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The end of the ivory tower

How automotive OEMs can shift gears to growth by taking a fresh look at their organizational structure



For years, automotive original equipment manufacturers (OEMs) have had great success with organizational models in which responsibility for sales and ownership of revenue generation lay not at the center, but with local market entities on the outskirts of the enterprise.

This local autonomy came at a cost, however. Many OEMs' central organizations became "Ivory Towers," lacking clear business ownership and performing often-redundant activities. When times were good, this inefficiency could be absorbed. But a combination of structural change across the automotive industry, rapidly changing customer expectations and an evolving regulatory environment is now putting OEMs under ever-greater financial pressure. They must urgently find ways to make their organizations more effective and efficient.

The solution? By taking a fresh "clean slate" view of the business, OEMs can fundamentally rethink the way central organizations collaborate with local market entities. Reallocating ownership and roles between the two—complemented with greater automation and the use of modern technology—can deliver substantial efficiencies and savings.

The size of the prize? A typical \$100 billion OEM can potentially save between 15 percent and 25 percent in personnel costs alone in the areas of sales, aftersales, and marketing as well as support functions (G&A), not even including other functions such as RD and manufacturing.

Change on this scale is not easy, but the potential rewards are great. With a zero-based clean-slate exercise, OEMs can revitalize their organizations to better manage today's turbulence and set themselves up for future prosperity and growth.

An industry in flux

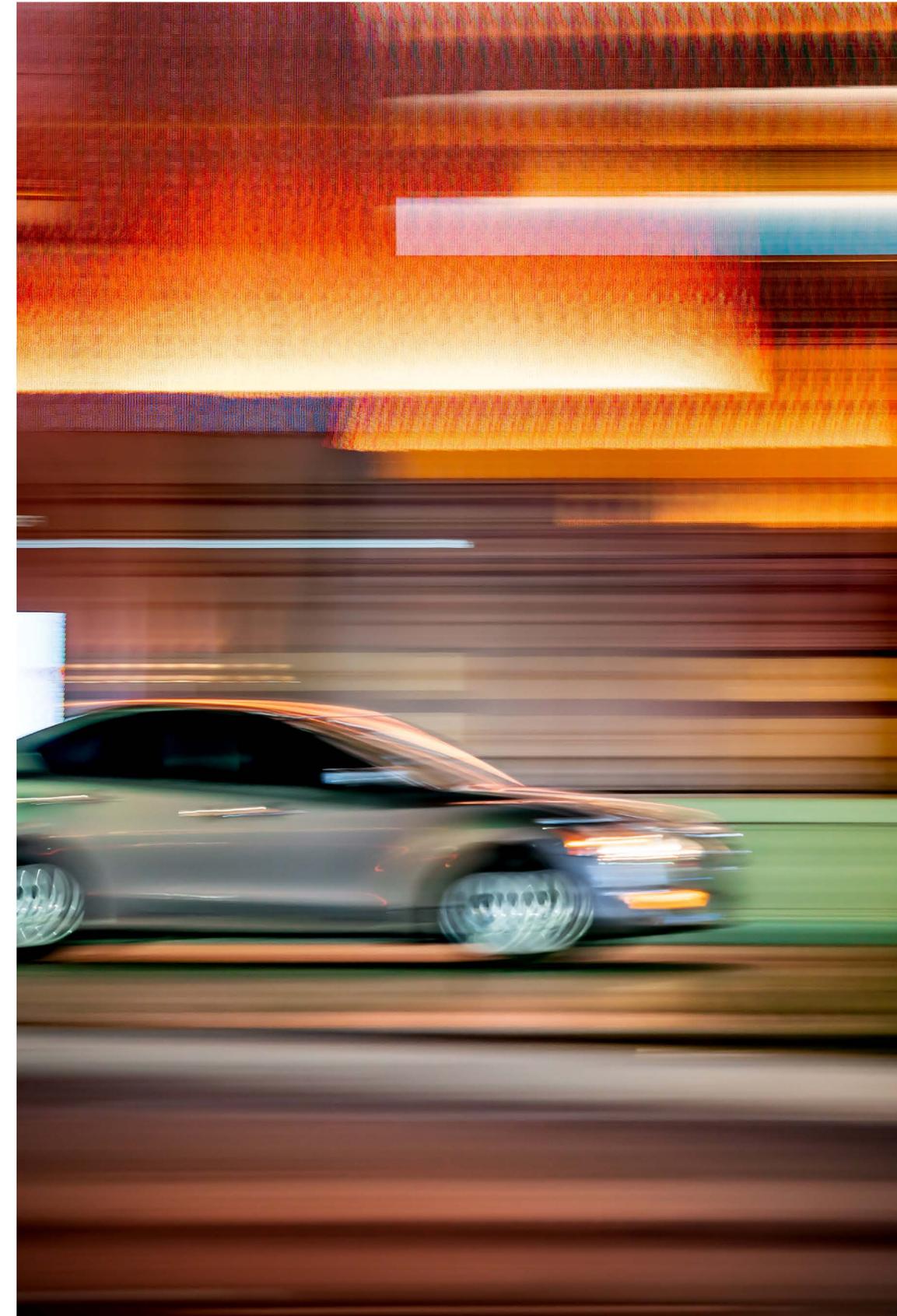
The automotive industry is going through a period of structural change. A series of megatrends are converging—connectivity, autonomous driving, shared mobility and electrification (“CASE”)—and being amplified by increased regulatory pressure.

