

Service Department Analysis for MIDSTATE MITSUBISHI

**by
Alison Lozeau
N408**

This Service Department Analysis Utilizes the Month of October 2022's Financial Statement for Midstate Mitsubishi

1. Marketing:

How will you be marketing the dealership service department with the goal of maintaining the customers that you have and obtaining new customers?

- **Current practices**

Currently we have minimal marketing. Mitsubishi does offer certain online coupons for discounted oil changes and tire rotations, but otherwise we do not actively market to our customers.

- **Goals for improvement**

The goal is to attract customers and have them bring their vehicles to us to be serviced, thereby increasing services sold, which in turn will increase the effective labor rate and the proficiency of the technicians.

- **Plans to achieve your goals**

To increase services sold, customers need to know what is offered. We will begin to market the service department by posting a menu of bundled services offered along with pricing, including a discounted "Deal of the Month" service. We will post these menus and deals not only in the service reception and waiting areas, but also where they can be seen by customers who are purchasing new and pre-owned vehicles.

- **Plans to evaluate your changes**

We will review the appointment schedule weekly to evaluate how many additional service appointments are being booked and how far out the appointments are being scheduled. Also, we will review the service department's sales monthly, looking for an increase in sales and gross profit.

2. Analyze Cost of Labor:

(1st Homework Calculation) How do you pay your techs? Will you make changes?

Service Department Sales And Gross (Labor Only)				
Category	Sales	Gross	Gross as % of Sales	%Sales Contribution
Customer Car	\$ 13,221	\$ 11,088	83.87%	19.47%
Customer Truck			0%	0%
Customer Other	\$ 18,228	\$ 15,934	87.41%	26.84%
Warranty	\$ 18,164	\$ 15,679	86.32%	26.75%
Warranty Other			0%	0%
Internal	\$ 18,293	\$ 14,454	79.01%	26.94%
NVI / Road Ready			0%	0%
Adj. Cost Of Labor			0%	0.00%
Total	\$ 67,906	\$ 57,155	84.17%	100.00%

- **Current practices**

Currently, our technicians are paid hourly.

- **Goals for improvement**

The goal is to increase our technicians' efficiency and motivation by switching the technicians from an hourly rate to a flat rate.

- **Plans to achieve your goals**

To effectively change the technicians over to a flat rate, we need to assure the technicians that the service advisors can and will have the technicians' next job lined up with all necessary parts readily available, so they are not standing around waiting for their next job or the parts required.

- **Plans to evaluate your changes**

We will review the effective labor rate and technician proficiency monthly, looking for overall increases, as well as review the service department's monthly sales, looking for an increase in sales and gross profit.

3. **Changes in Expense Structure:**

(2nd Homework Calculation) Are you selling all the available hours? Are your expenses in line?

Service Department Profit Centering			
Expense Category	Dollar Amount	% of Gross	Profile
Department Gross	\$ 57,155		
Variable Expense		0.00%	
Selling Expense		0.00%	
Personnel Expense	\$ 53,072	92.86%	
Semi-Fixed Expense		0.00%	
Fixed Expense	\$ 34,679	60.68%	
Unallocated Expense		0.00%	
Dealer's Salary		0.00%	
Total Expenses	\$ 87,751	153.53%	
Net Profit	\$ (30,596)	-53.53%	

- **Current practices**

Currently, our expenses are not in-line with the labor hours sold.

- **Goals for improvement**

The goal is to increase services sold, as well as increase our technicians' proficiency.

- **Plans to achieve your goals**

- Instead of an hourly wage, technicians will be paid a flat rate, which will motivate them to be more efficient with their time and more productive.
- We will ensure that the service advisors and parts department can both line up the next job for the technicians, as well as provide them with all parts needed. In this way, a change to a flat rate will be welcomed, as the technicians will not feel that they are losing time waiting for their next job to be assigned or for the necessary parts to be available.
- We will maximize the use of the multi-media multipoint inspection to show customers what additional repairs are needed, which will reduce the number of one-line ROs.

- **Plans to evaluate your changes**

We will review the total service department's expenses, as well as the labor hours sold, monthly, looking for gradual improvement as new service department processes are introduced and a flat rate for the technicians is implemented.

