

Service Department Analysis for Southgate Ford

Year to Date Analysis - June 2018

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## Advertising - Keep Your Name In Front of the Customer

### **Current Situation**

We haven't historically done much in terms of general Service advertising. I spoke with the Service Manager and he told me that we used to spend \$1,000-2,000/month approx. 7-10 years ago, but he slowed and eventually stopped spending as he wasn't seeing much of a change in the number of customers or top line when he scaled this expense back. We recently included a service coupon on the back of a weekly mailer we send out of the new car department (\$10 off any service invoice over \$50), which started to hit mailboxes around 7/19/18.

I spoke with Consumer Connection, a Ford Direct "recommended" provider of online and physical advertising (Consumer Connection is a white-label Ford provider). We spend ~\$3k/month with them, and they provide direct mail and emails to our customers, both thanking them for coming into our department or providing reminders to come in and have their vehicles serviced. Some examples of ads they provide include:

- Direct mail (mail sent out to loyal customers, service reminder for lost customers (those that have skipped 2 service cycles), corporate offers, Ford private offers); and
- Emails (intro to service after customer buys a new vehicle; service apt reminder to remind customers to come in to set a first service appointment, service reminder for 1<sup>st</sup> year customers, first year out warranty reminder, service reminder for lost customers (those that have skipped 2 service cycles), corporate offers, declined services (email first, then mail if email bounces back), past due maintenance (email first), service thank you (after someone services with us), Ford private offers).

Certain elements are required, and Ford reimburses us for completing these items including: Service reminders for loyal customers, service reminders for lost customers and Private Offers.

### **Analysis**

There has been a concern since before the dealership renovation began in May (we're about 2 months into a 4-5 month complete renovation of the dealership: showroom, customer lounge areas, service drive, service write-up, etc.) that the renovation would negatively impact our Service department more so than any other department.

One of the biggest problems we have in our area is that we lease ~90% of the vehicles we sell on 24/36 month terms and have an above-average older customer

base (that only drive a couple thousand miles per year), so most of our customers require minimal maintenance on their vehicles.

Current areas of improvement (where our customer response rate lags the zone & the region) include: Service Reminders for Loyal Customers (13.4% response during the last 3 months vs. 15.6% zone / 19.3% region) and service Defectors (6.8% response during the last 3 months vs. 8.9% zone / 10.1% region).

### **Strategies/Tactics for the Future - Action Plan**

I think we should continue to include different service discounts or coupons on the back of new car sales mailers once every 4 weeks to try and stay in front of customers and keep our service department top of mind.

Our consumer connection rep is putting together some additional analysis that we will go over together and understand if there is something we can do to increase these numbers, or to spend our advertising dollars more efficiently/effectively.

## Marketing - Non-Dealer Survey

Competitor Name	Lube, Oil & Filter	Rotate Front / Rear Tires	Balance Front / Rear Tires	Align Front End	Service A/C	Replace Front Disc Pads
Fast Oil & Lube	\$ 29.99	\$ 19.99	-	-	-	-
Southgate Penzoil	\$ 19.03	-	-	-	-	-
Good Care & Repair	\$ 34.99	\$ 20.00	\$ 50.00	\$ 75.00	\$ 85.00	\$ 135.00
Midas	\$ 37.95	\$ 24.00	\$ 40.00	\$ 69.95	\$ 112.00	\$ 300.00
Belle Tire	\$ 38.00	\$ 10.00	\$ 40.00	\$ 84.99	\$ 84.00	\$ 214.00
Riverside Auto Care	\$ 110.00			\$ 60.00	\$ 100.00	\$ 189.00
Firestone Complete Auto Care	\$ 29.95	\$ 10.00	\$ 40.00	\$ 69.99	\$ 129.95	\$ 179.95
Muffler Man	\$ 39.95	\$ 19.99	\$ 50.00	\$ 64.99	\$ 99.95	\$ 159.95
Elite Kar Care	\$ 64.95	\$ 20.00	\$ 25.00	\$ 65.00	\$ 79.95	\$ 200.00
<b>Average</b>	<b>\$ 44.98</b>	<b>\$ 17.71</b>	<b>\$ 40.83</b>	<b>\$ 69.99</b>	<b>\$ 98.69</b>	<b>\$ 196.84</b>
<b>Southgate Ford</b>	<b>\$ 35.00</b>	<b>\$ 10.00</b>	<b>\$ 30.00</b>	<b>\$ 49.95</b>	<b>\$ 150.00</b>	<b>\$ 250.00</b>

### Current Situation

According to our Non-Dealer Survey, our pricing is lower in some areas and higher in other areas. We try and stay competitive on the most generic services. For the A/C Servicing and Replacement of Front Disc Pads where we are slightly more expensive we can justify this to our customers since (as discussed in class) non-dealer locations are not using OEM parts for their repairs, nor are they completed by factory trained, Certified Techs. We do provide all our customers that purchase or lease a new vehicle their first oil change for free in an attempt to get them in/accustomed to our service department - this works well on one level as it retains customers for their first visit, but the reality is that since we do such a high percentage of leasing (especially to older customers who drive minimal miles) 1 or 2 oil changes is really the only service most of these vehicles need.

