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Vehicle Personalization at Point of Sale: *Developing an Integrated Business Strategy for Starting a New Business within a Mature Corporation*

Case Problem

Executive Director, Natalie Pierce, stared intently at the white paper recommendations on her computer screen oblivious to the gale force wind rattling her window that cold, January day in 2010. She was convinced that there was tremendous opportunity for USA Motors to pursue a vehicle personalization at point of sale strategy. The market was large and profitable. However, she was certain that going head to head with the aftermarket using their strategy as a basis for competition, was a strategy for failure. Natalie's challenge was to define a business model with robust portfolio, market positioning, branding, product development, sourcing, distribution & installation and sales & promotion strategies that leveraged USA Motors' strengths and redefined a new opportunity in the aftermarket. She recognized that starting a new business within a mature corporation with well-defined ways of doing business would present both advantages and challenges. She leaned back in her chair and pondered. Her thoughts were as turbulent as the wind outside. How exactly should she proceed?

Background

USA Motors is a United States headquartered automotive manufacturer that markets and sells vehicles and service parts globally. It participates in an intensely competitive global marketplace with 50 other OEMs that annually manufacture as many as 9 million units to as few as 67,000. (OICA, 2008 MY data). The large number of automotive manufacturers has driven global excess production capacity[1]. Between 2001 and 2007, automotive production capacity utilization topped out at 80%, significantly lower than in prior decades before dropping to under 60% utilization during the 2008/9 recession (Autofacts, 2010). Given the number of competitors and the excess industry production capacity, OEMs have found traditional per unit profit margins squeezed. In particular, USA Motors as well as other US headquartered automakers have had considerable market share erosion in the United States and although growing sales globally[2] have found themselves paying for legacy costs[3] that further erode profits. As such USA Motors has launched initiatives that will grow revenue and improve margins.

[1] OEMs optimistically plan to conquest market share and as such typically have more capacity than what they use at steady state. As the number of OEMs increase, so, too, does this aggregate excess capacity.
[2] For nearly 100 years of its existence, the company's primary market has been the United States; three years ago, that began to change as USA Motors sold more vehicles outside than within North America.
[3] Legacy costs are contractually or legally mandated expenses incurred by a company from prior commitments such as union bargained health care and pensions and contractual dealer obligations.

Nancy Philippart prepared this case under the supervision of Dr. Ratna Babu Chinnam for the Global Executive PhD Track in Industrial Engineering at Wayne State University. Wayne State University GET cases are developed solely as the basis for class discussion. Cases are not intended to serve as endorsements, sources of primary data, or illustrations of effective or ineffective engineering / management.

USA Motors senior management commissioned several 'innovation teams' comprised of high potential cross functional employees to investigate various revenue producing ideas generated within the company. One such idea was to have USA Motors participate in downstream revenue generation[4] by developing a 'vehicle personalization' business. This involved aggressively pursuing a business model to design, develop and sell vehicle accessories at point of vehicle sale and throughout the customer ownership cycle and tap into the $30 billion automotive accessories market (SEMA, 2010). Executive Director Natalie Pierce had followed the personalization trend in other industries and believed that this was a huge revenue opportunity for USA Motors. Yet the fact that no automotive OEM had significant presence in vehicle personalization suggested that there were many roadblocks to pursuing this opportunity. Given the recommendations from the innovation team white paper and her passion about this opportunity, senior management assigned her and a small team of resources to answer the following questions:

- Should USA Motors pursue the vehicle personalization opportunity? Was there a profit opportunity for an OEM to compete with the aftermarket using its strengths as a basis for competition?

- What strategies should be pursued in: product portfolio, market position and branding, product development, sourcing, distribution & installation and sales & promotion?

- What structure was required to successfully start up a new business within a mature organization with established processes and ways of doing business?