At the same time, customer expectations are changing rapidly. Accustomed to seamless digital experiences in ecommerce and other industries, automotive customers increasingly expect the same kinds of personalized and omni-channel journeys when buying a car.

As a result, established OEMs are having to rethink their products, business models and ways of working to stay competitive.

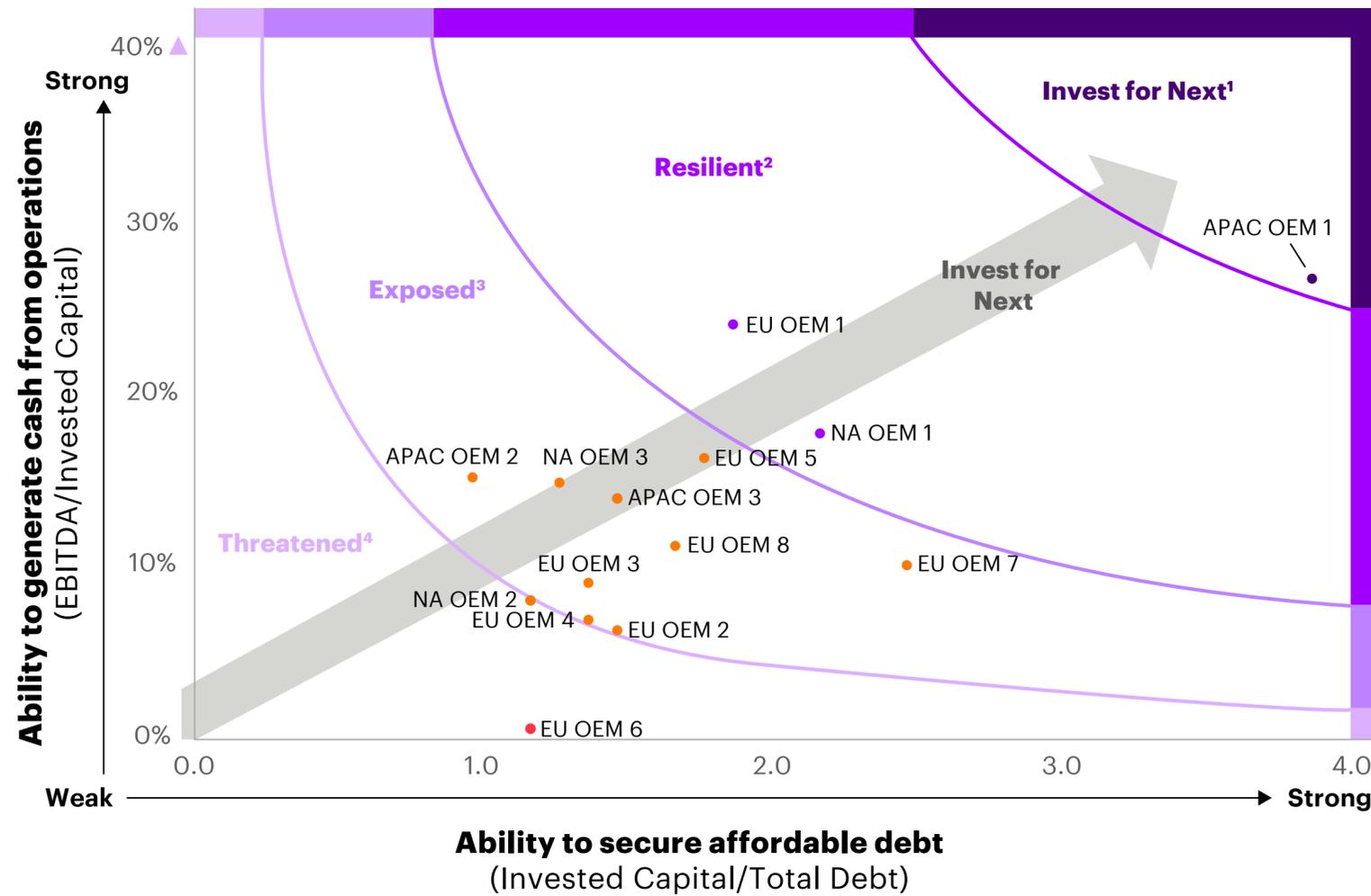
And a growing number are switching their sales models from indirect to direct sales.¹ But new electric vehicle entrants continue to push into the market with lean organizational models and innovative products, intensifying the competitive pressure on incumbents even further.

