

Fixed Operations 2 Service Homework

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A. Facility

Our current facility utilization is at 43% vs the NADA guide of 75%. If we were running at guide that would have given us an additional \$114,460.50 in total labor sales. Which would gain us \$79,149.44 in additional gross profit, based on our current gross profit percentage of 69.15%.

We will coach the shop foreman and service manager on getting the techs to use their time more efficiently. The service manager and I have noticed techs arriving to work with their breakfast and taking anywhere from 15-45min just to get to their first job. On the other side, we have witnessed techs slowing or fully stopping work 30min to an hour before the workday is over.

There will be a clear policy put in place stating that work begins as soon as we arrive in the morning. Breakfast and other personal business need to be handled prior to the start, "Arrive ready to work." On the other side, we will make clear policy stating to not stop work in anticipation of the end of day. "Outside of your lunchbreak, we are here to work, from bell to bell."

The service manager needs to be involved in the immediate strict implementation of these policies. Writing up any techs who do not abide to the work we expect from them. Once the service manager feels comfortable, he can back off strict enforcement and let the shop foreman stay on top of the tech's productivity. The service manager needs to continue to watch Total Labor Sales for progress and adjust accordingly.

We also will switch to from our current DMS to CDK, which will allow a different level of scheduling and communication than our current DMS. The current scheduling system is flawed and causing disruption in the work distribution in the shop. We will be gaining a much more helpful and intelligent DMS in CDK. This will help us start to improve our scheduling and work distribution.

B. Productivity

Our current Tech proficiency is at 67.44% vs the NADA guide of 125% leaving serious room for improvement. The proficiency is going to be directly related to the Facility Utilization action plan. The potential increase in labor sales from increasing our utilization to 75% would be from \$150,447 to \$264,907.50. The increase in labor sales would increase the hours billed from 1618.5 to 2841.4. This would increase our tech proficiency to 118%.

The utilization of all the clock hours and the vastly improved scheduling thru the DMS should be the low hanging fruit to get us started towards this improvement. Once these items are moving in the right direction, we can fine tune our work distribution and dispatching. The mastery of these actions will allow us to continue to increase our tech proficiency with the long-term goal of 125%.

C. Cost of Labor

The cost of labor does not need to be addressed at this time, for the month of June it was \$46,410. The gross profit percentage of 69.15% is very close to the guide of 74%. There does need to be some improvement in this area so this will be readdressed after there is confidence in our dispatching and workflow.

The improvement in scheduling and therefore dispatching will help with the work mix in the shop. Allowing the advisors to dispatch the best work for the technician's grade. This will help prevent situations in which we have to give A or B technicians the work that a C or D tech should be doing.

After completing the action plan for schedule and enforcing "bell to bell" policies there should be a decrease in the cost of labor. At that time we will look at the number again and decide if further action needs to be taken.

D. Changes in Expense Structure

The June 2020 net profit for service was \$5,608 which is 5.39% of department gross vs NADA guide of 20%. Our focus needs to continue being to increase the amount of total labor sales by utilizing all the hours in the shop. With an increase in labor sales and a 75% facility utilization, the net profit will increase to \$84,757.44 or 46.2% of gross profit percentage.

We will continue to focus on increasing our labor sales thru improved work mix and scheduling. The key will be to maintain our current total service department gross profit percentage of 69.15%. Once facility utilization is under control there can be a focus on increasing the gross profit percentage to further increase the net profit.

E. Level of Current Training

We are well above the minimum training standard for the manufacturer and take advantage of most of the training opportunities offered by the manufacturer.



Repair Order Analysis Summary Report

	Sales in Dollars	FRH's on RO's	Averages	Analysis
Competitive	\$ 394	÷ 6.90	= 57.05	FRH Average
Maintenance	\$ 2,227	÷ 25.80	= 86.30	FRH Average
Repair	\$ 8,798	÷ 84.00	= 104.74	FRH Average
Totals	\$ 11,418	÷ 116.70	= 97.84	Customer ELR
Total Ro's in Sample			100	
Target Labor Rate			109.40	Per FRH
Difference			-11.56	Per FRH

Cost of Labor

Total Cost of Labor	3171.00	÷ Total Sales	= 27.77%	Percent Cost of Sales
Total Cost of Labor	3171.00	÷ Total FRHs	= 27.17	Cost per FRH

Repair Order Measurements

Total Labor Sales	11,418.39	÷ Total ROs	= 114.18	Avg Labor per RO
Total FRHs	116.70	÷ Total ROs	= 1.17	Avg FRH's per RO
Menu Sales		÷ Total ROs	=	Percent Menu Sales
Competitive FRHs	6.90	÷ Total FRHs	= 5.91%	Percent Competitive
Maintenance FRHs	25.80	÷ Total FRHs	= 22.11%	Percent Maintenance
Repair FRH	84.00	÷ Total FRHs	= 71.98%	Percent Repair
One item ROs	0	÷ Total ROs	= 0.00%	Percent One Item RO

Model Year Analysis

2021	2020	2019	2018	2017	2016	Older
0	6	6	7	6	14	61
0.00%	6.00%	6.00%	7.00%	6.00%	14.00%	61.00%

Labor Mix



■ Percent Competitive
 ■ Percent Maintenance
 ■ Percent Repair

F. 100 Repair Order Analysis

The 100-repair order sample showed several areas that need to be addressed. The customer pay effective labor rate is \$11.56 below the guide of \$2 over the warranty rate of \$107.40. The work mix is out of sync with 28% coming from competitive/maintenance and 72% of the mix from repair. The flat rate hours per RO is low at 1.17 vs the guide of 2.2-2.5 flat rate hours per RO.

