

Michelin Fleet Solutions From selling tires to selling kilometers

Case Abstract

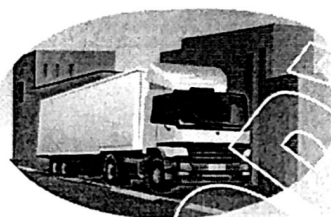
Michelin, a worldwide leader in the tire industry, launched in 2000 a comprehensive tire-management solution offer for large European transportation companies, called Michelin Fleet Solutions (MFS). With this new business model, the company ventured into selling kilometers – instead of selling tires. This decision moves the strongly product-driven firm into the new world of services and solutions. The shift is intuitively appealing, and it provides Michelin with an opportunity to differentiate itself in the tire business. After 3 years, however, expansion is far below expectations and profitability is terrible – despite the outside help of a strategy consulting firm. The case presents the decision point in 2003, whereby MFS's future has to be decided. Should Michelin seek to further develop this solution offer, and try to repackage the offer yet another time? Or was it just a passing fad that should be abandoned?

This case investigates the difficulties that industrial groups face when they transition from selling products to providing service. It enables participants to reflect on the following issues: What's industrial groups' rationale for moving towards solutions? What kind of business model reconfiguration does it imply? How does moving to solutions raise multiple challenges throughout the organization (e.g. in terms of sales force management, risk management, channel relationships etc.)?

This case study was written by Chloé Renault, HEC 2006 and PhD Student at HEC, under the supervision of Frédéric Dalsace, Danone Chair of Social Business/Firm & Poverty and Wolfgang Ulaga, EDF Chair in Marketing/New Business Models in the Energy Industry, both Associate Professors at HEC Paris. The case was written as a basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation. We would like to thank Stéphane Mamelle at Michelin for his assistance and support. Some data have been modified for reasons of confidentiality.



The more you know,
the more you dare®



Michelin Fleet Solutions From selling tires to selling kilometers

Case Study

On this gloomy day of January 2003, Jonas Piils hurried to take a cab in Clermont-Ferrand airport to reach Michelin's headquarters, in downtown Clermont. While in the cab, he reflected upon his forthcoming meeting at the French tire manufacturer's offices. After five years as a regional sales manager, Jonas had been appointed a year ago as Manager in Germany for the deployment of Michelin Fleet Solutions (MFS). Today would undoubtedly be decisive for MFS's future. Would Michelin pursue or abandon its solution business?

This seemed such a good idea to begin with. With MFS, Michelin had moved from its traditional business of manufacturing and selling tires toward the new world of service, i.e. offering transportation companies comprehensive tire fleet management solutions. This radical move was initiated in 2000 with promising growth perspectives. The new offering was targeted at large European transportation companies such as Schenker, TNT, Geodis, or Norbert Dentressangle. However, three years later, the picture had become much darker: despite substantial investments, geographic expansion was still poor and MFS remained unprofitable. The situation had deteriorated to a point where International Strategy Consulting (ISC – name disguised), a well-known consulting firm, had been appointed a few months earlier to help fix the problem. Clearly, drastic steps were required to keep MFS alive.

As he entered the building, Jonas met Pierre Dupuis, Michelin Fleet Solutions Director in Europe. They immediately discussed the most recent German sales figures. MFS's future critically depended upon its ability to succeed in this key market. They met Jean Baudriard, who was the European Director of the Truck and Buses (TB) Division. Typical of Michelin career paths, Jean had joined the company right after graduating as an engineer and had been working with Michelin for the past 30 years in various functions, including R&D, manufacturing, and sales. After a quick handshake, he immediately jumped to his main concern: "The Board members have added MFS on their next meeting's agenda. It's an explosive topic, and we must come up with clear recommendations. Should the company keep

on developing this solution business? Should the MFS offer be repackaged? Or should it simply be abandoned? These are the questions we have to discuss today!"

Understanding the business environment

The transportation industry and its challenges

Jean Baudriard, TB Division Director, started the meeting by sharing insights from the latest market research on the transportation industry. "Road transportation has still the lion's share in the European market: 44% of European goods are transported by trucks, and this should not decrease as road transportation companies provide unequalled flexibility and competitive price. We expect 3% growth a year for road freight transport. The importance of door-to-door and just-in-time services further reinforces this competitive advantage. But keep in mind that transportation companies suffer from a negative image, as they are seen as a main source of CO2 emissions. This really is under much political attention, and the idea of developing a carbon footprint responsibility for transportation companies is making its way."

