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BMW of Warwick

Service Department Analysis

012-04

Facility & Productivity (YTD through May Statement):

Currently at 71.4% Facility Utilization versus NADA Guide of 70%. Good performance but still showing roughly \$1million of potential unrecognized labor sales YTD through May, so there is definitely room for growth. The plan is to extend the current shop closing hours to mirror that of sales, which would add an hour and a half to each weekday and two hours to Saturday. We have recently expanded the appointment capacity by removing the MINI brand from the service drive so that we are exclusive to BMW.

FACILITY POTENTIAL	
Number of Bays	23
	x
Number of Days	110
	x
Number of Hours	10
	x
Effective Labor Rate	127.05
	<i>equals</i>
FACILITY POTENTIAL	\$ 3,214,365

FACILITY UTILIZATION	
Total Labor Sales	\$ 2,296,361
	÷
Facility Potential	\$ 3,214,365
	<i>equals</i>
FACILITY UTILIZATION	71.44%

NADA ACTUAL SERVICE ANALYSIS page B-1

Performance

	<i>Labor Sales / Month</i>		<i>Hourly Labor Rate</i>		<i>Hours Billed</i>
Customer Car*	\$ 1,070,799	÷	123.22	=	8690.1
Customer Truck*	\$ -	÷		=	0.00
Customer Other*	\$ -	÷		=	0.00
Warranty	\$ 823,784	÷	133.50	=	6170.7
Internal	\$ 401,778	÷	123.22	=	3260.7
New Vehicle Prep	\$ -	÷		=	0.00
Total	\$ 2,296,361				18121.5

How proficient are your technicians?

19,001.5	÷	18,480.00	=	102.82%
Hours Produced		Hours Available		Tech Proficiency

Increasing Tech Proficiency to the NADA Guide of 120% will have a profound impact on our service profitability. The focus needs to continue to be on total shop hours sold/produced versus hours per R.O.

The Picture

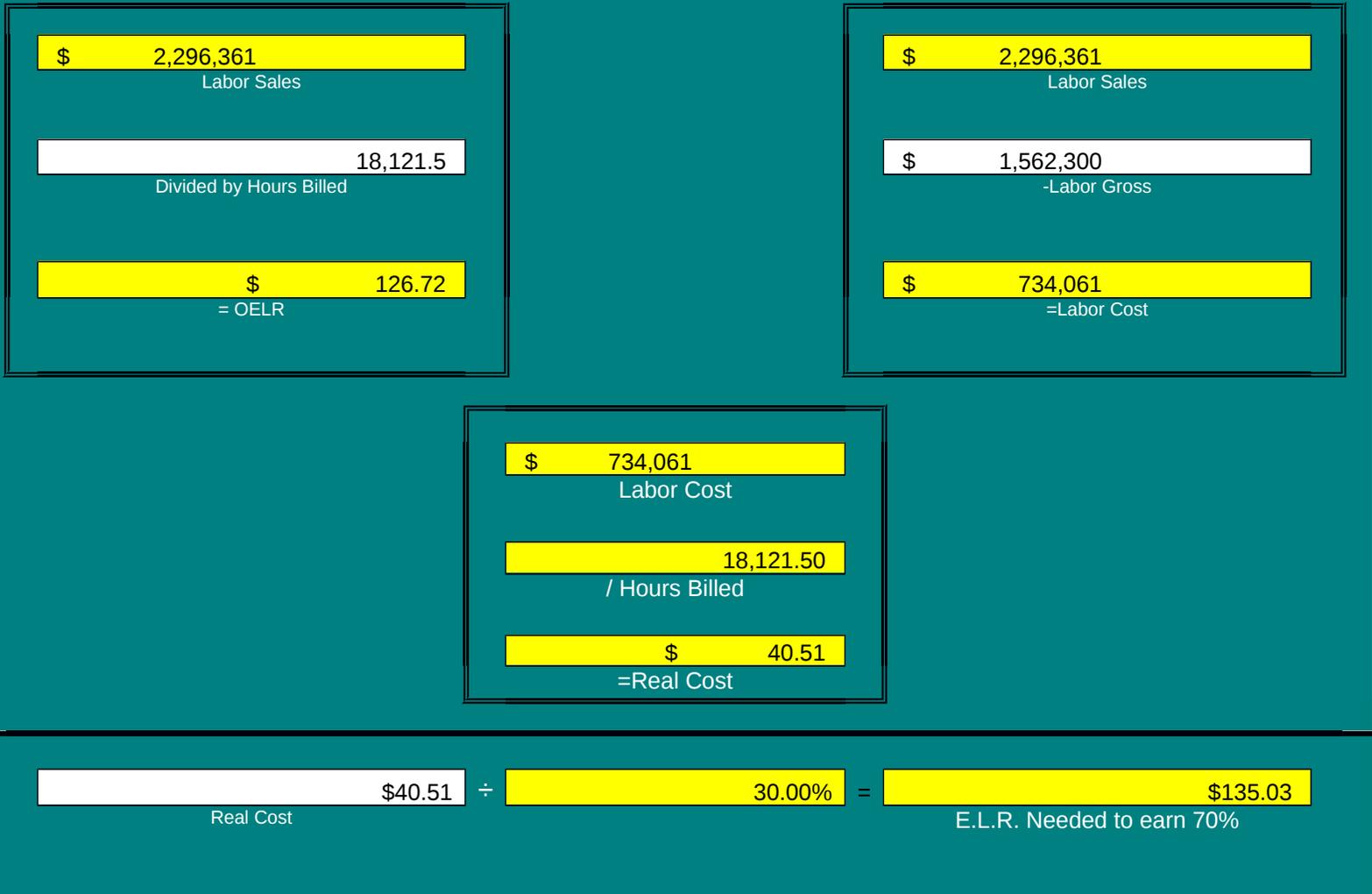
Customer Pay Gross Profit %	73.23%	Customer Pay E.L.R.	\$ 123.22
Total Service Dept. G.P.%	68.03%	Total (overall) E.L.R.	\$ 126.72
Parts / Labor Ratio (Cust Pay Only)	0.63	Warranty Labor Rate	\$ 133.50
Total Service Dept Expense	\$1,158,492	Overall Tech Proficiency	102.82%
Hours Per R.O (recap)	2.89		
Percent Of One Item R.O.'s	27.00%		

