost structure, and target profit margins.
5. **Position in value network** - identification of competitors in the market and any network effects that can be utilized to deliver more value to the customer. Price positioning is a very efficient tool in an Importer business.
6. **Competitive strategy** - how the company will attempt to develop a sustainable competitive advantage and even an Importer is closely related to OEM's products (in terms of differentiation or niche models) he can develop a competitive advantage in his own market using financing programs, promotions, maintenance special programs or buy back offers for example.

Alexander Osterwalder & Yves Pigneur affirm in their book Business Model Generation that a “business model can best be described through nine basic building blocks that show the logic of how a company intends to make money. The nine blocks cover the four main areas of a business: customers, offer, infrastructure, and financial viability.” The nine defined blocks are:

1. Customer segments - An organization serves one or several Customer Segments. The Customer Segments Building Block defines the different groups of people or organizations an enterprise aims to reach and serve. Customers comprise the heart of any business model. Without (profitable) customers, no company can survive for long. In order to better satisfy customers, a company may group them into distinct segments with common needs, common behaviours, or other attributes. A business model may define one or several large or small Customer Segments. An organization must make a conscious decision about which segments to serve and which segments to ignore. Once this decision is made, a business model can be carefully designed around a strong understanding of specific customer needs. Authors identify separate segments if:

- Their needs require and justify a distinct offer
- They are reached through different Distribution Channels
- They require different types of relationships
- They have substantially different profitability
- They are willing to pay for different aspects of the offer.

2. Value proposition - It seeks to solve customer problems and satisfy customer needs with value propositions. The Value Propositions Building Block describes the bundle of products and services that create value for a specific Customer Segment. The Value Proposition is the main reason why customers turn to one company over another and solves a customer problem or satisfies a customer need. Each Value Proposition consists of a selected bundle of products and/or services that caters to the requirements of a specific Customer Segment. In this sense, the Value Proposition is an aggregation, or bundle, of benefits that a company offers customers. Some Value Propositions may be innovative and represent a new or disruptive offer. Others may be similar to existing market offers, but with added features and attributes. Authors define the following elements which can contribute to customer value creation:

a) Newness - Some Value Propositions satisfy an entirely new set of needs that customers previously didn't perceive because there was no similar offering;

- b) Performance - Improving product or service performance has traditionally been a common way to create value)
- Customization - Tailoring products and services to the specific needs of individual customers or Customer Segments creates value. In recent years, the concepts of mass customization and customer co-creation have gained importance. This approach allows for customized products and services, while still taking advantage of economies of scale.
- d) Get the job done - Value can be created simply by helping a customer get certain jobs done;
- e) Design - Design is an important but difficult element to measure. A product may stand out because of superior design;
- f) Brand/Status - Customers may find value in the simple act of using and displaying a specific brand;
- g) Price - Offering similar value at a lower price is a common way to satisfy the needs of price-sensitive Customer Segments. But low-price Value Propositions have important implications for the rest of a business model. ;
- h) Cost reduction - Helping customers reduce costs is an important way to create value;
- i) Risk reduction - Customers value reducing the risks they incur when purchasing products or services. For a used car buyer, a one-year service guarantee reduces the risk of post-purchase breakdowns and repairs;
- j) Accessibility - Making products and services available to customers who previously lacked access to them is another way to create value. This can result from business model innovation, new technologies, or a combination of both;
- h) Convenience/usability - Making things more convenient or easier to use can create substantial value.

3. Channels – Value propositions are delivered to customers through communication, distribution, and sales Channels. The Channels Building Block describes how a company communicates with and reaches its Customer Segments to deliver a Value proposition. Communication, distribution, and sales Channels comprise a company's interface with customers. Channels are customer touch points that play an important role in the customer experience.

Channels serve several functions, including:

- Raising awareness among customers about a company's products and services
- Helping customers evaluate a company's Value Proposition
- Allowing customers to purchase specific products and services
- Delivering a Value Proposition to customers
- Providing post-purchase customer support

4. Customer relationship – Customer relationships are established and maintained with each Customer Segment. The Customer Relationships Building Block describes the types of relationships a company establishes with specific Customer Segments. A company should clarify the type of relationship it wants to establish with each Customer Segment. Relationships can range from personal to automate. Customer relationships may be driven by the following motivations:

- Customer acquisition

- Customer retention
- Boosting sales (up selling).

5. Revenue streams – result from value propositions successfully offered to customers.

The Revenue Streams Building Block represents the cash a company generates from each Customer Segment (costs must be subtracted from revenues to create earnings). If customers comprise the heart of a business model, Revenue Streams are its arteries. A company must ask itself, for what value is each Customer Segment truly willing to pay? Successfully answering that question allows the firm to generate one or more Revenue Streams from each Customer Segment. Each Revenue Stream may have different pricing mechanisms, such as fixed list prices, bargaining, auctioning, market dependent, volume dependent, or yield management. There are several ways to generate Revenue Streams:

- Asset sale - The most widely understood Revenue Stream derives from selling ownership rights to a physical product. Fiat sells automobiles, which buyers are free to drive, resell, or even destroy.
- Usage fee - This Revenue Stream is generated by the use of a particular service. The more a service is used, the more the customer pays.
- Subscription fees - This Revenue Stream is generated by selling continuous access to a service.
- Lending/Renting/Leasing - This Revenue Stream is created by temporarily granting someone the exclusive right to use a particular asset for a fixed period in return for a fee. For the lender this provides the advantage of recurring revenues. Renters or lessees, on the other hand, enjoy the benefits of incurring expenses for only a limited time rather than bearing the full costs of ownership.
- Licensing - This Revenue Stream is generated by giving customers permission to use protected intellectual property in exchange for licensing fees.
- Brokerage fees - This Revenue Stream derives from intermediation services performed on behalf of two or more parties.
- Advertising - This Revenue Stream results from fees for advertising a particular product, service, or brand.

6. Key resources – are the assets required to offer and deliver the previously described elements. The Key Resources Building Block describes the most important assets required to make a business model work. Every business model requires Key Resources. These resources allow an enterprise to create and offer a Value Proposition, reach markets, maintain relationships with Customer Segments, and earn revenues. Different Key Resources are needed depending on the type of business model. Key resources can be physical, financial, intellectual, or human:

- Physical - includes physical assets such as manufacturing facilities, buildings, vehicles, machines, systems, point-of-sales systems, and distribution networks.
- Intellectual - such as brands, proprietary knowledge, patents and copyrights, partnerships, and customer databases are increasingly important components of a strong business model. Intellectual resources are difficult to develop but when successfully.

- Human - every enterprise requires human resources, but people are particularly prominent in certain business models.
- Financial - Some business models call for financial resources and/or financial guarantees, such as cash, lines of credit, or a stock option pool for hiring key employees.

7. Key activities – performed to offer and deliver the previously described elements. The Key Activities Building Block describes the most important things a company must do to make its business model work. Every business model calls for a number of Key Activities. These are the most important actions a company must take to operate successfully. Like Key Resources, they are required to create and offer a Value Proposition, reach markets, maintain Customer Relationships, and earn revenues.

8. Key partnerships – Some activities are outsourced and some resources are acquired outside the enterprise. The Key Partnerships Building Block describes the network of suppliers and partners that make the business model work. Companies forge partnerships for many reasons, and partnerships are becoming a cornerstone of many business models. Companies create alliances to optimize their business models, reduce risk, or acquire resources.

We can distinguish between four different types of partnerships:

- Strategic alliances between non-competitors
- Competition: strategic partnerships between competitors
- Joint ventures to develop new businesses
- Buyer-supplier relationships to assure reliable supplies.

9. Cost structure – The business model elements result in the cost structure. The Cost Structure describes all costs incurred to operate a business model. This building block describes the most important costs incurred while operating under a particular business model. Creating and delivering value, maintaining Customer Relationships, and generating revenue all incur costs. Such costs can be calculated relatively easily after defining Key Resources, Key Activities, and Key Partnerships. Some business models, though, are more cost-driven than others.”²

Translating this acknowledgment into car’s Importer activity, the business model shows like in Figure 4.

²Alexander Osterwalder & Yves Pigneur, Business Model Generation, 2009, <http://www.businessmodelgeneration.com>

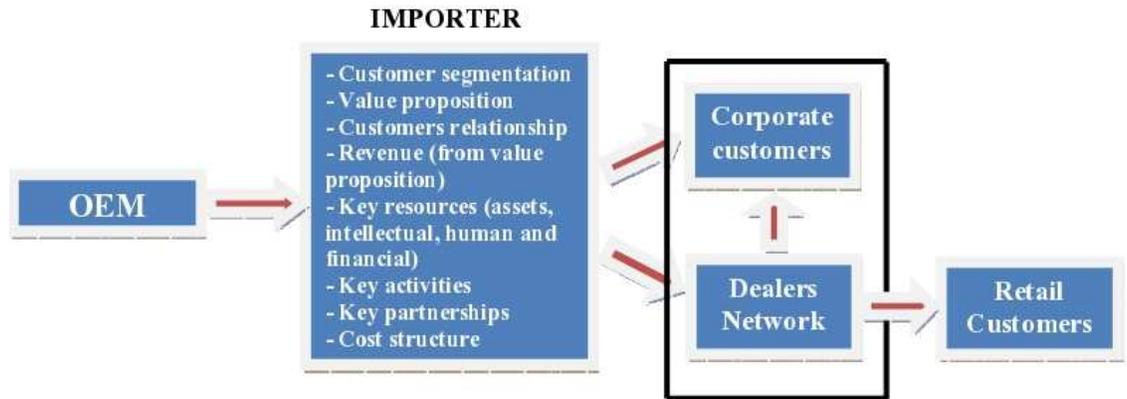


Figure 4. Developed business model for a cars' Importer

As a component in whole cars' Importer business, Corporate sales department's business model can be developed like a portion from Importer structure which add value with own key blocks, as in Figure 5 below:

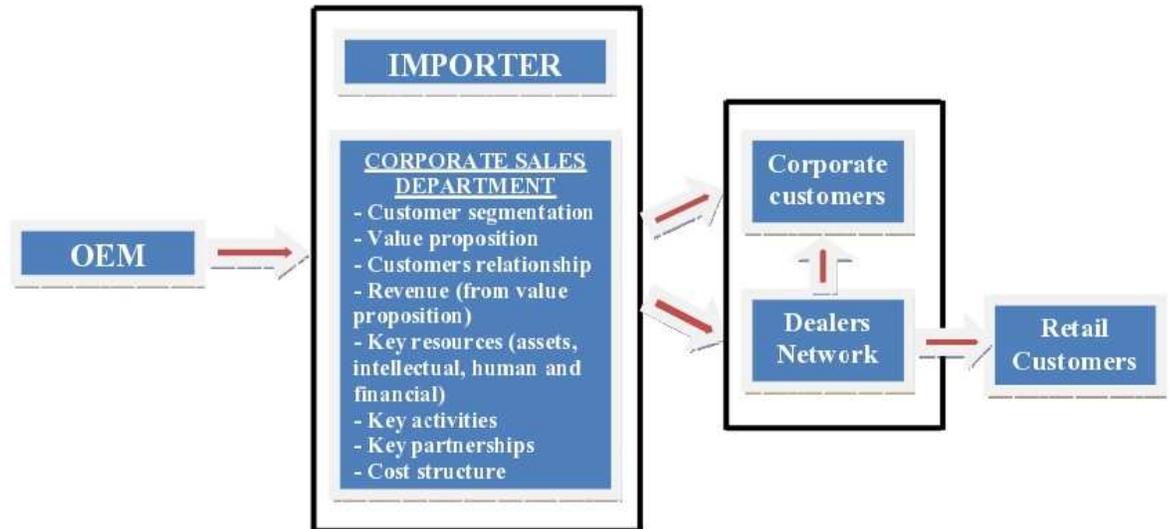


Figure 5. Corporate sales department's business model

Chapter 2. Literature review

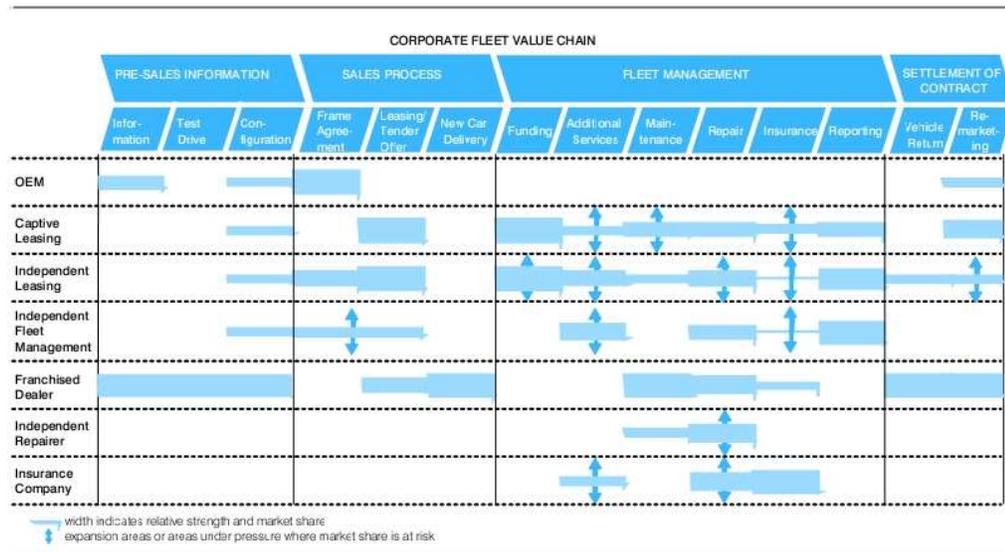
Corporate fleet value chain

„In the face of unpredictable macroeconomic developments, market players are repositioning themselves to maintain their competitive strengths and protect their business, while remaining alert for growth opportunities. For OEMs, the corporate fleet market is an essential volume channel that secures aftermarket revenues both for them and for their dealer networks. A captive leasing company operates as an OEM’s extended arm. It will continue to be an important sales outlet for the OEM, and collaboration between the two will remain close.

Some premium and volume manufacturers are re-crafting fleet discount policies to steer volume to their captive finance arms and dealer networks. Package deals that combine captive leasing with cross-subsidized service contracts, insurance, and extended warranties strengthen an OEM’s hand against the independents.

Because SME (Small and Medium Enterprises) segment contribution margins are higher than those of large fleets, OEMs are expected to become more aggressive in this market, along with their dealer networks and captives.”³ A corporate fleet value chain is presented in Figure 6.

Focus Areas along the Corporate Fleet Value Chain



Source: Booz & Company

Figure 6. Corporate fleet value chain

³Jörg Krings, Joachim Deinlein, Jan Bakker, Rich Parkin - Automotive Sales To Corporations From Growth Engine To Risk Trap, booz&co
http://www.booz.com/media/uploads/Automotive_Sales_to_Corporations.pdf

2.1. Forecast in car corporate sales

As in all industries, in automotive business the economic model is the first activity which must be considered in order to assure that the business is profitable in the end of the year. The forecast for the next year or years is one of the most important factors in a business plan and the accuracy of forecast influence the margin and, in the end, the sales strategy.

Sales Forecasting is the process of estimating what your business's sales are going to be in the future. Sales forecasting is an integral part of business plan, because give us the volume (or target) component. The purpose of sales forecasting is to provide information that we can use to make intelligent business decisions.

“Sales forecasting for an established business is easier than sales forecasting for a start up business; the established business already has a sales forecast based on past sales. A business's sales revenues from the same month in a previous year, combined with knowledge of general economic and industry trends, work well for predicting a business's sales in a particular future months.

Forecast methods are mathematical calculation rules and the most important methods are moving average, weighted moving average, regression analysis or combination of this.

Forecasting can be broadly considered as a method or a technique for estimating many future aspects of a business or other operation. There are numerous techniques that can be used to accomplish the goal of forecasting. For example, a retailing firm that has been in business for 25 years can forecast its volume of sales in the coming year based on its experience over the 25-year period – such a forecasting technique bases the future forecast on the past data.

While the term "forecasting" may appear to be rather technical, planning for the future is a critical aspect of managing any organization – business, non-profit, or other. In fact, the long-term success of any organization is closely tied to how well the management of the organization is able to foresee its future and to develop appropriate strategies to deal with likely future scenarios. Intuition, good judgment, and an awareness of how well the economy is doing may give the manager of a business firm a rough idea (or "feeling") of what is likely to happen in the future. Nevertheless, it is not easy to convert a feeling about the future into a precise and useful number, such as next year's sales volume or the raw material cost per unit of output. Forecasting methods can help estimate many such future aspects of a business operation.

How should one go about preparing the quarterly sales volume forecasts? One will certainly want to review the actual sales data for the product in question for past periods. Suppose that the forecaster has access to actual sales data for each quarter over the 25year period the firm has been in business. Using these historical data, the forecaster can identify the general level of sales. He or she can also determine whether there is a pattern or trend, such as an increase or decrease in sales volume

over time. A further review of the data may reveal some type of seasonal pattern, such as peak sales occurring before a holiday. Thus by reviewing historical data over time, the forecaster can often develop a good understanding of the previous pattern of sales. Understanding such a pattern can often lead to better forecasts of future sales of the product. In addition, if the forecaster is able to identify the factors that influence sales, historical data on these factors (or variables) can also be used to generate forecasts of future sales volumes.”⁴

2.1.1. Forecasting methods

“All forecasting methods can be divided into two broad categories: qualitative and quantitative. Many forecasting techniques use past or historical data in the form of **time series**. A time series is simply a set of observations measured at successive points in time or over successive periods of time. Forecasts essentially provide future values of the time series on a specific variable such as sales volume. Division of forecasting methods into qualitative and quantitative categories is based on the availability of historical time series data.

Quantitative forecasting methods

Quantitative forecasting methods are used when historical data on variables of interest are available - these methods are based on an analysis of historical data concerning the time series of the specific variable of interest and possibly other related time series.

Time series methods of forecasting

Before discussing time series methods, it is helpful to understand the behaviour of time series in general terms. Time series are comprised of four separate components: trend component, cyclical component, seasonal component, and irregular component. These four components are viewed as providing specific values for the time series when combined.

In a time series, measurements are taken at successive points or over successive periods. The measurements may be taken every hour, day, week, month, or year, or at any other regular (or irregular) interval. While most time series data generally display some random fluctuations, the time series may still show gradual shifts to relatively higher or lower values over an extended period. The gradual shifting of the time series is often referred to by professional forecasters as the trend in the time series. A trend emerges due to one or more long-term factors, such as changes in population size, changes in the demographic characteristics of population, and changes in tastes and preferences of consumers.

⁴Armstrong, J. S. Long-Range Forecasting: From Crystal Ball to Computer, 1985

For example, manufacturers of automobiles in the United States may see that there are substantial variations in automobile sales from one month to the next.

But, in reviewing auto sales over the past 15 to 20 years, the automobile manufacturers may discover a gradual increase in annual sales volume. In this case, the trend for auto sales is increasing over time.

In another example, the trend may be decreasing over time. Professional forecasters often describe an increasing trend by an upward sloping straight line and a decreasing trend by a downward sloping straight line. Using a straight line to represent a trend, however, is a mere simplification - in many situations, nonlinear trends may more accurately represent the true trend in the time series.

Although a time series may often exhibit a trend over a long period, it may also display alternating sequences of points that lie above and below the trend line. Any recurring sequence of points above and below the trend line that last more than a year is considered to constitute the cyclical component of the time series—that is, these observations in the time series deviate from the trend due to cyclical fluctuations (fluctuations that repeat at intervals of more than one year). The time series of the aggregate output in the economy (called the real gross domestic product) provides a good example of a time series that displays cyclical behaviour. While the trend line for **gross domestic product** (GDP) is upward sloping, the output growth displays a cyclical behaviour around the trend line. This cyclical behaviour of GDP has been dubbed **business cycles** by economists.

The seasonal component is similar to the cyclical component in that they both refer to some regular fluctuations in a time series. There is one key difference, however. While cyclical components of a time series are identified by analyzing multiyear movements in historical data, seasonal components capture the regular pattern of variability in the time series within one-year periods. Many economic variables display seasonal patterns. The component of the time series that captures the variability in the data due to seasonal fluctuations is called the seasonal component.

The irregular component of the time series represents the residual left in an observation of the time series once the effects due to trend, cyclical, and seasonal components are extracted. Trend, cyclical, and seasonal components are considered to account for systematic variations in the time series. The irregular component thus accounts for the random variability in the time series. The random variations in the time series are, in turn, caused by short-term, unanticipated and nonrecurring factors that affect the time series. The irregular component of the time series, by nature, cannot be predicted in advance.

Time series forecasting using smoothing methods

Smoothing methods are appropriate when a time series displays no significant effects of trend, cyclical, or seasonal components (often called a stable time series). In such a case, the goal is to smooth out the irregular component of the time series by using an averaging process. Once the time series is smoothed, it is used to generate forecasts.

The moving averages method is probably the most widely used smoothing technique. In order to smooth the time series, this method uses the average of a number of adjoining data points or periods. This averaging process uses overlapping observations to generate averages. Suppose a forecaster wants to generate three-period moving averages. The forecaster would take the first three observations of the time series and calculate the average. Then, the forecaster would drop the first observation and calculate the average of the next three observations. This process would continue until three-period averages are calculated based on the data available from the entire time series. The term "moving" refers to the way averages are calculated - the forecaster moves up or down the time series to pick observations to calculate an average of a fixed number of observations. In the three-period example, the moving averages method would use the average of the most recent three observations of data in the time series as the forecast for the next period. This forecasted value for the next period, in conjunction with the last two observations of the historical time series, would yield an average that can be used as the forecast for the second period in the future.

The calculation of a three-period moving average can be illustrated as follows. Suppose a forecaster wants to forecast the sales volume for American-made automobiles in the United States for the next year. The sales of American-made cars in the United States during the previous three years were: 1.3 million, 900,000, and 1.1 million (the most recent observation is reported first). The three-period moving average in this case is 1.1 million cars (that is: $[(1.3 + 0.90 + 1.1)/3 = 1.1]$). Based on the three-period moving averages, the forecast may predict that 1.1 million American-made cars are most likely to be sold in the United States the next year.

In calculating moving averages to generate forecasts, the forecaster may experiment with different-length moving averages. The forecaster will choose the length that yields the highest accuracy for the forecasts generated.

It is important that forecasts generated not be too far from the actual future outcomes. In order to examine the accuracy of forecasts generated, forecasters generally devise a measure of the forecasting error (that is, the difference between the forecasted value for a period and the associated actual value of the variable of interest). Suppose retail sales volume for American-made automobiles in the United States is forecast to be 1.1 million cars for a given year, but only 1 million cars are actually sold that year. The forecast error in this case is equal 100,000 cars. In other words, the forecaster overestimated the sales volume for the year by 100,000. Of course, forecast errors will sometimes be positive, and at other times be negative. Thus, taking a simple average of forecast errors over time will not capture the true magnitude of forecast errors; large positive errors may simply cancel out large negative errors, giving a misleading impression about the accuracy of forecasts generated. As a result, forecasters commonly use the mean squares error (MSE) to measure the forecast error. The mean squares error, or the MSE, is the average of the sum of squared forecasting errors. This measure, by taking the squares of forecasting errors, eliminates the chance of negative and positive errors cancelling out.

In selecting the length of the moving averages, a forecaster can employ the MSE measure to determine the number of values to be included in calculating the moving

averages. The forecaster experiments with different lengths to generate moving averages and then calculates forecast errors (and the associated mean squares errors) for each length used in calculating moving averages. Then, the forecaster can pick the length that minimizes the mean squared error of forecasts generated. Other methods take into consideration trends, seasonal components but are not the case of car corporate sales.

Causal method of forecasting

As mentioned earlier, causal methods use the cause-and-effect relationship between the variable whose future values are being forecasted and other related variables or factors. The widely known causal method is called regression analysis, a statistical technique used to develop a mathematical model showing how a set of variables are related. This mathematical relationship can be used to generate forecasts. In the terminology used in regression analysis contexts, the variable that is being forecasted is called the dependent or response variable. The variable or variables that help in forecasting the values of the dependent variable are called the independent or predictor variables. Regression analysis that employs one dependent variable and one independent variable and approximates the relationship between these two variables by a straight line is called a simple linear regression. Regression analysis that uses two or more independent variables to forecast values of the dependent variable is called a multiple regression analysis.

Suppose a forecaster has data on sales of American-made automobiles in the United States for the last 25 years. The forecaster has also identified that the sale of automobiles is related to individuals' real disposable income (roughly speaking, income after income taxes are paid, adjusted for the inflation rate). The forecaster also has available the time series (for the last 25 years) on the real disposable income. The time series data on U.S. auto sales can be plotted against the time series data on real disposable income, so it can be examined visually. Most likely, the auto sales time series would display a gradual growth in sales volume as real disposable income increases, despite the occasional lack of consistency - that is, at times, auto sales may fall even when real disposable income rises. The relationship between the two variables (auto sales as the dependent variable and real disposable income as the independent variable) may be linear (approximated by a straight line) or nonlinear (approximated by a curve or a nonlinear line). Assume that the relationship between the time series on sales of American-made automobiles and real disposable income of consumers is actually linear and can thus be represented by a straight line.

A fairly rigorous mathematical technique is used to find the straight line that most accurately represents the relationship between the time series on auto sales and disposable income. The intuition behind the mathematical technique employed in arriving at the appropriate straight line is as follows. Imagine that the relationship between the two time series has been plotted on paper. The plot will consist of a scatter (or cloud) of points. Each point in the plot represents a pair of observations on auto sales and disposable income (that is, auto sales corresponding to the given level of the real disposable income in any year). The scatter of points (similar to the time series method discussed above) may have an upward or a downward drift. That is, the relationship between auto sales and real disposable income may be

approximated by an upward or downward sloping straight line. In all likelihood, the regression analysis in the present example will yield an upward sloping straight line - as disposable income increases so does the volume of automobile sales. Arriving at the most accurate straight line is the key. Presumably, one can draw many straight lines through the scatter of points in the plot. Not all of them, however, will equally represent the relationship - some will be closer to most points, and others will be way off from most points in the scatter. Regression analysis then employs a mathematical technique. Different straight lines are drawn through the data. Deviations of the actual values of the data points in the plot from the corresponding values indicated by the straight line chosen in any instance are examined. The sum of the squares of these deviations captures the essence of how close a straight line is to the data points. The line with the minimum sum of squared deviations (called the "least squares" regression line) is considered the line of the best fit.

