

Driven

NADA MANAGEMENT SERIES

SP23

A DEALER GUIDE TO

The Three Ps of Effective Service Management: Profit Productivity Personnel



NATIONAL
AUTOMOBILE
DEALERS
ASSOCIATION

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A DEALER GUIDE TO
**The Three Ps of Effective Service
Management: Profit, Productivity, Personnel**

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The Three Ps of Effective Service Management: Profit, Productivity, Personnel

I. INTRODUCTION

There is no better place for vehicle service than a franchised vehicle dealership.

A. The Case for Dealership Vehicle Service

The dealership has the most advanced service facilities. It has the most sophisticated tools and diagnostic equipment, the most up-to-date technical information. It has the latest original equipment parts. Most important, the dealership has the best-trained technicians. Trained by the manufacturer, retrained continuously to perfect skills and learn the newest, fastest, most accurate procedures, and provided expert, instantaneous support as needed direct from the factory—dealership technicians know the vehicles they service better than anyone. They're trained to know the new models before they arrive at the showroom.

The vehicles the techs service are difficult to know. They demand specialized education, both to pinpoint problems and to correct them. Marvels of technology, full of precisely calibrated, intricately engineered, computerized moving parts, today's vehicles are complex machines. They are made better, last longer, and need less maintenance than ever before.

But they're not maintenance-free. They require regular preventive inspections and procedures to ensure smooth, safe, reliable operation. That makes dealership service technicians even more essential. Dealership techs are specialists. They work on

particular makes and models everyday. They know what's normal for a specific vehicle made in a specific year—and they know what's not. Less frequent maintenance requires greater skill, not less. A dealership service technician is the customer's best ally in protecting a vehicle investment.

For your customers, their vehicles may well be their biggest investments after their homes. Homeowners know they need to maintain their homes and attend to repairs in order to live comfortably and protect their equity. Homeowners cannot turn to the sellers for maintenance and repair of their homes—what peace of mind if they could! Vehicle owners can have that peace of mind. They can have their cars and trucks serviced by the seller, the dealership, for as long as they own them. The dealership is uniquely able to help them protect their vehicle investments through the entire ownership cycle—which may be quite a while.

As vehicle quality improves—while the economy, fuel costs, and the regulatory environment fluctuate—people are keeping their vehicles for a longer period. The average age of vehicles on U.S. roads in 2010 was 10.9 years for cars and 10 years for trucks (National Highway Traffic Safety Administration). Today, there are more than 240 million cars and light trucks on the road. The older a vehicle is, the more likely it will need repair. Dealership technicians have both the expertise and the parts to perform non-warranty repair—right.

This guide is written for dealership service managers. It is intended to help you grow your department so that it achieves its potential regardless of the factors you cannot control—product, length of ownership, the economy, etc. We will consider the factors that you can control, from a management standpoint.

Throughout this guide, we'll present statistics, formulas, and guidelines. You will find them all again, listed together in one place for your convenience, in Appendix H.

B. The Competition for Vehicle Service

The dealership's service department is the best choice, but it's not the only choice. Excluding service that must be performed at the dealership under the terms of manufacturer and/or dealership warranties, customers have a host of options that they are free to exercise.

1. Do-It-Yourselfers

Do-it-yourselfers are not necessarily the same people they were in the past, and they don't do all the same jobs they did in the past, but they're still out there performing some of their own maintenance and repairs. No longer limited to teenage boys and weekend mechanics, today's do-it-yourself corps already includes women; smart retail parts "supermarkets" with bright aisles, clean counters, and inviting displays increasingly will target women, seniors, and minorities, as will mail order catalog, television, and Internet outlets. As for the service jobs tackled, automotive do-it-yourselfers may change their own oil and filters, drain and refill their cooling systems, and work on their brakes, even the antilock systems. But they go to paid vehicle service providers for the rest.

Among the service providers, customers can go to dealerships—or they can go to:

- Independent General Repair Shops
- Gasoline Stations
- Tire-Service Centers
- Mass Merchandisers
- Service Specialists
- Quick Lube Shops
- Parts Chains with Service Bays

Can these non-dealership service providers do the work?

For the most part, yes. Depending on their technical expertise and focus, all of the above can perform a range of service functions. Although, for instance, the average independent shop may not generate sufficient revenue to finance state-of-the-art technician training, diagnostic tools, and service equipment, numerous larger shops can and do vie aggressively for serious service business. Gas stations that still offer vehicle service tend to concentrate on lube/oil/filter, brake service, and tire sales and service, but may also do tune-ups and diagnosis, and tire dealers often earn more from wheel-related service than from replacement tire sales. Service specialists such as Jiffy Lube—and their non-franchised counterparts—abound.

According to recent Department of Commerce figures, there are nearly 5,000 exhaust specialists; 6,000 automatic transmission specialists; 7,000 auto glass specialists; 5,000 radiator specialists; and 5,000 brake, front end, and alignment specialists. Some of the specialists are seeking to expand their areas of service.

C. Perceived Advantages/Disadvantages of Non-Dealership versus Dealership Service Providers

It is generally assumed that consumers perceive the strengths of non-dealership service providers to lie in four key areas:

- Convenience
- Customer rapport
- Speed of service
- Price

But non-dealership service outlets need to:

- Find and keep capable technicians
- Acquire the technical training and support for expansion into new services
- Obtain the right parts fast

Dealership service providers have the following advantages:

- Manufacturer affiliation (i.e., access to most current technology and equipment)
- Access to original equipment parts

- Customer loyalty
- Full-service capability
- Highly-trained technicians

But consumers may perceive them to be less convenient, slower, and more expensive.

D. Reality Check

1. Convenience

Perceptions often lag behind reality. Dealer service operations have made gains in recent years, particularly with respect to increasing the convenience and speed factors. Many dealership service departments offer quick-service options and extended hours.

Though it is highly unusual to find a dealership service department—indeed, any service department—open for business very late at night, extended hours address a major convenience issue, and the primary draw of your competition. According to 2011 *NADA Data* (representing NADA Industry Analysis Division data for 2010), 5 percent of dealer service departments had evening hours, 46 percent had weekend hours, and 27 percent had both evening and weekend hours. The percentage of dealerships with neither evening nor weekend hours was 22. Depending on your market, facility potential, and ability to find and keep qualified service personnel, consider opening earlier and closing later than your showroom. And consider everything and anything you can do to add to customers' convenience—access to rental vehicles, free shuttles to home or work, well-appointed lounge areas, etc. You may even offer to pick your customers' cars up for them. Today's customers place a premium on time—their time. The easier, faster, and more comfortable you can make the service experience for them, the more readily they'll turn to you for service. Of course, you'll need to turn a healthy profit in order to make these kinds of perks available. Extending your hours can help increase profits and profit retention. We'll discuss profit retention in detail in the first portion of this guide.

As another convenience, consider quick service options that customers can use without making an appointment. Quick service is also a draw for your

competition, which may use it for volume alone, or for both volume and traffic-building. You can use it for both purposes. Quick service is a way for customers to see what your service department has to offer, and a way for your technicians and service advisors to discover what other services your customers might need, at that moment and in the near future, and what other vehicles they might own and like you to service.

2. Price

The most persistent misperception of dealership services is that they cost more than the same services performed elsewhere. For the most part, basic competitive services don't. If your prices for these services are higher than other providers in your market, you need to know, so that you can educate your customers to the added value of dealership service—factory-trained technicians, original equipment parts, warranties—and/or adjust your prices to your market as necessary. If your prices are the same as or lower than your competition, let your customers know. Here's how:

Shop your competition. Find out their prices for common maintenance services. Ascertain exactly what services the price quotes include, and make sure the quotes include both service and parts for each operation. Then make a chart using the model on the next page. Mount it on small boards for the sales and F&I desks, and blow it up for a hanging display board on the service drive. Use it in your advertising, your various customer mailings, your service menus. Give a copy to every customer. Prove to your customers that you're not just the place for factory-backed warranty service; you are the place for all services. In the process, if you shop the competition regularly, you'll have the information you need to keep your prices competitive, and you'll save your customers the time and trouble of comparative shopping.

3. Finding Capable Technicians

We know from NADA members that good technicians are indeed hard to find. According to Bureau of Labor Statistics figures, there were 763,700 automotive technicians in the U.S. in 2008 to service the country's 255 million vehicles.

Competitor	LOF	Rotate Front/ Rear Tires	Balance Front/ Rear Tires	Align Front End	Service Disc A/C	Replace Front Pads	Warranty Service
ABC Tire	\$	\$	\$	\$	\$	\$	N/A
DEF Tire	\$	\$	\$	\$	\$	\$	N/A
XYZ Auto	\$	\$	\$	\$	\$	\$	N/A
GHI Garage	\$	\$	\$	\$	\$	\$	N/A
JKL Shop	\$	\$	\$	\$	\$	\$	N/A
NTP Garage	\$	\$	\$	\$	\$	\$	N/A
RSL Repairs	\$	\$	\$	\$	\$	\$	N/A
Totals	\$	\$	\$	\$	\$	\$	N/A
Average Price	\$	\$	\$	\$	\$	\$	N/A
My Dealership	\$	\$	\$	\$	\$	\$	\$0

NADA is involved in industry-wide efforts to recruit technicians, efforts that aim to convey the high-tech, sophisticated nature of automotive service today, and its rewards in prestige, satisfaction, and income. Later in this guide, we'll tell you where to find the techs and how to provide a clear career path to keep them.

4. Customer Satisfaction

A dealership's service department exists to support the sale of new and used vehicles. It achieves that goal by (1) making customers happy and (2) turning a profit.

It is not enough to satisfy customers who have, after all, every right to expect you to fix their vehicles. You have to exceed their expectations to keep them coming back. That means anticipating their wants and needs, and providing more. It can mean instituting extended hours, quick service options, and other conveniences as noted above. It can mean having customers' vehicles ready faster than you've promised. It can mean offering refreshments and Internet-ready work stations while they wait, providing play areas for their children while they wait, allowing them to schedule appointments online and providing them online service status reports, and/or holding service clinics at your dealership. It can mean anything you can think of that will wow them with your willingness to please. One dealership we know offers free shuttle service to and from a nearby mall while vehicles are being worked on. Make your customers feel special,

because they are. As NADA Academy instructor Robert Atwood tells his students, CSI really stands for: **C**ustomer **S**upplies **I**ncome.

The customer supplies the income that supports the service department, and the service department, together with parts, has to retain enough of that income to absorb a percentage of the dealership's overhead and still make a profit. We'll discuss profit, profit retention, and absorption in the next section, and we'll give you plenty of ideas for pleasing customers throughout this guide. For now, remember that you acquire most of your customers from the sales department. The service department's ultimate job is to send every service customer back to sales for his or her next vehicle.

Both dealership and non-dealership service outlets are perceived to have customer loyalty. Dealerships, though, have a huge advantage. They are the first to see the customer. The customer purchases or leases a vehicle from the dealership. Use your advantage. Keep the customer in the dealership. Your competitors are specifically targeting your customers after the second year of ownership, at the latest.

Atwood calls it the "Ouch Line." Take a look at the vehicles in your service area. What percentage of those vehicles did your dealership sell? How many of your own new-vehicle customers do you retain? You have to educate the consumer to return to the

dealership for vehicle service. A lifetime customer is worth \$517,000 to the average auto dealership.

What is *your* customer worth to the service department alone? You can easily calculate the amount:

1. Determine your owner base, which represents the major portion of your potential repeat service customers plus your dealership's new-vehicle customers.

$$\begin{aligned} & \text{Annual New-unit Sales} \times 5 \text{ Years} \\ & = \text{Owner Base (i.e., the number of new} \\ & \text{vehicles sold, excluding fleet, in five years)} \end{aligned}$$

2. Determine your service potential by multiplying the owner base by the average number of service hours (including warranty) that customers require over a five-year period and your hourly rate. According to current industry data, today's average new-vehicle will require 55-60 hours of labor during the first five years of ownership for proper care, maintenance, and repairs. Therefore, your total potential on an annual basis is 55-60 divided by five—11 or 12 hours per owner.

$$\begin{aligned} & \text{Owner Base} \times 12 \text{ Hours} \times \text{Hourly Rate} \\ & = \text{Annual Total Potential} \end{aligned}$$

Appendix A contains a form for calculating your department's owner base potential and retention.

