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### Fixed Operations Basic Handbook

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**FIXED OPERATIONS BASIC HANDBOOK – BUSI 474**

**By Dr. Kendrick Brunson**

**August 2019**

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## PROLOGUE

In this handbook, the fundamental principles of running fixed operations within an American franchised dealership are discussed to provide a foundation for Liberty University students taking the Fixed Operations course in the Automotive Dealership Management program. The content in this handbook are taken from recorded video sessions during the spring semester 2018 when various management employees and executives of the Hendrick Automotive Group spoke in the residential class of this course. The information contained in this handbook is deemed to be the mutual intellectual property of Liberty University and Hendrick Automotive Group. Students are expected to expand their knowledge of the topics covered in this handbook through their research conducted online.

The handbook is divided into seven (7) chapters related to fixed operations: (1) an overview of fixed operations, (2) Service Department operations, (3) Service Department metrics, (4) Parts Department operations, (5) Parts Department metrics, (6) Collision Centers, and (7) support department relationships. These chapters coincide with the 8-week format for the online program whereas the 16-week format for the residential program will still align with the same order of discussion only over a longer time period.

This handbook is not intended to provide all information needed to successfully complete the assignments in BUSI 474. Students will need to conduct research on the Internet to augment the content of this handbook. Good websites to use are [nada.org](http://nada.org) and [coxautoinc.com](http://coxautoinc.com). If you are an employee of an automotive dealership, you might have access through your dealership to NADA resources (see a listing of suggested Dealership Management Guides in the Appendix of this Handbook).

## CHAPTER 1: FIXED OPERATIONS

### OVERVIEW

In an American automotive franchised dealership, there are three primary departments: variable operations, fixed operations, and administrative operations. The variable operations consist of sales, both new vehicle and pre-owned (used) sales, and finance & insurance (or financial services). Fixed operations consist of service, parts, and collision centers. Administrative operations consist of the headquarters group and includes accounting, finance, and other support departments for the products and services provided by the dealership.

The origins of the terms “variable” and “fixed” are multiple but the consensus of thought is from the customer perspective. When customers purchase their next vehicle is dependent upon many factors and *varies* by customers as to the time spans between purchases. However, most adult citizens of the United States own a vehicle and that vehicle needs to be maintained for long-term protection of the investment and sometimes repaired when things go wrong. These events related to maintenance are considered *fixed* in terms of time periods between visits to the dealership. While all dealerships desire robust *variable* sales operations, the key to a profitable and thus successful dealership depends often upon robust and steady *fixed* service operations, and by extension parts operations.

In this handbook, the topic will be directed to running a successful fixed operations consisting of Service, Parts, and Collision Centers. Unlike Variable Operations where consumers will make a vehicle purchase a few times in a lifetime, all automotive owners need to keep their vehicles maintained on a regular schedule to protect the investment they made when they did purchase the vehicle. The primary reason behind this phenomenon is that mechanical vehicles age and wear out. The need to maintain one’s vehicle is the driving force that can keep dealerships open for business even in difficult economic times when purchasing a new vehicle is not feasible for consumers.

In fact, the proper way to look at the fixed operations of a dealership is that those departments pay the bills and the variable operations provides the extra income to achieve maximum profitability. The two most profitable departments in a dealership are Service and Parts. A successful dealership is when 100% of the dealership’s fixed costs of running the

business are paid by the Fixed Operations (Service & Parts) freeing the Variable Operations to stay in business even if sales are off (e.g. recession, storms, bad weather, etc.) and that keeps administrative and variable employees from being laid off and benefits can continue to be paid.

## **SERVICE DEPARTMENT**

### **Overview**

Vehicles require maintenance on a regular basis in order to perform as designed. Vehicle owners have choices of where to take their vehicles for service. Many Manufacturers today have service programs built into the first 5,000-mile service appointments whereby the customer does not pay for the parts and labor to change the oil, top off fluid levels, adjust tire pressure, etc. The purpose of this Manufacturer-sponsored program is to establish a habit of customers taking their vehicles to the dealership for service rather than using other service shops. For some vehicle owners, only “genuine” parts made by the Manufacturer and service from Manufacturer-certified technicians are acceptable. For Manufacturer warranty repairs, only a franchised dealership is authorized to complete those repairs.

Alternative choices to dealership service departments are independent shops. The primary advantage offered by dealership service departments is having Manufacturer-certified technicians working on the vehicles using Manufacturer-certified parts. In pricing service, there is little difference between dealerships and independent shops. The primary advantage of independent shops, especially among name brand chain shops, is having more locations closer to where customers live than the dealership locations, which tend to congregate in high-traffic locations within a community. In addition, independent shops may be open at hours that are more convenient to vehicle owners than dealership locations. Some independent shops specialize in more routine jobs that are required more often (e.g., oil changes, lube jobs, tire rotations, and even wheel alignments). These independent service shops often would prefer more difficult repairs to be performed by someone else so the independent shop can handle high-volume, low time commitment services with technicians with lower certifications and thus lower hourly wages. Another function provided by all service locations is the state vehicle inspection where required. To compete, some dealerships offer free state inspections for their customers who purchase a vehicle from the dealership as an incentive to remain loyal to the dealership service department.



The Service Department typically is the second most profitable department in a dealership with the Parts Department the most profitable. The reason that these two departments are numbers 1 and 2 is the amount of business they do in any time period. On average, a dealership may sell 300-400 vehicles per month but service 3,000-4,000 vehicles per month. The reason that Parts is more profitable than Service is that there are lower labor costs involved in the Parts Department and the number of parts sold is dependent upon the amount of service performed.

Key drivers for determining success in primarily Service Departments of dealerships are as follows:

- Mission Statement: “Are we easy to do business with?”
  - Do we handle incoming phone calls quickly and complete them in a timely way?
  - Ease of making an appointment / availability of appointments when desired?
  - Alternative transportation while the owner’s vehicle is being repaired?
  - Directional signage on the dealership lot that is easy to follow?
  - Warm and friendly greeting in person or on the telephone?
  - Do we listen with empathy and properly document primary concerns?
  - Are we consistent in providing customers with status updates?
  - Do we have sufficient Shop capacity to meet demand?
  - Are our resources and processes efficient to maintain sufficient throughput?

Other considerations that a Fixed Operations Manager should consider in terms of the status of the operations are as follows:

- Units in Operation (UIO): How many vehicles are in a given market area? A market area is determined by the radius of driving time usually. How far are vehicle owners willing to drive for a service appointment? Where UIO is high, the dealerships can feel comfortable that their fixed operations business should be steady and potentially profitable.
- Volume of Customer Pay (C-Pay) Repair Orders (ROs) vs. Warranty ROs. While Warranty work is important and can contribute to the overall financial health of the dealership’s fixed operations, warranty work can be irregular and not dependable in terms of meeting financial goals. C-Pay is the backbone of Fixed Ops’ revenue and

- profits in a dealership, and the successful manager is one who builds a solid base of satisfied customers who return regularly for their routine maintenance.
- One successful method for building a loyal customer base is to include a tour of the Service and Parts departments when customers are purchasing a new or pre-owned vehicle from the dealership. The customer should meet the Service Manager and the process for bringing in the vehicle for service should be explained. This process provides the opportunity for the customer to begin a comfortable relationship with the dealership's Service Department and potentially prevent customers from going to other shops for their vehicle service needs.
  - Remember that Fixed Operations is built on a Needs basis vs. an Emotional basis often associated with Variable Operations decisions. It is much like an upcoming dental appointment. How many consumers say, "I can't wait to go sit in a dealership to have my car worked on and pay money for it."?

Customer Satisfaction is the #1 goal to retain customer loyalty hopefully for the lifetime of the original customer and then extended to other family members for generations to come (the Circle of Ownership). In the automotive industry, customer retention for the dealership during the warranty period of a new vehicle that has been purchased is 60%, but after the warranty period end, the loyalty drops into the teens.

Tools of retention used by Fixed Ops is low-cost oil changes and selling tires. In the past, dealerships did not care much about tire sales because of the low profit margins. However, the National Automobile Dealership Association (NADA) statistics show that 85% of customers will buy tires from where they are first told they need tires and 75% of customers have their vehicles serviced where they buy their tires. Eighty percent of customers who have their vehicles serviced at a dealership will purchase their vehicles from the same dealership that services their vehicle. This supports the need to sell low-profit items just to keep customers loyal to the dealership vs. going to independent service shops.

## **Employees**

Two support roles in the Service Department are Service Managers and Service Advisors. Service Managers typically were technicians at one time and chose to enter into a management role. Their primary functions are to ensure that technicians are productive and developing their

skills to add value to the dealership's Service Department. In addition, Service Managers administer the workflow with the Parts Department. Service Advisors are the customer contact representatives who ensure that the service workflow is conducted effectively and efficiently and who serve as the point of contact with the customer informing him or her of the progress being made on the vehicle in the service bay and of any discoveries made that require customer approval to proceed with the job. Unlike Service Managers, Service Advisors usually were not technicians in the past but have great *people skills* and *communication skills*. Technicians rarely talk with the customer but instead with the Service Advisor who communicates directly with the customer. Though Service Advisors typically were not technicians before, they still need to acquire enough knowledge about how vehicles function to be able to accurately inform the customer of any needed repairs. Often new Service Advisors will be assigned to various technicians to learn the basics the Service Advisor will need to be effective in communicating with customers.

### **Service Department Process**

The typical service process is as follows. The Service Advisor creates a repair order with what the customer said were the symptoms and complaints. One of the Level A technicians will connect the vehicle to a diagnostic computer and verify the stated condition of the vehicle as well as look for any unsuspected issues. The Level A technician will assign the vehicle to a technician in a bay within the shop. The technician will communicate with the Service Advisor who will communicate with the customer via phone, email, text, or visit within the customer lounge. At some dealerships, if the customer agrees to wait longer, an employee or 3<sup>rd</sup> party vendor will wash and vacuum the car before the vehicle is delivered to the Service Advisor. After the work has been completed, the repair order will be given by the technician to the Service Advisor to complete the financial invoicing and payment. In larger dealership service departments, invoicing and payments are handled by a cashier vs. the Service Manager. The employee responsible for performing the invoicing tasks will ensure that all entries are correct and complete before having the customer pay for the work order and receiving the keys to the vehicle.

During the repair process, old parts will be removed and replaced with new parts. In the past, parts like alternators or transmissions would have been repaired by the local Service

Department technician before being reinstalled into the vehicle. However, various factors have determined that simply replacing the old part with a new or Manufacturer-reconditioned part is a better solution. Most Manufacturers have exchange programs with dealerships for new or reconditioned parts.

