



# **CAPITAL MARKETS DAY**

Gothenburg December 4, 2013

# We have the products but not world class efficiency



Structured brand portfolio



HEADING FOR THE CUSTOMER



Competitive product portfolio



HEADING FOR EFFICIENCY

New process-driven organization



## **CAPITAL MARKETS DAY**

Optimizing the Volvo Group manufacturing cost  
Mikael Bratt – EVP Volvo Group Trucks Operations





## **CAPITAL MARKETS DAY**

Implementation of Strategic Objectives 2013-2015

STATUS Q3 2013

# Group Trucks strategic objectives 2013-2015 communicated internally and externally

## 1. Secure number 1 or 2 in profitability

- 1.1 Increase vehicle gross profit margin per region by 3% points
- 1.2 Reduce actual standard cost of sales on total cost for current offer by 10%
- 1.3 Decrease wholesale selling expenses to 5% of sales
- 1.4 Increase own dealer soft offer absorption rate by 10 % points
- 1.5 Reduce R&D cost (spending pace) to 11,5 BSEK
- 1.6 IT cost on 2% of Volvo Group total cost by 2015

## 4. Innovate energy-efficient transport and infrastructure solutions

- 4.1 Fuel efficiency to be improved by 2% per annum through vehicle optimization, diesel efficiency and electromobility
- 4.2 Commercialize alternative fuel technology by launching concepts or products in all regions

## 2. Strengthen customer business partnership

- 2.1 We will achieve 99% product availability contributing to 'strengthen customer business partnership'
- 2.2 Drive retail excellence by implementation of an integrated customer interface tool
- 2.3 Each brand to rank number 1 on decided brand attributes in competitive set

## 5. Build high performing global teams

- 5.1 Become an attractive employer measured by reaching the employee engagement level (EEI) of high performing companies
- 5.2 Drive high performance measured by reaching performance excellence level (PEI) of high performing companies
- 5.3 Secure leadership and strategic competencies, primary focus is the implementation of Volvo Group University
- 5.4 Build an efficient and inclusive organization by implementing common global level 1 and 2 processes

## 3. Capture profitable growth opportunities

- 3.1 By optimizing the brand assets become number 1 or 2 in combined Group Trucks HD market share
- 3.2 Establish required commercial presence to support revenue growth by 50% in APAC and 25% in Africa
- 3.3 Establish required OtD footprint and supply chain in APAC & Africa achieving lead time reduction by 15% and capital tied up reduction by 15%
- 3.4 Increase Aftermarket sales per unit in operation by 12%, including total commercial solution offer for second owner
- 3.5 Build 1 BSEK new businesses complementary to existing offering



# Financial summary of Strategy 2013-2015

## GROUP TRUCKS

SEK ~200 bn

GROUP TRUCKS' Strategic objectives	Expected impact on Trucks' operating margin
1.1 Increase vehicle gross profit margin per region by 3% points	~2% points
1.2 Reduce standard cost of sales for current offer by 10% (excl FX, volume & raw material)	~3% point
1.3 Decrease wholesale expenses to 5% of sales	~0.5% points
1.4 Increase own dealer soft offer absorption rate by 10% points	~0.5% points
1.5 Reduce R&D expenses (gross) to 11.5 bn SEK	~0.0% points

**Improvement from Trucks**

**~6% points**

## GROUP

SEK ~300 bn

GROUP Strategic objectives	Expected impact on Group operating margin
Trucks' impact on Group	~4.0% points
Business Areas: Volvo CE, Buses, Volvo Penta, Governmental Sales	~0.5% points
IT cost at 2% of total Group costs	~0.5% points
	<b>~5.0</b>

**Headwind factor**

Impact on operating margin of 3 percentage points by end of 2015, representing an improvement of SEK 9 billion based on 12 month rolling revenues of SEK 300 bn

# Good traction to improve gross profit margin

GOOD  
PROGRESS

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## ACTIVITIES

- Further improve gross profit margin improvement on new Volvo Trucks range realized
- Revitalize and regain position for Renault Trucks
- Increase captive components in North America
- Implement common sales process, including common CRM system

## SPECIAL ATTENTION ON

- Implement price and residual value ambitions on new Renault Trucks range
- Implement price ambition on UD Quester

