Alderson Consulting

We get results.

Service Manager Training Manual

Session Two

Profit Benchmarking

- **Concept:** How do we work smarter, not harder?
- **Goal:** To retain 42% of revenue to the bottom line (before parts transfer).
- Back out sublet false security.

Profit Benchmarking

- To hit 42%, is it easier to:
 - Run at 66% gross profit with a 35% cost structure or
 - Run at 75% with a 44% cost structure?
- A \$400,000 month @ 67% is the same as \$357,000
 @ 75% GP.
- Which is more sustainable long term?



Profit Benchmarking

- Assuming current expenses are at \$150,000 target, expense structure would lead to a GP of \$333,000.
- This requires \$495,000 @ 67% GP or \$444,444 @ 75% GP.
- If we reduce the expenses to \$130,000, the 75% target volume is not down to \$384,000!
- If ABC Motors reduced expense by 17% and increased GP by 7%, they will need to sell \$1.35 million less in labour to hit the same profit targets.



Gross Profit

When addressing gross profit, the first place to start is the labour rate.



Is it a calculated strategy or do we use a competitive average for the local area?



Is it price sensitive and if so, does this mean we have no choice but to accept lower profit in some areas?



Do we even have a labour rate?



Labour Rate – Breakout Exercise 1

• At ABC Motors we have 7 techs. In your teams, calculate the correct labour rate for your store to achieve a 75% gross profit margin on repair work.

<u>Techs</u>

Technician Name	Labour Type	Technician Rate	Average Hours
Fred	Flat	\$35	200
Mike	Flat	\$38	220
Jada	Flat	\$44	250
Greg	Flat	\$35	155
Sean	Straight	\$18	110
Phil	Straight	\$21	85
Andy	Straight	\$22	160



Labour Rate – Breakout Exercise 1

- One possible calculation is average cost of labor = \$30.42.
- \$30.42 / 0.25 = labour rate @ 75% = \$121.71.
- This is a common approach but it does not created a *weighted average* and as such is often the starting point for gross profit leakage.

Weighted Average Labour Rate



• In order to be accurate, we need to assess how much of our labour is being performed at each cost level.

FRED: (200/1180 * 35 = 5.93)MIKE: (220/1180 * 38 = 7.09)JADA: (250/1180 * 44 = 10.44)GREG: (155/1180 * 35 = 4.60)SEAN: (172/1180 * 18 = 2.62)PHIL: (172/1180 * 21 = 3.06)ANDY: (172/1180 * 22 = 3.20)TOTALS: 1341 \$36.94 True Cost per Hour Shop billed out 1180 hours yet paid out 1341!

* Note that the straight time employees get paid for total hours present, but the unapplied hours should NOT be part of the productive time denominator.

Weighted Average Labour Rate



- Based on the weighted calculation, our true cost of labour is \$36.94.
- Aggregate corrected labour rate @ 75% = 147.76.
- The effect of a non-differential labour rate = 121.71 / 147.76 = 18% reduction.
- In this case the store would be on target for a 61% GP and not the 75% planned.

Improving Gross Profit: Shop Technician Mix Strategy

- Let's assume that in our market the average rate is \$125 and we are in need of more technicians.
- Do we have a hiring strategy or is it often a case of taking the best available flat rate technician (lower perceived risk) or the one that interviews the best?
- We should ask "who is the best technician that we can afford..."
- In the case of ABC Motors, the addition of any tech below \$36.94 will help increase aggregate GP.





Improving Gross Profit: Shop Technician Mix Strategy

• If the straight line techs were all billing out at 160 hours, then the cost of labour would be:

FRED: (200/1305 * 35 = 5.36) MIKE: (220/1305 * 38 = 6.41) JADA: (250/1305 * 44 = 9.43) GREG: (155/1305 * 35 = 4.15) SEAN: (172/1305 * 18 = 2.37) PHIL: (172/1305 * 21 = 2.77) ANDY: (172/1305 * 22 = 2.87)

New average cost of labour = \$33.36 (target 76% GP labour rate = \$133.44)



Improving Gross Profit: Shop Technician Dispatch

- In a high labour demand environment:
 - Maximize proficient work by filling flat rate techs and using straight line time for overflow
 - Boost proficiency with PDI and flushes
- In a low labour market:
 - Strategize to retain 200 hours per flat rate tech
 - Redistribute the excess to straight
- Non-proficient flat rate technicians adversely affect GP, as work is given that would otherwise be used for straight time techs.
- Flat rate is NOT a low risk strategy practice only in theory.
- This is in conflict with the common practice of putting 3rd and 4th year apprentices on flat rate, which leads to lower levels of education and a loss of valuable GP on medium difficulty work.





