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# CUSTOMER RELATIONS

A large, stylized globe graphic in shades of blue, featuring a grid of latitude and longitude lines. It occupies the lower two-thirds of the page.

## Executive Summary

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**CUSTOMER PURCHASE BEHAVIOUR IS COMPLEX. FOR A HIGH INVOLVEMENT PRODUCT SUCH AS A MOTOR VEHICLE, MANY FACTORS CONTRIBUTE TO THIS COMPLEXITY INCLUDING THE LENGTH OF THE PURCHASE CYCLE, THE FINANCIAL COMMITMENT BY THE CUSTOMER, THE INTERACTIVE NATURE OF THE DECISION THAT MIGHT INVOLVE A NUMBER OF FAMILY MEMBERS, FASHION, COMPETITIVE OFFERINGS, PRODUCT QUALITY AND PAST EXPERIENCE WITH A BRAND TO NAME VERY FEW.** The measurement of customer satisfaction has long been of interest to practising marketers, in the belief that satisfaction is a lead indicator of repurchase intent. Research suggests that there is a tenuous link between satisfaction and repurchase for high involvement products, such as a motor vehicle, and also in situations in which satisfaction is measured a long time prior to the next actual repurchase event. This, of course, is the typical situation in the motor industry where the Customer Satisfaction Index (CSI) is measured soon after the purchase of a new vehicle and many years before the purchase of the next. Marketers also need to be wary of stated purchase intent; behaviour does not necessarily follow stated intent. However, there does seem to be a correlation between satisfaction and willingness to recommend both the vehicle brand and the dealership.

The purpose of Customer Relationship Management (CRM) is to develop an ongoing relationship with a customer with the intent that the customer re-buys from the business. Increasingly manufacturers, importers and dealers are reviewing the benefits of building customer relationships and the implementation of CRM programs. A useful definition of CRM is "a customer orientated business process with an organisation-wide approach to the customer for achieving continual dialogue across all points of access and contact. It involves analysing findings and controlling the business's role in customer relationships using of information and communication tools."

The length of the purchase cycle varies for different market segments: government fleet customers replace their vehicles on average every 28 months; business fleet customers every four years; retail customers every five to seven years. Customer retention is about ensuring that at the end of this cycle the customer buys again the same brand from the same dealership.

A prerequisite for customer retention is of course a continuing contact with the customer. Opportunities for this occur naturally through the vehicle service cycle, if the customer continues to use the same dealership from which the vehicle was purchased. Not all dealerships or manufacturers track the repurchase cycles of their customers although 65% of the survey respondents follow-up on vehicle sales. Of the dealerships that do follow-up on sales the most common period of regular contact is three years, and customer retention for these dealer is above the average of 45%.

The ability of a dealership to retain a customer into the long term is related to the value that a customer receives from a transaction with the dealership. There needs to be a mutually satisfactory exchange of value between customer and dealership for the transactions to continue into the future, that is, for customer retention to occur. Value is the ratio of benefits received to investment needed to derive those benefits. A clear understanding by a dealership of the customer's desired benefits and necessary investments will place that dealership in a better position to create value for the customer, and hence keep that customer returning. Both parties contribute to the relationship by investing time, effort, and resources into the exchange of goods and services.

It is obvious from the following that some dealerships still have trouble grasping the basic requirements of relationship building.

*"Well initially I was looking to buy the same brand but I went down to the dealership and I have been there a couple of times actually, looking at either the used vehicles or the new vehicles;, but if they don't think you are a serious purchaser, they don't contact you; they say they will ring you back, but there's no follow up at all." (Customer interview)*

An understanding of the benefits of the relationship to both parties is increased by an awareness of both functional and emotional elements of a relationship. The customer's functional elements include:

- The need for mobility.
- Lifestyle needs.
- Budget constraints.

The customer's emotional elements include:

- Desire to project a certain image.
- Desire for status.
- Recreational needs and wants of the customer.

CRM then is the process of engaging the customer on a continuing basis at both a functional and emotional level so that he/she continues to derive value from the relationship and will return for all future purchases.

The current development strategy for CRM in the Australian automotive industry varies from a focus on 'improving customer satisfaction' to a silo approach. The silo approach separates the development of the database, the development of a customer focus and staff development and allocates the tasks to separate departments, and hence is less likely to be successful.

The data suggests a contradictory state of affairs in dealerships. A high proportion of dealerships, 86%, indicate that all departments are integrated in serving the customer but 27% do not know customer retention levels for the service department, and 30% do not know the retention levels for the used vehicles department. This would suggest that there is potential for further improvement in customer focus with flow-on benefits to customer retention. Although 86% of dealers state that they monitor their own level of commitment to the customer, only 59% conduct their own customer surveys. Similarly only 33% of dealerships know the actual level of customer complaints received. Although 83% of the dealers monitor the customer retention level for new car buyers, only 51% carry out their own dealer customer satisfaction surveys and measure customer satisfaction.

