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ROSEVILLE TOYOTA

N385

Fixed Operations 2 Service Homework

1. Evaluate Your Service Department

A deep dive into our dealerships service department's processes has given me a better understanding of the fixed operations aspects of the business as well as areas that can be improved on. To outline my goals for improvement, plans to achieve my goals, and plans to evaluate my changes; it is necessary to first outline our process. Any references and calculations are based on Roseville Toyota's August Financial Statement.

Our customers can go online or call in to schedule an appointment. At Roseville Toyota, an appointment is recommended, not required. Upon pulling in the drive the customer is greeted by our advisor assistants, tablet in hand, and the nature of the appointment or drop in is deciphered as to whether it is express (TXM) or production. Express customers are escorted to the right side of our service drive to a separate three lane express drive whose purpose is to wow them for their first 5 visits to establish strong retention. Their vehicle is lined up in one of the three rows and the vehicles progress as efficiently as possible.

A production appointment or drop in will be escorted in and introduced to an advisor. At this point in our process the advisor reviews history, the Service Lane Report, checks for recalls, and reviews deferred work. A menu presentation is thoroughly given using a Good/Better/Best and a repair order is generated and signed by the customer. At this point a welcome text is sent to the customer via Welcome Promise.

We operate a seven team shop with 14 advisors. The RO is electronically dispatched to the team leader who then dispatches work based on the skill level-based skill of available technicians. At this point in our process the customer receives a second text setting up the advisor's call to thoroughly review the multipoint inspection completed by the production tech.

Work is performed. Based on the complexity of the repair, the work will be quality checked by the team leader. The customer returns to the advisor and the work is reviewed and all questions are answered. At this point, the advisor secures payment from the customer and proceeds to schedule the next service appointment. The customer proceeds to the valet desk with their copy of their invoice. Their vehicle is returned to them and they exit the dealership.

The customer receives a third and final thank you text coupled with a survey. Any and all negative responses are addressed by one of our two service managers.

Goals for improvement:

There are two primary goals for improvement to our service department based on my evaluation.

1. Capitalizing on Missed Opportunities and Recall work and recalls.

My plan to increase our Missed Opportunities and Recalls. Toyota requires us to open a repair order and then order the necessary parts to complete the repair. We are consistently missing opportunities because customers cannot be without their vehicles, and it is easy to defer the work or procrastinate their return to the dealership once the needed parts have arrived. For the month of November my plan is to put every customer with a recall in a rental vehicle whether or not the factory will reimburse us for it. Although there is a strong probability that GP will go down as a result of the rental car expense, my service managers and I agree that the sales opportunities provided by the extra traffic, and ability to upsell based on thorough multipoint inspection is worth the initial investment of the rental car expense. Each team leader will be tracking the GP and RO's generated from their team and ensuring that an A level tech does the multipoint inspection on the recall vehicles to maximize income opportunities. The team leaders, service managers, and I will review bimonthly the Labor and Parts sales as well as the NET GP over lunch. At the end of thirty days, we will make this practice a policy if the income supports it.

2. Focusing on deferred maintenance.

Upon analysis of RO's from the month of August, approximately 73% of RO's had deferred work. There is a substantial opportunity to turn these deferrals into additional revenue. Our store operates on Reynolds and Reynolds. Effective November first our service managers will distribute a UCS generated SUT (Service Upsell Tracker) report and require the advisors call to capture that business. Advisors will report once a week to service, our BDM, and myself where we will review the RO's generated by SUT follow up calls. We will discuss call count, quality of call, play two or three that went right, and two or three coaching opportunities. We use Car Wars to track our inbound and outbound phone calls. Our BDM will offer assistance with objections as well as appointment setting. Advisors will also be required to attend monthly phone training, once monthly for two hours to improve their phone skills. This change will be evaluated weekly as we measure the RO's. This policy requires no additional investment on behalf of the dealership and will certainly increase GP.

An additional benefit of this practice will be another tool to keep advisors at their desks to handle customers, take calls, answer emails, and texts.

