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Focus

Roland Berger

Changing lanes – How conglomerates can harness the new opportunities in the SEA passenger vehicle market

Roland
Berger



Standing at the crossroads / *How leading conglomerates can take advantage of the new opportunities arising from the market's volatility*

Southeast Asia's passenger vehicle market is facing an uphill battle. The once appealing and accommodating "blue ocean" market is fast disappearing as growth slows, with the gloomy global economic outlook compounding the slowdown. Players now not only need to work harder, they also have to work smarter to ensure the fast-lane profit levels they used to enjoy.

Standing at the crossroads of risk and reward are the conglomerates that dominate auto distribution in Southeast Asia. On the one hand, they risk increased customer churn, revenue decline or even risk of replacement if they fail to act. But on the other hand, the rewards if they take advantage of the new opportunities arising from the market's volatility are great: increased customer loyalty, exploitation of the used car market, partnerships with mobility providers and, ultimately, sustainable long-term growth.

In this report, we look at the current state of the SEA passenger vehicle market, identify problems in it using our survey of 120 leading dealers and distributors in the region, and offer solutions and recommendations to get conglomerates back on track. We advise that they engage in a multi-dimensional approach that improves their existing business model, allows diversification into adjacencies and takes advantage of new business opportunities.

4	1 IN A JAM – CURRENT PROBLEMS IN THE SEA MARKET
5	1.1 / Poor customer retention The existing business model of dealers is no longer sufficient
7	1.2 / Low sophistication in used car market Online platforms are likely to become long-term players
9	1.3 / Increasing regulation and tougher competition Mobility providers are under growing pressure
10	2 RUNNING REPAIRS – HOW TO ADDRESS THE PROBLEMS
11	2.1 / Improve the existing business model Better retention strategies require better utilization of data
12	2.2 / Diversify into new business areas Dealers and distributors can benefit from new demand
15	2.3 / Supplement the existing business model Mobility providers could become a key business segment
16	3 TAKING POLE POSITION – ACTION FOR CONGLOMERATES

1

In a jam / *Our survey revealed three key problems facing dealers in the SEA passenger vehicle market*

1.1 / Poor customer retention

THE EXISTING BUSINESS MODEL OF DEALERS IS NO LONGER SUFFICIENT

New cars are the primary focus of the SEA markets (Indonesia, Thailand, Malaysia, the Philippines, Singapore and Vietnam), yet new car sales have grown by just 2.1% CAGR in the past five years. During the same period regional GDP growth was 3.7%. But while diminishing growth is common as markets become more developed, the situation this time may be different in the auto sector. → **A**

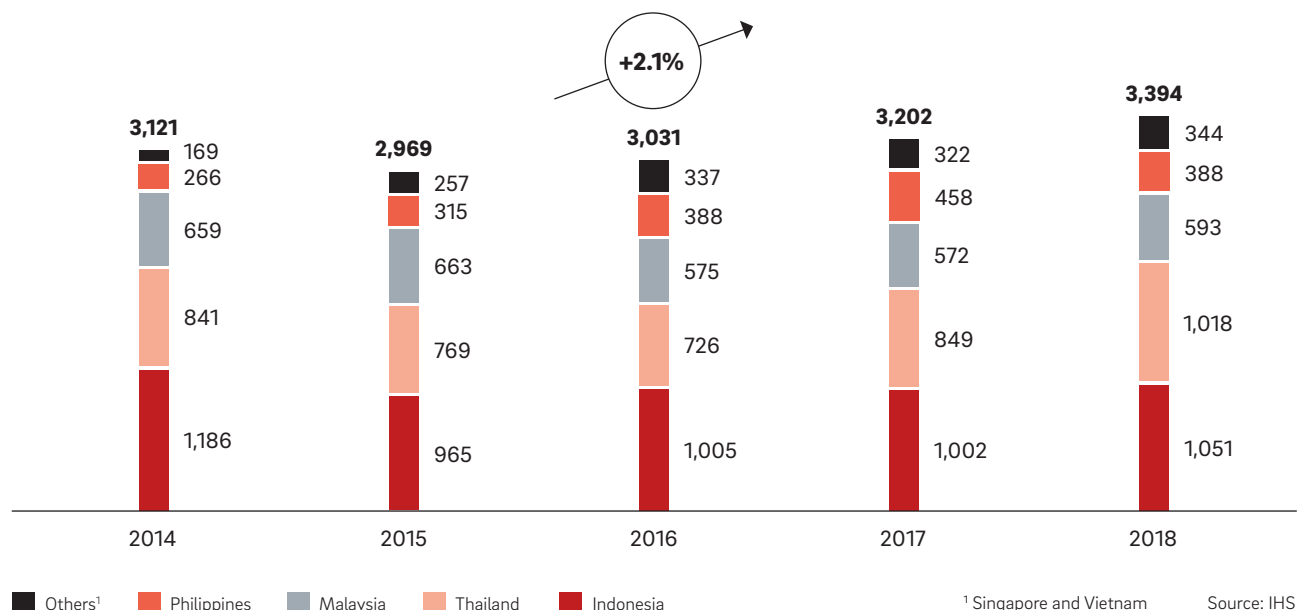
Concerns about the global economy, the emergence of digital platforms and the increasing influence of ride-hailing on private mobility suggest that previous industry defense strategies, such as opportunistic retention tactics, will not be sufficient to sustain existing business models. An analysis of the broader market and current state of the SEA passenger vehicle market reveals why.

