Case Studies in Successful Customer Loyalty
How Dealerships Are Bringing Them Back Again and Again

With
Mike Gorun, Managing Partner/Founder of MediaTrac

Moderated by
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Mike founded MediaTrac in 2002 after realizing there was a growing need for retail automotive dealerships to effectively track their marketing programs and to increase customer loyalty. Within eight months of launching its first product, MediaTrac became profitable. Today the company has more than 400 clients in the retail automotive industry and has expanded its product lines into the home builder, retail and professional sports industries. Mike’s guidance has resulted in MediaTrac becoming one of the fastest growing, privately held companies in the San Francisco Bay area.

In the early 1990s, Mike realized the Internet would play an important role in the future of automotive sales. He developed and launched CarSmart.com, one of the first consumer car buying sites on the Internet. In 2000 CarSmart.com was acquired by Autobytel in one of the largest automotive Internet acquisitions on record.

Prior to founding CarSmart.com, Mike gained his knowledge of automotive and dealership operations by spending eighteen years in operational management positions with Ford, Nissan and General Motors.

Mike received degrees in Industrial Education and Process Engineering from the University of Wisconsin. He resides in the San Francisco Bay area with his wife and two children.

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Over the past two years, as dealers face new challenges involving transparency from social media, inconsistency in delivering customer experiences across all departments, and a price-focused economy, fostering customer loyalty has become increasingly tenuous.

Why Consider a Loyalty or Retention Program Now?

Market conditions have changed.....so has your customer

Over the past two years, as dealers face new challenges involving transparency from social media, inconsistency in delivering customer experiences across all departments, and a price-focused economy, fostering customer loyalty has become increasingly tenuous.

- The internet and social media have played a large part in dismantling the loyal customer
- These social channels have created a new kind of customer; a well-informed, vocal consumer who relies on the feedback and reviews of their peers when making purchase decisions
- Maintenance intervals are expanding with the “Service Due” dash light
- Consumers have become extremely value driven
- Cost of replacing customers is the highest it’s ever been
Why Consider a Loyalty or Retention Program Now?

Over the next five years a dealership with a 70% customer retention rate will have lost 3X times as many customers as a dealer with a 90% retention rate.
So what is customer loyalty?

Loyalty is somewhat of an abstract concept – there really is no one definition of it.

Customers are loyal by choice and all for different reasons – there is a human emotional aspect.

Most importantly .... a customer’s loyalty can and will be influenced by what you offer them and how you interact with them.

Why Consider a Loyalty or Retention Program Now?
Can a CRM program be a Loyalty Program?

CRM is a necessary business component but it provides little value from a customer’s perspective.
How do Loyalty and Retention Programs Relate to Auto Dealers?

Marketing and advertising in an attempt to attract new customers is the practice of *customer acquisition*.

Ensuring that existing customers become a recurring source of revenue is the practice of *customer retention*.

Retention is the new form of acquisition
Consider growing your business from the inside out.
How do Loyalty and Retention Programs Relate to Auto Dealers?

Traditional Service Marketing – Couponing, reminders, mailers etc.

- Attracts customers on a short term basis
- Once offer expires customers may shop elsewhere
- Lowers gross due to discounting
- Flat response rates
Loyalty based marketing provides an alternative to traditional marketing practices

- Promotes captive service
- Reduces overall marketing spend
- Provides cross marketing platform
- Provides a competitive differentiator
- Segmented and targeted audience
- Provides higher response rate

How do Loyalty and Retention Programs Relate to Auto Dealers?
Loyalty programs benefit the dealership by transitioning ordinary customers to card-carrying members

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<th>Benefits</th>
<th>Revenue</th>
<th>Retention</th>
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<tr>
<td>Increases the frequency of member visits</td>
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<td>Motivates the type of purchase behavior you desire</td>
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<td>Increases dealers “share of wallet” or member spend</td>
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<td>Creates the membership opportunity</td>
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<td>Revenue</td>
<td>Provides a VIP member attitude</td>
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<td>Provides member “equity” with dealership</td>
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How do Loyalty and Retention Programs Relate to Auto Dealers?
Brings us to the question:

What is more valuable to your business?