Cost of Labor & Gross Profit Structure:

We are currently below the ELR required to show 70%. It is important to note that we are at a \$139 Door Rate and we charge the same for Internal. However, we

currently charge all of the car washes to that account in addition to putting some of the policy labor to technician cost. This is driving down what we are currently showing for Internal. In addition, you can see below in our R.O. analysis that the FRH average for Competitive repair work is \$76.54. As independent repair shops continue to lower their pricing, we must stay competitive to drive more UIOs into the shop, which is having a negative impact on the Customer ELR.

NADA "QUICK" SERVICE ANALYSIS



Fixed Absorption is currently just below guide at 72.55%. Increasing our Customer Pay ELR and expanding our service hours alone should help get this number above guide. There is plenty of opportunity.

		% Adj Ovhd Exp
Parts Department Total Gross	\$ 1,055,254	40.30%
Service Department Total Gross	\$ 1,563,103	59.70%
Body Shop Department Total Gross		0.00%
Total Fixed Gross Profit	\$ 2,618,357	
Total Dealership Expense	\$ 4,103,385	
	New & Used Sales Commission Expense -	\$ 340,189
	New & Used Policy Expense -	\$ 112,296
	New & Used Get Ready / Delivery Expense -	\$ 41,841
Adjusted Overhead Expense	\$ 3,609,059	
Total Fixed Gross Profit	\$ 2,618,357	
Adjusted Overhead Expense	\$ 3,609,059	
Total Absorption Percentage	72.55%	Guideline 75%

The Picture	
Customer Pay Gross Profit %	73.23%
Total Service Dept. G.P. %	68.03%
Parts / Labor Ratio (Cust. Pay Only)	0.63
Total Service Dept. Expenses	\$ 1,158,492

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Parts To Labor Ratios page A-5

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Category	Parts Sales	Labor Sales	P/L Ratio
Customer Car	\$ 673,815	\$ 1,070,799	0.63
Customer Truck		\$ -	0.00
Customer Other		\$ -	0.00
Warranty	\$ 984,694	\$ 823,784	1.20
Warranty Other		\$ -	0.00
Internal	\$ 370,104	\$ 401,778	0.92
Total	\$ 2,028,613	\$ 2,296,361	0.88

Pay Parts to Labor Ratio must to improve to 1:1

Service Department Sales And Gross (Labor Only) page A-3

Category	Sales	Gross	Gross as % of Sales	%Sales Contribution
Customer Car	\$ 1,070,799	\$ 784,123	73.23%	46.63%
Customer Truck			0%	0.00%
Customer Other			0%	0.00%
Warranty	\$ 823,784	\$ 664,617	80.68%	35.87%
Warranty Other			0%	0.00%
Internal	\$ 401,778	\$ 198,706	49.46%	17.50%
NVI / Road Ready			0%	0.00%
Adj. Cost Of Labor		\$ (85,146)	0%	0.00%
Total	\$ 2,296,361	\$ 1,562,300	68.03%	100.00%

