

Penticton Toyota Qualitative analysis

Service Department

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SWOT Analysis

Strengths

- 1) Very strong loyal customer base, well established with a lot of repeat customers.
- 2) Overall good team work with a family like atmosphere amongst staff.
- 3) Dealership has a good name and reputation and is well trusted in the community.
- 4) The dealership maintains a competitive price in the market which fosters good retention.
- 5) Longevity in fixed operations staff, Brian our parts advisor has been with the company over 25 years, we have technicians that have been with us 10 years and are well established within the organization. Turnover in general is very low.
- 6) The ownership of the company is very involved in the day to day operations with one of the owners coming from a 40 plus year in fixed operations.

Weaknesses

- 1) Sometimes lack the re-train or replace philosophy with staff.
- 2) Lack of clear expectations and goals to drive towards.
- 3) Lack of standard operating procedures and systems that are unified for all staff. Currently we have staff using multiple processes and systems that leads to communication breakdowns daily.
- 4) Some of the equipment is outdated and is in need to repair or replacing for example the engine hoist and transmission jack.
- 5) There can be a lack of communication between departments, staff and managers.

Opportunities

- 1) Converting our detail department to an actual profit center is a huge opportunity. This includes staffing it with a manager, and re-allocating expenses to it to where we can internally bill the used car department and keep the money within the building. This should also increase our fixed absorption.
- 2) Team building through getting staff together more outside of work, to understand their personal challenges and help them succeed.
- 3) Promoting synergy in the building between all departments primarily sales and service.
- 4) Icbc windshield repairs to promote and keep retail customers.
- 5) Marketing the service department. More emphasis on our advertising strategies focused around fixed operations in general, parts, specials,

seasonal servicing, tires etc.. We do fall into the trap currently of spending a lot of money advertising sales but none in service, and with a new facility around the corner we need to think of how we are going to keep it full. A recapture campaign should take place first to gain back some of the client base we might have lost due to over capacity and renovations etc..

- 6) Training is always an opportunity, taking advantage of OEM training, DMS training and having service meetings is a huge opportunity to keep our staff sharp in their respective fields of expertise and to help broaden our abilities as a full-service dealership.
- 7) Another fantastic opportunity to us is starting to work on all makes and models. We have excellent Toyota technicians that are extremely efficient and versed on the Toyota product and systems, but we also have some apprentices and one newly certified journeyman that shows great diversity and effectiveness with off make vehicles.

Threats

- 1) There is a new Nissan point opening in 2018 in Penticton, currently we do have a fair number of Nissan clients and we can assume to lose those to the OEM once it is open. The Nissan point is also going to be situated the Penticton Indian reserve meaning that any people within our trading area that hold native status will be able to Service with them, buy parts and vehicles tax free.
- 2) Competition for retentive based maintenance is growing fierce on our market, for example tires at cost, free alignments, free tire rotations etc. We will have to adapt certain campaigns to ensure we do not lose our customers to independents who are offering these free ancillary services with the target of gaining the maintenance and repair work.

Objectives

- Implement one unanimous scheduling system used by all Service advisors, managers and support staff.
- Improve communication between advisors and technicians and between sales and service.
- Create and implement a service marketing plan.
- Create a profit centering detail department.
- Begin Working on all makes and models.
- Develop and execute training programs for service advisors.
- Increase hours of operation in the service department.

Strategies

- Bring in DMS trainers to train all staff privy to scheduling functions so they are all trained the same way by the same people to use the DMS to the fullest capacity and so there is no-one left behind.
- Have Daily huddles with advisors and technicians lead by the Service manager and Shop foreman to discuss the day ahead, and any current pressing issues. The key is to have a cross-understanding of job description

between the advisors and technicians for mutually understanding of what it takes to achieve the goals.

- Offer price leaders in competitive maintenance such as wheel alignments, free rotations, air conditioning etc. to start to attract off make vehicle customers, this is work that can be done by apprentices to ensure a competitive rate and gross margin, and a wonderful way to train apprentices to start upselling off these price leader jobs.
- Advertising seasonal servicing and price leader jobs on social media to use our existing likes and followers to spread the message.

Tactics

- Implement a bonus system for upsells on maintenance services and inspections that is shared by the technician and the advisor. I find that when people are put together on a team they will be more likely to keep each other accountable.
- Service manager to post performance board for service advisors and technicians to track their key metrics. Keep Service staff informed on how we are tracking for the month against targets for CP labour sales.
- Have our internet support manager post a service special, maintenance item or an all makes and models post at least once per day to broadcast this to our likes and followers.
- Have weekly managers meetings with Service Manager, Sales Managers and General Manager where we can communicate issues that we may be having with staff, any concerns or ideas moving forward.

