MARS Catalyst
CASE STUDY:
MAHINDRA FIRSTCHOICE | INDIA

MAHINDRA AND THE USED CARS INDUSTRY

Mahindra is an Indian multinational company founded in 1945 that has expanded from steel manufacturing to 20 different industries, including automobile manufacturing. Its stated philosophy is to (i) challenge conventional thinking, (ii) innovate, and (iii) enable positive change for its stakeholders. In 2011, this approach was conveyed through a new brand identity, "Rise", which seeks to empower everyone connected to Mahindra, both internally and externally.

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"A car is an aspirational purchase, but the real 'rise' is bridging the trust deficit."

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Mahindra Interviewee

In 2008, Mahindra ventured into the "aftermarket", or used car space, with Mahindra First Choice (MFC) in order to meet rising demand from a growing segment of car owners.[i]

The main considerations when buying a used car in India are cost of service and availability of parts. Yet while the used car market was equal in size to the new car market in 2012, only 15% of transactions were in the organised sector. Combined with a trend toward consolidation, this left an opportunity for a trustworthy company with capital and access to spare parts to play a major role in the market.[ii]

Because most transactions were informal, the used car space was unorganised, fragmented and lacked transparency and trust, essentially there was a social capital deficit. [iii] Mahindra saw an opportunity to develop a more efficient ecosystem by filling these gaps and creating incentives to formalise the industry. It could use its trusted brand name, financial resources, and data to facilitate easier access to sellers and buyers, replacement parts, service repairs, and information on car value and history.[iv]

On its own, Mahindra would not be able to meet the growing needs of the aftermarket industry; it would need to leverage other stakeholders' assets, data, experience and physical presence. By supporting the growth of the whole ecosystem, however, MFC could also grow.

ECOSYSTEM DIAGNOSIS

Mahindra had a general understanding of the bottlenecks in the used car industry, but to resolve them, it needed to know the specific problems faced by the different stakeholders. It therefore began by mapping the stakeholders. It looked at how used car sales occur and between whom, then widened its scope to look at other processes around used cars: repairs, service, and financing. By placing the used car industry – rather than Mahindra itself – at the centre, the company was able to form a clearer picture of the larger ecosystem.

Six key actors were identified in the space: consumers (buyers), consumers (sellers), car manufacturers, independent used car dealers, independent car service workshops, and banks. MFC then built customer profiles to see where the bottlenecks, "pain points", and needs were and develop solutions together.

Consumers (buyers)

- *Fair price:* Potential buyers had trouble knowing whether they were paying a fair price for a used car, especially when purchasing directly from a seller or independent dealer.
- *Car condition:* It could be hard for a buyer to know the history of a car including accidents and number of previous owners.
- *Legitimate paperwork:* There was no referencing system in place to ensure that the paperwork provided by a direct seller or independent dealer was legitimate.
- *Reliable and timely service:* It often took a long time to get spare parts for repairs, especially from independent service workshops in smaller cities.

Consumers (sellers)

- *Fair price:* Sellers either did not know the value of their own car or did not have the data to support their proposed price, so could end up selling it for a lower price than the car was worth.
- *Upgrade own car:* Often sellers were looking to replace their car with a better one, thus facing the same issues as the buyers. Since they generally wanted to buy the new car at the same time they sold it, this was an additional complication.

Car manufacturers

- *Competition:* Manufacturers had to compete with other car manufacturers (including Mahindra) and multi-brand chains that could offer a wider variety of product and pricing.
- *Penetration into smaller cities:* Single brand dealers and workshops were not profitable in smaller cities because of a smaller and fragmented consumer base, yet these were important under-saturated markets.
- *Scrutiny from Indian Competition Authority:* This Commission aims to avoid domination of industries by enterprises by encouraging competition and a level playing field. As a result, popular car manufacturers sometimes faced pressure from the ICA to demonstrate cooperation.

Independent used car dealer

- *Profitability*: Independent used car dealers struggled to attract customers and turn a profit.

Independent car servicing workshop

- *Spare part availability:* Branded spare parts were restricted in supply, making it difficult for these workshops to deliver services on time, resulting in substandard service.[v]
- *Skills gap:* Training employees is time-consuming, especially with high turnover, which led to an overall low standard of technical competence.
- *High employee turnover:* Employees were generally paid low wages so there was low company loyalty. The high turnover also exacerbated the training problem.

Bank

- *Resale value:* Banks lacked information about the history and resale value of repossessed cars. This meant a higher financial risk for the bank, resulting in fewer loans that included cars as collateral – and overall fewer used car transactions.
- *Hard to sell repossessed cars*: Banks were afraid of being stuck with repossessed cars since they did not have a network to sell them.

