

## **Harry Brown's Family Automotive**

### **Faribault, MN**

#### **Evaluation of our Service Department**

##### *Current Practices*

Our current service department has come a long way in the last two years. Our Fixed Ops Director has been with us for two years now and has made great improvements with the department culture and processes. Jess, our Service Manager, has been with our store for a long time as an Advisor, and was promoted to Service Manager a little over a year ago. She is the right person for the job and has continued to grow.

On the other hand, we have a young advisor team. They have a lot of room to grow, however that takes training and time. Our Service Department is 100% bought in on our company culture and they strive to provide an Exceptional Experience for Everyone Everyday. We have no extreme need for a technician, as our Fixed Ops Director has done an amazing job recruiting and retaining technicians.

We have worked to improve the service drive experience. We have relatively limited hours and are not open on Saturdays. Our CSI tends to be in the top half of the zone for GM and Stellantis. Our online scheduler through Xtime is hit or miss and has been a pain point for a while. Communication to customers has improved, however there are still a handful of times where negative experiences could have easily been avoided with over communicating.

##### *Goals and areas for Improvement*

There are a few areas of improvement that need attention. Our gross percentage of sales is about 10% below where it should be. Our Service Department has been at about break-even or a slight loss for about a year and improving gross is the first place to look to solve this.

Another goal for improvement is to decrease the number of One item ROs. We are near 40% and this is far above where we should be. We have an internal maintenance package that we sell at the time car sale and in service, and the bulk majority of the one item ROs are from these. Internal subsidized maintenance packages only work if Advisors are selling when these customers come in.

We have a difficult service drive to enter, and it is not super clear where it is from the road. This has caused a lot of customers to go to the wrong spot, creating a bad first impression. There are a handful more areas of improvement, however I think these three areas are the most important to tackle and create action plans around.

##### *Action Plan to Achieve Goals*

There are a couple of ways to work towards increasing the GP in labor and decreasing the number of one item ROs at the same time. The first is to introduce videos from technicians in the MPIs. This is a big

change but will result in more sales. It will also increase transparency for our customers as well as CSI by creating a better experience for our customers. We have already taken the steps needed to make this happen. Our GM, Service Manager, and Fixed Ops Director met with TruVideo. We plan to start using this within the next couple of weeks.

The second is to review service financing options such as Sunbit and Dignifi. For most people declined services comes down to time or money. By having an easy-to-use financing option in service, we will be able to overcome this objection. We also had a meeting with Dignifi. We are going to start by introducing the video MPI first, and work our way towards these service financing options once we have the videos dialed in.

Finally, we are not going to rebuild or rework the building to account for the unideal layout. However, there are a few things to help ease the confusion. Immediately upon return we created a video of how to enter the service lane. This video has been posted on our Facebook page a couple of times. The link to the video is also sent in the appointment confirmation email sent to customers. We have also increased signage out front and need to continue to do service introductions during the sales delivery process.

#### *Plans to Evaluate Change*

There are four key indicators that we will look to track our progress for improvement. We will look at GP % of sales, One item ROs, Department net, and CSI.

## **Marketing**

Marketing for sales always seems to take precedence over anything, and until recently service has had little to no attention. The first piece is our attractive dealership maintenance package. We sell these as a product in F&I during sales, and over the course of the program we sell it to 45% of our customers. It is also available for sale in our service department. We use a mix of a third party and GM CSSR for traditional mail pieces for everything from appointment reminders, service specials, lost souls (those who haven't serviced with us in a year), and more. The mailers are always accompanied by emails to customers as well. Biannually, we buy DMV lists to target people who did not buy from us but brands that we sell.

On the digital side of things, we have worked for the past six months on a strong SEO gameplan. We have created a Service Menu page, to continue to build out service-related content to stay relevant with Google. This is ever changing, and we have seen a lift in GA and NADA analytics in our organic service traffic. We have service specials on our website and will occasionally post these on Facebook. We have met with Fixed Ops Digital, a SEO company specializing in Fixed Ops advertising and specials, to investigate creating dynamic downloadable service specials accompanied by dealership specific videos related to the services. We also target customers through display ads with seasonal ads. We have used these targeted ads in both our town, and a large town 10 miles away from us.

Finally, our Fixed Ops Director and Commercial sales manager plan to regularly go and visit large businesses in town to build relationships for both sales and service.

