



Grow Dealership Profitability with a Digital Service Experience

Over the past several years, car dealerships have seen a decline in vehicle sales. As a result, many dealers are more reliant on their service departments as a source of revenue. While the shift from sales to service has helped the industry adjust to economic changes and shifts in customer behavior, the service business is also not immune to economic ups and downs. Many dealerships learned this lesson the hard way when the novel coronavirus caused vehicle owners to delay and decrease the frequency of service visits.

For most dealerships, a service-centric financial model still works, even during periods of declining volume, but they must get the most out of every single service visit. Research shows that the best way to maximize the benefit of those visits is to improve the experience that vehicle owners have at your dealership.

To improve customer experience, you should focus on increasing convenience, improving transparency, and building trust. You can start building on those three important pillars when you adopt the following proven set of practices and technologies: service pickup and delivery, picture- and video-based communications, texting and digital communications, and online payment options.



The Importance of Service Revenue

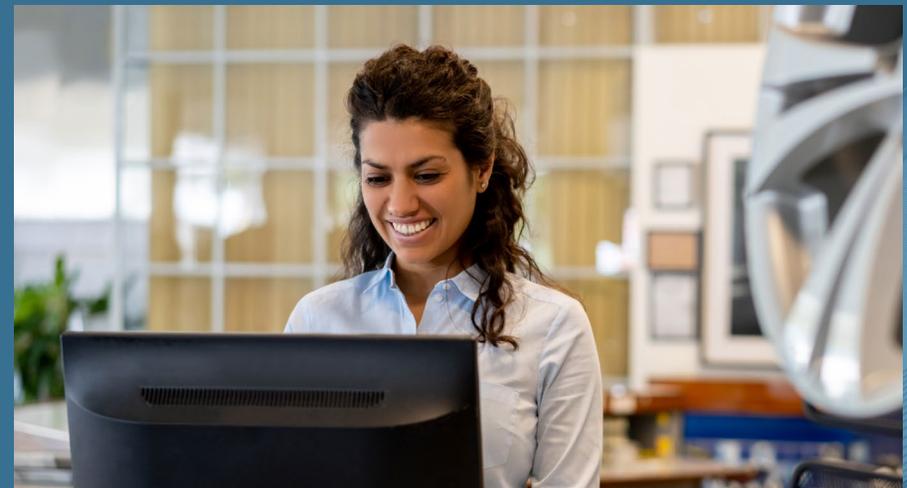
In the past, dealerships could rely on the sale of new cars to drive revenue and profit, but changes to the industry and the economy have made it more difficult to succeed by following this model. Since 2016, sales volume for new cars has been on a downward trend, which was accelerated in 2020 as a result of the economic fallout from the coronavirus pandemic.¹ Naturally, overall dealership revenues have also fallen, with a 3.5 percent decline in 2020.²

In an industry where profit margins are already a razor-thin 0.5 percent, declining sales volumes have been devastating for some dealerships.³ In response to declining sales and margins, dealerships have shifted focus toward generating revenue from their service departments. That shift, including “the development of a business model that is more focused on parts and repair services has helped dealers bolster profit.”³ In fact, according to NADA, fixed operations drives over half (54 percent) of dealership gross profit.⁴

For dealerships, the events of 2020 impacted more than just the economics of car buying. They also shifted customer expectations for the service experience and accelerated technology and process changes that had previously been occurring in slow motion. Today’s customers expect

things like convenient online scheduling, transparent digital communication, and time savings that come from services like vehicle pick-up and delivery. These trends have increased the need for you to adopt technologies and implement processes that improve the customer experience.

Fixed operations drives
54%
of dealership gross profit.⁵



¹ Wagner, “Light vehicle retail sales in the United States from 1976 to 2020.” Statista. February 5, 2021. <https://www.statista.com/statistics/199983/us-vehicle-sales-since-1951/>.

² Jack Daly, “New Car Dealers in the US.” IBISWorld. March 2021. <https://my.ibisworld.com/us/en/industry/44111/about>

³ Daly, “New Car Dealers in the US.”

⁴ “Average Dealership Profile.” National Automobile Dealers Association. 2021.