Pierre, MFS Director, observed "There is an impressive consolidation process in this industry. Within only a few decades, truly European players have emerged, and this is unlikely to stop considering that 80% of European transportation companies still operate with less than 5 trucks. Small players are ideal targets for external growth. Take Geodis or Norbert Dentressangle, for instance: they have embarked on a substantial acquisition program to increase their network, and they are seriously seeking to challenge Schenker and DHL as market leaders." There were about 1,500 of such large European fleets, rapidly growing, and evolving in a hyper-competitive market.

"It is not only about consolidation, they have also changed their business model. Large transportation companies have now become genuine logistics service providers, with a dedicated logistics division offering a wide array of services from transportation outsourcing, supply chain management to one-stop shopping solutions," added Jonas Pills. A great number of retailers, consumer goods manufacturers, or automotive companies indeed increasingly relied on so-called "third party logistics" for their non-strategic processes (e.g. product delivery, inventory management, etc...), thus targeting higher returns on assets and increased flexibility in their supply chain.

The Truck and Buses tire industry

Truck and Buses tires (TB tires) represent 27% of the tires sold in the world, and are the second tire market after passenger cars (60%). All tire makers have a broad and deep TB tire mix, as these tires must be adapted to various road and usage conditions (e.g., highway, off-road, city, trailers...). Europe, a relatively mature market, accounts for 29% of the world's TB tire business, with 24.5 million tires sold in 2002.

The Truck and Buses tire market is relatively consolidated with Michelin, Bridgestone and Goodyear accounting for almost 18% of the market each. However, low-cost Asian firms are increasingly gaining traction. Considering that a tire is a labor-intensive product, competition from China and/or Korea is indeed a real threat. For example, in the same category, a Michelin TB tire (400 € / unit) and a Bridgestone tire (350 € / unit) are relatively close in terms of pricing, at least relative to the Chinese equivalent, aggressively priced below (at 250 € / unit). In this industry, price is a powerful selling argument, as some customers typically view tires as highly commoditized "dirty black things".

Truck and Buses tires within the Michelin group

Michelin's mission is to "contribute to the mobility of goods and people" and the tire business accounts for 99% of the group's revenues. With global revenues of 15.6 billion Euros for 2002, the Michelin group is one of the three dominant players in the consolidated tire industry (Michelin 19.6%; Bridgestone 18.6%, Goodyear 18.2% market shares). It employs more than 125,000 people worldwide, has 70 industrial sites in 18 countries and a sales presence in more than 170 countries. Michelin strongly focuses on research and development and is acknowledged as the industry's leader in technology, offering premium tires and driving the market. The Truck and Buses division accounts for 25% of overall sales in 2002 and 40% of the group operating result.

Though usually considered as a simple commodity, TB tires are highly sophisticated and complex products (Exhibits 1 and 2). The TB tire market consists of two distinct but interdependent market segments: the "Original Equipment" market (OE) for truck manufacturers and the "Replacement" market (RT) for transportation companies.

Original Equipment is the original tire fitting on brand-new vehicles. Michelin's OE market share is around 65% in Europe. The main clients are truck manufacturers such as Mercedes, Man, Iveco or Renault. On this segment, transportation companies play an important prescriptive role as they decide what tire brands should be installed on their trucks. Michelin's sales people actively encourage these customers to request that their new vehicles be equipped with Michelin.

Replacement is the other avenue for the TB tire market. Tires wear out faster than the vehicle itself; as such, several replacements are necessary, making this market the most important with 80% of TB tires sales. On this RT market, price plays a critical role, and Michelin's market share in Europe is 21%.

Truck and Buses tires in the eyes of distributors

Michelin addresses the replacement market almost exclusively through professional tire distributors. These distributors usually sell tires for different vehicles (trucks and cars) and from different brands. TB tires are service-intensive: they require constant monitoring, regular maintenance and repair, tasks which are time-consuming and require professional expertise (Exhibit 2). As a consequence, distributors often have a complementary service business, performing some tire maintenance activities.

Distributors are independent local or regional entrepreneurs or bigger networks. Among those distribution networks figures Euromaster, Michelin's own distribution network created in 1994. It acts as an autonomous entity inside the group, selling both Michelin and competitors' brands. Euromaster has 1,700 centers in 10 European countries and employs 11,800 people.