### Technicians

These determining factors for replacing vs. repairing parts include:

- (a) The cost of labor devoted to repairing the part and not being available for the next service repair order,
- (b) The liability of the reconditioned part not failing in the future being on the dealership and the technician vs. the Manufacturer that supplied the replacement part,
- (c) The limited number of technicians with the requisite skills to repair major parts, and
- (d) The faster turnaround speed of putting the vehicle owner back on the road.

In the 1970s, technicians were specialized, and it could take up to five technicians to work on a single car. That was an inefficient use of labor resources. Today, technology has aided in the diagnosis of the vehicle, usually performed by a master technician (Level A) who performs the diagnosis like a triage in the hospital and then sets up the proper level of technician to work on the areas needed for that car. The Level A technician is fully qualified to work on any repairs of a vehicle. The Level B technician is qualified to work on major engine repairs. The Level C technician typically works on shock absorbers, exhaust components, door locks, and other minor repairs. The Level D technician is an entry level technician responsible for tire services, oil changes and other express service bay tasks. It is incumbent on the technician to obtain the training necessary to achieve higher levels of mastery in the craft or even to remain current in certifications.

Service technicians are actually independent contractors who are paid by the dealership on a standard hourly *door rate* that is established for each type of work performed. If the technician can complete the service job in less time than it is rated, he or she can move on to the next job and benefit from the extra earning potential. For example, if a brake job is rated at 75 minutes and the technician completes a brake job in 50 minutes, he or she is paid for the 75

minutes and can begin another job at its *door* rate. Conversely, if the technician takes longer to complete the service job, the pay for that job will remain the same as rated. If the technician trades speed for accuracy in completing the task, the penalty will be the requirement of that same technician to fix any mistakes he or she made without additional compensation for doing so. Another indication of the independent status of service technicians is that the dealership rarely pays for technician's tools; the technician does. Technician tool sets can cost in the tens-of-thousands of dollars if not more.

Dealerships encourage technicians to continue their training and some Manufacturers are pressuring dealerships to have all technicians at Level A, even though some technicians are content to remain at a lower level. The higher the level will earn the higher hourly rates for specific tasks. The balancing act for a dealership is to encourage technicians to advance and thus be paid more to retain quality technicians without moving them through the training too quickly that could lead to work performance quality issues. Another concern is that high-level technicians can be attractive to competitors that lure them away. Most training for technicians occurs in an online environment because technicians do not want to give up their productive hours during the day in the dealership while going through the training. Many dealerships enroll in NADA Academy whereby up to 50 employees can access training resources (e.g., video-based workshops, dealership guides, etc.) online.

### **Loaner Vehicle Fleets**

In the case of Highline or Exotic brand dealerships, the customers are more demanding in terms of expectations of when parts should be available and service levels than Domestic or Import customers. Most Highline dealerships have a loaner car policy mandated by the Manufacturers to remain a franchised dealership. The Highline Manufacturer usually subsidizes about half the cost of the loaner car fleet at a dealership while the dealership half of the cost is apportioned evenly among New Car, Used Car, Service, and Parts departmental budget centers. Loaner car policies can exist in some Domestic or Import but not as a general rule.

Some Domestic and Import dealerships have a rental car company (often Enterprise) located on the premises. If the customer purchased the after-market product sold by the dealership (like Hendrick's AUTOGUARD protection policy for standard maintenance and repair situations), the rental vehicle may be available at no additional cost to the customer.

Another situation where the customer is not required to pay is if the problem is a drivability (collision) issue. In those situations, the insurance company pays for the rental car. Exotic franchised dealerships do not offer loaner vehicles but will pick up and return the vehicle to the owner using a vehicle carrier to avoid increasing the mileage on the odometer.

For fleet vehicles, the emphasis of the dealership Service Department is to place priority on getting the fleet vehicles in and out of the service area as quickly as possible. This emphasis is not just because of the number of specialized vehicles (e.g., vans and trucks) with higher profit margins on the sales side, but the owners of the vehicles are experiencing financial losses when the vehicle is out of service. Some dealerships choose not to sell fleet vehicles because of the costs associated with the specialized needs of the service area (e.g., Truck service bays vs. car bays with heavier lifts and larger work areas). On the other hand, because many dealerships avoid fleet sales and service, those dealerships that cater to fleet vehicles can benefit in a profitable way. In one example in Georgia, a dealership has three of its 27 service bays dedicated to large fleet trucks. To give priority to technicians working on fleet vehicles, despite existing service work orders for non-fleet customers, the technicians may work on the fleet vehicles after normal Service Department hours at a higher wage in order to have the fleet vehicles available the next day if the parts are available.

## **PARTS DEPARTMENT**

### **Overview**

As stated previously, Parts should be the most profitable department in a dealership. It is not an automatic result if certain inventory management principles are not followed. On the one hand, it is important to the Service Department that the required parts for completing the Repair Order are available so that the technician can finish the RO within the flat-rate time frame and move on to the next RO. On the other hand, it is not profitable to stock inventory at such a level that there never is a situation when a part is unavailable. The key to success is stocking the most often used parts and using the supply logistics chain to provide those rare parts that are needed in a timely manner for the Service Department.

In the past, Parts Department inventories were narrow but deep in that only standard replacement parts were kept in inventory with many units in stock to avoid running out of them

when needed. If an unusual part was needed in a repair, the customer would be required to wait until that part could be ordered and delivered, possibly weeks later. In the past 15 years, with more efficient supply channel operations methods, Parts Department inventories are now wider in the variety of parts but with fewer units of the parts on the shelves. This is because resupply of parts can come within one day or even sometimes on the same day to the dealership Parts Department.

What determines which parts a specific dealership will carry in its inventory are historical data reports that provide trend analysis to help determine what needs to be stocked in the future. If a part is not on the shelf, someone in the Parts Department will create an order in the dealership inventory management system to alert the supply chain system of the need for that part. One supplier of parts might be the Manufacturer's Parts Distribution Center (PDC). Many Manufacturers have regional centers that can have the ordered part to the dealership no later than the next morning if the order is received by PDC's afternoon cutoff time (between 2PM and 5PM depending on the Manufacturer). Even if the order is received after the cutoff time, the part can be at the dealership the next morning if the dealership is willing to pay an *expedite fee* of usually an additional 10% on the unit price of the part.

The larger dealership groups like Hendrick Automotive Group operate their own parts supply network. At Hendrick, there are two deliveries per day to dealership parts departments within a local region, one with an 8:30 AM cutoff time for morning deliveries and the other with a 12:30 PM cutoff time for afternoon deliveries on the same day. In addition to providing parts within the local area, Hendrick provides parts from its main distribution centers to the region. For example, Hendrick's Georgia dealerships receive 92% of their parts from the Charlotte, North Carolina distribution center. If the Georgia dealership submits a parts order by 5:00 PM, the part will arrive at the Georgia dealership lot by 5:30 AM the next morning, be checked in by 6:00 AM, and the technician will have the part when he or she arrives at work that day.

Time is money to a technician and waiting for a part means that technician cannot be paid for a repair order until the missing part arrives, and the order is completed and paid for by the customer. For some Manufacturer parts distribution centers, it can take 2-4 business days to deliver the parts. For some Import Manufacturers, if the part is not in the distribution center, it could take weeks to deliver the part to the dealership from the Manufacturer's international

manufacturing site. Parts ordered from a Manufacturer's Parts Distribution Center cannot be returned to the Center for a refund; the dealership is required to absorb the cost and hope to find a need in the future through its Parts Department outlets.

### **Process Flow**

The typical flow for a Parts Department repair order from the internal dealership Service Department is that, when the repair order is produced by the Service Advisor, it is printed in both the Service and the Parts departments simultaneously. Once the Master Technician (Level A) diagnoses the vehicle and confirms what is needed for the repair order, the technician will update the repair order into the DMS system. Someone in the Parts Department will pull the items from the shelves needed for the repair order. The list of parts needed for a service repair order is called a ***pick ticket***. The Parts Department employee will either deliver the needed parts to a central location in the service area or place them at the window that opens to the service bays for a service employee to pick up the order and deliver it to the appropriate service bay.

The assigned service technician or a parts runner will retrieve the parts and perform the work order tasks on the vehicle. In cases where an unexpected repair is discovered, the technician will put in a request to the Parts Department to determine if the needed part is in inventory and the associated price for the part. If the part is in inventory, the technician will have a ***parts runner*** go to the Parts Department window on the service-bay side of the shop and ask for the part. The ***parts runner*** will then deliver the part to the waiting technician. The technician will add the additional part(s) to the repair order ***pick ticket***. If the needed part is not in inventory, the parts ordering process will be applied. In some circumstances, the needed part may be available in a local retail parts store if not available in the dealership network within the desired timeframe.

### **Customer Categories**

There are three primary customers of the Parts Department: the dealership's Service Department, wholesale customers (e.g., independent repair shops that need Manufacturer parts, collision centers, etc.) and retail customers (e.g., do-it-yourself repair, Manufacturer-branded apparel purchases, etc.). Wholesale customers provide the least profit to the dealership of the



three categories but at least there is some profit to be made vs. having the independent shops go to another dealership or even directly purchasing from the Manufacturer's representative.

The best customer of a dealership Parts Department is the ***back-counter Service Department***. The prices used in Parts Department transactions are almost always at full retail price. This is one reason the Parts Department is the most profitable Strategic Business Unit (SBU) in the dealership along with the low labor requirements. Typically, the markup price of retail parts is 40% over the wholesale cost. On the wholesale side for selling parts to Collision Centers, there is a 20-36% markup price over wholesale cost. Per governmental regulations, for a part to be considered ***Made in the USA***, for example, 75%-80% of the components in that part need to be built in the USA.

Independent mechanic shops typically use retail automotive parts stores for standard parts in lieu of purchasing parts from dealership Parts Departments, often because of the convenient delivery services offered by the retail stores. However, when genuine Manufacturer parts are needed, the independent mechanic shops will order from dealership Parts Departments unless they are purchasing in bulk quantities directly from a Manufacturer's Parts Distribution Center. NAPA and CarQuest are parts competitors to dealership Parts Departments serving primarily service independent mechanic shops and Collision Centers.

