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Data-driven Incentive Program Can Put Automotive OEMs in Top Gear

The automotive industry places major bets using its sales and marketing budgets. Most OEMs allocate a large amount of their budgets towards incentives as part of their overall sales strategy. Logically, incentives should work. An increase in the incentive of a hybrid sedan should result in a parallel increase in sales of the model. But this is not happening.

Industry watchers are familiar with the fact that, on an average, incentives have risen from US$2,800 to US$ 3,500 in the past year, but overall sales have barely gone up by 5% -- these numbers have been repeatedly mentioned at industry events and by industry journals. The classic co-relation between incentives and car sales, demonstrated by Ford as long ago as 1914 with a US$50 incentive on the Model T, has stopped working. This is worrisome because the production numbers are likely to grow by leaps and bounds, putting manufacturers under tremendous pressure to deliver growth while controlling expenses. What's going wrong then with the economics of incentives? And how can it be set right?

We believe that given changes in buyer behavior and the larger consumer trends, the mechanism of incentives as a stimulus for growth is flawed. OEMs must seriously consider a complete flip in the way incentives are planned, executed and monitored. Fundamentally, the need is to transform incentives from being an expense to an investment in top line growth.

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Need for a rethink on incentives

Consider the concept of leasing, which is driving a key change in buyer behavior. An increasing number of potential buyers are opting for leased vehicles. And it isn't just Millennials that are shaking things up – the trend is observed across buyer segments. But OEM incentives for leasing haven't really picked up.

Just as serious is the problem of misguided incentives. A simple case helps illustrate the point. An executive whose lifestyle embraces adventure may be offered an incentive of US$3,000 for an SUV. In reality, there may not have been the need for the incentive simply because the executive would buy the SUV regardless, because his lifestyle demands it. Instead, offering a free bicycle carrier which may cost US$150 to the OEM or a luggage rack may prove more effective. On the other hand, a customer who wants to drive the SUV for work on rugged terrain can be given a three-year subscription to an integrated GPS system instead of a bicycle rack. Again, the incentive of US$3,000 may not have been the most margin conscious way to convert sales.

Historically, all incentives are product focused and have been seen as a necessary evil. The concept is deeply embedded in the industry to stimulate push-based sales to liquidate inventory.

Building consumer focus around incentives

Incentives vary based on the model produced by an OEM and on sales targets for each model. This is a distinctly dated methodology. The better, safer and more relevant approach is to be customer focused.

To begin with, OEMs will do well to define the objectives of their incentive strategy. The key objectives should be to:

- Devise a reliable mix of incentive types and services (based on customer profiles and segments) to stimulate demand
- Map growth/de-growth in sales with increase/decrease in incentives and establish co-relationships
- Connect incentive programs with tangible matrices such as sales pipeline, lead conversion, inventory turn around, margins and profits
- Focus on timing the incentives (including service incentives) for maximum returns - introduce an incentive too early and it can devalue the product, introduce it too late and inventory may be difficult to liquidate

Using Big Data, Small Data and Rich Data to make the difference

Fortunately, the time is right for OEMs to make a change in traditional incentive mechanisms by adopting data-driven models. With digital transformation sweeping the industry, OEMs can begin to use Big Data, enrich it with Small Data which they have created over years of existence through production systems and customer interaction and use what we call Rich Data.

The good news is that OEMs have begun to use Big Data in areas such as product design and performance, for improved after-sales revenues using telematics and for the reduction of warranty costs. But, OEMs haven't used data for incentive creation, monitoring and management. It is time they did so.

Rich Data is the fuel which, coupled with advance analytics, will drive growth. Diligent use of Rich Data and Advance Analytics (RDX) can provide OEMs a unique perspective to understand the needs and wants of buyers (see Figure 1).

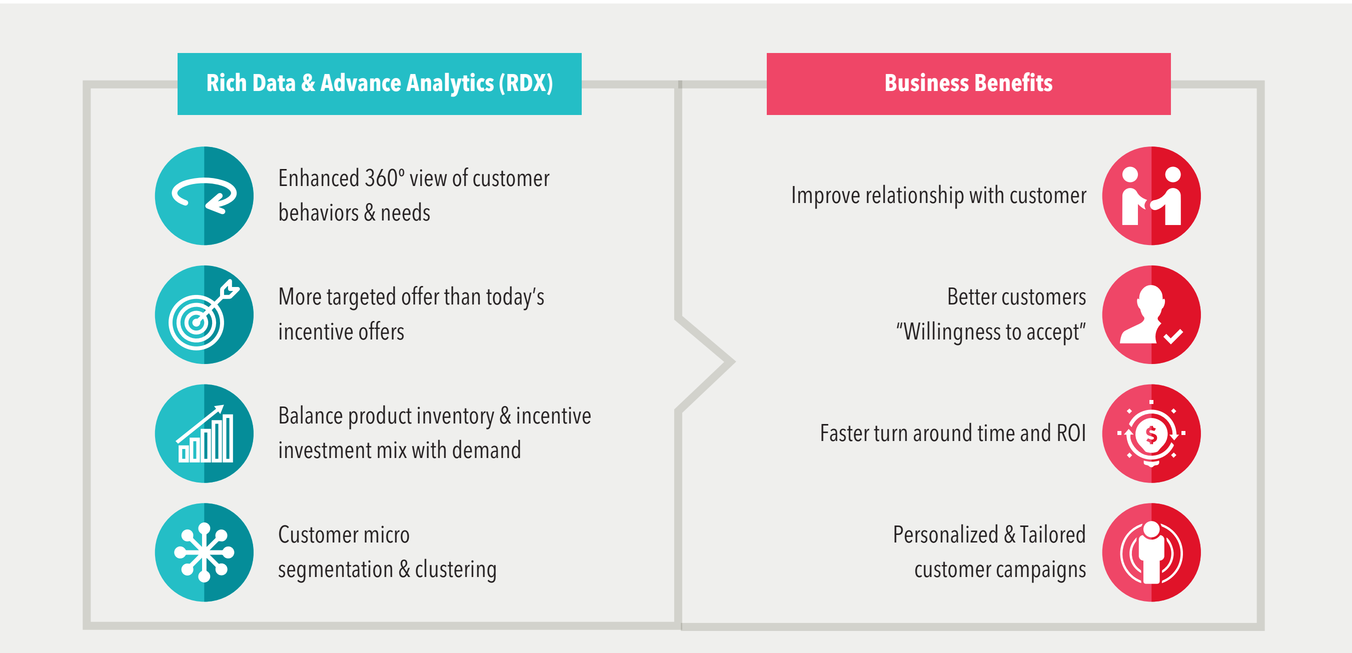

Figure 1: RDX and its Benefits

RDX presents challenges to OEMs in terms of IT costs (hardware, software, talent) related to revamping legacy systems and integrating data sources within the RDX application.

Rich Data will lead to personalization of incentives across segments such as veterans, students, family, single parents, and business executives, etc. By defining customer characteristics and quickly identifying and aligning to micro trends, incentive programs can be made more disciplined. But best of all, they can be made to work harder and improve customer acquisition and long-term profitability.

About the author

Manik Singhal has over 12 years of experience in the Automotive industry in areas of retail sales, new channel development, vehicle incentive management, digital enablement and after sales. He is a Senior Consultant at Wipro's Automotive Centre of Excellence and is engaged in projects that involve global automotive clients.

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