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Due date: 10/14/19

NADA Academy

Class N352-06

Service Department Qualitative Analysis

September 2019

- Strengths:

1. Technician morale and communication is good. We recently had some turnover in the technician position which has increased the morale in the shop.

2. Service Manager has done a great job of up-keeping equipment and enforcing shop cleanliness.

3. Gross profit as a % of sales is at NADA standard (78.09% to be exact).

4. Training has recently become a top priority for the department and it has really helped develop people in all aspects of the service department (techs, advisers, & cashiers).

5. Personnel expense is in line for the month being reviewed at 49.34%. I realize this metric is measured by personnel expense as a percent of gross profit and the month of September was rough. In September we had a holiday, three days without internet, and UAW went on strike with general motors which all affected our production for the month. The bright side of all of this is that our personnel expense structure was still in line after the lack of production.

6. We have excellent software available to our technicians and advisers in order to inspect vehicles and text or email those inspections to our customers. When used properly, it is a big time game changer for customer service and production.

- Weaknesses:

1. There are no meetings with management and the technicians or advisers as a team. These meetings can be a good time to review housekeeping rules and other items such as warranty administration updates, customer service review, objective of the day, or employee recognition.

2. It was brought to my attention that we are short one laptop/MDI for the quick lube. This is a big problem because there are technicians waiting for an MDI or laptop to be available in order to diagnose the next vehicle. The service manager has already ordered another laptop/MDI in order to remedy this.

3. Shop proficiency is at 58.94%. This is horrible and needs to be addressed with each individual technician.

4. Pricing and labor operation set up is unorganized. There needs to be some time dedicated to fixing this all at once after hours in order to make it easier for the advisers to quote pricing and add labor operations to repair orders.

5. Discounting is not being tracked accurately. I found while doing my 100 RO analysis that discounting is going directly against cost of sale, rather than being expensed to advertising. This needs to be enforced by the service manager.

6. Marketing needs help. There is not much other than a few email promotions going out to our customers for service. It would be good to come up with a few ideas for marketing our service department without having to spend any money considering there are already resources that we pay for that are not being used correctly such as Epsilon, and Xtime Invite.

- Opportunities:

1. Growing customer pay mix of business. Customer pay is now contributing about 50% of sales. This has increased over the last few years ever since we moved into a much larger facility.

2. As our business continues to grow, we currently mostly service only the makes that we sell. We have a huge opportunity to earn more business by servicing all makes and models. That said, we need to make sure we are able to handle our makes first.

3. The majority of the market in Laredo, TX has their service work done at an off brand competitor. We have a lot of opportunity to compete with those competitors for service work.

4. With a shop proficiency of only 58.94%, we have plenty of opportunity to increase shop production/profitability with the staff we currently have.

5. In my 100 RO analysis I found that there is a lot of room for improvement on maintenance repairs

- Threats:

1. We have a particularly special circumstance at the GMC Buick Cadillac store with the UAW strike. The strike has significantly impacted us due to delayed stock orders as well as delayed special ordered parts for our customers. This is affecting both profitability as well as CSI due to the longer wait times to complete repairs.

2. General Motors cutting labor times on warranty repairs. This is a problem for our technicians, as it affects what they get paid on each repair.

3. With a light workforce in the shop, we cannot afford to lose our most productive technician. He seems to be very happy with his position at the shop, but due to the lack of training for the rest of our technicians losing him is a threat to the productivity/profitability of our shop.

4. There are other larger shops in town that offer at least 2 stalls per technician. Due to our limited shop space we could only offer 1 stall per technician. This is a threat to our organization, because some technicians would prefer to work with 2 stalls.

5. Warranty administration has no contingency in place. Currently our warranty administrator is undergoing cancer treatment and may not be able to continue to work for very long. It is very important that we train somebody else on warranty processing.

- Objectives:

1. Increase shop proficiency
2. Review/reduce semi-fixed expense as a % of gross
3. Increase gross profit on customer pay labor sales
4. Increase gross profit margin on customer pay parts sales
5. Increase net profit as a percent of gross
6. Focus on alternative parts supply for vehicles waiting on parts due to UAW strike
7. Increase facility utilization by hiring more technicians (we are short 2 techs due to resignations)
8. Implement team meetings with technicians, advisers, and management

- Strategies:

1. Meet with service manager in order to enforce a firm discounting process. This means all discounting will go against an expense account rather than cost of sale. This will help remedy our poor effective labor rate.

