

WHITE PAPER



Mining a “Hidden Asset” to Increase Brand Loyalty and Sales

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About the Authors

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In the current economy, when automotive retail sales are suffering and consumers are retaining vehicles longer, the aftersales part of the automotive business is more important than ever before. Regular scheduled maintenance, warranty visits and repairs all present an opportunity for dealerships and manufacturers to build loyalty—from both an aftersales and a new vehicle sales perspective. Organizations that understand the strategy and tactics of building dealer-to-customer affinity benefit from increased parts and service business and improved ROI on their marketing and sales activities. At the same time, they better position themselves to sell vehicles to their aftersales customers when they return to market.

Why is customer loyalty important? The numbers speak for themselves. If the average manufacturer were to increase brand loyalty by just one percentage point, it would equate to an additional 1,196 vehicles and added profits of \$3.58 million*. Especially in today’s market, OEMs need to break down the traditional barriers between sales and aftersales and focus on building loyalty.

Although they may not realize it, *automotive organizations already have a key piece of information needed to increase owner loyalty and new vehicle sales.* They already house transactional data that can be mined to determine the likelihood of owners to remain loyal to the brand. What is this “hidden” data asset? **It’s repair order data.** Most auto companies don’t utilize this valuable source of information. However, when used to its full extent, repair order data represents a rich asset that yields input to actionable decisions.

Over the last decade, manufacturers have made significant investments in acquiring, standardizing and enhancing their customer-centric IT systems to capture that elusive 360° view of the customer. It’s standard practice to capture and report on transactional data, such as new and used vehicle sales, part sales and repair order data. But, manufacturers rarely take it one step further and model this data for the valuable consumer intelligence it can yield.

This white paper will examine the value of mining repair order data to build owner loyalty (both purchase and service) and discuss ways that OEMs and dealers can take action on insights obtained from repair order data.

Metrics Contained in Repair Order Data

There are numerous metrics that can be derived from repair order data, some of which can be indicative of repurchase intent. Some of these metrics are show in **Figure 1.**

For example, service satisfaction data can be modeled to predict the likelihood of a consumer to service at the selling retailer. Additionally, service repair order data can be leveraged to predict both a consumer’s likelihood to go to the dealership or retail network for service as well as repurchase the brand. Intelligence from repair orders can even be used to predict the likelihood of owners of one vehicle model to purchase another. Of course, the objectives supported by creating predictive metrics based on repair order data will vary by manufacturer.

Figure 1: Repair Order Metrics

Vehicle Information	Service Visits	Customer Spend	Timing of Key Events
<ul style="list-style-type: none"> ▪ Length of ownership ▪ Purchase date ▪ Mileage ▪ Driving patterns 	<ul style="list-style-type: none"> ▪ Overall number ▪ Warranty ▪ Scheduled Maintenance ▪ Unexpected repair 	<ul style="list-style-type: none"> ▪ Total spend ▪ Warranty ▪ Scheduled Maintenance ▪ Unexpected repair 	<ul style="list-style-type: none"> ▪ Timing of vehicle disposal ▪ Elapsed time between service visits ▪ Elapsed time between last service visit and vehicle disposal

* Based on average profit per new vehicle of \$3,000 (based on an average of 1% return to market volumes across all brands).



Mining Repair Order Data for Actionable Insights

A recent analysis for an import automaker provides an example of the valuable and actionable information that can be extracted from repair order data. Mining the manufacturer’s repair order data in combination with assets from Polk’s Owner Loyalty Database yielded the following insights:

- **It’s critical to keep customers coming back to the dealership for service:** A study showed that loyalty drops as time elapses after a significant out-of-pocket repair expense. For each month that passes after the average customer’s largest out-of-pocket repair bill, loyalty decreased by one percentage point. The impact of not getting these customers back into the dealership – through service reminders and/or other incentives – could lead to a significant loss in owner loyalty and subsequently, profit. For each month that passes, brand loyalty drops by 1 percentage point, which (based on industry averages) equates to 1,196 vehicles and \$3,588,000.
- **Increased out-of-pocket service expenses lower loyalty:** Analyzing the repair order data and repurchase data showed a negative correlation between increased out-of-pocket

service expenditures and loyalty (as measured by purchase of a new vehicle). Every additional \$250 the average customer spent on vehicle service caused owner loyalty to drop by 0.15 percentage points. While this may not sound like much, the impact is real when you consider that 0.15 percentage points equates to \$525,000 in profit based on lost sales of 179 vehicles.

As one might expect, loyalty drops as customer spend on out-of-pocket expenses increases (see **Figure 2**). But the degree of this relationship is worth noting since the impact helps set expectations for sales and service managers held accountable for repeat business.

- **Incentives increase loyalty:** For the same referenced import manufacturer, Polk found that offering aftersales customers monetary incentives, such as free maintenance, increased the likelihood of a repeat vehicle purchase from the manufacturer. Every \$100 that the dealer or manufacturer spent on service incentives increased customer loyalty by 0.45 percentage points (see **Figure 3**). The service spend is outweighed by the new vehicle profits of \$1,575,000 (based on sales of 538 additional vehicles)

The Auto Industry is Recognizing the Importance of Loyalty

Based on preliminary Polk research, it appears as though the auto industry is recognizing the importance and bottom-line impact of owner loyalty. Even as sales are decreasing, new vehicle sales from loyal customers (those returning to purchase the same brand) have been steadily on the rise since 2006. In Q1 2009, new vehicle sales from loyal customers accounted for 26 percent of all retail registrations, up 8 percent from Q1 2007.

