

DRIVING REVENUE.

How Dealerships Can Maximize
Profits Outside Of Vehicle Sales.

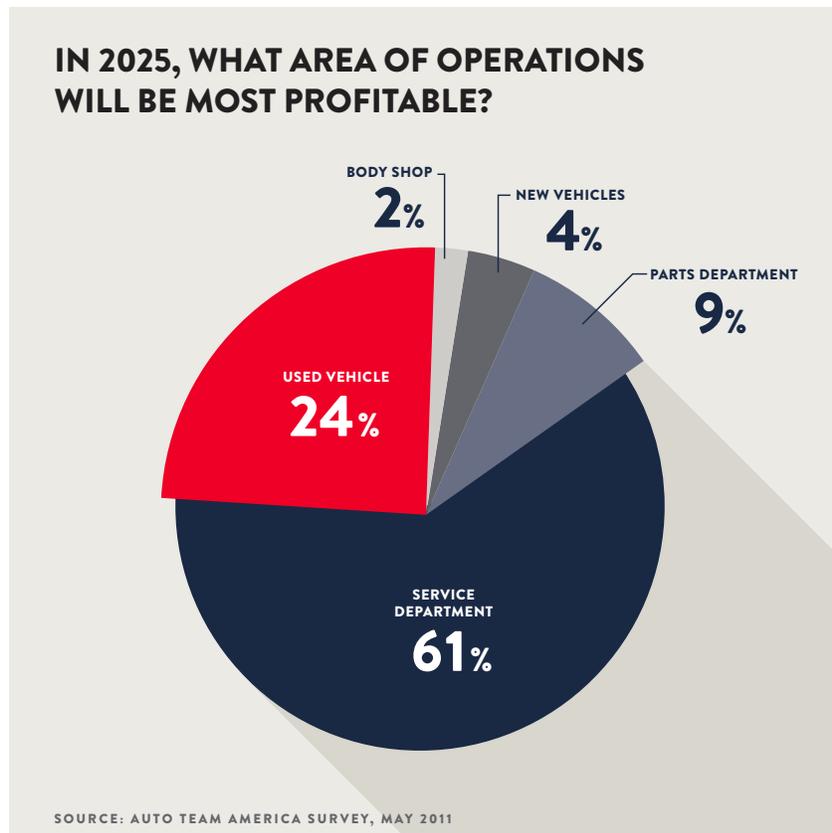




etting customers in the door of your dealership isn't as easy as it used to be, when customer loyalty was a driving force behind sales. Today's buyers are not motivated by loyalty; rather they're "driven by tangible factors such as price and convenience."¹ In this age of the Internet, dealerships are struggling more than ever to compete for each sale. Today's buyers have a broad range of resources at their fingertips, allowing them to be much more informed when it comes to market pricing, availability, options, and thus, much more determined to shop around for the best deal.

With this shift in the industry, successful dealerships have to change the way they think about their revenue streams and focus on opportunities that lie beyond the initial sale.

When asked, "In 2025, what area of operations will be the most profitable?" seventy-two percent of Auto Team America survey respondents claimed that the service, repairs, and parts department will take the lead.²



1. Auto Dealer Monthly. <http://www.autodealermonthly.com/channel/dps-office/article/story/2013/03/ppm-driving-retention-profits.aspx>
2. Auto Team America. http://www.eisneramper.com/uploadedFiles/Resource_Center/Articles/Articles/Automotive-Dealership-Survey-2012-covered.pdf

To stay competitive and generate more revenue without adding incremental sales costs, modern dealerships are examining all of the possible revenue channels available to them and they're all coming to the same conclusion: The data clearly shows that the service department is the most reliable opportunity for growing dealership profits. And to maximize profits, dealerships should focus on getting customers coming to the service department through the use of vehicle service contracts.

ABOUT VEHICLE SERVICE CONTRACTS

A vehicle service contract (VSC), also called an extended service contract, is a contractual agreement between a third party administrator and the consumer. It promotes that the vehicle is serviced and maintained on a regular basis by the service department at the dealership.

In other words, a VSC **increases the likelihood that a customer will return to your dealership** for maintenance services and repairs. The revenue that can be generated by a VSC has the potential to take your dealership's profits to the next level. In this report, we will show you exactly how to **maximize your VSC sales**, so that your dealership can stay competitive and generate more revenue.

OVERCOMING VSC SALES CHALLENGES

Yes, there are numerous benefits to offering vehicle service contracts. However, for a lot of F&I managers, it can be challenging to overcome customers' existing (often negative) perceptions, making a VSC a hard sell. By identifying these challenges and preconceptions, we can better understand customers and how to reach them.

VSC SALES CHALLENGES:

CHALLENGE #1

Consumers often think that automotive repairs and services are more expensive at dealerships than at independent facilities, like the "mom and pop" repair shop down the road.

