

# **SERVICE DEPARTMENT ANALYSIS FOR HOBSON CHEVROLET BUICK**

By: Austin Hobson N331-16

I used the November statement from 2017 to conduct the service department analysis.

## **Advertising/Merchandising**

We currently advertise via television, radio, newspaper, internet, and mailers. We advertise in Cairo, GA where the dealership is located and the three major surrounding towns. After conducting the pricing survey for dealers and local shops we are very competitive. Realistically we are probably priced too low and need to raise prices. We were only advertising our pricing on our website and in store via menus, but will now post competitor pricing signage in front of the service drive. We do send mailers and email to current customers to remind them when their next service is due. We also send coupons to previous customers in sales and service to get them back in the store.

## **Marketing**

We currently service all makes and models both new and pre-owned, but we do not openly advertise that information. There are only two franchise dealerships in our town but more than 20 within an hour radius. We have an opportunity to capture a greater percentage of customers in our immediate area with better marketing efforts and disclosure. We are also in a position to acquire new customers from surrounding towns due to same day scheduling and lower customer wait times. There are many local shops that have great reputations and are well established but we have the best pricing structure. We need to retain our new car customers that have complimentary maintenance through Chevrolet/Buick and turn them into lifelong customers. We also need to promote ourselves as a full-service shop for all makes and models instead of a just a new GM service center. We have a very good reputation and have great service personnel so our market penetration is good, especially due to word of mouth marketing from our customers, but we have a lot of room for growth and opportunity.

## **Facility**

FACILITY POTENTIAL	
Number of Bays	7
	x
Number of Days	24
	x
Number of Hours	10
	x
Effective Labor Rate	72.61
	<i>equals</i>
FACILITY POTENTIAL	\$ 121,985

FACILITY UTILIZATION	
Total Labor Sales	\$ 61,250
	÷
Facility Potential	\$ 121,985
	<i>equals</i>
FACILITY UTILIZATION	50.21%

Our facility is definitely large enough for current production and future growth. Our bays stay full and our technicians seem to stay busy, but the table above shows that we are only at half of our facility utilization. NADA guide is 70% so we have a lot of room for improvement. We have lifts in all our bays and currently our only real limitations are the productivity, efficiency, and proficiency of our technicians. The facility is up to date and we have new bays and machines, we just need to turn more hours.

## **Productivity**

## NADA ACTUAL SERVICE ANALYSIS

### Performance

	Labor Sales / Month		Hourly Labor Rate		Hours Billed
Customer Car*	\$ 26,418	÷	70.38	=	375.4
Customer Truck*	\$ -	÷		=	0.00
Customer Other*		÷		=	0.00
Warranty	\$ 11,177	÷	82.75	=	135.1
Internal	\$ 22,258	÷	70.38	=	316.3
New Vehicle Prep	\$ 1,397	÷	82.75	=	16.9
<b>Total</b>	<b>\$ 61,250</b>				<b>843.6</b>

### POTENTIAL

$$\begin{array}{r}
 \text{\$ 61,250} \\
 \text{Total labor sales for month}
 \end{array}
 \div
 \begin{array}{r}
 \text{843.57} \\
 \text{Total hours billed}
 \end{array}
 =
 \begin{array}{r}
 \text{\$ 72.61} \\
 \text{Effective Labor Rate}
 \end{array}$$

$$\begin{array}{r}
 6.00 \\
 \text{\# Service mechanical technicians}
 \end{array}
 \times
 \begin{array}{r}
 9 \\
 \text{\# Hours/Day}
 \end{array}
 \times
 \begin{array}{r}
 22 \\
 \text{Working Days/Month}
 \end{array}
 =
 \begin{array}{r}
 \text{1,188.0} \\
 \text{Clock Hour Avail}
 \end{array}$$

$$\begin{array}{r}
 \text{1,188.0} \\
 \text{Clock Hours Available}
 \end{array}
 \times
 \begin{array}{r}
 \text{\$ 72.61} \\
 \text{Effective Labor Rate}
 \end{array}
 =
 \begin{array}{r}
 \text{\$ 86,259} \\
 \text{Labor sales potential}
 \end{array}$$

How proficient are your technicians ?

$$\begin{array}{r}
 843.6 \\
 \text{Hours Produced}
 \end{array}
 \div
 \begin{array}{r}
 1,188.00 \\
 \text{Hours Available}
 \end{array}
 =
 \begin{array}{r}
 \text{71.01\%} \\
 \text{Tech Proficiency}
 \end{array}$$

**Customer labor divide by the Customer Effective Labor rate from the R. O. Analysis**

We currently have six technicians. Out of the 1,188 hours available in November they only produced 843. NADA guide for proficiency is 120% and we are at 71%, nearly 50% below guide. As a front end oriented guy, I always thought because our techs were busy they were being productive but the above table shows that's not quite the case. We have enough customers and inventory to stay busy, but we are taking too long to get each RO through the shop. We have good technicians, but we have a lot of room for growth and need to motivate them to be more proficient.