The automotive industry relies on two main sales strategies – conquest-based and retention-based. The first refers to the acquisition of new customers who had no affiliation with a business. It was the driver that was behind the SEA market's early development. The second refers to repeat sales, for example aftersales services and repurchases, which are an important defense strategy to optimize revenue from existing customers.

Falling new car sales in a developing market suggests that conquest strategies are reaching a threshold, and that retention strategies should take over to sustain the existing business model. However, our study of 120 leading dealers and distributors in Indonesia, Malaysia, the Philippines and Thailand suggests limited adoption of effective retention strategies.

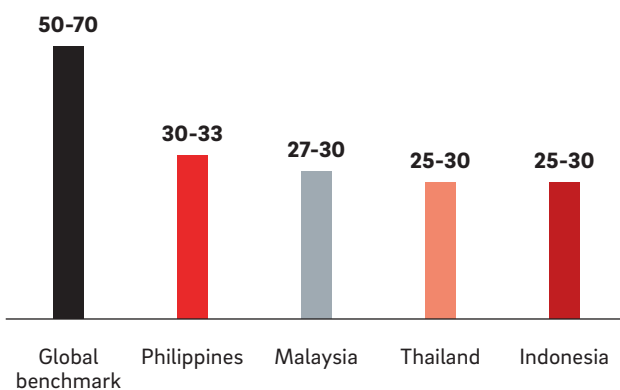
A: Growing pains

New car sales in SEA countries with market CAGR [UNITS '000]



B: Not-so-loyal customers

Percentage of buyers repurchasing a car from the same dealership



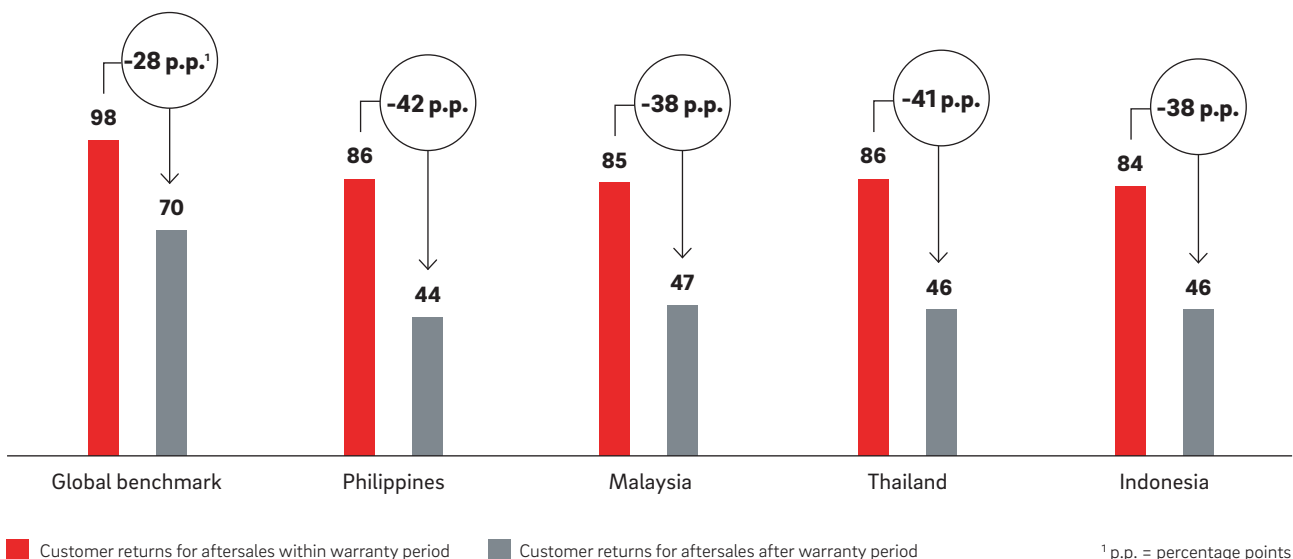
Whereas dealers in developed markets normally see 50-70% return buyers, the rate in Southeast Asia is half that, at 25-35%. → **B**