Definition of Vehicle Personalization

Personalization, or the ability to have a product or service 'my way at the time I want it', is a key consumer expectation fueled by technology and information explosion (Pine, Lee, Hart). Industries such as electronics, fashion, and even medicine are providing personalized solutions to customer needs; so much so that consumers have come to expect this. Personalization in the auto industry allows a customer to add or customize content on his or her vehicle at or after point of sale beyond what's available from the factory. This content can be functional (bug shields, storage bins, assist steps), improve appearance (trim, ground effects and spoilers), enhance performance (supercharger kits, performance exhaust), provide entertainment options (various in vehicle video and audio options) or merely enable a customer to equip his or her vehicle in a way that suits his or her needs or makes the vehicle different from everyone else. Personalization in the auto industry has mainly been accomplished through aftermarket products with little integration[5] or accommodation[6] to vehicles. This has made vehicle personalization not only inconvenient for many but sometimes poses a quality or safety risk. Although there is tremendous variety of products, the quality, cost, durability and safety of aftermarket products have tremendous variability. Likewise, application and quality of installation also pose risks depending on the complexity of the product and the level of integration with the vehicle. As such, consumers must be astute and informed or risk damaging their vehicles. This can present a warranty risk, since the OEM may not warranty the vehicle if damage occurred as a result of installation of a non-approved part. In more extreme cases, such as with installation of oversized aftermarket wheels and tires, customers can actually be harmed when their vehicles do not perform as intended with aftermarket modifications.

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[4] Downstream revenue is income generated from products or services other than the initial sale of the manufactured vehicle. This encompasses such things as maintenance contracts, paid radio or navigation subscriptions or vehicle accessories. The most desirable type of downstream revenue recurs throughout the ownership cycle.

[5] Integration refers to how the accessory impacts the vehicle when installed. Mass, electrical draw, crashworthiness, performance & handling and appearance of a vehicle can be adversely impacted if an inappropriate accessory is installed.

[6] Accommodation refers to whether the vehicle was designed to accept the accessory.

Market Opportunity

The Specialty Equipment Manufacturers Association (SEMA), the trade organization that represents the aftermarket vehicle accessories industry, estimates that the vehicle personalization business has grown between 4 and 10% annually for the past 15 years (Exhibit 1). SEMA segments vehicle personalization into three broad market categories and Exhibit 1 also shows the retail dollar magnitude for each category. Margins in this business are estimated to be between 10 and 100+%, significantly higher than the 2 to 5% on average earned in the vehicle manufacturing business. For vehicle Original Equipment Manufacturers (OEMs) who are continuously being squeezed by tight profit margins, the opportunity to generate new, higher margin revenue is attractive. Likewise, automobile dealers have found their profit margins compressed as manufacturers have cut vehicle margins, automotive financing laws have curtailed opportunities to make profit[7] and consumers are better able to comparative shop given the plethora of information on the internet. They, too, are looking for additional opportunities to generate revenue growth consistent with consumer needs.

Traditionally, the OEMs have had limited participation in the vehicle personalization business although it can be argued that they have multiple advantages that aftermarket companies do not. Many of these advantages were articulated in the innovation team white papers provided to Natalie. First and foremost, OEMs design, engineer and manufacture vehicles and as such can use this intellectual property to develop accessories concurrent with the vehicle and have these products available at vehicle launch. Typically, the aftermarket will reverse engineer accessories for new vehicles either post-launch or at a measuring session jointly hosted by SEMA and the OEM on a pre-production vehicle. Measuring a single vehicle does not comprehend manufacturing build tolerances and produces significant variation in quality of fit. Concurrent vehicle and accessory development can save the OEM cost by comprehending provisions for vehicle personalization in original vehicle design (i.e. designed in slots on frames for attachment of tube steps or running boards or body panel slots for attachment of exterior trim kits). This helps ensure superior fit, function and an integrated, tailored appearance when an accessory is installed on a vehicle. Additionally, OEMs can piggyback accessory validation on vehicle validation and quality testing, again saving cost, assuring that the accessories work with the vehicle as intended and most importantly do not cause the vehicle when outfitted with accessories to become noncompliant with government safety, crashworthiness and fuel economy regulations. Although aftermarket providers typically perform some level of part validation testing, most do little, if any testing with the accessory installed on vehicle. This difference gives OEMs a quality advantage and allows them to warranty not only the accessory but the vehicle with the accessory installed. Finally, OEMs have well established dealer networks providing a significant distribution advantage. Customers can conveniently purchase accessories and have them installed at the dealership and for new car sales, customers can finance accessories along with the vehicle. They have the peace of mind knowing that both the dealer and the OEM stand behind the vehicle, the accessory and the accessory installed on the vehicle. Despite these advantages, Natalie knew that in total OEMs' share of the aftermarket accessories market was only 5%. Aftermarket competitors had price, variety, speed of change, innovation and less stringent accountability to customers and governments on their side. Additionally, aftermarket competitors used their lower fixed cost structures to not only offer accessories at low prices but to provide enticing incentives to distributors and sales personnel. Natalie recognized that she could not beat the aftermarket at its own game. Instead, she would need to leverage USA Motors' advantages as an OEM to develop a business model that changed the basis of competition. She would need to clearly define and articulate the benefits of USA Motors accessory value proposition vs. that of the aftermarket.