AutoZone and O'Reilly, etc. retail automotive parts stores typically service the end consumer's parts needs. To add value for the end consumer, retail automotive parts stores will offer services like installing the customer's warrantied battery free in front of the store or replace windshield wipers, which is a great marketing tool for Do-It-Yourselfers (DIY). The DIY market today is different than in the past when individuals would replace their own starters, alternators, etc. Today, most customers of retail automotive parts stores just want accessories that can be installed easily or oil and filters for the periodic maintenance. Ultimately, the dealership Parts Department does deal with the retail parts business for the end consumer but rather focuses on internal Service Department needs and wholesales to other mechanical shops and Collision Centers. Retail customers for dealership Parts Departments usually are DIY customers who are loyal to the dealership.

### **Key Metrics**

As in all departments of the dealership, daily measurements are taken of key success indicators to determine the level of performance by the various departments. The Parts Department is no exception. Key measurements for Parts are: Days' Supply (orders filled by supplier), Inventory Level (measured against policy standard levels), Fill Rate (how many requests from the Service Department that can be filled when requested), Wholesale Parts sales volume, Inventory Age (shelf life of each part number).

A pair of concepts that will be discussed further in a different chapter is Phase-In and -Phase-Out. The Phase-In concept is used when it becomes obvious to the Parts Manager that a specific part number is being special ordered too often and should become part of the standard inventory at a level that justifies the purchase of units for that part number. The Phase-Out concept is the opposite and is applied when it becomes obvious that some part numbers are aging and are not being used often enough to warrant them occupying valuable shelf space. The key driver in these decisions is the fact that parts are purchased with cash and are not financed. Every part sitting on the shelf that is not used in a Repair Order or a Wholesale or Retail transaction is idle cash that can have an adverse effect on the financials of the dealership. Many parts inventories can be valued in the millions of dollars.

## **COLLISION CENTER**

### **Overview**

The majority of dealerships in the United States do not operate Collision Centers (body shops). Some reasons for this decision include the unique skill set required of employees who work in Collision Centers, the low profit margins (average of 10%), the turnaround time to be paid for the work performed, and the potential liability. At the same time, having a Collision Center does not promote customer retention to the dealership. Whereas a dealership Service Department may attract 70% customer loyalty on average, a Collision Center only attracts 30% customer loyalty to the dealership on average. One positive motivation for a dealership to operate a Collision Center is the additional source of revenue for the Parts Department.

Part of the reason behind the low customer loyalty numbers is that most customers depend upon their Insurance company's recommendations to determine which Collision Center to use. Just because a dealership's Collision Center performs the required work well does not

result in a strong enough response from the customer to want to change dealerships if the customer has been going to a different dealership prior to the accident that landed the vehicle in another dealership's Collision Center. The key to attracting sufficient business to the Collision Center is maintaining successful relationships with the insurance companies as a Direct Repair Point (DRP). To do that, the Collision Center must be competitive in prices (because the insurance company is paying the bill), high in quality results (no need for a 2<sup>nd</sup> visit on the same repair) and completing the work in a timely manner (reduces the number of days the insurance company must pay for a rental car). State Farm Insurance pays an average of \$1 million per day in rental vehicles for its clients.

The service environment at a Collision Center is different than at a dealership Service Department and thus a different skill set is needed for technicians working at Collision Centers. For example, Collision Center technicians must know how to weld, a task rarely needed in a Service Department at a dealership. Collision Center technicians need to be artists to ensure that seams are aligned and colors match, which takes more precision than is required of a service technician in a Service Department. The typical job responsibilities at a Collision Center include Body Technicians for the bodywork, Mechanical Technicians for standard repairs. Body Painters and Polishers, Prep Employees for interior cleaning, scraping, etc., Estimators, Quality Control Inspectors, and Detailers.

There is a movement among Manufacturers to install onboard computer technology that will notify a Manufacturer call center if one of their brand vehicles has been involved in an accident. Toyota is leading the way in this movement with others potentially to follow. The Call Center representative will interact with the driver and passengers in the wrecked vehicle to ensure that they are OK or need medical attention. If the driver and passengers are OK, the Manufacturer representative will ask if the vehicle is drivable or needs to be towed and if a police report of the accident is being processed. The representative will then recommend a Manufacturer-certified Collision Center nearby for the vehicle to be taken.

The certification of the Collision Center by the Manufacturers is determined by past customer satisfaction indexes. Some Manufacturers use only their franchise certified dealership locations. Other Manufacturers, like German import brands, may partner with independent Collision Centers that meet the Manufacturer's strict standards for quality work at reasonable

rates. Another motivation for this new process of determining which Collision Centers are eligible for performing the repairs is that Manufacturers want original Manufacturer parts to be installed into their vehicles to protect any remaining warranties or extended service agreements.

By Manufacturers interjecting themselves into the determination of which Collision Center to use, the insurance companies' roles in the traditional decision-making process are being minimized them to fear losing control in the process. In this new process, the insurance companies become more of secondary players as merely the financial arm and thus reduces the relationship somewhat between the insurance companies and their customers. Without the factor of potential loss of relationship, as long as the Manufacturer-certified Collision Centers meet the same standards as required by the insurance companies, why would the insurance companies object on behalf of their customers who pay the insurance policy premiums?

### **Key Metrics**

The issue is one of controlling the situation by controlling the cost decisions and potentially causing a rift between the insurance company and its customers when the Collision Center recommends one course of action and the insurance company desires a different, usually more cost-efficient solution. One strategy being adopted by some insurance companies to keep themselves as primary players in the decision-making process is partnering with dealerships to purchase replacement vehicles from those dealerships if the owner's original vehicle is totaled in value. Some dealerships attempt to satisfy the criteria for Manufacturers by stocking more Manufacturer original parts and to satisfy insurance companies by working directly with them as primary participants in the repair process.

A key performance measurement for both insurance companies and vehicle owners is not having to return a vehicle for a repair the second time. It is as important as the *cycle time* it takes to return the damaged vehicle to the owner. Insurance companies use both measurements to certify Collision Centers approved for the insurance company's customers. Another key determinant of satisfaction for customers concerning a Collision Center is how much the Center keeps the customer informed of the progress on the vehicle with time estimates for completion of the work. The expectation for most consumers and insurance companies is that the vehicle will be ready for pick up within 1-2 weeks. Some work is outsourced to 3<sup>rd</sup> Party vendors where the vendor has the required expertise and can repair the damage quicker and for less cost (e.g., using

Dent Doctor to repair hailstorm damage or having the certified Manufacturer dealership Service Department perform a needed alignment).

This brief overview of the three main departments within a dealership's fixed operations sets up the more detailed discussions that will follow in each chapter. Because of the depth of information, both the Service Department and the Parts Department will be split into two chapters each – one on general operations processes and the other on measurements (metrics) that determine what makes a successful department. A separate chapter is devoted to the unique characteristics of managing a Collision Center, and the final chapter of the 7-chapter handbook will provide discussion of how the various fixed departments interact with other departments within the dealership.

**CHAPTER 1 ASSIGNMENT:  
Dynamics of Fixed Operations in An Automotive Dealership**

The purpose of this one Discussion Board in the course is to review 3 key concepts related to Fixed Operations in an Automotive Dealership. For this module/week's discussion, read Chapter 1 in the assigned reading document for Questions 1 and 2 below. For Question 3, you will need to research on the Internet to locate the current discussion on the future of automotive Manufacturer and dealership relationships. The copyright of these sources should be within the past 2 years to be considered relevant.

1. Describe the unique characteristics of Fixed Operations when compared with Variable Operations in an automotive dealership. (Chapter 1)
2. When national or regional economic conditions are suffering (e.g., high unemployment, rising interest rates, high inflation, etc.), what do consumers do with their vehicles in terms of sales cycle? Do they shorten the cycle or lengthen the time between purchases? What is the impact of that consumer behavior on the Service and Parts Departments of an automotive dealership? (Chapter 1)
3. What happens to the consumer behavior in terms of vehicle purchase cycles when the economy is soaring? Does this scenario affect the number of vehicles serviced by the automotive dealership Service and Parts departments? How?
4. What is the prediction of the next few years in terms of new vehicle vs. pre-owned vehicle sales from the Automotive Dealership Industry (NADA)? (External Research)

Submit your thread by **11:59 p.m. (ET)** on **Thursday** of Module/Week 1 and your replies to 2 classmates by **11:59 p.m. (ET)** on **Monday** of Week 1. Your original thread must contain a minimum of 500 words and include at least 2 reference citations for Question 3. Each reply post must contain a minimum of 250 words and include at least 1 reference citation for Question 3.

## CHAPTER 2: SERVICE DEPARTMENT METRICS

### Overview

In this chapter, the focus will be on the measurements and control systems needed to determine how effective, efficient, and profitable a Service Department is performing. As established already in the Automotive Dealership Management program, a distinctive of the industry is that measurements are monitored regularly, possibly more than most industries, some as often as on a daily basis so that dealership managers can stay current in the performance health of the various departments. The discussion of Service Department Metrics is divided into three major categories: (a) Individual Metrics, (b) Departmental Metrics, and (c) overall Profit Metrics.

Metrics are useless numbers by themselves. Key performance metrics should connect with (a) compensation plans and income, (b) departmental profitability, (c) customer satisfaction, and (d) employee satisfaction. To be useful, metrics need a form of comparison and associated with a timeline. Comparisons are made in the following ways: (a) with the same individuals or departments from current performance compared with past performance, (b) between individuals and departments both in current performance and compared with past performance, and (c) against standards or averages established by the dealership or by the industry. Timelines in the automotive industry typically are (a) Day-to-Day (D2D), (b) Week-to-Week (W2W), (c) Month-to-Month (M2M), and (d) Year-to-Year (Y2Y). Sometimes comparisons can be measured by specific selling seasons of the year in the Y2Y timelines.

When used correctly, Metrics form the foundation or basis for dealership managers performing the following critical actions:

- **Prioritization:** of what comes first and what comes last. This can relate to the best use of scarce resources or which corrective actions are more critical and should be taken first.
- **Coaching:** Opportunities for employees who need guidance in their work responsibilities. Identify the specific areas where each employee needs assistance and don't waste valuable time where coaching is not needed – provided in the right way at the right time.

- **Motivation:** Determine what contributes specifically to improve individual or collective performance.
- **Improvement:** When should performance be recognized and celebrated?
- **Constructive Accountability:** is applied when effort and attitude of employees are greater than the outcomes. This calls for pointing out how the employee can match the effort and attitude with a better outcome.
- **Progressive Discipline:** When there is no ownership by the employee of the results and thus no improvement is being made, the metrics provide specific details of what needs to be improved in order for the employee to keep his or her job.