The Connection Between Service Experience and Revenue

Dealerships are losing out on service revenue. Vehicle owners are opting for less service and may not look to their dealership for their service needs. According to a Cox Automotive study, only 29 percent of service visits for vehicles that are more than five years old occur at a dealership and 70 percent of consumers who purchased or leased during the prior year didn't return for service. That lack of retention is costing franchise dealerships \$266 billion in lost revenue every year—that's \$15.9 million per franchise dealer.⁵

Many vehicle owners that shun dealership service in favor independent repair shops do so because they don't enjoy the experience they have at the dealership. To recapture that lost revenue, your dealership will need to improve the service experience by emphasizing convenience, transparency, trust, and old-fashioned customer service. As stated by Chris Sutton, vice president of the U.S. automotive retail practice at J.D. Power: "Several long-term challenges lie ahead for the service business. ... With vehicles requiring less frequent maintenance and owners driving fewer miles—thus, stretching out the time between service visits—dealers need to do everything they can to keep satisfaction moving in a positive direction."⁶

To summarize recent industry research, "dealerships that want to boost profits from customer-pay work and build loyalty will have to do such things as enable service customers to pay their bills online and schedule service appointments easily on mobile devices, pick up service vehicles from and deliver them to a customer's home or workplace."⁷

If you can succeed at improving the service experience, the dollars will follow. In fact, more than half of consumers surveyed "say they would be willing to travel farther and pay more for an enhanced customer experience at an auto dealership's service department."⁸

Lack of service retention is costing franchise dealerships **\$266 billion** in lost revenue every year.⁵

⁵ "The Cox Automotive Service Industry Study." Cox Automotive. 2018.

⁶ "Coronavirus Fallout: Vehicle Service Customer Satisfaction Improves, but Dealers Should Prepare for Parts Shortages and Dissatisfied Owners, J.D. Power Finds." J.D. Power. March 12, 2020. <https://www.jdpower.com/business/press-releases/2020-customer-service-index-csi-study>.

⁷ David Kushma. "New study says dealership service customers demand transparency, convenience." Automotive News. February 17, 2019. <https://www.autonews.com/fixed-ops-journal/new-study-says-dealership-service-customers-demand-transparency-convenience>.

⁸ Steven Finlay. "Survey: Car Dealership Customers Willing to Pay More If All Goes Well." Wards Auto. January 11, 2019. <https://www.wardsauto.com/dealers/survey-car-dealership-customers-willing-pay-more-if-all-goes-well>.

The Connection Between Service Experience and Revenue (Cont.)



Most dealerships understand the importance of shifting focus toward service, but some are taking the wrong approach, as demonstrated by the actions of many dealerships in the early days of 2020. Desperate for revenue, service departments started offering price promotions. “In response to declines in sales, dealers [were] turning to their service departments to help drive the business. More than half (57 percent) of survey respondents felt discounts on maintenance services would help bring in customers, and 62 percent said they were likely to offer those discounts and promotions.”⁹

Unfortunately, discounts aren’t enough to differentiate dealerships from independent shops and they do nothing to fix the root problem of poor customer experience. Dealerships hoping to replace lost sales revenue with service revenue have a lot of work to do—work that will need to go beyond pricing promotions. To bring service customers back into the dealership repeatedly, dealerships need to meet rising expectations and provide an excellent service experience and many are already doing it. “Beyond offering discounts and promotions to attract customers into their service departments, nearly 80 percent of respondents said they were likely to offer expanded or free pickup and drop-off for repair and maintenance services.”¹⁰

⁹ “On the Front Lines of the Coronavirus Pandemic.” Automotive News. April 2020. https://s3-prod.autonews.com/s3fs-public/2020-04/AutomotiveNewsDataCenter_DealerCovid19Whitepaper_final.pdf.

¹⁰ Tara Baukus Mello. “AAA Survey: American Drivers Don’t Trust Car Repair Shops.” Bankrate. December 7, 2016. <https://www.bankrate.com/financing/cars/americans-dont-trust-car-mechanics/#:~:text=Twenty%20percent%20of%20boomers%20surveyed,56%20percent%20of%20Gen%2DXers>.

The Three Pillars of a Great Service Experience

Today's customers expect much more than just friendly service—they demand convenience, transparency, trust, and effective communication. Implementing these three pillars of a great service experience is one of the best ways for you to increase vehicle owner satisfaction and create more revenue in your service department.