### Analysis

Overall our pricing is relatively in line with the market. Our pricing is competitive in most areas and needs to be since we are located in an area surrounded by lube and/or auto repair shops. I think the idea of using the table above for marketing purposes is a good one, and something I could put together and laminate (possibly creating a more generic one like the examples that were shown in class) and giving to the Service Writers in an attempt to better sell the value of our services. We should also do a better job of indicating that we service all makes and models since we moved the Quick Lane facility into the Ford Service department - the tech that services these vehicles is generally busy but could definitely handle more work.

### Strategies/Tactics for the Future - Action Plan

We need to do a better job of advertising and selling value within the Service Department. Given our high lease percentage we have fewer than average vehicles in our area to service, so we need to make the most of each opportunity. Our service advisors would benefit from additional training, as well as sales training so that they can try to sell more per job. Once the renovation is complete I think this could be an easy way to try and sell the value of our services, in addition to highlighting how much less expensive we are compared to many of the other independent shops in the area.

## Facility - Capacity / Utilization

FACILITY POTENTIAL	
Number of Bays	46
	x
Number of Days	126
	x
Number of Hours	8
	x
Effective Labor Rate	90.4
	<i>equals</i>
FACILITY POTENTIAL	\$ 4,191,667

FACILITY UTILIZATION	
Total Labor Sales	\$ 905,540
	÷
Facility Potential	\$ 4,191,667
	<i>equals</i>
FACILITY UTILIZATION	21.60%

### **Current Situation**

As seen above, our shop has a ton of upside with potential revenue of nearly \$4.2 million, however, our utilization is only 21.6%. Guide is 70% for facility utilization (numbers are for YTD 2018 through June).

### **Analysis**

The numbers above are the result of two problems: we have a large shop with 46 service bays, but only 8 full-time techs (along with 6 tech helpers). This results in 5.75 bays per full-time tech, or 3.3 bays/tech if you include the helpers in the calculation. We are not space constrained, but we do need to make sure we are utilizing our space more efficiently.

### **Strategies/Tactics for the Future - Action Plan**

The near-term plan is to convert all capable tech helpers into full-time flat rate techs. Assuming we can continue to bring enough work in to keep everyone busy this should improve our utilization percentage as well as our top line.

We have made or intend to make the following changes shortly:

- Moved the least efficient tech helper, Robert, to the lube rack, and promoted one of our best lube rack employees to tech helper to replace him - this happened in mid-July and has been going well;
- Moved Chris, who is Ford Master Certified, to a flat rate tech focusing on Drivability. Chris had been a tech helper for over 4 years and we believe he is ready to contribute on his own. He is on vacation until mid-this week and will start on his own upon his return;
- Paul - continues to work with our trans tech and build his skill-set with the hope that he will be able to turn into a FRH tech in the future;
- Kyle - continues to work with Matt, a FRH tech, as he continues to get up to speed and build his skill set - he has only been back at the dealership for less than a year;
- Justin is a tech helper that has been working with his father for nearly 10 years. There is concern that if Justin stops working with his father, his father's performance will suffer considerably. As a result, we've decided to combine them into a team where they will pool hours and pay (his father will receive [TBD]% of the pool, and Justin will receive [TBD]%). We hope this will improve their productivity somewhat, but also set Justin up for success once his father decides to retire. The Service Manager intends to sit down with them to discuss this change this week;
- Kept the status quo with Dan, a tech helper assisting our Heavy tech. We've been told that the Heavy work we're getting is lengthy to complete and Ford isn't paying well on Warranty jobs, so he will continue to need a helper going forward.

Each of the above actions have been made in an attempt to increase the department's efficiency and overall profitability. We expect some grumbling in the immediate term as the helpers start to branch out and turn flat rate hours, but this is expected to subside over time, and the hope is that we can get vehicles in and out of the department on a more timely basis to better satisfy customers, improve customer satisfaction and eventually make everyone more money.

Finally, having more technicians will provide our advisors with the opportunity to sell more hours; we must make sure we are continuing to complete Complimentary Multipoint Inspections on every vehicle that comes into service to help the advisors sell more work.

# Productivity - Tech Proficiency

**NADA ACTUAL SERVICE ANALYSIS**

Performance

	<i>Labor Sales / Month</i>		<i>Hourly Labor Rate</i>		<i>Hours Billed</i>
Customer Car*	\$ 308,386	÷	75.25	=	4098.2
Customer Truck*	\$ -	÷		=	0.00
Customer Other	\$ -	÷		=	0.00
Warranty	\$ 539,912	÷	107.58	=	5018.7
Internal	\$ 20,343	÷	41.24	=	493.3
ESP Repair	\$ 36,899	÷	107.58	=	343.0
<b>Total</b>	<b>\$ 905,540</b>				<b>9953.1</b>

**POTENTIAL**

$$\frac{\$ 905,540}{9953.13} = \$ 90.98$$
 Total labor sales for month      Total hours billed      Effective Labor Rate

$$8.00 \times 8 \times 126 = 8,064.0$$
 # Service mechanical technicians   # Hours/Day      Working Days/Month      Clock Hour Avail

$$8,064.0 \times \$ 90.98 = \$ 733,666$$
 Clock Hours Available      Effective Labor Rate      Labor sales potential

How proficient are your technicians ?

$$\frac{9,964.0}{8,064.00} = 123.56\%$$
 Hours Produced      Hours Available      Tech Proficiency

**Customer labor divide by the Customer Effective Labor rate from the R. O. Analysis**

## Current Situation

As indicated above, the overall tech proficiency is 123.6%.

