# Service Professionals in a Consumer world

Dennis DesRosiers

**"Grudge Purchase" at best with most aftermarket purchases**

- Repairs rarely visible … consumers don't see the end result of an oil change
- They usually cause some inconvenience …
- They can be expensive …
- Consumers usually do not understand the technology

**The ability to ameliorate the "Grudge Purchase" mentality will often determine success or failure**

- Service professionals are fundamentally dealing with consumers who do not want to buy their product / service


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# The Decision Making Process is Quite Revealing

**Follow the decision making tree:**

- First decision
- Second decision
- etc.


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# *Decision Tree for Repairs to be Done on a Vehicle*

**Does repair need to be done?**

- **Do-It-Yourself (DIY)**
- **Do-It-For-Me (DIFM)**
  - **Original Equipment Service (OES)**
  - **Traditional Aftermarket**
    - **Specialty Shops**
    - **Generalist Shops**


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## First Decision!

# Does the Vehicle Need Repair?

- Importance of oil programs
- Proper training of Service Advisors and counterman
- Importance of Reminder Programs/Loyalty Programs etc


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## Second Decision!

**Do I do the work myself**

***or...***

**Do I have someone do it for me?**


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# Understand the Consumer

**Arguments for more do-it for-me work**

- less available time for consumers
- increased technology complexity of vehicles
- aging consumer
- need for special tools and equipment
- environmental/hazardous waste issues
- higher female ownership of vehicles

**Most repairs are do-it-for-me … about 85 to 90 percent.**


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# Understand the Consumer

## Arguments for more DIY work

- lean consumers who cannot afford to have someone do their work
- increased level of retail competition lowering prices for DIY parts
- aging of the vehicle fleet
- more mechanics doing “shade tree” work
- The DIY’er may be your number one competitor and you may not even know it


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# Understand the Consumer

## What DIYer’s Look for

- Low Price is critical
- Parts Availability
- Counter Knowledge
- Convenience of purchase


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# Third Decision!

**If I have someone do the work for me, do I go back to where I bought the vehicle (ie:The dealer) or do I go somewhere else?**


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# Understand the Consumer

## What consumers look for when shopping for service

- work done right the first time
- trust/confidence
- service advisor/technician relationship
- “fair price” not necessarily “Low” price
- work done on time
- guarantees

**These are the “soft variables” which Independents specialize in and are usually really good at … their importance cannot be underestimated**

- Involves people
- feel good issues
- very intangible/hard to define


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# Understand the Consumer

## Why consumers go to a car dealer for service

- new vehicle warranties
- extended warranties
- modern equipment
- OE quality parts
- understanding technology/ability to fix
- parts availability

**These also are primarily "hard variables" and car dealers do very well with them …**


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**Dealers do well on the “Hard Variables”**
**They struggle with the “Soft Variables”**

***But***

**It is the “Soft” variables that are more important!**


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# Oil Change is Critical since the entire aftermarket flows out of the oil side of the industry …