Currently, the average dealership retains less than 35 percent of its service market potential. Putting that percentage into perspective, it means that 65 of every 100 customers who purchase a vehicle from you go elsewhere for service.

E. Learning from History

In 1920, the average dealership retained 95 percent of its customers through the entire cycle of vehicle ownership. It was back to the dealership service lane for everything from oil changes to major repairs.

By 1991, the dealer's share of the vehicle service business was down to about 42 percent. After a drop in 2001 to 28 percent, this share rose to 41 percent in 2009, but still more than half the service business is done by non-dealership providers.

Service and parts become more important as sales slow down. In 2010, according to the latest *NADA Data* (2011), service and parts contributed 46.5 percent of total dealership profits.

This guide aims to help you grow your service department so that it achieves its potential in any sales climate.

II. TODAY'S SERVICE DEPARTMENT

The service market is tremendous. That the nation's currently operating 37,500 franchised dealerships have a relatively small share of that market is startling when you look at the share they *do* have. Let's look at dealers' service and parts operations over the past two years with figures provided by NADA's Industry Analysis Division. Figures for 2010 are from 2011 *NADA Data*; figures for 2009 are from 2010 *NADA Data*.

Profile of Franchised Dealerships' Service and Parts Operations		
	All Dealers, 2010	All Dealers, 2009
Total Service and Parts Sales	\$77.6 billion	\$76.2 billion
Total Number of Repair Orders Written	245 million	256 million
Total Number of Technicians (including body shop)	248,100	249,926
Total Number of Service Bays (excluding body shop)	309,750	313,820
Total Parts Inventory	\$4.87 billion	\$4.81 billion

The 2010 figures show increases over 2009 in total sales (up \$1.4 billion), with a decrease in number of ROs (down 11 million) and number of technicians (down 1,826).

Now let's take a look at the average dealership service and parts picture, according to the 2010 *NADA Data* report.

later in this guide), whose activities are supervised by the service manager.

A. Service Manager Position Summary

Runs an efficient and profitable service department through productive staffing, customer retention, cost controls, achievement of objectives, and maintenance of service records. Ensures that the daily

Profile of the Franchised Dealer's Service and Parts Operation, 2010	
Average Dealership	
Total Service and Parts Sales	\$4,386,547
Total Gross Profit as percent of Service and Parts Sales	46.48%
Total Net Profit as percent of Service and Parts Sales	7.93%
Total Number of Repair Orders Written	13,818
Total Service and Parts Sales Per Customer Repair Order	\$228
Total Service and Parts Sales Per Warranty Repair Order	\$258
Number of Technicians (including body)	14
Number of Service Bays (excluding body)	18
Total Parts Inventory	\$275,370
Average Customer Mechanical Labor Rate	\$93

How does *your* dealership compare?

The industry snapshot provided by *NADA Data* can serve as a frame of reference as you go through this guide and assess your own service operation. Are your sales above or below the average? Can your market bear a \$60-to-\$80-per-hour customer-pay and internal labor rate, or must you charge less—or more? What areas of your operation do you need to address in order to improve your performance?

III. THE SERVICE MANAGER'S JOB

The dealership service manager has a big job. *HR Dealership Fundamentals*, available at nada.org, provides an all-inclusive job description, intended to be modified according to each dealership's needs. For our purposes, we've divided job responsibilities into three categories; some duties may well fit into more than one category. We've included customer contact responsibilities that may not involve direct contact; the customer's primary link to the service department is the service advisor (discussed in detail

inventory of technicians' time is consistently sold to service customers.

Duties and responsibilities may include the following:

Profit-related

- Forecasts goals and objectives for the department and strives to meet them.
- Prepares and administers an annual operating budget for the service department.
- Ensures that all customers are given fair estimates on costs and time required for repairs and maintenance.
- Develops and implements a marketing plan which promotes new and repeat business.
- Maintains reporting systems required by general management and the factory.
- Monitors and controls the performance of the department using appropriate reports, tracking systems, and surveys.
- Understands and ensures compliance with manufacturer warranty and policy procedures.

- Monitors warranty repair orders for sales and hours relative to expectations.
- Prepares pricing guides and maintenance menus for frequent labor operations.
- Attends managers meetings.

Productivity-related

- Directs and schedules the activities of all department employees.
- Maintains high-quality service repairs and minimizes comebacks.
- Conducts periodic spot checks of completed jobs for thoroughness and quality.
- Understands, keeps abreast of, and complies with federal, state, and local regulations that affect service operations, such as hazardous waste disposal, OSHA, Right-to-Know, etc.
- Ensures that customers' service files are up-to-date and readily available for reference.
- Monitors technicians' daily productivity reports and corresponding payroll records.
- Facilitates and/or conducts technical training and sends employees to appropriate training schools as needed.
- Monitors and follows up on parts orders with the parts manager to ensure availability.
- Ensures the proper care, storage, and inventory of special tools.
- Keeps abreast of new equipment and tools available and recommends purchases.
- Informs repair technicians of time allowances on each repair order.
- Accounts for all documents; ensures that none are missing and all are processed correctly.
- Maintains safe working environment.

People-related

- Hires, trains, motivates, counsels, and monitors the performance of all service department staff.
- Strives for harmony and teamwork within the department and with all other departments.
- Handles customer complaints immediately and according to dealership guidelines.
- Serves as liaison with factory representatives.
- Establishes and maintains good working

relationships with vocational and technical schools to enhance personnel recruitment activities.

- Establishes and maintains 24-hour follow-up with all customers to confirm satisfaction with the service experience.
- Establishes and maintains good working relationships with customers to encourage repeat and referral business.
- Holds weekly department meetings.
- Ensures that the work areas and customer waiting areas are kept clean.
- Maintains a professional appearance.

From a management perspective, then, all of the service manager's functions center on controlling and optimizing profit, productivity, and the utilization of personnel while maintaining the highest possible degree of customer satisfaction.

Your mission as department manager is growth—in all three categories:

- Profit
- Productivity
- People

Let's examine each of the "three Ps" in turn.

IV. PROFIT

As service manager, your first objective is to earn a high net profit. The net allows you to provide the best training, equipment, facility, and benefits for your employees, plus all the perks that aid customer retention. To earn your best net, you have to know the gross profit necessary to arrive at the net. Then you can establish the number of labor hours you need to sell to get to the gross and finally the net.

A. Retaining Gross Profits

Start with your dealership's financial statement. Analyze the service department's labor-only sales and grosses. Divide your gross by your sales to determine your gross profit as a percentage of sales. Divide each category by the total to determine what percentage of the total that category provides.

Category	Labor Sales \$	Labor Gross \$	Gross Profit as % Labor Sales	% Total
Customer Car				
Customer Truck				
Customer Other				
Warranty				
Warranty Other				
Internal				
NVI/Road Ready				
Adj. Cost of Labor				
Total				

According to NADA 20 Group guidelines, representing figures achieved by the top 25 percent of the most profitable NADA 20 Group dealers, the service department should strive for 72 percent or higher gross retention in every category. Even a small increase in your gross can have a dramatic impact on the dollar sales you need to arrive at your desired net profit.

Your customer-pay labor (car, truck, and other) should account for 60 percent of your total labor sales, with warranty and internal contributing 40 percent. And your adjusted cost of labor—the difference between the number of hours you pay your technicians and what you collect from your customers—should be as low as possible. Cost of labor affects the gross significantly.

Are you holding 72 percent of your gross? If you're not, look into your cost of sales and the percentage of your sales from each category. Do not discount internal labor sales; all sales should be charged at retail.

B. The Service and Parts Relationship and Profitability

The service manager needs to foster an excellent working relationship with the parts manager and parts department. Service and parts are mutually dependent. Service needs parts in order to repair and maintain vehicles for customers and for the used-vehicle department. Thus a portion of the dollar amount of every service sale is a parts sale. Parts needs service because the service department is the parts department's best customer. You can prove that for yourself, using your financial statement for any month.

Parts Department Sales and Sales Distribution, Month-to-Date		
Category	Sales in Dollars	Percent of Total
Repair Order	\$	%
Repair Order Body Shop	\$	%
Counter Retail	\$	%
Warranty	\$	%
Internal	\$	%
Wholesale	\$	%
Total Department (MTD)	\$	%

Except for counter and wholesale sales, parts sales come from the service department. In the average dealership, 70 to 80 percent of the parts department's business is generated by service sales patterns—and thus 70 to 80 percent of parts' potential for profit comes from service sales.

The most successful dealers retain the following percentages of their gross parts sales:

- Repair orders 41%
- Repair orders (body shop) 30%
- Counter retail 41%
- Warranty 28+%
- Internal 41%
- Wholesale 25%

Overall, the parts department should be running at about 38 percent gross retention. If your parts department is not holding its gross, chances are the problem lies in internal, warranty, and/or counter retail sales retention. Usually, internal sales—parts sold to the used-vehicle department—are the problem. They should be treated exactly the same as retail sales; as with internal labor, do not discount internal parts sales. Counter retail problems may be traced to discounting or high sales of such accessories as coffee mugs, key chains, etc. If the percentage is low on warranty parts, the parts department may not be stocking sufficient parts. As we noted above, monitoring parts orders to ascertain availability is one of the service manager's responsibilities. The service manager also must track labor sales lost due to lack of parts; the parts manager needs to know what to

stock. The parts manager can run a "Repair Order Fill Rate" report from the in-house computer system; parts must also track all lost sales.

Finally, let's consider the parts to labor ratio. Using the data from your dealership's financial statement, extract the figures for parts sales in each category (customer, warranty, and internal), and do the same for labor sales. Your parts sales divided by your labor sales gives you the parts to labor ratio.

Parts cost about the same everywhere; labor rates can vary dramatically. You should aim for the following parts to labor ratios:

- Customer-pay: \$.80 Parts/Labor (for every \$1 of labor, you should sell a minimum of 80 cents of parts)
- Warranty: Expense per unit repaired should be equal to or less than the zone average
- Internal: \$.80 (assuming retail charges; certified used-vehicles increase the Parts/Labor ratio)

Obviously, the service manager cannot control the parts department. It is to the advantage of both departments that their managers understand how one department affects the other, and work together to the benefit of both.

C. Profit Centering

Use your financial statement to subtract your total expenses from your total gross and find your net profit.

Expense Category	Dollars	% Service Labor Gross	Profile Dealers
Department Gross	\$Total Gross	100%	
Variable Expense			
Selling Expense			
Personnel Expense			
Semi-Fixed Expense			
Fixed Expense			
Unallocated Expense			
Dealer's Salary			
Total Expenses			
Net Profit	\$Gross less Expenses		20%

In general, successful service departments should net 20 percent after absorbing their share of administrative or indirect expenses.

A 20 percent net is definitely achievable. Like a small increase in gross, a small decrease in expense can have a big impact on sales needed to achieve your best net.

As a rule of thumb, personnel expense (which may appear on your statement as personnel, variable, or selling expense) should amount to 45-50 percent of the gross. All other expenses should be 25-30 percent of the gross. Manufacturer-specific figures are available to 20 Group members in *NADA 20 Group Operating and Expense Profiles*.

If your department expenses are higher than 80 percent of your labor gross, look first at your gross retention. If you are holding 72 percent, you need to focus on maximizing grossing potential. Are you selling all the hours you have available in service? Then, look at lowering expenses.

Common expenses needing tighter controls include shop supplies, policy work, uniforms, and parts washers. These may seem to be small costs, but they may be eating up more of your gross than you imagine.

1. Shop Supplies

Your cost for shop supplies should be a negative number. Shop supply expenses need to be passed along to the consumer.

If your dealership is located in a state that permits you to charge the customer for shop supplies, you need to do so. Establish a ceiling, then charge the customer 5 to 12 percent of the total labor charge not to exceed that ceiling. Customer shop supply charges should reflect proportional amounts of fluids, etc., that are used for their vehicles.

If you are located in a state that prohibits charging the customer for shop supplies, you must charge supplies out as parts. If the customer is charged for the whole "part," he or she should be given the whole.