## Analysis

Tech proficiency would appear to be one area where our service department is excelling – proficiency of 124% is above the NADA guide of 120%; however as evidenced in the ‘Utilization’ section above, high proficiency is coming at the expense of a very low shop utilization: we would likely be much better off with a slightly lower proficiency but a higher utilization. Moving some of the tech helpers to flat rate hour techs should initially reduce the shop’s proficiency, but once they get up and running hopefully they’re able to turn a material number of hours. The

Service Manager will need to be effective in spreading hours around in a prudent manner to keep the veteran techs happy while still letting the new guys cut their teeth turning flat rate hours.

### **Strategies/Tactics for the Future - Action Plan**

It will be interesting to see how much proficiency is negatively affected once some of the Helpers switch over to flat rate Techs. I anticipate it will drop off most severely right after the change is made, but then slowly climb up as the former techs become more and more efficient as they get more accustomed to their new roles. I'm happy to sacrifice some proficiency for additional revenue and a more efficient use of our service bays.

## Production Method - Conventional, Work Groups or Team

### **Current Situation**

Our shop uses a conventional style; techs work by themselves on their own jobs and each tech specializes in a specific repair area (and works solely within his specific area). If they have questions they are able to reach out to the Service Manager (a master certified tech) or a colleague as everyone generally gets along. At the time of this analysis we had eight full time techs (1 Trans; 1 Drivability; 2 Front End/Brakes; 2 General (Trim/Upholstery/ Heating & Cooling/Electrical); 1 Heavy Engine/Diesel; 1 General (Quick Lane)), 1 part-time tech (Trans; works approx. October through April - not currently at the store), 6 tech helpers and 7 lube techs. Work is either dispatched by the Service Director or the Service Advisors based on what type of work the vehicle requires.

### **Analysis**

Typical problems with the conventional model are: low utilization because each tech is allocated at least two bays; lower productivity as techs work individually and are constrained if no work for their specific specialty comes in for a period of time (i.e. we could be backed up with trans work or could go a full week without getting a trans job into the shop); a potential bottleneck from the dispatcher and poor communication (again, because tech's personal needs come before the dealership).

I believe that the Conventional model is best for our dealership: we have many tenured techs who have been working within their specialty for many years, and making any change to the structure would be too disruptive. The biggest problem facing our service department is that we're losing money, and I believe this is in large part to incorrect staffing. We have one tech helper that has worked at the dealership for nearly 10 years (he works directly with his father) and two others that have been with us for 4+ years. We need to either transition these individuals into flat rate techs or change their compensation structure.

### **Strategies/Tactics for the Future - Action Plan**

I don't see any reason to make any changes to the way our service department is structured, beyond working to transition tech helpers to flat rate hour-turning techs. The conventional model is what the Service Manager prefers (he prefers to have tech 'specialists' rather than generalists, equating them to doctors that specialize in a certain field). I agree that a specialist should be able to diagnose and repair a problem much more quickly than a generalist, but if one area (trans, heavy, etc.) slows down for a time those techs don't have anything to work on and could become a distraction to the others (in addition to making less money if they don't have anything to work on).



## Analyze Cost of Labor

Category	Sales	Gross	Gross as % of Sales	%Sales Contribution
Customer Car	\$ 308,386	\$ 170,425	55.26%	34.06%
Customer Truck			0%	0.00%
Customer Other			0%	0.00%
Warranty	\$ 539,912	\$ 354,444	65.65%	59.62%
Warranty Other			0%	0.00%
Internal	\$ 20,343	\$ 4,352	21.39%	2.25%
ESP Repair	\$ 36,899	\$ 27,452	74.40%	4.07%
Adj. Cost Of Labor			0%	0.00%
<b>Total</b>	<b>\$ 905,540</b>	<b>\$ 556,673</b>	<b>61.47%</b>	<b>100.00%</b>

### Current Situation

The overall gross profit percentage is just over 60% which is considerably lower than the 75% NADA Guide. Our Customer and Warranty margins are ~20% & 10% below where they should be; our Internal margin is also poor at 21% but those are relatively small dollars that wouldn't move the needle much.

### Analysis

We are in a big lease market (~90% of our new car sales are leases) and therefore most of the work coming through our Service department is either warranty or oil change/competitive rate service. We just had a Warranty rate increase in June 2018 increasing our Warranty rate to \$110.70 from \$107.58, so this should boost our gross margin slightly.

In January 2018 we increased our customer pay rate from \$97/hour to \$110/hour (it had been kept below \$100 for quite some time as there was a concern anything over \$100 would make us seem less competitive). However, we use a variable rate: we only charge \$62/hr for trim or brake work and \$32 for batteries. This is due to the fact there are so many other options in our immediate area where our customers could get their vehicles repaired, and we need to remain competitive.

In discussing the various aspects of this Service homework one thing that came up was our internal rates - they're currently inconsistent (the Quick Lane tech charges \$60, the Used Car tech charges \$65, the Service shop charges \$40 and we have an employee rate of \$42) and outdated, having remained the same for ~15 years. We've continued to pay techs more over the years, but not changed or increased our internal rates. We need to address this in a sensitive manner as we operate in

an area surrounded by independent repair shops - we need to increase and standardize our rates while also remaining cost-effective & competitive so that our Used Car department and employees aren't able to get the work they need done cheaper somewhere else. The correct number (after discussing with Service Management) is probably somewhere in the \$60-65 range - this is something that I hope to change in the fall.

