

## **BENCHMARKING FOR THE ROMANIAN HEAVY COMMERCIAL VEHICLES MARKET**

**Pop Al. Nicolae**

*The Bucharest University of Economic Studies*

*Marketing Faculty*

*nicolae\_al\_pop@yahoo.com*

**Draghescu Florin**

*The Bucharest University of Economic Studies*

*Marketing Doctoral School*

*clipsi99@yahoo.com*

**Palade Alexandru**

*The Bucharest University of Economic Studies*

*Marketing Doctoral School*

*alex.palade@man.ro*

**Abstract:** The globalization has led to a better integration of international markets of goods, services and capital markets, fact which leads to a significant increase of investments in those regions with low labor cost and with access to commercial routes. The development of international trade has imposed a continuous growth of the volumes of transported goods and the development of a transport system, able to stand against the new pressure exercised by cost, time and space. The solution to efficient transport is the intermodal transportation relying on state-of-the-art technological platforms, which integrates the advantages specific to each means of transportation: flexibility for road transportation, high capacity for railway, low costs for sea, and speed for air transportation. Romania's integration in the pan-European transport system alongside with the EU's enlargement towards the east will change Romania's positioning into a central one. The integrated governmental program of improving the intermodal infrastructure will ensure fast railway, road and air connections. For the Danube harbors and for the sea ports, EU grants and allowances will be used thus increasing Romania's importance in its capacity as one of Europe's logistical hubs. The present paper intends to use benchmarking, the management and strategic marketing tool, in order to realize an evaluation of the Romanian heavy commercial vehicles market, within European context. Benchmarking encourages change in a complex and dynamic context where a permanent solution cannot be found. The different results stimulate the use of benchmarking as a solution to reduce gaps. MAN's case study shows the dynamics of the players on the Romanian market for heavy commercial vehicles, when considering the strong growth of Romanian exported goods but with a modest internal demand, a limited but developing road infrastructure, and an unfavorable international economical context together with medium and long term growth perspectives. Important efforts are being made in Romania in order to align the national transportation system, whether railway, sea, road, air or pipelines to the European network, by supporting big modernization projects, the development and integration of national transportation infrastructure into the European network.

**Keywords:** benchmarking; transport; globalization; heavy commercial vehicles;

**JEL classification:** M30; M31; M39.

## 1. Benchmarking – a tool used by performance management

Globalization led to competitive pressure and forces the companies to look constantly for new methods and techniques in order to improve their performance and to gain a competitive advantage. As stated by Jack Grayson, founder and executive chairman for the American Productivity & Quality Center “Productivity and quality improvement is a race without a finish line. Your organization’s future will be determined by how well and how quickly you learn, adapt and improve” ([www.apqc.org](http://www.apqc.org)). The rate of changes nowadays, requires that we don’t reinvent the wheel in the process of improving our company’s results, but to act after reflecting upon our processes and our results compared to others’ results.

Benchmarking is a systematic process whereby a comparison of work processes and performance indicators is accomplished, in order to identify and apply best practices from the same industry or from different industries. Basically, benchmarking is a learning process which needs to be ongoing in our company’s live. *Benchmarking is the practice of being humble enough to admit that someone else is better at something, and being wise enough to learn how to match them and even surpass them at it* (APQC, 1993).

Benchmarking is a management and strategic marketing tool which enables you to shape the future in terms of organizing an activity, action or process. It encourages change in a complex and dynamic context where a permanent solution is not possible. The different results stimulate the use of benchmarking as a solution meant to reduce the gaps. A simple copying of best practices from your competition or other companies does not guarantee the achievement of best results. A more flexible approach of the job market, of products, services and capital markets would help increase productivity in Europe, which continues to have a slower growth rhythm when compared to the US or Asia. Among the causes of mediocre productivity one can find pecuniary motivation, the lack of a clear direction towards productivity, the lack of competitive organizational culture meant to stimulate employees or the lack of an efficiency driven education.

