

Service Department
Analysis for Courtney
Honda

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Class N336
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Introduction:

In this analysis, I will be examining the service department of Courtney Honda. We currently employ 9 technicians, 3 Service Advisors, 1 Shop Foreman, and 1 Service Manager. The department, in my opinion, is not pulling their fair share of weight relative to what we have learned thus far in NADA Academy. We also know that the Service Department is the number one profit center in a dealership. The dealership can never achieve its true profit potential without the service department firing on all cylinders. We also have a Dealer Principal who unfortunately is very ill and cannot manage the dealership as he once did. Without a General Manager in place, it falls on the department managers to do the best they can. This means we have little guidance and few goals/metrics/data to know if we are doing well or not. This analysis will be using calculations concerning the month of August, 2018.

Advertising:

Our service department does utilize CO-OP funds and campaigns from American Honda. These events are quarterly and usually entail some sort of hook to get people through the door. They may include free tire rotations, purchase and installation of a battery, wiper blades, etc... We also just installed ELEADONE as our New CRM and have the ability to send service mailers/email/offers to targeted consumers. This would likely include people who have lapsed in service for a year or more.

Marketing:

Our Service Manager needs to be more consistent in his marketing efforts. He should really be calling around to our competition at least once per quarter to obtain pricing from them. That way we would know what our competitors charge for specific jobs and we can conquest customers based on that information. This will be even more critical going forward with the Honda of Westport facility being in operation.

Facility:

Our current facility has nine bays and one alignment rack. We have one tech assigned to each bay so we have a 1:1 ratio of techs to bays. While we have a smaller shop, we do not utilize it to its full potential. The current service center was built brand new in 1998 but it is starting to show its age. We could certainly use some newer equipment in the shop as well. Specifically, we need a new tire machine and brake lathe for starters.

Productivity:

Our service department currently has 46 available hours per week. We employ the older method of Monday through Friday 8-5 and Saturday 8-2 for our service hours. This is something that must change going forward. If we are not convenient for our customers, they will simply service their vehicles elsewhere. We have already begun to see this and we must put a stop to it. Our Tech Proficiency is an abysmal 69.06% when NADA guide is 120%. This means that we have 1800 hours to work with in the typical month and they are producing 1243 (Month of August is what I chose to look at). We are not filling the shop with work and that is a failure on the part of our management team. We also do not employ an electronic dispatch system.

NADA ACTUAL SERVICE ANALYSIS

Performance

	Labor Sales / Month		Hourly Labor Rate		Hours Billed
Customer Car*	\$ 92,732	÷	120.00	=	772.8
Customer Truck*	\$ 8,120	÷	120.00	=	67.7
Customer Other*		÷	120.00	=	0.00
Warranty	\$ 18,672	÷	120.00	=	155.6
Internal	\$ 29,631	÷	120.00	=	246.9
New Vehicle Prep		÷	120.00	=	0.00
Total	\$ 149,155				1243.0

POTENTIAL

$$\frac{\$ 149,155}{\text{Total labor sales for month}} \div \frac{1242.96}{\text{Total hours billed}} = \frac{\$ 120.00}{\text{Effective Labor Rate}}$$

$$9.00 \times 8 \times 25 = 1,800.0$$

Service mechanical technicians # Hours/Day Working Days/Month Clock Hour Avail

$$1,800.0 \times \$ 120.00 = \$ 216,000$$

Clock Hours Available Effective Labor Rate Labor sales potential

How proficient are your technicians ?

$$\frac{1,243.0}{\text{Hours Produced}} \div \frac{1,800.0}{\text{Hours Available}} = 69.06\% \text{ Tech Proficiency}$$

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

Production Method:

We currently employ the conventional shop organization method. That means as the RO's are written, they are dispatched by hand to the technicians. They do have electronic dispatching available which might be worth looking into. Each tech has their own tools, bay, and equipment necessary to perform whatever job may come through the door. I think it would be prudent to look into paying these people commensurate to their actual production though. We currently have 6 "A" techs and our facility utilization is only at 90%. That means at \$27 per Flat Rate Hour, they are paid more than they should be based on their production. We are currently holding 79% GP as a percentage of Sales for the month of August in Service. We need to make sure the shop is full all the time and we are simply not getting that done as a management team. While we are holding a good percentage (NADA Guide is 72%), we need to look at raising customer pay and FRH per RO as well.