### **Strategies/Tactics for the Future - Action Plan**

The slight increase to the Warranty rate will help us marginally, but it won't make up the ~10% gap we have between our gross margin and guide. We just raised our customer pay labor rate in January, so there's probably not too much we can do there until next January at the earliest. Our competitive maintenance pricing summary indicated that what we're charging for tire balancing and front end alignments are below the three other Ford dealerships in our area, so we can increase our prices for those (at least \$49.99 for tire balancing and \$60.00 for front-end alignments).

In addition, I hope to be able to increase our internal rate to something in the \$60-65/hr range in the fall.

## Changes in Expense Structure

Expense Category	Dollar Amount	% of Gross	Profile
Department Gross	\$ 556,673		
Variable Expense		0.00%	
Selling Expense	\$ 294,786	52.95%	
Personnel Expense	\$ 310,921	55.85%	
Semi-Fixed Expense		0.00%	
Fixed Expense	\$ 388,432	69.78%	
Unallocated Expense		0.00%	
Dealer's Salary		0.00%	
Total Expenses	\$ 994,139	178.59%	
<b>Net Profit</b>	<b>\$ (437,466)</b>	<b>-78.59%</b>	

### **Current Situation**

The biggest problem with our Service Department is that it's losing money. Departmental expenses are nearly double the Service Department's gross, so we need to find ways to increase gross while also cutting back on our expenses.

### **Analysis**

It really surprised me to find out that the service department is losing money even before any fixed expenses are allocated to the department - that is really unacceptable. We need to make more money and spend less while doing so.

### **Strategies/Tactics for the Future - Action Plan**

The huge negative net profit in Service seems insurmountable this year, but I believe we are making some changes to start to move the department in the right direction: cutting back on tech helpers and getting more individuals to turn FRHs will cut back on expenses because 2 employees will now only get paid if they're turning hours, and we've also cut back on the total expense of the shop. I'm optimistic that we can lose less in the second half of the year vs. the first half.

## Pay Plans

### Current Situation

- Service Manager:
  - o Bob = \$1,100/week + demo allowance (\$300) + 6% of the Service Department selling gross after parts adjustment + \$250 bonus if CVP scores are above group for a 3 month average
- Service Advisors:
  - o Jamie = \$250/week + 11% of all sales she writes
  - o Brent = \$1,000/week + \$150 bonus per week if CVP score is in the top 75% of the group + 1.75% of Gross Parts and Labor sold
  - o Jeff = \$16.50 / hour (new hire, will re-assess his comp after 3 months on the job)
- Techs:
  - o Wally = \$45.00 / FRH (Trans)
  - o Richard = \$30.00 / FRH (Drivability)
  - o Johnny = \$26.00 / FRH (Front End / Brakes)
  - o Brent = \$28.00 / FRH (General, Electrical, Heating & Cooling)
  - o Ron = \$33.00 / FRH (Trans; only works ~6 months of the year)
  - o Mike = \$31.00 / hour (General, Electrical, Heating & Cooling)
  - o Dave = \$27.00 (Heavy Engine / Diesel)
  - o Matt = \$30.00 (Front End / Brakes)
  - o Chuck = \$27.00 / hour +\$1 @40.1-50hrs; +\$2 @50.1-60hrs; +\$3 @60.1+hrs (General; almost exclusively Quick Lane). Chuck is guaranteed 50 hours/week but 'owes' the dealership for 50% of any deficit between hours paid vs. hours worked.
- Tech Helpers:
  - o Paul = \$15.00 / hour + \$3.00 for every hour turned by the Tech he assists
  - o Chris = \$16.00 / hour + \$6.00 for every hour turned by the Tech he assists
  - o Kyle = \$15.00 / hour + \$2.00 for every hour turned by the Tech he assists
  - o Robert = \$11.00 / hour
  - o Dan = \$13.00 / hour + \$2.00 for every hour turned by the Tech he assists
  - o Justin = \$11.00 / hour
- Lube Rack:
  - o AJ = \$650.00 / week
  - o Brandon = \$10.00 / hour
  - o Eric = \$10.75 / hour
  - o Jacob = \$10.00 / hour
  - o Daniel = \$11.25 / hour
  - o Brandon = \$9.25 / hour
  - o Alex = \$9.50 / hour
- Warranty Admin

- o Debbie = \$11.00 / hour
- Porters:
  - o Gary = \$11.00 / hour
  - o Leon = \$10.50 / hour
  - o Dave Jr. = \$9.50 / hour

## **Analysis**

One of our biggest issues is that the department is not being properly managed – rather than oversee the department and all the service employees (and their performance) Bob and Joan are continually getting pulled out of their offices or away from what they were doing in order to answer questions, put out fires (sometimes literally), or aid in a number of various tasks around the dealership or the lot.

