

Fixed Operations 2 Service Homework - Tommy Gibbs **N335**

Includes Action Plan, SWOT Analysis, RO Analysis, Service Homework Questions

Advertising-----Emails, Mailers: keeping your dealership name in front of your customer.

Until recently we did have a very strong presence in traditional media including our local newspaper. We have since moved to a more digital approach to stay in front of customers. We are investing a decent amount in GM's CSSR program (customer sales service retention) whereby physical mailers and email campaigns are run based on recommended services at certain mileage intervals, declined work, and customer dormancy (those not in shop for 6 months). In addition we try to make the most out of our customer database and send out as much free advertising as we can. Below is an example of a typical email campaign we send out monthly. The great part about marketing to our existing customer base is that we can slice and dice the data in any way we see fit. We'll typically highlight recommended services based on the estimated time/miles a customer has had a vehicle, and we can track emails opened, appointments set from the campaign, and gross profit driven by the campaign. Other than time spent to generate the creative in house there isn't much in the way of cost, so the ROI is essentially limitless. In addition, we can upload these customer lists into Facebook to mimic the message in a different medium as customers are more likely to interact with a given piece of communication with a slightly higher ad frequency.

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Marketing-----Non-dealer survey

Competitor	LOF	Rotate	Balance	Align	AC Serv.	Pads
Tom Gibbs	\$19.95	\$18.95	\$39.95	\$69.95	\$129.95	\$109.99
Del's	\$24.95	\$20.95	\$28.95	\$59.95	\$99.95	\$154.95
Tuffy PC	\$22.95	\$29.95	\$44.00	\$59.95	\$149.00	\$119.95
Barrow's	\$24.95	\$18.95	\$35.00	\$64.99	\$99.00	\$130.00
Take 5 Oil	\$36.99	NA	NA	NA	NA	NA
Auto OB	\$21.95	\$19.95	\$39.95	\$69.95	NA	NA

In mystery shopping our local non-dealer competitors it is evident that have a pretty compelling story to tell at our dealership. Not only are we very competitive on pricing across the board but we give customers peace of mind in knowing their vehicle is being worked on by factory trained technicians. I love the idea of posting this type of board in our service advisers write-up station!

Facility-----Capacity, Utilization (“B” Tab---second calculation)

FACILITY POTENTIAL	
Number of Bays	11
	x
Number of Days	25
	x
Number of Hours	9
	x
Effective Labor Rate	78.25
	equals
FACILITY POTENTIAL	\$ 193,669

FACILITY UTILIZATION	
Total Labor Sales	\$ 130,147
	+
Facility Potential	\$ 176,063
	equals
FACILITY UTILIZATION	73.92%

The facility

utilization calculation essentially outlines everything I mentioned in the “weaknesses” portion of the SWOT

analysis. We have a very lacking MPI process and we just simply are not selling the level of hours we need to get the most out of our shop. This comes down to the three P's - people (we need more frequent professional training), process (we need an effective sales process we can utilize with every customer on every transaction), and promotion (we need to be more aggressive at reaching out to customers to get them in the door).

Productivity-----Tech Proficiency (“B” Tab---first calculation)

POTENTIAL				
\$	130,147	÷	1663.22	= \$ 78.25
	Total labor sales for month		Total hours billed	Effective Labor Rate
	10.00	x	9	x 25 = 2,250.0
	# Service mechanical technicians		# Hours/Day	Working Days/Month Clock Hour Avail
	2,250.0	x	\$ 78.25	= \$ 176,063
	Clock Hours Available		Effective Labor Rate	Labor sales potential
How proficient are your technicians ?				
	1,310.0	÷	2,250.00	= 58.22%
	Hours Produced		Hours Available	Tech Proficiency
Customer labor divide by the Customer Effevtive Labor rate from the R. O. Analysis				

Again this falls in line with what was discussed in the facility utilization calculation as the two figures go hand in hand - unproductive techs lead to a shop that isn't maximizing its potential.

Production Method----Conventional, Work Group, or Team

We use a conventional production method with three service advisers, ten techs and two detailers. Each tech stands on his own but we do have 4 long time veterans that can assist some of the lower level techs with their work. Work is distributed by the advisers on a first available basis.

