

Fixed operation 2 analysis.

Here at Jaguar Land Rover Charlotte we are undergoing major changes in our fixed operations dept. We recently purchased the Jaguar retailer across town and added them to our existing Land Rover dealership. Along with this came 2 technicians, two parts people, and a lot of infrastructure changes. We took an unused portion of the current Acura shop adding us 5 bays for the Jaguar department and we created a parts dept. out additional space available in this shop. The retail operation and sales center were placed into a former Porsche facility. Within two years we will have a new facility housing both brands. Until then we are operating out of three separate buildings which has presented its own unique challenges. The Jaguar service drive is separate from the Land Rover drive but they are all managed out of the existing Land Rover building.

90 days into this new structure we are starting to get our arms wrapped around the new business processes. We have made many changes to our processes as well as our management. In retrospect we probably could have handled the influx better in that the old Jaguar dealer had halted all service work 5 weeks prior to the buy/sell. When we opened the doors to the new Jaguar center we were blistered under the amount of pent up work that had not been handled across town. The service dept. was quickly overwhelmed and all the weak spots soon began to make themselves apparent. The dept. quickly became saturated and there was so much work coming thru the front doors that the two service writers were buried under the flow of customers. The result was that cars came in and were forgotten about as the two technicians couldn't possibly get thru all work flow the writers didn't have time to call customers to authorize work. Our parking was quickly consumed with stagnant service cars and they were placed in other lots, in the grass, and just about anywhere else a car could be parked. As this process continued all of fixed management turned their focus to putting a tunicate on the Jaguar shop and while doing this the Land Rover shop suffered as there wasn't enough attention placed on this brand.

That is the background on the current state of affairs in the fixed department at Jaguar Land Rover Charlotte. In looking at the financial statement it is readily apparent that there are problems. Our production benchmarks are in line with NADA standards. Our parts and labor sales per RO stands at \$337 for Jaguar and \$525 for Land Rover. Our service customer pay gross profit

return on sales is 77.2% for Jaguar and 77.8% for Land Rover. Our internal return on sales is 64.5% for Jaguar and 78.9% for Land Rover and our warranty return on sales 75.3% for Jaguar and 69.4% for Land Rover. Both slightly below guide but not far off the mark. Our hours produced per RO are 4.4, well above guide. Over in parts the combined gross profit return on sales is 31.3%. it stands at 41% for internal, 27.8% for warranty, and 31.2% for counter retail. Their total operating profit return on gross is 26.5%. slightly under the guide of 35%, but not horrible. Now here is the biggest red flag, the NADA guide for operating profit return on gross is 28% but we are at 1.2%. Way off the mark. The major sources of this include an expense structure that is out of control. The biggest contributing factor is to outside services, or rental cars, which tallied almost \$50k in the month of August and was brought down to just over \$30k in September. The reason for this is that while the service dept. was inundated with customers we quickly ran out of loaner vehicles and were forced to put people into rental cars as alternative transportation. Some were out for multiple weeks at a time while their car waited to be looked at. There were customers who came in for a software update and didn't hear from us for 3 weeks, all while being in a rental car. The ultimate result of this was client base who was very unhappy. They were unhappy with the fact that they weren't contacted for weeks after dropping off their car and when they did eventually get their Jaguar back it was not fixed properly or certain line items had not been addressed. This in turn caused our CSI numbers to plummet as well as deteriorating our customer base as they vowed never to return. It was an out of control situation for about 60 days after the close of the buy/sell. The result was also over \$20k in policy work in September which is more than half of the total ytd. You can't have these kinds of runaway expenses and expect to be a profitable department. Hence the 1.2% return on gross in September which is actually the first month since the onboarding that service has been profitable.

Some major changes were the addition of more technicians. We were running at less than 40% capacity utilization and having only two technicians our productivity numbers were equally disturbing. If we were to run at 100% potential and 100% utilization we would have added over \$180k in labor sales monthly. This would have been more than enough to make the dept. profitable over the 90-day period. To address this we added 4 more technicians and created a sixth bay out of some unused space in the corner of the shop. This will be a lube and quick maintenance bay. We have also added an additional layer of management in the role of Fixed Operations Director. This role is necessary as the service manager was overwhelmed dealing with two different shops, two different set of writers, two different

drives etc. He was spending so much time running between the two and putting out continuous fires that he had lost the time needed to keep an eye on the dept. itself in terms of sales, gross and expenses. This new role will be over both parts and service from a macro level allowing the dept. managers to keep their eyes on the operation and bring the depts. back to the profitability standards they enjoyed for the last 10 years. The addition of this expense to payroll will be quickly outweighed by the productivity in the shop as our utilization will increase as will our operating return on gross profit. We also have a new Service Manager as the existing one, who had been there for 23 years voluntarily stepped down from the role. He will remain on as writer for both brands. He has tremendous knowledge of these brands and we don't want to lose him entirely. The other personnel change is the adjustment of our shop foreman to one of quality control supervisor. He will check over all cars prior to their return to the customer and he will verify that all line items on the ROs have been addressed and any and all complaints have been fixed. He will also look for the small things that are CSI killers like not resetting service interval indicators, not changing the climate system back to Fahrenheit after a battery disconnect, not checking tire pressures and having cars go back to customers with a tps light on. He is gladly and willingly assuming this role as he realizes its vital importance to the continued running of the service dept.

The current state of physical shop is good. The equipment in the Jaguar shop is all brand new and the Land Rover shop was refinished less than 24 months ago. All floors were redone with clinker tile and all technicians were provided with JLR spec tool boxes. The special tools section is up to date, but we are still in the process of amassing all of the Jaguar special tools as the ones kept at the previous store were not up to date. All special tools should be current by the end of this year. A major expense for the remainder of the year will be the training of all current employees to Jaguar standards. Most if not all were certified for the Land Rover brand but we have all had to do intense training for the Jaguar brand. Almost every week for the next eight weeks we will have either one or two technicians at school in Atlanta learning the ins and outs of the brand which will ultimately have an impact on productivity and utilization for the 4th quarter of 2017.

We also plan to introduce a major marketing message for the fourth quarter as we will need to recoup some of the customer base that we had alienated upon opening our Jaguar service dept. it will include coupons, specials, and message from our Fixed Operations Director indicating our newer extended

hours and the fact that we are under new management. We will advertise with the local Jaguar chapters and place ads in their club magazines. We are also making an investment in the computer hardware and software required to work on some of the older Jaguar and Land Rover products which are now mostly in the hands of enthusiasts and collectors and who currently have no good option for work in Charlotte.

While we all understand the addition of the Jaguar brand will eventually lead to increased profitability no one can argue that the bumps in the road encountered in the first 90 days have certainly been a challenge and I believe we are beginning to see the light at the end of the tunnel. In retrospect, there are a number of things that we could have done better, like an impact study of how many service vehicles we would be bringing in, a better understanding of the amount of work the brand brought with it, how many technicians would be required at start up, and the general pent up anger of Jaguar owners as they had no dealer to service their vehicles at for the last 5 weeks. There was one point where we all looked at each other and joked that we didn't realize that there were this many Jaguars in Charlotte and we were pretty sure that every one of them was in for service at the same time! We are thru the worst of it and I think we will start to see our fixed operations dept. return to profitability levels at or above NADA guide by Q1 2018.