The comp structure of our service department is no longer working, and it all stems from the fact that we aren't making money. The Service Managers should be getting paid based on a percentage of what the department is netting so that they are incentivized to manage the entire department to maximum efficiency. In addition, our service advisors are over-worked and because of that, over-paid. We've essentially gotten by the majority of this year with 2 service writers when we should have 4 full-time employees. This is in part due to some ironic timing and bad luck – we've hired 3 different Writers this year in order to try to get to 4 total, but two got pregnant and decided they didn't want to work anymore/quit, and one quit. We currently have 3 (however 1 just started), and are looking for a 4<sup>th</sup>. Four full-time, strong writers will reduce our reliance on Jamie and Brent, allow the writers to take vacations, sick days, etc. without putting a huge strain on the department and better align the writer's comp. In addition, I would like to make high CVP scores a larger percentage of the writer's overall comp.

The Tech comp is more-or-less competitive in our market – one Trans tech is getting paid considerably more than the others because we were without a Trans tech for a number of months and hard-up to find an employee.

The Tech helper comp structure, on the other hand, is way out-of-line and needs to be changed. Not only are we paying all 6 tech helpers hourly, we've paying 4 of 6 an additional spiff based on the number of hours the techs they are helping turn. We discussed in class a number of ways to improve this, including: turning helpers into flat rate techs more quickly (as soon as 1yr) or having the techs pay a portion of their helper's hourly rate (the percentage the tech pays would increase the longer the helper is working for the tech).

## **Strategies/Tactics for the Future - Action Plan**

We are actively looking into transitioning tech helpers to FRH techs, and recently met with the Service Manager and Service Director to address this problem. We started by having the Service Manager speak with each of the Techs that have

helpers and letting them know that going forward they are going to have to start paying for a portion of the tech helper's wage if they want to keep working with them. This was intended to: (i) reduce cost to the service department and (ii) make it very clear very quickly just which of the helpers are pulling their weight and causing the techs to turn more hours. We also spoke about converting some of the helpers into "teams" with their tech and having them split FRHs (potentially weighted more heavily towards the more productive tech).

## Detail Performance Programs - Objectives, Tracking, Communication

### **Current Situation**

Our service department would definitely benefit from better communication, and that starts from the top down. The Service Manager has a good relationship with all of the techs and writers, but he occasionally gets pulled away to fix things around the dealership, so he's not able to oversee everything in the shop as much as he would like. Other than working hard to try and meet our customer satisfaction numbers each month the Service Department doesn't really have any goals or objectives to work towards.

### **Analysis**

The majority of the staff in the service department (especially management and the techs) have been with the dealership for a long time, so I think that everyone more or less "goes about their business" each day - everyone knows what they need to get done, what their role is, etc. Because most employees are so settled in the Service Department doesn't hold regular meetings or set any formal objectives or goals (other than actively monitoring our customer satisfaction scores).

While certainly an informal process, Service Management does have a good sense of how busy the techs and shop are via weekly payroll: each week management calculates the payroll for each tech - reviewing their total hours, any bonus targets hit (i.e. getting paid an additional \$1/hr if they're over 50 hours for the week) - as well as the Service Advisors. This way management can informally track just how much each tech is producing/writer is writing. Service management also actively tracks the shop's "Fix It Right The First Time" score and compares it against our group and our zone.

### **Strategies/Tactics for the Future - Action Plan**

It would probably be helpful to initiate some sort of consistent service meeting, even just something every 2 weeks to bring the entire department together and update them on any developments with the dealership, the Manufacturer, recalls, or anything else relevant. Potential problems/issues will be finding an acceptable time to hold the meeting (as the techs like to just come in and starting to work right away, and no one wants to stay late) and also convincing the Service Manager that this is a value-add exercise as he tends to be less talkative (and wouldn't want to have to speak in front of everyone regularly) and as mentioned earlier most everyone has been with the dealership for a long time and already "knows the drill." We would definitely benefit from a minor shake-up to the routine, however, since the current system isn't profitable. This is currently a lower priority for me.



## Level of Current Training

### **Current Situation**

#### **Service Director**

- Bob – Manufacturer Master certified as a Service Manager. In addition, Bob is certified in Body Shop Management Fundamentals, Parts Manager Fundamentals, and Base certified as a Warranty Administrator

#### **Service Manager**

- Joan – Manufacturer Master certified as a Service Manager, certified as Warranty Administrator

#### **Service Advisors**

- Jamie – Manufacturer Master certified as a Service Advisor
- Brent – Manufacturer Base certified as a Quick Lane Manager,
- Jeff – no certifications yet as he just started within the last 2 months, but he has been assigned classes and will have certifications by late September

#### **Techs**

- Wally (Trans) - Certified in Steering & Suspension, Electrical Systems, Manual Transmission and Drivetrain & Automatic Transmission
- Rick (Drivability) – Certified in Electrical Systems
- Johnny (Front End / Brakes) – Certified in Steering & Suspension, Electrical Systems & Brakes
- Brent (General, Electrical, Heating & Cooling) – Certified in Electrical Systems, Climate Control & Electronic Systems
- Ron (Trans; only works ~6 months of the year) – Master Certified – Certified in New Model Training Courses, Gasoline Engine Repair, Steering & Suspension, Electrical Systems, Climate Control, Manual Transmission and Drivetrain, Automatic Transmission, Brakes & Electronic Systems
- Mike (General, Electrical, Heating & Cooling) – Chassis Master Certified – Certified in New Model Training Courses, Steering & Suspension, Electrical Systems, Climate Control, Brakes & Electronic Systems
- Dave (Heavy Engine / Diesel) – Chassis Master Certified – Certified in Gasoline Engine Repair, Electrical Systems, Climate Control, Diesel Engine Performance and Diesel Engine Repair
- Matt (Front End / Brakes) – Chassis Master Certified – Certified in New Model Training Courses, Gasoline Engine Repair, Steering & Suspension, Electrical Systems, Climate Control, Brakes & Diesel Engine Repair
- Chuck (General / Quick Lane) – Certified in Used Car Reconditioning

