

Service Post-Class Homework

Strengths

1. We have strong management. Our stores are structured such that each has a service manager, and then we have a service director that manages a cluster of stores. Our service director used to be the service manager for our store before getting promoted, so he is very familiar with the strengths, weaknesses, and nuances of the department. This helps us run efficiently.
2. We are fortunate that our service center has a satellite facility. Moreover, the satellite facility sits in the market area of a competitive dealer. This enables us to serve our customers conveniently no matter where they are located.
3. Our store is located in an affluent section of town. The area is growing in population, leading to increased traffic around the stores.
4. We have many long-time technicians that are certified by Honda.
5. We also have several apprentice technicians. The apprentice technicians have a can-do attitude and a willingness to learn, and this excited the dinosaurs who have been there forever.
6. Our store receives strong corporate support with respect to legal, IT, and marketing, and HR. This ensures we have the tools at our disposal to succeed, and decreases the likelihood that we will do something stupid (such as closing an RO without proper documentation).
7. In particular, our marketing department uses creative advertising. This helps drive customers to the shop.
8. We have a lot of pride in our working area, so it is always maintained well.
9. Our financial metrics are strong and improving. Year-to-date gross profit is 78%, and net profit has increased year over year. The dealership's service retention is 49.1%.

Weaknesses

1. Some of the technicians have low morale. There is a view that the company cares only about net profit, and not employee happiness. For example, one technician wrote that “you are only a number.” It is clear that the technicians’ main gripe is their pay. Several noted that the company’s profit has increased, yet the pay remains the same. Moreover, some feel that they cannot get ahead, noting that “even if pay is increased, hour are cut.” It is clear that coming out the recession, the company implemented certain expense controls, and these have never been loosened. Events like company crab feasts have been cancelled, and the employees seem to miss them.
2. Our facility has significant limitations:
 - a. The building is too small. We would like to have more service bays than we have, because we have more capacity than we can handle.
 - b. Our parking lot is too small for the amount of service volume. Because of the small parking lot, employees are often forced to walk longer distances to work than they would prefer.
 - c. The customer waiting room is also small. It could have more seats and be more luxurious.
 - d. Because of the small size of the service center, sometimes there can be significant noise in the service lane, particularly if the shop door is open. This makes it challenging for employees to concentrate and for customers to communicate with advisors.
3. Our facility’s limitations contribute to low CSI scores.
4. Parts are sometimes not available at the time of service.
5. Some employees feel there is not enough training, because they do not receive frequent evaluations.

Opportunities

1. Our store could increase business if we did the following:
 - a. Advertise that we work on all makes and models. Currently, we only advertise that we work on Hondas.
 - b. Build a parts/accessories display. This will help customers visualize the poor quality of many of the parts that are in their vehicles. It can also enable us to showcase value-add accessories.
 - c. Establish a non-dealer competitive pricing board. This will indicate to customers that our prices are competitive in the market.
2. Go to local schools, hospitals, and other large institutions, and try to sell service.
3. Our service center currently closes at 7pm, but techs stop working at 5pm for the most part. We can increase profitability if we keep the shop open to match store hours.
4. Sell more repair work, because a lot of Honda work focuses on maintenance, which is less lucrative.
5. Showcase positive online reviews.
6. Do a better job using data to send targeted advertisements to those most likely to visit the shop.
7. Send more technicians to become Honda certified.
8. Do a better job communicating with our personnel. Many believe that they do not receive 401 K contributions from the company, but that is incorrect. The company also offers financial aid for any college tuition of employees' family members. If these employment perks are communicated to employees, moral can increase.
9. Our company recently acquired a neighboring Honda store. Our service center can now work with the neighboring service center to make sure our employees are serviced in the most convenient location. This may also help us cut our advertising spend.

Threats

1. After-market facilities such as Jiffy Lube and Goodyear continue to eat into our customer base. This will continue to happen if our store does not extend service hours to match our competitors.
2. You Tube videos enable more customers to become DIYers.
3. The majority of our online reviews are not positive. This causes us to lose potential customers.
4. Our CSI scores are sub-standard, which places us in a challenging position with Honda.
5. Less warranty work coming through the shop. For the last few years, business was easy because of the Takata air bag recall. As that work slows, it becomes harder to replace the lucrative warranty work.
6. Manufacturers extending service intervals creates less work at the shops.
7. If moral of technician staff does not improve, we could lose several key employees.
8. New corporate store in neighboring market will compete more aggressively than the old dealer.
9. Hiring talented employees is a big challenge.

Objectives

1. We would like to have excellent communication amongst the staff.
2. We would like to increase technician productivity, efficiency, and proficiency.
3. We would like to increase our service center hours to match the competition as well as sales hours.
4. We would like all pay plans to incentivize increased gross profit and net profit.
5. We would like a facility that is imaged well, and creates a comfortable environment for both employees and customers.
6. We would like customers' expectations to be met. This means making sure that they are not delayed when they drop off vehicles.

