THE COX AUTOMOTIVE 2018 SERVICE INDUSTRY STUDY

RESEARCH PRESENTATION

About the Study…

WE INTERVIEWED

3,550 consumers that had at least 1 service visit in the past 12 months

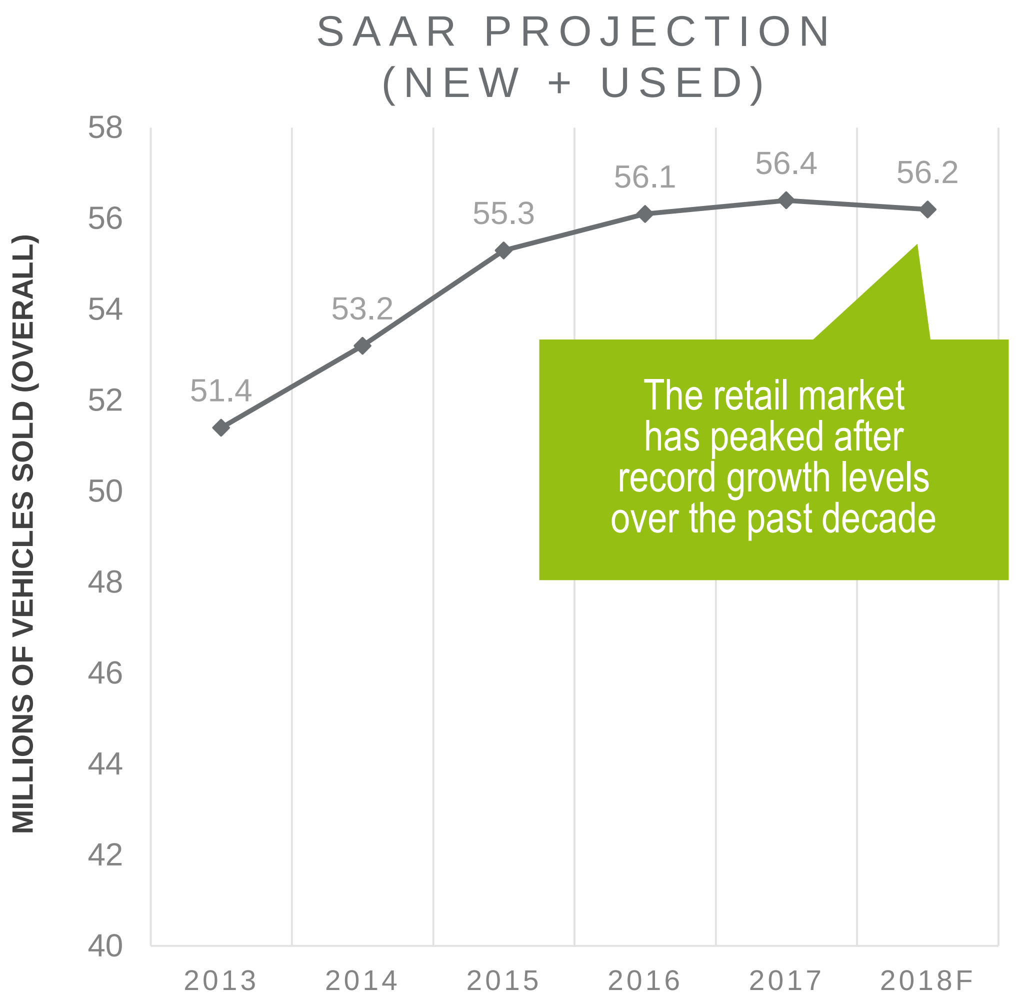
404 employees of franchise dealers who have input into decisions on service operations

