

Fixed Ops 2 Service Homework (Heavy Truck)

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Below is an evaluation and analysis of the McCoy Freightliner Service Department in Portland, OR. This document is broken down into twelve sections based on the guidelines laid out the homework assignment for our Fixed Operations 2 - Service class.

A. Advertising/Merchandising: Competitive Pricing Efforts, Menus

- a. What are you currently doing? We currently do very little in the form of advertising/merchandising specifically for the service department. Print media includes running promotions with discounts on common service items. These promotions are normally done two or three times per year. There is a menu pricing display that runs on a continuous loop on TV's in our service write-up area, behind the front counter in the parts department, and in the waiting area by the receptionist. Advertising is also done in the form of generic billboards which promote the dealership rather than the service department.
- b. Plans for improvement? We need to increase the advertising efforts jointly between our parts and service departments. Our parts department has a large group of outside sales reps and they distribute a monthly parts flyer. Including at least one service special on that flyer would be an improvement and get our service department more exposure.
- c. How do you plan to achieve the goals and evaluate if the changes that are made are beneficial to the store? The service manager and the marketing manager currently meet every Wednesday. The service manager meets with the parts manager almost daily. By working with the marketing manager, the parts manager can create service specials, and the flyers can be produced and distributed through the outside parts and service salesmen.

B. Marketing: Potential, Penetration, and Competition

- a. What are you currently doing? Our service department takes top customers and conquest customers on outings such as fishing trips and sporting events. Additionally, all of the company vehicles are wrapped with our company logos, phone numbers, web site address, etc. This is pretty typical for dealers in our area. We have also been sponsors of local events such as Portland Community College Diesel Day and Oregon Trucking Association Maintenance Fair & SuperTech Competition. We donated a used Freightliner Cascadia to Portland Community College. The Cascadia was wrapped in our dealerships logos to gain more exposure with the students in the diesel tech

programs. We have a company Facebook page and our marketing manager updates it with photos, articles related to our industry, etc. We also participate with the parts department and do weekly customer appreciation BBQ's at customer's locations.

- b. Plans for improvement? Become more active in trade shows and local community events.
- c. How do you plan to achieve the goals and evaluate if the changes that are made are beneficial to the store? Talk to employees about the trade shows and local activities that they are involved with and consider providing more sponsorship money towards those events to increase our exposure.

C. Facility: Capacity, Utilization, Limitations (Excel template #4)

- a. What are you currently doing? During the week of our Fixed Operations 2 class, our service department had a total of 30 technicians and 16 active bays. The bays were utilized on two shifts (Monday-Friday) and one shift on Saturdays. We were closed on Sundays. The high utilization made it difficult in some situations to have enough bays for all techs to work inside of the shop when trucks were "downed". Working outside is not a good option for most of the year in Portland due to the high amount of rainfall that we get. As a result, our techs spent a lot of time at the beginning and end of their shifts towing trucks in and out of the bays so the other shift had a place to work. Our volume of customers justified hiring additional technicians but we didn't have anywhere to put them. In February 2019, the service department obtained two additional bays from our body shop. These additional bays gave us the ability to hire additional techs. We now have 33 technicians.
- b. Plans for improvement? Our goal is to hire two more technicians by April 2019 for a total of 35 technicians in 18 bays, operating the same hours.
- c. How do you plan to achieve the goals and evaluate if the changes that are made are beneficial to the store? The service manager is actively recruiting technicians through multiple channels (on-line, employee referral, military, community colleges, etc.). We will evaluate the success of the additional techs through our 24-hour and 72-hour throughput measures as well as profitability of the department.

D. Productivity: Actual vs Potential in all departments (Excel template #3)

- a. What are you currently doing? For the month of January 2019, we had a potential of \$774K in labor sales and we finished the month with \$592K in labor sales. Our actual vs potential will always be a little skewed due to employees taking vacations, being in training and calling in sick. Aside from those factors, our actual is not terribly far off from our potential. In months where we have a high volume of customers coming to the shop, we should be able to stay relatively

close to our potential. In months where the volume of customers is weak, we will struggle to come close to meeting our potential.

