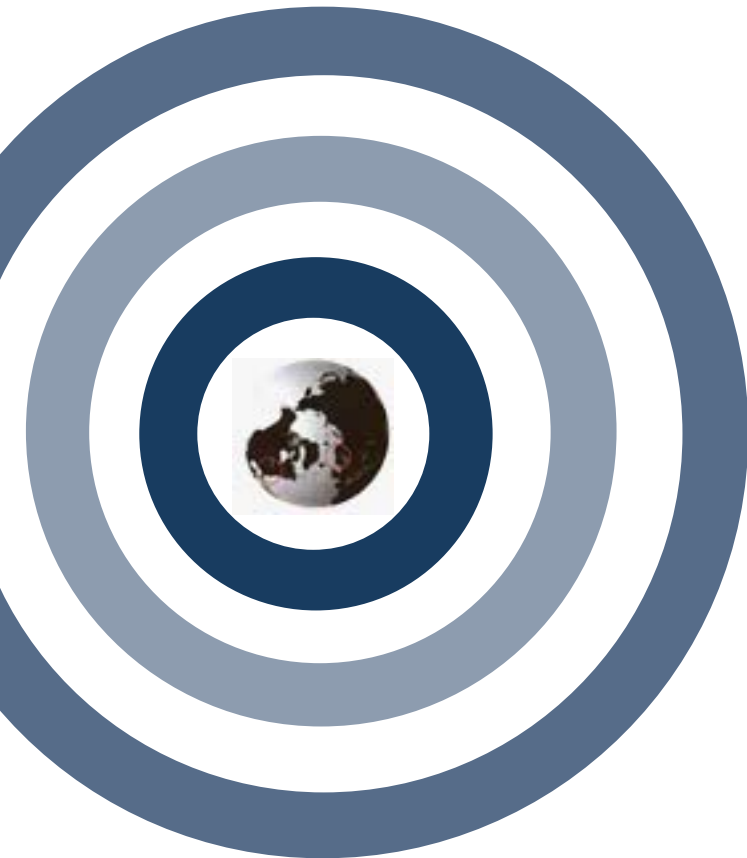


Sales Best Practices Among Commercial Vehicle Parts Suppliers

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In Association With:



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I. INTRODUCTION

From December 2008 through January 2009, Kotler Marketing Group and the HDMA surveyed 68 sales managers at commercial vehicle suppliers, asking them about a broad range of sales practices, as well as their recent negotiation outcomes. The study found that North American suppliers face a challenging sales environment, with most salespeople rarely winning price premiums over low-cost competitors.

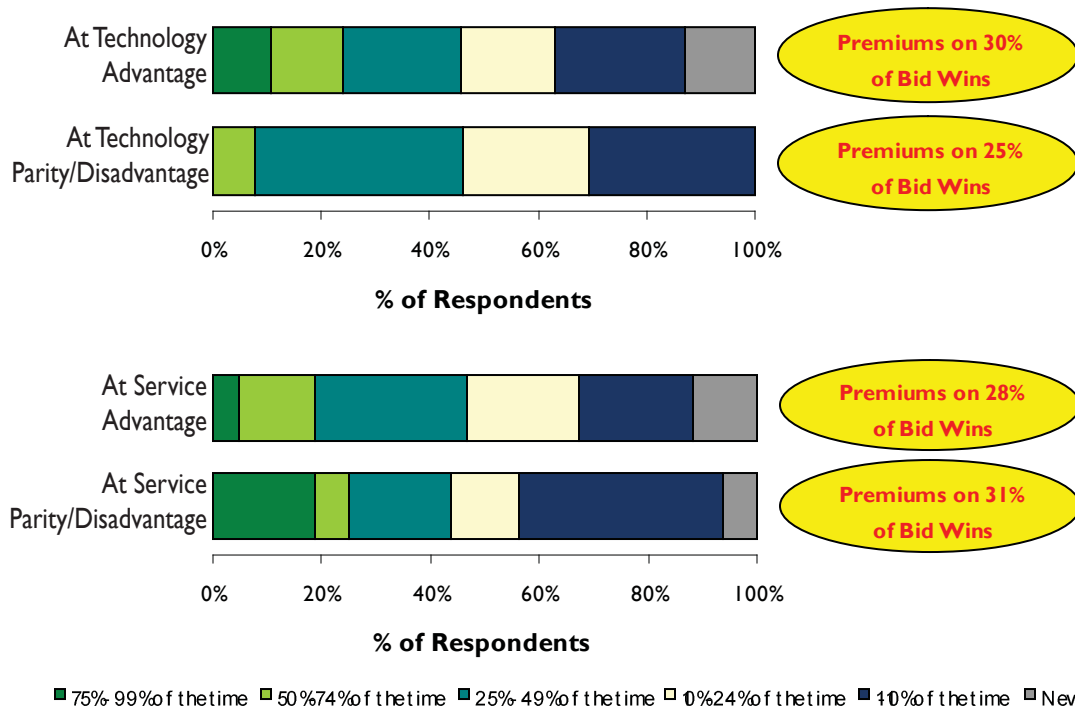
However, a central finding is that supplier sales efforts vary widely, both in terms of their practices and their success at winning price premiums and avoiding discounting.

- Most respondents said they won premiums on less than 25% of their recent bid wins. In other words, more than three-quarters of the time they had to match or beat the lowest bidder's price in order to win the business.
- However, a significant portion of respondents reported that they won price premiums on most orders. They resorted to matching or beating the lowest bid on fewer than half of their wins.