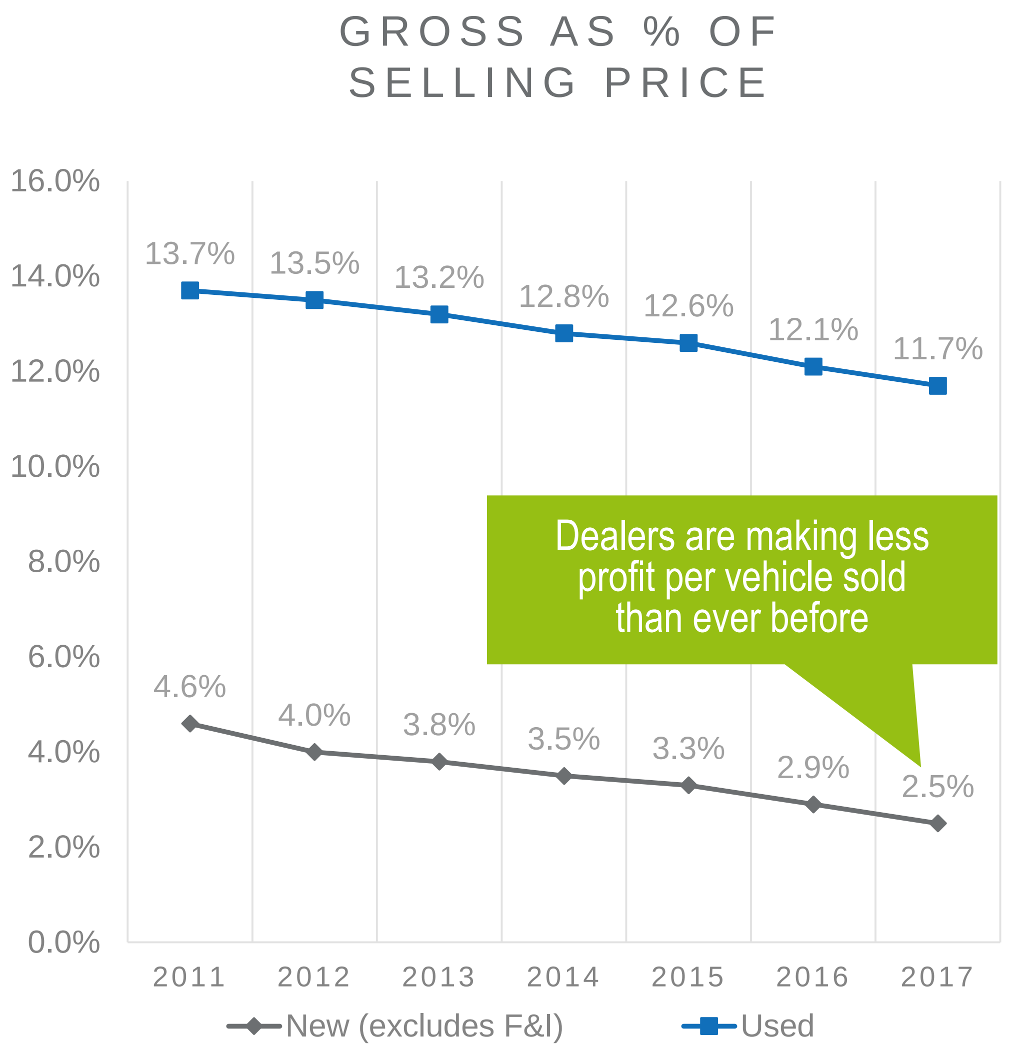
DEALERS SHIFT FOCUS TO FIXED OPERATIONS

Growing profit center

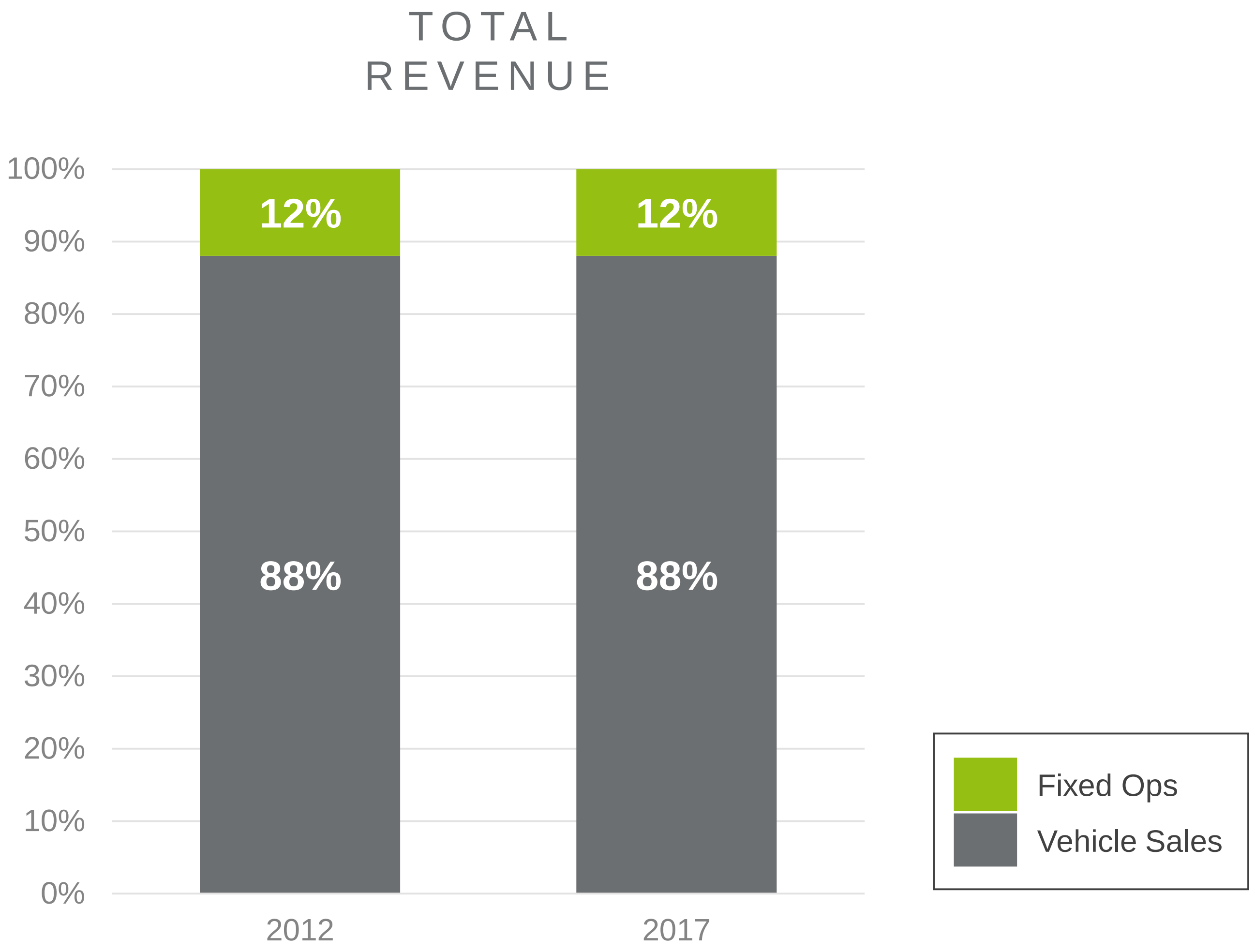
Effective tool for loyalty

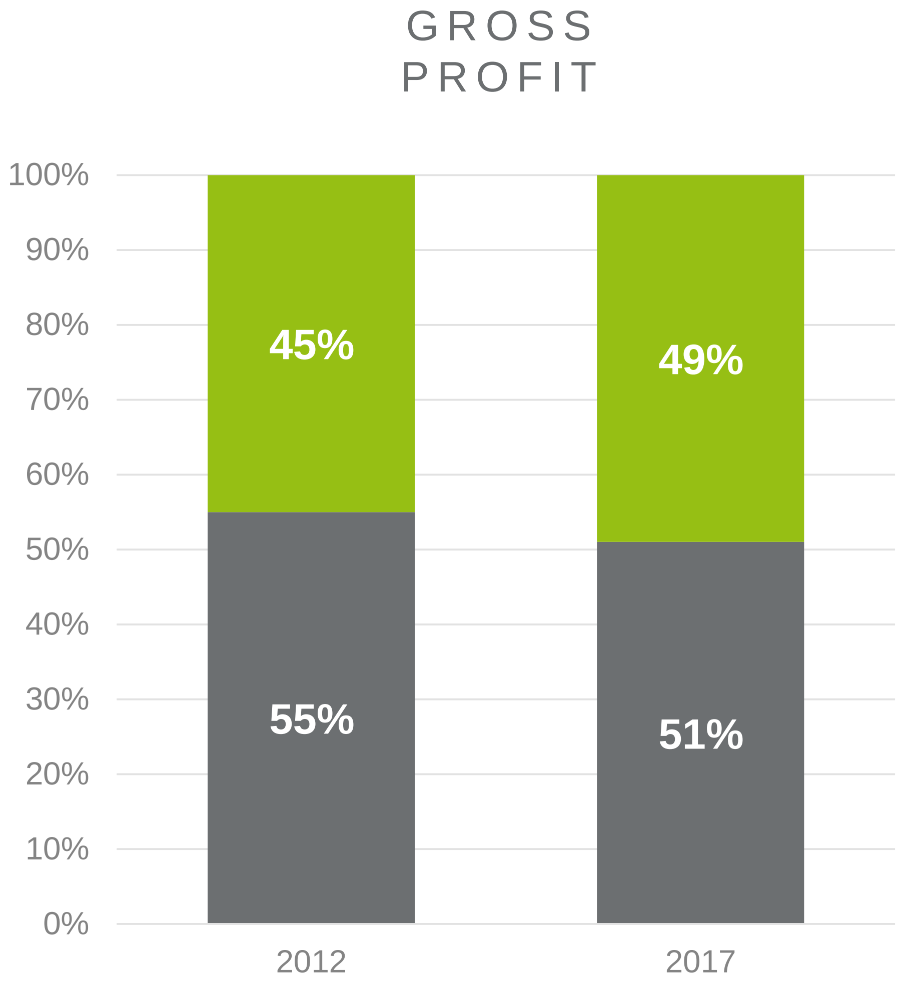
Challenges in Retail Renew Dealer Focus on Fixed Operations





Fixed Operations Contributing More to Gross Profit Than in Prior Years





Fixed Ops is Critical to Retaining Customers for Future Vehicle Sales

LIKELY TO RETURN TO DEALER OF PURCHASE FOR NEXT VEHICLE