2. Review pricing strategy on competitive, maintenance, and repair items. Are we priced to market?

3. Organize labor operations so that it is easy for the advisers to quote services and create repair orders.

4. Require all technicians inspect every vehicle accurately every time. This will require management intensive training for our quick service technicians, as I have found that our main shop techs already do this pretty well.

5. Create a pay plan that works to make Eric a shop foreman. This will help push work through the shop quicker so he can spend time with each technician and solve the big problems so they can focus on the smaller problems and also learn from him along the way. I believe he could help raise one or two more technicians to be as trained/productive as he is.

6. Hire 2 porters. This is a simple task that needs to get done ASAP. The advisors are spending too much time away from their desks moving cars around the lot and off the drive. This will also help technicians move cars in and out of the shop.

- Tactics:

1. I would recommend paying the shop foreman solely on proficiency rather than on production. This would require him to focus on getting the shop to work as a team in order to maximize production.

2. Service manager should meet with each individual service employee and evaluate their performance. This is not the same as an annual evaluation. This is more of a production evaluation. Every employee should have individual goals catered toward their success as well as our organization's success. Investing in each person individually will reflect on the production/profitability of the service department.

3. Consider a production bonus program. We use to do the "Golden Wrench" competition. The Service manager would award a golden wrench to the most productive technician for the pay period. He would also receive a gift card to take his spouse/family out to dinner. These small programs make a big difference in shop morale and motivation.

4. When it comes to advertising, I would recommend creating a seasonal package such as "Winter Special" or "Holiday Special". Spend some time coming up with something that is priced well enough to compete with the market, but also catches the attention of the off-brand competitor customer base.

Action Plan

Task	By Whom	Completion Date
Enforce correct discounting	Service Manager	11/15/19
Create shop foreman pay plan	Service Manager	11/30/19
Hire 2 more technicians	Service Manager	Immediately
Evaluate staff individually	Service Manager	Daily
Fix quick lube multi-point inspections	Service Manager	11/30/19
Work on service promotions	Marketing Director / SM	Monthly
Implement team meetings in Service	Service Manager	at least weekly
Review shop proficiency progress	Service Manager	Daily
Organize labor operations and pricing	Service Manager	12/15/19

- Synopsis

This service department has not come close to achieving its potential in terms of production/profitability. It starts with the leadership, there needs to be a clear vision from the top down on what we want to accomplish and how we want to get there. This plan focuses on what I believe is the most important metric when evaluating a service department, proficiency.

This shop has very poor proficiency, and it is not solely the technician's fault. There is a lack of training for our technicians that is being addressed as a top priority as of the last few months. It is important that we review each technician's individual proficiency with them and set individual goals in order to push them towards our organizational goal of 110% proficiency.

Furthermore, I believe creating a shop foreman position can serve as a catalyst for increasing shop proficiency. We have the perfect candidate, and as long as his pay plan is structured properly it will not cost the business anything in order to increase throughput in our shop.

Recently we have experienced some turnover due to a change in management, however, it seems it has positively affected the morale in the shop. It is important we hire two more technicians very quickly in order to maintain our capacity for more business. It is also important to review our pricing strategy as well as our labor operations.

Lastly, and most importantly, I believe the service manager should be hosting team meetings with his staff. These meetings will open up communication, and create opportunities for us to develop as a team. After all, it is the team as a whole that can create an exceptional experience for our customers and drive our business toward prosperity.

Post Service Excel Homework September 2019:

Service Department Sales And Gross (Labor Only)

Category	Sales	Gross	Gross as % of Sales	%Sales Contribution
Customer Car	$ 49,735	$ 38,110	76.63 %	49.83%
Customer Truck			0%	0%
Customer Other			0%	0%
Warranty	$ 24,728	$ 21,018	85.00 %	24.78%
Warranty Other			0%	0%
Internal	$ 25,343	$ 18,808	74.21 %	25.39%
NVI / Road Ready			0%	0%
Adj. Cost Of Labor		$ -	0%	0.00%
Total	$ 99,806	$ 77,936	78.09 %	100.00 %

Service Department Profit Centering

Expense Category	Dollar Amount	% of Gross	Profile
Department Gross	$ 78,813		
Variable Expense		0.00%	
Selling Expense		0.00%	

Personnel Expense	$ 38,884	49.34%	45%-50%
Semi-Fixed Expense	$ 21,822	27.69%	25%-30%
Fixed Expense	$ 8,331	10.57%	
Unallocated Expense		0.00%	
Dealer's Salary		0.00%	
Total Expenses	$ 69,037	87.60%	**80%**
Net Profit	$ 9,776	12.40%	**20%**

Post Service Excel Homework Cont. September 2019:

NADA ACTUAL SERVICE ANALYSIS

Performance

	Labor Sales / Month		*Hourly Labor Rate*		*Hours Billed*
Customer Car*	$ 49,735	÷	120.00	=	414.5
Customer Truck*		÷		=	0.00
Customer Other*		÷		=	0.00
Warranty	$ 24,728	÷	116.31	=	212.6
Internal	$ 25,343	÷	110.00	=	230.4
New Vehicle Prep		÷		=	0.00
Total	$ 99,806				857.5

POTENTIAL

$ 99,806	÷	857.45	=	$ 116.40			
Total labor sales for month		Total hours billed		Effective Labor Rate			
7.00	x	9	x	24	=	1,454.9	
# Service mechanical technicians		# Hours/Day		Working Days/Month		Clock Hour Aval	
1,454.9	x	$ 116.40	=	$ 169,345			
Clock Hours Available		Effective Labor Rate		Labor sales potential			

How proficient are your technicians ?

857.5	÷	1,454.90	=	58.94%
Hours Billed		Hours Available		Tech Proficiency

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

Post Service Excel Homework Cont. September 2019:

FACILITY POTENTIAL	
Number of Bays	11
	x
Number of Days	24
	x
Number of Hours	8.66
	x
Effective Labor Rate	116.4
FACILITY POTENTIAL	$ 266,118

FACILITY UTILIZATION	
Total Labor Sales	$ 99,806
	÷
Facility Potential	$ 266,118
	equals
FACILITY UTILIZATION	37.50%

100 RO Recap September 2019:

Repair Order Analysis Summary Report

	Sales in Dollars		FRH's on RO's		Averages	Analysis
Competitive	$ 1,937	÷	42.11	=	45.99	FRH Average
Maintenance	$ 2,258	÷	31.05	=	72.72	FRH Average
Repair	$ 14,313	÷	168.42	=	84.98	FRH Average
Totals	$ 18,508	÷	241.58	=	76.61	Customer ELR
			Target Labor Rate		118.31	Per FRH
Total Ro's in Sample	100		Difference		-41.70	Per FRH

Cost of Labor

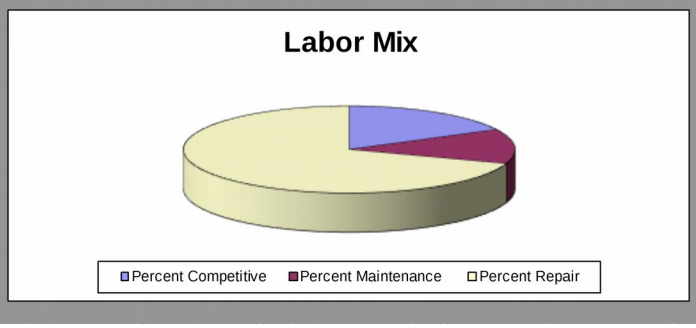
Total Cost of Labor	4779.34	÷	Total Sales	=	25.82%	Percent Cost of Sales
Total Cost of Labor	4779.34	÷	Total FRHs	=	19.78	Cost per FRH

Repair Order Measurements

Total Labor Sales	18,506.37	÷	Total ROs	=	185.06	Avg Labor per RO
Total FRHs	241.58	÷	Total ROs	=	2.42	Avg FRH's per RO
Menu Sales		÷	Total ROs	=		Percent Menu Sales
Competitive FRHs	42.11	÷	Total FRHs	=	17.43%	Percent Competitive
Maintenance FRHs	31.05	÷	Total FRHs	=	12.85%	Percent Maintenance
Repair FRH	168.42	÷	Total FRHs	=	69.72%	Percent Repair
One item ROs	41	÷	Total ROs	=	41.00%	Percent One Item RO

Model Year Analysis

2020	2019	2018	2017	2016	2015	Older	Total
1	2	9	21	20	16	31	100
1.00%	2.00%	9.00%	21.00%	20.00%	16.00%	31.00%	



a. Advertising-------Emails, Mailers: keeping your dealership name in front of your customer.
    a. Currently: We have very generic emails/mailers going out with not very aggressive offers. We have several programs we are spending money on that are not being used well.
    b. Plan for improvement: Put together seasonal package discounts that are competitive with our competitors. Meet with our two main marketing vendors Epsilon and Xtime Invite, and work with them to target defectors, and other customers that have not been back to the dealership in a while.
    c. Evaluate changes: We will create labor operations for our promotions and track the effectiveness of our marketing through those labor ops.