[7] Many states now regulate automotive financing fees and disclosure making it more difficult for dealers to add extra fees to the contract.

Accessory Product Portfolio Strategy

USA Motors had a small number of existing products that could be considered accessories in its service parts portfolio. These included basic functional products like floor mats, bug shields, running boards for trucks and vent visors. Natalie and her team needed to develop a viable accessories portfolio strategy consistent with USA Motors vehicle plan. This would entail tradeoffs between speed to market, quality integration with the vehicle and development costs. To start, she developed Exhibit 2 to better translate broad SEMA product segments into more descriptive categories and specific accessories. Next, she examined USA Motors vehicle portfolio and lifecycle plans shown in Exhibit 3. As shown in Exhibit 3, USA Motors had three divisions with a total of 23 vehicle brands on different launch cadences. Although unique brands, Natalie knew that vehicles from similar segments across divisions (i.e. mid-size pickup in VALUE and UTILITY divisions) shared the same vehicle architecture and development cadence thus providing opportunities for similar types of accessory products to be developed together for multiple divisions.

Vehicle development at USA Motors was a 40 month process with typical lifecycles of 4 to 6 years. To remain competitive in the market, Natalie realized that certain product categories, like appearance and electronic accessories, would require one or more refreshes during a single lifecycle of a vehicle whereas functional and protection products may not. Aftermarket accessory providers typically developed products quickly and refreshed them often, creating a dynamic market environment. Thus, a key challenge faced by USA Motors was how to 'develop' each type of accessory product on its own lifecycle cadence but still ensure appropriate integration to the vehicle.

Natalie also recognized that there were certain trendy but extreme products in the aftermarket like spinner wheels, lift kits and neon exterior lighting that USA Motors would not likely pursue in its portfolio because of questionable compliance and consumer safety issues. Many of the products in the Performance and Racing category offered by the aftermarket compromised the 'street' legality of a vehicle and would result in USA Motors as a vehicle manufacturer incurring compliance penalties. Even in the Wheels category, Natalie recognized that USA Motors would not 'plus size' its wheels as large as the aftermarket (currently some aftermarket companies were offering rims as large as 24 inches) because of stability and ride and handling risks.

Finally, Natalie knew that customers of certain vehicle types were known to be big 'accessorizers'. For example, SEMA estimated that a 'typical' full size truck buyer spent approximately $2000 within six months of purchase accessorizing his or her truck. Natalie examined the SEMA data provided in Exhibit 4 that listed vehicle segments whose owners had a high propensity to purchase aftermarket accessories. Natalie understood that this data was more directional than scientific and was partially a function of product availability and distribution in the aftermarket. She pondered whether customers of various vehicle segments given the right products, right value proposition and convenience of purchase would be inclined to accessorize.

Questions for Natalie to consider in her accessory product portfolio strategy were:

- Should an accessory product category be selected and developed across all applicable brands to better enable sales and distribution? If so, which accessory product category and which vehicles?

- Should a full accessories portfolio be developed by vehicle based on best opportunity? If so, which accessory categories and which vehicle(s)?

- Should a more opportunistic approach be taken to develop accessory portfolios for new vehicles in the development pipeline given the advantages of concurrent product development with the vehicle?
- Would the best strategy be a hybrid of all of the above?
- How should accessory product lifecycles be handled?

Market Positioning and Branding Strategy

Realistically, Natalie recognized that with the typical OEM cost structure, price could not be the basis of competition for USA Motors accessories. Positioning would most likely need to be in a premium price range and USA Motors' competitive advantage articulated around the unique benefits OEMs bring to the business. She must also consider branding. The existing accessories in USA Motors product portfolio carried the service part's brand (albeit weak) vs. divisional or vehicle brand of the vehicle.. Natalie knew that with a few exceptions, most aftermarket accessory brands were weak. USA Motors had well recognized divisional and vehicle brands. Questions Natalie must consider:

- How could USA Motors best articulate to the customer the competitive advantages that it will deliver as the manufacturer of vehicles in its accessories value proposition vs. the aftermarket?
- Would this positioning offer sufficient customer value to justify charging premium prices?
- Should resources be expended strengthening the service parts brand for accessories or should divisional or individual vehicle brands be used in promoting accessories?

