

# Service Department:



## The new, old frontier at the intersection of technology and the consumer experience

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# Service: The new, old frontier at the intersection of technology and the consumer experience.

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In spite of the upheavals in the automotive industry since the recession, dealerships have rebounded better than most sectors in the economy and continue to maintain their pivotal role as the vital link between the manufacturer and the consumer. Nowhere is that more critical than in the service department.

- Yet, today, service department net profits barely match 2011 levels, according to NADA’s 2014 report, and are lower than at the height of the recession from 2008 to 2010.
- Additionally, dealership net profit margins are stagnating at around two percent and have stayed there for the past three years, while gross profit margins as a percent of sales have declined for five straight years.
- Looking ahead three to five years, industry sales are likely to plateau - or even dip.

All of this is the backdrop to a post-recession era characterized by fewer dealerships to serve a growing consumer population and by consumers who increasingly expect a different retail experience than the one typically associated with a dealership.

Those expectations are being shaped by changing demographics, other retail experiences, and online shopping and browsing. The trends point to expectations for a more efficient, transparent, and engaged buying and servicing experience - regardless of the retailer.

Challenged with this “New Normal” in the automotive industry, dealers are facing additional pressures to manage the customer experience differently – especially in the service department.

And that’s where technology can play a crucial role.

Dealers now readily accept the requirement for more sophisticated equipment and technology to diagnose, maintain, and repair vehicles. Yet, not every dealer readily accepts the broader role technology can play in service department operations – both to boost gross profits and to enhance the consumer experience.

That’s where the old frontier of service crosses into the new frontier of technology and changed consumer expectations.

## Move from the middle of the pack to top performer

The consulting firm McKinsey collaborated with NADA on a report earlier this year that identified factors that separate the top-performing dealerships from otherwise solid, but average performers.

Not surprisingly, one of the biggest factors is tied to operations. That's especially true in service.

McKinsey found that the top-performing dealerships are more likely to equip their service departments with the technologies and training to consistently implement best practices that build customer retention and loyalty, that engage customers, and that guide customers toward new purchases at the dealership – from vehicles to maintenance and aftermarket products – capturing more “total profit opportunity.”

The challenge for dealerships that want to move from middle of the pack to top performer in service is to use new technologies and processes to change the way work is accomplished in the service department and to change the way consumers experience the dealership.

Here are ways to answer that challenge.

## Cutting through the clutter: smarter, faster, better

For the typical dealership, about a third of its customers no longer own the car tied to their record in the dealership management system (DMS) database.

The best technologies and digital specialists today offer services to cleanse the customer database, supplement and append data from other industry databases, and tailor messages based on the customer's service record, brand, mileage, and model year.

Implementing the technology and insights behind smart database marketing is a proven way to deliver incremental gross profit in service departments. Equally important, it's an initiative that can help (re-)establish the connection with customers and renew the opportunity to build retention.

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### **One-to-one marketing: every time, all the time**

As consumers come to expect more personalization in their retail experiences, one of the more effective tools in reaching service customers is a branded, digital e-newsletter.

This technology is a proven approach to deliver more consistent, targeted communications and to help establish the dealership's service department as a trusted advisor.

E-newsletters typically keep dealerships top of mind for customers with a mix of relevant original and personalized content, combined with behavioral data on customers. Insights from the data enable dealerships to market one-to-one and to identify customers who are in-market for service.

For dealerships tapping into the technologies behind e-newsletters, the results are a more predictable, consistent connection to customers and incremental gains in service traffic, all of which can lead to increases in gross profit.

### **Prospect lists: waiting and primed for sale**

There's another hidden benefit from increasing traffic in the service drive: more vehicle sales.

While it's common to recognize that one of the best prospect lists for a vehicle purchase is the list of daily service appointments, today's newer technologies make parsing that customer database more insightful and the results more rewarding.

