

TEACHING NOTE

OVERVIEW

The owner of a Ford car dealership dies unexpectedly. His 28 year old daughter, a health care manager with an MBA degree, temporarily takes command. She is shocked to find that the once-thriving dealership is losing money and realizes that she must choose between selling the business at an unfavorable price, or working to turn it around. She suspects that improving the performance of the service department will be the key to saving the business.

TEACHING OBJECTIVES

- Demonstrate both the differences and interdependencies between marketing a consumer durable good and marketing after-sales services for that same product.
- (Optional, if using case in conjunction with Chapter 8): Flowchart and Blueprint the process that customers go through in obtaining service for their cars.
- Introduce the notion of service quality with reference to an industry that many students can relate to personally.
- Highlight similarities across seemingly different service industries (e.g. car repair and health care).

STUDY QUESTIONS

- 1) How does marketing cars differ from marketing service for those same vehicles?
- 2) Compare and contrast the sales and service departments at Auto World.
- 3) From a consumer perspective, what useful parallels do you see between running an automobile sales and service dealership and running health care services?
- 4) What advice would you give to Carol Sullivan-Diaz?

- 5) [additional question, not in main text] Prepare a flowchart/blueprint of the servicing of a car that requires repair or maintenance, and bring this to class. Show potential fail points.

ANALYSIS

1. How does marketing cars differ from marketing services for cars?

Marketing Cars

- Big ticket item
- Prospective customers may debate purchase of new car for months in advance
- Decision process may involve other family members, requests for advice from friends, opinion leaders, intensive information gathering.
- Purchase may involve exchange of existing vehicle.
- Purchase frequently requires credit financing over several years.
- Generally an exciting and positive activity (but some people find it stressful and don't trust car salespeople).
- Creation of the product takes place in a distant factory, often reflects years of R&D effort.
- Much of the advertising effort is undertaken by the manufacturer.
- Distribution takes place through franchised dealers who take responsibility for personal selling, participate in promotional programs with manufacturers.
- Unless the customer buys a "lemon", initial experiences with a new car will tend to be positive and the benefits should be readily apparent.

Service

- Need for service tends to increase in frequency and cost as car ages.
- Service price is hard to predict but much lower than new purchase — often less than \$40 for routine preventive work (eg oil change, lubrication, etc.) and rarely exceeds \$1,000 for major repairs, unless the car has been in an accident (when the cost is often largely covered by insurance).
- Service is a nuisance, involving trips to the garage for drop-off and pick-up, as well as loss of the car for a day or more.

- Some service problems (eg water leak, electrical failures) are hard to detect and often not fixed right the first time.
- Service is provided by the dealer (or another garage) not by the manufacturer, whose role is limited to warranties on service.
- Decision to obtain service may be based upon periodic, predictable determinants (eg time since last service, mileage covered, need to prepare car for winter, preventive maintenance before a big trip) or by occurrence of problems that need to be fixed.
- Customer will tend to go for service to dealer from which vehicle was purchased, unless service proves unsatisfactory, in which case he/she may seek advice on alternative suppliers.
- Not always easy to determine whether service problems are the fault of the manufacturer or the service provider - in absence of knowledge of widespread problems with that model, customer will probably blame the dealer.
- Hard to determine if service done right and whether cost was justified.

2. Compare and contrast the sales and service departments at Auto World.

Car Sales ("Front End")

- Extensive advertising and promotions to attract car buyers
- Eye-catching site in (apparently) convenient location.
- Customers can walk in.
- Attractive, modern facility.
- Flowerbeds outside the customer entrance.
- Salespeople work in handsome, high-ceilinged showroom.
- High-polished new cars on display (customers can't miss them).
- Can reasonably infer that salespeople are smartly dressed with smooth, friendly manner.
- Customers can examine the cars (and sit in them if they wish) while they wait for a salesperson.

Service/Parts ("Back-End")

- No mention of advertising, reminders, special offers to generate service business.
- Same location, but service building is hidden behind showroom.
- Customers must make appointments.
- 30-year old, greasy facility.
- Customers enter by side door.
- Service writers work in cramped room with peeling paint.
- Modern, well-maintained equipment in service bays (but do customers notice?)
- Manager can be gruff and argumentative; service writers may respond rudely to abusive customers.
- Customers wait in line for service writers; can look at file-cabinets and listen to telephones ringing.

