

Fixed Operations 2 Service Homework

- a. Facility. I would move all technicians except those with three years or less experience to flat rate. Many of our technicians are flat rate, but a number are not. We let them choose whether they will go to flat rate. We should make that change an option. If they can't meet at least 100% efficiency, we probably don't need them working as a technician.
- b. Productivity. We will have the shop foreman or a porter "shag" the vehicle for the technician. We currently have 1400 vehicles on the lot, and retrieving the trucks is taking much longer than it used to. I will require to finally finish getting each technician his or her own computer, not just a tablet. We have recently built a dedicated tool room for specialty tools and have a full-time tool person to check in/check out and run tools to the technician. This should reduce the wait time on tools from the old system of waiting on the parts department to deliver the tool "when they got around to it."
- c. Analyze Cost of Labor. We pay techs in a variety of ways. Many techs are paid a flat rate with a 90% guarantee, meaning they will also be paid at least 90% of their hourly rate for hours actually worked. They may be paid much more, but never less than 90%. Other techs and apprentices are just paid an hourly rate. Many techs on an hourly rate are still learning, but a decent number are veterans.

After several years with the company, I would remove the blanket guarantee from the veteran techs, most likely three. We've discussed it internally and will not implement it, but if it were my decision, I would remove it.

- d. Changes in Expense Structure. We are only selling 80% of the hours available. Our expenses, as recorded, are not in line with what they should be. At Midway, fixed operations carry an unfair share of the admin burden due to our unique business model. I discussed with one (we have two) of the dealer principals about changing the overhead allocation to better compare how our fixed ops do against peers. Still, he wasn't ready for that battle with the other dealer principal. The other (older) dealer principal has been with Midway for nearly 50 years and is a CPA. The younger dealer principal is not a CPA and doesn't feel it's a change worth fighting for. As background, last year we sold 18,000 trucks out of one location. To do so requires a tremendous administration effort and expense for talent. For example, we employ 5 CPAs, 4 accountants, two attorneys, and 5 IT professionals. Much of their time is spent supporting the sales department.
- e. Further, we are an ESOP company. The ESOP is a significant minority shareholder. As a tax strategy, the ESOP is not only funded through the distributions of the company but also contributions from Midway. This is also over-allocated to the departments. In short, the

department is managed by focusing on gross profit instead of net. One day we will fix the expense allocation. Training. We are within the minimum training standard. We currently exceed it but also signed up today for Ford's Top Techs Program with pays Ford Technicians a nice yearly bonus as a reward for progressing through Ford's training.

f. Training. We are within the minimum training standard. We currently exceed it but signed up today for Ford's Top Techs Program, paying Ford Technicians a nice yearly bonus as a reward for progressing through Ford's training.

g. SWOT Synopsis.

1. Objectives

- a. Improve Repair Order Thru Put
- b. Reduce Policy
- c. Improve Parts and Service Efficiency and Tech Wait Time
- d. Improve Effective Labor Rate

2. Strategies

- a. Improve Repair Order Thru Put
 - i. Reduce lead time from when order is written to first punch to 2 hours
 - ii. Reduce dwell time by completing 4 hour or less jobs first and completing the job first punch to last in less than 2 hours
 - iii. Reduce lag time by closing ticket no more than 2 days after completion
- b. Reduce Policy
 - i. Only use the policy account for expenses that are truly policy charges
- c. Improve Parts and Service Efficiency and Tech Wait Time
 - i. Increase collaboration between parts and service
- d. Improve Effective Labor Rate
 - i. Change labor rates and eliminate some discounting

3. Tactics

- a. Improve Repair Order Thru Put
 - i. Inform Tech about how much time is on the job
 - ii. Prioritize smaller jobs first in the day
 - iii. Put bigger jobs after smaller jobs
 - iv. They will find the time to get both done
 - v. Quote the job up front for quicker approval
 - vi. Bonus SA and Manager on avoiding the turbo close and closing tickets before they get 48 hours old