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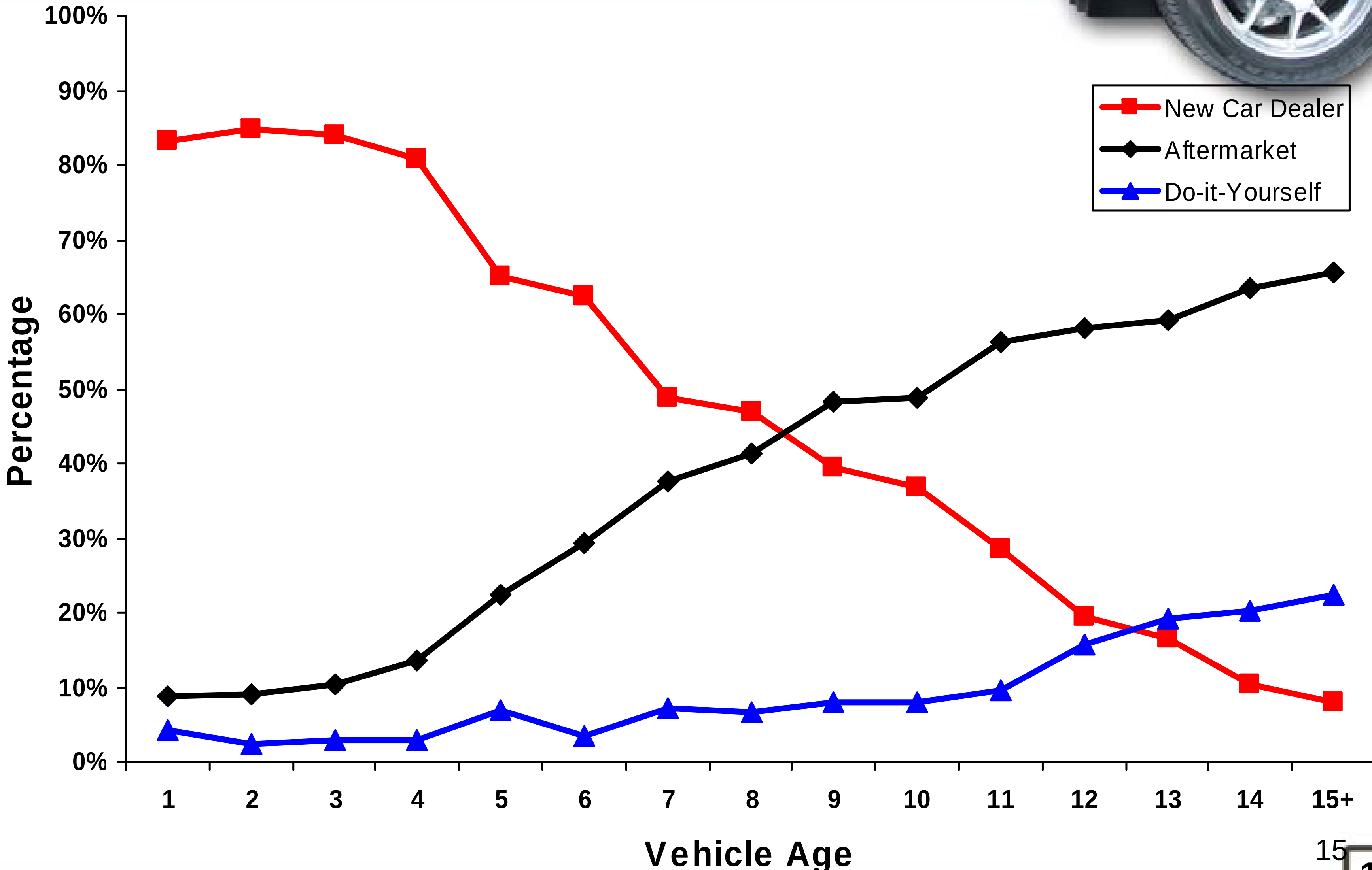
# Who Performs Maintenance & Repairs





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# Who Does other Maintenance and Repair Work?

| | Dealer | General Garage | Specialty Lube | DIY |
|---|---|---|---|---|
| Dealer Does Oil Change | 94% | 4% | 1% | 1% |
| Generalist Does Oil Change | 9% | 84% | 3% | 4% |
| Specialist Does Oil Change | 30% | 45% | 15% | 10% |
| DIY Does Oil Change | 15% | 25% | 5% | 55% |