Having identified the regression line, and assuming that the relationship based on the past data will continue, future values of the dependent variable (forecasts) can be inferred from the straight line based on the past data. If the forecaster has an idea of what the real disposable income may be in the coming year, a forecast for future auto sales can be generated. One should remember that forecasts based on this method should also be judged on the basis of a measure of forecast errors. One can continue to assume that the forecaster uses the mean squares error discussed earlier. In addition to using forecast errors, regression analysis uses additional ways of analyzing the effectiveness of the estimated regression line in forecasting.”⁵

2.2. Profit in car sales industry

As described in Introduction, using Business Model Generation by Alexander Osterwalder & Yves Pigneur, the business model for a cars’ Importer can be developed like in Figure 7.

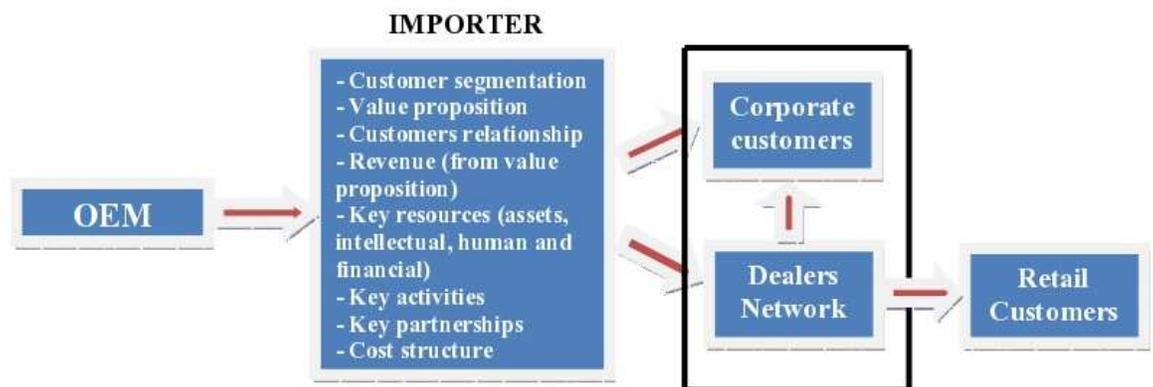


Figure 7. Developed business model for a cars’ Importer

⁵Anandi P. Sahu , Ph.D., Statistics for Business and Economics, 7th ed. Cincinnati, SouthWestern College Publishing, 1999.

<http://www.referenceforbusiness.com/encyclopedia/Fa-For/Forecasting.html>

Hermann Simon thinks that “Fundamentally, there are only three profit drivers: *volume*, *price* and *costs*, as revenue is volume time’s unit price, less costs.”⁶

Each block from Importer’s business model contributes to the key drivers components of profit. For example volume result directly from value proposition and key partnerships (like rental or leasing companies, body builders), price result from value proposition for each customer segment and cost result from key resources and cost structure.

2.2.1. Pricing in cars’ Importer business

A price strategy may be *cost-based*, *demand-based* or *competition-based*.

In a *cost-based price strategy*, prices are set by computing the costs and then adding the desired profit.

In a *demand-based price strategy*, prices are set after researching consumer desires and ascertaining the range of prices acceptable to the target market.

Under a *competition-based price strategy*, prices are set in accordance with competitors in a targeted market. In this case a Price positioning is use in order to compare own product with competitors product.

Pricing strategies may include also: Skimming pricing, Limit pricing, Loss leader, Market oriented pricing, Penetration pricing, Price discrimination or differentiation, Premium pricing, Predatory pricing, Contribution margin based pricing, Dynamic pricing, Price leadership, Psychological pricing, Absorption pricing, Target pricing, High-low pricing, Marginal cost pricing, Value based pricing, Freemium pricing.

Skimming pricing is used when a new product is launch in the market and the seller use a high price in order to recover research and development cost quickly. Could be used in automotive business when a new car is launched in the market.

Limit Pricing involves charging prices below the monopoly price in order to make entry appear unattractive – to limit entry. It is illegal in many countries.

Loss leader means a product sold at cost or even below cost in order to stimulate other profitable sales. Can be used in automotive sales when is considered that a car sold at cost stimulate the profitability on medium term by service and spare parts. Also can be used for the first trim level for a model in order to communicate a low price and attract customers in showroom which are convinced after to buy a superior trim level which is profitable for the seller.

Market oriented pricing means that price is based on analysis and research compiled from a targeted market. Resulting price can be lower or bigger than the research data, depending on company strategy. It is used in automotive business by developing a price positioning for each car segment.

⁶Simon Hermann – CEO Forum - <http://ceoforum.com.au/article-detail.cfm?cid=11577&t=/Professor-Hermann-Simon-/Pricing-strategy>

Penetration pricing is used when a company intend to achieve market share. Typically after that the price will increase slowly in time. This strategy is used in automotive business when an Importer wants to achieve or improve the body of customers.

Price discrimination or differentiation is used to set different prices for the same product for different segments from the market. In car sales is used to differentiate price by purchased volumes.

Premium pricing means to keep the price high in order to encourage a very good perception about the product among buyers.

Predatory pricing is used with intention to drive out competitors from a specific market and is illegal in some countries.

Contribution margin based pricing is based on the difference between product's price and variable costs and is chosen to maximize the total contribution margin multiply with number of units sold (volume).

Dynamic pricing is based on a flexible pricing mechanism and allow companies to adjust prices for identical products or services to customers' willingness to pay.

Price leadership appear when a dominant competitor in a specific market leads the way in determining the prices and the others follow this price.

Psychological pricing is used to have a positive psychological impact (5.999,99 instead of 6.000).

Absorption pricing is a form of cost plus pricing and includes variable cost and a proportionate part of fixed cost.

Target pricing is used to calculate to produce a particular rate of return on investment (ROI) for a specific volume of sales. It is used in companies whose capital investment is high. It is a volume drive strategy and the forecast must be the most possible accurate because if entire volume is not sold, the company will register loss.

High-low pricing is used when a company set a high price but trough promotions are offered low prices to some products.

Marginal cost pricing consist in set the price close to marginal cost.

Value based pricing is based only the perceived value of a specific product.

Freemium pricing consist in offering a product or service for free while charging a premium for advanced features or related products or services. Freemium is a combination between "free" and "premium".

In their book *The Strategy and Tactics of Pricing*, Thomas Nagle and Reed Holden outline 9 laws or factors that influence how a consumer perceives a given price and how price-sensitive he is likely to be with respect to different purchase decisions:

1. **„Reference Price Effect** Buyer's price sensitivity for a given product increases the higher the product's price relative to perceived alternatives. Perceived alternatives can vary by buyer segment, by occasion, and other factors.
2. **Difficult Comparison Effect** Buyers are less sensitive to the price of a known / more reputable product when they have difficulty comparing it to potential alternatives.
3. **Switching Costs Effect** The higher the product-specific investment a buyer must make to switch suppliers, the less price sensitive that buyer is when choosing between alternatives.

4. **Price-Quality Effect** Buyers are less sensitive to price the more that higher prices signal higher quality. Products for which this effect is particularly relevant include: image products, exclusive products, and products with minimal cues for quality.
5. **Expenditure Effect** Buyers are more price sensitive when the expense accounts for a large percentage of buyers' available income or budget.
6. **End-Benefit Effect** The effect refers to the relationship a given purchase has to a larger overall benefit, and is divided into two parts: *Derived demand*: The more sensitive buyers are to the price of the end benefit, the more sensitive they will be to the prices of those products that contribute to that benefit. *Price proportion cost*: The price proportion cost refers to the percent of the total cost of the end benefit accounted for by a given component that helps to produce the end benefit (e.g., think CPU and PCs). The smaller the given components share of the total cost of the end benefit, the less sensitive buyers will be to the component's price.
7. **Shared-cost Effect** The smaller the portion of the purchase price buyers must pay for themselves, the less price sensitive they will be.
8. **Fairness Effect** Buyers are more sensitive to the price of a product when the price is outside the range they perceive as "fair" or "reasonable" given the purchase context.
9. **The Framing Effect** Buyers are more price sensitive when they perceive the price as a loss rather than a forgone gain, and they have greater price sensitivity when the price is paid separately rather than as part of a bundle.⁷

Hermann Simon believes that "Costs actually get the most management attention, typically taking around 70-75% of the attention of senior management. Volume or, more generally, driving sales, gets about 20-25% of the attention, while pricing only gets 5-10% of the attention. Given the importance of pricing to overall profitability, I would argue that pricing is typically undermanaged and underinvested in within most companies.

The perception with costs, for instance, is that they are due to internal factors within the company, and thus you have a high degree of control over them. If you need to cut hundreds of jobs, for instance, while this might be difficult politically, you know that the adverse reactions will mainly be confined to the company itself.

When you change prices, on the other hand, it impacts directly on the customer, and you are uncertain how they will react. Managers tend to dislike uncertainty, and prefer to concentrate on more 'controllable' issues like costs, even though this may not produce optimal profits.

It's not just managers who tend to avoid pricing issues. Even sales people, for whom pricing levels are fundamental, often prefer to talk about a product's features, what it can do for the customer – anything, in fact, except the price! Yet price is basic to any successful deal between the customer and the sales person.

Often companies do not invest enough time and resources in gathering the best information they can about pricing, the elasticity of demand, how customers and competitors have responded to past price changes and are likely to react to future price moves, and so on.

⁷Nagle, Thomas and Holden, Reed. *The Strategy and Tactics of Pricing*, Prentice Hall, 2002, Pages 84-104

We often find in working within companies, for instance, that it can take weeks to find out very basic information about their own product prices and their pricing processes, let alone information about competitor prices. This is a particular problem in B-to-B markets, where prices and price structures are not that transparent.

Probably the most common mistake with pricing is *to respond to a decline in demand with a price cut*. Companies often think they will increase their volume to compensate for the price cut, but this is often an illusion, as competitors typically cut their prices as well. *The end result is a price war, with the only winner being the customer.*

Sometimes, as in the recent global financial crisis, demand was declining, not because the price was too high, but because the customers were uncertain about the future. *Even if you reduce prices in that situation, the customer will not necessarily buy more, as you have not addressed the fundamental factor inhibiting their buying, which was, or is, uncertainty and fear about the future.*

In this situation you need to come up with more creative responses that address that fundamental uncertainty.

A good example is how Hyundai responded to the very challenging market conditions for new cars that pertained in the US in 2009 and 2010. Instead of slashing their prices, they gave a guarantee to customers that, should the customer lose their job within 12 months of buying or leasing a new Hyundai, the customer could return the car with no further costs. This was highly successful: Hyundai was the only car company that increased their unit sales in 2009 when compared to 2008. In fact, they grew their business by around 27% in that year. And this continued in 2010.

The point is that Hyundai offered the customer a solution that addressed the concerns the customer had that would otherwise have prevented them buying. Simply cutting prices, as many others tried, would not have been as effective. The customer would still have been afraid to go into a commitment of monthly instalments.”⁸

In Romania for example, Fiat launched a successful leasing program where the customer paid in 2009 a down payment and the monthly payment for the rest of amount start in 2011 (two years later).

Alexander Osterwalder & Yves Pigneur describe in their work Business Model Generation that each revenue stream might have different pricing mechanisms. The type of pricing mechanism chosen can make a big difference in terms of revenues generated. There are two main types of pricing mechanism: fixed and dynamic pricing, like in below tab, Figure 8:⁹

⁸Simon Hermann – CEO Forum - <http://ceoforum.com.au/article-detail.cfm?cid=11577&t=/Professor-Hermann-Simon-/Pricing-strategy>

⁹Alexander Osterwalder & Yves Pigneur, Business Model Generation, 2009, <http://www.businessmodelgeneration.com>

Fixed Pricing Predefined prices are based on static variables		Dynamic Pricing Prices change based on market conditions	
<i>List price</i>	Fixed prices for individual products, services or other Value Proposition	<i>Negotiation (bargaining)</i>	Price negotiated between two or more partners depending on negotiation power and/or negotiation skills
<i>Product feature dependent</i>	Price depends on the number or quality of Value Proposition features	<i>Yield management</i>	Price depending on inventory and time of purchase (normally used in perishable resources)
<i>Customer segment dependent</i>	Price depend on the type and characteristic of a Customer Segment	<i>Real time market</i>	Price is established dynamically based on supply and demand
<i>Volume dependent</i>	Price as a function of the quality purchased	<i>Auctions</i>	Price determined by outcome of competitive bidding

Figure 8. Types of pricing mechanism

In cars' Corporate sales business, dynamic pricing method is used because is more flexible in negotiation and follows the customer segmentation. Yield management is typically used as a better proposal to customer if he chooses cars from stock, instead to order and the seller is interested to decrease his stock. In auctions, in most of the cases the smaller price for a certain product wins.

Dr. Rainer Meckes, Partner, and Dr. Martin Gehring, Director at Simon-Kucher& Partners describes in their studies the brand value in price strategy and "here are three success factors that are essential in managing the balance between price and brand:

- **Ensure that the price and brand match up in the long term.** This requires knowing that growing sales volumes are not the answer to the current profit dilemma; in fact, it may even endanger the exclusiveness of the brand. What's more, volume-maximizing prices are not usually profit-optimal.
- **Consistently utilize the brand premium in the price setting process.** Manufacturers must systematically calculate the premium, as brand values fluctuate.
- **Carefully manage the price cycle:** the transaction and used car prices influence the profit and brand image. A holistic approach is essential."¹⁰

They develop a price cycle in automotive industry, as a successful factor to improve profit in Figure 9:

¹⁰Dr. Rainer Meckes, Partner, and Dr. Martin Gehring, Director at Simon-Kucher& Partners, The Journal of Professional Pricing Second Quarter 2010
http://media.pricingsociety.com/publications/Price_and_Brand_in_the_Automotive_Industry.pdf

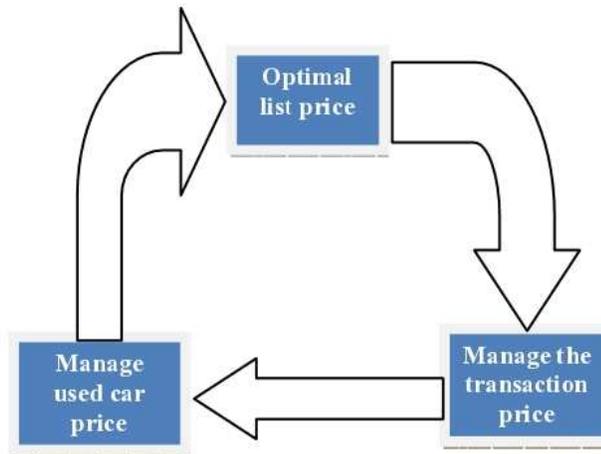


Figure 9. Price cycle in automotive industry

Authors believe that “the considerable gap between the list and transaction prices is only one way a brand is degraded by poor management of the price cycle. The transaction price level equally influences the price level in the used car market. The used car price has two effects on the brand.

First, it signals the value loss of the car. This value loss represents the relation of the used car price to the list price. A higher value loss is caused, however, by a low transaction price, which then negatively influences the brand image. Second, a low used car price level increases the unit sales volume in previously unreached customer segments. This may sound good at first – but it is deadly for the brand exclusiveness desired by new buyers.

They want, as described earlier, to belong to an exclusive circle of car owners. If the car can be bought by other buyer segments after only a few years due to low transaction and used car prices, this endangers the exclusiveness.

It is critical that automakers carefully manage their price cycle – the list, transaction and used car prices – in order to deflect possible damage to their brand. A strict discount and conditions policy, an extremely measured utilization of special promotions and active involvement in the used car market are all instruments that positively influence the price cycle and thereby uphold the brand image.”¹¹

Translating the cycle in car corporate sales, we can use some tools to optimise above three success factors:

- Optimal price list by PRICE POSITIONING in order to compare the right car with our competition and to propose the right product to customer’s desire of use;
- Transaction price by ADDITIONAL SERVICES (leasing, long term rental, tailor made cars) – product and services customization – or TCO (Total Cost of Ownership) in order to move discussion from discount to real important value for customer: cost per kilometre.

¹¹Dr. Rainer Meckes, Partner, and Dr. Martin Gehring, Director at Simon-Kucher& Partners, The Journal of Professional Pricing Second Quarter 2010
http://media.pricingsociety.com/publications/Price_and_Brand_in_the_Automotive_Industry.pdf

- Used car price – BUY BACK SOLUTIONS in order to increase brand value and improve our profit from selling used cars.

We can develop the following cycle in Figure 10:

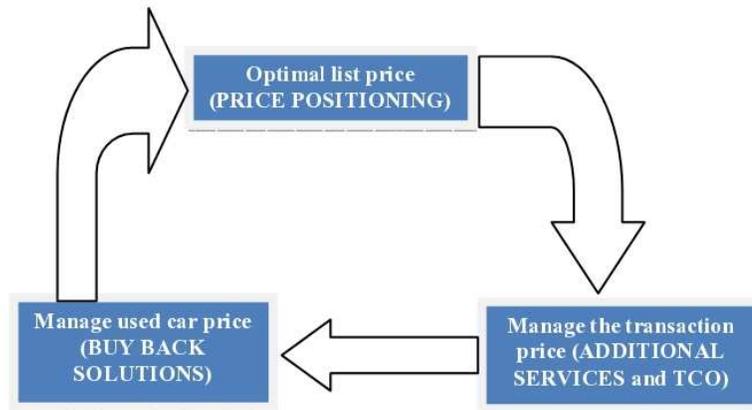


Figure 10. Developed price cycle in automotive industry

Hermann Simon and Robert J. Dolan affirmed in their paper *Price customization* that “Marketers today are more precisely matching product and service offerings to the desires of individual customers. While product and service customization strategies are employed by a growing number of successful companies, customized pricing may offer greater potential profit. But first, managers must determine the different values customers place on their product and what that value is worth to each. Once they have done this and divided customers into segments, they can choose among five innovative techniques to implement price customization. A 20% - 50% profit gain could make it well worth investigating.”¹²

The five described techniques are:

- One price policy - fencing mechanism;
- Multidimensional pricing;
- Quantity discounts/multi-person pricing;
- Price bundling;
- Product line alternatives.

In car corporate sales, “Quantity discount schedules involve a discount in price with an increase in number of units purchased by a given customer. The rationale for this is the fact that, in many situations, the second, third, and more units of a product or service have a lower value to customers than does the first.”¹²

¹²Simon Hermann, Dolan Robert J., *Price Customization*, The higher art of power pricing includes strategies based on customer valuation to boost profits, *Marketing Management Magazine*, 1998
<http://www.simon-kucher.com/internetdatabase/Publication.nsf/69984c5ee406eedac1257023005502fe/b628ae56bbe48b4dc12567300013b24c?OpenDocument>

“Price bundling works across products. Two or more products are sold together at a price that is less than the sum of their individual prices. In a pure bundling strategy, only the bundle is sold; in a mixed bundling strategy, the individual products are sold separately as well. Bundling is widely used in industries such as fast food, automobiles (with option packages), tourism (air and land portions), information technology and telecommunications. In an interesting case from the automobile industry, a manufacturer was considering offering three package options: “comfort,” “sports,” and “safety.” A “value-to-customer” study revealed that adoption rates were quite sensitive to the discounts for the bundles as compared to the price of options if purchased individually. Bundling also enabled considerable cost reductions because of lower purchasing prices for the components and reduced complexity in logistics and assembly.

Recall that differences between customers is the driving force behind price customization. Bundling operates somewhat differently from other schemes because it enhances profitability by reducing the differences between them. The principle, though, is to find those combinations of goods for which willingness-to-pay varies less across customers than willingness-to-pay for individual items. Willingness-to-pay for one product can be transferred to another product – and thus exploited – through the bundling scheme.

Bellowed Figure 11 (...) shows the profit effect of price bundling for various discount rates on all bundles. (Management wanted to price each of the three bundles at the same discount.) The exhibit indexes the profit with no bundling (equivalent to discount level = 0%) to 100. As shown, a 21% discount yielded optimal profit. At this level, one third of the profit from options comes from the bundles. In this case, the “comfort” bundle was the most popular package and overall options profit increased by 22%.”¹²

Price bundling can be used in car corporate sales in order to improve profit using tailor made customization and deliver to customer the final product, for example ambulances, taxi cars, refrigerated vans, etc.

¹²Simon Hermann, Dolan Robert J., Price Customization, The higher art of power pricing includes strategies based on customer valuation to boost profits, Marketing Management Magazine, 1998
<http://www.simon-kucher.com/internetdatabase/Publication.nsf/69984c5ee406eedac1257023005502fe/b628ae56bbe48b4dc12567300013b24c?OpenDocument>

EXHIBIT 5

Optimal bundle discount and profit: A case from the automotive industry

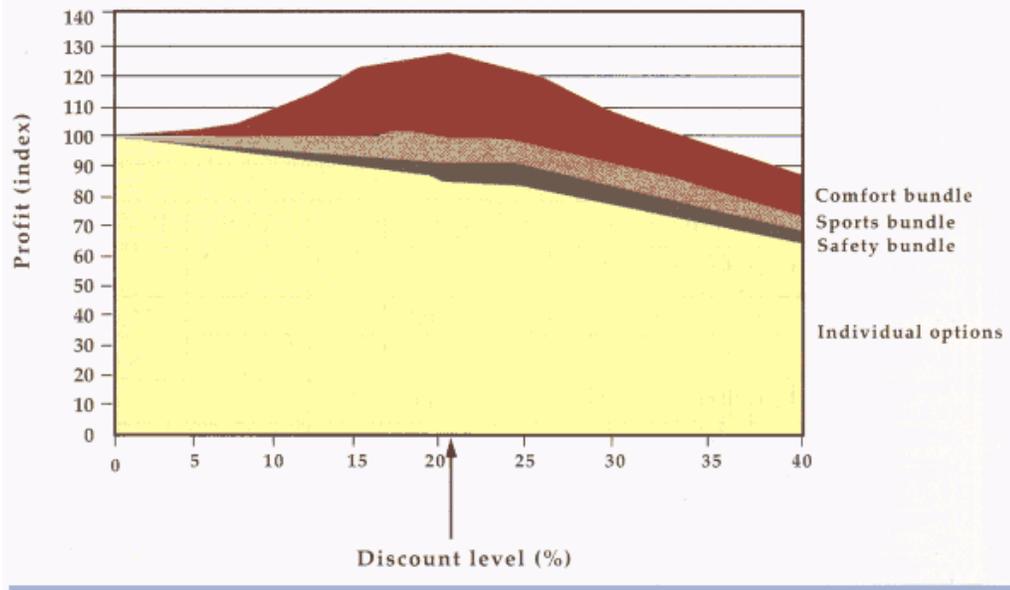


Figure 11. The profit effect of price bundling

The strategy consists in set the price to sell the optimal car with services or different accessories while making the maximum amount of profit per sale (customization). Additional services can include:

- Additional equipments;
- Accessories;
- Insurance;
- Tailor made services which can include special cars made together with body builders (ambulances, fire-fighters car, school cars, buses, isothermal cars, etc);
- Leasing;
- Free maintenance for a number of years;
- Special warranty programs and road assistance;
- Buyback programs;
- Replacement cars in case of accident;
- Dedicated key account for maintenance in Dealers Network;
- Centralized invoice, etc.

A new sale generates additional revenue in other departments of Importer. By putting new vehicles on the road, Importer can count on after sales business, new repair and service customers, and future trade-in or buyback of used vehicles. Service departments in automobile Importer provide automotive repair services and sell accessories and replacement parts. Dealers Network also has body shops to repair damaged cars, refinishing, and painting. The work of the service department has a major influence on customer's satisfaction and willingness to purchase future vehicles from the brand.

The Corporate sales department in an Importer sells additional service like service contracts and insurance to customers and arranges financing for their purchases or offer extended warranties and additional services, such maintenance packages, to increase the revenue generated for each vehicle sold.

The used car sales department of new car dealers sells trade-ins or buy back as well as cars that were formerly rented and leased. Improvements in technology continue to increase the durability and longevity of new cars, raising the number of high-quality used cars. In recent years, the sale of used cars has become a major source of profits for many new car dealers in the wake of decreasing margins for new cars.

Leasing a car is another financing option for consumers. As vehicles have become more costly, growing numbers of customers are unable or reluctant to make a long-term investment in a new car purchase. Leasing provides an alternative to high initial investment costs while typically yielding lower monthly payments.

“Pure financing of the asset is increasingly unattractive under current market conditions. Independent leasing companies will likely concentrate on operational leasing contracts with differentiating service elements that offer downstream revenue and profit potential. Already, independents have built productive relationships with franchised and independent repair networks to secure cost-efficient repair and maintenance businesses. Most independents also incorporate an insurance component in their leasing packages, thereby increasingly becoming more a competitor and less a customer of the insurance companies.

Major independent leasing companies primarily address large international fleet customers via direct key account management. However, as operational leasing penetration has reached saturation in large fleets, independents will target increased penetration of the medium sized fleet segment going forward. They are already designing dedicated full-service offerings or collaborating with large multi-brand dealer groups to secure access to customers.

With residual values under pressure and demand increasingly difficult to forecast, state-of-the-art remarketing capabilities are crucial. Large independents with broad product portfolios are particularly well placed, given their ability to reduce brand-specific risk and leverage multiple sales channels, including auctions and multi-brand dealer groups. Professionalizing the remarketing segment will increase its attractiveness to OEMs and dealer groups seeking to limit residual risks. Many OEMs see residual value management as a systemic brand risk they need to manage. Some independents, however, might be better equipped than the OEMs’ own country organizations.

