

## Fixed Operations 2 Service Homework

Orlando Feliciano

Toyota San Sebastian

- a. **Advertising:** What are your plans to keep your dealership name in front of your customer?

We recently hired Autopoint specifically for our parts and service department. We started sending different service offers, discounts and vouchers via mail and email. Last month we were able to gross north of \$140,000. This was the first time we reached this number in more than 6 months.

- b. **Marketing:** Who will be marketing the dealership service department with the goal of obtaining new customers?

We decided to hire Autopoint to take care of parts/service marketing and advertising.

- c. **Facility:** what changes will you make to increase your utilization?

We will use our detailing bay for additional purposes including, window tints and minor body repair. This should help increase our utilization for the shop as a whole.

- d. **Productivity:** how will you increase your tech proficiency?

Our tech proficiency is regularly over 100%, so this is not something we are overly concerned about. Last month we fell just short of the NADA guide of 120%. We finished the month with a 108% proficiency. As of right now, we are satisfied with our tech proficiency and will focus our efforts into bringing more volume in the service department.

- e. **Production Method:** will you make any changes to your service department?

We are going to invest more in marketing and advertising of the department to both existing customers and potential customers. In terms of our setup, we believe we have the right formula to be efficient and profitable. Hours per RO was an area of opportunity for the department. Our new goal is 1.0 hours per RO. This is up from 0.8. Advisors will be paid a spiff if they are able to achieve this.

- f. **Analyze cost of labor:** How do you pay the techs?

Our highest paid tech (Master tech) is paid \$13.50 per hour while our lowest paid techs are paid \$9.00 per hour. We use team compensation so each of them earns their percentage of total hours produced by the team times their hourly rate. We brought in someone called Ed Kovalchik to help us implement this.

- g. **Changes in Expense Structure:** Are you selling all the available hours, and are your expenses in line?

We are selling more than our available hours. Hence our proficiency is over 100%. Our expenses are in line. Service only absorbs a small portion of the total dealership advertising and electricity expenses. Expense control is not a problem for us now at the moment.

- h. **Pay plans:** are any adjustment needed in your staff's pay plans and why?

Yes, we must adjust our advisors pay plans. If we want them to upsell and add hours per RO, we must adjust their commissions for upselling. I believe this is part of the reason that our hours per RO are so low (less than 1.0 hours per RO).

For techs, they were the ones that decided to work in a team compensation style rather than individual compensation. We let them decide what would work best for them. So far, they love it and this system encourages them to help each other.

- i. **Detail performance programs:** what are the plans for setting objectives, tracking, and communication?

Using SCRUMS, we will develop a board alongside the service advisors to track their progress and for them to see if they are behind in hours per RO. We will do weekly meetings where the progress will be discussed as well as areas of opportunity/brainstorming.

- j. **Level of current training:** are you within the minimum training standard for your manufacturer?

Yes, all our service employees are at the minimum at least. This is something the general manager and the service manager stay on top off every single month.

- k. **Special tools:** what do you currently have for techs? Is it neat and organized, or an unorganized mess?

About 5 years ago our Toyota store was selected to implement Kaizen production techniques as a model store in Puerto Rico. As part of this, the service department was completely reorganized. Everything is marked with colored tape and everything has an assigned spot. From the mop and cleaning equipment to staplers. Our department is very organized, and our service manager recently went to SCRUMS trainings where he learned about lean production to reinforce what kaizen is about.

## **SWOT Analysis**

### **Strengths**

- 1.** Oldest Toyota Store in PR (very large client base)
- 2.** Consistently rank top 5 in SSI in the island
- 3.** Service manager, master technician, warranty specialist have been with us for 15+ years
- 4.** Service manager was able to increase monthly gross profit from \$70,000 in 2009 to \$140,000 in 2019 (100% increase)
- 5.** Extremely organized facilities focus on Kaizen (continuous improvement)
- 6.** Service advisors have all been with the company for at least 5 years
- 7.** Team compensation encourages teamwork and efficiency
- 8.** Service BDC department schedules about 40 appointments per day. Last year that number was about 30 appointments

### **Weaknesses**

- 1.** Tech pay is not the most competitive. Besides the master tech, we have had high employee turnover
- 2.** Limited space
- 3.** Service department is a bit a of a walk from the waiting area
- 4.** Service drive gets congested at times
- 5.** Service manager's office has limited visibility (can't see everything that is going on)
- 6.** Very low on customer pay side. We rely heavily on warranty and maintenance

### **Opportunities**

- 1.** Body shop

2. More aggressive marketing could really help us retain customers when their vehicle is out of warranty
3. Include visuals and posters for customers to see our different deals
4. Do more customer pay work

### **Threats**

1. Many independent repair shops around
2. 3 other Toyota dealerships within 15-20 miles of us
3. Closed on Sundays, while many others are open

### **Objectives:**

1. Increase hours per RO from 0.8 to 1.0
2. Have a more even split between customer pay and warranty
3. Increase gross to \$145,000
4. Increase fixed absorption to about 45%

### **Strategies:**

1. Train service advisors to upsell. Train them like salespeople because they, in fact, are salespeople.
2. Finding after market parts that we can offer on the service drive (cleaning products, accessories)
3. Develop incentive plans for advisors
4. Go for volume because we already have the capacity and the proficiency to increase gross
5. Train service BDC phone selling strategies