Action plan

Task	by Whom	Completion
Bring in DMS trainers to train staff on ignite scheduling	Service Manager	July 1 2017
Start daily service huddles	Service Manager	Start July 1
Develop social media strategy for service department	Service Manager Internet support manager	July 1 2017
Extend service hours of operation	Service Manager Dealer Principal	September 1 2017
Create advisor tech team bonus	Service Manager	July 1 2017
Develop detail department into profit center for fixed ops	Fixed operation manager Dealer Principal	September 1 2017

The data for my action plan review was pulled from the April Calendar financial statement.

Our advertising plan to this point has been somewhat neglected and non-existent. Toyota Canada nationally contributes to Toyota service advertising and has become more prominent in the tire business. At the dealership level we have not put very much effort or dollars towards advertising because up until now we have not needed to actively seek new business as our facility was bursting over capacity. With the new facility we will pro-actively develop a marketing strategy that will aim to recapture any clients lost due to poor experiences with us or ones that we drove out due to our capacity issues. The second component of the marketing strategy will aim to acquire new business from the maintenance perspective of the OEM advantage and all makes and models.

For this exercise I calculated the facility potential based on how the department is running right now and how it will until the new facility is open. We have lost 1 bay with the temporary re-orientation. This brings our facility potential to \$122,260 in labour sales. For the month of April we achieved \$115,482 in labour sales putting us at 94.5% facility utilization. The new facility will have a potential of approximately \$224,144 or more depending on how we extend the hours of operation.

Based on our current operation we run technician proficiency of 80.94% we produced 952 hours on an available 1176. We have been making good use of the building we have to work with currently until the new facility opens.

We currently run a conventional production system and do not have a shop foreman. Plans for the new building are to promote one of our senior journeyman to a Shop Foreman and alter his pay plan accordingly.

Our gross profit structure is 52% customer pay 35% warranty, and 10% warranty. Our warranty gross retention is the lowest at 68.22% this is partly due to a series of warranty audit set backs that ultimately lead to us replacing our old service manager. With the rebuilding of management, and a good CP effective labour rate we aim to have this at the guide of 70% by 2018. As the used car manager, I made sure after my first visit to NADA that I would do what I needed to ensure the internal gross margin was where it needed to be and I am happy to say it sits at 74.23% and is the highest in our gross structure. We hold a good gross margin on Customer pay and with some tweaking of the advisors discounting habits we should be able to increase it to match the internal of 74%. Our average tech cost is \$27.57 so work distribution is important, our advisors and appointment co-ordinators have done an exceptional job at ensuring that the appropriate grade of technician is being assigned the correct work. We have a good mix of 4 journeyman 2 apprentices and 1 lube tech.

Expenses will inevitably rise with the new facility, direct employment expenses will rise in proportion with the additional staff required in the form of service advisors, and parts counter people. We also anticipate the need to have a porter in the service drive to move the cars in and out, as well as an additional parts counter person who can perhaps be imbedded in the service department or can be

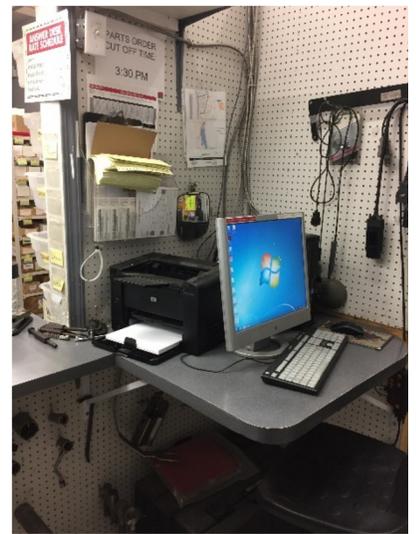
dedicated on the back counter. The allocation of these expenses will not change in percentages they will just rise. The only change in allocation of expenses will come in indirect expenses. Everything below line 52 on our financial statement rent, amortization etc.. currently the split of these expenses is 39% new car, 20% used car 25% mechanical and 16% parts. The new expense structure will see an increase in mechanical to 30% and we will take the 5% away from new car to bring it down to 34%.

The main pay plan we have changed is with our new Service Manager, the previous manager was on a larger base salary and 5% of department operating profit. The new manager is on a smaller base and 5% of service gross less policy adjustments. This pay plan allows the Service manager to be able to focus on maximizing grossing opportunities which will ultimately increase fixed absorption and produce a larger department net as the expenses stay fixed for the most part. We are exploring a flat rate with guarantee for a couple of the technicians that are leery of moving over from straight time. Service writers are on a salary plus bonus system the bonus being a percentage of departmental operating profit. I would like to explore one with a gross profit component. I am a big believer that pay plans dictate behaviour and one of the behaviours we want to promote is gross maximization with all tickets. As well I believe a monthly bonus can be given based on department initiatives such as a tiered bonus for hours per RO or a bonus for each incremental line on an RO.