4. **Productivity:**

(3rd Homework Calculation) How will you increase your Tech Proficiency?

NADA ACTUAL SERVICE ANALYSIS					
<i>Performance</i>					
	<i>Labor Sales / Month</i>		<i>Hourly Labor Rate</i>		<i>Hours Billed</i>
Customer Car*	\$ 13,221	÷	133.50	=	99.0
Customer Truck*		÷		=	0.00
Customer Other*	\$ 18,228	÷	133.50	=	136.5
Warranty	\$ 18,164	÷	133.50	=	136.1
Internal	\$ 18,293	÷	92.00	=	198.8
New Vehicle Prep		÷		=	0.00
Total	\$ 67,906				570.5
<i>POTENTIAL</i>					
	\$ 67,906	÷	570.47	=	\$ 119.04
	Total labor sales for month		Total hours billed		Effective Labor Rate
	5.00	x	8	x	23
	# Service mechanical technicians		# Hours/Day		Working Days/Month
	920.0	x	\$ 119.04	=	\$ 109,512
	Clock Hours Available		Effective Labor Rate		Labor sales potential
How proficient are your technicians ?					
	570.5	÷	920.00	=	62.01%
	Hours Billed		Hours Available		Tech Proficiency
Customer labor divide by the Customer Effective Labor rate from the R. O. Analysis					

- **Current practices**

Currently our technician proficiency is at 62%.

- **Goals for improvement**

The goal is to increase technician efficiency and productivity, as well as reduce the number of one-line ROs.

- **Plans to achieve your goals**

To increase our technicians' efficiency and motivate them more, we will change the technicians to a flat rate, and also ensure that the service advisors have the technicians' next job, with all required parts, waiting and ready for them. Also, implementing the multi-media multipoint inspection, which can be sent to the customer in real time over email or text, will increase technician productivity by reducing the number of one-line ROs.

- **Plans to evaluate your changes**

We will review our technician proficiency monthly, as well as the labor hours/services sold monthly, looking for overall increases.

5. **Facility:**

(4th Homework Calculation) What changes will you make to increase your utilization?

FACILITY POTENTIAL	
Number of Bays	5
	x
Number of Days	23
	x
Number of Hours	8
	x
Effective Labor Rate	119.04
FACILITY POTENTIAL	\$ 109,517

FACILITY UTILIZATION	
Total Labor Sales	\$ 67,906
	÷
Facility Potential	\$ 109,517
	<i>equals</i>
FACILITY UTILIZATION	62.01%

- **Current practices**

Currently our facility utilization is at 62%, whereas the NADA Guide is at 75%.

- **Goals for improvement**

The goal is to improve the facility utilization by reducing the number of unsold labor hours each month.

- **Plans to achieve your goals**

The most obvious factors contributing to the number of unsold labor hours in a month are: 1) the lack of process and organization at the service desk; and 2) the lack of collaboration between the service desk and the parts department to provide the technicians with necessary parts in a timely manner. Implementing a process whereby the service advisor(s) and the parts department work together to have the next jobs ready for the technicians, including necessary parts, will ensure an increase in productivity in the service department and significantly reduce the unsold labor hours each month.

- **Plans to evaluate your changes**

We will review the total of labor sales billed monthly, looking for an increase, which will reflect an increase both in the facility utilization and the productivity of the service department overall.

6. **100 Repair Order Analysis:**

Submit the summary page along with your evaluation of the analysis.

- **How does your repair labor rate compare to your posted door rate?**

The average repair labor rate is approximately one-fifth (0.2) of the posted door labor rate. The average labor rate should be within 10% of the posted door labor rate per NADA guide.

- **Is there discounting?**

In general, we do not have discounting.

- **What are the hours per RO?**

Average hours per RO are 0.8 hours. Average hours per RO should be 1-1.5 hours for express and 2-2.5 hours for repair work per NADA guide.

- **What is the percent of one-line ROs?**

Currently, the percent of one-line ROs is 68%. Per NADA guide, the percent of one-line ROs should be 10%-15%.

