THE AUTO DEALER'S ORIGINAL FIXED OPERATIONS RESOURCES

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GETTING A BETTER GRASP ON WHAT BOOSTS REVENUE

BY FRANK FERRARA

The Service Department has an opportunity to be the key driver of dealership profitability but it has to break out of the monthly gross profit grind and become a significant contributor to the big picture. Dealers Principals and General Managers usually manage Service based on monthly gross profit targets. This is old school and the wrong approach in today's marketplace.

Dealers have always known that traffic coming in the front door of the store can be converted into vehicle sales. If they have enough traffic, they will sell something and make money in the process. In vehicle sales, traffic is the name of the game, whether in the front door or on the web or on the phone. Unfortunately, Dealers and General Managers don't apply the same logic to the Service Department.

Too often, the Service Department is measured on short-term gross profit and a customer satisfaction score that may or may not be reasonable. The monthly gross profit target governs how everything is done from investments in new tools and equipment to incentives for Service Advisors to the paycheck of the Service Manager or Fixed Ops Director. But that's the wrong way to manage a department that should be integral to the long-term growth and health of the dealership.

Gross profit is critical. But how you get there is even more important.

If you look at the revenue that the Service Department can generate, you can break it down into a number of categories, including Service contract sales, financing for big jobs, Parts and Accessories sales and — increasingly — vehicle sales.

This last category should resonate with dealers. There's a lot of energy being expended around equity mining these days, but many dealers are not taking full advantage of the opportunities in this area. The equity mining tools continue to get better but the results could be so much better if you have the right kind of traffic coming into the Service Department.

Equity mining (and the resultant vehicle sales) gives Service an opportunity for a more important role in dealership profitability. Service can generate 20% of the monthly new vehicle sales with the right kind of traffic and with the right technology.

New vehicle owners don't do much for Service from an opportunity standpoint, but we spend a lot of time and effort on those customers. We provide free oil changes for them hoping that they will come back for 3 years or at least give us a good CSI score.

On the other hand, when an owner comes in with a three-year-old vehicle, we often see dollar signs and a chance to hit this month's gross profit target. Instead, we should see a loyal owner who is close to buying another vehicle from us if we treat them right. We drive away Service Department traffic by quoting high-priced 30,000-mile jobs over the phone instead of using the aftermarket approach of quoting an oil change, tire rotation and a free inspection for the rest of the work. If Service retention were the goal, what would you do differently?

The average dealership has a 35% Service retention rate for vehicles over three years old. If you doubled or tripled that number, what would it do to your Service gross profit? And what would it do to the success rate of your equity mining program?

You can't get there overnight. You need what I call a transitional strategy to change the way you're doing business. Put the tools in place to measure traffic based on the years of ownership. Most manufacturers supply dealers with customer retention reports that can help you get at these numbers. Next, you need to adjust your pricing to be competitive for the key jobs that customers need in years three to five. You can't charge a premium to someone who in year three owns a used vehicle that they are close to trading. They don't want to put a lot of money into servicing a used vehicle. Set your pricing to provide manageable investments in the vehicle until your customer is ready to trade.

More visits are the key because on one of those visits they may make a trade for a new vehicle and then you have a reconditioning job and a great used vehicle to sell.

EQUITY MINING (AND THE RESULTANT VEHICLE SALES) GIVES SERVICE AN OPPORTUNITY FOR A MORE IMPORTANT ROLE IN DEALERSHIP PROFITABILITY.

You also have to change your pay plan. You need to pay people for retention. This transitional strategy may result in a short term hit to gross profit. It depends on the mix of business you have today and how much you're currently charging. You need a marketing program to win back owners you've lost. That may take some promotional pricing. Of course, you need to start measuring how many cars you sell on the drive or within 30 days of servicing with your store.

Think about how differently the store would be managed if the goal was to drive Service Department traffic from 3 to 5 year owners. We would not give away oil changes to new buyers. When we do that today, we need to make up the lost gross on 30,000-mile services. If we think longer term, we'd make sure that customers paid reasonable prices and got great service every time they visited the store until we could trade them out of their current vehicle.

THE SERVICE DEPARTMENT HAS AN OPPORTUNITY TO BE THE KEY DRIVER OF DEALERSHIP PROFITABILITY BUT IT HAS TO BREAK OUT OF THE MONTHLY GROSS PROFIT GRIND AND BECOME A SIGNIFICANT CONTRIBUTOR TO THE BIG PICTURE.

The problem today is that we saddle the Service Department with a monthly gross profit target and often the only way to hit the target is to sell more to the next customer who walks through the door. If we measured Service based on growing the traffic count, we would want to know more about each customer in our market area. We'd invest in technology that would provide us with easy access to customer information and technology that helps to drive CRM activities. We'd follow-up with every customer after every Service visit to make sure they plan to return and we'd follow-up with customers who haven't been back in 6, 9 or 12 months to figure why we lost them. We might not hit this month's Service gross profit target, but we'd grow the business this year and next and we'd sell more vehicles.

The key to improving total dealership profitability is to take a holistic approach to Service. Let Service be the engine that drives dealership profitability through customer retention.

You can hear more thoughts from Frank Ferrara's presentation "Monitizing Customer Satisfaction in the Service Drive" at the 13th annual **Automotive CX Summit, hosted by Thought Leadership Summits being held June 20-21, 2017** at the Ritz-Carlton Marina Del Rey.

Additional speakers and sessions from:

American Honda – The Connection Between the Employee and Customer Experience

AutoNation – Building A Branded House: The Impact of AutoNation's Brand Extensions

Cadillac – How Cadillac Put Customers in the Driver's Seat in the Luxury Hybrid Market

Cardinale Auto Group – Predictive Profit! Maximize Sales and Performance Utilizing Active Data

CarSaver – Car Shopping at a Retail Giant? A New Auto Customer Experience is Being Tested

THERE'S A LOT OF ENERGY BEING EXPENDED AROUND EQUITY MINING THESE DAYS, BUT MANY DEALERS ARE NOT TAKING FULL ADVANTAGE OF THE OPPORTUNITIES IN THIS AREA.

Dave Cantin – Customer Success Excellence: Creating Long-Term Customer Relationships

driversselect – How Culture Drives the Customer Experience

FordDirect – Measuring Social Media's Impact on the Customer Experience

Galpin Motors – The Future's So Bright, I Gotta Wear Shades!

Google – Digital Customer Care and Loyalty Strategies

Kia Motors America – American Bots and Brands: A Marriage or Just a Fling?

NADA – Millennials' Impact on Retail and Onboarding Strategies

Paragon Honda – Relentless: Doubling Our Business with Frictionless Transactions

Panel Discussion – From Platform to Purchase – Cardinale Auto Wins with Facebook-Instagram

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Frank Ferrara retired on January 1, 2017 as Executive Vice President of the Customer Satisfaction Division for Hyundai Motor America. His 40-year career spanned every aspect of the automotive industry from retail to manufacturer in Sales, Service and Parts. He currently is an independent consultant doing work for clients such as Carlisle & Company and Dealer-FX.