DESIGNING THE ECOSYSTEM

The used car space did not function optimally because of a lack of trust, information, and transparency, so these were primary concerns for MFC as it began designing solutions. It is important to note that a small team within MFC worked on this issue rather than the parent company Mahindra & Mahindra, enabling a more innovative and agile approach. As a separate entity, MFC was able to develop an agile start-up culture that allowed it to remain brand-agnostic and take risks.

MFC determined to add value to the ecosystem by addressing unmet needs and pain points, professionalising fragmented parts of the ecosystem, and leveraging assets and transactions owned by other participants in the used car space.[vi]

The team worked directly with the different stakeholders to build products that resolved their pain points, then tested and deployed them. As a result, products and services were created that addressed each stakeholder's needs. Some of these innovations overlapped or required the creation of additional solutions, expanding the scope of the ecosystem.

- **Third-party car inspection service:** MFC developed a standardised inspection service, which looks over a car for approximately US$10 and provides an assessment of the condition. This is especially helpful for consumers who are unsure of the quality of the car, or banks who must sell a repossessed car.[vii] The service would only be useful on a large scale, however, so MFC decided to create a multi-brand car dealer franchise that would roll out the system.[viii]

- **Multi-brand car dealer franchise:** MFC created a franchise model and provided systems and services in exchange for royalties. These services included an IT system for inventory management and customer relationship management (CRM); the car inspection service; quality and process support; a warranty service; and the Mahindra brand name, with the marketing and reputation that came with it.[ix]

- **Warranty:** The data collected on transactions through the IT system enabled MFC to price a warranty model and share the profits with the dealers.[x]

- **Indian Blue Book (IBB)**: The data obtained on car transactions and prices were also used to benchmark prices and create the industry's first guide to vehicle valuation in India.[xi] The IBB was put online for free, resolving the issue of fair pricing between buyers and sellers and for bankers as well. Although the product was not monetised, it did facilitate many more transactions, which was good for the health of the ecosystem.[xii]

- **B2B auction platform**: MFC provided an online auction platform so that the banks could sell repossessed cars to brokers, who then sold fleets of these cars to businesses.[xiii] Since the banks could more easily collect money on the cars, they became more likely to give loans that included the cars as collateral.[xiv]

- **MFC repair shop:** Customers were unhappy with the levels of service they received at independent garages, so MFC created its own service workshop. It quickly learned, however, that the problem was not the garages – it was the supply chain for spare parts. As a result, MFC closed down the new repair garages and instead focused on the true issue.[xv]

- **Hub and spoke supply chain**: Mahindra developed software to optimise supply and distribution across the country and created small hubs.[xvi] Once the system functioned well for MFC franchisees, it was intended to be scaled up to other car manufacturers in order to ensure a reliable supply of spare parts. But the car manufacturers were hesitant to work with a competitor, so MFC had to forge a partnership with them.[xvii]

- **Partnership with car manufacturers:** The only way to convince car manufacturers to work with MFC was to fix a problem or add value to the manufacturers' processes. MFC realised that individual car sellers usually sought to upgrade to a better used car or a new car. They therefore proposed to refer sellers to the car manufacturers. MFC also provided valuable knowledge through the IBB, which enabled the manufacturer to know the trade-in value of

other companies' cars; and the B2B auction platform, which helped them sell these cars. Furthermore, partnering with MFC helped the car manufacturers avoid trouble with the Competition Authority by showing that they were cooperating with other companies to generate a supply of spare parts.[xviii]

- **Multi-brand spare part catalogue**: A catalogue was made available to all garages to provide information about spare part availability and where alternatives might be found. This system began with data from franchises and then expanded through crowd-sourced information.[xix]

- **Multi-brand repair shop franchise:** Now that it had ensured a spare parts pipeline, MFC offered existing independent garages the opportunity to become franchise repair shops. After its experience with the car dealer franchises, MFC was familiar with the franchise model. In addition, having the repair shops as part of the system meant they could execute warranties sold by the car dealers.[xx]

- **Car diagnosis and repair system:** MFC developed a system that walked the repair technician through a diagnosis process, reducing the high burden of training on employers by reducing the learning curve for less experienced employees.[xxi]

Table 1: Ecosystem pain points and solutions by stakeholder

	Buyer	Seller	Car manufacturer	Independent car dealer	Independent garage	Bank
3rd party inspection	·Car condition	-	-	-	-	·Car residual value (for loan)
Hub & spoke supply chain	·Reliable timely repairs	·Upgrade	·Government scrutiny ·Penetration in small cities	-	·Spare part availability	-
Partnership with car manufacturers	·Reliable timely repairs	·Upgrade	·Government scrutiny ·Penetration in small cities	-	·Spare part availability	-
Warranty	·Car condition	-	-	·Profitability	-	·Car condition
Multi-brand dealer franchise	·Legitimate paperwork ·Car condition	-	·Penetration in small cities	·Profitability	-	·Selling repossessed cars
Multi-brand repair franchise	·Reliable and timely service	-	-	-	·Spare part availability	-
Car diagnosis and repair system	·Reliable and timely service	-	-	-	·Problems with training	-
B2B auction platform	-	-	-	-	-	·Selling repossessed cars
Multi-brand spare part catalogue	-	-	-	-	·Spare part availability	-
Indian Blue Book	·Fair price	·Fair price	-	-	-	·Car residual value (for loan)

