

J.D. Power China Service Loyalty Study Finds Increased Vehicle Reliability Presents Challenges For Auto Dealers

Declining Service Needs Put Spotlight on Customer Loyalty to Drive Dealer Profitability

Shanghai: 26 November 2015 — With improved vehicle quality and a market slowdown in China, the frequency of customers visiting dealerships for after-sales service and, consequently, the spend on spare parts have declined year over year, increasing the need for dealers to build customer loyalty in order to bolster profitability, according to the J.D. Power 2015 China Service Loyalty StudySM (SLS).

The study measures customer loyalty toward authorized dealerships during the first three to four years of vehicle ownership, based on their vehicle servicing experiences during the past 12 months. Customer service loyalty is examined across four measures (in order of importance): value (31%), service (25%), confidence (25%) and quality (19%) and. Overall loyalty is measured on a 1,000-point scale, with a higher score indicating a higher level of loyalty.

Driven in large part by an improvement in vehicle quality, the frequency of customers visiting a dealer for service has declined, affecting dealer after-sales profitability—fewer problems means fewer service visits. Overall, owners service their vehicles either at an authorized dealer or other service facility an average of 2.8 times per year in 2015, compared with 3.0 times in 2014. While after-sales service and spare parts are still the largest part of dealers' overall profitability, the contribution they represent as a percentage of overall profitability has declined by 10 percentage points since 2013¹.

To offset the overall decline, authorized dealers need to improve customer loyalty to not only maintain, but also increase profitability. On average in the mass market segment, customers with high levels of service loyalty (overall satisfaction score of 665 and above) visit authorized dealerships 2.5 times annually, while those with low levels of loyalty (score of 630 and below) visit only 1.95 times. Moreover, customers with high service loyalty spend about twice as much as customers with low loyalty on an annual basis (RMB 2,338 vs. RMB 1,270, respectively). Thus, improving service loyalty translates into potential revenue opportunities: for every 1,000 customers, improving loyalty from low to high can bring in additional service revenue of more than RMB 828,700 per year.

“Given the recent market slowdown in China, fewer visits and low spending on after-sales service and spare parts, authorized OEMs and dealers need to focus on improving the customer experience and the quality of work,” said **Frank Hu, senior director of sales and client services at J.D. Power China**. “Creating a highly satisfying after-sales service customer experience builds loyalty, which leads to higher rates of repurchases and recommendations.”

High loyalty leads to high dealer recommendation and repurchase rates, which can significantly increase after-sales dealer profitability. More than half (55%) of customers with high service loyalty say they “definitely would” return to an authorized dealership for maintenance or repairs, compared to 36% of

¹ Source: J.D. Power 2015 China Dealer Attitude StudySM (DAS)

those with low loyalty. With respect to advocacy, 28% of customers with high service loyalty say they “definitely would” recommend their dealer vs. 12% of those with low loyalty who say the same.

KEY FINDINGS

- **Quality and Trust Are Competitive Differentiators for Authorized Dealers:** The reasons customers most often cite for choosing an authorized dealer are “I trust this facility” and the dealer “performs higher quality work” (71% and 67%, respectively). These are also the most significant reasons that distinguish authorized dealers from other service facilities (54% trusts this facility and 51% performs higher quality work).
- **Price and Convenience Are Key Reasons to Reject an Authorized Dealer:** The two main reasons customers do not select an authorized dealer are related to price and convenience (ease of getting an appointment, location, hours of operation, etc.), which holds true for both the luxury and mass market segments.
- **It’s Easier to Get an Appointment:** The most improved reason for selecting authorized dealerships instead of other service facilities is it’s “easy to get an appointment,” which improves by 7 percentage points from last year.

The 2015 China Service Loyalty Study (SLS) is based on evaluations from 17,530 owners of vehicles purchased between May 2011 and August 2012. The study analyzes 59 different brands, and was fielded from May to September 2015 in 46 major cities across China.

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