## Facility

FACILITY POTENTIAL	
Number of Bays	36
Number of Days	22
	x
Number of Hours	8.5
	x
Effective Labor Rate	107.97
FACILITY POTENTIAL	\$ 726,854

FACILITY UTILIZATION	
Total Labor Sales	\$ 256,435
	÷
Facility Potential	\$ 726,854
	<i>equals</i>
FACILITY UTILIZATION	35.28%

We have low facility utilization at just above 35%. One thing that is a large factor in this calculation for us is we have two bays for 24-hour car washes, and we have a very large detail center. We also have a dedicated internal service department where all the technicians get two bays each. Our lube techs work in pairs as well. This heavily weighs on our calculation, however that does not mean we do not need improvement. We are not in great need of technicians, but we need to make sure that we are selling their hours to increase sales. As we continue to train our young Advisor staff, they will sell more and continue to better utilize our facility. We also need to work on improving tech proficiency. This will help us increase our facility utilization higher towards the NADA guide of 75%.

## Productivity

NADA ACTUAL SERVICE ANALYSIS					
Performance					
	Labor Sales / Month		Hourly Labor Rate	=	Hours Billed
Customer Car*	\$ 71,531	÷	112.36	=	636.6
S/CNTR	\$ 27,850	÷	112.36	=	247.9
Quick Lube	\$ 20,949	÷	112.36	=	186.4
Warranty	\$ 46,064	÷	108.27	=	425.5
Internal	\$ 64,535	÷	100.40	=	642.8
New Vehicle Prep	\$ 13,472	÷	108.27	=	124.4
<b>Total</b>	<b>\$ 244,401</b>				<b>2263.6</b>
POTENTIAL					
	\$ 244,401	÷	2263.60	=	\$ 107.97
	Total labor sales for month		Total hours billed		Effective Labor Rate
	16.00	x	8	x	22
	# Service mechanical technicians		# Hours/Day		Working Days/Month
	2,816.0	x	\$ 107.97	=	\$ 304,044
	Clock Hours Available		Effective Labor Rate		Labor sales potential
How proficient are your technicians ?					
	2,816.0	÷	3,696.00	=	76.19%
	Hours Billed		Hours Available		Tech Proficiency
Customer labor divide by the Customer Effective Labor rate from the R. O. Analysis					

We are currently not selling all our available hours. The guide is 125% for the main shop and 100% for quick lube. We are well off that mark currently and have some room for growth. The first thing to do is track this number and track it by technician. Areas of opportunity will present themselves by digging into them more. Our dealer always says that if you track a number it will go up. By tracking proficiency, and increasing it, we will see an increase in the department's net profit.

The introduction of videos from technicians to customers should result in more sales and increased proficiency. Another area is to see if any current practices can be streamlined. For example, are there certain packages of parts that can be buddled together to be more efficient in getting the parts to the technicians? We also, need to make sure that our internal communication is dialed in, and that there is no wasted time due to lack of clear communication.

Analyze Cost of Labor

Service Department Sales And Gross (Labor Only)				
Category	Sales	Gross	Gross as % of Sales	%Sales Contribution
Customer Car	\$ 71,531	\$ 51,771	72.38%	29.27%
S/CNTR	\$ 27,850	\$ 21,150	75.94%	11.40%
Quick Lube	\$ 20,949	\$ 11,852	56.58%	8.57%
Warranty	\$ 46,064	\$ 31,786	69.00%	18.85%
Warranty Other	\$ -	\$ -	0%	0.00%
Internal	\$ 64,535	\$ 49,630	76.90%	26.41%
NVI / Road Ready	\$ 13,472	\$ 10,956	81.32%	5.51%
Adj. Cost Of Labor		\$ (4,527)	0%	0.00%
<b>Total</b>	<b>\$ 244,401</b>	<b>\$ 172,618</b>	<b>70.63%</b>	<b>100.00%</b>

This calculation is in line with our current operations. Our customer car portion GP % of Sales has come a long way in the last couple of months. There is still some room to grow here, however it is not the mountain to climb like it is in Quick Lube. This is an area of opportunity, and we need to revisit how/who/what is being done during Quick Lube services. Even though it is only 11% of our total sales contribution, this is and will be an area of focus for our service department. Our internal department appears to be effective in its GP % of sales and is a very large contributor to our store. Our warranty GP % of sales need to be evaluated as well. Both our GM and Stellantis warranty rates are much lower than our door rate, and we need to request an increase from both of our OEMs. Although it can be difficult and delicate, we need to do this as we are missing a large amount of gross profit from our warranty jobs. We have a new Controller starting soon, and we expect her to push and question all expenses. This will benefit the service department greatly.