CHALLENGE #2

Over the years, consumer advocates have perpetuated the misconception that vehicle service contracts are a scam.

CHALLENGE #3

Customers would like to purchase a VSC, but believe they cannot afford it.

To overcome these challenges, dealerships must first be able to clearly articulate the value and integrity of a manufacturer-authorized VSC, and then provide an easy and affordable means of paying for that plan, making it an easy decision for most vehicle owners.

Fortunately, teaching sales teams how to overcome the misconceptions about the value of VSCs can be as easy as sharing talking points that they can use to make the case with customers. There are also proven solutions available to help customers overcome the challenge of affording a VSC. One simple solution that's becoming a very popular tool for helping customers afford VSCs is the installment payment plan.

WHAT IS AN INSTALLMENT PAYMENT PLAN?

An installment payment plan (IPP) is a **fast, easy and flexible solution** that can help F&I managers, dealership owners and sales managers sell more vehicle service contracts.

WHO SHOULD DEALERSHIPS TARGET FOR IPPs?

Almost anyone who comes through your dealership can purchase a VSC, but not everyone is suitable for an IPP. Approximately 90 percent of new or used vehicle buyers who purchase VSCs have the cost automatically rolled into their financing at the time of sale; however 10 percent of customers don't have that option. IPPs allow the following types of buyers, who fall into that 10 percent, to finance a VSC at the time of purchase:

- Customers who are financing the vehicle on their own
- Buyers who have maxed out or capped the financing available to them
- Cash buyers

Post-sale, virtually any customer who didn't buy a VSC at the time of vehicle purchase is a good target for VSC financing through IPPs, even if they didn't purchase the vehicle at your dealership.

Sometimes, customers are interested in signing on the dotted line for a VSC, but just can't foot the bill upfront. An installment payment plan provides a number of financing terms and billing payment options to make a VSC more affordable and ultimately more attractive to customers. In the end, by offering IPPs as a way for your customers to finance a VSC, your dealership will sell more VSCs and ultimately **rev up your profits**.

3. Harvard Business Review - <http://hbswk.hbs.edu/archive/1590.html>

4. Google - http://experiencegoogle3d.com/presentations/The_Road_to_Winning_Drivers_Kate_Balingit.pdf

WHY OFFER IPPs? BENEFITS FOR DEALERSHIPS

Offering installment payment plans to customers in order to finance a vehicle service contract is a smart sales tactic for a number of reasons. Not only do these plans make VSCs more affordable for customers, but they also **keep customers coming back to your dealership and secure an additional source of revenue outside of vehicle sales**.

CUSTOMER RETENTION

Customer retention is critical in order for dealerships to remain profitable. According to the Harvard Business Review, by increasing customer retention rates by five percent, dealerships can potentially boost profits by 25–95 percent.³ It's especially important to get customers in the door for preventative maintenance, like oil changes, as 73 percent of drivers say they will return to a service center in the future for larger repairs.⁴

VSCs Help Dealerships Build Strong Relationships

It's not a surprise that building relationships with customers increases the likelihood of repeat business and thus, future sales potential. The ultimate solution to overcoming common sales challenges is all about providing **high quality service!**

With a VSC, you get customers coming back to the dealership, which allows long-term relationships to flourish and makes your customers happy. Without offering VSCs, your dealership could potentially miss out on this critical relationship-building (and revenue-building) opportunity.

ACCORDING TO A STUDY CONDUCTED BY GOOGLE,
81% OF DRIVERS BELIEVE THAT GREAT SERVICE IS MORE IMPORTANT THAN THE COST OF REPAIRS OR MAINTENANCE SERVICES.⁴



VSCs Extend Warranty Work

A VSC also secures business from customers who return to the dealership during and after the period in which a vehicle is covered under warranty.

Without a VSC, the customer retention numbers don't look so great: According to DMEautomotive, only 45 percent of consumers claim that they're likely to return to the dealership for services within the first two years of vehicle ownership, when the warranty relationship is strong. As the vehicle reaches three to six years of age, that percentage drops to 31 and after seven or more years of ownership, only 13 percent of customers return to the dealership for core services.⁵

YEARS OF VEHICLE OWNERSHIP	PERCENTAGE OF CONSUMERS WHO RETURN TO THE DEALERSHIP FOR CORE SERVICES
0-2	45%
3-6	31%
7+	13%

By offering installment payment plans to finance VSCs, dealerships can increase the number of customers who come back early-on and keep customers returning for services long after the warranty has expired.

FIXED OPERATIONS PROFITABILITY

In addition to keeping your customers coming back for more, vehicle service contracts can also help dealerships boost revenue by expanding the highly profitable service department.

