

How AI is Transforming Fixed Operations

As market conditions fluctuate and vehicle ownership lifecycles stretch, dealerships must focus on optimizing their fixed operations with AI-powered automation

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The Current State of the Industry

Only 34% of customers return to dealership service centers, leaving the rest of the market up for grabs. However, most dealership service departments are under-resourced and unable to deliver a consistent customer experience throughout the ownership lifecycle.¹

The automotive industry remains vulnerable to continued economic uncertainty and swings in demand due to reduced consumer purchasing power. At the same time, rising manufacturing costs and disruption to global supply chains have resulted in lower overall profitability of unit sales. While per-unit profitability is now almost double pre-pandemic levels, and inventory levels are gradually stabilizing, sales volumes continue to fluctuate, with profits once again taking a gradual downward trend.²

Although new and used vehicle sales still account for over half of the average dealership's profits, their variable nature makes the industry highly susceptible to recession. Moreover, consumers own fewer cars throughout their lifetimes than previous generations. In the early 2000s, the average driver was expected to purchase 13 cars in their lifetime, a number that fell to 9.4 just a decade later.³ Today's consumers typically expect to get more mileage and better service throughout the life of their vehicle, hence the rising importance of the customer ownership experience.

Together, these short- and long-term trends emphasize the growing need for dealerships to focus on customer lifetime value (CLV) when building out their long-term business strategies. In other words, they must look beyond retail sales to building a service-oriented pipeline that delivers continuous value to customers from sale to post-sale service to the next vehicle sale. Strengthening the service drive represents a massive revenue opportunity for dealerships that can help insulate them against economic recession and fluctuations in demand.

Despite this need, barriers persist to adopting the CLV model, with many dealerships still being firmly focused on unit sales and lacking the labor and expertise to further develop the service drive. The challenge lies in consistently scaling outreach across every touchpoint in the ownership lifecycle in order to build and nurture customer loyalty. Adding staff is cost-prohibitive, which is why dealers must look to intelligent automation that can be deployed at scale.

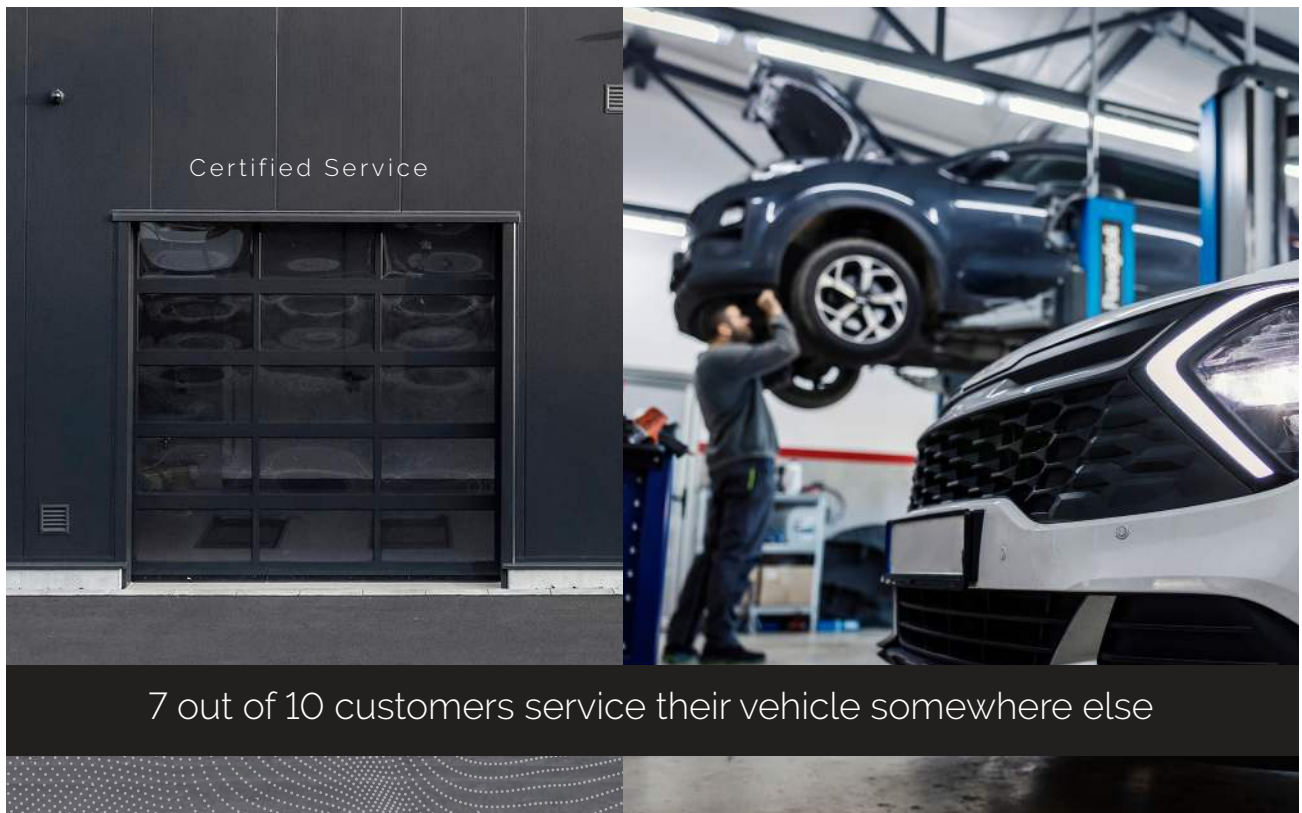
Strengthening the service drive represents
a massive revenue opportunity for dealerships

