

Orange Paper

Shifting Gears from Reactive to Proactive

How Customers' Rising Interest in the Subscription Economy is Revolutionizing the Automotive Dealer Service Experience

Exclusive
Research Report

| Introduction

Over the past 100 years, few technologies have shaped our world quite like the automobile. It's been a focal point of innovation – advances in safety and reductions in emissions highlight just a small portion of the ingenuity of engineers and designers worldwide. However, despite all the radical innovation inside our vehicles, the automotive manufacturing process has remained relatively unchanged since the first Model T rolled off Henry Ford's assembly line. For decades, the original equipment manufacturer (OEM) has maintained the status quo, depending on new product sales to meet shareholder expectations and offering limited warranty guarantees for the buyer.

Today, however, automotive OEMs find themselves at the dawn of a new era. The onslaught of the subscription economy is redefining the way customers consume products. Whether it's music, movies, TV shows – or even razors – the subscription economy has completely taken over. Customers now expect to pay a flat monthly fee to receive unlimited services, and this kind of demand is making its way into the automotive space. These pressures are leading automotive OEMs to identify additional revenue opportunities – and the dealer service experience is in the spotlight.

In the coming months and years, automotive manufacturers will not only need to implement new processes, resources and technologies, but also optimize their current infrastructure to lay the foundation for a successful future. Today's current reactive, break-fix service model is evolving to a proactive model where vehicles are repaired before they ever fail and leading many manufacturers to focus on providing maximized product uptime.

So, Synchron recently set out to understand how customers view the dealer service experience today and what their expectations are for the future, surveying 500 vehicle owners across the U.S. and Europe. Their responses helped shape this report and gather the following key insights:

- 1. Customers are satisfied with the dealer service experience as it stands today.**
- 2. Interest in subscription services is high, but awareness is low.**
- 3. Automotive OEMs must invest in service today to prepare for the future.**

This report intends to inspire and motivate automotive manufacturers as they navigate today's ever-changing customer expectations and prepare their businesses for the seismic shift to the subscription economy.



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Current State:

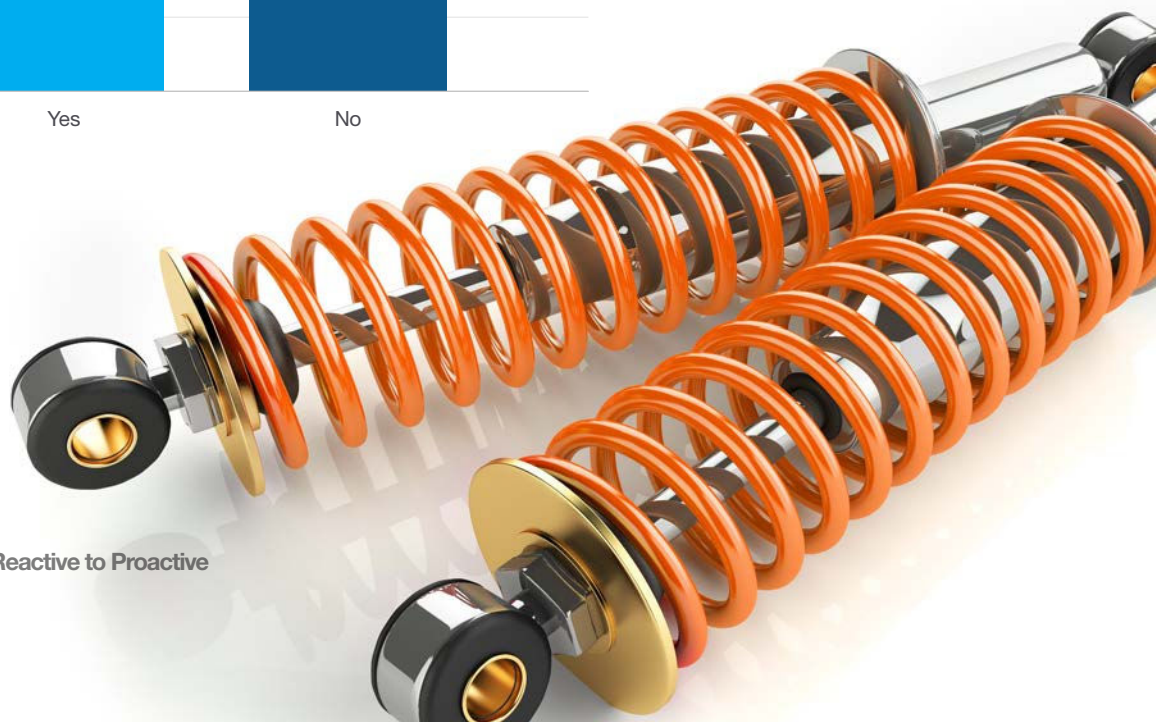
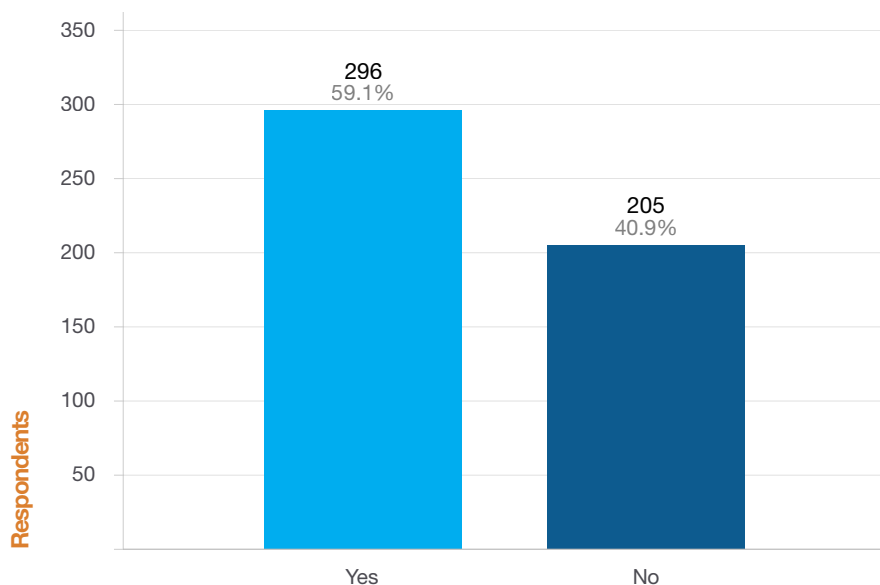
A Service Experience Where the Dealer is King