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- Can choose between new or late-model "pre-owned" cars, different colors, extras, etc.
 - "Let's make a deal!" Chance to bargain for discounts, free accessories.
 - "Everybody's happy".
 - Choose how much of the problem to fix this time. Car not always ready on schedule, may not be fixed right.
 - Price of parts is fixed (if not under warranty); labor costs \$40 an hour.
 - "Customers always seem to be miserable".

Walter Sullivan's view of the auto dealership appears to have been firmly centered on car sales. He seems to have seen the parts and service business simply as a necessary adjunct (evil?). Sullivan loved sales, was disinterested in service. It's not surprising that the two departments compare so unfavorably. Sullivan's undoubted communication skills clearly didn't extend to handling unhappy customers - he would hide out in his office and leave it to his staff to get rid of the problem as best they could.

A financial analysis of the dealership appears in Exhibit TN-01-A. Key conclusions to be drawn are:

- (a) Service revenues are dropping faster (-19.6%) than car sales revenues (-12.8%) in the most recent year.
- (b) The split between "front end" and "back-end" departmental gross is more weighted towards car sales than in most dealerships (63.8% vs 60%).

Analysis of market research data (Exhibit TN-01-B) shows that customer satisfaction is above average, compared to other dealerships within 30 days of purchasing a new car. Although Auto World receives higher than average customer satisfaction ratings at this point, the picture changes for the worse after nine months, by which time satisfaction with the selling dealer is below average.

Auto World's service ratings are generally bad in the areas of promptness, convenience, and appearance of the service facility; poor on attitudes, politeness, and understanding of customer problems; but close to average on actual work execution. The negative ratings on service appear to have the following serious consequences for Auto World (AW):

- A high proportion of customers will use another supplier for service in future (thus costing AW significant service revenues).

- Those customers who are likely to buy another Ford in the future are a lot less likely to buy it from AW, thus costing the dealership significant sales losses on new cars.

3. *What parallels exist between a car dealership and health services?*

Health care

A. New Babies

- Happy department in a hospital.
- Usually a planned and eagerly anticipated event, although not without some anxiety.
- Usually a family affair.

B. Treating Sick Cars

- Owners hate to be without cars.
- Outcome not certain, owners worried about costs.
- Worried about dislocation due to lack of car.
- Incidence of car problems rises with vehicle's age
- Preventive maintenance and check ups are a good idea.
- Can get initial warranties, may be able to obtain service contracts (but outside warranty or contract, must pay personally).
- Can choose which service supplier (although will generally start with service department of selling dealer).
- Outside warranty restrictions, can switch service suppliers whenever they want.
- Customers generally prefer to have a regular service garage they trust.
- Word-of-mouth recommendations often influence choice.

Car Dealers

A. New Car Sales

- Happy department in a car dealership.
- Usually a planned activity with some anxiety but high potential for satisfaction.
- Often a family affair.

B. Treating Sick People

- Customers are worried and uncomfortable.
- Outcome not always certain.
- Concerned about personal dislocation.
- Incidence of health problems usually rises with age.
- Regular check ups are usually a good idea.
- Can insure against illness to avoid risk of high hospital payments.
- Can choose which health plan/insurance plan (this gives some control over choice of doctors, hospitals).
- Some shopping around is possible, but switching plans may be difficult.
- Customers generally prefer to have a regular doctor whom they trust.
- Word-of-mouth recommendations play an important role in influencing choice of a health plan, doctor.

4. What advice would you give to Carol Sullivan-Diaz?

(a) Improving Service Quality

Exhibit TN-01-B provides some good insights into areas needing improvement, especially items rated "bad" or "poor" by the 9 month survey as it relates to service satisfaction. A poor working environment, bad attitudes and lack of concern for customer needs all require attention. Computerization of customer records will help, but also required are physical renovation of the area in which service workers meet with customers, efforts to recruit and train better service workers, and more careful monitoring and motivation efforts. The manager, Rick Obert, could use training in customer relations skills.

