



A New Kind of Service Contract

The Pre-Paid Maintenance Program

Usually, **Variable Operations** is the focus of profit-improvement opportunities. The challenge, however, lies in the fact that Variable Operations is so named for a reason -- the availability, demand and finance-ability of new and used vehicles is ever-changing, and the universe of potential customers is dynamic, not static.

Enter **Fixed Operations**. Vehicles on the road must be maintained and breakdowns must be repaired. Additional sales add to this universe of potential Labor and Parts sales and, aside from seasonal variations, most dealerships can expect an increase in potential Fixed Ops gross profit over time, presuming that their customer satisfaction and retention programs are properly managed.

Let's Get Back to Selling Service Contracts Again

For decades, the manufacturer warranty and service contracts have been key in retaining customers and helping to assure they return for service when a breakdown occurs. These features, in addition to the upfront commission for F&I, are critical to the dealership's bottom line. The associated service contract programs, including CPO and GAP, drive front-end profitability to an even greater degree than vehicle gross profit, in many cases.

It's critical, however, to acknowledge the compelling reasons many owners do not return to their selling dealer for necessary maintenance. Among the many reasons why owners go elsewhere? Perceived higher costs, difficulty in scheduling appointments, longer wait times for Service, etc. But cost is number one. Countering this belief and retaining these "rogue" customers can make the difference between good and great absorption, not to mention overall dealership profitability.

Get Your Customers into PPM Contracts

An extension of the service contract concept is the pre-paid maintenance program (PPM). By bundling the expected and required service intervals and including their costs in the financing of the vehicle, the expense is spread over the term of the loan. This leaves the customer with the minimal task of scheduling the appointment to have the service performed, a convenient and hassle-free answer to a potentially frustrating situation. These programs are very successful at getting owners into the rhythm of using the dealership's service department, a practice that tends to continue over time. Today's dealers see additional benefits when customers are proactively contracted for their maintenance and repair needs.

The benefits to PPM go beyond the obvious, however. First, embedding the costs in the loan takes the sting out of payment at the cashier's window. Second, having prepaid, customers are not only

more likely to have the service performed, but they are sure to return to the selling dealer, effectively negating the cost and time objections.

But the benefits don't end there. A properly maintained vehicle delivers better performance, engendering loyalty to the brand and to your dealership. Studies show that customers returning for service under PPM programs spend twice as much maintaining their vehicles over their ownership experience as those not taking advantage of such programs.

Satisfaction is Job #1 in Your Service Department

As with most customer contacts, satisfaction in one department brings additional revenue to others. Satisfied Sales customers are more likely to return to the selling dealer for Service. Conversely, satisfied Service customers are more likely to return to buy their next vehicle. The underlying objective is to assure that the customer experience is stress-free – from Sales, to Service, throughout the ownership cycle. Not to mention the fact the sourcing vehicles today is very important. Where better to look for the ideal vehicles than right in your own Service Department?

Before embarking on a PPM program, there are several elements to consider. Most dealers want their program customized for their specific objectives, including the number and frequency of maintenance visits as well as which services will be part of the plan. The dealership and franchise brand should be center-stage in collateral materials, and training and performance measurements should be available. (Do your employees have the proper training and skill sets to sell pre-paid maintenance?) Finally, a vendor partner accomplished in not just PPM, but in every aspect of Fixed and Variable Operations should provide support and accountability for the program and be proactive in identifying and resolving implementation or performance issues.

Today's Customers are Consumer Savvy

Presenting a PPM program to your customers is intuitive and typically well-received. Today's consumers are attuned to the need for coverage against the risks associated with unexpected repairs and they look to service contracts to protect them. PPM provides the same benefit against the costs associated with meeting the manufacturer's required maintenance intervals, and, similarly, eases the pain of payment.

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