Convenience

Regardless of industry, convenience has always been at the heart of great customer experiences. In today's busy world, respecting a customer's time is one of the easiest ways to earn their satisfaction. In fact, because of the service experiences that customers are having in other industries, it's an absolute necessity. The convenience offered by mainstream retailers has shaped customer demand for quick, easy, and painless processes. In other words, vehicle owners have high expectations for the service experience because those expectations are being met and exceeded in other areas of their lives.



Transparency & Trust

The second pillar of a great customer experience—trust—can be more difficult for your service department to achieve. In order to build more trust, you'll have to overcome commonly held perceptions about the vehicle maintenance and repair industry. According to AAA, two out of three U.S. drivers do not trust auto repair shops.¹⁰

Commonly cited reasons for mistrust won't come as a surprise. Many customers feel repair shops recommend unnecessary services or overcharge for services. While there are many reasons vehicle owners don't trust service providers, a lack of transparency is a major factor. But trust is a major driver of customer satisfaction, making it absolutely essential for dealerships to increase transparency and regain the faith of their customers.



Effective Communication

Every good relationship requires effective communication and your dealership's relationships with its customers are no different. Vehicle owners expect you to keep them informed about needed repairs, estimated costs, and repair timelines. They also expect you to communicate with them in convenient ways and through their favorite channels.

¹⁰Tara Baukus Mello. "AAA Survey: American Drivers Don't Trust Car Repair Shops." Bankrate. December 7, 2016. <https://www.bankrate.com/financing/cars/americans-dont-trust-car-mechanics/#:~:text=Twenty%20percent%20of%20boomers%20surveyed,56%20percent%20of%20Gen%2DXers.>

Best Practices for Improving Customer Experience

A recent industry-wide study showed that top-performing dealerships tend to make customer service a high priority. A surprising 75 percent of top performers identify evolving customer experience as a big part of their strategy, compared to only 52 percent among average-performing dealerships.¹³ The best dealerships consistently apply the three pillars of a great service experience and follow many of the same practices. These dealers also adopt many of the same tools and technologies, which are an increasingly important part of the ideal service experience. Accustomed to the top-notch digital experiences facilitated by other vendors in other industries, vehicle owners expect that dealerships will utilize technology to deliver on their expectations.

New processes and technologies, specifically developed to improve customer experience, have a huge impact on dealership service business. When it comes to improving customer experience, several specific technologies and practices—service pickup and delivery, texting, picture- and video-based communications, and online payment options—are especially impactful.

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¹¹ "How to Thrive: Best Practices For an Accelerated Digital Landscape." Cox Automotive. April 2021.

Increase Convenience with Service Pickup and Delivery

It's all too common to feel busy, overbooked, and out of time. That's why 89 percent of consumers surveyed found service pickup and delivery appealing.¹² Customers want the option to schedule automated, efficient concierge service right through your online scheduler. Elizabeth Dwyer, customer service division marketing manager for Ford Motor Company, recently explained the appeal of service pickup and delivery to Fixed Ops Journal. "Outside of the automotive space, people are finding different ways to live their lives, whether they are getting their groceries delivered or they're getting more meals delivered to their homes. And to have these types of [concierge pickup and delivery] services available, whether it's to work or to home, is going to be a differentiator to...dealers."¹³

Dealerships that already offer service pickup and delivery have found that it's an effective tool for improving the service experience and increasing customer satisfaction—86 percent of customers report being satisfied with their experience. Importantly, that satisfaction translates into competitive advantage and additional revenue for dealerships. In fact, a recent study found that 65 percent of top-performing dealerships offer service pickup and delivery, while only 49 percent of average or below-average dealerships offer the service.¹⁴

Customers reward dealerships for offering pickup and delivery services with more of their dollars. A full 82 percent of consumers who have used pickup and delivery are likely to choose one dealership over another based on the availability of the service.¹⁵ And, 51 percent of vehicle owners that used pickup and delivery had more services completed and spent \$275 more per repair order.¹⁶ Lee Harkins, CEO of M5 Management Services, a service department consultancy and training company, explains that owners who use pickup and delivery are also more likely to say yes to service recommendations and adds that "it's a great tool for customer retention. ... Once that customer has their car picked up and delivered back to them, they will love it."¹⁷

65%

of top-performing dealerships offer service pickup and delivery.¹⁴

¹² "Future of Consumer Experience." Cox Automotive.

¹³ Richard Truett. "A New Era: COVID-19 Moves Pickup and Delivery into Mainstream Brands." Automotive News Fixed Ops Journal. June 2020.