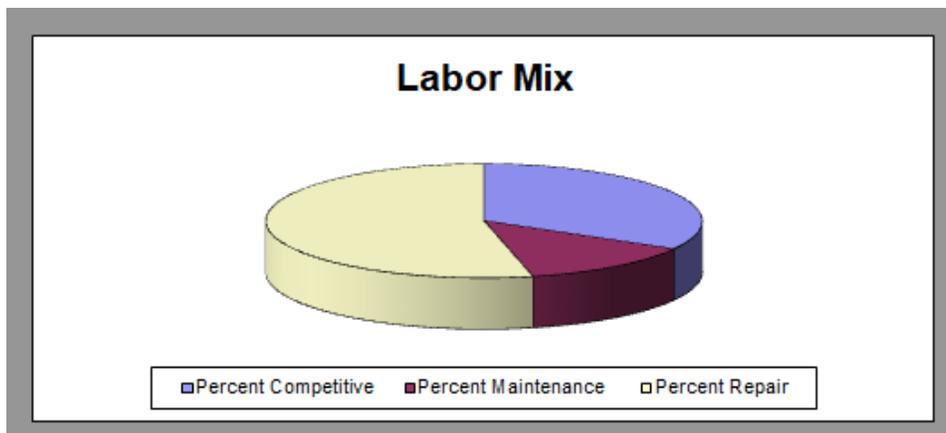
## Changes in Expense Structure

Service Department Profit Centering			
Expense Category	Dollar Amount	% of Gross	Profile
Department Gross	\$ 181,505		
Variable Expense	\$ -	0.00%	
Selling Expense	\$ -	0.00%	
Personnel Expense	\$ 101,263	55.79%	45-50
Semi-Fixed Expense	\$ 44,611	24.58%	15
Fixed Expense	\$ 28,900	15.92%	15
Unallocated Expense	\$ -	0.00%	
Dealer's Salary	\$ -	0.00%	
Total Expenses	\$ 174,774	96.29%	
Net Profit	\$ 6,731	3.71%	20

First off, it is great to see a net profit in our service department as in the previous couple of years net profits have been few and far in between. Our expenses are not 100% in line; however, they are not crazy. Our personnel expenses are a little high compared to profile. However, we have a great staff and in this job market you need to pay up to keep people. Expenses should always be managed and managed frequently. They tend to go up, unless you try to keep pushing them down. Our net profit is relatively small and as a percentage of gross is not great. The first place to look is gross, and we must continue to work on ways to increase GP through technician MPI videos, training for service writers, expense evaluation, and more. The previously calculations of technician proficiency and facility utilization that we have a lot more opportunity to gross more, and that is where the focus should be.

100 RO Analysis

Repair Order Analysis Summary Report							
	Sales in Dollars	FRH's on RO's	Averages	Analysis			
Competitive	\$ 2,633	÷ 60.90	= 43.24	FRH Average			
Maintenance	\$ 2,221	÷ 24.20	= 91.76	FRH Average			
Repair	\$ 12,026	÷ 98.30	= 122.34	FRH Average			
Totals	\$ 16,880	÷ 183.40	= 92.04	Customer ELR			
			Target Labor Rate	110.27	Per FRH		
Total Ro's in Sample	100	Difference		-18.23	Per FRH		
Cost of Labor							
Total Cost of Labor	4728.10	÷ Total Sales	= 28.01%	Percent Cost of Sales			
Total Cost of Labor	4728.10	÷ Total FRHs	= 25.78	Cost per FRH			
Repair Order Measurements							
Total Labor Sales	16,880.18	÷ Total ROs	= 168.80	Avg Labor per RO			
Total FRHs	183.40	÷ Total ROs	= 1.83	Avg FRH's per RO			
Menu Sales		÷ Total ROs	=	Percent Menu Sales			
Competitive FRHs	60.90	÷ Total FRHs	= 33.21%	Percent Competitive			
Maintenance FRHs	24.20	÷ Total FRHs	= 13.20%	Percent Maintenance			
Repair FRH	98.30	÷ Total FRHs	= 53.60%	Percent Repair			
One item ROs	39	÷ Total ROs	= 39.00%	Percent One Item RO			
Model Year Analysis							
2023	2022	2021	2020	2019	2018	Older	Total
0	2	10	11	8	14	55	100
0.00%	2.00%	10.00%	11.00%	8.00%	14.00%	55.00%	



There are a couple of takeaways that come from reviewing this. The first is that our overall ELR is far less than our door rate, meaning there are a couple of factors such as discounting, work mix, efficiency, and more that are driving this down. This is an area of opportunity. Another takeaway is that we have a high number of One Item ROs at 39%. We are over double what we should be, and with the use of Video MPis that we are going to start, we see this number going down. A lot of positives will come as a result of that. Another notable item is our work mix or repair to competitive/maintenance is a little out of line with our repair in these 100 ROs coming in at 53%. Finally, over half of our repairs are on vehicles that are over five model years old. This should be broken down further to help us further dial in our marketing efforts on who our customers are and what they drive.

