

Development of a Benchmarking Concept for Converted Light Commercial Vehicles for the Russian Market

Masterarbeit

zur Erlangung des akademischen Grades „Master of Science (M.Sc.)“
im Studiengang Wirtschaftswissenschaft
der Wirtschaftswissenschaftlichen Fakultät der Leibniz Universität Hannover

vorgelegt von

Name: Rouvinskaja



Vorname: Regina



Prüfer: Prof. Dr. M. H. Breitner

Hannover, den 30.03.2014

Table of Contents

Table of Contents	II
List of Figures	V
List of Tables.....	VI
List of Abbreviations.....	VII
1. Introduction.....	1
1.1. Problem Definition	1
1.2. Objectives	2
1.3. Method of Investigation.....	3
2. Theoretical Concepts Influencing the Success of Converted Vehicles	5
2.1. Customization	5
2.1.1. Importance and Definition of Customization	5
2.1.2. Levels of Mass Customization.....	6
2.1.3. Enablers of Mass Customization - Processes, Methodologies and Technology	10
2.1.4. Monitoring Possibilities for Customized Products	13
2.2. Organizational Networks	14
2.2.1. Cooperation within Networks	14
2.2.2. Objectives of Entering into Cooperation	16
3. The Drivers of Customization of Light Commercial Vehicles: Body builders.....	17
3.1. Light Commercial Vehicles	17
3.2. Production Possibilities	19
3.3. Special Light Commercial Vehicles	20
3.4. Body builders.....	21
4. Methods.....	22
4.1. Benchmarking in the Automotive Sector	22
4.1.1. Definition of Benchmarking	22
4.1.2. Types of Benchmarking	23
4.2. Success Resource Deployment Approach	26

5. Market Potential Analysis for Russia.....	32
5.1. Environment Analysis with Expanded PEST-Model	32
5.1.1. Political Situation and Trends	32
5.1.2. Economical Situation and Trends	34
5.1.3. Technological Situation and Trends	38
5.1.4. Sociocultural Situation and Trends	39
5.1.5. Infrastructure	40
5.2. Growth Forecast for the Russian Light Commercial Vehicles Market	41
5.3. Customer Analysis	48
6. Case Study: Volkswagen Commercial Vehicles Professionalizing on Conversions in the Russian Market	50
6.1. International Structure of the Volkswagen Group	50
6.2. Strategic Goals of the Volkswagen AG and Volkswagen Commercial Vehicles	52
7. Data Collection	54
7.1. Interview Types	54
7.2. Data Collection, Interview Partner Selection and Interview Design Process	56
7.3. Description of Questionnaire Participants	57
8. Russian Market for Conversions	59
8.1. Conversion Figures and Important Industries	59
8.2. Sales Processes for Conversions	64
8.3. Requirements for Russian Body builders set by VW CV and the Importer	66
8.4. Network for Volkswagen Commercial Vehicles Conversions	70
9. Conceptual Framework for the Adoption of a Successful Network for Conversions....	71
9.1. Resources Existing in the Network	71
9.1.1. Manufacturer Side - Conversion Management Department	71
9.1.2. Organizational Structure on the Importer Side	73
9.1.3. Integration of Conversions on the Retail Side	75
9.2. Clusters of Critical Success Factors	76
9.3. Framework	78
9.4. Competitive Comparisons	81
9.4.1. Resource Oriented Competitive Comparison including Strengths and Weaknesses	81
9.4.1.1. Internet-based Interorganizational Systems	81

9.4.1.2. Body builder Activities	89
9.4.2. Market Oriented Competitive Comparison.....	92
10. Evaluation of Outcomes.....	100
10.1. Actual and Possible Interaction of Critical Success Factors and Resources	100
10.2. Practical Implications: Overtaking and Vitalization Strategies.....	101
10.3. Further Recommendations.....	108
10.4. Research Limitations	112
11. Summary and Future Outlook.....	115
Table of Literature	119
Appendix	130

“The difficulties of adopting a complete bundle of routines represent a key piece in the puzzle of why network resources are not easily imitated.”

Dyer and Hatch, 2006, p. 704

1. Introduction

1.1. Problem Definition

The saturation of European markets for automotive products started with the financial crisis in 2009 and was further aggravated by the recent euro debt crisis. Sales have fallen dramatically, especially in the Western European countries, which forces the automotive industry to focus on internationalization more than ever. Customers for Commercial Vehicles (CV) are industrialists, thus the CV market reacts much stronger to economical fluctuations than the market for Passenger Cars (PC). Therefore, all growth in the CV market of the last two years can be attributed to developing countries. Industry leaders and experts agree that the most potential for German automakers lies in the so called BRIC (Brazil, Russia, India and China) countries (VDA, 2013, p. 7) and for CV especially in Eastern Europe and South America (Mercer Management Consulting, 2005, p. 2). These “markets [...] are growing remarkably, offering huge sales opportunities and low-cost production facilities” (Moser, Kern, Wohlfarth and Hartmann, 2011, p. 784). Thereby, the Russian market was predicted already in 2007 to become the first or second biggest automotive market in Europe (Becker, 2009, p. 519; Schmid and Grosche 2008, p. 37). Besides, also Russia is often referred to as an emerging market, it has undertaken many developments in the last years so that it moves closer and closer in the direction of western countries as far as business processes are concerned. Due to that reason the underlying thesis concentrates on the Russian automotive market.