Aftersales services tell a similar story. Such services are not only an important revenue stream, they also serve as a crucial touch point with customers to build loyalty and develop stickiness with the brand. Yet our study shows that even services provided during the warranty period do not deliver a strong return rate. In the first two years after the warranty period, less than half of customers return, opting instead for services from third parties. → **C**

These findings highlight the fact that current retention strategies are performing poorly. Action is therefore required to prevent the existing business model of dealers from suffering further.

C: Lack of return

Customer return rate for aftersales within and after the warranty period [%]



1.2 / Low sophistication in used car market

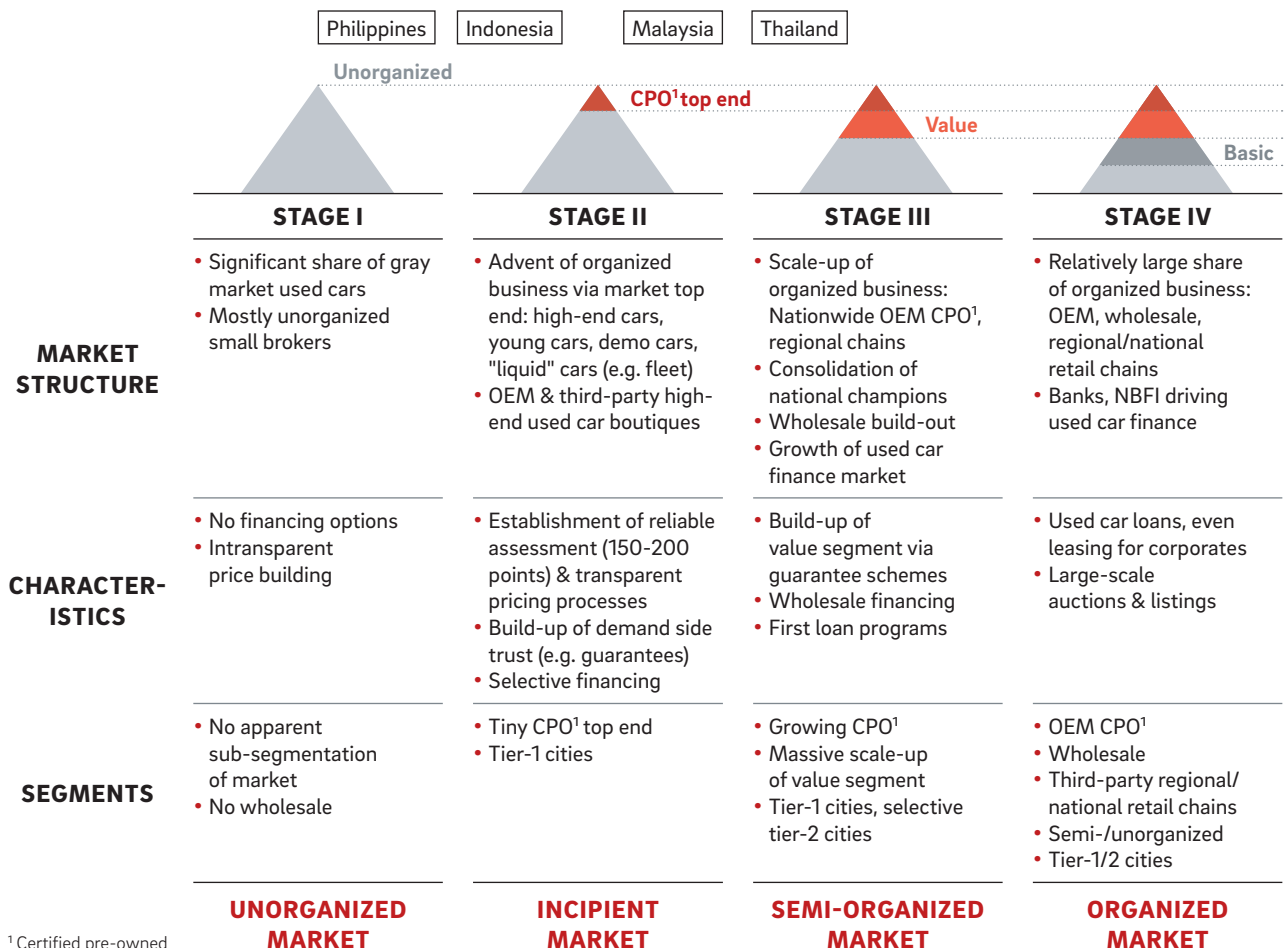
ONLINE PLATFORMS ARE LIKELY TO BECOME LONG-TERM PLAYERS

The used car market is a crucial growth driver in the auto industry, but it is often overlooked in Southeast Asia. Today, however, this market is undergoing a critical early and middle-stage sophistication.

The used car market is generally divided into four stages of sophistication. In stage one, the market is unorganized and small brokers usually conduct transactions. Stage two sees organized businesses enter the market, with some establishing reliable inspection processes and

D: Still developing

The four stages of sophistication in the used car market, with position of SEA countries



¹ Certified pre-owned

E: Platforms for success

The leading online platforms for purchasing used cars in SEA countries

ONLINE PLATFORM	YEAR OF LAUNCH	NUMBER OF WEB VISITS, H1 2019 [m]	ESTIMATED REVENUE, 2018 [USD m]	MAIN TRAFFIC SOURCE AND WEIGHTING, H1 2019
OTO.COM INDONESIA	2015	6.5	10	Organic search, 91%
ONE2CAR.COM THAILAND	2014	2.2	5.1	Organic search, 48%