### **Individual Metrics**

Each job within the Service Department has different responsibilities and thus must be measured by different metrics. The jobs to be discussed in this section for individual employee categories are Service Advisors, Technicians, and Service Managers. All employees can be measured by the number of Customer-Paid Repair Orders processed per workday cycle because each employee has a role to play in ensuring that the Service Department is functioning at optimum capacity to meet customer demand. As stated previously, the numbers would be compared with a standard number expected under the circumstances.

In addition to the number of Repair Orders completed, the amount of revenue and net profits generated by those Repair Orders can be measured to determine if the Department is using its resources wisely with the R.O. work assigned. Revenues are calculated on both overall sales revenues for the department and divided by Customer-Pay vs. Warranty Repair Orders and reported as a ratio of Total Sales Revenue divided by Sales Revenue per Repair Order to obtain average revenue per Repair Order. Another measurement of revenues for Service Advisors is how much revenue was generated from additional sales beyond the original Repair Order requirements (e.g., selling new tires for the vehicle). Though tire sales do not generate high profit margins for the dealership, they contribute to the customer returning to the dealership for their service needs vs. going to an independent service shop.



### **Service Advisor Measurements**

Typically, Service Advisors will write 12-15 R.O.s in a Highline dealership and in the mid-20s for Imports and Domestic dealerships. The goal for BMW dealerships in terms of revenue is \$700 per Repair Order for combined parts and labor. With the use of synthetic oil, BMW owners typically come for routine maintenance only 1-2 times per year and they have an expectation of paying that amount on maintenance service appointments. Because BMW also has a policy of providing owners with a loaner vehicle while their vehicle is being serviced, the Service Advisor is measured by the length of time loaner vehicles are off the dealership lot. The sooner the vehicle is serviced, the sooner the loaner vehicle can be returned.

The method for providing Service Advisors with feedback on their performance is often called an Advisor Scorecard. Normally, it is distributed on Mondays by the Service Managers as a review of the previous week's performance. A daily report is too narrow because an Advisor can have a particularly bad day in results that is not reflective of the overall performance ratings. Discussions are held between Service Managers and Advisors to determine what might have contributed to the results (positive or negative) and what steps can be taken to continue the positive results and reduce the negative results.

Another critical measurement for Service Advisors is Customer Satisfaction Index (CSI) scores. Every Manufacturer measures CSI differently. In the past, Manufacturers would use call centers used to make phone calls to customers who recently were in contact with the dealership's Service Department and ask, "How was the customer's experience?" Over time, customers began to complain about the telephone calls because often the call center would contact the customer at dinner time. Today, Manufacturers send emails within 48 hours of the visit to the dealership asking a maximum of 10 questions with some questions weighted more heavily than others like overall service experience and the likelihood of the customer recommending the dealership to others. A good CSI score is rarely achieved by chasing it at the dealership. It is better to build long-term trust with customers and let the numbers just happen. The Manufacturer picks up the information of the customer visit from the Dealership Management System (DMS) that the Manufacturer monitors on a regular basis.

A problem with the email system for receiving CSI surveys is that few customers return them. Those customers who do return them often are the dissatisfied ones who had a bad

experience at the dealership. Rarely do the majority of customers who were basically satisfied with their service respond. The standard for CSI is achieving a “10” on a 10-point scale. Any score less than 10 is considered a problem area by the Manufacturer. One method used by the Service Advisors is to ask the question of the customer when he or she is completing the paperwork at the end of the service appointment, “Is there anything that we have done that would prevent you from giving us a 10?” If the customer responds with a “Yes”, the Service Advisor can continue with “Tell us what we need to fix, and we will do it while we have your vehicle here with us.” The Service Advisor should also emphasize how important it is for the dealership to get that response from the Manufacturer without coaching or badgering the customer or badger for a high score. If the customer complains about badgering, it violates the franchised dealer agreement with the Manufacturer and penalties could be invoked, usually in the form of withholding incentive compensation from the Manufacturer to the Dealer.

In some cases, Manufacturers have removed the CSI component from dealership performance evaluations because of the difficulty in receiving responses from customers. If the CSI is no longer evaluated for the dealerships and in turn for the Advisors, the Advisors will lose a portion of their compensation based on performance. In those situations, the Advisor bonus plan is adjusted with the other measurements so that the same amount of bonus pay is available but spread across the remaining metrics. The key factor for Service Managers to remember in situations like these is to communicate with the employees (Service Advisors in this case) the changes that are coming and how they will be managed by the dealership so that the employees are not adversely affected by the changes. Trust with the employees is crucial to long-term relationships and is built and maintained by open communications.

### **Technician Measurements**

The primary measurements for technicians are reflected in their paychecks. The more they produce, the more they are paid. However, this section reflects the measurements that Service Managers monitor to ensure that the work assigned to technicians is producing the most revenues at the least cost for the most profit. The measurements can be a source of feedback to give to the technicians in an effort to find ways to improve production where feasible. The primary areas of measurement for Technicians are (a) the number of Flat Rate Hours performed against the expected hours, (b) the number of Recommendations given per Repair Order, and (c)

the Comeback Percentage (number of return visits for the same problem performed by the technician on a previous Repair Order).

The production of Flat Rate hours is a basic measurement. The Technician cannot control the number of Repair Orders assigned to him or her by the Dispatcher or what type of orders they are within the certification level held by the Technician. What the Technician can control is how long it takes to complete the various components on the Repair Order against the standard Flat Rate or Warranty Door Rate assigned to the combination of all repairs required under the one Repair Order. It is understood that some R.O.s may be difficult, and some may go smoothly. The Flat Rate or Door Rate is based on the average time it should take so it allows for those difficult situations a Technician may encounter. The measurement for the Technician is the average completion time of Repair Orders against the standards of Customer-Pay Flat Rates and Warranty Door Rates.

A technique that was used by one dealership to help Technicians improve their work process was to video the best Technician in the Service Department on a series of repair tasks and then video the other Technicians so they could compare what they were doing with the “model” techniques provided to them. The outcome was that, when the Technicians saw themselves, they were able to determine what they were doing wrong and began to improve their techniques. For example, the best technician had his tool box right beside him and one of the technicians observed that he went back and forth to his toolbox 44 times on a single R.O.

Recommendations per Repair Order measurement is designed to encourage Technicians to attempt to sell additional services that were not on the original Repair Order. These services could include repairs that are needed soon anyway (e.g., replace the brake pads, tires, etc.) that could be completed for the convenience of the customer while the vehicle is in the shop anyway. Care must be given in how this measurement is applied because it is better for the dealership in its desire to maintain a long-term loyalty with the customer that pressure is not applied from the dealership employees to constantly recommend to customers additional services. Eventually, the customers may take their business to the competition. One way to compensate Technicians and Service Advisors on Recommendations per Repair Order is to not require the measurement as part of the basic pay performance criteria but rather to provide bonuses when additional services are purchased by the customer.

The Comeback Percentage measurement is a critical one because it adversely affects many areas of the dealership. When a vehicle has been serviced or repaired for specific needs, and the customer departs the dealership assuming the work has been completed successfully only to discover that something is not right, trust with the dealership has suffered tremendously and could affect long-term loyalty of the customer to the dealership. It is possible that the actual repair/service issues were resolved on the initial R.O., but something else was left undone like a leaking radiator. Now the customer must set another appointment to have the problem fixed which requires making space on the appointment roster that will not be receiving additional revenue, the Technician will be working on the vehicle without additional compensation, and time will be consumed on the schedule where he or she could be earning compensation on another vehicle. A few ways to reduce the potential of Comebacks would be to not push Technicians to go faster than their own pace and to have a Quality Control Technician inspect the more complicated R.O.s to ensure with a second pair of eyes that everything is in order. It is better to do the job right the first time.

### **Departmental Metrics**

Departmental metrics cover some of the same metric categories as Service Advisors and Technicians but are viewed from a consolidated level to determine how well the Service Department as a whole is performing. These similar measurements are Repair Order counts, Flat Rate production, Recommendations for additional services, and Customer Service Index where still used by the manufacturers. Additional metrics that will be discussed in this section include (a) meeting customer demand (effectiveness), (b) customer wait times (efficiency), (c) workforce performance, (d) meeting pre-owned sales inventory requirements, and (e) customer retention.

The basic question to be answered by a dealership's Service Department is, "Can we say 'YES' to our customers when they need us?" Those customers primarily involve the external paying customers but can also refer to the internal dealership Sales Department (both New and Pre-Owned Sales). The following list includes many questions that need to be answered by the measurements the Service Department monitors.

- Is the service performed correctly the first time?
- Is the service delivered on time?
- Is the price of the service at competitive prices?

- How far out are service appointments scheduled?
- How many rings on the appointment line occur before the call is answered?
- How many walk-in customers can be serviced per workday?
- Is the Service Department properly staffed to meet these demands?

Answers to these questions can provide numerous specific metrics to be monitored by the Service Manager on a regular basis to determine how well the Service Department is functioning. These performance metrics should be collected daily and evaluated daily, monthly, quarterly, and annually. Because of the need to be responsive to potential problem areas, the daily review of the key metrics can alert a Service Manager to those issues that need immediate resolution. The monthly, quarterly, and annual reviews provide opportunity for more comparative analysis to determine potential trendlines of issues that exist. Lack of diligence for Service Managers monitoring the key metrics is not an option in the dynamic, ever-changing, highly-competitive environment of automotive dealerships.

Specific measurements used to evaluate the Service Department performance include:

- Repair Order Count per day, week, month (by appointment and by walk-ins)
- Dollars earned per Repair Order
- Number of Customer-Pay Repair Orders carried over each day (reasons why: missing parts, insufficient work hours available, etc.)
- Number of Warranty Repair Orders carried over each day (reasons why)
- Follow-up Report on how the carryover R.O.s were finally completed

The measurement of Customer-Pay Tires Sold was mentioned previously under the Service Advisor section and the rationale for why this is an important measurement for a dealership was given. In a typical Service Department, tire sales represent only 20% of all revenues received with the remaining 80% in repairs. However, tire sales are the #1 reason why customers leave dealerships and move their servicing and repair needs to independent shops. Industry data indicate that 80% of consumers buy from the person who tells them they need the tires and 90% have their maintenance done where they purchased their tires. If a Service Manager wants to ensure an activity is performed, there needs to be an incentivized metric associated with the activity even though the dealership may earn \$10 profit on a \$300 tire after

labor costs. The incentive to the Service Advisor might be only \$5 per tire, but that usually provides enough incentive to encourage the act of mentioning the need to the customer.

