# FIXED OPS JOURNAL AUGUST 2017

# SELLIERS

Dealer Tire's Dean and Scott Mueller shake up replacement tire market

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Selling parts online









# August 2017 ISICIE

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ABOUT THE COVER: Brothers Dean, left, and Scott Mueller stand before a sculpture at the headquarters of their company, Dealer Tire, in Cleveland, Dealer Tire has quietly become a billion-dollar concern by selling tires to 10,000 U.S. new-vehicle dealerships; the Muellers' next goal is to triple dealers' share of the replacement tire market in 15 years.

PHOTO BY FRANCIS F MILLER

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#### Webinar on essential service processes

Fixed Ops Journal is hosting 4 free webinars this year.

- NEXT EVENT: "Three Essential Service Processes for Higher Profits and Happier Customers"
- PRESENTER: John Fairchild, president, Fairchild Automotive Solutions
- WHEN: Wednesday, Aug. 30, 2 p.m. ET
- SIGN UP: autonews.com/3essentials

#### **RICHARD TRUETT**

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LEVELAND - Scott and Dean Mueller built Dealer Tire into a billion-dollar colossus by selling replacement tires to new-vehicle dealerships. Now the brothers are ramping up their efforts to teach dealers to be better tire retailers.

The stakes are high: Franchised new-vehicle dealers, the Muellers predict, can triple their share of the U.S. replacement tire market by 2032. To boost that share from today's 8.5 percent to 25 percent, they say, dealerships must do two things above all:

- 1. Treat tire sales as a business in itself, not merely a loss leader to keep service customers from defecting to aftermarket competitors.
- 2. Improve their service advisers' tire-selling

"If dealers are going to dominate their market in service, maintenance and light repairs, tires have to be part of the equation," says Dean Mueller, 58, Dealer Tire's founder and president.

Adds Scott Mueller, 54, the CEO of the privately owned company: "You can [install] a set of tires in under an hour, and if you are doing them right, you can also sell an alignment. The profit is right up there with gravy warranty

Dean and Scott Mueller granted Fixed Ops Journal a rare joint interview at Dealer Tire's headquarters in a newly renovated historic building in midtown Cleveland. The Mueller family's roots in tire sales go back nearly a

The brothers formed Dealer Tire in 1999, and since 2002 — when they sold the family's retail tire business — have worked exclusively

# TIRE TITANS

■ Dealer Tire's Mueller brothers aim to help dealers triple share of replacement tire sales



with dealership service departments.

Dealer Tire supplies tires for 24 automakers to 10,000 U.S. new-vehicle dealerships. It does not sell tires through a consumer channel, or to independent shops.

The company has several major initiatives designed to help dealerships improve their tire-selling retail skills, including a new program that embeds Dealer Tire sales consultants with dealerships (see related story, Page

The Mueller brothers keep these strategies close to the vest, to avoid alerting their competitors. General Motors and Ford Motor Co. operate their own tire distribution programs for their dealers. Companies such as Community Tire, Tire Rack and local tire chains also supply dealerships.

#### **Low-key leaders**

Both brothers come across as low-key and informal; neither wore a tie to the interview. When he's away from work, Dean Mueller likes to spend time with his classic muscle cars and Porsches.

Scott Mueller has an eye for art. A recent acquisition installed at Dealer Tire headquarters is a sphere that resembles a rolled-up parking lot, created by New York artist Lars Fisk.

Dealer Tire has tangible strategies to attract and retain top employees. The headquarters include such workplace amenities as an

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Scott Mueller, above left, and his brother, Dean, run Dealer Tire from a renovated historic building in Cleveland. A sculpture called "Lot Ball" outside the headquarters suggests a rolled-up parking lot.

PHOTOS BY FRANCIS E. MILLER



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upscale employee cafeteria and a high-tech gym with an indoor track.

The company gives its dealer clients the same sort of personal attention. And Dealer Tire's efforts to help dealers capture market share from tire stores, which dominate the replacement tire market, are paying off.

Last year, sales of 236 million replacement tires yielded \$29.7 billion in revenue, Modern Tire Dealer reports. New-vehicle dealerships' share of the U.S. market grew to 8.5 percent in 2016 from 1 percent in 2000.

Higher tire sales are key to increasing fixed ops profits and boosting service customer retention, says Jim Lang, an analyst who tracks the auto parts industry.

