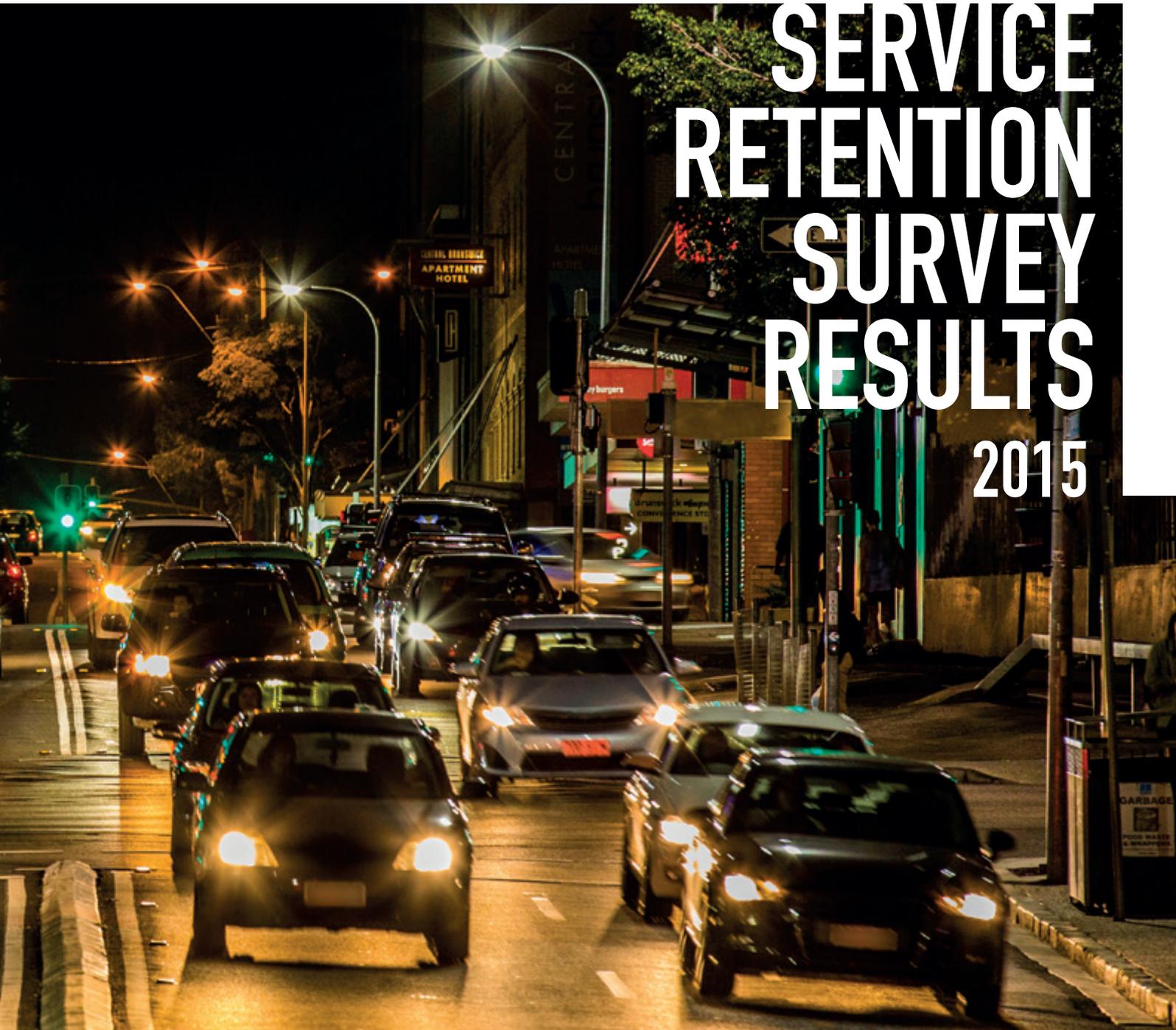


BOYLE CONSULTING

SERVICE RETENTION SURVEY RESULTS 2015



DEVELOPING LEADERS



INTRODUCTION

There is significant pressure on OEM Dealerships to retain Service Customers!

In the first quarter of 2015, Boyle Consulting surveyed OEM Dealership Service Managers to determine what they are doing to retain service customers and what assistance they want from their OEM's. This is preliminary research and more is required, however some interesting trends have been observed.

This National survey identifies what responding Service and Fixed Operations Managers consider effective and ineffective regarding OEM and Dealership retention initiatives. It provides some insight into Dealership challenges, opportunities and marketing methods and indicates Service Manager expectations of growth.

Given a 1% increase in Service Retention results in approximately 1.2% increase in Absorption, knowing how to increase Service Retention, is clearly a worthwhile objective.



EXECUTIVE SUMMARY

Price, People & Competition!

35% of responding Service Managers believe their biggest barrier to service retention is the customer perception that OEM servicing is more expensive. Another 28% consider retaining competent people is their biggest challenge while 27% believe aftermarket competition is their biggest hurdle in retaining customers.

Independent, Ultratune, Kmart

Independent (non franchised) repairers are considered the biggest competitor Nationally, followed by Ultratune then Kmart Tyre & Auto. In NSW Independent repairers are considered the biggest competitive group however Ultratune and NRMA are equal second with Kmart Tyre & Auto effectively considered the fourth biggest threat.

Effectiveness of OEM's Initiatives?

Service Managers consider the most effective things OEM's can do to help increase retention are to extend new vehicle warranties to 5 or more years and to encourage free or prepaid servicing packaged into the vehicle sale. Capped Pricing Servicing (CPS) for Life, free Roadside Assist and 3 year free servicing are also considered favourably.

Dealership Retention Initiatives

Service Managers believe their biggest service retention weapon is skilled Advisors at 91% effectiveness followed by SMS reminders 24 hrs before service, alternative transport, effective CRM processes and extended (Dealer) vehicle warranties. Tyre & Express servicing are emerging trends.

Responding Service Managers have not yet embraced the internet with online service bookings considered as having low effectiveness overall and Social Media as having a negative net effectiveness.

Service Marketing

Service Managers are far less confident at 'catching fish' based on their own initiatives. When questioned on how they implement service marketing activities. Overall responding Service Managers indicated that:

- ◆ 58% have a Marketing Plan
- ◆ 30% target Fleet
- ◆ 19% target Government
- ◆ 26% are 'very' price competitive
- ◆ 8% have full time Service Sales Representatives (or Business Development Managers - BDM's)
- ◆ 65% spend less than 1% of service sales on marketing

Improvement in marketing capability is needed to address the dramatic drop in retention currently experienced.

EXECUTIVE SUMMARY (CONTINUED)

As price perception is the number one stated barrier to retaining customers, ongoing awareness of Dealership service pricing compared to its most significant local competitors is vitally important.

The overriding conclusion is that Service Managers are not confident in how they market their services to their customers and primarily rely on OEM retention initiatives (Warranty, free/capped servicing and CRM) and on their Service Advisor quality when customers book/arrive for service. Dealership service marketing efforts appear to focus on sending reminders to existing and recently lapsed new car customers, but not on the general volume of owners no longer coming in for service. 25% of Dealers do not seek work from pre-owned customers.