### **Tactics**

1. Advertise special discounts to attract customers
2. Create a board to be updated daily where service advisors can see where they are relative to their goal and how much they have sold MTD.
3. Advertise our service department more aggressively in areas that we don't have a particularly high market share

### **Action Plan**

| <b>Task</b>  | <b>Role</b>                | <b>Completion Date</b> |
|--|----------------------------|------------------------|
| <b>Develop new incentive plans for service advisors focused on upselling</b> | <b>GM/ Service Manager</b> | <b>May 15, 2019</b>    |
| <b>Create a board to track service advisors progress</b>                     | <b>Service Manager</b>     | <b>May 30, 2019</b>    |
| <b>Advertise ourselves in different areas of the island</b>                  | <b>GM</b>                  | <b>May 30,2019</b>     |
| <b>Explore adding a body shop</b>  | <b>GM/ Service Manager</b> | <b>June 30, 2019</b>   |
| <b>Increase our avg. daily customers from 40-45</b>                          | <b>Service Manager</b>     | <b>June 30, 2019</b>   |
| <b>Increase hours per RO by 0.2</b>  | <b>Service Advisors</b>    | <b>May 30, 2019</b>    |

## Repair Order Analysis Summary Report

|             |  | Sales in Dollars |   | FRH's on RO's |   | Averages |              | Analysis |  |
|-------------|--|------------------|---|---------------|---|----------|--------------|----------|--|
| Competitive |  | \$ 1,172         | ÷ | 12.60         | = | 92.99    | FRH Average  |          |  |
| Maintenance |  | \$ 3,058         | ÷ | 27.90         | = | 109.60   | FRH Average  |          |  |
| Repair      |  | \$ 3,960         | ÷ | 60.70         | = | 65.24    | FRH Average  |          |  |
| Totals      |  | \$ 8,190         | ÷ | 101.20        | = | 80.93    | Customer ELR |          |  |

|                      |  |     |  |                   |  |       |  |         |  |
|----------------------|--|-----|--|-------------------|--|-------|--|---------|--|
|                      |  |     |  | Target Labor Rate |  |       |  | Per FRH |  |
| Total Ro's in Sample |  | 100 |  | Difference        |  | 80.93 |  | Per FRH |  |

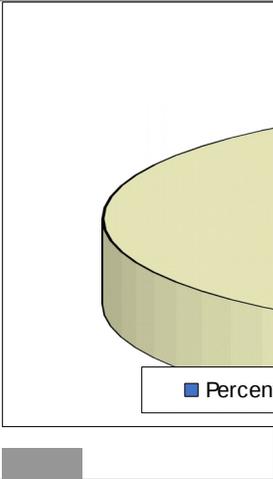
### Cost of Labor

|                     |        |   |             |   |       |                       |  |
|---------------------|--------|---|-------------|---|-------|-----------------------|--|
| Total Cost of Labor | 414.00 | ÷ | Total Sales | = | 5.06% | Percent Cost of Sales |  |
| Total Cost of Labor | 414.00 | ÷ | Total FRHs  | = | 4.09  | Cost per FRH          |  |

### Repair Order Measurements

|                   |          |   |            |   |        |                     |  |
|-------------------|----------|---|------------|---|--------|---------------------|--|
| Total Labor Sales | 8,189.69 | ÷ | Total ROs  | = | 81.90  | Avg Labor per RO    |  |
| Total FRHs        | 101.20   | ÷ | Total ROs  | = | 1.01   | Avg FRH's per RO    |  |
| Menu Sales        |          | ÷ | Total ROs  | = |        | Percent Menu Sales  |  |
| Competitive FRHs  | 12.60    | ÷ | Total FRHs | = | 12.45% | Percent Competitive |  |
| Maintenance FRHs  | 27.90    | ÷ | Total FRHs | = | 27.57% | Percent Maintenance |  |

|                            |        |        |            |        |        |                     |       |
|----------------------------|--------|--------|------------|--------|--------|---------------------|-------|
| Repair FRH                 | 60.70  | ÷      | Total FRHs | =      | 59.98% | Percent Repair      |       |
| One item ROs               | 67     | ÷      | Total ROs  | =      | 67.00% | Percent One Item RO |       |
| <b>Model Year Analysis</b> |        |        |            |        |        |                     |       |
| 2020                       | 2019   | 2018   | 2017       | 2016   | 2015   | Older               | Total |
| 0                          | 1      | 19     | 13         | 10     | 12     | 45                  | 100   |
| 0.00%                      | 1.00 % | 19.00% | 13.00 %    | 10.00% | 12.00% | 45.00 %             |       |



**Recap/ Synopsis**

One item RO's remain a huge problem for our dealership. 67 out of the 100 RO's that were analyzed were only one item. Therefore we need to train our service advisors to sell more during the service drive. This is an

opportunity that we are not taking advantage of. Due to how stable our department is month in and month out, many times advisors fall into the comfort zone. Their commissions for selling are not very strong and do not encourage them to sell more.

We also must do a better job of working in maintenance and competitive labor. We depend too much on warranty work, instead of doing more competitive work that has a higher ELR.

Morale in the service department appears to be very high due to their responses to the SWOT analysis. The service manager can sometimes fail to be creative and that is something to must due in order to increase sales. We will invest in service department advertising not only in our city, but surrounding ones as well.

Creating a board to track progress is something that we have used in the past in other departments and helps people see where they are and where they should be.