



Winning in Europe

Truck strategies for the next decade:
lessons from our customer loyalty study

Study facts

For the fifth time during the past 20 years, Bain has interviewed directors at transport companies, truck drivers, truck owners and heads of purchasing in Europe. Over the course of 20 years, we have surveyed some 2,000 truck customers in France, Germany, Italy, Russia, Spain, the Benelux, the Nordics, Poland and the United Kingdom about their key purchasing criteria and their views on trucks, service and dealer relationships. In the revised 2012 survey, we interviewed 550 truck customers in France, Germany, Italy, the Nordics, Russia and the UK.

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Executive Summary

Europe's truck manufacturers are fighting on two fronts: They are engaged in a new international battle for the growing markets in Asia, South America and Eastern Europe, and they are struggling for market share gains and margin improvements on their home turf in the European markets.



Long-term survival may require success on a global scale, but in the midterm Europe's mature markets, though they are growing more slowly, remain stable and profitable. Bain & Company believes that European truck manufacturers can excel in their home markets and create a competitive edge by focusing on their customers' needs. Over the course of 20 years, we've interviewed more than 2,000 customers to learn what factors customers find most important when they decide on which truck supplier to use. This report, which focuses on the opportunity in Europe, reports on our fifth and most recent survey of 550 buyers of heavy and medium trucks in six key European markets.

Key purchasing criteria are slowly changing

Among our findings, we learned that buyers are increasingly making purchasing decisions based on the value they get for their money, including the purchase price, operating costs and the truck's performance. Fewer and fewer buyers say that brand image plays a role in purchasing decisions, but they increasingly value good relationships with dealers, service points, and manufacturers.

Brand differentiation goes beyond the truck

Differentiating trucks is getting harder. The different brands have reached a minimum level of performance, beyond which it is difficult to get paid for superior performance. But now the meaning of "truck performance" is moving more and more from engine and gearbox performance to other factors such as fuel efficiency, cost, dealer relationships and service offers. We believe these will become the main differentiators for truck manufacturers in the years to come.

Customer loyalty and growth are interlinked

Looking at the industry from a customer loyalty perspective, we see three clusters of truck manufacturers: Loyalty Leaders, Loyalty Specialists and Loyalty Followers. Customers of the Loyalty Leaders testify a broad set of strengths across nearly all regions, customer groups and branches. The Loyalty Specialists excel in several strongholds – countries, customer groups and customer industries in which they re-

tain a fair number of loyal customers. The Loyalty Followers also tend to have some regions, aspects and segments where they can keep up, but on a balanced assessment this group will be challenged to keep their ground. Comparing the loyalty results and the market developments of the past years, we see a significant interdependence: Loyalty Leaders and Specialists expand without a loss of profitability – mainly at the expense of the Loyalty Followers.

Three factors to win in Europe

The implications of our study lead us to a set of factors required to win in Europe during the next decade: a combination of the right product and service standards at an optimum value-to-cost ratio for each region and customer segment, defined by customer fleet size or customer industry.

- The closer a company can get to an "optimum specification" that differentiates their total truck solution to any given customer group, the better it will be able to deliver at an optimal cost and at the right service level to its customers. Truck performance, especially regarding fuel efficiency and reliability, remains one of the most important customer concerns.
- Truck makers and dealers can also differentiate themselves by improving their service offer – not just the quality of their service and consistency of delivery, but also supplemental services which can help customers succeed in their businesses.
- Managing customer relations will also be critical. Truck makers and dealers can get further in their understanding of customers' needs. These are increasingly including the full offer – from the vehicle performance, the dealership, the service offering, financing, and ancillary services. The ability to meet customers' expectations across the value-chain will be key to how customers decide to buy their next truck.

1. Europe still matters

Regardless of truck manufacturers' strategies in emerging markets, they must retain a profitable European home market. This study reflects the opinions and loyalty statements of 550 truck customers in six European markets.



We expect the truck market to become increasingly global, and we believe that European truck manufacturers will look to the emerging markets for growth. Leaders in internationalization will reap the benefits of greater purchasing and production volumes while making better use of their R&D spending across regions and dampening the effects of cyclical downturns.

