

LUCAS GOLDSTEIN – GOLDSTEIN

SUBARU

NADA 353-13

FIXED OPERATIONS 2 SERVICE

HOMEWORK

BOB ATWOOD & LARRY HOURCLE

COVERING PERIOD OF YTD

THROUGH AUGUST 1/1/2019 –

8/31/2019

(A) **Advertising** - Customers are currently sent emails with coupons following their services to try and get them to come back in the future and continue servicing their vehicles with us at the dealership. Mailers are also done periodically, including service coupons, to try and bring customers in for service as well as get our dealership name out there in front current customers as well as new customers.

-Improvement plans may include increasing the frequency that service emails and mailers are sent out. Obviously, you have to watch the expense of the mailers against the traffic it is creating at the dealership but mailers could be done quarterly opposed to yearly or every half year. This will increase the amount of times our dealerships name is in front of our customers and potential future customers.

(B) **Marketing (non-dealer survey)** - Currently we are doing non-dealer surveys quarterly. This allows us to see how competitively our prices are with competitors, such as Jiffy Lube, Firestone, Midas, etc. This is important because you do not want your pricing to be much more expensive than these non-dealers since customers are not always loyal and go wherever is the cheapest as they do not see the value in servicing with their dealer.

- Plans for improvement include doing these surveys more frequently to keep our pricing very competitive with these non-dealers who are trying to take our business and customers. It is also very important to inform customers of the benefits of servicing at their dealer (factory parts, factory certified technicians, warranty on our work, etc.) that way even if our pricing is a little more expensive the customers see the value in servicing with their dealer.

(C) **Facility** -

FACILITY POTENTIAL	
Number of Bays	30
	x
Number of Days	27
	x
Number of Hours	10
	x
Effective Labor Rate	73.52
<b>FACILITY POTENTIAL</b>	<b>\$ 595,512</b>

FACILITY UTILIZATION	
Total Labor Sales	\$ 383,958
	÷
Facility Potential	\$ 595,512
	<i>equals</i>
<b>FACILITY UTILIZATION</b>	<b>64.48%</b>

**(see below)**

Currently our facility utilization (YTD through the month of August - 1/1/19 - 8/31/19) is just about 65%. This means that we are not utilizing 35% of our facility. Our total labor sales are averaging \$383,958 per month and our facility potential is \$595,512 per month. This shows that we are only utilizing 64.48% of our facilities potential, therefore we are not capitalizing on about \$211,554 additionally per month.

- Plans for improvement include attempting to minimize one-line Ros. If we are able to reduce one-line Ros we can help increase total labor sales and increase our facility utilization. Offering to replace customers wiper blades, tires, and other routine items can help us increase our labor sales per RO helping to maximize facility utilization. Offering complimentary maintenance inspections (multi-point inspection) to every customer every time is also very important. If customers are able to see that their brakes or tires may be in the yellow, or poor condition, that will open the door for a potential upsell to install these items on the customers cars and reduce one-line ROs and increase total labor sales.

**(D) Productivity (tech proficiency) -**

How proficient are your technicians ?

$$\begin{array}{rcccl}
 \color{green}{\blacktriangledown} & 5,222.5 & \div & \color{green}{\blacktriangledown} & 4,250.00 & = & \color{yellow}{\boxed{122.88\%}} \\
 \text{Hours Billed} & & & \text{Hours Available} & & & \text{Tech Proficiency}
 \end{array}$$

Right now our technician proficiency is 123%. With that we are operating at a high and proficient level. We are slightly above the 120% NADA guideline.

- Plans for improvement include hiring an additional tech or two. This will take some of the workload off each technician and lower our proficiency slightly closer to the 120% guide. The only reason for doing this would be to be more efficient with the work that is done on service vehicles because technicians will not have jobs stacking up where they are rushing to get through one job after another (For the month of July our technicians were operating at a proficiency rating of 133%). Also, with an additional technician or two we will be able to get more cars and more work through our shop, therefore potentially increasing labor sales too.
- To increase tech proficiency there are a couple of things we could do. The first, as I've previously discussed is increasing hours per RO and minimizing one-line ROs. By maximizing hours produced we will increase tech proficiency.

(E) **Production Method** -We operate mainly as Work Group Production with lube technicians (express techs) and main shop technicians. Our dispatcher will distribute the work but the express technicians will get the oil changes, tire rotations, wipers, etc. The work is distributed in a way where one technician is assigned to the job who can complete all the work and it does not need to be redistributed to other technicians taking more time to complete the repair. Therefore, it operates as a work group where whereas in a conventional shop you may have one technician complete the oil change and another technician complete the other repairs. We have different level of technicians who are assigned jobs based on their skill level. Our technicians are also paid on flat rate, which is very common for a work group production method.