To address new customer segments and efficiently leverage their market know-how, some independents will increase partnerships with OEMs and large dealer groups. With captives potentially withdrawing from subscale markets, independents see further cooperation opportunities with OEMs.

Different models of collaboration or cooperation between OEMs and independent leasing companies could emerge, such as these:

- Outsourcing the entire captive leasing business in subscale markets to independents;
- Outsourcing back-office functions to leverage the scale of independent players, providing an upside for both independents and OEMs
- Joint market penetration – the development of dedicated offerings and access to new customer groups – for independents and smaller importers lacking their own strong captive finance arm;
- Competitive intelligence and data sharing on residual values, service pricing, total cost of ownership, etc;
- End-customer-related data, currently managed in silos, increasingly shared by independents, dealers, and OEMs.”¹³

2.2.1.1. Price positioning theory in corporate sales

Positioning is a concept in marketing which was first introduced by Jack Trout ("Industrial Marketing" Magazine - June/1969) and then popularized by Al Ries and Jack Trout in their bestseller book "Positioning - The Battle for Your Mind" (McGraw - Hill 1981).

In pricing is used price positioning which helps the marketing department to find where is the product in the market regarding competition and take action for re-positioning if the product is „out of market“ on one hand, and on another hand helps the seller to create impression in the customers mind.

Of course, in car retail businesses a positive price positioning could be a strong argument for the seller to prove in front of the customer that his product is better in terms of price, equipment and taxes than the competitors' product and to close the deal. In this case, the customer can choose emotionally a car more than a corporate client.

When a product is launched in the market, in our case the product is a car, in each country where an OEM have importer the Marketing Department “build” the car taking into account the specific of that market for that specific country. The resulting price offer for a car (passenger or commercial car) takes into account the competitors and results are:

- Body (hatchback, notchback and break/station wagon);
- Engine type (diesel or gasoline);
- Engine cubic capacity;

¹³Jörg Krings, Joachim Deinlein, Jan Bakker, Rich Parkin - Automotive Sales To Corporations From Growth Engine To Risk Trap, booz&co
http://www.booz.com/media/uploads/Automotive_Sales_to_Corporations.pdf

- Engine power;
- Gearbox (manual and/or automatic);
- Trim levels;
- Mix between engines, gearbox and trim levels;

Each model of the car is compared with the competition using diverse research tools and result from here the *Price positioning analysis* which is used:

- To permanent compare the offer of the competition with your own one in order to be competitive in the market by adjusting the margin or promotion;
- In negotiation with the customers.

In retail is simple: you have a car, you can compare and correct the engine cubic capacity, the power, and the trim level and to apply or not a promotion to be competitive in the market. When you negotiate with a retail client you can negotiate on a very small discount if your product is competitive in the market (and assume that from your price positioning it is). This can help you to know after one year how much money you can make for a specific target (because your margin is almost known).

In corporate sales is different. Even you have a price positioning, how can you know how big is the discount from your competitors for a specific volume? In corporate sales, specific tools can be used in order to achieve a positive margin and optimizing this tools the business will be a profitable one.

2.2.2. Costs in cars' Importer business

From the perspective of cost behaviour – means how a cost will respond to a change in the level of business activity – costs can be split in two major elements:

Fixed costs: A fixed cost is a cost that remains constant, in total, regardless of changes in the level of activity. For a cars' Importer, fixed costs are:

- Wages;
- Depreciation (buildings, installations, equipments, own cars) or rent if the Importer do not have it own building;
- Purchasing costs for cars and spare parts from OEM (in most of the cases are set in the beginning of the year);
- Transportation cost from OEM to Dealers Network (set in the beginning of the year per car);
- Stock cost;
- Advertising cost;

Transportation and purchasing costs are transformed from variable costs into fixed costs because are set for a minimum target for one year and if the target is surpassed a bonus scheme is applied in the end of the year for the Importer.

Variable costs: A cost that varies, in total, in direct proportion to changes in the level of activity. For a cars' Importer, variable costs are:

- Operating costs (phone, energy, water, gas, internal processes, etc);
- Variable parts from wages and performance bonuses;

All parts involved in car business admit that because variable costs are directly related with level of activity, the most important costs are fixed costs because remain the same whether the sales are growing or not. To increase profit, nearly everyone pursue cost cutting. Aggressive cost cutting as the sole approach to fattening margins results invariably in a reduction of operational capabilities which is likely to result in a decline in sales volume that leads to further cost reductions in a continuous death spiral. Long-term profitable growth requires, instead, a continuous flow of innovative products and processes. The focus should be, therefore, shifted from cost reduction to increased throughput. Companies need to change their business model, morphing into new organizational entities based on systems thinking and change, which are agile and can swiftly adapt to the new business environment.

In developed Importer's business model we can see that Key resources (assets – buildings, equipments and stock, human – wages, financial – advertising cost) and Product cost (purchasing cost plus transportation cost) give us the total cost of business. A major cost cutting in this area means a cutting in wages (human factor) with implication in future business development by loosing peoples. Cutting costs in advertising or stock can decrease sales dramatically.

Any improvement in cost can be made:

- In purchasing from OEM;
- In transportation cost;
- By a better return from advertising;
- Operating costs by continuous improvement in internal processes;
- Stock cost which can be measure by ratio inventory turnover.

For that, we translate in Figure 12 all activity in a supply chain for the final customer (dealer), considering the case where Importer includes in his *transportation cost* the transport to dealer's yard, because even in Corporate sales, the delivery is made by one dealer from dealers network. In this case, OEM and carrier become suppliers for Importer and it Dealers network.

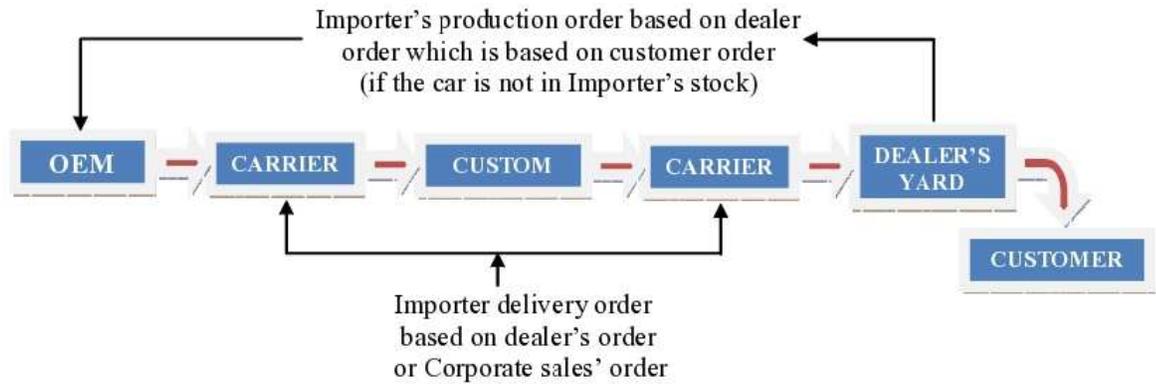


Figure 12. Supply chain for the final customer

Jeffrey P. Wincel affirms in his book *Lean Supply Chain Management* that “expanding the view of cost from price to complete value chain – or total cost of acquisition (TCA) or total cost of ownership (TCO) – requires a broader and more inclusive approach to cost management. It is with this broader view that the various approaches can be separated into cost management and cost control. Simply stated, cost management includes those activities that affect the basic cost structure of a product. Cost control includes those activities that result in the reduction of the cost or price of existing products. These can be seen as having long- and short-term effects.” In cars’ Importer business we can assume that cost management will be applied to purchasing and transportation costs and cost control to advertising and internal processes costs. Jeffrey P. Wincel defines “the business plan for cost management and cost control by five major subsets:

1. Immediate cost control initiatives (which is most closely tied to short-term profit improvement);
2. Cost management initiatives (using affordable cost target (ACT));
3. Cost target setting process creation (which will be used as a subset of cost management);
4. Value management initiatives (defines the various efforts to capture and retain improvements at each step of the value and supply chain);
5. Process improvements (focussed on individual suppliers’ processes and integration in whole supply process).

It is the combined use of these five elements that affect the multiple functional areas with which institutionalized cost reductions can be achieved in an ongoing fashion.”¹⁴

Regarding cost management, authors define cost management “using affordable cost target (ACT) based sourcing processes. The ACT sourcing methodology is based upon achieving program-specific corporate profitability objectives and meeting customer program-level target price requirement”.¹⁴

¹⁴Jeffrey P. Wincel, *Lean Supply Chain Management – A handbook for strategic procurement*, 2004

In cars' Importer business means to assist carrier ability to deliver continuous cost improvement, which can be realized by decrease the number of delivery days for a car, with impact in cars' Importer profitability by shortest period to recover money from final customer.

In value management, Jeffrey P. Wincel suggests a tool like Value Stream Mapping as “a visual process developed to provide an analysis tool that defines operational inefficiencies as well as ideal end state map. Value Stream Mapping disciplines provide a roadmap on efficiency opportunities to which (...) organizations can develop continuous improvement plans and work to identify an ideal end state. The opportunities identified through the mapping process are incorporated into the lean supply chain management practices and overarching corporate objectives to create a detailed strategic plan and individual performance objectives”.¹⁴ Value stream means all activities (value-adding and non value adding), that are necessary to create a product (or a service) and make it available to the customer. Translating into cars' Importer scenario, the delivery map processes looks like in Figure 13.

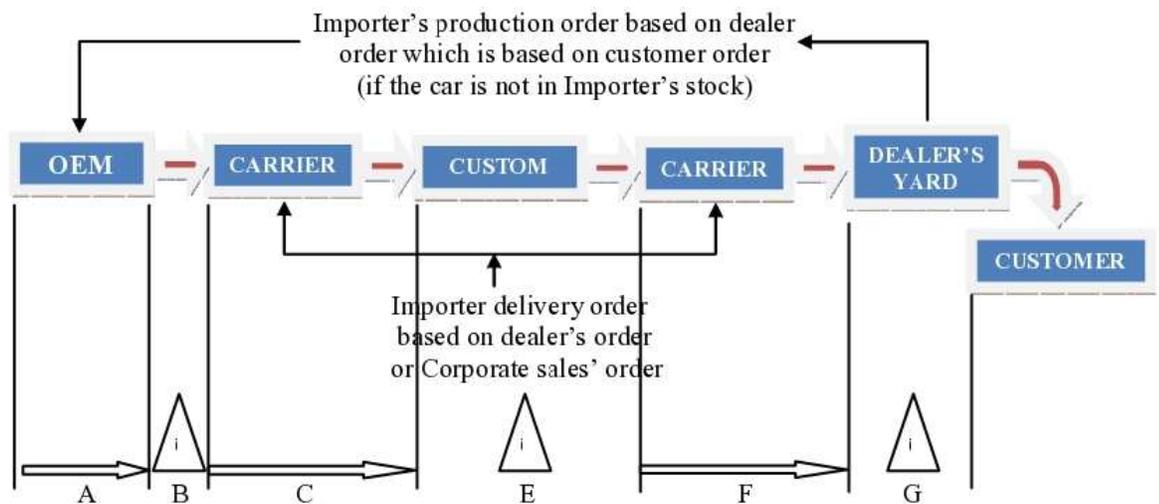


Figure 13. Cars' Importer delivery map processes

- A – Production time (days)
- B – OEM's yard stock time (time between the date when the car leaves assembly line and the date when is loaded by carrier) (days)
- C – Transportation time from OEM's yard to custom yard – on road time (days)
- E – Custom stock time (time between the car is unloaded in custom and is loaded by the carrier to be transported to dealer's yard) (days)
- F – Transportation time (time between custom and dealer's yard – on road time (days)
- G – Dealer's yard stock time (time between the car is unloaded by the carrier in dealer's yard and the car is physical delivered to the customer) (days)

¹⁴Jeffrey P. Wincel, Lean Supply Chain Management – A handbook for strategic procurement, 2004

Lead time is the time a unit needs to follow through the transportation flow from beginning (OEM's yard) to end (customer).

$$\text{Lead time} = \mathbf{A + B + C + D + E + F + G \text{ (days)}}$$

Typically OEM invoices Importer in the same day when the car is uploaded by the carrier from OEM's yard and the payment period is X days. The importance of lead time results from the fact that if Importer received money from the customer in the delivery day, there are three situations:

1. $X >$ Lead time means that Importer recover money before pay the car to OEM, cash flow improvement with no cost for financing the car;
2. $X =$ Lead time means that Importer don't have a finance cost;
3. $X <$ Lead time means that Importer must finance the car for the period X minus Lead time and to add a cost, with a big impact in cash flow and profitability.

James P. Womack, Daniel T. Jones and Daniel Roos describe in their book "The machine that changed the word" the relationship with suppliers "at the heart of a lean supply lies a different system of establishing prices and jointly analyzing costs. First, the lean assembler (Importer) establishes a target price for the car (...) with suppliers, works backwards, figuring how the vehicle can be made (sell) for this price while allowing a reasonable profit for both" parties. "In other words, it is a "market price minus" system rather than a "supplier cost plus" system".¹⁵

There is, cars' Importer and transport supplier must work together in order to reduce lead time and open system between the two parties must be made in order to:

- Both parties achieve a reasonable profit;
- Minimize the spending time in OEM's yard. The ideal condition is to load the car in the same day when it leaves assembly line;
- Cars' Importer know precisely when a car is unloaded in custom and the person which is responsible in Importer for load order to dealer's yard to sent the order in the same day with unloaded day;
- Dealer knows precisely when the car will arrive in order to prepare upfront all delivery details with the customer. The ideal condition is to deliver the car to customer the next day after the car is unloaded in dealer's yard.

Above situation is happened when the customer is willing to wait for a car for a time between 3 and 9 months, depending on the model and manufacturer. Every Importer has a **car stock** in order to satisfy customer's request immediately. In Importer's business model is the part from Key resources namely financial. Cost of stock is the biggest part from cars Importer total cost. In Corporate sales the stock is almost zero because the cars are customized for customer's special needs. Stocks are typically used for retail business.

¹⁵James P. Womack, Daniel T. Jones, Daniel Roos, The machine that changed the word, 2007

There are two ratios which measure the performance of stock:

1. Stock (inventory) Turnover – shows how many times in one accounting period the Importer turns over (sells) its stock and is valuable for spotting under-stocking, overstocking, obsolescence and the need for merchandising improvement. Faster turnovers are generally viewed as a positive trend and they increase cash flow and reduce warehousing and other related costs.

$$\text{Stock Turnover} = \text{Cost of goods sold} / \text{Stock}$$

2. Days Stock (inventory) – identifies the average length of time in days it takes the stock to turn over. As with stock turnover, fewer days mean that stock is being sold more quickly.

$$\text{Days Stock} = 365 \text{ days} / \text{Stock Turnover}$$

In order to Days Stock goes to zero, the stock must be composed from the most sold cars and here historical data are available to help managers to concept stocks and to improve the ratio. In ideal conditions, the stock age in days must be less or at least equal with X (payment period to the OEM).

James P. Womack, Daniel T. Jones and Daniel Roos describe in their book “The machine that changed the word” the Lean Dealership and the Channel loyalty in Lean production: “Rather than waiting at the dealership for customers attracted by advertising and publicly announced price cuts, such as factory rebates, the dealer’s personal periodically visit all the households in the dealer’s service area. The lean selling system also reduces inventory costs dramatically and smooths the flow of production in the factory.

To see lean distribution for what it should be, we can’t begin from a narrow cost – cutting perspective (...) in which factors such the number of sales made by each salesperson per month are the way to measure success.”¹⁵ Using a tool like Customer Relationship Manager for example, the sale force is able to know when a customer intends to change his car or to buy a car for a member of his family. With this information, Importer can order a car to OEM exactly with Lead time (days) before the customer intend to change the car. Moreover, the seller can propose to customer to change the car after 2 years for example with a new model based on a buy-back system. Using CRM method, the stock and hence the cost in Importer business model will decrease substantially. “The salesperson doesn’t need to discount the product in order to get rid of a car that the customer would rather not have (...) because the customer is buying a car tailored to his or her needs (...)” The sales force is “trained in all aspects of sales – product information, order taking, financing, insurance, and data collection”.¹⁵

¹⁵James P. Womack, Daniel T. Jones, Daniel Roos, The machine that changed the word, 2007

Conclusion which can be extracted from this theory and research is that a trained sales force can decrease the level of stock. Nevertheless, together with correct identification of customer's needs before he or she intends to change the old car combined with a complete package for the product (leasing, service packages, etc) the proposal for the most appropriate model for customer's need from stock can conduct to a smaller ratio Days Stock and in a cost reduction in the end. This principle is known as Pull principle or Made to order in lean management and the customer will order cars to the dealers (sellers), the dealers will order cars to the Importer and the Importer will order to the OEM – it is a customer demand – driven, not on Push principle or Made to stock where the OEM forces the Importer to accept cars on stock and after, the Importer force the dealers to buy from stock and push cars to customers. In this last case over the stock cost we must take into consideration the discounts – which affect the profit – that Importer and dealers network must made in order to „push“ the cars to customers.

2.2.2.1. Importer's corporate sales contribution margin¹⁶

In a profit plan, we compare revenues with costs:

$$\begin{array}{r}
 \text{SALES (revenue)} \\
 - \text{VARIABLE COSTS} \\
 \hline
 = \text{Contribution margin} \\
 - \text{FIXED COSTS} \\
 \hline
 = \text{Operating profit/loss}
 \end{array}
 \quad (\text{Formula 1})$$

Breakeven point (BEP) is the point where Operating profit/loss is zero, that is when Contribution margin is equal with Fixed costs or when Fixed costs are equal with Sales minus Variable costs.

Because Sales and Variable costs are depending on number of units sold, in sales we can translate this equation in:

$$\begin{aligned}
 \text{Fixed costs (Cf)} &= \text{Price per unit sold (P)} \times \text{Number of units (N)} - \text{Variable costs per} \\
 &\quad \text{unit (Cv)} \times \text{Number of units sold (N)} \\
 \text{result: Cf} &= \text{P} \times \text{N} - \text{Cv} \times \text{N} \\
 \text{result: N} &= \text{Cf} / (\text{P} - \text{Cv})
 \end{aligned}$$

In theory, P – Cv (Price per unit minus Variable cost per unit) is called **Unit Contribution Margin** and is the marginal profit per unit or the portion of each sale that contributes to Fixed costs.

¹⁶Werner Seebacher – Controlling – Application: Basic for design and structure budgets

Keep it simple, for example, if an Importer:
 sell 10 cars per year;
 5.000 Euro price per car;
 variable costs are 2.000 Euro per car
 fixed costs are 60.000 Euro

from **(Formula 1)** result:

TOTAL	PER UNIT
10 x 5.000 (revenue)	5.000 (revenue per unit)
- 10 x 2.000 (total variable costs)	- 2.000 (variable cost per unit)
= 30.000 (contribution margin)	= 3.000
- 60.000 (total fixed costs)	
= -30.000 (operating profit/loss)	

To achieve breakeven point Importer has three solutions:

- Increase the car's selling price (in our example from 5.000 Euro price per car to 8.000 Euro price per car);
- Increase volumes (in our example from 10 to 20 cars).
- To mix the increase between margin and volumes.

The decision is a strategic one and must take into account a lot of aspects like market, product availability, segmentation, etc. Because in Corporate sales the customers are looking to big discounts, it is hard to believe that the decision to increase the contribution margin is a correct one. This is the reason that to increase the volumes is chosen by most of Importers. More than that, in automotive industry, if the volume increase, the after sales business will increase too.

If we consider that we decide to sell 20 cars per year, the equation looks like:

TOTAL	PER UNIT
20 x 5.000 (revenue)	5.000 (revenue per unit)
- 20 x 2.000 (total variable costs)	- 2.000 (variable cost per unit)
= 60.000 (contribution margin)	= 3.000
- 60.000 (total fixed costs)	
= 0 (operating profit/loss)	

That means, once the breakeven point has been reached, profit will increase by the unit contribution margin for each additional unit sold. If 1001 cars are sold in a year, then we can expect that the profit for the year will be 50 Euros.

Typically, Contribution margin in Importer's car corporate sales is composed by margin from selling cars (smaller compared with retail sales) and OEM co-participation from an incentive scheme according with customer's volume order.

Importance of Corporate business results from this small analysis, because it helps the Importer to improve retail business by adding new volumes, to achieve breakeven point and, even with a small margin, to overcome the fixed costs and to report a profit in the yearend.

2.3. Sales strategies used in car corporate sales

2.3.1. High volume and low price strategy

For Corporate sales department as for the core business the business plan can ask only for one target from below:

1. Only margin – strictly profit oriented;
2. Only Volumes – market share and business from after sales;
3. Margin & Volume – profit oriented by volumes and business from after sales.

The main differences between the three cases are:

1. Only margin

In this case we are looking just for resulting profit from sales. We consider Corporate sales department as a business unit and in the end of the year we are looking for profit strictly for this department. It is a cost based selling. We take into account the costs (fixed and variable) and add a margin which brings us to the selling price.

2. Only volumes

In this case we are looking for market share and to build a customer body. This particular way is considered generally in a start up business or when we want to penetrate a new segment or a new market. In this particular case the Corporate sales department cannot be seen as an individual business unit because from resulting high volumes the maintenance and the spare parts business could be a good business and the core activity can be a profitable one on medium term.

3. Margin & Volume

It is the most balanced strategy because it takes into account both business units which can generate profit: Corporate sales department (on short term because of the average positive margin) and the Service & Spare parts department (on medium and long terms).

This study does not refer to target 1 (only Margin) because without taking into account the volumes the business cannot be a healthy one on medium and long terms and not to target 2 (only Volumes) because there is no profit assessment in this case.

The strategy to win new customers can be applied differently in two periods of the year:

1. In the beginning of the year (or in the first part of the year when the previous sales in that year are zero);
2. In the second part of the year (or in the part of the year when the sales previous sales in that year are different from zero);

Typically, in Corporate sales, there literature gives us two strategies for corporate sales:

- Profit strategy in the beginning of the year;
- Volume strategy in the second part of the year.

2.3.2. Profit strategy in the beginning of the year

Of course, is more comfortable to approach a deal with a new customer in the second part of the year, because you have already a profit and can decide easily to allocate or not a part from this profit and sell with zero or negative margin in order to close deals with new customers. In reality is not a profit allocation is a “controlled” lost because can be recovered from the future maintenance and spare parts business.

The real challenge is in the beginning of the year. Typically the used strategy is to sell only with a positive margin to the new customers in order to achieve profit for the second part of the year, a part from the profit that can be used in the end of the year to win new customers in order to achieve the target, for example.

2.3.3. Volume strategy in second phase of the year

If the first phase of the year is a profitable one and we want to keep balance with volumes, the strategy for the second phase of the year could be concentrated to achieve volumes. That means that we can reduce margin by using achieved profit to win new customers.

One risk could be that in the second phase of the year corporate customers’ market to calm down and even that your price is very competitive to do not have clients for your product.

In general, for important businesses and order volumes, the cars are not in stock. The corporate sales are different from retail sales from this perspective. The cars for a tender are specific, in most cases tailor made; it is hard to find them in stock. And if the quantities are important, the probability to be in stock is lower.

Means that the cars must be ordered and such an order can be delivered in 3 or 4 months. So, another risk for the second phase of the year is to win a new customer but to not delivery the order during that year and lose, for example, volume’s bonus from OEM.

2.4. Future mobility

“The “Future of Mobility 2020” study shows there is an acute need for action. In the future, customers will be less willing to invest money in mobility; in addition, their willingness to commit to a product over a long period will decline. At the same time, their mobility, sustainability and innovation requirements are set to increase. In this field of conflicting priorities, it will only be possible for a few automotive

manufacturers to continue to attain the necessary margins with pure product-related sales streams.

The automotive industry is confronted with the challenge of putting its established business model to the test and finding innovative new ways to secure sustainable margins and to fulfil future mobility requirements. Arthur D. Little has developed a model for the future development of the automotive market, or rather its transformation from an automotive to a mobility market. The portfolio for possible business models in the mobility market of 2020, ranges between the two axes of “range of services” and “link between product and mobility”, generating four characteristic business models.

The first axis, “range of services”, describes the scope of services that expand on the basic mobility offering with further mobility, convenience and lifestyle services in appropriate form. The services here are either directly connected with mobility (e.g. traffic or parking guidance systems), or otherwise overarching services which the customer can use during the actual mobility time (e.g. online shopping, office support, etc.).

The second axis, “link between product and mobility”, represents how the provision of mobility is necessarily linked to a certain product. One extreme is physical ownership of a car, while the other is complete rejection of owning one’s own car.

The four idealized business models we outline for the 2020 mobility market represent extreme points in the market model. While in the future, automotive manufacturers can position themselves in accordance with these idealized business models, they are more probable and just as likely to succeed with mixed forms that are close to the ideal types or that link them, like in Figure 14.