Why Fixed Ops Is the Key to Revenue Growth

Fixed Ops represents a major portion of dealership gross profits, peaking at 50.5% in 2019, despite only accounting for only 12.4% of revenue that year⁴. Following a pandemic-induced slump, these figures are now rising steadily again and are expected to do so through 2023.

Today's consumers are spoiled for choice, and car owners are no exception. Although many people might prefer the convenience of having their vehicles serviced and repaired at the dealership of purchase (at least in theory), the reality is that approximately seven out of 10 of customers are more likely to go to a third-party independent mechanic or lube shop in search of a more affordable and personalized customer experience¹. That's a lot of lost profit for dealers, especially considering the significantly higher margin of fixed ops revenue when compared to unit sales.

Dealers that strategically prioritize fixed ops as the hub of the end-to-end customer experience are much better prepared to generate sustainable revenue growth and margin expansion. And the more effective and efficient fixed ops departments are, the closer dealers can get to 100% service absorption, which occurs when the parts and service department's operating gross profit covers all of a dealership's total operating expenses. Higher service absorption means better protection against market swings and a more competitive sales department. Unfortunately, the average service absorption rate in the first quarter of 2021 among US dealerships was only 57%⁵, which means most dealerships risk operating at a loss if there is a drop in sales.



Building a Recession-Proof Revenue Stream

Despite the vast opportunity, retaining customers has never been harder. Many dealers fail to perform an initial service walkthrough or introduce new customers to the fixed ops departments after the completion of a vehicle sale, which already begins to create lost opportunities. Given the abundance of competing independent repair shops, customer distrust of dealer services, and the dealer's own operational gaps, most customers don't even return for their first service. And that makes it less likely they'll ever return at all. That missed opportunity compounds over years across the ownership lifecycle. Multiply that by thousands of customers, and revenue loss can easily run into the millions of dollars. Moreover, customers who have their vehicles serviced by the dealer of purchase have a higher likelihood of buying their next vehicle at the same place. That means the retailer has also lost future unit sales revenue.

That's why establishing fixed ops as the hub of the customer experience and the main driver of long-term profit is critical. Despite being a relatively nascent concept in an industry that has long focused on unit sales, Customer Lifetime Value (CLV) has become an essential metric for building a sustainable business model and insulating against fluctuations in demand. Strategically improving service drive effectiveness also addresses the revenue leakage that accumulates over time from abandoned customers and missed or declined service appointments. And as we've seen, it also contributes to a stronger long-term unit sales pipeline. This virtuous cycle results in the highest possible CLV.



Improving service drive effectiveness addresses the revenue leakage that accumulates over time from abandoned customers and missed or declined service appointments

The Limitations of Traditional Service Outreach

Traditionally, dealerships have focused heavily on sales, but today they need to think of themselves as customer service businesses that happen to work with cars. This requires a cultural change in which the service drive becomes an integral aspect of long-term business strategy.

Conventional solutions for service outreach are virtually impossible to scale. Existing staff don't have the time to focus on service follow-up and outreach. They are already focused on inbound phone calls, service bay processes, and customer management – as they should be. Hiring additional staff is untenable, simply because it would take massive amounts of human labor and hours to search through the thousands of customer records stored in a typical dealer management system (DMS), investigate the sales and service history, and then follow-up with each one.

Some dealerships have implemented basic marketing automation products like email platforms, auto-responders, and SMS reminders to address the service communication challenge, but unfortunately, this often results in a complex collection of tools that are costly to operate and woefully ineffective. Costs add up, and the patchwork of tools creates communication gaps that make a seamless customer experience impossible. Moreover, many tools are limited in scope, leaving a great deal of manual work for personnel that are already stretched thin.

Effective customer lifecycle management requires more advanced technology and automation that is capable of continuously mining the DMS to analyze sales, service history, and repair order data. It also requires predictive modeling and personalization to deliver the right message at the right time to each customer at every stage of the ownership lifecycle. Traditional approaches and basic software solutions simply can't cost-effectively drive results at scale.