While the COVID-19 pandemic as a short-term crisis has exacerbated the challenges, particularly for the more fragile players in the industry, this structural change in the industry is fundamentally addressing the way business is run. Indeed, many OEMs’ ability to sustain debt and generate cash is under threat.



For example, in an analysis of the financial flexibility and stress levels of 14 global OEMs, Accenture found that few appear resilient enough to manage the challenges ahead (Figure 1). In fact, as many as 10 are “exposed” and one is “threatened” in this analysis.

Business Decision Matrix



- The ability to invest for the next is contingent on strong ability to generate cash from operations and strong ability to secure affordable debt.
- Out of 14 OEM’s analyzed only one company has managed to operate its position in Invest for Next.
- More than three-fourth of the companies continue to remain in either exposed or threatened zones.

***1. Invest for Next:** Ready to undertake significant strategic, multi-pronged measures.

***2. Resilient:** Ready to target tactical measures to improve position, offensive play.

***3. Exposed:** Imperative to focus on generating more cash to avoid threat to survival.

***4. Threatened:** Fighting for survival, urgent actions required.

Figure 1: Analysis of cash and debt of automotive OEMs during COVID-19. Source: S&P Capital IQ, Accenture Research



A growing number of “Ivory Tower” organizations

**External factors are not the only
source of financial pressure on OEMs.
Internal organizational structures
have also played their part.**

In prosperous times, when sales were growing and profitability was high, OEMs tended to increase their local headcount, primarily in functions other than R&D and manufacturing. That gave individual organizations greater autonomy to meet local demands and keep up with business growth. But it also created an inefficient patchwork of different processes and IT systems—and a lack of overarching standards.

At the same time, OEMs have tended to ramp up tasks and responsibilities centrally, creating redundant functional areas, a large headcount in both local market and central organizations, and little harmonization between local and central responsibilities. In fact, with limited ability to account for local customer needs, many central organizations have become “Ivory Towers”, disassociated from the wider organization and creating little business value. As a result, employee numbers have been consistently outgrowing vehicle sales for years (Figure 2).

