Structure your Service Department to be Profitable

Don Tipton
November 5, 2015
The Service Department...
from the Owner/General Manager’s perspective:

* “Service can be a strange and foreign world”
* “However, it all looks pretty simple. A customer comes in with a broken RV. We fix it, collect the money and move on to the next customer. Simple right?”
* “Besides the Sales Department feed them a steady flow of work.”
* “I know Sales. I like Sales. Sales I understand”
* “Sales, that’s where I want to spend my time”
* “Besides, there’s always a bunch of people back there that appear to be unhappy, like they’re being inconvenienced and just don’t want to be here. They seem to arrive with low expectations as to how it’s going to go today…..

* “…and then you have the customers.”
From the Service Manager’s perspective:

Sales Manager says:
“Service can’t get my Prep’s done”

Parts Manager says:
“Service can’t get my special order parts installed”

Customer says:
“WHAT, you can’t get me in for two months!”

Sales Manager says:
“Service charges too much”

Technician says:
“You have to wait too long to get an approval from the Sales Manager and then they never want to fix anything”

Factory says:
“It’s not covered under warranty”

Technicians say:
“I’m quitting. Can’t make enough money. Too much warranty work.”

Customer says:
“What? It’s not covered under warranty?”

Factory says:
“It’s covered but we’ll only pay ____ to replace it”
From the Service Manager’s perspective:

**Customer says:**

“Just take one off of another trailer”

**Sales Manager says:**

“Can’t sell units with missing parts”

**Customer says:**

“Your rate is too high and it always takes forever to get it done”

**Technician says:**

“I should get paid more to do that”

**Customer says:**

“What do you mean you can’t send a Technician out?”

**General Manager/Owner says:**

“The Service Department is losing money”
Service Inventory

The Service Manager is responsible for managing the most precious, fragile and perishable inventory in the store.

This inventory will not age or become obsolete.

You can not see it or touch it, yet it’s real and it’s delivered fresh daily.

But, you can sell more than you have….everyday!

You can’t return this inventory to the manufacturer.

(although sometimes you wish you could)

Unfortunately, unsold inventory is lost at the end of every work day and the chance to sell it is lost…forever.

What is this inventory?

TIME
Some definitions to understand...

* **Schedule Efficiency**
  Technician “scheduled” time versus actual time clocked in and ready to work

* **Productivity**
  Technician time on the “clock” versus the time Technician is actually “working” on something

* **Efficiency**
  Technician time actually spent “working” on something versus the flat rate time billed

* **Proficiency**
  Technician time on the “clock” versus the flat rate time billed
  *
  *Proficiency is the easiest to track and measure and is often referred to as “productivity”

“It’s not always about not having enough to work on........... it’s about not working enough on what we have”
The Service Inventory

How to determine available inventory

# Technicians X Clock Hours Scheduled X Proficiency
equals the Inventory available for the day
times the number of working days for the month
gives you the monthly inventory.

Of course you must factor in training days, vacation and scheduled time off.
You can use an attendance factor of .93 to allow for Technician time off.

Important Note: this available inventory assumes that all Technicians have the same skill level. To accurately determine available inventory, skill categories should be established.
The numbers can be deceptive...

Examples

1. Schedule Efficiency:
   8.0 schedule versus 7.5 actual time clocked = 93.7%

2. Productivity:
   7.5 clock hours versus 6.5 hours working = 86.6%

3. Efficiency:
   6.5 hours working versus 7.0 billed hours = 107.7%

4. Proficiency:
   8.0 clock hours versus 7.0 billed hours = 87.5%

See opportunity here? Let’s take a look.....