## SWOT Analysis

### Strengths

- Valued employees
- Continuous improvement of shop and building
- Flexible
- Positive atmosphere
- Understanding
- Value input
- Teamwork
- Leadership
- Strong positive culture
- Friendly
- Customer centric
- Loyalty both internally and externally
- Appropriate staffing level (Sufficient number of techs)
- Training
- Trust in employees

## SWOT Analysis

### Weaknesses

- Enforcing policies
- Dispatch of tickets/work
  - Allows favoritism
- Stories
- Effective communication
- Scheduling
- New technology
- Customer perception of previous experience
- Facility layout
- Parts efficiency
- Work mix (Too much Warranty and not enough Customer pay)
- Responsiveness to customers
- No specific area for fleet vehicles
- Having only a few techs who can work on off brand vehicles effectively
- Lack of cross-trained technicians
- Lack of motivation by some techs

## SWOT Analysis

### Opportunities

- Training and focus on customer interaction
- Career path opportunities
- Great customer experience
- Use of video inspections
- Learning from each other
- Make more money!
- Customer experience for internal customers
- Improving CSI even more
- Cross training
- Young staff willing to learn (Room for growth)

## SWOT Analysis

### Threats

- Over thinking
- High expense structure
- Unknown future of electric vehicles
- Shop equipment
- Low amount of work coming in
- Having GM and Stellantis in the same service shop
- Government policy
- Not being open on Saturdays
- Lower labor rate than other shops
- The number of other shops in town

## SWOT Analysis

### *Objectives*

As a result of department wide SWOT, objectives include increasing accessible courses/opportunities of training for technicians and advisors by 30%. Increase gross profit as a percentage of sales by 5% (baby steps), reduce employee "bad" turnover by 20% year over year. Defining bad turnover as someone who was a good cultural fit and a productive employee that left. This does not include turnover as a result of a bad cultural fit and needed to find a new vocation.

### *Strategies*

Our strategies to accomplish these objectives include continuing to find and adapt to new technology, committing to our culture and people being first, and providing the most up to date training and tools. We will continue to be cutting edge, employee first, and be the most highly trained and qualified staff.

### *Tactics*

Our short-term tactics to work on these strategies and in turn accomplish our objectives include reviewing store hours and evaluating if a change is needed, reach out to OEM representatives for possible additional training, reach out to 20 group members potential opportunities, add video MPIs for technicians. Finally, we will commit to continually improving the employee journey by providing employee lunches, anniversary gifts, "swag" apparel/yetis/etc, and fun family friendly events such as going to the local raceway.

By doing the SWOT analysis with the entire department, it really gave a good snapshot of where the department is at. During the strengths portion, a lot of the same key words continued to come up including teamwork, value, and more. This is a testament to the focus we have on culture at our store and is great to see. On the other hand, the weaknesses were all over the place with a lot of them being the actual layout of the facility, which would be a huge undertaking and is currently unlikely. It was all great feedback, with it also being a positive that there was not one consistent issue that clearly is a problem. The opportunities portion showed a lot of want for more training and even cross training GM/Stellantis. This shows a willingness and want for our team to continue to improve. It also included a want for video, which is great as that is coming their way. Finally, the threats had a lot of concern regarding other stores. We should and will continue to price shop our local competitors and evaluate our current store hours.

## Action Plan

Task	Who	Due Date
Review and update Service Specials and website content.	Marketing Manager Service Manager	Twice a month First due 7/5/22
Add Video MPI to provide a better customer experience and sell more work	Fixed Ops Director Service Manager GM	7/31/22
Review store hours and consider reopening on Saturdays	GM Fixed Ops Director	7/31/22
Hire an additional lube tech to replace a very recent exit	Fixed Ops Director	8/15/22
Review of individual technician's proficiency to look for areas of opportunity and/or praise	Service Manager Fixed Ops Director	8/1/22

## **Synopsis**

Overall, our Service Department is moving in a positive direction. We have a healthy staff compared to our needs, and they all continue to grow. The department, like the store, is focused on culture and providing an Exception Experience for Everyone Everyday. We are young, but eager to grow. We need to continue to train our staff and strive for continuous improvement. There are a couple of areas of improvement that have been brought about from doing this exercise, and with an action plan and some additional insight we can improve on these. The introduction of video from technicians and working towards adding a service financing option will only make us better and separate us from other competitors. By continuing to fine tune processes, we will only become more dialed in, thus increasing efficiency, CSI, gross profit, and more. This will only better our Parts department as well. These will increase Gross Profit and should in turn increase net profit. We will continue to get better!