### Organization and Production

At Hobson Chevrolet we have eleven employees in fixed operations. Our parts department is comprised of a Parts Manager and Assistant Parts Manager. In Service we have a Service Manager, Assistant Service Manager, service writer, and six technicians. Our head master tech is also the shop foreman. Each technician has his own bay with the master tech having two. Every service employee works Monday through Friday from 7:30am to 5:30pm. On Saturdays they swap every other shift and work 8:00am to 1:00pm. The Service Manager, ASM, and service writer all write RO's. My ASM and service writer handle most of the walk-ins. Our Service Manager distributes all the RO's. Technicians get the vehicles, bring them to their bays and perform inspections. They take RO's to the parts counter to get quotes then get with the ASM or Sales Manager depending on whether the vehicle is customer pay or internal. When the RO is approved parts are ordered or picked up at the counter to complete the jobs. For customer pay

the ASM or writer explains the work performed and collects payment. The Service Manager and Parts Manager have equal authority over their respective departments and both report to the GM.

### Cost and Gross Profit

#### Service Department Sales And Gross (Labor Only)

Category	Sales	Gross	Gross as % of Sales	%Sales Contribution
Customer Car	\$ 26,418	\$ 17,676	66.91 %	43.13%
Customer Truck			0%	0.00%
Customer Other			0%	0%
Warranty	\$ 11,177	\$ 7,277	65.11 %	18.25%
Warranty Other			0%	0.00%
Internal	\$ 22,258	\$ 15,535	69.80 %	36.34%
NVI / Road Ready	\$ 1,397	\$ 976	69.86 %	2.28%
Adj. Cost Of Labor			0%	0.00%
<b>Total</b>	<b>\$ 61,250</b>	<b>\$ 41,464</b>	<b>67.70 %</b>	<b>100.00 %</b>

As a whole our gross as a percentage of sales is roughly 68% which is 5% below the NADA guide of 73%. If we take a closer look we can see that customer pay, warranty, and internal are all below guide. Warranty is concerning because it's free money with no reason for discount and internal is a factor of service being bullied by sales. Customer pay is low from too much discounting which needs to be addressed. Overall there is room for improvement in all three areas and we should be able to achieve guide with new policies and procedures.

### Expense Structure

## Service Department Profit Centering

Expense Category	Dollar Amount	% of Gross	Profile
Department Gross	\$ 42,119		
Variable Expense		0.00%	
Selling Expense		0.00%	
Personnel Expense	\$ 28,943	68.72%	45-50%
Semi-Fixed Expense	\$ 17,067	40.52%	25-30%
Fixed Expense	\$ 4,430	10.52%	25-30%
Unallocated Expense		0.00%	
Dealer's Salary		0.00%	
Total Expenses	\$ 50,440	119.76%	
Net Profit	\$ (8,321)	-19.76%	

The above table shows that our personnel expense at nearly 69% is above the NADA guide of 50%. We have good employees and they are well compensated but that expense is way too high. One factor contributing to this excess expense is our technician mix. We have mostly A and B techs. With a more balanced ratio personnel expense would go down slightly, but that alone will not fix the issue. Likewise, our semi-fixed expense at 40% is 10% above the NADA guide of 30%. We need to look into the breakdown of individual expenses and see what expenses are contributing to the excess amount. The one bright spot is fixed expense at 10% which is significantly below NADA guide of 25%. Increasing gross profit would help to decrease these expenses.

### **Pay Plans**

Currently our Service Manger gets a salary plus 2% of total sales. The Assistant Service Manager and service writer are paid hourly. The technicians are also paid hourly but only for the hours they turn, not the hours they are in the shop. Each technician is paid a different hourly rate based on experience, skill, and ability. After taking this class and talking with fellow students it seems the best pay structure to increase Service Manager productivity is to pay them a percentage of the net profit. In addition, I would change the Assistant Service Manager's pay plan to include a smaller percentage of the net and a percentage of the labor for each multi-line RO. I would also change the service writer's pay plan to be commission, getting paid a percentage of labor for what jobs they sell. I think I would change the pay plan for techs so they would only receive the full hourly pay if proficiency was at 100% and they would receive additional pay for every 5% increment in proficiency over 100%.