Going global “size is no longer a guarantee of success” (IBM, 2004, p. 2). The automotive industry is confronted with different challenges in each country as for example (e. g.) price wars, increased competitive pressure and increasing individual customer needs (Little, 2009, p. 2ff.). These challenges are further reinforced by increased governmental protectionism measures (VDA, 2013, p. 8). Globalization enabled customers to compare products on an international basis. This newly arisen transparency leads to the fact that automakers cannot differentiate themselves anymore from competitors through classic parameters as quality / price ratio, design or quality itself. Especially commercial customers have specific needs as for them the vehicle serves as a working place, private vehicle and the signboard of the company

simultaneously. This means the German automakers cannot simply transfer their concept to the Russian market but rather customization is necessary. Customized CV are referred to as 'conversions or installations'. Examples of conversions are vehicles for passenger transportation, refrigerated trucks, caravans, communal vehicles and emergency cars just to mention a few. To meet these complex requirements and at the same time remain profitable, automakers have to outsource certain elements of the supply chain to local firms. So, CV manufacturers only produce to a certain extent standardized basic vehicles, which are individualized by local specialized firms, called body builders (BBs). The legal representative of the manufacturer in the particular country, the importer, enters cooperation with those firms so that a world-wide network of different partners evolves. This leads to the need to create a relationship management system and the right frame conditions for cooperation.

1.2. Objectives

The underlying thesis will focus on the analysis of the above mentioned network, which concretely consists of the manufacturer, its importers and BBs in different countries. Thereby, the analysis is undertaken, for the German Light Commercial Vehicles (LCV) manufacturer, Volkswagen Commercial Vehicles (VW CV). Against the background of increased globalization and individualization, conversions are of particular importance for VW CV to become a global automaker offering individual solutions for commercial customers worldwide. Dr. Eckhard Scholz, CEO of VW CV, admitted in an interview with the local newspaper HAZ, VW CV's current lack of global orientation. "Today, VW CV is in the same status as VW was 20 years ago. The Group's share in the world's markets accounts for 13% whereas VW CV has one of 3%", so Scholz (HAZ, 2013, p.11). Nevertheless, in Russia VW CV is the number one under the foreign LCV brands. It has an excellent image in the market as it stands for high quality, durability and functionality. Nevertheless, the market is still dominated by local Russian manufacturers like GAZ mainly for financial reasons. Those are improving their products and even begin to expand. Many customers buy cheaper models disregarding the worse quality of these vehicles. Also, VW CV's position is severely threatened by the localization of other foreign brands, which increased dramatically in the last year. Therefore, VW CV needs an elaborated sales strategy to increase their market share in Russia. One way is to concentrate on conversions. Nowadays, more than half of the imported LCV to the Russian market are converted. Furthermore, these vehicles are often ordered in fleets and therefore strongly contribute to sales. Thus, the underlying thesis will derive recommendations for VW CV to improve the business with converted LCV in Russia, concentrating on the relationship

little influence on the characteristics of basic vehicles, which are one of the most important incentives for BBs to cooperate with a manufacturer.

A limitation which refers to the network structure of businesses is the problem with mutual networks. It develops when BBs share their knowledge gained through the experience with one manufacturer with its competitors and there is no way to prevent this as “knowledge replication is essentially ‘costless and simultaneous’ ” (Dyer and Hatch, 2006, p. 702 quoted from Shannon and Weaver, 1949; Szulanski, 2000). The advantage from cooperating with different BBs in the network must be somehow specific to this network with the one manufacturer, otherwise competitors working together with the same BBs would also profit from the knowledge inherent to the network (Dyer and Hatch, 2006, p. 703). On the contrary, this can also be seen as an advantage, as the BBs gain more and more experience with each conversion conducted.

11. Summary and Future Outlook

The aim of the underlying thesis was to derive optimization proposals for the network for VW CV conversions in the Russian market. Thereby, the factors communication and qualification could be identified as most important for a successful relationship. Continuous exchange between all parties involved is indispensable. Further, BBs should be integrated in product development as well as suppliers. Besides, the manufacturer, the importer, dealers and BBs should organize corporate trainings and information events, first of all with regard to an optimized appearance in front of the customer. If the importer and dealers should play a more important role in the network of conversions, offering the customer a "one stop shop" at the dealerships, this implies that especially dealers need to know more about conversions, so that they can advise the customer adequately. Currently, VW CV depends on domestic BBs in the market for conversions as imports of conversions are not allowed in Russia and over 50% of LCV need to be converted. Besides, about 60% of all order inflows at BBs come directly from customers, so they are the first touch point in more than half of all conversion requests, yet. Thus, the importer should be interested in optimizing the relationship to BBs so that products and processes can be improved corporately. And, they should both be interested in the improvement of the relationship to customers. Therefore, an efficient CRM needs to be established.