Pricing strength correlated as much or more with effective sales strategies and tactics as they did with product / service advantages. For instance, the study found that perceived technology or service advantages do not correlate with winning premium prices:

- 76% of respondents describe their firm as having a competitive advantage based on technology from R&D;
- 71% of respondents describe their firm as having a competitive advantage in terms of service and support;
- Yet on average those who claim these advantages do not report winning price premiums significantly more often than other respondents (see Figure 1).

Figure 1: Suppliers struggle to get rewarded for perceived technology and service advantages



The survey asked respondents about price premiums won during the three months prior to the survey – roughly corresponding to Q3 2008. Therefore, responses do not fully reflect the effects of the economic crisis and recession. In fact, many respondents felt that pricing pressure had eased during late 2008; a third said discounting had been less than in the past, versus only nine percent who said it was greater than in the past. However, pricing pressure is likely to increase as the effects of the contracting economy continue to filter back through the commercial vehicle supply chain.

Meeting the Current Challenge

The current state of the industry is being described by analysts as the worst since the 1970s. Current build rates are consistently less than 10,000 class 8 trucks per month and February new orders were less than 6,300 units. The aftermarket business has held up well, but with the decline in truckable economic activity, replacement parts sales are beginning to slow as well.

In response, OEMs throughout the world are scrambling to slash production and reduce manufacturing costs so that they can reduce vehicle prices to clear inventory. As they often are, the supplier community will be called on to share in the pain. Tier I, II, and III suppliers, as well as raw materials producers, will be asked to agree to massive discounts, cost-downs and givebacks. Many suppliers will be told that if they cannot, or will not, agree to the demands, their business will be at risk and purchasing will have no other choice but to turn to low cost suppliers in China, India, and Eastern Europe.

Purchasing organizations will play a critical role. This function now exists within every large buyer, tasked with convincing suppliers that they must drop price in order to win the business. Purchasing as a profession is more organized and disciplined than ever. Specialized software applications and systems have been developed to make purchasing agents more efficient and intelligent in their sourcing decisions. “Scorecards” are used to encourage suppliers to improve on certain performance dimensions without raising their prices. And many purchasing departments pay bonuses for negotiating larger price concessions from suppliers.

As the purchasing function evolved, it has increasingly defined the rules of engagement between suppliers and buyers. What has evolved is a process that conditions suppliers to believe that the “lowest price always wins.”

However, as the left side of Figure 5 suggests, there is a segment of suppliers that are able to consistently get paid for the innovations and advantages that they offer to buyers, with some even winning price premiums 75% to 100% of the time. These suppliers have found ways to break out of the cost-focused, purchasing-driven, paradigm that dominates the industry.

How are they able to do this? Sections III through VII of this report examine the specific strategies and tactics these best-practice suppliers use. For now, the short answer is that they do not compete solely on price, and do not resign themselves to playing by the “rules” established by purchasing. After all, when OEMs or other buyers source from suppliers, the “piece price” is only one part of the total cost they incur. High quality parts, services and systems create value by enabling them to improve their own productivity, reduce costs, or even increase market share. The key for suppliers who offer such advantages to their customers is to earn credit for the value they deliver.

The study found that numerous suppliers providing a wide range of components are successfully doing so.



PURCHASE INFORMATION

The full report, “Sales Best Practices Among Commercial Vehicle Parts Suppliers,” can be purchased online at:
http://kotlerstore.com/Merchant2/merchant.mvc?Screen=PROD&Product_Code=HDMAkmg&Category_Code=

For more information about the report, or to purchase by phone, call us at 1-800-331-9110 or 202-331-0555.

ABOUT THE AUTHOR

Kotler Marketing Group is a consulting firm that specializes in marketing management and strategic marketing. Founded in 1988, our philosophy is based on the work of Dr. Philip Kotler, the world’s leading strategic marketer. Our mission is to help our clients engineer profitable growth.

Kotler Marketing Group’s Value-based Services Practice has built a track record of success at helping companies implement value-based sales and marketing strategies. Our consultants help clients to document and demonstrate the value of innovative products & services. Our Automotive & Commercial Vehicle industry practice has served many of the leading automotive suppliers.

Kotler Marketing Group developed the widely acclaimed “Defending Price™” sales training program. Hundreds of suppliers have sent 1000s of their employees through this program and we pride ourselves on our clients’ successes – generating incremental revenue and defending margins.

For more information, contact: www.kotlermarketing.com

HDMA was founded in 1983 at the International Truck Show Annual Dinner in Anaheim, California by 16 members of the Heavy Duty Business Forum, a discussion group of industry executives formed in 1978. The group collectively felt the heavy duty industry required a strong voice for industry-related government legislation, market specific tradeshows and events, as well as industry research studies focused on heavy duty issues and trends.

Soon after, the Motor and Equipment Manufacturers Association was approached to formally establish HDMA. 25 years later HDMA is a market segment association of MEMA, along with the Automotive Aftermarket Suppliers Association and the Original Equipment Suppliers Association. HDMA reached a major milestone in 2004 with the addition of current president and COO Tim Kraus as the first executive director of HDMA. There are now 6 full and part-time employees dedicated to the service of the HDMA membership.

HDMA is the only heavy duty industry trade association that focuses its efforts on behalf of the members through strong governmental advocacy, vital and timely market news and information, primary and targeted market research and premier events, executive forums and councils.

See www.hdma.org for more information.

