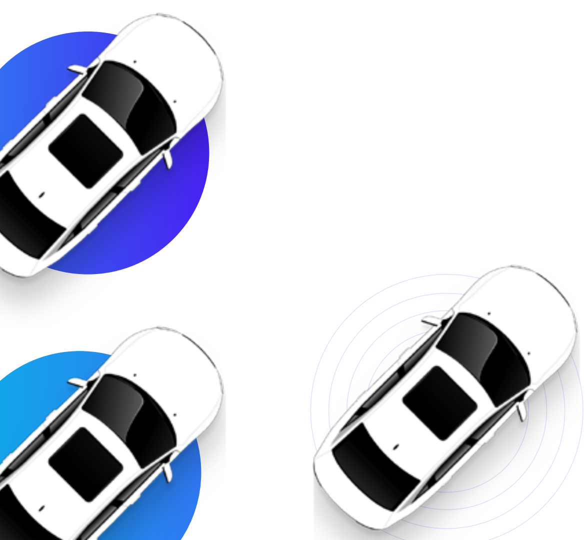
Dealerware

Guide to Tiered Loaner Programs

Reorganize your fleets to create new experiences and new sources of revenue



There's a missed sales opportunity in unimaginative fleet management.

The average courtesy loaner program provides a tremendous value to customers who need alternate transportation or simply don't want to wait at the dealership while their car is serviced.

Today's loaner programs meet customers' needs, but they don't always delight, surprise or provide customers with extra value that can inspire loyalty and increase satisfaction.

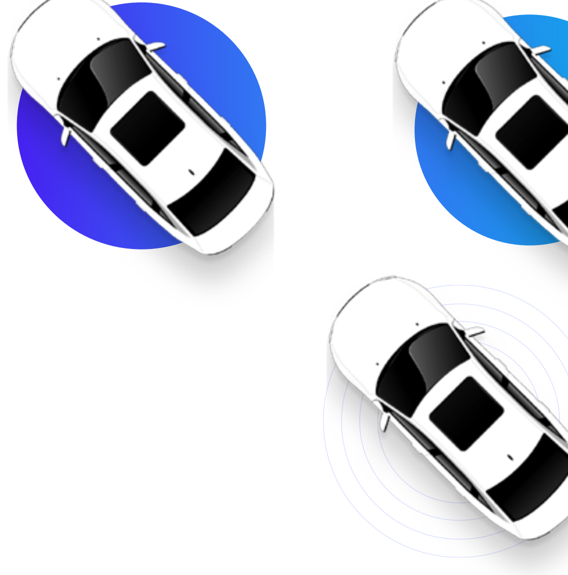
And though today's courtesy loaner programs may introduce customers to newer models and more advanced in-car features, they don't provide customers an opportunity to explore how a manufacturer or a dealership's available models match their specific needs and interests.

Dealerships that want to succeed with a new breed of customer must then find new ways to fit their products into customers' time-starved lives. Fleets should be organized according to product or experiential tiers to allow customers a chance to explore, in their own way, how different products fit their needs.

In return for providing a more personalized experience, then, fixed operations departments can reasonably expect to generate new revenue.

This guide will help dealerships and dealer groups develop tiered courtesy loaner programs that expand on the value provided by traditional loaner programs, making them more powerful tools for delivering customer satisfaction, creating loyalty and generating new streams of revenue.