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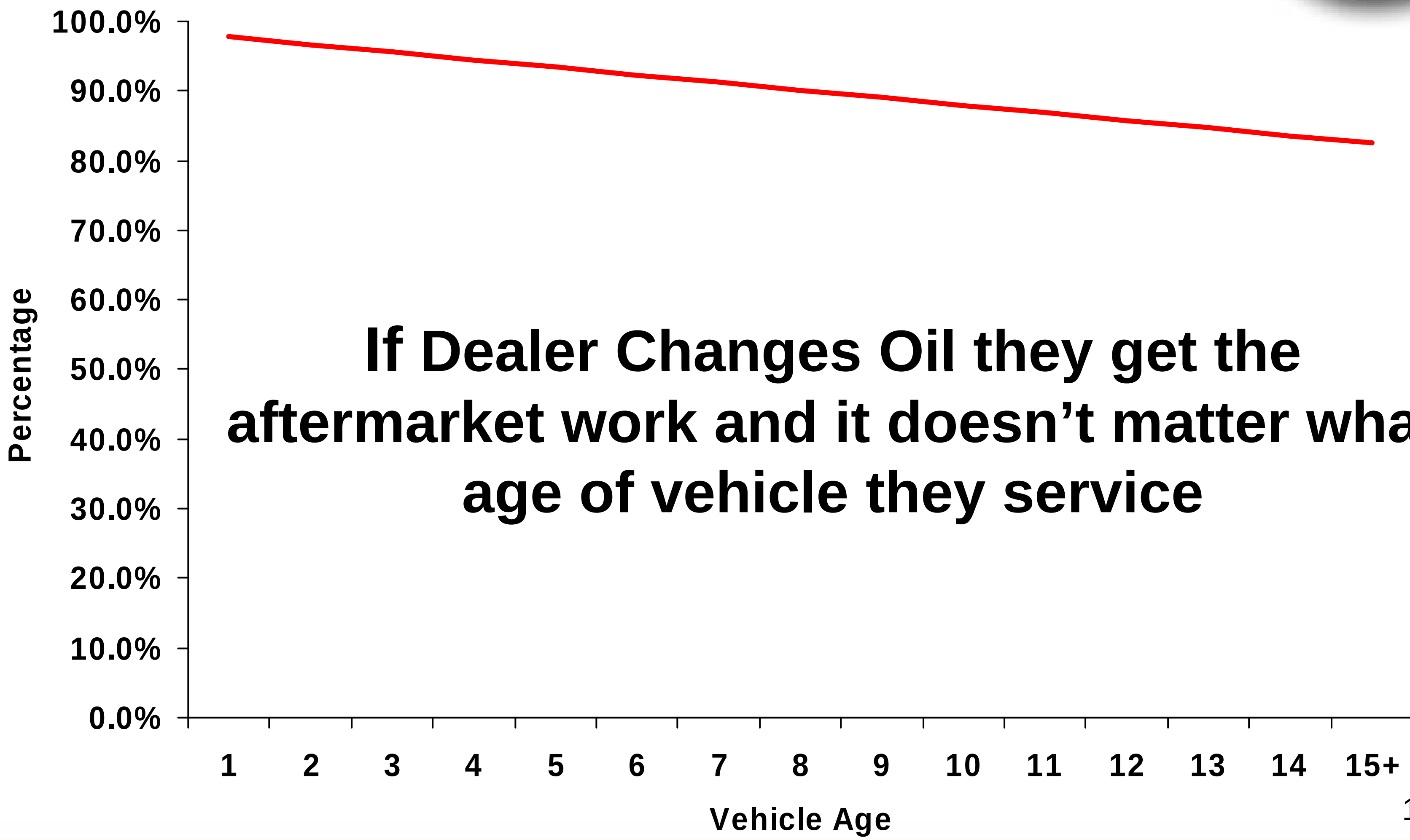


**If Dealer Changes Oil they get the aftermarket work and it doesn’t matter what age of vehicle they service**

- And most of the repair dollars are with older vehicles.


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# Cost of Repairs & Regular Servicing

| Model Year | Retail Dollars for Aftermarket Repairs |
|---|---|
| 2008 | $150 |
| 2007 | $335 |
| 2006 | $511 |
| 2005 | $658 |
| 2004 | $792 |
| 2003 | $877 |
| 2002 | $981 |
| 2001 | $1,099 |
| 2000 | $1,043 |
| 1999 | $1,060 |
| 1998 | $1,042 |
| 1997 | $1,062 |
| 1996 | $1,062 |
| 1995 | $1,062 |
| 1994 | $1,023 |


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# Oil Change is so Critical that every Loyalty Program in the Automotive Aftermarket is Centered on Oil change


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# Service Outlets Need to be More Strategic

- Understand the consumers
- “Top Box” Satisfaction
- Develop linkages within store
- Understand that there are No Silver Bullets
- It still comes done to the Fundamentals, they haven’t changed


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## The Fundamentals that DIFM consumers look for:

- Work done right the first time (remember they are making a grudge purchase)
- Trust/confidence
- Service advisor/technician relationship
- "Fair price"
- Work done on time
- Guarantees

Tech Knowledge
and
Team Building

**Again, these are Primarily "soft variables" which are very intangible and hard to define, involving people, relationships and feel good issues**


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# Success involves

- Team Building
- Tech Knowledge and access to latest equipment/ tools
- Improved Shop Practices
- A close relationship with your wholesaler/supplier of parts
- Solid back up with your Number 2, 3, 4 etc  Wholesaler/supplier
- Improved business practices .. It isn’t enough anymore to be just a good service technician, you also have to be a good businessman.
- Communicate, communicate, communicate