You also need to control and monitor your technicians' usage of shop supplies. Open a repair order at the parts counter for each technician each month to track usage. Record, review, and correct as necessary.

Systematize Shop Supply Control

Here's how one 20 Group dealer controls shop supply expenses:

1. Have the parts manager control the purchase and issuance of all shop supplies. All shop supplies should be charged to a parts inventory account when purchased.
2. Parts department keeps a record of all supplies during the month, with technician's initials by each item issued.
3. Service manager reviews and approves all supplies during the month. Then they are charged to the shop supplies expense account. The following form is used:

Technician Shop Supply Recap											
Technician Name				Technician Name				Technician Name			
Date	Item	Cost	Initials	Date	Item	Cost	Initials	Date	Item	Cost	Initials
	Total				Total				Total		

2. Policy Work

The service manager needs to control and monitor policy work, which should not exceed two percent of your gross.

Having made that statement, we need to step back. You need to retain your customers in order to make your grosses. So, find out what the customer thinks is a fair adjustment. Find out what will make your customer happy, short of giving away the store. Then empower your service advisors to make decisions, with the understanding that excess policy work will need to be offset by additional labor sales.

3. Uniforms

Your service uniforms are an inexpensive yet effective form of advertising. But you shouldn't be paying for them when they are not being worn. Tell the company that supplies your uniforms that you don't want to pay for uniforms during technicians' vacations. The company may be willing to adjust your bill to keep you as a satisfied customer.

4. Parts washers

Find out the terms of the service contract for your machine, and hold the service company to the contract. Often, service representatives—who are paid by commission—will come to your shop at more frequent intervals than you contracted for, and charge you for the extra visits, explaining that the machine works better with more frequent cleaning. You may want to extend the intervals between cleanings. Better yet, look into a non-hazardous, water-based cleaning system that will wash the parts while your technicians work on vehicles.

D. Fixed Absorption

Service and parts are considered the regular—or “fixed”—sources of income, whereas the sales departments are considered variable sources of income. Fixed absorption is the ability of fixed operations (service and parts, and body shop if you have one) to absorb—cover—the entire dealership adjusted overhead expense. Adjusted overhead expense is total dealership expense less those expenses that are directly attributable to the sale of new and used vehicles—commission, delivery, and policy.

Absorption, important in any vehicle sales curve, becomes even more crucial when vehicle sales slide. Variable income flow is reduced, but expenses increase. The more of the debt load that you can take off the variable operations, the easier it is for them to sell vehicles. You should aim for high fixed absorption, the closer to full absorption—100 percent—the better.

If service and parts could generate sufficient gross to cover all dealership expenses, every vehicle sale would produce pure profit. NADA 20 Group guidelines, which include used-vehicle gross in the formula below, recommend 100 percent absorption. Few dealers are able to achieve 100 percent. Some specialists in fixed operations profitability tie absorption rate to customer retention: If you have a 70 percent customer retention level, he says, you can expect 90 percent or better fixed absorption. On a national level, fixed absorption is currently at a poor 59 percent. NADA Academy, basing its guidelines on the experience of the top 20 percent of dealers who are successful in all five dealership departments, recommends 75 percent absorption, with or without a body shop.

To calculate your absorption percentage, use the figures from your financial statement in the following formula:

$$\begin{aligned} & \text{Gross Profit (Parts Department + Service} \\ & \quad \text{Department + Body Shop) divided by} \\ & \quad \text{Adjusted Dealership Overhead Expense} \\ & \quad = \text{Absorption Percentage} \end{aligned}$$

If your absorption is low, examine your grossing patterns. Service should be holding 72 percent of gross; parts should be holding 38 percent, and body shop should be holding 65 percent on labor, 30 percent on parts.

If you are holding gross in all these areas, examine your expenses.

As noted above, the adjusted overhead expense is the total dealership expense less new and used commission expense, policy expense, and get ready/delivery expense. These are variable expenses, to

which some manufacturers add floor plan interest and advertising. Floor plan interest and advertising are not under the control of fixed operations, but if your financial statement includes them with variable expenses and they are out of line, you may be in the position of absorbing the costs of aged inventory and the advertising intended to move it. Advise your general manager or sales manager.

E. Service Pricing Techniques

1. Pricing Service Jobs

As service manager, you need to utilize your human and facility resources to the maximum possible level while providing value that exceeds customer expectations. To do so, you should establish pricing policies that do not necessarily conform to a predetermined labor rate, but which compete with locally available prices and still retain adequate profits.

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

1. Competitive
2. Maintenance
3. Repair

Since most repairs require higher skill levels than non-dealer competitors employ and therefore could be considered captive, you need only shop a few of the more commonly performed operations, such as strut replacement and transmission overhauls.

Most customers didn't leave dealership service departments to have complicated repairs done somewhere else. For the most part, they turned to non-dealership service outlets for maintenance and competitive work. And they left, for the most part, because they perceived dealership prices to be higher. Sometimes, dealers' prices were higher, because they were setting prices according to their profit goals (cost-plus-markup percentage) rather than their marketplace.

In the real world, the question is not, "What price must I charge to make my profit?" It is, "What price is my customer willing to pay?"

By shopping your competitors to determine what they are charging, you can stay in touch with the market and ensure that your customers are receiving good value. If you can change the customer's perception that your prices are higher, you can begin the process of winning them back and keeping them.

Remember our competitive pricing board (page 4)? When you shop your competitors, note that they give a price on two-wheel alignments. Dealers typically quote on four-wheel alignments. You need to quote on the two-wheel alignment, then upsell when the customer's car is in your service lane. And how about your price for installing pads? Dealership service departments tend to quote on two services—installing pads and turning rotors—instead of one. Give your price solely for installing pads; you may not need to turn rotors, anyway, unless there's a problem.

Remember, when a customer questions price, it is a good sign. It's a buying signal. And it gives you the chance to explain the value of the service you're providing. A fair price is not enough. Superior service is not enough. Your customer needs to perceive your good service and price as good value. You don't have to have the lowest prices in town to deliver value.

2. Pricing Service Labor

Most customers don't know—and don't care—what labor costs your dealership. They just want a fair price. You need to price labor at what it's worth, realistically, rather than as a response to what your technician think they should be paid.

Briefly, you have four options for pricing labor:

1. **Clock-hour Rates:** Customers pay an established hourly rate for the actual time spent by each technician working on their vehicles.
2. **Flat-rate Hours:** Customers pay a uniform hourly charge for an operation's time standard according to a flat-rate manual.
3. **Job Pricing (or Menu Pricing):** Customers pay a labor charge based on the prevailing charges for similar operations at competing service facilities in their market.

4. **Variable Labor Rates** (also called Multi-level Flat-rate Hours): Customers pay one of several hourly rates, based on skill or market category, for an operation's time standard found in a flat-rate manual.

Atwood of NADA Academy suggests that the fourth option, variable rates, is the key to becoming competitive. Variable labor rates based on the complexity of the jobs can match technician skills to particular jobs—utilizing your labor pool efficiently—and enhance the competitive stance of your service department. Again, do not charge a lower rate for internal work than you charge for retail work; your technician's time and the service bay cost the same regardless of the customer.

Variable labor rates can be approached according to skill level alone or according to market categories that encompass skill level considerations.

With **skill-level rates**, the hourly price is normally based on the traditional A, B, C, or D skill codes. This method allows you to charge more for jobs requiring highly-skilled, higher-paid technicians and less for jobs requiring lower-skilled, lower-paid technicians. Skill code A receives a high market price, skill code B an average market price on the high end, skill code C an average market price on the low end, and skill code D a low market price.

Market category rates allow you to establish three separate labor rates, basing the labor price-per-hour on the type of labor—competitive, maintenance, or repair. This method allows pricing to meet prevailing market conditions—and you can still assign your technicians to the various jobs according to their skill levels. Further, work performed on one vehicle may be divided among all three rates, depending on the services needed.

Atwood recommends the market category approach to variable rates; once you establish rates, you may decide to post a dollar range (for instance, \$35-\$85 per-labor-hour) in your shop. He offers the following rate considerations:

- **Competitive** labor comprises those services, limited in number, that you have chosen to be competitive in. Competitive labor is charged at a low hourly rate for the most competitive services in the marketplace:
 - Lube, oil, and filter changes
 - Alignments
 - Wheel balances
 - Tire rotations
 - Any market-driven, price-sensitive maintenance items as required to maintain your competitive posture
- **Maintenance** labor is defined as any work that the manufacturer recommends or requires. Including common but less competitive services, maintenance labor is priced at a moderate hourly rate that usually averages out at or above your target or posted rate. Maintenance labor services are:
 - Manufacturer's required maintenance services
 - Automatic transmission services
 - A/C service
 - Emission control services
 - Injector services
- **Repair** labor, which comprises every other service your department provides, 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

How do you go about instituting a variable labor rate structure?

In Appendix B, you'll find a Repair Order Analysis Form with headings for "C" (Competitive), "M" (Maintenance), and "R" (Repair) labor sales. You'll

also find a blank Repair Order Analysis Recap Sheet and examples of completed Recap Sheets that show how slight changes in your rates can affect performance. This appendix refers to customer-pay service only. We suggest that you use those pages as tools for constructing a practicable variable rate schedule, according to the following process:

a. Suggested Steps to Setting Up Variable Labor Rates

Step 1. Conduct a repair order analysis of your customer-pay work to determine your Effective Labor Rate (ELR) and work mix by category (competitive, maintenance, repair).

Divide your sales in each category by the hours billed in that category to find your ELR.

Step 2. Establish your *competitive rate* at or near the LOF rate (which you determined by shopping your competition). Even though your other competitively-priced maintenance work will carry a higher labor rate effectively, it is your LOF rate that contributes the most to your competition. Establishing a lower competitive rate will give you a slight cushion.

Establish your *maintenance rate* at or above the existing warranty rate. The maintenance rate is the “target” rate for your department and should never be lower than the warranty rate. All of your maintenance work should be priced with this rate in mind, especially the mileage interval services reflected in the owner’s maintenance schedule.

Establish your *repair rate* at \$8 to \$10 above the maintenance rate or at an amount equal to the maintenance rate plus twice the deficit—a negative “Difference” shown on your RO Analysis Recap Sheet— whichever amount is less. (If your maintenance rate is \$55, for example, and your Recap shows a shortfall of \$4.50, set your repair rate at \$9 above the maintenance rate, or \$64.)

Step 3. Monitor the movement. Consider your new variable rate schedule as a trial. Once your rates take hold and you continue to monitor your work mix and

ELR trend, you may find that time and inflation will allow you to shrink the gap between your maintenance and repair rates. Your deficit should decrease; if it deepens, it may be necessary to increase the repair rate slightly to offset the shortfall.

b. Additional Guidelines

Thorough RO analysis every month (see *Driven* guide *A Dealer Guide to Repair Order Analysis* at nada.org) will demonstrate if your service department’s performance is consistent with goals and guidelines. These are guidelines pertinent to the present discussion:

- Percentage competitive and maintenance sales: 60 percent, collectively
- Percentage repair sales: 40 percent
- Cost of sale (COS): 30 percent or lower
- Average cost per flat-rate hour (FRH): Equal to or less than average technician pay
- Total ROs: 14-18* per service advisor per day
- Total FRHs: 40-50 per service advisor per day
- Average flat-rate hours per RO: 2.2-2.5; high line 3.0
- Percentage menu sales: Upsell 30 percent
- Percentage one-item ROs: 10-15 percent
- Model year mix: New-vehicles still under warranty should comprise 50 percent of your work mix—upsell maintenance

* Note: The number of ROs is not as crucial as the work involved. Your department may thrive on more work from fewer ROs. Sell needed service (i.e., technician time), not lines on the dispatch sheet.