Figure 2: Negative Correlation between Loyalty and Customer Aftersales Expenditures

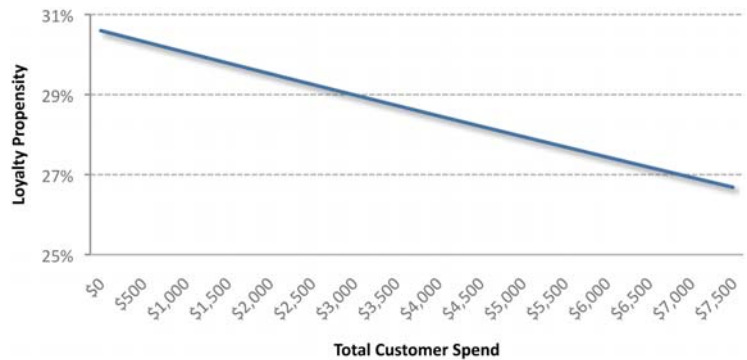
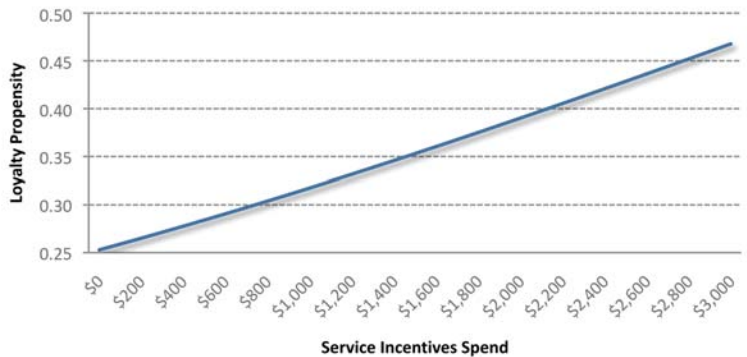


Figure 3: Positive Link between Service Incentives and Loyalty





Taking Action on Repair Order Data

Manufacturers, dealerships and their agency partners can utilize findings from mined repair order data for a number of uses, including:

- **Dealership improvement strategies:** From repair order data, dealerships may notice a pattern of customers defecting from the dealership for both service and sales. Analyzing these data could result in a strategy to improve service processes (e.g., wait time, pricing, etc.) in an effort to retain service customers and build both service and repurchase loyalty. For example, metrics created to analyze owner service intervals (time, mileage, etc.) combined with scores used to prioritize owners' repeat purchase behavior can serve as both a mechanism to forecast service demand and owner loyalty. Monitoring these metrics against repair order data can provide OEMs and their dealer networks with early indicators regarding owner loyalty, giving them the opportunity to implement corrective actions before the situation becomes too costly to the bottom line.
- **Targeted marketing:** Especially with reduced marketing budgets, ROI on marketing spend is more critical than ever before. Repair orders can provide OEMs, dealers and agencies with data to help determine which customers would react positively to incentives and other marketing offers, which aftersales customers are already likely to be loyal and other valuable insights to drive an effective and cost-efficient marketing strategy.

For example, modeling owner behavior can provide insights into consumers' likelihood to be loyal, with customers broadly grouped into three broad categories, as shown in **Figure 4**. For those consumers already likely to be loyal, incentives designed to drive service demand generally are not needed and would not be an effective use of marketing dollars. Conversely, incentives targeted at owners highly unlikely to return to the dealership provide little lift in loyalty as these owners have already shown a predisposition to purchase from the competition. Lastly, there are the "fence sitters," a group that represents a significant proportion of the owner population. These owners could be loyal or disloyal, and targeted incentives to the "fence sitters" can deliver a significant lift in both service and repurchase loyalty.

- **Input into vehicle allocation strategies:** Repair order data can be mined to not only show propensity to remain loyal, but also to provide insights into vehicle forecasts. As an example, if loyal service customers typically buy a certain type of vehicle that is being promoted in upcoming months, understanding this purchase pattern can help inventory managers determine the model mix for their area of opportunity.

In closing, understanding owner purchase and service patterns can provide detailed insights into expected future purchase and service patterns. Understanding these patterns can provide automotive manufacturers and their dealer networks with the opportunity to accurately forecast future demand and identify and correct issues that impact owner loyalty. Lastly, and perhaps most importantly, mining the "hidden asset" of repair order data can help develop marketing and incentive plans that lead to higher sales at the lowest possible cost of sales, thus driving higher profits.

Figure 4: Three Primary Groups of Customers



This group of aftersales customers is unlikely to purchase a new vehicle from the OEM or dealer, regardless of incentives or other actions. Loyalty incentives focused on this group will not yield a considerable lift in owner loyalty.

This is a key group of owners, as wise investments in loyalty may make a difference between whether they buy their next vehicle from the brand or defect to the competition. Loyalty incentives targeted to this group should lead to a significant lift in owner loyalty.

This group of owners is already predicted to be loyal. While loyalty incentives targeted to this group may represent a positive ROI, the incentives may not be needed to drive owner loyalty.

About R. L. Polk & Co.

R. L. Polk & Co. is the premier provider of automotive information and marketing solutions. Polk collects and interprets global data, and provides extensive automotive business expertise to help customers understand their market position, identify trends, build brand loyalty, conquest new business and gain a competitive advantage. Polk helps automotive manufacturers and dealers, automotive aftermarket companies, finance and insurance companies, advertising agencies, media companies, consulting organizations, government agencies and market research firms make good business decisions. A privately held global firm, Polk is based in Southfield, Michigan with operations in Australia, Canada, China, France, Germany, Japan, Spain, the United Kingdom and the United States. For more information, please visit www.polk.com.