As auto manufacturers work to transform their organizations from the inside out to prepare for a future where subscription-based business models rule, they must also remain focused on providing an excellent customer service at their dealers today, laying a strong foundation that will evolve and scale as new service models unfold.

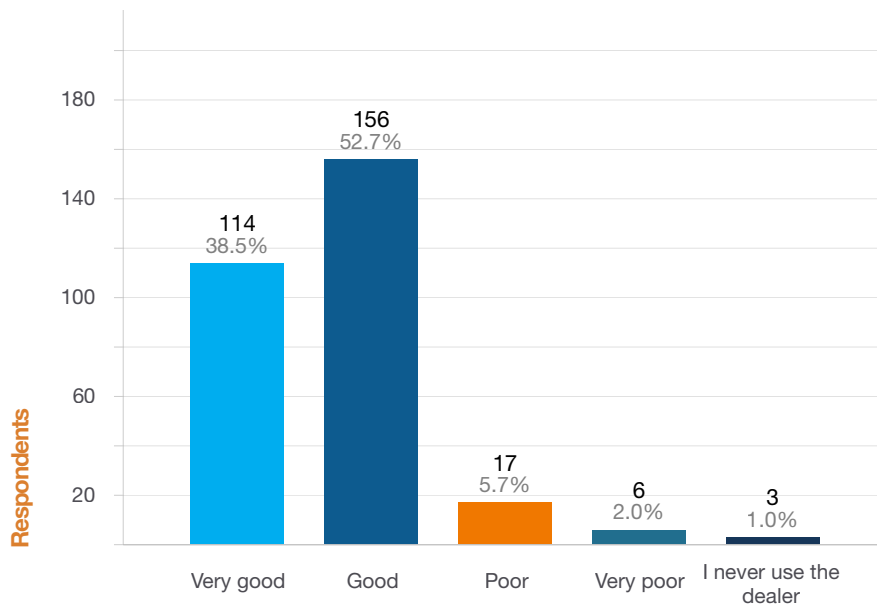
The dealer service experience is complex, and successfully retaining customers is a challenge that every automotive OEM faces, especially in today's evolving customer landscape. From having the right service parts in stock to treating each customer as an individual with unique needs, brands must continuously improve their after-sales service experiences to compete with both third-party and ecommerce providers. After all, service starts at the very first interaction and continues throughout a vehicle's lifetime.

But, in the face of these complex challenges, nearly 60 percent of vehicle owners indicated that they use their dealer for maintenance and repairs, with more than 90 percent describing their most recent dealer service experience positively.

Do you ever use your dealer for maintenance and repairs?

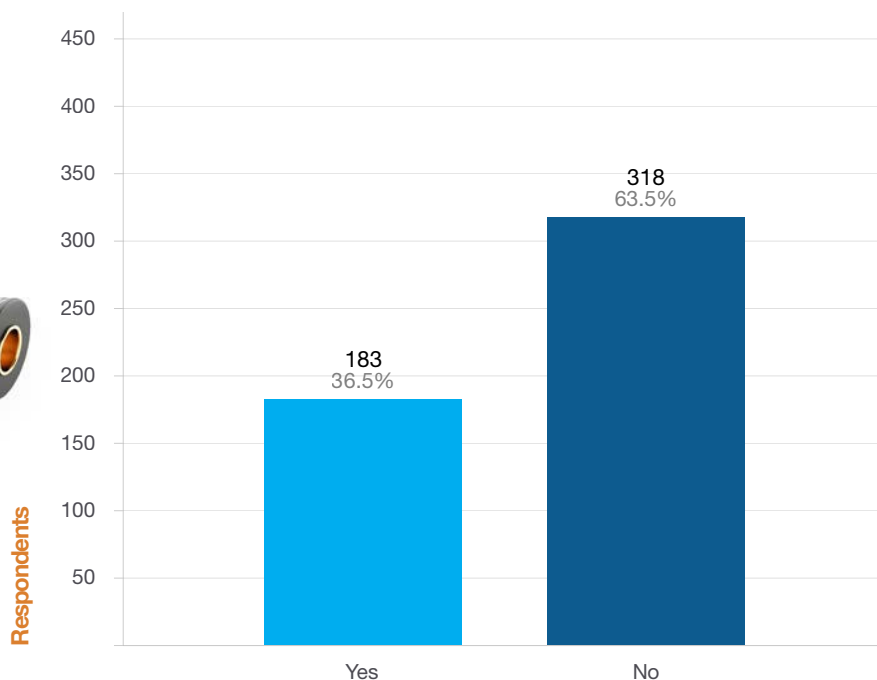


How would you describe the overall dealer service experience?