REFLECTIONS AND LESSONS FOR MANAGEMENT PRACTICE

There is no template or shortcut for ecosystem orchestrators, but there are essential steps that MFC followed:

1. Clearly define the problem and purpose
2. Map the stakeholders
3. Identify the stakeholders' pain points
4. Develop solutions that directly address stakeholder needs and grow the used car ecosystem
5. Pilot solutions, dropping failures and scaling up successes

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> **"We are not consensus-driven but listening-driven."**
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> Nagendra Palle, CEO, MFC Wheels

Openness to failure and the ability to change course were vital aspects of MFC's success. "Seventy percent of what we tried did not work," said Nagendra Palle, CEO of MFC Wheels. "We learned that you need to make measured bets. We are not consensus-driven but listening-driven." When MFC saw that its company-owned service workshops did not solve a problem, it closed them down and pivoted to a new solution; one that solved many problems at once while also improving relationships and trust in the ecosystem.

As a smaller team within a bigger, established company, MFC benefited from the best of both worlds. It had a dedicated group with an agile, start-up mentality – a critical element for disruptive innovation – while its parent company lent a strong brand reputation to its dealings with partners. The small innovation team could propose "industry first" products; and manufacturers, dealers and banks were willing to test these since Mahindra's corporate reputation reduced risk.[xxii]

From the outside, it could seem counterintuitive for MFC to create a multi-brand chain of dealer and repair franchises that could compete with Mahindra dealerships and garages. It also might have gone against business interests to publish the Blue Book for free. Therein lies the importance of the ecosystem approach: By growing the ecosystem and improving trust and efficiency, MFC benefited disproportionately from this growth even though it did not collect value from every single transaction and connection.[xxiii]

Being an ecosystem orchestrator means that financial transactions are no longer the single focus of business growth. Instead, the focus is on enabling – and sometimes controlling – the exchange and accumulation of multiple forms of capital with the ecosystem. MFC's greatest contribution to the ecosystem was not building physical repair shops but rather creating systems and connections that provided information, which in turn promoted trust. The ecosystem orchestration approach opened up added complexity, but at the same time drove innovation that produced creative and productive solutions for all stakeholders.

It is worth re-emphasizing two clear lessons from this case. First, that by opening themselves up to the needs and capabilities of the other stakeholders, MFC was able to understand the reality of the problems and in so doing, gain knowledge of how they might be addressed from a stakeholder perspective. Second, MFC recognized that their own capabilities were not solely financial and that solving the problems for all the stakeholders would mean success for them too, a mutual benefit. For example, a financial capital focused solution would have been to buy out the various players in the system and directly control the activities and then find efficiencies in IT and banking through the wider group of businesses owned by Mahindra. This would not only have been an expensive endeavor, but it would have resulted in the creation of significant on-going costs and pressures to manage more businesses profitably in a system that had significant problems. By contrast, the solution of the Blue Book to address the trust deficit, is an excellent illustration of how ecosystem orchestration can return both financial and social value.

Although MFC did not have EoM at the core of their approach, the lessons for businesses wanting to implement EoM are extensive and noteworthy.

REFERENCES AND NOTES

[i] Das et al. (2015). Mahindra First Choice Services: Creating a Value Proposition. *Richard Ivey School of Business Foundation*.
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[iv] Das et al. (2015). Mahindra First Choice Services: Creating a Value Proposition. *Richard Ivey School of Business Foundation*.

[v] Interviews with Mahindra employees.

[vi] Kyrtatou et al. (2015). Business Models, Ecosystems, Data & Digital: Key insights from the Petcare Pathfinder Journey.

[vii] Interviews with Mahindra employees.

[viii] Responsible Business Forum presentation.

[ix] Ibid.

[x] Ibid.

[xi] Kyrtatou et al. (2015). Business Models, Ecosystems, Data & Digital: Key insights from the Petcare Pathfinder Journey.

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[xiii] Interviews with Mahindra employees.

[xiv] Responsible Business Forum presentation.

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[xvi] Interviews with Mahindra employees.

[xvii] Responsible Business Forum presentation.

[xviii] Ibid.

[xix] Interviews with Mahindra employees.

[xx] Responsible Business Forum presentation.

[xxi] Ibid.

[xxii] Interviews with Mahindra employees.

[xxiii] Responsible Business Forum presentation.