Analyze Cost of Labor:

Our current average technician pay per flat rate hour is \$26.16, which is too high. I am honestly somewhat shocked we are at 78.42% Gross Profit Retention for 2018 so far as a Service Department. In essence, these people are overpaid because the Dealer Principal values their skill more than it is actually worth. He is very passionate about the Service Department and yet he does not hold them accountable for their actions. He has also never really managed by the numbers, which makes my job even more difficult. For customer pay, we are at 77.7% Gross Profit as percentage of sales. For express pay, we are at 84.74%. For warranty pay, we are at 83.97%. For internal pay, we are at 77.96%. In addition, for internal labor accessories, we are at 94.57%. The management team needs to look at increasing Customer Pay going forward and filling the shop with as much work as they can handle.

Expense Structure:

Personnel expenses make up 64% of the department gross profit in the month of August. That is using \$118,071 as departmental gross and \$75,899 as personnel expense. This is way above NADA guide which states that 45-50% of total expense should be personnel. This of course leads back to the overall theme that we are paying our people too much for too little production. The Dealer Principal needs to put an end to this ASAP or live with eroding profit margins. This has gone on far too long and something needs to be done about it.

Pay Plans:

Six out of our nine technicians are being paid on Flat Rate Time. We need to seriously look at changing these pay plans as our dealership profits erode, specifically in the service department. I would personally like to see some sort of proficiency based pay plan for the flat rate techs. That way they would actually be getting compensated for their production.

Detail Performance Programs:

Frankly, I've never seen or heard of the Dealer Principal holding budget meetings. He is of the old school mentality that, "These people know what I expect of them". This is obviously not the case as the Service Department has been underperforming for the better part of two years now. Unfortunately, we're in a unique position where the Dealer Principal cannot be here very much due to his declining health. We need to figure out a way to get a GM in here ASAP while still making the Dealer Principal feel valued.

He built this business (literally) from the ground up and he needs to acknowledge that we need help with this.

Level of Current Training:

All nine of our technicians are factory trained by American Honda. They are all currently up to date with their online training. The Dealer Principal does not pay them for their online training and this is something we need to address going forward. Our Service Advisors and Manager are all also currently at 100% in their online training. But once again, we need to look into paying our people for their time. Their knowledge and expertise is what our customers rely on every time they bring a vehicle into our shop.

Special Tool Room:

We refer to this room as the Dealer Principals Personal Refuse Space. The picture below needs no description. The Special Tools that are in there are for the most part fairly antiquated.



100 RO Analysis Recap:

Repair Order Analysis Summary Report							
	Sales in Dollars		FRH's on RO's		Averages	Analysis	
Competitive	\$	4,606	÷	47.80	=	96.35	FRH Average
Maintenance	\$	8,292	÷	79.20	=	104.70	FRH Average
Repair	\$	12,920	÷	151.60	=	85.22	FRH Average
Totals	\$	25,818	÷	278.60	=	92.67	Customer ELR
				Target Labor Rate		122.00	Per FRH
Total Ro's in Sample		100		Difference		-29.33	Per FRH
Cost of Labor							
Total Cost of Labor		7392.10	÷	Total Sales	=	28.63%	Percent Cost of Sales
Total Cost of Labor		7392.10	÷	Total FRH's	=	26.53	Cost per FRH
Repair Order Measurements							
Total Labor Sales		25,817.54	÷	Total RO's	=	258.18	Avg Labor per RO
Total FRH's		278.60	÷	Total RO's	=	2.79	Avg FRH's per RO
Menu Sales			÷	Total RO's	=		Percent Menu Sales
Competitive FRH's		47.80	÷	Total FRH's	=	17.16%	Percent Competitive
Maintenance FRH's		79.20	÷	Total FRH's	=	28.43%	Percent Maintenance
Repair FRH'		151.60	÷	Total FRH's	=	54.41%	Percent Repair
One item RO's		25	÷	Total RO's	=	25.00%	Percent One Item RO
Model Year Analysis							
2019	2018	2017	2016	2015	2014	Older	Total
0	1	6	5	11	12	65	100
0.00%	1.00%	6.00%	5.00%	11.00%	12.00%	65.00%	

