TRUST AND PRICE
TRANSPARENCY
THE KEYS TO RESCUING SERVICE PROFITS
CRITICAL FIXED OPS REVENUE AT RISK

Changing Landscape

Service department revenue has become increasingly important to the dealership’s bottom line. In fact, it is every dealership’s lifeblood. NADA reports that fixed ops represents the majority of dealer profits. Now, various market trends are putting that profit stream at risk.

Cars are now built to last longer and require maintenance less frequently. As such, the average age of vehicles on the road has grown 14% since 2008, with 86.4% of vehicles being out-of-warranty as of Q2 2011. Research shows, these out-of-warranty owners are more likely to explore repair shop options rather than return directly to the dealership. And in general, those still visiting dealerships are there less frequently for maintenance needs.

Digital Shoppers

Today’s car owners shop for service and repair differently than they used to. Thanks to the growth of the digital marketplace, it’s easy to investigate options when it comes to seeking vehicle maintenance and repairs. As in most categories, shoppers turn to digital resources to find providers, check reviews and credentials, seek special offers, and validate purchase decisions. Consumers have come to expect transparency in all aspects of their lives and go to sources they trust on the internet to get information that builds their confidence.

Competitors Out-Marketing Dealerships

This increased use of digital resources creates new opportunities for dealers to build their service business. However, dealer service departments tend to be under-utilizing digital marketing while national repair chains and independent shops have a strong digital presence. These competitors are effectively intercepting consumers when they’re online, actively researching and seeking auto service. Although most dealers have embraced digital to transform many aspects of their new and used car retail operations, most are behind in recognizing its benefits for their service departments.

To enhance understanding of how auto owners choose service and repair providers, Cars.com commissioned acclaimed research firm GfK to conduct an independent analysis of 822 auto owners. This research reveals important insights for franchise dealers that show clear opportunities for their service departments to improve their share of revenue, primarily by increasing price transparency to build consumer trust.
While new car sales are on the rebound, (light vehicle units are expected to reach 16MM for the first time since '07), dealerships must not take their eye off the profitability of their fixed operations, which are expected to face increasing pressure as a variety of category trends continue, including:

**MOUNTING PRESSURE ON SERVICE DEPARTMENT PROFITS**

The average vehicle lifespan continues to increase. Currently at a record 11.3 years, vehicle age is expected to grow to 11.5 years by 2018. A very large percent of these older vehicles will be out-of-warranty, challenging dealerships to compete to retain their business.

Auto owners tend to leave dealerships for service as cars age and go off-warranty. According to a study by DMEautomotive, customers seeking basic services (rather than major repairs), tend to defect over time. These lost customers are estimated to cost dealers a large percent of their revenue on older cars. In fact, dealers lose an average of 60-78% of revenue on three- to six-year-old cars and 82-92% of revenue for cars more than seven years old.

**THE NUMBER OF OFF-WARRANTY VEHICLES RISING**

**CONSUMER LOYALTY TO SERVICE PROVIDERS ERODING**

**COMPETITIVE PRESSURE FROM INDEPENDENTS AND CHAINS INTENSIFYING**

The decrease in loyalty of off-warranty owners is costing dealers valuable service customers that could drive significant revenue if even a small percent of this business was retained.

Despite increases in service spending, dealerships are not growing their fair share. The service industry is hyper-competitive with low customer loyalty rates, so, no service provider can be complacent.

As spending on repairs is expected to continue to grow, competition will only intensify. Dealerships must up their game to more effectively compete and benefit from this market growth.

- In 2013, while the service business grew, dealers’ fixed ops sales were down -7%. Dealer service dollars are being lost primarily to national repair chains, especially among younger car owners.
- Loyalty rates are low for service providers, with only 23% of vehicle owners tied to a provider. This creates tremendous opportunity for conversion, but also a need to carefully defend existing customers.
- As the $215B service market is projected to continue to grow 15% over the next three years, the revenue opportunity is significant and the stakes are high.