The large percentage of repair work should lead to a higher effective labor rate and more hours per RO. It is a red flag that the ELR and FRHs per RO are so low when compared with the high percentage of repair work. The competitive work is only 5.91% of the mix which is leading to a lower percentage in maintenance as well. This could be due to the lack of upselling maintenance work on the new car customer's complimentary oil change visits.

The year model mix also trends toward older model work, with 61% coming from 2015 model year and older. This would also lend itself to the theory of poor upsell on the newer model year customer vehicles. Due to most of the newer vehicle repair orders having only internal lines with only the complimentary oil change and/or tire rotation.

G. Action Plan

I will increase the Facility Utilization of our Service Department from 43% to 60% by December 31, 2020.

This will align with the vision of increasing the quality over the quantity of our current workload. This benefits the dealer by pushing for a proper scheduling system and slowing the advisor/tech down to focus on the current customer/car. Allowing the dealer to become much more in line with the net profit of the service department. Facing the consequences of continuing to struggle with scheduling and shop mix. This could lead to poor customer retention and satisfaction due to backed up schedules and long waits for appointments. This goal is very important to achieve the continued growth of our service department. There is no reason to add more bays or technicians until we learn to maximize what we already have available.

The first step will be to have a meeting with all the managers including the sales and executive positions to make clear the overall goal of taking advantage of all work hours available. The Service Manager should feel confident and see the plan clearly after this meeting. Next, the Service Manager needs to establish a new work schedule to reinforce the expectations of a "bell to bell" work environment. The Service Manager then needs to have a meeting with all the service advisors and techs to explain the expectations moving forward. We need to take time and make sure everyone understands and is motivated by this, not discouraged or defeated. The next step is the most crucial to ensuring the success and longevity of this focus. The Service Manager and Advisors must enforce this new policy immediately and strictly. These are long term bad habits so they will have to stay on top of it daily to see the results we are needing. All other store managers need to be involved to help monitor and report on the results. The weekly manager meeting will be used as a platform to report and discuss the results and effects of this change. This should lead to increased proficiency from the techs, utilizing all the hours that are available to them.

We must also take steps to switch from Autosoft to CDK to allow for increased ability for Service to maximize their potential. The C.F.O. needs to agree on terms and set the date to switch over to CDK. There must be a meeting to explain what and why we are switching to CDK and the huge benefits it can provide. The Service Manager and Advisors need to do all training provided to us by CDK. The GM needs to monitor this and ensure that all training is done. On the predetermined start date, Autosoft is killed and we make the switch to CDK. A daily conversation needs to be taking place to discuss the comfort and confidence level with the new scheduling

system and the results. This should lead to efficient scheduling allowing for more work to come thru the shop and the right work going to the right technicians.

We need to have a Manager meeting to discuss the selling abilities of each advisor and what training they may need. A meeting needs to be held with the advisors to make it understood that customer satisfaction and upselling need to be their focus every day. We also want to ask and understand what they feel are the biggest obstacles preventing them from more hours per RO. The quality of our work on every RO must increase substantially before we address additional bays or tech needs. Schedule training with NADA and Sterling group to arm our advisors with more ability to upsell the customer. A weekly or even daily meeting needs to take place between the advisors, service manager, and GM to discuss their success or shortcomings. This should lead to increased flat rate hours per RO and total sales/gross profit due to the upsell of more work.

The progress will be tracked using the financial statement and DMS to calculate the Facility Utilization, Tech Proficiency, FRH's per RO, GP%, and Net profit. The CSI index needs to be closely monitored (as it already should be) to make sure these changes are helping with overall customer satisfaction as well. This information needs to be monitored daily for the first several months these changes are made. When the trend is consistent for 60-90 days, this can be scaled back to weekly or even monthly checks to ensure continued success.

Of the many obstacles that could stand in our way, lack of Advisor buy-in is one of the potential biggest threats. The advisors are the ones scheduling and doing the selling in the service department. Their belief and support that these actions will achieve our goals is crucial to the success of the plan. Delays in getting the new DMS in place and lack of training or on-site assistance could be another obstacle. The techs could push back or ignore the call to action about "bell to bell" workdays. The service manager not enforcing the new policies could prevent any of the actions from being successful.

The Managers need to make sure to take the time to explain why we are taking these measures in our service department. The techs and advisors need to understand that this all boils down to increased dealership success which means increased individual success. There needs to be sessions set up for training and the service manager needs to make sure it is being done. Replacement of personnel needs to be done with anyone not willing to adapt or grow with our new goals.

The financial impact of achieving a Facility Utilization of 60% would be increasing the total labor sales by \$61,479 which should lead to an additional \$42,512 in gross profit.

We will continue to meet and discuss the new obstacles and solutions as we gain confidence in scheduling and utilizing our new DMS, available hours, and selling ability. By increasing our ability in these areas, we should be able to identify other areas for improvement in our service department. Areas that may be hard or impossible to truly assess due to the current areas we are addressing. These next areas will be what is standing in the way of reaching 75% Facility Utilization which is our final goal.