PHILKOTSE.COM PHILIPPINES	2013	2.7	Data not available	Organic search, 68%
CARLIST.MY MALAYSIA	2012	1.7	5.3	Organic search, 49%

Source: Roland Berger

clearer pricing processes to build demand-side trust. At stage three, businesses scale to a national level. A value segment also emerges with guarantee schemes such as warranties, wholesale financing and loan programs. Finally, at stage four, OEMs and large independent retail chains organize the majority of the market. A basic segment emerges, banks drive used car financing, and corporate leasing is an option. Most used car markets in Southeast Asia currently sit between stages one and three, with conglomerates and OEMs at varying levels of sophistication within each stage. → **D**

This lack of sophistication has presented an opportunity for online platform players such as iCarAsia and Carmudi. They use efficient aggregator tools that allow customers to examine, understand and compare a multitude of options. These ultimately contribute

to higher liquidity and price transparency in the used car market, a factor that historically has been gray. As such, online platforms have now become a cornerstone of customers' used car purchasing journeys. iCarAsia owns major platforms such as carlist.my (Malaysia), mobil123.com (Indonesia) and one2car.com (Thailand). The latter, for example, lists over 40,000 cars, has 1.6 million users and had more than 2.2 million site visits in H1 2019, 48% of which came via an organic search. Today, one2car is just one site among several in Thailand that are synonymous with the purchase of a used car. → **E**

While online platforms in Southeast Asia are in an early stage of development and still struggling financially, they have shown clear value to the market. Based on international examples, they are likely to grow healthily and become long-term players.