Two conceptual frameworks have been drawn on to understand the value of customer retention for motor vehicle customers. They are Customer Lifetime Value (CLV) and Industry Profit Pool. The model developed for this study has a more pragmatic focus than the CLV models developed for high volume direct marketing goods, and draws on both the Profit Pool notion of total profit potential of an industry segment and the discounted future revenue technique of the CLV models.

The revenue stream for a dealership retail customer buying a first used vehicle at the age of 18 years and the last new vehicle at the age of 65 years, and the referred vehicle sales from that customer amounts to a Net Present Value (NPV) of \$420,000. The NPV of the associated gross profit stream is \$51,000. What does this mean? It essentially means that keeping a customer from the first sale through to the last sale is the equivalent of earning a gross profit today of \$51,000!

Manufacturers and dealerships that have developed successful CRM programs describe CRM as an evolutionary process. Improvements accrue with time and experience. Key markers down this evolutionary path are:

- Customer satisfaction surveys. Although the use of satisfaction surveys is widespread, not all brands use surveys, and some that do, do not use the findings for improvement programs.
- Database development. The best practice database development has both customer details and customer purchase history for over seven years.

- Dealer network developments. The introduction of concepts of customer orientation and staff involvement in CRM across the organisation and across the network.
- Customer orientated network. The customer orientated network has each element of the organisation and network consistently demonstrating a customer focus.
- Customer relationship building. Each contact point within the organisation understands the importance of customer relationships and contributes to the creation and enhancement of customer relationship.

The relationship with the dealership is a key element in the process of delivering value to the customer. Dealership staff who are committed to the brand, who live and breathe the product, are a vital part of creating the customer relationship.

There is also a need to improve data integration between manufacturers and dealerships, and improve the integrity of the data, reducing inaccuracies and ensuring that privacy issues are addressed.

The best practice dealerships have a number of common attributes. They

- Measure both customer satisfaction and customer retention levels. Each of the dealerships reported a customer retention level of 65% over a five year period.
- Collect information on referrals and customers are asked if they would recommend the dealership. Negative answers are considered an opportunity for improvement.
- Separate expenditure on customer relationship programs and events from expenditure on advertising and marketing.

The relationship focus is driven by the dealer principal, which drives the direction of the dealership and the culture in the workplace. These attributes suggest a map of the current best practice in dealership CRM.

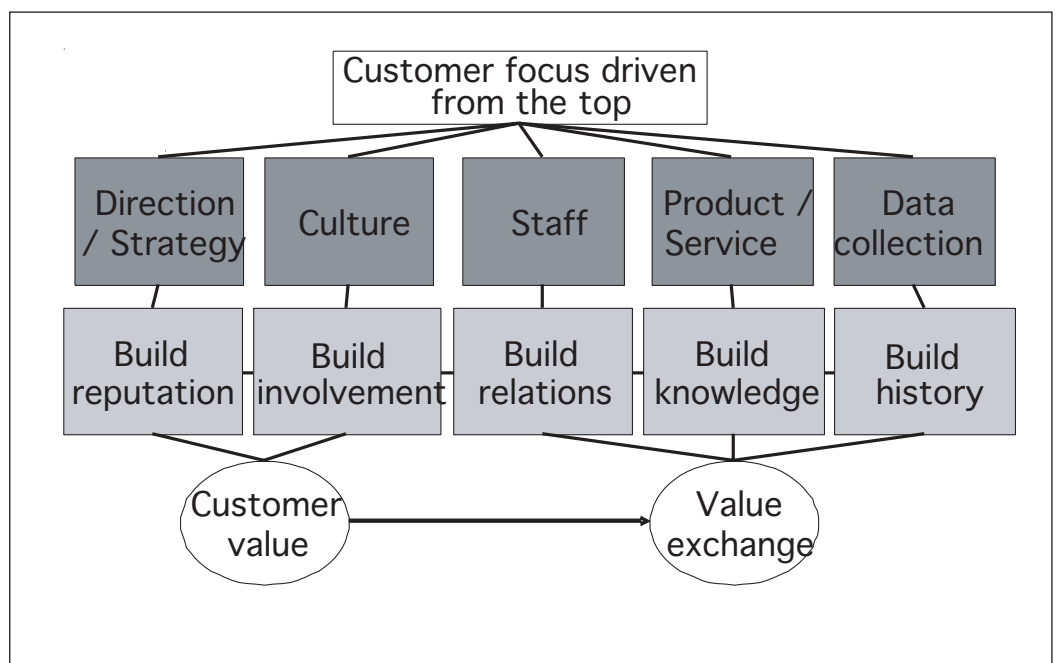


Figure 1

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