Analyze Cost of Labor—(“A” Tab—first calculation)

Service Department Sales And Gross (Labor Only)				
YTD THRU JULY 2018				
Category	Sales	Gross	Gross as % of Sales	%Sales Contribution
Customer Car	\$ 363,896	\$ 259,248	71.24%	39.94%
Customer Truck			0%	0.00%
Quick Lube	\$ 133,951	\$ 54,742	40.87%	14.70%
Warranty	\$ 207,170	\$ 154,101	74.38%	22.74%
Warranty Other			0%	0.00%
Internal	\$ 132,043	\$ 102,342	77.51%	14.49%
NVI / Road Ready	\$ 73,971	\$ 62,569	84.59%	8.12%
Adj. Cost Of Labor			0%	0.00%
Total	\$ 911,031	\$ 633,002	69.48%	100.00%

Across the board our dealership does have a fairly strong gross as a percentage of sales. Each tech has various pay grades depending on the type of job they are working on, so we are able to pair lower grossing jobs to a lower cost of labor - for example

Tech A might get paid \$15/hour on lower skilled work and his normal \$25/hour on higher grossing, more intensive jobs. We do tend to send out quite a few promotional coupons which does account for the shortfall in gross on customer pay when compared to NADA guide. Likewise, as shown above lower grossing jobs including quick lube do comprise a good portion of our overall work mix, which is driving down the total department gross profit percentage.

Changes in Expense Structure—(“A” Tab---third calculation)

Service Department Profit Centering			
YTD THRU JULY 2018			
Expense Category	Dollar Amount	% of Gross	Profile
Department Gross	\$ 778,752		
Variable Expense		0.00%	
Selling Expense		0.00%	
Personnel Expense	\$ 470,596	60.43%	
Semi-Fixed Expense	\$ 141,170	18.13%	
Fixed Expense	\$ 165,621	21.27%	
Unallocated Expense		0.00%	
Dealer's Salary		0.00%	
Total Expenses	\$ 777,387	99.82%	
Net Profit	\$ 1,365	0.18%	

I wouldn't say our overall fixed cost structure is out of hand dealership-wide, but it is evident that my service manager is getting paid way too much money to underperform. Our personnel expense is well above 45%-50% guide, and essentially we are paying a very generous wage for lackluster performance.

650 RO Analysis Results

Repair Order Analysis Summary Report							
	Sales in Dollars		FRH's on RO's		Averages	Analysis	
Competitive	\$ 17,885	+	713.60	=	25.06	FRH Average	
Maintenance	\$ 4,603	+	56.40	=	81.61	FRH Average	
Repair	\$ 37,370	+	374.60	=	99.76	FRH Average	
Totals	\$ 59,858	+	1,144.60	=	52.30	Customer ELR	
		Target Labor Rate				98.00	Per FRH
Total Ro's in Sample	650	Difference				-45.70	Per FRH
Cost of Labor							
Total Cost of Labor	18198.00	+	Total Sales	=	30.40%	Percent Cost of Sales	
Total Cost of Labor	18198.00	+	Total FRHs	=	15.90	Cost per FRH	
Repair Order Measurements							
Total Labor Sales	59,858.00	+	Total ROs	=	92.09	Avg Labor per RO	
Total FRHs	1,144.60	+	Total ROs	=	1.76	Avg FRH's per RO	
Menu Sales		+	Total ROs	=		Percent Menu Sales	
Competitive FRHs	713.60	+	Total FRHs	=	62.34%	Percent Competitive	
Maintenance FRHs	56.40	+	Total FRHs	=	4.93%	Percent Maintenance	
Repair FRH	374.60	+	Total FRHs	=	32.73%	Percent Repair	
One item ROs	384	+	Total ROs	=	59.08%	Percent One Item RO	
Model Year Analysis							
2019	2018	2017	2016	2015	2014	Older	Total
1	17	55	79	97	79	322	650
0.15%	2.62%	8.46%	12.15%	14.92%	12.15%	49.54%	

The RO analysis is littered with problem areas that can be turned into potential opportunities for us going forward:

1. Hours per RO is below guide. As Larry brought up: what can we do to get that extra 3 tenths per RO?
2. Heavy reliance on competitive rate work. It's good to promote competitive work to drive traffic to the department, but if you don't have a process to upsell that traffic total department gross will suffer.
3. Percent one line is frighteningly high. Goes back to the point made in #2. We just simply aren't selling required maintenances to the customers coming in for competitive work.
4. Low level of maintenance rate work. We aren't educating our customers on the preventative maintenances their vehicles need that will help prevent long term service issues. This comes down to spending more quality time with each

customer, going over potential areas that might need attention and educating them on the benefits of doing the work now as opposed to waiting for more expensive repairs down the road.

5. A very substantial portion of our traffic is for models 2013 and older. This is a huge area of opportunity as these are the age cars that need maintenance/repair work. We have a good level of the right kind of traffic, just need to do MORE with that traffic while they are in the shop.

Special tools---neat and organized, or a rats nest

Certainly not the cleanest room in the dealership!