1.3 / Increasing regulation and tougher competition

MOBILITY PROVIDERS ARE UNDER GROWING PRESSURE

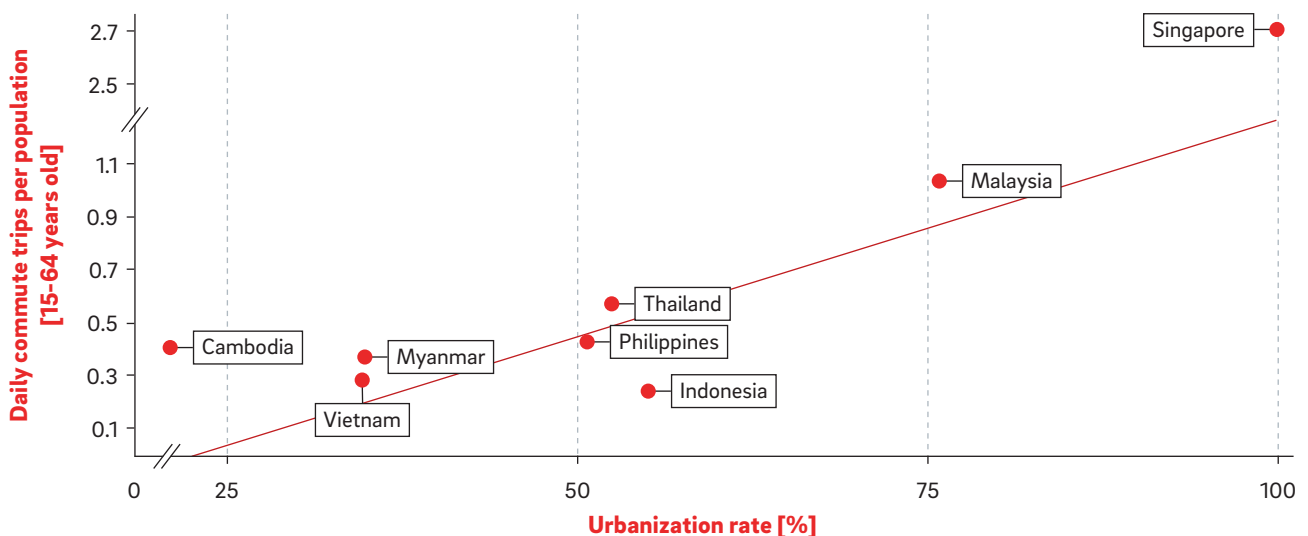
Over the past few years, the landscape for mobility providers changed as regulators began to impose tighter restrictions and demand higher standards. For example, since July 2019, the Land Public Transportation Commission of Malaysia has required that all ride-hailing drivers conduct regular vehicle health checks and have passenger insurance coverage. Additionally, vehicles in service should be less than three years old, with older cars needing to pass a technical inspection. Grab Malaysia, a ride-hailing firm, has indicated that it plans to subsidize 70% of the total driver regulatory compliance cost. Meanwhile, in Indonesia, the Ministry of Transport is preparing revisions to its MOT

108/2017 law, which laid out additional safety standards for ride-hailing vehicles. This clampdown is taking place because services such as Grab and Go-Jek are having an increasing influence on the make-up of the transportation industry. Indeed, regulation of ride-hailing companies is only likely to increase as they continue to grow. → **F**

Although Southeast Asia may seem like a "blue ocean" market for mobility providers, they are expected to quickly hit an upper limit of vehicle units. This will halt the growth of new fleets, turning the landscape into a "red ocean" battle between ride-hailing firms. This is especially troubling as mobility providers are under growing pressure to make a profit after years of net losses.

F: On the move

Daily commute trips versus urbanization rate in SEA countries [2016 - 2017]



Sources: Desktop Research, Press News, AlphaBeta, Frost and Sullivan, Roland Berger

2

Running repairs / We

believe the problems in the SEA market are surmountable, and have identified several solutions

2.1 / Improve the existing business model

BETTER RETENTION STRATEGIES REQUIRE BETTER UTILIZATION OF DATA

It is no surprise that systematic retention strategies remain a challenge in Southeast Asia's new-sales-focused market. They require a different sales approach by all staff, from sales to aftersales and marketing. For example, one leading Japanese mass-market OEM makes a conscious effort to develop customer contact points through creative products and services, with all staff, not just sales staff, committed to improving customer relationships. Customer information is systematically processed to create a personalized experience that encourages customer loyalty.