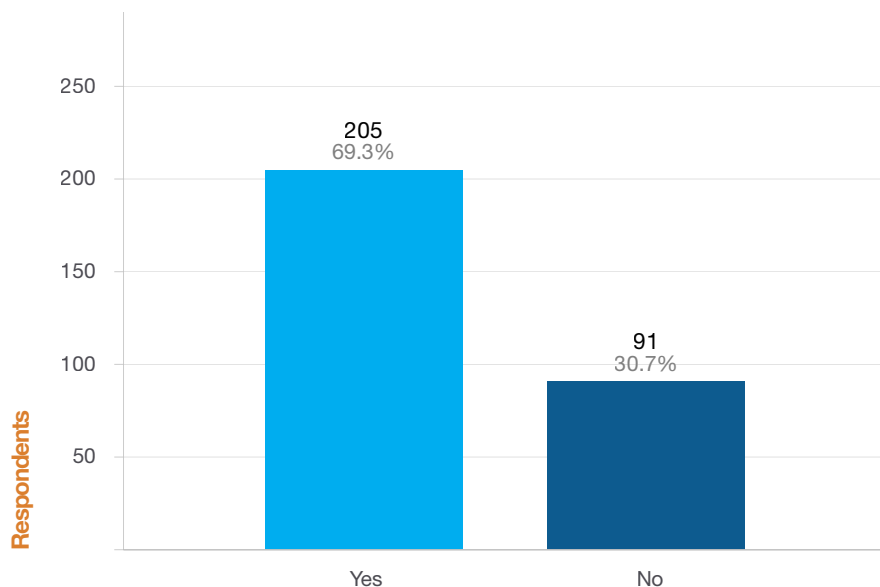


And, for many vehicle owners, that dealer service usage extends past warranties. Despite the fact that about 63 percent do not have an extended warranty or service package on their vehicle, 70 percent of the respondents that do have guaranteed service packages indicated that they have used their dealer for maintenance and repairs outside of warranty work. The catch here is that, following that warranty expiration, only 48 percent plan to continue maintenance and repairs at the dealer.

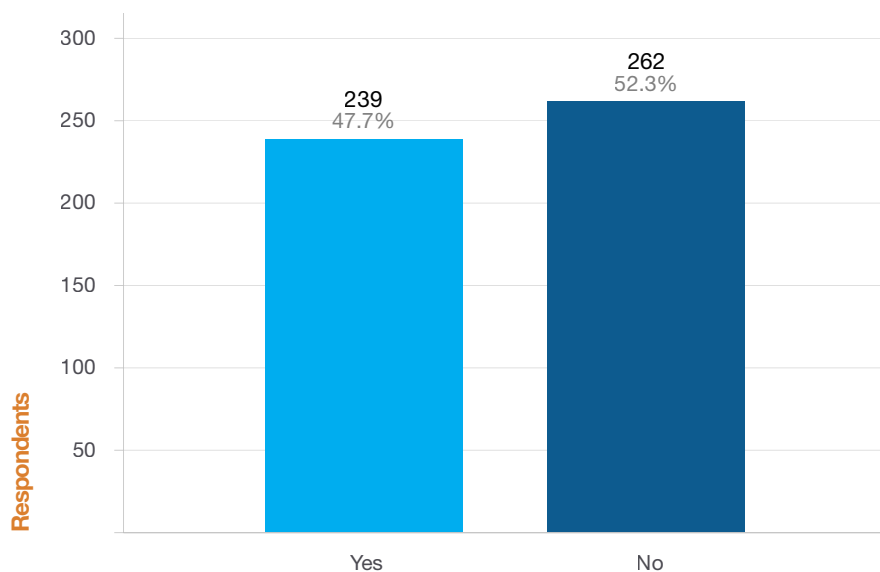
Does your vehicle have an extended warranty or service package?



Have you ever used your dealer for maintenance and repairs outside of warranty work?