Negative Impact on Productivity & Efficiency

The number of employees is significantly outgrowing the number of units sold

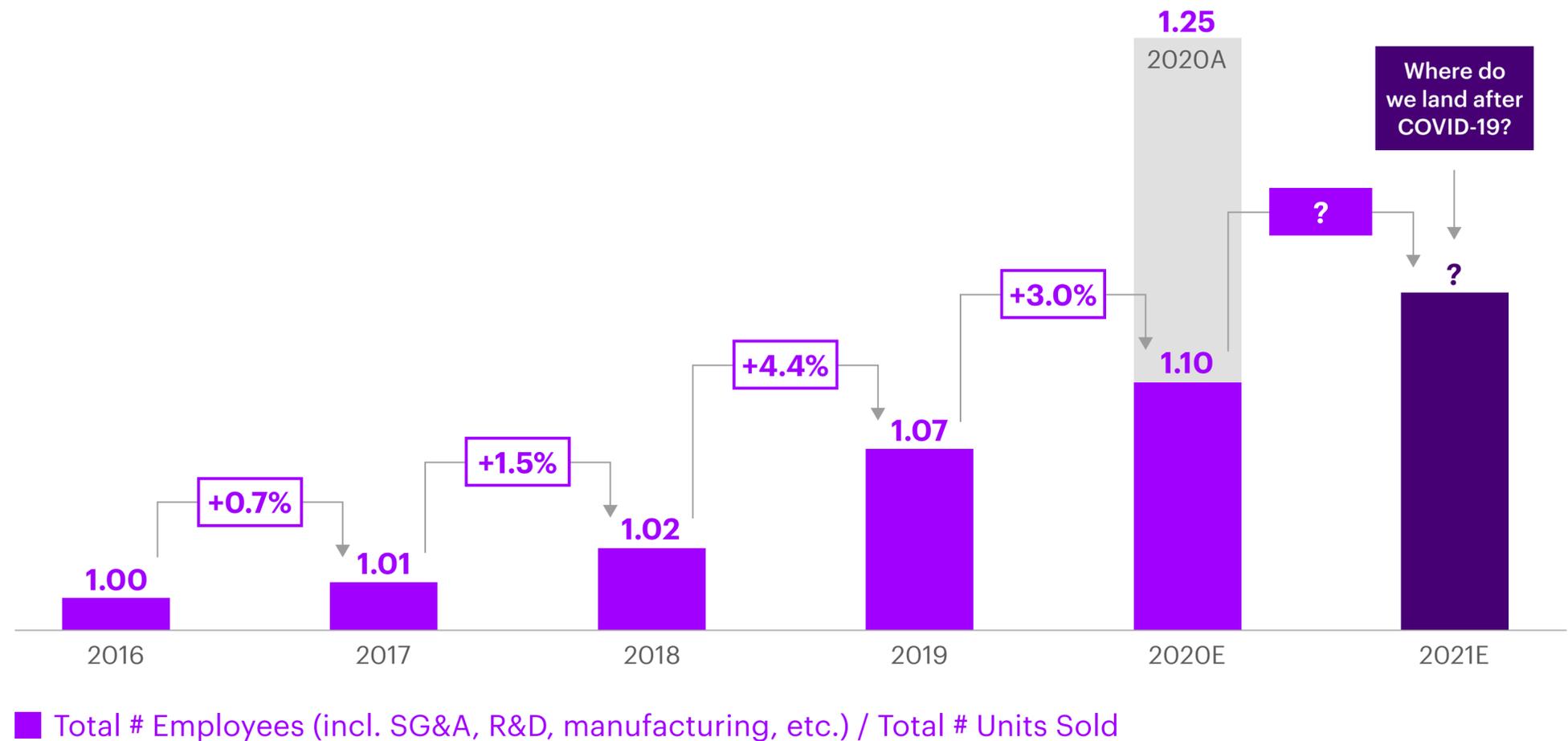


Figure 2: Number of employees per vehicle sold (indexed based on 2016 levels for top 20 automotive companies by sales).

2020E: Estimation in pre-COVID-19 scenario – 2020A: Actual numbers

Source: Accenture Research²

A time for fresh thinking and radical change

In the face of these structural changes and financial and commercial pressures, automotive OEMs should be looking to create leaner, more flexible and more efficient organizations.

The pace of change is now so great and the competition so intense that they cannot afford to go on simply reducing fixed costs. A more foundational and revolutionary approach is needed.

This kind of structural reinvention takes a clean-slate approach to the past. It means being willing to rethink organizational boundaries, processes and roles as if there were no legacy business at all. It allows the organization to

ask: if we could start afresh, how would we set up our business today? Which functions are necessary at the local market level and which can be centralized in the most efficient way to support the local market organizations?

A zero-based approach helps the organization refocus on its future needs. In established businesses, tasks and processes are often inherited, passed down from one generation of workers to the next. But when customer and business needs change, those activities no longer generate the same value or contribute to the business's strategic outcomes in the same way. This process is accelerated by digital technologies which further drive the transformation of the operations of the local market organizations.

By putting the customer at the center of all considerations, a zero-based approach is far more than a traditional cost-cutting exercise. It helps shift attention onto the value-adding activities within an organization and refocus on the distinctive capabilities needed to fulfil the business purpose and serve the customer. It also helps OEMs manage ongoing turbulence in the business environment by operating in a leaner and more profitable way.

It's no longer about incremental savings, but rather reinventing the organization with a zero-based mindset that focuses on optimizing costs to fuel growth and increase resilience.

Three key questions for a zero-based approach

To start from zero, OEMs should ask themselves three critical questions:

- 01 How do we shape the right kind of customer experience for today?** (And do we need to reshape the OEM–dealer relationship to ensure reaching the ultimate goal of customer satisfaction?)
- 02 What's the leanest feasible local market setup that can deliver on that promise?**
- 03 What kind of support is then needed from the central organization?**

01 How do we shape the right kind of customer experience for today?

The emphasis that a zero-based approach places on the customer means OEMs need a deep understanding of what today's consumers expect and value. There are several strategic pillars which an OEM can use to shape its business around this, including:



Reinvigorating the customer experience.