One Way to Devise a Variable Price Structure

There are many methods of creating variable price structures that will work for your shop in your market according to your work mix and the skill levels of your technicians. One 20 Group dealer, intent on achieving service gross percentage at or above 72 percent, switched from an across-the-board flat rate for all customer-pay work to a pricing grid. But the grid, based on a graduated labor rate that increases with the number of FRHs an operation pays, had some problems. Diagnostic work, for instance, often paid a single hour, generating a relatively low

labor rate; yet in many cases it could be performed only by the highest skill level (i.e., the highest-paid technicians). On the other hand, replacement of an automatic transmission pays a high number of hours, thus generating a higher labor rate—but generally a medium-skill technician can do it. Furthermore, a local transmission shop could buy the same rebuilt transmission from this dealer’s parts department and perform the repair for several hundred dollars less. So the service department instituted a four-tiered pricing system:

1. Competitive items = brakes and shocks: \$XX per FRH
2. Maintenance items = belts, hoses, and fuel filters: \$XX plus \$5 perFRH
3. General repair items = engine replacement, suspension work: \$XX plus \$12 per FRH
4. Specialty work = driveability, electrical, passive restraints = \$XX plus \$32 per FRH

After three months using this structure, this service department increased its effective rate 18 percent. Customer-pay gross percentage for the third month was 74.19 percent, and total labor sales gross percentage was 72.98 percent.

F. Repair Order Analysis

As you know, the repair order is the single most important piece of paper in the service department. The RO is the ticket—the work that yields sales that, in turn, yield profits. Service managers should examine ROs daily, ensuring that they are complete, that pricing is accurate, and that service advisors are selling needed service as well as taking orders.

On a monthly basis, analyze the ROs to determine what needs to be improved and what actions you should take to do so. Try to analyze 100 ROs each month—100 ROs per service advisor per month would be even better—comparing your department’s performance against guidelines. With your eye on the goal—to maintain an effective labor rate that always exceeds your target—and your ongoing RO analysis in hand, you can do minor tweaking with major results. You should also review computerized reports on a daily basis to monitor the ELR, which will fluctuate

depending on the work mix. You want to manage the sales effort to minimize one-item ROs—as the count of one-line items decreases, your hours per RO increases—and maximize the use of menus, pricing guides, and controlled work mixing scheduling.

G. NADA Actual Service Analysis

Calculate your monthly labor sales potential using a month’s actual performance:

- Divide your total labor sales for the month by the total hours billed. The result is your ELR.

$$\text{Labor Sales} \div \text{Hours billed} = \text{Effective Labor Rate}$$
- Multiply total technicians by total time. The result is the number of clock hours available.

$$\text{Number of Techs} \times \text{Hours/day} \times \text{Working days/mo.} = \text{Clock hours available/mo.}$$
- Multiply available time (clock hours) by your ELR to arrive at your labor sales potential.

$$\text{Available hours/mo.} \times \text{ELR} = \text{Labor sales potential}$$

How does your *actual total* (dollar amount labor sales in #1) for the month compare with your *potential total* for the month (labor sales potential, #3)?

Appendix C provides a form for your use in performing NADA Actual Service Analysis. Remember that the figures reflect labor only; accompanying parts sales must be examined separately.

Relevant figures from your NADA Actual Service Analysis will be useful in computing your facility potential and utilization, below, as well as technician productivity in Section V.

Consider Offering Free Maintenance Inspections to Every Service Customer!

Here's an idea to cut down your one-line items. Offer a 5-10 item "Free Maintenance Inspection"—not a safety inspection, which can expose the dealership to liability—as a courtesy to every customer who comes into the service drive. Print up a form listing the items you'll check and, if the customer agrees to your no-obligation service, give the form to the technician. After making his or her inspection, the tech should discuss items needing service with the service advisor, who will show and explain the form to the customer. (If the customer must leave the car without waiting, give him or her a copy of the blank form to take along, and call with the results.) The customer expects feedback, and upselling becomes easier. Chances are, the customer will authorize additional work, as the vehicle is already in the service department, rather than have to schedule another service appointment. Should the customer decline, the service manager should call and attempt to save the sale. Pay your technician three-tenths of an hour or the rate determined for the upsell, whichever is greater. The tech thus has an incentive, you have the opportunity to increase your hours per RO, and the customer receives needed service. You will find a sample Free Maintenance Inspection form in Appendix D.

H. Facility Utilization

Achieving your labor sales potential requires using your service facility to its maximum potential. With your NADA Actual Service Analysis in hand, calculate your *facility potential* with this formula:

$$\text{No. Bays} \times \text{No. Days} \times \text{No. Hours} \times \text{Effective Labor Rate} = \text{Facility Potential}$$

In the formula above, use your total number of service bays excluding the wash and undercoat bays. The figure for "days" is the total number of days in a particular month that the service department is open. Hours are hours per day that the service department is open.

To calculate the extent to which you are actually making use of your facility, compare your actual total labor

sales for the month against your facility potential:

$$\text{Actual Labor Sales} \div \text{Facility Potential} = \text{Facility Utilization}$$

To compute your potential facility utilization, compare your labor sales potential against your facility potential.

$$\text{Labor Sales Potential} \div \text{Facility Potential} = \text{Potential Facility Utilization}$$

Your facility utilization, optimally at 100 percent, should be at least 70 percent.

If your facility utilization is lower than 70 percent, you may want to answer two questions:

1. Are too many bays assigned to one technician? (The transmission technician and the engine technician may use two or three bays. All other technicians should be given a lift and share a flat stall— i.e., one-and-a-half stalls per technician.)
2. Do I need to hire additional technicians in order to maximize facility utilization?

V. PRODUCTIVITY

You calculated your labor sales potential using the NADA Actual Service Analysis above. Now use that analysis to calculate your true sales potential, i.e., your department's potential labor sales if each of your technicians consistently produced to his or her maximum potential:

$$\text{No. of clock hours available} \times 120\% = \text{FRH potential}$$

$$\text{FRH potential} \times \text{ELR} = \text{true sales potential}$$

If you review the service manager's job description (pages 6–7), you'll note that every responsibility that relates to productivity begins or ends with the technician. It is the sale of technician time that produces revenue for the service department. The technician produces billable time. It is up to the service manager to ensure that the time is sold and that the time is allocated for optimum use of the technicians and

the facility, and therefore optimum sales and profits at the least possible cost.

Tech Time as an Inventory

It might be helpful to view technician time as one of the inventories your dealership has to sell.

There are four inventories in a dealership:

- New vehicles
- Used vehicles
- Parts
- Technician time

A. Measuring Technician Performance

To determine if you have allocated technicians' time well, you need to know how well they use that time. Your technicians are assets. You need to track your assets' performance. There are three methods to do so:

1. Technician productivity is measured by the actual time worked in a day versus the number of clock hours available in that day. To put it simply, the equation is:

$$\text{Hours worked} \div \text{Hours available} \\ = \text{Productivity}$$

Although it would appear that productivity is strictly a function of labor sales—four labor hours worked of eight hours available yields 50 percent productivity—it is also dependent on time clock procedures that can yield a misleading picture. The use of a “clock-on, clock-off” system does not guarantee that the technician is working during the time he or she has the ticket. Productive time may appear to be greater than it actually is. This system can cause you to misconstrue your shop's true level of productivity—time worked, i.e., time spent actually performing labor, versus time available.

Studies have shown that most technicians lose 15 to 20 percent of available time in non-labor-related functions such as test drives, parts retrieval, tool truck stops, coffee breaks, and the like. Therefore, we recommend 85 to 87.5 percent as a productivity guideline.

2. Technician efficiency is measured by the actual number of hours technicians take to perform the

labor versus the number of labor hours sold. Here, though, hours are sold according to time standards for a particular service operation. The equation is:

$$\text{FRHs produced} \div \text{Hours worked} = \text{Efficiency}$$

So if the standard for the labor is four hours, and the technician performs that labor in four hours, efficiency is 100 percent. Efficiency is really the ability of technicians to beat a time standard published in a flat-rate manual issued by the factory or by such companies as Chilton, Mitchell, or Motors. Most technicians demonstrate levels of efficiency ranging from 135 percent (factory manual) to 150 percent (non-factory manuals). NADA top 20 Group dealers have established efficiency guidelines of 125 percent (factory) and 135 percent (non-factory).

Most service departments do not distinguish between productivity and efficiency when measuring performance. If that's so in your shop, remember that performance is really a combination of *assumed* productivity (80 to 90 percent) and *measured* efficiency. Further, as efficiency increases, productivity has to decrease. Let's take an example:

- A technician is given a 9-hour job that is completed in 6.5 hours during an 8-hour shift.
- That tech's productivity is 6.5 hours worked \div 8 hours available = 81 percent.
- The tech's efficiency is 9 FRH sold \div 6.5 hours worked = 138 percent.
- If the tech completes the same job faster—in 6 hours, for example—efficiency climbs to 150 percent while productivity drops to 75 percent.

3. Technician proficiency is a measure that combines productivity and efficiency. It compares hours produced to hours available. Thus a technician who produces 40 hours of billable labor in a 40-hour week achieves 100 percent proficiency. The equation is:

$$\text{Hours produced} \div \text{Hours available} \\ = \text{Proficiency}$$

Proficiency, which can be measured individually or collectively, may provide the truest measure of technicians' time usage. In the example above, the

technician produced 9 hours of work in 8 available hours, achieving a proficiency level of 112 percent.

The guideline for technician proficiency is 120 percent—the figure used in the first equation in Section V to calculate FRH potential. That equation assumes the best-case scenario—that each technician, making the absolute most of available time, is working at 120 percent proficiency.

According to Robert Atwood of NADA Academy, 120 percent proficiency is “obtainable but not really sustainable” because of warranty work. He said, “There is no reason a shop shouldn’t run at 100 percent all the time, with peaks to 120 percent.”

If you are running at 100 percent proficiency with all your technicians for 30 days or more, you may want to consider boosting sales by hiring more technicians. If you need to motivate less efficient but highly skilled technicians, consider providing training and certification programs that maximize proficiency, with a bonus for earning higher ratings.

It is to your advantage to maximize your technicians’ proficiency because:

- the more proficient they are, the more profit they earn for the department and
- the more proficient they are, the fewer technicians you need to earn that profit (with correspondingly lower costs)

B. Technician Value

The last two bullets, boiled down to their essence, mean this: The more proficient your technicians are, the more valuable they are. You can compute technician value, in dollars.

Use daily available hours per technician in the following calculation:

$$\frac{\text{____ Hours} \times \text{____ Days/mo.}}{\text{\$____ Labor Rate}} = \text{\$____ Sales Value}$$

$$\frac{\text{\$____ Sales Value} \times \text{____}}{\% \text{ Gross Margin}} = \text{\$____ Profit Value}$$

$$\frac{\text{\$____ Profit Value} \times \text{____ \% Proficiency}}{\text{= \$____ Adjusted Profit Value}}$$

Technician value is a “gross” dollar figure because we multiply by gross margin (profit) percent.

	70%	
	80%	
	90%	
	100%	
	110%	
	120%	
Profit Value	Proficiency	Adjusted Profit Value

C. Technician Staffing Requirements

The calculations on the next page illustrate how technician proficiency levels affect your department’s staffing needs. Nine technicians working at top proficiency can generate the same break-even sales amount as 13 technicians working at 80 percent proficiency. To generate 20 percent net, 12 technicians working at 120 percent can achieve the same as 19 techs at 80 percent. The staffing figure is a “sales” dollar figure because we do not use the gross margin (profit) percent.

A form for your own calculations is provided in Appendix E.

