Customer
Relationship
Marketing

A CRM White Paper

Peter Steele
Protractor Software Inc.
Revised July 2013

The Reminder Paradigm

Average Invoice Value x Invoice Count = Average Daily Sales

Everything you do in your CRM effort is trying to increase your average invoice value (sales $), increase the Invoice Count (# of customers) or both.

The normal paradigm thinking for CRM (customer relationship management) in the automotive repair aftermarket is to try to chase people who are delinquent in their service. I haven't seen Customer X for 90, 120, or 180 days, so I need to remind him to come back and get his vehicle serviced. All aftermarket CRM companies offer and provide services that nurture this thinking. They want to send reminders when people become due or overdue for services. These reminders are typically being sent to people who have not committed or discussed the service requirements of their vehicle, and the customer has not had a discussion or committed to the date of his next visit. So out go the typical 90 day reminder, 120 day reminder, etc… with the odd "our records indicate that your vehicle is due for item 1, item 2, item 3, and if you call now, I can help you" thrown in for good measure.

In my instance, I started in 1999 to manage a 20 store Tire & Automotive chain in Toronto, Canada, that grew to 75 locations when I left in January 2013. Average store sales were about $500,000 when I started and were over $1.5m when I left. The chain averaged over 500,000 transactions annually. At the peak, I was spending over $300,000 a year, to make 379,000 contacts to people who had already decided NOT to return to our facility for their next service when due; for whatever reason.

So at 90 days we would send a nice reminder, at 120 days we would offer an incentive to get them back, and at 180 days the incentive would get larger as I really tried to get them back. The longer the customer had been delinquent, the more aggressive the offer became to get them back.

However, if you were my best customer, and showed up on your own every 90 days, then we never "spoke" (by email or mail). I was spending all my money on the people who didn't want to come back, and no money on my best customer, who had already committed to return and booked the next appointment. This was stupid, and never made any sense to me!

Then to make matters worse, customer feedback measurement was limited to:

1. Business reviews and site visits (our feelings)

2. Complaints or Compliments called or sent in

3. An annual customer satisfaction survey of random customers compiled 1 time per year with a sampling of about 20 respondents per location. This was very labor intensive, and we would have to contact about 50 customers to get 20 responses. A student would spend the better part of a month to assemble, but it never shed any light on why people felt like they did.

4. CAA(AAA) feedback cards, but very few get sent in and we don't see the results for 3 + months. (if the guy on the counter remembers to give them out)

5. Instore mystery shopper evaluation reports.

I knew I was wasting most of that $300,000 in reminders, but everyone said "hey, that's the way it has always been done" and no one wanted to move off it for fear of having a severe business loss. Regardless, I knew it was wrong and just because the facts were being ignored, they were still the facts.

So we tracked the return rate of certain reminders and found out that it averaged 6.7% over all locations, with the low of about 4% and the best location getting about 9% rate of return visits from reminders. We were training the customers the wrong way. I even heard customers say that they would continue to be delinquent until they got the notice to come back in, kind of making the excuse that they don't have to worry about maintaining their vehicle and will be past due before we see them again.

We actually believed that we were providing a valuable service and were on the leading edge of customer service. I figured out that we were training customers to ignore the scheduled service interval and then only having a small percentage of them return on a regular basis anyway. In a way, we were promoting a "break down" mentality to our customers, and doing nothing to communicate to our best customers.

The Breakdown Customer vs. The Maintenance Customer

To further discuss CRM, we need to identify the different types of customers. I am not trying to delineate the different types of customers for sales purposes; I am simply trying to identify those customers that believe in Preventative Maintenance compared to those customers that don't believe in Preventative Maintenance. I happen to believe in Preventative Maintenance.

My experience also shows that a customer can actually change their belief of Preventative Maintenance based on the age of the vehicle as well as between vehicles if the customer (family) have more than 1 vehicle in the fleet.

My experience has identified those customers with vehicles 3-7 years old are the best candidates for belief in Preventative Maintenance. Drivers of newer vehicles feel they are less susceptible to breakdown (and rightly so) and tend to return to the dealer so long as the vehicle is still under warranty. Drivers of older vehicles tend to take a more budgeted approach to the remaining life of the vehicle and will defer some Preventative Maintenance items if there is no tangible proof or strong belief that the Preventative Maintenance will extend the remaining life of the vehicle.