MB can be seen as the benchmark in the area of conversions. Thus, the VGR should use existing networks of competitors like MB or GAZ with BBs as far as possible. Especially, with

regard to the CD segment, MB has a great network at its demand. The future of the Crafter will depend to a high degree on the successful cooperation with BBs as almost 80% of Crafter are converted in Russia, yet. Besides, the bus segment is predicted to grow massively in the future.

Also, more systematic methods of customer and market analysis are necessary especially with regard to the design of internet-based IOIS and online platforms for customers. The implementation of new IT systems is a serious trend. It has to be defined, which information is most important for customers, dealers and BBs. So far, the importer didn't examine this question. In general, too little customer and market analysis are available about the Russian LCV market for conversions.

The interviewed BBs also predict different future trends for the Russian market for conversions: On the one hand, due to improved logistics, especially in congested areas, the demand for LCV and new solutions will increase. More individualized and professional conversions will be needed. Whereby, vehicles will show more and more technical features.

Mercer Management Consulting predicts in its study for the CV market that BBs will split in specialist and standard solution providers. Thereby, specialist BBs will stand out from the crowd and "the number of standard producers will reduce dramatically" (Mercer Management Consulting, 2005, p. 5). A trend towards bigger, certified, internationally active BBs can be recognized. This corresponds with the assumptions of the BBs, that many Russian customers will pay more and more attention to the quality of the conversion and the punctual delivery of the vehicle. The price will become only the second important criteria, so that quality and reliability will increase.

On the other hand, there will also remain many price sensitive industrialists so that the demand for cheaper CV is also predicted to increase. Individual solutions are generally not characterized by a low price, thus BBs will have to use cheaper basic models as GAZ, Renault or Fiat to satisfy price sensitive customers.

Further, the BBs predict that current borders of business processes will shift or rather many processes will be outsourced by manufacturers. As a result, the BB will become a more and more important partner as far as the international competitiveness of the manufacturer is concerned which automatically leads to closer cooperation in the whole network around conversions. Currently, the cooperation between VW CV and the German BBs is more intense than

the cooperation in Russia which can be contributed to the fact, that in Germany manufacturer and BBs initiate much more corporate activities. This should also be the aim for Russia.

Due to the modification in the driving license system, which requires a special driving license for every vehicle with a gross load weight of more than 3.5 tones, the demand for LCV under this weight border will increase.

Besides, in the future, the commercial customer will inquire a total package of transport solutions consisting of the vehicle and services as assurance, maintenance, tax, financing for a total price over the contractual period.

The future development of the total market for LCV not only depends on the economical, but also on the political, sociocultural, technological and infrastructural development of the country. The SWOT analysis in chapter 5.3. clarifies that experts give ambiguous statements, as many industries currently are undergoing a transformation. Progress can be recognized in the areas of technology and infrastructure but here, the further development depends on the cooperation with the west, so it remains to be seen, how this will work out in the future. If the plans of strategy 2020 can be realized, many industries will undergo improvements and consequently the demand for converted LCV will increase considerably. Generally, some industries grow faster than the GDP, thus manufacturers cannot completely rely on economical prognosis. The automotive industry is highly influenced by the government who has recently introduced many protectionism laws as described in chapter 5.1.1., which also have influence on conversions. This is the reason, why so many LCV manufacturers started a local production lately. Due to the current exchange rate fluctuations and VW CV's price structures, the business in Russia is currently unprofitable for VW CV in general. So, they also need to establish local facilities as soon as possible.

It is difficult to give an unambiguous prediction for the Russian network for conversions. Rather two scenarios are possible with regard to the relationships in the network.

In the first scenario, VW CV will try to establish more common requirements worldwide so that a common standard of quality can be created, its image doesn't get damaged and warranty costs can be kept at a low level.

In the second scenario, VW CV will delegate more responsibilities into the markets, thus risking that there won't exist a homogenous standard of VW CV conversions any longer. As it cannot control all activities in the single markets, this is to a certain extent already the case.

The consistent premium brand image could suffer, but there are also positive effects as the emergence of a country-specific product portfolio for conversions. Generally, converted vehicles undergo the most extensive form of customization. They are described as highly ‘individual solutions’ which implies that the vehicle complies with the requirements of local customers.

So, VW CV has to trade possible image losses against increased sales. It has to be determined how much the importer can decide. “In order to achieve global success over the long term, a company must gain the confidence of stakeholders all over the world” (Schmid and Grosche, 2008, p. 51). Thus, the biggest challenge is to find out which specific requirements have to be fulfilled in each of the countries, VW CV is active in.

Therefore, the conducted SRD method can be seen as a first step. In the underlying thesis, the necessary means for addressing these issues in adequate scope have not been available. Only the external view of the network could have been analyzed in detail. In the future, a team should be established with employees from the Conversion Management Department who continues the analysis.