Schedule Efficiency improvement:
.5 day x 21 working days x 12 months = 126 hours now available to sell

Productivity improvement:
1.0 day x 21 working days x 12 months = 252 hours now available to sell

Example: Improving the hours available to sell....
126.0 hours x $99.00 x 12 Technicians = $149,688.00 labor sales
252.0 hours x $99.00 x 12 Technicians = $299,376.00 labor sales
The “Lost-Time” Factor

**Examples of Technician “Lost –Time” in a Typical 8 Hour Day**

<table>
<thead>
<tr>
<th>Activity</th>
<th>Time</th>
</tr>
</thead>
<tbody>
<tr>
<td>Waiting for that first job of the day</td>
<td>.3</td>
</tr>
<tr>
<td>Coffee, snacks, breaks, socializing, smokes</td>
<td>.5</td>
</tr>
<tr>
<td>Tool truck guy – Uniform guy</td>
<td>.1</td>
</tr>
<tr>
<td>Parts</td>
<td>.5</td>
</tr>
<tr>
<td>Dispatch</td>
<td>.4</td>
</tr>
<tr>
<td>Special tools</td>
<td>.1</td>
</tr>
<tr>
<td>Approvals, additional repair instructions</td>
<td>.3</td>
</tr>
<tr>
<td>Finding keys – finding units</td>
<td>.3</td>
</tr>
<tr>
<td>Technical Assistance</td>
<td>.1</td>
</tr>
<tr>
<td>Pricing jobs/quotes</td>
<td>.3</td>
</tr>
<tr>
<td>Moving units/spotting</td>
<td>.5</td>
</tr>
<tr>
<td>“Hey, got a minute?”</td>
<td>.3</td>
</tr>
</tbody>
</table>

Total: 3.8 HOURS!!!

*Be careful of what you take for granted*

*Of course you cannot eliminate all “lost-time”*

*Good procedures and planning can help*

“Don’t like my numbers, plug in your own”

*Handout*
What It Takes To Structure For A Profit

Now that you know all about the Service Inventory you need to know what it takes to hit that profit objective you’ve been aiming for...

Do you have enough Technicians?

Do you have enough stall space?

How about the Service Advisor’s pay plan, is it a win-win?

Important Data to Review:
- Average month total Department expense
- Total labor gross profit % (labor sales less technician cost) *65.0%+
- Overall effective labor rate (average $ per billed hour)
- Average month total shop production (billed hours)
- Current department net profit (average month)
- Current total Service Advisor compensation (annual)
Steps to setting a Profit Objective

**Step One:** Review Controllable Expenses
**Step Two:** Support Personnel Positions
**Step Three:** Expense Benchmark (or current average)
**Step Four:** Net Profit Objective
**Step Five:** Production Required
**Step Six:** Technicians Required
**Step Seven:** Production Forecast
**Step Eight:** Service Advisor Compensation
**Step Nine:** Measure progress
Step One

Review Controllable Expenses

* Policy
* Shop supplies
* Advertising
* Effective Technician cost per flat rate hour
  * Future hires, apprentice program
Step Two

Review Support Personnel Positions

- Service advisors
- Cashier(s)
- Appointment Coordinator
- Bookers
- Dispatcher
- Shop foreman
- Greeter/porter/shuttle
- Warranty Administrator

*Are the positions really full time?*

*Does the position create a “bottle-neck”?
Step Three

Establish Expense Benchmark

- Set an expense objective (anticipating a reduction) or use existing average
Step Four

Set Net Profit Objective

- Set a net profit objective as a % of labor SALES, not to include parts, shop supplies or sublet
- 10%, 15% or 20% net profit to labor sales
- Objective could be to “Break-Even”
Step Five

Determine the production required

* Divide average monthly expense (or benchmark) by labor gross profit margin “%”
* Result equals the labor sales required
* Divide labor sales required by the overall effective labor rate
* Result equals the flat rate production required
### Labor Sales Requirements To Reach Your Department Goals

<table>
<thead>
<tr>
<th>Total Mechanical Department Expenses for One Month*</th>
<th>Current Gross Profit Percent</th>
<th>Total Labor Sales to Break Even</th>
</tr>
</thead>
<tbody>
<tr>
<td>$91,425.00</td>
<td>75.0%</td>
<td>$121,900.00</td>
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</tbody>
</table>