So what does a Breakdown Customer vs. a Maintenance Customer have to do with CRM you ask? Well everything. Breakdown customers will be much harder to get scheduled for their next service appointment than a Maintenance Customer, and the Breakdown customer is much more likely to be delinquent on the next service interval than the Maintenance Customer.
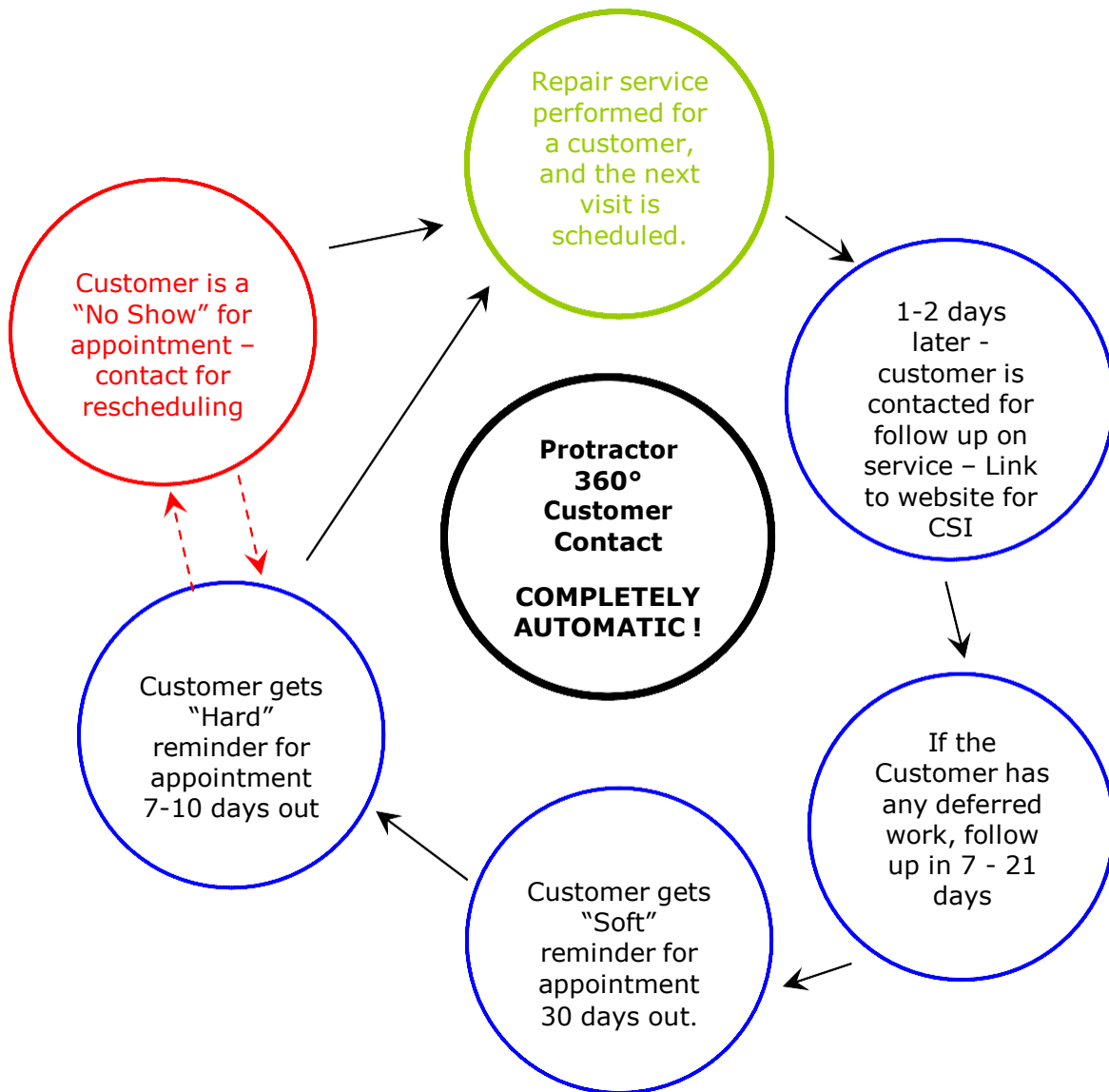
The 360° Customer Contact Paradigm

So I came up with the 360° Customer Contact concept. The big paradigm shift is this: Instead of spending the bulk of our money on people who are delinquent for service and have made the mental decision not to return (Breakdown Customer), we are going to spend the majority of our effort on customers who have agreed to the next visit and want to return (Maintenance Customer).