"The Mueller boys have a good point," Lang says. "Tires are not a loss leader. They are a relationship builder with the car owner."

The auto industry is coming off seven straight years of annual increases in new-vehicle sales. Although that streak likely will end this year, the demand for replacement tires should be strong in coming years even if the economy cools, Lang adds.

That represents a big opportunity for franchised dealers. If they capture 20 percent of the replacement market by 2032 - short of the Muellers' projection of 25 percent — they would still sell 47 million tires annually. That total would more than double the 20 million they sold last year.

#### 'Off your butt'

The Muellers' retail roots inform Dealer Tire's selling strategy for dealers. That plan

#### **Dealer Tire dossier**

Facts about the nation's largest distributor of replacement tires to franchised new-vehicle dealerships:

**Headquarters:** Cleveland Employees: 1,250

Annual revenue: more than \$1 billion U.S. distribution centers: 39 Customers: 10.000 dealerships

representing 24 automakers Other markets: China

Source: Dealer Tire

calls on service advisers to inspect a vehicle's tires on the service drive, in the customer's presence.

"You need to get up off your butt and walk out to the car, hopefully with the customer," Dean Mueller says. "And you need to bend over to inspect the tires.

"Amazingly enough, that is still not necessarily common practice. Some dealers are pretty good at it. Some aren't."

The point of the walkaround, he says, is to "plant the seed in the customer's mind that if you need tires, call us. We're competitive. We're experts. We have the tires. And we can get them put on in a competitive way."

Dealerships have a major advantage over competing tire sellers, if they choose to exploit it: They need only sell tires that are identical, or have equal speed and load ratings, to the original equipment tire fitted to the car or truck at the factory.

That greatly reduces the inventory dealerships must carry. Dealer Tire, which has 39 warehouses across the country, can deliver tires to a dealership several times a day in many of its markets, which also allows the store to keep its inventory lean.

#### **Retention tool**

Scott Mueller says dealerships should tailor replacement tire options to the way a customer drives and how he or she uses the vehicle. With such an approach, he says, "most people — literally 85 percent of the people — will get

Margins on tires are usually far lower than on other common wear and repair items, such as oil filters, alternators and water pumps. But that's not the whole picture, Dean Mueller

"People who buy tires at a dealership will buy 2.5 times more service over the life of the vehicle," he says. "They'll visit dealers three times as much.

"Tires are the first defection point," he adds. "If you ignore them, customers go down the street to a Firestone or a Belle Tire. And they are not coming back."

Scott Mueller says that tire sales are extremely profitable if they occur in volume.

"What you are selling at a service business is time and space," he says. "How much profit you can make per bay hour? That is a magic formula."

#### **Online sales channel**

In addition to the information and training it provides dealers, Dealer Tire produces marketing materials for tire brands and individual dealerships.

The company also operates RightTurn.com,

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## **EMBEDDED ADVISERS**

### Dealer Tire supplies full-time sales consultants to select dealerships

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ealer Tire is expanding an initiative that places its sales consultants in the service lanes of new-vehicle dealerships. These consultants sell tires directly to customers and train the dealerships' service advisers in tire sales.

The company's leaders, Scott and Dean Mueller, are reluctant to divulge many details about the program, which has been operating for several years.

Participating dealers pay Dealer Tire for the presence of the on-site retail expert, called a tire service adviser.

The amount that dealers pay varies, but decreases as tire sales increase. Some tire manufacturers subsidize the cost of the program.

Dave VandeLinde, the new director of service and parts operations at Hyundai Motor America, previously was service director of Kuni Lexus in Portland, Ore., which works with an on-site Dealer Tire adviser.

If a dealership's tire sales are low, Vande-Linde said, it could cost \$4,000 a month to keep the tire adviser in the service lane. But that cost could dip to \$1,000 a month when sales are high, he added.

"It's got to pencil," VandeLinde said in an in-

terview when he was still with Kuni Lexus. "It's not cheap."

Dealer Tire declined to comment on the program's pricing.

Kuni Lexus brought in the adviser to boost service customer retention, VandeLinde said: "He's really a specialist."

The Dealer Tire program also enables dealerships to make money on highly profitable spiffs sold with tires, such as alignments and tire care packages.

#### **Help wanted**

This month, Dealer Tire's website showed 16 job openings in 12 states for tire service advisers. Among other duties, the adviser inspects service customers' vehicles and consults with them about replacement tires and tire repairs.