### Production Requirements To Reach Your Department Goals

<table>
<thead>
<tr>
<th>Total Labor Sales to Break Even</th>
<th>Overall Effective Labor Rate</th>
<th>Production Required to Break Even</th>
</tr>
</thead>
<tbody>
<tr>
<td>$121,900.00</td>
<td>$119.86</td>
<td>1017.0</td>
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</table>

*Excluding Cost of Sales
Step Six

Determine the Technicians required

- Divide the production required by the monthly “contribution” of one Technician at ____% Proficiency
- Note: 1 Technician X 8.0 hours a day X 21 working days X .93 attendance factor = 156.2 hours available to sell a month
## Technician Staffing Requirements To Reach Your Department Goals

<table>
<thead>
<tr>
<th>Production Required to Break Even</th>
<th>Technician Proficiency @ 100%</th>
<th>Technicians Required to Break Even</th>
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</thead>
<tbody>
<tr>
<td>1017.0</td>
<td>156.2</td>
<td>6.5</td>
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</table>

<table>
<thead>
<tr>
<th>Production Required to Generate 10% Net Profit</th>
<th>Technician Proficiency @ 100%</th>
<th>Technicians Required to Generate 10% Net Profit</th>
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<tbody>
<tr>
<td>1173.5</td>
<td>156.2</td>
<td>7.5</td>
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</table>

<table>
<thead>
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<th>Production Required to Generate 20% Net Profit</th>
<th>Technician Proficiency @ 100%</th>
<th>Technicians Required to Generate 20% Net Profit</th>
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<tr>
<td>1386.8</td>
<td>156.2</td>
<td>8.8</td>
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Step Seven

Build a Production Forecast
### Forecast 2016

<table>
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<tr>
<th></th>
<th>Jan</th>
<th>Feb</th>
<th>Mar</th>
<th>Apr</th>
<th>May</th>
<th>June</th>
<th>July</th>
<th>Aug</th>
<th>Sept</th>
<th>Oct</th>
<th>Nov</th>
<th>Dec</th>
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<tr>
<td>Days</td>
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<td>20</td>
<td>23</td>
<td>20</td>
<td>23</td>
<td>20</td>
<td>23</td>
<td>20</td>
<td>22</td>
<td>21</td>
<td>20</td>
<td></td>
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<tr>
<td>Days x 8hrs x .93</td>
<td>163.68</td>
<td>148.8</td>
<td>171.12</td>
<td>148.8</td>
<td>171.12</td>
<td>148.8</td>
<td>171.12</td>
<td>148.8</td>
<td>163.68</td>
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<tr>
<td>Clock Hours</td>
<td>1964</td>
<td>1786</td>
<td>2053</td>
<td>1786</td>
<td>2053</td>
<td>1964</td>
<td>1786</td>
<td>2053</td>
<td>1786</td>
<td>1964</td>
<td>1875</td>
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<td>Proficiency</td>
<td>75%</td>
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<td>75%</td>
<td>75%</td>
<td>90%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>90%</td>
<td>90%</td>
<td>75%</td>
<td>75%</td>
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<tr>
<td>Flat Rate Hours</td>
<td>1473.1</td>
<td>1339.2</td>
<td>1540.1</td>
<td>1607.0</td>
<td>1848.1</td>
<td>1964.2</td>
<td>1785.6</td>
<td>2053.4</td>
<td>1785.6</td>
<td>1767.7</td>
<td>1406.2</td>
<td>1339.2</td>
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<tr>
<td>Effect.Labor Rate</td>
<td>$96.00</td>
<td>$96.00</td>
<td>$96.00</td>
<td>$96.00</td>
<td>$98.00</td>
<td>$98.00</td>
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<tr>
<td>Labor Sales</td>
<td>$141,420</td>
<td>$128,563</td>
<td>$147,848</td>
<td>$157,490</td>
<td>$181,113</td>
<td>$194,452</td>
<td>$176,774</td>
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<td>$175,007</td>
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<td>$132,581</td>
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<td>$203,291</td>
<td>$176,774</td>
<td>$175,007</td>
<td>$139,210</td>
<td>$132,581</td>
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<tr>
<td>Unapplied Time</td>
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<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td>Gross Profit %</td>
<td>74.4%</td>
<td>74.4%</td>
<td>74.4%</td>
<td>74.7%</td>
<td>74.7%</td>
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<td>74.7%</td>
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</tr>
<tr>
<td>Labor Gross Profit</td>
<td>$105,216</td>
<td>$95,651</td>
<td>$109,999</td>
<td>$117,645</td>
<td>$135,292</td>
<td>$145,256</td>
<td>$132,050</td>
<td>$151,858</td>
<td>$132,050</td>
<td>$130,730</td>
<td>$103,990</td>
<td>$99,038</td>
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<tr>
<td>Pts/Sub Gross Profit</td>
<td>$18,524</td>
<td>$16,840</td>
<td>$19,367</td>
<td>$20,630</td>
<td>$23,110</td>
<td>$26,576</td>
<td>$23,110</td>
<td>$22,879</td>
<td>$18,199</td>
<td>$17,332</td>
<td></td>
<td></td>
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<tr>
<td>Expenses</td>
<td>$110,000</td>
<td>$110,000</td>
<td>$110,000</td>
<td>$110,000</td>
<td>$110,000</td>
<td>$110,000</td>
<td>$110,000</td>
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<td>$110,000</td>
<td>$110,000</td>
<td>$110,000</td>
<td>$110,000</td>
</tr>
<tr>
<td>Net Profit</td>
<td>$13,741</td>
<td>$2,491</td>
<td>$19,365</td>
<td>$28,275</td>
<td>$40,160</td>
<td>$65,676</td>
<td>$50,160</td>
<td>$73,434</td>
<td>$50,160</td>
<td>$48,609</td>
<td>$17,189</td>
<td>$11,370</td>
</tr>
</tbody>
</table>