Strategies

1. Management must communicate better with all personnel. We will need a two-prong strategy to solve this. First, we need service-department management to communicate more frequently. This means daily meetings to set forth the objectives for the day and let employees know how much their hard work is valued. Second, we will need to stress the various company perks that are already available, yet not taken advantage of by employees. This should come from corporate and hopefully will improve morale.
2. One of the main problems faced by the store is facility limitations. We will need to determine whether it is possible to grow. Can we re-design the building and increase the number of service bays? CSI score likely will not improve until the facility is improved. This issue needs to be brought to the attention of management. The most likely near-term fix is a re-design of customer lounge, so this will be the top priority.
3. We will review pay plans to make sure that everyone is aligned properly. This means that we will come up with an incentive scheme as well as monthly competitions to excite employees.
4. We will discuss with the service director whether we can increase gross profit on internal business. In the last three months, the rate charged for internal work has increased, but it is still discounted relative to customer-pay rate.
5. We will discuss with the CIC and service director whether we can implement a new scheduling process to make sure that customers are serviced at their desired time.

Tactics

1. We will increase key financial metrics through the following pay-plan changes:
 - a. Service advisors will not be compensated for selling internal work
 - b. Technicians will receive a bonus if they achieve a certain level of efficiency
 - c. Service managers will be paid a percentage of department net, instead of department gross
 - d. Service advisors will receive a bonus if they can increase their average flat rate hours per RO by 0.3 hours.
 - e. Back parts counterman will receive a bonus tied to technician productivity, not gross profit.
2. Daily meetings between service manager, advisors and technicians will be implemented. Weekly meetings with service director and the entire staff.
3. We will develop a program where customers can pay a monthly fee for “preferred access.” These customers will be guaranteed that their car will be serviced when they desire, provided that they call within 12 hours.
4. Shop capacity will increase by utilizing VisualIQ, a powerful data aggregation tool. This program enables us to understand where our advertising spend has the greatest effect.
5. Eliminate all discounting of internal labor RO’s.
6. Operations director meeting with management to discuss allocating money to renovate customer waiting area.

Action Plan

Task	By Whom	Completion Date
Shut off ability to allow discounting on internal RO's	Service director	September 1, 2017
Implement bonus plans to incentivize and increase tech proficiency	Service director	September 1, 2017
Daily morning meetings between service manager, advisors, and technicians	Service manager, advisors, technicians	August 1, 2017
Renovate service waiting area	Operations director	March 31, 2018
Implement VisualIQ to track advertising spend	Marketing director	September 1, 2018
Implement Subscription Program that Creates Preferred Access for VIPs	Operations Director	January 1, 2018
Extend service hours of operation	GM/ Service Director	October 1, 2017
Weekly service manager meeting	GM	August 1, 2017
Install non-dealer competitive pricing board, parts display	Service Manager	October 1, 2017
Begin advertising that work can be performed on all makes and models	Marketing Director/GM/Service Manager	October 1, 2017

Miscellaneous

Advertising – Honda Parkville has a significant advertising presence, as MileOne has a corporate marketing department with sophistication. Advertising consists of websites, digital campaigns, email campaigns, and newspaper/print. Over the next several months, MileOne is implementing a data aggregation tool that will allow the marketing department to learn – in real time – how many leads each advertising spend produces.

Facility – Our facility is too small for the service business that it generates. We have little room for expansion on our property. Management must determine whether we should acquire a neighboring parcel of land to expand operations.

Cost of Labor – Through the month of June, our gross profit retention percentage was 71.4% which means our cost of labor was 28.6%. Our gross retention is slightly below guide (72%). We can improve this. Our Internal gross profit retention is below customer pay gross profit percentage, which means we are discounting our internal labor RO's. We should consider not discounting our internal labor.

Expense Structure Changes – Through June, our operating profit percentage of sales is 13% which is below guide (20%). Personnel expenses account for a substantial portion of our gross profit. We will need to analyze pay plans to see if any are creating poor incentives.

Pay Plans – Service directors and advisors are paid based upon a percentage of gross profit. They also receive a bonus if the department is above-average zone CSI. Technicians are paid based on flat rate hours. We should consider paying directors on controllable net and consider proficiency bonus's for technicians.

Performance Programs – Technician proficiency should be calculated and tracked for each technician. Incentivizing the technicians with proficiency bonuses could help increase shop proficiency and utilization. Service directors and managers should have daily meetings with advisors and techs to reinforce the goals and objectives for that day. The service manager and director should be tracking gross profit as well as net profit and looking at the controllable expenses by looking at the doc and monthly actual to budget reports.

Level of current training – The service department does a great job with training. There is an opportunity to advance quickly throughout the store and organization. However, there is one problem with the quick advancement. It can frustrates the

technicians who have been at the store a long time, as they view the junior technicians as advancing too quickly without sufficient training. It is challenging to hire enough personnel.