Breakout Exercise 2

- 1. What would be the labour rate in a shop where all 7 techs were straight time techs and all worked 172 hours in a month?
- 2. What would happen if Greg was removed from the team and his hours were redistributed? How much could you afford to pay Greg as a straight time tech at his current level of production, without increasing the cost of labour?
- 3. How could ABC Motors incentivize their senior apprentices without raising flat rate? Is there a hybrid system?

Improving Gross Profit: Shop Technician Dispatch

- When should we add or remove technicians in our shop?
- A simplistic approach for a **poor economy**: Set your store to make 42% at medium volume with 30% excess capacity and maximized from bottom up. (**NOT** the same for a boom economy).
- Please note that the target rate is almost always far lower than the current labour rate, which is why increasing labour rate is clearly the answer to low GP.
- Over-staffing shops leads to volume sensitivity and poor dispatch decisions.



Improving Gross Profit: Shop Technician Dispatch

Technician	Labour Type	Technician Rate	Average Hours	Weighted Cost	Target Rate	Revenue
Fred	Flat	\$35	200	\$5.47	\$21.88	\$25,100.00
Mike	Flat	\$38	200	\$5.94	\$23.75	\$25,100.00
Jada	Flat	\$44	200	\$6.88	\$27.50	\$25,100.00
Greg	Flat	\$35	200	\$5.47	\$21.88	\$25,100.00
Sean	Straight	\$18	160	\$2.25	\$9.00	\$20,080.00
Phil	Straight	\$21	160	\$2.63	\$10.50	\$20,080.00
Andy	Straight	\$22	160	\$2.75	\$11.00	\$20,080.00
			1,280	\$31.38	\$125.50	\$160,640.00

The main expansion potential is now within the flat rate technicians, so GP will trend down at 1281 hours and above, but NP breakeven is already achieved so it doesn't matter.

In this case I would recommend adding an additional technician **only** once average volume exceeds \$186,000 per month. Use a weighted cost calculation to work out what **type** of technician you can afford to have.

Improving Gross Profit: Shop Technician Dispatch

- What is the impact of inadequate shop loading? What value would there be to better early morning utilization?
- The impact of straight time techs on shop GP requires their proficiency to be a priority.
- Too many stores used skilled junior techs for non-skilled tasks e.g. cleaning, garbage, recycling, warranty cores, porter duties, etc.
- This elective unapplied time is hidden in expenses, but has a drag effect on the GP as work is routed to higher cost flat rate, often leading to carry-over and inadequate inspection/FRFT.

Now we know our weighted target labour rate and how to minimize it, we need to consider the ways that GP can be eroded at the front counter.



Improving Gross Profit: At the Front Counter

- Do we have a labour rate? How do we as an industry respond to ELR as a measure against that labour rate? What does it mean?
- In reality we have a series of labour rates that vary depending on type of work, technician required, market sensitivity, etc.
- The normal response to a low ratio is a three-step process: take away discounting; increase door rate; and apply a "high tech" labour rate to certain functions. Does this work?
- List some of the labour types that are usually high GP earners and some that are low. Who is performing the best and worst profit jobs?

Improving Gross Profit: At the Front Counter

- Once we have a shop balanced, the next concern is to ensure that the labour is sold profitably from the start.
- The assumption is often that low ELR is a result of advisor discounting, but when you analyze the ROs that is rarely the issue.
- Advisors have great difficulty in selling certain types of labour - diagnosis and Manual Punch Time especially. This is the main reason for discounting behaviour.



Improving Gross Profit: At the Front Counter

- How do we quote diagnosis on a check engine light? What is the customer perception of the transaction?
- How easy is it for the advisor to sell at normal rates?
- Why do we think that they will be able to sell it at an inflated technical rate?
- How do we track the opportunity cost of lost customer businesses as a result of increasing transparent costs to the customer?



Improving Gross Profit: Menu Pricing

- A value statement tool that does not rely on hours and rates.
- Provides an implicit financial agreement that is non-negotiable.
- Promotes equality and fairness "I just don't want to get ripped off".
- Assists in attributing value to technical processes.
- Reduces chance of miscommunication.