Growth in Europe, where the truck market is mature, has been and is likely to remain fairly modest. Once manufacturers catch up on backlogs from the recession, we expect growth to follow GDP development. Even so, as the 2010 and 2011 figures show, truck manufacturing in Europe remains profitable across the cycles. Regardless of their plans for inter-

national expansion, European truck makers should secure their market share – as well as their profits over the next decade – in their home market.

This report summarizes the key challenges to meeting the needs of tomorrow's truck customers. For the fifth time during the past 20 years, Bain interviewed directors at transport companies, truck drivers, truck owners and heads of purchasing. And over the course of 20 years, we have surveyed some 2,000 truck customers in France, Germany, Italy, Russia, Spain, the Netherlands, the Nordics and the United Kingdom* about their key purchasing criteria and their views on trucks and service. In the 2012 survey, we interviewed 550 truck customers.

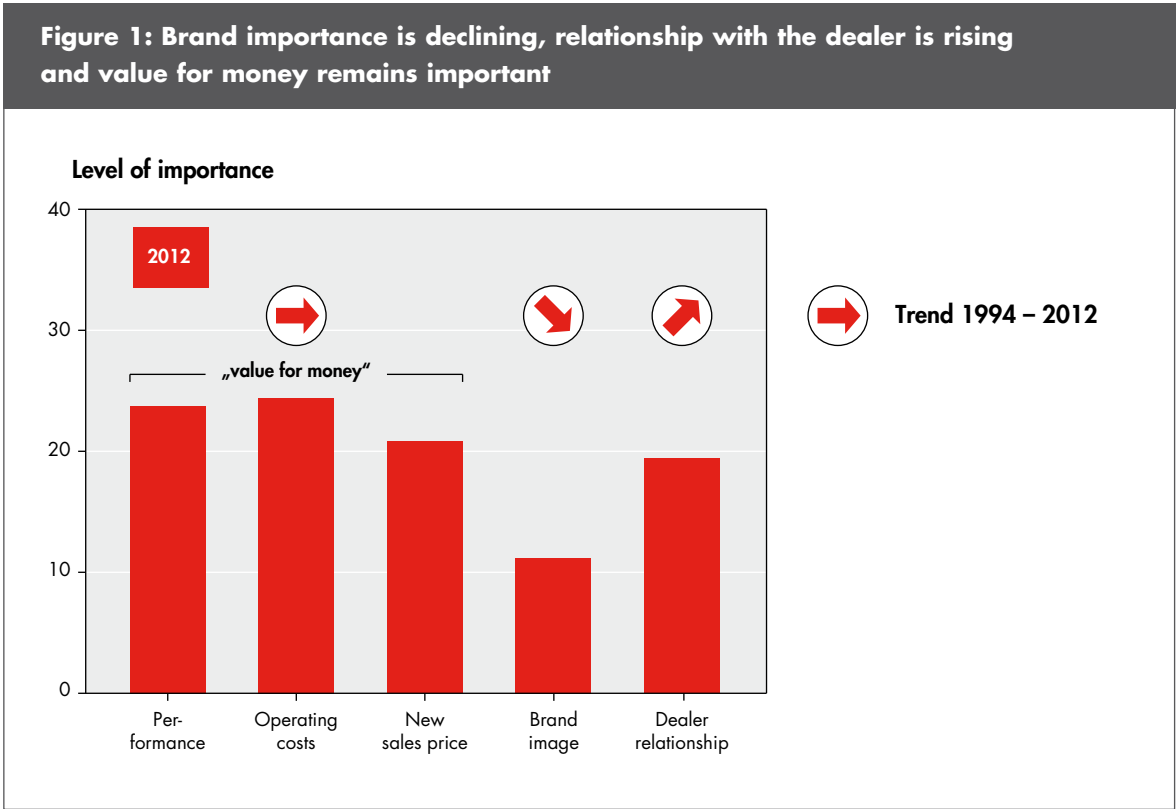
* see study facts, page 2

2. Longstanding trends in key purchasing criteria

Bain has followed the development of key truck purchasing criteria for more than 20 years. In our most recent survey, we found an increasing emphasis on value for money, but the importance of brand image is clearly waning. Relationships, on the other hand, are becoming more important.

