Collaboration as a Strategy for Auto-service Business at Supermarkets

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Abstract

The paper is to establish collaboration as a strategy for auto-service business at supermarkets. Secondary market study has been made on the retail sector, especially in supermarket segment and on auto sector in India to assess the potential and growth. The drivers of possible collaboration of auto-service sector and supermarkets have been identified. From literature it is established that collaboration gives competitive advantage. A case study of collaborative auto-service at a supermarket reveals customer confidence on such set up. The idling of vehicles at supermarkets and growing demand of auto-services could be a strategic solution to tap this business potential.

1. Retail Sector in India

Retail is the one of the fastest growing sectors in the Indian economy. Traditional markets are being transformed into department stores, hypermarkets, supermarkets and specialty stores. India has the highest shop density in the world and the present retail market in India, according to a recent study (Kearney, 2006), is estimated to be US$ 200 billion of which only 3% is in the organized Sector. Projections point to a rapid growth of organized retailing — touching $23 billion by 2010 — at an annual rate of 25–30 per cent.

Supermarkets began to mushroom in East and South-East Asia five to seven years after the boom in Latin America, but registered more rapid growth (Gaiha and Thapa 2007). Recent literature (Reardon et al. 2003; Reardon, Timmer and Berdegue 2004) has also drawn attention to the speedy rise of supermarkets in different regions of the developing world and forecast their rapid spread. The diffusion of supermarkets in developing countries is conceptualized as a system of demand by consumers for supermarket services and the supply of supermarket services. Figure 1 shows the comparative position of organized retailing in some select countries.

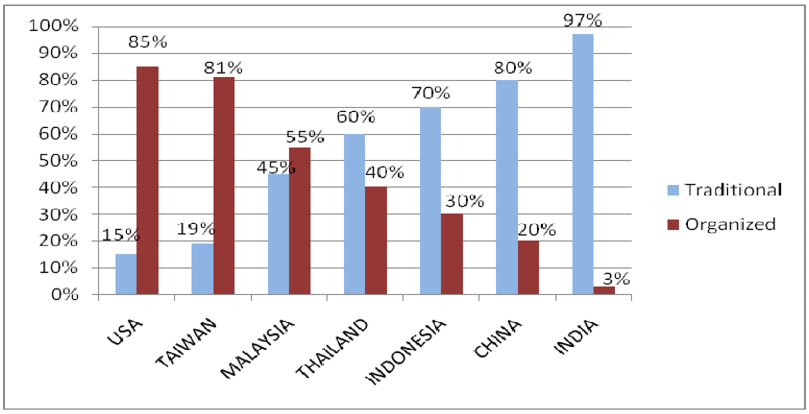

Figure 1: Comparative penetration of organized retailing

A study by Gaiha and Thapa (2007) based on World Development Indicators 2006 shows the supermarket shares in selected Asian countries as given in the Table 1. It reveals that high rates of growth in supermarket shares are projected in almost all countries except Pakistan, where the share will rise (relative to the base estimate), but is likely to remain low. The most spectacular rise is likely to be in China, followed by Indonesia and Thailand. India is likely to triple its share, but the share will remain below 10 per cent. Bangladesh, however, is likely to record a much more rapid growth rate.

Table 1: Supermarket Shares in Selected Asian Countries

Country	Projected share in 2015	Base share in 2002
Bangladesh	10	2
Pakistan	4	1
India	7	2
China	62	18
Thailand	48	27
Indonesia	27	14
Philippines	36	27
Malaysia	61	51

2. Auto Service Market in India

The automobile industry in India is growing at a very rapid pace. The Compounded Annual Growth Rate (CAGR) of production of automobiles during the last ten years has been 10.6%. The CAGR of production of passenger vehicles and 2-wheelers, which are the major auto segments visiting supermarkets, are 14.2% and 10.1% respectively. As a result the service demand has also been growing enormously. According to Auto Component Manufacturers' Association (ACMA), the passenger vehicle production is expected to reach a level of 3 million by 2014-15 with CAGR of 7.8% during 2007-14. The projection for 2-wheelers production is 24 million by 2014-15.