Understanding the opportunity

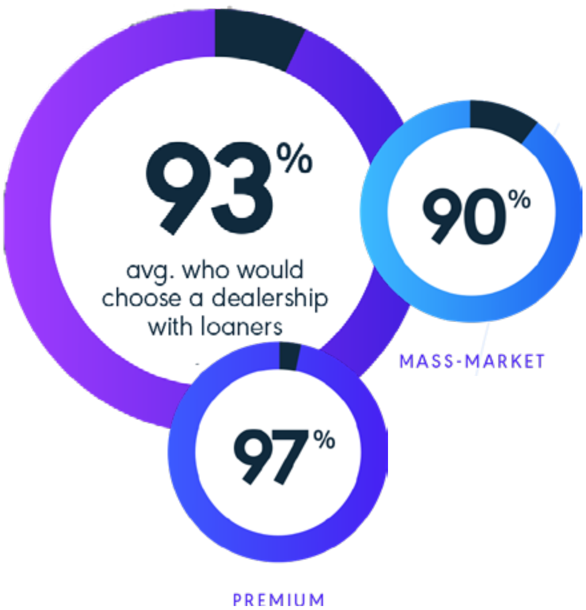


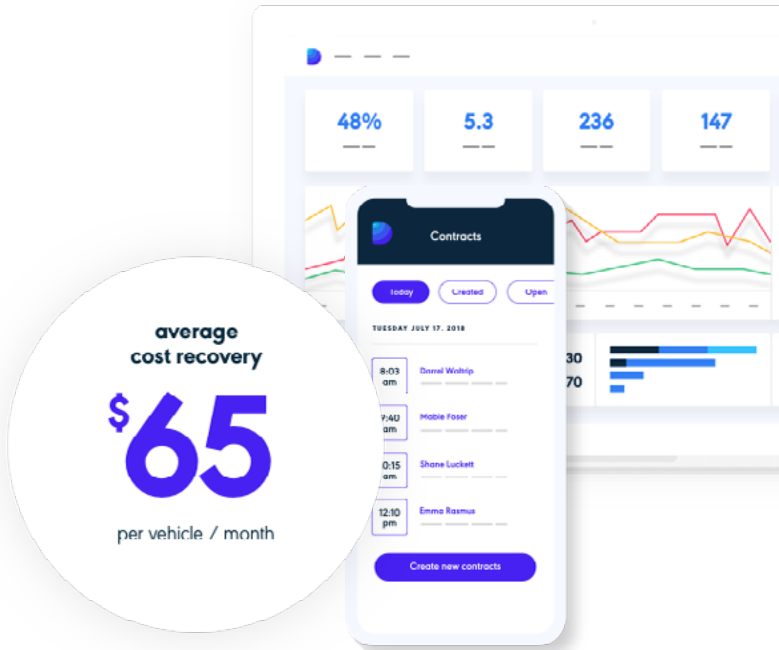
According to research conducted by J.D. Power on behalf of Dealerware, dealership customers overwhelmingly prefer dealerships that offer service loaners over those that do not. 93 percent of customers across both premium and mass-market brands would choose a dealership that offered loaners over one that did not - but it's not just about having transportation options.

75 percent of customers view courtesy loaners as test drive opportunities, and they're willing to pay as much as $75 for access to a loaner.

In fact, 75 percent of respondents to J.D. Power surveys viewed courtesy loaner contracts as test drive opportunities. And whether they need transportation or just want to try out a nicer, newer car, service customers are willing to pay for a loaner vehicle - as much as $75 in some cases.

In our surveys, when asked how much of a premium on service they'd be willing to pay for access to a service loaner, most customers indicated a price between $10 and $50 would be comfortable.





Dealerships using digital fleet management tools have the capability to create new revenue streams from their loaner fleets, and the data about customers' willingness to pay for alternate transportation suggests that monetizing loaner fleets would not diminish CSI scores.

There are some pitfalls to avoid, however. While our research shows an opportunity for dealers, service customers surveyed also indicated an expectation that courtesy loaners would be at least the same model as their own car - certainly not a model tier below. Vehicles in the loaner fleet need to be thoughtfully organized to prevent the chance of a customer feeling their loaner was a downgrade from their own car.

Additionally, certain OEM brand guidelines may prevent dealerships from charging service customers for access to a loaner vehicle. These dealerships may still want to develop a tiered loaner program to add value to vehicle sales or create new efficiencies in the way they manage repair orders and loaner contracts. While they may not generate new revenue from their loaner tiers, these dealerships may increase their overall repair order capacity or upsell more customers on additional services, and can also explore ways to recover the costs of operating a loaner program.