Repair Order Analysis Summary Report							
	Sales in Dollars		FRH's on RO's		Averages		Analysis
Competitive	\$ 747	=	23.40	=	31.91		FRH Average
Maintenance	\$ 734	=	23.20	=	31.63		FRH Average
Repair	\$ 1,095	=	33.80	=	32.40		FRH Average
Totals	\$ 2,576	=	80.40	=	32.03		Customer ELR
			Target Labor Rate		135.50		Per FRH
Total Ro's in Sample	100		Difference		-103.47		Per FRH
Cost of Labor							
Total Cost of Labor	2577.60	=	Total Sales	=	100.08%		Percent Cost of Sales
Total Cost of Labor	2577.60	=	Total FRHs	=	32.06		Cost per FRH
Repair Order Measurements							
Total Labor Sales	2,575.60	=	Total ROs	=	25.76		Avg Labor per RO
Total FRHs	80.40	=	Total ROs	=	0.80		Avg FRH's per RO
Menu Sales		=	Total ROs	=			Percent Menu Sales
Competitive FRHs	23.40	=	Total FRHs	=	29.10%		Percent Competitive
Maintenance FRHs	23.20	=	Total FRHs	=	28.86%		Percent Maintenance
Repair FRH	33.80	=	Total FRHs	=	42.04%		Percent Repair
One item ROs	68	=	Total ROs	=	68.00%		Percent One Item RO
Model Year Analysis							
2024	2023	2022	2021	2020	2019	Older	Total
0	0	21	2	13	14	50	100
0.00%	0.00%	21.00%	2.00%	13.00%	14.00%	50.00%	

Labor Mix

■ Percent Competitive ■ Percent Maintenance ■ Percent Repair

- **Current practices**

We are currently not working to capacity. Our average hours per RO should be 1-1.5 hours for express and 2-2.5 hours for repair work (not an average of 0.8 hours). Our labor rate should be *within* 10% of the posted door labor rate (not one-fifth the posted door labor rate), and the percent of one-line ROs should be 10%-15% (not 68%).

- **Goals for improvement**

The goal is to increase technician efficiency and productivity, reduce the number of one-line ROs, increase the average number of labor hours per RO, and thereby ultimately increasing the effective labor rate.

- **Plans to achieve your goals**

We will provide training to effectively use the existing iPads to include video and/or photos with the multipoint inspections, to show customers additional repairs their vehicles might need. This will improve communication with customers, reduce the number of one-line ROs, and increase the average hours per RO with the additional necessary repairs being performed. The service advisors in coordination with the parts department, will have the technicians' next job lined up and ready to go with the needed parts provided, so the technician spends less time waiting to be assigned a job or looking for and waiting on parts. This will also have a positive effect on the technicians' productivity and efficiency.

- **Plans to evaluate your changes**

Monthly, we will review the total labor hours/services sold, the average number of labor hours per RO, and the technicians' proficiency, looking for increases, which will reflect an increase both in the facility utilization and the productivity of the service department overall. We will also do a monthly review of the number of one-line ROs, looking for a decrease.

Service Department Analysis for Midstate Mitsubishi by Alison Lozeau N408

This Service Department Analysis Utilizes the Month of October 2022's Financial Statement for Midstate Mitsubishi

Qualitative Analysis

Strengths

1. We have a loyal customer base with repeat customers purchasing their cars, both new and pre-owned, with us and bringing those cars to us for service.
2. We have excellent technicians whose strengths complement each other, allowing us to work on all manner of vehicle repairs.
3. We have the ability to, and do, perform repairs on all makes and models of vehicles.
4. Our technicians are open and willing to make changes to the current processes.

Qualitative Analysis

Weaknesses

1. Current morale in the service department is extremely low, due to the service desk and parts department being short-staffed. For several months, we have not had a Parts Manager or a Parts Driver, and as of January, we no longer have a Service Manager.
2. We currently have one service writer/advisor and one parts department employee who, in addition to trying to fulfill all roles in the parts department (including back counter, wholesale, and deliveries), also helps on the service desk as needed. I (the Office Manager) have also been helping at the service desk and in the parts department as well.
3. The technicians' efficiency and productivity has declined, as technicians are often waiting for the service advisor(s) to assign them their next job and provide parts.
4. The technicians are not willing to switch to a flat rate until they know that they will not be standing around waiting for their next job to be assigned or waiting on parts needed to complete a job.
5. We currently have the iPads to check customers in and use for the multi-media multipoint inspection, but training is still needed for everyone to begin implementing this tool.
6. We are also currently under construction and are down one service bay.
7. Customer wait time has increased as a result of the construction and also the staffing shortages in both the service and parts departments, resulting in low customer satisfaction.
8. Lack of timely communication with customers is also a problem.
9. Overall, the dealership is short-staffed in many departments. In addition to the employees needed in the service and parts departments, we also do not have a receptionist or a cashier, so the service desk is currently answering and diverting phone calls, as well as cashing out customers.
10. There is limited-to-no marketing for service.
11. Service hours do not mirror sales hours, especially on Saturday.