Tom Gibbs Chevrolet Action Plan

After analyzing my service department I have decided there are several key areas on which I want to improve over the next 12 months:

1. Increase Department Sales

Tactic 1: As discussed numerous times in class, service advisers work with a higher volume of customers than anyone in the dealership yet historically receive the least amount of formal sales training. This is undoubtedly the case at my store and likely one of the biggest hurdles we have to maximizing department profitability. Since coming back from class we have already sought the help of a 3rd party training company that will help us go back to the basics of the service adviser vehicle walk-around, explanation of the MPVI to the customer, and asking for and closing a higher portion of incremental sales.

Tactic 2: Aside from the factory produced mailers we send out we do not currently have a very aggressive outbound marketing strategy. Our service BDC does an adequate job in fielding appointment phone calls/emails, and setting and confirming appointments, but they do not handle many outbound campaigns. We plan on generating a schedule of consistent outbound messages through email/physical mail that will target different service recommendations based on the model year and estimated mileage interval at which our existing customers stand. In my belief one of the primary drivers of service traffic is simply reminding customers (and educating others) what their vehicle requires in terms of maintenance at what times.

In addition there are a few minor changes we can make in our CRM to increase future sales. For instance, local sales customers that we lose to other dealerships can still make for a service department opportunity. Creating another marketing pathway for these lost customers can potentially get them to come back to the dealership where we can at least earn their service business.

2. Increase Total Department Gross and Gross Profit as a Percentage of Sales

Tactic 1: This does piggyback on the first objective, as an increase in department sales will naturally increase the total gross dollars we are generating. However, I'd like to also increase the gross profit we are generating as a percentage of sales which will require an influx of higher grossing service jobs. As outlined in my RO analysis over 60% of my work mix is devoted to competitive flat rate hours, and nearly 60% of my ROs have one line of customer pay labor. From these two metrics alone it is apparent that my service advisers have zero salesmanship, which goes back to the formal training discussed in objective 1.

Out of the 650 ROs I analyzed I'm seeing we actually do hold pretty strong gross on repair jobs - over 75% in the study. If we simply focus on introducing a higher volume of these jobs into my service mix I'm confident that we can increase overall labor gross above the 73% guide. Again, this will come down to working on our MPI process and honing my service adviser sales training.

Tactic 2: I do believe that there is some labor cost elasticity in my market, and therefore an increase in my door rate will not be seen with a disproportional drop in traffic. It has been about two years since our last door rate increase. In addition, I do think there is an opportunity to generate a few additional gross dollars by increasing the door rate an additional tick for jobs over a certain number of flat rate hours.

3. Increase Technician Proficiency

Tactic 1: The primary way we can begin improving proficiency today is to implement a more consistent tracking of lost sales to optimize our parts department fill rate. Currently we are running around 70% first time fill rate in our parts department with about another 15% being filled same day through emergency purchases.

Post parts class we had about 30% of our parts inventory in obsolescence, so we are first working at divesting of this parts balance through various wholesale avenues. In more consistently tracking lost parts sales we can simultaneously reduce the obsolete parts inventory while refreshing the inventory with newer, faster moving parts. The closer we can get this first time fill rate to NADA guide of 90-95% the more service jobs we can complete at the time they are sold to customers.

One of our primary setbacks at the current time is that customers are declining work due to parts not being available and the inability to get them in and out same day.

No customer wants to be inconvenienced by having to come back for a second service visit.

Tactic 2: I would like to implement a spiff program on top of my base technician compensation program that will motivate them to turn every hour they can in the allotted physical time they are at work every week. This will be a stair-step program whereby they can increase their flat rate pay based on hitting certain proficiency milestones.

For example, Technician A will be compensated his base flat rate per hour commission at 100% proficiency and for each 10% increase in proficiency he will in turn generate an additional \$xx per hour retro to the first hour turned. This will be calculated based on a running proficiency average throughout a given month, and the additional compensation (if a higher milestone is achieved) will be paid at month end in the form of a bonus. Just like the stair step program we have established on the sales side of the dealership, I believe such a program will get our techs to shift to a more volume-focused mindset.

In addition, I also believe it will get them to analyze more closely other issues a given vehicle might have and make suggestions to the service advisers that will also help them sell more hours per RO. Not every maintenance issue can be identified on the initial service adviser walk-around.

Tom Gibbs Chevrolet Service Department SWOT Analysis

Weaknesses

1. Very lax process for conducting quality MPIs and disseminating this information to customers.

Currently our lube techs are responsible for completing the MPI, turning them into the service writers who in turn will update the customer on all fields - whether they are green (good to go, no issues), yellow, or red (needs immediate addressing). Due to the high volume of quick lube we do in the shop our lube techs either don't submit an inspection report or they quickly pencil down the line to get the work off their plate. Our service manager is not managing this process and as a result quality work is not being completed.

2. Mix of Makes/Models in our Shop

In doing the RO analysis I am seeing that about 75% of our shop work is done on our brand Chevrolet. With the number of independent shops we have in our town alone there I know we are missing a huge amount of business in catering to off-brand vehicles.