Dealers and distributors can foster a similar change in sales behavior using a different set of KPIs. Whereas conquest-based KPIs focus on maximizing the volume of unit sales, retention-based sales aim to achieve maximum revenue per unit sale. In addition, repeat sales to existing customers reduce cost elements such as cost of research and price discovery, leading to greater profits. → **G**

Our study revealed that SEA players also lag behind when it comes to customer-centric data collection and its utilization. Compared to benchmarks, they only scratch the surface of insight generation through customer data, which is not comprehensive enough to build effective personalized experiences. → **H**

G: Quality and quantity

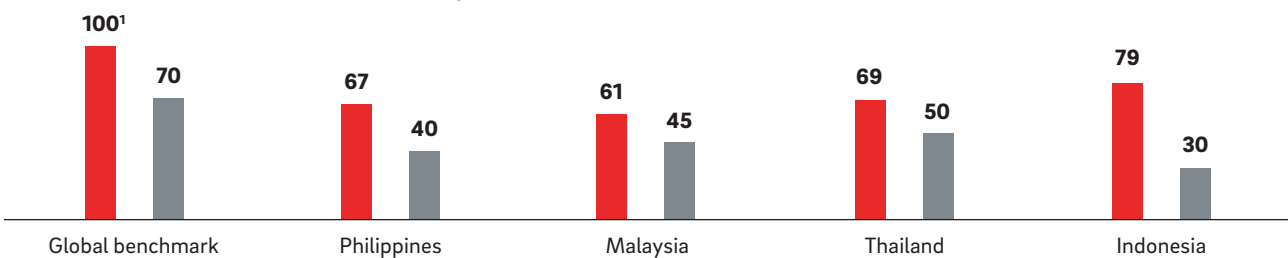
Conquest-based versus retention-based KPIs for auto dealers and distributors

CONQUEST-BASED KPIs	RETENTION-BASED KPIs
# of new car sales	# of new car sales to repeat customers
Profit per new car sale	Sales cost per new car sale
Additional profit during purchase (e.g. finance fee, insurance fee, accessories)	Additional profit from aftersales (e.g. maintenance, body and paint, extension packages)
Stolen share from competitors	Referred share by customers
OEM-led	OEM-led

Perhaps even more alarming is the poor utilization of the data collected. Only 30-50% of dealers and distributors in Southeast Asia utilize collected data, against 70% among other international players. This low utilization of customer data suggests weak processes in systematic retention-based sales, meaning that multiple opportunities to execute such strategies are missed. An improvement in the utilization of collected data can significantly enhance sales, marketing and aftersales functions.

H: Data gap

Percentage of customer-centric data points collected and their utilization



■ Customer-centric data points collected ■ Utilization of data

Source: Roland Berger survey

¹ Data utilization benchmarked against global market leaders, indicated as baseline of 100

2.2 / Diversify into new business areas

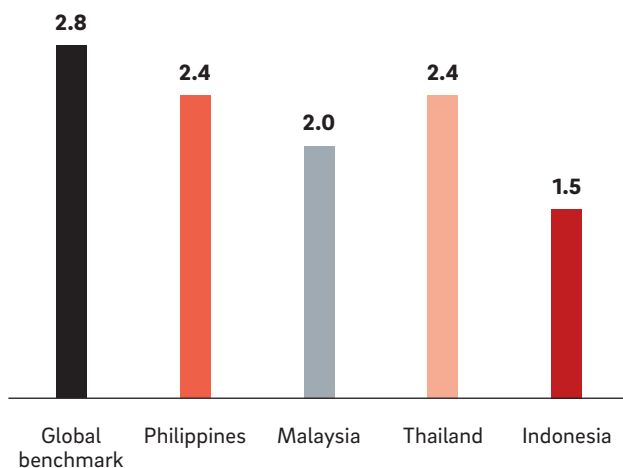
DEALERS AND DISTRIBUTORS CAN BENEFIT FROM NEW DEMAND

Just as new car sales once enjoyed strong growth in SEA markets, so today used car sales are booming. According to Roland Berger's analysis, Indonesia and Thailand have experienced 13% and 6% CAGR, respectively, in the past 5 years, and the market is still considered nascent when compared against international benchmarks of used car to new car sales ratios. → **I**

