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Identifying Key Causal Factors for Low Profitability of Indian Automobile Dealerships

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ABSTRACT: As per the Automotive Mission plan 2016-26, the Indian automobile sector is likely to contribute over 12% to the country's GDP by the year 2025. The dealership network contributes significantly to the Indian automobile sector as an interface between OEMs and end customers for new vehicle sales and after-sales services. During the past few years, many automobile dealerships across various manufactures could not sustain in business and they wind up their business operations due to huge losses or reduced profits. Even top global ranking brands like General Motors found it difficult to sustain their operations in India decided to withdraw their operations in the year 2017. This study attempts to identify the important causal factors that may address the key concerns of Indian automobile dealerships through a qualitative case study approach. For this, a qualitative multiple case study approach along with a combination of document analysis and thematic analysis has been adopted as a research methodology. The key concerns identified through this research broadly fall under three category categories: (1) ineffective manpower management, (ii) workshop/body shop services growth concern, and (3) high stocks and inventory costs.

KEYWORDS: Indian automobile sector, original equipment manufacturers, repair order growth, workshop services growth, manpower management, high stock, inventory costs, profitability concerns

I. INTRODUCTION

The Indian automobile sector contributes approximately 7% to the national gross domestic product [1]. Automobile dealerships play a critical role by acting as an interface between automobile original equipment manufacturers and end-customers through sales of new vehicles and after-sales services. As per a study by Tata Strategic Management Group [2], the dealers' present & future market potential is diluted as they face a "Low growth –low profit" scenario. This results from reactive strategic direction setting, limited processes/ capability enhancement plans, and slow alignment of organizational structure and people competencies. Manpower turnover is very high and getting quality people and training and retaining them is the need of the hour. Manpower keeps moving very fast to other dealerships as options are many, and there is a lack of professional culture at dealerships and slow growth in salaries.

A study by Singh et al. [3] has identified key concerns of Indian automobile dealership performance from OEMs' perspectives. From profitability and market aspects, the study identified repair order growth, restrictions on inventory fund support (by banks), and increasing stock interest cost as top concerns. The increase in yearly rents, dealership's manpower quality, and fund diversion emerged as top business sustainability challenges faced by Indian automobile dealers. Lack of involvement/professionalism of dealer owners was attributed to low manpower quality and low return on investment. A better understanding of market potential, increasing input cost, rapid changes in regulations/policies emerged as important challenges for OEMs. This study attempts to identify the important causal factors that may address the key concerns of Indian automobile dealerships through a qualitative case study approach.

The previous related papers are discussed in section II, while the methodology adopted in this study is covered in section III. The results and discussions are presented in section IV. The conclusions of this study are summarized in section V.

II. RELATED WORK

Caicedo et al. [4], in their report on building top-performing auto dealerships', argued that an automaker's profitability depends a lot on dealerships' performance. Of late, automakers have gradually started imparting more focus and attention to their dealership networks through better collaboration. The greater collaboration with dealerships is justified since performer dealerships generate more than three times profit vis-à-vis an average dealership. The manufacturers' responsibility is to ensure that their dealers stay profitable considering the enormous investments needed to set up a dealership and allied facilities. Manufacturers compensate dealers for sales performance, meeting & exceeding sales targets and revenues from service that the dealer expects to provide. As per the IAR Team [5] study, setting up a dealership is a high-cost, capital-intensive affair, unlike the service industry, where an idea may take business far. A full-fledged workshop has to be set by the dealer, a body shop, and various other facilities to ensure smooth business operations. A dealer needs to look for a good return on investment. The manufacturer must act as the promoter of a start-up – persuading every new dealer on the new business's practicability. Dealers evaluate business prospects and future manufacturer volumes expected from the territory assigned, considering the large investments required. Smaller manufacturers continue facing challenges in attracting new dealers, making it difficult for them.

Schniederjans et al. [6] have presented a solution/ framework for the ordering decision of automobiles and other inventory controls for a large automobile dealership. The dealership can optimize its profitability by focussing on an appropriate and optimal mix of inventories. Gaur & Kesavan [7] analyzed the relationship between firm size, sales growth, and inventory turnover in the retail automobile sector. The authors established the evidence of diminishing returns vis-a-vis scale, change in inventory turnover with an increase in sales, wherein firm size impacts the rate and sign of the change. The study helped identify causes that explain performance differences among firms and over a given time.