**TRUST AND PRICE TRANSPARENCY: THE KEYS TO RESCUING SERVICE PROFITS**
PRICE PERCEPTIONS AND A DIGITAL MARKETING VOID DISADVANTAGE DEALERSHIPS

Consumers’ primary reason for leaving the dealership is a perception that dealers have high prices.

Because consumers have limited knowledge of what actual service prices are, they are fearful of being taken advantage of, making it imperative that dealers address these misperceptions.

- More than half of respondents believe dealer service departments are the most expensive option, regardless of the type of repair.
- Despite the fact that dealers offer fair and competitive prices, among those who will not consider a dealership for service, ‘high prices’ is the #1 reason stated.

C+R Research, April 2013

REASONS CUSTOMERS AVOID DEALERSHIP AND SERVICE DEPARTMENTS

- 67% Price/Too Expensive
- 53% Cost More/Cheaper Elsewhere
- 14% Preference/(Can Do It Myself)
- 10% Not Trustworthy/Not Reliable
- 9% Service
- 6% Nothing/No Reason
- 2% Maintenance/Service

C+R Research, April 2013
DEALERS LAG BEHIND COMPETITION IN DIGITAL MARKETING

Consumers are increasingly using digital resources to make more informed decisions about service and repair providers. Consequently, digital marketing may offer an opportunity for dealers to clarify and promote their actual prices and services, contributing to consumer trust.

Service Consumers Go Digital:

- 43% of all drivers conduct an online search to decide where to service their car.
- Google searches for fixed ops increased 400% in five years, from 2007 to 2012.

Today, dealerships are being out-marketed by the competition on these digital platforms. This is partly because the sole focus of competitors is on service and repair, while dealers need to concentrate on vehicle sales as well. A quick internet search will show dealers are lagging behind. Whether in search results or in reviews on Angie’s List or Yelp, independents and chains rise to the top of results and average more customer reviews.

Dealer websites also focus primarily on vehicle sales, not service and repair. Although most dealers cite their website as a primary digital channel for service, NADA 2012 data shows on average only 3% of dealership website content is dedicated to parts and service. And an analysis of Google Search Results for service and repair shows dealers coming up in less than 5% of searches vs. 60-95% of searches for each of the leading national repair chains.
RECLAIMING THE ADVANTAGE: NEW RESEARCH REVEALS DEALERSHIP OPPORTUNITIES

While dealers cannot control factors like improved vehicle quality or reduced time between maintenance visits, they can combat several of the market forces threatening their profitability. The following findings reveal clear opportunities for dealership service departments to improve their share of service revenue, primarily by increasing price transparency through marketing and sales channels.

Dealers Have the Initial Advantage

Although most shoppers prefer to have all the information, when little else is known, consumers have a preference for dealerships.

Given this, dealers should take advantage of their reputation for quality and leverage it across all communications to retain off-warranty customers and win new business.

Consumers Do Not Have a Good Sense of Repair Costs and Are Therefore Suspicious of Pricing

When asked about prices they’d expect to pay for various types of auto service, most consumers expected huge ranges in prices across different types of service providers. For example, consumers’ expectations about the cost of common repairs ranged dramatically above and below the actual median cost.

- Head Gasket: Estimated cost 21% above/below actual median
- Wheel Alignment: Estimated cost 33% above/below actual median

Consumer expectations of pricing varies across service providers and they are nervous they will over-pay.

By giving shoppers more transparency into their pricing model and educating consumers on actual industry prices, dealerships have an opportunity to build the trust shoppers are craving and earn business as well.
RECLAIMING THE ADVANTAGE: NEW RESEARCH REVEALS DEALERSHIP OPPORTUNITIES

Consumers Are Willing to Pay a Bit More For Service and Repairs at a Dealership

When expectations are that prices will only be 10-15% higher at a dealership, consumers have a strong likelihood of choosing a dealership, especially for specialized repairs where dealer expertise is most valued. Promotions that market routine service prices or present shoppers with coupons and offers help consumers to believe dealerships are only slightly more expensive and in turn, reinforce their quality and value.

When confident about dealer prices, consumers are more likely to choose a dealership for repairs and maintenance.

