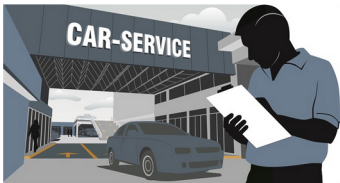


The Million-Dollar Plan

FIXED-OPS EXPERT SAYS DEALERS WHO AREN'T SELLING PREPAID MAINTENANCE PLANS IN SERVICE ARE LEAVING MILLIONS OF DOLLARS ON THE SERVICE DRIVE FLOOR EACH YEAR.

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By Michael Gorun



Who wouldn't like to generate an additional million dollars or more this year in service drive revenue while increasing owner-base service affinity threefold? Well, sometimes, the simplest and most effective revenue-generating programs are the ones that have been overlooked, quite possibly for years.

Recent research suggests that almost 65% of dealers are ignoring the opportunity to offer dealer-branded prepaid maintenance (PPM) plans to current customers that visit their service lanes. While many offer OEM-branded plans in the F&I department, the service lane is generally overlooked — not only as a selling opportunity, but as a chance to reengage hundreds of customers for a guaranteed period of time.

Dealers are, in fact, losing two-thirds of their possible customer service affinity as well as potential missed revenue measured in millions of dollars. That's right, millions of dollars left on the service drive floor. Let's break it down.

Selling PPMs in Service

There is no argument that PPMs significantly raise dealer service retention. It is, in fact, documented that many dealers experience a retention rate of more than 80% among those customers who purchase a PPM. So why are so many dealers' service retention numbers so much lower than that — anywhere from 30% to even 60% in rare cases? That's a huge loss in retention and potential profit.

In my 35 years in the automotive business, dealers have shared many different rationalizations as to why they choose to overlook the potential of selling PPMs in service. While many of the reasons are beyond sensible business logic, such as "I can't handle anymore service business" or "My advisors are too busy to sell anything else," they all overlook the fact that, as a dealer, they likely see more customers in the service department in two months than they sell new vehicles in an entire year. Yet only about 35% of franchised dealers offer service drive PPMs today.

Before we get to the million dollars being missed, let's dissect a simple \$299 four-visit PPM plan:

- *Profit from sale of plan: \$45*
- *Average retail RO amount per visit (from NADA 2015 data): \$265*
- *Gross profit as a percentage of sales (from NADA 2015 data): 45.8%*
- *Profit per service visit (45.8% x 265): \$121.37 x 4 visits = \$485.48*
- *Forfeiture recognized at 80% retention: \$50.80*
- *Total average profit per plan sold: \$581.28*

When compared to grosses for F&I products such as etch, tire-and-wheel or GAP, \$581.28 is not an unreasonable gross for a plan that encourages long-term customer retention. That's because a PPM plan is not a one-and-done product. Speaking of one and done, many PPM plan buyers purchase an additional plan when their initial one expires. How many times does that happen with a product like GAP?

Defection Reducer

There are numerous other benefits to a dealer-administered PPM program. For one, they generate captive service revenue. See, unlike OEM-branded maintenance plans, buyers of dealer-branded PPMs can only redeem their benefits from the dealership where it was purchased. In other words, it can't be used at like-brand competitors.

This feature also prevents customers from defecting to any national or independent repair facility. Additionally, all the plan elements are chosen by the dealership, not an OEM or third-party administrator. This allows the dealer to tailor the plan to suit his or her market. And unlike OEM plans, dealer-administered plans aren't limited to new vehicles; they can be sold on pre-owned vehicles, including high-mileage vehicles.

And when that PPM buyer returns to the dealership, they're really no different than the typical service-drive customer in terms of average retail repair order amount, service upsell, and gross profit. The only difference is the PPM keeps plan buyers connected to your dealership's service department.

For the consumer, a prepaid maintenance plan groups a number of low-cost, high-value services into a discounted package. For example, offering customers first-time dent-and-ding removal is a high-value benefit that doesn't cost the dealership much, especially with all the reconditioning that goes on in the pre-owned department. And holding an acceptable gross on the sale of these packages is not difficult if it includes the correct elements.

Building the Right Plan

So what services should a typical PPM plan include? Well, a multipoint inspection is a must, as it typically lines up the upsell. The plan should also include lube, oil and filter changes, as well as tire rotation and pressure check, which is where brakes and struts are upsold. An alignment check is also a must.

The plan could also include wiper-blade replacement; fluid top-offs; nitrogen fill for the tires; dent-and-ding; cleaning and detailing (one of the most redeemed elements); discounts on parts, service and accessories (small percentage discounts help sell expensive factory-recommended maintenance); system flushes; air and cabin filter replacement; and snow tire change and storage (this is very popular in the Northeast).

The dealership's service director chooses which elements he or she wants to offer and how much to charge. It's all under the dealership's control and makes service department buy-in much easier when the director builds and prices the plans themselves.

The Service Menu

It really is simple, but it takes a good eye on both new- and used-vehicle buyers in your service drive. Just like any other service lane upsell, it should be positioned as an additional customer advantage on top of what the dealership is already doing. It should also be included on all service product menus.

By including it on your service menu, the program serves as a tool for your advisor to sell other services by utilizing any discount the plan may offer on a service the customer is contemplating.

Now let's talk dollars and a lot of common sense. How do I get to that million-dollar revenue figure? Here's a breakdown:

- Average number of monthly repair orders written (from NADA 2015 data): 1,493
- Service lane sales penetration (from NADA 2015 data): 10%
- Plan sales per month: 150, or 1,800 plans annually
- Plan sales revenue per month: $150 \times \$299 = \$44,850$, or $\$538,200$ annually
- Service visits generated by plan holders at 80% retention: $1,800 \times 4 \text{ visits} = 7,200$ service visits
- Service revenue generated at $\$265$ per visit: $7,200 \times \$265 = \$1,980,000$
- Profit on service revenue at 45.8% (from NADA 2015 data): $\$873,864$

It is easy to see how the numbers quickly add up. Keep in mind these amounts are all based on NADA published averages. And based on what I've presented, it's difficult to understand why a dealership would continue to overlook such a great revenue opportunity, especially one that requires no capital investment. Bottom line, every dealership service department should be selling PPMs.

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