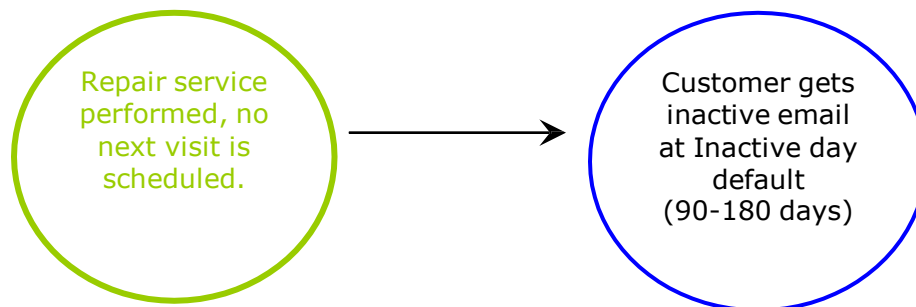The remainder of the money budgeted for follow up was injected into marketing efforts to gain New Customers.

Even in my own camp, I could not build consensus that this was the way of the future. We agreed to stop doing the conventional reminders, but provided no budget to do the 360° program. So I said, no problem, Protractor will build the free email system into the software, and even if a store only has 10%-20% of the customers with email addresses, I was convinced that the 360° Customer Contact system would still provide better results than the old reminder system.

So how does the 360° Customer Contact work?

For a Maintenance Customer:

Repair service performed for a customer, and the next visit is scheduled.

Customer is a "No Show" for appointment – contact for rescheduling

1-2 days later - customer is contacted for follow up on service – Link to website for CSI

Protractor 360° Customer Contact

COMPLETELY AUTOMATIC !

Customer gets "Hard" reminder for appointment 7-10 days out

If the Customer has any deferred work, follow up in 7 - 21 days

Customer gets "Soft" reminder for appointment 30 days out.

For a Breakdown Customer:

Repair service performed, no next visit is scheduled.

Customer gets inactive email at Inactive day default (90-180 days)

In Protractor, the user can set the base intervals that they want to contact the customer. The interval is expressed in days prior to next service or days since last service as noted below.

Thanks for the Business	Days since last service. Suggest 1 day.
Deferred Work	Days since last service. Suggest 7-10 days.
Soft Reminder for appointment	Days before next service. Suggest 30 days.
Hard Reminder for appointment	Days before next service. Suggest 7 days.
No Show Reminder for Missed Appointment	Next day after missed appointment
Inactive Customer	Days since the last service. Suggest 100-180 days.

Calculations for the various criteria are performed in Protractor, and then the resulting files are processed and any customer with an email address will receive their reminders.

The dialog screen in Protractor looks like this for setting the user intervals for the 360° Customer Contact.

The Marketing Requirement

So if I have a way to look after both my Breakdown Customers and my Preventative Maintenance Customers now with the 360° Customer Contact, what else is left? Good question!

Email service only allows contact to those customers you have accurate emails on file for. If the shop owner wants to talk to all of his customers, Protractor now has the ability to mirror the 360° Customer Contact for the customers that don't have an email address by sending postcards.

This will now provide full reach and coverage to customers once they visit.

But how do I ensure sufficient new car count shows up at the door as I build my business with loyal Preventative Maintenance based customers? Another good question!