- vii. Effectively Manage SAs to change the deeply entrenched turbo close culture
- b. Reduce Policy
 - i. Eliminate Service Advisor's ability to charge items on the ticket to the policy account
 - ii. Require Manager to approve in the DMS the policy item
 - iii. Bonus SA's and Management on policy savings
- c. Improve Parts and Service Efficiency and Tech Wait Time
 - i. Place back parts counter people physically in the service offices with dedicated full time work stations
 - ii. Completely physically remove them from the parts department
- d. Improve Effective Labor Rate
 - i. Reduce discounting
 - ii. Standardize the labor rates for all work expect RV
 - iii. Raise internal rate to best customer rate

Action Plan.

Task: Train Dispatcher on informing tech about job time

Role: Service Managers

Date: April 15, 2023

Task: Train Dispatcher on prioritizing smaller jobs earlier in the day

Role: Service Managers

Date: April 15, 2023

Task: Rewrite in house auto dispatcher software program to prioritize smaller jobs earlier in the techs shift then bigger jobs second

Role: IT Manager/IT Coder

Date: May 1, 2023

Task: Upfront job quoting expectation communicated to the Service Advisors

Role: Service Manager and Assistant Service Manager

Date: March 15, 2023

Task: Implement new bonus program to avoid the turbo close and communicate it to Service Managers and Assistants

Role: GM

Date: April 15, 2023

Task: Eliminate Service Advisors ability to policy items

Role: IT Manager

Date: March 15, 2023

Task: Communicate elimination of Service Advisors ability to policy items and that Manager approval is required.

Role: Service Managers

Date: March 15, 2023

Task: Write bonus plan for policy expense reduction

Role: GM

Date: March 15, 2023

Task: Communicate new policy to Service Managers and Assistants

Role: GM

Date: April 1, 2023

Task: Communicate move of Back Counter Parts people into the service offices to parts manager

Role: GM

Date: March 15, 2023

Task: Communicate move of Back Counter Parts people into the service offices to parts people

Role: GM

Date: April 1, 2023

Task: Set up work spaces for Back Counter Parts people in the service offices

Role: IT/Facilities

Date: April 15, 2023

Task: Remove discounting ability from Service Advisors

Role: IT

Date: April 15, 2023

Task: Set up more standardized rates and raise internal rate

Role: GM/Service Managers

Date: March 15, 2023

Impact. Improved Moral. Improved Gross. Improved customer satisfaction. Improved throughput can have a dramatic financial impact on the service department and the dealership.

Synopsis. We need to improve service department operations. We are starting with focusing throughput in the shops. We will inform the tech about how much time is on the job so that he knows what the benchmark is that he will be paid off. We are also going to prioritize smaller jobs first in the day and save the bigger jobs for the second ticket of the day. For example, we will assign a four-hour job and then a six or eight hour job and set the expectation that both should be completed before the tech goes home for the day. Typically, we have found through experimenting this works. We will also quote the job up front and get preapprovals from the customer when possible. This will reduce bay dwell time and help the tech start and complete the ticket in one shot. We will design and implement a system and bonus program to eliminate the turbo close. Ideally every ticket would be closed when the job is complete but as a practical matter, we are setting the goal of closing every ticket no more than 48 hours after completion. We will communicate this expectation from the Dealer Principal on down and reiterate it clearly and often.

We will work to reduce policy. Preapproval of quotes will help avoid surprises with the customer reducing the need to policy work to keep the customer happy. Removing the Service Advisors' ability to policy ticket items will keep them honest and show them the value of the preapproval.

We will improve tech wait time on parts by moving the back counter people into the service offices. This will help break down the department silos and avoid the us versus them culture that has grown during and since Covid-19. Having parts people working side by side with the service office personal will allow them to develop good working relationships and improve efficiency. Parts people will be able to see when an item is "hot" and not have to be told that it is "hot."

