21 Retail Concept... Retailing Fit for the 21st Century?

A Discussion Document

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Profit By Action

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ODS is an Auto Industry company that provides the Manufacturer and Dealer alike with impartial 'Subject Matter Expertise'. Expertise that is on call whenever and wherever it is required, a resource that is as tangible as any in house department, but bringing to the table a global perspective of Best Practice and methodology.

1 Background

In the last 75 years changes in retailing have revolutionized the way we shop and transformed the profitability of many of the sectors. However if Henry Ford came back today and visited a typical Dealership of today he would immediately recognize the processes, practices and organizational structures in that Dealership as they have largely remained unchanged in those 75 years even with the advent of the computer.

Despite heavy investment in facilities, people and systems, automotive retailing fails to deliver the level of financial return that other sectors of retailing enjoy and this is just as true in Ontario, Michigan or Florida as it is in every other Canadian or US state or province.

In Canada and the US even the best performing car retailers rarely exceed 2.5% ROS, yet in other sectors typical good performing retailers average in excess of 8%. This makes automotive retailing especially vulnerable to changes in the economic environment as is being seen in the current recessionary market place.

In many towns and cities simple new car retailing is becoming no longer viable.

The lack of profitability is affecting the recruitment and retention of good quality staff and with the high value of prime real estate in many cities it is becoming difficult to justify, create or maintain a viable automotive retailing business.

Whilst a problem for the individual Dealer, this is also a serious concern for manufacturers who are increasingly forced into retail site ownership in key locations, heavy subsidies or the compromise of multi-franchised sites with competing brands.

It is often argued that automotive retailing is different because of the high cost products, trade-ins and manufacturing volume pressures, but this misses the fundamental issues which we believe are at the heart of the problem.

2 The Issue

On average less than 50% of new car buyers return a second time to the same retailer. With ‘Tier #1’ brands in all markets in the Americas, Europe and parts of Asia forecasting no short term growth and only limited medium term growth, this raises the costs for retailers and manufacturers alike in this important act of attracting new buyers.

When it comes to customers returning with their vehicles for paid servicing, currently less than 50% of new car buyers return to any dealer let alone the supplying Dealer to have the servicing work carried out. For Pre-Owned cars it’s even worse with on average less than 20% returning to the same Dealer for servicing. Not only is this potential revenue failing to be captured, but this lack of maintenance loyalty is putting further pressure on overall Dealership profitability and long term loyalty expectations.

Service retention linked to repeat cars sales rates.

Converting new prospects into customers is increasingly under pressure, in part due to greater information and competitor alternatives being available to buyers from the internet and other sources. On average less than 20% of prospects who are new to the retailer are converted into customers for New or Pre-Owned cars at that retailer. In addition, when we add this to a situation where less than 50% of existing customers actually return again, this makes the business operational model even worse.

It is no coincidence that the rate of scheduled maintenance retention is directly related to repeat car purchase rates. In a typical vehicle retailer no one person is specifically remunerated for retaining service customers therefore nobody should be surprised when this appalling lack of service retention depresses profits other departmental areas.

The traditional process of separate customer relationships for Sales and AfterSales breaks the relationship at crucial points of the process. The customer builds a relationship during the sales process which is then broken when passed to a Service Advisor. Then after 2 or 3 years when we should be in a position to capitalize on our relationship and supply the replacement car we break it again when we pass the customer back to a Sales Person.

Sales people tend to be one of two personality types: a) ‘Hunters’, who are good at creating immediate relationships and therefore good at prospecting/closing new business, but they tend to be weak at paperwork and follow-up. Type b) ‘Farmers’, who are not as good at creating immediate relationships with people they have newly met, but are good at sustaining relationships with people they already know. Whilst type 2’s are weak at prospecting/closing new business they are good at paperwork and follow-up.

Who is best placed to maximize customer retention and profit?

We have all heard the axiom "Sales sells the first car and Service the next", but the current Dealership organization structures work against this 'Truth'. Most dealers have no formal incentive for Service Advisors and Sales People to work together; often they even work off separate data bases. There is no framework for each 'silo' to cooperate.

Customers… Convert more… Retain more… help them spend more!

21 Retail represents a new structure for a retail environment that is built upon three simple principles:

- Don't expect 'Hunters' to be good at farming and in turn don't expect 'Farmers' to make good hunters.
- Don't break customer relationships; Sustain them.
- Don't let yesterday's technologies and organizational structures dictate today's practices and processes.

For the 'Best' quality customer interactions we need to reorganize and restructure the current customer management structure in the Dealership with:

- A dedicated team responsible and remunerated on the acquisition and conversion of new customers for the Dealership.
- A dedicated team responsible and remunerated for retaining existing customers for their entire purchasing life with a single and seamless Sales and Service relationship

What we don't need is to add headcount simply to speak to customers, but not do business with them – "People buy from People".

Same headcount, same costs… More profitability.

The agreement with a store is simple, with 21 Retail there will be;

- No increase in overall headcount
- No increase in staff compensation percentages of GP
- They will see an improvement of initial prospect conversion rates
- They will experience a significant increase in Service retention
- They will experience higher staff moral
- They will see higher customer retention rates.

Initial results exceed expectations.

A dramatic increase in both New and Pre-Owned sales conversion rates has been seen from prospects appointments from those who had no previous experience with the store. For example in one test store, prior to the change of system, the average conversion rate of new prospects was 23%, which improved to 34% for both New and Pre-Owned within 6 months.

More existing customers retained; revenue and profit expanded.

Although after working with our trial Dealerships for less than 6 months and only 20% of existing customers having gone through the change cycle, there is a clear and significant increase in RGP because of the more focused customer relationship.

There is evidence of shortened ownership cycles, but it is too early to draw definite conclusions from this. Overall the signs point to a significant increase in customer loyalty with forecast repeat purchase rates of 65% for New cars and an amazing 45% for Pre-Owned.

One store ran out of service capacity and had to start 4 shift working!

Whilst we always predicted that working a 21 Retail structure would result in increased service retention, we were not ready for just how dramatic and immediate that increase would be. *(For 21 Retail we define a retained customer as one who has spent over $100 in the service department within the last 12 months).* This was especially significant amongst Pre-Owned customers whose service retention had been less than 20%. After 6 months this number alone had risen to 49%.

The service retention level increases were so dramatic that it did present some workshop capacity challenges. The typical service volume increases are usually in the order of 32%. One test Dealer had to introduce a 4 shift working pattern to provide the 50% more capacity that 21 Retail generated.

3 Next Steps

21 Retail is not a set of trainings or an intellectual hypothesis. 21 Retail is a way of structuring and organizing a professional automobile retailing and maintenance facility for the 21st Century. A retailing business that will deliver sustainable profitability because of what it does not as it is with the current structure, where what it does limits its potential and puts its own future in doubt.

This paper is simply a discussion document that hopes to intrigue the reader into wanting to know more. If that's the case then please contact us and we will be pleased to arrange a ‘webinar’ at your convenience at which time we will give you a complete presentation with facts figures and all the logic models plus of course an opportunity to ask all the questions we hope this document has prompted.

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