Unleashing the Power of AI in Service Operations

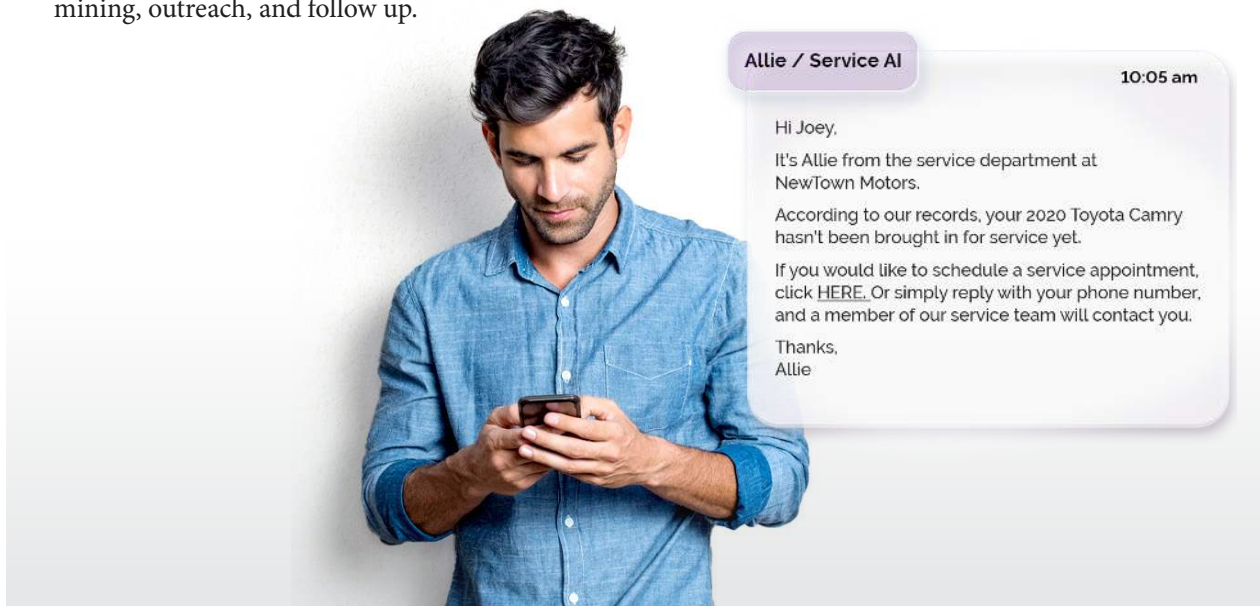
Data intelligence is the second-biggest investment priority for CIOs in the automotive sector⁶, and the performance gap between businesses that are leveraging AI to support decision-making and those who are not continues to widen⁷.

AI is transforming businesses across many industries, and automotive is no exception. Vehicle retail is primed for conversational AI and intelligent automation given its highly involved purchase process, large cash outlay, long sales cycle, the amount of options, and the technological sophistication of today's vehicles. Dealerships that have successfully deployed cutting-edge AI technology are enjoying anywhere between 10 to 25% bottom-line growth⁸. While AI-powered lead management solutions are helping many dealers drive more sales, AI adoption in service and support remains an untapped opportunity.

Customer service in the automotive sector faces several main challenges that AI can effectively address. Customers expect timely responses to their inquiries, yet most dealership service centers lack the capacity to meet that demand, let alone proactively send out personalized service reminders to thousands of customers and engage thousands more. AI-powered communication provides a solution that can deliver enhanced customer service at unlimited scale.

Scaling service outreach and customer retention with AI

The volume of customer records in a typical DMS is massive, often running into the tens of thousands. And routine question handling, appointment coordination, email and text responses, and other low-level tasks take up valuable personnel bandwidth. It's impossible for dealership personnel to meet the demands of running an effective service bay operation while also engaging in large-scale database mining, outreach, and follow up.



Fortunately, AI technology offers a solution that can deliver enhanced customer service. AI-driven automation can continuously mine the database and deliver personalized outreach based on sales data, service history, and OEM recommendations. When deployed at scale, AI can be used to streamline the entire service communication function by providing a full-fledged business development capability without the need to hire more staff.

AI-powered communication solutions can enhance service team productivity by handling routine outreach, automating follow up, responding to customer questions, and driving customers to book service appointments directly on the dealership's service scheduler. Conversational AI technology that leverages natural language processing (NLP) and machine learning (ML) capabilities can engage customers with human-like interaction, [freeing up service personnel to focus on delivering an outstanding white-glove customer experience on the phone or in person.](#)

The most robust AI solutions can even help with data cleansing by flagging outdated DMS records, such as customers who have moved out of the area or no longer own the vehicle on file. Better DMS hygiene improves message deliverability and reduces wasted marketing spend.

The Time for Automated Service Communication is Now

As market conditions remain stressed and vehicle ownership lifecycles stretch, dealers have no choice but to focus on optimizing fixed operations. AI-powered automation is the fastest-growing solution for enabling personalized outreach and engagement at scale. In addition to driving greater service revenue, enhanced communications lead to greater customer lifetime value - and future unit sales: studies show that approximately 74% of car buyers whose vehicle was serviced by the dealership of purchase are likely to return there to buy their next vehicle⁹.

AI is changing the auto retail landscape, and large-scale adoption will enable dealers to thrive in an increasingly unpredictable market. [Service is the perfect place to begin.](#)

Sources

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The background of the image consists of a series of dark blue, wavy, concentric lines that create a sense of depth and movement. The lines are more densely packed on the left side and become more sparse towards the right. The overall color palette is a range of dark blues, from deep navy to a slightly lighter, muted blue.

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