Truck and Buses tires in the eyes of end users

Though they only account for 5 % of a truck's running cost, TB tires play an important role for road transportation companies for two main reasons. First, tire-related breakdowns (e.g., punctured tires) have become the most frequent reason for a truck to stop, as engines' reliability dramatically increased. Second, tires have a strong impact on fuel consumption, the second most important cost factor after personnel. 20% to 40% of a truck's consumption is directly linked to tires. "Tires are the easiest and most effective way to decrease a truck's environmental impact. If legal requirements call for carbon footprint reduction, they will become even more critical", observed Jean.

In buying TB tires, most transportation companies adopt a multiple-sourcing strategy, buying different brands of tires for their vehicles and sourcing them from different distribution networks. With market consolidation, purchasing is becoming more professional, moving from an exclusive focus on price to a logic emphasizing "total costs of ownership" (TCO). In addition, international customers increasingly aim at consolidating tire-related processes across units and countries.

"With the most expensive tire on the market, we constantly need to justify our price premium to our clients", explained Jean. "Historically, we have always emphasized the longevity of our tires as our key selling point. Despite the progress made by our competitors we still have an edge here, as we estimate that our tires last an average of 200,000 kms, vs. 160,000 kms for competition. However, this advantage only materializes when our tires are properly taken care of. This is where we have a problem. Whenever service jobs are poorly performed, transportation companies don't get the most out of our tires. As a consequence, they are reluctant to pay a price premium."

Michelin designed long ago an ideal roadmap entitled '4-lives program' designed to maximize tire performance through optimal maintenance activities. Michelin's tire casings are specifically designed to allow both regrooving and retreading (Exhibit 3). "Regrooving means redesigning the tread pattern. It costs on average 50€ and extends the tire life by 25%. Retreading means that an entirely new tread wear is applied to the casing; this can be done only once, and is possible only because our casings are very robust. Retreading has a dramatic effect; while it costs around 150€, the end product is a tire that looks like new, lasts as long as a new tire and can later be regrooved again. When this program is correctly implemented, our tires last 2,5 times more than the average tire lifecycle and are no longer the most expensive on the market!", boasted Jean Baudriard.

While conceptually appealing, mastering the process in real operations is however much more difficult. The tires' full potential was indeed only rarely achieved due to poor maintenance. For instance, determining when exactly a tire needs retreading requires expertise and strong logistical command. "Trucks are the transportation firms' key assets, but by design these assets keep moving throughout Europe. This makes the tire maintenance quite difficult to organize" said Jean Baudriard. Indeed, transportation companies usually struggle with implementation, and the observed retreading rate is typically poor (50% vs a potential of 70%). As a consequence, customers were reluctant to pay a price premium.

Starting to sell kilometers

Michelin's initial presence in services

As early as in the 20's, Michelin had experienced an alternative way to selling tires. In France, Michelin's R&D engineers' offered selected customers to take charge of their tire management as a way to perform tire testing under 'real conditions'. At about the same time, in the UK, the company had been offering tire management to coaches' fleets as a way to cope with a shortage of supply in that country. This agreement was still in place 70 years later. Both initiatives, though not strategically developed, generated more than 90 Millions Euro of revenues in 2000.

The initial experience gained in both countries raised much attention and was soon seen as a unique opportunity for growth. As Michelin's R&D department frequently stated "Our tires last longer than any other but only if they are well managed. If we take charge of tire management, we will make sure that our clients can experience our unique value." Pierre Dupuis, MFS Director had a complementary view: "As our tires last longer, revenues coming from tire-related services will also last longer. We may end up making more money from tire-related services than from our traditional business."

Michelin Fleet Solution Offer

Considering the great potential ahead, Michelin Fleet Solutions was created in 2000 as a new division under the supervision of a European Sales Director (Exhibit 4). The objective was to promote a new business model across Europe: no longer focusing on selling a product – i.e. tires – but providing customers with a service, that is, the ability to drive.

MFS offered large European fleets (initially fleets with more than 200 vehicles) the complete management of their tire assets during a three to five year-period. A customer could decide to contract only a part of its fleet with MFS, thus granting Michelin exclusivity for the equipment of these vehicles. By outsourcing tire management, transportation companies could expect to gain peace of mind, achieve better cost control (less breakdowns, lower fuel expenses, better operations management, less administrative burdens) and benefit from Michelin's continuous innovation. Furthermore, customers could rely on Michelin's image and reputation in case of major emergencies (i.e. road accidents). For Michelin, this was a great way to develop long-lasting relationships with growing transport players and ensure that clients would eventually experience the full value of Michelin tires. Last, offering solutions was a way to escape the commodity trap by differentiating Michelin's offer from competition.