In a similar study, Cachon et al. [8] explored the existence of scarcity-effect in the USA's automobile dealers. The research established that increased inventory expands choice available to the customers, which increases sales of automobiles. The scarcity effect may decrease sales. Traditionally, dealers base their inventory-size in anticipation of the demand for automobiles. The mix of models and sub-models in the inventory also plays an essential role in determining automobiles' sales. The authors have suggested "maximization of variety and minimization of duplication" as an allocation strategy.

Sharma & Raina [9] executed a performance analysis of the Indian automobile sector and identified key technical inefficiency commonly found in automobile firms. The authors emphasized the importance of identification of inefficiency sources that plague the automobile dealer companies. Automobile dealerships are playing a critical role in the new car sales business, after-sales workshop services, warranty facilities, spare inventory management, and insurance (Pawar). The performance of the dealership also influences customer choice towards a specific automobile brand and its dealers. Xu et al. [10] explored how dealership performance and product quality influence customer satisfaction and customers' intention to switch to another rival brand. Yadav & Joseph [11] established that empathy, assurance, responsiveness, reliability, empathy, and tangibility exert a positive effect on customer satisfaction. Souza et al. [12] emphasized how the adoption of TQM positively enhances the sales performance of automobile dealerships.

III. METHODOLOGY

This study has adopted a qualitative multiple case study approach. Three automobile dealerships of different reputed brands were selected based on convenience sampling. The owners and senior management teams of these three dealerships were cooperative and not only shared business performance data but also allowed in-person and telephonic interactions on multiple occasions. In total three dealership owners, two business consultants, and eleven senior managers of automobile dealerships were contacted. Preliminary interaction with two consultants revealed 'manpower management' (including the salaries, incentives, and skill development of manpower), 'management of inventory' as two important performance business concerns that lead to high costs and reduced profits.

The thematic analysis has been applied to the semi-structured interview transcripts, supported by document analysis on the industry reports, academic articles, and dealerships documents. It is expected that combine use of thematic and document analysis shall bring in more credibility/ corroboration through triangulation. Details on thematic analysis and document analysis are as follows.

3.1 Document analysis

The study used the document analysis steps suggested by Bowen [13]. A systematic review of various documents (industry reports, academic articles, and dealership documents) was carried out to extract business information. The analysis/examination of identified documents assisted in building up empirical knowledge in line with Corbin & Strauss [14].

3.2 Thematic analysis

To gain insights on automobile dealerships' key business concerns, the thematic analysis is applied to the data (transcript prepared from semi-structured interviews of participants). It is based on the identification of trends and patterns in data. While Braun & Clarke [15] have viewed thematic analysis as an analysis method, other researchers have also labeled it a full-fledged methodology. The thematic analysis adopted in this study consisted of six steps: (i) data familiarization, (ii) coding of data, (iii) theme searching, (iv) review of important themes, (v) labeling and defining themes, and (vi) joining and relating themes.

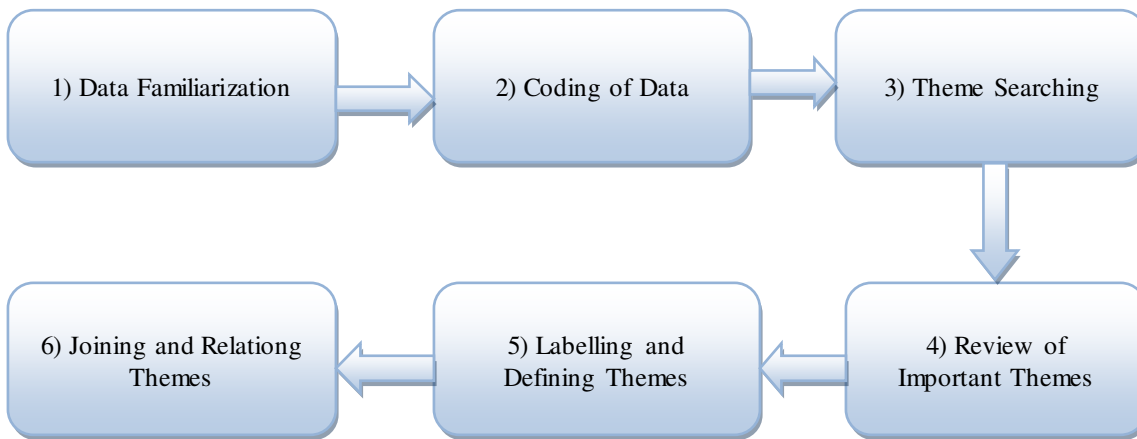


Figure 1: Steps followed in Thematic Analysis (Inspired by Braun & Clarke [15])

