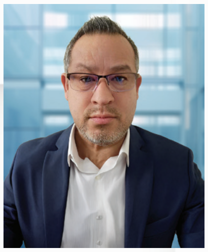
The New Service Retention Paradox:

Record Revenue, Shrinking Market Share

by Sean Reyes
CMO | **Armatus**



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Dealership fixed operations has never been more profitable on paper. Customer-pay labor rates continue to climb, vehicle technology has increased repair complexity, and the average repair order has reached historic highs on inflationary pricing and longer repair times. Industry reports continue to show record service and parts revenue across franchised dealerships, creating the impression that fixed operations has never been healthier.

Yet beneath these impressive financial results lies a troubling contradiction. While revenue is increasing, dealerships continue losing service customers to independent repair facilities at an alarming rate. Every year, millions of vehicle owners who purchased their vehicles from franchised dealers gradually migrate to aftermarket providers for maintenance and repair. The result is a growing disconnect between profitability and market share. Welcome to the new service retention paradox.

For dealership executives, this paradox represents one of the greatest strategic challenges facing fixed operations today - whether dealerships can retain enough customers to sustain long-term growth in an increasingly competitive service marketplace.

The growing gap between higher revenue and declining customer retention has significant implications beyond the service department. Customers who regularly service their vehicles at the selling dealership are substantially more likely to purchase their next vehicle from that same dealer. Every service customer lost today represents risk to immediate service revenue and future vehicle sales.

Connected-vehicle technology, predictive maintenance, and telematics unquestionably improve communication and customer engagement. However, technology alone cannot overcome the economic realities of competing against an independent repair industry that outnumbers franchised dealerships by nearly twenty to one.

Instead, dealerships must develop sustainable financial strategies that allow them to continually invest in customer convenience, staffing, competitive pricing, communication, and service capacity. One of the most overlooked funding sources available is proper retail warranty reimbursement. Progressive dealerships increasingly recognize warranty reimbursement as a strategic financial asset capable of generating recurring revenue that funds long-term customer retention initiatives.

Record Revenue Doesn't Tell the Whole Story

Higher average repair orders do not necessarily indicate that dealerships are servicing more vehicles. In many cases, dealerships are generating more revenue from fewer customer visits because each repair simply costs substantially more than it did several years ago. This distinction is critical. Revenue inflation masks the gradual erosion of customer retention.

Defection to aftermarket competitors is considerably more difficult to recognize because it develops slowly over many years. We're only now seeing the front end of the defection wave, as new vehicles sales traditionally fuel warranty-back repairs for dealers for the first 3 to 5 years of ownership. For much of the previous decade, annual new-vehicle sales consistently hovered around 17 million units, but supply chain disruptions and constrained inventory caused sales to fall sharply in more recent years.

Although production has largely recovered, affordability has become the industry's greatest challenge. Cox Automotive forecasts the market to remain in the high-15- to low-16-million-unit range, well below the pre-pandemic norm, as many consumers invest in pre-owned vehicles over new vehicle purchases. Today's new vehicle shoppers face financial pressures from high prices, escalating insurance costs, unstable fuel costs, and elevated interest rates. Beyond the purchase itself, consumers are also confronting higher repair and maintenance costs.

These economic realities have fundamentally changed the competitive landscape for dealerships. As fewer consumers enter the market for a new vehicle each year, retaining existing customers has become considerably more valuable than acquiring new ones. Every customer who continues returning to the dealership for service represents not only recurring fixed operations revenue but also one of the strongest opportunities to secure the customer's next new vehicle, which is covered by a factory warranty.

The Service Market Is More Competitive Than Ever

More than 16,000 franchised dealerships now compete against well over 300,000 independent repair facilities throughout the nation. Independents continue expanding through national chains, regional networks, franchise operations, specialty repair shops, tire retailers, quick-lube providers, and mobile service companies. Consumers now have unprecedented choice. Many independent facilities emphasize lower advertised prices, extended operating hours, faster appointment availability and neighborhood convenience. These businesses often compete aggressively for routine maintenance - the very services that traditionally kept customers returning to dealerships during the initial ownership cycle. Once customers establish trust with an independent repair facility, returning them to the dealership becomes increasingly difficult.

The Hidden Cost of Service Defection

Many dealership leaders evaluate customer retention through the lens of lifetime customer value. While the new vehicle is under warranty, vehicle owners will continue to visit the dealer for the repairs covered through warranty. However, dealerships are losing service work and repairs that generate Customer Pay (CP) dollars. That defection not only contributes to a drop in revenue, but smothers the fuse that would ignite CP opportunities and subsequent new vehicle sales. This service-to-sales ecosystem has driven the auto industry since inception and is now at risk of crumbling altogether.

Not surprisingly, defection has also crept into repairs that are covered under warranty. Vehicle owners are not willing to go to the dealership for necessary repairs, even when those repairs are paid for by the factory. They're called recalls. Depending on the brand only about 12 – 15% of vehicle recalls are resolved within one year, typically driven by a visit to the dealership.