We expect the most effective way to generate revenue from loaner fleets is by creating "upsell" opportunities with premium-tier vehicles while continuing to offer matching-model loaners free of charge. New fleet organization schemes may also equip dealerships to monetize extended test drives, with added confidence that they can recover fuel, damage and toll costs from highly motivated customers.

In the following sections, we'll explain how a loaner program can be divided into tiers and how dealerships might adjust cost recovery and service fees depending on each tier's expected use case.

Even without adding access fees to portions of their fleet, dealerships may find tiered loaner programs help them address more repair orders, upsell service customers on additional work or add value to a purchase that can help complete a sale.

Reorganize your fleet

Loaner Upgrades

The simplest introduction of a tiered loaner fleet includes a base tier of free loaner vehicles and an upgrade tier that customers must pay a fee to access.

As discussed above, customers that want a loaner vehicle expect to get at least the same model as their own car. This "like-for-like" approach should be familiar, and it provides at least a better alternate transportation experience for customers than they'd find through a third-party rental provider. A base fleet tier would include the widest range of a dealers' models to provide any customer with a like-for-like loaner experience.

The first tier dealerships can break out of the typical like-for-like fleet, then, would be an upgrade tier. Customers would have to pay a nominal fee in order to "upgrade" their loaner from a like-model vehicle to one that's a step up from their current car.

Depending on your customer base, an upgrade tier would likely include mid-range sedans, CUVs and SUVs, as well as upmarket sedans, though likely not top-of-the-lineup trucks and SUVs.

As an example, a customer who owns a compact sedan - say, a Toyota Corolla, - could upgrade their loaner to a crossover, Toyota's C-HR being the obvious step up in this example. For access to the higher-tiered vehicle, the customer should pay about $15/day. That type of small fee is aligned with what customers are willing to pay for alternate transportation and, over time, can help offset some of the dealership's costs for that vehicle.