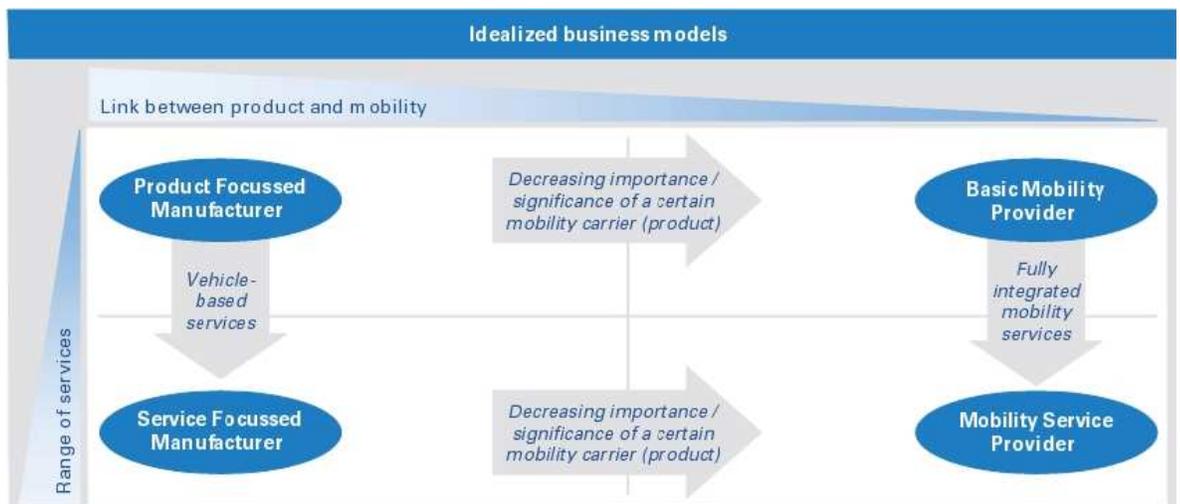


Figure 14. The four idealized business models for the 2020 mobility

The Product Focussed Manufacturer (PFM) is the business model with the greatest closeness to today's automotive manufacturers in terms of content and structure. Their core competence is in product and manufacturing technology, and they are known for technological excellence. Technology leadership is typically recognizable here in all areas, from engine performance to lightweight construction concepts. The PFM's particular manufacturing competence differentiates it from other business models and fulfils the precondition of producing simultaneous, cost-effective, qualitatively high-value products.

Technology excellence thus caters to a range of mobility types, although with completely different products. This means you are still likely to attract classical technology enthusiasts and comfort lovers who are prepared to buy high-priced products such as Sensation Seekers or Silver Drivers. But Greenovators too are intrigued by innovative, primarily sustainable technologies. The Low-End User, on the other hand, is interested in entry-level models.

Because the Product Focused Manufacturer's main income stream is primarily attained by selling physical products, in the future it will primarily be premium vendors who are able to hold their own in this niche. Alternatively, a few volume manufacturers with a leading market position, sufficient margins, and optimal cost positions could lead amongst PFMs.

The Service Focussed Manufacturer (SFM) provides mobility in the same way as the Product Focussed Manufacturer (PFM) through a strong attachment to the core product: the automobile. An important distinguishing criterion between SFMs and PFMs is the former's scaled-back, moderate technology dominance. SFMs concentrate their resources on reproducing existing technology in the second generation with a low share of product-oriented innovation of their own. Manufacturing areas beyond their strategic competence are outsourced so that they chiefly take on the function of system integrator in the value chain. However, the SFMs expand their service portfolio with a comprehensive offering around the core product and services in related areas. The vehicle is the platform and the "enabler" for a range of services that are actively marketed to the customer throughout the cycle of ownership. The SFM represents the comfortable and central interface for all questions and services for the customer that involve the product ("one-stop-shopping"). This business model specifically addresses those customers who still want to acquire their individual mobility by means of a certain product, but are demanding a comprehensive portfolio of services as well. Product individuality on the one hand and the range of services on the other lead to an upscale price level, interesting for those mobility types that spend a particularly great amount of time in their cars or who don't want to deal with the topic of mobility except for the actual time spent driving. Thus, predestined customer groups include Global Jet Setters, Family Cruisers and High-Frequency Commuters.

Similar to Apple in the computer industry, the Service Focussed Manufacturer develops a unique selling proposition through design and individuality, with a comprehensive service that allows the business revenue generating opportunities across the entire customer lifecycle, but with a very low depth of added value.

The Basic Mobility Provider (BMP) uncouples mobility from car ownership in order to optimally fulfil his customers' requirements. Mobility no longer means automobility by default; the only thing that counts is efficient and inexpensive transport. A car represents merely one building block in a holistic mobility concept

that the customer can configure individually. The auto mobility share is covered by a standard car, while other mobility building blocks can be handled using public and non-individual means of transport. The standard car is less advanced in terms of technological criteria (drive train technology, comfort, safety) compared to other OEMs' vehicles; the focus is primarily on practicability and cost efficiency. Electrical power systems, for instance, would therefore be appropriate drive concepts. Basic Mobility Providers offer mobility without having to produce the cars themselves. Together with Mobility Service Providers (MSP), the Basic Mobility Provider is undergoing the most sustainable and significant change vis-à-vis OEMs' current business models.

Such a concept speaks to differing customer groups. Through "shared mobility", the customer has de facto lower total cost than for car ownership. Depending on their usage, they will have significantly lower costs with a pay-by-use approach than with complete car financing. In addition, the cost structure is flexible for the customer, i.e. he can directly reduce his monthly expenses by forgoing mobility if personal constraints compel him or motivate him to do so. Thus, in the first instance the Low-End User is addressed. Typical representatives of this business model are car-sharing providers who have seen huge growth to their customer bases in recent years. In the process, the concept of car-sharing is undergoing transformation through new usage concepts like Car2go from Daimler or Flinkster from DB Carsharing - from a niche offering for "starry-eyed idealists" to an attractive, easy-to-use alternative for urban mobility. The "betterplace" concept from Shai Agassi, former SAP board member, also originates in the Basic Mobility Provider business model. With betterplace, Agassi wants to create an infrastructure for emission-free mobility, explicitly without becoming an automotive manufacturer in the process. The cars are intended to be produced and distributed by cooperation partners, such as Renault.

Like the Basic Mobility Provider, the *Mobility Service Provider (MSP)* completely dissolves the link between car and mobility. However, they additionally position themselves by establishing a diverse and very substantial mobility service portfolio.

The MSP's core competence is the successful mastery and operation of complex customer relationships by integrating a cooperation network. The more services from just one provider, the more comfortable the customer experience. Similar to the Service Focussed Manufacturer (SFM), the MSP offers a range of services that go beyond vehicle acquisition, thus comprehending all of mobility as an integrated component of everyday life (online commerce, parking services, etc.). In actual fact, all questions around the topic of mobility are removed from the customer, as befits the Deep Support idea.

This business model is attractive to those customers for whom - despite adequate means - the ownership of a car does not seem necessary, in fact, to some extent, even seems an impediment. Comfort, luxury and brand status can be transported via expanded services. The actual sale of products is no longer the core of the business model. Instead, the modern mobility service provider works to solve their customers' mobility problems and in so doing delivers sustainable convenience: more time, more time for oneself and a higher quality of life. The MSP brand ascends to a globally and vertically organized super-brand and lifestyle provider. Since, similar to the most basic mobility provider, cars are distributed across multiple users, the concept is comparably efficient and against this background quite sustainable, though not ascetic at all.

In this way, successful Greenovators with their high global mobility requirements also feel addressed.”¹⁷

The future development for cars Importer’s business model from Figure 15 must take into consideration the future needs for mobility and the profit generation by mobility programs:

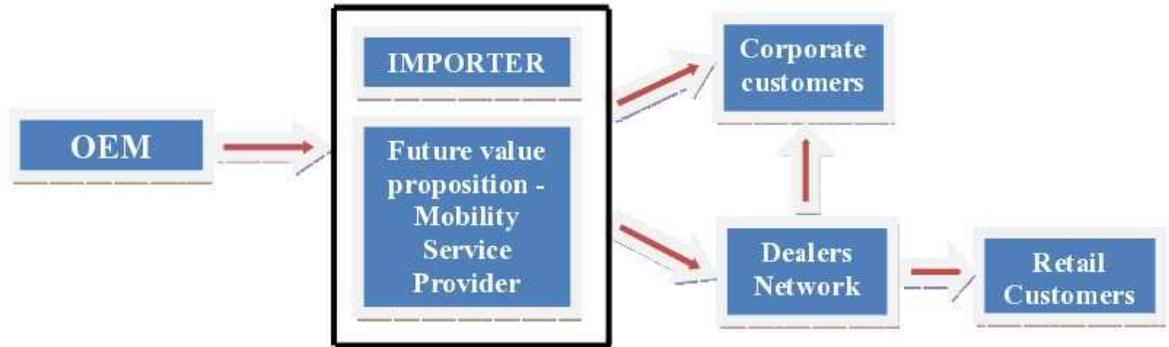


Figure 15. The future mobility for cars Importer’s business model

¹⁷Marc Winterhoff, Carsten Kahner, Christopher Ulrich, Philipp Saylor, Eike Wenzel – ARTHUR D. LITTLE – Future of Mobility 2020

Chapter 3. Profit generation for competitors

3.1. ALD Automotive Romania

Gianluca Soma, Chief Executive Officer ALD Automotive Group affirm that “ALD Automotive offers mobility solutions that are tailored-made to the needs of each enterprise respecting local differences and taking into account the impact of company vehicles on human resources management. We are very committed to the quality of our customer relations, whether fleet managers or drivers. A leading player in Full Service Leasing and professional vehicle management, we’ve put sustainable mobility at the heart of our research and development policy.”¹⁸

Active since 1946 in the Full Service Leasing (FSL) and Fleet Management markets, ALD Automotive, a subsidiary of Societe Generale, is recognized as one of the world’s leading companies in the field. With more than 15% market share in the majority of its markets, ALD Automotive benefits from the vitality of a rapidly growing market sector because of its in-depth knowledge of its different businesses. A specialist in Full Service Leasing and Fleet Management, ALD Automotive is the second-largest European and third-largest global player in the market, with a fleet of 841,220 vehicles in 38 countries as of January 2011. Thanks to its particularly well-balanced business mix, ALD Automotive has successfully managed to win new prospects while ensuring the loyalty of its customers. The solutions we provide, our sales organization, the quality of our services, competitive pricing, and different methods of distribution have catapulted our brand to the forefront of the international market. A real service integrator, ALD Automotive has conquered a leading position with a strategy emphasizing innovation and offering companies high-performance mobility solutions.

For several years, ALD Automotive has placed sustainable mobility at the heart of its development policy. As a leader in mobility solutions, ALD Automotive supports this approach while at the same time providing their customers with vehicles that give immediate satisfaction and help them to achieve both economic and ecological objectives. ALD Automotive adapts its offer to the *business models selected by manufacturers* to strengthen the mobility of its customers and control costs.

¹⁸Gianluca Soma, Chief Executive Officer ALD Automotive Group
([http://www.aldautomotive.ro/Portals/Romania/Documents/---
PDF/ALD%20Press%20pack%20-%20bd.pdf](http://www.aldautomotive.ro/Portals/Romania/Documents/---PDF/ALD%20Press%20pack%20-%20bd.pdf))

3.2. Profit optimization by price and TCO optimization within ALD Automotive Romania ¹⁹

Current customer's car related costs insight:

Identification of the real cost of the fleet includes:

- Direct car costs (*financial rental, maintenance, fuel...*)
 - Fixed costs (*taxes...*)
 - Service costs (*insurance, maintenance, assistance...*)
 - Hidden costs (*internal management, termination, drivers' time spent*)
- } **TCO**

Total cost breakdown per fleet:

- Identification of each costs' weight in the TCO, for each country/fleet, Figure 16:

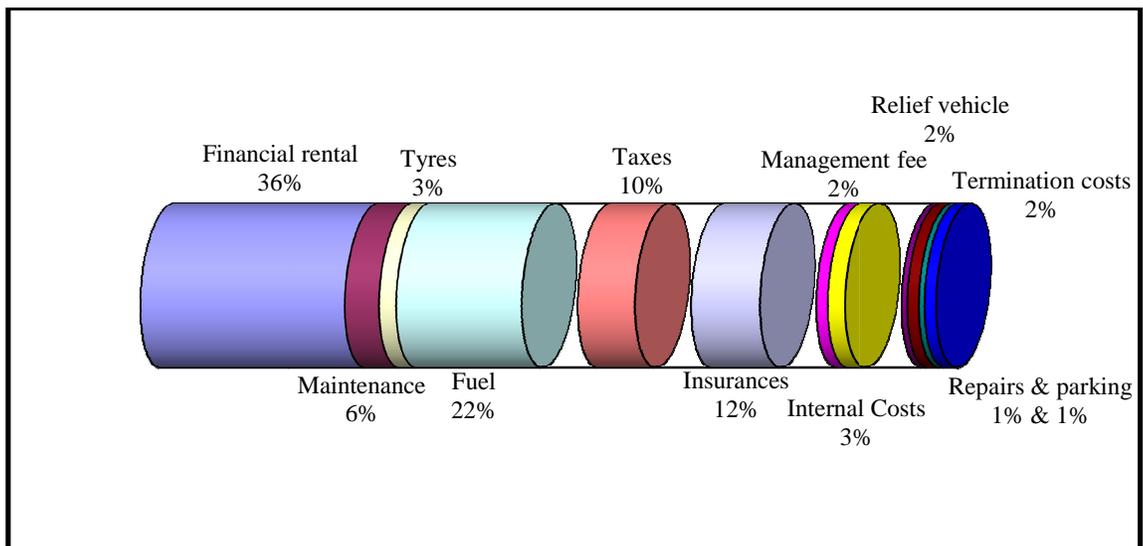


Figure 16 – ALD Automotive Romania breakdown for TCO

¹⁹Stefan Diacov, Commercial Director, ALD Automotive Romania, September 2011

To complete the cost analysis ALD Automotive:

1. Audit the fleet related processes (Figure 17)
 - Following contract lifecycle
 - Identifying related costs



Figure 17. The fleet related processes

Recommend and implement operational leverages (Figure 18)

- Related to *uncontrolled costs*
- For each *contract lifecycle steps*

Cost analysis approach:

Contract lifecycle approach:

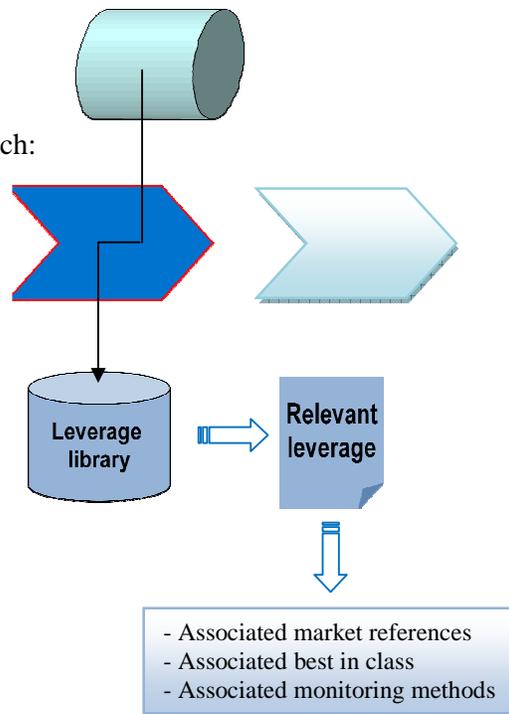


Figure 18. Operational leverages for ALD Automotive Romania

TCO is unique and must be fleet – tailored and the factors which must be determined are:

- Fleet profile influence:
- Commercial or executive vehicles;
- Car turnover frequency;

- Entity activity and localization;
- Customer maturity.

Local specificities influence:

- Funding policies;
- Fleet management organization;
- Used vehicle market;
- Culture and HR objective.

To durably reduce the TCO, ALD Automotive must precisely forecast the evolution of each element.

- Fuel price varying from 1.2 €/l to 1.8 €/l will conduct to a fuel share evolution from 22% to 29.7% in TCO;
- Improved car safety infer faster tire cost rise;
- Change in taxation toward CO₂ emissions which will have major impact on TCO.

ALD Automotive's actions are oriented toward customer's expectations and the company has stated objectives and associated key performance indicators (Figure 19) in order to reduce customer costs and *improve ALD volumes*.

OBJECTIVES	ASSOCIATED KEY PERFORMANCE INDICATORS
Cost reduction stake	Cost per car, cost per kilometre, fuel costs, insurance costs, average car price, average tax amount paid per car, cost of accidents, refurbishment costs
Cost optimization stake	CO ₂ tax legislation and volume incentives
Service Level Agreement (SLA) enforcement stake	Response times, quotes accuracy, delivery time and billing accuracy
Communication stake (CO ₂ and driver's safety)	Current CO ₂ emissions, green oriented taken actions, environmentally friendly cars ratio, incentive toward green fleet, safe car ratio and amount spent in safety

Figure 19. ALD Automotive Romania associated key performance indicators

1. *Cost reduction* stake:
 - a) Cost per car is improved by direct negotiation with local Importers in order to offer to customer a better purchasing price than he can obtain directly from cars' Importer and from residual value optimization (re-selling price risk is transferred from customer to ALD Automotive);
 - b) Cost per kilometre is improved by linking the customer needs with the best in class TCO using negotiated maintenance costs with cars' Importers too;
 - c) Fuel cost is improved by using national gas stations' network (fuel administration);
 - d) Average car price reduction result from cost per car improvement and volume incentive scheme offered by cars' Importers;
 - e) Average tax amount paid per car reduction result by linking customer needs with optimal engine capacity and CO₂ level of emissions;

- f) Cost of accidents and insurance costs improvement can be made using all available active and passive safety equipments for a specific car, tires administration programs (winter, summer), Bluetooth device for mobile phones, alarm systems and rear/front parking assist.
 - g) Refurbishment costs are related to cars which are returned to ALD Automotive at the end of the contract.
2. *Cost optimization stake:*
 - a) Monitoring CO₂ tax legislation – proposal for the best in class emission engines (e.g. from 3.0 to 2.0);
 - b) Volume incentive scheme from cars’ Importers in the end of the year.
 3. *Service Level Agreement (SLA) enforcement stake* refers to *internal processes optimization* by reducing responses to quotation request, accuracy in offers by automation, delivery improving times with cars’ Importers and billing accuracy in the end of a month. Billing includes, besides financial rate and specific services, all maintenance made in one month in entire cars’ Importers dealers network.
 4. *Communication stake* involves current CO₂ emissions in the customer fleet and future proposal for green fleets, *cost advantages* in taxation and fuel consumption, *future safety and insurance proposals*.

Measuring ALD Automotive key performance indicators are related to initial picture of the customer fleet costs and evolution for future improvement development (Figure 20).

KEY PERFORMANCE INDICATORS	MEASUREMENT
Cost improvements	Cost per car, Cost per kilometre, Fuel per kilometre
Car model optimization	Whole Life Cost per car, Average actual consumption, Average engine size
Satisfaction	Drivers satisfaction survey results, Fleet managers satisfaction survey results
Customer’s responsibility (common purpose)	Driver safety indicators, CO ₂ emissions management, Accident history
Service Level Agreement (SLA) monitoring	Quotation response time, Quotation accuracy, Order placement time, Pre-delivery notification, On-time delivery, On-time reporting

Figure 20. Measurement of ALD Automotive Romania key performance indicators

Financial rental associated leverages (Figure 21):

Leverages on Financial rental (or re-selling value) are about 36% from TCO and the principal factors are:

- Car policy & Model selection:
 - Propose limited categories depending on job grade;
 - Car policy application control;
 - Propose car catalogue with limited number of car manufacturers;
 - 1 shot car replacement;
 - Replace 3.0 cars by 2.0 cars;
 - Monitor personal use;
 - Mandatory and forbidden options;
- Contract optimization:
 - Actual mileage considered for car selection;
 - Optimized/extended duration according to annual mileage;
- Acquisition method and consolidation of spend:
 - Compare full operational leasing versus outright purchasing.

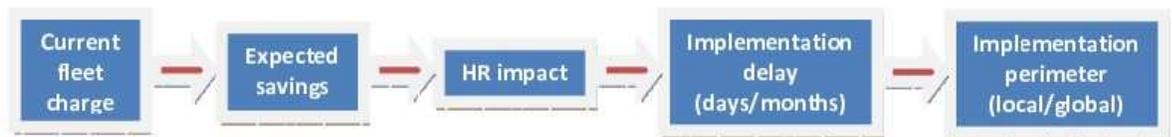


Figure 21. ALD Automotive Romania financial rental associated leverages

ALD automotive Romania customers' approach is shown in Figure 22:



Figure 22. ALD automotive Romania customers' approach

1. Picture of *present situation* on defined perimeter;
2. Concerted *fleet analysis* on selected perimeter;
3. Common approach to identify relevant *key performance indicators* (KPI);
4. Suggested leverages from ALD Automotive leverage library:
 - With associated *market references*;
 - With *potential savings* for customer;
5. Implementation methods
 - ALD Automotive Actions
 - Customer Actions
6. Shared monitoring between customer and ALD Automotive;
7. Second picture to measure *improvements, savings* and *ALD Automotive performance*.

Using a Customer Relationship Management program, ALD Automotive Romania bases his forecast by monitoring the fleet lifecycle plus the new generated business. Profit for ALD Automotive Romania is generated by interest from financial rate and from management fee. Their approach to re-selling price (residual value) is to be closer to the future market value in order to don't lose money, but is not their intention to make

profit from this business when the company made an operational quotation. Profit generation is strictly related to volume sales and volumes depending on their capacity to improve customers' fleet TCO.

3.3. Profit optimization within Citroen Romania²⁰

Because Citroen Romania is a branch and not a private Importer, the forecast is made by OEM and takes into account volumes and profit. Volumes are forecasted based on their actual market share in Romania and the next year desired growth.

In fact, the total forecast for the next year is monthly split in a matrix which includes all cars by segment and each car with all possible engines, gear boxes and trim levels and a desired margin for each car.

Pricing consist in a cost-based strategy with a margin adjustment using a competition-based price strategy (price positioning).

Price bundling is used, like in majority of cars' industry, and packages (trim levels) are named „Attraction“, „Seduction“, „Collection“ and „Exclusive“.

For example, if you consider the model C3, the branch will calculate the share of each trim level (and engine type/gearbox) and optional equipments in total sales based on the last year sales. The trim levels available to C3 are „Attraction“, „Seduction“, „Collection“ and „Exclusive“.

The result is like in Figure 23:

C3	Engine	Gear box	Optional	Share in Citroen Romania total sales
ATTRACTION	1.1 i	manual	standard	1%
ATTRACTION	1.1 i	manual	metallic paint	3%
SEDUCTION	1.4 i	manual	standard	5%
SEDUCTION	1.4 i	manual	metallic paint	10%
SEDUCTION	1.4 HDI	manual	standard	15%
SEDUCTION	1.4 HDI	manual	metallic paint	20%
Marginal models				1%
C3 share in total sales of Citroen in Romania				55%

Figure 23. Share of Citroen C3 in Citroen total sales in Romania

²⁰Alexandru Gusetoaia, Commercial Director, Citroen Romania, November 2011

Because to produce and deliver the cars OEM needs 3 months and based on this analysis, the stock is supplied according for months M+4, M+5 and M+6 for an order made in month M. In each month the forecast is reviewed in order to see the stock rotation and the forecast accuracy. This forecast is made for new business and after that is developed the total forecast by adding portfolio orders, demo cars network and demo cars for branch.

The second step includes a business matrix for a specific sales channel. For example if we consider the sales channel for private customers, the business matrix looks like in Figure 24.

	Month	M-1	M	M+1	M+2
1	Total market (provision)	4000	3800	4200	4500
2	C3 market share	7%	7%	7.10%	7%
3	C3 volumes (1*2)	280	266	298	315
4	Branch commercial margin (Euro)	1950	1950	1950	1950
5	Branch commercial variable margin (discount) (Euro)	1550	1550	1550	1550
6	Dealers volume bonus (Euro)	280	280	280	280
7	Special bonus (Euro)	0	0	0	0
8	Average gross margin per car (Euro) (4-5-6-7)	120	120	120	120
9	Gross total profit (Euro) per month (3*8)	33600	31920	35784	37800

Figure 24 – Business matrix for Citroen C3 SEDUCTION 1.4 HDI manual, standard equipment

Methods to improve profitability for the branch are:

- Improving volumes by dislocating a monthly amount from Gross total profit for advertising or special events;
- Decreasing the Branch commercial variable margin (discount) if from price positioning result that the model is competitive in the market or by communicate together with a leasing company just a monthly rate and not the price of the car.

The delivery process from Citroen to Romanian's Dealers network is like in the Importers case, the difference is that the branch can sent the car's invoice and papers to dealer only after the car arrived in dealer's yard and the dealer pays the car to Citroen Romania. Therefore, the spending time for a car in dealer's yard is higher.

3.4. Profit generation for competitors using additional services and tailor made products

3.4.1. VW Financial Services

Mission statement: the mission of VW Financial Services is to promote the sales of VW Group cars and to achieve an adequate return by satisfying customer's mobility needs with car-related services which establish standards of excellence in automobile financing, leasing, insurance and linked services.

Goal: Utilization of all potentials in financial services along the automotive value chain within Volkswagen Group (Figure 25)

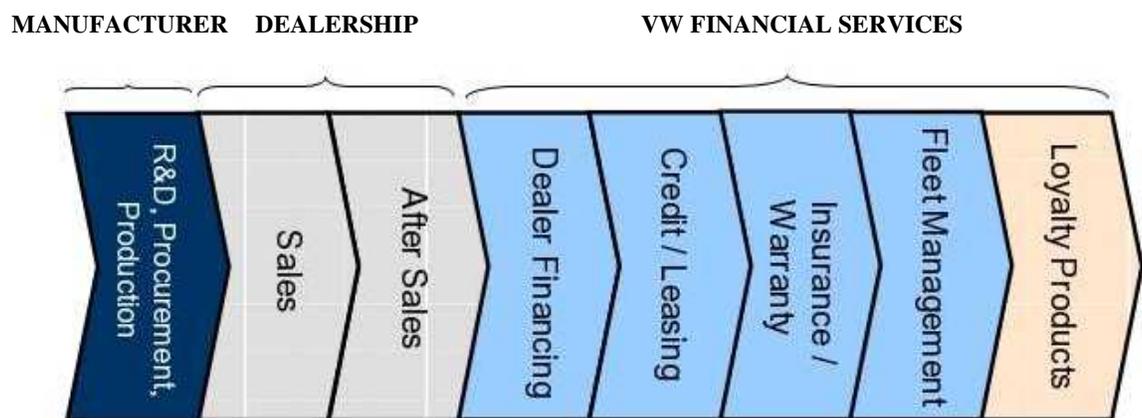


Figure 25. Automotive value chain within Volkswagen Group

“The Automotive value chain of Volkswagen Group has been expanded by essential areas of “Mobility”: we develop, produce, sell, finance, provide leases, insure, let, repair and remarket vehicles. Furthermore, we offer products to our customers, which provide them with “financial mobility” in addition to their “automotive mobility”.”²¹

VW transform Strategy in Action using Product packages like:

1. All-inclusive mobility package offers:
 - Vehicle;
 - Finance or lease including insurance, extended warranty;
 - Full maintenance.

