

Affinitiv CEO Scot Eisenfelder Challenges Auto Dealers that Service Absorption is a Dangerous Number

Auto dealers would be better served if outdated metric was retired and replaced with a focus on service revenue per units-in-operation



CHICAGO, IL, USA, November 6, 2017
/EINPresswire.com/ -- [Affinitiv](#), a leading

provider of marketing and technology services to automotive manufacturers and dealerships, today announced that CEO Scot Eisenfelder is challenging the auto industry's long-held assumption that service absorption is the best measure of a dealership's fixed ops revenue potential. Instead, Eisenfelder proposes, dealerships would be better served by the adoption of service revenue per unit-in-operation (UIO) to maximize fixed ops revenue potential.

"Service absorption is one of the most frequently cited metrics at 20-group meetings. While asking the service department to carry store profitability has never been more important, I believe that focusing on service absorption as a metric is not only limiting, but dangerous to dealerships in the long-term," said Eisenfelder.

According to Eisenfelder, his primary issue with service absorption is that it's composed of two unrelated measures and does not accurately reflect store achievement relative to potential. "Service profits are not substantially driven by store fixed costs. Most dealerships' fixed costs support vehicle sales, not service, so there is no reason to expect correlation between the two metrics. Therefore, the metric itself does not provide any guidance for how to optimize service profitability," Eisenfelder said.

As an example, Eisenfelder points to brands such as Subaru, Hyundai and Kia that have done well over the last half-dozen years. Vehicle sales have expanded faster than store operations, so dealers have relatively low fixed costs and not a lot of service capacity. This results in naturally high service absorption ratios that give dealers a false sense of doing well, when in fact a high percentage of their UIO revenue is being leaked to independent repair shops.

Eisenfelder believes that the underlying premise of comparing service profits and store fixed costs represents an archaic view of automotive retailing. "Once upon a time, dealers could count on substantial warranty work and sufficient in-warranty customer pay business from new vehicle sales, so minor tweaks in fixed ops could achieve enough service profits to cover seasonal or temporary new vehicle declines," he said.

However, front-end profit is in permanent decline and very little service business is guaranteed due to less warranty work, higher quality vehicles, more replace-than-repair work and more aggressive independent aftermarket competitors. So, relying on historic approaches and goals is insufficient to achieve desired store profitability.

Most important, achieving 100 percent service absorption doesn't represent a store's service revenue potential. Today's franchise dealers only capture 20 to 25 percent of the revenue potential from their Units in Operation (UIO). "I would argue the focus on service absorption in part contributes to these results," said Eisenfelder. "Too many dealers are focused only on covering fixed costs, rather than competing on each revenue opportunity and driving the fundamental changes required to wrest dollars from aftermarket chains."

A recent trend illustrates how dealers are falling behind. From 2010 to 2017, one- to three-year-old units in operation increased 48 percent; however, franchise dealership service and parts sales increased just 41 percent. "This indicates that dealers are losing connectivity to consumers and vehicles, which is becoming more important as new vehicle sales slow and margins decline," said Eisenfelder.

Eisenfelder concludes that dealers would be better served by focusing on service revenue per UIO. Not only does this better represent the true service potential for each store, but the metric facilitates more meaningful cross-store comparisons and diagnostics.

Eisenfelder believes that maximizing revenue per UIO creates a fundamentally different strategic and operating mindset where the dealer does not concede any revenue to the aftermarket. According to Eisenfelder, a dealer focused on revenue per UIO should scrutinize all leakage points and determine what needs to be done to:

- Provide superior value and convenience to customers
- Engage in meaningful dialogue with consumers
- Alter processes to mimic consumer experiences elsewhere
- Leverage knowledge about customers and vehicle servicing needs

"With such a view, additional investments in marketing, service lane technology or loaner vehicles are not measured as an expense, but against their impact on incremental service gross profit. With only 25 percent service revenue capture, dealers have the opportunity to dramatically expand store profitability no matter what happens to new vehicle profits, but only if they are willing to look beyond service absorption," said Eisenfelder.

Affinitiv's end-to-end service marketing solution is driven entirely by data and advanced analytics, allowing dealers to send customers highly targeted messages at the right time on the right communications channel. Affinitiv's layered, multi-channel communications approach has been proven to increase reach and frequency, boost response rates, lower marketing spend and improve customer retention.

In the past year, Affinitiv has continued to share its vision of creating [connected customers for life](#) with auto manufacturers. Currently a dozen OEMs are using Affinitiv aftersales marketing solutions to create loyal and repeat customers. Affinitiv's current OEM partners include BMW, Kia, Lexus, Chrysler, Volkswagen, MINI, GM, Porsche, Mitsubishi, Audi, Volvo, Rolls-Royce Motor Cars and Maserati North America.

Headquartered in Chicago, Illinois, Affinitiv has seven offices across North America and India, and employees more than 500 team members.

For more information, visit www.affinitiv.com.

[About Affinitiv:](#)

Affinitiv is a leading marketing technology company exclusively serving automotive manufacturers (OEMs), dealership groups, and individual dealers. Affinitiv enables its customers to produce, manage, measure, and optimize multi-channel communications to drive brand loyalty and increase revenue across the dealership. Affinitiv's digital and analytic capabilities offer an end-to-end solution that supports a consistent experience across the entire consumer lifecycle. Affinitiv was formed through the strategic combination of DPS, Peak Performance, OneCommand, and TimeHighway.com. Affinitiv is headquartered in Chicago, IL.

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