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Urban Science Expects Block Exemption to Benefit Auto Industry

If Automakers Are Prepared for Significant New Requirements

CHERTSEY, ENGLAND, Sept. 30, 2002 - The manner in which automotive sales and service is conducted in Europe will change forever with the implementation of the new block exemption regulations on October 1, 2002. "However, the doomsday scenarios of automotive sales and service anarchy will not occur," said Sean Neall, vice president for European operations for Urban Science, a global analysis and consulting firm that is advising automakers on how to adjust to the new regulations. "Nor will the status quo reign."

According to Urban Science's analysis of the new regulations, manufacturers, distributors/dealers, and consumers can expect to benefit on some level from these changes. How broad these benefits will be and what they mean in terms of price competition for consumers and profitability for the auto manufacturers and dealers is yet to be determined. "It is the consumer who will decide the impact and velocity of the regulations, but it is the auto maker who must implement," said Peter Stevenson, senior manager at Urban Science and project director for the block exemption regulations.

The new block exemption rules, in effect, deregulate the franchise system, separating service from sales, immediately allowing any one site to service multiple brands, and eliminating dealers' territorial exclusivity by enabling any facility that meets the manufacturer's standards to service cars in any location. This opening of the territory invites much more intense competition -- potentially with

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competing sites offering the same brand across the street from one another. But for those who understand the market, that competitive sales situation can be more than overcome by creative service and marketing efforts.

"Many European automakers terminated contracts with dealers and repair firms prior to October 1 to realign their networks for block exemption realities," said Stevenson. "But ultimately they will need to reshape their network design, management and scope significantly to meet the new requirements. For example, with service de-coupled from sales, not only will competition increase, but new classes of competitors are likely to evolve," he said. Automakers must explore whether their current standards, which were designed for combined sales and service facilities, make sense for service-only or parts-only outlets.

Urban Science advises auto makers to approach the new challenges presented by block exemption by engaging in real-time, ongoing scenario planning while simultaneously analyzing customer touch points for each area of business -- new cars, used, after-sales, facility types, locations and other factors. "Through scenario planning, 'what-if' situations help manufacturers evaluate the effects of market changes and their responses to those changes," said Stevenson.

In considering networks, these "what-ifs" would take into account impact of separating sales from service, service centers purchasing parts directly from the parts manufacturers instead of auto makers; the implications of two or more dealerships across the street from one another servicing the same brand of vehicles; the wisdom or folly of creating multiple brand showrooms, and the kinds of new services that could be introduced to retain and attract customers in this much more competitive market.

Under the new regulations, standards are a primary consideration, according to Urban Science. More than just maintaining the brand experience, standards now will be required to ensure that basic or extended services are maintained in an array of new-car dealerships, service centers, after-sales outlets, and other customer touch points.

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According to Stevenson, there are still fundamental questions that must be addressed including: Who will regulate standards? What costs will be associated with them? Are the current standards too basic or, on the other hand, too sophisticated to be affordable? "Standards ultimately must directly promote branding, customer satisfaction and sales performance," he said.

Service will be redefined. Customers will be offered a variety of service providers, with ranges of conveniences, discounts, service packages and incentives. “The spectacular new opportunities for corporations that are market savvy, creative, and sharply attuned to their customers are unlimited,” said Stevenson. With increased volume from multiple brands, dealers are likely to establish after-sales centers where the cars they sell can be serviced and where they will compete for the service business of vehicle owners who have bought cars from their competitors. Also nearby will be more extensive used-car sales points, presenting multiple brands from off-lease and trade-in activity.

At a strategic location, the manufacturer might open a brand experience center, where current and potential vehicle owners can immerse themselves in a brand or a series of related brands through virtual ride-and-drives, exhibits, technology demonstrations, and other experiences that build brand excitement and loyalty.

Co-branding efforts with nearby supermarkets is now an option. Within the stores, dealers could exhibit the latest designs and technologies available on the vehicles in their showrooms, offering a discount coupon for shopping in that store to everyone who test-drives a vehicle at the dealership. For their part, the supermarkets could establish in-store vehicle financing and insurance centers, opening a major new profit opportunity for them.

Under the new regulations, competition for the highly profitable parts business is likely to be fierce. Service shops will be able to buy parts directly from the parts manufacturer. So auto manufacturers and/or their dealers may open their own parts sales outlets to offer parts to competing service shops.

"The intent of the block exemption changes is to put the consumer back in the driver's seat," said Stevenson. "For manufacturers and dealership networks, keeping track of these consumers and retaining

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their business is essential. To accomplish this they must be able to obtain, analyze and effectively use their customer data. In this highly competitive market, customers will flow naturally to the most convenient and price conscious outlets for service."

To aid manufacturers, Urban Science has developed a service-retention program that shows where service customers are going, why they are going there, which customers are their best prospects, and contact information to enable dealers to reach them directly.

"The most successful dealer networks will be those that understand the overwhelming significance of convenience to the vehicle owner," said Stevenson. "The real victors in the block exemption challenge will be the auto makers and dealership networks with the vision to see how it can bring them closer to their customers, strengthen their brand image, and extend their line of products and services to reach a new level of profitability. October 1 marks the beginning of an amazing occasion for growth, diversification and customer loyalty."

Founded in 1977, Urban Science is a global strategic consulting organization that has helped virtually every major automaker in the world establish, analyze and/or improve its dealer networks. It has developed solutions and alternative-planning sets to help meet the challenges and opportunities confronting the industry. Headquartered in Detroit, Michigan, Urban Science operates from offices in the United States, Spain, England, Germany, Italy, Australia, The Netherlands, Mexico and Japan. Visit www.urbanscience.com.

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