
The Hybrid, Electric Vehicle (EV) Takeover

When a customer comes into your shop and asks your advice about their hybrid or electric vehicle, can you answer their questions or solve their problem...or do you have to send them to the dealership?

Every day, more and more dealers are having to ask themselves these questions as the Hybrid and Electric Vehicle (HEV/PHEV/EV) market grows. Seventeen years ago, Honda and Toyota started selling hybrid vehicles. The Prius and the Insight were the only 2 models available in 2002. Today, there are over 80-models from almost every vehicle manufacturer, and there are over 5-million Hybrids on U.S. roads. There has been a 34% increase in (HEV/PEV/EV) in the last 2-years, representing over 1.2-million vehicles. SEMA just released a study in late 2018 that by 2020, (HEV/PHEV/EV) will represent about 8.3% of the vehicles sold in the U.S. and by 2025 that number will grow to 18%.

Government is focused on alternative energy

The government is driving much of this growth through the CAFE Standards (Corporate Average Fuel Economy). Developed in 1975, the standards mandate that OEM fleets improve gas mileage and reduce emissions. At the end of 2017, the average mandate was 34.1-MPG, and by 2025 will cap out at 54.1-MPG. It's clear that fuel-economy is a priority in Washington and government seems to love alternative fuel vehicles.

Additionally, the 'CARB – ZEV' Program was enacted by the California government in 1990 to promote the use of zero emission vehicles. *"The program goal is to reduce the pervasive air pollution affecting the main metropolitan areas in the state, where prolonged pollution episodes are frequent"*. The standards have been challenged over the years, but basically mandates that OEM manufacturers maintain a ratio of (HEV/PHEV/EV) to their entire fleet. It's a sliding scale, but by 2025 the ratio will be 1-for-1 (meaning one standard-emission vehicle to one low-emission vehicle). Ten other states have joined the initiative, and the action plan has the potential to substantially change the automotive market...not only in the signatory states, but nationwide. Experts predict that the internal combustion engine will eventually be supplanted by hybrid and battery-powered electric cars. Manufacturers have invested billions of dollars globally in R&D, and this effort will continue, the recent plunge in global oil prices notwithstanding.

So why do dealers need to be in the Hybrid business?

That's a fair question, and one that we answer daily for dealers. Over the last 40-years, the business has seen ongoing changes. Some are categorized as "Evolutionary", examples being the change from shocks to MacPherson struts to multi-link suspensions...drum to disc to ABS brake systems...carburetion to fuel-injection to direct-injection. When these changes occur, we often resist at first thinking they will not become the norm only to succumb, train our people and move forward.

Other changes are categorized as "Revolutionary". These are changes that will affect our overall business model forcing dealers to change the way they do business. Examples here are stainless-steel exhaust...all-season tires...onboard computers...and electronic ignition. The (HEV/PHEV/EV) segment is a little of both, where the technology is evolving which is forcing dealers to adapt, but at the same time will impact the way we do business as the segment continues to grow.

For much of the last 40-years, consumers have fled from the car dealer to the aftermarket after the initial warranty period ended. That didn't seem to bother the car dealers years ago because there was enough warranty work paid for by the manufacturers to support the business. Today, vehicles are built better and the warranty rates have dropped dramatically...which is driving car dealerships into the tire and service arena to retain and capture lost revenues. So not knowing the answers when a customer asks and sending them back to the car dealership potentially hands your customer to the competition.

How are (HEV/PHEV/EV) customers different?

Customers today are more savvy, and their expectations have risen. They expect us to provide what their vehicle needs, and if your employees are not knowledgeable in the newest industry technologies, customers may view you as being behind the times and take their vehicles elsewhere, possibly never to return. The average family owns 2.3 vehicles – if they take one of their vehicles to your competitor, research shows they most likely will take all of them.

(HEV/PHEV/EV) customers can be a bit more discerning. Hybrid owners tend to skew a bit older, EV owners a bit younger. On average, they have a higher education, and are tech-savvy. They have a higher household income, are more liberal and like the outdoors. Over 53% are women and more than half will pay premium prices for 'green'. They are friends of the environment & want to save money. That demographic is changing somewhat as (HEV/PHEV/EV) vehicles are now available in the secondary market where fuel costs and family budgets are driving the sales.