Benchmarking was most probably used for the first time by Japanese companies during World War II by analyzing American companies in order to improve products and processes. As a management tools, references to benchmarking appear for the first time in 1979 when Xerox notices that the Japanese competition has prices beneath their own production costs. The analysis begun at the Fuji-Xerox subsidiary in Japan has proven that the differences were due to Canon’s more efficient organization of the production site and the product development processes.

In the long term there are certain factors which can influence productivity: investments, new technologies but also the innovative effort, a better labor division, an increase of educational quality. All of them are the base of increased competencies or a larger involvement and motivation of the workers in the production process of goods and services.

The evaluation of the competitive position of a company is related to a system of key success factors which are significant as factors that differentiate the efficient companies from the others. In order to identify the key success factors in economical literature (Niculescu, 1995), the following 5 criteria are recommended:

- market positioning, expressed by absolute or relative market share and threw its dynamics;
- position of the company regarding costs (supply, storage, sales);

- image of the company and commercial strength;
- technological and technical competencies;
- cost-efficiency and financial power.

Following the steps in the benchmarking process helps companies improve their performance in critical areas that affect competitiveness as it is presented in figure no. 1. Today we talk about different types of benchmarking according to what and by whom the analysis is realized (Andersen, B., 1995): competitive benchmarking, functional benchmarking, business process benchmarking, etc.

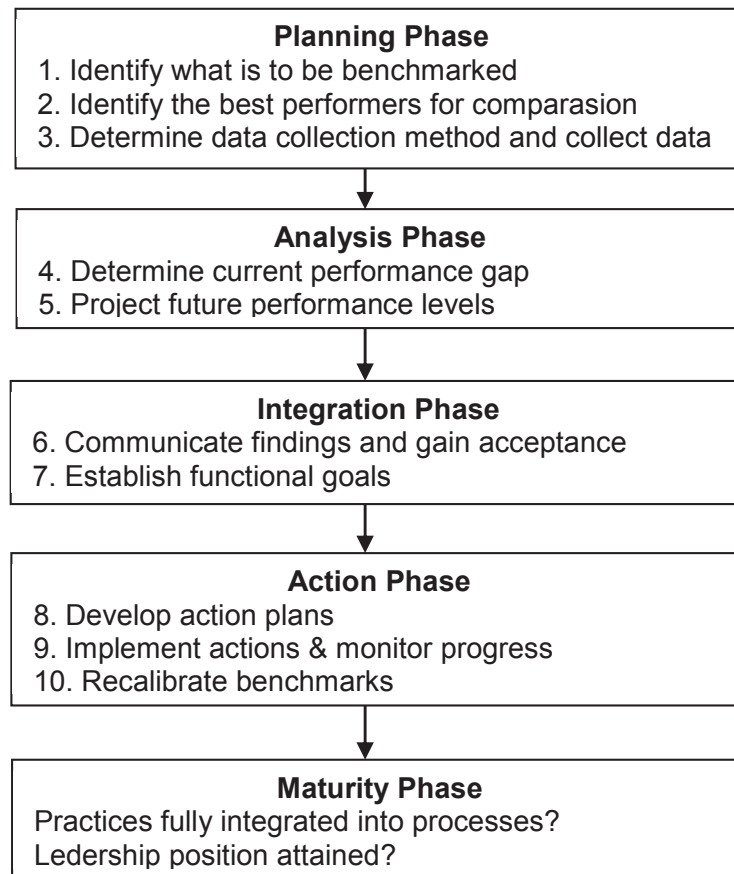


Figure no. 1 Steps of benchmarking

Sursa: Sik Wah Fong, Eddie W.L. Cheng, Danny C.K. Ho, Benchmarking: a general reading for management practitioners, 1998

A special experience related to a primitive type of benchmarking belongs to the countries from the former communist block where in their competition to the west, they have considered as normal to obtain and transfer “data about secret scientific inventions from capitalist countries and their accomplishments” (Banu, F., [www.cnsas.ro](http://www.cnsas.ro)). The purpose was to use these data without acknowledgement of intellectual property rights. Romania is nowadays in the situation where companies are developed according to competition principles, but with one of the lowest innovation rates in Europe.