Service Retention Profile - According to Respondents



Push vs. Pull

Dealerships can focus on factors which they can influence such as a better understanding of customer requirements (see your operation through the customers' eyes, ask customers what they want), providing a superior customer experience and addressing price perceptions through value pricing against local competition.

Enhanced website functionality, effective CRM communications, and appropriate trading hours are also important elements of increasing retention. In some cases, rather than 'pushing' services onto customers, a pull strategy based on providing a positive, value experience seems appropriate.

With many respondents indicating insufficient marketing planning and resourcing, there is opportunity for more structured service marketing campaigns promoting relevant value services to high opportunity target groups such as Fleet, Retail and pre-owned customers. This approach is more strategic, active and focused on real customer needs.

Service Departments need to work with their OEM's on retaining customers however they also need to be **more entrepreneurial** in their own PMA's in winning back marketshare from highly motivated independent and aftermarket competitors.

Over the next 12 Months – Service Departments are expecting a 10% increase in Repair Order Volume. Significantly Service Managers anticipate a 7% reduction in service personnel, this may or may not have a positive impact on profitability and the impact of reduced personnel on value selling, advisor burnout and CSI should also be considered.

The Analysis section explains the key findings of this Service Retention Survey.

ANALYSIS

The Service Retention Survey was split into 5 sections :

	Page
Part A THE BIGGEST CHALLENGES IN RETAINING SERVICE CUSTOMERS	7
Part B THE MOST EFFECTIVE RETENTION INITIATIVES BY OEM'S	10
Part C THE MOST EFFECTIVE RETENTION INITIATIVES BY DEALERSHIP SERVICE DEPARTMENTS	13
Part D HOW DEALERS ARE MARKETING THEIR SERVICES	16
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Part A

THE BIGGEST CHALLENGES IN RETAINING SERVICE CUSTOMERS

BIGGEST CHALLENGES

The greatest barrier to retaining service customers is the customers' price perception of OEM servicing according to 36% of responding Service Managers. 28% say finding and retaining competent people is their greatest challenge whilst 27% of respondents cited aftermarket competition is the biggest challenge to OEM service departments (not far behind having good people).

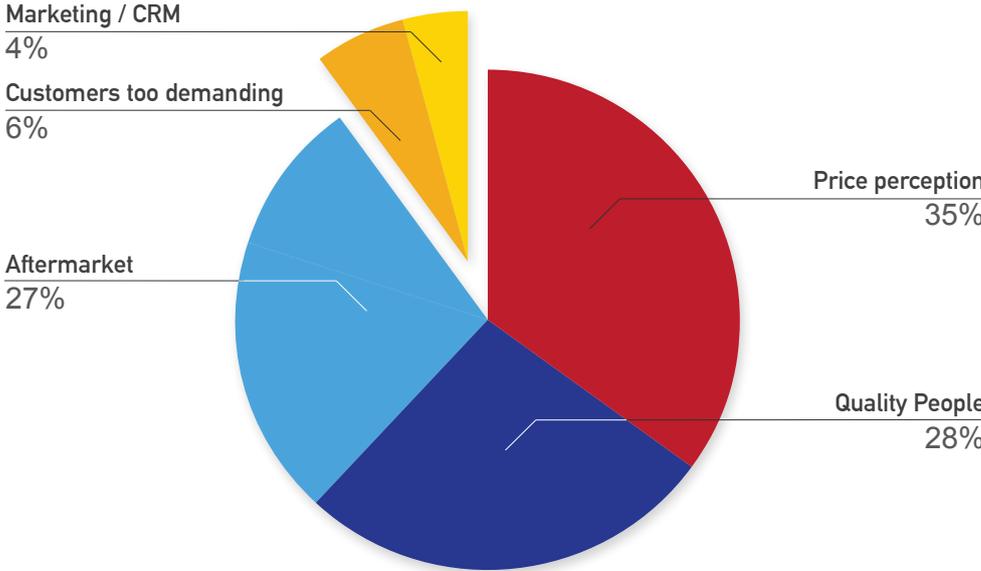


Figure 1 : Biggest Challenges experienced by the OEM Dealership service workshops

Of the three greatest challenges price perception, people and competition, Dealerships can influence price perception and people quality. In doing so they can impact their third biggest challenge, aftermarket competition.

AFTERMARKET COMPETITORS

Who do Service Managers consider their biggest competitor?

Nationally, 41% of responding Service Managers consider Independent workshops their biggest competitor, 33% see Ultratune as their biggest competitor whilst Kmart Tyre & Auto, is seen as the next biggest competitor for 9.7% of respondents.

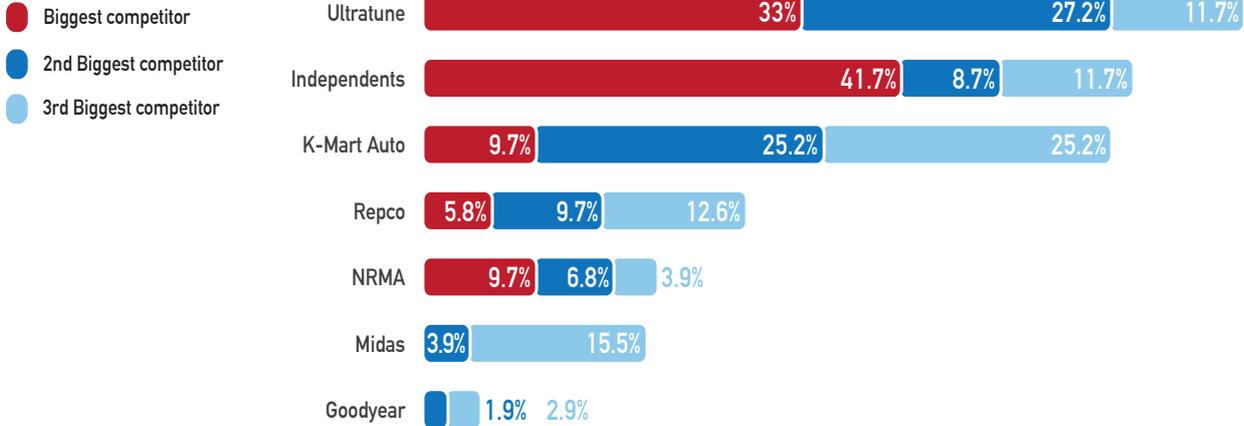


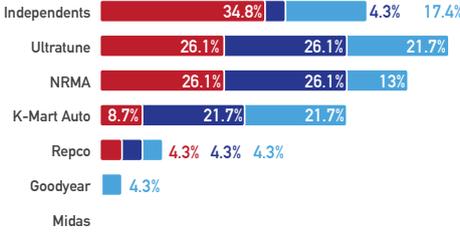
Figure 2 : Most Significant Competitors

There is some variance on who is considered the ‘biggest competitor’, by State.

