

TransEdge Truck Centers - Service Department Analysis

The following is an Analysis of the Service Department Operation within the TransEdge Truck Centers. This analysis is broken down into three parts:

- Current State of Operations (where we are) - including Profitability, Proficiency, Facility Utilization, Organizational Chart, Strengths & Weaknesses and Compensation
- Future State of Operations (where we want to be) - including Profitability, Productivity and Organizational structure
- Operational Changes (how are we going to get there) - including Advertising and Marketing, Compensation Changes, Training and any changes needed in the workforce

Current State of Operations - Using May 2017 Data

- YTD numbers the service department's revenue is \$6,988,864 and the gross margin is \$3,913,737 which is 56%
- MTD numbers the service department's revenue is \$1,640,028 and the gross margin is \$996,859 which is 60.7%
- Tech Proficiency = 74.12%
- Facility Utilization = 36.29%
- One Item RO's = 64% of all RO's
- 33% of Technicians are "Master Tech" certified
- Organizational Chart (attached) shows we have broken the shop into different departments: Advanced, Uptime, New Truck Modifications, Leasing

Overall, May 2017 was an excellent month for the service department (comparatively speaking). However, we continue to face several challenges in our Pittsburgh, PA market. Many of the strengths of the Service Department are due to the proximity of the Mack Plant to our Allentown, PA facility. For example, in May we had several technicians assigned to the Mack Plant in order to help finish and deliver new trucks. Also, the proximity of the Mack Plant allows us to offer a New Truck Modification service which dramatically increases our technician proficiency. The weaknesses in the Service Department are amplified in the two Pittsburgh facilities. Currently Pittsburgh is suffering from a decreased workload, leading to hours of Tech unapplied time. This is coupled with a decrease in New Vehicles being prepped and delivered. These factors have led to back-to-back months of negative profits within the service department in Pittsburgh. The current compensation package for the technicians is directed by the Union, and

based on years of service and technical credentials – for example a certified “Master Tech” is compensated higher than a non-certified Master Tech.

Future State of Operations

- Gross Margin should be 73%
- Tech Proficiency should be 100%
- Facility Utilization should be 65%
- One Item RO’s need to be minimized
- 40% of Techs need to be Master Certified
- GM position in Pittsburgh Market

Driving the Service Department’s Gross Margin toward 73% is one of the most important goals of the entire dealership. In order for that to happen Tech Proficiency and Utilization of the Facilities needs to be pushed higher. The increase in Master Techs will be delved into in the next section. Lastly, the management team has decided that a GM must be added in the Pittsburgh market. We lack a permeant Senior Level Leader in that market and it is time to address that shortfall.

Operational Changes

- Drive Revenue thru Advertising and Marketing
- Decrease Expenses
- Address Training of Employees
- Compensation Changes & Enhancements

In order to drive Tech Proficiency up we need to have more work and streamline our processes. Advertising and Marketing are a key component in delivering more billable work into the service department. We have three keys initiatives at varying stages of completion:

1. A commitment letter from the Director of Service to all customers detailing the new UpTime process – (finished by Aug 2017)
2. A Service Department Flyer that will be disturbed by all sales personal – (finished by Sep 2017)
3. More “boots” on the street – as of June 1, 2017 – the two 1st shift Foreman will now have reasonability in meeting with customers “outside” of the shop. This will be accomplished by 2 days per week where the foreman will have a ½ day in the office and ½ day visiting existing accounts.

Addressing sales is only half of the equation: the other half is decreasing costs. The management team looked at our Pittsburgh expenses and found that a labor force reduction was in order. So as of June 10, 2017 we laid off 2

non-union workers in the Pittsburgh shop. We also coupled this with a voluntary lay off of union techs in Pittsburgh.

Operational Changes - continued

Regarding training of employees - we have been charged by our OEM to increase our Master Tech's to 40% from the current level of 33%. This will be accomplished in two ways:

1. Training more techs "up to" the Master Tech level
2. The OEM has widened the criteria for Master Techs - allowing for more Master Techs in other fields - including Chassis, Electric and others

This change will automatically increase our Master Tech Level because we have several Techs that have specialized in this fields already.

Finally discussing Compensation Enhancements. As of February 2017 we initiated a service incentive - this incentive covers two factors:

1. Booked Hours
2. Closing of RO's

This incentive is only targeted at the non-union employees. It has started to yield results. We have a 25% decrease in our WIP, and the Allentown location is seeing a lot less write-offs which we attribute to the Service department succeeding in billing more hours.

This analysis is done at a very high level. With a careful eye on how all of things are inter-related.

Thanks,
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ATD035