D. Loading Factor

Technician proficiency is also the key to determining the number of hours you can load on a daily basis. Calculate your true daily hours available:

$$\text{No. technicians} \times \text{Hours available/day} \times \text{Total shop proficiency} = \text{Hours available to sell/day}$$

Find your shop loading figure (hours) by multiplying:

$$\text{Hours available} \times 80 \text{ percent}$$

The hours available will be allocated according to the time required for the job—an oil change will require less time than a 30,000-mile maintenance operation—and the skill levels of your technicians. As service manager, you need to ensure that your technicians are busy, time promises are kept, time

TECHNICIAN STAFFING REQUIREMENTS EXAMPLE

A. Sales To Break Even			*Excludes Cost-of-Sales	
Total Expenses for One Month*	÷	Current Gross Profit Percent	=	Sales to Break Even
\$56,590	÷	67%	=	\$84,462

B. Sales To Generate 20% Net			*Excludes Cost-of-Sales	
Total Expenses for One Month*	÷	Current Gross Profit Minus 20	=	Sales to Generate 20% Net
\$56,590	÷	47%	=	\$120,404

C. Technician Value								
Daily Work Hours	×	Average Proficiency Rate	×	Overall Effective Labor Rate	×	Work Days Per Month	=	Technician Value
8 hrs.		80%		\$46		22 days		\$6,477
8 hrs.		90%		\$46		22 days		\$7,286
8 hrs.		100%		\$46		22 days		\$8,096
8 hrs.		120%		\$46		22 days		\$9,715

D. Staffing To Break Even (A)				
Sales to Break Even	÷	Technician Value	=	Staffing
\$84,462		\$6,477	(@ 80%)	13 Techs
\$84,462		\$7,286	(@ 90%)	12 Techs
\$84,462		\$8,096	(@ 100%)	10 Techs
\$84,462		\$9,715	(@ 120%)	9 Techs

E. Staffing To Generate 20% New (B)				
Sales to Generate 20% Net	÷	Technician Value	=	Staffing
\$120,404		\$6,477	(@ 80%)	19 Techs
\$120,404		\$7,286	(@ 90%)	16 Techs
\$120,404		\$8,096	(@ 100%)	15 Techs
\$120,404		\$9,715	(@ 120%)	12 Techs

overruns are minimized, and your facility is being utilized well. The 80 percent loading factor allows you to reserve technician time—after appointments, carryovers, and internal work—for work that is upsold and for emergency walk-ins. The reserve also provides a cushion if a technician calls in sick.

E. Reasons for Low Proficiency

There are two possible causes for low proficiency

levels. The number-one reason has to do with the parts department. Second is the tool room.

1. Parts

Technicians spend valuable time retrieving parts at the back parts counter. Try pre-pulling parts when possible, using a parts runner, and tracking the RO fill rate. You might give the parts back-counter person an incentive to streamlining the retrieval procedure—a

bonus (to be paid by service and parts equally) based on hours produced in the shop. Also, have the parts department prepare pre-packaged items—all the parts needed for a 15,000-mile maintenance job, for instance—and shrink-wrap them in a marked box for easy retrieval.

Another idea: Ask the parts manager to run a report on the 100 fastest-moving parts. Move those parts closest to the counter to make them easily, and quickly, accessible.

Schedule Appointments with the Parts Department, Too!

When a customer's special-order part has arrived and the service is scheduled, it is cost-effective to the parts department to know the customer's service appointment date and time. All service has to do is make a note of the appointment date and time on its copy of the special order receipt and send that copy back to the parts department. The parts department attaches the copy to the part. Some of the benefits:

- The shelf life of special-order parts can be reduced when parts notifies service of an expired appointment date.
- If an appointment has expired or been cancelled, the special-order part can be returned to the manufacturer within the 30-day window with no reduction in the return reserve.
- Additional sales may be possible. A quick glance at the receipt tells parts personnel if they can sell special-order parts on hand to another customer and reorder in time for the scheduled service appointment.

2. Tool Room

The service manager needs to ensure that tools are organized and inventoried. You should inventory special tools that could affect any workers' compensation claims; failure to have a tool required by the manufacturer makes you liable should there be an injury. As part of your employee handbook, you should have a tool policy, including a sign-off policy for tools should technicians leave your employ.

F. Production Concepts

Shop organization and technician pay plans also affect your ability to run an efficient service department and maintain your gross while retaining qualified employees and providing them incentives to produce.

Effective leadership, scheduling, and loading are key to each production concept—conventional, work group (also called lateral support groups), and teams.

G. Technician Pay Plans

Your pay plans should be designed to accomplish these goals:

- Attract and keep qualified employees
- Provide an incentive to productivity
- Compete with pay offered by other service providers in your area

To see current pay rates, consult the latest *Dealership Workforce Study* report, available by calling NADA Customer Service at 800.557.6232.

The four general types of pay plans are:

1. Salary and/or Clock Hours
2. Commission
3. Flat Rate
4. Multi-level Flat Rate

Let's review each method.

1. According to the **salary and/or clock hours** method, technicians are paid a predetermined rate of pay for a given period of time. For example, a technician may receive \$500 per week (based on a 40-hour week) or \$12.50 per hour for each hour they are available for work.

The advantages of this method are:

- Monthly cost of sales easily determined
- Technician knows exactly what earnings will be
- Easy bookkeeping

The disadvantages of this method are:

- No incentives for high productivity
- Attracts lesser-skilled technicians
- Requires extremely strong management
- Technicians paid twice for comebacks

2. In a **commission** system, technicians are paid a percentage of the gross labor sales they produce. A 50 percent commission on a day's gross of \$195, for instance, yields a day's pay of \$97.50.

The advantages of this method are:

- Labor cost of sales predetermined
- Easy bookkeeping
- Promotes high productivity

The disadvantages of this method are:

- Inconsistent pay
- Dealership receives only a percentage of a price increase
- Technicians' pay a percentage of reduced-price specials
- Pay for the same job may vary depending on payer—customer, factory, or dealership

3. In a **flat-rate** system, each technician is paid a single, shop-wide rate for each flat-rate hour he or she produces each day. For example, a technician producing 7.8 flat-rate hours in a day at a rate of \$12.50 will receive \$97.50 for that day's work.

The advantages of this method are:

- Rewards technicians for volume
- Technician receives same rate regardless of payer
- Cost of sales easy to control
- Dealer can increase prices without affecting technician pay
- Technician pay not affected by price specials

Disadvantages of this method are:

- Only incentive is increased production
- No motivation for highly-skilled technicians to improve

4. **Multi-level Flat-rate** systems pay technicians different rates per flat-rate hour produced according to each technician's skills and experience. For example, one technician, paid \$12.50 per flat-rate hour, receives \$97.50 for 7.8 hours; another technician, paid \$10.50 per hour, receives \$81.90 for the same 7.8 flat-rate hours produced.

The advantages of this method are:

- Rewards volume work with higher pay
- Technician receives same pay regardless of payer
- Cost of sale easy to control under team production
- Dealer can increase prices without affecting technician pay
- Technician pay unaffected by price specials
- Flexibility to vary pay rates based on skills and experience
- Provides incentives for career growth

Disadvantages of this method are:

- Cost of sale difficult to control in conventional production shops
- Requires distinct technician classifications

Many pay plans used by dealerships are variations of the four general types. Whatever plan you institute, make sure it accomplishes the three goals we noted above—attracting and retaining employees, providing productivity incentives, and staying competitive in your marketplace.

VI. PERSONNEL

The service department has more people, facilities, and equipment than any other dealership department. It is also the key to the success of a dealership. If customers don't receive courteous, prompt, and reliable service, it's unlikely they'll come back—for service, or for their next new or used vehicle.

As service manager, you're responsible for ensuring that customers return. You are ultimately responsible for how customers and their vehicles are treated. Your employees, for the most part, are the ones who actually take care of the customers and cars. Thus your first and continuing responsibility is to hire, train, motivate, and counsel employees so that they, and the quality of their performance, please customers.

Your employees range from technicians—specialized and general, foremen, team leaders, apprentices—to service advisors/assistant service managers, dispatch-

ers, warranty clerks, cashiers, porters, car washers. You should have a written job description for each position, including your own. (The service manager job description on pages 6–7 should also identify the position to which your position reports, spell out the qualifications for and working conditions of the job, and classify each duty or responsibility according to its “essential” or “marginal” place in your departmental structure.) The job description sets the goals of each position, defines all duties and responsibilities, and establishes the relative importance of each to the proper performance of the job. It serves as a “road map” for both employee and manager, enabling the former to know what performance is expected and the latter to evaluate the level of performance. Since the enactment of the Americans with Disabilities Act (ADA), the job description also serves as evidence in the event of a discrimination action. We refer you again to *HR Dealership Fundamentals* available through nada.org.

Space does not permit a full discussion of each service department employee position in this guide. It is useful, however, to point out that all service department employees (including you) are considered support personnel to the one class of employee who is considered productive—the technician. The correlation between profit and the ratio of productive to support employees is proven: Your opportunity for profit results begins at 2:1 (two technicians to one support employee).

Let’s take a closer look at who your productive employee is—and where to find him or her. Then we’ll discuss the service advisor, your chief link to the customer.

A. Technicians: Your Productive Employees

1. Why the Shortage?

We noted in the introduction that the shortage of technicians in this country is increasing.

Technicians today are highly skilled. They have to be, in order to work with today’s vehicles’ on-board diagnostics (OBD) systems and repair such sophisti-

cated components as airbags/supplemental restraint systems (SRS) and anti-lock braking systems (ABS), to mention only two of numerous recent vehicle safety and performance innovations. Modern cars have more computers than there were on Apollo 11. Dealership technicians must be certified by the manufacturer; many technicians earn multiple additional certifications as well. Training is never complete, but is ongoing, on the job and at training classes.

Technicians are also well-paid. According to federal labor statistics, the average technician earned \$16.88 per hour in 2010; master technicians earned as much as \$28.71 per hour.

So why is there a shortage? Probably the most significant cause is a persistent negative image of automotive service as a career. The perception—that working on cars is a dirty, low-prestige job for high school dropouts—lags far behind reality, but it’s still out there. And as mechanics trained on an earlier generation of vehicles retire, not enough young people are replacing them, let alone swelling technician ranks to meet an ever-increasing need.

2. Addressing the Shortage

Efforts to update and upgrade the image of the technician are ongoing, on multiple fronts. Footage of automotive technicians in laboratory-like settings reaches consumers via manufacturers’ new-vehicle advertising on television; dealership and non-dealership service providers use the medium to portray their technicians as professionals—articulate, computer-savvy, and proud to wear the starched, clean uniform of their employers. Schools offering automotive technology programs target students directly, promoting their programs and the career prospects they provide. And news of the demand for technicians and the high-tech, high-pay nature of the job appears in the general and trade broadcast and print media, often in conjunction with industry meetings and conventions.

The news is spread by associations such as NADA, state and metro dealer associations, the Coordinating Committee for Automotive Repair (CCAR), the Automotive Maintenance and Repair Association

(AMRA), the Automotive Aftermarket Industry Association (AIAA), the Car Care Council, and the Inter-Industry Conference on Auto Collision Repair (I-CAR). These groups and others emphasize the many dealership openings for qualified technicians, and the excellent options for quality training.

3. Where to find Technicians

Career Day and technical school and college career fairs can be great resources for finding potential technicians -and some of those candidates will have had, already, specific training in automotive technology. Other options include dealership participation in contests and/or sponsorship of high school and college-level technician apprenticeships.

- **SkillsUSA** (began in 1965 as Vocational Industrial Clubs of America) supports vocational and technical training programs in many vocational and technical fields, and sponsors technical competitions. You may wish to judge some of the relevant skills competitions and take the opportunity to speak with students. Reach SkillsUSA at (703) 777-8810 (www.skillsusa.org).
- **Automotive Youth Educational Systems (AYES)**, which aims “to be the catalyst in the development of ‘school-to-career’ automotive educational programs . . . providing a source for qualified entry-level technicians . . .” is a partnership of eight manufacturers (General Motors, Chrysler, Toyota, Subaru, Mercedes-Benz, BMW, MINI, and Rolls-Royce) working with schools and dealerships to encourage students to consider automotive technology careers and to help supply quality training to those students. AYES currently has high school programs in 45 states.

Under the AYES system, automotive technology students in their junior year of high school first “shadow” dealership employees on the job, then learn to be technicians themselves, guided by carefully

chosen and trained mentors, usually senior-level technicians. Students work full-time at the dealerships during the summer, supervised by their mentors and dealership service managers, and continue part-time during senior year. After high school graduation, students become full-time dealership employees, usually pursuing their franchise’s two-year apprentice program, which allows them to earn an associate’s degree while working and learning on the job. Reach AYES at (888) 339-2937 (www.ayes.org). If AYES has programs in your state, your state dealer association may have an AYES coordinator.