Sample Base Tier

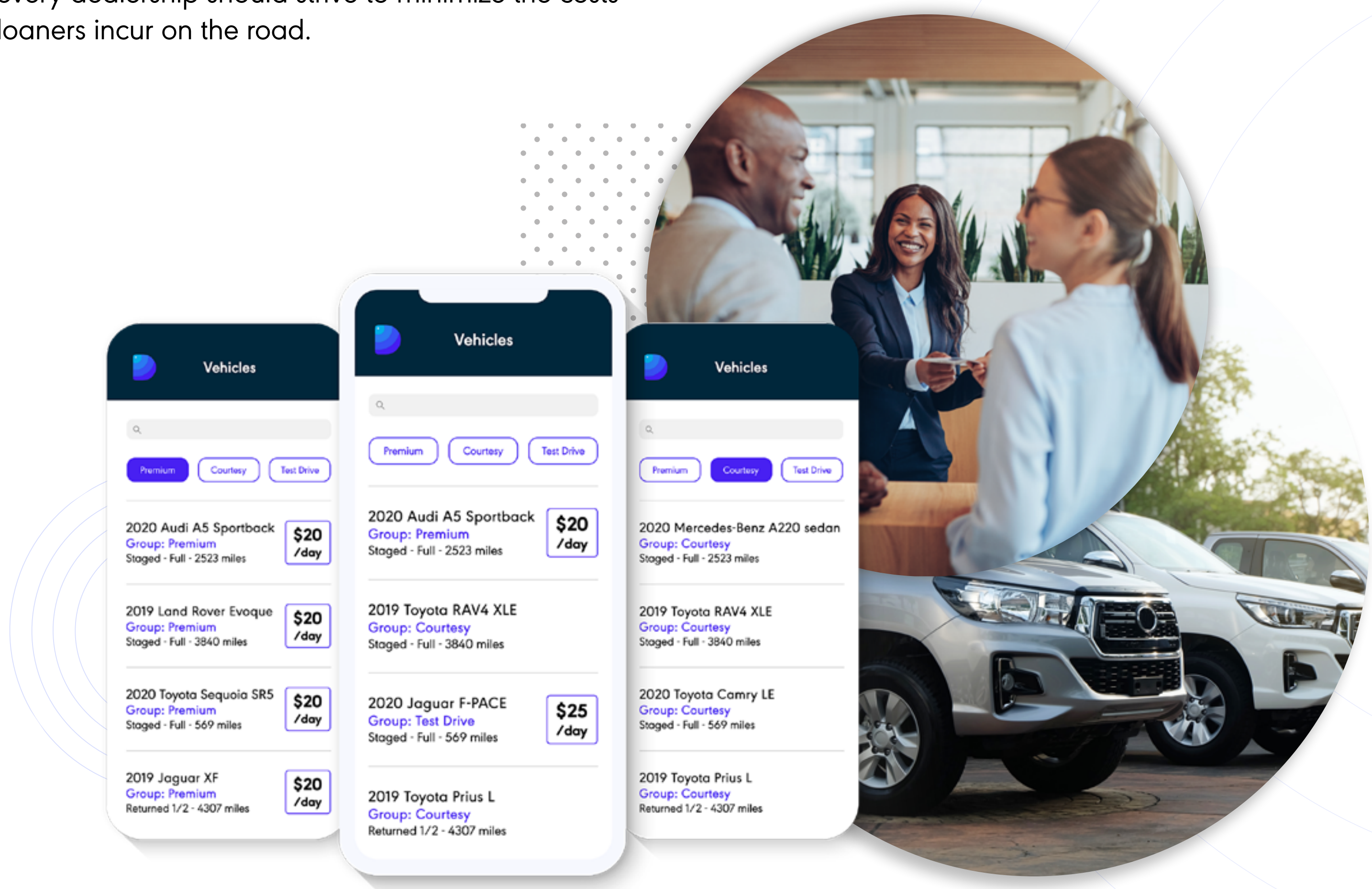
Sample Upgrade Tier

A loaner upgrade is also a simple concept to approach with your customers. When creating a contract for a service customer who needs or requests a loaner vehicle, service advisors can simply ask if the customer would like to upgrade their loaner for a small fee.

> Understanding the models available in your upgrade fleet can help you deliver a more personalized loaner experience for interested customers.

We recommend that service advisors specify which model or models are available for the customer, which would require an understanding of availability in the loaner upgrade fleet. Mobile contracting tools like Dealerware that integrate fleet management can help service advisors instantly see which vehicles are available in the base or loaner upgrade tiers.

Fleet management tools like Dealerware should also be used to measure and automatically recover the costs of both base loaners and loaner upgrade vehicles. Customers shouldn't expect to get free fuel or skirt responsibility for tolls or damages; while these costs can be waived for VIP customers (as we'll discuss in a later section), every dealership should strive to minimize the costs loaners incur on the road.



Experience Upgrades

Taking another step with tiered loaner programs means offering loaners that meet specific customer needs or desires.

Does the owner of a luxury sedan want to live a day in a sports car? Is the owner of a 6-year-old compact considering an SUV purchase next? Tiered loaner programs offer a level of experiential personalization that is too often absent from automotive retail, but that consumers expect from many other brands and businesses.

Developing experiential upgrade options based on customers' buying interests is a good place to start. If a customer has owned their vehicle for 5 years, is nearing the end of their lease or otherwise indicates they're considering a new vehicle purchase, providing them with an upmarket loaner vehicle can introduce them to the newest offerings from the manufacturer they already trust.

Each dealership will likely have its own ideas on how to balance the opportunity cost with loaner pricing, however it's likely that when presented as an option, most customers will remain willing to pay nominal fees for a different experience. When setting rates for experiential upgrades, aim to cover any daily interest. Where possible, add a small surplus that can help increase your profit margin on the vehicle later, when you can sell it through a certified pre-owned program.