#### **Tech Helpers**

- Paul - None
- Chris (Master Certified) - Certified in New Model Training Courses, Gasoline Engine Repair, Steering & Suspension, Electrical Systems, Climate Control, Manual Transmission and Drivetrain, Automatic Transmission, Brakes, Diesel Engine Performance & Diesel Engine Repair
- Kyle - None
- Robert - None
- Dan - None
- Justin - None

### **Warranty Admin**

- Debbie - not formally certified as Warranty Administrator, but we have her taking the courses now to be Manufacturer certified.

**Lube Rack** - no formal training

**Porters** - no formal training

### **Analysis**

Generally speaking we do a very poor job of training our employees throughout the dealership, not just in the Service Department. Everyone would benefit from more training, but the prevailing sentiment is that “everyone is too busy” and “they can’t afford to lose any working hours at a training class.” While I understand this is a short-sighted view, I’m fighting an uphill battle. The certifications noted above are Manufacturer certifications and completed through online courses - it’s really the bare minimum in terms of available training.

### **Strategies/Tactics for the Future - Action Plan**

In my opinion this topic is a two-way street - it’s pointless to sign people up for training courses, have the dealership pay for it and then “force” them to attend - if the employees aren’t invested and don’t want to attend then they’re going to ignore most of the messaging and not get anything out of it. We need to convince our employees (initially the Writers and the Appointment Coordinator who answers the phones) that training would benefit them and attending would result in them selling more and making more money. If we could get those two groups to attend more intensive training courses and as a result improve their performance, everyone benefits.

## Special Tools - Neat Organized or Rats Nest?

### **Current Situation**

The photo below shows the current state of our specialty tools room.



### **Analysis**

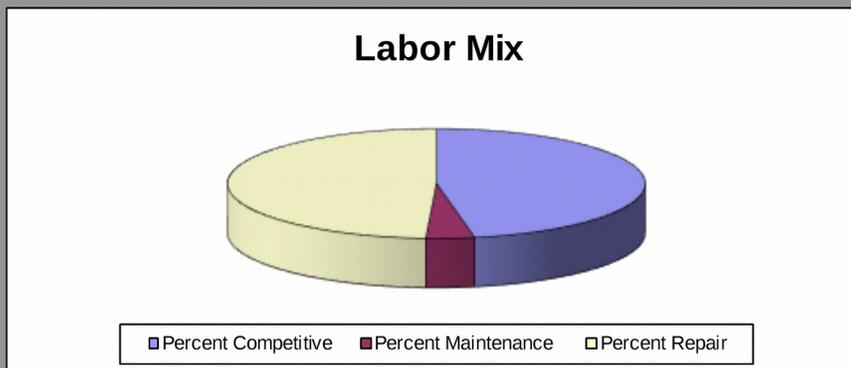
Our special tools room is actually in very good condition, in large part because the Service Manager cleaned it up and organized it four months ago when we closed our stand-alone Quick Lane location and brought over a number of tools from that facility to the Ford dealership. Given this fact we do not see a need to undertake any additional cleaning/organization of the specialty tools room at this time.

### **Strategies/Tactics for the Future - Action Plan**

No action needs to be taken at this time, but it is something I will keep an eye on to see if the condition worsens substantially, and once it does we will clean and organize.

## RO Analysis - 7/16/18 through 7/17/18 - All Customer Pay RO's

Repair Order Analysis Summary Report									
		Sales in Dollars		FRH's on RO's		Averages		Analysis	
Competitive	\$	1,425	÷	37.80	=	37.70	FRH Average		
Maintenance	\$	156	÷	3.00	=	52.00	FRH Average		
Repair	\$	3,162	÷	39.50	=	80.05	FRH Average		
Totals	\$	4,743	÷	80.30	=	59.06	Customer ELR		
				Target Labor Rate				Per FRH	
Total Ro's in Sample		100			Difference	59.06	Per FRH		
Cost of Labor									
Total Cost of Labor		1872.30	÷	Total Sales	=	39.48%	Percent Cost of Sales		
Total Cost of Labor		1872.30	÷	Total FRH's	=	23.32	Cost per FRH		
Repair Order Measurements									
Total Labor Sales		4,742.90	÷	Total RO's	=	47.43	Avg Labor per RO		
Total FRH's		80.30	÷	Total RO's	=	0.80	Avg FRH's per RO		
Menu Sales			÷	Total RO's	=		Percent Menu Sales		
Competitive FRH's		37.80	÷	Total FRH's	=	47.07%	Percent Competitive		
Maintenance FRH's		3.00	÷	Total FRH's	=	3.74%	Percent Maintenance		
Repair FRH'		39.50	÷	Total FRH's	=	49.19%	Percent Repair		
One item RO's		85	÷	Total RO's	=	85.00%	Percent One Item RO		
Model Year Analysis									
2019	2018	2017	2016	2015	2014	Older	Total		
0	16	22	13	7	6	36	100		
0.00%	16.00%	22.00%	13.00%	7.00%	6.00%	36.00%			



## **Current Situation**

The table above presents our customer pay RO's from 7/16/18 through 7/17/18. Our door rate for labor is \$110, yet our repair rate FRH average is \$59.06. We are only averaging 0.8 FHRs per RO which is way below the guide (2 FRH/RO). In addition, we have a massive 85% of our RO's as one line RO's.