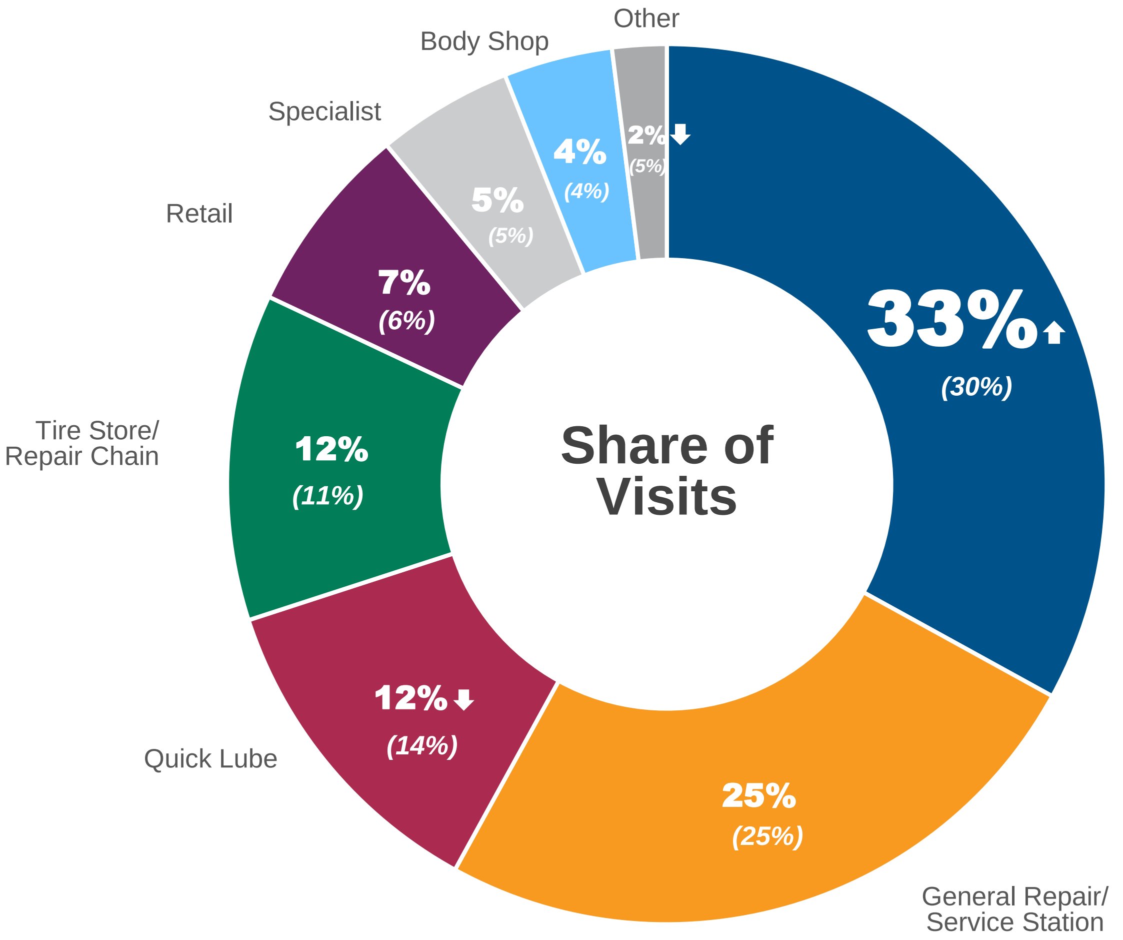
74% — VS — **35%**

of those who **RETURNED** for service within the past 12 months

of those who **DID NOT** return for service within the past 12 months

SERVICE VISITS TO DEALERS GROW WITH CROSS-SELLING & RECALLS

Since 2015, Dealers Have Gained in Share of Consumer Service Visits



SHARE OF CONSUMER SERVICE VISITS IN PAST 12 MONTHS

~18.6MM

ADDITIONAL VISITS TO DEALERS

Indicates a significant difference from previous time period at the 95% confidence level
( ) = 2015