¹⁴ "How to Thrive: Best Practices for an Accelerated Digital Landscape." Cox Automotive.

¹⁵ "COVID-19 Consumer Impact Study." Cox Automotive. 2020.

¹⁶ Cox Automotive Data.

¹⁷ Rick Popely. "It Pays to Commit to Vehicle Pickup and Delivery." Automotive News Fixed Ops Journal. October 18, 2020. <https://www.autonews.com/fixed-ops-journal/it-pays-commit-vehicle-pickup-and-delivery>.

Improve Transparency and Trust with Picture- and Video-Based Communication

Vehicle owners commonly complain that the service experience lacks transparency and they find it difficult to trust the recommendations of service advisors and technicians. Since most service customers can't see or understand the problems, they often decline additional service recommendations and walk away feeling like the dealership was trying to upsell and take advantage of them.

Advances in technology have presented an innovative solution to this age-old problem. Picture- and video-based communications introduce unparalleled levels of transparency into dealer-customer communications, allowing advisors to show a problem and educate customers on why a recommended repair is needed. Customers love the experience of receiving photo- and video-enhanced communications from the service department, and when they're given the information they need through their preferred communication channels like text, they make decisions more easily. David Blackburn, service director at Scott Clark Toyota and Scott Clark Nissan, describes the benefits this way: "Customers can see and authorize repairs on their smart phones and tablets without ever coming to the dealership. Everything is better for customers when they don't have to spend time in a waiting room."¹⁸

Because visual communications improve the likelihood of a service recommendation being approved, they also help dealers maximize the revenue from each service interaction. Close rates improve with the use of multimedia from 25 percent with no picture or video to 31 percent with photo and 51 percent with video.¹⁹ And, 54 percent of consumers are willing to pay more for service when pictures or video are offered.²⁰ Data

from Cox Automotive customers has shown that the simple practice of using multi-media, especially video, in communications resulted in a 24 percent increase in ASR conversion rate and a 70 percent increase in the average dollars per repair order.²¹

Recognizing the financial benefits of media-enhanced communication, dealerships are converting en-masse. According to Cox Automotive, the number of dealers using multi-media almost doubled between the third quarter of 2020 and the first quarter of 2021. In just the few months between the fourth quarter of 2020 and the first quarter of 2021, the volume of repair orders being processed with multi-media also increased by 39 percent. Given the increased demand from customers for more transparent communications, those trends are likely to continue well into the future.

54%

of consumers are willing to pay more for service when pictures or video are offered.²⁰

¹⁸ Ken Wysocky. "A Time to Refocus." Automotive News Fixed Ops Journal. August 16, 2020. <https://www.autonews.com/fixed-ops-journal>.

¹⁹ Xtime Data. December 2020.

²⁰ Cox Automotive Consumer Community Data. 2018.

²¹ Cox Automotive Data. 2021.

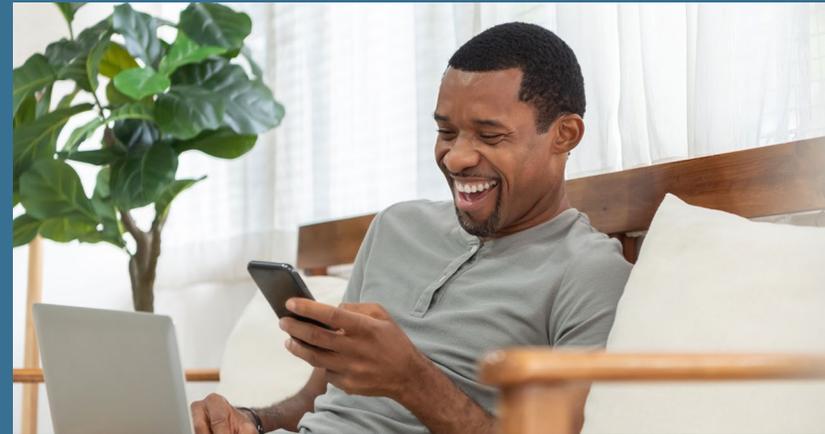
Improve Communication with Texting and Digital Correspondence

Communication can make or break a customer's experience with a dealership service department. Nearly every business in the world understands the importance of polite, honest, and informative communication. To really increase satisfaction, however, dealerships need to go beyond effective communication and timely updates to start reaching customers through their preferred channels.