IV. RESULTS AND DISCUSSIONS

Multiple research visits of the three dealerships, in-persons interactions, and telephonic interactions with 16 research participants (three dealership owners, two business consultants, and eleven senior managers) helped in the collection of data. The transcript data was created manually for each semi-structured interview. The important themes on automobile dealerships' business performance that surfaced after applying thematic analysis and document analysis are discussed below. The top three factors affecting business profitability narrowed down to body shop repair, inventory costs and insurance, and employee salaries/incentives. Further, the analysis resulted in three top concerns as (1) ineffective manpower management leading to the high cost, (ii) workshop/body shop service repair order (RO) growth concern leading to low revenue low profit, and (3) high stocks and inventory costs

4.1 Multiple directors leading to slow and ineffective decision making

In most cases, automobile dealerships consist of multiple directors, which causes a lag in decision-making due to differences in opinions. It takes time to bring them on the same page over issues. Even within the group of directors or owners, the investment shares vary, influencing each member's decision-making power. In such cases, another problem arises. A director may own a majority share but may not be actively participating in working of the dealership and may not be the most qualified person to make the decisions though in power.

4.2 The gap between resources deployed and actual business achieved

The OEMs' business plan projection and the actual achievement of targets by automobile dealerships often result in a huge gap with time, leading to a far lower profit generation. Most of the time, the OEMs push dealerships for higher resources than required without aligning with actual potential and business opportunities. OEMs are doing this to ensure an enhanced level of brand image and customer satisfaction. Adequate planning and research are not done before setting realistic business plans for dealerships. Hence, they follow the path suggested by OEMs, causing a high



deployment of resources and avoiding cost-cutting measures, which eventually leads to a downfall in business profitability.

4.3 Lack of coordination and timely information flow among functional heads and other team members
Standard operating procedures (SOPs) and a lack of clear guidelines due to inadequate process systems are reasons for the lack of coordination and information sharing amongst the employees, top-level CEOs, and other dealership officials.

4.4 Lack of a periodic meticulous review process
Qualitative business performance reviews of all departments and their effects on monthly profits and loss are often missing at most automobile dealerships. This happens due to the low level of review skill and interest of the dealer owner and management team. Thus, there is no precedent set for the upcoming month's performance and the areas of improvement, along with a lack of identification of poorly performing areas and their betterment.

4.5 Growth in volume v/s growth in profits
The respondents of the telephonic interviews focused on the fact that there is often a misunderstanding of factors that contribute to profits. Instead, volume growth is chased by dealership owners and officials. The growth in the number of cars sold may be accompanied by high costs and discounts that bring down the profits and lead to losses. Hence, a lack of clear motives and steps towards business profitability is a major concern. A mindset change is needed in the senior management team/ owner from volume/number-based growth to revenue and profit-based growth.

4.6 Ineffective Manpower Management leading to the high cost
A low level of empowerment of HR and functional teams resulting in a poor overall environment and culture of an automobile dealership comes across as a concern that indirectly affects the business profitability. A clear hierarchy and division of power are often missing, leading to a casual and unprofessional environment with a lack of focus on HR and Manpower management. There is a lack of clarity in communication of key performance areas with the employees of the dealership. A lack of professionalism concerning allotting incentives timely and hiring processes is also observed as a reason for the lack of encouragement to the sales team and a lack of skills and training for maintaining a strong team of professionals. It also leads to manpower retention, causing the dealership high costs of manpower replacement and thus a fall in the business profitability.

Table 1: Dealership 1 - Manpower productivity data

Product Type	Parameters	JAN	FEB	MAR	APR	MAY	JUN	H-1, CY-19	MA, H-1 CY
Passenger Vehicle	Sales Volume	24	34	69	75	68	59	329	55
	SCs	17	17	17	16	17	17	101	17
	TLs+SMs	8	7	7	7	7	7	43	7
	Total (SC+TL)	25	24	24	23	24	24	144	24
	Productivity	1	1.4	2.9	3.3	2.8	2.5	2.3	2.3
Product Type	Parameters	JAN	FEB	MAR	APR	MAY	JUN	H-1, CY19	MA, H-1, CY
Commercial Vehicle	Sales Volume	42	35	31	21	32	38	199	33
	SCs	12	12	12	12	10	10	68	11
	TLs	3	3	3	3	3	4	19	3
	Total (Sc+TL)	15	15	15	15	13	14	87	15
	Productivity	2.8	2.3	2.1	1.4	2.5	2.7	2.3	2.3
Product Type	Parameters	JAN	FEB	MAR	APR	MAY	JUN	H-1, CY19	MA, H-1, CY
Small Commercial Vehicle	Sales Volume	37	27	28	18	31	30	171	29
	SCs	13	13	13	11	11	9	70	12
	TLs	2	2	2	3	3	3	15	3
	Total (Sc+TL)	15	15	15	14	14	12	85	14
	Productivity	2.5	1.8	1.9	1.3	2.2	2.5	2.0	2.0