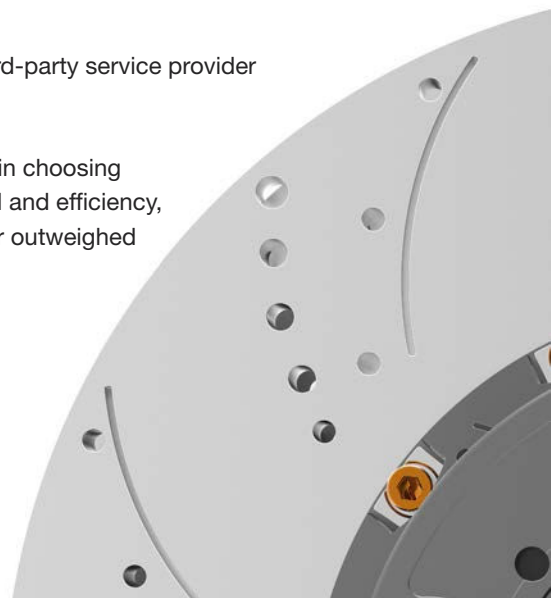


Following the expiration of your vehicle's warranty, do you plan to start or continue maintenance and repairs at the dealer?

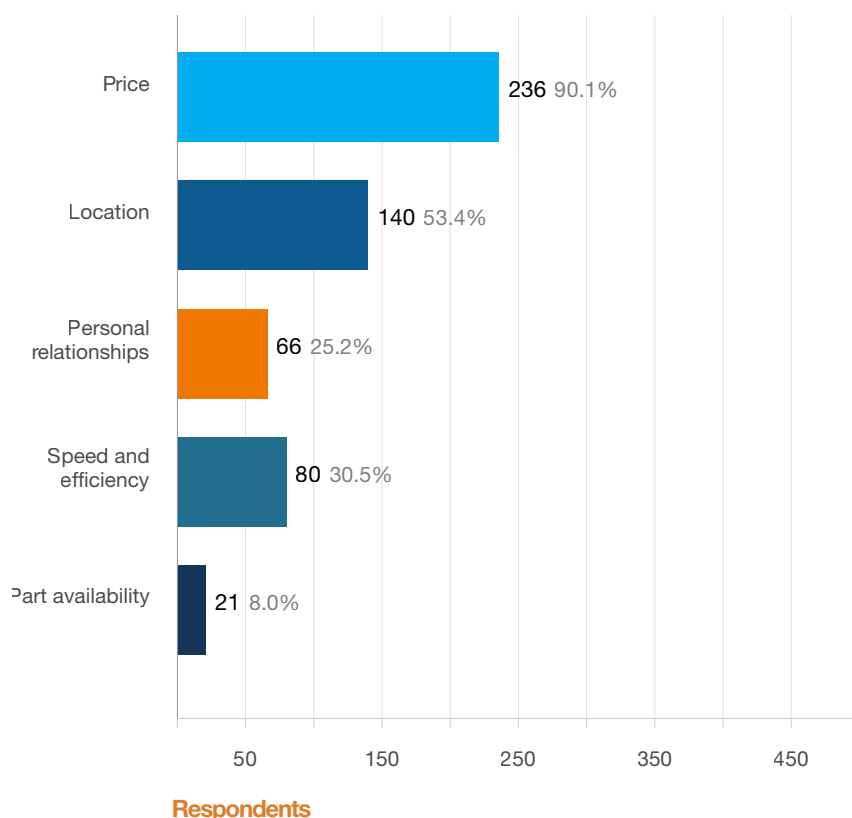


So, what factors could potentially drive loyal customers to leave the dealer for a third-party service provider and what can OEMs do to increase their service-related market share?

According to 90 percent of the vehicle owners surveyed, price is the biggest factor in choosing between the dealer and a third-party service provider. Personal relationships, speed and efficiency, location and part availability definitely play roles in the decision as well, but price far outweighed the rest.



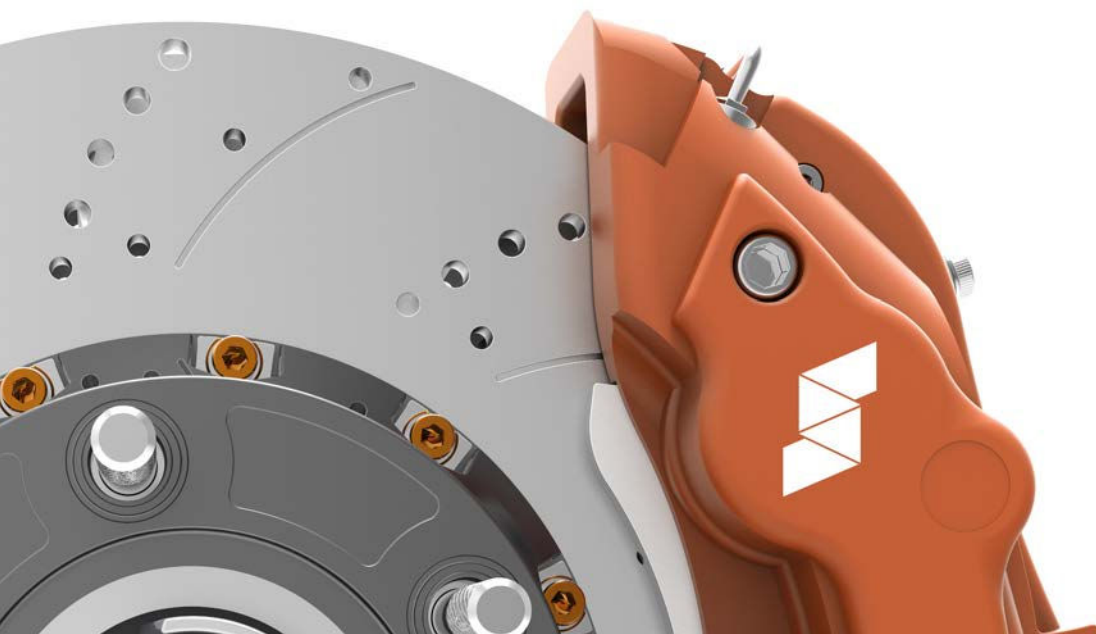
Why do you choose a third-party provider over your dealer?