STATE RESULTS

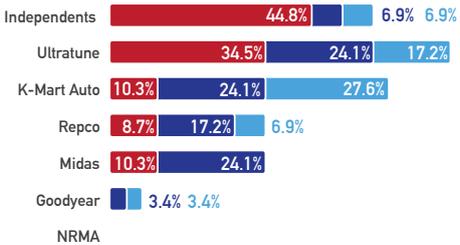
NSW

In NSW, Independents remain the number one competitor at 34.8%. However NRMA rank equal second with Ultratune moving Kmart Tyre & Auto effectively into fourth biggest competitor at 8.7%.



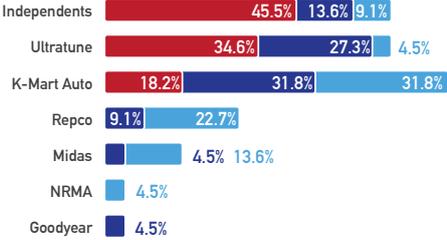
QLD

In Qld, 44.8% of responding Service Managers consider Independents the ‘biggest competitor’ followed by Ultratune 34.5% and Kmart Tyre & Auto a less threatening 10.3%. Midas Qld scored their highest threat rating.



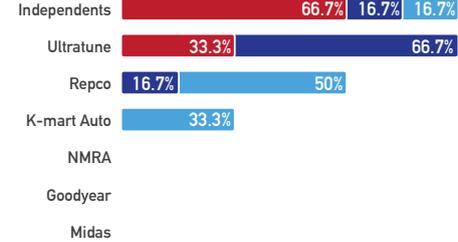
VIC/TAS

Again in Vic/Tas Independents are considered the 'biggest competitor' followed by Ultratune and Kmart Tyre & Auto at 18% (their highest threat rating by Service Managers in all States)



WA

In WA, 66% of respondents consider Independents the 'biggest competitor' followed by Ultratune at 33%. The other aftermarket competitors did not register a 'biggest competitor. 66% saw Ultratune as their second biggest competitor.



SA

More data is needed to analyse SA competitors

SERVICE RETENTION PROFILE

Dealers are well aware of the drop in service visits over time as demonstrated in Figure 3. Respondents indicated:

- ◆ First service retention is in the 70% to 80% range and never recovers as vehicles age.
- ◆ Significant service and repair potential is lost 2 to 3 years following new car delivery
- ◆ Beyond 3 years, retention is indicated as below 50%, just as vehicles begin to wear and consume labour & parts



Figure 3 : Service Retention Profile

Part B

EFFECTIVENESS OF SERVICE RETENTION INITIATIVES BY OEM'S

WHAT SHOULD BE DONE BY THE OEM ?

'Involvement from the manufacturer is vital to keep customers happy and have them return.'

Service Managers were asked to rank the effectiveness of a range of OEM service retention initiatives.

Overall Dealers have demonstrated the greatest preference for *5 Year Free Servicing* 80%* from their OEM's followed closely by *Factory Warranty Beyond 5 Years* at 78% overall effectiveness.

Five Year Warranty 78% is also highly regarded and predictably scores higher than *3 Year Factory Warranty* (at 52% overall effectiveness). However the *3 Year Free Servicing With New Vehicle* scored 70% effectiveness.

Capped Price Servicing (CPS) which took time for some Dealerships to embrace also rated 'generally' favourably with a 70% average effectiveness score. CPS also received positive anecdotal support by respondents.

Notably, *Broad Based Press* and *TV Promotion* from OEM's, at 48% and 51% respectively, scored the lowest effectiveness from the options provided.

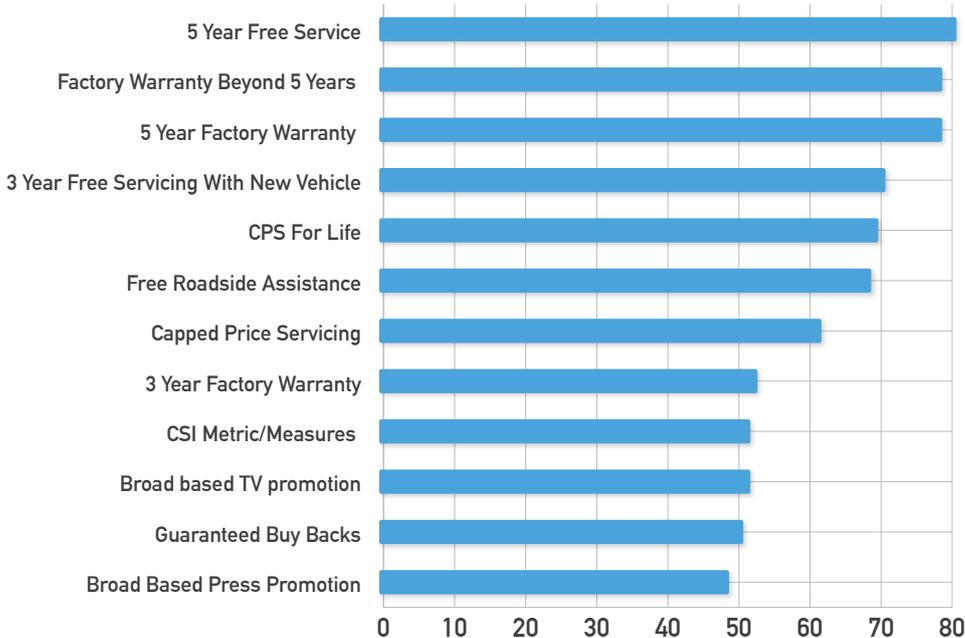


Figure 4 : Effectiveness OEM retention initiatives

Interesting results are found in the Nett Effectiveness** analysis for this question. This analysis again demonstrates strong dealership preference for manufacturer 5 Year Warranties +73** and 5 Year Free Servicing +69.

Warranty Beyond 5 Years +66 scored lower than 5 Year Warranty 69%, CPS for Life rated +43 ahead of CPS in Warranty Period at +28.

This analysis of the nett effectiveness of OEM initiatives reveals a negative opinion by responding Service Managers of Broad Based Press Promotions -11 and TV Promotions of Aftersales -1.