Independent repair shops are not checking for a recall because they aren't eligible for warranty compensation to repair them. Most vehicle owners don't even know they have an open recall. Recall completion rates fall dramatically once a vehicle falls out of warranty. Viewed this way, customer defection becomes exponentially more expensive than many dealerships realize.

Can Technology Reverse the Trend?

Recognizing this challenge, technology providers have introduced increasingly sophisticated retention tools. Connected vehicles now generate enormous amounts of diagnostic information. Predictive maintenance systems can notify customers before components fail. Artificial intelligence helps prioritize outreach. Mobile applications simplify appointment scheduling. Digital inspections improve transparency. For the auto industry, telematics platforms act as leash to identify maintenance needs in real time and trigger highly personalized service reminders.

These technologies clearly provide meaningful advantages. However, they also expose an important question – is it enough for vehicle owners to service and repair at the dealership once the warranty expires?

Technology Is an Enabler - Not a Complete Strategy

We're missing the point. Let's shift the conversation from technology toward something more sustainable: investing in a better customer experience to win back and retain vehicle owners. Technology may bring customers back once. The overall experience determines whether they return again.

A perfectly timed maintenance reminder has little value if the next available appointment is three weeks away, pricing is not in line with market expectations, and repairs not up to standard because service advisors and technicians are apathetic. Independent repair facilities continue gaining market share because many have built their business models around convenience, namely proximity and timely scheduling. While price is key in current inflationary conditions, consumers point to convenience as the key differentiator:

- Same-day appointments
- Extended evening and weekend hours
- Digital scheduling
- Mobile service options
- Pickup and delivery
- Transparent pricing
- Continuous repair updates
- Shorter wait times
- Personalized communication

Dealership improvements like hiring more technicians, paying service staff a competitive salary, expanding shop capacity, loaner availability, and other enhancements are expensive, yet they directly influence customer retention.   Ironically, many dealerships recognize these needs but struggle to fund them consistently while balancing increasing operational costs. That creates an important strategic question about how to finance a better consumer experience. Where can dealerships find recurring revenue that improves customer experience without relying solely on higher customer-pay pricing?

Warranty Reimbursement: An Overlooked Competitive Advantage

For many dealerships, the answer may already exist. Retail warranty reimbursement has traditionally been viewed as a compliance exercise - a process designed to ensure manufacturers reimburse dealers fairly for warranty parts and labor. That perspective dramatically understates its strategic value.

When dealerships recover the full reimbursement to which they are legally entitled, they generate additional recurring gross profit without increasing customer prices to levels out of step with the market, selling more vehicles, or performing additional repairs. Unlike many revenue initiatives, maximizing warranty reimbursement does not require additional advertising, expanded inventories, or major capital investments.

Instead, it allows dealerships to receive compensation that more accurately reflects the retail rates they already charge their customer-pay clients. The resulting financial gains create opportunities that extend well beyond the accounting department. Additional reimbursement revenue can be reinvested directly into the customer experience.

Summary: From Cost Center to Growth Engine

Rather than viewing service as simply a department responsible for repairs, dealers increasingly see it as the organization's primary customer-retention engine. Every service visit becomes an opportunity to reinforce confidence, strengthen relationships, and demonstrate value. Every interaction shapes future purchasing decisions.

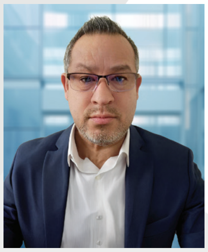
This shift requires leadership to move beyond measuring only monthly revenue and repair orders. Metrics like service retention rates, customer lifetime value, technician capacity, repeat visit frequency, reduced sold-not-service rates, reduced wait times, and repeat vehicle purchase are the metrics that define the dealership of the future. These measurements provide a far more accurate picture of long-term dealership health than revenue alone.

Connected vehicles will help dealerships compete more effectively, but will not directly influence the customer experience. Technology identifies opportunities. People deliver the experience. Sustainable financial resources make both possible. That is why warranty reimbursement deserves greater attention from dealership leadership. When optimized properly, it becomes more than an accounting exercise. It becomes a recurring investment fund that supports the operational improvements customers notice every day.

Rather than viewing warranty reimbursement as a periodic compliance requirement, forward-thinking dealerships should recognize it as a strategic business initiative capable of funding the very improvements that keep cusby Sean Reyes | CMO | Armatus

tomers returning. In today's marketplace, the dealerships that outperform their competitors will not simply communicate with customers more effectively - they will deliver experiences worth returning for.

Ultimately, the solution to the **New Service Retention Paradox** is not choosing between technology and operational investment. It is leveraging every available source of recurring revenue, including optimized warranty reimbursement, to build a service experience that independent repair facilities simply cannot match.



Sean Reyes oversees all marketing efforts at Armatus Dealer Uplift as Chief Marketing Officer. Sean's experience spans more than 35 years of business development and strategic marketing experience, having developed go-to-market products and solutions for the automotive, healthcare, insurance, finance and technology industries. Sean has extensive network in automotive, having served as one of the original team that founded Recall Masters. He spent more than 10 years advocating for vehicle safety and supporting dealer warranty reimbursement related to recall repairs.