What are you missing?

If you were to ask a random sampling of tire and auto-repair shop owners if they serviced hybrids, the majority would likely answer yes. That would be misleading. Most dealers only provide the traditional tires, alignments, brakes, oil-changes, suspensions etc. What these shops are missing is the additional revenue stream derived from having their technicians trained and capable of servicing the entire hybrid drive system (hybrid battery packs, power inverters, DC to DC converters, hybrid controllers and electric components). Hybrid and electric vehicles can be a profitable segment of the business. The average repair order is higher with hybrids, meaning higher sales and profits. There's added cost and complexity when dealing with hybrid drive systems and provides the opportunity to increase the cost of service and maintenance. That's a market driven reality created by hybrid car manufacturers.

Fully servicing hybrid vehicles creates a brand-new revenue stream for your shop, which can help replace lost tire revenues going to car dealerships, to the large consolidating retailers and online sales. Every dollar you generate from being able to service the full hybrid-drive system is purely incremental. It simply did not exist before. There are very few avenues within your business that provide this type of new revenue opportunity. Providing full service for hybrids also opens the door to servicing the customer's other vehicles as well.

Conversely, you provide your competitor the opportunity to take existing business if they position themselves as the (HEV/PHEV/EV) experts and take the second vehicle from you. There's an old saying, "The first in wins", meaning that the first dealer in the market that embraces new technology, trains their people, and promotes the services will position themselves as the expert and win loyal customers. Dealers today need to differentiate themselves from the competition, and if they don't, then they settle into the commodity arena and are forced to

deal on price to gain customers. If you efficiently and effectively service the (HEV/PHEV/EV) segment, it can mean incremental service revenue from other household vehicles and referrals.

As tire dealers, your employees need to be aware that low-rolling-resistant tires are essential on a (HEV/PHEV/EV) to maintain gas mileage. (HEV/PHEV/EV) owners purchase the vehicle for better gas mileage and to help protect the environment. This means that they watch the MPG on a regular basis and installing the wrong tire will probably raise a red flag very quickly. That positions your store in a negative light and is a lost opportunity to sell a higher gross profit tire. Tires also provide an opportunity for nitrogen sales, a chance to bring the customer back for rotations, air-pressure checks and alignments, synthetic oil-changes, flushes etc.

What does the future look like?

There are over 5-million hybrid and electric vehicles on the road today that are out of warranty. In this aftermarket industry much of what we sell is purely commodity-priced products and services. Traditional services such as brakes, alignments, oil changes and the like need to be at or close to the market pricing or you'll lose business to competitors. If you are offering a unique service capability, such as servicing and maintaining the hybrid-drive system, you're not selling on price. You've differentiated yourself from the competition which has the potential to increase revenues.

The changes in the (HEV/PHEV/EV) segment provide significant opportunities to the aftermarket. If dealers position themselves now, they will grow with these evolutions/revolutions and reinvent their businesses as the vehicle technologies change. This sets your businesses apart as one of the few venues where vehicles are serviced by competent service personnel using the correct processes, procedures, and equipment. Ask yourself what is the 'COI' (the Cost of Ignoring). How many changes have we seen over the years and been slow to react to...and how much business was unrealized? Vehicles will continue to evolve, and (HEV/PHEV/EV) will continue to grow. If your shop is in the service business, can you afford to ignore what is projected to be at least 18-percent of the vehicles that pass by your store every day?

(HEV/PHEV/EV) are the future, and those who step up and embrace it today will be the ones who will ultimately win. If this sounds like the opportunity you've been searching for, The Hybrid Shop would love to continue the discussion. Contact information is below. We work as a team, so feel free to call or email either one of us.

The next time a customer asks a hybrid question, how will you respond?

West Coast
Carey Mellor
(805) 732-9989

Carey.Mellor@TheHybridShop.com



East Coast
Dave Crawford
(410) 371-9884

Dave.Crawford@TheHybridShop.com

www.thehybridshop.com