As stated previously, not all dealerships operate a loaner vehicle fleet. It is expected of all Highline franchised dealerships and more Import and Domestic dealerships are adding this convenience for customers who require repairs that will take multiple days to complete vs. an hour or two routine maintenance service appointment. One BMW dealership maintained a fleet of 144 vehicles which was second in inventory only to the new vehicles for sale in the dealership lot. With a 144-vehicle inventory, an average number of 35-40 vehicles are scheduled each day by the BMW dealership. For dealerships with a loaner fleet, the key metric is keeping the number of days to a minimum that loaner vehicle is away from the dealership lot. The typical metric is 3 days or less.

The number of loaner cars in the fleet is determined by the Manufacturer based on the number of Repair Order throughput per month. The Manufacturer pays the Dealership a 1% subsidy on every loaner car every month based on its retail value to cover depreciation costs. For example, a \$50,000 vehicle will result in a \$500/month subsidy paid to the dealership. For the BMW dealership with 144 vehicles in inventory, that would result in approximately \$72,000 per month. The dealership needs to ensure that it can produce the service throughput so that the allocated 144-vehicle fleet is sufficient to meet the customer demand and to avoid pushing out service appointment dates that would result in customer dissatisfaction and potential adverse Manufacturer actions.

It is important here to complete the description of what happens in the life of a loaner vehicle because it is the Service Department that sets up the need to have a loaner fleet. When loaner vehicles reach a standard mileage point, they are moved into the Pre-Owned sales lot to be sold. The decision of what should be the standard mileage point can be complicated. For BMW, if a loaner vehicle is pulled from the fleet before 5,000 miles and put on the Pre-Owned Sales lot, the dealership can take advantage of all new car Manufacturer incentive programs when sold. This would mean an incentive payment of \$1,000-\$3,500 (velocity dollars) based on the model and would count as new vehicle sold on the Manufacturer's monthly quota.

If the loaner vehicle is over 5,000 miles, the dealership may qualify for some Manufacturer incentive programs but not all. For customers, a loaner vehicle that is over the

5,000-mile odometer reading will bring a better price on the purchase or lease payments. However, selling many loaner vehicles above 5,000 miles will have a negative impact on new car sales quotas. On average, it takes approximately 2 months in the loaner fleet before hitting the 5,000-mile mark (10-15% of the fleet reach the 5,000-mile mark monthly). On the other hand, the longer the vehicle is in the fleet, the more depreciation the Dealership receives from the Manufacturer with the monthly 1% subsidy. The “sweet spot” for when to remove loaner vehicles from the fleet and place on the Pre-Owned Sales lot is 5-7 months will provide sufficient depreciation subsidies and still maintain low mileage to attract a profitable sale from customers.

For those dealerships that are not compensated by the Manufacturer for maintaining a loaner vehicle fleet, the same measurement applies – complete the Repair Order quickly to minimize the number of days the loaner vehicle is off the dealership lot. Typically, a dealership that is not compensated by the Manufacturer will use a rental car company that is co-located on the dealership lot. The dealership can elect to have the customers pay for the rental vehicle or have the dealership pay for it as a benefit to loyal customers. Either way, both parties want to reduce the costs of the rental vehicle. One dealership was using Enterprise Rental Car as its loaner fleet agent and paid the bill for its customers. When the dealership was able to improve its service productivity such that the average number of days the loaner vehicles were away from the dealership lot dropped from 3.7 days to 2.9 days, the annual loaner-fleet budget went from \$94,000 per year to \$11,000 per year by trimming just 0.8 days on average.

As stated previously, it is important to measure the satisfaction of both customers and employees to determine long-term relationships with both parties. It was also stated that Manufacturers are beginning to abandon traditional Customer Satisfaction Index surveys due to low response rates from customers answering emails and disliking the interruption of their lives with telephone surveys. The satisfaction of employees is measured by conducting Employee Satisfaction Index surveys in periodic one-on-one interviews during the workday. The benefit of conducting these interviews is that the response rate is high, and the information should be accurate and useful if the Service Managers have created an environment conducive to openness and trust among employees. When a collection of responses indicates a common issue that needs

to be addressed, the Service Manager has the ability to respond with a solution in a timely manner.

The replacement method for measuring Customer Satisfaction is to determine the Retention Percentage in the local market. Rather than ask customers questions about what they feel or think, retention metrics measure customers' actual behavior in terms of loyal actions. Do they return to the same dealership for service needs over an extended time period? For example, the Primary Market Area (PMA) for a dealership may have 36,000 owners of a particular brand. The Manufacturer of that brand would know this through the collective Dealership Management Systems (DMS) of all the franchised dealership locations within the radius of the PMA. If a dealership had 18,000 of those owners as active customers over 18 months, that would equal a 50% Retention Factor. This is a better metric because it eliminates the pressure from the dealership employees on the customer to rate the dealership and thus avoids the ire of the Manufacturer for pressuring the customer.

In addition to rating the active customer owners who frequent the dealership, the number of customers who were active and now are inactive is measured to see which dealerships customers are leaving for other service shops (independent shops and maybe other branded dealerships). Another metric is for lost customers who have left one dealership and begun having their service needs met by a different franchised dealership of the same brand. For customers who move out of the PSA, the Manufacturer establishes them as transient customers and reassigns those customers to the PSA where they relocated. Transient customers are not counted against the dealership's Retention Percentage measurement.

The final category for Departmental Metrics involves the relationship between the Service Department and the Sales Departments – both New and Pre-Owned Sales. The responsibilities of the Service Department for New Vehicle Sales are to inspect the new vehicles when they arrive on the dealership lot from the Manufacturer to ensure there are no mechanical issues and to prepare sold new vehicles for the owners to drive off the lot after the sale. The responsibilities of the Service Department for Pre-Owned Sales are to diagnose any mechanical issues with the vehicle and provide that information to the Pre-Owned Sales Manager to make a determination on whether the vehicle will be sold at retail by the dealership or sold at wholesale to another dealership or at auction. In addition, the Service Department will need to perform the



repairs and maintenance required to bring the pre-owned vehicle up to full working order so that it can be sold soon for a profit if the Pre-Owned Sales Manager determines to sell the vehicle at retail by the dealership.

The goal for the dealership is to sell 85% of all pre-owned vehicle inventory within the first 21 days that they are acquired by the dealership to take advantage of the “sweet spot” of profitability. In the Hendrick Automotive Group, there is a policy that all pre-owned vehicle inventory must be sold within 60 days or eliminated somehow from the inventory. The problem is that part of the 21-day “sweet spot” includes the time it takes for the Service Department to prepare the vehicle for sale. A typical metric for the Service Department is to have the vehicle ready for sale within 3 days. This leaves 18 days to sell the vehicle for maximum profitability because pre-owned vehicles depreciate in value rapidly unlike new vehicles.

The activities involved in reconditioning a pre-owned vehicle for sale include the diagnostic inspection, cleaning the vehicle, and performing the necessary repairs. A Repair Order is written that details the cumulative Flat Rate components that need to be completed. Rather than deal with the whole Repair Order completion time, deadlines are established with each component so that Service Managers can track the progress of each component and determine where delays are occurring. Because reconditioning pre-owned vehicles from the Sales Department adds resource pressure on the Service Department, a good relationship between Sales and Service involves discussion and agreements on whether or not it makes good business sense to take the vehicle into the dealership’s inventory. Usually that discussion takes place on a daily basis in a 10:00 AM meeting going over the inventory status. Sometimes the decision out of that meeting may be that it is going to be sold Wholesale vs. Retail.

### **Profit & Loss Metrics**

In addition to tracking revenue metrics that indicate the effectiveness of the Service Department operations to remain a viable entity within the dealership, tracking profitability is an indication of efficiency, how well the operations can economize on costs of running the operations. Profitability for a Service Department is primarily measured at the operational level, the Variable Costs. The dealership’s “bottom line” of Net Profit includes the Fixed Costs of running the dealership if a single vehicle is not sold or serviced during the year – the overhead

costs. While the Service Department does contribute to the overhead costs, the Service Managers typically have little or no authority to make decisions that directly affect Fixed Costs.

Inside of the overall Service Department Variable Cost measurements are the sub-department Variable Cost measurements before aggregating them to the entire Service Department. In this way, service managers can detect if problems exist in specific areas of the operations. For example, labor costs are divided between Customer-Pay Repair Orders and Warranty Repair Orders. Parts used in Repair Orders are measured in the Parts Department section of the financial reports. Consumable supplies like oil and grease are accounted for separately. These financial reports are generated monthly vs. annually so that managers can make adjustments to their operations proactively rather than waiting for the end of the fiscal year.

**CHAPTER 2 ASSIGNMENT:  
Service Metrics**

To determine the date that each report is due, refer to the Course Chart in Blackboard. The report is due at 11:59 p.m., Eastern time. Each report should be written to sufficiently cover each topic but not less than 500 words. You will use your class notes, any materials provided by the instructor group, and your own research online (e.g., Cox Auto, NADA, etc.) in the public domain.

In this report, students will describe how a successful Service Department within an automotive dealership is measured by answering the following questions based on what was learned from the textbook and other research:

1. Describe the three (3) key areas of measurements produced daily in reports to the management team to determine how successful the previous day's operations were in the dealership Service Department. Be specific in your examples of the following:
  - a. Individual Metrics
  - b. Departmental Metrics
  - c. Profit & Loss Metrics
2. What are some standards of measurements that were mentioned in the textbook or outside research that would differentiate a weak, average, or strong service department performance?

## CHAPTER 3: SERVICE DEPARTMENT OPERATIONS

Service Operations can be summarized with the “3 C’s of Service” model: Complaint given by the Customer, Cause identified from the Technician’s diagnosis, and the Cure – the action taken by the technician to resolve the Complaint and the Cause. This section will focus the discussion on how the Service Department manages these three steps at a dealership.

### Service Department Layout

Prescribed layout of the dealership’s various departments is often dictated by the Manufacturer and will vary among different brands based on perceived brand image the Manufacturer is attempting to achieve (e.g., are Service Advisors standing at a podium or sitting at a desk?). Local dealerships may have some input to the final layout based on space limitations, etc. However, the Manufacturer has final approval over how its franchised dealerships will be laid out. If the local Dealership does not comply, it risks being cut off by the Manufacturer from inventory supply of new vehicles to sell.

Considerations in how to set up the Service Department layout is determined by natural points of ingress and egress of vehicles being serviced and based on the constraints of acreage on the dealership property. Service bays usually are angled for easier ingress and egress movement of the vehicles. The highest-paid technicians are stationed closest to the service entrance for least amount of travel time in an attempt to be efficient. The oil supply is nearby the service bays where oil changes occur for the same purpose of effectiveness and efficiency. The goal will be made to get the most service bays in the square footage while remaining safe with the vehicles. Even the placement of the Parts Department back window is designed to take advantage of least steps required to position the parts at the service bay. Some dealerships use traffic lights within the service bay areas to control traffic flow. (See the example of a Dealership layout in the Appendix of this textbook.)