- I believe this is the best current way to operate because everyone can work at the pace in which they feel comfortable and get to work on jobs based on their specific skill level. Technicians are able to have some control over their pay based on how many jobs they can complete since they are paid on a FRH plan. With this being said, I do not believe any changes are pertinent now but if changes are needed in the future the necessary changes will be made.

(F) **Analyze Cost of Labor** -

Category	Sales	Gross	Gross as % of Sales	%Sales Contribution
Customer Car	\$ 1,113,865	\$ 732,784	65.79%	36.26%
Customer Truck			0%	0%
Customer Other			0%	0%
Warranty	\$ 1,252,449	\$ 933,751	74.55%	40.77%
Warranty Other			0%	0%
Internal	\$ 705,354	\$ 400,304	56.75%	22.96%
NVI / Road Ready			0%	0%
Adj. Cost Of Labor		\$ 4,245	0%	0.00%
<b>Total</b>	<b>\$ 3,071,668</b>	<b>\$ 2,071,084</b>	<b>67.43%</b>	<b>100.00%</b>

Technicians are paid a set dollar amount per flat rate hour produced based on how many flat rate hours they produce. For example, an A tech (the majority of our techs) make \$26/ flat rate hour from 0-49 FRHs. Once an A tech produces 49.1-55 FRHs they are paid \$27/FRH and then when they produce 55.1+ hours they make \$29/FRH.

- The pay scale structure is based on the technician's skill level (A+ tech, A tech, C+ tech, C tech). This pay plan structure has been working and I do not currently see a need for change. This pay plan motivates the technicians to produce as many FRHs as they can to maximize their pay.

**(G) Changes in Expense Structure -**

	<i>Labor Sales / Month</i>		<i>Hourly Labor Rate</i>		<i>Hours Billed</i>
Customer Car*	\$ 139,233	÷	111.02	=	1254.1
Customer Truck*		÷		=	0.00
Customer Other*		÷		=	0.00
Warranty	\$ 156,556	÷	68.29	=	2292.5
Internal	\$ 88,169	÷	52.61	=	1675.9
New Vehicle Prep		÷		=	0.00
<b>Total</b>	<b>\$ 383,958</b>				<b>5222.5</b>

**POTENTIAL**

$$\boxed{\$ 383,958} \div \boxed{5222.55} = \boxed{\$ 73.52}$$

Total labor sales for month      Total hours billed      Effective Labor Rate

$$17.00 \times 10 \times 25 = \boxed{4,250.0}$$

# Service mechanical technicians   # Hours/Day      Working Days/Month      Clock Hour Avail

$$\boxed{4,250.0} \times \boxed{\$ 73.52} = \boxed{\$ 312,457}$$

Clock Hours Available      Effective Labor Rate      Labor sales potential

Expense Category	Dollar Amount	% of Gross	Profile
Department Gross	\$ 2,072,274		
Variable Expense	\$ 378,036	18.24%	
Selling Expense		0.00%	
Personnel Expense	\$ 975,257	47.06%	
Semi-Fixed Expense		0.00%	
Fixed Expense	\$ 158,806	7.66%	
Unallocated Expense		0.00%	
Dealer's Salary		0.00%	
<b>Total Expenses</b>	<b>\$ 1,512,099</b>	<b>72.97%</b>	
<b>Net Profit</b>	<b>\$ 560,175</b>	<b>27.03%</b>	

After analyzing expenses, total expenses for the department make up 72.97% of the departments gross. Personnel expense may be a little high making up 47.06% of the 72.97%. Overall the department has netted 27.03% of its gross on average YTD through August 2019. As anybody would always like to lower expenses and increase net profit our expense structure does not seem to have any major issues that pose an immediate concern and we need to continue to try to continually grow our net profit.

(H) **Pay Plans -**

**Service Advisors Pay Plays include :**

Salary: \$265 per week & two weekly commissionable options.

Weekly Commission #1: (Based on actual FRH's sold by you)

<u>Flat Rate Hours</u>	<u>Pay per FRH</u>
0-189.9	\$1.60
190-204.9	\$1.80
205-219.9	\$2.00
220 and up	\$2.20

**OR**

Weekly Commission #2 : Based on actual FRH's produced by the other service advisors in your dealership : \$ .60 cents per FRH.