|          | $1,954,522 | 256 | 22855.7 | 19909.4 | 87.1% | $ 98.17 |
| Labor Sales | $1,458,775 | Work/Days | Total Clock | Total FRH | Proficiency | ELR |
| Total Gross Profit | $1,714,485 | $1,285,000 | $429,485 | 25.1% |
| Expenses | $1,015,960.65 | $255,710.70 |
| Net Profit | $73,509.87 | $66,827.15 | $76,851.22 | $81,863.26 | $94,142.75 | $101,076.07 | $91,887.33 | $105,670.43 | $91,887.33 | $90,968.46 | $72,361.27 | $68,915.50 |
| Parts Sales | $73,509.87 | $66,827.15 | $76,851.22 | $81,863.26 | $94,142.75 | $101,076.07 | $91,887.33 | $105,670.43 | $91,887.33 | $90,968.46 | $72,361.27 | $68,915.50 |
Step Eight
Performance Based Service Advisor Compensation

MUST:
* Be simple to understand
* Controllable by the Advisor (able to work it)
* Easy to “see-it” and measure it
* Target a objective – *(like 1173.5 flat rate hours)*
* Pay on CLOSED repair orders
* Set a budget
  * 15% of department gross profit for total Service Advisor income

Suggestion – 50/30/20 plan:
* 50% on individual flat rate hours sold
* 30% on total shop flat rate hours sold
* 20% on Salary*
* Pay all every pay cycle, clean the slate!
* *No salary - No over time?
Step Nine
Measure Your Progress

Traditional Key Performance Indicators:
* Customer Effective Labor Rate
* Overall Effective Labor Rate
* Hours sold per customer repair order
* Sales Type Mix (Customer, Warranty, Internal)
* Appointment Schedule (# days out)
* Open Repair Orders (vs. Units on the ground)
* Total Billed Hours (vs. Goal)
* Technician Schedule Efficiency
* Technician Productivity
* Technician Proficiency
The Daily Must-Do’s

1. MBWA, process inspection & coaching
2. Board Meeting
3. Inspect the schedule – shop load
4. Open repair orders
5. Carryovers
6. Shop Walk @ 10 – 2 – 4
7. Billed hours MTD vs. Goal
Thank You

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