Product Development Strategy

As an OEM accessory provider, Natalie recognized that unlike the aftermarket, there were two critical, interdependent aspects of a successful product development strategy that must be comprehended by USA Motors – development of the accessory and its integration to the vehicle. The more integrated an accessory is to the vehicle, the more complex the product development task. Natalie recognized that often the integration of an accessory to the vehicle was more difficult than the actual development of the component with dire consequences if done poorly. For example, the most significant challenge in the development of a two way remote start feature (a device that allows a customer to start his or her vehicle from a distance of 800 feet and receive electronic feedback on the vehicle's operating status via handheld remote), is the integration with the complex electrical architecture of the vehicle, not the development of the device itself. Failure to comprehend and appropriately draw vehicle electrical power can cause problems in vehicle operation and as customers who have installed aftermarket remote starts sometimes painfully discover, may result in a 'walk home'. Even products that initially appear to involve a low level of vehicle integration have challenges. For example, a product like a heavy duty rubber floor mat that seems to be a low integration product must comply with numerous safety standards when installed in a vehicle. This meant USA Motors product development strategy required testing and validation to ensure quality, safety and compliance with government regulations at both the part and vehicle level. This significantly differed from an aftermarket product development approach. Aftermarket accessory providers typically concentrated on part level development and validation with minimal attention to vehicle integration beyond fit. Unlike an OEM, aftermarket companies specified generic vehicle usage parameters and put the responsibility for decisions on how to safely modify the vehicle on the customer. As a result, the aftermarket provider assumed little or no liability whereas the OEM accessory provider assumed full liability. In Natalie's mind, this could be both an advantage and disadvantage depending on USA Motors' business approach.

Not unlike factory installed vehicle components, Natalie envisioned varying degrees of supplier integration for accessories product development. USA Motors could collaborate with suppliers and not technically 'develop' any accessories itself, but decisions would need to be made as to extent of vehicle integration, validation and testing that would be handled by the supplier vs. USA Motors engineers. One key product development consideration that was significantly different for accessories vs. factory installed parts was installation. Typically, the market opportunity for accessories at or after point of sale significantly dropped when installation times exceeded two hours. In fact, one hour or less was the sweet spot for installation. Therefore, significant engineering design and development must be focused on installation, not only the ease in which a part mates to vehicle but the time and complexity associated with removal and reinstallation of surrounding components, instruction simplicity and required tools. Finally, engineering would also be required to design and develop suitable packaging to protect accessories during shipping.

To focus her thinking, Natalie developed the chart in Exhibit 5 that categorized accessories as low, medium and high integration.

Questions for Natalie to consider include:

- Is a single product development strategy appropriate or should the strategy differ for low, medium and high integration accessories?
- Which responsibilities (i.e. design, part development and validation, vehicle integration, validation of part to vehicle, installation procedures and part packaging) should be handled by suppliers and what by USA Motors engineers?
- Should engineering validation and testing be handled congruent with vehicle test schedule or were there opportunities to test off-line?

Sourcing Strategy

Natalie recognized that the sourcing strategy had a high degree of interdependence with the chosen portfolio and product development strategy. For example, a simple, low integration accessory like a chrome fuel fill door could be totally black boxed[8] to a supplier, whereas a more complex, highly integrated accessory like two way 'smart' remote start would require co-development and a high degree of vehicle validation by USA Motors' engineering. Beyond that there were other important sourcing strategy considerations. Given USA Motors initial venture into vehicle personalization, volumes would initially be modest. It would likely be difficult to attract the interest of current production suppliers accustomed to high production volumes. Natalie believed that it might be possible for certain products to be sourced as addendums to production sourcing contracts. For example, a grille with an alternative finish could be sourced with production supplier at the same time as the production part. However, this would necessitate that the accessory portfolio follow a sourcing cadence similar to production which could increase lead times to market. On the other hand, for certain parts with constrained supplier capacity (wheels immediately came to her mind), this advanced planning would enable better supplier capacity utilization. However, as appealing as a strategy that shared production sourcing was, Natalie recognized that new suppliers would also need to be developed or at best, certified by USA Motors. Certifying interested existing aftermarket suppliers could be one option although Natalie knew that this could entail significant work and monitoring to ensure that these suppliers were willing and able to meet USA Motors more rigorous product specifications. Additionally, USA Motors senior management was

[8] Black boxed refers to sourcing all aspects of part production to the supplier including design, engineering, validation, integration to vehicle and manufacturing.

aggressively pushing the organization to develop global part sources in China, East Asia and India to improve cost competitiveness of North American vehicles. Priority and in country supplier development resources were often given to new Asian and Indian sources. Natalie believed that there was opportunity to develop off-shore suppliers to meet USA Motors corporate sourcing footprint objectives but that these needed to be balanced with supply chain costs, logistics and timing. She also recognized that time in the supply chain would be a more important consideration for 'fashion' oriented accessories like wheels and grilles than for commodity like ones such as floor mats and storage devices. This would involve appropriate trade-offs between speed to market and efficiency.