Create a seamless and appealing experience, across online and offline channels, along the entire customer journey from pre-sale, through the sale itself, to ongoing customer support.



Reinventing offerings. Shape an end-to-end offering that meets customer demands in each local market. This offering should encompass not only vehicles, but also digital and financial services, aftersales services and parts.



Reframing dealer responsibilities.

Treat dealers as true business partners, supporting them with insights and recommendations that allow them to manage their financial risks, rather than pure KPI steering. Alternatively, implement a direct sales model that transforms dealers into agents that act as intermediaries between the OEM and its customers.



Reimagining stationary sales. Create the right environment for dealers to deliver on the customer promise. That includes having retail standards and the right people with the right skills and training to promote the offering.



Reshaping regulatory compliance.

Ensure the business can continue to fulfill its legal obligations for local operations (including financial reporting, taxes and so on).

02 What's the leanest feasible local market setup that can deliver on that promise?

The leanest feasible local market setup builds around the core strategic pillars for customer experience that the OEM envisions to achieve. These may be different for each OEM based on their strategy. The market setup serves as a functional blueprint that should be applied uniformly across all markets to create a standardized and efficient organization with clear roles and responsibilities.

Based on its experience of working on such exercises with a range of different OEMs (on both the passenger vehicle and the commercial vehicle side), Accenture has designed and validated a highly lean market setup which adheres to the strategic pillars described above (Figure 3).