Dealers Take Market Share From Quick Lube and General Repair

SHARE OF VISITS BY TYPE OF SERVICE

Maintenance 526 MM	Dealerships	General Repair	Quick Lube	Tire Store	Retail	Specialist	Body Shop	Other
	179 MM	121 MM	68 MM	68 MM	37 MM	26 MM	16 MM	11 MM
	34% ↑	23%	13% ↓	13%	7%	5%	3%	2%
2015	*(31%)*	*(23%)*	*(16%)*	*(12%)*	*(7%)*	*(4%)*	*(3%)*	*(4%)*

Repair 223 MM	Dealerships	General Repair	Quick Lube	Tire Store	Retail	Specialist	Body Shop	Other
	67 MM	67 MM	18 MM	24 MM	16 MM	16 MM	13 MM	2 MM
	30% ↑	30% ↓	8%	11%	7%	7%	6%	1%
2015	*(27%)*	*(33%)*	*(7%)*	*(10%)*	*(5%)*	*(6%)*	*(7%)*	*(5%)*

↑↓ Indicates a significant difference from previous time period at the 95% confidence level
( ) = 2015

3 In 5 Visits to the Dealership Included an Oil Change (Many of the Oil Change Visits also Included an Additional Service)

TOP SERVICES CONDUCTED IN PAST 12 MONTHS

(Share of visits)

19% ⬇

of service visits at dealership only had an oil change

(29% in 2015)

	Dealership (change since 2015)	Total Providers (change since 2015)
Oil change/fluid check/air filter	57% (-4)	52% (-4)
Tires (rotation, replacement, repair)	31% (+17) ⬆	28% (+10) ⬆
General Check-up/Tune-up	22% (+1)	17% (+1)
Scheduled maintenance/interval service	23% (+3)	15% (+2)
State Inspection/Emissions testing	13% (+3)	13% (+1)
Battery	12% (+3)	11% (+3)
Brakes	7% (+1)	9% (+1)

⬆⬇ Indicates a significant difference from previous time period at the 95% confidence level

Percentage of Dealership Visits Including Multiple Services Is Up Significantly from 2015

TOP COMMON SERVICE PAIRINGS CONDUCTED AT DEALERSHIP IN PAST 12 MONTHS

(Among those that had more than 1 service done)

53% ↑

of service visits at dealership included multiple services

(41% in 2015)

#1	Oil Change Tires
#2	Oil Change General Check-up/Tune-up
#3	Oil Change Scheduled Maintenance Tires
#4	Oil Change General Check-up/Tune-up Tires

↑↓ Indicates a significant difference from previous time period at the 95% confidence level

OEM Recalls Adding Volume on Top of Consumer Pay Visits

NUMBER OF RECALLS & VEHICLES IMPACTED

	2013	2017	% CHANGE
Number of recalls	712	899	**+26%**
Number of vehicles	16.3MM	42.7MM	**+162%**

72%

of dealers say that the % of warranty work due to recalls is higher than 5 years ago

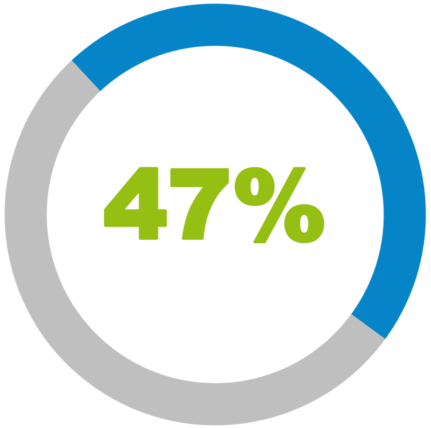
Source: NHTSA // 2018 Cox Automotive Service Industry Study

Ability to Complete Recall Work Impacted by Lack of Available Parts

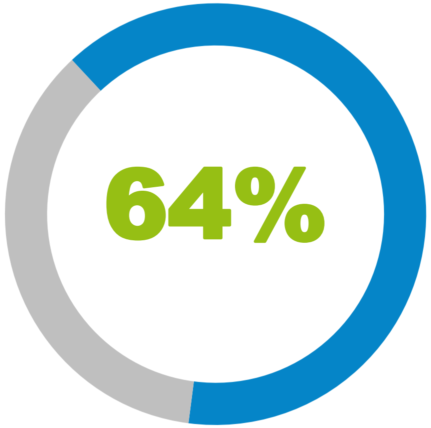
SATISFACTION WITH THE PROCESS YOUR OEM HAS IN PLACE TO ENABLE YOU TO...?

(%8-10)

Replace recalled parts



Get reimbursed for the costs



TOP FRUSTRATIONS WITH OEM RECALL PROCESS

(92% with a frustration)

71% Parts availability (parts scarce after recall is announced, on back-order, etc.)

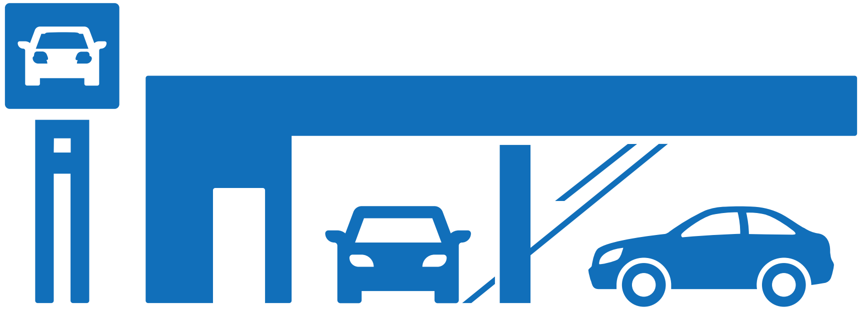
13% Unsatisfactory reimbursement

4% No repair available when recall is announced

3% Amount of time repair takes

What Dealers Can Do

SERVICE VISITS TO DEALERS GROW WITH CROSS-SELLING & RECALLS



GOOD MIX IN LABOR TYPES

MONITOR MIX OF RECALL VS. CUSTOMER PAY WORK

VIEW RECALLS AS WAY TO ACQUIRE NEW CUSTOMERS

CAPACITY LIMITATIONS AND CONSUMER EXPECTATIONS PUT EFFICIENCY TOP OF MIND

2 of the Top 5 Frustrations Consumers Have with Dealers Are Related to Time Spent Waiting

CONSUMER TOP FRUSTRATIONS

(Among those with a frustration)

30%
Service took longer than expected

20%
Tried to push additional services

13%
Had an appointment but waited in line

10%
Finding out how much they charge

10%
Did not provide a loaner vehicle

Consumers Who Are Most Satisfied Spend 2.5 Hours or Less at the Dealer for Service

CONSUMER TIME SPENT (HOURS)

Very satisfied, I'll always go to them	2.4
Somewhat satisfied, I might use in the future	3.0
Very dissatisfied, I'll never go back	3.7

Source: 2018 Cox Automotive Service Industry Study

Can Dealers Handle this Extra Volume?