The hardware – that is, the physical aspects of the truck itself – is still the most important criteria in the purchase decisions of truck buyers. However, the economics around buying and owning trucks have become increasingly important to buyers over the last 20 years. Operating cost, performance and sales price are all important considerations of value that truck buyers consider. Over the same period, customers’ relationships with the manufacturer and the dealer have become more important, while the brand image has receded.

The main focus of customers’ purchase decisions have moved from truck performance 20 years ago, to cost awareness 10 years ago (price, maintenance and performance), augmented with the overall transport solution today. Key purchasing criteria is similar across customer segments, but there are some regional differences with regard to the importance of the different purchasing criteria.



Source: Bain interviews 1994 - 2012

Across European countries, we found the following rankings for purchasing criteria:

No. 1

Operating costs have overtaken truck performance for good. In our first survey, in 1994, truck performance was more important than cost, but since 2002 operating costs have been the single most important purchasing criterion for trucks. At the same time, the perceived cost spread between the brands has continued to close. Today operating costs are the criterion with the least difference between brands. The importance of operating costs is below average in France and Italy, but far above average in Russia.

No. 2

Truck performance, formerly defined by engine power, reliability and comfort, is now defined by costs, reliability and fuel consumption. Over the years, this purchasing criterion seems to have risen or fallen with the perceived performance differences between the brands. We found only small regional differences in the importance of this criterion.

No. 3

Sales price for a new truck has become more important over the past 20 years.

No. 4

Relationship with the manufacturers has become more important to Europe's truck customers. Its share in the total purchasing decision rose continuously between 1994 and 2012. French buyers consider this relationship to be the most important factor, while customers in the UK and the Nordic countries rate relationship the third most important purchase criteria, above sales price.

No. 5

Brand image continues to recede in importance. French customers attach the least importance to this criterion while Italian customers value brand image more.

Looking at the overall findings, there seems to be a minimum level of performance required by the customers we surveyed. Beyond that level it is hard to recoup the costs of further performance improvements.

3. A customer loyalty view of the European truck industry

European truck manufacturers show clear differences in customer loyalty, which is linked to long-term market growth. The truck and its performance remain the most important factors in determining loyalty, but soft factors are on the rise.

Bain experience shows that in stable and highly consolidated markets, the ability to keep and attract new customers is key to profitable growth. Thus we used Bain's Net Promoter® score (NPS®) to examine how well European truck manufacturers satisfy their customers and at which points they excel or disappoint. Though we decided not to publish brand names in this study, the NPS results reveal the state of the industry and allow for a number of general deductions.

The market structure, when viewed through the loyalty lens, places the leading truck manufacturers into three categories:

- **Loyalty Leaders** perform well across Europe. We found that they have significantly more promoters than detractors in almost all the countries and segments we surveyed.
- **Loyalty Specialists** showed strengths in some regions and segments where the number of loyal customers beats the number of detractors. But these brands did not achieve good NPS as consistently as the first group did, so there are areas that need improvement.
- **Loyalty Followers** have significantly fewer strongholds. These brands are the least popular in all of the markets and segments that we evaluated and need to improve on most fronts.

On average, Loyalty Leaders received an NPS of 19; Loyalty Specialists, an NPS of 5; and Loyalty Followers, an NPS of minus 15. In almost all industries, a high NPS is a safe indicator of long-term growth to maintain and grow market share.

In the European truck industry, market share moves slowly, and growth between certain periods for the industry as well as individual players is often affected by current market developments. However, comparing our findings on loyalty to market share development confirms that loyal customers can help boost market share.

- **Loyalty Leaders** among truck makers and dealers show consistent market share development across many countries and segments.
- **Loyalty Specialists** show strong growth in some countries and segments.
- **Loyalty Followers** may have pockets of strengths, but they remain in the lower spectrum of market share development in most countries and segments.