Natalie recognized that specific details of the sourcing strategy could vary by product although fundamental questions on supply risk mitigation, supplier development and sourcing footprint would be similar. Ultimately, decisions would need to be made for each accessory in the product portfolio as to which suppliers and how many should be contracted using forecasted volume with no history. She considered the following general sourcing strategy questions:

- How could USA Motors attract suppliers to invest in at least initially low volume accessories products? Were there incentives that could be offered for future production sourcing consideration?
- Was a strategy that utilized existing aftermarket suppliers to produce accessories to OEM specifications viable, and was this a 'fast to market' effort?
- What role should global sources play in overall supply strategy; that of new supplier, redundant supplier to existing local supplier or some hybrid of both?
- How should speed to market be balanced with cost and efficiency in the supply chain?
- How could supply risk be mitigated?

Distribution and Installation Strategy

Because this was a new business opportunity for USA Motors, there were several options to consider for accessories distribution. However, Natalie realized that prudence dictates that she investigate two fundamental components of USA Motors existing distribution infrastructure to determine whether these would meet the needs of vehicle personalization business – USA Motors parts warehouses and vehicle dealer network. She also knew that she needed to comprehend installation capability in the distribution model – not only did many of the accessories envisioned to be available in USA Motors portfolio require some degree of technical capability to install but Natalie understood there was an entire customer segment, fondly called the 'Do It For Me', that had no desire to work on their vehicles. Furthermore, another OEM competitor that had entered the vehicle personalization business several years ago did not comprehend installation in its distribution model and was now scrambling years later to do so citing lack of convenient installation as a sales constraint. Finally, Natalie wanted USA Motors to have some control over installation to ensure quality as this would reflect on the company's brand reputation.

USA Motors had five parts warehouses located in North America that stored, processed and shipped service parts for current and past model vehicles to its dealer network. The company had recently joined a service parts industry consortium and now had benchmarking data to gauge its warehousing productivity. The data was sobering – USA Motors was dead last in almost all productivity measures, had the highest labor costs and the least flexible labor contract of all competitors. Furthermore, USA Motor's warehousing operation had limited capability to handle low volume parts which Natalie knew would be the initial state for accessories – in the service parts arena, low volume parts were kept in designated area of a dedicated warehouse; having to transport parts from only one warehouse would increase

transportation time to many retail distribution points. Although operations management had recently embarked on an initiative to implement lean and other process improvements in its warehouses, Natalie knew that it would be some time before competitive results emerged. Furthermore, she knew that many accessories were emotional purchases for customers and distribution points must be able to quickly provide product to retail points or the sales opportunity might be lost.

USA Motors had a large dealer network nationwide that sold and serviced vehicles. Roughly 20% of its dealers recognized that accessories helped to sell vehicles and had excellent profit potential – these dealers sold aftermarket accessories and many had lucrative relationships with companies that directly incentivized dealership employees for selling their products. The remaining dealers either had little knowledge of the opportunity or were not willing to make changes in dealership operations to facilitate accessory sales (more will be discussed about this below). Nonetheless, Natalie recognized that USA Motors had a captive customer for its accessories during the vehicle sales process and the ability to sell and finance accessories at the dealership along with the vehicle was a competitive advantage over the aftermarket. The challenge was how to engage the 80% of dealers who were not in the business and convert the 20% who used aftermarket products.

Natalie believed that a distribution point was needed between the parts suppliers and dealer. The few existing USA Motors accessories were currently distributed via a ship direct model – meaning they were shipped directly from the parts supplier to dealer, bypassing USA Motor's warehouses. Although dealerships had parts departments that inventoried parts, these were managed as independent profit centers. Parts managers were reluctant to carry inventory that did not turn quickly because it impacted their compensation. Given low volumes, USA Motors accessories were not stocked by dealers' parts managers; when a customer wanted one of these products, he or she had to go to the dealership parts counter (not a welcoming retail experience) to order the parts, wait several weeks or even months for delivery, make a trip back to the dealer to pick up the parts and schedule an appointment with the service department if installation was required. More often than not, a customer went to an aftermarket provider out of sheer convenience. The ship direct model was intended for low volume business – it kept these parts out of USA Motor's warehouses (therefore, not contributing to already bad productivity but also not establishing precedent that the UAW[9] owned this work). In theory, suppliers were supposed to keep small amounts of inventory at their facilities; however, most were afraid of obsolescence and, as such, depending on their production process, often bundled orders and built to order. This resulted in weeks and even months elapsing before the part was available to dealer and customer. This process guaranteed volumes would remain low on these parts since few customers were willing to wait and go through the inconvenience of return trips to dealer.