MFS charged its clients a monthly fee, which directly depended on the number of kilometers driven per vehicle. This allowed clients to turn all tire-related costs into a variable cost directly linked to the vehicle use. Vehicle fare per driven kilometer was contractually agreed upon and annually revised. Michelin's profitability depended on its ability to optimize tire management activities (such as the '4-tires program') and to control costs. "This is very different from our competitors, who charge customers for 'time and material'. For a 'time and material' customer, a truck breakdown represents an unforeseen cost factor, whereas with MFS, Michelin assumes the industrial risk in exchange for a predictable monthly fee. That's the reason why we call MFS a 'solutions offer'. Customers gain in flexibility and productivity, and we assume the industrial risk," observed Pierre Dupuis, MFS Director.

2000 deployment

To expand this new promising model throughout Europe, Michelin added dedicated MFS sales teams to the existing traditional product sales force. To facilitate geographical expansion, the company adopted a new approach to service operations: Instead of managing fleets with its own employees placed within the transportation companies', Michelin decided to rely on service provider networks to deliver the service to customers (Exhibit 5). In the meanwhile, an ambitious information system project was launched to support fleet management operations.

Disappointing results

Within 3 years, fifty contracts were signed in 10 different countries, generating 70 Million € in annual revenue. These results were however disappointing. The sales force dedicated to MFS had a hard time selling the new solution offer. As one MFS sales man noted "This is a new job, and my tire expertise can hardly help me. Our product edge is no longer at the heart

of the offer... I find it difficult to show the clients the value of this solution offer. We also face real problem in pricing: clients don't immediately see why they should pay more for tire management solutions as they used to pay when they only bought tires! They do not see the value brought by the extra activities we perform and the scope is so large that I find it difficult to list all these benefits. This solution offer is really very complex to sell!"

Difficulties went well beyond the contracting phase. Many fleets under contract were chronically unprofitable, and it was not uncommon to hear MFS Managers complain "We are losing our shirt here! We underestimated by far the costs involved. Whatever our ability to optimize costs, it will never be profitable with such low fees!" Correctly assessing the fee in the contractual phase was indeed very complex and the long-term implications of contractual agreement were often underestimated.

Conflict with the traditional product sales force was another big concern. "There is fierce competition between us. Product sales people can't stand us chasing after their biggest clients. I remember a meeting with a prospect client about 6 months ago to promote tire solutions. The customer had just met a week before with a Michelin product salesman openly criticizing our offer. We are both from the same company. This is just crazy."

In Germany, results for 2002 were disappointing with only 5,000 vehicles under contract out of an overall potential of 250,000 vehicles. Because this market accounted for 21% of sales in Europe, it was very important to succeed there. Conversely, failing on this market was simply threatening the mere existence of MFS. Jonas, MFS Manager in Germany, explained "The clients we approach understand what we offer but they do not see the extra value we bring. Additionally they see different downsides in this offer such as higher upfront cost, increased dependence, or high switching cost. To be honest, we don't do a good job in explaining our customers the value they gain from working with us!" So far, competition was still quite scarce: only few local actors were considering offering tire management solutions. However, it was acknowledged that Goodyear and Bridgestone would soon enter the market with competitive offers. It was high time to secure a substantial first mover advantage!

Consultants come in

To solve these issues, ISC, a well-known international strategy consultancy firm was assigned in spring 2002 to investigate the reasons for MFS's poor performance. The consulting firm identified four important marketing issues regarding segmentation practices, selling, contracting and managing the relationships with third parties.

Client Segmentation

To meet profitability targets, ISC encouraged MFS to capture more value from customers by implementing a needs-based segmentation scheme. The underlying idea was that transportation companies had different priorities depending on the type of goods they transported such as bulk material, time pressured goods, or highly dangerous chemicals. MFS, the consultants said, had to design customized bundles to address these specific customer needs. ISC stressed that willingness to pay greatly varied according to the segments.

Sales force Support

Michelin's sales force had a very hard time selling Fleet Solutions. Due to the nature of such contracts, selling MFS was a more complex process leading to longer sales cycles. As one sales manager recalled: "MFS is radically different from selling tires. I used to interact with local tire buyers, now I deal with the national Purchasing Director of large European transportation companies! These guys talk another language, and we need to roll out other arguments."

The consultancy firm conducted a massive training campaign, providing sales force with new tools such as consistent contracting process and a new client-focused logic, shifting away from a historically strong product orientation. "Talk about the client, not about the tire!" became a guideline.