As any other strategic management instrument benchmarking is support to and is limited and has to be correlated to other existing information. According to (Kotler & all, 1998) the limits of benchmarking are as follows:

- the creativity of the company which applies exclusive benchmarking is limited;
- the attempt to imitate the performance of other companies lasts for a while and can allow equaling these performance while the market is continuously changing its work methods;
- the emphasis is put on the competition and it loses sight the clients' changing needs;
- concentrating on benchmarking can distract attention from the improvement of basic competencies of the company;
- success depends on the subjective choices of the one realizing the benchmarking analysis.

## **2. Benchmarking in the transport system**

An efficient global economy relies fundamentally on transportation. The quality and the cost of transportation services influence competition among companies, countries and regions. The heavy commercial vehicle fleet has been significantly restructured nowadays, so that many older and smaller vehicles have been replaced with newer and bigger vehicles thus influencing in a major way statistical numbers. By the term of heavy commercial vehicles, one understands a mean of transportation with its total mass above 7,5t with the purpose of transporting general goods.

There are substantial differences in structure, organization, and integration of transportation within the EU and on global level. For example, the transportation sector in the European Union has more than 10 Million employees representing thus 4,6% of the GDP and influences by 10-15% the cost of the final product, according to the European Commission's website. Also, the producing industry of means of transportation adds 1,7% to the GDP and totals 1,5% of the European labor market.

Benchmarking in transportation needs to take into consideration public policies but also the market's request in terms of demand and offer. The truck sales have always been an indicator for the state of the economy. Regardless of the type and purpose of the trucks they transport goods that are produced or consumed by the people of the respective country. This is why when a country is affected by an economic crisis, sales in commercial vehicles go drastically down and when a country experiences economic growth, sales in commercial vehicles go up. The direct relation between the state of the economy and the truck sales can be followed in several areas: state investments in infrastructure (relevant for trucks used in constructions), state investments related to safety (special utility firefighter trucks, military vehicles), investments of local authorities in sanitizing and waste collection (garbage trucks), civil and public constructions (construction trucks), transport of general goods (distribution trucks), fuel consumption (fuel trucks).

Another relevant aspect for the influence of the economy in the sales of heavy vehicles is the financing. General lack of safety and the impossibility to realize a business-plan for medium and long term, lead financial institutions and non-banking financial institutions to a financing policy characterized by precaution. Here we need to mention the huge losses registered by leasing companies through the reposition process of vehicles of any kind during the transition from economic boom to crisis.

The financial crisis which began in 2007-2008 has affected also in a major way the truck sales on the European and US markets. The interest for deposits and credits have raised significantly, the money being considered the most valuable commodity, thus many potential truck clients have preferred not to take any risks upon them and they either settled with generous interest rates from their bank deposits or they invested into "safe goods" like gold, art, jewelry in limited editions. On the other hand large interest rates for

credits have reduced considerably the potential future profit of transportation companies thus discouraging those eager for potential investments.

### 3. Heavy Commercial Vehicle's Market

The world distribution of power poles in the truck market has changed starting with 2006. Thus, the Asian producers have ensured themselves a stronger position on the downside of the countries belonging to the Triad (North America – without Mexico, the European Union, Japan and countries from the Far East). As a consequence the big producers of commercial vehicles from the developed countries have used different means to consolidate a global position through mergers or share takeover. Thus the Swedish producer Volvo has merged with the French producer Renault and the German group VAG known especially for the car industry has taken over the producers MAN, Scania and Volkswagen Latin America.

The truck producers worldwide need to be aware of the growing tendency of emerging markets and the continuous cyclicity of mature markets. Emerging markets are also predisposed to cycles but opposed to the Triad area the general tendency they experience is of a positive growth.