Dealers also varied in their capacity to do service work. Small dealerships had two to three service bays[10] while large dealers had in excess of twenty. The number of service technicians employed by a dealership correlated with the number of service bays. Although Natalie recognized some dealers would want to handle accessory installation, others would want to pick and choose what installation work they performed while others might not have available capacity. Some accessory installation was not sophisticated and did not require use of a service bay but also did not require a highly trained and well paid service technician. Other installation was more complex and would require more expertise, infrastructure and tools. Natalie was very aware of the installation issues faced by the OEM competitor

[9] The United Auto Workers Union represents USA Motors hourly warehouse workers. Contractually, parts stocked in USA warehouses are sourced to the UAW. Resourcing a part for distribution outside a USA Motors warehouse is difficult and must be agreed to by a joint UAW-management sourcing committee with compelling business rationale. Even with a compelling business rationale, this is a slow and time-consuming process.

[10] A service bay is a work area in a dealership usually equipped with hoist and other equipment required for vehicle maintenance.

who had independent distribution and solely relied on its dealers for installation. She also felt that standards needed to be put on installation to ensure quality.

Given these challenges, Natalie believed that a distributor with installation capabilities that offered the dealer same day/next day part availability and a flexible menu of installation services would address this problem. A network of distributors would be required to cover all dealers.

Key issues Natalie must consider included:

- Were USA Motors warehouses a viable option? If so, how could location and installation be handled?
- Was there an ideal independent distributor/installer – could this be a wholesaling dealer[11], existing distributor, other business entity or some hybrid of the above? Traditional distributors did not typically handle installation, so how could installation be included?
- Should distributor/installer relationship with a set of dealers be exclusive or competitive?

Sales and Promotion Strategy

Natalie understood that customers would require a seamless, convenient sales experience if USA Motors was to grow its accessories business. She believed that OEMs had a competitive advantage to sell vehicle personalization during the vehicle sales process – giving the customer the ability to personalize his or her vehicle would not only improve the vehicle purchase experience for the customer, but could help sell vehicles and earn both USA Motors and its dealers more profit through higher margin accessory sales. Furthermore, customers could finance accessory purchases along with the vehicle taking advantage of interest rates often more favorable than those from credit cards and banks. However, there were two fundamental issues to overcome if dealers were to become a successful retail mechanism for accessories. First, customers needed to be made aware of what accessories were available for their vehicles by seeing accessories displayed on vehicles in USA Motor's and dealers' promotional materials, websites and showroom floor. This would require dealers to develop new sales tools and displays. Even more importantly, customers needed to be offered the opportunity to personalize their vehicles during the vehicle sales process. A survey conducted by the innovation team found that the single biggest reason most customers did not purchase accessories from their dealers was that they were never offered. Natalie also believed there were huge opportunities to sell accessories over the vehicle ownership cycle in the dealership service lane.

An even more significant issue to overcome involved changing the fundamentals of the typical dealership business model and the sales and service process. Without dealers' willingness to change their operating and accounting procedures, Natalie knew customers would never be offered accessories as part of the new or used vehicle purchase experience. Franchised dealers have historically operated with separate, distinct departments, accounting and processes for sales, parts and service (likely because they mimicked their OEMs business model). Each department has been an independent profit center and its employees are compensated based on how their department, not the entire dealership performed. This meant that when service needed a part, the service manager bought it from the parts department at a price that included a parts department markup. Likewise, when sales needed a part installed on a vehicle, the sales manager

[11] Wholesaling dealers are dealers who have high volume parts distribution capabilities that enable them to supply parts to other commercial entities including other dealers. (Some dealers, particularly smaller ones, do not want to invest in significant parts inventory or manage a parts department so they elect to use the services of a wholesaling dealer.) Wholesaling dealers have large warehousing facilities and transportation; this enables them to buy parts in large volume at deeply discounted prices and resell to cover their costs and still make a profit.

