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The customer experience differentiation strategy for service partners

The aftersales automotive services are essential to customers and vital in helping dealerships compensate declining profit margins. In Germany, aftersales make up 23% of a dealer's revenues but contributes 54% to profits. Similarly in the US in the first six months of 2013 aftersales made up 12% of dealership revenues but contributed 40% to gross profit.

Global aftersales growth mostly fuelled by emerging markets is estimated at 3,4% per annum (CAGR) until 2017. However, the European aftersales volume is expected to decrease between 8% and 25% by 2020. This is caused by several reasons such as car maintenance visits will decrease as servicing will be required every 30,000 km instead of every 15,000 km, reduction in the number of accidents and an increase of spare parts quality. These effects will not be outweighed by an increase in the number of car components and an increase in the average car age.

The supply of aftersales services can be broadly split up amongst following participants: OEM authorised workshops, independent workshops and do-it-yourself. The market share of OEM dealerships in Germany is 58% whilst in the US 27%. However, OEM dealers appear to be losing market share in saturated markets. For instance, in North America between 2000 and 2012 OEM authorised workshops have lost 5% market share in after sales services. Similar trends are expected in Europe.

The decrease in market share for OEMs dealerships has been caused by specialized independent repair shops who are developing cost advantages. Due

¹ Eight main European markets were analysed. The main reduction is mainly due to a decrease in services and repair. See <https://www.icdp.net/how-can-we-help-you/aftersales/aftersales-market-projections.aspx>

to the economies of scale, they can offer lower prices. Specialists include: discounters for tires, brake shops, quick oil servicing.

The aftersales market size for saturated markets is shrinking and OEM dealers are losing their share of the market.

Moreover, third parties and providers of aftersales services are starting to establish new models of cooperation. For instance the German motoring club ADAC and the German insurance company HUK Coburg are increasingly impacting their member's choice of repairers with incentives and might even plan to establish own repair networks.

Summing up, the aftersales market size for saturated markets is shrinking and OEM dealers are facing tough competition hence losing their share of the market. The once highly profitable services are now coming under attack by specialised workshops, which can offer highly competitive prices.

Service partners need to focus on customer experience throughout the aftersales journey.

Service partners, therefore, need to focus on differentiating themselves away from the low-cost providers in order to maintain market share and profit margins. One common and highly successful strategy has been in playing focus on customer experience throughout the aftersales journey. Today's customers are used to the exclusive service and luxury of the Ritz Carlton Hotels, the service and product consistency of Starbucks, the online experience and easy POS of Amazon and the tailored experience combined with product knowledge of Apple. A study carried out by McKinsey shows that 85% of consumers use physical outlets however only one in four is happy with the customer experience at the store or dealership.

It is, therefore, important to reposition dealerships to impact customers during the ownerships phase, by offering exclusive and advanced customer experience within aftersales.

At Zulla Consulting & Partners, we have devised a framework to outline the key implementation measures in order to significantly impact customer satisfaction and service experience. Our broad range of in-house tools enables us to monitor and influence each customer touchpoint across the retail journey.

The customer retail journey is a commonly used term in marketing to describe the customer's lifecycle and interactions across so called touch points with a product, service or brand. It incorporates the customer's experience from his point of view enabling the company to adapt to customer's needs. If the customer retail journey is planned out correctly and executed for each customer segment, it helps to develop a coherent experience across all customer touchpoints and increases the service experience.

Feel free to contact Daniele Zulla for a free consultation: zulla@zulla-consulting.com

This text is based on "Developing a Competitive Advantage in Automotive Retailing", 02/2015 by Marco Dassisti

Sources:

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