Contracting process

ISC further encouraged Michelin to clarify its contract structure. The consultancy had found more than 72 different contract versions, each greatly varying in content. This increased confusion and complexity. The consultant advised MFS to streamline its contract structure around a small set of simple and comprehensive standards, with fee estimates, which could be complemented by additional options. This would facilitate sales people's job and increase the profitability of the contracts signed.

Turn Distributors into close service providers

ISC also recommended fostering strong relationships with distributors to motivate them to cooperate with MFS as true service providers. Distributors were at first very unhappy to see Michelin entering the service domain. They feared the company would take away their clients, leading to massive revenue decrease. Only in a second phase did they start to see the possible advantages of the MFS offer. As Jonas Pills explained, "It is a good opportunity for them. We bring new business at no cost. They also recognize they don't have the critical size to serve such big European accounts. Instead of performing services under their name, they now perform it under Michelin's name and altogether they get higher revenues!" Service providers, as the consultancy firm clearly stressed, played a critical role in MFS European roll-out model, as they now prescribed and delivered services to clients in the name of Michelin (Exhibit 5).

Time for discussion and decision

A few months after the consultancy work, the situation was still below expectations. Business expansion was anemic; profitability was terrible, giving voice to internal opponents who openly criticized MFS's long-term viability. Additionally, several Board members started to ask some hard questions about when MFS was to gain traction. It was in this context, that Jonas Pills, Pierre Dupuis and Jean Baudriard had to review the situation and decide upon MFS future.

Sales force progress

Pierre Dupuis, MFS Director, started by pointing at the significant progress made by Michelin's sales force: "Training programs have brought their first results, and we now perform much better. Recent contracts should be profitable. Our efforts of educating customers show results. They now understand much better the benefits of outsourcing tire-management."

Jean Baudriard, Director of TB Europe, underlined the conflicting relationship between traditional product sales teams and MFS teams. "We still have a big issue here: Sales Directors complain to me very often. They fear that the development of managed fleets will lead to sales decline in the replacement market. Some of them are still very angry that their top performing sales people were moved to MFS three years ago. In the future, we really need to find ways to better coordinate actions and objectives". Tensions mostly came from conflicting interests: while the traditional product sales force's objective was to place as many tires as possible and to increase tire-related sales, MFS in turn, by its very nature, aimed at

getting the most out of existing tires, thus potentially harming the sales of new tires. This was a thorn in the eye of Michelin's traditional sales force, which was compensated on the basis of the number of tires sold. The fact that MFS allowed Michelin to gain new customers and secure existing accounts did little to appease product sales people.

Operational Excellence

It was generally accepted that both sales and marketing were the key leverage to MFS success as advocated by ISC. Pierre Dupuis was however not at ease with such a quick conclusion. "Out of the 700 MFS employees, only 25 are Key Account Managers. It is not just about sales!" Having a professional background in the service industry, he was convinced that service execution was at the heart of turning MFS into a success. "In a solution business, signing a contract is not enough. It is just like getting married: it is only once you have signed that the real life starts. Therefore, I am not sure we should focus so much on the sales stage only."

"I think our success will depend upon operational excellence. If you investigate our past success, Michelin employees in the field play a critical role. They bring an incredible value that the clients immediately perceive. If transportation companies outsource their tire management to Michelin, it is to benefit from this unique expertise. That's why we need to excel in service delivery. In this respect, capitalizing so much on service providers may be dangerous: they become the ones who inspect the vehicles, prescribe the job, and, eventually, execute it. But, this is an incredible responsibility on their shoulders! If they don't deliver, it backfires on us. And if they do, they become a competitor."

Distributors in their new role of service providers

Tire management solutions in France and England were mostly performed by Michelin 450 own front-line employees. "The European roll-out model is completely different: it is about entrusting some third parties with delivering Michelin's promise", concluded Pierre Dupuis. Even if Michelin had been working for a long time with service providers, never had the company relied on third-party providers to such an extent.

"From a strategic perspective, developing very close relationships with service providers could bring far-reaching strategic advantage. As we start bringing them business, we will increase our bargaining power by building a partnering relationship, where we both depend on each other. Service providers will perceive the value of working with Michelin, and not only for the solution business," thought Jean Baudriard.

Jonas provided some insight from his operational experience: "I have some clients telling me that our solution's biggest weakness is our own distribution network. This is because distributors sometimes do not fully comply with contract settings. It is true that I cannot fully guarantee the consistency of the service we provide throughout the country. It would require massive investments in quality control, reporting tools, and training of service providers. To be honest, we have underestimated these aspects, thinking that most of the job was done once we signed a contract. This is actually only the emerging part of the iceberg."

