

Fixed Operations 2 Service Homework

1. Current practices:

- Our Service Department generates 2,000 CP RO's a month with a total RO count of about 2,700. We currently have 9 Service Advisors, 12 main shop techs, 8 express techs, 3 tire/alignment techs and 4 dedicated reconditioning techs. Our overall shop proficiency for line techs and reconditioning is consistently above 100%, while express and tire/alignment techs average around 50 percent. Our ASM staff averages 12 repair orders a day with 60% of our customer base having an appointment and a 94% show rate. Management structure consist of a Service Director, Service Drive Manager and a Shop Foreman. The management team is experienced and focuses on their responsibilities with the Director overseeing the overall operation. We offer a free car wash with each visit, allow customers to drive in without an appointment and have great customer retention in our PMA.

2. Goals for improvement:

- Increase production in express and tire/alignment department
- Achieve an average HPRO of 1.4, currently 1.15 YTD
- Focus on growing customer pay RO count
- Reduce "one line" repair orders
- Apply for a warranty labor and parts markup adjustment (Ca AB179)
- Improve communication and camaraderie between management, techs and ASM's
- Maximize facility production of technician stalls

3. Plans to achieve your goals:

- Utilize our auto groups Service Consultant to train ASM's and evaluate current op codes for optimal gross profit
- Work with our advertising agency to look for marketing opportunities
- Hire outside firm to analyze warranty labor and parts markup and apply for increase
- Have Service Management team hold staff meeting twice a month for improved communication
- Review tech staffing and schedules to maximize facility capacity
- Review all Service staff's performance yearly to ensure we are getting what we expect out of each employee

4. Plans to evaluate your changes:

- Provide ASM's with performance reports on a weekly basis to track improvements
- Review op code recommendations from consultant for grossing opportunities
- Receive feedback from staff during meetings to ensure management is providing all the tools needed to excel
- Continue tracking proficiency of technicians and update techs with standings
- Review staff evaluations to ensure we have the right people doing the right job
- Analyze website traffic with advertising agency to ensure coupons and web traffic are in line

Marketing

- Our current marketing consist of utilizing Toyota's factory maintenance reminder program and participating in yearly factory promotions (Buy 3 tires, holiday specials, ect..)
 - Implement declined service recommendation communications offered by our DMS
 - Target lost customers by email and direct mail with aggressive offers quarterly
 - Refresh website coupons on a monthly basis with reasons to do business with us
 - Have chemical company, MOC, update service menus with a good better best option
 - Provide service BDC with customer list of due and overdue Toyota Care services
 - Contact all customers in our PMA that have outstanding recalls and have BDC contact

Facility

- Current facility utilization in only 37.84%
 - Service management to evaluate each stalls production. Some technicians have multiple stalls that may be costing us potential
 - Our technician staff currently works 8 hour days, 5 days a week. If we implemented 4 tens would we be able to staff more technicians and utilize each stall more?
 - We have room for one more alignment rack in our shop, if we install it we can market an alignment promotion to utilize that dead space better
 - Have management team hire more techs to fill stalls that are not being used when other techs are off or have left for the day

| June YTD 2022 | |
|-----------------------------|---------------------|
| FACILITY POTENTIAL | |
| Number of Bays | 30 |
| | x |
| Number of Days | 25 |
| | x |
| Number of Hours | 10 |
| | x |
| Effective Labor Rate | 131.65 |
| FACILITY POTENTIAL | \$ 987,375 |
| FACILITY UTILIZATION | |
| Total Labor Sales | \$ 2,241,814 |
| | ÷ |
| Facility Potential | \$ 5,924,250 |
| | <i>equals</i> |
| FACILITY UTILIZATION | 37.84% |