b. Marketing--------Non-dealer survey
    a. Currently: We are not very competitive with non-dealer competitors. After doing a non-dealer survey we actually found that some of our services were cheaper than some non-dealer competitors.
    b. Plan for improvement: Spend some time updating our board on the service drive with our pricing compared to non-dealer competitors.
    c. Evaluate changes: We will need to make sure our customers know we service all makes and models and make sure that we do not turn vehicles away just because it is not a make we sell new cars for. Evaluating this will need to be constant enforcement of our policy.

c. Facility----------Capacity, Utilization---(Homework Calculations)
    a. Currently: Our facility utilization is only 37.5%.
    b. Plan for improvement: Focusing on technician proficiency and extending hours could help increase our utilization. We are also shorthanded 2 technicians who resigned after feeling the pressure to be more productive from our new management.
    c. Evaluate changes: Facility utilization will need to be monitored on a monthly basis using numbers from the financial statement in order to evaluate progress.

d. Productivity-----Tech Proficiency----(Homework Calculations)
    a. Currently: Our technician proficiency is at 58.94%.
    b. Plan for improvement: I recommend having the service manager meet with each technician on a daily basis to review their individual goals and training progress.
    c. Evaluate changes: We will evaluate proficiency weekly and share the results with our staff in order to give them a metric to work with.

e. Production Method----Conventional, Work Group, or Team
    a. Currently: Conventional dispatching is being used. We also use the team method in our quick lane.
    b. Plan for improvement: I believe we could continue to use conventional with the service manager stepping in for exceptions while also managing shop capacity for appointments.
    c. Evaluate changes: Request feedback from advisers and technicians in order to make sure work is being distributed equally and getting done in a timely manner.

f. Analyze Cost of Labor -- (Homework Calculations)
    a. Currently: Our gross profit retention for the month of September meets guide of 78%.

b. Plan for improvement: There are some items that are hurting our effective labor rate. It is important to have the service manager enforce a strict no rate change policy and require all discounts be approved by him and expensed to our service advertising account.
c. Evaluate changes: Watch our effective labor rate as well as our gross profit retention on a monthly basis for progress.

g. Changes in Expense Structure---(Homework Calculations)
    a. Currently: Personnel expense has proven to be within guide, however semi-fixed expense was out of the ordinary last month at almost 28% of gross profit.
    b. Plan for improvement: I believe the main reason it was out of line is because we did not maximize our grossing opportunities last month. We lost two technicians last month, as well as three days of production due to our internet going down. We also had a holiday at the beginning of the month that weighed it down a bit. YTD semi-fixed expense looks in line.
    c. Evaluate changes: Continue to review expenses with the service manager. He has done a great job of managing policy expense and other supplies which tend to be the most difficult to manage.

h. Pay Plans
    a. Currently: Our service department has good pay plans in place. There are some technicians who are complaining about pay and may require an evaluation.
    b. Plan for improvement: I would consider changing the bonus program for CSI for the advisers in order to minimize expense and motivate them to drive more hours

per RO. I would also like the service manager to come up with a shop foreman pay plan using shop proficiency is the main metric.

c. Evaluate changes: All pay plan changes will need to be approved by the owners and then evaluated thereafter for effectiveness.

i. Detail performance programs—objectives, tracking, communication
   a. Currently: There are no meetings scheduled with the techs or advisers. Communication is a weakness that was pointed out by several staff members in different positions within the department.
   b. Plan for improvement: I recommend having team meetings with the advisers and technicians in order to open up communication with the Service team.
   c. Evaluate changes: Establish an agenda for the meeting and then follow up on that agenda briefly in the nest meeting so the team can grow together.

j. Level of current training—Manufacturer website, minimum training standard
   a. Currently: We are at 91% service training standards by the manufacturer standard. This is below national average and we do not have depth for the standards that we have met.
   b. Plan for improvement: Invest in training technicians in multiple categories so that we can have depth in the manufacturing standards. Spend more time presenting sales techniques to the advisers, “7 steps to a sale” also applies to service.
   c. Evaluate changes: Monitor the progress of service training standards through the manufacturer website as well as ASE certifications.

k. Special tools---neat and organized, or a rats nest
   a. Currently: We do not have the special tools organized in a manner where they are easy to find or check in/check out. We do have a database on our computer that tells us if

we have a specific tool number that is requested but it takes time to find it.

b. Plan for improvement: Start by taking an inventory of the tools that are available and then start hanging those tools on a peg board with labels in order to keep them organized. Then, whenever a tool is used for a job, have the parts department bill out that tool for $1,000 until the tool has been returned.
c. Evaluate changes: Require the parts manager to take accountability of the tools that are missing at the end of each day.