

Project Description

Management3 was engaged by a Tier 1 global component manufacturer with a leading position in the European independent aftermarket which wanted to improve its commercial strategies in Europe, with particular reference to pricing and trade spending. There were two main project objectives:

1. To identify gross margin risks created by existing pricing policies and practices for European aftermarket business.
2. To develop a new approach to product pricing and trade spending which would improve overall gross margins, ameliorate margin risks and create a trade spending structure to encourage customer behaviour in line with the company's goals.

Challenges

Product

- Improved product quality increasing replacement intervals and reducing volumes
- VM plans to develop aftermarket product ranges and compete aggressively on price with IAM
- Proliferation of vehicle models and versions reducing parts sales per application and increasing incidence of development costs
- Emerging Asian competitors which are also suppliers

Market

- New players in distribution, especially from eastern Europe
- Emergence of internet parts retailers
- Evolving traditional distributors, with increasing private equity ownership and international operations
- International Trade Groups
- Blurring of barrier between OES and independent aftermarket
- Low cost alternatives gaining share at the bottom of the pyramid

Project Approach

Management3 conducted an extensive assessment of the client's market practices and internal processes, through desk research and field interviews, in order to highlight and prioritize needs for intervention. For this purpose Management3 investigated:

- Pricing strategies and differentials across national markets and local business units
- Trade Marketing and Promotions - current practices, discounts, bonuses and incentive programs
- Assessment of client's competitive position in the European market, interviewing both client's management and customers

This approach enabled us to develop a complete picture of the issues to be addressed in order to reinforce the client's brand positioning, and find ways to eliminate pricing risks and optimize gross margins.

Findings

Trade Groups

Majority of sales are made to members of International Trade Groups



Aggressive price harmonization action by International Trade Groups is a threat

Margin Risk

Significant IAM margin risk if all prices reduced to lowest common denominator



Distributors with cross border operations can easily calculate the benefits of a lowest cost purchasing policy

Conditional Discounts

Performance based discounts are an insignificant part of total discount



Conditional discounts do not produce the leverage needed to influence customer behavior

Product Price Management

Very limited number of SKU's deliver majority of sales revenue



Product lifecycle pricing management at SKU level is essential to maintaining and enhancing gross margins

Conclusions

Call to Action

- > Nationally based pricing practices are not suitable for managing the complexity of an increasingly integrated European aftermarket
- > Coordinated European price and customer management can minimize risk and generate gross margin enhancement opportunities
- > Adopting standardized contractual terms and aligning divergent national discount policies will deliver greater commercial control
- > It will be too late to address price harmonization pressure when it arises – the time to act is now