The producers of heavy commercial vehicles have to develop new models and regionally adapted brand strategies in order to satisfy the peculiarities of the market and the customers' preferences. Adapting of engines to the environmental requirements attracts with its higher costs related to research and technologies which the beneficiaries aren't always willing to pay. The time slots to introduce pollution restrictions in the emergent market are diminishing constantly although there are still gaps towards the developed markets.

For the long term, the Full-Line producers which means those who produce and sell heavy commercial vehicles as well as light vehicles will have better chances in the competition at global level. The most important Full-Line producer is Daimler AG, present in almost all markets around the world and which sells commercial vehicles under different brands: Mercedes Benz in Europe, Russia, North and South America, Fuso in Asia or Bharat Benz in India. Andreas Renschler, president of Daimler Trucks division within the Daimler AG, considers that the best way to create an opinion about the potential future of a market is to look at the GDP: *A growing economy always goes hand-in-hand with increasing freight transport volumes – boosting the demand for trucks (KPMG report, 2013)*. The same Andreas Renschler notices in mature markets a continuous trend towards a differentiated analysis of the total cost of ownership: *After all, the number one purchase reason in mature markets is the total cost per kilometer, not – in contrast to emerging markets – the initial price of a truck (KPMG report, 2013)*.

The trade with commercial vehicles has always been characterized by the importance granted to the total cost of ownership - TCO. If you consider it an investment, the acquisition of a truck and its operational cost have a direct influence on the profit registered by the transport company as shown in figure 2 Structure of Ownership Costs.

The largest part of the TCO which can be influenced by the developed markets like Western Europe is the cost for fuel (approximately 30%). It is hard for the producer to reduce this part of the TCO, because its most influential components are tightly linked to environmental regulations (environmental requirements, taxes and fees, road tax) especially on the developed markets. Most probably the ratio of the external factors will grow, diminishing the producers' ability to influence this cost in favor of their customers.

On the medium and long term it is very probable that on the emerging markets the TCO, the main tool used for calculations and comparison of competitiveness on the trucks market, will align to the ones in the developed economies. Total convergence of the emergent and developed markets is expected to happen only in 10-15 years. China and

Russia prove a higher convergence potential, higher than India. In the last period of time, China's and India's internal production exceeds national sales contrasting to Russia which still relies on substantial imports.

The activities in transportation produce effects over the environment, accidents, road blocks and usage of the infrastructure. Contrasting to the benefits, the cost of this effect is not fully taken over by the transport operators. Due to the lack of legislative regulations, these so called external costs are not taken into consideration by the operators when organizing transport. Thus, the beneficiaries of transportation are affected due to false reasons which can produce losses, damages in the community.