### **Performance Enhancement Programs**

The owner at Hobson Chevrolet Buick sets objectives each month to create a benchmark to compare results to. The main objectives for fixed ops are for service and parts to reach a certain gross profit percentage. Objectives also include all employees being up to date on GM training and high CSI levels. CSI levels are closely monitored so dips can be quickly addressed and corrected. All employees are ultimately accountable to the GM and Owner. Our Owner is more hands on and involved in the day to day operations than most Owners. It is easy to track objectives simply by looking at the monthly financial statement and going to GM Center of Learning for training status. Our GM closely monitors training in all departments and keeps employees aware of their current level and what it should be. Communication

is critical to success, especially between departments such as service to parts and service to sales. It has been my experience that when problems come up it is usually do to a breakdown in communication. Chain of communication in our store needs to be improved.

### **Current Training**

All employees are currently up to date on training. There are different levels of training but the most common for all employees is General Motors Center of Learning. There is training for Sales, Office staff, Service, Parts, and Body Shop. Training percentages can be seen and updated on a day to day basis. GM requires training to be completed quarterly, that is for all employees to have completed 100% of training courses by the end of each quarter. In addition, GM ties Dealer incentives to this training so it is taken seriously. Training courses are for new models, technology, safety and new machines as well as general knowledge. There is additional training necessary in fixed ops for new tools. For example, the parts department recently purchased a new key cutting and programming machine. The body shop was required to purchase a new welder specifically for aluminum vehicle components since they are growing in the market. Our current training programs are efficient and effective but the market and vehicles continue to change and evolve so our training must also.

### **Special Tools and Equipment**

Below you will see the current condition of our special tools and equipment area. This area could be worse but it definitely could and needs to be more organized. The tools and equipment themselves are in good condition. Upon talking to the Parts Manager, it seems the real issue is the way they are checked out and returned. Currently there is no system in place for each tech to check out tools and therefore be held accountable for returning them. If a tool goes missing there is no way to know who had it last or even when it was used last. We must create a set of policies and procedures for this. The special tool area is in the back behind the parts counter so it is also imperative that the tools are retrieved by parts staff only and not service technicians. I have talked with the Parts and Service Managers and we are working to resolve this issue and create a better system.