Qualitative Analysis

Opportunities

1. We need to hire additional staffing, which will help boost morale and allow existing staff to perform their jobs more efficiently.
2. We will market the service department by posting a menu of services offered, including a discounted "Deal of the Month," along with pricing in both the service and sales customer waiting areas.
3. We will obtain training to effectively use the existing iPads for the multipoint inspections to include video and/or photos, allowing customers to see any additional repairs that are needed on their vehicles. This will improve communication with customers, as well as reduce the number of one-line ROs.
4. We will implement a process whereby the service and parts department have a plan regarding which job will be assigned to each technician next in the queue, as well as have all necessary parts needed to complete that job ready and available.
5. Once the technicians know they will not be losing time waiting for either their next job or the parts needed, we can switch them over from an hourly rate to a flat rate, which will increase their motivation and their productivity.
6. We will extend the service hours to match the sales hours, especially on Saturday.

Qualitative Analysis

Threats

1. We are experiencing difficulties attracting (and retaining) help to fill the roles of Service Manager, Parts Manager, and Parts Driver.
2. Due to staffing shortages, the tension and stress in the service and parts department is palpable, causing everyone to be short-tempered. This includes the technicians, the service writer, and the parts employee.
3. The construction in the building is also affecting the customers' comfort level.
4. The owner's expectation, however, is that productivity and customer service should not be affected by either staffing shortages or ongoing construction, which is contributing to the increased level of stress.
5. Some special-order parts, including a part for a major recall, are on backorder and are coming from Japan, with no realistic ETA forthcoming.

Action Plan

This Action Plan is based on information from Midstate Mitsubishi's Month of **October 2022** **Financial Statement**.

Objectives / Strategies / Tactics

Objectives

1. To increase the productivity of the service department by decreasing the number of one-line ROs from 68% to 40% by June 2023 and continue to decrease that percentage by the end of 2023 to be more in-line with the NADA guidelines of 10%-15%.
2. To increase the average hours per RO from the current average of 0.8 hours to 1-1.5 labor hours for express and 2-2.5 labor hours for repair work.
3. To increase the utilization of the facility.
4. To improve the motivation and increase the proficiency of the technicians.
5. To improve communication between the service advisors and the customer.
6. To attract new and repeat customers, thereby increasing services sold.

Objectives / Strategies / Tactics

Strategies

1. Hire additional staffing for the service and parts departments, which will help boost morale and allow existing staff to perform their jobs more efficiently.
2. Implement a weekly shop meeting, including the parts department, to discuss any issues the technicians, service advisors, or parts, may have, and to ensure that the service department as a whole is aligned with the goals set forth and the steps required to achieve those goals.
3. Train and begin utilizing the iPads purchased for the multi-media multipoint inspections. Once all service advisors and technicians are trained, we will be able to share with customers a link to a multipoint inspection report with photos and videos that will provide the customer with a visual of the recommended repairs needed on their vehicle. A visual often confirms for the customer the sense of urgency of recommended repairs, especially when a safety item is involved. Utilizing the multi-media multipoint inspection will:
 - Increase customer satisfaction by increasing the communication the service advisors have with the customers, as lack of communication is one of the biggest complaints our customers currently have with the service department.
 - Reduce the number of one-line ROs by upselling necessary repairs.
4. Ensure that the service advisors, together with the parts department, line up the next job with all parts needed for the technicians, thereby increasing the technicians' efficiency and productivity, as well as increasing the average labor hours sold per RO and the facility's utilization.
5. Change the technicians from an hourly wage to a flat rate, once it can be ensured that they will not need to wait for the next job to be assigned and that all required parts for that job will be available.
6. Market the service department by posting a menu of bundled services offered along with pricing, including a discounted "Deal of the Month" service, in customer waiting areas in both the service and sales departments.
7. Increase the service department's hours to mirror the sales department's hours, especially on Saturday.