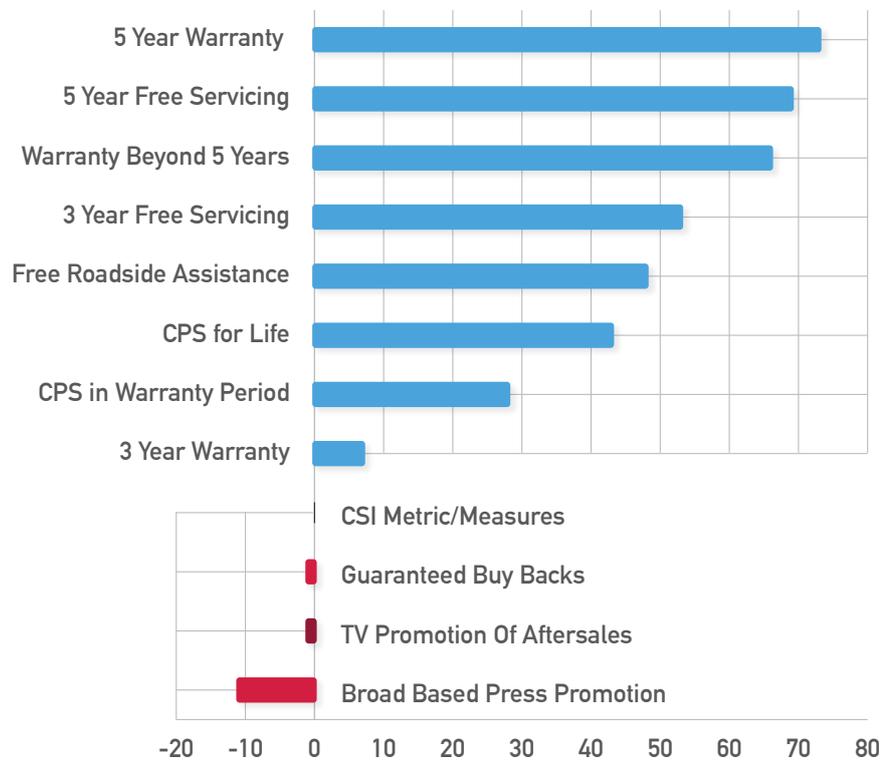


Figure 5 : Nett effectiveness of OEM retention initiatives

***Rating Scale**

This question asked respondents to rate effectiveness on a 100 point scale constructed as follows:- Completely Ineffective (0%), Ineffective (25%), Reasonably Effective (50%), Effective (75%), Highly Effective (100%)

****Nett Effectiveness Analysis**

Is calculated by adding Effective and Highly Effective scores for each question and subtracting Completely Ineffective and Ineffective scores. This approach accentuates differences in responses to each question. Scores for 'Reasonably Effective' (the middle option in the rating scale) are not considered in Nett Effectiveness Analysis as this score is not in favour of or against the area being examined. The resulting Nett Effectiveness score itself, is only useful relative to other questions, it has no absolute value.

HOW CAN OEM SUPPORT – OPEN ENDED RESPONSES CODED.

When asked the unprompted, open ended questions *‘What would you like your OEM to do more of, to increase Retention of Service Customers’* respondents confirmed the preference for extended warranties, CPS and service sold at or included in new vehicle purchase. Reduced parts pricing and training were also requested from manufacturers.

Service Managers in this section supported manufacturer ‘Advertising’ of Aftersales as the second most desired OEM initiative, even though broad based and TV promotions did not rate well in the net effectiveness analysis above.

Our conclusion is that Service Managers consider manufacturer Aftersales ‘Advertising’ relatively ineffective, **when compared to increased OEM warranty**. However they still welcome broad based manufacturer Aftersales promotional coverage to support their local service marketing activities.

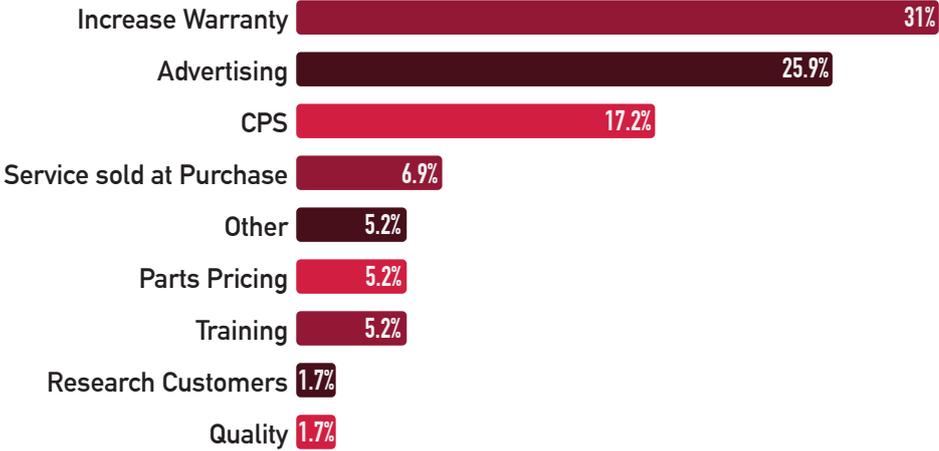


Figure 6 : What respondents would like their OEM's to do to help increase Retention



Part C

EFFECTIVENESS OF SERVICE RETENTION INITIATIVES BY DEALERSHIPS

DEALERSHIP SERVICE RETENTION INITIATIVES

Respondents were asked to rank the effectiveness of a range of **Dealership controlled** service retention initiatives.

Quality Service Advisors, is considered almost universally (91% effectiveness rating) as the number one thing Dealers can do to retain customers. This was followed by *SMS Reminder 24 hours Before the Service date* 78%, *Alternative Transport* 76% and effective *CRM Process* 76%.

Other initiatives such as *Vehicle Washing* 66%, *SMS When Ready* 69% and *CSI measurement* 66% were also considered relatively effective by respondents.

Relatively new service products such as *In House Tyre Replacement* and *Express/Quick Service* together with *Valet Service* were all considered relatively effective at 62%.

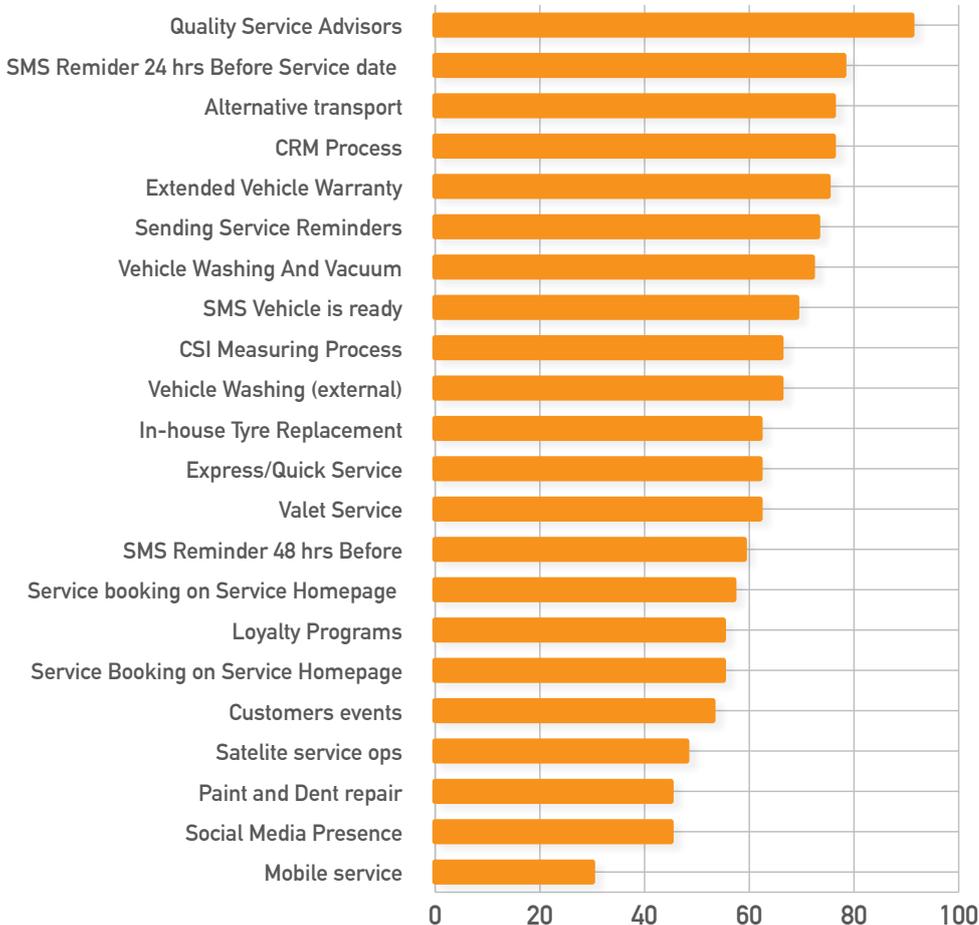


Figure 7 : Effectivnes of Dealership service retention

DEALERSHIP SERVICE RETENTION INITIATIVES (CONTINUED)

Calculated on Nett score

The Figure 8 better illustrates those things that Dealers consider to be effective and ineffective in retaining customers.