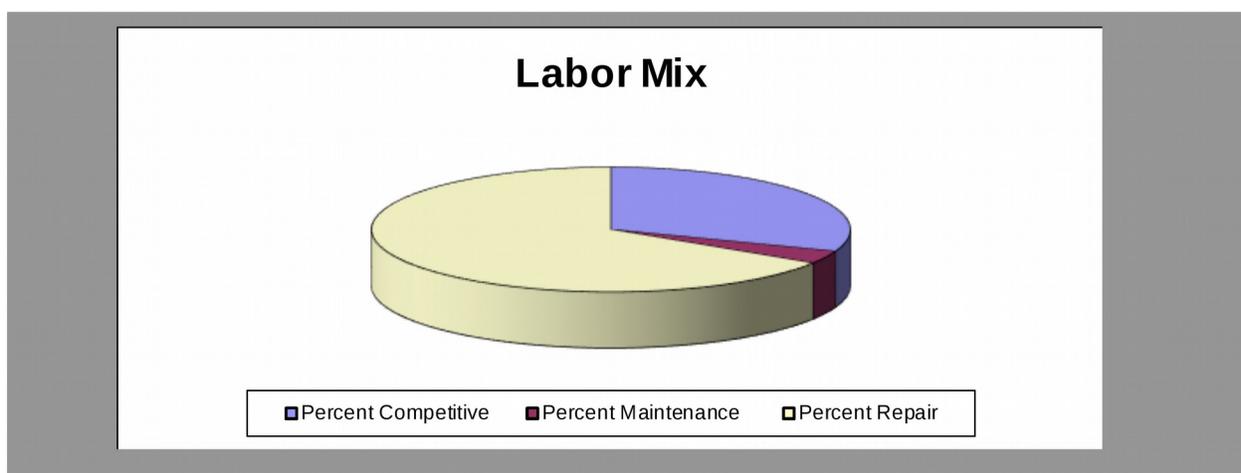






## 100 Repair Order Analysis

Repair Order Analysis Summary Report							
	Sales in Dollars		FRH's on RO's		Averages	Analysis	
Competitive	\$	2,020	÷	45.60	=	44.30	FRH Average
Maintenance	\$	300	÷	5.00	=	60.00	FRH Average
Repair	\$	9,050	÷	98.00	=	92.35	FRH Average
Totals	\$	11,370	÷	148.60	=	76.51	Customer ELR
			Target Labor Rate			84.75	Per FRH
Total Ro's in Sample		100	Difference			-8.24	Per FRH
Cost of Labor							
Total Cost of Labor		3338.65	÷	Total Sales	=	29.36%	Percent Cost of Sales
Total Cost of Labor		3338.65	÷	Total FRH's	=	22.47	Cost per FRH
Repair Order Measurements							
Total Labor Sales		11,369.90	÷	Total RO's	=	113.70	Avg Labor per RO
Total FRH's		148.60	÷	Total RO's	=	1.49	Avg FRH's per RO
Menu Sales			÷	Total RO's	=		Percent Menu Sales
Competitive FRH's		45.60	÷	Total FRH's	=	30.69%	Percent Competitive
Maintenance FRH's		5.00	÷	Total FRH's	=	3.36%	Percent Maintenance
Repair FRH's		98.00	÷	Total FRH's	=	65.95%	Percent Repair
One item RO's		84	÷	Total RO's	=	84.00%	Percent One Item RO
Model Year Analysis							
2019	2018	2017	2016	2015	2014	Older	Total
0	1	16	9	13	14	47	100
0.00%	1.00%	16.00%	9.00%	13.00%	14.00%	47.00%	



By looking at the above repair order analysis there are a couple items that stand out. First that we are at 84% for one item RO's. This is unacceptable. There is no upselling, but also a concern that techs are not really doing complete full inspections to be able to recommend necessary repairs. You can see that nearly

50% of the vehicles being serviced are older than 2014 so there are definitely at least maintenance items that need to be performed. With such a wide distribution among the customers with older vehicles it appears we are not doing a great job of keeping customers after their warranty period goes out. We have the lowest pricing in the area so retention is an issue of educating customers about our service department and qualified technicians. Second, our customer effective labor rate is \$8.00 below our target labor rate due to discounting. We must lock discounting in the DMS for our ASM and service writer. Third, our competitive and maintenance percentages are a combined 40% when they should be 60%. Our repair percentage is 60% and needs to be 40%. So basically, we need to swap the work mix between the two categories.

## **SWOT ANALYSIS**

### **Strengths**

1. We have a good mix of older technicians with a lot of experience and young techs willing to learn.
2. The techs work well together and have good comradery.
3. Our dealership is located in a small town so we have a very loyal customer base.
4. Everyone in fixed ops prioritizes customer service. It matters to the employees.
5. Two of our lifts have recently been replaced with new lifts that have new technology.
6. Our Owner and GM support service and are willing to get new tools and equipment.
7. Our technicians openly interact with customers, we are very transparent, no hiding behind the curtain.
8. We are the low-price leader in our area, very competitive pricing.
9. Our Assistant Service Manager is a very progressive thinker.

### **Weaknesses**

1. There is a strained relationship between Service Management and technicians.
2. There is poor communication that leads to this tension.
3. RO's are passed out inefficiently.
4. Service Manager shows favoritism when passing out RO's.
5. There has been recent turnover and instability.
6. Service hours of operation do not mirror sales.
7. Jobs are too frequently discounted.
8. There is not a non-dealer competitive pricing board.
9. The "tail is wagging the dog", techs turn down jobs.

### **Opportunities**

1. The Dealership is located right off major Hwy 84 between two other large towns and only 20 minutes north of Tallahassee, Florida's capital city with 350,000 people.
2. Several of the franchise dealers in the larger population areas are neglecting customers and unintentionally sending them our way.
3. Install non-dealer competitive pricing board to show all potential customers that we have the best prices around.
4. We have manufacturer certified technicians with more training and experience and can promote that.
5. We don't use a service menu and implementing one can help decrease one-line RO's.
6. Incentivize techs to do better inspections so service writers can recommend more repairs and do more money per RO.
7. Actively market accessories in the sales and service department to sell more parts and labor.

## **Threats**

1. We have many independent shops with good reputations in our area.
2. Technicians leaving to go to other Franchise dealers, there are 20 within an hour radius.
3. Strained relationship between management and techs can push them to other shops.
4. Technicians are customer centric so if they leave they take customers with them.
5. If good reputation is not maintained in a small-town word gets around quickly and can impact business.
6. Fixed op jobs are high stress and can create high turnover and instability.