- b. Plans for improvement? The push for our service department is to continue to train techs so they become more efficient. As they become more efficient, we move them from hourly technician pay plans to flat rate technician pay plans.
- c. How do you plan to achieve the goals and evaluate if the changes that are made are beneficial to the store? Tech efficiency, productivity, and proficiency will continue to be monitored by management and discussed with technicians during their reviews. The flat rate pay plan incentives built in to promote more productivity as well. So the more techs that we can get onto flat rate pay plan, the more our productivity should increase, assuming the customer volume supports it.

E. Organization and Production Methods

- a. What are you currently doing? Prior to the Fixed Ops 2 class, our repair orders followed this process:
 - i. Service Advisor writes up work order
 - ii. Express Assessment tech diagnosis is performed
 - iii. The foreman writes an estimate
 - iv. The advisor contacts the customer for authorization
 - v. The foreman then dispatches the repair
 - vi. The technician performs the repairs
 - vii. After the Fixed Ops 2 class, we implemented a group of “Rapid Repair” technicians to handle repairs that were 4 hours or less.
- b. Plans for improvement? The Rapid Repair technicians have increased our throughput which is one of the most focused on measures in Daimler dealerships. We are continuing to refine our process and dedicate more technicians to the Rapid Repair teams.
- c. How do you plan to achieve the goals and evaluate if the changes that are made are beneficial to the store? We have calculated that we can perform 66 more RO’s per month by having Rapid Repair in place. These additional RO’s generate close to \$400K in revenue per year for our service department.

F. Analyze Cost of Labor and Gross Profit structure in the service department (Excel template #1)

- a. What are you currently doing? Retail customer “truck” and warranty are both above 72% and we are happy with this result. Internal is at 56% and this is entirely due to discounted labor rates that have been dictated by the dealer principal.
- b. Plans for improvement? No significant changes are anticipated for our retail and warranty categories. It has been an on-going campaign to get the internal rates raised. There has been some success in this area, but not to the point that the service manager would prefer.
- c. How do you plan to achieve the goals and evaluate if the changes that are made are beneficial to the store? By convincing the dealer principal to allow the service department to charge retail rates (or

something close to retail) to the internal departments, the profitability of the service department could increase significantly.

G. Detail necessary changes in expense structure (Excel template #2)

- a. What are you currently doing? For the month of January 2019, our department's personnel expenses and fixed expenses are both higher than guide. Our semi-fixed expenses were slightly below guide. Since the service manager doesn't have direct control over the fixed expenses, the personnel expenses are where the focus should be. To get this figure more in line with the guide, either expenses need to be cut or gross needs to be increased.
- b. Plans for improvement? Since we believe we are in a period of economic growth, our plan is to not cut personnel. Our plan is to increase gross with the existing employees.
- c. How do you plan to achieve the goals and evaluate if the changes that are made are beneficial to the store? By increasing the number of technicians, and the quality of those technicians, we should be able to increase our gross without changing our personnel expenses. As long as the volume of business supports the additional technicians, this will work. If volume decreases, then we will need to make adjustments to the personnel expense category by reducing support staff headcount.

H. Evaluate all pay plans. What, if any, changes do you suggest to improve performance?

- a. What are you currently doing? We have techs on hourly pay plans and techs on flat rate pay plans. When we hire a tech, they usually start as an hourly employee. Once we get familiar with their abilities, efficiency, and quality, we give them the opportunity to become a flat rate tech. The flat rate techs get about \$3 more per hour than hourly techs of the same tech level. Service advisors and foremen get paid a base salary plus commission. The commission is based on the total sales of the department. The advisors and foremen are also eligible for additional incentives for achieving specific department goals. Pick-up/delivery drivers and wash/detailers are paid hourly. Service manager is paid a base salary plus a percentage of the net profit monthly.
- b. Plans for improvement? Create more pay incentives for achieving higher levels of throughput since this is the most important metric to our OEM. By improving this metric, we will be more profitable and have higher levels of customer satisfaction.
- c. How do you plan to achieve the goals and evaluate if the changes that are made are beneficial to the store? We currently measure throughput and incorporating this into existing pay plans would be easy to do. We would reinforce this each month by giving the results to the employees each month.