The shop owner will require access to marketing expertise and assistance to help in this role. Some shop owners will have experience or staff to fill this role, but most do not have the time or the interest to perform this role but it is very important. The person or company who provides this marketing role has to be able to assist you to develop a marketing plan and budget to go after new customers. All shops need to be working synchronized efforts that support a consistent message to the trade area. Logo's, colors, signage, flyers, ad's, business cards, uniforms, vehicles, brochures, etc… need to be working together to build your brand in your local trade area.

The marketing expert also provides a secondary role of creating material that you can use to educate your current customer base to become more loyal and to enhance Preventative Maintenance thinking. This is often accomplished through Point of Sale Material or Brochures that highlight specific products or services, and through newsletters and editorial articles that you can use to educate your existing customers on the benefits of being more loyal and Preventative Maintenance minded.

The Paradigm Shift

Well, it was 7 years later when I left since this paradigm shift was started. What was the results?

1. Prior year over year sales growth was a constant 5%-6% for same store sales until the recession started. 1st year after the shift, we had 10.6% same store sales growth. The peak of the recession did not hit Canada until late 2010, almost 2 years after the USA. Since then, sales had been flat overall across 75 stores, but we had continued growth in the stores who believed in Preventative Maintenance, and we had stores that struggled with operators who did not believe in Preventative Maintenance. Over all was less than 1% growth across 75 stores.

2. Prior years' (2005) average work order value was $154. This year (2006) it is at $186. When you move the average work order $32 across 450,000 invoices, it is a huge number. By 2013 this was an average up to $240 across all 75 stores.

3. Feedback now is instant, and on any average month we receive honest and anonymous feedback from 200-300 customers. Because we measure it, we can manage it, and scores are ever improving.

The 360° follow up did exactly what I thought it would do, even though we have fewer email addresses on file than I forecast. In 2006 we had 27,112 customer email addresses and I estimated we would have about 40,000. You need to train the pre-service process to get the staff to have the discipline to ask for the email address on write up. In 2013 the email count was up over 150,000 addresses.

The other big paradigm change was to get pro-active about booking the next visit, to trigger all the 360° Customer Contact. As of 2006 we had an average 3,482 confirmed appointments for future work. This number is again below where it needs to be, and is reflective of the difficulties faced to get our staff to change their paradigm thinking. We still have much work to do in these areas, but look at the sales growth and average work order growth with what I call "passive compliance" thinking by our staff. If we can just get them thinking on this paradigm, we will really take off. As of 2013, we had an average of 4,286 scheduled appointments for future work.

A lot of the sales growth is because the customers are being slowed down and there is sincere interest and dialog to get them back in for the next scheduled service, so they are becoming more loyal. Go figure!

We trained and continue to train on the 360° Customer Contact paradigm. Until every location and each and every staff member buys in and believes, we will not be satisfied. Here is a partial list of the main things we have had to train on and overcome:

1. **Preventative Maintenance mindset**. I am a licensed mechanic and have always understood and believed in Preventative Maintenance. Not only is it best for the customer, it is also best for me and my family vehicles.

   I also learned that many of my colleagues and associates do not share this mindset. So you really need to talk a lot about this.

2. **Slow Down the Pre-service.** Many people want to be seen as efficient and rush the points of contact with a customer to better demonstrate their efficiency. This is a fatal error, and needs immediate correction. We only get to talk to the customer for about 5 minutes on the drop, and it only happens 3-4 times a year with your best customer.

   Even though you may be saying and talking about the same things 20 times a day, 300 days a year, your customer is entitled to know what is due on his vehicle, and it is the service advisors job to give him that information. We have a set pre-service routine documented that all staff are expected to follow as a condition of employment.

3. **Inspections - Estimates – Sales Presentations.** Once you get the service advisor providing a consistent and thorough pre-service to every customer, you need to make sure the Technicians in the back are doing complete and thorough inspections, and that the service advisor is estimating all the recommendations and presenting them to the customer.

A lot of technicians will not make the call on OEM mileage based recommendations, even when listed for them as part of the inspection. Do not assume that your technicians are doing this automatically. I recall one of our shops I attended to meet with the staff on this very issue.

The service advisor did a proper pre-service and prepped the customer on the OEM Service Recommendations due on their vehicle. Because the vehicle was just past 90,000 km (60,000 miles), the service advisor went back 1 interval to discuss the list of recommended services from the manufacturer. This vehicle was a 4 wheel drive, and one item was to service front and rear differentials.