## **Objectives**

1. Decrease single line RO's.
2. Increase shop supply percentage and make sure it's on every RO.
3. Increase tire sales.
4. Increase customer pay gross labor sales.
5. Improve communication and morale between techs and management.
6. Complete more RO's/turn more hours per day.
7. Follow up with customer declines.
8. Increase labor rate/door rate.
9. Ask for business.
10. Track lost sales.
11. Make customers aware of low prices.

## **Strategies**

1. Use menu and multipoint inspection every time to decrease one-line RO's.
2. Change shop supply settings in the DMS and default them to every RO.
3. Order red, yellow, and green tire display to create customer awareness.
4. Lock discount settings in DMS.
5. Hold an open meeting to discuss issues and how to improve.
6. Create better flow by passing out not holding RO's.
7. Set calendar and schedule reminders in the CRM to follow up with declines.
8. Just raise labor rate and make everyone aware.
9. Send surveys, make calls, go to businesses and incentivize referrals from employees and customers to create more business.
10. Use the CRM tool to track lost sales.
11. Post competitive pricing signage outside service department to create price awareness.

## **Tactics**

1. Tie ASM/ service writers pay to multiline RO's.
2. Change DMS settings, lock them, and identify how has access.
3. Make sure tire box is checked on inspection and followed up by writer every time.
4. Make sure Service Manager is the only one with access to discounting.
5. Have team building events to improve morale, create accountability, and incentivize good ideas.
6. Chart RO distribution so Service Manager is aware of tech bias. Have ASM pass out RO's.
7. Have accountability/points reward system for callbacks that result in return of previously declined RO's.
8. Let everyone know new labor rate and post it immediately.
9. Incentivize everyone who brings in new customers. Give business discounts for large firms.
10. Have meetings each week to discuss lost sales and track them.
11. Make sure competitive pricing board stays updated.

## Action Plan

<b>Task</b>	<b>By Whom</b>	<b>Completion Date</b>
Decrease single line RO's to 50%	ASM and service writer	June 1, 2018
Increase shop supply percentage from 5% to 15%	Service Manager and Myself	March 1, 2018 Effective immediately
Increase Tire Sales by 25%	ASM and service writer	July 1, 2018
Increase customer pay labor gross sales by 8% by locking DMS discounting to everyone except Service Manager.	Service Manager	May 1, 2018
Have weekly meetings for service managers and technicians to improve morale and communication.	Service Manager	Weekly
Have ASM pass out RO's to increase hours turned.	ASM	Daily
Have ASM and service writer follow up on declines to improve return business.	ASM and service writer	Bi-weekly
Increase labor rate to \$110/hr.	Service Manager	May 1, 2018 Effective immediately
Increase new business by incentivizing customer and employee referrals.	General Manager	Daily
Decrease lost sales by using CRM to track and having weekly meetings.	Service Manager	weekly
Put out competitive pricing board	Service Manager	May 1, 2018

## Synopsis

We have an opportunity to dramatically increase gross profit in our Service Department just by making several small changes. By increasing the shop supply percentage from 5% to 15% and putting it on every RO we are projected to increase gross profit by \$57,960. By increasing the labor rate from \$100/hr to \$110/hr we will stay competitive and increase gross profit by another \$53,100. By reducing single line RO's we will pick up additional labor sales and parts sales while writers and technicians will make more money improving morale. Putting out the red, yellow, and green tire display will increase customer awareness and considering we don't sell a large number of tires now, an anticipated increase in tire sales

by 25% will create trust and an opportunity to perform more services in the future. The need for a better relationship between techs and management is critical for moving forward in 2018 and team building events and weekly meetings should help morale and create better communication. Letting our ASM pass out RO's should get more vehicles through the shop each day and improve technician satisfaction. If we can limit discounting and make sure the Service Manager is the only one with access we should be able to raise our effective customer labor rate and then also our warranty labor rate. Increasing both ELR's will add roughly another \$30,000 to the service departments gross profit per year. Bringing in new customers, tracking lost sales, and getting customer declines back in will result in untold additional revenue and increase parts sales and keep techs busy. Finally, by putting up competitive pricing signage and making customers aware we should have better retention and take customers from our competition. We are in a unique position to make a big push for service in our area for the next couple year. Before taking the service fixed ops 2 course I was unaware just what our metrics meant and how much room for improvement we had. Now I am eager for our service department to come out of mediocrity and perform to its full potential.