The other side of experiential upgrades is aimed less at influencing new sales and more at retaining service customers while creating a new source of revenue. Dealerships that offer a sport loaner tier will undoubtedly surprise and delight their customers by doing so, are likely to retain more customers and may even see a word-of-mouth boost to repair orders.

There are, of course, risks in providing service customers with more powerful loaner vehicles. In addition to strong loaner contracts that rely on the customer's insurance as primary coverage, dealerships should also consider charging high daily rates for access to these vehicles in order to offset the cost of liability insurance.

Sample Sport Tier

Sample Truck Tier

Don’t reorganize your team

Remember: If the goal is to develop new cash flow or add value to sales through fleet operations, extra costs shouldn’t be part of the equation. No new employees or tools are required to reorganize your fleet and explore new revenue opportunities.

There are simple and more complex ways to create fleet tiers. Beginning with a basic approach should help any dealership identify their opportunities and limitations, then decide if they want to develop additional fleet tiers.

VIP Value

To this point we've discussed loaner fleet tiers primarily as revenue generators, however there are situations where dealerships might consider offering premium-tier vehicles for free, and perhaps even covering the costs of fuel and tolls. Buyers of a brand's top-of-the-line models may expect to receive additional value at the service department in return for their purchase. Or, shoppers might be incented to buy a top-tier model if a sales representative offers free access to premium loaner vehicles for a certain period of time.

As an example, top-tier SUV shoppers considering a purchase, perhaps an Audi Q8, might be incented to make a deal if the dealership added free flagship loaner vehicles to the package, in this case perhaps Audi's new e-Tron SUV.

Providing new value to the customer in this way continually reinforces their satisfaction with the brand and with the dealership, increasing the likelihood that they'll return for their next vehicle purchase. In fact, J.D. Power has found that great service experiences are one of the largest factors in a customer's choice to make a second vehicle purchase with a dealership.

Test Drives

While not traditionally part of the service loaner fleet, vehicles used for customer test drives could benefit from being organized and managed alongside the fixed-ops fleet. By viewing test drive vehicles as a part of the dealership's overall fleet - and using fleet management software like Dealerware to contract, track and recover costs from these vehicles - dealerships can better understand how test drive costs affect sales margins, or can offer extended test drives with greater confidence.

We recommend connecting all test drive vehicles in order to track fuel and toll costs incurred during a sales interaction. Connected cars are traceable, relay information about the driver's behavior and capture data on fuel used, helping your dealership protect your assets, prevent customer abuse and recover costs from drivers who egregiously stretch the boundaries of what's considered a "test drive."