**AND…….**


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**…there should be no shortage of consumers willing to visit your shop if you embrace the tools available to you and do what is required to compete**

***Demand for vehicle repair will grow it is more a case of whether you get the demand or your competitor***


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# *Many positive elements still exist*

- Better built, longer lasting vehicles
- Record new vehicle sales, especially high maintenance light trucks
- Many vehicles in their prime aftermarket repair years
- Still a lot of vehicle usage although down recently
- Government safety and emissions programs forcing consumers into the aftermarket
- Pricing recovering


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# Longer Lasting Vehicles

**VEHICLE OWNERSHIP TRENDS - CANADA**

| CALENDAR YEAR | TOTAL VEHICLE SALES UNITS | VEHICLE USAGE BILLIONS OF KILOMETRES | EXPECTED USEFUL LIFE KILOMETRES | TOTAL UNITS IN OPERATION MILLIONS |
|---|---|---|---|---|
| 1960-1969 | 7,281,158 | 1,440 | 201,118 | 6,885,896 |
| 1970-1979 | 11,954,793 | 2,100 | 178,593 | 9,854,702 |
| Percent Change | 64.2% | 45.8% | -11.2% | 43.1% |
| 1980-1989 | 13,359,197 | 2,714 | 205,900 | 13,251,447 |
| Percent Change | 11.7% | 29.3% | 15.3% | 34.5% |
| 1990-1999 | 13,024,076 | 3,460 | 266,692 | 15,820,118 |
| Percent Change | -2.5% | 27.5% | 29.5% | 19.4% |
| 2000-2009F | 16,141,099 | 4,453 | 277,099 | 19,088,108 |
| Percent Change | 23.9% | 28.7% | 3.9% | 20.7% |
| 2010-2019F | 15,745,000 | 5,046 | 320,838 | 23,871,669 |
| Percent Change | -2.5% | 13.3% | 15.8% | 25.1% |

**Expected useful life of a vehicle will grow this coming decade to over 320K kilometres**


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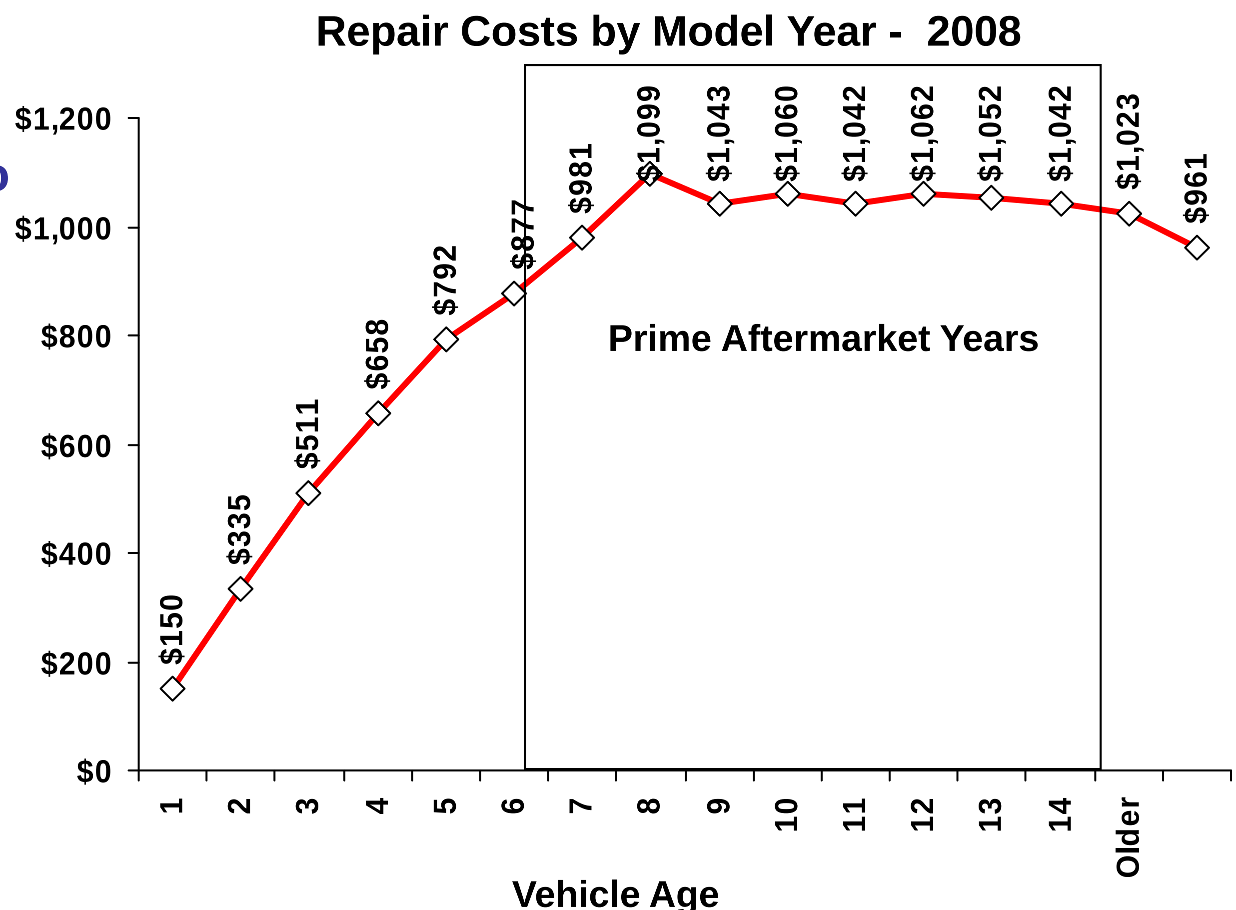
# Aftermarket Demand Should Be Positive