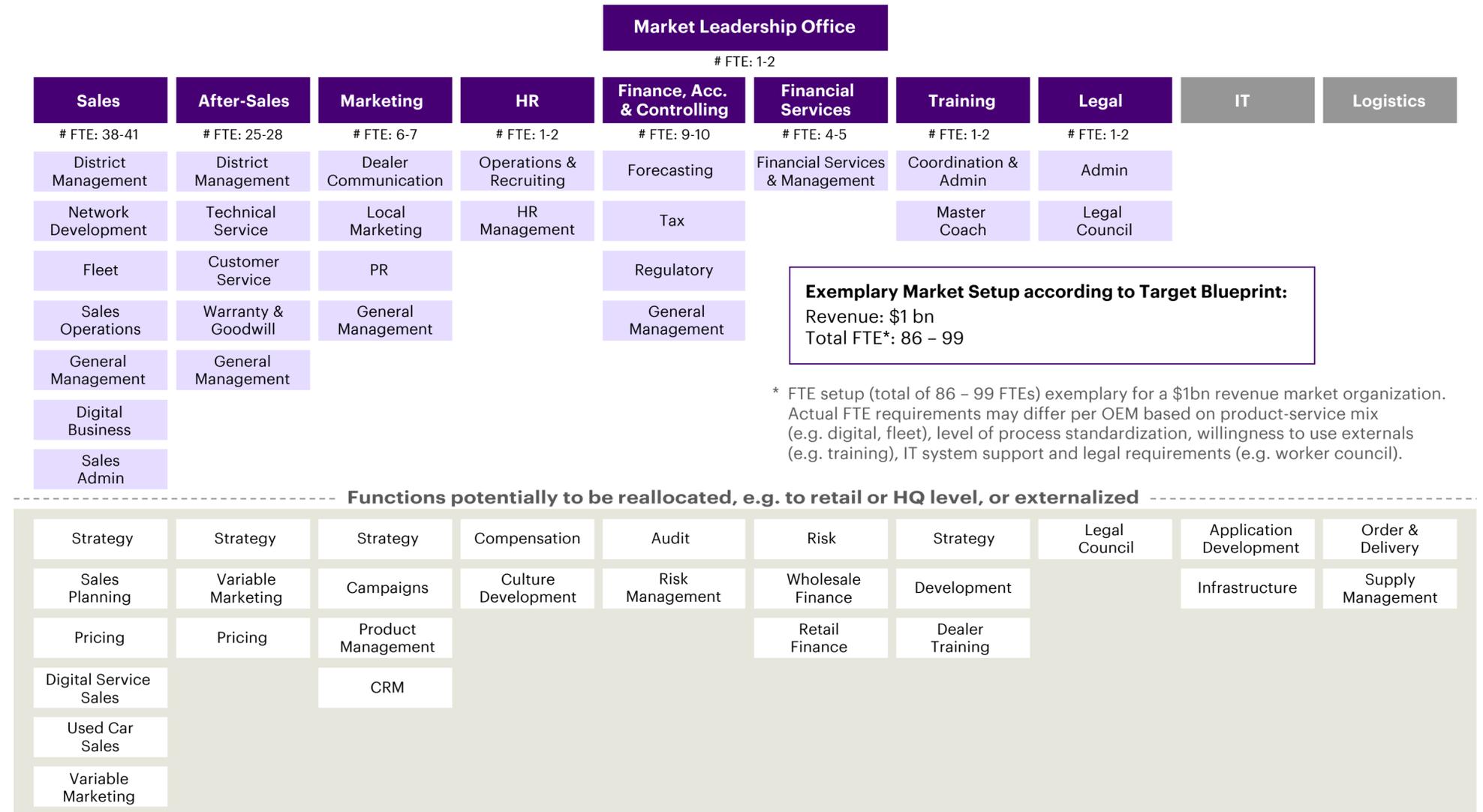


Figure 3: Illustrative setup for a lean market organization with \$1 billion revenues

This streamlined organization emphasizes customer-facing and dealer-facing activities that require direct interaction (in local languages) and provide opportunities for local differentiation. Local efforts thus shift to core frontline and value-adding functions, such as district management. Among their other important tasks, district managers should work jointly with dealers to identify areas for improvement and create action plans and campaigns rather than simply track KPIs. They act as the OEM's "one face to the dealer", consolidating the communication to and from dealers regardless of the function (sales, aftersales, financial services, etc.).

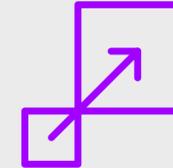
Automation and externalization. Under this model, a lean setup is maintained by minimizing activities deemed to be low-value for the local market organization, leaving it fully focused on supporting customers and dealers.

Remaining activities may then be further streamlined through automation or externalization:



Automation

Rule-based transactional activities that have structured inputs/outputs and few exceptions should be automated. This will include functions within sales planning, human resources, payroll management, finance reporting and customer support (including by means of chatbots and self-help platforms).



Externalization

Activities that are subject to fluctuating demand and/or require a highly specialized skillset should be externalized. Accordingly, ad-hoc training and legal support should be localized (e.g. translation, integration of local product and legal specifications), covered by external full-time employees to gain efficiency and flexibility.

Both automation and externalization are typically underutilized in OEMs' sales operations today. However, Accenture's experience of working with OEMs proves the financial validity of such an approach. Accenture has, for example, automated and is delivering a vast number of accounting services for multiple passenger and commercial vehicle OEMs across the world—including procure-to-pay, order-to-cash and record-to-report—as part of an “as a service” model.

>50%

Depending on the maturity of the client's current operations, this has delivered service run cost reductions ranging between 30 percent and more than 50 percent.

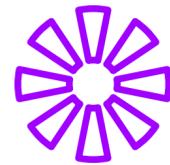
Flexibility and right-sizing. It's important that the standardized blueprint of functions enables efficient and flexible cost structures. In other words, they should be flexible enough to “breathe” with the organization, growing or shrinking as business requirements change. What's more, to help reshape the OEM's organization in line with the target blueprint, and to adjust resources accordingly, local market organizations need to be right-sized. Internal and external benchmarks will enable the OEM to compare efficiency levels both within the organization and across the industry and define reasonable KPIs. Headcount levels for activities remaining with local market organizations can then be determined in accordance with these KPIs as well as market-specific parameters such as sales volumes, dealer locations and product and customer portfolios. This will enable the OEM to size its local organizations correctly.

Portfolio review. This strict operational redesign at the local level should go hand in hand with a strategic review of the OEM's local market portfolio. If operating a proprietary local market organization is not economical—for instance in low-volume markets—the OEM should consider other options, such as direct sales, independent distributors or complete closure. For example, PSA, now part of Stellantis, is achieving significant and consistent profitability thanks in part to a highly disciplined approach to deciding where and where not to operate. For this OEM, markets below certain sales volume thresholds do not have proprietary operations and are served instead by independent distributors.³ Ultimately, it comes down to simple math. Which is the more financially attractive: foregoing the wholesale margin and leaving it with independent operators as market importers or running your own operations in a comparatively small market?

03

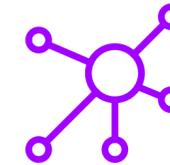
What kind of support is then needed from the central organization?