98%

of customers are more likely to purchase when provided an extended test drive

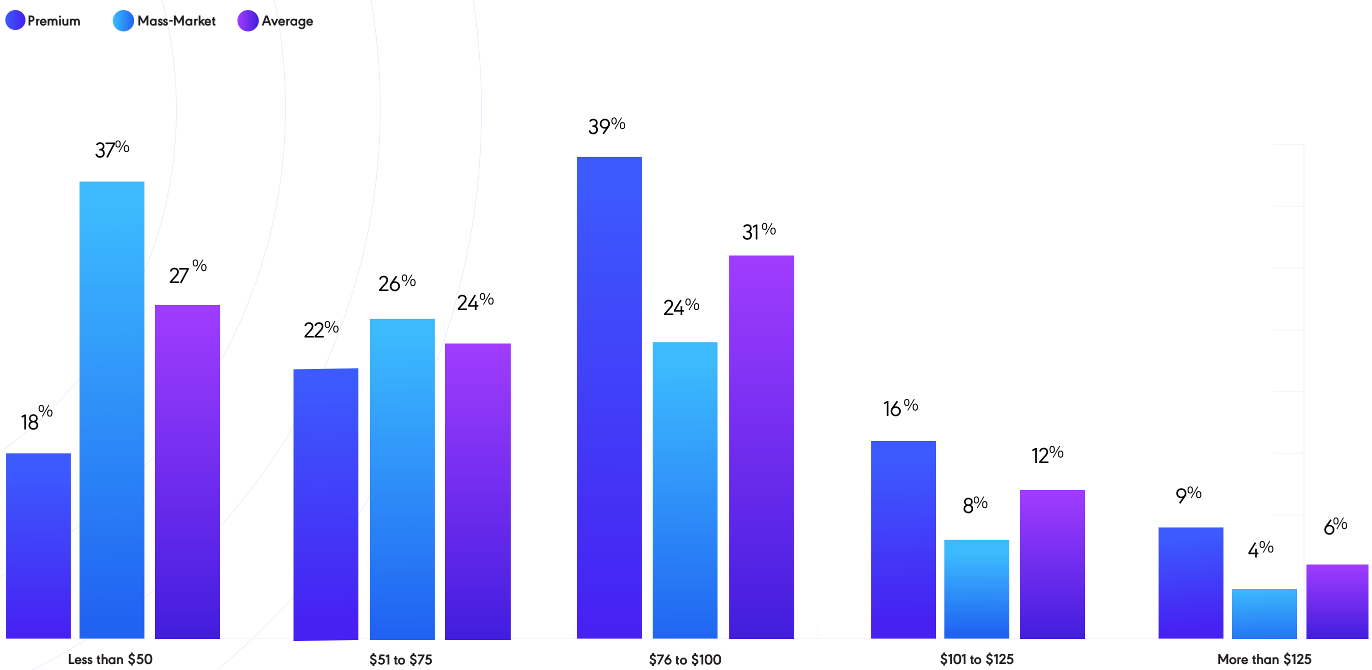
Connecting test drive fleets allows dealers to create new test drive experiences while more closely tracking how test drive costs contribute to sales

Adding a simple test drive tier to your loaner fleet may also allow you to offer independent test drive experiences for customers who may not want to share space with sales representatives during a drive. They can share information with you, sign a standard loaner contract to assume responsibility for the vehicle, then grab a key fob and explore the vehicle on their own.

Taking the self-guided concept a step further means the rollout of extended test drives to a larger audience of potential customers. Typically, extended test drives are only offered to committed customers that just want that last bit of certainty the new car will fit into their daily lives. While an extended test drive tier should still only be accessible to highly-motivated buyers, dealerships may attract more shoppers and convert more sales by offering extended test drives to a wider pool of buyers.

The key is generating some cash flow to account for an average conversion rate that will be naturally lower as less-than-fully committed buyers test drive a loaner vehicle for several days. A reasonable daily rate within the range that customers say they're willing to pay - say, $25 per day over a three-day test drive - can help offset day-to-day holding costs. Recovering fuel and toll costs can further limit the risk dealers assume when offering extended test drives, and relying on late-model CPO vehicles for extended test drives should help dealerships avoid any unneeded depreciation on their new inventory.

Amount willing to pay for extended test drive



Deliver more with Dealerware

Tiered loaner programs should be possible within any fleet management framework, though no other fleet management system offers the flexibility and mobile-first management available with Dealerware.

Now in Dealerware we've created new Vehicle Groups functions to simplify the organization of fleet vehicles across tiers. Whether dealerships use Vehicle Groups for a simple base and loaner upgrade offering, or to launch more complex fleet schemes that help influence sales and retain service customers, Dealerware makes it simple to organize vehicles, set up cost recovery options, add daily rates and customize VIP offers.

Dealerware's Vehicle Groups make it simple to customize cost recovery options, generate new revenue streams and add value to sales and service experiences.

More information on how Dealerware's Vehicle Groups work can be found on our support portal. Dealerships interested in exploring how Vehicle Groups and the rest of Dealerware's leading fleet management solutions can improve their operations should schedule a demo or contact sales@dealerware.com to discuss specific needs.