### *Prime Aftermarket Repair Occurs When Vehicles are 6 - 12 Years Old*

- **Prime Aftermarket years have been extended from 6 to 10 year old vehicles to possibly 6 to 15 year old vehicles**




*Source: DesRosiers Automotive Consultants Inc.*

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# Aftermarket Demand Should Be Positive

## *Channel Penetration by Age of Vehicle*

| | ***1-5 years old*** | ***6-12 years old*** | ***12+ years old*** |
|---|---|---|---|
| OES Channel/Vehicle Dealer | High | Medium | Low |
| Traditional Aftermarket Channel | | | |
| Generalist | Low | High | Medium |
| Specialist | Medium | High | Low |
| DIY/Retail Channel | Low | Medium | High |

**Traditional players do best when vehicles are 6-12 years old, DIYer's do best when vehicles are 12+ years old and Car Dealers do best with younger vehicles**


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# Aftermarket Demand Should Be Positive

## Record Number of Vehicles in Their "Prime" Aftermarket Repair Years

| MODEL YEAR | 2000 ACTUAL | 2009 ACTUAL | 2015 FORECAST |
|---|---|---|---|
| 1-3 YEARS | 3,547,900 | 4,309,662 | 4,356,454 |
| 4-5 YEARS | 1,985,717 | 2,971,249 | 3,015,232 |
| 6-7 YEARS | 2,082,115 | 2,879,576 | 2,757,663 |
| 8-12 YEARS | 5,293,828 | 5,974,594 | 7,074,994 |
| 12+ YEARS | 4,191,339 | 5,431,785 | 6,726,088 |
| TOTAL | 17,100,899 | 21,566,865 | 23,930,431 |
| | | | |
| 1-3 YEARS | 20.7% | 20.0% | 18.2% |
| 4-5 YEARS | 11.6% | 13.8% | 12.6% |
| 6-7 YEARS | 12.2% | 13.4% | 11.5% |
| 8-12 YEARS | 31.0% | 27.7% | 29.6% |
| 12+ YEARS | 24.5% | 25.2% | 28.1% |
| TOTAL | 100.0% | 100.0% | 100.0% |

*Source: DesRosiers Automotive Consultants Inc. and R.L. Polk & Co.'s NVPP® Vehicle Registration Database, as of 7/1 of each year*


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# Aftermarket Demand Should Be Positive

- But competition for your customer will be more intense as the decline in younger vehicles together with extended warranties will push new car dealers into your core age grouping

- Fortunately the rapid growth of older vehicles (12+ years old) will help competitive players grow their volumes … but remember, the older the vehicle the more likely the customer will be shopping price!