A survey conducted by Mahindra & Mahindra in 2007 in passenger vehicles segment reveals that only 40% of this market is estimated to be catered by authorized repairers and the rest by mainly unorganized sector. The turn out of 1-10 year old vehicles at OEM authorized workshops for services is shown in the Figure 2. It implies that there is a huge gap in providing auto-services through organized set-ups.

Figure 2: Turn out of vehicles at authorized workshops

Due to advancement in vehicle technology the service requirement of vehicles has also become technology dependent. Demand of highly skilled workers is on the rise. Hence, there is growing demand for organized service retailing. Many professional groups are entering into this area to grab this business opportunity by setting up multi-brand service outlets. Some of the names gathered from the field survey are following.

- FIRST CHOICE by Mahindra & Mahindra
- SERVOXPRESS by IndianOil
- ROADWORX by ex-CMD of Skoda
- CAR ZONE by Castrol
- CARNATION by ex-CMD of Maruti

From the survey of Mahindra & Mahindra, it is learnt that services other than major repairs and accidental works account for about 67% of total revenue share of passenger vehicle service market as shown in Figure 3. These services of minor and routine nature can be provided easily with minimum investment.

Figure 3: Revenue contributions of different auto-services

3. Potential Synergy of Retail Sector and Auto-Service Sector

Considering the growth of 25-30% in the organized retailing through supermarkets and also the need for organized auto-service retailing due to the rapid growth of auto industry, it is an ideal platform for marriage of the two sectors. The driving factors for such synergy are following.

- Middle class is likely to grow from 50 million to 550 million by 2025 (ACMA 2008)
- Growing footfalls in supermarkets at the present rate of 25-30%
- Idling of vehicles of shoppers at supermarkets. In a recent survey made on passenger car owners shopping at supermarkets in Kolkata it is revealed that 18% of the vehicles idle upto 1 hour, 39% idle for 1-2 hours, 25% idle for 3-4 hours and 18% idle for more than 3 hours.
- Convenience of service at a supermarket while shopping
- Least attention to OEM authorized workshops for minor services, especially at the large cities
- Lack of spare time of vehicle owners to visit authorized workshops
- Huge size of auto-service market and its fast growth rate.

4. Collaboration to be the Catalyst for Synergy

Till late 80’s or the early 90’s in the last century the companies’ strategies were centered around vertical integration by acquiring their own assets and resources to gain competitive advantage in the business. In recent times, due to globalization, coalitions, alliances and strategic partnerships have become a necessity to gain competitive advantage.

4.1 Advantage of Collaboration

Dyer (2000) identified advancements in information technology, growth in knowledge and increased customization of demand as three key trends that are making interfirm partnerships more attractive as an organizational form compared to vertical integration and arm’s length relationships. Hansen and Nohria (2004) explained that five categories of economic benefits could be reaped from collaboration.

- Cost savings through the transfer of best practices
- Better decision making
- Increased revenue through the sharing of expertise and products
- Innovation through the combination and cross-pollination of ideas; and
- Enhanced capacity for collective action that involves dispersed units

Dyer (2000) prescribed that competitive advantages of partnerships are linked to three major factors. The first factor, dedicated assets, refers to investments in factories, equipments, processes, and people. The second factor, knowledge sharing routines, refers to systematic and purposeful attempts on the part of the suppliers and customers to exchange knowledge. The final, and perhaps the most important factor, is trust.

Doz and Hamel (1998) said that most strategic alliances serve one or several strategic imperatives. If a company is racing for the world, it will form an alliance to make the most of global opportunities. The firm that is racing for the future may also find that alliance has their own means of creating values through creating new opportunities and building new competencies. The value-creating logics for strategic use of alliances in the races to the world and to the future are (a) gaining competitive capabilities through co-option (b) leveraging co-specialized resources and (c) gaining competence through internalized learning.