This Nett Effectiveness analysis, again emphasises the importance of *Quality Service Advisors* who are customer focused +82 as the single most important initiative which they control in retaining customers

Significantly, initiatives rated as relatively ineffective include:

- ◆ Mobile Service (-50 nett effectiveness)
- ◆ Social Media (-21)
- ◆ Paint & Dent Repair(-14)

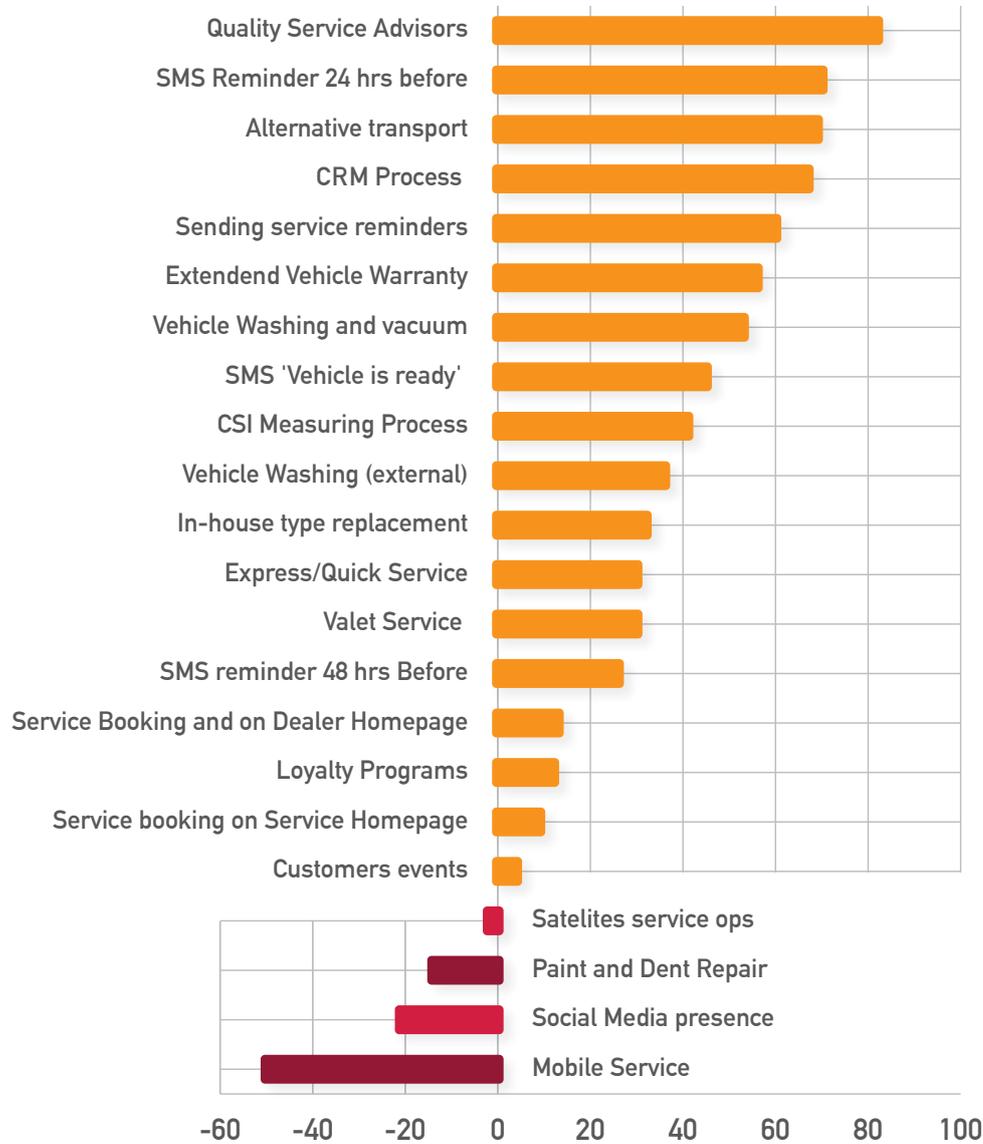


Figure 8 : Nett effectiveness of Dealership retention initiatives

DEALERSHIP SERVICE RETENTION INITIATIVES (CONTINUED)

Interestingly the internet is not highly regarded by Service Managers in retaining customers. Overall, digital marketing initiatives rated quite low compared to other areas. The effectiveness of booking Services on the Dealership website, did not rate well with *Service booking on the Dealer Homepage* and *Service Booking on the Service Homepage* rating +13 and +9 respectively. Whilst dealers have not rated internet booking highly, they have rated *Social Media* as a retention tool even lower -21.

Given the growing trend for shoppers to research service providers on the internet and the emphasis placed by the aftermarket on its internet presence, greater attention on how the Service Department is portrayed online and the ease of online booking seems appropriate despite low scores for 'digital marketing'.

'Finding the RIGHT people to care for our customer's - this is KEY to continued success. Recruitment, career development and training.'

'Invest the time in training Service Advisors, the "traditional" service promotion model tech-foreman-advisor is not the way to go forward. I search for staff with work ethic and customer focus, I don't need good diagnosticians on the driveway to serve clients.'*

**Have a senior workshop member available for road tests on the driveway each morning is essential however.'*

A Visionary?

'..... I would like to develop a program Known as i - service which includes an app on the customer phone, with service reminders, capped price and special offers and bookings all done on their phones, as most customer have smart phone it would make all things easier.'

Part D

DEALERSHIP SERVICE MARKETING?

TARGET MARKETING

The questions in this part of the Service Retention Survey sought to identify the elements of a strategic marketing approach which Dealerships are/or are not following:

‘More time spent looking at what target audience we need to market to and sell the benefits of service and repair at our Dealership’.

This Service Manager comment is unique in that it represents a strategic approach to Service marketing. Who is the target audience for Service? Market to this group!

Most responses to the marketing questions in this survey were focused on traditional promotional methods and not necessarily targeted towards any particular customer segment. With the exception of this one comment, respondents did not recommend customer research as a tool to increase retention.

There appears to be significant opportunity for Service Managers to target different customer segments in their PMA, research needs and deliver on that. Fleets stand out as a high opportunity segment not targeted by many Dealerships. Current marketing approaches by responding Service Managers could be more active and more targeted.