Service Department Profit Centering pageA-7

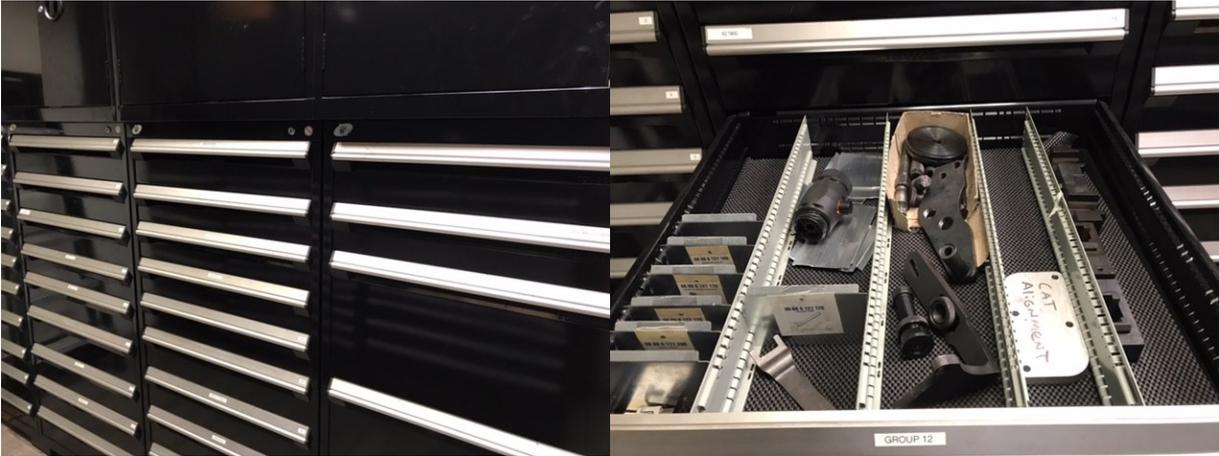
Expense Category	Dollar Amount	% of Gross	Profile
Department Gross	\$ 1,563,103		
Variable Expense	\$ 14,772	0.95%	
Selling Expense		0.00%	
Personnel Expense	\$ 602,556	38.55%	
Semi-Fixed Expense	\$ 259,446	16.60%	
Fixed Expense	\$ 281,718	18.02%	
Unallocated Expense		0.00%	
Dealer's Salary		0.00%	
Total Expenses	\$ 1,158,492	74.11%	
Net Profit	\$ 404,611	25.89%	

*Personnel Expense: Explore paying technicians off of 27% Labor GP

Special Tools Area:

As you can see from the pictures below, the Special Tools area is in good condition overall. BMW of Warwick maintains a clean and organized work environment. This includes our test equipment, as the technicians surveyed are very satisfied with the

conditions and ease/speed of access. Tech Satisfaction = 1) Respect, **2) Facility**, 3) Compensation



Repair Order Analysis Summary Report

	Sales in Dollars	FRH's on RO's	Averages	Analysis
Competitive	\$ 5,404 ÷	70.60 =	76.54	FRH Average
Maintenance	\$ 4,622 ÷	34.60 =	133.59	FRH Average
Repair	\$ 25,592 ÷	183.85 =	139.20	FRH Average
Totals	\$ 35,618 ÷	289.05 =	123.22	Customer ELR
Target Labor Rate			135.50	Per FRH
Total Ro's in Sample	100	Difference	-12.28	Per FRH

Cost of Labor

Total Cost of Labor	7246.18 ÷	Total Sales =	20.34%	Percent Cost of Sales
Total Cost of Labor	7246.18 ÷	Total FRH's =	25.07	Cost per FRH

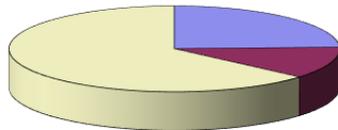
Repair Order Measurements

Total Labor Sales	35,618.18 ÷	Total RO's =	356.18	Avg Labor per RO
Total FRH's	289.05 ÷	Total RO's =	2.89	Avg FRH's per RO
Menu Sales		Total RO's =		Percent Menu Sales
Competitive FRH's	70.60 ÷	Total FRH's =	24.42%	Percent Competitive
Maintenance FRH's	34.60 ÷	Total FRH's =	11.97%	Percent Maintenance
Repair FRH'	183.85 ÷	Total FRH's =	63.60%	Percent Repair
One item RO's	27 ÷	Total RO's =	27.00%	Percent One Item RO

Model Year Analysis

2018	2017	2016	2015	2014	2013	Older	Total
0	3	6	11	9	17	54	100
0.00%	3.00%	6.00%	11.00%	9.00%	17.00%	54.00%	

Labor Mix



■ Percent Competitive
 ■ Percent Maintenance
 ■ Percent Repair

R.O. Analysis Conclusion:

We are currently \$12.28 under our Target Labor Rate, which will improve through increasing our focus on Competitive Customer Pay business. The Third Party/Independent shop analysis that we just conducted will help us to reevaluate our menu pricing for competitive repairs. We need to ensure our Advisors focus on 13 to 17 R.O.s per day but work to maximize those opportunities, versus going after more volume and cutting corners. If we sell value to each customer and focus on total hours sold (50+ FRH/Customer/Day), we can organically increase our Customer Pay ELR. In addition, we will lower the percentage of one item R.O.s. Thorough walk-arounds and using MPI to educate the customer on the current condition of their vehicle in order to upsell are essential measures. We have certified factory technicians at an authorized BMW center, which customers will pay a premium for if presented in the right manner. Our advisors must build rapport, establish a relationship and gain their trust!