### Work Scheduling Process

Assigning the Repair Order work that needs to be achieved each workday in the dealership’s Service Department is a function of multiple considerations: (a) the capacity of the Service Bay, (b) the number of skilled technicians by levels of certification and experience, and

(c) the demand from the customer base. For the capacity of the Service Bays, the Service Manager needs to know how many service stalls there are with lifts and without lifts. Some service requirements may not require that the vehicle be on a lift like state vehicle inspections. Part of the decision for determining the Service Bay capacity is what is called “Overload the Shop”, which is similar to airlines overbooking flights based on historical data. The Service Department wants to have a shop staffed so that it never has to say “No” to a service request, however, however, a certain percentage of customers may not show up for their appointments. The gaps created by the “no shows” can be filled with walk-in customers but the Service Department cannot always plan on walk-ins being available at a given time. Therefore, use the “overload” method based on historical data, especially during traditional slow periods.

Routine Maintenance work can be handled by appointment or walk-ins; however, Repairs need to be by appointment only because of the hours and complexity required for repairs performed by the higher-level certified technicians. The problem arises when a customer brings in his or her vehicle for routine maintenance, but when the diagnostics are run on the vehicle, it is discovered that a more serious problem exists that will require a major repair. It is at this point that the decision needs to be made by the customer with the Service Department’s recommendation on what to do – whether to go ahead and complete the repair or postpone it. If the condition is a safety or drivability issue, chances are that it will need to be repaired before being on the road again. Unless there is room on the appointment schedule, the repair may take days before it can be scheduled requiring the customer to obtain alternative transportation. If the repair is not critical as in the brake pads will need to be replaced in the next 1,000 miles, the customer may decline the additional service that is needed. This situation will warrant a follow up call later to remind the customer of the need to change out the brakes.

### **Workload Assignments**

What considerations should go into how many technicians a dealership should hire based on the capacity of the Service Bay area? For an example, a dealership with 26 current technicians on payroll might have 28 service bay stalls. If the dealership wanted to expand the Service Bay area to 43 service stalls to meet increased customer demand, how many technicians should be hired? What should be considered? The first rule is to have a service bay for each technician – no idle bays (effectiveness). Should the dealership hire 43 technicians for the 43 service bays? The

answer would be “No for now, but plan for growth.” The forecasted shift in demand would justify 35 technicians, and addition of 9 technicians over the current staff. Then, over time, additional technicians could be hired as demand increases to justify the expense. The idle service bays could be used to park vehicles waiting for parts so the technician could use another bay for servicing a second vehicle and stay productive.

The Service Manager will determine the number of service bays that will be in operation by service category (e.g., oil changes, tire service, minor maintenance work, and major repair work) based on the number of Tier 1-4 technicians on the work schedule for the day. This will effort will result in a total number of rate hours that would reach the capacity for the day’s Repair Orders. A *rate hour* is the amount of time designated by the Manufacturer to complete each sub-task involved with any part of servicing and repairing a vehicle. The difficult part of calculating the rate-hour capacity for the day is the unknown factor. Some jobs take longer than the prescribed rate hour and some take less. Much depends upon the abilities of each individual technician and some of the uncertainty could result from unforeseen problems encountered with a particular vehicle. The Service Manager will use his or her experience to balance the time to the best of his or her ability.

### **Typical Duties of Technicians**

It is helpful at this point to mention what a typical day in the life of a technician might look like. After arriving for his or her work shift, the technician will change from personal wardrobe to a uniform usually provided by the dealership. The technician then retrieves the first repair order of the day, obtains the key to the car based on the tag number assigned by the Dispatcher or Service Advisor. The car may already be in the technician’s designated service bay that was delivered by a Porter or the technician will need to locate the vehicle in the parking lot. The parts needed for the Repair Order should be sitting in a container in the service bay that was delivered by a “runner” from the Parts Department. The technician will retrieve his or her tool box (sometimes provided by the dealership because of the high cost for tools that some technicians cannot afford – potentially over \$100,000). Finally, the technician can begin work on the Repair Order.

When the potential for additional service is detected, as in the previous example of brake pads needing to be replaced in the next 1,000 miles, the technician can inform the Service

Advisor electronically or in person so that the Advisor can speak with the customer about whether or not the customer wants to perform the repair now or later. After the technician completes the repair order, he or she might take the vehicle on a test drive, if necessary, to make sure the car is functioning properly. After the test drive, the technician may drop the vehicle off at the car wash (depending on dealership policy) and close out the Repair Order. A Porter will deliver the washed vehicle to a parking spot on the dealership lot and bring the key to the Service Advisor for completion of the Repair Order for the customer. The technician's labor time for a Repair Order begins when he or she picks up the R.O. and ends when the Service Advisor has received the final coding and comments from the Technician on the R.O. Most entry-level technicians will handle 6-10 cars per day; mid-level techs may average 3-6 cars per day; a master tech may only work on one car per day and teaching other techs.

### **Scheduling Considerations**

One method of becoming more accurate in determining the rate-hour daily capacity is to count carryover cars after the service shop closes and figuring out why that happened – where did we overbook? What can cause carry overs:

- Parts were not available
- Unexpected discoveries beyond what was initially reported
- Technicians taking extra time and care to fix the problem right the first time so as to avoid returns (bring backs) by the customer. These situations cause customer loyalty issues, more confusion in the scheduling process, and the return work is not compensated because the customer will not be paying for the fix.
- Walk-in customers not originally scheduled (In rural areas, customers are more likely to walk in without an appointment. For Japanese Import brands, the Manufacturer's policies result in 50% of the day's service business. For Domestic brands, the number averages 30%. With Highline brands, the problem is less because a higher percentage of those customers book appointments – partly due to scheduling a loaner vehicle while the owner's vehicle is being serviced.)
- Customers who arrive late for appointments.

A Service Manager is careful not to overbook the capacity of the Service Department for the reasons given previously and to be considerate of the effect too much work time pressure

may have on the Technicians and even the Service Advisors. While packing in more work can be profitable in the short term, high employee turnover rates and low morale can cost more in the long term. Therefore, the Service Manager should provide more capacity than what could be scheduled for the day.

For specific methods that could be used to schedule better, the restaurant industry can be used as a model. One common characteristic of the restaurant business is that customers want to eat their meals about the same time. During those rush hour surges, restaurants often have “Plate-Out Servers” whose sole task is to take orders just prepared by the kitchen to the tables regardless of the server who took the order. The order taker checks back at the table as soon as possible to ensure that the customers received what they ordered and that it was delivered to their satisfaction.

In an Automotive Service Department application, many dealerships set up Express Service areas that handle those jobs most needed and require the least expertise on the part of the technician - oil change services. Often these services do not require an advanced appointment but have multiple lanes for customers to drive up, wait in the customer lounge while their vehicle is being serviced, and drive off in a short length of time. If a problem is discovered in the inspection of the vehicle that goes beyond Express Services, arrangements can be made between the customer and the Service Advisor for next steps – whether to have the additional repairs made while the customer continues to wait, arrange to deliver the customer to a destination while leaving his or her vehicle at the dealership, or set an appointment for the customer to bring the vehicle back for the needed repairs.

Other methods of managing service capacity with demand during rush times is having technicians assigned to working on reconditioning pre-owned vehicles for sale called upon to help with the Express Service bays. Service Managers could extend the shop’s service hours for those busy day, if necessary, to avoid carryovers. This is the first choice over floating people from other work if the number of reconditioned cars needed to be placed into the active sales inventory is high. Reconditioning work could be done overnight rather than use up capacity during the day.

The best methods to help reduce the number of occasions when rush conditions exist are to apply good preparation techniques – pull records of who is coming in for the day so less time



is needed to set up the work – have parts pulled for standard orders and ready to be installed by the technicians. Use Software programs that give historical data on what has been the work flow in the past for given hours of the day, days of the week, weeks of the month, and seasons of the year. This is helpful with the unexpected walk-in customer traffic.

Routine maintenance work (e.g., oil changes and mileage-interval checkups) are done on weekends (Saturdays and/or Sundays). Repair work is done only on weekdays (Monday-Friday) by master technicians. In this way, more express work can be completed, and the service bays will not be tied up for long time periods. In addition, major repair work may require additional parts that may not be available on weekends.

### **Opportunities for Sales Departments**

When dealership customers bring their vehicles into the Service Drive for routine maintenance or repairs, a sales opportunity is created for some of those who purchased their vehicles from the dealership in the past. Successful dealerships have customer database systems that connect the Service information on the age and mileage of the vehicle with the Sales deals that are available at the dealership. These database systems can identify vehicles that are in a situation where what is owed on the vehicle or what remains on the lease agreement is less than the market value of the vehicle – a positive equity position. The database system can notify the New Car Sales Department that the customer is in the dealership Service area waiting for his or her vehicle's service appointment to be completed.

A salesperson can be dispatched to the Service Customer Area and discuss the potential of getting out of the current loan or lease and upgrading to a new vehicle with minimal financial changes to the customer's current payments. This effort is most effective when the customer is facing a significant repair bill on the current vehicle. Proactive dealerships sell 60-100 vehicles per month from the Service Drive opportunities. The software programs available to dealerships today can calculate the payoff value of the customer's current vehicle, determine the customer's current credit rating to determine the prime candidates for offering the new vehicle upgrade purchase deal. If the customer agrees to make the deal, the Repair Order on the current vehicle will be completed so that the vehicle is ready for resale either to be placed in the dealership's pre-owned inventory or sold at wholesale to another dealership or at auction. The only exception to completing the Repair Order would be if the extent of repairs is substantial enough to warrant

a decision to sell the vehicle in “As Is” condition to avoid taking a loss of value on the transaction.

What happens to the service work if the customer decides to purchase a new vehicle? The Service Department still gets the RO to get the vehicle ready for resale if the car is going into the dealership pre-owned inventory.

### **Service Technician Levels**

The previous section involved the high-level dealership system for making service appointments with customers. In this section, the more specific considerations of which technician to assign to different Repair Orders is discussed. The typical method for assigning the work is for the dispatcher to distribute electronic Repair Orders to specific technicians by skill level of the technician and subsequently by priority. Priority is usually based on the first available qualified technician.