When the technician got the inspection, he checked the differentials and said the fluid looked clean and was at the correct level, so marked everything as ok and sent the inspection back to the service advisor. The service advisor continued the discussion on the differential service with the customer. The customer did not recall the fluids having ever being changed, and went ahead with both differential services and the transfer case as well.

When the Technician Instructions went back out on the floor, the technician refused to do the work, and said the service advisor was overselling. I was then called in to facilitate a meeting and try to get everyone's thinking in the same paradigm.

When I met with the staff, I indicated that the service advisor did the right thing by having this discussion with the customer. The fact he went back 1 service interval to confirm previous recommendations were done is fine. The technician dropped the ball by not providing the customer with the proper inspection. The correct inspection result, after inspecting the differential and verifying that the service was not recently performed, was to mark the service as due based on the OEM mileage recommendations.

The customer has the right to know what is recommended and to then decide what services to have performed. The technician's job is to perform the inspection and provide the information. The technician in this instance had thought that his personal opinion had more to do with the service than the recommendations of the engineers who built the vehicle.

I have also seen breakdowns where proper inspections were done, but the resulting estimate and sales presentation overlooked certain items. Again, it is the bias of the service advisor in most cases that decides what they will or won't estimate, and ultimately what they will or won't present in the sales presentation.

So don't take your staff for granted. I have run into a lot of talented and experienced individuals who struggle to change paradigms.

4. **Future Appointments**. This is another paradigm shift for the service advisor. Now they have to slow down the post service and make sure to discuss the future service requirements for the customers vehicle and be able to schedule the next appointment in the future for the customer.

   We have trained a lot on this. How to have the conversation and what the customer can expect to have happen. We also introduced an Appointment Card complete with a referral section and a peel off sticker to let the customer place it on their calendar, like a dentist does. This was for customers who would not provide an email address or didn't have one.

Our future goals are to keep reinforcing the 360° Customer Contact paradigm and to get better and better on the execution. I know our business will benefit! In fact, in Protractor, you can see a screen of your ROI on the email or postcards at a glance.

The Loyalty Program Lesson

During my tenure as General Manager of the Tire & Automotive chain, we tried to implement a chain wide loyalty program. The 1st program was an expensive mistake that proved to fizzle fast. We had our own loyalty cards all printed, a swipe machine to track the customers "Creditz" earned, and felt we were on the fast track to success. How naïve our thinking was!

The 2nd program was a few years later and almost never got off the ground because so many of the store owners and staff were still afraid of the results of the prior program. But, we got it off the ground, and boy did I get an education.

As far as loyalty programs go, I had a couple of loyalty cards in my wallet, but I was not what you would call a loyalty advocate, and I could take it or leave it. However, there were some die-hard loyalty advocates who kept pushing to get a good loyalty program going.

We launched the loyalty program in 2009, and by the end of 2 years on the program, here were the results:

- 72,000 unique Members transacted at stores over 380,000 times, generating more than $100 million in sales
- The average Member transaction was over $280 (compared to $240 for the non-member)
- 67% of Members were NEW customers for the chain
- Existing customers who began collecting Loyalty increased spending at the stores by 38%
- Retention rate of Loyalty Members was over 10X that of non-Loyalty customers

So what did we learn about Loyalty?

1. People will use a loyalty program for the right currency. In the 1st program we were rewarding for points in our own branded program and the customer saw no value in the currency. It would take them $1,000 of spend to earn $25-$40 in loyalty Creditz and they never saw value. It was too complicated and took too long to earn.

   In the 2nd program, we offered one of the most popular Loyalty currencies in Canada, Aeroplan. Customers' could earn Aeroplan at gas stations, pharmacy's,

bank's and of course airlines.
So when we started to advertise "Earn Aeroplan Rewards Here!" we didn't have to explain the program. People knew what the logo meant.

2. The Aeroplan logo was in all of our marketing. Radio, Print, Email, store POS, everything. This had a hidden benefit. It started bringing us lots of New Customers who swiped their Aeroplan card to earn loyalty rewards for routine car maintenance. Especially on big dollar visits like to buy new tires.