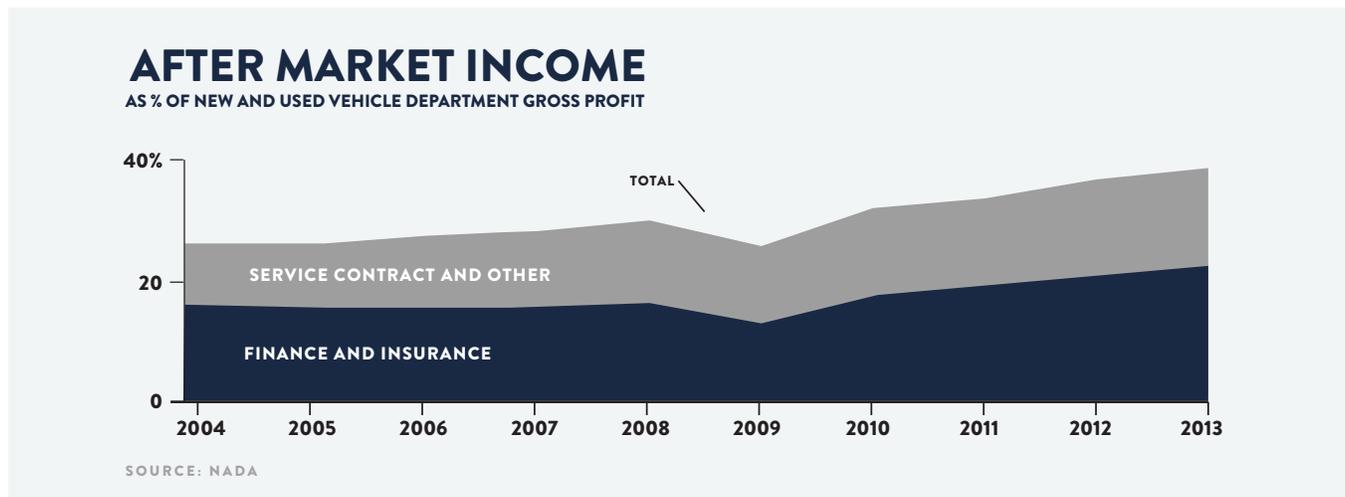
According to Wards Auto, vehicle servicing is a \$215 billion per year industry, and it's expected to continue to grow to \$247 billion by 2017.⁶

VSCs Help Dealerships Maximize Profits

In 2013, sales from VSCs and other products accounted for 16 percent of gross profits for dealerships (new and used departments), and the sales are on the rise. When combined with sales from F&I, aftermarket income accounts for a total of 39 percent of gross profit.⁷ VSCs make your dealership's services more affordable, and ultimately more attractive. And an IPP is the tool that can help you maximize your VSC sales.

VSC Sales Potential Looks Promising

In 2015, new car sales are forecasted to reach 16.94 million, up from 16.4 million in 2014.⁸ This continued growth in vehicle sales presents an abundance of opportunities to get customers signed up with a VSC. By capitalizing on the additional service business that is brought in by vehicle service contracts, dealerships can increase profits and stay competitive.



5. DMEautomotive - <http://www.directaccess.nl/media/14307/Changing-Service-Loyalty-Landscape.pdf>

6. Wards Auto - <http://wardsauto.com/dealers/dealership-service-department-marketing-sputters>

7. NADA Data - http://www.nada.org/NR/rdonlyres/DF6547D8-C037-4D2E-BD77-A730EBC830EB/0/NADA_Data_2014_05282014.pdf

8. FI Magazine - <http://fi-magazine.epubxp.com/i/52998-jan-2012/31>

ADVANTAGES FOR CUSTOMERS

Despite the sales challenges, consumers definitely benefit from a vehicle service contract. Whether a customer is best suited for an IPP at the time of vehicle sale, or post-sale, you can use these selling points to help customers overcome the negative preconceptions they may already hold about VSCs:



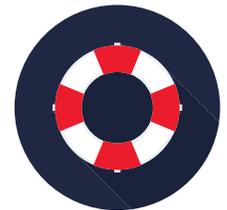
PEACE OF MIND

Car troubles are unpredictable, but with a vehicle service contract, customers are able to eliminate out-of-pocket surprises, which can cause stress and financial troubles. **With an IPP, customers have the ability to finance the VSC over time, so they don't have to stress about any large, up-front cost.**



RELIABILITY ON A BUDGET

Costs to repair vehicles are on the rise. In 2013, car repair costs in the United States rose 6.7 percent, parts prices jumped 3 percent, and average labor costs increased by 13 percent from 2012.⁹ And according to AAA, one in four Americans is unable to afford a major car repair.¹⁰ Think of a VSC as an **investment in a customer's financial stability** — and an IPP allows for them to handle unexpected vehicle costs on an affordable plan.