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# Aftermarket Demand Should Be Positive

- **Government Regulations are growing**
  - Environmental programs
  - Safety inspections programs

- These are positive for DIFM work but there are channel shift implications favoring car dealers unless shops invest in equipment and training


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# *There Are Some Threats*

- Import vehicle growth
- Fuel prices/miles driven
- Technology
- The ‘Green’ agenda could result in aggressive scrappage programs being introduced, taking older vehicles off the road.


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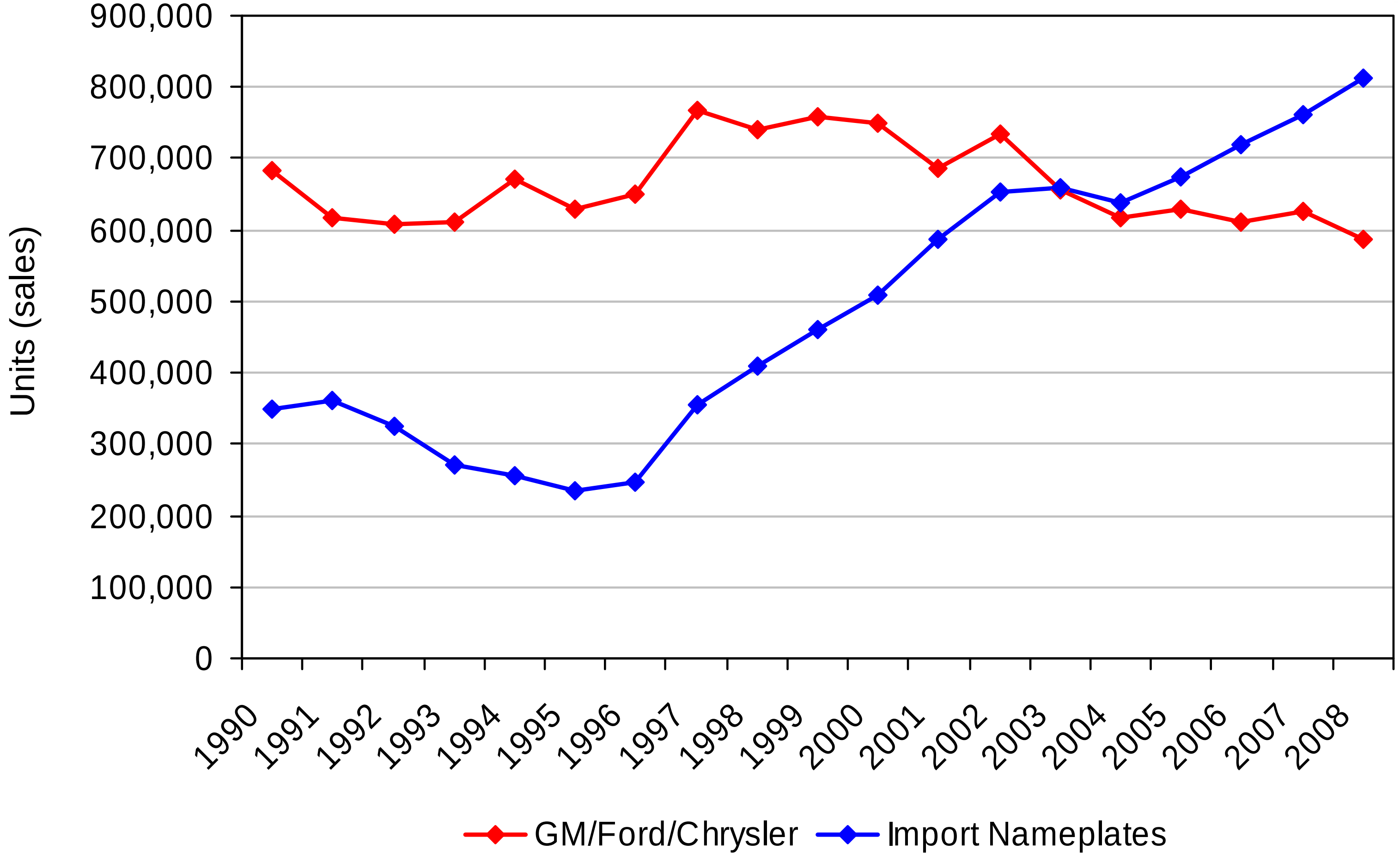
## There Are Some Threats