**Technician Pay Plans include:** Based on FRH's produced and technician grade

<u>FRH</u>	<u>A Tech</u>	<u>B Tech</u>	<u>C+ Tech</u>	<u>C Tech</u>
0-49	\$26	\$22	\$20	\$16
49.1-55	\$27	\$23	\$21	\$17
55.1 and up	\$29	\$25	\$23	\$19

**Service Manager Pay Plan includes:** \$1,000 per week

Commission #1: Paid commission on combined net of service, parts, reconditioning & body shop departments. See below.

<u>Combined net of departments</u>	<u>% paid of net</u>
\$0 to 59,999	3.80%
\$60,000 to 79,999	3.90%
\$80,000 to 99,999	4.00%
\$100,000 to 119,000	4.10%
\$120,000 to 139,000	4.20%
\$140,000 to 159,000	4.30%
\$160,000 +	4.40%

- (I) **Detail Performance Programs** - Setting bonus programs for technicians are important to keep them happy and motivated. Right now we currently do not have bonus programs paying technicians for enhanced performance above their commissionable pay plan. Technicians have a variable pay rate based on the FRH's they produce. We are, however, implementing a program that gives technicians an additional week of vacation time when they reach 8 years with the company because we have a lot of long-term employees and technicians. We are watching expenses currently but if additional bonus programs are needed we will review our processes.
- (J) **Level of Current Training** - There is a minimum level of training required to be a technician. The store needs to earn a minimum number of credits for training that are based on the amount of training done and number of technicians at the dealership. There are also certain requirements. For example, a master tech would have to complete all training material whereas a C tech would not have to have all training material complete.
- (K) **Special Tools** - The special tools are located in a room connected to the shop that all technicians have access to. The special tools are tools that Subaru recommends every dealer should have. They may also include tools supplied by Subaru to complete certain recalls. They are neatly organized and there is a guide to show the technician which drawer to find each tool in.

**[CONTINUED ON NEXT PAGE]**

## 100 RO ANALYSIS

Repair Order Analysis Summary Report							
	Sales in Dollars	FRH's on RO's	Averages	Analysis			
Competitive	\$ 6,950	÷ 100.60	= 69.08	FRH Average			
Maintenance	\$ 752	÷ 7.00	= 107.39	FRH Average			
Repair	\$ 8,157	÷ 68.87	= 118.43	FRH Average			
Totals	\$ 15,858	÷ 176.47	= 89.86	Customer ELR			
Total Ro's in Sample			100	Target Labor Rate	101.00	Per FRH	
				Difference	-11.14	Per FRH	
Cost of Labor							
Total Cost of Labor	4002.02	÷ Total Sales	= 25.24%	Percent Cost of Sales			
Total Cost of Labor	4002.02	÷ Total FRHs	= 22.68	Cost per FRH			
Repair Order Measurements							
Total Labor Sales	15,858.23	÷ Total ROs	= 158.58	Avg Labor per RO			
Total FRHs	176.47	÷ Total ROs	= 1.76	Avg FRH's per RO			
Menu Sales		÷ Total ROs	=	Percent Menu Sales			
Competitive FRHs	100.60	÷ Total FRHs	= 57.01%	Percent Competitive			
Maintenance FRHs	7.00	÷ Total FRHs	= 3.97%	Percent Maintenance			
Repair FRH	68.87	÷ Total FRHs	= 39.03%	Percent Repair			
One item ROs	33	÷ Total ROs	= 33.00%	Percent One Item RO			
Model Year Analysis							
2020	2019	2018	2017	2016	2015	Older	Total
0	13	17	11	10	10	39	100
0.00%	13.00%	17.00%	11.00%	10.00%	10.00%	39.00%	

  

### Labor Mix

■ Percent Competitive	■ Percent Maintenance	■ Percent Repair
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With looking at the 100 RO Analysis there are some important things we learned. Our work mix, based on competitive, maintenance, and repair is divided just about how it should be. With competitive making up almost 60% and maintenance/repair making up about 40% of total ROs. Our labor rate is down \$11.14 per FRH from our target labor rates so we need to investigate this and see what the reason for the discounts are. Our one-line Ros are at 33% of our total ROs and we can reduce this

by implementing some new processes that require multi-point inspections on every vehicle and training service advisors on how to 'ask for the sale.' Lastly, looking at the model mix 39% of the vehicles we are servicing are older than 2015. Therefore 61% of our customers have 2015 or newer vehicles and we need to continue to try and keep customers who purchase vehicles from us returning to the dealership for service.