With a significant amount of market share to gain on the service side of the business, automotive OEMs have a huge opportunity to capitalize on customers' rapidly changing expectations. The good news? OEMs now have access to more data and more technology to set themselves up for success not just today, but for years to come.

And, as the world shifts to a subscription-based economy, the responsibility for maintenance and repairs is shifting from the end-user to the manufacturer. This shift will completely transform dealer service as we know it today.

Key takeaway: With the shift toward subscription-based revenue, coupled with evolving customer expectations, OEMs are reshaping the way they do business. Today, customers are looking to their dealers for quality repairs at a fair price. Now is the time to win the hearts and minds of consumers to ensure brand loyalty for years to come as the automotive landscape shifts drastically over the next 10 to 15 years.



Future State:

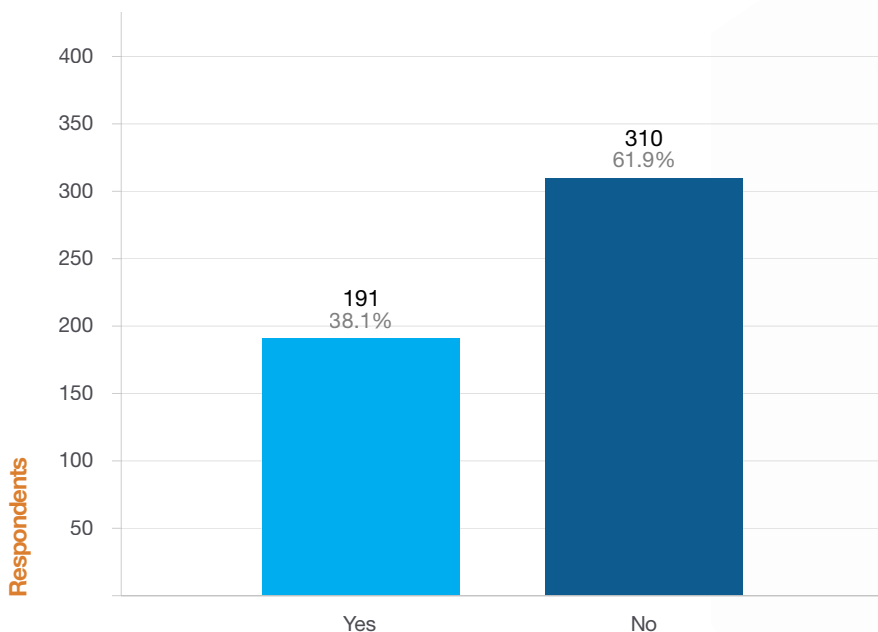
The Subscription Economy is Taking Over

Just a few decades ago, if someone had told you that we'd one day be hailing nearby vehicles to come pick us up after dropping a location pin on a tiny computer in our back pockets, you'd look at them like they just said the Beatles weren't the best band in the world. In fact, the ideas that cars could one day run on electricity alone, contain smart technology that far surpasses early spacecraft, or even drive themselves, were practically science fiction – yet, today, they're just some of the many technology advancements on the horizon for the automotive industry. But the innovation shaking the industry to the core? Vehicle subscription services.

Vehicle subscription services represent a fundamental paradigm shift for the average automotive consumer. Instead of buying or leasing, consumers will subscribe to their vehicles just like they do with Netflix or Spotify. This means that the OEM and their dealers become responsible for maintenance and repairs, because the customer is paying for always available “access” to the vehicle. In other words, the value being delivered is now maximized product uptime, and if an OEM can't deliver on that promise, the consumer will simply cancel their subscription and subscribe to another brand that can.

As of today, 62 percent of survey respondents indicated that they are still unfamiliar with the concept of vehicle subscription services.

