

Driven

NADA MANAGEMENT SERIES

SP24



A DEALER GUIDE TO

Analyzing Customer-Pay Service



NATIONAL
AUTOMOBILE
DEALERS
ASSOCIATION

The National Automobile Dealers Association (NADA) has prepared this management guide to assist its dealer members in being as efficient as possible in the operation of their dealerships. The presentation of this information is not intended to encourage concerted action among competitors or any other action on the part of dealers that would in any manner fix or stabilize the price or any element of the price of any good or service.

Analyzing Customer-Pay Service

Successful service departments earn high net profits—the guideline is 20 percent—while providing value that exceeds customer expectations.

Value is more than quality work at fair prices. It is the *customer's perception* of the work and price as good value.

To achieve that perception, you should establish customer-pay pricing policies that compete with locally available prices and still retain profits.

You need to learn what your customers will pay for the different service operations performed in your marketplace. Services fall into three categories:

1. Competitive
2. Maintenance
3. Repair

Competitive labor comprises those services, charged at your lowest hourly rate, that you choose to be competitive in. Examples are lube, oil, and filter changes; alignments; wheel balances; and tire rotations. Shop your competition to learn the latest rates in your marketplace.

Maintenance labor is work that the manufacturer recommends or requires. Priced at a moderate hourly rate that usually averages out at or above your target or posted rate, maintenance labor includes such common but less competitive services as:

- Manufacturer's required maintenance
- Automatic transmission services
- A/C service
- Emission control services
- Injector services

Repair labor, which includes all other services, is priced at your most expensive hourly rate. Repair labor involves the least competitive, most specialized operations, such as:

- Electronic engine control diagnosis and adjustments
- Electrical malfunctions and other wiring-related problems

- Accessory repairs and replacements
- A/C compressor overhaul
- Engine overhaul and other internal engine work
- Fuel injection calibration

Most customers who turn to non-dealer service outlets do so for the competitive and maintenance work that they perceive costs more at dealerships. Often, it doesn't. You need to let customers know about your prices that are the same or lower than your competition's, and you need to educate customers to the added value of dealership service—factory-trained technicians, original equipment parts, etc.

This bulletin contains tools to analyze your customer-pay work with an eye to pricing labor at its realistic worth, devising a practicable variable rate schedule for your marketplace and, ultimately, achieving your labor sales potential. Duplicate blank Repair Order Analysis* and Repair Order Recap* sheets and analyze at least 100 ROs a month—100 ROs per service advisor per month is ideal—over several months to fine-tune your rates. Small changes—fewer one-item ROs, slightly higher rates, slightly lower costs—can make a big difference. A few guidelines:

- Work mix: Competitive and maintenance should be 60 percent of the total.
- Model-year mix: New-vehicles should represent 50 percent of the total.
- One-item ROs: No more than 10-15 percent of the total.

There are many methods of creating variable price structures that will work for your shop according to your work mix and the skill levels of your technicians. They all begin with a thorough, and continuing, departmental analysis.

* See page 4 for instructions on completing forms.

NADA REPAIR ORDER ANALYSIS

R.O. #	Model Year	Make/Model	Mileage	"C" Labor Sales	Flat Rate Hours	"M" Labor Sales	Flat Rate Hours	"R" Labor Sales	Flat Rate Hours	Total Labor Cost	One-item R.O.
1234	1998	x2R/ Comet	37,000	\$10.00	.5	\$100.56	2.0	\$58.51	1.0	\$52.50	Yes
Totals											
Repair Order Breakdown				20____ _____	20____ _____	20____ _____	20____ _____	20____ _____	Older _____		

REPAIR ORDER ANALYSIS RECAP

Individual Service Advisor: _____

All Service Advisors: _____

Month/Year: _____

LABOR SALES BY RATE

Competitive	\$ _____	÷	_____	FRHs on ROs =	\$ _____	HrAvg
Maintenance	\$ _____	÷	_____	FRHs on ROs =	\$ _____	HrAvg
Repair	\$ _____	÷	_____	FRHs on ROs =	\$ _____	HrAvg
Total Sales	\$ _____	÷	_____	FRHs on ROs =	\$ _____	Cust ELR
				Target Labor Rate	\$ _____	Per FRH
				<i>Difference</i>	\$ _____	

COST OF LABOR

Total Cost	\$ _____	÷	Total Sales \$ _____	=	_____	% COS
Total Cost	\$ _____	÷	Total FRHs _____	=	\$ _____	Avg. Cost/FRH

REPAIR ORDER MEASUREMENTS

\$ _____	Total Labor Sales	÷	_____	Total ROs =	\$ _____	Avg. Labor per RO
_____	Total FRHs	÷	_____	Total ROs =	_____	Avg FRHs per RO
_____	Menu Sales	÷	_____	Total ROs =	_____	% Menu Sales
_____	Competitive FRHs	÷	_____	Total FRHs =	_____	% Competitive
_____	Maintenance FRHs	÷	_____	Total FRHs =	_____	% Maintenance
_____	Repair FRHs	÷	_____	Total FRHs =	_____	% Repair
_____	One-item ROs	÷	_____	Total ROs =	_____	% One-item ROs

MODEL YEAR MIX RECAP

	20_____	20_____	20_____	20_____	20_____	Older	Total
Count	_____	_____	_____	_____	_____	_____	_____

INSTRUCTIONS

NADA REPAIR ORDER ANALYSIS

Following the example on the first row of the form on page 2, fill in the first four cells of each row with the RO number, model year, make, model, and mileage of each vehicle serviced in your department. Fill in the next six cells of each row with the dollar amount of labor sales by category (competitive, maintenance, or repair), calculated by multiplying the flat rate hours completed on each vehicle by the labor rate established for the category of labor.

In the example on page 2, the service department performed labor in all three categories on the 1998 "x2R/ Comet," charging \$20.00 per FRH for competitive labor (the figure noted is \$10.00, as only one-half of a FRH was charged in the competitive category), \$50.28 per FRH for maintenance labor, and \$58.51 per FRH for repair labor. Not all vehicles that come into your shop will require labor in all three categories, but many will.

The "Total Labor Cost" is the dollar amount you paid the technician to complete the repair order.

In the example on page 2, the technician was paid at the rate of \$15 per FRH for the 3.5 FRHs charged to complete the repair order ($\$15 \times 3.5 = \52.50).

REPAIR ORDER ANALYSIS RECAP

Use the form on page 3 to transfer your analysis of at least 100 ROs from the form on page 2. This form may be used to analyze the ROs of individual service advisors or of all your service advisors. The information you glean will reveal if your shop is performing according to guidelines, and it will help you to achieve your full labor sales potential.



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