## **Analysis**

The door rate is supposed to be \$110 but the repair rate is only \$80, so it would appear we have a discounting issue. Given the high percentage of leasing, most customers only come in for 2-3 oil changes throughout the life of their vehicles, which results in a very high percentage of 1 line ROs - the lube rack employees are not selling anything in addition to the oil change (we have not, however, trained them to be sales people, and given the renovation to the dealership we've been more focused on making sure customers stay satisfied and send back positive surveys instead of selling them additional items). Our Writers would also benefit from sales training as they predominately take orders and don't think about up-selling anything additional. Both of these factors result in 85% one line RO's. An extremely high percentage of oil changes coupled with the Writers not up-selling is also causing our FHR/RO to be very low (0.8).

## **Strategies/Tactics for the Future - Action Plan**

The lowest hanging fruit here would be to train our lube rack techs and Writers to start acting more like salespeople and looking for opportunities to sell brakes, batteries, tires, wiper blades, etc. If the lube rack employees could sell something in addition to the oil change our 1 line RO percentage would decline substantially and our gross would increase. Similarly, we need to make sure that the Complimentary Multipoint Inspection is completed on every car: if it's the first thing done when a car comes in for service the advisor has an opportunity to sell while the car is still on the rack.

We need to dig a little deeper into the numbers to better understand why our Repair labor rate is only \$80 (vs. \$110).

## **S.W.O.T. Analysis**

### **Current Situation**

The following is the cumulative list of all the strengths weaknesses, opportunities and threats received when doing the SWOT Analysis for the whole Service Department (duplicates excluded):

### **Strengths**

- Employees that show up for work everyday
- Employees that know the job
- Communication/team work/chemistry among employees
- Customer appreciation
- Knowledge mechanics
- Friendly staff
- Management always able/available to help
- Helping one another on a job even when it is not what the other person is supposed to do
- Dealership will be remodeled soon
- Friendly people to work with
- Always trying to please customers
- Long term employees
- Quantity and quality of equipment
- Company match of up to 2% of 401(k)
- Wide variety of available work

### **Weaknesses**

- Need [] closing at pick-up
- Not asking the customer to return the survey after we've completed their oil change
- Feeling rushed causes mistakes
- Employee turnover (lube rack)
- The renovation - causing employees to be more "on edge" and customers to be confused
- At times people are asked to do too much (lube rack)
- Prices
- Non-Service employees not asking enough questions when customers walk in for service
- Advertising is weak
- Not having enough parts in stock (for regular things - brakes, rotors, batteries, keys)
- Selling as much as possible vs. only the minimum that's required
- Customer attitudes about certain things that we can't always address/help with
- Not giving things away for free unless it is absolutely critical

- Employee compensation
- Everyone in Service should start at the same time the techs do in the morning
- Relying on one person to do most things
- Not enough help in some areas
- Parts are always on backorder, which makes customers angry
- Too focused on surveys
- Not enough encouragement/recognition for doing a good job
- Low employee morale
- Underappreciated employees
- Poor communication between all departments
- Not enough one-on-one meetings
- Limited Shop management
- Demeaning management
- No group activities for employees
- Lack of procedures

### **Opportunities**

- Improve our greeting of customers
- More/better advertising - billboards?
- Adding a car wash
- Raise alignment prices
- More techs that can work on more than one skill set
- Change the voicemail for customers that are calling service directly to reduce customer confusion (Claudia)
- Run a different service special each month
- Expand our advertising our further to additional towns
- Ability to learn new things
- Ability to advance in the company

### **Threats**

- Other dealerships offer car washes
- Competitors may be cheaper on some items
- Competitors getting basic jobs out same-day
- Losing customers to other dealerships if we have a back-up in a certain skill and the customer does not want to wait
- Competitors are open longer/later than us
- Competitors run gimmicks
- Other dealers stealing techs and advisors
- Competitors offer after-market services cheaper than us

### **Analysis**

I received a wide variety of feedback from the service department, but I didn't have a very high rate of return for the sheets I handed out. I received 8 back but handed out ~25. Only one of our techs returned the sheet to me. However, there are some good takeaways from the feedback I did receive.

Our greatest strength in the service department is our staff: we have tenured service managers who have come up through the organization, very experienced techs and writers who have a long history in the auto industry. Generally speaking everyone in the service department gets along well, and folks tend to help each other out when needed.