(b) Marketing the Service Department

- Physical renovation of the facility.
- Customers introduced to service department personnel when new cars are purchased.
- Reminders to customers when cars are due for service.
- Promotional incentives to bring cars in for service (eg. free oil change).

(c) Marketing the Dealership

- Promote car sales and service as a package to build relationship.
- Unless Carol or Larry Winters has a "Showbiz" personality, develop a new style for the dealership's advertising.
- Reconsider appropriateness of price-based promotions (how about a promotion featuring an extended service contract?)

(d) Sell vs. Turnaround

On the face of things, this seems like a very poor time to sell the dealership – rising interest rates, rising fuel prices, declining new car sales, narrower margins, sudden demise of the owner, and problems in the service department. If Carol is willing to take time out from her health career, she could introduce a number of important innovations and improvements in time to catch the next upturn in the economy. Three things favoring this approach

are (1) the dealership has some surplus funds left from Walt Sullivan's insurance policy, (2) Carol seems confident about her own ability to reenter the health care field later, and (3) as a partner in a dual-career marriage (her husband is a surgeon), Carol may be able to afford to reinvest much of her general manager's salary in the business rather than drawing it out to cover immediate personal needs.

(e) *Handling the Angry Customer*

Carol's instincts seem good ones - get the complainer away from other customers, calm him down, and find out what's bothering him. She may have the advantage of surprise on her side in this instance, since the customer will probably not expect to find himself facing a young woman. Carol's health care experience should stand her in good stead, since it has probably taught her to be calm and sympathetic when confronted by agitated people. Her best bet is probably to introduce herself as the new owner of the business, invite the complainer up to her office to discuss his difficulties, offer him a cup of coffee or a soft drink, and simply listen to him. Depending on the nature of the problem with the car and the validity of his complaints, she may wish to consider such steps as offering him a loan car until his own is fixed, reimbursing him certain charges, or inviting the service manager to review the situation and determine what can realistically be done to achieve a greater measure of satisfaction.

5. *Flowchart/Blueprint the Servicing of a Car*

The simple flowchart in Exhibit TN01-C shows the basic activities involved in car repair and a distinction between those that are visible to the customer ("front stage") and those that are invisible in a typical service garage ("back stage").

You may wish to invite a student to put his/her flowchart/blueprint up on the board and then ask other students to critique this chart and discuss what can go wrong (OTSUs) at each point in the process.

When preparation of this case is linked to reading Chapter 8, *Designing and Managing Service Processes*, you should consider requiring students to prepare a detailed blueprint of the car service process, plus responses to the other questions in the case as the basis

for a graded written exercise. You can assign this as an individual exercise or as a 2-person exercise.

TEACHING SUGGESTIONS

This case can either be positioned early in the course to introduce differences between goods and services marketing, or it can be used later in conjunction with readings on service quality issues.

Most students should be able to relate readily to this case, reflecting their own familiarity with the industry as consumers and also the relative youth of the chief protagonist. Two alternative ways to start this case are suggested. One is to begin with Question 1 and then follow the sequence of questions listed at the beginning of this note. The other is to begin with Question 5 and ask a student to present his/her flowchart to the class (they can either draw it on the chalkboard or show on an overhead transparency/PPT); the instructor can then ask if anyone else has a significantly different flowchart.

The flowchart approach should only be used if the students have already had a chance to read and discuss flowcharting and blueprinting in Chapter 8. If you assign this exercise, ensure that the exercise is handed in at the beginning of class. As an alternative to asking students to present their own flowcharts, the instructor can show a transparency of Exhibit TN-01-C (or distribute copies of it) and ask students to identify points at which failures in service quality may occur.

The issue of how Sullivan-Diaz should respond to the angry customer can lend itself well to a role-playing exercise if the instructor feels confident in selecting students who will really enter constructively into these two roles and play their parts convincingly.

If students ask about the outcome, tell them that this is a disguised case (hence no web site address) and the actual outcome is not known.

CONCLUDING COMMENTS

Creating and selling service for durable goods is very different from manufacturing and marketing those same goods. A key distinction lies in integrating the "front stage" human dimensions of the service performance with the technical activities that often take place "backstage".