Rodriguez Diaz and Espino Rodriguez (2006) explained that in the competitive framework, organizations must resort to a new vision of the firm, transforming their organizational structures through process analysis to offer maximum quality at minimum cost and consider outsourcing services in the distribution channel. They further stressed that through inter-firm relationships, competitive advantage could be achieved at a higher level.

4.2 Themes of collaboration

For theorizing collaboration, Huxham (2003) has conceptualized *themes of collaboration*, which have been generated out of practitioner concerns. Key features of five important themes explained by him are given below.

- *Common aims* -The author advocates creating a goal taxonomy that aims to identify the kind of goals that are present in collaborative groups. It distinguishes between the goals of the collaboration, the related goals of each individual organization and the individual participant's personal goals.
- *Power* - The approach to understanding power in collaborative situations has been to identify where power is actually enacted in influencing the way in which collaborative activities are negotiated and carried out. The author terms these as *points of power* and together they make up the power infrastructure of collaboration.
- *Trust* - Two factors are important to getting started in trusting relationship. The first is with the formation of expectations about the future of the collaboration and that these will be based either on reputation or past behavior. The second starting point is risk taking.
- *Membership structures* - There are three aspects to it conceptualizing the structures of collaborations as ambiguous, complex and dynamic.
- *Leadership* - The theory has two strands to it. The first strand is concerned with the media through which leadership is enacted and argues that structures and processes are as important in leading agendas as are the participants involved in the collaboration. The second strand is concerned with the leadership activities that those participants, whether they are actually members or not, carry out.

4.3 Conceptual Model of Collaboration

To gain the competitive advantage in collaboration it is very much important to understand the critical success factors and their application. Though collaboration techniques have been used for years, the modeling of collaboration with the help of different theories has started in early 90's. One of the recent models that have been developed by Fawcett et al (2008) is given below.

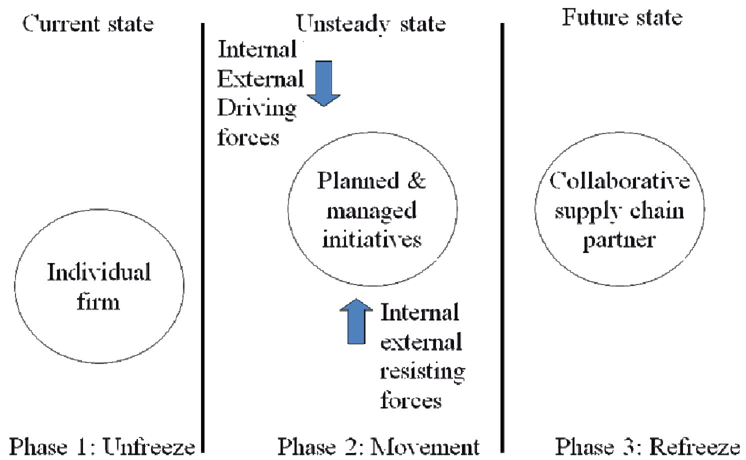

Figure 4: Force field framework for supply chain collaboration

The model identified two variables that affect management's ability to implement supply chain collaboration initiatives – environmental driving forces and internal resisting forces. The authors have illustrated three-phase force field model in relation to changing from a go-it-alone to a supply chain collaborator as shown in Figure 4. When the forces resisting collaboration are equal to or stronger that the forces driving collaboration, a company is frozen in a state of equilibrium. The phase 1 of the model shows the unfreezing process. During phase 2, the driving and resisting forces collide. In this phase the management must carefully implement its contingent response to cultivate an environment of change. Phase 3 refers to the tendency of companies to refreeze or settle into a new equilibrium state.

4.5 A Case Study of Collaboration

Indian Oil Corporation, the largest commercial enterprise of India ranked 105^{th} in the Fortune 'Global 500' listing of 2009, launched a multi-brand auto-service chain in the brand name of SERVOXRESS. The company having more than 18000 petrol bunks in the country has explored through this new venture to create a differentiation in customer service to have an edge in the competitive market. Besides setting up SERVOXPRESS at petrol bunks, the company has explored avenues to promote the concept in places of high footfalls like supermarkets. With this ideology the company set up SERVOXPRESS at a shopping mall in Mumbai Central. The mall was managed by a major retailing giant of India.