MARKETING PLAN?

58% of respondents indicated they had a marketing plan. Leaving 42% percent of Dealers with no plan or a partial marketing plan.

A ‘marketing plan’ can represent different things to different managers. The survey did not specify what a ‘marketing plan’ constitutes and managers with a CRM and or Service promotional plan may have answered ‘Yes’ to this question.

Key elements of a marketing strategy are included at the end of this report.

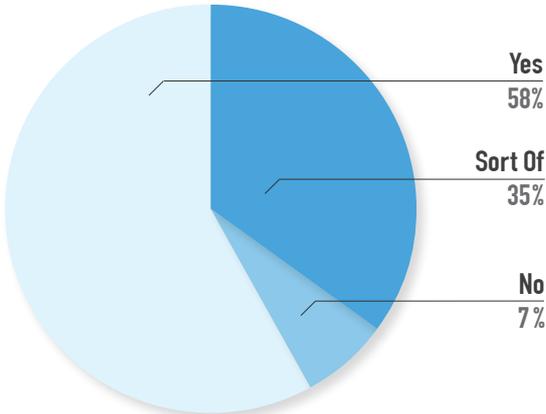


Figure 9 : Do you have a service marketing plan?

MARKETING SPENDING?

Overall marketing expenditure seems modest with Dealers indicating they are spending on average, 0.5% to 1% of total service sales on service marketing.

Only 34% of responding Dealers spent more than 1% of service sales on marketing, with 13% of dealers spending over 2% of their sales on marketing.

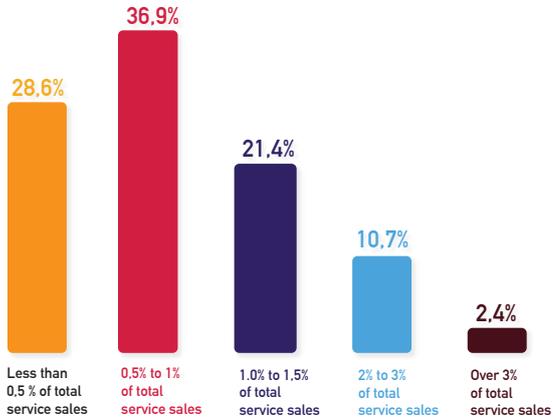


Figure 10 : Service expenditure on service Marketing

TARGET CUSTOMERS

Figure 11 identifies who respondents are targeting for Service.

Overdue service and lapsed customers represent the focus for most Dealerships.

Used vehicles and Out of Warranty vehicles are targeted by about 75% of Dealerships.

Targeting based on Geographic Area and/or Model is being done by 60% of dealerships whilst only 30% of responding Dealerships are targeting customers by age.

30% of responding Dealerships are targeting Fleet Customers and 19% target Government. Understanding the needs of Fleet and Government customers would appear to represent opportunity for some Service operations.

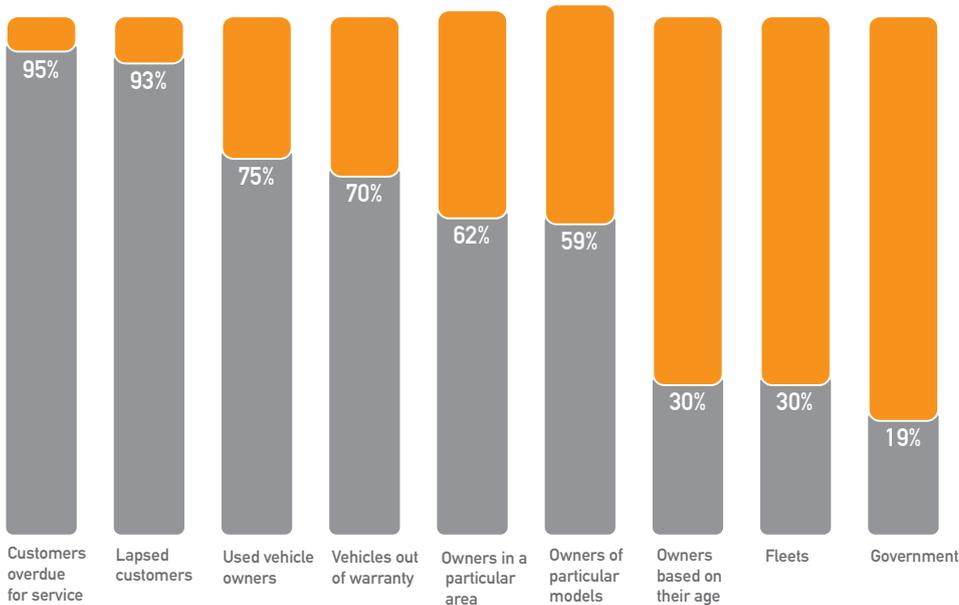


Figure 11 : Who Dealers target for service work

SALES REPRESENTATION

8% of Dealers indicated they have full time sales (Business Development Manager) representation. 18% indicate part time BDM capacity. This shows that 74% of responding Dealerships have no BDM promoting their services.



Figure 12 : Service Sales Representatives (BDM's)

FLEETS/GOVERNMENT

Fleet does not represent a significant portion of current dealer retail sales for responding Dealerships.

42.9% of respondents indicated Fleet represented less than 10% of their work a further 33.3% indicated Fleet represents less than 20% (whilst this is reasonable for a non-fleet type brand, Dealerships with higher ratios of fleet vehicle sales in their PMA may be letting service potential slip).

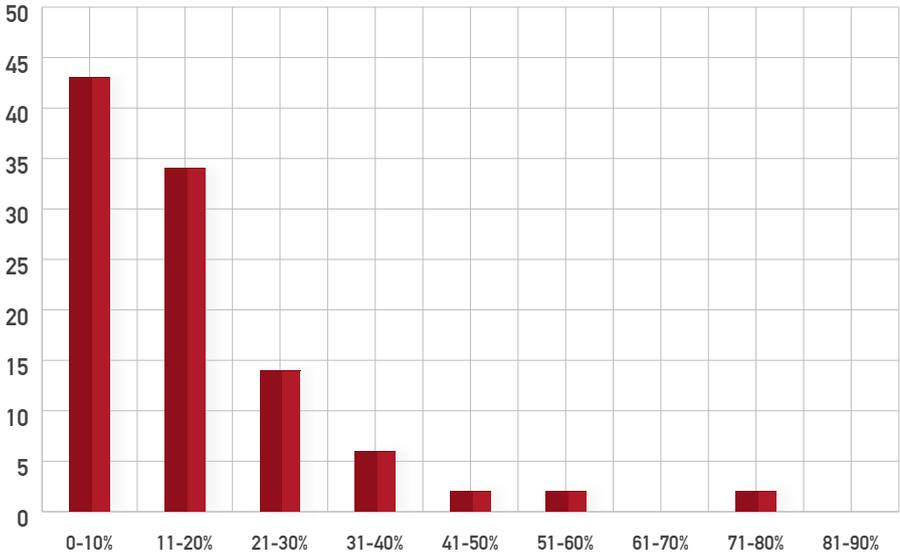


Figure 13 : Percentage of total service work with is Fleet/Government

PRICING COMPETITIVENESS

Price Strategy

Price Perception is the number one stated barrier to retaining Service customers. 21.2% of respondents indicated they were Very Price Competitive, 55.3% indicated they were Reasonably Price Competitive and 23.5% indicated they were More Expensive than the competition. Some responding Dealerships were critical (anecdotally) of manufacturer parts pricing.