Thousands of customers that need to be constantly marketed, enticed and reminded to do business with you?

OR

Thousands of members who voluntary choose to join your “club”, ask to receive your communications, respond to you more frequently and spend more?

How do Loyalty and Retention Programs Relate to Auto Dealers?
Dealer Adoption of Proven Loyalty and Retention Principles

Auto dealers have been traditionally slow adopters

2000 - Less than 3% of dealers have a formal loyalty program initiative

2005 - 5% of franchised dealers participate in a non-OEM loyalty program

2008 - Two manufacturer sponsored programs launched: Ford Owner Advantage & GM Preferred Owner

2009 - 13% of franchised dealers participate in a non-OEM program

2010 - Slightly over 25% of today's franchised dealers participate in a non-OEM loyalty or retention program.
Why Should a Dealership Consider a Loyalty or Retention Program?

Current economic lapse is causing consumers to become more value-conscious and selective with their spending.

Increasing parts and service profits is generally a result of three practices:

- **Increasing Customer Retention Rates**
  - Loyalty programs promote captive service and “top mind” spending.

- **Selling More Maintenance**
  - Program benefit packages are built around ongoing maintenance.

- **Decreasing Service Acquisition Costs**
  - Loyalty incentives are typically smaller than standard coupon and discounting.
Competitors target and pull at your customers with their own retention programs.

- **JIFFY LUBE Rewards**, offers 50% off third paid service
- **MIDAS** will inspect customers brakes, exhaust system, tires, and anything else they can find for free.
- **BIG O Tires** will inspect and rotate customers’ tires for free
- **AUTOZONE** will check customers’ battery, electrical system, and install a new battery for free.
- **AAMCO** will evaluate customers check engine light for free.

**Why Should a Dealership Consider a Loyalty or Retention Program?**
Why Should a Dealership Consider a Loyalty or Retention Program

Your customers will spend more with you

- Customer spending is 46% higher with companies that offer a rewards program

Your customers support the concept and already participate in loyalty programs

- Consumer participation in rewards programs is rising with a 18% increase since 2007
- Over 75% of the consumer population belong to at least one rewards program
- There are 1.8 billion rewards club members in the United States
- 63% of the rewards memberships have been active in the last 60 days
Loyalty programs create customer acquisition opportunities and provide for cross marketing of multiple customer bases.

Why Should a Dealership Consider a Loyalty or Retention Program?
What Features should a Good Loyalty or Retention Program Include?

Most important factor is the ability to change your customers’ purchase behavior

Must have the ability to motivate and reward the desired purchase behavior

- Incentives for customer acquisition - friends and family
- Incentives for purchasing multiple vehicles
- Incentives for adding multiple vehicles to their membership
- Bonuses for completing 15, 30, 45K factory maintenance work
- Using community to drive business
What Features should a Good Loyalty or Retention Program Include?

Customers are different – their marketing and messaging needs to be targeted to their spend band and purchase tendencies.

The goal of any loyalty program should be to move your customer up through the spend bands.

Targeted advertising works measurably.

Must provide the ability to drive incremental revenue through member segmentation marketing.

Automotive Loyalty & Retention Programs

PLATINUM LEVEL (advocates)
Customer Value: $$$$$
These are your best customers. They buy frequently and they refer others. 80/20 rule applies.

GOLD LEVEL (clients)
Customer Value: $$$$
Buys a cross section of products and services. Immune to the pull of the competition.

SILVER LEVEL (repeat customer)
Customer Value: $$$
Your average customer.

BRONZE LEVEL (passive customer)
Customer Value: $ 
Needs an incentive to do business.

TIN LEVEL (try-er)
Customer Value: $ 
One time buyer.