"It might however be feasible in the future", added Jonas Pills. "We have already adopted the policy of paying their performed service a little more than market value to encourage quality standards and compensate for the possible decrease of business due to a drop in replacement tires sales." Pierre Dupuis reacted: "It is a good start... but this may not be sufficient. We do not only entrust them with service execution, but also with an important part of our cost structure."

Managing costs

As Pierre further explained, "Since we rely on service providers to optimize tires, it also means that we rely on them to optimize our cost structure. For instance, we lose money whenever the '4-lives program' is not managed properly, for example if tires are not regrooved at the right time, or if casings disappear... We have service providers with only 45% retread rate instead of the 70% target. We need to change the key performance indicators (KPI): it is no longer about tire sales but about the retread rate! If we can't control these issues, we are bound to be unprofitable. Furthermore, if we consider that the average millimeter (mm) of rubber potential per new tire is 15 mm to 20 mm, don't forget that anytime we are missing to exploit one single mm of rubber means adding 5% to 7% on our costs. Jonas and Jean were bewildered at the financial implication of such a figure.

Another unexpected phenomenon further deteriorated MFS margins: signing a contract had a tendency to change drivers' behavior: "There is a temptation that truck drivers behave less carefully, once they know that tires are handled by us. This can make quite a difference, as one can leave a lot of millimeters of rubber on the road."

Organizational issue

"If we talk about cost structure, this activity brings a lot of turmoil within our legal and administrative organization", remarked Jean, "Our legal department doesn't feel comfortable with the idea of committing to multi-year contracts. What is more, I'll need to talk to our Administrative Director. She's mad at you. Our administrative people are overwhelmed with MFS invoices coming from the service providers. She says that one invoice out of three comes from your teams while you represent only 5% of the company business! It is incredible."

Feeling the criticism, Pierre tried to better explain why so many invoices needed processing. "That's quite unfortunate, but there is not much we can do about this. Every time a service provider performs any action on a vehicle under contract, he addresses us an invoice. Just imagine the amount of invoices coming in." Jonas discretely smiled. Relationships between MFS teams and service support were always complicated because of their specific needs. Jean had not even mentioned the specific key performance indicators MFS people kept asking for. The geographical expansion would for sure only further add to existing frictions. In addition, Michelin's legal experts would have to help assess and hedge for legal risks involved.

Information System

"I guess, it is also time to bring up the difficulties we have in running our information system," Jean added. "Do we now have a functioning tool?" "Not yet", moaned Pierre. "So far, we really failed; we do not have a thorough enough command of the process and therefore do not fully understand what the information system should provide us with. We will have to reconfigure everything, and this will take time. Part of our challenge is that it is no longer about selling tires. It is about managing complex selling and delivery processes."

MFS, lipstick on a pig?

"Precisely, Jean snapped. "Let me set some things straight. "This company was not designed to manage invoices or conduct never-ending IT development projects. We have been manufacturing and selling great tires successfully for decades. Our new 'Energy' tire line has unmatched fuel saving performance. I don't understand what this is all about. MFS gives us all a headache, and hurts the profit of our division. I'm not sure our Board members want to hear that story any longer." He leaned back in his chair and added: "Even if these solution

offers were working properly, don't you think this is far beyond our core business? Michelin is a tire manufacturer. Full stop!"

Pierre knew that this argument would be brought up at some point. Jean had not even insisted on quoting MFS's terrible financial results in detail. After substantial investments, MFS had never been profitable once in three-year time! People legitimately started questioning the reason of supporting the program any longer... He had overheard recently some of his colleagues talking of the "MFS abyss", which was only due to the big boss having a crush on the project. Some of his MFS team members had also reported they felt looked down upon by colleagues. Even worse, one of the Board Members officially referred to MFS as putting "lipstick on a pig". Pierre felt unsure: he, too, had considered the possibility of getting out, but he still believed that MFS had a great potential ahead.

Time for decision

Jean, Pierre and Jonas were expected to provide clear recommendations on Michelin's Board meeting next month. After three years of continuous investments, struggling with implementation issues, and painful lessons learned in the process, results achieved still remained below expectations. What was to be done?

Was Michelin's strategic move to enter solutions business with Michelin Fleet Solutions the right decision? Should the company pursue this painful path? Should it repackage its existing "solution offer" and charge for "time and material" in the very same way its main competitors were doing? Or even go back to its traditional business model, i.e. manufacturing and selling tires?