Productivity

- Current tech proficiency is 65.99%. Our line techs and reconditioning techs are all performing at satisfactory levels. Our express and tire/alignment techs have the major opportunity for improvement.
 - ASM training to reduce one line repair orders and increase HPRO
 - Increase BDC communications to Toyota Care and overdue service customers till fill express and tire/alignment capacity
 - Evaluate tech staffing levels to determine if we have the right amount in each area
 - Pre-load shop in the evenings to maximize early morning production
 - Add floating technicians to fill stalls where other techs are off to increase overall hours
 - Have Shop Foreman spend time in express area to ensure processes and staff are not wasting time that could be productive

| NADA ACTUAL SERVICE ANALYSIS | | | | |
|--|----------------------------------|---|----------------------|-------------------------------------|
| Performance | June YTD 2022 | | | |
| | Labor Sales / Month | | Hourly Labor Rate | Hours Billed |
| Customer Car* | \$ 1,324,912 | ÷ | 131.66 | = 10063.1 |
| Customer PrePaid | \$ 54,510 | ÷ | 131.66 | = 414.0 |
| Customer Other* | | ÷ | | = 0.00 |
| Warranty | \$ 310,306 | ÷ | 144.85 | = 2142.3 |
| Internal | \$ 420,547 | ÷ | 120.46 | = 3491.2 |
| New Vehicle Prep | \$ 131,539 | ÷ | 143.27 | = 918.1 |
| Total | \$ 2,241,814 | | | 17028.7 |
| POTENTIAL | | | | |
| | \$ 2,241,814 | ÷ | 17028.71 | = \$ 131.65 |
| | Total labor sales for month | | Total hours billed | Effective Labor Rate |
| | 27.00 | x | 8 | x 22 = 4,752.0 |
| | # Service mechanical technicians | | # Hours/Day | Working Days/Month Clock Hour Avail |
| | 4,752.0 | x | \$ 131.65 | = \$ 625,597 |
| | Clock Hours Available | | Effective Labor Rate | Labor sales potential |
| How proficient are your technicians ? | | | | |
| | 18,816.4 | ÷ | 28,512.00 | = 65.99% |
| | Hours Billed | | Hours Available | Tech Proficiency |
| Customer labor divide by the Customer Effective Labor rate from the R. O. Analysis | | | | |

Analyze cost of labor:

- Customer pay work mix is just shy of 60% (53.75%) which gives us room to continue to grow our customer pay RO count.
- Overall labor retention is at 74.12% with a guide of 76%. The main factors affecting labor retention are internal pay labor and unapplied labor.
 - o Increase all internal labor charges to CP rates
 - o Evaluate where unapplied labor is coming from and adjust staffing accordingly
- Discounts appear to be in line with coupons being sent out, 1.26% labor discount YTD.
- Shop Foreman to ensure high paid technicians are not working on low labor rate jobs that lower paid technicians could be doing.

| Service Department Sales And Gross (Labor Only) | | | | |
|---|---------------------|---------------------|---------------------|---------------------|
| June YTD 2022 | | | | |
| Category | Sales | Gross | Gross as % of Sales | %Sales Contribution |
| Customer/Acc | \$ 1,324,912 | \$ 1,083,359 | 81.77% | 53.75% |
| Customer PrePaid | \$ 54,510 | \$ 47,760 | 87.62% | 2.21% |
| | | | 0% | 0% |
| Warranty/Acc | \$ 310,306 | \$ 252,342 | 81.32% | 12.59% |
| Warranty TC | \$ 223,096 | \$ 195,772 | 87.75% | 9.05% |
| Internal/Acc | \$ 420,547 | \$ 326,820 | 77.71% | 17.06% |
| PDI | \$ 131,539 | \$ 111,711 | 84.93% | 5.34% |
| Adj. Cost Of Labor | | \$ (190,839) | 0% | 0.00% |
| Total | \$ 2,464,910 | \$ 1,826,925 | 74.12% | 100.00% |

Changes in Expense Structure:

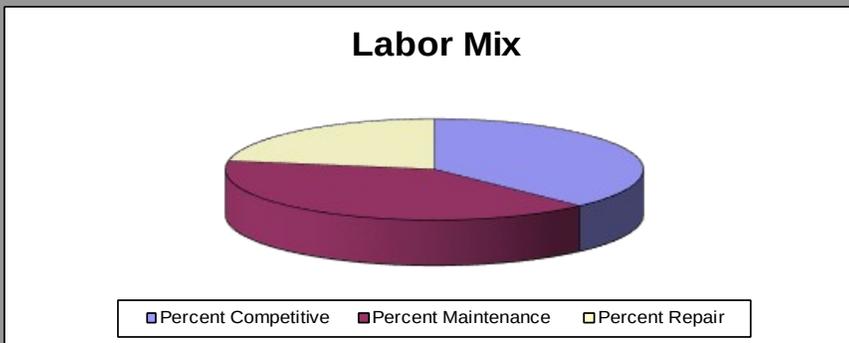
- Net profit as a percent of gross is below guide, currently 5.6%
 - o Low net is a result of poor RO performance and underutilization of facility. Expenses will balance as performance increases.
- ASM and technician pay are competitive and in line with guide.
- Management will need to focus on increasing HPRO and CP repair order to maximize facility potential. Continue to monitor overall expenses as other metrics meet guidelines.

100 Repair Order Analysis:

- Competitive ELR is too low, OP Code analysis review to be performed to maximize labor retention.

- Maintenance and Repair ELR hitting target rate.
- FRH's per RO too low, ASM performance training needed.
- Shop work mix is too heavy in competitive/maintenance, 17.67% above guide. Will look to drive more repair work to the shop.
- One line repair orders too high, ASM performance training needed.

| Repair Order Analysis Summary Report | | | | | | | |
|--------------------------------------|------------------|--------|-------------------|-------------|----------|----------|-----------------------|
| | Sales in Dollars | | FRH's on RO's | | Averages | Analysis | |
| Competitive | \$ | 6,665 | ÷ | 61.30 | = | 108.73 | FRH Average |
| Maintenance | \$ | 9,574 | ÷ | 64.65 | = | 148.09 | FRH Average |
| Repair | \$ | 5,472 | ÷ | 36.20 | = | 151.16 | FRH Average |
| Totals | \$ | 21,711 | ÷ | 162.15 | = | 133.89 | Customer ELR |
| | | | Target Labor Rate | | 144.77 | | Per FRH |
| Total Ro's in Sample | 100 | | Difference | | -10.88 | | Per FRH |
| Cost of Labor | | | | | | | |
| Total Cost of Labor | 3852.48 | | ÷ | Total Sales | = | 17.74% | Percent Cost of Sales |
| Total Cost of Labor | 3852.48 | | ÷ | Total FRHs | = | 23.76 | Cost per FRH |
| Repair Order Measurements | | | | | | | |
| Total Labor Sales | 21,710.96 | | ÷ | Total ROs | = | 217.11 | Avg Labor per RO |
| Total FRHs | 162.15 | | ÷ | Total ROs | = | 1.62 | Avg FRH's per RO |
| Menu Sales | | | ÷ | Total ROs | = | | Percent Menu Sales |
| Competitive FRHs | 61.30 | | ÷ | Total FRHs | = | 37.80% | Percent Competitive |
| Maintenance FRHs | 64.65 | | ÷ | Total FRHs | = | 39.87% | Percent Maintenance |
| Repair FRH | 36.20 | | ÷ | Total FRHs | = | 22.33% | Percent Repair |
| One item ROs | 21 | | ÷ | Total ROs | = | 21.00% | Percent One Item RO |
| Model Year Analysis | | | | | | | |
| 2023 | 2022 | 2021 | 2020 | 2019 | 2018 | Older | Total |
| 0 | 1 | 7 | 9 | 7 | 11 | 65 | 100 |
| 0.00% | 1.00% | 7.00% | 9.00% | 7.00% | 11.00% | 65.00% | |