Improving Gross Profit: Diagnostic Menu

Three Level Approach

Level 1: \$149.95 (pays 0.8hr) A constant issue that can be reproduced every time.

Level 2: \$279.95 (pays 1.5hrs) A symptom that can be reproduced *every time* under specific circumstances of use, environment and temperature.

Level 3: \$595.00 (pays 3.5hrs) A random and intermittent problem.

Now a technician can be proficient at diagnosis!

*Example pricing only based on target of \$135/hour

Improving Gross Profit:

- Review your menu pricing and assess the products that have potential for 80%+ GP. These will be the items you want to advertise on a menu board and the items you will want to use for spiff promotions.
- Utilize this supernormal profit to sub-vent the loss leaders that have elastic demand.
- Does it matter who you dispatch these jobs to, or is selling them enough?
- Alignments are a great example of lost opportunity due to habit.
- The key to long-term success is to sell a balanced work flow that makes you very competitive,, yet allows you to make high profit on the inelastic demand products – essentially a labour matrix.

Improving Gross Profit: Unapplied Time

Our goal is to eliminate the following:

- Unpaid diagnostic time.
- Unpaid Manual Punch Time and under-quoted labour.
- Random customer access to advisors.
- Unauthorized repairs (especially the warranty/CP transitions).
- Dispatching from pressure not strategy waiters, comebacks and tech morale.
- Opportunity cost of lost opportunity lack of traffic, wrong tech on wrong job, etc.
- Untrained advisors advisor training overview to follow.

Improving Gross Profit: Workflow Marketing

All service departments should have the following marketing elements:

- A sold, audited CRM program that contacts all customers for regular reminders, follow-up phone calls after second non-response contact and an inactivity list that is updated monthly.
- Making next appointment at time of bill payment.
- Advisor follow-up on all unsold red and yellow inspection items in scheduled process with managerial oversight.
- A seasonal conquest strategy quarterly for all inactive customers in the critical 6-18 month category.



Improving Gross Profit: Workflow Marketing

- Digital market spend on Google, Facebook and YouTube. Discuss examples and the importance of millennial targeting.
- Develop a robust strategy for capturing all unsold red and yellow as a target list for sales department transfer. Why didn't they buy? Can we retain them as new vehicle customers?
- A total commitment to accommodating the customer's time frame and adjusting our resources to accommodate.
- A plan to offer evening drop-off incentives to minimize impact of morning rush and inherent dispatching errors attached.



Leverage: Where should we focus and what are best practices?

Salary

- Managers and all support staff combined should not exceed 34% of gross profit *unless* strategized by reductions elsewhere.
- As such, service advisors should be targeted at 20% GP with an average of 1 advisor for every 3 technicians (lube techs as 0.5).
- Looking at ABC Motors, we can see that we would have a budget of \$24,000 for 3 advisors and can expand 2 more techs without additional costs.
- This would leave \$16,800 for management and support staff.



Best Practice

- Set advisors base salary at 12% of average target gross with a sliding scale based on experience and ability.
- Create a pool of 10% CP gross with a share system across all advisors equally.
- This will encourage the advisors to work in a way that does not incentivize the manager to add members to the team. All will work together with a common incentive for the right behavior, while maintaining the flexibility to pay more to the right employees. As volume increases, the net contribution will decrease as the profit from warranty and internal is not part of the pool.
- Also be aware that there should be at least one entry level support staff member for every advisors (porter/driver/bdc) to help maximize the advisor focus on servicing the technicians.



Policy/Training/Shop Supplies

- The elastic black hole: This is the place where all managers manipulate their numbers and manage the local optima.
- Much like parts inventory, the issue is that the manipulation makes it hard to manage as it becomes a place that staff use as well as managers.
- There is a difference between delegation and deferred control.

Best practice

- Policy + training + shop supplies should be less than net zero and therefore a net improvement to NOP.
- Make it strategic not accidental policy is not better if in same month training and shop supplies go up.
- Wanting to increase policy to maximize CVP/TSE is permitted if shop supplies are managed accordingly. Look at best performers in group.