- **Manufacturers’ apprentice programs** such as General Motors’ ASEP (Automotive Service Educational Program), Ford’s ASSET (Automotive Student Service Educational Training), the Chrysler College Automotive Program (CAP), Toyota’s T-TEN (Technical Education Network), and American Honda Technical Training are not limited to AYES graduates. Many manufacturers have teamed up with local community colleges and technical institutes to train students on specific makes under dealership sponsorship.
- **Job Corps**, the country’s oldest, largest, and most comprehensive national residential education and training program for at-risk youths ages 16 to 24, is another resource. The automotive repair technician curriculum is offered at 42 of the 125 Job Corps centers located all over the country. Graduates of the Job Corps automotive program are trained automotive service technicians, ready to be placed in a job. Many of them already have several ASE certifications (see below). Contact the national Job Corps office (202-693-3000) for the Job Corps representative in your area who can help you place technicians in your dealership.

- **The National Institute for Automotive Service Excellence** offers ASE testing and certification for automobile and light truck technicians in eight different repair areas. In the ASE program, working technicians earn ASE certification if they pass at least one test and have two years' work experience. ASE certification attests to technicians' competency, and improves their chances for job advancement. Technician certification is currently required in ten states. The ASE program is affiliated with the National Automotive Technicians Education Foundation (NATEF), which evaluates automotive technician training programs against standards developed by the automotive industry. There are currently certified automotive training programs at the secondary and post-secondary levels in all 50 states. To find certified schools in your state, visit the NATEF web site (www.natef.org) or call NATEF at (703) 669-6650. ASE also maintains an informative website (www.ase.com) and operates a toll-free information line (888-ASE-TEST) in addition to its regular line (703-669-6600).
- **Other sources** include your local AAA, which may also run contests and events that can put you in touch with technicians; military bulletin boards; and the Autojobs.com web site (www.autojobs.com). You might advertise for technicians in the classified section of your local newspaper, and/or place signs on your parts counter and your parts truck. Ask the tool truck driver if s/he can recommend someone. And give your technicians incentives to recommend their friends. Finally, don't dismiss the teenager who approaches you with no formal training but lots of interest and enthusiasm. He or she may have talent. A first job as a porter or car washer will show you if that teen is motivated and steady; training and apprenticeship can follow.

4. Who are the Technicians?

Technicians today don't fit stereotypes any more than anyone else does. In general, though, aspiring technicians may be interested in technology, computer science, and electronics. They might enjoy working with their hands. They might be the children of automobile dealers or mechanics. They might have "taken cars apart and put them back together" with a parent or sibling. They may be car racing enthusiasts. They may have ambitions to grow from tech to service manager to dealer. They may want to design tools. They may be male or female.

5. Retaining Your Technicians

Pay your apprentice technicians a reasonable hourly rate for your area—but don't treat them as hourly workers. Your apprentices are your future technicians, and you want to keep them. You might tie apprentice compensation to academic achievement at school and attendance on the job. You might also reimburse training expenses, give bonuses for longevity at your store, and/or buy their tools (with the understanding that if they leave, they will either reimburse the dealership or leave the tools with the dealership).

Second Shift Performs Double Duty!

One 20 Group dealer found a way to develop technicians and create convenience for customers at the same time. Utilizing a well-planned co-op program with a community college, the dealership created a night shift using a service director, an hourly "B" technician who doubled as a mentor, a parts manager, and two co-op students. Customers who called during the day for maintenance were offered the option of stopping in after 3 p.m. without an appointment. Customers taking delivery of new vehicles were also offered the option. The program was so successful that an additional student was added to handle the workload. The result: increased customer satisfaction, increased traffic, and technician skill development.

As for your regular technicians, you might give them monetary rewards for earning additional ASE certifications. You might also establish a bonus program, as mentioned above, that is tied to an attainable

shop proficiency level, rewarding achievement of that level and increases above the level. You might, for example, increase technician pay \$.50 per hour for every five percent weekly increase over 100 percent shop proficiency.

Other monetary rewards include incentives for new tech referral and upsold maintenance, both noted earlier. If you think creatively, you'll find many opportunities to give your techs a little extra money. But make no mistake. Pay is an important key to technician retention, but it's not the most important key.

According to an NADA Academy survey of technicians at more than 300 dealerships, pay ranked third on technicians' self-reported reasons for coming to work at a dealership. The facility ranked second, with technicians stressing the importance of a clean, neat, and organized workplace, with all necessary parts and tools close at hand. The number-one deciding factor was an environment where they are treated with respect.

Technicians, who represent the backbone of the dealership, want and need to be considered an integral part of the business, with input into it. They also want a clear career path allowing for growth in the job, including recognition of seniority and experience. Please refer to *Driven* guide [A Dealer Guide to Technician Retention](#), available at nada.org, for further information and suggestions for ways to find out how your technicians feel about their jobs.

NADA Academy instructors suggest that service managers routinely walk through their shops, and get to know their technicians not just as workers, but as people. They also recommend that you hold weekly meetings with the techs to thank them for jobs well done and solicit their input regarding any aspect of their jobs or the department. Problems should be discussed, certainly, but the meetings should always begin and end on a positive note.

B. Service Advisors: Your Link to the Customer

Some authorities consider the service advisor the single most important dealership employee. He or she critically affects both dealership and depart-

mental customer retention and profit goals. He or she is the chief influence on the public's image of your dealership.

1. Customer Contact

The service advisor has more face-to-face contact with the customer than anyone else in the entire dealership. Once a customer purchases a vehicle, it is the service advisor who becomes the dealership's representative to the customer. It is the service advisor through whom technicians and service manager communicate with the customer. Ultimately, the service advisor is the person who can make or break the dealership's relationship with the customer.

Take a look at the service advisor's duties and responsibilities as excerpted from *HR Dealership Fundamentals*, available at nada.org. (As noted above, complete job descriptions should also identify the position to which the job reports, spell out the qualifications for and working conditions of the job, and classify each duty or responsibility according to its "essential" or "marginal" place in your departmental structure.) Note how many times the term "customer" is used or implied:

2. Service Advisor Position Summary

Sells and schedules needed service work in the service department.

Duties and responsibilities include the following:

- Schedules service appointments. Obtains customer and vehicle data prior to arrival when possible.
- Greets customers in a timely, friendly manner and obtains vehicle information.
- Writes up customer's vehicle problems accurately and clearly on repair orders.
- Test drives the vehicle with customer as needed to confirm the problem or refers to test technician.
- Refers to service history, inspects vehicle, and recommends additional needed service.
- Provides general advice to customers on the care of their cars and the value of maintaining their vehicles in accordance

with manufacturers' specifications. Does not diagnose problems, leaving diagnosis to the technicians.

- Provides a complete and accurate written cost estimate for labor and parts.
- Establishes "promised time." Checks with dispatcher, if necessary.
- Obtains customer's signature on repair order; provides customer with a copy.
- Establishes customer's method of payment. Obtains credit approval, if necessary.
- Notifies dispatcher of incoming work.
- Checks on progress of repair throughout the day. Contacts customers regarding any changes in the estimate or promised time, explains cost and time requirements in detail, and gets proper authorization before any additional repairs are performed.
- Implements and maintains a service marketing program.
- Reviews repair orders to ensure that work is completed and additional work is noted and authorized. Closes repair order as appropriate.
- Ensures that vehicles are parked in assigned areas. Makes sure they are locked and all keys are marked and put away correctly.
- Keeps service department forms, menus and pricing guides up-to-date.
- Explains completed work and all charges to customers.
- Implements a quality control process to eliminate comebacks.
- Maintains high customer satisfaction standards.
- Handles telephone inquiries regarding appointments and work in process.
- Inspects all vehicles for body work, informs customer if work is needed, and provides an estimate for body work.
- Supervises all cleaning and prepping of new and used vehicles.
- Maintains a professional appearance.
- Keeps work area clean.

Now compare the service advisor's opportunities for

face-to-face contacts with customers against the salesperson's.

A **service advisor** writing 20 ROs a day (15 customer-paid + 5 warranty) for 22 working days in a month has **440** customer contacts per month (20 x 22 = 440). In actuality, the total is doubled to 880, because the service advisor sees the customer again when the vehicle is picked up.

The average **new- or used-vehicle salesperson**, selling 10 units per month, has personal contact with **40 to 50** customers and prospective customers each month.

According to these numbers, one service advisor is equivalent, in terms of customer contact opportunities, to ten salespeople!

Your service advisor's access to customers—to your owner base—is better than the salesperson's, or any other dealership employee's. You don't call the service advisor a salesperson, but that is exactly who he or she is—or had better learn to be.

3. Service Advisor as Salesperson

Because the service advisor is responsible, in large part, for your customers' perception of the dealership, you need him or her to embody the image you want the dealership to have. That image includes quality product—and quality people. Service advisors should be:

- Excellent communicators
- Empathetic
- Persuasive
- Knowledgeable
- Professional
- Friendly
- Patient
- Courteous
- Attentive to details
- Responsive

Service advisors also need sales ability. Selling—or rather, salesmanship—is a function of building rapport with customers, gaining their trust and respect and, finally, their loyalty. Further, service advisors must not only explain the service performed, but also the value of the service—and the added value of having it performed at the dealership. And they should be able to parlay the information supplied by the customer or technician into additional sales for legitimate work.

Take a moment to consider the value of the service advisor. Using figures from your own financial statement, calculate the gross profit that is generated by each of your service advisors. You'll discover that they are worth a great deal.

How much Gross Profit is a Service Advisor Worth?

_____ Total ROs for one day for one service advisor
 × _____ Number of working days in the month
 = _____ Total ROs for the month
 × _____ Average hours per RO
 = _____ Hours sold for the month
 × _____ Overall effective labor rate
 = _____ Labor sales for the month (A)
 × _____ Service department gross profit percentage
 = _____ Labor gross for the month (B)

_____ Labor sales for the month (A above)
 × _____ Parts to labor ratio
 = _____ Parts sales
 × _____ Parts department gross profit percentage
 (RO and warranty)
 = _____ Parts gross for the month (C)

_____ Labor gross for the month (B above)
 + _____ Parts gross for the month (C above)
 = _____ Potential gross per service advisor per month

One NADA Academy student calculated the value of an average service advisor at his dealership using the actual figures shown below. Though the dealership's average hours per RO were a bit low, as were its service and parts departments' gross profit percentages, the figures still showed that the average service advisor at

that dealership was worth nearly \$49,000 a month to the dealership:

Total ROs for one day for one service advisor: 20
 Number of working days in the month: 22
 Total ROs for the month: 440
 Average hours per RO: 1.8
 Hours sold for the month: 792
 Overall effective labor rate: \$62.50
 Labor sales for the month (A): \$49,500
 Service department gross profit percentage: 68.5%
 Labor gross for the month (B): \$33,908

Labor sales for the month (A): \$49,500
 Parts to labor ratio: \$.80
 Parts sales: \$39,600
 Parts gross profit percentage: 38%
 Parts gross for the month (C): \$15,048

Labor gross for the month (B): \$33,908
 Parts gross for the month (C): \$15,048
 Potential gross profit per service advisor per month:
 \$48,956

These calculations show not only that your service advisors are valuable, but that they can become more valuable as their sales increase. According to NADA Academy, *increasing every customer-paid RO by just three-tenths of an hour can increase service gross by six to eight percent—and that three-tenths upsell of needed service means the dealership has to sell two or three fewer cars!*

How can service advisors effect that increase?

a. Teach them how to sell.

As service manager, you must train all service department employees. We suggest that you break down the wall between service and sales. Have your top new- or used-vehicle salesperson work with service advisors for an hour a week, focusing on phone skills and salesmanship. And include the service advisors in sales meetings. Give them a chance to hear salespeople's insights about selling—and give them a chance to share their own insights and the particular

demands of selling service. You too should speak at sales meetings occasionally, to advise the sales staff about changes in technology. Everyone benefits from the exchange of knowledge and expertise.