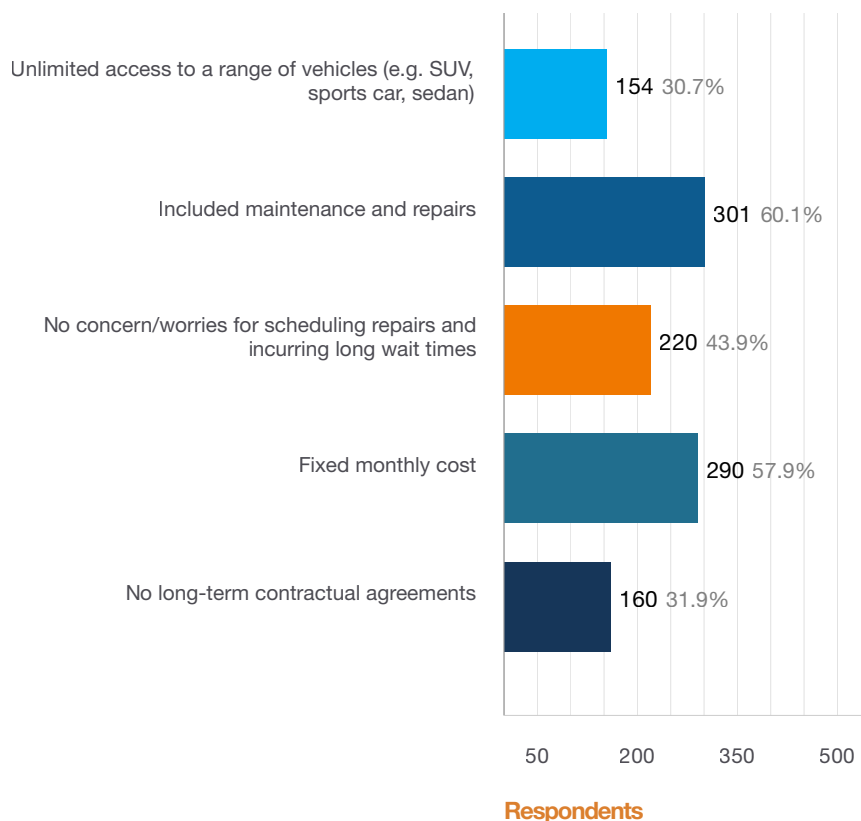
Are you familiar with the concept of vehicle subscription services, where you pay for access to a vehicle opposed to the vehicle itself?



Despite awareness of vehicle subscription services being low, interest is very high. More than 57 percent of respondents would consider a subscription if maintenance, repairs and insurance were included in a flat monthly cost. Vehicle owners indicated the following perceived benefits of a vehicle subscription service:



What do you see as the biggest advantages of a vehicle subscription service?



58% named fixed monthly cost as one of biggest advantages of a vehicle subscription service.

60% named included maintenance and repairs as one of the biggest advantages of a vehicle subscription service.

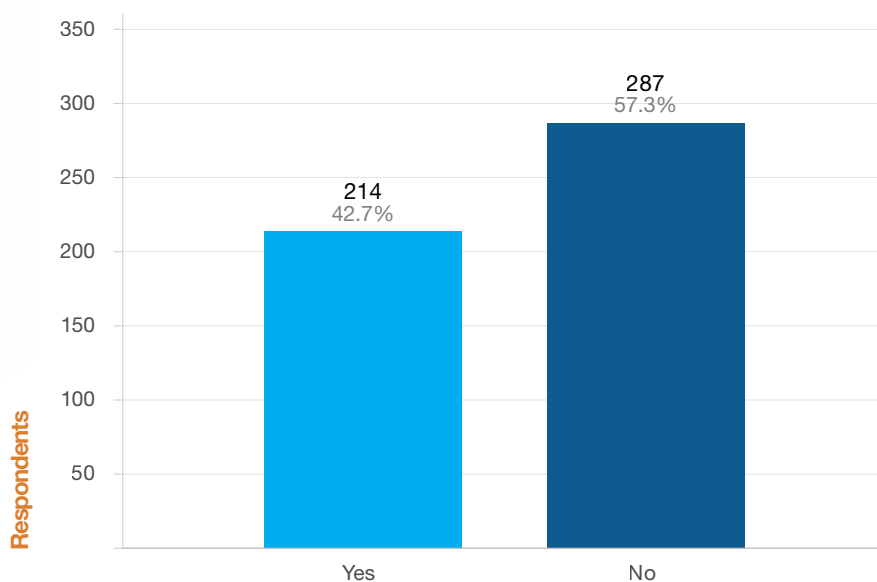
30% named unlimited access to vehicles as one of the biggest advantages of a vehicle subscription service.

44% named guaranteed service speed as one of the biggest advantages of a vehicle subscription service.

32% named no-contract agreements as one of the biggest advantages of a vehicle subscription service.

Ultimately, more than 42 percent of vehicle owners indicated that they would be willing to pay a premium beyond their current monthly car payment to enjoy the benefits of a vehicle subscription service, which means one thing: drivers want the benefits of subscription services without added cost.

Would you be willing to pay a premium beyond your current monthly car payment to enjoy the benefits of a vehicle subscription service?



At the end of the day, if the cost of an automotive subscription plan remains more expensive than current car payments, maintenance costs and other costs of ownership, the winning brand will be the one to find the right balance between price and value. The scary part is – if one of the major incumbents aren't the first to make the model work, a new upstart could come out of nowhere and gain significant market share. That's why automotive OEMs need to ask themselves, "What happens in between now and this future state, and how can we ensure we are equipped for success?"

Key takeaway: Consumers are very interested in subscription-based models, but awareness remains low. Automotive OEMs need to prepare now for the inevitable shift. This changes everything for OEMs, who will transform into fleet owners who must do everything they can to maximize product uptime and work to develop a subscription service business model that is scalable and profitable.