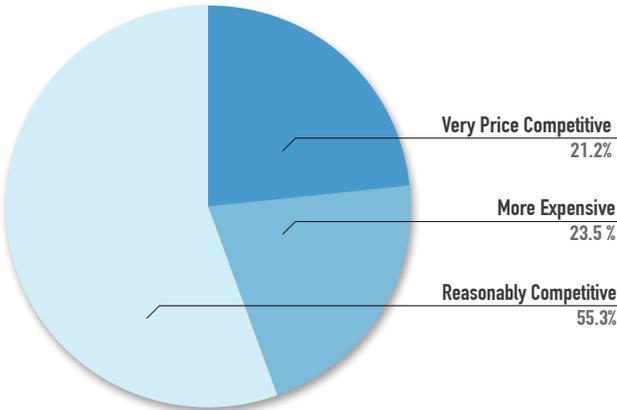


Figure 16 : Aftermarket Competitiveness

'Currently we seem to be struggling to match parts pricing. Other aftermarket repairers are taking advantage of the price gap for parts and our customers are shopping around more. Now with price savvy customers and a more affordable entry level for new customers, the prices from Genuine could do with an overhaul.'

'Have parts pricing to match the non auth guys who get the same parts in same boxes far cheaper, without having to go through the pain of getting "special pricing'

"Our biggest problem in our current climate is the aftermarket repairers and Imparts price attack on the market. Non-Genuine parts is generally a 3rd of Genuine pricing and it's having a big effect on our retention. A bigger emphasis needs to be on the pricing of parts to compete with aftermaket.'

PROMOTION

A Nett Effectiveness analysis of service promotional methods provides an indication as to what does and doesn't work for Service Managers.

Direct promotional and communication mediums such as SMS, direct mail and electronic direct mail rate the highest as outlined below. Service Sales Reps (BDM's) are considered somewhat effective as is Radio for some Dealerships.

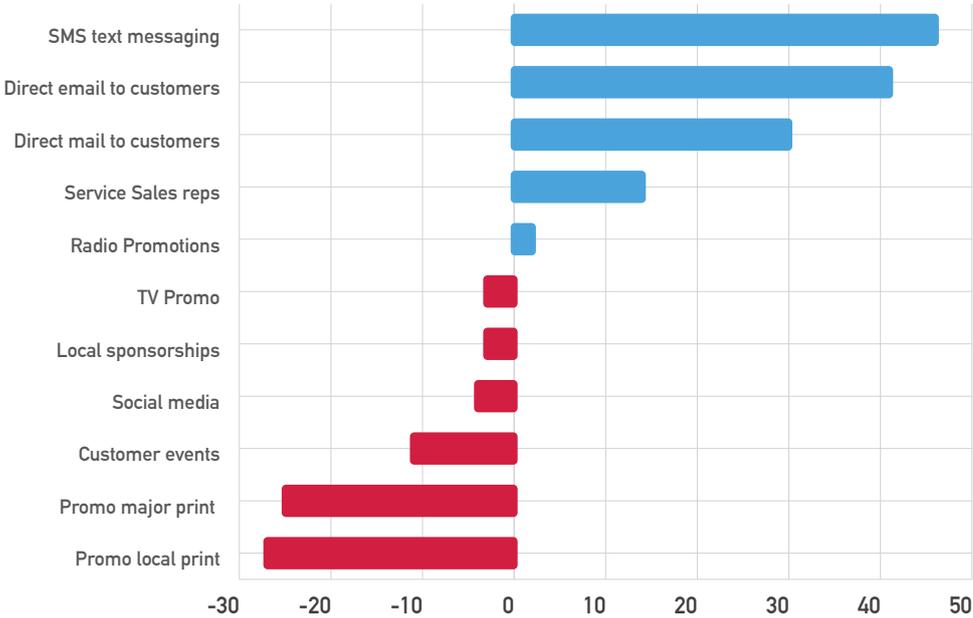


Figure 17 : Effectiveness of Service Promotional Methods

Broader based promotional mediums, especially *Local* and *Major Print*, rate very poorly.

Mixed responses are observed for *TV*, *Customer events* and *Social Media* promotional mediums.

CRM

In response to *How Do You Manage CRM Activities*, 98% of respondents indicated they ran a CRM process and 80% indicated CRM is conducted in-house.

(This research did not question the specifics of CRM processes. This will be part of future research).

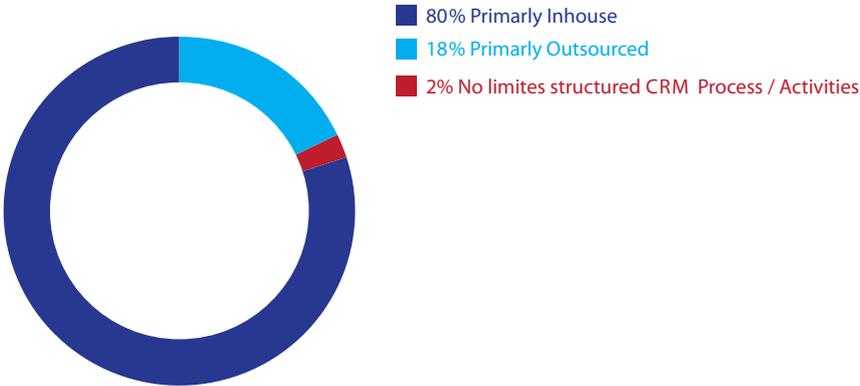


Figure 18 : How do you Manage CRM Activities

% RETAIL WORK

The graph below indicates the percentage of total service work which is retail (paid). 37% of Dealers indicate 'retail' represents 61% to 70% of their service business. 25.9% indicate retail represents 71% to 80% of their work

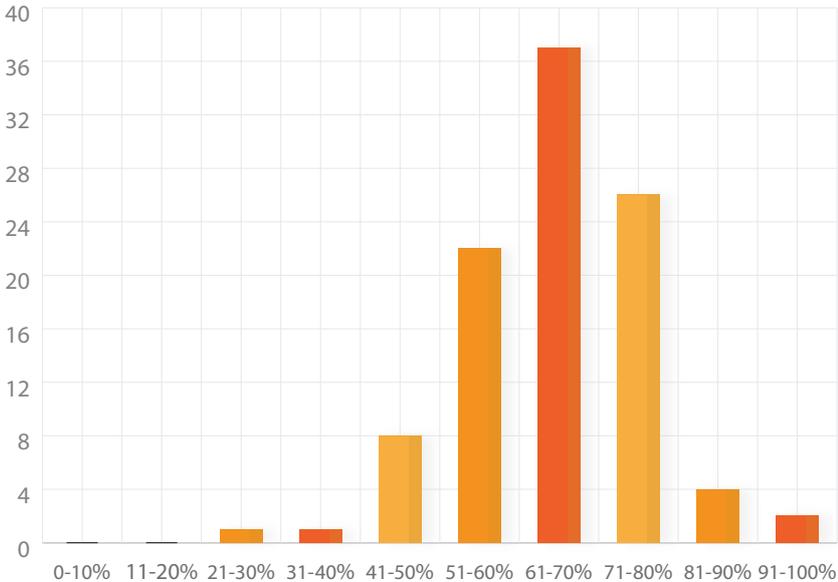


Figure 19 : Percentage of Retail Work

Part E

DEALERSHIP 12 MONTH FORECASTS

WHAT'S NEXT?