LONGER LIFESPAN AND BETTER PERFORMANCE OF THE VEHICLE

When customers go back to the dealership for vehicle service and repairs, they can be sure that they are getting high quality OEM parts installed by factory-certified technicians. This higher quality service can **extend the life of the vehicle and improve vehicle performance.**



TRANSFERABLE

A VSC is transferable, so if the length of the contract extends beyond the time that you own the car, it will transfer over to the new owner. This can potentially **enhance resale value** when it comes time to purchase a new vehicle.

9. CarMD - <http://corp.carmd.com/2014-vehicle-health-index.htm?subId=236>

10. AAA - <http://newsroom.aaa.com/2011/08/1-in-4-cant-pay-for-major-car-repair/>

HOW TO JUMPSTART YOUR VSC SALES

VSC sales may be easier to come by at various touch points during the lifecycle of a customer. Here's a look at the top five opportunities in which customers may be more likely to consider purchasing a vehicle service contract:

1

INITIAL PURCHASE OF THE VEHICLE

The best time to get customers signed up for a VSC is right before they walk out the door with the keys to their new vehicle. If a customer is independently financing their vehicle, capped on their financing, or paying in cash, don't miss the opportunity to sell them a VSC with an installment payment plan. According to Marvin Grimm, Autobytel National Sales Director for RPM, "Every customer who jumps from a dealership service department to an independent results in a loss of over \$335,000 in revenue over that customer's lifetime in what they would spend maintaining their vehicle, repairing it and subsequent purchases of additional vehicles."

2

FIRST OIL CHANGE AND ROUTINE MAINTENANCE CHECKS

One-third of drivers are uncommitted to a specific auto service provider, and even those who are committed are often willing to switch.⁴ If you weren't able to get the customer on board with a vehicle service contract at the initial purchase stage, try to catch them when they come into the dealership for their first oil change or routine maintenance checks.

3

BEFORE WARRANTIES EXPIRE

Once a warranty expires, vehicle owners are much more likely venture out to independent repair shops for their vehicle needs, so it's critical to reach customers before this point.¹¹ Eighty-six percent of vehicles on the road are not currently covered by warranty, which sets consumers up for costly repairs, should something go wrong.⁵ With a VSC, customers don't have to worry about being able to afford an unexpected repair once the warranty has run out.

4

UNEXPECTED SERVICE REPAIRS

You never know when something is going to go wrong with a car, however service spending does increase during periods of extreme temperatures, according to the Service Contract Industry Council. Consumers can expect to encounter more car trouble (and more repair costs) during the hot, humid summer months and frigid winter months.¹² A VSC can help protect vehicle owners when these unfortunate, but often unavoidable problems arise.

5

VEHICLE TRADE-IN

VSCs are transferable, so when consumers go to trade-in their vehicle for a newer model, the contract can be transferred to the new owner. At this point, a customer is in the market for a new vehicle, so it is again a great time to sign them up for a VSC.

4. Google - http://experiencegoogle3d.com/presentations/The_Road_to_Winning_Drivers_Kate_Balingit.pdf

5. DMEautomotive - <http://www.directaccess.nl/media/14307/Changing-Service-Loyalty-Landscape.pdf>

11. Cars.com - <http://dealeradvantage.cars.com/da/wp-content/uploads/2014/04/FINAL-Service-White-Paper-2.18.14.pdf>

12. Service Contract Industry Council - <http://go-scic.com/frosty-temperatures-humid-heat-lead-to-unexpected-problems-for-car-owners/>

VEHICLE SERVICE CONTRACTS: THE KEY TO UNLOCKING NEW REVENUE STREAMS

Every dealership holds the key to unlocking new revenue streams through vehicle service contracts. VSCs keep customers returning to your dealership for services, which in turn increases your profits. Installment payment plans make VSCs more affordable for suitable customers and thus, more attractive. Once your dealership gets a vehicle buyer in the door, F&I managers must take advantage of the benefits of IPPs in order to secure a VSC sale.

The success of a dealership depends not only on vehicle sales, but maybe more importantly, on the dealership's ability to adapt to the quickly changing industry. By offering IPPs to help buyers finance vehicle service contracts, dealerships can stay competitive in the market, while maximizing post-sale revenue.

To understand the real financial impact that selling more VSCs could make on your dealership, check out the online calculator at [Budco Financial](#).

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10. AAA - <http://newsroom.aaa.com/2011/08/1-in-4-cant-pay-for-major-car-repair/>
11. Cars.com - <http://dealeradvantage.cars.com/da/wp-content/uploads/2014/04/FINAL-Service-White-Paper-2.18.14.pdf>
12. Service Contract Industry Council - <http://go-scic.com/frosty-temperatures-humid-heat-lead-to-unexpected-problems-for-car-owners/>

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