% OF SERVICE BAYS USED

Total	Small (3-50 monthly sales) (A)	Medium (51-149 monthly sales) (B)	Large (150+ monthly sales) (C)
86%	83%	85%	90%[AB]

Letters indicate significantly higher than identified subgroup

Franchise dealers are already near capacity for a single shift!

Dealers Thinking Creatively to Help Manage High Demand Periods

81% **of dealers have implemented special tactics to handle high demand periods**

TOP TACTICS FOR HANDLING HIGH DEMAND PERIODS

		Total	Small (3-50 monthly sales) (A)	Medium (51-149 monthly sales) (B)	Large (150+ monthly sales) (C)
#1	*Schedule service on weekends*	**49%**	33%	52%[A]	57%[A]
#2	*Schedule overtime for employees*	**38%**	22%	39%[A]	48%[A]

Letters indicate significantly higher than identified subgroup

Efficiency of the Service Department is a Concern for Many Franchises

62%

of franchise dealers are concerned with increasing the efficiency of their service process

Source: 2018 Cox Automotive Dealer Communication & Operations Study

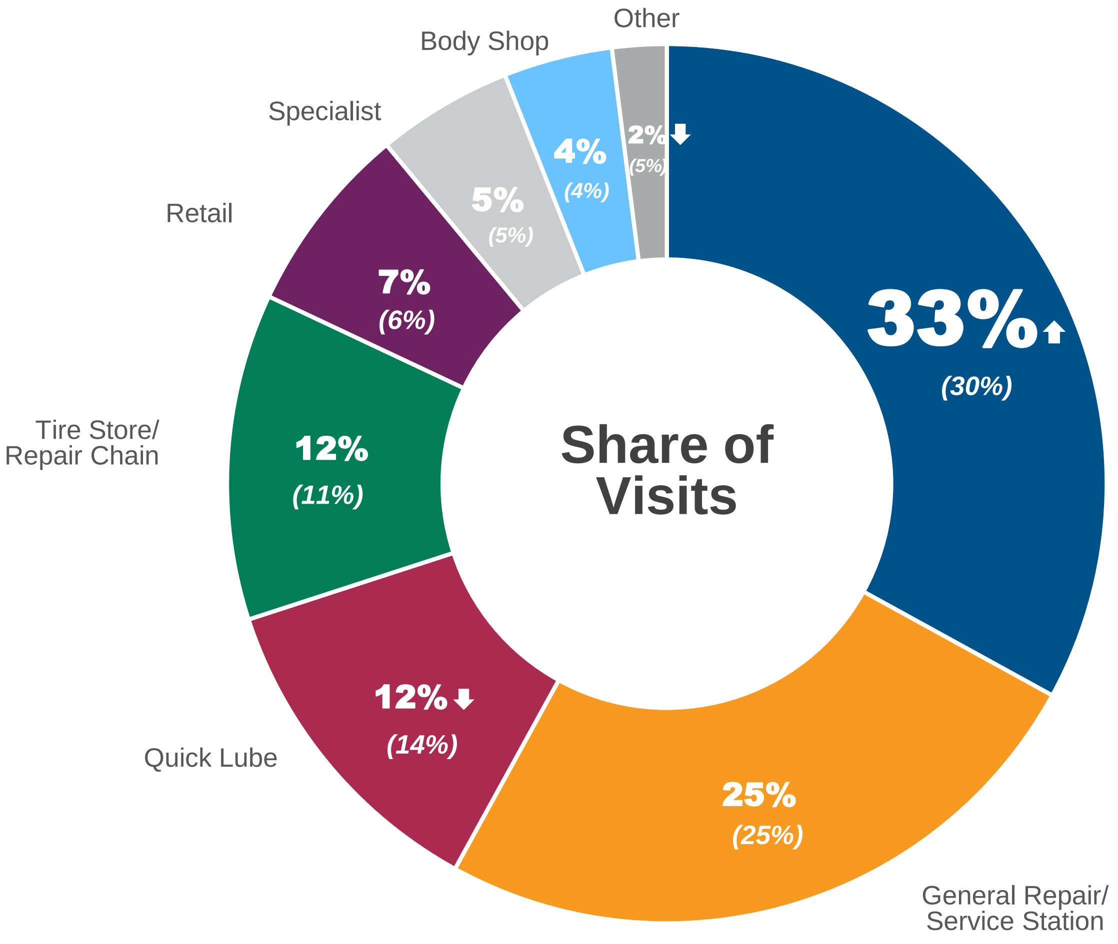
What Dealers Can Do

CAPACITY LIMITATIONS AND CONSUMER EXPECTATIONS PUT EFFICIENCY TOP OF MIND

Leverage technology to put customer data at fingertips of staff

LOCATION BECOMING EVEN MORE OF A RETENTION ISSUE FOR THE “DEALER OF PURCHASE”

Growth in Share Driven by Dealers Who Are Not the "Dealer Of Purchase"



SHARE OF CONSUMER SERVICE VISITS IN PAST 12 MONTHS

	2015	2018
Dealership where purchased	17%	17%
Other dealership	13%	16%

⬆⬇ Indicates a significant difference from previous time period at the 95% confidence level
( ) = 2015

Share of Preference for "Dealer Of Purchase" is Higher Than Actual Share of Service Visits

PREFERENCE FOR DEALER OF PURCHASE VS ACTUAL VISITS

REPAIR

24%
prefer
dealer of purchase

13%
visited
dealer of purchase

MAINTENANCE

24%
prefer
dealer of purchase

18%
visited
dealer of purchase

The "Dealer Of Purchase" Has a Consistent Advantage of Knowing the Vehicle

TOP REASONS TO USE DEALER OF PURCHASE FOR SERVICE

2015	2018
They know my vehicle	They know my vehicle
Knowledgeable/courteous staff	Knowledgeable/courteous staff
Certified/qualified technicians	Certified/qualified technicians

But Ultimately It's the Relationship that Gets Consumers into the Door of the Service Department

WHAT PROMPTED THE RETURN TO THE DEALER FOR SERVICE?