Dealers should look for opportunities to put their pricing in context as they will win business once consumers see their prices are within an acceptable range of the competition.

When Given a Range of Actual Service Prices, Consumers Are Able to See Dealership Prices as More Comparable to Repair Chains and Shops

When given more pricing guidance for different types of repairs, consumers expect dealerships to be the highest priced in the range. But, when given the actual marketplace price spread, they only believe prices are less than 10% higher at dealerships vs. national repair chains or local shops. On average, they expect to pay about $100 more on larger repairs at a dealership.

Once knowledgeable about actual price ranges, consumers recognize dealerships are only a little bit more expensive, and many are willing to pay the difference.

Dealers should not be afraid to share pricing. Consumers are ready to see them as being competitively priced.

Consumers Want Two Key Qualities in a Repair Provider

When asked what they look for in an auto service provider, consumer responses center around two key needs:

- A trustworthy provider to deliver quality results
- Price transparency to create confidence in a fair price

Consumers’ needs are clear and dealerships are well equipped to deliver on them.

Dealers need to find better ways to communicate the quality of their service and competitive pricing to create the trust and pricing confidence consumers seek in making their service provider choice.
RECLAIMING THE ADVANTAGE: NEW RESEARCH REVEALS DEALERSHIP OPPORTUNITIES

Dealerships Offer the Resources and Quality Reassurance That Consumers Value

The top features sought when considering service providers are certified technicians, price guarantee and warranty. When dealers offer these features, preference increases substantially. Reminding consumers of dealer quality advantages and offering price guarantees greatly reduces price concerns.

Dealerships should look for ways to more actively promote their superior technicians and parts and labor warranties as they are meaningful quality distinctions. Some form of price guarantee is worth considering, as a means to alleviate consumer price concerns.

DEALER SHARE OF PREFERENCES

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GfK Service and Repair Report, October 2013

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IMPLICATIONS FOR DEALERSHIPS

Dealers can reverse current declines in market share for service revenue and ensure future profitability of their fixed operations.

Remind consumers of the dealer’s high quality services, including:
• Factory certified technicians mean the job will be done right
• OEM parts are the highest quality parts
• Parts and labor warranties offer confidence consumers will only pay once

Create confidence that dealership prices are reasonable relative to competitors:
• Post actual prices on basic services
• Offer price guarantees within an established range
• Put prices in context to others in the marketplace
• Utilize third party resources for credibility, such as review sites and price listings

Embrace Digital Marketing to Promote the Advantages of Choosing Dealerships

Intercept auto owners when and where they are investigating service and repair suppliers
Establish a digital presence and grow the visibility of the service department to get considered, and ultimately, selected versus competition
Using digital advertising and interacting with service and repair websites will enhance the service component of your dealership website and improve results in online searches

Bottom line: Dealerships have the advantage to lead the service marketplace, but they must overcome consumers’ perceptions about their pricing and added value. Digital marketing provides an effective platform to reach service customers who are out-of-warranty, and it allows for price transparency, which in turn builds trust and confidence. By elevating consumer reviews on dealer quality service and providing context for service prices, dealerships can regain their service advantage and combat forces that are eating away at their profit share.
METHODOLOGY AND SOURCES

The cornerstone of this report is the Service and Repair Price Estimator research conducted by GfK in October 2013. This study consisted of an online quantitative survey of 822 car owners plus an online qualitative discussion for further clarity. A good mix of respondents’ age, gender, regionality and vehicle characteristics, such as make/model, age and segment, are represented in this study.

1. NADA data, 2012
3. Experian Automotive’s Vehicles In Operation (VIO) database, 2011
6. NADA data, 2013
8. C+R Research, April 2013
9. Google+ Sterling Driver Insight Study, June 2013
10. R.L. Polk Co, March 2013

About GfK: For over 30 years, GfK Automotive has been the preeminent provider of product, brand and consumer research and consulting to the global automotive industry. Counting most major Asian, European, and North American car makers among our client base, our research consultants deliver integrated information and insights to the automotive community. More information is at www.gfk.com