Marketing

Our plans to keep the service department in front of the customer include using TVI, a pay per click service that is used to conquest customers via SEM. For the month of August, the dealership invested \$2,200 in TVI and generated a documented \$39,300 in revenue. We

continue email campaigns, twice monthly to market specials and to reinforce National Tier 1 content such as Buy 3 tires, get the fourth for \$1. We use ZONIC to market ourselves to customers needing recall repairs. We utilize AMP and RAPP, complimentary services from Toyota to market to our existing customers. Additionally, our call center continues to confirm appointments as well as reschedule no shows.

Facility

Our Facility Utilization Rate according to the attached calculation is 58.67%. Our dealerships total Labor Sales are \$1,461,534. Our dealership's Facility Potential is \$2,490,912. In order to increase our Utilization we need more customers across the service drive. We have the building, the stalls, and the parking. We need to strive to conquest customers both in and out of our PMA.

Productivity

There is an opportunity to improve tech proficiency. The attached calculation shows our tech proficiency at 90.94%. This drastically below NADA Guide of 125% Upon further analysis and discussion with my service managers, I learned our calculation is based on an average scheduled technician count per day of 40. However, our Sunday team is a skeleton crew of ten technicians. When I compared the proficiency against time card reports our average jumped to 112%. Process driven changes that will increase proficiency we are considering are increased staffing on Sundays, a full-time parts runner to bring parts to stalls as well as preloading stalls with carry over work from the day prior so techs can arrive wrench in hand and get to work, and stay in their stalls longer working with less down time.

Analyze Cost of Labor

The calculation of our GP as a percentage of CP Labor is 70.79%. We are below the NADA Guide of 76% and have room to improve. Gross as a percentage of sales is 79.16%. Internal GP as a percentage of sales is 71.09%. Our net profit is slightly above NADA Guide of 20% at 21.78%. Opportunities for growth include the following: Our CP Labor could be Improved by focusing on two key factors. The first is to vigilantly train on selling and install management safeguards against discounting, and secondly that team leaders are laser focused on proper skill level assignment of work. This is to say we are vigilant on never having A level technicians doing C level work. In sales there is always the tendency to discount. We need to constantly train to minimize it. Our Warranty Gross as a percentage of sale is 79.16% . As market conditions allow, we reapply for increases. Our current relationship with the factory allows us to provide goodwill for our valued guests whenever that need may arise. Our internal GP opportunity could be realized by moving the internal rate to the service drive rate or retail rate.

Changes in Expense Structure

We do not have a grossing problem and our expenses are in line at 78.22% below the NADA Guide of 80%. We are going to achieve a higher net profit effective first quarter 2022. As we operate in California, we must increase pay January 1 to account for the \$1 minimum wage bump to \$15 per hour. When this happens, we will increase the retail Labor Rate \$10. By my calculations, this will result in a 2.5% increase in net profit.

100 RO Analysis

- Competitive is in-line with local market
- Target Maintenance should be plus or minus \$2 of Warranty rate. We are \$67.69 under.
- Repair Rate is at \$159.91 which is \$15.09 below door rate of \$175. Target is \$185.00
- We are \$49.75 below our Target Labor Rate of \$165. There are discounts eroding GP.
- Our Cost of Sales is 24.15% which is below the Target Rate of 27% or lower.
- Our cost per FRH is \$27.83 while our average technician pay is \$31.81
- The average FRH per RO in this sample is 1.46 below NADA Guide of 2.2-2.5
- Our Competitive FRH and Maintenance FRH combine for 64.06%. We are 4.06% over guide.
- The dealership's REPAIR FRH should equal 40%. We are at 35.93% below guide.
- Our One Line RO count for this sample is at 31% far above guide which is 10-15%. Our focus should be increasing the quality of Multi Point inspections yielding more line items per RO to get in line with guide and increase GP. In addition, we need to aggressively market to older cars both inside and outside our PMA to capitalize on opportunities.
- Our Competitive and Maintenance FRH's are coming in slightly above NADA Guide of 60% at 64.06%
- Our Repair FRH is below NADA guide of 40% at 35.93%. With 56% of the vehicles in the sample being in the older category we need to focus on MPI and upselling.