With the used car market showing signs of growth, dealers and distributors must increase their sophistication to benefit from the demand. Those who reacted early and expanded beyond certified pre-owned programs have already been rewarded. The share of their business that comes from used car sales has reached as much as 25%, whereas less prepared businesses struggle at 10%, our survey showed.

I: Untapped potential

Used car sales to new car sales ratio in SEA countries



Sources: IHS, Euromonitor, ACEA, IndianBlueBook, Roland Berger

The landscape is dominated by OEM-led distributors who provide more outlets, longer guarantees and structured appraisals. But while using OEMs as a model can be useful, conglomerates could benefit even further by exploring opportunities to collaborate across channel distribution, value-added services and marketing process. → **J**

The significance of online platforms in the used car market cannot be ignored. Two main models exist – transaction-based and customer intelligence-based. While the former is helpful in providing commerce mechanisms online, it is the latter that represents significant value to players.

Customer intelligence-based online platforms have a plethora of offerings, such as information portals, lead generation models, media services, classifieds, auction platforms and other value-added services. The rich pools of data generated from their online traffic can be leveraged to help design new and used car sales mechanisms, or digital marketing targeting. Eventually, this will inform next generation sales strategies and ultimately drive traffic to online and offline showrooms. → **K**

As an example, our study forecasts that online media spend in the Indonesian passenger vehicle market will grow at 17% CAGR for the next 5 years, with 10% spent on online platforms for new car marketing and 50% for used car marketing.

The shift to digital also benefits distributors and dealers in the long term, as working with these platforms brings new data standardizations and transparency in the ecosystem. These valuable assets can be utilized in other portions of the automotive value chain. For example, data sets can inform insurance companies about customer behavior and help create finance products more suited to the used car market. This could potentially attract the interest of banks, and ultimately result in better auto-finance management for used car sales.

J: Used car leaders¹

The major OEM and conglomerate-led distributors in SEA countries

COMPANY	DISTRIBUTOR TYPE	USED CAR DEALERSHIP	OFFERS USED CAR FINANCING	USED CAR GUARANTEES	INSPECTION PROGRAM	PARTNERS WITH ONLINE PLATFORMS
TOYOTA THAILAND	OEM-led	>50	Yes	12 months warranty and roadside assistance	210-point	Yes
MERCEDES-BENZ MALAYSIA	OEM-led	43	Yes	24 months warranty and roadside assistance	215-point	
NISSAN PHILIPPINES	OEM-led	43		12 months warranty and roadside assistance	225-point	Yes
NISSAN THAILAND	OEM-led	21	Yes	12 months warranty and roadside assistance	170-point	Yes
TOYOTA TOPMARK MALAYSIA	OEM-led	6	Yes	24 months warranty and roadside assistance	201-point	Yes
ASTRA MOBIL88	Conglomerate-led	20	Yes	Return guarantee	Undefined	Yes
GT CAPITAL HOLDINGS TMP	Conglomerate-led	14	Yes	12 months warranty	211-point	

Source: Roland Berger

¹ OEMs with ≤ 5 used car dealers truncated

K: Online offerings

The six key product offerings made by customer intelligence-based online platforms



Source: Roland Berger

2.3 / Supplement the existing business model

MOBILITY PROVIDERS COULD BECOME A KEY BUSINESS SEGMENT

In the case of mobility providers, stagnating fleet size growth is a lost opportunity for car sales. However, in view of increasing regulatory pressure, and as ride-hailing firms fight to make a profit in a market that is turning into a "red ocean" battle, two scenarios are likely: an increase in prices or a decrease in costs. Both represent opportunities for conglomerates to develop partnerships.

In the first scenario, as driver volumes hit a threshold, ride-hailing firms would increase prices to generate higher revenues. To justify this price rise, they would need to provide improved comfort, safety and service to their customers. This is where conglomerates come in – supporting ride-hailing firms with their extended network of product and service offerings to help justify the price hikes.