3. Service Department Marketing

Although for our Chevrolet zone we do have the highest customer retention rating and first visit after sale ranking, we do not have a very aggressive platform in place to continue marketing to our sales customers as their vehicle ages. Per my RO analysis about 30% of my service department's sales dollars and about 60% of my flat rate hours are generated from competitive work (a good amount of factory reimbursed oil changes and tire rotations). Without a solid plan to continue marketing to our core customers and getting them back in for maintenance work (and hopefully generating some repair work in the process) we are missing out on some high gross sales. This also holds true for local non-sales customers that just simply don't have familiarity with our dealership.

4. Low First time Fill Rate

Post parts class my first time fill rate hovered around 70%, which indicates that a decent portion of our jobs cannot get completed once we get a commitment from a service customer. This puts a huge crimp on the department for numerous reasons - you increase the chances the customer will decline the work, you reduce shop proficiency and potentially reduce technician

morale, and you tie up dollars and time in loaner cars and chasing customers to come back to the shop when their service is completed.

Strengths

1. High customer loyalty

For our Chevrolet zone we are currently ranked first when it comes to sales customer retention in the service department as well as first service visit after the initial sale. Seeing that these are complimentary maintenance items to the customer I do understand this isn't a tremendous feat, but it does lay a solid foundation on which to improve retention figures as these customers' vehicles age.

This also holds true on the sales side of the business. Our dealership has very high sales retention which does help prevent service business migrating to other Chevy dealerships or brands in the area.

2. Facility

In our town we have the newest service garage (out of dealers and independents). We have ample space to grow, a very clean facility, and the latest technology at our disposal.

3. Strong employee morale and low turnover

Our average A and B level techs have been employed at the dealership for a little over 10 years, and turnover in this area has never been a huge problem for the store. Likewise, because some of these techs have been at the dealership for a lengthy period of time they have even started to build their own customer loyalty in the shop. Our Corvette tech, for instance, has a very strong following and even tends to pull customers out of neighboring markets.

4. Strong market

We are in a growing market that provides for job stability and a higher than average level of disposable income. We have a strong base on which to use growing new/used car volume to drive future service growth.

5. Strong Name Recognition

We are the longest existing service garage in our town, out of dealers and independent shops.

Threats

1. Independents

We have a very saturated market with three auto dealerships and 5-6 fairly well known independent shops right in our town. In addition a sizeable portion of our population works in the neighboring towns to the north and south of us, both of which have numerous options for vehicle service. The competition is very high.

2. General Motors

I actually believe General Motors is going to be as big of a threat to our business over the long run (next 20+ years) as our primary competitors are to us today. GM is beginning to see that dealerships can have an astronomical profit potential and starting with the sales side they are starting to encroach on our profitability (fixing new car pricing, restricting the sale/installation of after market accessories, etc). I have heard first hand from several GM executives that the company's long term goal is to introduce factory-owned stores and start privatizing the sale/service of automobiles. As long as GM dealerships turn a profit the factory will continue to look for avenues through which they can enjoy their share.

Opportunities

1. Better usage of MPI

Nearly 60% of the ROs I analyzed contained only one line item for customer pay labor. My team does not have a strong process for conducting vehicle

walkarounds with customers and upselling incremental service jobs.

2. Improving overall department gross

One of our biggest areas of opportunity are increasing sales in both maintenance and repair areas. I am currently well below the 40% guide on repair service penetration when looking at my job mix. Injecting a higher portion of these high grossing jobs will increase overall department gross profit potential.

3. Improve parts fill rate

Higher fill rate means we have the ability to do jobs right then and there, minimizing the chance we'd get declined service due to the amount of time a job would take. Customers have a harder time saying no if they aren't forced to come back for a 2nd visit. Right now my fill rate is around 70%, which is well below the 90% guide.

4. Improve overall shop utilization with longer hours

Our service department closes 2 hours before sales department does throughout the week and does not have Sunday hours. Making ourselves more convenient for customers will drive incremental hours turned.

5. More aggressive outbound marketing

We have a huge opportunity in just simply getting our sales customer base back in the service department with inexpensive email and physical mail marketing. Proposing maintenance services will educate the customer on other services their vehicle requires will help reduce the high percentage of competitive work we are now doing.

Ensure that all sales customers get an introduction to the service department and one of the service advisers. This is key in building initial rapport and sets the stage for the first service visit.

There is also more we can do in-house with point of purchase materials and displays. The competitive pricing board discussed in class is a great tool to let customers know that we are competitive with pricing across the entire line of service work – not just for competitive jobs. In addition, a tire rack with examples of good, marginal, and tires in need of replacing gives customers a visual aid. Most shoppers respond more strongly to visual cues than they do to a pitch from a sales associate/service adviser.