(Among those using the dealership they purchased from for service)

53%
I trust this dealership

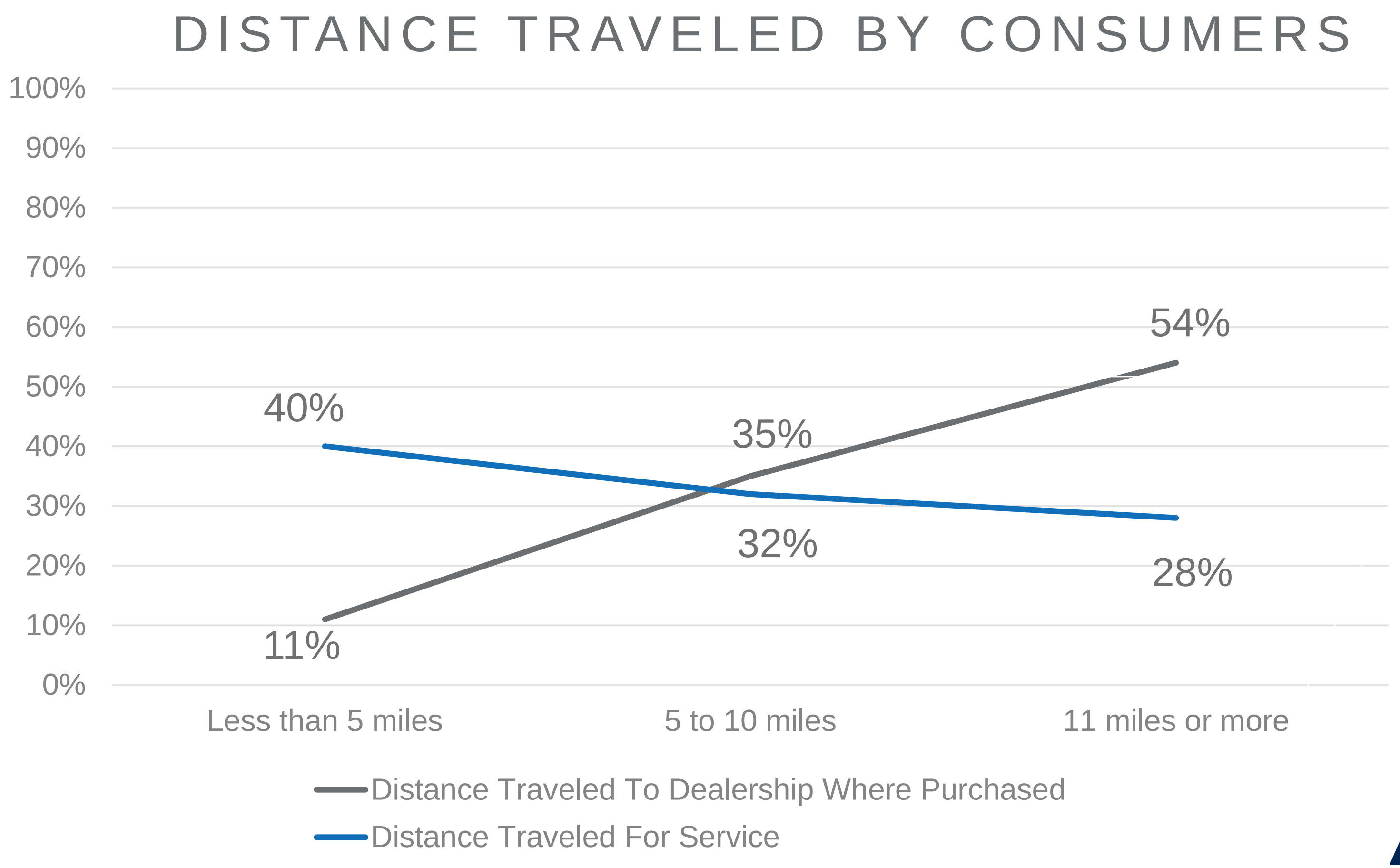
45%
Had a good purchase experience

35%
Vehicle was under warranty there

21%
Introduced to the service department when I purchased

20%
Had a service contract with the dealership

Unfortunately, the "Dealer Of Purchase" Tends to be Farther Away than Where Consumers Are Willing to Travel for Service



95%

of dealers have service facility on the same lot as dealership

Location Moving up as a Top Reason to Not Return to "Dealer Of Purchase"

TOP REASONS TO NOT USE DEALER OF PURCHASE FOR SERVICE

2015	2018
Total cost is NOT reasonable	Total cost is NOT reasonable
They will overcharge me	**NOT a convenient location**
Unreasonable labor charges	They will overcharge me
Unreasonable parts charges	Unreasonable labor charges
NOT a convenient location	Unreasonable parts charges

Source: 2018 Cox Automotive Service Industry Study

Dealers Focus on Price and Many Are Not Aware That Location Is Causing a Retention Issue

TOP REASONS DEALERS SAY CUSTOMERS GO ELSEWHERE

2 in 3 dealers don't mention location as a top reason for defection

77%
Think dealership will overcharge them

36%
Not a convenient location

27%
Total cost is not reasonable

What Dealers Can Do

LOCATION BECOMING EVEN MORE OF A RETENTION ISSUE FOR DEALER OF PURCHASE

VALET (PICK UP AND DROP OFF) AND MOBILE SERVICES

CREATIVE USE OF RIDE-SHARING SERVICES

VALUE SURPASSES QUALITY AS MOST IMPORTANT WHEN SELECTING A SERVICE PROVIDER

Dealers Continue to Struggle with Retaining Customers After Their Warranty Has Expired

SERVICE VISITS CONDUCTED AT DEALERSHIP

WITH A CURRENT WARRANTY

6 in 10

WHY THEY GO...

