



Car manufacturers need to get smarter with incentives

Buyers have changed. Blanket incentive programs should be moved to the past

Selling cars is a tough, competitive business. Incentives have been an important tool for decades, providing a reliable way to keep vehicles moving off dealer lots whenever sales slow.

However, the majority of Original Equipment Makers (OEMs) would rather not rely on incentives. These bonuses are driven by the need to match competitor pricing but OEMs fear this eventually results in a race to the bottom. The logical endpoint is that profit margins decline and the business model of the dealers and manufacturers suffers.

Also, the automotive customer is changing. Digital natives have different habits and, for example, have never expected a discount in the Apple store. They do not shop solely based on price. For example, they often want electric vehicles and may be willing to wait up to a year to get the car they want. This is very different consumer behavior than 20 years ago.

One-size-fits-all purchase bonuses need to give way to an approach based on data and analytics. Data means manufacturers can get smarter about how to plan and execute incentives tied to customer demand, region, and seasonality. Customers can still feel like they are getting a good price and dealerships can better manage inventory and revenue flow.

INCENTIVE EFFECTIVENESS IS HARD TO MEASURE

The pandemic saw some **aggressive incentives**, such as zero percent financing or 84 months to pay, but as demand outstrips inventory in 2021, incentive spending is down to a **five-year low**. An **industry report** estimates automakers typically spend 10 percent to 20 percent of revenue on incentives and those outlays are typically undermanaged.

The primary result of undermanaging incentive programs is increased complexity for OEMs and dealers, with offers and conditions added on an ad-hoc basis, leading to a tangle of complicated details. One dealership cited in the report struggled with 57 different programs simultaneously and “complained that its managers spent more time understanding these programs than they did focusing on customer sales and service.”

There are two steps to solving this. First, OEMs need to keep the total number of programs to a minimum and ensure these are tailored to local conditions. Second, deploy a software system to enforce and track the guidelines and monitor success. The system will also incorporate analysis and reporting tools to refine these offerings.

INDUSTRY CHANGE DRIVES UPDATES TO INCENTIVES



Research shows a **shift from volume-based incentive bonus plans** that primarily focus on sales towards targeted incentive-based bonus plans which have the objective of “maintaining the OEMs’ competitive position, maintaining profitability and ensuring customers remain loyal to the brand.” This is a markedly different goal than either a traditional volume-based incentive, which is about shifting cars off a dealer’s lot, or a holdback incentive which delays the payment of incentives to dealers until a fixed period after that sale, thus encouraging quicker sales.

New targeted incentives are intended to create specific outcomes for the manufacturer, so they will often require that dealers take actions that feature the OEM brand or comply with standards in facilities or marketing, increase brand awareness and loyalty, and improve customer service. These initiatives build a lasting relationship with customers by creating a set of consistent expectations about what they see at a dealership, how they will be treated when they bring their car in for service, and how the dealership communicates with them.

GATHER THE RIGHT INFORMATION

Establishing information-centric buyer incentives will deliver quality data on customers. OEMs can craft programs that deepen the customer relationship via opt-in opportunities. For example, free limited-time trials of in-car digital infotainment, premium navigation, messaging, or roadside-assistance services could provide valuable individual and aggregate data about how consumers use these services.

The key to success for OEMs lies in gaining enough voluntarily shared information from customers to gather data on the purchase cycle and anticipate what they might need next. Information gathered both passively and proactively can be turned into insights that drive brand loyalty.



DATA PLUS ANALYSIS DELIVERS BUSINESS INTELLIGENCE

The other advantage of customer-informed business incentives is that they yield a great deal of new data. This includes traditional data about vehicle sales, incentives, and profitability but adds insights into customer loyalty and engagement and the effectiveness of service operations.

None of that data should be standalone. The real power lies in the business intelligence derived through integrated analysis of the links between each step of the process, examining data by dealer, region, and model.

To do that most effectively, OEMs need solutions that tie the ERP systems to the customer relationship management (CRM) systems at the dealerships to get a clear end-to-end picture of the buyer journey and the vehicle itself.

This allows manufacturers to track what happens with every vehicle, from the moment it leaves the line to when it is delivered to the buyer. After the purchase, the CRM system provides details on the purchase and beyond, to repairs and maintenance services, accessories, and digital-service subscriptions.

DEALERS ARE STILL IMPORTANT TO THE RELATIONSHIP

Even with the changes coming to the automotive industry, dealerships will continue to play a key role. They have the local, on-the-ground relationships with customers, provide service and support for car buyers, and have been the traditional conduit for customer communication.

OEMs can improve dealer relationships by simplifying incentive initiatives and re-focusing those programs to make a real difference with buyers, especially for the quality and consistency of the buying experience and of aftersales service.

BETTER CONNECTION TO CUSTOMERS



Reframing these incentives will improve customer connection and loyalty for OEMs but it requires careful thought and implementation to make the required cultural changes at the manufacturer and dealer level. The goal is to transform incentives from short-term tools that meet immediate sales needs to key elements of a long-term relationship strategy.

The automotive industry was already facing disruptions from new entrants such as Tesla, and then the pandemic changed the market again. Recent research shows a ***rekindling of interest in vehicle ownership***, especially among younger consumers who prefer digital engagement channels. Experience channels such as web sites, email communication, mobile device apps, and the kind of “above and beyond” customer service that takes place with each in-person customer engagement will be key. Automated management and assessment systems can help OEMs and dealers ensure that incentives become a clear, consistent, and meaningful long-term contributor to the success of their business.

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