The survey asked Service Managers to predict future trends in Sales (RO's) and people numbers.

REPAIR ORDERS

When asked about future service sales projections, 64% predicted an increase in RO's over the next 12 months. 53% indicate a 10% increase in RO's whilst 11% are confident of a 20% increase in ROs.

29% of Dealers predicted RO's to remain the same and 5% and 2% predicted a fall of 10% and 20% respectively

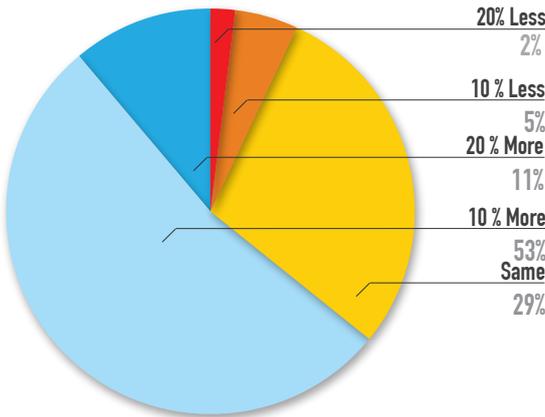


Figure 20 : Change in RO Numbers

PEOPLE

Significantly Service Managers anticipate a 7% reduction in service personnel. On the surface if this trend takes place, this would have a positive impact on profitability, however the impact on CSI of reduced personnel will need to be considered.



Figure 21 : RO's Vs Staff

PEOPLE (BY ROLE)

Predicted staff reductions by role are indicated below.

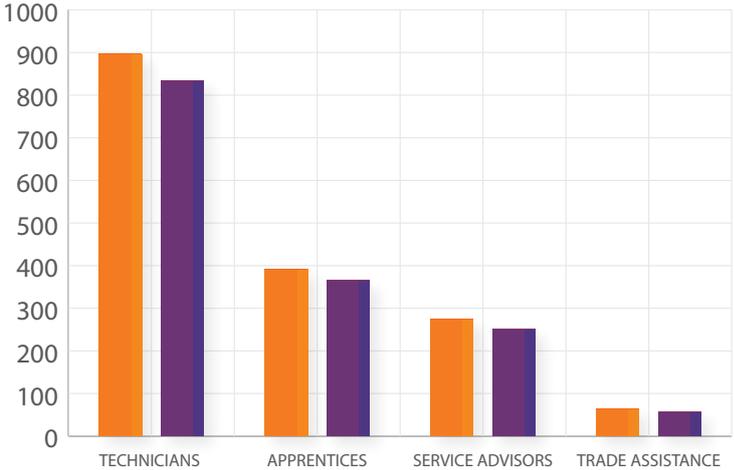


Figure 22 : Current & Future Staff Levels

SURVEY RESPONSES

The Retention Survey was sent to 323 Service Managers of various Brands, Nationally, with a 33% response rate.

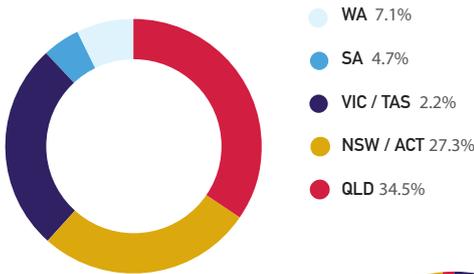


Figure 23 : Responses by State

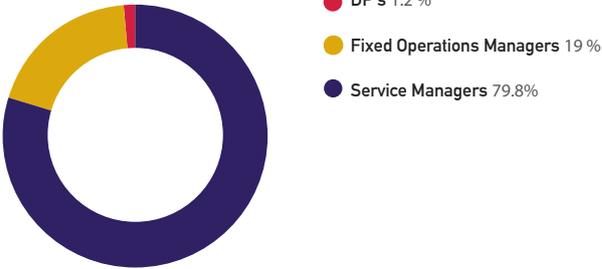


Figure 24 : Respondents



Figure 25 : Metro/Regional

FUTURE RESEARCH

Boyle Consulting will conduct additional research into CRM and Social Media activities to maximise service retention and to verify conclusions in this report. Service Managers are invited to be involved in future research and can do so by contacting Rob Boyle, 07 3870 4166/0419 756 830 - rob.boyle@boyleconsulting.com.au or Rob Petersen, 07 3870 4166/0408 756 605 - rob.petersen@boyleconsulting.com.au to add your details to our mailing list.

WHAT IS 'MARKETING'?

Marketing is often seen as a 'promotional or advertising' activity. In fact, promotion is only the 'communication' part of a marketing plan. 'Marketing' involves understanding customer needs, this is much more than just 'promotions' and it can be broken into the following elements:

-
1. Marketing involves identifying & meeting customer needs.
 2. Analysing your own strengths and weaknesses and those of key competitors.
 3. Looking at the marketplace, competition and trends.
 4. Identifying high opportunity target customer segments.
 5. Researching the needs of customer segments.
 6. Setting Sales Targets.
 7. Defining your marketing 'mix':
 - a. **Product** - or Service Product (e.g. servicing, express servicing, wheel alignment, tyres, repairs, wash, valet, minor body repairs, servicing other makes - all part of the 'service product strategy').
 - b. **Process** - What will the customer experience?
 - c. **People** - Focused on the customer
 - d. **Place** - Service workshop locations are part of your distribution strategy, as are satellite servicing, transportation options and mobile service.
 - e. **Price** - This is very important given 'price perception' is considered the number 1 barrier to service. There are three fundamental pricing strategies:
 - i. More expensive than competition – need to justify the value
 - ii. Competitive within the market; or
 - iii. Cheaper than the market price.No matter which strategy is chosen the need to be aware of what competitors are charging is crucial.
 - f. **Physical** - facilities
 - g. **Promotion** - Once all of the above is determined, dealerships can promote or 'get in the path of their potential buyers' to communicate what they offer. There are many options for this.
 - i. Dealer presentation and signage can be seen as part of promotion
 - ii. CRM strategies
 - iii. Social Media
 - iv. Website
 - v. Local and broad based press
 - vi. Radio & TV
 - vii. Direct Mail (DM) - brochures/flyers
 - viii. Email direct (eDM)
 8. Financial Justification of Marketing Plan.
 9. Once the marketing mix is established it can be launched - the initial launch is sometimes to a smaller group as a test, where results are analysed and adjustments made before full scale promotions take place.
 10. Review Results.



DEVELOPING LEADERS

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