# Several decisions taken and activities initiated to reduce product cost

ALL MAJOR DECISIONS TAKEN, BUT A CHALLENGING TARGET

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## ACTIVITIES

### Structural

- EMEA industrial footprint
- Japan right-sizing
- Parts distribution optimization
- and more

### Operational

- Productivity – lift the laggards
- Quality – design and manufacturing
- R&D efforts to reduce product cost
- Supplier cooperation to reduce purchasing spend
- Variant reduction

## SPECIAL ATTENTION ON

- Reduce cost on purchased material
- Improve product quality
- Ensure savings impact by end of 2015



# Efficiency efforts progressing in parallel with massive product launches

GOOD PROGRESS  
SAVINGS TO  
MATERIALIZING MAINLY  
IN 2014

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## ACTIVITIES

- Optimize activity level related to product renewal
- Strengthen retail excellence in Japan
- Reduce process & IT costs
- Develop flexibility in manpower/resource management
- Optimize distribution and support functions in EMEA

## SPECIAL ATTENTION ON

- Execute headcount reduction
- Take out launch costs

# Strengthen retail expertise and service culture

ONGOING ACTIVITIES  
WITH POSITIVE RESULTS

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## ACTIVITIES

- Increase penetration of service agreements
- Selectively implement service network – higher population/workshop
- Strengthen workshop productivity & efficiency
- Capture aftermarket business also on older trucks

## SPECIAL ATTENTION ON

- Reinforce service culture

# Cash R&D is declining

DECISION TAKEN  
TO REDUCE R&D  
TO MEET TARGET

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## ACTIVITIES

- Site structure optimization
- Improve methods and processes to reduce project costs
- Capitalize on common architecture and shared technology (CAST) for future development and balance
- Project portfolio prioritization