3. Once the Aeroplan member arrived, they were far more likely to be loyal than the non-Loyalty customer.

Remember I said I was not a loyalty guy, but I could not argue with the facts. The right loyalty currency will work and the wrong loyalty currency will fail, and I have seen it many times since I learned this lesson.

Your Customer Bucket

When the recession came, the car count slowed down and the average ticket was hard to grow. At times like this, the simple laws of nature take over, and only the strongest survive. The poor economic times highlight your best stores and also expose your weakest stores.

It made sense to me that the best stores who did well in tough times, were also the stores that embraced a Preventative Maintenance mindset and were doing proper follow up with their customers before the tough times arrived.

It also made sense to me that the weak stores did worse in tough times, and were constantly searching for the silver bullet that would save them. The new flyer, the FREE this when you buy that, or a new reader board sign.

The best stores are the best stores because they execute on the business fundamentals better. The worst stores are the worst stores because they cannot execute on the business fundamentals.

There is no better measure of this fact than to track and measure your customer bucket. Protractor is the only software who even tracks this type of thing, and I honestly don't know why more don't track it. It is vital to the long term success of the business.

Your customer bucket is defined by the number of customers who transacted with your business over a period of time, compared to the same time in a prior period. Not vehicles, not invoices, customers. Why customers? Because the customer decides if they are going to return or not return. Not the vehicle, not the invoice. I would typically look at this report at least 2 x per year, to eliminate any seasonality.

You need to look at your customer bucket not as a reflection on sales, but on future sales. It is like a checking your tires. If you check your tires and maintain the right pressure, you can predict the future performance of your tires. If you find a slow leak in one of your tires, then you fix the tire before it causes you any problems. If you don't check your tires, then you will surprised one day when all of a sudden all the air is gone and you have a flat tire, or worse, a blowout.

Let's look at a 1 year period.

The sum of the customers who had transacted with me is the sum of my customer bucket. However, not all customers within the bucket are the same, so I need to further segment my bucket. So for this example I will give the following criteria.

Active – Someone who had an invoice in the period, and was not yet Inactive.

Inactive – Someone who had an invoice in the period, but had not returned within the Inactive Criteria. For this I would set a number like 180 days as the Inactive criteria.   So in this example the customer had an invoice in the period, but has not been back in the past 180 days. So they are at risk of going Dead.

Then I can further segment my bucket to define New and Loyal customers. These will become a subset of total customer bucket.

New – Someone who had their 1st invoice in the period

Loyal – Someone who had an aggregate send of $xx and a minimum number of visits. In this case I put in $500 and 2 visits.

	This Year	Last Year	Change	Comments
Active	500	450	+50	Good, more customers to remained active
Inactive	500	600	-100	This is actually good, Because you want low Inactive
Customer Bucket	**1,000**	**1,050**	**-50**	**Problem. Customer Base Shrinking**
New	104	200	-96	Marketing issue, not enough NEW customers
Loyal	250	220	+30	Good effort and growth
Sales	$1.0 M	$900 K	+$100 K	11% sales increase - Good

In this analysis, I can see my overall bucket has a leak and I lost 50 customers. So to fix it, I have to know where to look to find the leak. Active is up and Inactive is down. This is good, because I got more customers' to stay active (return) in the period. So my effort to follow up and to schedule the next visit is paying off.

If I was only looking at sales, I would be tricked and think my business is doing fine, but it is not. Yes my sales are up because I had more people remain Active and got more to be Loyal, but I have a leak in my bucket and it needs to be fixed.

I see the Loyal count went up, so I got 30 more customers to attend more and spend more. This is good.

I see my New count is down -96 customers. So I have to review my marketing program and decide how I can get my New count increased. Maybe I need a new ad, or maybe I changed ad's and it's not working. Maybe I need a local mailer, a flyer, or maybe I need to clean up the shop and add a coat of paint.

My experience is that once you identify the cause of the leak, you will be able to solve it. If you are never tracking the customer bucket, then you will never even know there is a leak. You will just continue through good months and bad months until you have leaked out so many customers that you can no longer pay the bills.