Objectives

- DECREASE 1 line RO count
- INCREASE hours per RO
- INCREASE staffing on Sunday
- INCREASE Internal Labor Rate
- INCREASE Door Rate
- Adopt a VIDEO MPI tool for production techs to use consistently
- INCREASE Technician Proficiency

Strategies

- Disable advisor discounting
- Market to older vehicles in PMA to capitalize on multiple line RO opportunities
- Mandate monthly advisor phone training with BDM focusing on call quality, tone, appointment setting, overcoming objections.
- Increase door rate
- Increase Internal Labor Rate

Tactics

- Adopt and implement a VIDEO MPI and use relentlessly and consistently to increase sales
- Have serv managers distribute deferred work report and hold advisors accountable for follow up calls and quality attempts to reschedule
- Encourage A level production technicians to train up all lower grade techs on MPI to increase opportunities.
- Increase Internal Rate
- Increase Door Rate

Action Plan

- Increase Door Rate from \$175 to \$185 effective January 1
- Increase Internal Rate \$10 effective November 1
- Disable Service Advisors ability to discount effective November 1
- Implement mandatory advisor phone training with BDM effective November 15
- Increase Sunday staffing effective November 15
- Increase digital advertising spend to conquest older, higher mileage vehicles in the PMA
- Competitive pay for Advisors and technicians with a career path that offers growth opportunities

SWOT Strengths

- First class facility
- Over 25,500 new vehicles in owner base in the last five years
- Top 20 dealer nationally
- Dual Service Managers who are extremely complimentary-one great with techs/process/training the other great with customers/advisors/selling
- Second to none relationship with the sales department that is laser focused on retention
- Driven to excel in fixed right the first time and to produce minimal comebacks
- Above district and region in CXI (CSI) scores
- 66 technicians

SWOT Weaknesses

- Discounting at the service adviser desk eroding GP

- Deferral of work
- Parts shortages/ LOF supplies for express as well as feeding the main shop
- Parts delays for recalls / not being able to stock them
- Lack of consistent phone training for advisers
- Inconsistent use of a uniform video MPI

SWOT Opportunities

- More than 25,500 new cars in our owner base in the last 5 years offers huge opportunity for warranty/maintenance/repair
- We live in a highly desirable region: Roseville was recently voted #8 city in nationally to live and Placer County has an extremely high quality of life
- Our county's 20-year residential population is projected to increase by 185,000 residents.
- We've addressed our rental car shortage by providing Lyft and Uber rides for our guests so they're getting on with their day and not waiting
- Opportunity exists for consistent phone training to improve RO count/lines of repair/reduce deferred work/increase GP
- Opportunity exists for a display board of our competitors services and pricing
- Opportunity exists to disable discounting at the adviser desk

SWOT Threats

- Regulatory challenges
- Supply chain problems
- Competition from independent shops as well as the 13 other dealerships in our Automall that market to our customers for service
- Poaching of employees from employer to employer
- Lack of available skilled labor and all level of technicians

Synopsis

Roseville Toyota has been serving Roseville and the Placer County community for the last 30 years.

We take pride in handling thousands of families' transportation needs: sales, parts, and service. In the spirit of constant improvement, we have evaluated our service department and can clearly see areas that are not only affecting our bottom line, but our customers' experience as well.

There are various adjustments we can make, although small, to the department that will yield major benefits.

Our changes include eliminating our Service Advisor's ability to discount, increasing our Technician staffing on Sundays, increasing both the door and Internal Labor rates, providing consistent phone training to Service Advisors, increasing marketing to capture older vehicles in our PMA, and adopting a uniform digital MPI for all RO's. All of these changes would combine to increase RO count, more lines per RO, more labor sales, more parts sales, better handling of objections, and ultimately increasing gross profit.