The more advanced technologies will use specific event triggers tied to the customer record in the DMS to identify the best prospects for stepping into a newer vehicle. At the same time, dealerships can help set parameters that include criteria around equity position, transaction type, payment, interest rate, make and model, and then can tailor these variables to the dealership's operations.

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### **Customer satisfaction: upfront and to the penny**

The technologies to deliver to-the-penny service pricing estimates for maintenance and repairs, along with factory recommended maintenance, also have been shown to increase the frequency of service visits and to improve the efficiency – and profit – of each visit.

Dealerships that invest in an electronic estimating tool are able to provide quick, accurate, and consistent pricing for service repairs, improving productivity for the department and increasing transparency for customers.

When these estimating technologies are used consistently, it's not unusual for service departments to deliver a double-digit percentage increase in labor and parts gross profit, plus improvements in the effective labor rate and the average hours per RO.

### **Changing the consumer experience: from 'hello' to 'thank you'**

Other service sector research confirms that one of the most effective behaviors in service organizations is a simple, personalized greeting of customers. Here, technology has made a dramatic difference for dealerships.

With newer RFID (radio frequency identification) technologies, service customers can be greeted by name on a large display screen the moment the car crosses into the service drive. This creates a more personalized experience that immediately changes the dynamic of bringing a car in for service and helps make every customer feel welcomed and expected.

Even better, the best RFID technologies work in concert with the DMS and can alert the service advisor to the customer's arrival, complete with appointment details that pop up on the advisor's screen.

Extending this concept, there are proven mobile technologies that will enable the advisor to meet the customer at the vehicle with tablet in hand and begin the service write-up process.

Now, the advisor and customer interact together at the customer's vehicle, rather than on opposite sides of a desk.

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They also can complete the entire process at the vehicle, from reviewing and confirming the customer's questions to completing the vehicle inspection and signing the repair order digitally – all through the software on the tablet that ties back to the DMS.

Plus, the service advisor can use the tablet as a mini-TV screen to engage the customer and display information related to the service or vehicle inspection.

Overall, managing the service appointment through a smart, mobile device at the vehicle changes the customer experience and has been shown to deliver an additional five to ten percent in repair orders written – and additional labor dollars – for the dealership.

### **Have it your way: pay your way**

Once the service invoice is complete, dealers can take advantage of the newest technologies around mobile and electronic payment options. When the vehicle is ready for pick up, the customer can be notified electronically – and even pay – with a few taps of the smartphone screen.

This means much less time for customers waiting in line at the cashier's window in service and the flexibility to pay in ways that match individual preferences.

The productivity benefit for dealerships delivers a big reduction in the time spent reconciling transactions. And that time saved is a cost avoided.

### **Service at a new frontier**

Customer expectations continue to change and redefine what's required for a rewarding, engaging, and valuable retail experience.

Dealerships that implement the right technologies and processes will separate themselves from the pack, move up in performance, and deliver more gross profit through the service department.

That overall performance improvement is grounded in changing the way work is accomplished in the service department and changing the way consumers experience the dealership. That's where the old frontier of service crosses into the new frontier of technology and changed consumer expectations.

Visit [www.reyrey.com/whitepapers](http://www.reyrey.com/whitepapers) to read more about how the automotive industry is changing.

#### Acknowledgments

Fast Forward: how U.S. auto dealers can drive sustainable economic performance in the digital age. McKinsey & Company (in cooperation with the National Automobile Dealers Association), April 2015.

IMN (iMakeNews Inc.) research and case studies.

NADA Data 2014: Annual Financial Profile of America's Franchised New-Car Dealerships.

Naked Lime Marketing studies.

Reynolds and Reynolds market research and case studies.



**Jason Sideris** is director of product planning at Reynolds and Reynolds. During nearly 20 years in the automotive industry, his focus has been on how innovative technology and dealership processes come together to enable operating excellence for dealers and improve the customer experience with the dealership.