Today, for many customers, that preferred channel is text messaging. A full 89 percent of consumers want to use text messaging to communicate with businesses²² and 78 percent of U.S. consumers say receiving a text message is the fastest way to reach them for important service updates and purchases.²³

Text messages enable your dealership to communicate status updates with service customers from anywhere and in real time. By leveraging customers' preferred method of communication, service advisors build trust and increase retention. As one NADA Academy instructor explained, today's consumers are "looking at their phones; they want to do more of the process online."

Text messaging is also good for your dealership's efficiency and profitability. Currently, service employees are wasting time returning to their desks to respond to messages, logging into multiple systems, and playing phone tag with customers. An effective service technology solution gives you an integrated platform for communicating real-time status updates with service customers. As a quick method of communication, text messaging can solve these problems and streamline communications between your service advisors and customers.



89%

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²² "Sophie Asher. "How Consumers Use Messaging Today." Twilio. Accessed May, 2021. <https://www.twilio.com/learn/commerce-communications/how-consumers-use-messaging>.

²³ "Transactional Messaging Consumer Report." Vibes. 2016.

Increase Convenience with Flexible, Online Payment Options

To really improve customer perceptions, the service experience must be great from start to finish, which means that even the process of making a payment has to be painless. Given the convenience of making payments in other shopping scenarios, your dealership needs to offer customers the option to pay in-lane and online.

Fortunately, today's technologies make it easier than ever for customers to pay for service through multiple channels and at multiple points in the process. In fact, service advisors can now accept credit cards from their tablets or desktops so your customers can truly pay at their convenience. Dealerships are starting to catch on to the benefits of digital payments for their businesses. In fact, according to Cox Automotive, the number of dealers offering digital payment has increased by 308% from 2019 to 2020.²⁶

And while customer convenience is the primary goal, the benefits of online payment go beyond giving customers more choice. Your dealership can now email and text payment requests or receipts, ensure payment security, and get customers in and out faster. Quick, efficient payments streamline the vehicle pickup process and eliminate bottlenecks that can hurt customer satisfaction.

²⁶ "Cox Automotive Data, 2020.

²⁷ "63% of Americans Can't Afford \$500 Car Repair or \$1,000 Emergency Room Visit." Bankrate. January 6, 2016. <https://www.prnewswire.com/news-releases/63-of-americans-cant-afford-500-car-repair-or-1000-emergency-room-visit-300200097.html>.

²⁸ "76% Of Consumers Are More Likely to Make a Purchase If a Simple and Seamless Payment Plan is Offered." Citizens Point of Sale. November 8, 2018. <https://www.businesswire.com/news/home/20181108005056/en/>.

Of course, convenience isn't the only pain point for your customers when it comes to paying for service, maintenance, and repairs. With 63 percent of consumers unable to pay for a \$500 auto repair, total cost is another factor severely impacting customer satisfaction.²⁷ To improve experience, your dealership may want to offer service financing options. And because shuffling between platforms hurts advisor efficiency and makes for a sub-optimal customer experience, financing options should be offered at multiple, fully-integrated touchpoints to customers who are unsure about paying out of pocket for a service expense.

Service financing is also good for business. Three out of four consumers have said they are more likely to make a purchase if a simple and seamless payment plan is offered.²⁸ That means that customers are more likely to approve additional service recommendations if they know they don't have to pay out of pocket at the point of sale.



Improve the Service Experience to Increase Revenue

With slim margins and declining sales volumes, dealerships can no longer rely on the traditional industry model to make a profit. As a result, many dealers are shifting their approach to place more emphasis on fixed operations as a primary revenue driver. To optimize this approach and capture additional profit, even in times of declining service visits, you need to maximize the impact of every visit by doing more with less. To succeed, you'll need to improve the service experience for vehicle owners. That can be achieved by offering customers convenience, transparency, and effective communication. By implementing these three pillars and offering industry-leading technologies, you increase your chances of navigating industry changes while keeping your businesses healthy.

About Xtime

Xtime is an end-to-end software service solution that drives customer loyalty and revenue for automotive dealers in each stage of the service process. We do this by providing easy-to-use technology and industry experts that help dealers meet changing customer expectations. We are a committed dealership partner aiding your delivery of the ultimate service experience.

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