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On Pavlov's dog and dealers hard-wired to chase bonuses

By Professor Jim Saker

In the 1890s, the famous Russian physiologist Ivan Pavlov was studying salivation in dogs as a response to being fed and noticed that the animals started to salivate when he entered the room even when he had no food.

One of his conclusions was that there were some things that dogs didn’t need to learn; they are hard-wired to respond to even the thought of food.

Can I say from the start that I have no wish to compare dealer principals to Pavlov’s canine friends, but come every March and September the manufacturers in the UK dangle performance bonuses that any good dealership is hard-wired to go and chase.

A debate in AM this month is over the issue of incentives. Most manufacturer bonuses are based around some form of volume incentive, coupled with an additional bonus based on a measure of customer satisfaction. In most cases, the volume bonus is the greater of the two – the real issue is whether this affects dealer behaviour. Do you drive for one at the expense of the other or do you try to achieve both?

In reality, the objectives are not mutually exclusive and delivering high volumes to happy and positive customers is something most people would want to achieve. The challenge arises if you end up having to trade off volume at the expense of satisfaction. If you incentivise one more than the other, it is self-evident that the priority lies with the one that has the bigger bonus. Our hard-wiring and commercial acumen will inevitably take us in that direction.

I have spent the past five years trying to persuade the sector to stop measuring satisfaction as it is a weak indicator of repurchase intention, especially on the new car sales side of the business.

With the silo mentality of most dealerships and the high turnover of sales staff, it is unlikely the customer will meet the salesperson again. The bigger level of engagement and relationship building is on the aftersales side, which usually fails to attract any big bonuses from the manufacturer.

PCPs – the great unknown

Examining the changes in the car market over the past two years, many observers have failed to really explain why the retail car market has risen so dramatically.

The Baker Tilly ‘Motor Dealer Confidence Survey – Looking Ahead to 2014’ reported that 89% of dealers regarded rising consumer confidence as one of the biggest growth opportunities in 2014, with 86% believing that this was supported by government policies.

When you actually look at the figures, however, it appears that the biggest driver of new car sales at the moment is the rise in PCP sales – they appear to have almost mirrored the rise in car sales. Although PCP plans date back to the days of Ford’s ‘Half a Car’ campaign, they have not been a major factor in consumer buyer behaviour until recently. Today, they are mainstream and being actively promoted by virtually all manufacturers.

However, we have little evidence of consumer behaviour and choice at the end of these plans. What percentage will pay off the plan? What number will take out another plan with the same company? How do you handle this type of transition? How many customers will be dissatisfied because of disagreements over excess mileage charges or the state of the car when it is returned? What happens if the plan comes to an end and there is not a similar car available within the range?

Looking ahead, there appear to be advantages and disadvantages. For the first time in a number of years, there will be more cars coming back directly into the dealership on specifically prescribed timescales. Whereas ‘trade-ins’ currently come in on an ad hoc basis, PCP customers will be driven by the terms and condition of their contract. Although from a dealership point of view, it should be possible to predict when people will return, there appear to be challenging capacity issues regarding space and logistics.

Perhaps one of the most interesting effects of this will be on staff time. A poor quality trade-in that will go straight to auction will not take that much staff time, but the prospect of high-value cars being returned presents a bigger financial risk if the assessments being made are wrong.

What do you incentivise?

From the manufacturer point of view, there comes further uncertainty. What should they incentivise? Should the volume bonus continue to reign supreme? Should the emphasis move away from the car and toward the finance package? Will customers behave differently coming out of a PCP plan than when they took one out for the first time?

One thing is for sure – the good dealers are the ones that are hard-wired to follow the money and manufacturers may find that incentives may be more difficult to apply in future.

Read ‘Volume vs Values’ on Page 33

“Satisfaction is a weak indicator of repurchase intention, especially on new car sales”