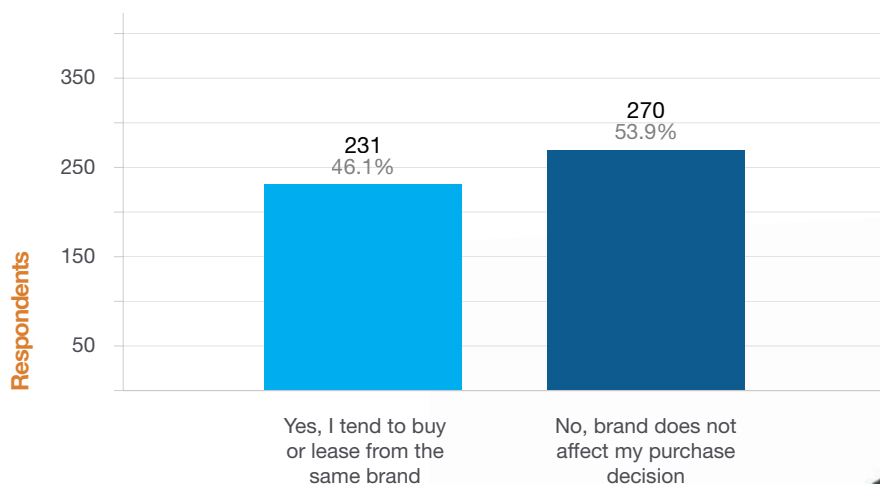
What's Next:

Customer Expectations and Technology are Driving Change

Ultimately, one of the most important things an automotive manufacturer can do today is to retain customers through exceptional dealer service experiences. As customer expectations continue to evolve and subscription services become more commonplace, the service organization will become more important than ever. Automotive manufacturers will no longer just sell vehicles, instead selling access to and the outcome those vehicles deliver – and the service supply chain must be ready today to meet these needs of tomorrow.

And, while a positive dealer experience isn't the most shocking news for today's automotive industry, customers' waning sense of brand loyalty is. In fact, when it comes to automotive manufacturers, more than half of survey respondents lacked loyalty to particular brands when making vehicle purchasing decisions.

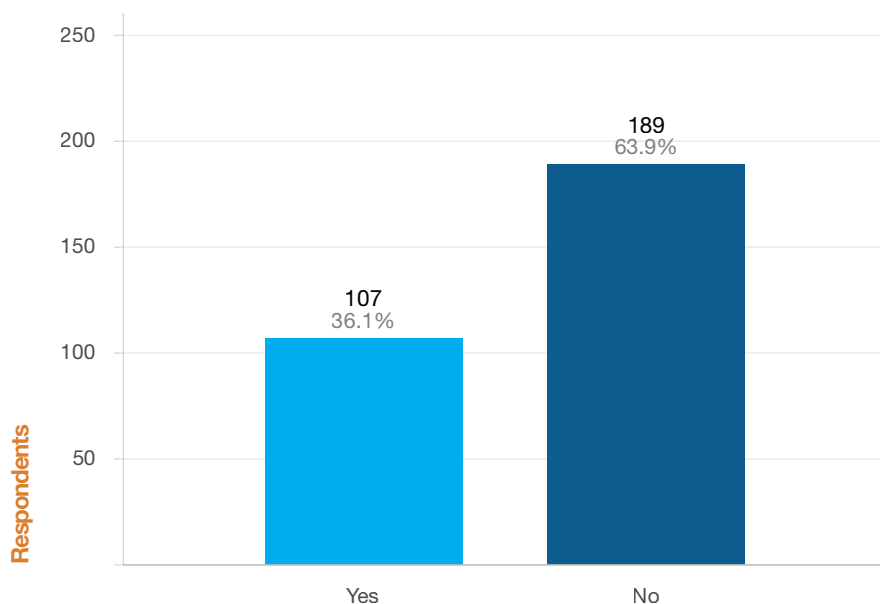
When it comes to automotive manufacturers, are you loyal to a particular brand?



What they did feel loyal to, however, was a positive customer experience. Overall, 36 percent of respondents said that a negative dealer service experience would impact their perception of an automotive brand, meaning that they would have no problem jumping ship if it meant there was a better service experience around the corner with another automotive brand.