Having defined the local market functions necessary for supporting dealer and customer experiences, and externalized or automated them where appropriate, OEMs should then consider which activities can be centralized. Two principal factors will govern this decision:



Revitalizing “Ivory Tower” organizations

Functions that have limited strategic value for the local organization may have significant strategic value for the central organization. For example, centralizing IT can enable OEMs to drive the digitalization of the whole organization more effectively (including sales and aftersales IT systems). For years, OEMs have been trying to digitize their core businesses but have been hampered by a combination of fragmented global system landscapes and powerful local market organizations. But reshaping the local level creates the perfect opportunity to centralize ownership of activities that determine the future of the enterprise—and transform the Ivory Tower into a value-creating organization more closely involved with the core business.



Generating efficiencies through synergies

Centralizing functions that are not necessary for local differentiation can help generate substantial efficiencies and much-needed flexibility in times of crisis. Examples include enabling functions such as logistics, finance and human resources, as well as conceptual work like marketing and the production of training materials that can be leveraged across markets with only limited need for localization. In the interplay with local market organizations, the role of the central organization should be to offer concepts, frameworks, specialized expertise and guidelines to keep the machine running. This is not just about efficiency but also about ensuring customers around the world receive a single consistent message that doesn't muddy or confuse the brand image.

Centralizing enabling functions as well as core functions offers significant potential for synergy. Take Audi, which has been taking a centralized approach to digital marketing and training activities. With its urban showroom concept “Audi City”, Audi leverages the latest digital technologies to provide visitors with visualizations of entire car models. Respective product information and marketing campaigns are provided through a centralized server. Adaptations based on local culture and trends can be seamlessly integrated with just a few clicks.⁴

In May 2020, Audi launched Central Launch Experience (CLX), its first purely digital global market launch for a new model line. To support this, the company provided centralized training for about 35,000 sales and service employees from 90 different markets worldwide. This was based on the “train-the-trainer” principle in which Audi provided central training for local product, sales and service trainers, as well as technical trainers from all 90 markets, who then passed

on their learning to employees at their respective locations. To ensure uniform standards worldwide, Audi produced various digital formats, ranging from web-based training, video tutorials and chats, to augmented reality and virtual reality training available in the “Audi Knowledge Tank” knowledge database.⁵

OEMs should also give serious consideration to the use of shared services and automation at the central level, especially for non-value-adding high-volume tasks (Figure 4). A shared service model with specialized providers allows companies to better focus on their core purpose, while also creating economies of scale, increasing response times and ultimately improving quality.⁶ Daimler, for example, opened its global capability center in Chennai (India) in November 2020, alongside its existing centers in Berlin, Madrid and Cebu. The facility is designed to host the company’s shared services business stream, supporting various Daimler entities across the entire global value chain.⁷ OEMs can take this

one step further by not only centralizing but completely externalizing services like IT infrastructure. Besides the significant savings potential, this enables core enterprise areas to be digitalized faster and more effectively by a specialized provider and also means fixed costs can be transformed into variable costs.

91%



of executives believe that CEOs view shared services as a critical success factor for reducing complexity.

89%



of executives believe that shared can be the foundation for a fundamental redesign of the company.

Figure 4: The need for shared services

The size of the prize

There's a lot at stake here. According to Accenture's research and experience, a typical \$100 billion OEM can expect to see between 15 percent and 25 percent savings in personnel costs in the areas of sales, aftersales, and marketing as well as support functions (G&A), not even including other functions such as RD and manufacturing, with significant impact on the EBIT margin (Figure 5).

In addition, right-sizing local market organizations in accordance with a zero-based blueprint could deliver savings of \$5.6 billion.⁸ These are partially offset by increased resources at the central level (\$2.1 billion), but a zero-based reshaping of the organization still results in net savings of \$3.5 billion.

Applying the key levers of our approach, 15-25% cost savings can be achieved in personnel cost with significant impact on the EBIT-margin.