A nominal 5% increase in customer loyalty will result in an increase in bottom line profitability of 25% - 55%.
What Features should a Good Loyalty or Retention Program Include?

- Should Include a graphic design component and member marketing feature
- Drive Sales and Service Internally
- Must employ the “3R’s”..... Right Message, Right Audience, Right Time
- Customer engagement with your store is essential for fostering long term customer loyalty
- Member communications are critical. The program should have the ability to do custom communications as well as standard template messaging

What Features should a Good Loyalty or Retention Program Include?
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Should support multiple levels of membership

- **Base Level Membership**: Complimentary entry level membership enrolled at time of vehicle purchase or in service lane.
- **VIP Level, Gold or Platinum Membership**: Typically earned or purchased for a fee. Includes a higher level of benefits, VIP or convenience items, like loaner car, detail, etc.
- **Maintenance Membership**: Purchased for a fee. Includes base level benefits combined with additional pre-paid maintenance items.
- **Club or Enthusiast Membership**:
Minimum Levels of Reporting and Program Measurement

The ability to recognize gains and ROI require a level of reporting that includes a base customer metric that is established prior to program introduction. Reporting should be robust enough to provide insight into key areas of program utilization, marketing/communications and loyalty data and retention figures.

Member Analytics and Database Segmentation

Basic business intelligence starts with collecting customer data and the ability to segment and direct your marketing based upon past and predictive future purchases will drive the program ROI.

What Features should a Good Loyalty or Retention Program Include?
Items to Consider when Selecting a Loyalty Vendor

As in any business, there are strong and weak suppliers – do your diligence.

Provider Experience & Core Competencies
What are the supplier’s core products? Are they a true loyalty company? Is loyalty a primary product?

Technology platform - who developed the platform? Is the program proprietary to the supplier or a resale of someone else? If there is a problem, who is going to correct it?

Ability to handle special requests or custom reports?

Client Support
Does the supplier provide retail member support? Will the supplier reprint membership cards, answer email questions, replace membership credentials, etc?

Is program support available during your business hours?

Does the supplier provide a dedicated customer service rep who can answer platform questions or is it just a sales representative?
Costs

Set up fees typically range from $900 – $2,500 depending on store size.
Monthly fees for a simple, no frills, non-integrated program range from $800-$1,200 per month
Monthly fees for a robust, all inclusive, integrated program range from $1,400-$2,300 per month

Registering Members

What is the process for registering a new member? Will it be a burden on your staff?
Is there a provision for automatic enrollment based upon a dealership activity?

Program Design and Flexibility

Does the platform support different reward types? Complimentary, earned, discounts and bonus rewards?
Variable earning ratios based upon member spend
On-demand marketing – can you send out communications easily and on your schedule?

Items to Consider when Selecting a Loyalty Vendor
Training and Program Installation

Program training should be conducted on-site at your dealership, by department. What on-going training availability is there for new dealership employees? Is there a detailed program operating guide and reference manual?

DMS Integration, Service Event Tracking and Reward Redemption

DMS integration will simplify reward redemption and provide accurate benefit earning and deduction of transactions for member accounts. Integrated labor operation codes should be assigned to each benefit and tracked through normal RO customer pay accounting.

Card swipe machines are very susceptible to employee-induced error.

Items to Consider when Selecting a Loyalty Vendor
Integrating a Loyalty Program with Your Existing Marketing

Loyalty programs are “Opt-in” by nature. Customers/members agree to receive your communications when they enroll.

Target and segregate your campaigns based upon customer relevance.

Targeted advertising works measurably.

Targeting reduces recipient irrelevance and campaign spend.

Review response and spend rates for each campaign.

Don’t fall into the spam trap.
How to Build Personal Relationships with Your Customers through Loyalty Programs

Program communications are essential in building a closer, more profitable relationship with your member. Conversely, poorly targeted, mass communications will risk driving your customer away.
What Results can I Expect from a Loyalty Initiative?