The first word in the service advisor's position summary is "sells." What can he or she do to sell more and sell better? Here are some ideas to impress on your service advisors:

The Phone Call: Usually the first opportunity to sell comes with the customer's telephone request for service. That customer is a buyer. A few rules of thumb:

- **Greet the customer professionally, and conduct the entire phone conversation in a professional manner.** Listen, ask questions, paraphrase, and summarize what the customer says. Refer to the online course *Phone Fundamentals: Use Them or Lose Customers*, available through NADA University's Learning Hub.
- **Don't turn the customer away.** Get his or her name, telephone number, make, model, and mileage first. Then look at the shop schedule. If it's full, find the earliest time the work can be scheduled. Prove to the customer that you are making every possible effort to accommodate him or her.
 - **Sell value over price.** Don't commit to price on possible warranty work. You don't know what the technician may find on examining the vehicle; some elements of the repair may not be covered under the warranty. On other service, make sure that both you and the customer know exactly what services you are quoting. You know that your service department has competitive pricing because you shopped your competition. So sell the value of service performed at your dealership. Sell the dealership's knowledge of the vehicle, its quality work, factory-trained technicians, and state-of-the-art equipment. Assure the

customer that bringing the vehicle to you means it will be fixed right the first time, and faster than the competition. And sell your attention to special needs—your well-equipped customer lounge, your shuttle service, your access to rental vehicles

- **Use a reservation/pre-work order system** to optimize the service reception process. Usually, you'll have the primary driver on the phone, but not necessarily at the service appointment. You need to use the phone call to gather all the information you can about the customer's vehicle and the reason for service. Write down the customer's description of the problem in the customer's words. Do not translate. Your technician needs to reproduce the customer's problem in order to correct it. Read everything back to the customer to be sure you have been accurate. Then calculate the FRHs and skill codes needed for the work, retrieve the customer's history and factory warranty and recall records, and attach all the paperwork to the pre-work-order sheet. File the package for reference when you call to confirm the appointment. Also prior to the appointment, both service advisor and service manager should review the package for possible maintenance/upsell opportunities, and for specialized technician, tools, or parts needs. A particular tech can be pre-assigned to the job, and parts can be ordered in time for the appointment.

The Write-up: The pre-work order package sets the stage for the appointment before the customer arrives, easing the process for everyone. When the customer drives up, the service advisor should meet the customer at the vehicle, pre-work order package in hand, and spend at least five uninterrupted minutes with him or her—listening as well as speaking.

- **Walk around the vehicle with the customer.** Now is the time to verify customer

information, clarify and restate the work to be performed, and walk around the vehicle with the customer. The service advisor should turn on the lights, open the hood, and check for tire or belt wear, leaks, battery corrosion, etc. Inform the customer of any pre-existing damage or missing parts and document the information on your Vehicle Check-in Form (which should note the customer's name and phone number, VIN number, license number, mileage, accessories such as spare tire, radio, and/or telephone, and approximate fuel gauge level.) This process increases the credibility of the advisor and the confidence of the customer. It also protects the dealership from accusations of lot damage, and provides the opportunity to upsell needed work.

- **Present your service menu** if appropriate and explain each mileage maintenance item. Emphasize the convenience of having needed work done while the vehicle is already in the shop and before there is a problem, and the lower menu package price as opposed to a la carte service. Do not push. Do not oversell. Allow the customer to decide at his or her own pace. If he or she doesn't wish to commit to additional work at this time, clip your business card to the menu and give it to the customer.
- **Present your free maintenance inspection** (see page 16 and Appendix D). Again, do not oversell. Although primarily a salesperson, the service advisor cannot lose sight of his function as advisor to the customer.
- **Give price and time estimates at the vehicle.** After ascertaining all work to be performed (including the free inspection, for which you must have the customer's permission), give your estimates at the vehicle, in private, to ensure the customer's comfort. List the services requested, including services

additional to the original complaint, on your Vehicle Check-in Form. Include your remarks as appropriate. Review the form with the customer, get his or her signature, and initial or sign the form yourself.

- **Get the customer's signature pre-authorizing all work.** When the customer signs a repair order, it becomes a contract between the customer and the dealership. It is vital to prepare ROs properly.

The Follow-up:

- The service advisor should call each customer the same day to confirm price and time quotes, and should maintain contact with the shop to ensure completion as promised. When the RO is completed and invoiced—and a quality control inspection and/or road test has been done—the service advisor should call the customer to explain the work performed and the cost, warranties, and next required services. Customer questions should be solicited and answered. The vehicle should be ready at or before the promised time. The process should have been so smooth throughout that there are no misunderstandings and the customer is happy.
- The service department should call each customer within two days of vehicle pickup, to ascertain customer satisfaction. If the customer expresses any dissatisfaction, it is up to the service advisor to resolve complaints promptly and courteously. The service manager steps in only when the customer's problem is with the service advisor.
- A third party should survey each customer as to his or her satisfaction with the service, by phone or mail, three to five days after the service.

4. Standards for a Professional Service Advisor

The best service advisors are salespeople, as we have shown. They are crucial to customer retention, customer satisfaction, and profitability. A new service advisor may be inexperienced in the industry, so long as he or she has people skills and is willing to learn.

A professional service advisor must have:

- **Product and warranty knowledge**, including familiarity with current and past models, warranty and non-warranty service, and factory scheduled maintenance requirements.
- **Problem analysis and identification abilities**, including accurate identification of the prime item that the customer reports as the reason for service.
- **Communication skills**, including the ability to take non-technical information from the customer, convert it to technical information for the technician, and then convert it back for communicating the technician's diagnosis and actions to the customer.

- **Estimating skills** including time and price. For price estimates, the department should maintain a parts and labor guide for pricing consistency in the service lane.

5. Service Advisor Performance

- **Guidelines:** On page 14, we have provided most of the guidelines for service advisors—14-18 ROs per day, 40 to 50 FRHs per day, average 2.2-2.5 FRHs per RO. There's one more guideline: You should have one service advisor for every five technicians. Five techs, each turning 8 to 10 hours per day, will give you the 40-50 FRHs.

Now, how should you set your advisor sales objectives? Here's a worksheet:

Service Advisor Sales Objectives		
1.	Department's average monthly expenses (including unallocated)	\$ _____
2.	Divide by: — Current labor gross profit % to break even — Current labor gross profit % minus 10 to net 10% — Current labor gross profit % minus 20 to net 20%	÷ _____
3.	Equals new sales objective	\$ _____
4.	Divide by number of advisors	÷ _____
5.	Equals sales objective per advisor	\$ _____
6.	Divide by number of work days per month	÷ _____
7.	Equals daily sales objective per advisor	\$ _____
8.	Divide by current overall effective labor rate	÷ _____
9.	Equals daily sales objective per advisor (FRHs)	_____
<p>If your result exceeds 50 hours, you may want to hire more service advisors. If your result is under 40 hours, you may be overstaffed.</p>		

The above method of setting objectives is effective regardless of service advisor pay plan used. We recommend that you pay service advisors in the same manner that you pay your technicians; give service advisors an incentive to produce. Again, consult the *Dealership Workforce Study*, available by calling NADA Customer Service at 800.557.6232.

VII. THE LAST WORD

As service manager, you focus on coaching, supporting, and training your employees. You need to educate customers, as well, at the outset of their ownership period. You want them to come to the dealership for service, first and always. Consider instituting a program of new car seminars. Get the customer back to the dealership within the first 30 days of ownership for an early evening reception lasting, at most, an hour and a half. Offer snacks and soft drinks. Ask the dealer/principal or general manager to offer introductory remarks. Then, involving personnel from throughout the service, parts, and sales departments, give a presentation covering such issues as warranties, maintenance, and safety features. Tell customers what not to do themselves. Show them the difference between, say, the oil filters you use, and the ones the discount service outlets use. Reinforce the importance of original equipment parts. Stress the high-tech nature of their vehicles. Tell them the dealership has access to proprietary information about their vehicles—and the independents don't. And show the manufacturer CSI survey; tell them that you want to be number one, and you need their help. Send them home with gifts—trinkets from the parts department, coupons for free oil changes, etc. Regular investment in these customer seminars will pay off—in customer retention, and in employee morale.

Appendices

Appendix A

Owner Base Potential

Based on the number of retail new vehicles sold, your dealership's service potential can be calculated. According to industry data, the average vehicle will require about 45-48 hours of labor during its first five years of ownership for proper care, maintenance, and repairs. Using that assumption, determine your store's potential and retention.

	x		=	
5-Year Owner Base		Annual Hours Purchased		Market Potential/Hours

	x		=	
Market Potential/Hours		Effective Labor Rate		5-Year O. B. Sales Potential

	x	12	=	
Average Months Labor Sales (excluding internal and PDI/NVI)		Annualized		Current Labor Sales Trend

	÷		=	%(*)
Labor Sales Trend		5 Year O. B. Sales Potential		Ouch!!

*Note: The industry average of 35% is very poor performance.

Appendix B (continued)

NADA Academy Repair Order Analysis Recap

Service Advisor: _____

Total Shop: _____

Date: _____

SALES BY RATE

Competitive	\$ _____	÷ _____	FRHs on ROs = _____	\$ Hr Avg
Maintenance	\$ _____	÷ _____	FRHs on ROs = _____	\$ Hr Avg
Repair	\$ _____	÷ _____	FRHs on ROs = _____	\$ Hr Avg
Total Sales	\$ _____	÷ _____	FRHs on ROs = _____	\$ Cust ELR
		Target Labor Rate	\$ _____	Per FRH
		Difference	\$ _____	

COST OF LABOR

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

REPAIR ORDER MEASUREMENTS

\$ _____	Total Labor Sales	÷ _____	Total ROs = \$ _____	Average 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

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

Appendix B (continued)

NADA Academy Repair Order Analysis Recap — Example #1

Service Advisor: _____

Total Shop: _____

Date: _____

SALES BY RATE

Competitive	\$936.50	÷	24.7	FRHs on ROs	=	\$ 37.92	Hr Avg
Maintenance	\$1379.86	÷	29.0	FRHs on ROs	=	\$ 47.58	Hr Avg
Repair	\$3665.65	÷	74.4	FRHs on ROs	=	\$ 49.27	Hr Avg
Total Sales	\$5982.01	÷	128.1	FRHs on ROs	=	\$ 46.70	Cust ELR
				Target Labor Rate		\$ 52.00	Per FRH
				Difference		\$ (-5.30)	

COST OF LABOR

Total Cost	\$2003.97	÷	Total Sales	\$ 5982.01	=	33.5%	COS
Total Cost	\$2003.97	÷	Total FRHs	128.1	=	\$15.64	Average Cost/FRH

REPAIR ORDER MEASUREMENTS

\$5982.00	Total Labor Sales	÷	100	Total ROs	=	\$59.82	Average Labor per RO
128.1	Total FRHs	÷	100	Total ROs	=	1.28	Avg FRHs per RO
- - -	Menu Sales	÷	100	Total ROs	=	- - -	% Menu Sales
24.7	Competitive FRHs	÷	128.1	Total FRHs	=	19.3%	Competitive
29.0	Maintenance FRHs	÷	128.1	Total FRHs	=	22.6%	Maintenance
74.4	Repair FRHs	=	128.1	Total FRHs	=	58.1%	Repair
41	One-item ROs	=	100	Total ROs	=	41.0%	One-item ROs

MODEL YEAR MIX

	2011	2010	2009	2008	2007	Older	Total
Count	3	7	5	15	11	59	100

15%

Appendix B *continued*

NADA Academy Repair Order Analysis Recap — Example #2

Service Advisor: _____

Total Shop: _____

Date: _____

SALES BY RATE

Competitive	\$971.42	÷	29.9	FRHs on ROs	=	\$32.48	Hr Avg
Maintenance	\$2107.00	÷	41.9	FRHs on ROs	=	\$50.28	Hr Avg
Repair	\$3719.52	÷	69.5	FRHs on ROs	=	\$53.51	Hr Avg
Total Sales	\$6797.94	÷	141.3	FRHs on ROs	=	\$48.10	Cust ELR
				Target Labor Rate		\$52.00	Per FRH
				Difference		\$(-3.90)	

COST OF LABOR

Total Cost	\$2024.40	÷	Total Sales	\$6797.94	=	29.77% COS
Total Cost	\$2024.40	÷	Total FRHs	141.3	=	\$14.33 Average Cost/FRH

REPAIR ORDER MEASUREMENTS

\$6797.94	Total Labor Sales	÷	100	Total ROs	=	\$67.98	Average Labor per RO
141.3	Total FRHs	÷	100	Total ROs	=	1.41	Avg FRHs per RO
13	Menu Sales	÷	100	Total ROs	=	13%	Menu Sales
29.9	Competitive FRHs	÷	141.3	Total FRHs	=	21%	Competitive
41.9	Maintenance FRHs	÷	141.3	Total FRHs	=	30%	Maintenance
69.5	Repair FRHs	=	141.3	Total FRHs	=	49%	Repair
30	One-item ROs	=	100	Total ROs	=	30%	One-item ROs

MODEL YEAR MIX

	2011	2010	2009	2008	2007	Older	Total
Count	7	11	21	26	10	25	100

39%

Appendix C

NADA Actual Service Analysis

MONTH'S PERFORMANCE

	Labor Sales/Mo.		Hourly Labor Rate		Hours Billed
Customer Car/Truck*	\$ _____ ÷		\$ _____ =		_____
Warranty	\$ _____ ÷		\$ _____ =		_____
Internal	\$ _____ ÷		\$ _____ =		_____
New Vehicle Prep	\$ _____ ÷		\$ _____ =		_____
Total	\$ _____				_____

Guide: Customer-paid labor should represent at least 60% of your total labor sales above.