Many manufacturers - and the intermediaries who distribute their products - have to perform well on both initial product sales and on after-sales service. The latter should never be relegated to the position of a "necessary evil", as the late Walt Sullivan appeared to see it. Service revenues may represent a dependable income stream over a period of many years and offer higher margins than new product sales. Good service builds strong relationships with customers, which in turn builds two foundations for future sales (1) by word-of-mouth referral to new customers, and (2) additional or replacement purchases by existing customers.

Customers' perceptions of quality in service delivery often have as much to do with the human process of service delivery as with the technical quality of the work performed (which some customers are not even able to evaluate). Unpleasant customer reception areas send a bad signal, which may be compounded by surly employees, and inefficient processing of customer work orders. Better physical environments and selection of employees with good customer-handling skills may be helpful in achieving a perception of higher quality on the part of customers. In a stressful environment (such as health care and car servicing), employees may need training and motivation to help them respond in calm and responsive ways to agitated customers.

Developing a detailed blueprint of a service process helps managers to understand the customer's experience, the sequence in which it appears, how much time is potentially involved at each stage, and the distinction between what the customers sees front stage and what takes place backstage. Improving customer satisfaction may require such actions as:

- physical improvements to front-stage facilities
- training of front-stage service personnel in how to interact well with customers
- improving processes to improve accuracy and minimize customer waiting time on site (or on the phone)
- rescheduling of service delivery to offer more convenient times

A final point concerns the insights that can come from comparing seemingly different services. At first sight, car repair and health care appear to have little in common, but as the analysis to question #4 suggests there are, in fact, some important parallels.

Exhibit TN-01-A**FINANCIAL ANALYSIS OF AUTO WORLD**

	<u>Sales Dept.</u>	<u>Service/Parts Dept.</u>
1. <u>Total Revenues</u>		
Most recent years:	\$26.6 m.	\$2.9 m
Previous year:	\$30.5 m	\$3.6 m
Change	-12.8%	-19.4%
2. <u>Departmental selling gross percentage</u>		
Industry guidelines	5.5%	25.0%
Auto World	4.6%	24.0%
vs previous year	down	down
3. <u>Selling gross revenues</u>		
$\$26.6 \text{ m} \times 0.046 =$		$\$2.9 \text{ m} \times 0.24 =$
\$1,223,600		\$696,000
4. <u>Split of Front end/Back end gross</u> (\$1,919,600 at Auto World)		
Typical dealership	60%	40%
Auto World, calculated from (3)	63.7%	36.3%
5. <u>Coverage of Fixed Expenses</u> *		
First 6 months:	"in the red"	"small surplus"

* (collectively, do not cover fixed expenses)

Exhibit TN-01-B

MARKET RESEARCH FINDINGS FOR AUTO WORLD

- 1. 30 Day Survey "Auto World better than average" on most dimensions.

90% of respondents received explanation on how to get service.

"Less than a third" of respondents said they were introduced to AW's service department.

- 2. 9-Month Survey

- a) Vehicle ratings: AW is similar to national average

- b) Satisfaction with service: AW was in bottom 25% of all Ford dealerships

- c) Satisfaction with AW on specific service dimensions

Promptness of writing up orders.....bad
 Convenience of scheduling work.....bad
 Convenience of service hours.....bad
 Appearance of service dept.....bad

Attitude of service dept. persons.....poor*
 Politeness of service personnel..... poor*
 Understanding of customer problems.....poor*
 Explanation of work performance.....poor*
 (* denotes wide variations on these responses)

Length of time to complete work.....close to average
 Availability of needed parts.....close to average
 Quality of work ("fixed right").....close to average

- d) Percent planning to use another service supplier (not Auto World) for:

maintenance service (oil change, lubrication, tune up).....< 50%
 minor mechanical/electrical repairs.....< 50%
 major repairs.....< 30%

- e) Satisfaction with selling dealer (i.e., AW).....below average

- f) Likelihood of purchasing from AW again: well below likelihood of buying another Ford vehicle

Exhibit TN-01-C

FLOWCHART OF CAR REPAIR

