

# HOW THE **BEST DEALERS** **STAY TOP-OF-MIND**

USING LOYALTY PROGRAMS TO BOOST CUSTOMER RETENTION



# EXECUTIVE SUMMARY

Customer retention is every dealership's goal, but few have mastered a practical way to accomplish it. And that's for a variety of reasons that have to do with modern customers and modern dealerships. Modern customers have many options for products and services besides your dealership, and it's easy for them to be choosy. Modern dealerships have specific sales figures to hit; getting a sale from one customer takes effort enough. Getting a lifetime of sales from one customer can seem lofty and unlikely. Yet retention remains the surest way to drive sustainable revenue. Which brings us back to the question of how you can achieve it.

The most practical and effective way to make customer retention a reality in your dealership is through loyalty programs. Loyalty programs allow dealers to make personalized connections with customers, build relationships that last, and boost overall retention metrics — assuming the programs are easy to execute without draining too much of your sales team's time, and easy for your customers to take advantage of.

Just one challenge remains: staying top-of-mind. When every customer has so many brands and so many options in front of them all the time, how do you make sure yours is the one that comes to mind when they're ready to settle down with a consistent provider?

## This white paper explains:

- Why customer retention is so challenging
- How loyalty programs help dealers stay top-of-mind with their customers
- What types of customer loyalty programs make the most sense for today's dealers — and their pros and cons
- How to execute the right loyalty program for your dealership, and use the new insights you gain to convince customers to repurchase

# THE CHALLENGE

## Staying top of mind from purchase to repurchase

Retention is important in many industries. In fact, across all industries, increasing customer retention rates by 5% can increase profits by 25–95%<sup>1</sup>. But retention is particularly important – and particularly elusive – in automotive. It costs 10x more for a dealership to acquire a new customer than it does to retain a current one<sup>2</sup>, so to grow your business and drive profitability, you need to continue to nurture your current customers and give them what they're looking for at the right times. Otherwise, you're going to have a difficult time staying top of mind with customers who don't need to purchase from you more than every several years.



Difficult, yes, but not impossible. If a customer of yours chooses to purchase from another dealer rather than repurchase from you, you could have one of a few common problems: Your messaging wasn't personalized and they didn't feel compelled to call you back, you contacted them at the wrong times and didn't take a hint, or your incentives and rewards (if you provided any!) weren't the types of offers that mattered most to this customer.

The good news is, whatever the problem is, there's something you can do about it ...

<sup>1</sup> Frederick F. Reichheld and Phil Schechter. "E-Loyalty: Your Secret Weapon on the Web," *Harvard Business Review* (2000). <https://hbr.org/2000/07/e-loyalty-your-secret-weapon-on-the-web>

<sup>2</sup> John L. Daly, *Pricing for Profitability: Activity-Based Pricing for Competitive Advantage* (John Wiley and Sons, 2002), 85.

# THE SOLUTION

## Loyalty programs help dealers stay top-of-mind

Here's how loyalty programs boost retention: If done correctly, they make customers happy. They facilitate regular communication and make it easier for you to deliver the positive experience and incentives customers want. Why does happiness matter? Dealers are 14 times more likely to sell to a *happy* customer than to a *new* customer. More happy customers means more repurchasing. There's your retention problem solved. Right?



**62%** OF CUSTOMERS HAVE STOPPED DOING BUSINESS WITH A BRAND OR ORGANIZATION DUE TO A POOR CUSTOMER SERVICE EXPERIENCE<sup>3</sup>

Well, you might be thinking, "I provide excellent customer service and do my best to make customers happy ... why do I need a loyalty program?" These days, friendly smiles and fair prices alone won't keep your customers from going to another dealership. You need to give them something to remember besides the last time they bought a car from you or came in for service. You need a way to stand out in their minds, all the way from purchase to repurchase.

