

SOUTH BAY HYUNDAI – JIN LEE N389 – NADA SERVICE WEEK #3 – Post Class Work

1) FIXED OPERATIONS – SERVICE DEPARTMENT EVALUATION

CURRENT PRACTICES: After sitting with the service department and discussing the current processes in place, it has become evident that there are many areas of opportunity. The metrics being monitored were technician efficiency (clocked hours versus flagged), hours per RO, and effective labor rate. The service department had been in “need” of additional technicians for some time now and the Work in progress schedules has been accumulating due to backordered parts and long lead times for engines received. Scheduling of appointments was being done via 3rd party software, but an official process for taking phone calls and following up with appointments was largely absent. A portion of appointments were not showing up and phones were occasionally ringing to voicemail. Work was being dispatched by the shop foreman, generally by feel and first availability of technician. Our shop loading stands to benefit greatly once the Service Manager imparts service advisor training with an emphasis on decreasing the percentage of 1 line Repair Orders is performed. As it stands, our 100 RO analysis yielded a 90%+ rate of One line customer pay RO's, which goes to show that the sales culture in the department is heavily “order taking” rather than “order making”. Value and trust is not being established at a level high enough to warrant repeat business in the service department; and as a result our customer retention rate is sub 50% over the course of 5 years. Our facility utilization percentage is 26% and overall technician proficiency is 62.35%. Additionally, on average, the advisors are writing 12-15 RO's per day including internal and warranty. The service department hours are not mirroring the Sales Department hours and the department is closed on Sundays. This inevitably leads to lost sales and our competitors capturing the business.

GOALS FOR IMPROVEMENT: Goals for improvement are as follows: to increase the service department hours of operation to better mirror the sales department hours, particularly the weekend hours. To increase sales penetration in the Repair Orders and ultimately significantly reduce the percentage of 1 line RO's. To implement training with defined metrics aimed towards a sales driven process for each service advisor. To improve efficiency in labor dispatching amongst service technicians and to increase the proficiency metric in the service drive. Additionally, an overarching goal is to increase the level of Fixed Absorption provided by the Service Department. To reduce and minimize the Work in Process schedule and free up cash flow and customer backlog and implement a phone training session with advisors.

PLANS TO ACHIEVE OUR GOALS: In order to achieve the above set goals, the General Manager and Service Manager both need to be on board with the implementation of best practices being shared with the department. So far, everyone is on board with the recommendations and is open minded to the processes and benefits they stand to receive. Regularly sitting with the service manager and evaluating the current state of process and implementing suggested alternatives to drive Gross \$ to the daily operations will be paramount to the successful improvement of the department. Proper planning of scheduled (and held) appointments, increasing the penetration of Customer pay labor on Repair Orders,

properly dispatching labor to the appropriate technicians and their respective levels of skill and cost of labor will drive gross profit. The implementation of extended service hours in the department will create more opportunities for the store to capture and retain more business in the department. Regularly performing an accurate 100 Repair Order Analysis to evaluate the current level of efficiency will clearly illustrate the areas of opportunity within the department. A uniform understanding of the proficiency metric (hours available vs. simply hours clocked in), along with the proper use of the Repair Order Analysis tool will prove valuable for ongoing evaluation of department's performance.

PLANS TO EVALUATE YOUR CHANGES: Regularly monitoring the implementation and usage of the above referenced processes and concepts will be critical in the ongoing development of the department. Simply utilizing the tools and calculations when assigned will not be enough to carry forth a long term improvement. Regular evaluation of month over month metrics is important to keep a pulse on the business and its improvements or declines. Utilizing the Repair order Analysis tool will provide invaluable insights to realized sales performance. Additional metrics to keep an eye on will include: Customer Pay Gross Profit percentage, Total Service Department Gross Profit percentage, Parts/Labor ratio on Customer Pay, Total Service Department Expenses for the month, Hours per RO generated, Percentage of One Line RO's, Customer pay Effective Labor Rates, Total Effective Labor Rates, Warranty Labor Rates, Overall technician proficiency percentages, Facility Utilization, and the Number of RO's per advisors per day.

2) MARKETING

- a. The plans our department has in order to retain and generate more traffic in the service drive include in facility point of sale boards, regular customer contact for scheduled maintenance items, and pursuing the acquisition of larger corporate accounts such as institutions in our geographic area (ie. Torrance School District, Torrance Refinery, etc.). Going back to basics, the proper and professional treatment of customers, with the core values of Trust, Value, and Convenience will largely determine if existing customers choose to come back for their repairs with us or not. If the customers are treated with a high level of professionalism in part by the Service Advisors, they will be more likely to speak highly of our facilities and services to friends and family members, which in turn will keep the retention levels high and drive new business through our store. We have to become the leader in our market.

3) FACILITY

- a. Based on the calculations produced through the excel tool, this particular location is operating at 25.91% facility utilization. What this means is that the bays available are not producing to their potential. Ways to improve this metric will be to restrict one bay per technician and to properly load the shop with enough work to reach a proficiency level of 125% per technician. In order to achieve this, advisors will need to increase the number of labor hours on each RO, while maintaining ample supply of returning customers. Once the level of customers and amount of work authorized by each customer is raised, proper dispatching of the tickets and the minimization of time wasters in the technician bays will yield greater facility utilization rates. Simply put, we

are not producing enough total hours and Avg. hours per RO yet, and the technicians are not producing enough completed hours efficiently during their scheduled shifts.