Customer Enrollment

- 9 out of 10 customers will join your base program if offered the opportunity
- 9 -11% of those who join will pay to upgrade their membership level
- 98% of those who join will provide a valid email address & opt in to receive your communications
- 99% of those who opt-in will remain opted-in three years later

Marketing Response Rates (per communication)

- Email open rates 35-40%
- Read rates 30% -36%
- Service appointment rates 1.5-3.0% (integrated into email)
What Results can I Expect from a Loyalty Initiative?

Frequency of Purchase (service)
- 30-35% increase in member frequency of service vs. non-member service

Member/Customer Spend
- Member service spend should increase 8-11% over non-member spend (annually)

Vehicle Repurchase Intent
- 2.5-3% of your membership base will repurchase annually (varies by make)

Non Transactional Benefits
- Tangible increase in store valuation due to successful loyalty initiative
- Are members worth more than just customers?
What are Progressive Dealers Currently Doing

Reward drives behavior –
There are proven psychological correlations between rewards and predictive customer behavior. Reward the behavior you want to encourage

Metro Ford Store - Sales
- Provides a VIP Sales Lounge for its best customers (vehicle purchases)
- Lounge type atmosphere with product information resources and refreshments
- Gold and Platinum members don’t deal with a salesperson
- Goal is to treat the best customers with a preferred level of recognition
- Sells over 500 new units annually to Gold & Preferred members through its VIP program

Metro Chevy Store - Service
- Best customers receive “Executive Service” option
- Vehicles are picked up and dropped off at member’s home or office when performing any type of maintenance
- 86% of members offered service utilize it
- Vehicle returned cleaned

Secondary Mkt Toyota Store - Parts
- Provides separate membership plan for “Wholesale Parts” accounts
- Tiered discounts are earned for each purchase
- 40% increase in member purchases from enrolled members vs. non-enrolled customers
Determining which Rewards will Work

- Simple to Understand
- Attractive to the consumer
- Attainable
- Unique enough to differentiate from competitors
- Affordable to your company
- Aspirational: keep your members' interest
- Must be presented as a value proposition

The reward must be desirable enough to change customer behavior.
The Secrets of a Successful Loyalty Program

Ten critical factors that will determine the success or failure of a loyalty initiative

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<td>1.</td>
<td>Don’t aim for a quick fix</td>
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<td>2.</td>
<td>Communicate with your customer properly (3Rs)</td>
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<td>3.</td>
<td>Include a provision for acquiring new customers</td>
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<td>4.</td>
<td>Get to know your customer</td>
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<td>5.</td>
<td>Provide attainable affordable rewards</td>
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<td>6.</td>
<td>Measure your cost and returns, recover your costs</td>
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<td>7.</td>
<td>Identify and empower your loyalty team</td>
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<td>8.</td>
<td>Make it a long term commitment</td>
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<td>9.</td>
<td>Create barriers for your competition</td>
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<td>10.</td>
<td>Keep it simple</td>
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OEM Sponsored Loyalty Programs

OEM Programs
Currently only two US OEMS (GM and Ford) have fully sponsored corporate programs. Both are administered by independent marketing companies not loyalty companies. Kia of Canada employs true loyalty program for its dealers.

Other OEMS such as Toyota have taken a branded credit card-points program approach. These programs are typically not captive service.

Membership Data
Whose data is it? Dealer, OEM or supplier?

Can you “mine” your customers’ data?

Does the program administrator or OEM have the ability to remarket one dealer’s customer to another store?
Marketing Component

Is it your store that is being marketed or your manufacturer brand?

Can you initiate a communication or campaign to just your customers?

Are all the program communications being driven by the manufacturer?

What makes your store stand out or unique?
Best Practices Guide and Vendor List

If you would like to receive a free Best Practices guide and a list of loyalty vendors

Please email me at mike@media-trac.com

Thank You for your Participation