Vendor Review: Contract Vendors

- Make a comprehensive list of all current vendor contracts with expiry/renewal dates.
- Calculate the ROI on any contract agreement. Be aware that they are usually in favour of vendor as they swap cost for cash flow.
- Limit contract to optimal length terms be aware of all auto renew clauses. Start negotiating with 20% of term left and be sure to have competitive quotes in place.
- It is better to own good equipment than to pay long term rental charges. Remember the scariest words are "free" or "included"
- Where possible, avoid contract vendors in favour of monthly and ad hoc vendors.



Vendor Review: Non-Contract Vendors

- Always look for 3 competitive quotes when establishing a vendor and check pricing on random items at least once every 6 months.
- Ensure that all purchase POs are signed off by a manager – this will avoid habitual over-purchase from vendors like Wurth and Gregg's.
- Make sure the vendor of choice is a management decision not based on relationships. We *know* that we pay more to friends..
- Question the need and its attached benefit before buying. Consult with management team before purchasing anything that might require capitalization. How many thousands of dollars of unused equipment in the average dealership?



Group Leverage

- Before investing in capital equipment, reach out to your 20 Group or sister stores for advice where needed and be aware that sometimes a better deal is available for a multi-store purchase (hoists, flush machines, etc.).
- Contact your 20 Group or sister stores if you would like to be involved in any group purchasing.
- Advertise among your 20 Group or sister stores any used equipment for sale or needed before buying new. Limiting costs where possible reduces the burden on sales and marketing efforts.
- Include Accounting in your planning stages as soon as possible, as they will be expected to know what you are spending on. This is not a competition for power; it is the necessary process of checks and balances.
- If you have a large variance in one line, **reach out for help.** The sooner the better, as it is unlikely to fix itself. (Be the swan, not the ostrich or the seagull).



Final Points

- Manage a target. If you aim at nothing, you will hit it every time!
- If you think you are too busy to make some of these changes, take one day and track the amount of time that you and your staff spend because a deficiency in training, process or strategy, and then remind yourself that you are too busy **not** to!
- Quantum effect: What we observe we change even simply by the process of observation.
- Identify your current monthly profit leakage.
- Remember, if you calculate the *lean* volume at which you can hit your net profit targets, you have worked out how much horsepower you need. All the rest is wheel spin...

Alderson Consulting

We get results.

Thank You

ABC Motors: Daily Fixed Operations Performance Report (March 2019)

BONUS POOL!

\$1,670

Advisor Performance	Align Sold	HRS	ELR	Sales / RO	CP Sales \$ Booked	GP % CUST PAY	Total GP%	CP \$ TRACK	Trend Gross Profit	Target	Gross Target	VAR TO TGT
Dealership Achievement		1.64	\$106.33	\$174	\$114,465	72.07%	53.27%	\$108,685	\$78,350.94	\$120,000	686 400	(\$11.215)
Target	0	2.00	\$110	\$220	MTD	72.00%	54.00%	MTD	MTD	\$120,000	Ş80,400	(\$11,515)
Jane		1.66	\$113.40	\$188	\$20,164	73.14%	51.7%	\$20,164	\$14,747.95	\$36,000	\$25,920	(\$15,836)
Tommy		1.87	\$110.01	\$206	\$37,997	72.00%	56.2%	\$37,997	\$27,357.84	\$36,000	\$25,920	\$1,997
Dick		1.99	\$109.56	\$218	\$27,199	71.66%	58.5%	\$27,199	\$19,490.80	\$36,000	\$25,920	(\$8,801)
Brandi		1.14	\$93.60	\$107	\$23,325	71.83%	51.4%	\$23,325	\$16,754.35	\$12,000	\$8,640	\$11,325

Today's Date	Pace		Other Labour	Sales \$ Booked	GP % of Sales	GP \$ Booked	ELR	Sales Tracking	Gross Profit Tracking	Target	Gross Target	VAR TO TGT
	Days Done	21	Internal	\$41,615	70.8%	\$29,881	101.37	\$41,615	\$29,447	\$40,000	\$28,000	\$1,615
Feb 19th	Total Days	21	Warranty	\$100,288	72.4%	\$72,568	99.87	\$100,288	\$72,568	\$75,000	\$52,500	\$25,288
	% complete	100%	Total									

CP RO MTD	655
CP RO TREND	655
TARGET / BUDGET CP RO	688
VARIANCE TO TARGET	33

TOTAL Fixed Gross Tracking	\$180.366	goal is	\$166,900
	<i>\$</i> 100,000		

ABC Motors: Daily Fixed Operations Performance Report (April 2019)