As you can see from the 100 RO Analysis, our ELR is \$92.67 when our door rate is \$120/hour. This is the extreme discounting that I have alluded to in class. I am working with our DMS (CDK) to turn off any discounting code that is currently active. Going forward, I will be requiring any OP Code that changes/discounts labor to be signed off with a manual override code. This code will only be given to the Service Manager and myself and will be changed every month. I believe this will help in the short term with our discounting problem. In the long term, we need to focus on our people, process, and training to build value in our work. We have the knowledge and skill to work on these Honda vehicles. Furthermore, if we can build value in our work, our customers will expect to pay for the great service and proper maintenance of their vehicles. We use factory parts with factory-trained technicians and we have a factory warranty. This needs to be our selling point going forward.

SWOT Analysis:

Strengths:

- Very loyal customer base. The dealership has been a pillar of the Milford, CT community and has enjoyed 30 plus years of success due to our loyal customers.
- We have a very experienced Service staff. The Service Manager has been with the company since 1988. We have six “A” techs who have over 140 years of experience between them working exclusively on Honda Automobiles. They enjoy access to training and workshops through American Honda to ensure they are up to date on the latest and greatest Honda has to offer. Our Service Advisors have also all been with the company 15 plus years.
- We have a good shop capacity but we need to utilize this capacity to the benefit of our employees and customers. The shop is not as busy as it once was and that is obviously cause for concern.
- With our upcoming name change, we have plans to modernize the service department in several ways. Those include new computer systems, technologies, and equipment that we will need going forward to continue to service our customers.
- In my opinion, our best service employee is our shop supervisor Joe Riccio. He is a very outgoing, personable young man who makes the whole shop work better together. He has that inner drive where he will always go the extra mile in order to help a customer out. I truly believe he is the greatest asset we have in our Service Department.
- Honda as a company strives to work with our Service Manager and Dealer Principal in order to maintain a great level of service and Customer Satisfaction. We have consistently been in the top ten percent nationwide for CSE since we opened in 1986. The Dealer Principal is very proud of that fact and will do what he needs to do to keep our customers happy.

Weaknesses:

- I would say the overall morale of our service staff is low. This is largely due to the declining health of our Dealer Principal. As he is able to come in less and less due to his health, the attention he once paid to the Service Department is no longer there. We do not have a General Manager so the Service Manager is left to do his job with less support/decision making capacity.
- Our Service Department hours do not currently meet or exceed the hours that our Sales Department has. We are definitely guilty of the “country club” attitude that we spoke about so much in class. I have observed technicians arriving late to work, taking longer breaks than allowed, and prepping to leave at 5 pm. This is all due to the lack of attention our Service Manager pays to them. He needs to do

a much better job of effectively managing his personnel and holding people accountable for their actions.

- Our Service Manager has been with the company since 1988 when he started as a technician. In my opinion, he is a fantastically gifted person when it comes to the technical aspects of fixing vehicles. However, he is too close to the current staff to be an effective leader. He has been working side by side with many of these technicians his entire automotive career. I believe that leads to his lack of accountability/willingness to change things. He is simply stuck in his ways and admittedly has not received the support he needs from the Dealer Principal to effect positive change.
- Service Advisors have the ability to discount labor using OP Codes in our DMS. While our GP Percentages are still at or above guide, this practice conditions our customers to expect a discount on labor every time they have work done at the shop.
- Service “opens” at 8 am while our closest competition opens at 7:30. This half hour in the morning can make a huge difference when it comes to convenience for our customers. I say we “open” at 8 am because often times I see the techs trickling in around then and not being ready for work.
- Service Department does not currently work on all makes and models as discussed in class. This is something that needs to change going forward.
- Our marketing, in my opinion, is an afterthought to the service manager. I.E. we do not stay in front of the customer constantly as discussed in class.
- We need to install a non-dealer competitive pricing board in our service drive. We currently are very competitive with Jiffy Lube, Town Fair Tire, and Meineke. But if our customers don't perceive that they will go elsewhere.