SWOT Analysis, employee input:

| | |
|--|--|
| <p style="text-align: center;"><u>Strengths</u></p> <ul style="list-style-type: none"> • Family like work environment • Customer focused team • Down to earth management • Air conditioned shop • Friendly staff • Accommodating employee schedule • Loyal customers • Nice modern facility with room to grow • Ability to move up, hire from within | <p style="text-align: center;"><u>Weaknesses</u></p> <ul style="list-style-type: none"> • Express staff lacking leadership and organization. • Lack of accountability • Lack of training • Staff not showing up on time • Long wait times during lunch hour • Poor communication from management to lower level staff • MPI's being completed after vehicle is done • ASM's not having enough authority • Staff taking lunch at the same time • Car wash for customers down at times • Shop cleanliness. • No lunch provided on weekends for staff • Employee morale, staff talking down about working here • No annual employee reviews • Lack of faith in tech dispatching |
| <p style="text-align: center;"><u>Opportunities</u></p> <ul style="list-style-type: none"> • Ability to get a promotion • Pay increases as gross improves • Local tech training schools available, also factory training available • Growing town with opportunity to increase RO count • With better structure the department can be more productive • Qualified managers have the ability to tighten procedures and provide training • Regular meetings can improve communication and morale | <p style="text-align: center;"><u>Threats</u></p> <ul style="list-style-type: none"> • Poor supervision in Express department causing mistakes and lack of accountability • Employee turnover due to poor morale • Other Toyota dealer in town has a large standalone facility with a café inside • Customers see dirty work areas and disorganization may not want to do business with us • Prices of services increasing • Poor quality control • Unhappy employees • Guest amenities reduced since Covid • Catalytic converters being stolen from sales and service vehicles • Staff not working together • Cost of living • Local businesses offering higher starting pay |

Objectives / Strategies / Tactics

Objective:

- Increase customer pay repair order count
- Increase CP hours per repair order
- Reduce one line repair orders
- Increase competitive ELR
- Increase warranty parts/labor retention
- Fill more of the shop capacity
- Get net to gross to 20%
- Increase internal labor retention
- Reduce unapplied labor

Strategies

- Hire more technicians
- Consider 4/10 work shift for techs and ASM's
- Drive more repair work to shop to compliment work mix
- Review and adjust competitive op codes for higher labor retention
- Increase internal labor rate to match customer pay rate
- Review and adjust staffing levels

Tactics

- Hold staff meetings twice a month
- Shop Foreman to spend more time with Express techs
- Dealer groups consultant to train ASM
- Preload shop in evening for increase AM production
- Provide more outbound call list to Service BDC
- Add more customer communications and advertising strategies
- Provide ASM's and techs with performance reports

Action Plan:

1. Service Director to schedule bi-monthly staff meetings - 8/1/22
2. Service Drive manager to hire firm to apply for warranty parts/labor increase - 8/1/22
3. Shop Foreman to dedicate 10 hours a week to Express supervision - 7/1/22
4. Service Director to place ad with sign on bonus for technicians - 7/15/22
5. Service Drive Manager to provide ASM's with performance reports - weekly
6. Shop Foreman to provide technicians with proficiency reports - weekly
7. Service Director to authorize DMS declined service advertising - 8/15/22
8. Service Drive Manager to provide Service BDC with customer list - Monthly
9. Valet staff to pre-load shop with direction from dispatch - daily

10. Shop Foreman to review and adjust tech staffing to minimize unapplied labor – quarterly

Synopsis:

Our Service department has great potential by meeting NADA guides and increasing volume. Poor communication, low ASM performance and underutilizing our facility has kept our store from achieving 20% net to gross. Furthermore, the lack of attention and accountability has reduced employee morale and increased employee turnover. Our Service Management team is eager to make change and see what North Bakersfield is capable of.

Providing training and dedicating time and attention to our staff will organically reduce wait times, increase customer satisfaction and jump start employee morale in the right direction. Additional advertising along with expanding our outbound customer communications will allow us to take advantage of our growing market and increase RO count. ASM performance training will help us raise our CP HPRO, adjusting our internal labor rate and competitive op-code review will increase our labor gross retention.

With increased business and available shop capacity, hiring and retaining additional staff will be essential to our success. Our management team will be dedicated to creating the work environment that people want to work in. Our customer satisfaction and already high customer retention scores will also benefit from adjustments.

Cheers to a more profitable happy place to work!

Andy Pappas

NADA Class N397