If they recommended pursuing the MFS program, how could the current turmoil be overcome? Was it mostly, as advocated by ISC, a marketing issue or were larger issues at stake?

These were some of the questions the three men had to decide upon in the coming hours, which promised to be tense and intense.

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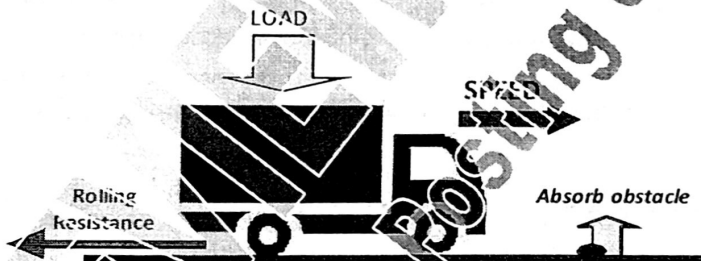
Exhibit 1: Tire Basic

What is a tire?



<p>☞ First the CASING. This is the structure of the tire. It is its backbone.</p>		<p>☞ Then a TREAD WEAR is placed around the casing. This is the flesh of the tire. It is a mixture of rubber and silica. A tire = 20 millimeters thick</p>
<p>☞ The GROOVING is the pattern sculpted on the tire's tread wear to ensure optimal driving performance.</p>		<p>☞ The REFERENCE number written on the tire side is unique for each tire.</p>

Why are tires so important for trucks?



Tires undergo much tension. They are complex and sophisticated products!

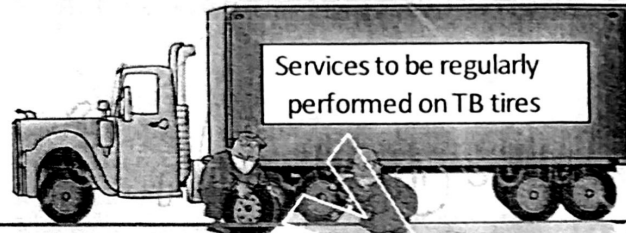
☞ They are the main factor of rolling resistance, limiting speed and increasing fuel consumption

Additionally tires need to be strong enough to bear important load and flexible enough to absorb obstacle shock.

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Exhibit 2: TB tire, a service-intensive product



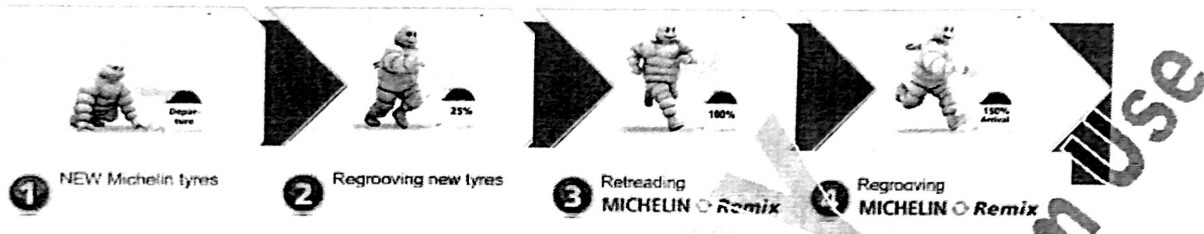
<p>MONITOR : visually control how tires wear out to decide if one of the following action is needed. Every four months, it is necessary to measure remaining rubber millimeters thickness to ensure safe driving</p> 	
<p>REPAIR : If the tire is damaged, repair need to be performed</p> 	<p>SWITCH : To balance the way tires wear out, they are regularly switched on the same axle</p> 
<p>PERMUTE : To balance the way tires wear out, they are regularly moved to different axles</p> 	<p>INFLATE : To maintain tires' pressure, inflation level needs to be monthly controlled</p> 
<p>Moving TB tires is a complicated and time consuming job requiring professional equipment. It is a 2 -step process:</p> <ol style="list-style-type: none"> 1. FIT /UNFIT : take the wheel off the truck 2. MOUNT /UNMOUNT : take the tire off the wheel  	

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Exhibit 3: The 4-lives program