Repair Order Analysis Summary Report							
	Sales in Dollars	FRH's on RO's	Averages	Analysis			
Competitive	\$ 2,208	÷ 29.22	= 75.58	FRH Average			
Maintenance	\$ 6,254	÷ 64.60	= 96.81	FRH Average			
Repair	\$ 8,414	÷ 52.62	= 159.91	FRH Average			
Totals	\$ 16,877	÷ 146.44	= 115.25	Customer ELR			
		Target Labor Rate	165.00	Per FRH			
Total Ro's in Sample	100	Difference	-49.75	Per FRH			
1							
Total Cost of Labor	4075.85	÷ Total Sales	= 24.15%	Percent Cost of Sales			
Total Cost of Labor	4075.85	÷ Total FRHs	= 27.83	Cost per FRH			
Repair Order Measurements							
Total Labor Sales	16,876.65	÷ Total ROs	= 168.77	Avg Labor per RO			
Total FRHs	146.44	÷ Total ROs	= 1.46	Avg FRH's per RO			
Menu Sales		÷ Total ROs	=	Percent Menu Sales			
Competitive FRHs	29.22	÷ Total FRHs	= 19.95%	Percent Competitive			
Maintenance FRHs	64.60	÷ Total FRHs	= 44.11%	Percent Maintenance			
Repair FRH	52.62	÷ Total FRHs	= 35.93%	Percent Repair			
One item ROs	31	÷ Total ROs	= 31.00%	Percent One Item RO			
Model Year Analysis							
2022	2021	2020	2019	2018	2017	Older	Total
0	5	6	13	6	14	56	100
0.00%	5.00%	6.00%	13.00%	6.00%	14.00%	56.00%	

Service Department Sales And Gross (Labor Only)

Category	Sales	Gross	Gross as	
			% of Sales	%Sales Contribution
Customer Car	\$ 858,599	\$ 607,821	70.79%	58.75%
Customer Truck			0%	0%
Customer Other			0%	0%
Warranty	\$ 275,772	\$ 218,313	79.16%	18.87%
Warranty Other			0%	0%
Internal	\$ 327,163	\$ 232,567	71.09%	22.38%
NVI / Road Ready			0%	0%
Adj. Cost Of Labor		\$ 1,058,701	0%	0.00%
Total	\$ 1,461,534	\$ 2,117,402	144.88%	100.00%

Service Department Profit Centering

Expense Category	Dollar Amount	% of Gross	Profile
Department Gross	\$ 948,431		
Variable Expense	\$ 214,860	22.65%	
Selling Expense	\$ 526,957	55.56%	
Personnel Expense		%	
Semi-Fixed Expense		0.00%	
Fixed Expense		0.00%	
Unallocated Expense		0.00%	
Dealer's Salary		0.00%	
Total Expenses	\$ 741,817	78.22%	
Net Profit	\$ 206,614	21.78%	

NADA ACTUAL SERVICE ANALYSIS

Performance

	Labor Sales / Month	Hourly Labor Rate	Hours Billed
Customer Car*	\$ 858,599	+	= 4749.0
Customer Truck*		+	= 0.00
Customer Other*		+	= 0.00
Warranty	\$ 275,772	+	= 1154.0
Internal	\$ 327,163	+	= 3358.0
New Vehicle Prep		+	= 561.0
Total	\$ 1,461,534		9822.0

POTENTIAL

\$ 1,461,534	÷	9822.00	=	\$ 148.80
Total labor sales for month		Total hours billed		Effective Labor Rate
40.00	×	9	×	30
# Service mechanical technicians		# Hours/Day		Working Days/Month
10,800.0	×	\$ 148.80	=	#####
Clock Hours Available		Effective Labor Rate		Labor sales potential

How proficient are your technicians ?

9,822.0	÷	10,800.00	=	90.94%
Hours Billed		Hours Available		Tech Proficiency

Customer labor divide by the Customer Effective Labor rate from the R. O. Analysis

FACILITY POTENTIAL

Number of Bays	62
	×
Number of Days	30
	×
Number of Hours	9
	×
Effective Labor Rate	148.8
FACILITY POTENTIAL	\$ 2,490,912

FACILITY UTILIZATION

Total Labor Sales	\$ 1,461,534
	÷
Facility Potential	\$ 2,490,912
	=
FACILITY UTILIZATION	58.67%