Sonic Automotive, which operates 112 dealerships, has tire service advisers at all of its high-volume stores, says David Padgett, the public dealership group's vice president of fixed operations. Some of the company's dealerships, he says, have doubled their tire sales to nearly 1,000 tires a month.

Sonic asks Dealer Tire to assign a tire service adviser once a dealership achieves a certain number of repair orders, Padgett says. At first, the cost can be about as much as Sonic pays for one of its own service advisers. But the expense decreases as tire sales rise. Padgett adds.

"It's an awesome investment," he says. "They are the tire experts who help us facilitate the sale. When you are on the [service] drive and you are doing a point of sale, you only get about 15 minutes with the customer.

"You need to be able to know that you can procure the right set of tires and get it on the customer's car," Padgett says. "With Dealer Tire, we are able to see exactly how much we have in stock."

#### 'Cultural change'

Jim Lang, an auto parts market analyst, says the tire adviser program benefits Dealer Tire as well as its dealership clients.

"An old-line service writer probably doesn't care much about tires," Lang says. "A cultural change has to take place. You have to make him aware that he is not just selling tires, he's selling an expanded relationship with the vehicle owner."

Dealer Tire CEO Scott Mueller calls the tire adviser program an "experiment." He concedes it requires a participating dealership to develop a high-volume tire business.

"We prefer to teach people how to fish instead of fish for them," Mueller says.

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a website that helps consumers buy tires installed at new-vehicle dealerships.

Consumers enter their vehicle's year, make and model, answer questions about their driving styles, and are given several choices of tires. They can order the tires online and set an appointment at the dealership from the web page.

The company is experimenting with placing the RightTurn.com platform on dealers' websites as well. To check out an example involving a Toyota dealership, go to: autonews. com/rightturn.

"The consumer can buy the tires online at the dealer's website, schedule an appointment online, and have the tires installed," Scott Mueller says. "That helps dealers make their customers aware they sell tires, and gives



Dealer Tire's lobby features portraits of science visionaries.

them an integrated tool to close the deal."

Dealer Tire also offers what it calls its Dvnamic Retail Selling Guide, which gives dealers competitive information about tire pricing that is specific to their markets.

"We analyze 10 million tire prices a month in different markets," Dean Mueller says. "The dealers, if they follow certain guidelines, are

more than competitive."

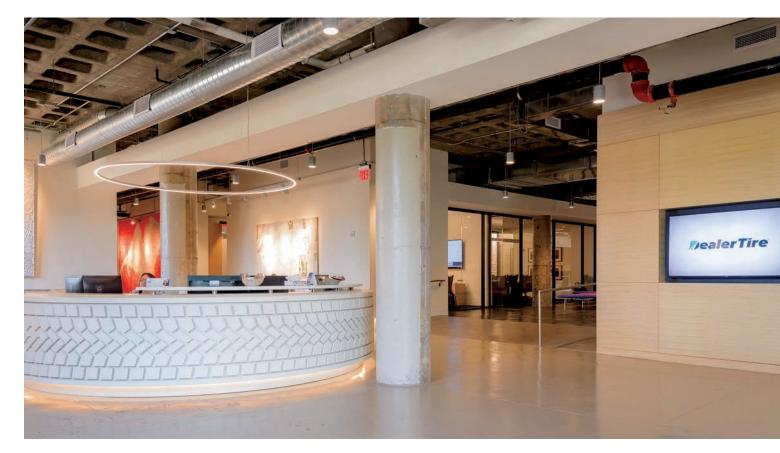
The Muellers concede that their efforts to help dealers sell more tires won't work unless service directors maintain a clear sales process and train service advisers to follow it.

"Training is something that never ends," Dean Mueller says. "It always evolves. One of the challenges the industry has is just getting qualified people in the service drive."

The Mueller brothers say it's OK with them that the Dealer Tire name is not well known outside of the industry. More important, Dean Mueller says, is that "consumers know the dealer can serve them."

"The best thing we see is when you buy a new car, the salesman takes you back to the service department and introduces you to the service adviser, and he says: 'Whatever you need, including tires, I can help you with.'

"I can tell you when I started calling on dealers in the 1980s, that sure as hell didn't happen." ■





The main entrance of Dealer Tire headquarters includes a reception desk shaped like a tire, above. Company employees are greeted with inspirational slogans, left.

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