

## **How Much Would a 10% Increase In Customer Retention Be Worth to Your Dealership Service Department?**

Lang Market research revealed that the average dealership in 2009 lost 74% of new car buyers to aftermarket service shops. Why? Is it neglect? Is it because your employees don't care? Is it because your prices are too high?

***It could be because you're not tracking them properly. Remember that old saying "out of sight out of mind?" If you want to improve customer retention you must first measure, track and monitor it.***

This decline in customer retention has been steadily dropping for over 40 years now. In the 70's we were very focused on trying to make emission controlled vehicles just run smoothly. In the 80's we had all of the warranty work we could handle and then some. Over the last 20 years we experienced year after year of record new and used car sales growth. All of these factors have, over the years, lead the service department on several different quests. For example, in the late 80's and for most of the 90's Service Managers were encouraged to have more and more Certified Master Technicians. Now, the average shop has about 80% to 90% A-Level technicians all trying to share a work mix that is about 40% A-Level and 60% C or D-Level work. Managers are so concerned about losing their investment in these "super tech's" that they are afraid to add any lower level tech's in fear that an A-level tech will get angry over having to share the gravy with these lower level tech's and leave.

The perfect solution to this dilemma is to GROW your business. And what better way to grow your business than with customers who have already purchased a vehicle from you. You know where they live and you know their phone number. This is a tremendous advantage over the competitors, the aftermarket shops who are getting 74% of your customers' business.

You can get this business back with just some simple database mining and a few well-written letters with some targeted discount offers to encourage these customers to give you another chance. For example, send new vehicle purchasers a customer loyalty card pre-loaded with \$100.00 in discounts on Factory Recommended Maintenance Services (not applicable to LOF's) this card helps give their customers a strong reason to return for service. Every time they return the shop adds additional credits to their card based on their purchases that day. This type of loyalty program has worked extremely well for other industries and it is working very well for our dealer clients who are using it now.

***Of course, you must be prepared to handle these customers when they show up, but that is another article. For now, let's see if we can determine just how much all of these customers are worth?***

Let's say your dealership sells 1,000 new vehicles per year. We know that the average age of a vehicle on the road today is seven years, so this would be a potential service market of 7,000 customers. Now, each of those customers is going to require approximately 3 service visits each year. If we multiply this out, 3 visits annually equals 21,000 potential repair orders. Divide the actual number of customer paid repair orders you wrote last year by the potential. For example, Hometown Dealer wrote 6,000 customer paid repair orders last year. The 6,000 actual repair orders, divided by 21,000 potential repair orders, equals 29% retention.

***We now know what was lost, but that's not the value in this formula. The real value here is determining what this lost business might be worth to your***

***dealership service department if you could retain them as repeat service customers.***

Let's quantify what a 10% increase in customer retention would be in this example. The 21,000 potential repair orders times 10% equals 2,100 additional repair orders next year. These 2,100 additional repair orders should have around 2.0 hours of labor on each one so 2,100 times 2.0 equals 4,200 additional labor hours next year, times your customer effective labor rate of \$100.00 (you should be at this level or higher) equals potential additional labor sales of \$420,000. Let's not forget parts. Your parts to labor ratio should be about 90% or \$378,000. To obtain the total value we multiply \$420,000 by 1.90 and we see our total potential gain is \$798,000.00. Are you ready for some recommendations?

- Print a list of customers who have not been in over 12 months. Send every one of these customers a personal letter asking them to please give us another try and include a \$100.00 V.I.P. discount card (you can purchase these through Auto World Solutions for \$1.50 each 1-800-979-9904). If there are thousands of names on your list you might want to spread the mailing out and only do a few each week. One dealership mailed out 250 "we miss you "letters from the manager along with V.I.P cards each week. Dealers who are doing this are averaging more than 20 responses from each mailing.
- Print a list of every customer who has not been in from 6-months to 12-months. These customers probably will not need as strong an incentive as those over 12-months, so on this letter offer a VIP card with a 10% discount on any service work performed. Again, if there are a lot of names you might want to spread the mailing out.
- Prepare a list of customers who purchased a new vehicle at your dealership, but have never returned for any service. These customers need to be called and polled as to why they have never been back. Their feedback will help you develop a more effective marketing plan for current customers.
- Let's not forget the customer who is buying a new vehicle today. Have the service department contact each new vehicle purchaser and invite him or her to come into the service department for a courtesy familiarization meeting of their automobile. Have the service consultants do the walk around/review and set an appointment for their first service meeting. The walk around should consist of raising the hood and showing the customer how to check the fluids, raising the trunk and showing them where the spare tire and jack are located, how to set the radio, and a review of the owners manual manufacturers minimum maintenance requirements.

Do not wait for the sales department to do this for you. Once a vehicle is sold it is the service department's responsibility to go after that new car customer and to turn them into a repeat service customer coming back to your dealership for that great service you offer.

Closing the buying cycle loop can potentially be worth millions in both sales and net profits for your service department. Many of our customers who have service department retention over 70% are realizing a net profit of over one million dollars in their service department each year.

Measuring service customer retention is a *must*. If you are not doing it now, start. Begin basing your service manager's pay plan on increasing retention. If this manager can grow the business by 10%, why not offer the manager a bonus equal to 3% of that increase if he/she can achieve the desired repair order count and sales increase?

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