was charged a service fee plus the service department markup. These markups were based on maintenance and warranty benchmarked margins but when applied to accessories made the final price to the customer uncompetitive. This is why aftermarket vendors were attractive to dealership sales personnel – they offered nice incentives to sales people and did not charge parts or service markups. Often the sales person could quietly refer the customer to an aftermarket vendor and pocket the incentive without management being aware. When the customer, believing that he or she had bought the accessory from the dealer came back later dissatisfied with quality issues, the service manager not the sales person had to deal with the irate customer. The service manager either had to fix the problem out of his budget or deny the customer. Less ethical service managers charged warranty to USA Motors. The entire process encouraged departmental optimization at the expense of the enterprise. Natalie knew that this would be the biggest challenge to the vehicle personalization business. Changing this culture given the several thousand dealers in USA Motors network would be challenging.

For a brief moment, she contemplated trying to work outside the dealer organization. Her major concern was harming relationships which could impact the vehicle sales business, a losing strategy for vehicle personalization as well as the entire enterprise. Dealer franchise laws differed across the fifty states, but language in the states with the toughest laws convinced her that this approach could also expose USA Motors to litigation. Besides, the OEM competitive advantage was encouraging the customer to personalize before he or she drove the car out of the showroom and then maintaining a relationship over the ownership experience. She would have to solve the dealer process issues.

Questions Natalie must consider in sales and promotion strategy include the following:

- Given the large dealer network, was there a logical priority to work with dealers to make the necessary operations and process changes? By size, by region of the country, by division? Should she concentrate on dealers not in the business or dealers already in business but working with aftermarket?

- What incentives could USA Motors provide to facilitate appropriate dealer behavior?

- What did a new dealer business model look like for vehicle personalization that facilitated parts, service and sales working together to maximize dealership vs. departmental profit?

Business Structure

In addition to developing the business strategy, how USA Motors chose to structure, organize and manage this new business opportunity would also contribute to its success. Natalie firmly believed that organizational form follows function and recognized that the strategic choices made by the organization would influence the business structure. Her primary concern was the risk adverse culture of USA Motors that frequently made trying new things, let alone launching new business opportunities, difficult. Additionally, the existing, albeit very weak, accessory business in USA Motors was domiciled in the Service Parts division that historically had little cross-fertilization of people with other areas of the business. As a result, much of the expertise Natalie would need to run a vehicle personalization business was isolated in pockets of the company that historically had very little interaction with each other. For example, the Service Parts division had very little expertise in product or vehicle development yet tremendous expertise in service and maintenance, including part installation. The vehicle divisions had tremendous customer marketing and retail expertise but little knowledge of parts distribution and warehousing. Expertise from most of USA Motors diverse divisions would be required to launch and sustain a vehicle personalization business.

Key questions Natalie must consider in her recommendations include:

- Would creation of a new business unit at least initially to launch and grow the vehicle personalization business be advisable vs. leveraging existing departments? Did existing departments have sufficient slack resources to enable making vehicle personalization a priority?

- What enablers could be employed to keep the culture from stifling this new business? Management champions? Metrics on support team's scorecards?

Natalie took a deep breadth – what a phenomenal opportunity for USA Motors but what huge challenges. She had a lot of work to do… She began organizing her thoughts.