Note: CY- Calendar Year, MA – Monthly Average, TL – Team Leader, SC – Sales Consultant, SM – sales Manager, PV – Passenger Vehicles (cars, sports utility vehicles, multi-purpose vehicles), CV – Commercial Vehicles, SCV- Small Commercial Vehicles

Across the three range of products sold at the Dealership 1– SCV, PV, CV – the data in Table 1 shows that the overall productivity of the Sales Team is less than 2.5 in the first half of the year 2019. This value is far below than average

industry value of 4 in CV and 5 in PV. The low productivity leads to the high fixed cost incurred by the dealerships, making it an important profitability concern.

Productivity benchmarks and targets change from industry to industry. While some jobs already have basic benchmarks established, like, customer service representatives have benchmarks that establish how long a “productive” call should take - many companies will have to establish these benchmarks themselves. However, there is no such established guideline for the benchmark for the productivity of each employee profile in the automobile industry. Thus, the dealership owner and CEO often guide and decide the productivity benchmarks, the number of salesmen, and other employees and their salaries. The manpower management thus falls in their hands and always has scope for further improvement. As per business consultants and management of these dealerships productivity of less than 4 is not adequate leaving behind immense scope for improvement.

4.7 Workshop/Bodyshop / Service RO growth concerns leading to low revenue low profit

A thorough business plan for making the servicing part of an automobile dealership more profitable is widely missing in Indian automobile dealerships. The respondents have agreed that the field of service, especially body shop, holds immense potential to contribute to a dealership's business profitability. Sales and Service are two dimensions of any automobile dealership. Service deals with the servicing of existing vehicles in the market and does major repairs in the case of accidents in the body shop. The market trends do not influence service as the demand for repairs is almost constant and ever-growing throughout. This part hence is an important contributor to the profitability of an automobile dealership.

Table 2 shows that Dealership 1 and 2 have incurred continuous sales and service losses in both operations. The losses are worth more than 5.5 lakhs in Dealership 2 and 17 lakhs in Dealership 1 in Service alone, while at Dealership 3, despite the sales volume (number of vehicles sold) is less than in both the dealerships 1 and 2, it has achieved a profit in both Sales and Service. This points out the scope of profit generation in areas other than sales operation in an automobile dealership and the potential of business profitability through service – an area incurring major losses at the chosen dealerships for the study. Even in Dealership 3, the share of workshop service in the total profits is a mere 3.3% as compared to 96.7% through Sales. A fluctuation in the profits/ loss trends has been observed month over a month across all the three chosen dealerships for the study. Hence a further study is required to obtain a more consistent trend.

Table 2: Sales/ Service /Service RO/ Sales volume Performance data

Dealership 1		Ap'l'19	May'19	Jun'19	Jul'19	Aug'19	Sep'19	H-1(19-20)	Month AVG
Sales	Profit	-2083393	-1878188	-2787493	-1450678	-1267623	-2070628	-11538004	-1923001
Service	Profit	-1907435	-1549023	-1996167	-1771072	-1830074	-1434563	-10488334	-1748056
Total	Profit	-3990828	-3427211	-4783660	-3221750	-3097697	-3505191	-22026337	-3671056
Sales Vol		109	241	127	143	150	130	900	150
Service Vol		794	812	711	766	774	907	4,764	794
Remark		Monthly Average losses of Rs.19.29 Lakhs per month in Sales and Rs 17.48 Lakhs in Service							
Dealership 2		Ap'l'19	May'19	Jun'19	Jul'19	Aug'19	Sep'19	H-1(19-20)	Month AVG
Sales	Profit	-2367049	782566	-2651136	-1488430	-389462	-459541	-6573052	-1095509
Service	Profit	-675648	-581314	-1027373	-850004	276066	-604255	-3462528	-577088
Total	Profit	-3042697	201252	-3678509	-2338434	-113397	-1063796	-10035580	-1672597
Sales Vol		109	64	102	109	125	117	626	104
Service Vol		516	533	647	644	695	739	3,774	629
Remark		Monthly Average losses of Rs.10.95 Lakhs per month in Sales and Rs 5.77 Lakhs in Service							
Dealership 3		Ap'l'19	May'19	Jun'19	Jul'19	Aug'19	Sep'19	H-1(19-20)	Month AVG
Sales	Profit	485400	1294235	9434	427394	2621467	613376	5451306	908551
Service	Profit	-179483	-409809	-580005	166215	390445	799576	186939	31157
Total	Profit	305917	884426	-570571	593609	3011912	1412952	5638245	939708
Sales Vol		54	52	32	50	73	42	303	51
Service Vol		301	343	325	374	408	333	2084	347
Remark		Monthly Average Profit of Rs 9.08 Lakhs per month in Sales and Rs 0.31 Lakhs in Service							