* NOTE: Use Customer ELR from Repair Order Analysis Recap Sheet.

MONTH'S POTENTIAL

\$ _____	÷	_____	=	_____
Total labor sales for the month		Total hours billed		Effective labor rate (ELR)
_____	x	_____	x	_____ = _____
# Technicians		# Hours/day		Working days Clock hours available
\$ _____	÷	_____	=	_____
Available hours		ELR		Labor sales potential/mo.

Appendix D

Free Maintenance Inspection

For your continued driving pleasure, one of our expert technicians has performed the following multi-point inspections on your vehicle. You are under no obligation to purchase any recommended repairs. We only wish to keep you informed of your vehicle's condition so that you may protect your investment.

Please Print

Name _____ Year/Model _____

Phone _____ Mileage _____ Date _____

Item	Inspected	Potential Problems
Check all lights, horn, and turn signals	_____	_____
Check wipers and wiper blades	_____	_____
Visually inspect belts and hoses	_____	_____
Visually inspect battery and cables	_____	_____
Check air filter	_____	_____
Check all fluid levels	_____	_____
Check tires for wear and pressure	_____	_____
Visually inspect brakes	_____	_____
Visually inspect exhaust	_____	_____
Visually inspect undercarriage	_____	_____

Service Advisor _____ RO # _____

Technician _____

Appendix E

Technician Staffing Requirements Worksheet

A. Sales To Break Even

*Excludes Cost-of-Sales

Total Expenses for One Month*	÷	Current Gross Profit Percent	=	Sales to Break Even
\$ _____	÷	____%	=	\$ _____

B. Sales To Generate 20% Net

*Excludes Cost-of-Sales

Total Expenses for One Month*	÷	Current Gross Profit Minus 20	=	Sales to Generate 20% Net
\$ _____	÷	____%	=	\$ _____

C. Technician Value

Daily Work Hours	×	Average Proficiency Rate	×	Overall Effective Labor Rate	×	Work Days Per Month	=	Technician Value
____ hrs.		80%		\$ _____		____ days		\$ _____
____ hrs.		90%		\$ _____		____ days		\$ _____
____ hrs.		100%		\$ _____		____ days		\$ _____
____ hrs.		120%		\$ _____		____ days		\$ _____

D. Staffing To Break Even (A)

Sales to Break Even	÷	Technician Value	=	Staffing
\$ _____		\$ _____	(@ 80%)	____ Techs
\$ _____		\$ _____	(@ 90%)	____ Techs
\$ _____		\$ _____	(@ 100%)	____ Techs
\$ _____		\$ _____	(@ 120%)	____ Techs

E. Staffing To Generate 20% New (B)

Sales to Generate 20% Net	÷	Technician Value	=	Staffing
\$ _____		\$ _____	(@ 80%)	____ Techs
\$ _____		\$ _____	(@ 90%)	____ Techs
\$ _____		\$ _____	(@ 100%)	____ Techs
\$ _____		\$ _____	(@ 120%)	____ Techs

Appendix F

Service Department Sales Aids

- **5-10 Point Maintenance Inspection** on *every* vehicle.
- **Parts and Labor Pricing Guide** for quick reference pricing continuity. Parts, labor, tax, and shop supplies based on your parts matrix and labor rate.
- **Variable Labor Rate System** for competitive, maintenance, and repair work.
- **RO Analysis** regularly on 100 ROs, to monitor and adjust percentage of competitive, maintenance, and repair work.
- **Menu** as handout for factory maintenance and a la carte services.
- **Competitive Pricing Board(s)** based on non-dealer competitive survey. Place in service lane, customer lounge, sales booths, F & I. Change the perception that new-car dealers are too expensive for service.
- **New Customer Orientation Seminars** monthly, conducted by service manager with involvement of all dealership departments.
- **Part Display Boards** comparing new and old parts, fluids, etc., with reminder comments for customers.
- **Appointment/Scheduling System** based on time available to sell and technician proficiency.
- **Instant Gratification Upsell Program** for technicians.
- **Education** of salespeople regarding service appointments, shop loading, special order parts, rental car policies, etc.
- **Customer-friendly Phone System** for direct access to service department; consider appointment coordinator, wireless phones, pagers, too.
- **Specific Signage/Directions** for customer parking, vehicle pick-up, RO write-up.
- **Employee Handbook** and **Job Descriptions**.
- **Pay Plans** based on hours produced, proficiency, net profit, and CSI.

Appendix G

Service Manager's Positive Action Checklists

Place a check mark next to the statements or questions that apply to your department.

Are all the technicians in my service department qualified? Would I trust any one of them to work on *my* car?

- The technicians perform repair and maintenance work in accordance with time schedules as assigned by service management.
- The technicians suggest additional legitimate work that may be needed so that the customer may be approached.
- The technicians always make sure work assignments are accurate, asking for clarification if they have questions.
- The technicians maintain tools and equipment properly, follow safety practices, and notify the shop foreman if new or replacement tools are needed. There is a posted policy on tools, equipment, and safety.
- The technicians maintain the cleanliness of the working area and of the customer's vehicle.
- The technicians are willing to assist in expediting parts orders to avoid wasting time waiting for parts.
- Technicians notify the shop foreman if delays are expected or a part needs to be ordered.
- If idle (because of work completion or temporary inability to complete work) but not assigned, technicians will request a work assignment.
- Technicians give special attention to comebacks so that the problem is corrected and future comebacks are avoided.
- Technicians are willing to attend training meetings and classes as required.

Is my compensation plan effective in attracting a quality service staff?

- Is my compensation plan easy to understand and competitive for my local area?
- Does my pay plan provide commissions and incentives, based on departmental performance, for appropriate staff?
- Is my pay plan perceived to be equitable and stable?

What should I look for when parts and labor sales are declining?

- Has there been a decline in traffic count? (If so, look into the effectiveness of your merchandising programs. Also, you might want to explore the implications of a business development center for the service department.)
- Has technician count decreased?
- Is my pricing policy up-to-date, consistent, and adhered to?
- Has there been an increase in customer complaints?
- Has there been a decrease in average parts and labor sales per RO?
- Do I employ sufficient service advisors? Have there been changes in incentives for service advisors?
- Do I have adequate document controls in place so that every RO can be tracked and every employee is accountable? Is there a missing document report?

What else can be done if parts and labor sales are below objective and/or below group averages?

- _____ If the stall to technician ratio is higher than 1.5:1 (1.5 stalls to 1 technician), is technician productivity satisfactory?
- _____ Have I reviewed merchandising, pricing, and credit policies?
- _____ Do I have an adequate number of service stalls?

What should be checked if warranty and policy parts and labor sales are increasing?

- _____ Has there been an increase in warranty and policy traffic count? (If so, the increase may be due to an increase in new-vehicle sales or a campaign for a vehicle component.)
- _____ Has there been an increase in the types of repairs that generate high warranty charges e.g., recalls)?
- _____ Has there been an increase in labor-only warranty repairs? If so, is work being funneled to the right technicians—or do technicians require more training?

In taking a close look at my service operation, what questions should I answer?

- _____ Are all repair orders accounted for? Are they issued in blocks by serial number and checked on a regular basis? Who can void ROs?
- _____ Are all repair orders written to identify the customer, the vehicle, and the problems completely and properly?
- _____ Are customer files reviewed regularly for opportunities to sell needed services?
- _____ Is the hard copy of the repair order the only one issued to the technician—and is only one hard copy issued to a technician at any one time?
- _____ Are repair start and finish times clocked on all hard copies (or job time tickets)?
- _____ Do I verify that the time required to complete a service operation is fair, realistic, and appropriate for the operation?
- _____ Do I—and NOT my technicians—price all labor on all repair orders?
- _____ Do I maintain technician productivity records?
- _____ Am I ensuring that all repairs are performed correctly, and that road tests are done as appropriate before returning the vehicle to the customer?

Appendix H

Service Statistics, 2010

General

No. vehicles on U.S. roads: 250+ million
No. vehicles 10 years old or older: 90 million+
No. automotive technicians in U.S.: 763,700 (2008)
Sources: Industry and government

Dealership

No. U.S. dealerships: 17,700 (2011)
No. dealership automotive technicians: 248,100
Fixed departments' contribution to dealership profit: 46.5%
Dealers' service and parts sales: \$77.63 billion
No. dealer ROs: 245 million
No. dealer service bays: 309,750
Average dealership retention of service market potential: 38%
Sources: NADA Data, NADA Academy

Service Formulas

Absorption = $\text{Gross profit (Parts + Service + Body Shop)} \div \text{adjusted dealership overhead expense}$
Annual Service Potential = $\text{Owner base} \times 12 \text{ hours} \times \text{hourly rate}$
Available hours = $\text{No. technicians} \times \text{hours/day} \times \text{working days}$
Available hours to load/day = $\text{No. technicians} \times \text{hours/day} \times \text{shop proficiency}$
Effective Labor Rate (ELR) = $\text{Labor sales} \div \text{hours billed}$
Facility potential = $\text{No. bays} \times \text{no. days} \times \text{no. hours} \times \text{ELR}$
Facility utilization = $\text{Labor sales} \div \text{facility potential}$
FRH potential = $\text{Available hours} \times 120\%$
Labor sales potential = $\text{Available hours} \times \text{ELR}$
Loading factor/day = $\text{Available hours to load/day} \times 80\%$
Owner Base = $\text{Annual new-vehicle sales} \times 5 \text{ years (i.e., no. of new vehicles, excluding fleets, sold in last 5 years)}$
Potential facility utilization = $\text{Labor sales potential} \div \text{facility potential}$
Technician efficiency = $\text{FRH produced} \div \text{hours worked}$
Technician productivity = $\text{Hours worked} \div \text{hours available}$
Technician proficiency = $\text{Hours produced} \div \text{hours available}$
True sales potential = $\text{FRH potential} \times \text{ELR}$

Appendix H *continued*

Service Guidelines

Adjusted cost of labor: As low as possible

Competitive and maintenance sales as % total: 60%

Customer follow-up contact rate: 100%

Customer-pay labor as % total sales: 60%

Expenses: 80% (all expenses 25-30% of gross except personnel 45-50%)

Fixed absorption: 75% minimum using absorption formula on previous page
100% if include used-vehicles gross profit (Gross profit [Parts + Service
+ Body Shop + Used-vehicles]) ÷ adjusted dealership overhead expense)

FRHs/day/service advisor: 40-50

FRHs/RO (average): 2.2-2.5; 3.0 high line

Gross profit retention: 72%

Menu sales as % total: 30%

Model year mix: New-vehicles 50%

Net profit: 20%

One-item ROs: 10-15%

Parts to labor ratio: Customer-pay and internal \$.80, minimum
Warranty equal to or less than zone average

Policy: 2% or less

Repair sales as % total: 40%

ROs/day/service advisor: 14-18

Technician efficiency: 125% factory, 135% non-factory

Technician productivity: 85-87.5%

Technician proficiency: 120%

Technicians to service advisor ratio: 5:1

Technicians to support personnel ratio: 2:1

Warranty/Internal labor as % total sales: 40%

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