Maximize

your shop's profitability

By Bob Clements

During the past 15 years, my team of dealer advisors and I have visited hundreds of service departments, ranging from outdoor power to Ag, power sports and boating. Each has been very different in size, location, number of techs, customer mix and products serviced. A few of those dealers had shops that were somewhat profitable, covering the base overhead and tech expense and pocketing a little after taxes. But most of those dealers were at best breaking even or at worst bleeding thousands of dollars a year.

As we look at service departments, we find that they tend to fall into one of the following three categories:

1. Inadequate facility
2. Poor capacity utilization
3. Low technician performance

As lead technician, Matt Golden has helped turn around the service department at Ralph Helm Inc.

Adequate facility

When low profitability comes from having a service department that just doesn't have the space necessary to handle the volume of work that is coming through the dealership, not much can be done short of creating more space. At that point, the dealer has to decide what the market potential is for an expanded service department and work through the numbers to determine the payback on investing in an expansion. I always encourage dealers to consider expanding their building if the location they have is good, and they have or can purchase land to make the expansion possible.

I also caution my dealers that it is a lot easier to build a $1-million building than it is to pay for one. So before deciding to expand, we work through the numbers with them in a conservative fashion, and, if it looks like it will work, encourage them to expand their service department.

Capacity utilization

Poor capacity utilization ranks toward the top of the list of problems that many dealers face today. If your shop is not performing up to your expectation level, run some quick numbers to see if you are maximizing the potential capacity of your space.

Capacity utilization is a measurement of the number of hours a service department can potentially produce compared to the number of hours of actual billable time it produces. To measure your capacity utilization, divide the number of service bays you have by 1.5. This calculation provides 1.5 service areas for each technician and tells you how many techs your service department could potentially support.

As I walk through a service department, I count every space available, including the ones overtaken by old cars, boats and junk. Once I have the number of service bays available, I divide that by 1.5, and then multiply that number by the number of hours each service tech works every day. From there, I multiply by 93 percent, which is average service tech proficiency of our top-performing servicing dealer.

Once I have that number, I multiply the days per year that the service department is open for business, which is normally around 270, and multiply that number by the posted labor rate. I now have the potential labor sales that the service department could produce.

So our formula looks something like the following:

- 6 service areas/1.5 = room for 4 service techs
- 4 service techs x 8 hours per day = 32 hours
- 32 hours x 93-percent efficiency = 29.76 potential billable hours per day
- 29.76 potential billable hours per day x 270 days per year = 8,035 potential billable hours per year
- 8,035 potential billable hours x $60/hour posted shop rate = $482,100 potential labor sales

Once I have the potential labor sales, I divide it by the actual labor sales and end up with the percentage of capacity utilization. For one of our new dealers, it looked something like this:

- $327,828 actual labor sales/$482,100 potential labor sales = 68-percent capacity utilization

I would say that for most dealers, 68 percent looks like a pretty good number, but it means that this particular dealer lost $154,272 in labor sales. Now you may be independently wealthy and not care how much money you leave on the table, but I doubt it. I challenge you some Saturday afternoon to take the time to figure out your space utilization. My guess is that you will be surprised by the numbers.

In most cases, there are two primary causes of poor capacity utilization: 1) junk from the owners, the technicians or both; and 2) poor layout or design of the workspace. I know the old adage that one man's junk is another man's treasure, but I tell all of our dealers the same thing: If you carry a part new in your parts department, you don't need to keep it as a used part in your shop. If you go into a car dealership, you don't find a shop that has old short blocks lying around the service bays. You don't find old wheel rims or used tires on racks. You don't find old fenders, transmissions or differentials in stacks, waiting for that one time a year when maybe somebody will need it and you have it for them. Get rid of your junk. Haul it off, scrap it out, throw it away, and make room for your service department, so it can make you money.