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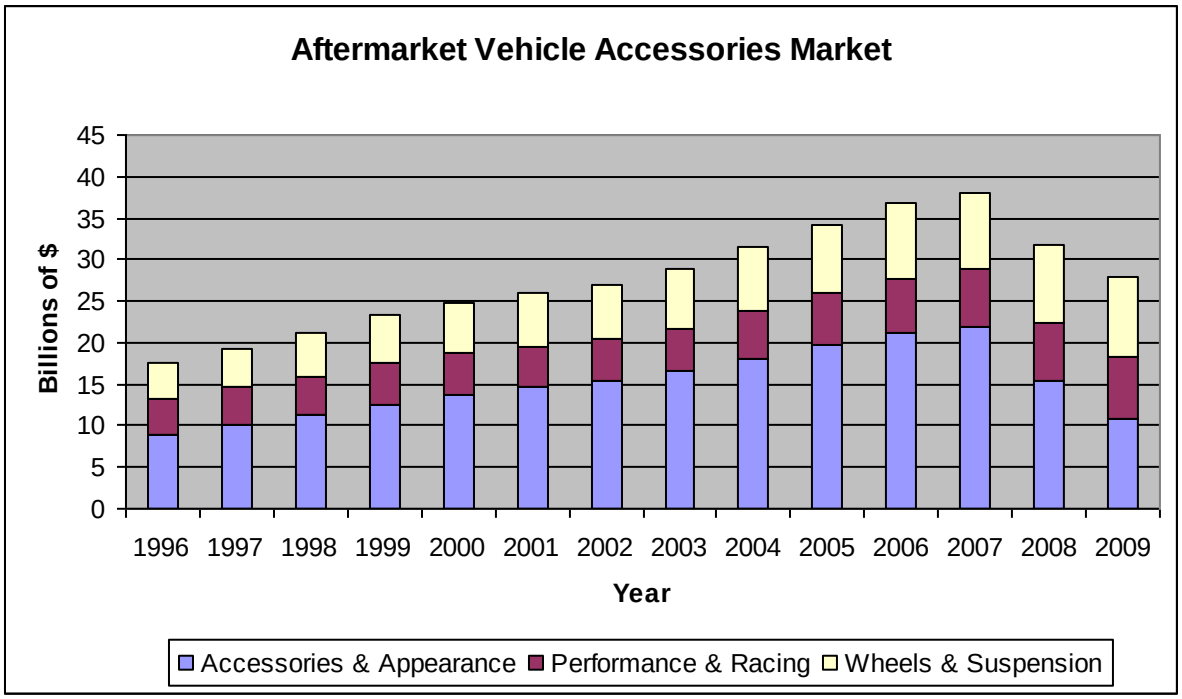

Exhibit 1 – Aftermarket Accessories Retail Sales by Category (SEMA)

SEMA Category	Category Includes	Types of Products
Accessory & Appearance	Appearance Functional/Protection Entertainment	Exterior trim parts (i.e. mirror caps, fuel fill doors, tailpipe extenders in multiple finishes), ground effects, spoilers, interior trim parts, vent visors, bug shields, tube steps, storage devices, in vehicle video & audio options, mobile office features
Performance & Racing	Performance Enhancements	Performance exhaust; supercharger/turbocharger kits
Wheels & Suspension	Wheels Performance Tires	Plus size chrome and alloy wheels; matched performance tires

Exhibit 2 – Types of Products by SEMA Accessory Category

USA MOTORS VEHICLE PORTFOLIO AND LIFECYCLE PLAN

VALUE DIVISION: 10 vehicle entries

Vehicle Segment	Launch Date (MY)*	Lifecycle (yrs)
Subcompact car	2011	4
Compact car	2012	4
Mid-size car	2013	4
Full-size car	2014	5
Mid-size pickup	2011	5
Full-size pickup	2012	5
Mid-size crossover	2014	4
Full-size crossover	2015	4
Compact crossover	2013	5
2 seat roadster	2015	4

LUXURY DIVISION: 6 vehicle entries

Vehicle Segment	Launch Date (MY)*	Lifecycle (yrs)
Compact car	2012	4
Mid-size car	2013	4
Full-size car	2014	5
Mid-size crossover	2014	4
Full-size utility	2013	6
Full-size crossover	2015	5
Sports performance car	2012	4

UTILITY OFF-ROAD DIVISION: 7 vehicle entries

Vehicle Segment	Launch Date (MY)*	Lifecycle (yrs)
Mid-size pickup	2011	6
Full-size pickup	2012	5
Mid-size utility	2011	5
Full-size utility	2013	6
Mid-size crossover	2014	4
Full-size crossover	2015	4
Full-size van	2015	6

* Model year dates indicate vehicle launch in Sept/Oct of prior year

Exhibit 3 – USA Motors Vehicle Portfolio and Lifecycle Plan

SEMA Market Niche	Vehicle Segment	Retail Sales ($ billions)
Compact Performance	Compact & subcompact performance cars	$7.28
Light Truck	Pick-ups, vans, utilities, crossover utilities	$5.59
Restyling	All vehicles not included in other niches	$3.79
Street Performance	All performance cars not compact or subcompact	$2.24
Off-Road	4 wd utilities and trucks	$1.41

Exhibit 4 – Aftermarket Accessory Retail Sales by SEMA Vehicle Market Category (SEMA)

Integration Level	Types of Product
LOW	Fuel fill door, floor mats, tailpipe tips, vent visors, bug shields, interior storage devices, gear shift knobs
MEDIUM	Spoiler, exterior trim, grilles, ground effects, tube steps, running boards, interior trim, bedliners, cargo management systems
HIGH	All electrical accessories, performance exhaust, supercharger or turbocharger kits, wheels

Exhibit 5 – Integration Level to Vehicle for Various Accessory Products