We will improve our effective labor rate by standardizing our rates and removing the ability of Service Advisors from discounting rates. Other than for RV work we will remove the specialty rates for labor. The service labor market has improved from a pricing perspective, and we will move to take advantage of it. The market will bear higher rates and we will take the opportunity to simplify our pricing structure.

Service Department Sales And Gross (Labor Only)

Category	Sales	Gross	Gross as % of Sales	%Sales Contribution
Customer Truck	\$ 676,823	\$ 468,053	69.15%	64.44%
ESP	\$ 9,175	\$ 5,081	55.38%	0.87%
Customer Other			0%	0.00%
Warranty	\$ 190,940	\$ 123,374	64.61%	18.18%
Materials	\$ 20,219	\$ 2,983	14.75%	1.92%
Internal	\$ 92,516	\$ 47,390	51.22%	8.81%
Sublet	\$ 60,693	\$ 17,331	28.56%	5.78%
Adj. Cost Of Labor			0%	0.00%
Total	\$ 1,050,365	\$ 664,211	63.24%	100.00%

Service Department Profit Centering

Expense Category	Dollar Amount	% of Gross	Profile
Department Gross	\$ 664,211		
Variable Expense		0.00%	
Selling Expense	\$ 326,503	0.00%	
Personnel Expense	\$ 263,111	39.61%	
Semi-Fixed Expense		0.00%	
Fixed Expense	\$ 400,824	60.35%	
Unallocated Expense		0.00%	
Dealer's Salary	\$ 2,000	0.30%	
Total Expenses	\$ 992,438	149.42%	
Net Profit	\$ (328,227)	-49.42%	

ATD ACTUAL SERVICE ANALYSIS

Performance

	<i>Labor Sales / Month</i>		<i>Hourly Labor Rate</i>		<i>Hours Billed</i>
Customer Truck*	\$ 676,823	÷	189.00	=	3581.1
Customer Truck*	\$ 9,175	÷	189.00	=	48.5
Customer Other*	\$ -	÷		=	0.00
Warranty	\$ 211,159	÷	152.94	=	1380.7
Internal	\$ 92,516	÷	142.00	=	651.5
New Vehicle Prep	\$ 60,693	÷	142.00	=	427.4
Total	\$ 1,050,365				6089.2

POTENTIAL

$$\begin{array}{r}
 \boxed{\$ 1,050,365} \div \boxed{6089.21} = \boxed{\$ 172.50} \\
 \text{Total labor sales for month} \quad \text{Total hours billed} \quad \text{Effective Labor Rate}
 \end{array}$$

$$\begin{array}{r}
 \boxed{48.00} \times \boxed{8} \times \boxed{20} = \boxed{7,680.0} \\
 \text{\# Service mechanical technicians} \quad \text{\# Hours/Day} \quad \text{Working Days/Month} \quad \text{Clock Hour Avail}
 \end{array}$$

$$\begin{array}{r}
 \boxed{7,680.0} \times \boxed{\$ 172.50} = \boxed{\$ 1,324,769} \\
 \text{Clock Hours Available} \quad \text{Effective Labor Rate} \quad \text{Labor sales potential}
 \end{array}$$

How proficient are your technicians ?

$$\begin{array}{r}
 \boxed{6,089.2} \div \boxed{7,680.00} = \boxed{79.29\%} \\
 \text{Hours Produced} \quad \text{Hours Available} \quad \text{Tech Proficiency}
 \end{array}$$

FACILITY POTENTIAL	
Number of Bays	55
	x
Number of Days	30
	x
Number of Hours	24
	x
Effective Labor Rate	\$ 172.50
	<i>equals</i>
FACILITY POTENTIAL	\$ 6,830,840

FACILITY UTILIZATION	
Total Labor Sales	\$ 1,050,365
	÷
Facility Potential	\$ 6,830,840
	<i>equals</i>
FACILITY UTILIZATION	15.38%