Advisor Performance	Align Sold	HRS	ELR	Sales / RO	CP Sales \$ Booked	GP % CUST PAY	Total GP%	CP \$ TRACK	Trend Gross Profit	Target	Gross Target	VAR TO TGT
Dealership Achievement	19.00	2.05	\$99.36	\$204	\$130,160	70.22%	55.00%	\$130,159	\$91,397.41	¢121 E00	699 COF	¢9 CEO
Target	0	2.50	\$105	\$263	MTD	73.00%	55.00%	MTD	MTD	\$121,500	260,092	\$6,059
Jane	7.00	2.60	\$103.99	\$270	\$42,947	70.09%	53.0%	\$42,947	\$30,101.55	\$33,500	\$22,174	\$9,447.00
Tommy	2.00	2.50	\$99.06	\$248	\$37,430	68.73%	54.0%	\$37,430	\$25,725.64	\$33,000	\$22,174	\$4,430.00
Dick	8.00	1.90	\$98.58	\$187	\$28,588	70.89%	59.0%	\$28,588	\$20,266.03	\$33,000	\$22,174	(\$4,412.00)
Brandi	2.00	1.29	\$92.30	\$119	\$21,194	72.21%	55.0%	\$21,194	\$15,304.19	\$22,000	\$22,174	(\$806.00)
Today's Date	Pace		Other Labour	Sales \$ Booked	GP % of Sales	GP \$ Booked	ELR	Sales Tracking	Gross Profit Tracking	Target	Gross Target	VAR TO TGT
	Days Done	21	Internal	\$38,286	69.3%	\$26,521	98.43	\$38,286	\$26,521	\$40,000	\$28,000	(\$1,714)
Feb 19th	Total Days	21	Warranty	\$75,628	71.8%	\$54,308	103.93	\$75,628	\$54,308	\$74,000	\$51,800	\$1,628
	% complete	100%	Total									

CP RO MTD	641
CP RO TREND	641
TARGET / BUDGET CP RO	597
VARIANCE TO TARGET	44

TOTAL Fixed Gross Tracking	\$172,227		GOAL IS	\$168,495
		NEW Daily Sales	Target \$5,	800 CP

DEF Motors: RTH (March 2019)

Tech #	Total	Productive	Billed	OTE	Productivity	Efficiency	Proficiency	Mar-18	+/-	
Doug	103.53	93.33	134.63	134.6	90.15%	144.25%	130.04%	187.38	-52.75	
Sue	157.4	156.56	183.2	183.2	99.47%	117.02%	116.39%	166.39	16.81	
Brad	186.53	161.6	207.75	207.8	86.63%	128.56%	111.38%	221.55	-13.80	
Jack	190.42	179.47	236.69	236.7	94.25%	131.88%	124.30%	278.03	-41.34	
Parm	211.91	198.23	195.54	195.5	93.54%	98.64%	92.28%	236.92	-41.38	
Во	160.67	148.34	154.63	154.6	92.33%	104.24%	96.24%	27.50	127.13	
Janet	165.42	161.77	176.89	176.9	97.79%	109.35%	106.93%	162.60	14.29	
Sydney	175.75	163.78	228.04	228.0	93.19%	139.24%	129.75%	253.21	-25.17	
Connor	270.19	277.47	309.89	309.9	102.69%	111.68%	114.69%	296.08	13.81	
Wayne	178.99	143.87	128.59	128.6	80.38%	89.38%	71.84%	96.66	31.93	
Mark	169.13	163.27	22.2	22.2	96.54%	13.60%	13.13%	132.35	-110.15	
Austin	177.62	156.48	148	148.0	88.10%	94.58%	83.32%	96.21	51.79	
Dustin	182.77	183.01	262.56	262.6	100.13%	143.47%	143.66%	233.54	29.02	
Eddie	180.9	160.27	138.25	138.3	88.60%	86.26%	76.42%	106.84	31.41	
	2,511.23	2,347.45	2526.9				100.62%			
										CAPACITY
		HOUR CAPACITY		2,526.86				2,495.26	31.60	\$13,84
		ELR		\$102.40				\$98.15		
		\$ CAPACITY		\$258,750.46				\$244,909.77		

COMPLETED

TOTAL

21 04.30.19

21