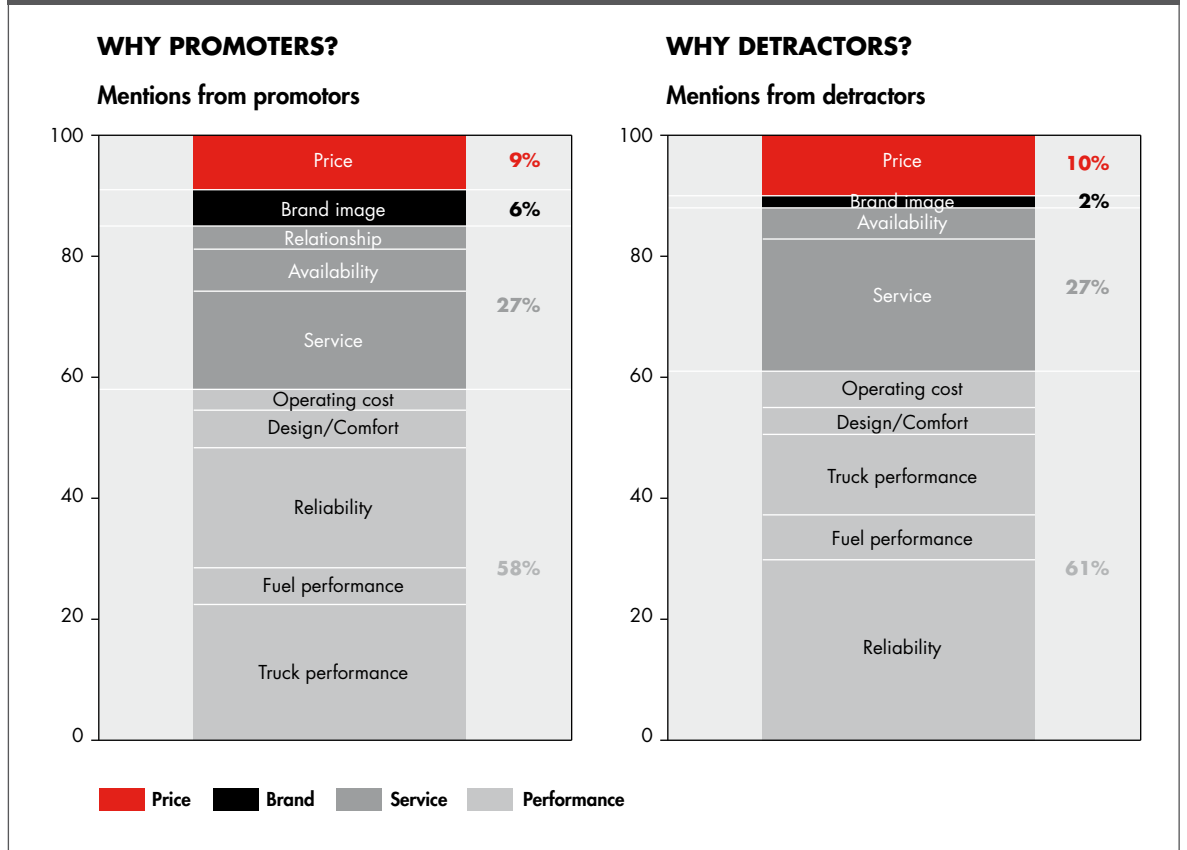
Bain calls loyal customers – those who would recommend the brand to others – “promoters.” Customers who would discourage others from becoming customers are called “detractors.” Through all industries – business-to-consumer and business-to-business alike – companies that are Loyalty Leaders have as much as 50% or more of their customers as promoters. Given several years, strong Loyalty Leaders will eventually outgrow their peers by a factor of three.

The NPS is a tool that enables companies to understand the sources and economic value of customer loyalty. It is a methodology used by hundreds of large corporations as well as mid-sized and small companies around the world. The NPS enables them to understand what the critical touchpoints with their customers are and what can be done to drive loyalty.

The NPS is determined by subtracting the number of brand detractors from the number of brand promoters. It can also be used to show the root causes for customer satisfaction or dissatisfaction, thus enabling targeted action.