<sup>3</sup> Microsoft Corporation. "2015 Global State of Multichannel Customer Service Report," last modified 2015. <http://paratureprod.blob.core.windows.net/wp-uploads/Global-State-of-Multichannel-Customer-Service-Report.pdf>

## Why dealers need loyalty programs

- You'll get better brand equity. Show customers you care about them beyond the point of purchase, and they'll share their experiences with their networks.
- You'll save on marketing and sales costs. Even with the cost of a loyalty program, customer retention makes its lifetime value higher.
- You'll get more customers to repurchase. Loyalty programs make customers happy — and happy customers come back.
- You'll get valuable insights. Loyalty programs provide a clearer picture of what your customers like, so you can target them more effectively.

WHAT ARE CUSTOMERS  
LOOKING FOR IN  
LOYALTY PROGRAMS?



**75%**

WANT RELEVANT  
REWARDS AND  
OFFERS



**81%**

WANT PROGRAMS  
THAT ARE EASY  
TO UNDERSTAND<sup>4</sup>

## Why customers want loyalty programs

- They're loyal to brands that are loyal to them. This is why Amazon and Uber are so dominant right now; today's customers expect consistently customized service — and when they find it, they stick with it.
- They save money on your services. As they progress, customers are rewarded with discounts, free oil changes, exclusive incentives or whatever your dealership decides.
- They're happier with their purchases. When customers receive rewards for buying from you, they're less likely to experience buyer's remorse.
- They feel comfortable sharing personal information. Because you're using their personal data to their advantage, they'll be much more willing to give it out.

<sup>4</sup> Cullloquy. "Customer Loyalty in 2015 & Beyond," last modified October 2015.  
<https://www.colloquy.com/latest-news/tough-lesson-from-our-new-research-report>

# Types of loyalty programs

The kind of loyalty program you choose depends on the resources you have, the software you use to engage your customers, and how personalized you want the program to be. It's important to remember, though, that the majority of today's customers like personalized offers: In a Virtual Incentives study, 56% of all consumers said receiving a personalized incentive would make them more likely to consider a brand<sup>5</sup>. The more personalized your program, the more you'll stay top-of-mind with your customers. This list breaks down the pros and cons of each type of program and indicates how personalized they can be.

## PUNCH CARDS

**Example:** Buy 5 oil changes, get the 6th free



PERSONALIZATION:  
**LOW**

## POINTS PROGRAMS

**Example:** For every dollar spent, get x amount of points toward service discounts



PERSONALIZATION:  
**MEDIUM**

## CASH-BACK PROGRAMS

**Example:** For every dollar spent, get x amount of cash back



PERSONALIZATION:  
**HIGH**

PROS	CONS
<ul style="list-style-type: none"> <li>• Easy for customers to understand</li> <li>• Simple to manage and inexpensive to operate</li> <li>• Easily measurable success rates</li> </ul>	<ul style="list-style-type: none"> <li>• Not very progressive</li> <li>• Not personalized to the customer</li> </ul>
<ul style="list-style-type: none"> <li>• Easy for customers to understand, because they likely already participate in one</li> <li>• Give you valuable customer insights — by tracking what customers redeem points for, you'll know what's working and what's important to them</li> </ul>	<ul style="list-style-type: none"> <li>• Can be time-consuming to regularly communicate to customers exactly how many points they have and what they can be redeemed for</li> <li>• Can take a while for customers to accrue enough points for significant discounts</li> <li>• Personalization is limited, because you can only target customers based on what they redeem — things like oil changes, tire rotations, t-shirts and hats</li> </ul>
<ul style="list-style-type: none"> <li>• Easy to understand, because they're similar to credit card cash-back programs</li> <li>• Customers get immediate incentives — as soon as they spend money, they get cash back</li> <li>• Very personalized, because customers can spend their cash on anything, allowing you to target them based on what they choose</li> </ul>	<ul style="list-style-type: none"> <li>• Can be time-consuming to regularly communicate to your customers how much they have earned</li> <li>• Can be difficult to maintain, because accountants need to consistently verify how much cash customers have earned and spent</li> </ul>

<sup>5</sup> Virtual Incentives. "New Research Study Reveals Consumer Preferences for Incentives and Rewards," last modified September 2016. <http://virtualincentives.com/new-research-study-reveals-consumer-preferences-incentives-rewards/>

# EXECUTION

## Putting your loyalty program in action

Now that you know the benefits of each type of loyalty program, you're ready to choose and create one for your dealership. But implementing a loyalty program isn't a set-it-and-forget-it initiative. It takes thoughtful planning and upkeep, but the revenue you gain makes the effort well worth it! These five steps will help you get started.