Changes in cost structure [bn \$]

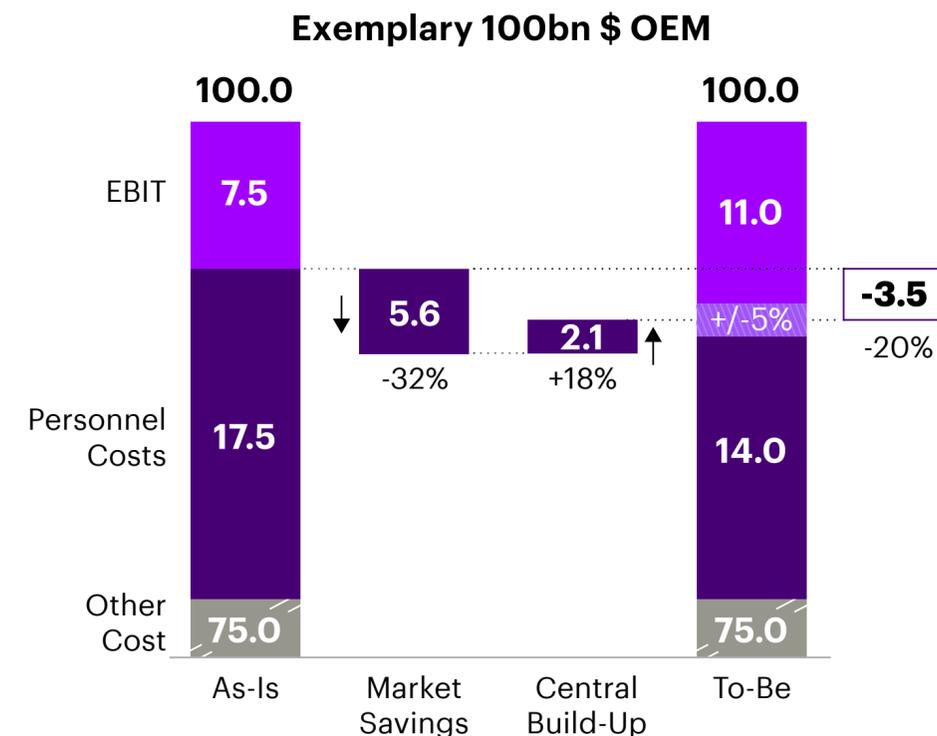


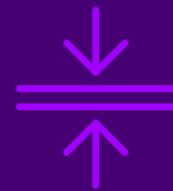
Figure 5: Potential cost savings in sales, aftersales and marketing as well as support functions/G&A (not including R&D or manufacturing)

What's more, these savings can be further increased by automating and externalizing centralized activities, such as bundling and digitizing marketing operations. For example, Accenture has supported a volume OEM in building a prospect-to-customer engine to scale marketing and grow unit sales via an "as a service" agency model. This enables the company to sell more cars through digital channels with pure variable costs and thereby reduce the cost per lead by almost 40 percent.

The path to a new possible

While a zero-based transformation offers great rewards, it is not a simple or straightforward thing to do. It needs a strong sense of ownership and support, and the sequencing of initiatives needs careful thought. Above all, it's essential to be open and transparent with employees about the plans.

There are several key steps to consider:



01 Create a full view for baseline transparency

A consistent **360-degree view of local market organizations** as they are today (including full-time employee allocation, type of work and cost) is an essential prerequisite of a zero-basing exercise. This baseline data also forms the foundation for measuring the transformation's success.



02 Instill strong leadership and a top transformation team

Ideally, an OEM will have a central transformation team comprising both central and local leaders. This will then coordinate, support, monitor and measure the transformation, providing a single source of truth about its progress and success.



03 Think about the balance of investment versus savings for a self-funding transformation

OEMs should seek to realize savings from non-FTE costs immediately as these will typically be quick wins with little business disruption. Simultaneously, they should kick-start “high cost/high savings” initiatives to reap greater savings as soon as possible. A well-designed transformation to a zero-based market organization can be a self-funding machine across all functions.



04 Be smart about pacing for greater business continuity

OEMs should sequence initiatives so that the overall transformation flows smoothly. That means avoiding the temptation to run too many transformation tasks at once, or too many initiatives in parallel, and risk overburdening the organization.



05 Establish clear communication and a unified culture

OEMs should look to infuse the transformation deeply into the corporate DNA, conveying a clear case for change and creating a “one team” mindset across the organization. It’s important to get strong advocates on board and to communicate often, openly and frequently about what is happening. Integrating local markets right from the start is essential for creating acceptance and ensuring feasibility, especially in cases where individual markets have global influence or a powerful independent spirit.

Starting afresh is rarely easy, of course. But the rewards of a zero-based approach are such that the journey is worth undertaking.

By developing a zero-based mindset that views the business with a fresh pair of eyes, a clean slate and a customer-first approach, automotive OEMs can revitalize and reshape their organizations. That will be essential in enabling them to better manage today's turbulence, operate in leaner ways, increase profitability and secure their future growth and prosperity.

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