A few years ago, I had a dealer who kept an antique tractor sitting in an area of the shop that could have easily been used for an extra service bay. Because of the size of the shop and the lack of space, the techs were wasting a lot of time moving equipment around as they waited for parts. Having just that one service area open would have improved the efficiencies and the profitability of the service department. As I talked with the owner about moving the tractor and storing it somewhere less costly, he laughed and told me it wasn't costing him anything to keep it right where it was. I did a quick calculation of his capacity utilization and then showed him that keeping the tractor in the service department was costing him about $32,000 a year in lost labor sales. By having that extra space available for his techs, he could easily add 2 hours per day to his potential labor sales. Using the formula on capacity utilization, it worked out as follows:

- 2 hours x 93-percent efficiency = 1.86 hours per day
- 1.86 hours per day x 270 days per year = 502 potential billable hours per year
- 502 potential billable hours x $65 (his posted shop rate) = $32,630 of potential labor sales

As I told him, I was pretty sure he could find another spot to keep his beloved tractor for a lot less than $32,000 per year, and he agreed.

Technician performance

The third and final area that you have to evaluate when it comes to improving your shops profitability is the performance of your service techs.

I want to caution you that before you start hammering your service techs to produce more work, you have to make sure that you have your "house in order." If your service area is loaded with junk — equipment to be cannibalized for parts, boats, motorcycles or anything that has nothing to do with creating billable hours — then you have to get it cleaned up before you can expect your techs to shape up.

When I was just starting with one of my dealers, he told me that every year he would come in and clean the shop, throwing away junk, getting things organized, and, by the end of the following week, his techs would have hauled some of the junk back in before the trash removal company picked it up. So, in just a short period of time, it was right back to where it was. He finally gave up and let the techs do what they wanted to do. He contacted us to help him because every year his techs produced less and less work. When we started working with this dealer, his techs were averaging less than 15 billable hours per week and complaining to the owner — and anyone else who would listen — how underpaid they were.

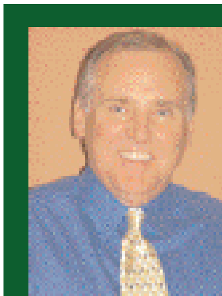
Their shop was a pit; it was dirty, messy, disorganized, and losing money. The work that was produced was inconsistent, "depending on the day and attitude of the tech," and customers were leaving. When I asked the dealer where he thought the problem was, he said, "It's my techs. I can't get them to do what I need them to do." I told him that the techs weren't the problem at all; they were the result of the problem, but not the problem. Then, I asked him a question that I ask all of my dealers, "If I can show you the problem, and show you how to fix it, will you make the changes necessary to solve the problem and not let it go back to the way it was?" He enthusiastically said, "Yes!" I asked him to stand up and turn around to face the far wall in his office. I then pointed to a mirror; he saw his reflection, started to laugh, and said, "So you're saying I'm the problem?" No, I said, not just the problem, but the solution. I told him that the problem was that he had given up, and now the inmates were running the asylum. The solution was to reassert control, let the employees know in no uncertain terms what he expected, not to back down from his expectations, and be prepared to hear wailing and gnashing of teeth for a short while as his employees threw a tantrum.

As I worked with the dealer during the next 60 days, we worked with the techs laying out their shop to better utilize the space and make them more efficient. I put new processes in place, so that, at the end of every day, the shop was reset and ready for the next day's work. We changed the compensation program to encourage increased performance, and let them know in no uncertain terms what level of production we expected from them every day.

I don't want to oversimplify the solution because there was a lot of tweaking that I did with the owner, the processes and the techs. But in less than 60 days, the dealer had a shop that was producing at more than 70 percent instead of the 30 percent when we started. The service department was healthy, profitable, and turning out great work every day winning back those customers it had lost year after year.

Can you do it with your service department? Absolutely. I have had the great fortune to work with an Elgin, Ill.-based dealership — Ralph Helm Inc. Ralph Helm III and his partner Jim Brandes went on this journey about four years ago. Because they made the decision to re-assert control over their service department, as a 12-month average, their techs now produce almost 7.5 hours per eight-hour day. During busy season, they are at well over 100-percent efficiency. With a posted labor rate well above $85 per hour, their service department has become a money-making machine for both them and their techs.

As your season slows down, now is the perfect time to seize control of your service department and turn it into the money-making machine it can be. If you are willing to take a Saturday afternoon, calculate your capacity utilization, and give some thought to your techs and their performance, you are well on your way to maximizing your shop's profitability. OPE



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