Though an electronic system is used to automatically match technician skill sets and priority availability timeslots, a human dispatcher usually will be watching over the electronic software program to override the assignment if needed. Some Service Department assign work at a sub-level of specializations within the technicians’ basic skill levels to speed up and improve the quality of the work on more complex Repair Orders. For example, if two technicians share the same Master Tech Level (A) but one is better and quicker at engine work and the other is better and quicker on brakes, each technician would work on his or her specialty if both components required repair on a single RO. A key success factor for Service Departments is having technicians well trained in multiple areas to provide for the flexibility that is needed.

The four levels of a Service Technician (mechanic) in descending order are: (1 or A) Master Technicians are certified in all eight certification tests, (2 or B) Technicians are certified in most of the tests, and (3 or C) Technicians. A Level 1 Master Technician will perform the diagnostics on vehicles entering the Service Bay area (an activity called *triage* similar to a medical facility) to determine the work that needs to be done and enter the service needs of the vehicle into the database for the Dispatcher to determine which technician will handle the Repair Order. In addition, the Master Technician works on major engine repairs with 50% of his or her work schedule on routine maintenance and the other half on repairs.

Level 2 Technicians also can perform diagnostic work and disassemble and assemble parts. Level 3 Technicians (usually rookies in their first 12 months), perform oil changes, tires, and basic maintenance work. For the dealership, more gross profit comes from selling lower technician costs of sales because of the number of Repair Orders that can be completed within a given time period vs. the more involved ROs that could take up many hours of a technician's work day. The balance of decision on what percentage to assign to each Technician level is keeping profits high enough while having the skills and training base of technicians to handle any maintenance/repair job that comes to the shop.

### **Service Technician Certifications**

The eight basic certification tests for automotive technicians as issued by the National Institute for Automotive Service Excellence are:

1. Engine Repair
2. Automatic Transmission
3. Manual Drive Train & Axles
4. Suspension & Steering
5. Brakes
6. Electrical Systems
7. Heating & Air Conditioning
8. Engine Performance

A technician who has completed at least one certification test will wear the ASE Certified Automobile Technician patch on his or her shirt. A technician who has completed certification tests 1-7 will wear the ASE Certified Master Automobile Technician patch. Those certified master technicians who also have completed Certification Test 8 for Engine Performance will wear the ASE Certified Advanced Level Specialist patch. These technicians are considered to be specialists with the extra skill set of being able to diagnose the most complex engine performance problems to include the most sophisticated electronics being added to vehicles these days. It is important for a Service Manager to know that not every technician desires to be or is capable of becoming a Master Technician. In managing technicians' career expectations, sometimes it is more effective to encourage technicians to be the best at whatever level they are able to perform. The reason for some technicians to have no desire to become Master

Technicians is because they do not want the extra pressure that comes with the added responsibilities.

The primary upward mobility track for technicians is being mentored by a technician who is senior to the learning technician. In addition, formal technical training is available through the Manufacturers while the dealership will train on cultural areas – “how we treat customers around here”. Technicians consider the time off from their jobs to be trained as a positive investment in their futures because of the increased compensation potential. Sales personnel, on the other hand, often consider time away from the job for training purposes as more of a detriment because they believe the purpose of the training is to fix a problem that they have in their job performance. Technicians are basically independent entrepreneurs working in the Service Department of the dealership. In a typical-sized dealership, there will be 5 groups of 8 technicians with one group leader (Shop Foreman) for each group. The group leader usually is a master technician who is the “go-to” technician for questions that arise from junior technicians. In large-volume Service Departments, the span of control for a group leader may be 5-6 technicians in the group.

### **Other Service Department Roles**

Another key job function in the Service Department is that of a Service Advisor. These individuals could have been technicians in the past but not often because a different skill set is required for technicians and service advisors. A Technician rarely meets with the customer; that is the role of the Service Advisor. Therefore, the Service Advisor must have be able to communicate effectively with customers. While the Service Advisor needs to have some basic understanding of how vehicles operate mechanically, the requirement to be able to answer all questions about the mechanics of the vehicle is not necessary, especially with computer-aided diagnostic equipment available on most recent models. Another skill required of Service Advisors is time management to ensure that the status of the progress on each vehicle in for service is known and communicated to the customer. These attributes of a Service Advisor contribute greatly to the Customer Satisfaction Index (CSI) score either positively or negatively.

In a typical dealership, the Service Department manages the largest employee base of all other departments. Other job titles not mentioned yet that may exist in the Service Department are Service Loaner Fleet Administrator, Porter, Greeter, Shuttle Driver, Courtesy Car Wash &

Detailer, Service Lane Manager, Dispatcher, Quality Control Inspector, Shop Foreman, and Warranty Representatives.

In Highline dealerships and even Import or Domestic dealerships, having a loaner car fleet is a value-added service to attract customers. One Highline dealership used in the Variable Operations course for financial analysis had a fleet of 144 vehicles that need to be managed by appointments. A Porter is responsible for moving vehicles around on the dealership lot and will work for multiple departments to include Sales. Some of these tasks may be outsourced to companies that specialize in the tasks (e.g., Enterprise Rental Car could have a remote office on the dealership lot, a mobile car wash company may handle that task, etc.). Instead of hiring someone to run the shuttle vehicle for customers, the dealership may outsource to ride-sharing companies like Uber or Lyft.

A Quality Control Inspector would be responsible for the final check of the vehicle after all maintenance or repair work had been completed to include a test drive, if necessary, to ensure that the vehicle does not leave the dealership with issues. Warranty Representatives would specialize in maintenance and repair orders associated with vehicles still under their warranty coverage.

The Shop Foreman is located in the Service Bay area and oversees the work being done by a group of technicians, usually 4-5 technicians. This person also informs service management if there are needs to improve layout of the shop, problems that the Manufacturer needs to be aware of and/or where there are needs to change service procedures. Shop Foremen are Master Technicians. Because Technicians have an expiration date on their ability to perform the work that is very hard (e.g., bending over the car, heavy lifting, broken fingers, etc.), a great place to move in their career is Shop Foreman so their knowledge can still be applied even if not physically working all the time.

A Dispatcher (Booker) manages the work flow within the Service Department and handles up to 300 Repair Orders per day. They assign each RO to the next available technician who is qualified to handle the estimated work to be done.

## Performance Measurements

To supervise employees in the Service Department, managers use different methods to observe performance and to encourage employees in their work environment. One of the methods is called “Management by Walking Around” (MBWA). When employees see the manager in their work area, they know that what they are doing in their job performance is valuable to the organization and that they as individuals are respected. Many dealerships participate in an Employee Satisfaction Index (ESI) that is similar to a Customer Satisfaction Index (CSI) in terms of administering the process.

Under an ESI program, managers will meet at least once per quarter and possibly more often with each employee in the Service Department to determine how satisfied or dissatisfied that employee is with his or her job and working conditions. If handled properly, these ESI meetings should not be like going to the Principal’s Office, but rather a friendly two-way conversation that is respectful of the employee. Questions in the interview should include:

- How are you doing?
- How are we doing?
- How productive is the work environment?
- Are there any obstacles to you successfully performing your assigned job functions?
- Reinforce how much the employee is appreciated.

If the employee suggests changes that would make the work environment more productive, it behooves the Service Manager to seriously consider making changes to policies that would accommodate the suggestions. Managers who conduct such interviews are likely to experience a productive work environment and retain satisfied technicians on the payroll.

Another method that has been used by some Service Managers is called the “10/10 Appointments” whereby the technician is given a notebook and asked to take 10 minutes at 10:00 o’clock in the morning to write down whatever they think about the problems they will be facing that day. The notes are collected by the Service Manager at the end of the workday and entered into a database to determine what are common problems being experienced by multiple employees.

## Staffing in the Service Department

The demand for high-quality automotive technicians is extremely high and the supply is typically low and declining as workers choose other career paths. Therefore, it is incumbent on Service Managers to not only recruit and hire the best talent available but to retain them for the long term to reduce turnover expense and turmoil. Recruiting and interviewing for Service Department employees is a non-stop activity. One word of caution to a Service Manager is to never hire out of desperation or fear because those hires usually are short-term and create more trouble in the workplace than if the vacancy had been endured until an excellent employee could be hired. Another consideration for the Service Manager is that a high-quality technician may be more productive than an average technician and thus result in the need for fewer job vacancies.

Some methods for locating high-quality technicians include the following:

- Have an internal referral bonus program for your team.
- Have a consistent presence in any environment where the dealership has been successful before.
- Manufacturer specific training facilities.
- Area community college technical and business programs.
- College Job Fairs

One of the best methods to recruit technicians is by offering current employees a cash bonus every time they refer a qualified recruit who is hired and works for the dealership a minimum number of days. At the Hendrick Automotive Group, if the new recruit remains employed for 30 days, the referring employee receives a \$500 cash bonus; if the new recruit remains employed for 6 months, the referring employee receives another \$500 cash bonus.

To be eligible for the referral, Hendrick employees receive business cards of available positions being sought by the dealership to include a position number for each vacancy. If a Hendrick employee identifies a potential recruit, the employee gives that potential recruit one of the business cards after placing his or her employee ID number on the card for the referral. This procedure is used for job vacancies where there is an urgent need.

## Compensation in the Service Department

Compensation within the Service Department varies by job title, job level, seniority, etc. Each job function is assigned a Job Code that has a pay range associated with it. The Cost-of-Living Index (COLA) often factors into the amount of pay. The determination by Human Resources Department as to how much the pay range should be is determined by comparative pay rates with competitor companies. For example, a Tire Changer at a Target store in South Carolina who graduated from high school is paid \$12 per hour. To stay competitive, the automotive dealership may establish a pay range for similar work in the South Carolina market at \$12-14/hour. The HR Department has access to market studies that determine the pay range in given geographic regions based on cost of living and standard job codes in the industry. The system used by the Hendrick Automotive Group is called Workday.

In terms of additional employee benefits (e.g., health insurance, paid vacation, etc.), there is no standard approach by dealerships. Junior service technicians may be paid on a salary basis when they are first hired while they gain skills and ranking, however, the preferable position for most dealerships, especially for Senior service technicians is to pay based on performance (incentive-based).

Incentive-based pay is based on a Flat Rate that is published in a Service Pricing Guide (SPG). The Flat Rate is determined by the costs of labor hours needed to complete the task, the cost of parts, and the markup for profit to the dealership. For example, assume that a radiator replacement should be paid for 2 hours. If the Technician is paid at a \$20/hour rate, the technician would be paid \$40 to replace a radiator. A technician paid \$30/hour would be paid \$60. If the technician can finish the job correctly in one hour vs. two hours, the \$20/hour technician would be paid \$40 for that hour, and would be able to move on to another R.O. On the flip side, if the technician took 3 hours to complete the radiator replacement, he or she still would be paid \$40 and would lose one hour of the day for being compensated on a different R.O. Technicians do not ask how much they can make in income because they make what they can produce. Technicians may ask how many hours they can work and how many Repair Orders they can expect to be assigned in a workday.