Our service manager has started a daily tracking initiative that allows the service staff to see how the department is pacing against its target each day. This keeps the staff accountable for performance and clear expectations are set for technicians as far as productivity and proficiency.

With respect to training there is a lack of goof quality training at our dealership. Toyota Canada has mandatory online training requirements monthly and semi-annually they offer work shops but they are usually geographically inconvenient and expensive. For in store training we do have a standard operating procedures manual that resides in the service department. We need more training in selling for service advisors. Currently there is a bit of a sink or swim system with regards to the service advisors success. We need weekly training sessions or as needed to advisors to hold them accountable to the clear expectations that are set but they also need a means of getting to where they need to be.

Our special tools room is very organized, well labeled and secure however it is just very small. The new building has provisions for a much larger tool room, desktop computer etc. The current tool room is also the parts back counter. It is constant bottleneck area of techs, advisors, parts staff and with only one computer it can get backed up for techs that need to look up information on all data, or manufacturer portals or to start a technical assistance case. Having a larger tool room will create greater efficiency not only from an ergonomic perspective but from a flow point as well.





100 repair order analysis

The 100 Repair orders I did were from the month of April.

Our Customer ELR for this 100 RO sample is \$112.50 vs out posted door rate of \$125 we come up \$12.50 below that. This leads to the conclusion that there is some discounting happening at the advisor level. Compared to the target labour rate at \$2.00 over warranty (\$103.12) we fall \$9.38 short. This could potentially make it difficult for us to get a warranty rate increase.

Our hours per RO in this 100 Ros is 2.26 so we are right in the guideline of 2.2-2.5 for non highline and for us in this market as an import store I feel pretty good about this. Our percentage of 1 line repair orders is at 12% on customer pay RO's.

I am very pleased to see the labour mix on this sample. Maintenance came in at 69%, repair at 11% and competitive at 21%. It is easy to see the pattern of our long time loyal customers that follow the advice of the service advisors, the only thing to watch for is the discounting habits.

Repair Order Analysis Summary Report							
	Sales in Dollars	FRH's on RO's	Averages	Analysis			
Competitive	\$ 5,250	+	47.40	=	110.76	FRH Average	
Maintenance	\$ 17,615	+	155.10	=	113.57	FRH Average	
Repair	\$ 2,605	+	23.90	=	108.99	FRH Average	
Totals	\$ 25,470	+	226.40	=	112.50	Customer ELR	
		Target Labor Rate			103.12	Per FRH	
Total Ro's in Sample	100	Difference			9.38	Per FRH	
Cost of Labor							
Total Cost of Labor	7006.95	+	Total Sales	=	27.51%	Percent Cost of Sales	
Total Cost of Labor	7006.95	+	Total FRH's	=	30.95	Cost per FRH	
Repair Order Measurements							
Total Labor Sales	25,470.32	+	Total RO's	=	254.70	Avg Labor per RO	
Total FRH's	226.40	+	Total RO's	=	2.26	Avg FRH's per RO	
Menu Sales		+	Total RO's	=		Percent Menu Sales	
Competitive FRH's	47.40	+	Total FRH's	=	20.94%	Percent Competitive	
Maintenance FRH's	155.10	+	Total FRH's	=	68.51%	Percent Maintenance	
Repair FRH's	23.90	+	Total FRH's	=	10.56%	Percent Repair	
One item RO's	12	+	Total RO's	=	12.00%	Percent One Item RO	
Model Year Analysis							
2018	2017	2016	2015	2014	2013	Older	Total
0	0	6	8	9	11	66	100
0.00%	0.00%	6.00%	8.00%	9.00%	11.00%	66.00%	

Synopsis

Our service department has been at capacity for about the past 5 years. Our units in operation have increased substantially in the past 3 and our staff levels have also risen. The current facility is too small and therefore we are currently under renovations to expand. The new expansion includes a 2-lane service drive and will add 5 more bays. The state of our service department is in a kind of limbo in many ways as we are currently operating under renovation and therefore where are some growing pains that we are working through as many of the new processes can not role out until the new building is complete.

The SWOT analysis shows that we have a great staff working at this dealership with lots of experience and a great willingness to want to work together and succeed, however there seems to be lack of key processes and systems missing and/or perhaps some training on these processes/systems that impede our growth. This primarily revolves around the scheduling system(s) and the fact that we have multiple systems used by different people. This causes over booking, poor shop loading and parts ordering complications. This has lead to frustrations between technicians and advisors and can cause undue stress on the service staff not to

mention negatively impacting the overall customer experience. Communication seems to be the second most commonly described weakness and opportunity for our business. Better flow of information will be essential moving forward as our volume increases and to keep the morale of all the staff high. Clear lines of communication can be created between sales and service through the sales manager and service manager so both understand each others needs and what it will take to move forward. All in all we are very happy with the over all performance and have a solid understanding of where we need to get to and how we are going to accomplish our goals.