²¹Thomas Pronnecke – Investor Relationship Officer, VW FS AG
(http://www.volkswagenag.com/content/vwcorp/content/de/investor_relations/fixec_income/annual_report.bin.html/downloadfilelist/downloadfile/downloadfile_5/file/Polen_Inv_meeting_VWFSAG_IR_und_Treasury_1bis7.pdf)

2. Product packages which offers to customers:
 - Comprehensive mobility based on calculable monthly costs – *help to avoid discussions about price and discounts*; this is a very powerful tool to generate a big margin and is used in marketing communication or in negotiation;
 - Thus help to avoid negative effects on pre-owned vehicles prices – *lead to positive effects on volumes and prices*. This is a very important aspect in a strong residual value with a very good impact in TCO.

3.4.2. The Renault Pro+ Network – a tailor-made service for professionals

“Renault has taken its determination to expand the range of services it provides its business customers a further step forward in the form of the Renault Pro+ network. The concept was presented by *Dealer Network Coordinator of the LCV Division, Mr. Jean-Claude Lam*.

He explained that this Pro+ network seeks to provide five essential services:

1. The availability of professional, brand-trained sales and after-sales specialists, plus dedicated sales and after-sales reception areas for business customers staffed by commercial vehicle experts. In case, the people working at the Nice service centre had not less than 25 years of professional experience dealing with professional customers.
2. High visibility for products from the Renault LCV range, including vehicle conversions. Business vehicles, included bodied vehicles are very widely represented.
3. Mr. Lam also repeatedly stressed that the service acts as a “one-stop shop” for LCV-related services: new and used vehicle sales, specialized accessories and fittings, conversions, finance solutions, servicing and mobility contracts, leasing, everything is taken care of.
4. Also test drives of commercial vans and passenger carriers are always possible with no need for a prior appointment. Price quotes for new vehicles are prepared within 48 hours, while an after-sales specialist is present whenever a new vehicle is handed over.
5. Last but not least a proactive, flexible organisation is provided at the Pro+ centres, equipped to handle vehicles of up to seven tonnes. Mr. Lam showed (...) the service bridge at the Nice-based dealer which could handle vehicles up to 9 tonnes, and what is more, the Pro+ network would also service vehicles of other makes, in other words, the complete LCV fleet of the customer!

Further strong points are speedy customer support, agreed job times, and extended workshop opening hours to meet the needs of business customers. Typically, opening hours are 30 % longer than normal, with some centres open until 10 pm. Problems are diagnosed within the hour and vehicles are serviced within eight working hours with no need for a prior appointment in order to allow business customers carry on their activity. When repair work is required, the Renault Pro+

network pledges to provide customers with a detailed quote within four hours, as well as the date at which the vehicle will be returned. When a major repair puts the vehicle out of service, a replacement vehicle of the same type is provided.

Synergy with coachbuilders

Renault has established (in each country) national Renault Pro+ centres which work closely with a selection of Renault -approved coachbuilders in each country, and which provide their knowhow and sales support to the local network and, if necessary, to the end customer. These Renault Pro+ centres showcase Renault's unique expertise in the field of production commercial vehicles and conversions for business customers.

In the course of 2009, Renault opened 66 Renault Pro+ centres in 14 countries. The network's international expansion will be stepped up further still in 2010, both within and outside of Europe. For Renault, the target for 2012 is to have a network of 400 Renault Pro+ centres.”²²

Along with range diversification and customization in order to respond to different customers' needs, Renault improves profitability by using *Difficult Comparison Effect* – customers are less sensitive to the price because in customization they have difficulty in comparing the final product with competitors' alternatives.

²²Autoprova, Hans Knol ten Bonsel, The Renault Pro+ Network: a tailor-made service for professionals, interview with Mr. Jean-Claude Lam, Dealer Network Coordinator of the LCV Division
(http://autoprova.net/the_renault_pro_network_a_tailor-made_service_for_professionals) - October 2011

Chapter 4. Current situation in cars' Importer corporate sales

4.1. Forecast in Importer's next year corporate sales

Predicting the volume of sales in an established market can be manageable because we have good records from the last years. *Of course, it is important to know the next year volume, but more important is to know which part from forecast is known already and how can we use this information for future business.*

In corporate sales we can talk about two forecasts for next year:

- Forecast from existing strategic customers;
- Forecast from new business which can be based on historical sales.

The forecast from existing strategic clients is based on their own forecast for next year which is included in purchasing budget; even there are replacements or new positions in the client's company we can have a quite precise forecast.

The forecast for the new business is the harder part of the work. We can use prediction methods based on our sales history in order to have an image about the future, for example Predictor from Cristal Ball and refine the result by consideration of additional information (market, competition, trends) which cannot be contained in the historical data.

The three years sales records are presented in Figure 26:

Month	Sales (units)
ian.08	15
feb.08	38
mar.08	81
apr.08	45
mai.08	110
iun.08	65
iul.08	103
aug.08	127
sep.08	72
oct.08	56
nov.08	114
dec.08	53
ian.09	44
feb.09	62
mar.09	34
apr.09	47
mai.09	49
iun.09	25
iul.09	59
aug.09	90
sep.09	66
oct.09	80
nov.09	30
dec.09	74
ian.10	12
feb.10	48
mar.10	54
apr.10	97
mai.10	121
iun.10	66
iul.10	64
aug.10	93
sep.10	20
oct.10	55
nov.10	54
dec.10	51

Figure 26. Three years cars sales records

Calculating sales in 2008 (879 units), sales in 2009 (660 units) and sales in 2010 (753 units), If we apply the basic forecast method, *time series forecasting using smoothing methods*, the result for 2011 should be:

$$(879 + 660 + 753) / 3 = 764 \text{ units.}$$

Based on sales in 2008 and 2009 we can calculate the forecast error. If we want to make the forecast for 2010, the result should be:

$$(879 + 660) / 2 = 770 \text{ units.}$$

As we can see, the sales in 2010 were 753 units and we can calculate that the error is 17 units (2.2% from total forecasted value). Based on this error we can conclude that a final forecast for 2011 should be:

$$764 * (1 - 2.2\%) = 747 \text{ units}$$

Of course, this information can be useful but we don't have any information about the probability that this volume will be met.

Tools used in forecast

Using Predictor from Crystal Ball, our forecast for the next year is in Figure 27:

ian.11	10,97036
feb.11	36,73846
mar.11	51,26624
apr.11	51,98382
mai.11	88,85765
iun.11	44,7486
iul.11	68,17165
aug.11	95,07889
sep.11	40,70629
oct.11	48,03706
nov.11	62,1954
dec.11	43,59625

Total: 642

Figure 27. Forecast for the next year using Predictor from Crystal Ball

With the forecast obtained using Predictor, defined as the normal distribution assumptions, we can run Monte Carlo simulation to find the range with the highest probability for total sales (target). The result for simulation is shown in Figure 28:

Percentiles:	Forecast values
0%	321
10%	498
20%	544
30%	582
40%	613
50%	643
60%	670
70%	698
80%	737
90%	788
100%	1104

Figure 28. The range with the highest probability for total sales (target) using Monte Carlo simulation

As we can see, the value obtained using time series forecasting using smoothing methods is in the confidence interval (85% probability) for total sales in 2011.

Why is the forecast one of the most important factor in a business plan? Because it gives us a picture about our future business and helps in the business plan to adjust the variable costs and the margin, which, in the end, give us the profitability of our activity. The most important of this specific forecast for Corporate sales department is the part with the forecast from existing portfolio because it give us precisely information about volumes and, most important, margin which can be made from this part of sales, margin which can be used for future new business.

4.2. Profit generation in cars' Importer corporate sales

The key elements which define profit are:

- Costs;
- Price (margin);
- Volume.

The business model for cars' Importer Corporate sales department, developed in Introduction looks like in Figure 29:

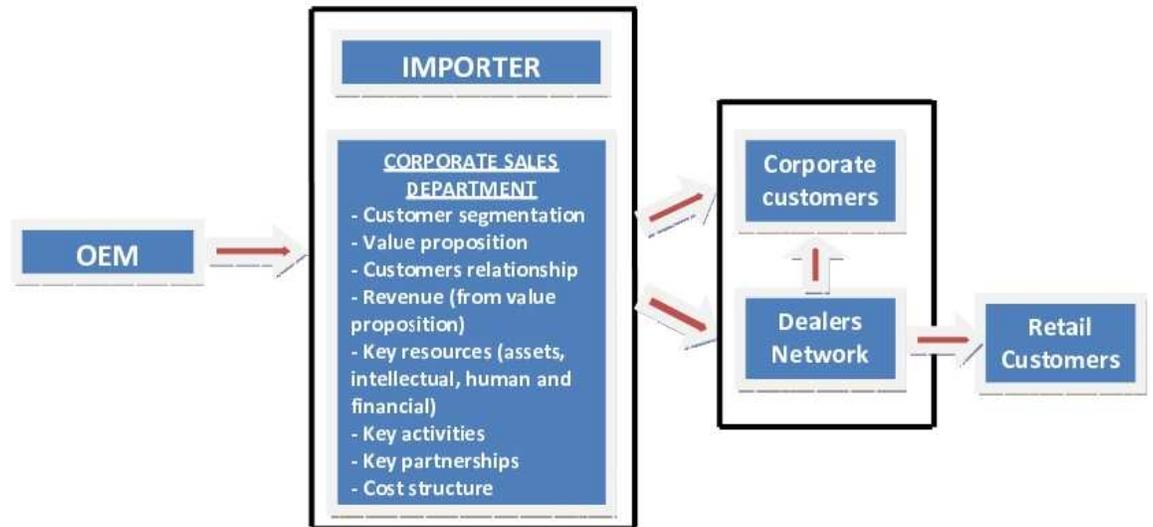


Figure 29. The business model for cars' Corporate sales department

Customer segmentation gives us a picture of customer's common needs or behaviours in order to respond adequately to each segment with a major impact in price and volume. Segmentation by fleet size is made, for example:

- Very small companies – 1 to 5 cars;
- Small companies – 6 to 10 cars;
- Medium companies – 11 to 50 cars;
- Large local companies – more than 50 cars;
- Subsidiaries of International companies which have International agreements with OEM;
- Government entities.

Identifying the customers' expectations and vehicle use is the next step:

- vehicles:
 - types: passenger or commercial cars, converted vehicles;
 - type of use: professional or personal, urban or extra urban;
 - length of ownership, annual kilometres;
 - management or service vehicles;
 - customer expectation: key equipments, emissions, consumption, etc.
- services:
 - replacement cars, customer care;
 - service contract: maintenance, road assistance, tyres, etc.

Value proposition gives us the price for each customer segment with a big impact in profit and volume.

Customer's relationship helps to respond to customers' needs in after sales business and to improve future volumes.

Revenue, of course, gives us the scale of profitability and it is a direct result of Value proposition.

Key resources and *Product cost structure* give us the total cost of business.

Key partnerships with body builders, leasing companies improve volumes and margin. Tailor made services are dedicated especially to corporate clients, one important business which helps to improve volumes and margin is to transform cars (passenger or commercial) according to customer specific needs. An important part from tailoring consists in converted cars and the majority OEMs develop a Professional line in order to deal exclusively with corporate customers.

Key activities for a Corporate sales department are selling cars and after sales services.

4.2.1. Costs in car's Importer corporate sales

Because the Corporate sales department is a single unit in Importer's structure, the costs with business unit are negligible compare with whole company costs. Nevertheless, the total costs in a cars' Importer must be covered by contribution margin made by:

- Corporate sales – the smallest contribution margin;
- Retail sales through dealers network – a medium contribution margin;
- Spare parts and accessories sales – the biggest contribution margin.

The major costs in corporate sales, like in other similar business, are stocks and delivery time (lead time between car is ordered and the moment when the money for that car are in Importer's account). Because an Importer cannot have any influence in optimize time between order and car manufacture, mostly, the lead time is considered to be the time between the car leaves OEM's yard and the moment when the money for the car are in Importer's account. Nevertheless, the biggest cost in sales is represented by stocks. In fleet business the stocks are almost zero because the cars are specific for the customer and the quantities are high - it is impossible to find the cars in stock.

A good planning and processes in Corporate sales department can improve profitability and add value to the customers.

First of all let's take a look on the flow for a car from both perspectives: retail and fleet sale.

With the assumption that a customer order a car (the car is not in stock), the dealer sends order to Dealer networks logistic department which processes the order and send it to Import department where the order is loaded in OEM's system. After the car is made and load to Importer's country, the Dealer networks logistic department send to the dealer information about delivery time of the car to the dealer's yard.

If the car exists in Importer's stock, the order is made to the Dealer networks logistic department which sends the order to carrier which will carry the car in the dealer's yard. For the fleet customer the way of order is a little bit different because there is a direct connection between Corporate sales department and Import department and the connection, in some specific cases can be directly with OEM. On the other hand

there is a Logistic Assistant in the Fleet department which send the order directly to the Import department or send directly to the carrier orders to carry car(s) to the place where customer choose to receive it (s).

Of course, there is a target for Importer, settled together with OEM. After that, target is split to the Dealer Networks and Corporate sales department. A target and a specific margin are settled to each dealer and a target for Corporate sales department.

A specific car can be proposed to the customer only if:

1. It is defined the commercial offer for a specific model which include trim levels and price for each trim level (after a price positioning in the market).
2. Homologation for respective model in respective country, made by local authorities.

Talking about the Corporate sales department and the relationship with Import department and Logistic Assistant, the process looks like in Figure 30:

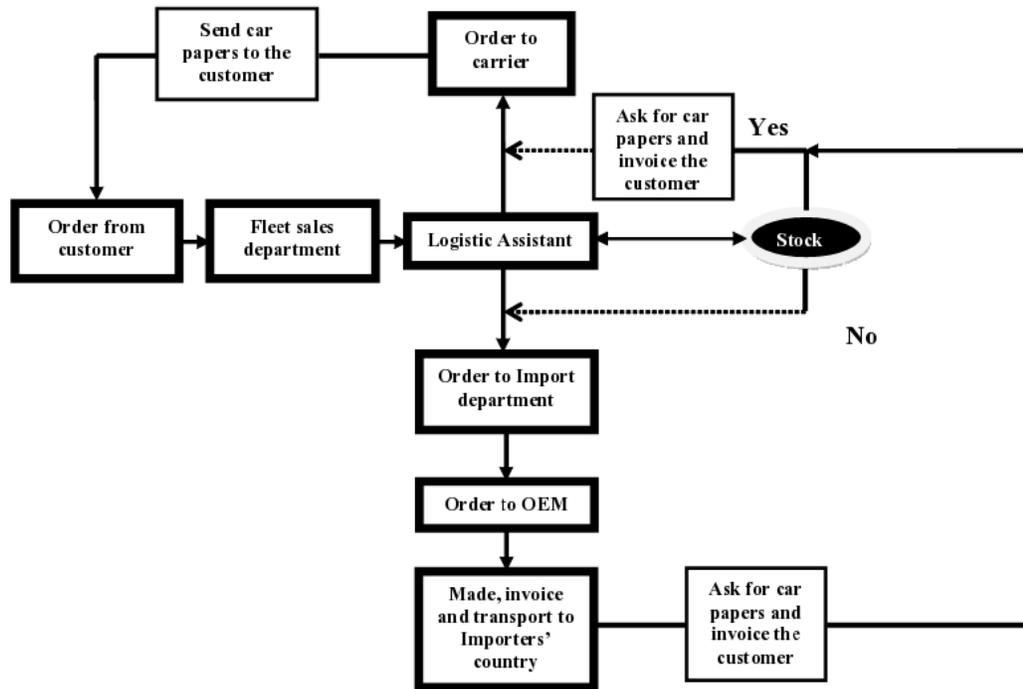


Figure 30. The processes in cars' Corporate sales department

The process seems to be a simple one: after the customer sent the order to the Fleet sales department, Logistic Assistant investigates the stock and if the car (s) is (are) in stock sent the order to the carrier to move the car (s) from customs to dealer yard (the customer can choose the dealer to pick up the car(s)) and ask for the car's papers (invoice and Motor Transport Authority paper). If not, the Logistic Assistant sent the order to Import department which up load the car (s) in OEM's order

system. After the car (s) is (are) made and sent to customs, the Logistic Assistant sent the order to carrier in the same way as above.
 There are two major factors that influence business:

- **Target & Margin.**
- and
- **The flow** – the spending time for a car in the same position in each step to the customer – that means lost money.

Actual delivery process

The flow for a car from OEM’s yard to the customer looks like in Figure 31:

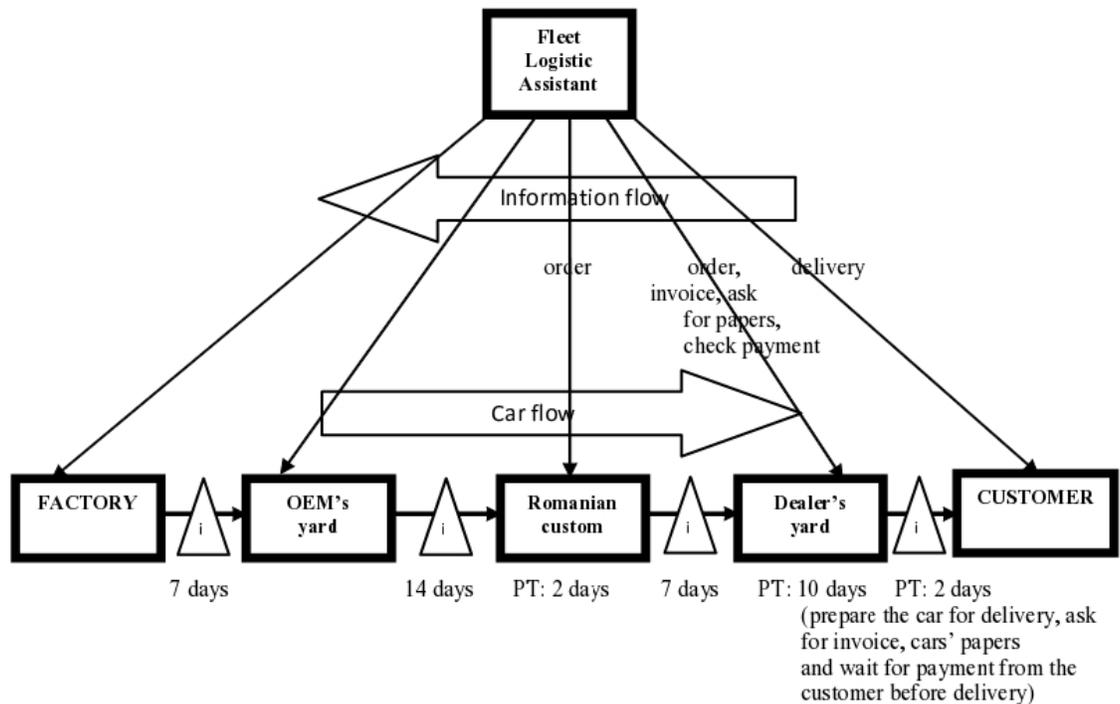


Figure 31. The flow for a car from OEM’s yard to the customer

Legend: PT – Process time

 - Inventory (stock)

1. Information flow is generated from the customer when the final order is received by the Fleet Logistic Assistant from the client;
2. Car flow is generated from the Fleet Logistic Assistant from the factory to the customer.

The Fleet Logistic Assistant:

1. Order the car to the factory;
2. Do NOT order the car from OEM’s yard to custom, the carrier is obliged to load it in 7 working days;

3. Order the car from custom to Dealer's yard to the carrier;
4. After step 3, made the invoice, prepare the cars' papers, send the documents to the customer, wait for payment and registration;
5. After step 4, order the car from dealers' yard to customer (delivery schedule);

We can see that:

- A car spend in OEM's yard stock maximum 7 working days - after OEM invoicing the car to the Importer - (from the contract with the carrier) before is loaded and spend maximum 14 days on the road to custom;
- A car spend in custom 2 days before is loaded and spend 7 days on the road to the Dealer's yard;
- A car spend 10 days in Dealers' yard for invoicing, prepare the car's papers, receive the payment from the client and another 2 days to be prepared and delivered to the customer.

TOTAL TIME spend for a car from Factory to Customer – throughput time (lead time) – 42 days.

4.2.2. Pricing in cars' Importer corporate business. Profit generation by margin and volume in cars' Importer Corporate business

Prices are set using a *cost-based strategy*; therefore the prices are set by computing the costs and then adding the margin in order to obtain the desired profit. After this composition, a *competition-based price strategy* is used in order to find where the targeted car is situated compared with competition and for that price positioning is the tool used to refine the resulted margin from cost-based strategy.

Typically, car's price composition (in Euro) for an Importer is presented in Figure 32.

1. ex works price:	9,000.00
2. OEM participation to discount (if any):	0.00
3. External transport cost (OEM to Romanian custom):	500.00
4. Romanian custom price (CIF*):	9,500.00
5. External transport insurance cost:	10.00
6. Storage and custom costs:	70.00
7. Internal transport cost (from custom to dealer yard):	150.00
8. Homologation cost:	50.00
9. Price in dealer yard:	9,780.00
10. Margin (%):	15%
11. Margin value:	1,467.00
12. Margin for optional equipments (%):	20%
13. DDU** sales price (before discount/promotion, if any):	11,247.00
14. Maximum possible discount (%):	10%
15. Dealers participation to discount/promotion (if any):	0.00
16. Importer participation to discount/promotion (if any):	500.00
17. Total discount/promotion:	500.00
18. DDU** selling price to customer:	10,747.00
19. Dealer margin (%):	4%
20. Excises (if any) (%):	0
21. Custom duties (if any) (%):	0
22. Net selling price without VAT:	10,747.00
23. VAT (%):	24%
24. Net selling price with VAT:	13,326.00

Figure 32. Car's price composition

* CIF – Cost, Insurance and Freight

* DDU – Delivery Duty Unpaid

Using this method, in retail business, the dealer will recover his margin (point 19) from Importer after the car is paid. Another method can be to reduce from DDU selling price (point 18) the dealer margin (sell to the dealer without his margin). In this case the dealer can add the wishing margin when sell the car and collect this margin directly from customer. In practice first method is used because enable the Importer to recommend maximum sales prices for his products in Dealers Network. In Corporate business, the negotiation start from DDU sales price (point 13) and, depending on volume, the Importer can ask for OEM support if the margin is not enough to sustain the business. Of course, for a specific deal Importer can sell without margin (or even a negative one) and recover money using other strategies as we will see in Chapter 5 of this paper.

In an Automotive Importer, from sales perspective, there are two business units who generate profit:

- Commercial department (for direct fleet sales and retail sales through the dealers network);

- Service & Spare parts department (for spare parts and accessories sales through the dealers network).

Every year the Commercial Department, as a business unit from a whole business, made a business plan for the next year. In Automotive business there are two major directions for commercial area:

- Retail sales;
- Corporate sales (or Fleet sales).

From Corporate sales perspective, the business plan for the next year takes into account the forecast for the next year from actual portfolio of corporate clients based on the forecast from the clients and the estimated new business. Of course, this forecast is adjusted taking in consideration the specific market (crisis period, local political and economical environment, etc.), competition, trends, etc. in order to be close to reality.

Discounting is the process which accounts for the fact that a sum of money saved or spent in the future has less value than the same sum saved or spent today; for that we can use a 6% discount rate, defined as a Cost of borrowing per one year. The goal consists in an assessment for a positive EBITDA from volume and margin perspective.

If we assume the below parameters:

- Cost of borrowing per year – 6%
- Business car cost (for KAM) – 15.000 Euro
- Business car depreciation per year – 20%
- Number of KAM (Key Account Manager) – 2
- Assistant (Logistic assistant for KAMs) – 1
- Cost of KAM per month (fixed cost) – 1.000 Euro
- Cost of Assistant per month (fixed cost) – 800 Euro
- Commission per car for KAM (variable cost, depending on volumes) – 50 Euro
- Revenue from selling new cars (margin) (variable) – 500 Euro
- Office rent per month (fixed cost) – 100 Euro
- Mobile phone use per month (fixed cost) – 50 Euro
- Other fixed costs (laptop, mobile, soft, etc) – 2.000 Euro

then we can develop the following spreadsheet model for Corporate sales department (Figure 33):

Parameters	
Cost of borrowing per year	0,06
Business car cost	15.000
Business car depreciation/year	0,20
Number of KAM	2
Assistant	1
Cost of KAM/month	1.000
Cost of Assistant	800
Commission per car for KAM	50
Revenue from selling new cars (margin)	500
Office rent/month	100
Mobile phone use/month	50
Other costs (laptop, mobile, soft, etc)	2.000
Decision	Present value for EBITDA 246.072
Forecast	Total sales (target) 643
Calculation	Present value of KAM cost -23.238
	Present value of Assistant cost -9.295
	Present value of rent -1.162
	Present value for using mobile phone -1.743
	Total present value -35.438
	Business car cost -30.000
	Other costs -2.000
	Present value of fixed costs -67.438
	Commission for KAM 32.150
	Present value of commission -31.990
	Present value of total cost/year -99.428
	Total revenue from selling new cars 321.500
	Present value from selling cars 319.900
	Revenue from selling business cars after 1 year 24.000
	Present value from selling business cars after 1 year 23.881

Figure 33. Spreadsheet modelling for Corporate sales department

Keep it simple, after calculating net present value for total cost per year, we calculate the net present value for revenue from selling cars (target*margin per car) and the net present value from selling business cars after one year (with assumption that car depreciation is 20% after one year).