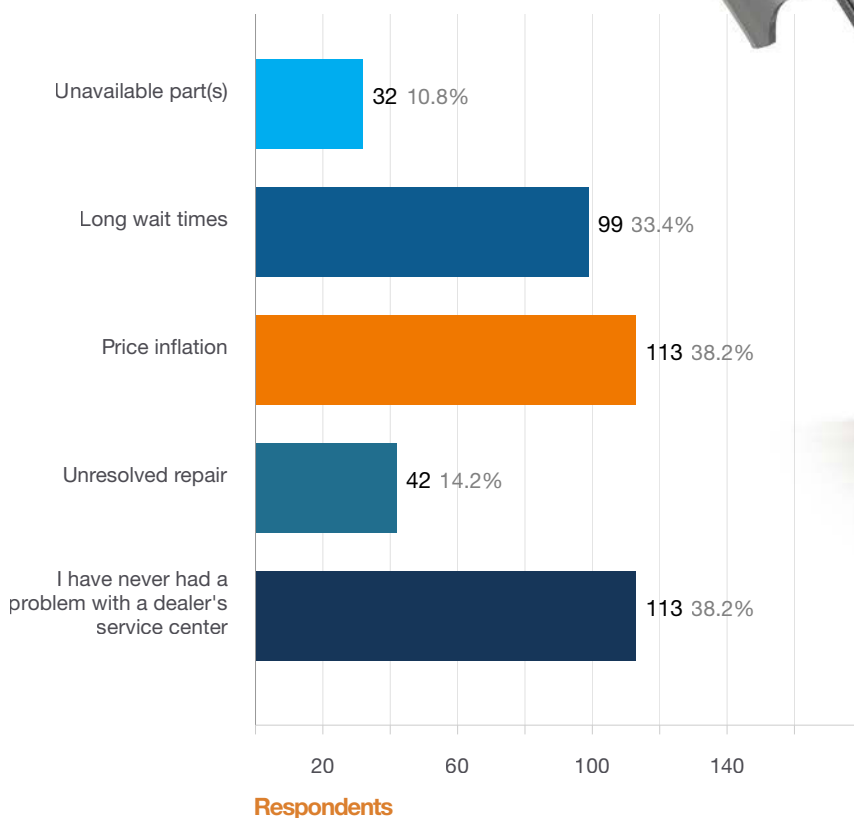


Has a negative dealer service experience impacted your perception of an automotive brand?



Thankfully for dealers today, 38 percent of respondents indicated that they have had little to no major issues with their dealer service experiences. The main areas of improvement were simply price and wait time, which respondents indicated would be the likely cause of them looking elsewhere for their auto service needs. In fact, 78 percent indicated that they are likely to use their dealer service center for a future repair despite these areas of opportunity.

Which of these problems have you encountered when using a dealer for maintenance/repairs?



But what could sway the other 22 percent to stay with the dealer? When asked, 72 percent agreed that if a dealer had the exclusive ability to send a notification that a specific vehicle part was about to fail and could preemptively schedule the repair, they would be encouraged to use the dealer for service moving forward. This sort of proactive maintenance won't happen overnight, however. OEMs must invest in the technology and human capital to make this vision a reality.

This response doesn't come as a surprise, for now more than ever, consumers are accustomed to goods and services appearing at the click of a button. "It's 2019—people just want to buy things online," says Tesla CEO Elon Musk – and he's not wrong. When an individual can make a purchase online and the package arrives at their doorstep a day – or even hours – later, it makes sense that this completely new way of doing business would seep into every industry – especially automotive.

This means that now is the time for OEMs to redefine the way they do business to meet these increasing expectations – and in this case, that revolution is coming in the shape of innovative business models like the subscription economy and technological advancements.

Key takeaway: Building a steady customer stream through faster, easier, tech-enabled purchase and service experiences will be more important than ever as the movement toward the subscription economy shifts into high gear.

The Uptime Race is On

It's clear that automotive manufacturers need to redefine the way they do business, focusing on proactively maximizing the uptime of the vehicles they offer instead.

Recognizing that a transformation of this magnitude requires a staged approach to be successful, Synchron has developed a model that helps automotive manufacturers identify where they are on this journey and how to get to the next stage. As seen in the chart below, uptime maturity exists on a continuum from least to most connected, and from most Reactive (the customer doesn't know there's a problem until a breakdown) to the most Proactive (the customer is notified to bring the vehicle in for service as soon as a potential issue is detected, minimizing overall downtime).

This shift is placing the after-sales service side of the business in the spotlight, as this function is critical to manufacturers' ability to deliver maximized product uptime as a service to customers. To enable this transformation, auto OEMs must have a strong technology foundation in place – one that allows them to mature from today's reactive model of service to the more proactive state of the future.

But, optimizing after-sales performance means more than just optimizing individual service processes. True optimization addresses the synchronicity throughout the after-sales service process, resulting in improved end-to-end customer service and increased financial performance. By simultaneously optimizing inventory, price and uptime, manufacturers can reach a point of maturity where they can connect to products to proactively stock parts, price by use and predict failures.

As with any major industry transformation, there will be significant challenges to overcome, but also tremendous opportunities. This research highlights that while consumers are mostly satisfied with the dealer experience today, they are eager to learn more about new ways to meet their mobility needs. As OEMs rush to solve the puzzle of how to provide the most value through vehicle subscription services while turning a profit, consumers will look to the brands with which they are already familiar to provide them with exceptional tech-enabled experiences. The question is no longer if it will happen, but instead when it will happen.

With the momentum behind this overall shift toward subscription services, it's clear that the tides could be turning any day. It's crucial for automotive brands to start getting their house in order today to prepare for a major change to the foundation of their existing business models.

A change is coming, and those who fail to prepare will be the laggards, while the ones who embrace innovation will be leading the pack.





About Synchron

Synchron empowers the world's leading manufacturers to maximize product uptime and deliver exceptional after-sales service experiences, while driving significant revenue and profit improvements. From industry leading investments in research and development, to providing the fastest time-to-value, Synchron's award-winning, cloud-based service parts inventory, price and uptime management solutions are designed to continually exceed customer expectations. Top brands from around the world trust Synchron to transform their after-sales service operations into competitive differentiators.

► **For more information, visit [Synchron.com](https://www.synchron.com)**

¹ <https://www.thedrive.com/news/26701/tesla-moving-to-online-only-sales-closing-showrooms-to-cut-costs>