4) PRODUCTIVITY

- a. Technician proficiency will need to be increased, as this particular store is currently at about half of NADA guide, at 62.35% proficiency. However, in order to impact this figure, the number of hours generated by the service advisors must first go up (aka total labor hours). As the proficiency of our advisors are not near guide yet, and we have more advisors to technicians than is recommended (1:4 ratio), this tells us that there will not be enough trickle down hours for the technicians to complete. We are currently writing on average 1,400 RO's monthly (divided by 26 working days per month, divided by 7 Service Advisors = 7.3 RO's per Advisor per day). In other words, the advisors are not seeing enough customers and the department is not seeing enough traffic to create the opportunities needed to throughput more service work. Additionally, the level of time lost waiting on parts and waiting for the next RO to be assigned is significant, the smaller processes pertaining to work flow will need to be addressed by the service manager.

5) COST AND LABOR ANALYSIS

- a. Currently the cost of labor is higher than ideal compared to the effective labor rate in place. Due to a shortage in labor, the hourly rate per technician has been raised while the door rate for customers has stayed mostly the same. We will need to increase the labor rate in order to offset the increased cost of labor. In addition, the labor types we are completing are heavily skewed towards the competitive repair group. By converting more of the work flow towards maintenance and repair labor types, we will be able to capture a higher gross margin. Our current Overall Effective Labor Rate is \$153.42, whereas the Labor rate needed to hold the NADA guide of 76% gross yields a recommended \$178.08 Labor rate. The discounting was looked into and was determined that it was not excessive. The service manager is approving each discount as warranted on a case by case basis.

6) CHANGES IN EXPENSE STRUCTURE

- a. Currently pay plans for the service manager are purely Gross driven so a gap in expense management is possible, if the General Manager is not watching carefully. It is clear that we have more service advisors than is recommended as well by the 1 advisor to 4 technicians ideal guide ratio. We currently staff 7 advisors with 12 technicians on payroll. We will continue to monitor the efficiency of advisors and may need to keep an eye on personnel expense in this area. In order to increase the net profitability, we will first and foremost need to drive higher gross revenue, with a secondary emphasis on expense reduction where possible. As expenses are relatively fixed and to some degrees out of the service managers control, a focus on increasing gross will be the first course of action. In order to drive the gross profit number higher, we will need to increase the retention and service drive customer traffic, while converting and increasing sales penetration on each repair order. Once the number of overall labor hours is increased, there will be more labor hours to dispatch and shop load each technician and bay. Once

the labor hours distributed to technicians is increased to proficient levels, the number of minutes and hours lost to time wasters will need to be addressed and managed by the service manager and each technician.

7) 100 REPAIR ORDER ANALYSIS

- a. 100 Repair Order Analysis **attached** in separate attachment as Excel File.

8) SWOT ANALYSIS

a. Strengths

- i. The service department in this store is seemingly supplied with customers for the majority of the day. The facility utilization is only a fraction of what it can be so there is a great deal of potential to service more vehicles. Competitors have recently shut down so their service customers should be becoming our own. Our location is ideal as the store is located on a major boulevard for neighboring populous cities. We have the luxury of an additional lot and service bay, a couple miles away for any overflow of cars or service work. Our dealership has been in operation for nearly a decade and is starting to build a business with repeat customers.

b. Weaknesses

- i. Our facility utilization is far below maximum levels. Our hours produced per advisor is below guide and the technician proficiency is half of guide and potential. The training for service advisors is largely absent and sales training and phone training is in need of polishing. We have a low 5 year retention level for customers in the service department which is leading to a need for additional marketing and pursuing new business. Our absorption in fixed operations is sub 50% and is not where it should be yet. The labor types for the service department is skewed towards lower grossing categories such as competitive and maintenance. We have very few RO's (less than 10%) of Customer Pay with more than 1 line of work.

c. Opportunities

- i. The opportunities for this store are bright and substantial. We have a newly promoted Service Manager that is young and eager to learn and apply recommended best practices. He is technologically inclined, a team player, and is quick to action when an issue is presented or an area of opportunity is discussed. The current gross \$ average on a monthly basis floats just above \$220k. Based on facility potential and implementation of training and best practice processes, the department will likely crest \$250k/mo. by midyear; and the realistic goal is to achieve \$300k gross/mo. before year end 2022. There is a steady flow of new customers purchasing vehicles at this store, and with proper care we will be able to retain a higher percentage of ongoing customers in our service drive. Additionally, there is an untapped market outside of our existing customer base as we have not yet approached any outside institutions for their fleet service business. In order to progress forward, we need to make sure we cover and maintain our existing book of business. With phone training and a

refreshed sales oriented approach by the service advisors, we will not have a decrease in recurring revenue; instead build upon it.

d. Threats

- i. Threats are in the areas of competing businesses that are both dealers and non-dealer service centers. On- going pandemic shortages in inventory will likely translate to fewer vehicle purchases which will stifle the growth of organic / in-house service customer accounts. The national backlog of engines and specialty parts will continue to delay completion of a portion of repairs. At the time of writing, there is still a public concern for virus infection which leaves Vehicle Miles Traveled (VMT) to be determined. The fewer miles the average person drives, the less often they will need to service their vehicle at our dealership. We will need to strategize alternative approaches to sell beyond mileage triggered repairs and maintenance.