THEY KNOW MY VEHICLE
KNOWLEDGEABLE/COURTEOUS STAFF
TRUST
VEHICLE WARRANTY

WITH AN EXPIRED WARRANTY

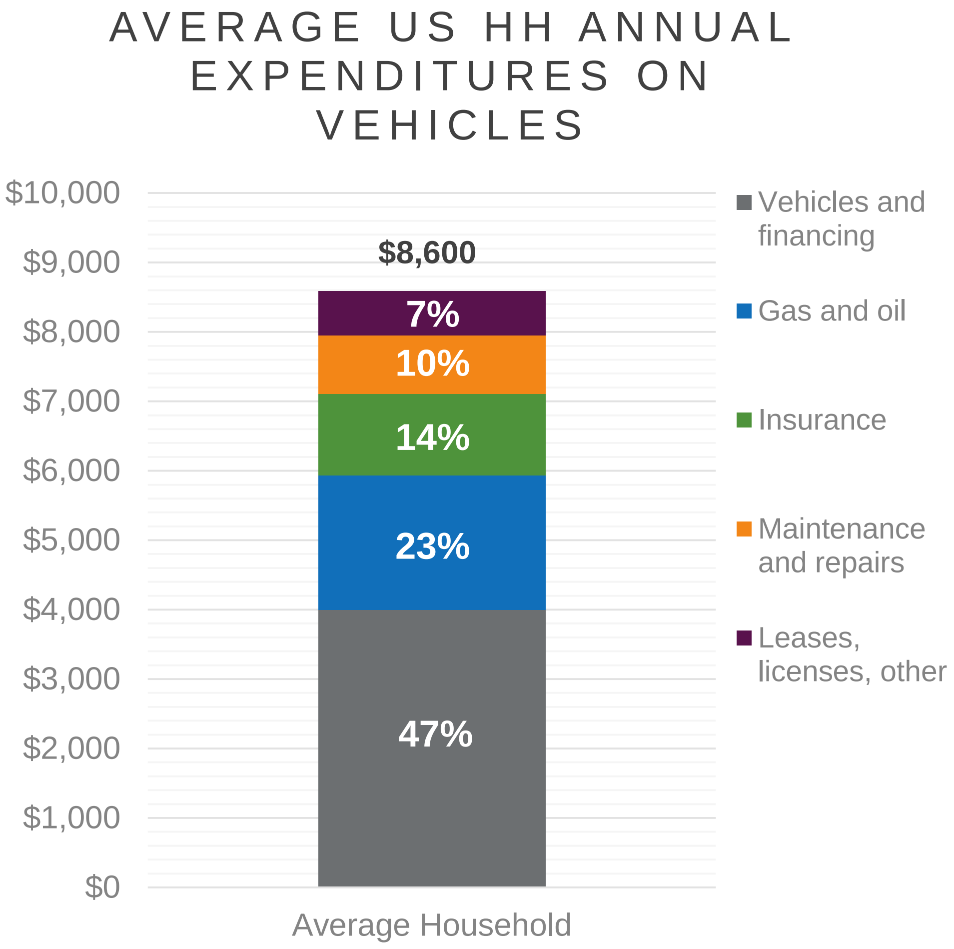
3 in 10

WHY DON'T THEY GO...

TOTAL COST
DISTANCE
FEAR OF OVERCHARGING

NO CHANGE SINCE 2015

Consumers Increasingly Feel that Owning a Vehicle Is Too Expensive



OWNING/LEASING A VEHICLE IS BECOMING TOO EXPENSIVE

2015 (A)	2018 (B)
42%	48%A

Letters indicate significantly higher than identified subgroup

Value Surpasses Quality as Most Important When Selecting Providers

WHAT'S MOST IMPORTANT WHEN CONSIDERING SERVICE PROVIDERS?

	Value	Quality	Convenience	Trust
	#1	#2	#3	#4
2015	*(#2)*	*(#1)*	*(#4)*	*(#3)*

23% → **28%**

2015 **2018**

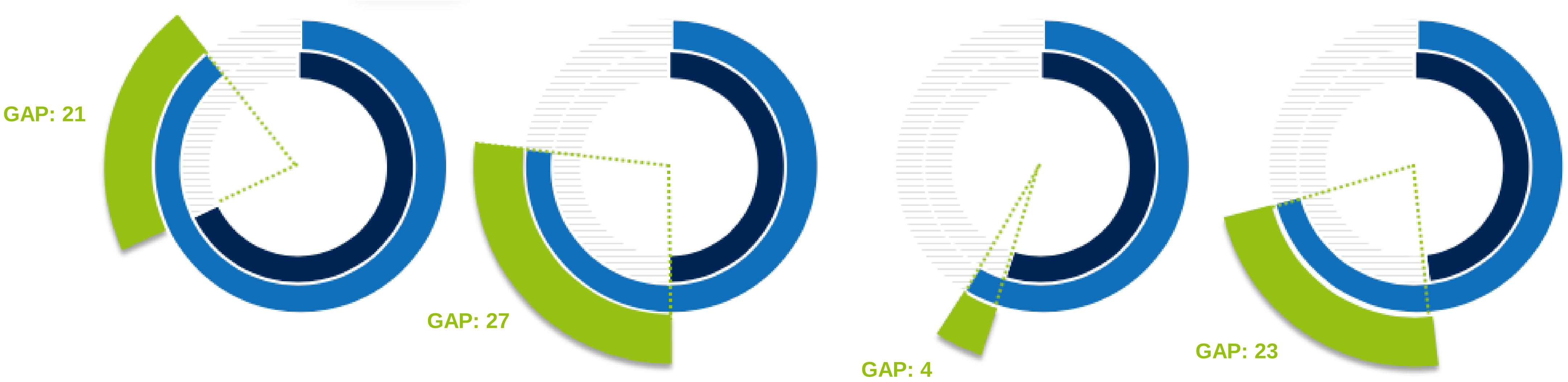
COUPONS & LOYALTY PROGRAMS **INCREASED SIGNIFICANTLY** IN IMPORTANCE

A Disconnect: Dealers Think “Quality” Attributes Are More Important than They Actually Are

MOST IMPORTANT “QUALITY” ATTRIBUTES

(% Critically Important)