## SPECIAL ATTENTION ON

- Reduce product plan scope
- Align R&D plan to brand position

# Continued high running cost to phase-out old systems

LIMITED IMPACT 2013  
DUE TO IT-SYSTEMS  
MIGRATION COSTS

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## ACTIVITIES

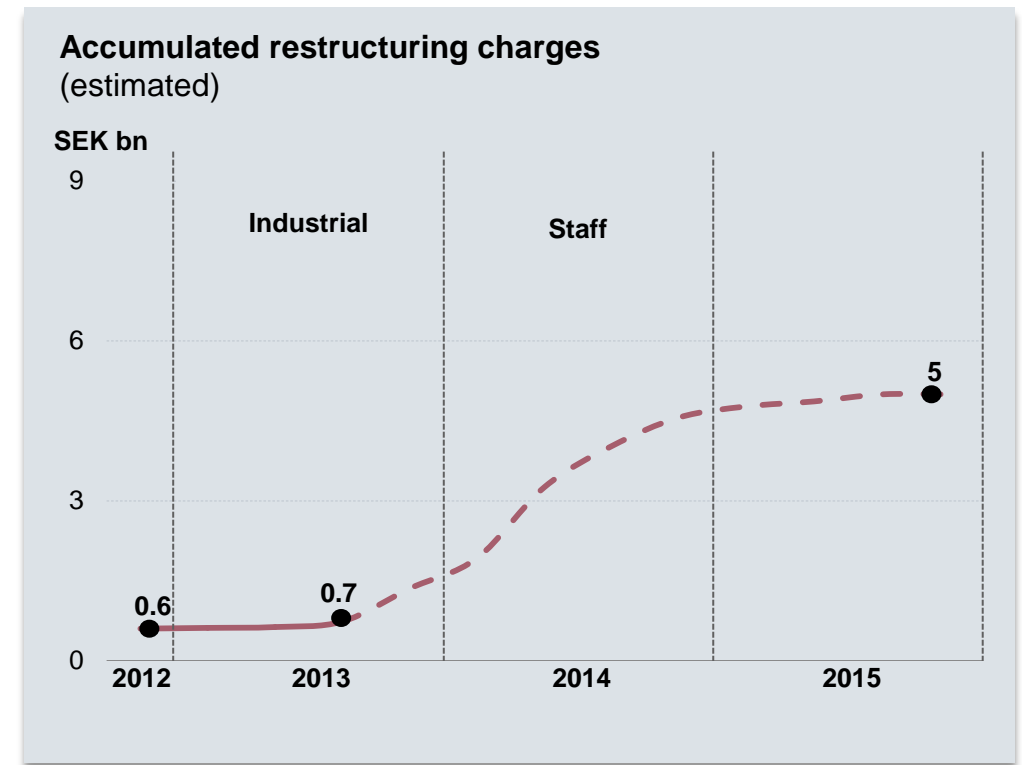
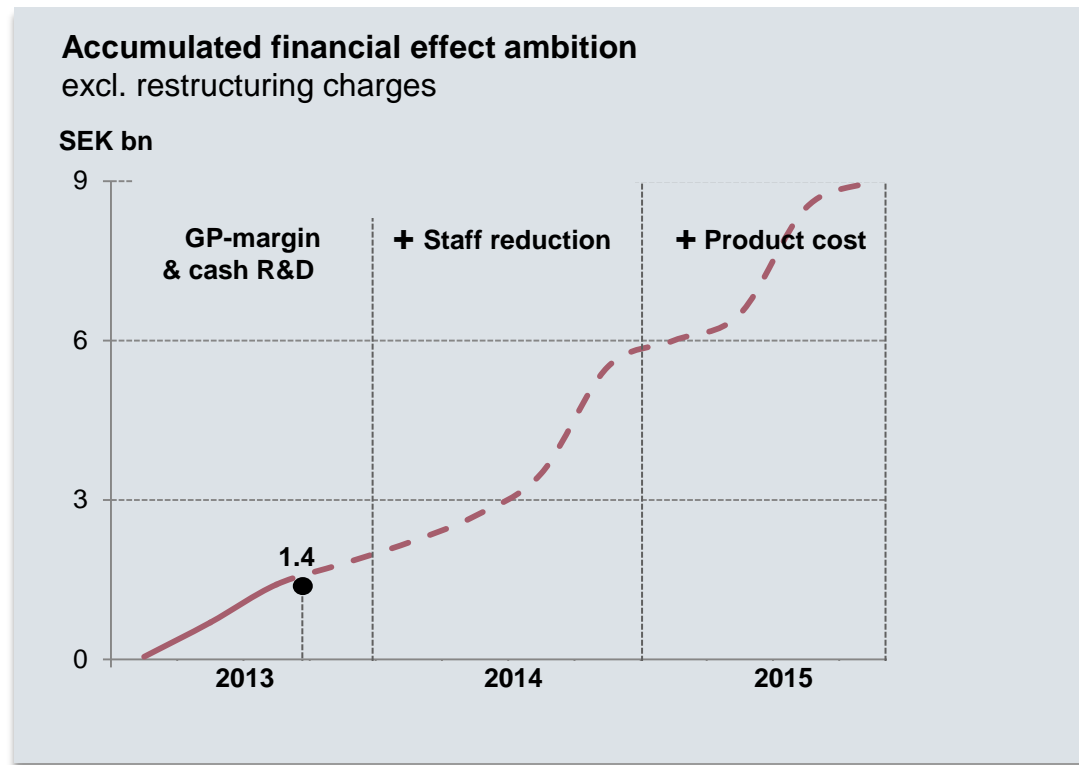
- Implement Group-wide solutions by firm application portfolio management
- Clean-up portfolios to reduce cost of ownership
- Increase efficiency in projects to free up investment capacity by firm project portfolio management
- Standardize and reduce IT Services for users
- Increase productivity in IT Delivery

## SPECIAL ATTENTION ON

- Reduced structural headcount
- Phase-out of old systems

# Anticipated timing of financial effect and restructuring charges related to implementation of strategy 2013-2015

Group total





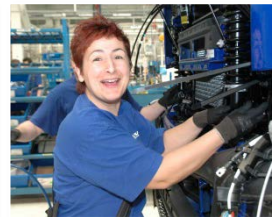
# CHANGE

VS.

# TRANSFORMATION

## Volvo Group Attitude Survey

- + Good understanding of Strategic Objectives and direction
- + Improved accountability and follow-up
- Still need to improve process culture and coordination





**Need to catch up in cost efficiency!**

However,

# ...this is the real game changer

