

viewpoint

EUROPE'S "BLOCK EXEMPTION"

The European Commission's plan to reform Europe's auto sales and service system in October will mean big changes for automotive manufacturers in that market. It also underscores the need for sales operations everywhere to be prepared for market- and legislation-driven change.

The EC plan would eliminate a "block exemption" in place since 1985 that permits automotive manufacturers to dictate where their dealerships are located and what they may sell. Under the exemption, dealerships bought virtually all their "original equipment" parts directly from automotive manufacturers.

Urban Science, a Detroit-based strategic consulting firm that analyzes automotive markets worldwide, has studied the EC's proposal.

Peter Stevenson, senior manager in the U.K., and Mitch Phillips, global director of network analysis, identify these key aspects in the EC's still-evolving plan.

Automakers must choose one form of distribution network.

Automotive manufacturers have two options. Depending upon the manufacturer's market share, they may set up an exclusive network that assigns a specific territory to each dealer. But the automaker may not set selection standards or control who the dealer sells to, or how.

An automaker may opt instead for a selective network, which grants the power to set selection standards. Even so, dealers who have been approved by an automotive manufacturer may then open other sales and/or service sites anywhere within the European Union—including next door to a competing dealership representing the same brand—as long as new sites adhere to the same standards.

Both options challenge conventional assumptions about automotive manufacturer sales, marketing and distribution strategies.

Dealerships may sell more than one brand.

Under the new rules, an automotive manufacturer cannot discourage its dealers from selling multiple brands, as long as they maintain separate sales areas for each one. Automotive manufacturers must assess the positive and negative impact on sales and customer loyalty.

Dealers will be able to sell proactively across borders.

Dealerships are currently restricted from proactively marketing vehicles outside their designated territory. The new rules will

enable them to sell proactively across the entire European Union. This new option challenges automotive manufacturers to rethink their assumptions about how to maximize the efficiency and effectiveness of their distribution networks.

Automotive manufacturers may unbundle sales and service.

For the first time in nearly 20 years, European dealers may choose to sell but not service vehicles if they provide owners with an authorized source for independent repairs. Automotive manufacturers may evaluate new networks of service-only facilities or develop a mix of traditional and nontraditional service providers.

Automotive manufacturers can no longer terminate dealers without cause.

Currently automakers can terminate a dealership for any reason after two years' notice. The proposed regulations will require automakers to provide "detailed reasons" for a termination. For the automotive manufacturers, this will mean creating objective standards for evaluating performance and justifying termination.

Automotive manufacturers may have vehicles repaired outside the dealership.

Non-dealerships are rarely certified by automotive manufacturers to perform warranty repairs now. Proposed reforms would require automotive manufacturers to make technical information available on a fair and equitable basis to all authorized repairers. This new rule will force automotive manufacturers to establish standards to maintain the desired branding and guarantee quality repair work regardless of the service provider.

Non-dealers will have access to "original equipment" parts.

Under current rules, independent repair facilities can use original equipment parts purchased from automotive manufacturers or other distributors but cannot describe them as "original." The proposed regulations are expected to increase competition between automotive manufacturers and parts distributors.

This change in practice will challenge automotive manufacturers to reevaluate their parts businesses in terms of capacity, delivery time, customer convenience and customer/dealer loyalty.

To learn more about how Urban Science can help companies understand and profit from changes in the vehicle distribution systems in Europe and elsewhere, call Mitch Phillips in the U.S. at (313) 568-4357 or Peter Stevenson in Europe at +44 1932 574462.