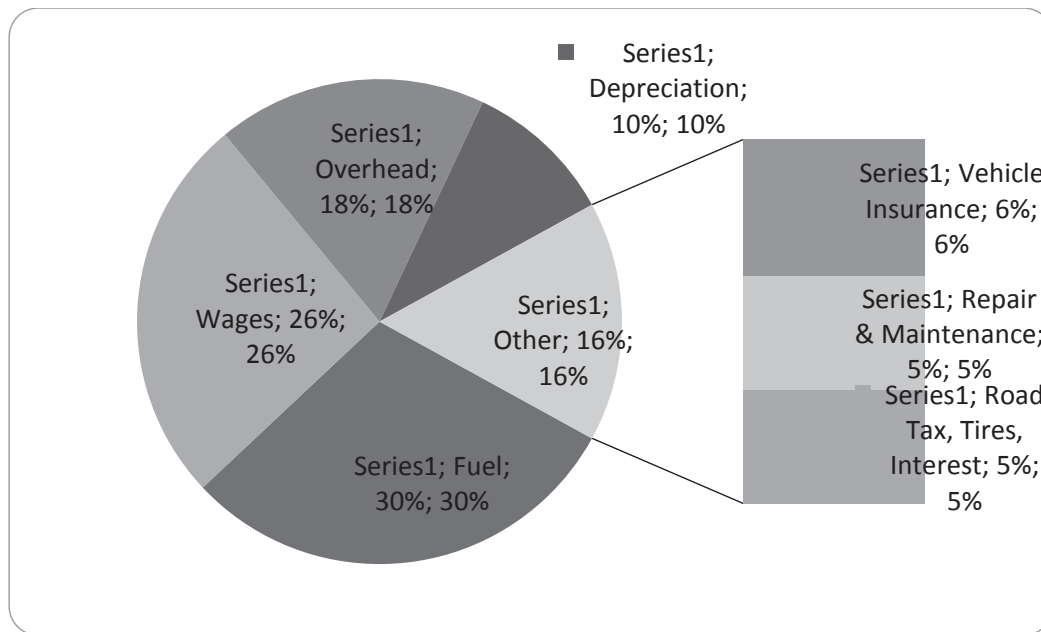


Figure 2. Structure of Total Ownership Costs for heavy commercial vehicles  
Source: KPMG Report, 2013

The internalization of these external costs means including these effects in the transporters' decisional process. According to the approach of the wealth theory (Samuelson, Paul, A., 1983), internalizing external costs by using specific instruments of the market can lead to a more efficient use of the infrastructure, can lead to diminishing negative effects of the transport activity and the improvement of fair competitiveness among transporters.

During time, at European but also at global level, internalizing external transportation costs has been an important subject for research and specific legislation. Countless research projects some of them even financed by the European Commission have suggested that the implementation of the instruments specific to the market, inspired by the theoretical-economical concept of establishing the marginal social cost, could generate considerable benefits. Setting correct and efficient transportation prices has also been debated in multiple legislative documents generated by the European Commission, one of the notable ones being the White Paper on Transport in 2011.

During the amendments to the Directive 1999/63/EC from 2006 regarding the weight of heavy commercial vehicles for the access to different infrastructures, the EU has requested the European Commission to be presented with a general usable and transparent model to evaluate all external costs, including the non-road-associated-costs. This model was supposed to serve as a calculation base for future road taxes.



#### 4. Case study. MAN in Romania

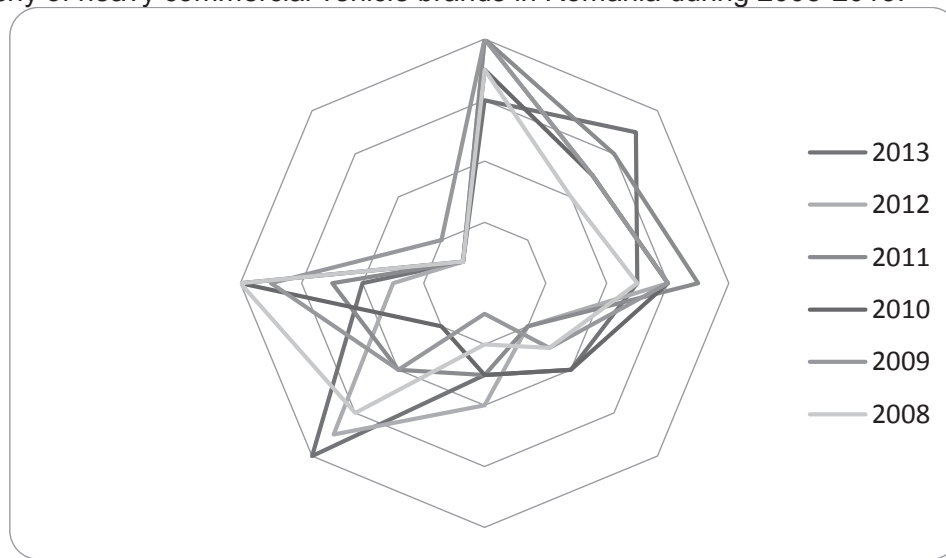
MHS Truck & BUS S.R.L. is the official importer of MAN trucks in Romania. Its activity has begun in 2007 when it took over the heavy commercial vehicle division from another company in the same group, namely Automobile Bavaria S.R.L. shortly MHS Truck & BUS S.R.L. became a leader in sales of new trucks. During 2008-2012 the company ranked first, even if the total figures have fluctuated considerably. A look at the dynamics of Romanian markets during 2008-2013 of these vehicles is presented in the following chart, tabel no. 1. The main competitors on this market, at European Level as well as in Romania, are Mercedes-Benz, Volvo, Scania, DAF, Iveco and Renault. The direct competitors are just the brands occupying the first three ranks, because together with MAN, they make up the premium category for heavy commercial vehicles.