Opportunities:

- We can immediately begin to start working on all makes and models.
- We can change our hours to meet or exceed our sales hours.
- We can become much better at marketing our service department. That will help us both keep our current loyal customers and grab new market share as well.
- We have the opportunity to grow our service business with new technology and processes that are now available. I.E. Scheduling

tools/metrics that keep the shop running at full capacity. We currently have the hours available but not the work to fill those hours.

- We have a good amount of Honda vehicles in our ASA per American Honda. We need to figure out how to get those vehicles in our shop.
- Potential new facility going forward once we get the shop to full capacity and we need more bays.

Threats:

- Our closest competitor has just finished a Gen 3 update per American Honda. Their new off-site facility is only 12 miles away from our dealership. I fear that this will eat into our service business if we do not start to change for the better.
- The State of Connecticut has a declining population due to a poor local economy, kick the can politics, and many large manufacturers leaving the state due to fiscal policy. This in turn has hurt our business specifically as we draw a lot of customers from both Sikorsky Helicopter Manufacturing and General Electric as well.
- The current lineup of Honda vehicles, like many manufacturers, are being built with longer service intervals in mind. While this is great for the customers, it does mean that vehicles will be coming in less and less to our shop.
- We have an older facility and that may lead to some technicians feeling discouraged or neglected.
- Many of the service staff, in my opinion, take the current customers that we have for granted. They do not practice all of the techniques and training that we know is critical to keeping people coming back to the shop.

Objectives:

- Improve hours per RO to NADA Guide (2.2-2.5)
- Improve fixed absorption to 75%
- Improve our model year mix (100 RO Analysis shows we work on older vehicles more so than newer)
- Install menu sales in the service department
- Improve Technician Proficiency (120%)
- Reduce one item RO's to guide (10-15%)
- Reduce expenses of department (personnel)
- Service Manager must authorize all discounting.
- We need to make sure our parts mark-up factors are currently in line with Honda expectations.

- Weekly meetings in order to monitor and track progress going forward. Too many decisions made on gut feelings and this is how we always do it attitude.
- Build a better culture in the service department. We are all in this together and our success or failure is based on the sum of our parts.

Strategies

- Contact CDK to eliminate old discount codes. Any new ones we wish to add will still need a manual override code from the Service Manager.
- Look into parts mark-up factors in order to maximize gross profit in the service department.
- Extend hours of Service Department Operation
- Install a large Non- Dealer competitive pricing board behind the service advisors and in the waiting room.
- Weekly parts/sales department meetings that are not currently happening.
- Look at SA, Technician, Foreman, and Service Manager current pay plans. In my opinion, the current plans are too rigid and do not work with today's current business environment. I.E. Some of their bonuses are based on Customer Satisfaction Index scores from American Honda.
- Consider changing Service Manager pay plan to net profit instead of gross profit. I believe if he were to have "skin" in the game so to say, he would be more proactive in improving the department.

Synopsis:

In my extremely limited experience in our service department, I can tell that we do many things off the cuff. While the Dealer Principal maintains that, "Everyone knows that they are supposed to be doing", that is no way to run a successful service department. These people need goals, processes, and accountability in order to become a successful department. It is obvious to me that our lack of convenient hours, half days on Saturday, and no Sunday hours are simply not convenient for most of our customers. That is something that will need to change going forward.

I think that first and foremost we need to be better as a management team. We can't expect our employees to do a great job of anything if we don't help them. It is our responsibility to train, teach, motivate, hold accountable, and acknowledge what these people do for us. The lack of written process in the

service department is something that can be remedied very quickly. We have to do a better job of increasing our Labor Sales as well, which will in turn benefit both parts and service profitability.

Having no experience with pay plans, I still know that pay often motivates people. I think the Dealer Principal and I need to look at the current pay plans within the service department. They seem to be antiquated to me and don't do much to motivate the Advisors. Conversely, the "A" technicians seem to be overpaid intentionally by way of design according to the Dealer Principal. That is his way of "keeping really good techs" in his word.

Overall, I think we have a lot of room to improve in our service department. We do not have a written process for most things. Our Service Manager has little to no support from the Dealer Principal due to his declining health. And we do not currently have a General Manager in the dealership. We need to address these issues and others in an objective, strategic manner to build up our business. I hope in 5 years my Service Manager comes to me needing a new building because our shop is too full!