MY VEHICLE IS FIXED RIGHT THE FIRST TIME	KNOWLEDGEABLE/ COURTEOUS STAFF	CERTIFIED/HIGHLY QUALIFIED TECHNICIANS	EXPLAINS SERVICES RENDERED



CONSUMER: 68%	CONSUMER: 50%	CONSUMER: 55%	CONSUMER: 48%
DEALER: 89%	DEALER: 77%	DEALER: 59%	DEALER: 71%

Consumers & Dealers Agree That Value Is Proven Through Fair Pricing

MOST IMPORTANT "VALUE" ATTRIBUTES

(% Critically Important)

THEY WON'T OVERCHARGE ME

CONSUMER: 66%
DEALER: 64%

TOTAL COST IS REASONABLE

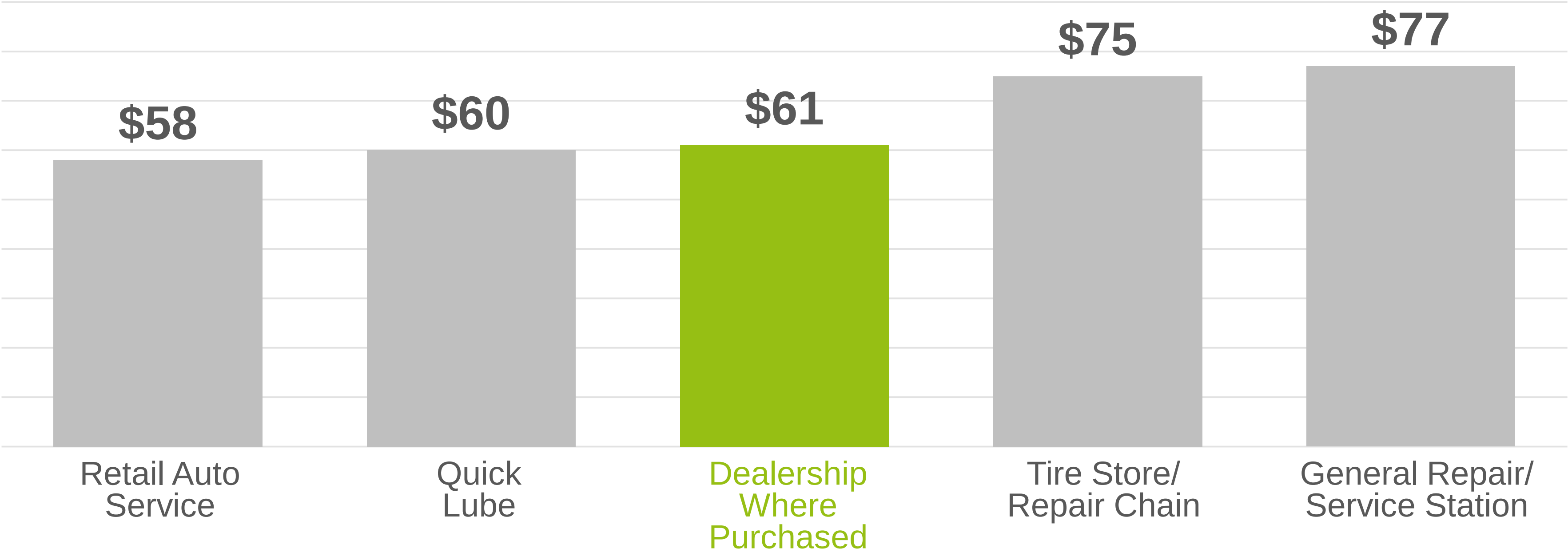
CONSUMER: 59%
DEALER: 44%

PROVIDES TOTAL COST UP FRONT

CONSUMER: 51%
DEALER: 47%

Are Dealers Pricing Services Fairly?

WHAT ARE CONSUMERS PAYING?
OIL CHANGE SNAPSHOT



DEALERS ARE OFFERING OIL CHANGES AT A COMPETITIVE PRICE

What Dealers Can Do

VALUE SURPASSES QUALITY AS MOST IMPORTANT WHEN SELECTING A SERVICE PROVIDER

Survey competitors to find out how much they are charging

Market how much cheaper you are than competitors – **price transparency**

Competitively price quick services to get consumers into your service department

NEW VEHICLE INNOVATION WILL STRENGTHEN DEALERS' POSITION AS TOP SERVICE PROVIDER

Dealers Think New Vehicle Innovation Will Provide Greater Opportunity

62%

of DEALERS say dealerships will have a competitive advantage in fixed ops as new vehicles evolve

Consumer Preference For Dealers Is Higher Among Those with Advanced Features in Their Vehicles

CONSUMER PROVIDER PREFERENCE AMONG THOSE WITH ADVANCED CAR TECH FEATURES

62%

DEALERSHIP

VS

32%

GENERAL REPAIR

What Dealers Can Do

NEW VEHICLE INNOVATION WILL STRENGTHEN DEALERS' POSITION AS TOP SERVICE PROVIDER

Educate customers on the advantages of servicing their vehicle with a provider that understands the complexity of today's vehicles

WHAT DEALERS NEED TO KNOW & WHAT THEY CAN DO

What Dealers Need to Know & What They Can Do

SERVICE VISITS TO DEALERS GROW WITH CROSS-SELLING & RECALLS	Good mix in labor types Monitor mix of recall vs. customer pay work View recalls as an opportunity to acquire new service customers
CAPACITY LIMITATIONS AND CONSUMER EXPECTATIONS PUT EFFICIENCY TOP OF MIND	Leverage technology to put customer data at fingertips of staff
LOCATION BECOMING EVEN MORE OF A RETENTION ISSUE FOR THE "DEALER OF PURCHASE"	Valet (pick up and drop off) and mobile services Creative use of Ride-sharing services
VALUE SURPASSES QUALITY AS MOST IMPORTANT WHEN SELECTING A SERVICE PROVIDER	Survey competitors to find out how much they are charging Market how much cheaper you are than competitors – price transparency Competitively price quick services to get consumers into your service department
NEW VEHICLE INNOVATION WILL STRENGTHEN DEALERS' POSITION AS TOP SERVICE PROVIDER	Educate customers on the advantages of servicing their vehicle with a provider that understands the complexity of today's vehicles