The weaknesses noted by our employees were wider ranging: most concerning were (i) condescending management; (ii) low employee morale; (iii) lack of procedures; (iv) not having enough parts in stock for generic repairs; and (v) underappreciated employees. Unfortunately the responses were so varied that there wasn't much overlap, but low morale and employees feeling underappreciated are things that we should try and fix in the immediate term. I've discussed the list above with our Service Managers, and: (i) the 'condescending management' comment came directly from our Service Manager, who has an issue with the GM - this was more of a one-off issue and a personality conflict, but we will work to try and get everyone to 'play nice in the sandbox;' (ii) Service Management feels that they do a good job of staying on top of personality and personal issues in the shop - if someone is going through family issues or some other personal problem Bob or Joan tend to know about it and go out of their way to try and improve the situation (or be sensitive to it); (iii) employee morale could potentially be improved by bringing back some of the group activities that used to be scheduled (but have since fallen away given declining participation over the years). Some items that were brought-up included: holding an employee BBQ on Friday afternoon after the dealership closes at 6pm the evening of the "Downriver Dream Cruise;" getting a group together to play Whirly Ball (and providing free transportation for employees to/from the dealership so that folks don't have to worry about driving); organizing a go-kart racing event at "Kart to Kart" or a game of Broomball (and again providing transportation); or getting a 4 person group membership to the Henry Ford Museum that our employees could sign-up for in advance and utilize at their convenience.

Communication is another big issue we have in the department, both inter-departmentally as well as with customers. Customers frequently feel like we are not doing a good enough job communicating with them re: the status of their vehicles or providing updates with what's going on (delays due to parts, etc.). This is partially due to the fact we are still understaffed at the Writer position (although our newest hire is a huge step forward from the person he replaced, we still only have 3 writers and would benefit from a 4<sup>th</sup>). Adding another writer would give the other writers more time to focus on their customers, contacting them more regularly, and let them spend more time at their desks vs. running around talking to customers or talking to techs. In addition, dealership management needs to do a better job communicating with the Service Managers, and the service managers need to do a better job disseminating information to their employees (the entire dealership would benefit from improved communication across the various

departments). We're also looking into potential ideas for "group activities," hoping that this will improve employee morale - we used to do more group events but fewer people kept showing up and the events eventually died out. Finally, I need to touch base with the service writers and the Parts Manager to discuss the parts that the Writers feel are for generic repairs but not in stock.

The opportunities listed by the employees included some thoughtful responses: the ability to raise prices in some areas, improving how we greet customers when they enter the service department, monthly (rotating) specials, expand our advertising reach or style, increasing the diversity of our tech's skill sets, etc. Others were less feasible, like adding a car wash. These are generally good ideas that we will look into implementing in the near future.

Most of the threats to our dealership are typical for any dealership. One example is that quick lube stores are cheap and fast, but with our tiered pricing we should be able to compete with them and also be cheap and fast but also have certified factory trained technicians as well as manufacturer recommended parts. Service is obviously difficult since nearly everyone coming in is there because something has gone wrong, but we try to work with everyone and try to help them out as best as we can. Two things that I plan to investigate after the renovation is complete are: (i) looking into trying to better align our service hours with our sales hours; and (ii) staggering tech start times so that some employees can start later in the day, then take a later lunch so that the shop is not completely shut down from 12pm-1pm, and they end up working later into the evening. This is something we can control and would hopefully result in an increase in business and more satisfied customers.

### **Strategies/Tactics for the Future - Action Plan**

We have good people, but we need to make sure that everyone remains motivated. Morale is lower right now because of the renovation, but I hope that changes somewhat once the construction is complete. Some changes are easy to make while others will take lots of time - our department is not one to handle change all that well - most employees have been here for quite some time, and they're used to doing things in a certain way. We're looking into things like employee outings or events we could periodically host in order to try to make everyone feel a little more appreciated. In addition, we need to make a commitment to training our employees - everyone completes the required Ford training courses online, but I'm sure there are in-person training sessions that we could look into sending our Writers to in order to make them more productive and give them more confidence to sell additional items. Adding a solid 4<sup>th</sup> Writer would give the Service Manager more comfort around the idea of sending one writer at a time off to a training course while still having enough coverage at the store. In addition, running monthly specials that change each month is a good idea as long as we advertise it well. Periodic coupons for \$5-10 off of any service bill over \$50 are also a good idea that will hopefully lead to some bigger-ticket repairs.



## SYNOPSIS

There are a number of issues with our service department: we're not selling enough service and we're paying more employees than we technically need, so as a result we're not grossing enough. Once fixed expenses get allocated to the department we've lost nearly a half a million dollars during the first 6 months of 2018. As mentioned throughout this document, there are a number of things that we either have changed or plan to change throughout the remainder of the year in order to start to turn this around. We've already reduce the number of tech helpers by transitioning two to FRH techs leaving four helpers; going forward I want to make sure we continue to see a path forward with all of the helpers in the shop, and if not either cut bait or move them to the lube rack at a reduced wage. Any change to the way the shop operates spooks the techs a little bit, and because of this we need to be sensitive about how we make changes - we can't try and change too much too soon or employees may consider leaving. Our current compensation structure isn't working for us and changes need to be made.

We need to do a better job of training and investing in our employees throughout the department. This was more evident in class when we made a call to the service department and I realized how unequipped the young woman we have answering the phones was to deal with a needy customer. The Writers would also benefit from training courses as would the lube rack employees - if we could get both of these groups selling the department would really start to pick-up some steam. Bringing on one more Writer would better distribute the work across all the employees and provide better coverage if someone is sick/on vacation/away for a training.

Completion of the renovation should hopefully improve morale, as should adding some group events for the employees and actively focusing on/being aware of the issue.

The problems in the service department are big enough that we will need to "eat the elephant one bite at a time," but I think if we can continue to make small improvements on a consistent basis we can lose less money in the second half of 2018 than we did in the first 6 months, and aim to break-even in 2019 or 2020.