# Consumer Market (All Light Vehicles)

1990 – 2008





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## There Are Some Threats

- Technology
  - New technology generally negative for aftermarket … less repair and longer intervals between jobs
  - But it is category-specific and not all categories are hurt in the same way
  - Lifetime demand higher or similar for most areas but spread out over more years


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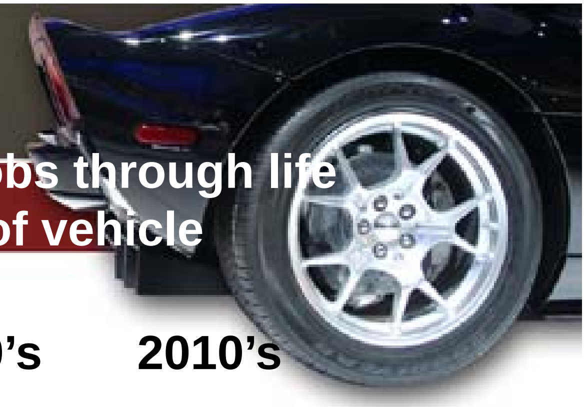

| | Service Incidence (kilometers) | | # of Jobs through life of vehicle | |
|---|---|---|---|---|
| | 1970's | 2010's | 1970's | 2010's |
| Oil Change | 5K | 10K | 30-35 | 30-40 |
| Brake Job | 30-40K | 50-60K | 4-5 | 5-6 |
| Air Filter | 16K | 15-20K | 10-12 | 15-18 |
| Battery | 65-80K | 80-95K | 2-3 | 3-4 |
| Tire Jobs | 40-50K | 80-95K | 3-4 | 3-4 |
| Shock/Strut | 40-55K | 95-120K | 3-4 | 2-3 |
| Spark Plug Job | 25-30K(7cyl) | 65-80K (5cyl) | 4-6 | 3-5 |
| Exhaust | 30-50K | 95-130K | 4-5 | 2-3 |
| Transmission | 120-160K | 160K+ | Very low | Likely Once |
| Engine Rebuild | 160K+ | 200K+ | Very low | Low |

**Life of Vehicle increases from 150,000 Kilometres in the 70's to 300,000+ Kilometres this coming decade**


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## *There Are Some Threats*

- **Over the last decade any entity in the aftermarket with high exposure to GM/Ford/Chrysler has had a negative adjustment to make**


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## There Are Some Threats

# Issues Directly Related to the Growth of Import Vehicles on the Road

- Lower maintenance needs hurt aftermarket demand
- Channel Shift to new car dealers
- SKU Proliferation and Availability of parts
- Different technology leads to training issues
- “Fit Form Function” driving the parts market


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## *Demand Side Summary*

**The positives slightly out-weigh the negatives so we continue to forecast positive demand for the next few years**

| Car Dealer | Traditional Aftermarket | DIY |
| --- | --- | --- |


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# 1. Ability of Independent Shops to Hold Share

- They have held ground well but still lost 3-5 points of share, much worse if service stations included
- Image is an issue
- Training is an issue
- Management ability is an issue
- Succession is an issue


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# 1. Ability of Independent Shops to Hold Share

- Very knowledgeable but generally poor business skills, poor marketing skills, poor customer follow-up, poor pricing discipline
- English often the second language
- Often poor selling skills, not aggressive
- Customer handling skills often weak, especially female maintainers (who prefer dealers)


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# 2. Growth of Import Vehicles on the Road

- Channel shift implications
- Availability of parts a serious issue
- Changing technology
- Low maintenance needs
- Ability of traditional aftermarket to attract to their stores an issue
- Ability to fix these vehicles an issue


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# 3. Growth of New Vehicle Dealers

- They have Access to technology
- They have Access to training
- They have Access to Specialty Equipment
- The Major OEMs support dealers with marketing
- Extended warranties force customers back
- They have the ability to aggressively price


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# 4. Human Resource Issues Abound

- Technical training of service professionals
- Lots available, take up rate low
- Management training generally not available and where available (ie: banners) take up is spotty
- Difficult to attract new talent into the aftermarket


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# 5. Installer Performance

- The Devil is in the details …. fundamentals are still very important
  - Work done right the first time
  - Trust/confidence
  - Service advisor/technician relationship
  - “Fair price”
  - Work done on time
  - Guarantees


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