In the second scenario, ride-hailing firms would look for avenues to reduce costs and turn a profit. One strategy would be to minimize the costs of maintenance and repair. As a result, ride-hailing firms may recognize the need to partner with conglomerates that have access to service centers and parts.

Both scenarios would see some processes, such as maintenance and repair, shift from the independent driver to a central entity to leverage economies of scale.

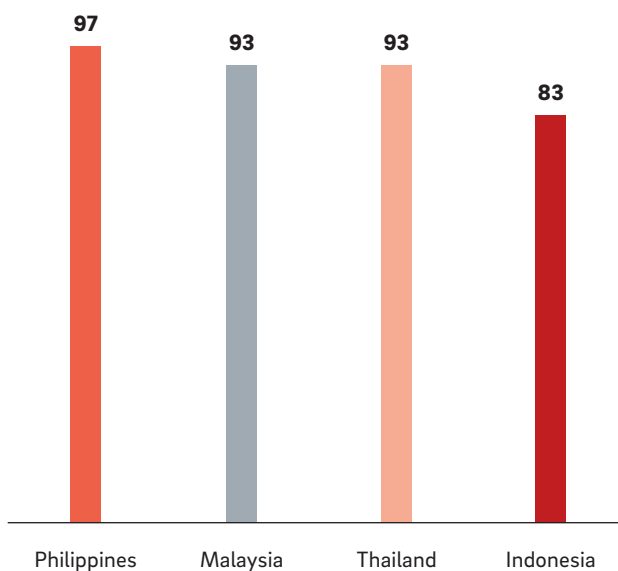
Go-Jek's recent partnership with Indonesian conglomerate Astra is an example. Their joint venture will see the launch of Go-Fleet, a car rental program. Astra will provide maintenance services for Go-Fleet cars at Astra-owned workshops and provide accident insurance. This will reduce amortization costs for Go-Jek's fleet operations while generating an additional revenue stream for Astra.

Conglomerates should be quick to explore the possibility of establishing partnerships with mobility providers. Although fleet aftersales operations are not yet common, 92% of the 120 dealers and distributors we surveyed expressed a willingness to customize aftersales programs for mobility providers. → **L**

With their ability to justify price increases or support cost reductions, conglomerates could play a crucial role in the sustainability of mobility providers. Similarly, mobility providers could become a key business segment for conglomerates, countering stagnating private sales. In particular, aftersales services and other value-added offerings across a conglomerate's value chain could supplement its existing business model.

L: Joining forces

Percentage of dealers/distributors willing to customize aftersales programs to mobility providers' needs



Sources: IHS, Euromonitor, ACEA, IndianBlueBook, Roland Berger

3

Taking pole position / *Success*

*in the SEA market depends on taking
the right action, now. We recommend
a multi-dimensional approach*

It's clear that conglomerates navigating Southeast Asia's passenger vehicle market need to rethink their strategy to take advantage of the new opportunities. To do this, we recommend a multi-dimensional approach. Based on our analysis, three overarching principles should be explored to serve both short-term and long-term growth.

First, conglomerates should review their existing business models – opportunities exist to reassess retention strategies and optimize current processes, supported by actionable KPIs and effective customer data management.

Second, the existing business model should be diversified with adjacent markets. In particular, SEA's used car market stands out, with many indicators suggesting strong upsides that still have multiple synergies with the new car market.

Third, given the changing landscape of the mobility industry, conglomerates should supplement their existing business model with new opportunities. As the mobility sector evolves, it will create a new set of serviceable customers for conglomerates. In addition, collaboration with customer-centric online platforms, expanding parts assembly operations, or strengthening financial services are other verticals that can drive growth in turbulent times.

To take advantage of the new opportunities in SEA's passenger vehicle market, conglomerates must review, diversify and supplement their existing business models.

Conclusion

In conclusion, our recommendations are not only about finding new revenue streams. They also aim to address the even more pressing matter of staying relevant in a changing market. The current path conglomerates are on is coming to an end and they will soon stagnate. So now is the time to shift up a gear, change lanes and speed forward.

CREDITS AND COPYRIGHT

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