Qualitative SWOT Analysis Recap:

INTERNAL FACTORS			
STRENGTHS (+)		WEAKNESSES (-)	
1	2017 Rated 100 Best Dealers To Work For	1	Internal Repairs / Expense Structure
2	Strong and Experienced Management Team	2	Space/Capacity - Programming Bays, etc.
3	Clean and Organized Facility	3	Communication Between Departments
4	Team Feels Appreciated	4	Consistency
5	Convenient Location to Attract Customers	5	Employee Growth/Development
EXTERNAL FACTORS			
OPPORTUNITIES (+)		THREATS (-)	
1	Increase Tech Proficiency	1	Local Independents Cutting Prices
2	Improve ELR (Competitive Repairs)	2	Technician Availability
3	Use Automotive Mastermind more effectively	3	Turnover / Employee Retention
4	Thorough Customer Walk-Around Requirements	4	Proximity to Boston Metro Market
5	Gross Based Pay Plan for Techs	5	Improved Vehicle Quality (Less Warranty Repair)

Objectives:

- Review current expense structure with car washes and policy work to ensure internal labor numbers are shown accurately
- Find solution for shop capacity issue
- Improve communication between departments
- Clear and consistent processes must be followed each day
- Employee growth and career path plan to be developed
- Technician Proficiency must be improved to meet 120% guide
- Total ELR needs to target \$8.32 increase to be at guide
- 1 to 1 Customer Pay Parts to Labor
- Thorough Walk-Around Requirement for all advisors must be followed

Strategies/Tactics:

- Penalty enforced for each advisor that does not complete a thorough customer walk-around (free oil service paid by advisor?)
- Programming bays need to be identified to improve capacity and space on the drive
- Inter-Department Weekly communication to all employees from General Manager outlining weekly targets, hot topics, top performers from prior week, motivational material and any other general business
- Formulate pay plan structure based off of 27% GP to help improve tech performance
- Automotive Mastermind Database to be reviewed each afternoon for the next morning's appointments - Identify upsell opportunities and potential new car sales customers before they show up on the drive
- Service Advisor will get spiff on any new car sales and also get paid off of the internal R.O. to help incentivize the service drive selling process
- Increase Hours of Operation to mirror sales closing time both weekdays and Saturdays. This will account for 9.5 additional available shop hours of productivity each week.
- Review menu pricing versus third party/independent repair shop study and ensure we are selling the value to the customer of an authorized BMW center with factory trained technicians
- Establish relationship with local Junior High and High Schools to attract talented technicians early in their careers

ACTION ITEMS

ACTION ITEMS				
FULL PROJECT NAME			PROJECT MANAGER	
DATE OPENED	DESCRIPTION	PRIORITY	PARTY RESPONSIBLE	DATE DUE
7/1/2017	Weekly Communication to All Departments	HIGH	Ronny Girouard	8/1/2017
7/1/2017	Increase Hours of Operation to Mirror Sales	HIGH	Ronny Girouard	9/1/2017
7/1/2017	Adjust Tech Pay Plans for Performance Based Incentive	HIGH	Harry Garabedian	10/1/2017
7/1/2017	Automotive Mastermind Service Drive Selling Process	HIGH	RG & HG	10/1/2017
7/1/2017	Customer Pay ELR/CP Parts:Labor Ratio Improvement Plan	HIGH	Harry Garabedian	10/1/2017
7/1/2017	Shop Capacity and Vehicle Programming Solution	MEDIUM	RG & HG	4/1/2018
7/1/2017	Establish Relationship with local schools (techs)	MEDIUM	Harry Garabedian	8/1/2018

“If all of the above recommendations are achieved, it will result in...”

- Improved Overall Customer Satisfaction (appointment flexibility due to more hours, increased capacity with more bays and faster repairs due to increased shop productivity)
- Improved Technician Satisfaction/Compensation
- Increased Total and Customer Pay ELR due to independent repair shop analysis and consistent menu pricing selling value
- Improved Tech Proficiency and Productivity
- More new car sales from the service drive selling initiative
- 1:1 CP Parts to Labor Ratio
- Less one item repair orders
- Better inter-department communication with consistent focus on weekly targets