**Tabel no. 1 Romanian Market during 2008-2013,  
Commercial Vehicles above 7,5 t**

Brand	2013	2012	2011	2010	2009	2008
<b>MAN</b>	748	713	815	525	477	1825
<b>Mercedes</b>	791	379	569	317	204	1109
<b>DAF</b>	678	448	676	438	313	1236
<b>Renault</b>	220	180	261	210	151	1015
<b>Scania</b>	297	358	306	186	66	392
<b>Volvo</b>	860	475	491	136	183	1378
<b>Iveco</b>	412	253	559	549	390	2274
<b>Others</b>	33	33	50	94	96	296

Source: MHS Truck & BUS SRL, internal documents

The data shown in table no.1 can be shown also in figure no. 3 which illustrates the annual hierarchy of heavy commercial vehicle brands in Romania during 2008-2013.



**Figure no. 3 Brand positioning according to sales figures 2008-2013**

The excellent results of MAN brand are due to the organization of the sales department, the flexibility of its offers from financial point of view, but also associated services and delivery terms.

In average a number of 25 sales agents have promoted the MAN brand in Romania. The staff variations in this period have been minimal which helped forming homogeneous department with experience in the sales of vehicles. The sales network of the main competitors in Romania consists of approximately 15 sales agents.

Increased flexibility due to a client oriented vision (Bruhu, Manfred, 2012), the company's management, but also due to the status of general importer and not as a subsidiary of the producer, a status which the main competitors on the market do not have (Mercedes-Benz, Scania and Volvo are Romanian subsidiaries of the producing company) brings along benefits as well as weak points but in the end it all comes down to the company's management and its ability to speculate these advantages. The above mentioned flexibility has been lived as follows:

- ordering stock vehicles in order to cover the clients' urgent needs; constantly a variety of chassis types have been produced in order to cover a wide range of applications; using this method an important number of customers have been added from those who were not sure about the brand but also from customers belonging to the competition;
- fast decision time for important issues; this advantage proved to be decisive in several situations, for example in online auctioning or in direct negotiations; thus online auctions have been won, by introducing a lower price than the competitor, only seconds before the deadline; a timely reaction during direct negotiations also proves professionalism, experience and self-confidence;
- constant participation to public auctions for heavy commercial vehicles; due to a major reluctance in behalf of its competitors which is partially unjustified, MHS Truck & Bus S.R.L. has won numerous contracts this way, sometimes being the only supplier; in time, this lack of interest in auction has led to the situation that only few truck vendors in Romania have accumulated the necessary experience in order to participate to important auctions, experience which is actually a pre-requisite as stipulated in the auction books; thus, the figures accomplished through this type of sales to the state authorities have strengthened the leader position of MAN in Romania; as a consequence of the world economic crisis, the sales to private customers have decreased since 2009, which means that the number of vehicles sold via public auctions has raised considerably;
- Freedom to negotiate contractual terms; the main contractual stipulations under negotiation which helped MHS Truck & Bus S.R.L. to consolidate its leader position in Romania's truck market are: price reductions, terms of delivery, down payment for an order or even for a reservation, payment methods, payment deadlines, warranty, price reductions or even service items free of charge, etc.;

When putting down an offer and during the following price negotiations, it was taken into consideration not only the value of the respective transaction but also other important criteria: size of the customer's current fleet, the client's development potential according to signed contracts or the association to a larger group of companies, the impact of the acquisition of MAN trucks in an specific area or the area of activity and last but not least the time frame for the renewal of its truck fleet.