### STEP 1 Identify opportunities

Start by exporting the customer data in your CRM, including contact information and buying history for sales, service, parts and accessories. Then, segment this data with a data segmentation tool for customers who stopped using your service or don't come in very often — there's a good chance these customers would be willing to consider you again if you provided personalized incentives. Your CRM should be able to do the heavy lifting here.

### STEP 2 Get your personnel in place

Assign someone to be your **dedicated loyalty program manager**. This person should already be familiar with your CRM and should have a strong grasp on reporting and loyalty programs. With your loyalty program manager, decide what kinds of program(s) you want to run, and determine the total cost of the program and its impact on your bottom line ... **before** you launch it.

### STEP 3 Set your goals and develop a strategy

To get valuable return, make sure the program objectives align with your business objectives — things like higher retention, higher engagement and higher revenue. Meeting your revenue goals will be achieved in three phases: retention, frequency and lift. That means you'll start by retaining customers, then get them to come in more often, then expand what they buy when they do come in.

Once you've set your goals, meet with your loyalty program manager and other key players to develop a strategic plan. Decide what the rewards will be, who will receive them, and how to earn them. Look at your CRM data to focus on what your customers will be interested in: What are their preferences and motivations? What have they bought in the past?

## **STEP 4** Promote your loyalty program

Get your program off the ground by incorporating it into your marketing communications. If your CRM has a campaigning tool, use it to create announcement campaigns to customers in these categories. Add it to your website, your listings on third-party sites, and anywhere else you promote your dealership. And get your service reps involved! Have them introduce the program to customers in your service drive. Once the program is underway, you should regularly communicate its value to your customers through monthly rewards emails, reminder emails and promotional emails.

## **STEP 5** Measure your results

Did you meet your goals? Have your loyalty program manager conduct a report after three months. They should look for a rise in repair order tickets, more appointments made with salespeople, and more customers actually showing up for appointments. After six months, review your year-over-year growth to determine the program's effectiveness. Measuring results doesn't just mean every few months, though — during the program, are customers redeeming their points? Bringing in their punch cards? Taking advantage of the offers you send? A good CRM will make it easier to track these metrics, allowing you to make improvements to the program.

### **You've earned that top-of-mind spot... now what?**

The first sign that you're staying top-of-mind with customers is an increase in engagement. But that's not the end goal. By using your loyalty program data effectively, you can measure a major increase in revenue across your customer base. Make sure you capture all customer activity in your CRM — what they redeem their points for and what they spend their rewards on — so you can be sure your program is working. Using a data mining tool, you can take advantage of more opportunities by creating targeted, personalized campaigns based on these preferences — giving you a much greater chance of keeping customers' business.



# CONCLUSION

## Loyalty programs are your competitive advantage

You'll always have to compete with other dealers to stay top-of-mind with your customers – that's the nature of this business. But with the right loyalty program in place, you'll always have a competitive advantage. By building personalized relationships, making customers feel valued, and providing them with rewards they want, you can be sure you'll keep those customers coming back.

## VinSolutions

A leading provider of CRM solutions, VinSolutions is committed to helping dealers and dealer groups make every customer connection count. Its sophisticated yet easy-to-use software solutions span the scope of dealership operations and are accessible from anywhere an internet connection is available. VinSolutions' long-term support options help dealers get the most value from their CRM systems and build valuable, long-term relationships with their customers. VinSolutions is a Cox Automotive™ brand.

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