## **SWOT ANALYSIS**

### **Strengths**

- Factory certified technicians
- 50 + year in business
  - Strong / loyal customer base
- 1 year unlimited mileage warranty on service work
- Service hours mirror sales hours
- Long-term employees
- Lifetime Limited Powertrain Warranty (New, certified, select used cars)  
& Lifetime Car Washes
- 51 SSLP vehicles (Subaru Service Loaner Program)

### **Weaknesses**

- Service advisors have the ability to discount work
- Recalls are higher than they've ever been increasing the load on the shop
- Higher overhead than most independent shops
- CSI is below national & zone average.
- No non-dealer competitive pricing surveys on display in service drive
- Service not open Sundays

### **Opportunities**

- More hiring from local colleges and automotive programs
  - Mentorship & shadowing programs

- 51 SSLP's (loaners) vehicles allow more potential customers to have work done
- Albany, NY area is a key market place
- Install non-dealer competitive pricing board in service drive
- Expand / add team of techs in Express Lane
  - Increasing size of parts department (5,000 sq. ft upstairs, downstairs, loading dock)
- Adding 1 new lift in shop
- Added another master tech to service team
  - Additionally added another A tech
- Another parts driver added to team
- Developing technician longevity program (keeping techs from getting stolen)

### **Threats**

- Manufacturers starting to reduce cost of ownership by reducing required maintenance
- Have at least three non-dealer competitors within 1 mile radius (Jiffy Lube, Midas, Monroe)
- Declining number of career seekers entering the automotive industry
- New facilities opening offering big sign on bonuses enticing technicians
- Social media reviews (yelp, Facebook, etc.)

### **Objectives**

1. Improve CSI rating
2. Improve gross on customer-pay RO labor sales.
3. Increase number of ROs written daily
4. Improve technician satisfaction so they are not enticed by other offers
5. Improve technician productivity, efficiency, and proficiency

### **Strategies**

1. Thoroughly go over multi-point inspections with EVERY customer
  - a. Main Shop
  - b. Express Lane

2. Review weekly service advisors discounted labor sales / coupon usage
3. Add additional tech or two to increase available hours to avoid overloading shop.
4. Review technician pay plans and add potential bonus opportunities for overachieving technicians
5. Weekly meetings with service manager to track department performance and set goals.
6. Post market pricing surveys for customer to see - ensure competitive pricing.

**Tactics**

1. Any parts or labor discounts must be authorized by Service Manager
2. Add bonus plan for technicians to achieve certain number of FRH's
  - a. Currently reviewing program
3. Technician tenure program (additional vacation time - 1 week)
4. Train service personnel on how to complete proper walk about and MPI
5. Implement mandatory quarterly dealer and non-dealer market surveys
6. Weekly/ monthly meetings with Service Manager - including forecasts and plans to increase departmental performance
7. Implement bonus programs for service advisors to sell more FRH's per RO.

**ACTION PLAN**

**TASK  
DATE**

**ROLE**

**COMPLETION**

- Install dealer/non-dealer  
2019

Service Manager

November 10<sup>th</sup>,

competitive pricing surveys

- Monitor/Review service advisors GM / Service Manager January 1<sup>st</sup>, 2020

Coupon usage and trends

- Recruit / Hire additional GM / Service Manager  
October 9<sup>th</sup> -master tech technician or two  
October 29<sup>th</sup> - A tech

- Implement technician & GM / Service Manager  
January 1<sup>st</sup>, 2020

advisors bonus programs

- Daily service manager General Manager Daily

- Advertise convenience of General Manager December 1<sup>st</sup>,  
2019

express lane, hours, loaner vehicles

- Review pay plans & benefits General Manager January 1<sup>st</sup>,  
2020

packages accordingly to maximize store goals & to  
keep techs & service personnel

### **Synopsis**

- Added 2 technicians to help reduce load on shop
  - Master tech and A tech
- Technicians with 8+ years of tenure granted additional week of vacation time

- Implemented mandatory MPI and walkarounds on every service vehicle
  - Trained all employees on TruVideo, a program allowing you to send videos to customers for when they are not available at the dealership for you to review the MPI's with them.
  - This will also help in reducing our 33% of one-line ROs
- Post a non-dealer marketing survey in service drive and continuously review pricing to stay competitive and retain / attain more customers
- Review discounts provided to customers and have manager authorization on discounts to increase overall labor rate per FRH
- Increasing advertising for service express lane (hours, convenience) to entice more potential customers