Note: CY- Calendar Year, MA – Monthly Average, TL – Team Leader, SC – Sales Consultant, SM – sales Manager, PV – Passenger Vehicles (cars, sports utility vehicles, multi-purpose vehicles), CV – Commercial Vehicles, SCV- Small Commercial Vehicles

4.8 Deficient inventory management causing high-interest cost to the dealership

The inventory refers to cars' stock that an automobile dealership buys from the OEM to sell it out to the customer. The potential of car sale is understood, and following that, the cars are ordered from the OEM. The automobile dealership has to pay interest for the stock of cars that he/she keeps in their inventory, which adds to the cost. If the inventory is not managed effectively, the rising stocks of automobiles in the dealership can add up to cost the dealership a significant amount of interest capital and affect business profitability.

To understand whether or not the inventory was being managed effectively in the chosen dealerships for this study, the inventory data for a period of 6 months from January 2019 to June 2019 were analyzed (refer to Table 3). It was observed that the dealership could sell 809 vehicles to customers during the period whereas, their offtake from OEM had been 920 vehicles. Hence, an excess of 111 vehicles remained in stock as extras, thus costing the dealership a total interest amount of about INR 32.25 lakhs, which translates into a monthly average loss of INR 5.54 lakhs.

Table 3: High inventory cost due to excess vehicle stocks

Shiv- Mahindra, Pune		Jan'19	Feb'19	March'19	Apr'19	May'19	Jun'19	H-1 TTL	MA, H-1
PV	Billing Nos.	44	66	83	85	62	57	397	66
	Billing Value INR (L)	486	769	866	880	659	600	4261	710
	Retail Nos.	24	34	69	75	68	59	329	55
CV	Billing Nos.	35	45	56	35	28	23	222	37
	Billing Value INR (L)	221	288	337	209	178	145	1378	230
	Retail Nos.	42	35	31	21	32	38	199	33
SCV	Billing Nos.	40	25	35	81	88	32	301	50
	Billing Value INR (L)	126	86	121	301	290	103	1026	171
	Retail Nos.	37	27	28	86	73	30	281	47
Total	Billing Nos.	119	136	174	201	178	112	920	153
	Billing Value INR (L)	833	1142	1324	1391	1128	847	6665	1111
	Retail Nos.	103	96	128	182	173	127	809	135
Gap Billing Vs Retail		16	40	46	19	5	-15	111	19
Stock Cumulative increase		16	56	102	121	126	111	532	89
Value Stock Addition INR (L)	7.50/ vehicle	120	420	765	907.5	945	832.5	3990	665
Interest on added Stock INR (L)		1.00	3.50	6.37	7.56	7.87	6.93	33.25	5.54

Note: CY- Calendar Year, MA – Monthly Average, TL – Team Leader, SC – Sales Consultant, SM – sales Manager, PV – Passenger Vehicles (cars, sports utility vehicles, multi-purpose vehicles), CV – Commercial Vehicles, SCV- Small Commercial Vehicles, L- Lakhs

V. CONCLUSION

The key causal factors identified in this study that could address major dealership profitability/performance concerns are broadly divided into 3 categories

1) - Manpower related: There are multiple directors with differential investment shares hence their interest level issues leading to slow and ineffective decision making. Delay in releasing salaries and incentives leading to lower productivity and efficiency of manpower employed, Coordination issues among various departments due to lack of delegation and authority

2)-Business growth and Process concerns: no growth or slow growth scenario in-service repair orders and sales volume along with the lack of in time performance reviews are other key concerns identified

3)-Resource related: OEMs push dealerships for far higher than actually required resource deployment in inventory stocks, infrastructure, manpower leading to reduced profits. Mismanagement of vehicle inventory is among the top concerns identified responsible for reduced profits.

There is a scope for future research through an action research approach in this domain. The researcher may further analyze the key causal factors and come up with business innovation process strategies. These suggested strategies may



be implemented by the dealership owners and senior management iteratively based on the performance improvement results observed.

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