FACILITY POTENTIAL	
Number of Bays	55
	x
Number of Days	20
	x
Number of Hours	8
	x
Effective Labor Rate	\$ 172.50
	<i>equals</i>
FACILITY POTENTIAL	\$ 1,517,964

FACILITY UTILIZATION	
Total Labor Sales	\$ 1,050,365
	÷
Facility Potential	\$ 1,517,964
	<i>equals</i>
FACILITY UTILIZATION	69.20%

Fixed Operations 2 Service Homework (Heavy Truck)

Your homework assignment is to evaluate your service department. A detailed analysis is required of the following areas to include, what you are currently doing, plans for improvement, how you plan to achieve the goals and evaluate if the changes that are made are beneficial to the store. Some of you may not have the authority to make any changes as to the outcome of the recommendations, you are still required to make the evaluations and recommendations that you would perform if this was your department.

- a. Analyze Cost of Labor: How do you pay the techs? Will you be making any changes (1st Homework calculation)? *1st Calc A TAB*
- b. Changes in Expense Structure: Are you selling all the available hours, are your expenses in line (2nd Homework calculation)? *3rd Calc A TAB [Focus on Gross]*
- c. Productivity: How will you increase your Tech Proficiency (3rd Homework calculation)? *1st Calc B TAB*
- d. Facility: What changes will you make to increase your Utilization (4th Homework calculation)? *2nd Calc B TAB*
- e. Proficiency: Will you make any changes to your service department to improve the proficiency level of your techs?
- f. Level of Current Training: Are you within the minimum training standard for your manufacturer?
- g. Complete Qualitative SWOT Analysis and include as last part of homework.

When Action Plan + Synopsis OBJECTIVES SEE PAGE 12
 Use whatever time frame is best for you. You may use Word or PowerPoint. Please submit a single document and NOT three individual forms. Please email it to me, or if it too large, upload it to the DropBox, Homework section. Email me that it has been uploaded, so I may grade the assignment.

Pick different month

DUE MARCH 13, 2023

Questions? Contact:	Bob Atwood	batwood@nada.org	(410) 336-9600
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AMERICAN
TRUCK DEALERS
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Fixed Operations 2 Service Homework

Your homework assignment is to evaluate your service department. A detailed analysis is required of the following areas, to include what you are currently doing, plans for improvement, how you plan to achieve the goals, and evaluate if the changes that are made are beneficial to the store. Some of you may not have the authority to make any changes as to the outcome of the recommendations, but you are still required to make the evaluations and recommendations that you would perform if this was your department.

- a. **Facility:** What changes will you make to increase your Utilization (4th Homework Calculation)?
- b. **Productivity:** How will you increase your Tech Proficiency? (3rd Homework Calculation)? Will you make any changes to your service department to improve the proficiency level of your techs?
- c. **Analyze Cost of Labor:** How do you pay the techs? Will you be making any changes (1st Homework Calculation)?
- d. **Changes in Expense Structure:** Are you selling all the available hours, are your expenses in line (2nd Homework Calculations)?
- e. **Level of current training:** Are you within the minimum training standard for your manufacturer?
- f. **Perform a complete Qualitative SWOT Analysis with an Action Plan:** Copy the Strengths, Weaknesses, Opportunities, and Threats sheet and hand it to EVERY service employee. Ask for their input. Collect the sheets, tabulate the data and then set Objectives, Strategies, and Tactics. Now it is time to create the Action Plan. Give us a synopsis of your homework assignment, with the potential impact that could be achieved when the plan is implemented in your location.

Use whatever time frame is best for you. You may use “Word” or PowerPoint. **Homework will only be graded if in a single document.** Please email it to us, or if it is too large, upload it to the dropbox in the homework dropbox. Once it has been uploaded, email us that it has been uploaded, so we may grade the assignment.