Net present value for EBITDA = Net present value for revenue from selling cars +
Net present value from selling business cars after one year - Net present value for
total cost per year

Assuming that is a start up business and we introduce a cost of department project, using Tornado chart (Figure 34) we will find the contribution of each element in EBITDA.

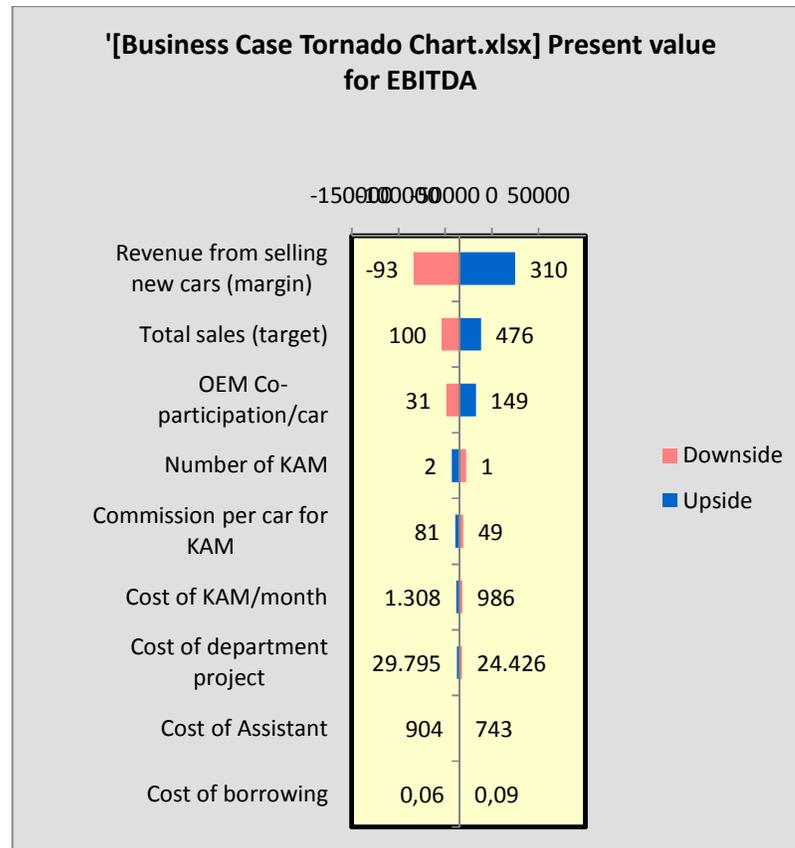


Figure 34. Contribution of each element in EBITDA using Tornado chart

Conclusion: The key factors in Present value for EBITDA are:

1. Margin - Revenue from selling cars (we can include here OEM co-participation too, if is any);
2. Target - Total sales = Volume.

A short analysis using “What-if?” tool (Figure 35) from Excel, show as that **the minimum profit** could be 8.840 Euro for 200 Euro margin and 500 cars sold. Another important aspect is that for 700 cars target (in our confidence interval for target) we lose money if the average margin per car is smaller than 100 euro.

Revenue from selling cars if the most important factors margin and target are changed:

223.226	500	600	700	800	900	1.000	1.100
-200	-191.160	216.135	-241.110	-266.085	-291.060	-316.035	-341.011
-100	-141.160	156.135	-171.110	-186.085	-201.060	-216.035	-231.011
0	-91.160	-96.135	-101.110	-106.085	-111.060	-116.035	-121.011
100	-41.160	-36.135	-31.110	-26.085	-21.060	-16.035	-11.011
200	8.840	23.865	38.890	53.915	68.940	83.965	98.989
300	58.840	83.865	108.890	133.915	158.940	183.965	208.989
400	108.840	143.865	178.890	213.915	248.940	283.965	318.989
500	158840,1	203865	248889,9	293914,8	338939,6	383964,5	428989,4

Figure 35. “What-if?” analysis

Using our model, if we assume a forecasted target of 643 cars and an average margin of 500 Euro/car, the Corporate sales department present value for profit is 246.072 Euro in the end of the year.

There are two major questions:

1. Assuming that the forecast from our portfolio clients is a right one, how big is the percentage of new business in this forecasted target? *The smallest percentage exists, the biggest chances to grow in new business. Why? Because we can use the collected margin from existing portfolio and use it to win the new businesses.*
2. It is the average margin the right one? Can we sell with this margin?

Monte Carlo analysis is a statistical approach to modelling the effects of uncertainty. As there are many uncertain variables contributing to EBITDA, this method is ideal as it provides a distribution curve of EBITDA for different volumes and margins. Input parameters for each independent variable are defined by Minimum, Likeliest and Maximum. These are used to define a triangular distribution where the minimum and maximum represent the confidence limits from forecast for volumes and Decision table for margin and the central value the mean. The Central value does not necessarily lay half way between the minimum and maximum values, and in such cases the distribution will be skewed. The goal consists in an assessment for optimal mix between volume and margin for a positive EBITDA.

Because there is a correlation between margin and target (a negative one to indicate the shape of demand) we define a decision cell in our spreadsheet model to input the correlation and to see how sensitive the results are to the assumption about the correlation between the target and margin. The variable decision cell represents the correlation coefficient assumed to be between -1 and 0, discrete, in steps 0.1. We define a triangular correlate assumption distribution for margin and target (input parameters) with correlation coefficient as decision cell above. Running Monte Carlo simulation tool from Crystal Ball, with the distributions for target and margin like in Figure 36:

Assumption: Revenue from selling new cars (margin)	
Triangular distribution with parameters:	
Minimum	-200
Likeliest	300
Maximum	500
Correlated with: Total sales (target)	
and	
Assumption: Total sales (target)	
Triangular distribution with parameters:	
Minimum	700
Likeliest	800
Maximum	900
Correlated with: Revenue from selling new cars (margin)	
and	
Decision Variable: Present value for EBITDA (Total profit)	
Variable bounds:	
Lower	-1,00
Upper	0,00
Variable type: Discrete	
Step size:	0,10

Figure 36. Distributions for target and margin

our results is in Figures 37 and 38.

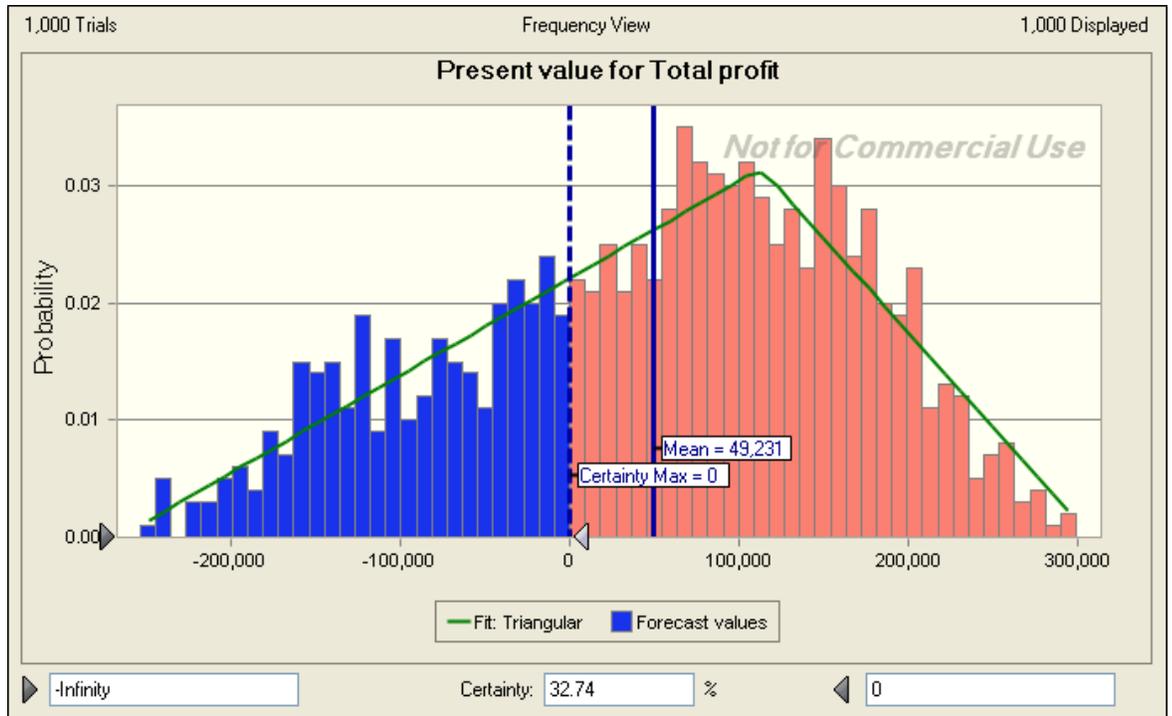


Figure 37. Present value of total profit assessment using Monte Carlo simulation

Percentiles:	Forecast values
0%	-253.932
10%	-125.022
20%	-63.050
30%	-13.128
40%	28.835
50%	64.956
60%	93.876
70%	123.886
80%	156.416
90%	192.631
100%	298.693

Statistics:	Forecast values
Trials	1.000
Mean	49.231
Median	64.966
Mode	---
Standard Deviation	117.806
Variance	13.878.145.358
Skewness	-0,3441
Kurtosis	2,33
Coefficient of Variability	2,39
Minimum	-253.932
Maximum	298.693
Range Width	552.625
Mean Std. Error	3.725

Figure 38. Present value of total profit assessment using Monte Carlo simulation

From these graph and tabs we can conclude that the probability to lose money is around 33% that is we have a confidence interval 80%-90% to achieve in the yearend a profit between 150.000 and 190.000 Euro.

We can use, for example, Decision Table tool from Crystal Ball to find the best decision in terms of margin and target to achieve the planned profit. Of course, the biggest profit can be reached with the highest sales volume and the largest margin but, at least one of them, the margin, which made the total price of the car, should be

adapted to the price positioning in the market that is, our total price per car must be competitive in the market. If we set our annual profit to 200.000 Euro, e.g., depending to market analysis, we can choose from the Decision Table (Figure 39) between:

	Revenue from selling new cars (margin) (-200)	Revenue from selling new cars (margin) (-120)	Revenue from selling new cars (margin) (-40)	Revenue from selling new cars (margin) (30)	Revenue from selling new cars (margin) (110)	Revenue from selling new cars (margin) (190)	Revenue from selling new cars (margin) (270)	Revenue from selling new cars (margin) (350)	Revenue from selling new cars (margin) (420)	Revenue from selling new cars (margin) (500)
Total sales (target) (700)	-241.434	-185.434	-129.434	-80.434	-24.434	31.566	87.566	143.566	192.566	248.566
Total sales (target) (710)	-243.931	-187.131	-130.331	-80.631	-23.831	32.969	89.769	146.569	196.269	253.069
Total sales (target) (720)	-246.429	-188.829	-131.229	-80.829	-23.229	34.371	91.971	149.571	199.971	257.571
Total sales (target) (730)	-248.926	-190.526	-132.126	-81.026	-22.626	35.774	94.174	152.574	203.674	262.074
Total sales (target) (740)	-251.424	-192.224	-133.024	-81.224	-22.024	37.176	96.376	155.576	207.376	266.576
Total sales (target) (750)	-253.921	-193.921	-133.921	-81.421	-21.421	38.579	98.579	158.579	211.079	271.079
Total sales (target) (760)	-256.419	-195.619	-134.819	-81.619	-20.819	39.981	100.781	161.581	214.781	275.581
Total sales (target) (770)	-258.916	-197.316	-135.716	-81.816	-20.216	41.384	102.984	164.584	218.484	280.084
Total sales (target) (780)	-261.414	-199.014	-136.614	-82.014	-19.614	42.786	105.186	167.586	222.186	284.586
Total sales (target) (790)	-263.911	-200.711	-137.511	-82.211	-19.011	44.189	107.389	170.589	225.889	289.089
Total sales (target) (800)	-266.409	-202.409	-138.409	-82.409	-18.409	45.591	109.591	173.591	229.591	293.591
Total sales (target) (810)	-268.906	-204.106	-139.306	-82.606	-17.806	46.994	111.794	176.594	233.294	298.094
Total sales (target) (820)	-271.404	-205.804	-140.204	-82.804	-17.204	48.396	113.996	179.596	236.996	302.596
Total sales (target) (830)	-273.901	-207.501	-141.101	-83.001	-16.601	49.799	116.199	182.599	240.699	307.099
Total sales (target) (840)	-276.399	-209.199	-141.999	-83.199	-15.999	51.201	118.401	185.601	244.401	311.601
Total sales (target) (850)	-278.896	-210.896	-142.896	-83.396	-15.396	52.604	120.604	188.604	248.104	316.104
Total sales (target) (860)	-281.394	-212.594	-143.794	-83.594	-14.794	54.006	122.806	191.606	251.806	320.606
Total sales (target) (870)	-283.891	-214.291	-144.691	-83.791	-14.191	55.409	125.009	194.609	255.509	325.109
Total sales (target) (880)	-286.389	-215.989	-145.589	-83.989	-13.589	56.811	127.211	197.611	259.211	329.611
Total sales (target) (890)	-288.886	-217.686	-146.486	-84.186	-12.986	58.214	129.414	200.614	262.914	334.114
Total sales (target) (900)	-291.384	-219.384	-147.384	-84.384	-12.384	59.616	131.616	203.616	266.616	338.616

Figure 39. Decision Table for margin and total sales

1. minimum target 890 cars and minimum margin 340 Euro per car;
2. minimum target 720 cars and minimum margin 420 Euro per car;

Conclusion: choosing the margin in a Corporate sales business is not an easy task, but developing a mathematic model we can have a good image about our future desired business. Using the smallest margin make us competitive in the market and give us the opportunity to made in the end of the year a profit by selling high

volumes. Selling high volumes our future business will growth by selling after-sales services (spare parts and maintenance).

The above analysis was made if we consider that the Corporate department is a business unit and must be profitable us such.

4.3. Price positioning in cars' Importer

The steps to make price positioning are:

- Choose the sales segment which includes the top 10 cars competing.
 - After choosing the competitor models is selected the best selling engines, petrol or diesel, for each competing model (using APIA – Automobile Producers and Importers Association in Romania).
 - Trim level for competitors should be fitted as close is possible to your car selected trim level.
1. The first sheet is corrections of equipment (Figure 40). Equipments chosen for corrections are agreed with the producer and represent the main equipments. First tick your car's standard equipments and then the prices for some important optional equipments which are relevant in segment (Metallic paint, Air conditioning, radio CD, etc - where are optional).
Then we take competitor models, tick standard equipment, and where we have less than our car standard features we make the correction introducing the cost for missing equipment (from optional price list of competitor models, and if the price doesn't exist we use the price for that specific equipment from our car price list). If the competitors have standard features in addition to our car, then we introduce in our equipment list with minus the cost for that equipment (in the same conditions described above). In practice these corrections adjust the equipment so that cars have the same equipment.
 2. In the sheet "Price analysis" from Figure 41 we have the price comparisons. Here, in addition to correction of equipment we add correction of engine. Depending on the segment, we agreed with the producer a cost per horsepower. Adjustments are "cost per hp x hp difference between competition and our car". Here we can find the pollution tax (registration tax) for each model, depending on CO₂ emissions.

In the four tables with prices (Figure 42) we have:

Table 1 "PRICE LIST" = price list of each version

Table 2 "PRODUCT PRICE" = price list + price for corrections of equipment + correction of engine (hp) + + pollution tax (registration tax)

Table 3 "PRICE PROMO" = List Price – Discount (incentive)

Table 4 "PRODUCT PRICE PROMO" = "PRODUCT PRICE" – Discount (incentive)

The most important tables are 3 and 4. In Table 3, we see the price which our competitors communicate and in Table 4 we see the actual price of the car with the same features and power as our model. Competitive prices and discounts are updated

according to official sites, coupled with phone or mail checks directly from showrooms competitors (mystery shopping). Checks the prices and discounts are periodically or whenever a campaign is communicated in media (television, radio, or to hear from any other sources).

EQUIPMENT ANALYSIS						AVAILABLE EQUIPMENTS																				TOTAL EQUIPMENT CORRECTION														
No	MODEL	BODY	Power (HP)	FINITION LEVEL	Gearbox	ABS	AIRBAG / DRIVER SIDE	AIRBAG / FRONT PASSENGER	AIRBAG / SIDE	ALARM	ALLOY WHEELS	AUTOMATIC A/C BI-ZONE	AUTOMATIC LIGHTS	AUTOMATIC WINDSHIELD WIPERS	CENTRAL DOOR LOCKING	CRUISE CONTROL	ESP	FOG LAMPS	FOLDABLE REARVIEW MIRRORS	HEATED FRONT SEATS	LEATHER UPHOLSTERY	MANUAL A/C	METALLIC PAINT	NORMAL SIZE SPARE TYRE	PARKING ASSISTANCE FRONT		PARKING ASSISTANCE REAR	POWER ADJUSTABLE & HEATED REARVIEW MIRRORS SEATS	POWER ADJUSTABLE FRONT SEATS	POWER FRONT WINDOWS	POWER REAR WINDOWS	POWER STEERING	RADIO CD	TRIP COMPUTER	TYRE PRESSURE DETECTOR	XENON HEADLAMPS				
1	OPEL CORSA FACELIFT 1.3 CDTI	5 DOOR	75	Enjoy	Manual, 5																		988	282	42			77											1389	
2	FORD FIESTA 1.4 TDCI	5 DOOR	70	Trend	Manual, 5													201						241																342
3	RENAULT NEW CLIO 1.5 dCi	5 DOOR	75	Yahoo	Manual, 5																			225			73	100				252	-100						550	
4	SEAT NEW IBIZA 1.6 TDI	5 DOOR	90	Reference	Manual, 5		-128	-38	-128									183						317		83													365	
5	VW NEW POLO 1.2 TDI	5 DOOR	75	Attractive	Manual, 5		-128	-29	-128								-390	139						275															-333	
6	PEUGEOT 207 1.4 HDI	5 DOOR	70	Active	Manual, 5				-128															234															6	
7	CITROEN NEW C3 1.4 HDI	5 DOOR	70	Seduction	Manual, 5				-128															261		73													-128	
8	TOYOTA NEW YARIS 1.4 L D-4D	5 DOOR	90	Terra	Manual, 5				-182									110						266		73													167	

Figure 40. Corrections of equipment in price positioning

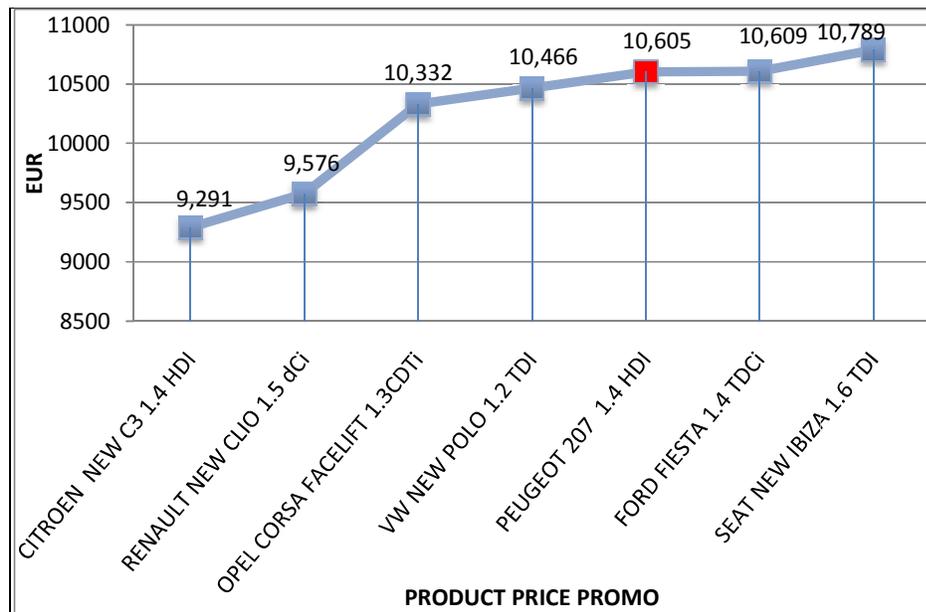
PRICE ANALYSIS (ALL PRICES WITHOUT VAT)				E	F	G	H	I	J	K	L
No	MODEL	SALES VOLUME 8 MONTHS	% engine	PRICE LIST	EQUIPMENT CORRECTION	ENGINE POWER CORRECTION	POLLUTION TAX COST	PRODUCT PRICE (E+F+G+H)	DISCOUNT	PRICE PROMO (E-J)	PRODUCT PRICE PROMO (I-J)
1	FORD FIESTA 1.4 TDCI	280	26%	11,653	342	0	117	12,112	1,503	10,150	10,609
2	VW NEW POLO 1.2 TDI	230	18%	10,892	-333	-125	32	10,466		10,892	10,466
3	OPEL CORSA FACELIFT 1.3 CDTI	207	18%	10,911	1,389	-125	92	12,267	1,935	8,976	10,332
4	PEUGEOT 207 1.4 HDI	164	56%	12,021	6	0	77	12,104	1,499	10,522	10,605
5	RENAULT NEW CLIO 1.5 dCi	142	24%	10,443	550	-125	160	11,028	1,452	8,991	9,576
6	CITROEN NEW C3 1.4 HDI	86	61%	11,923	-128	0	77	11,872	2,581	9,342	9,291
7	SEAT NEW IBIZA 1.6 TDI	40	13%	10,748	365	-500	176	10,789		10,748	10,789
8	TOYOTA NEW YARIS 1.4 L D-4D	23	4%	11,863	-333	-125	75	11,480		11,863	11,480
	PEUGEOT ENGINE POWER (HP)		70								
	CORRECTION/HP (EURO)		25								

Figure 41. Price analysis in price positioning

TAB 1	PRICE LIST	% CHANGE	TAB 2	PRICE PROMO	% CHANGE
RENAULT NEW CLIO 1.5 dCi	10,443	86.87%	OPEL CORSA FACELIFT 1.3CDTi	8,976	85.31%
SEAT NEW IBIZA 1.6 TDI	10,748	89.41%	RENAULT NEW CLIO 1.5 dCi	8,991	85.45%
VW NEW POLO 1.2 TDI	10,892	90.61%	CITROEN NEW C3 1.4 HDI	9,342	88.79%
OPEL CORSA FACELIFT 1.3CDTi	10,911	90.77%	FORD FIESTA 1.4 TDCi	10,150	96.46%
FORD FIESTA 1.4 TDCi	11,653	96.94%	PEUGEOT 207 1.4 HDI	10,522	100.00%
TOYOTA NEW YARIS 1.4 L D-4D	11,863	98.69%	SEAT NEW IBIZA 1.6 TDI	10,748	102.15%
CITROEN NEW C3 1.4 HDI	11,923	99.18%	VW NEW POLO 1.2 TDI	10,892	103.52%
PEUGEOT 207 1.4 HDI	12,021	100.00%	TOYOTA NEW YARIS 1.4 L D-4D	11,863	112.74%

TAB 3	PRODUCT PRICE	% CHANGE	TAB 4	PRODUCT PRICE PROMO	% CHANGE
VW NEW POLO 1.2 TDI	10,466	86.47%	CITROEN NEW C3 1.4 HDI	9,291	87.61%
SEAT NEW IBIZA 1.6 TDI	10,789	89.14%	RENAULT NEW CLIO 1.5 dCi	9,576	90.30%
RENAULT NEW CLIO 1.5 dCi	11,028	91.11%	OPEL CORSA FACELIFT 1.3CDTi	10,332	97.43%
TOYOTA NEW YARIS 1.4 L D-4D	11,480	94.84%	VW NEW POLO 1.2 TDI	10,466	98.69%
CITROEN NEW C3 1.4 HDI	11,872	98.08%	PEUGEOT 207 1.4 HDI	10,605	100.00%
PEUGEOT 207 1.4 HDI	12,104	100.00%	FORD FIESTA 1.4 TDCi	10,609	100.04%
FORD FIESTA 1.4 TDCi	12,112	100.07%	SEAT NEW IBIZA 1.6 TDI	10,789	101.74%
OPEL CORSA FACELIFT 1.3CDTi	12,267	101.35%	TOYOTA NEW YARIS 1.4 L D-4D	11,480	108.25%

Figure 42. Detailed price analysis in price positioning



When we built a negotiation strategy in retail, we are looking in column “PRODUCT PRICE PROMO” or TAB 4 from Figure 40 to compare with competitors our product final price (after discount).

In corporate sales we are looking in column “PRODUCT PRICE” or TAB 3 from Figure 40 if the customer is sensitive to power and equipment corrections; if not, we must look in “LIST PRICE”. Here is the real challenge to decide how big must be the discount that we’ll apply in order to beat the competitors and sign the contract with the customer. If we are selling Peugeot for example, it seems to be very hard to

compete with Renault. Even if our strategy include after sales better conditions (maintenance and spare parts), the difference in price is too high to be covered by a simple discounting process.

Price bundling is used and packages (trim levels) are named „Access“, „Active“ and „Allure“ in order to improve profitability by selling cars with as many possible equipments and offers a standardization for OEM – with important cost reduction in production – and customers. This pricing strategy is based on the fact that if a customer tries to add „Access’s equipments on „Active“, the car will be more expensive that buying directly „Active“ trim level.