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Figure 2: The greatest differentiation potential in the truck market lies in providing the highest vehicle quality and range of customer services



Source: Bain interviews

The reasons given by the customers for their loyalty or disloyalty hint at the most important aspects of the overall truck-and-service offers, as well as the potential for improvement in the industry. Factors concerning the “hardware” still dominate the reasons for loyalty and, even more so, for disloyalty. But “soft” factors like service and relationship are gaining ground.

- **Unreliability** was the most important reason for disloyalty, mentioned by approximately one-third of disloyal customers across all brands. Reliability made up some 20% of the reasons why customers are loyal.
- **Truck performance** is mostly a positive loyalty factor, responsible for more than 20% of the reasons given for being a loyal customer. It also makes up 10% of the reasons for being disloyal.
- **Design and comfort** is not an issue for the industry – across all brands, this category received only 2% of mentions both from loyal and disloyal customers.
- **Fuel performance** and other **operating costs** are considered by buyers to be essential but they are table stakes, not differentiating enough to determine purchasing decisions.
- **Service** satisfaction made up some 20% of the reasons given for loyalty, while service dissatisfaction was mentioned slightly more often.
- **Brand image** and **relationship** are positive loyalty factors, reaching 7% and 4%, respectively, of loyal customer mentions.



What creates loyal or disloyal customers?

Typical promoter quotes

Almost 60% of promoters mentioned performance:

"We think our trucks are very reliable, and they perform optimally for the jobs we are doing."

"We are using X. We like it because the trucks are very reliable and good regarding fuel consumption."

"We are very happy with our truck, especially in terms of performance."

"X is quite expensive, but the trucks are good quality."

"We use them since they offer the cheapest truck to drive, if we include all the costs."

Some 30% of promoters mentioned service and dealer relationship:

"Their service points are strategically and smartly located, suiting our needs perfectly."

"They offer good service which is the main reason we prefer X."

"We have had very few problems with our X trucks, but the one time we had a breakdown, they changed the engine right away without any troubles."

"The dealer network is very good, and we have a great relationship with them, so I would certainly recommend X."

Price and brand are less frequently stated:

"I have always been a fan of X."

"We buy X because they are reasonably priced but still very reliable."

"Most of the trucks on the market are equally good, but since X offers a less expensive truck, we buy from them."

Typical detractor quotes

Over 60% of detractors mentioned performance:

"The quality is not good enough. The engine, gearbox, electronics, everything just breaks down too often."

"We have experienced a lot of failures, so they have been a disappointment so far."

"Given the small mileage, we already had a lot of problems such as engine failures."

"It ages really badly. We had tons of problems with the older trucks that were not purchased recently."

Bad service is the second most common complaint:

"They offer a good truck, but service is just unacceptable."

"The service is really bad, especially the fact that you need to wait quite some time for spare parts."

"They do not offer the same quality when it comes to maintenance and service, if you compare them against their competitors."

"We are not happy with their service."

For instance, it takes forever for spare parts to arrive."

Costs are also a reason for detraction:

"They are too expensive, so I would not recommend them."

"Spare parts are super expensive, and after-market value is not that good either."

"We are having big problems with the after-market value of these trucks."

4. Aspects for winning product, service and customer strategies

Differentiation in the truck market has three dimensions: the truck, the service offer and the customer experience. Truck manufacturers should work at all three. The third dimension, which involves managing customer experience along critical touchpoints, is increasingly important for the truck industry.



Truck customers are becoming increasingly difficult to please and more likely to switch brands, based on their most recent experiences. This is pushing the truck business from a model where the product was the paramount consideration to one where the overall offer, including the customer's experience with a supplier, will be the make-or-break criteria for future purchasing decisions.

Through the coming decade, performance will remain the most important aspect of any truck offering – but it will not be enough on its own. As the Loyalty Leaders show, a convincing overall offer – including product, service and relationship – is necessary to ensure happy customers.

Differentiating the truck offer

Loyalty Leaders constantly and successfully innovate in their offers – both the truck itself and in the accompanying services. This will continue to be important, but it will become harder to produce meaningful product differentiation. Rising requirements in emission, environmental and safety standards along with ongoing price pressure will force truck manufacturers to direct most of their R&D investment into areas that don't create lasting product differentiation.