As the mall was built up in a very uprising locality of South Mumbai, the mall authority had been always on the look out for value additions to the shopping mall to increase footfalls. The car parking is at the basement and can accommodate only 175 cars at a time. Indian Oil on the other hand is looking for opportunity to showcase its brand of multi brand auto service venture and also to promote its lubricants in the brand name SERVO through oil change facilities and thereby enhancing its image of customer service.

With the above objectives, collaboration was made between the two companies. The auto service facilities were provided at the basement car parking area occupying a space of only around 400 sft. SERVOXPRESS was set up and the operation started in April 2007. For operating the facilities a franchisee was selected by IndianOil. Due to limitation in space, only few facilities like, check-up services, vacuum cleaning, perfuming, dashboard polishing, tyre polishing, AC deodorizing, wax polishing, leather polishing etc. were only provided. A study was conducted for one year from July 2007 to June 2008 and it was observed that on an average 10 vehicles were serviced per day. The average revenue per car increased nearly three fold from an initial level of Rs. 231.00 to Rs. 628.00. With increase of number of services the figure is likely to go up day by day. The collaboration process that has been adopted is shown in Figure 5.

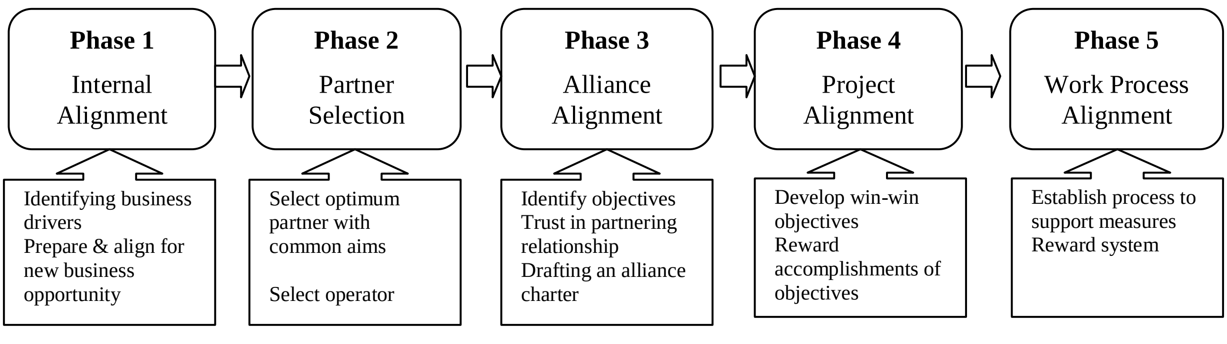

Figure 5: Collaboration process for SERVOXPRESS at Mumbai shopping mall

5. Conclusion

With the growing opportunities in retail in India and also in other developing countries, the demand for continuous value addition in the services is increasing. The supermarkets in India are projected to grow at a rate of 25-30% and auto care services can be an effective and tangible value addition to any supermarket. The fast rise in the auto industry, especially in passenger vehicle and 2-wheeler which can be the targeted segment at any supermarket, is creating huge demand of increasing service network both in the organized and unorganized sectors. The supermarkets could be potential place of auto care services as 82% of the car owners spend more than 1 hour while they visit a shopping mall. Hence, adequate time is available to provide the minimum services to any car while the owners shop. It will be an ideal utilization of time. Otherwise a vehicle owner has to make schedule for getting their vehicle serviced at any authorized repairers.

As the supermarket developers, in general, have no experience in providing such services and their main interest is in value addition to the supermarket, collaboration with partners with common aims of such value addition and customer service will be the right strategy. It creates a win-win situation for customers, supermarket developer and the partner. The collaborative ventures create new business opportunities and result in competitive advantage in terms of differentiation created by this value addition. But for effective and long term collaboration agreement, the internal alignment of the partners is a must followed by alliance alignment, project alignment and process alignment under the framework of common aims, power, trust, membership structure and leadership.

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