4.4. Total Cost of Ownership in car Importer’s corporate sales

When a customer must decide purchasing between two or more brands, he must compare Total Cost of Ownership (TCO) value for each model. For example if a customer must choose between Peugeot 207 1.4 HDI 70 hp and VW Polo 1.2 TDI 75 hp, in B3 segment, we can develop the tab from Figure 43 for TCO:

Model	Purchasing price ¹	Re-selling price ²	Fuel consumption cost ³	Maintenance cost ⁴	Insurance cost ⁵	Interest for 48 months ⁶	Total taxes ⁷	TCO	TCO per km
Peugeot 207 ACTIVE 1.4 HDI 70 hp	12,027.00 €	3,848.64 €	6,350.40 €	7,728.00 €	1,680.00 €	1,040.95 €	287.02 €	25,264.73 €	0.211 €
VW Polo TREND LINE 1.2 TDI 75 hp	10,434.00 €	3,860.58 €	5,745.60 €	7,056.00 €	1,512.00 €	836.67 €	223.87 €	21,947.56 €	0.183 €
Share in TCO		32.37%	25.14%	30.59%	6.65%	4.12%	1.14%		
Share in TCO		29.95%	26.18%	32.15%	6.89%	3.81%	1.02%		

Monthly rate for Peugeot 207	192.07 €
Monthly rate for VW Polo	154.38 €

Model	Registration cost	Pollution tax	Taxation for 48 months	Vignette for 48 months ⁸	Total taxes
Peugeot 207 ACTIVE 1.4 HDI 70 hp	28.05 €	95.48 €	51.49 €	112.00 €	287.02 €
VW Polo TREND LINE 1.2 TDI 75 hp	28.05 €	39.68 €	44.14 €	112.00 €	223.87 €

Reselling price 207	32%
Reselling price Polo	37%

Insurance for 207 per month	35.00 €
Insurance for Polo per month	31.50 €

Maintenance cost for 207 per month	161.00 €
Maintenance cost for Polo per month	147.00 €

Purchasing price 207	12,027.00 €
Purchasing price Polo	10,434.00 €

Fuel consumption 207	4.20
Fuel consumption Polo	3.80

Price per liter	1.26 €
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Figure 43. TCO comparison for Peugeot 207 1.4 HDI 70 hp and VW Polo 1.2 TDI 75 hp, in B3 segment in Romania

*all prices are without VAT.

¹ – from price positioning, PRODUCT PRICE minus POLLUTION TAX, available in Romania on 2011, 14th October;

² – HERTZ Lease Romania estimation after 4 years and 120.000 Kilometres (32% for 207 and 37% for Polo);

³ – calculate for 120.000 kilometres, 3.8 l/100 km for VW Polo 1.2 TDI 75 hp (www.porscheromania.ro), 4.2 l/100 km for 207 1.4 HDI 70 hp (www.peugeot.com.ro) and 1.26 Euro/l, exchange rate 1 RON = 4.35 EURO;

⁴ – HERTZ Lease Romania estimation for 4 years and 120.000 Kilometres, including tires;

⁵ – HERTZ Lease Romania calculation on 2011, 21st November;

⁶ – calculate as: (monthly payment * 48 months) – (purchasing price – reselling price). Monthly payment for 48 months is calculated for 6% interest per year using PMT function from Excel;

⁷ – sum of Registration cost, Pollution tax, Taxation for 48 months and Vignette for 48 months;

⁸ – vignette cost is the same for all passenger cars in Romania: 28 Euro/year.

It is easy to see that Polo is cheaper than 207 with 3 cent per kilometre. Maybe is not a big amount, but if we calculate for 120.000 kilometres, we can find 3.600 euro per car and if the fleet consist in 100 cars, the total difference is 360.000 euro in 48 months!

We can find in Figures 44 and 45 the TCO composition in Romania for 48 months and 120.000 kilometres:

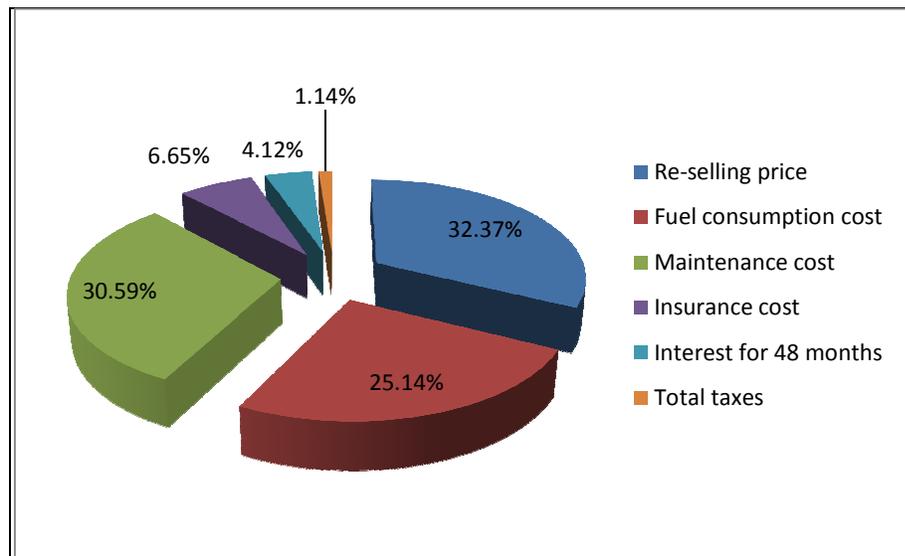


Figure 44 – Peugeot 207 1.4 HDI TCO composition for 48 months and 120.000 kilometres

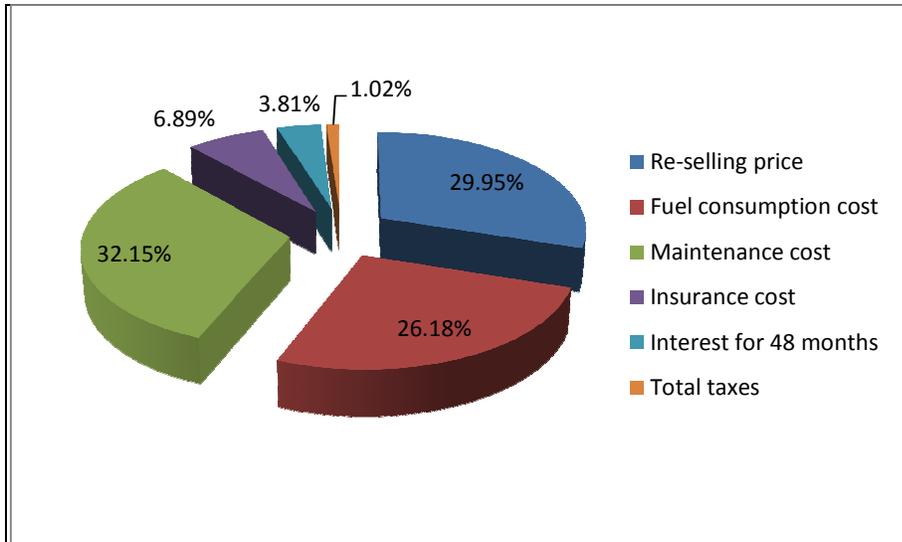


Figure 45 – VW Polo 1.2 TDI TCO composition for 48 months and 120.000 kilometres

If a customer wants to choose between Peugeot 308 1.6 HDI 112 hp and VW Golf 1.6 TDI 105 hp, in M1 segment, we can develop the tab from Figure 46 for TCO:

Model	Purchasing price ¹	Re-selling price ²	Fuel consumption cost ³	Maintenance cost ⁴	Insurance cost ⁵	Interest for 48 months ⁶	Total taxes ⁷	TCO	TCO per km
Peugeot 308 ACCESS 1.6 HDI 112 hp	15,612.00 €	4,527.48 €	6,652.80 €	8,784.00 €	2,073.60 €	1,410.85 €	358.90 €	30,364.67 €	0.253 €
VW Golf VI TREND LINE 1.6 TDI 105 hp	15,024.00 €	5,258.40 €	6,804.00 €	8,112.00 €	2,016.00 €	1,242.98 €	362.90 €	28,303.48 €	0.236 €
	Share in TCO	36.50%	21.91%	28.93%	6.83%	4.65%	1.18%		
	Share in TCO	34.50%	24.04%	28.66%	7.12%	4.39%	1.28%		

Monthly rate for Peugeot 308	260.32 €
Monthly rate for VW Golf VI	229.35 €

Model	Registration cost	Pollution tax	Taxation for 48 months	Vignette for 48 months ⁸	Total taxes
Peugeot 308 ACCESS 1.6 HDI 112 hp	28.05 €	160.00 €	58.85 €	112.00 €	358.90 €
VW Golf VI TREND LINE 1.6 TDI 105 hp	28.05 €	164.00 €	58.85 €	112.00 €	362.90 €

Reselling price 308	29%
Reselling price Golf VI	35%

Insurance for 308 per month	43.20 €
Insurance for Golf VI per month	42.00 €

Maintenance cost for 308 per month	183.00 €
Maintenance cost for Golf VI per month	169.00 €

Purchasing price 308	15,612.00 €
Purchasing price Golf VI	15,024.00 €

Fuel consumption 308	4.40
Fuel consumption Golf VI	4.50

Price per liter	1.26 €
-----------------	--------

Figure 46. TCO comparison for Peugeot 308 1.6 HDI 112 hp and VW Golf 1.6 TDI 105 hp, in M1 segment in Romania

*all prices are without VAT.

¹ – from price positioning, available in Romania on 2011, 14th October;

² – HERTZ Lease Romania estimation after 4 years and 120.000 Kilometres (29% for 308 and 35% for Golf VI);

³ – calculate for 120.000 kilometres, 4.5 l/100 km for VW Golf VI 1.6 TDI 105 hp (www.porscheromania.ro), 4.4 l/100 km for 308 1.6 HDI 112 hp (www.peugeot.com.ro) and 1.26 Euro/l, exchange rate 1 RON = 4.35 EURO;

⁴ – HERTZ Lease Romania estimation for 4 years and 120.000 Kilometres, including tires;

⁵ – HERTZ Lease Romania calculation on 2011, 21st November;

⁶ – calculate as: (monthly payment * 48 months) – (purchasing price – reselling price). Monthly payment for 48 months is calculated for 6% interest per year using PMT function from Excel;

⁷ – sum of Registration cost, Pollution tax, Taxation for 48 months and Vignette for 48 months;

⁸ – vignette cost is the same for all passenger cars in Romania: 28 Euro/year.

In this case Golf VI is cheaper than 308 with 1.7 cent per kilometre, for 120.000 kilometres, we can calculate 2.040 euro per car and if the fleet consist in 100 cars, the total difference is 204.000 euro in 48 months!

We can find in Figures 47 and 48 the TCO composition in Romania for 48 months and 120.000 kilometres:

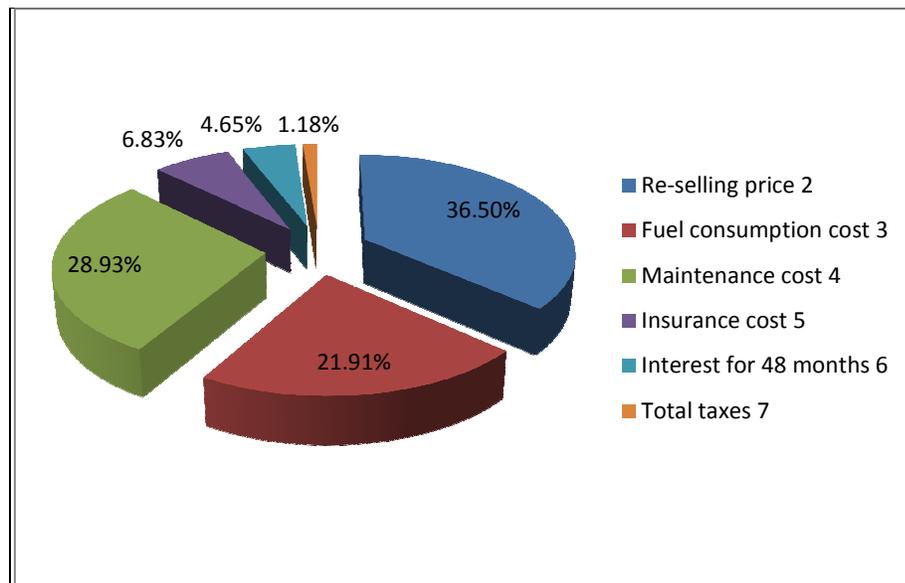


Figure 47 – Peugeot 308 1.6 HDI 112 hp TCO composition for 48 months and 120.000 kilometres

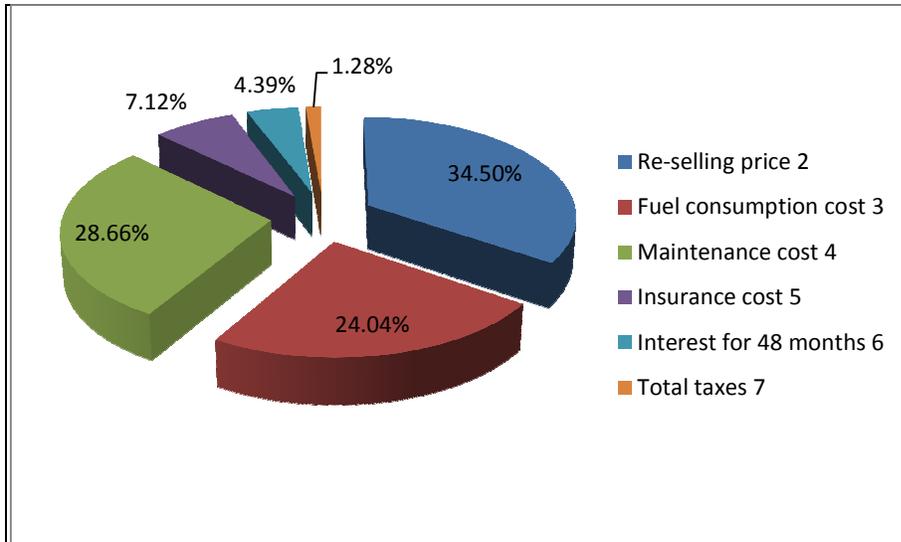


Figure 48 – VW Golf VI 1.6 TDI 105 hp TCO composition for 48 months and 120.000 kilometres

From these comparisons we can see that the percentages of each TCO component for 48 months and 120.000 kilometres are almost the same for 207 and Polo, respective 308 and Golf VI. Nevertheless, the major impact in TCO is made by its key components:

- Re-selling price (or difference between purchasing price and re-selling price, which is depreciation);
- Maintenance cost;
- Fuel consumption cost.

European TCO Composition by JATO²³ is presented in Figure 49.

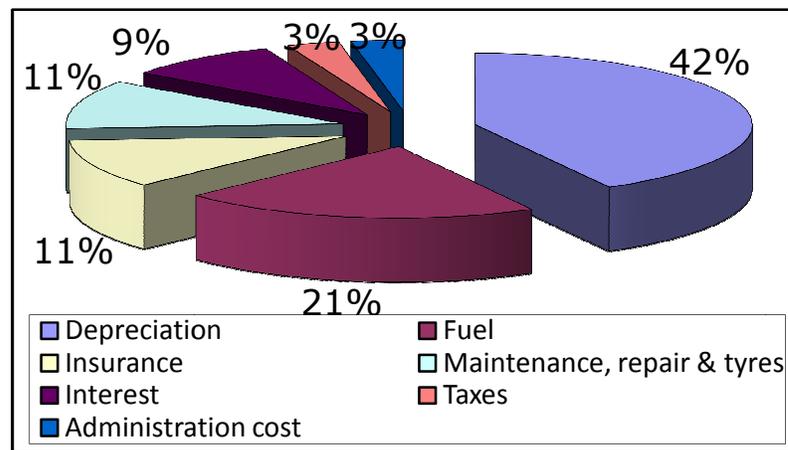


Figure 49. European TCO Composition by JATO

²³JATO - Typical Breakdown of TCO in European Fleet
<http://www.visiewerk.nl/downloads/presentaties/1%20Oliver%20TCO%20-%20Netherlands%20TCO%20Event-%20DRAFT%205.ppt>.

We can see from above graph that:

- Depreciation (difference between purchasing price and re-selling price) represent 42% from TCO;
- Fuel represent 21% from TCO;
- Maintenance represent 11% from TCO;
- Insurance represent 11% from TCO;
- Interest represent 9% from TCO;
- Administration and taxes represent, each, 3% from TCO.

Compared with researched data from JATO, we can conclude that:

- The maintenance cost in Romania have a bigger impact in TCO than in European market;
- Insurance and interest in Romania have a smaller impact in TCO than in European market.

4.5. Additional services used in car Importer’s Corporate sales department

4.5.1. Leasing

Typically there are three leasing forms and the differences are presented in the table from Figure 50:

Type of leasing	Content of the monthly payment	Depreciation/ Amortization	Number of kilometres	Maintenance costs	Ownership after leasing period
Financial leasing	Capital + Interest	Customer duty	No restriction	Customer duty	Customer after payment of residual value
Operational leasing	Capital + Interest + insurances + taxes	Lesor duty	Restricted	Customer duty but strictly enforced by lesor where the maintenance must be made	Lesor
Long term rental (LTR)	Capital + Interest + Insurances + taxes + Full maintenance + Tyres + Management fee	Lesor duty	Restricted	Lesor duty	Lesor

Figure 50. Leasing types

Long term rental business (LTR) is one of the best approaches because the customer can use the car for a monthly payment which includes all costs for a specific period and kilometres, even fuel management. For a LTR customer there are advantages:

- Transform variable costs (maintenance costs) in fixed costs with advantages in medium and long term forecast and cash flow;
- Tax deductions for monthly payment rates versus financial leasing.

- For example, monthly payment for ARVAL SERVICE LEASE or ALD AUTOMOTIVE in Romania consists in:
- Financial rate (capital + interest)
- Registration costs;
- Vignette costs;
- Pollution tax costs;
- Insurance costs;
- Maintenance costs;
- Tyres costs;
- Road assistance costs;
- Replacement car costs;
- Management fee;
- Fuel management costs;
- Termination costs.

In practice, the capital from financial rate is the difference between purchasing price (price for a new car) and residual value (estimated re-selling price after the rented period), divided to number of rented months. The small is the difference between purchasing price and residual value, the small is the monthly rate for a specific car. To reach a small difference is obvious that a car Importer or OEM must work on:

- Selling price (discounts);
- and/or:
- Residual value (to be as high as possible). For that, the re-selling price after a certain period must be as high as possible. OEMs work hard on this part of business and the power of a brand is one of the most important aspects to maintain a high re-selling price in the market.

In this case, the monthly payment (for a certain period and kilometres) multiplied with number of rented months plus total consumption gives us the Total Cost of Ownership (TCO). This parameter is very important for a customer because show him a value of life cost of the vehicles in his own fleet and is a decision maker for the customer's brand or model choice.

For a LTR company the real challenges are:

- To calculate the best possible maintenance costs;
- To estimate residual value at least equal with re-selling value. If the values are equal, the LTR's profit is made by interest and management fee. If the estimated residual value is less than re-selling value, the LTR's profit increases with the difference. If the estimated residual value is bigger than re-selling value, the LTR's profit decreases.

In Corporate sales business each above part adds value to customer and to Importer. Maybe in a strong negotiation the new car margin decrease, but the total profit can be a positive one as a result of:

- Interest from leasing business;
- Spare parts margin from maintenance programs;
- Second hand cars that Importer takes from the customer from buyback programs.

From these reasons, OEMs start developing their own financial programs in order to offer to corporate customers “all inclusive” packages.

For a customer, corporate clients (companies) there are five possibilities to purchase a car:

1. *Cash* – to pay entire amount once and becomes the owner of the car. In this case the car becomes an asset and amortization is the owner duty. All the costs – registration, maintenance, tyres, insurances, taxes, etc – are the owner duties. After a certain period, the car can be sold and replaced with a new one. This type of purchasing is used when the customer has cash, decides that to borrow money is too expensive and wants to increase the value of its own assets.

2. *Credit* – is the same situation with “cash” but the customer borrows money from a bank or uses a credit line and pays a monthly rate. The monthly rate is composed by: capital and interest. This type of purchasing is used when the customer does not have enough money to buy cash and wants to increase the value of its own assets.

3. *Financial leasing* – the customer buys a car from a leasing company which buys the car from an Importer or Dealer. Amortization is the customer duty. The owner is the leasing company and the customer pays a monthly rate on a certain period, bigger than one year. The monthly rate is composed by: capital and interest. The leasing company chooses the insurance company and follows that all insurance taxes to be paid. All the costs – registration, maintenance, tyres, insurances, taxes, etc – are the owner duties. After the leasing period, the customer must buy the car at the residual value. This type of leasing is used when the customer wants to increase the value of its own assets.

4. *Operational leasing* (rent without maintenance) - the customer buys a car from a leasing company which buys the car from an Importer or Dealer. Amortization is the leasing company duty. The owner is the leasing company and the customer pays a monthly rate on a certain period, bigger than one year. The monthly rate is composed by: capital, interest, registration, taxes, insurances and in some cases some special services like replacement car or tyres for example. The maintenance is the customer duty and at the end of the leasing period the customer must hand back the car to the leasing company. From this reason, because the leasing company sets a residual value, this strictly enforces to the customer where the maintenance must be made (generally in the OEM’s Dealers Network) because the leasing company will sell the car as a second hand car and wants to sell it at least on the residual value from the contract. The leasing company sets a specific number of kilometres for the leasing period. This type of leasing is used when the customer wants to deduce entire monthly rate as a cost (fiscal benefit) and to transfer all the residual value risk to the leasing company.

5. *Long term rental (LTR)* – is the same with “operational leasing” but the monthly rate is composed by: capital, interest, registration, taxes, insurances, maintenance costs, tyre costs, road assistance costs, replacement car, management fee and fuel management costs. Amortization is the leasing company duty. The owner is the leasing company and the customer pays a monthly rate on a certain period, bigger than one year. At the end of the leasing period the customer must hand back the car

to the leasing company. Practically the customer pays a monthly rate and takes care just to fuel the car. The leasing company set a specific number of kilometres for the leasing period. This type of leasing is used when the customer want to deduce entire monthly rate as a cost (fiscal benefit) and to transfer all the residual value and maintenance risks (outsourcing the fleet management) to the leasing company. Another benefit for customer is that transforms the variable costs in fixed costs, which helps to forecast investments and cash flow.

In cases 4 and 5, the operational leasing or LTR company set a residual value and this is estimation for the selling price after the leasing period. We must make a huge difference between residual value from the contract and re-selling price after the rental period. When an operational leasing or LTR company made an offer, the real challenge is to estimate re-selling price after the leasing period (one to five year) because this is one of the most important factors in company's operational profit. An operational leasing or LTR company made profit by:

- Interest;
- Management fee – if any;
- Difference between re-selling car and residual value (estimated in the beginning of the leasing period) from the contract.

If the re-selling price is less than contractual residual value, the company lose money.

If the re-selling price is equal with contractual residual value, the company do not make profit.

If the re-selling price is bigger than contractual residual value, the company earn money.

Here appears the paradox.

In a leasing calculation, the capital (or the principal) from the monthly rate is the result of:

$$(\text{purchasing price} - \text{residual value}) / \text{number of rented months}$$

For the same purchasing price and period, the higher is the residual value, the lowest is the monthly rate and the highest is the number of customer which wants to lease from the company. It is excellent till now. But... The higher is the residual value in the contract, the higher is the risk to be higher than re-selling price.

The lowest is the residual value in the contract, the higher is the monthly rate and the customers do not pay for your services.

The real challenge is to balance the residual value and re-selling price. And here, the car's brand plays a very important role. The re-selling price for a VW is bigger compare, for example, with a Fiat (cars from the same segment, with the same equipments, engines capacity and fuel).

Risk Management Role of Independent Leasing Companies:

“Today's independent leasing companies are managing risks for fleet customers, dealers, and OEMs. The risks include these:

- Credit risk: Covering the financing/credit risk is the historic core business of the independents. OEMs and dealers are guaranteed to receive the car-financing value from the independents in case of insolvency of the fleet customer;
- Residual value risk: Given their fleet size, large brand portfolio, and extensive automobile industry network, large independents are best qualified to efficiently remarket off-lease returns across multiple brands. Other players often lack these capabilities and therefore face considerable residual value risks. Dealers, in particular, are experiencing both high provisions from losses and losses from leasing returns in the current environment. As active risk managers, independents can further strengthen their role as risk taker by adopting the residual value risk for outstanding cars and leveraging their remarketing capabilities and network;
- Technical risk: At the time of purchase, a car's future service and maintenance costs cannot accurately be known by the customer. By offering operational full-service leasing contracts, independents take over the technical cost risks during the vehicle life cycle and give the customer a transparent up-front view of the total cost of ownership.”²⁴

Total Cost of Ownership (TCO) is a financially calculated number that estimates the total direct and indirect costs of owning an asset and helps customers to make more informed financial decisions. Nevertheless, TCO can be a powerful tool for sellers in a negotiation. For a car corporate customer, the TCO can be calculating depending on the purchasing solution:

A) Cash:

$$\text{TCO} = (\text{Purchasing price} - \text{re-selling price}) + \text{registration} + \text{taxes} + \text{insurances} + \text{maintenance} + \text{tyres} + \text{fuel}$$

Depending on the re-selling time and amortization rules, if re-selling price is bigger than amortization, the car owner (customer) can made profit.

B) Credit:

$$\text{TCO} = (\text{monthly rate} * \text{number of credit's months} - \text{re-selling price}) + \text{registration} + \text{taxes} + \text{insurances} + \text{maintenance} + \text{tyres} + \text{fuel}$$

Depending on the re-selling time and amortization rules, if re-selling price is bigger than amortization, the car owner (customer) can made profit.

C) Financial leasing:

$$\text{TCO} = (\text{monthly rate} * \text{number of credit's months} + \text{residual value} - \text{re-selling price}) + \text{registration} + \text{taxes} + \text{insurances} + \text{maintenance} + \text{tyres} + \text{fuel}$$

²⁴Jörg Krings, Joachim Deinlein, Jan Bakker, Rich Parkin - Automotive Sales To Corporations From Growth Engine To Risk Trap, booz&co
http://www.booz.com/media/uploads/Automotive_Sales_to_Corporations.pdf

Depending on the re-selling time and amortization rules, if re-selling price is bigger than amortization, the car owner (customer) can made profit.

D) Operational leasing (rent without maintenance):

$$\text{TCO} = (\text{monthly rate} * \text{number of leased months}) + \text{maintenance} + \text{tyres} + \text{fuel}$$

Depending on the re-selling time and amortization rules, if re-selling price is bigger than contractual residual value, the car owner (leasing company) can made profit. In this kind of leasing, generally the amortization period is the same with leased period.