Regarding its payment conditions, MHS Truck & Bus SRL has accepted orders for going into production even for symbolic down payments and in exceptional cases for traditional customers, without down payment. In direct transactions where the customers used own



financial resources, installments have been offered going as far as 6 months after delivery. All outstanding amounts were supported by guaranteed letters of credit.

It must be mentioned that, although all truck producers cover almost the whole range of products, each is best in class in a specific area. MAN's strong point is provided by vehicles dedicated to the construction segment and to the special vehicles for rough terrain.

In 2013, due to the states strong decrease of investments for public constructions or highways, MAN has registered a fall in its sales figures and went down to the third place. Of course to this decrease also other factors had its share, for example the slow absorption of European funds, lack of contracted works and implicitly the slow renewal process for specialized vehicle fleets, changes of the shareholders in MAN Truck & Bus AG, the competitors aggressive marketing policy, etc.

For the year 2014, MHS Truck & Bus SRL intends to regain the first position in the sales chart for heavy commercial vehicles in Romania. Although the forecast isn't very optimistic due to the fact that the state's investments in infrastructure and the absorption of European funds did not increase if compared to last year's figures, the only way it could be possible is by improving the marketing policies.

Thus, the targets established by MAN importer in Romania in order to regain the leader position, are:

- offering test trucks in order to attract those customers who aren't 100% sure or are skeptical about the quality of MAN vehicles; this method has been successfully tested during the last year, through this method MAN managed succeeded to attract customers from other brands;
- closeness to existing or potential customers by organizing events for example "open doors day" occasioned by the launch of new models; representative customers shall be invited to fairs where the newest models and the most technical advanced vehicles are displayed;
- promoting price reductions by offering service packages (extended warranty, included revisions, coupons for service visits) in order to avoid the depreciation of the image about the quality of products;
- improvement of the image of MAN trucks by publishing in business newspapers or specific magazines of interviews with representative customers, owners satisfied by the products of the German MAN producer; main fleet delivers should also be advertised to the broad audience through specific communication tools;

Identification of new means of a more efficient promotion of used vehicles, especially those which are older than 10 years, directing them towards African and Arabian markets; this type of sale of old and no longer efficient vehicles from the EU where the importance of environmental protection increases, is meant to avoid the company's financial blockade and to increase its capacity to absorb the vehicles resulting from buy-back or trade-in contracts.

## **5. Conclusions**

Europe is far behind the USA and Asia in terms of competitiveness. EU institutions make efforts in order to create the infrastructure and to stimulate European companies in order to raise competitiveness when facing the ruthless global economy. For the purpose to reduce these competitiveness gaps, benchmarking is used as management tool, ever more often. Using benchmarking as a strategic analysis tools for the heavy commercial vehicle market underlines the success factors of the distributors in Romania, as well as the regional and national trends. The abrupt decrease of sales in heavy commercial vehicles in Romania after 2008 has not been recovered by the main players on the market, although promoting means and communications to targeted clients have been diversified,

the financing scheme has become more flexible and the package and associated services has been developed, extended as shown in the case study of MHS, the MAN distributor in Romania.

It is necessary to have a practical implementation of the holistic marketing concept (Kotler et al, 2012), according to which the success of a business depends of the capacity of its initiator to convince all involved stakeholder to have common interests. At the same time it is requested that the marketer to put into practice the principle three specific characteristics requested of him: empathy in thinking and action, rational creativity and partnership spirit (Pop at all, 2012).

Selling trucks requires a high level of knowing your product and is different from car sales. The client who buys a heavy commercial vehicle is driven to an acquisition in order to bring a profit to his business. The key to success in selling trucks is the understanding that a purchase is a process and not a spontaneous decision.

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