4-lives of a tire : increase performance and durability



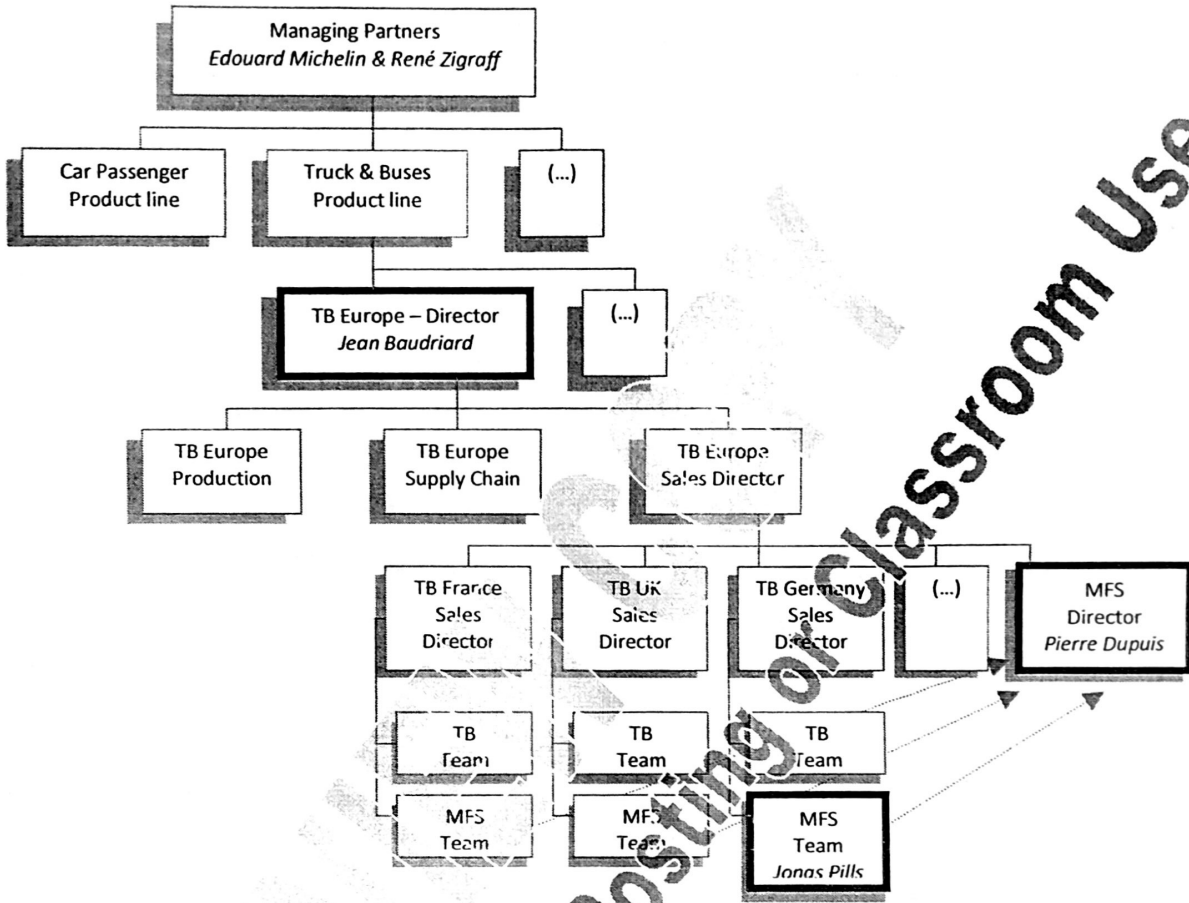
Step 1 - NEW Michelin tyres		
<p>Process : Buy a new tire whose casing was designed as to allow life -cycle management. Monitor regularly rubber thickness.</p>	<p>Outcomes : Tire which ensures regrooving and retreading</p>	
Step 2 - regrooving new tires		
<p>Process : When only 3 mm of tread remaining, there is a need to redesign the pattern on the tire</p>	<p>Outcomes : - Cover 25% more kilometers - Better grip potential - Fuel savings</p>	
Step 3 - Retreading Michelin tires		
<p>Process : Tire is sent to Michelin factory New tread wear is applied on the casing</p>	<p>Outcomes : - Tire just like new! - Less expensive than brand new tire - Same mileage performance</p>	
Step 4 - Regrooving retreaded Michelin tires		
<p>Process : When only 3 mm of tread remaining, there is a need to redesign the pattern on the tire</p>	<p>Outcomes : - Cover 25% more kilometers - Better grip potential - Fuel savings</p>	

Tires must be regrooved by a professional according to Michelin recommendations. Retreading tires also requires to take them off the truck and send them to Michelin retreading lab. Mastering such life-cycle is complex.

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Exhibit 4: Organizational chart,



Bold boxes display protagonists in this case study.
Orange boxes represent MFS team members.

Exhibit 5: European Roll-out

Model : France & UK

Model : Europe roll -out