E) Long term rental (LTR):

$$\text{TCO} = (\text{monthly rate} * \text{number of rented months}) + \text{fuel}$$

Depending on the re-selling time and amortization rules, if re-selling price is bigger than contractual residual value, the car owner (leasing company) can made profit. In this kind of leasing, generally the amortization period is the same with rented period.

The difference (Purchasing price – re-selling price) is called Depreciation and is the same in leasing case because the capital from monthly rate is a direct result of this difference.

TCO can be expressed as:

- Total cost per entire using period;
- Total cost per kilometre (TCO / number of kilometres);
- Total cost per month (TCO / number of months).

The key benefit of operational leasing in Corporate sales is to offer to customers „one-stop-shop“– a complete product for the customer. Here is included the car customization to respond to customers specific needs.

4.5.2. National maintenance contract

Maintenance contract is used in Corporate sales as a benefit for customers at national level and is available in Importer's Dealers network.

The main benefits for Corporate customers are:

- Special conditions in Dealers network – discounts on spare parts and labour, replacement cars;
- Dedicated key account for maintenance;
- Centralized invoice – one single invoice in the end of one month for maintenance in Dealers network – one supplier for customer;
- Payment term for centralized invoice;
- Road assistance.

The benefit for Importer is that the customer becomes captive in Dealers network with positive impact in profitability from generated after sales business.

4.5.3. Tailor made vehicles

Tailoring or customization refers to products which are made especially to respond to particular needs for customers. There are two directions in tailor made vehicles:

- First involves a financial program, even if we are talking about financial leasing or long term rental, and tailoring means to respond to customer needs for standard cars in order to offer a full mobility program for a specific period and kilometres;
- Second involves special cars where the body builders are involved in order to respond to different requests from customers based on their business line activities like ambulances, construction field, refrigeration, etc. Of course, this part can be linked to first because a mobility program could be offered too.

Key partnerships with leasing companies and body builders at national level are a must. Dealers network must be capable to offer a complex and unitary full mobility product.

Chapter 5. Profit optimization in car Importer's corporate sales business

5.1. Forecast information

Each company use a specific method or tool in order to optimize forecast value and to be close to reality. It is very important to split the forecasted value in order to find the part *which can be used in the critical period of the year: beginning*.

With the confidence interval for next year volume (85%-95%) we can split this result in:

- Portfolio clients;
- New business.

Portfolio customer can be split in:

- Customers which made the orders for the next year – in this case we know already what profit we can made from this volume;
- Customers which must change the fleet next year but didn't send the order. In this case we don't know the obtained profit because the customer can start a new negotiation process or can choose another brand. *Customer relationship management (CRM)* is a powerful tool which can give us important information like fleet change cycles.

One of the most important information that we can use to increase volumes is the collected margin from actual portfolio which orders the cars for the next year. *This profit or a part from it can be used in the beginning of the year to win new customers.*

5.2. Delivery process optimization as a cost optimization

Tool: Value stream mapping as a simple and very effective method to gain a holistic overview of the status of the value streams in an organization from the supplier (OEM) to the customer.

Goals:

- Reduction of lead time;
- Reduction of stock;
- Improvement of deliveries in time;
- Recover the money from customer in the shortest time from his order.

The Fleet Logistic Assistant:

1. Order the car to the factory;
2. Do NOT order the car from OEM's yard to custom, the carrier is obliged to load it in 7 working days *but ask for car's documents and invoice the*

car to the customer. Assure that the car is paid and registered in the period when the car is on the road (14 days between OEM and custom plus 7 days between custom and Dealer's yard = total 21 days).

3. Order the car from custom to Dealer's yard to the carrier – implement control methods to order the car from custom to Dealer's yard in the same day when the car arrive in custom, result zero days spend in custom.
4. When the car is in Dealer's yard, prepare the delivery time - the car is already paid and registered – can be delivered quickly.
5. Use the pull principle, not push. Ask for documents and prepare all the delivery procedures to the customer when the car is on the road to Dealer's network (Figure 51).

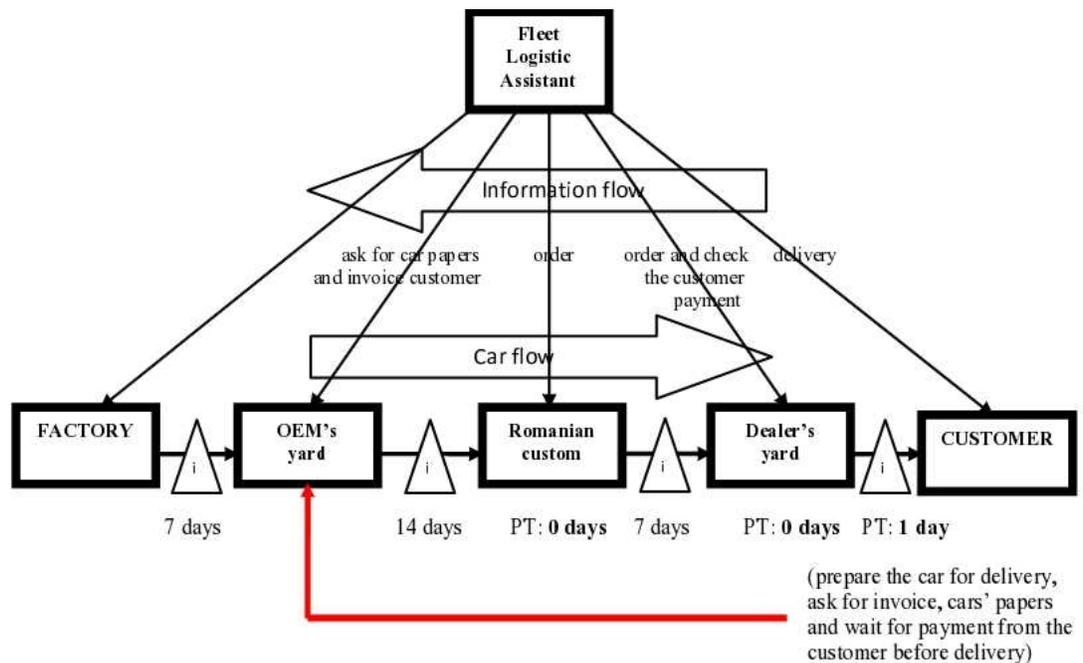


Figure 51. Optimized flow for a car from OEM's yard to the customer

Legend: PT – Process time

 - Inventory (stock)

TOTAL TIME spend for a car from Factory to Customer – throughput time (lead time) – 29 days.

Note: if the customer has an agreement for payment ("x" days from invoicing or delivery, the invoice can be made in the same day with delivery or earlier if the customer want to register the car before delivery).

Results improve *efficiency in delivery* with 13 days with impact in:

- Profitability – more efficient in recover the invested money;
- Image in front of the customer by improving delivery time.

5.3. Associated key performance indicators for cost optimization

KPIs for Logistic Assistant (qualitative & quantitative) and KPIs for Key Account (qualitative & quantitative) – transform Corporate Sales Department in a Business Centre for cost optimization.

Steps:

1. Identify waste and improvement for Logistic Assistant:
 - a. Accuracy in searching available cars in stock – quantitative & qualitative KPIs;
 - b. If the cars are in stock:
 - i. Improve time to obtain car's papers – quantitative KPI;
 - ii. Improve time to order the car (s) to carrier – quantitative KPI;
 - iii. Improve time for sending car's papers to the customer – quantitative KPI;
 - iv. Improve arriving cars' time in dealer's yard; follow up the contractual delivery time with carrier – quantitative KPI;
 - v. Set and respect delivery standards under the brand – qualitative KPI;
 - vi. Quality and professional communications with the customers and departments – qualitative KPI;
 - vii. Improvement proposals over entire process as a continuous improvement process – qualitative KPI.
 - c. If the cars are not in stock, should be considered in addition:
 - i. Improve delivery time with Import department – qualitative KPI;
 - ii. Set the accuracy in ordering car (respect customer order in terms of engine, gearbox, trim level, optional equipment) – qualitative KPI;
 - iii. Improve arrival date in customs and follow up the car (s) in order to do not spend time in customs (before sending load order to carrier) – quantitative KPI.
2. Identify waste and improvement for Key Account:
 - i. Quality and professional communications with the customers and departments – qualitative KPI;
 - ii. Maintain actual customers portfolio in time – quantitative KPI;
 - iii. Improve number of new customers – quantitative KPI;
 - iv. Improve settled target – quantitative KPI;
 - v. Improve sales margin – quantitative KPI;
 - vi. Improve customers' payment terms – quantitative KPI;
 - vii. Improve stock reservation time – quantitative KPI;

- viii. Improve percent of ratio selling cars from stock/selling ordered cars – quantitative KPI;
- ix. Improve time which car (s) is waiting for delivery to customer in dealer’s yard – quantitative KPI;
- x. Improve quality of delivery to the customer – qualitative KPI;
- xi. After sales implication – qualitative KPI;
- xii. Implication in common activities with customers (e.g. common marketing activities which improve brand image) – qualitative KPI;

For Logistic Assistant we can define the KPIs from Figure 52 which contains evaluation indicators:

no.	KPIs	Measurement unit	Below expectations	Standard	Above expectations	Responsible for control & evaluation
1	Accuracy in searching available cars in stock	Number of unidentified cars in stock/Number of ordered cars (%)	90%	100%	Proposal for nearest level of equipment or colour	Key Account
2	Time to obtain car’s papers	Days	3	2	1	Key Account
3	Time to order the car (s) to carrier after arrival at customs	Days	2	1	0	Key Account
4	Time for sending car’s papers to the customer	Days	2	1	0 (anticipate arrival date in custom and ask for papers)	Key Account
5	Arriving cars’ time in dealer’s yard	Days	11	10	5 (follow up the carrier)	Key Account
6	Delivery under the brand standards	Client satisfaction report	no	yes	Deal proactive with car problem solving and optional mounting equipment (e.g. assure that there is in dealer’s stock alarm system or carpets before car will arrive in dealer’s yard)	Key Account
7	Communications with the customers and departments	Client satisfaction report and Internal report	unprofessional	professional	Proactive (anticipation and report)	Key Account
8	Delivery time with Import department	Days	120	90	60	Key Account
9	Accuracy in ordering car	Number of inaccuracies from customer order/customer	1	0	Proposal for another trim level	Key Account
10	Time spent in customs for a car (before sending load order to carrier)	Days	1	0	Anticipate arriving date in customs, report to Key Account and prepare the load order	Key Account
11	Improvement proposals	Number of suggestions for improvement over process	0	1	2	Key Account

Figure 52. Corporate sales Logistic Assistant KPIs

The performance which can be reached by using these KPIs concern in following:

- Cost cutting by continuous improvement in internal processes, stock rotation and reducing delivery time to customers;
- Improve quality in relationship with customers in order to maintain a long partnership (communication, problem solving, response time, identifying opportunities in business);
- Improve margin per car, not only the number of cars sold – adding value to the company.

5.4. A new approach for volume strategy in the beginning of the year

As we saw in paragraph 2.3., the easy way to sell in the beginning of the year is to sell with a big margin in order to use accumulated margin in the second part of the year, but there is a major risk: to lose some deals in the beginning of the year, result from here to do not have enough profit to use in the second phase of the year and to lose new customers in the end of the year too. Another situation in corporate business can be the low “appetite” for purchasing in the second part of the year and to be in situation to have the desired profit but not the desired volumes.

To sell with zero or negative margin in the beginning of the year is a real suicide? A lot of managers consider that for a new business is impossible to sell with zero or a negative margin because they do not have any information about the level of business for the rest of the year or they are using a forecast for entire year (based on the last year’s sales) and, as we already know, this kind of forecasts are not so precisely in most of the cases. But they do not forget something that has already in their hands, like portfolio forecast, after sales business or retail forecast?

In this specific period of the year we must not consider Corporate sales department as a single business unit but as *a direct connexion with the other departments*, in order to use in our negotiation three more information that can be used in setting margin in a strong negotiation:

- Future margin from actual portfolio forecast;
- Profit from retail business which was made till the moment of negotiation with a new corporate customer;
- Profit from after sales generated business (spare parts sales).

Depending on above figures the negotiation with the new customer can support zero or even a negative margin per car and the “loss” is a controlled one from the future business that result from this particular deal.

5.5. A new approach based on integration of corporate sales department in whole business

As we saw, in corporate car business the margin and the volume are very important tasks. The most important task is to keep the right balance between margin and volumes in order to cover the costs. Nevertheless, without the right volumes the Dealers network cannot survive on medium and long term.

What is very important is the Importer's Top management view on the Corporate sales department. There are two ways to consider a Corporate sales department in the whole Importer's business:

- a) To consider Corporate sales department as an independent business unit;
- b) To consider Corporate sales department in direct connexion and dependence with the other departments.

In both cases the Importer's business plan for the next year takes into account:

- The volume forecast (using the last year's sale with corrections on trend for the market, crises, etc);
- The margin forecast (starting from volume forecast and find breakeven point the desired margin can be calculated in order to achieve the desired profit in the yearend).

a) Corporate sales department as an independent business unit

In this case, Top management ask for profit in the yearend considering this department as a single unit in organization who generate a specific profit *for one single year*. If the volumes from actual portfolio of clients are not enough to reach the desired profit in the yearend or to improve it, the volumes from the new business become a must. Because the profit is related strictly to the Corporate sales department and the new business is unpredictable, the future negotiations are inflexible, because there is a minimum settled margin and there is not a chance to use margin from actual portfolio or another correlated generated businesses in order to win new customers.

b) Corporate sales department in whole business

In this case, Top management ask for profit in the yearend considering this department as a unit that generate business for entire organization, not as a single part and on middle and long terms. The profit that can be made is split in:

- Profit from actual customer portfolio;
- Profit from after sales generated business;
- Profit from new business.

When the Corporate sales department is considered as above, the margin becomes more flexible and in a tough negotiation, when the competition can win, one solution could be to decrease the margin and reallocate in this particular deal a part of obtained profit from:

- Actual portfolio business;

- After sales generated business;
- Retail business.

Conclusion:

Using one strategy is not enough to perform. Of course is easier to act in the second phase of the year, but is not enough and sometimes could be too late; in general companies approve purchasing budgets in the end of the year, that is they will try to deal for cars in the beginning of the next year and secure the contract for entire year. There is a major risk in this case if your strategy is to wait for the second part of the year to decrease your margin based on the first period sales. A mix between these strategies could lead to a successful business from both perspectives: margin and volume. In both cases, it is better to take a look to after sales resulting business and do not constrain the Corporate sales department as a small part in the company or a single unit business.

The existing strategy for the beginning of the year must take into account volume and margin forecast from actual corporate portfolio – result from here the profit which can be used in a negotiation with a new customer in the beginning of the year. More than that, a profit which results from retail business made till that moment of the year and the profit from after sales business resulting from the deal with the new customer can be used to set the right margin in order to close the deal.

The strategy to win new customers in the second phase of the year must take into account volume and margin made till that moment – result from here the profit which was made already and can be used in a negotiation with a new customers in the second phase of the year. Of course, a profit which results from retail business made in the beginning of the year and the profit from after sales business resulting from the deal with the new customer can be used to set the right margin in order to win a new customer in portfolio.

5.6. TCO improvement

Let’s take as an example the comparison between 308 and Golf VI, Figure 53.

Model	Purchasing price ¹	Re-selling price ²	Fuel consumption cost ³	Maintenance cost ⁴	Insurance cost ⁵	Interest for 48 months ⁶	Total taxes ⁷	TCO	TCO per km
Peugeot 308 ACCESS 1.6 HDI 112 hp	15,612.00 €	4,527.48 €	6,652.80 €	8,784.00 €	2,073.60 €	1,410.85 €	358.90 €	30,364.67 €	0.253 €
VW Golf VI TREND LINE 1.6 TDI 105 hp	15,024.00 €	5,258.40 €	6,804.00 €	8,112.00 €	2,016.00 €	1,242.98 €	362.90 €	28,303.48 €	0.236 €
Share in TCO		36.50%	21.91%	28.93%	6.83%	4.65%	1.18%		
Share in TCO		34.50%	24.04%	28.66%	7.12%	4.39%	1.28%		

Figure 53. TCO comparison for Peugeot 308 1.6 HDI 112 hp and VW Golf 1.6 TDI 105 hp, in M1 segment in Romania

The most important components, with significant share in TCO in Romania are:

- Re-selling price (residual value);
- Fuel consumption;
- Maintenance cost.

On these components we must act in order to improve TCO.

TCO reduction (Figure 54)

- By discounting purchasing price with 10% or offering extra equipments as a discount which improve comfort and safety (e.g. Bluetooth device, Rear parking sensors, Navigation system, Curtains airbags – not in standard for ACCESS trim level on 308) – with impact in insurance cost;

and

- By discounting maintenance cost with 10% or extended warranty programs as a discount (from 2 to 4 or 5 years) – with impact in maintenance cost;

Model	Purchasing price ¹	Re-selling price ²	Fuel consumption cost ³	Maintenance cost ⁴	Insurance cost ⁵	Interest for 48 months ⁶	Total taxes ⁷	TCO	TCO per km
Peugeot 308 ACCESS 1.6 HDI 112 hp	14,050.80 €	4,527.48 €* ²	6,652.80 €	7,905.60 €	2,073.60 €	1,212.14 €	358.90 €	27,726.36 €	0.231 €
VW Golf VI TREND LINE 1.6 TDI 105 hp	15,024.00 €	5,258.40 €	6,804.00 €	8,112.00 €	2,016.00 €	1,242.98 €	362.90 €	28,303.48 €	0.236 €

Figure 54. TCO reduction for Peugeot 308 1.6 HDI 112 hp by discounting purchasing price and maintenance cost

* Re-selling value is the same because the percentage of re-selling price is generally applied to list price.

Discounting purchasing price and maintenance cost by 10% lead to a small TCO for 308, the advantage for 308 becoming 0.005 Euro/km. For 120.000 kilometres means 600 Euro per car in 48 months and for 100 cars fleet, the total difference is 60.000 Euro, cost reduction for customer.

TCO optimization (figure 55)

- *Price cycle* management by buy-back programs – residual value optimization.

Using a buy-back programs with customers we can manage the *Price cycle* (paragraph 2.2.1) through Importer's Dealers network and the TCO can be optimize because the dealer takes over the risk of re-selling price (residual value).

For example, by discounting purchasing price and maintenance cost by 5% and improving re-selling price (residual value) from 29% to 35%, the TCO looks like in Figure 55.

Model	Purchasing price ¹	Re-selling price ²	Fuel consumption cost ³	Maintenance cost ⁴	Insurance cost ⁵	Interest for 48 months ⁶	Total taxes ⁷	TCO	TCO per km
Peugeot 308 ACCESS 1.6 HDI 112 hp	14,831.40 €	5,464.20 €	6,652.80 €	8,344.80 €	2,073.60 €	1,192.27 €	358.90 €	27,989.57 €	0.233 €
VW Golf VI TREND LINE 1.6 TDI 105 hp	15,024.00 €	5,258.40 €	6,804.00 €	8,112.00 €	2,016.00 €	1,242.98 €	362.90 €	28,303.48 €	0.236 €

Figure 55. TCO reduction for Peugeot 308 1.6 HDI 112 hp by discounting purchasing price, maintenance cost and improving residual value

Discounting purchasing price and maintenance cost by 5% and offering a buy-back program (from 29% to 35%) lead to a small TCO for 308, the advantage for 308 becoming 0.003 Euro/km. For 120.000 kilometres means 360 Euro per car in 48 months and for 100 cars fleet, the total difference is 36.000 Euro, cost reduction for customer and zero risk for re-selling price.

The immediate benefit for the seller is to reduce discount (improve profit) and the future benefit could be a margin which can be made from second car business (selling the cars after 48 months with profit) and a captive customer in Importer's dealers network, a customer which will replace the fleet with new cars in cycles of 48 months.

- By developing a *Key partnership* with a Long term rental company for operational leasing.

Using a partnership with a Long term rental company the Importer can develop a new sales channel and can benefit for a specialist in this specific business with strong tools in TCO optimization. Therefore, the management of *Price cycle* can be made together in a transparent way which can involve buy-back quotes too.

- By choosing the right model with the right equipment for the customer – Business line – to *reduce purchasing price and non-necessary equipments*;
- By choosing the right engine in order to reduce CO₂ level and consumption with *impact in taxation* and fuel cost (replace 308 1.6 HDI 112 with 115 g CO₂ with 308 1.6 HDI 92 hp with 98 g CO₂)

5.7. Tailor made products

Tailoring or customization can be made taking into consideration passenger cars and commercial cars. For each of them customization can be made differently.

Passenger cars and commercial cars

In this case a business line as a *Key activity* for each car from a segment must be developed in order to treat corporate customers in a different way than in retail and to:

- Propose to corporate customers the lowest TCO for a specific car segment or model:
 - Diesel engines because of consumption and bigger residual value than gasoline engine (for more than 20.000 kilometres per year);
 - Smallest engine capacity in order to reduce taxes and consumption;
 - Best in class CO₂ emissions to reduce taxes and for green fleet solutions;
 - Optimal tyre sizes.
- Have the optimal trim level taking into account comfort and safety for a specific car segment for standardization;
- Customize the optional equipments to facilitate employees' communication and efficiency like: alarm system, rear/front parking sensors, carpets, Bluetooth system and navigation system.

Commercial cars

Commercial cars must be treated different because of the big variance of models and body customization to match corporate customers' needs. First of all an identification of key business activities must be made in order to develop with body builders a *Key partnership* for:

- Passenger transport (more than 6 persons);
- Ambulances;
- Refrigerated and ice transport;
- Tippers;
- Bakery transport;
- General merchandise transport;
- Buildings and roads;
- Values transport, etc.

The next step consist in developing special maintenance programs for each car at national level dedicated to small, medium and large fleets as a *Key activity*.

After customization for passenger and commercial cars must be developed common partnerships (*Key partnership*) with operational leasing companies in order to have the possibility to communicate to customers an all inclusive monthly rate and to move discussion from price/discount to TCO (maintenance/consumption) and for a mobility program (*Key activity*) as a key driver to profit optimization.

5.8. Future development and green fleets

Future developed Business model for car sales to corporate customers is presented in Figure 56.

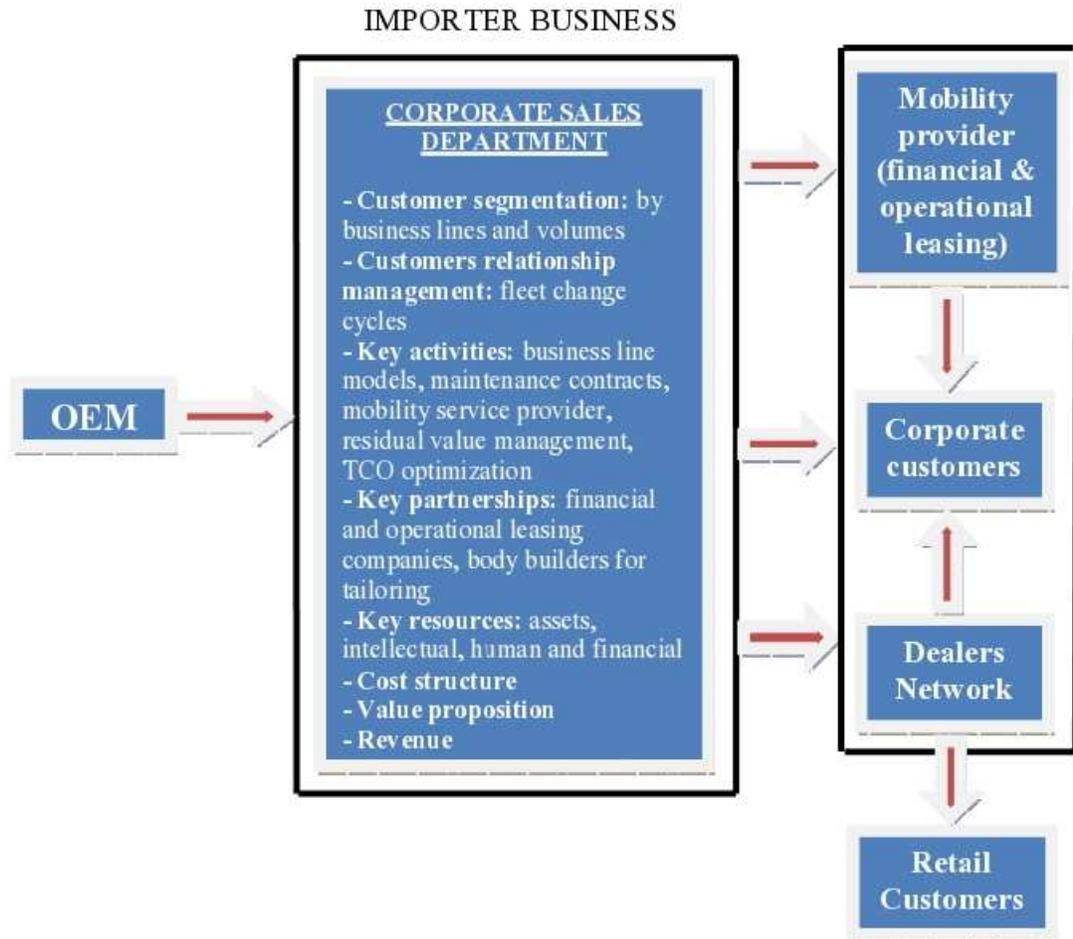


Figure 56. Future Business model for car sales to corporate customers

Future development of corporate sales business model must take into account:

- Mobility programs, even developed from OEM as a profit generation and as a future trend;
- Green fleet development by proposing hybrid and electrical cars in order to fulfil the future emissions requirements.

Future research should be done in order to find the solution to generate for hybrid and electrical cars a comprehensive business plan with a positive value for net present value of the profit.

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