I. Detail performance enhancement programs (i.e. objectives, tracking methods, and communication tools)

- a. What are you currently doing? We are currently tracking time to first punch, first punch to last punch, last punch to close, time to first communication, throughput percentages, sales, gross, efficiency, proficiency, productivity, RO's opened, RO's closed, effective labor rate, as well as other measures. We have a "communication board" for posting results to the department. Some results are posted daily for things like sales, gross, and effective labor rate. Other measures such as throughput are posted weekly.
- b. Plans for improvement? We think we do a good job of measuring, tracking, and communicating results. Overall, our department is very transparent and a lot of information is shared with the employees. We do not plan on making any changes at this time.
- c. How do you plan to achieve the goals and evaluate if the changes that are made are beneficial to the store? As mentioned above, no changes are planned at this time for this our performance enhancement programs.

J. Determine the level of current training program. Evaluate additional training needs and establish revised program to enhance training to meet future needs.

- a. What are you currently doing? We have a chart that shows all techs in our department and their current level of training/certifications. The chart is updated monthly and the department managers meet with the dealer trainer and the controller to discuss progress. Techs that are not meeting the individual goals of the department are met with and a plan with a timeline is established to get them back on track.
- b. Plans for improvement? Our existing dealer trainer has the ability to train technicians on our OEM engine platform. He is not certified to train our techs on the chassis side of our vehicles. We've evaluated the costs of sending techs to OEM provided training on the chassis side and it is considerably more cost effective to train them in-house. With that in mind, we are trying to hire a second dealer trainer to handle the instructor-led chassis training.
- c. How do you plan to achieve the goals and evaluate if the changes that are made are beneficial to the store? In regards to the addition of a second trainer, we would compare his costs to the savings over sending techs to OEM training. We also compare training expenses to policy/comeback expenses. By investing more in training, we expect to see reductions in our policy/comeback expenses.

K. Condition of special tools and test equipment.

- a. What are you currently doing? We currently have a tool room where we keep specialty tools. We have a tool room employee that is in charge of keeping the tool room orderly and repairing or sending tool out for repair as needed. He has several other duties as well. We have a check out procedure for some of the very expensive tools but more

tools are taken and returned without being logged. This system is not perfect because in some cases we have had tools disappear.

- b. Plans for improvement? We are evaluating different types of tool check out lockers to see if we can set them up so techs will have to use a login to open the locker door for taking the tool and for returning the tool. Ideally, we would like to be able to log into a site to see at a glance what tools are checked out and by which tech.
- c. How do you plan to achieve the goals and evaluate if the changes that are made are beneficial to the store? We have yet to find the ideal system for our needs. Once we do and it is implemented, I think this would greatly decrease the concern we have with tools being taken from the tool room and never returned.

L. Complete Qualitative SWOT Analysis and include as last part of homework.

- a. Strengths (Internal) –
 - i. Quality of technicians. We have over half of our technicians are rated as A & B level; less than half are rated as C, D, or Lube tech level.
 - ii. Experience level of advisors. All of our advisors are seasoned and have the ability to de-escalate most customer issues.
 - iii. Training programs and dealer trainer. We have developed a culture where taking online training classes is expected. We also have an in-house dealer trainer that is utilized heavily to train our technicians.
- b. Weaknesses (Internal) –
 - i. Warranty processing. We have one very strong warranty administrator that we over-rely on. When the volume exceeds his capacity, we struggle to get claims filed in a timely manner.
 - ii. Expensive personnel. Our personnel costs are extremely high. This is a negative consequence of having several highly skilled, but also highly paid technicians and advisors.
 - iii. Facility – Our building is approximately 35 years old and is in need of some major renovations (especially our shop floor).
 - iv. Back-ordered parts. In a recent discussion with our OEM, we found that the best in class dealers were filling service repair requests for parts approximately 85% of the time on the first request. The first time fill rate for our dealership is around 75%.
- c. Opportunities (External) –
 - i. Freightliner has a huge portion of the market and could capture more of it with the release of some of its new models.
 - ii. Elite Support program through Daimler. This is an external program that we have incorporated into our daily operations and thought processes. It is a way to improve the customer's experience through improved processes and facilities. We use it as a guide to help distinguish us from our competitors.

- iii. Proximity to fleet customers and interstate. There are a high number of trucking companies in our area, and we are close to I-5 which is the major interstate that travels north and south between California and Washington.
- d. Threats (External) -
 - i. Proximity to other OEM dealerships, engine distributors, and independent repair shops is threat to steal employees, customers, and keeps downward pressure on our prices.
 - ii. Permitting process for the City of Portland and Multnomah County. We are located in an area that is difficult and costly to build new facilities in. Available land is also limited which hinders our expansion.