Truck reliability remains key. Performance still accounts for more than half the rationale in purchasing decisions and customer happiness. New engine technologies aimed at complying with emission standards and better fuel economy pose new reliability challenges that manufacturers have to deal with. As customers views on the different brand's truck performance are merging – getting the truck to be “good enough” is a minimum requirement, but it does not differentiate from competitors.

Increased customization can lower total cost of ownership. Industry-specific solutions, such as distribution, long-haul or construction truck offers, can improve truck performance and reduce the cost of ownership. Services that help customers improve their bottom line are also promising. Every manufacturer has its special regional and industry strengths, so each manufacturer needs to identify where a differentiated offering will be especially important and have the highest impact.

Meaningful service improvements

Improving services is an evolutionary process, not a revolutionary change. From the idea to realization, a new service needs several learning cycles in piloting, validating the business case, smoothing out the processes, adapting it to local needs and rolling it out in different regions.

Driver training, routing and truck rental are examples of offers that truck makers have been deployed in recent years. However, as truck buyers are fairly

conservative, we believe that any comprehensive offer will need a push from the manufacturers to bring it to fruition – rather than expecting a “pull” or “ask” from customers.

Improving efficiency through service. Potential offers include helping customers minimize their routes through optimized dispatching and better routing, using GPS equipment and onboard and central IT systems. Offering driving seminars that teach drivers to drive more economically, causing less wear and tear on the truck, is another approach. Truck serviceability and service network ranked highest in our survey, while online surveillance of the truck condition ranked as low as fleet management services.

Money-earning services. With an improved understanding of customers' businesses, dealers and manufacturers can offer new services that help their customers earn money. Understanding the customer's place in their industry's logistics flow, for example, could inspire “product plus service” solutions such as route optimization.

Systematic dealer development. The dealer relationship is becoming increasingly important, but it remains a primary source of customer dissatisfaction. The study also shows that many customers that drive trucks with a low local market share complain about the used truck value. They could raise their customer ratings through closer, more systematic management of dealer networks as well as other services like a system to help sell trucks throughout the European market.

Managing customers relationships

Our study indicates that customer happiness and loyalty result from a holistic judgment on all aspects of truck ownership. Customers consider their positive and negative experiences to decide whether or not the manufacturer met its promises on costs and performance, whether the relationship is simple and peaceful, whether there were problems and how they were solved. Most customers will not necessarily tell you how they formed their opinions up front, to

understand the real issues often requires a detailed discussion or root cause analysis.

Typical bad experiences (apart from mechanical failures) include poor service or inadequate service networks, as well as overall costs and truck prices. Positive customer experiences (again, apart from truck features) include flawless service delivery, truck availability, brand image, customer relations and pricing. Improving customer experience requires finding root causes of customer happiness or unhappiness. Truck makers and sellers should identify the important points of customer contact and set up systems to collect customer feedback, which can help guide continuous improvements and incentives.

Root cause identification. Finding the right areas to improve requires more than a quick customer loyalty survey. Customers may not be able to tell you the real reason for their dissatisfaction. Some will complain about the unreliability of a truck brand, while others praise that same brand's reliability. Bain's experience shows that the root causes of customer dissatisfaction are often deep within the organization and operations – the result of underlying policies, processes, culture or even expectations set by the manufacturer.

Moments of truth. Customer touch points can be found along the truck life cycle in pre-sales, sales, service delivery, maintenance, repair and used truck buy-in. To manage the customer experience along these touch points, truck makers should identify important moments of truth and define standard ways that dealers and service teams should handle them. Such moments of truth could include getting things right the first time, professional handling, a warm welcome or correct invoices. Others opportunities to improve service include speedy service, correct delivery, fast warranty handling, minimizing downtime or effectively combining trucks with trailers.

Customer feedback loops. Just as important as moments of truth are regular calls to customers to ensure their problem has been taken care of, and whenever possible, fixing an unsolved problem for that customer. The incentives structure in sales and service should be linked to successes achieved in solving customer problems and in producing and maintaining a high number of promoters. Just as with service improvements, customer touchpoint improvements will be an evolutionary process, encompassing changes on many levels of a truck manufacturer's organization, including the dealership network.

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