Objectives / Strategies / Tactics

Tactics

1. Hire additional staffing for the service and parts departments, which will help boost morale and allow existing staff to perform their jobs more efficiently.
2. Attract customers to service by posting a menu of bundled services offered, including a discounted "Deal of the Month," along with pricing, in service and sales customer waiting areas.
3. Ensure that the service writers/advisors line up the next job for each technician and coordinate with the parts department to have the next job's parts ready and available, so the technicians do not need to wait.
4. Switch technicians from hourly pay to flat rate to increase motivation, efficiency, and productivity.
5. Train all service employees on how to correctly utilize the multi-media multipoint inspection software, so that links with pictures and videos of necessary repairs can be sent to customers to reduce one-line ROs and increase services sold.
6. Implement a weekly shop meeting, including the parts department, to discuss any issues the technicians, service advisors, and/or parts employees may have, and to ensure that the service department as a whole is aligned with the goals set forth and the steps required to achieve those goals.
7. Extend the service department's hours to mirror the sales department's hours, remaining open until 7pm on weekdays and until 5pm on Saturday.

Objectives / Strategies / Tactics

Action Plan

Task	By Whom	Completion Date
Hire additional staffing for the service and parts departments	Owner	ASAP
Implement a weekly shop meeting to discuss any issues the technicians, service advisor(s), and parts department employee(s) may have	Myself, service advisor(s), parts department employee(s), technicians	February 1, and ongoing
Implement a process whereby the service advisor(s) and the parts department employee(s) work together to have the next jobs ready for the technicians, including necessary parts	Service advisor(s), parts department employee(s)	February 1, and ongoing
Have the DealerFx Rep come in to train service advisor(s) and technicians on iPad use for the multipoint inspection including photos and videos	DealerFx Rep, myself, service advisor(s), technicians	February 1
Maximize use of the multipoint inspection software by all technicians and service advisor(s) until it becomes routine, even if there is a learning curve for some/all	Myself, service advisor(s), technicians	February 1, and ongoing
Switch the technicians from an hourly rate to a flat rate	Owner	March 1
Post a menu of bundled services offered along with pricing	Service advisor(s)	February 1, and ongoing
Post a discounted "Deal of the Month" for service	Service advisor(s)	February 1, and ongoing
Extend the service department's hours to mirror the sales department's hours	Owner, myself, service advisor(s)	February 1, and ongoing

Synopsis

Hiring additional staffing for the service and parts departments will: 1) help with the overall morale of those departments; 2) help alleviate some of the stress felt by the employees in those departments; and 3) allow the existing staff to perform their jobs more efficiently. With the added staffing, the service advisors, in coordination with the parts department employees, will have the time to assign the next jobs to technicians, as well as provide the required parts to the technicians. This will increase technician productivity and efficiency by reducing time lost waiting for the next job to be assigned and/or waiting for parts to be available.

Once the construction at the dealership is complete (hopefully by early spring), the service department will get their additional bay back. The additional bay, as well as increasing the hours that the service department is open on weekday evenings and on Saturdays, will help improve both technician proficiency and facility utilization. Along with the improved technician productivity that will come with the completion of construction, customer waiting areas, once finished, will be comfortable and welcoming, and should boost customer satisfaction and CSI. Service will continue marketing its services and discounts offered in these new customer waiting areas, which should result in an increase in services sold to customers.

In a month or so, all the service advisor(s) and technicians should be comfortable using, and be familiar with, the multi-media multipoint inspection software. With the use of this software, we should see an increase in technician proficiency, an increase in the average labor hours sold per RO, and a decrease in the percentage of one-line ROs. Greater customer satisfaction as a result of improved communications utilizing the multipoint inspection software should also translate to an increase in the average hours per RO due to the additional necessary repairs being performed.

Overall, as a result of the increase in technician proficiency, the increase in labor hours/services sold, and the reduction of one-line ROs, the effective labor rate will also increase, thereby also increasing the sales and the gross profit of the service department.