Service Pricing Guides are published from various industry sources (e.g., Manufacturers, Dealertrack, CDK, Mitchell, etc.). Sometimes dealership employees will “ghost call” different



independent repair shops to see what they are charging for the various services. Sometimes the information comes from customers who tell the dealership that they could get a different price from another shop. Another obvious source of current flat rates is the Internet. Flat rates are reviewed periodically by the service managers to determine what are fair and competitive prices that would attract customers to the dealership Service Department vs. the competition.

Some flexibility in pricing happens at the service manager level for loyal customers. The question becomes “How valuable is the customer’s long-term loyalty to the dealership?” For example, the Service Manager might offer up to 50% discount on labor and 20% discount on parts. Otherwise, pricing is based on the age and mileage of the vehicle. For newer vehicles, owners typically are more to them and thus pricing for service and parts can remain at full retail whereas, with older vehicles, owners may need offers of discounts to encourage them to come in for service to extend the life of the vehicle.

Another term that is used for Flat Rate under Warranty work is called the Door Rate. The rate is established by the Manufacturers; however, dealerships may discount customer-paid door rates for loyal customers. If dealerships charge less than the Door Rate, the Manufacturer will pay the discounted rate the dealership charged the customer. The term used for the discounted rate to the customer is the Effective Door Rate vs. the Warranty Door Rate established by the Manufacturer. The Manufacturer will audit the franchised dealership’s Service Department every 3-5 years to determine what the dealership has been charging its customers for warranty repair service. Dealerships can ask for a higher warranty door rate but should be careful in doing so because it could invite an audit from the Manufacturer.

Whatever the flat rate price is for a specific task, that is what the technician will be paid. If the technician finishes a job sooner than the time allotted for the tasks, he or she can move on to the next job to earn more income. On the other hand, if the technician requires more time than allotted, he or she will be paid the flat rate price for the work and delay the opportunity to begin the next Repair Order.

Service Advisors are paid on a salary basis typically with bonus incentives based on achievement of specified goals. For example, there are parameters based on mileage of cars when tires may need to be replaced or additional services like alignments, brake pads, etc. The more of these items the Service Advisor sells, the more commission is earned – from 7% to 8%.

Tire commissions are lower because of the low profit margins but could net a flat rate of \$5 per tire vs. a commission. Sometimes there are team incentive promotions – percentage of parts sold, for example. Sometimes a quick start goal is established at the beginning of a month when the sales cycle is lowest and additional incentive pay is offered along with the overall monthly goal.

- Express Technicians, responsible for oil and tire changes will average \$32,000-\$38,000 annually.
- Minor Repairs / Maintenance (B & C Technicians): \$45,000-\$55,000 per year
- Master Technicians (A): \$75,000-\$125,000+ per year. Some Master Technician may be paid \$35 per hour plus their flat rate with some achieving 80 hours per week of flat rate work.

Technicians typically are paid every two weeks at most dealerships. Those dealerships that have paid employees weekly usually abandon that practice due to the high costs involved with processing the payroll documentation. Service Advisors are paid monthly.

### **Future Trends**

What does the future hold for customers obtaining service on their vehicles? How can dealerships economize on labor costs and, at the same time, speed customers on their way? Some ideas that experts in the industry have given is having Do-It-Yourself service lanes at the dealership similar to Self-Checkout lanes at the department store. The customer could set up the appointment online through a dealership web portal using available appointment scheduling software tools. Then the customer would check-in near the appointment time at a kiosk and be directed to park the vehicle in a designated space. If a loaner vehicle is part of the contracted service, the customer would be directed to a specific loaner vehicle with an access code (similar to [ZipCar](#) Rentals). Of course, the dealership would have on file, the preferred credit card number and driver's license information so that the loaner contract could be completed. When the repair or maintenance work is completed, the customer would be notified to return the loaner vehicle and pick up his or her personal vehicle. This concept removes most of the administrative work for the dealership and saves in the number of administrative employees needed to handle Repair Orders.

Another recent development in Service Department operations is how the Technician communicates with the customer on the need for additional repairs that need to be performed on the customer's vehicle. Traditionally, the Technician informs the Service Advisor who speaks with the customer or the Technician might speak directly with the customer. Some customers need more evidence of the need to add the repairs being recommended and the solution was to take the customer into the Service Bay area and show him or her the problem areas. This traditional process requires customers to enter the work area where concerns for the customer's safety and liability risks are high. A newer method of communicating with the customer is where the technician takes a video of the vehicle using a GoPro camera or smartphone on a selfie stick and points out the parts that are in need of repair and sends it directly to the client or Service Advisor for review. This new technique also accommodates customers who are not in the Service Department customer lounge but are remote at the office or at home. The estimate of the additional repairs can be sent via email to the client.

### **CHAPTER 3 ASSIGNMENT: Service Operations**

To determine the date that each report is due, refer to the Course Chart in Blackboard. The report is due at 11:59 p.m., Eastern time. Each report should be written to sufficiently cover each topic but not less than 500 words. You will use your class notes, any materials provided by the instructor group, and your own research online (e.g., Cox Auto, NADA, etc.) in the public domain.

In this report, students will describe how a Service Department functions within an automotive dealership by answering the following questions based on what was learned from the textbook and other research:

1. Describe how a dealership Service Department should be arranged so that maximum effectiveness and efficiency can be achieved.
2. Describe the employee positions hired to work in a Service Department to include the different levels of technicians.
3. What determines the correct number of technicians and service advisors to hire?
4. Describe the compensation plan that you would use in your Service Department and explain your rationale for it.

## CHAPTER 4: PARTS METRICS

### Overview

In the previous chapter, the discussion focused on the operational aspect of the Parts Department. In this chapter, the focus will be on the key measurements that can be used to determine the degree of success a dealership's Parts Department is achieving and to serve as a means of discovering where problem areas may exist. Some of the measurements in the Parts Department are similar to measurements discussed in the Service Department and there are unique measurements associated only with the Parts Department.

The matrix categories include:

- Department profitability
- Effectiveness of fulfilling Repair Orders
- Efficiency of maintaining inventory levels
- Accuracy of inventory levels

### Department Profitability

One key measurement for profitability is the contribution of the Parts Department revenue to the entire dealership's revenue generation. For example, it is expected that of every dollar received from Fixed Operations, 65% of that dollar will come from the Parts Department and the remaining 35% will come from the Service Department. This is considered a ratio of a healthy financial dealership. In the case of a Highline dealership, the percentages of parts to labor may be higher because of the cost of parts from Highline manufacturers coupled with the high expectations of Highline vehicle owners to have genuine OEM parts installed in their vehicles.

Using the Parts Department Financials Worksheet from Blackboard Reading & Study link for Module 5, review the following items that are evaluated to determine the profitability of dealership Parts Departments. The rows that are highlighted in orange are key measurements evaluated by Parts Department managers. The following definitions are given for some key acronyms.

- P & A: Parts and Accessories
- Customer is primarily the Service Department work on customers' vehicles
- Body Shop: Collision Center
- Internal: refers to parts going into pre-owned vehicles to make ready for sale
- R.O.: Repair Order
- Warranty R.O.: Warranty work vs. Customer Pay
- Counter Wholesale: parts sold to independent service shops, etc.
- Gross Profit: Sales less Variable Costs paid for the parts
- The first beige set of columns (dollars and percentages) are the average of the Top 4 dealerships within the group. The second beige set of columns is the top dealership.

Compare the dealerships to determine the differences in Gross Profit for each one. Which ones are the most profitable? Which ones are the least profitable? The best measurements would be to compare similar brand stores. What seems to be the contributing factors to the differences between the most and the least profitable? How are Sales vs. Expenses? Are the Salaries comparable? Are Company Vehicles the problem? Could the differences in local markets be a contributing factor? A key target to determine which dealerships are doing well and which are not doing well is the Operating Income. Above 30% is very good; 10%-29% is OK; Below 10% is a problem area for Parts Department Operating Income.

The age of parts on the shelves can affect the profitability of the Parts Department because of the potential inability to sell the part the longer it sits on the shelves in inventory. If a part ages over 6 months without being sold, there is a 20% chance of selling the part eventually, or better stated, there is an 80% chance the part will not be sold without exercising dire efforts to sell it. If the part ages over 12 months, there is almost a zero percent chance of selling it. Fortunately, there are database systems that record "lost sales" (when a part is requested and is not available in inventory). The system also issues reports on when parts are returned to inventory so that accurate inventory levels can be achieved. Measuring peak points when sales begin to decline for specific parts can highlight for the Parts Manager the trigger to Phase Out those parts. The system also has the ability to allow the Parts Manager to override the parts ordering recommendations (e.g., not stocking windshield ice scrappers in August).

Another consideration and metric in the profitability area is the amount of value in damaged or missing inventory due to inability to maintain the accuracy of the physical inventory or even due to theft. Theft, if it happens, occurs most often in the “boutique shop” (clothing, model cars, etc.) of the Retail Parts Department. Whenever theft occurs with vehicle parts, it is as a result of a part being borrowed from the Parts Department by a service technician to determine if it is the right part for the Repair Order but then is not returned to the proper bin in the Parts Department. The proper method to reduce theft is to keep the parts inventory under secure lock and accessible only by Parts Department employees, and to sign out any part to a technician on the Repair Order before it is received by the technician. When the part is returned to inventory, it is removed from the Repair Order and the technician is cleared from the responsibility for the missing part. To give perspective, the value of the parts inventory in two BMW dealerships in the greater Charlotte, North Carolina area equals over \$2.5 million.

### **Effectiveness of Fulfilling Repair Orders**

The term used for determining the effectiveness of fulfilling repair orders is Fill Rate, which is measured as the percentage of the time a part is available in inventory when it is needed for a Repair Order.

Categories of Inventory include (a) Stock, (b) Non-Stock Manufacturer, (c) Non-Stock, Non-OEM, (d) Special Order Parts (SOP), and (e) Obsolete Parts. Stock items are those parts that are used on a regular basis in maintenance and repairs of vehicles (e.g., Gas-Oil-Grease, Tires, minor Body Repair, etc.). Being efficient with inventory levels of tires, for example, would mean maintaining lower quantities of tires if the dealership Parts Department had a contract with a local tire distributor that can deliver tires twice per day. The only reason to stock tires at the dealership would be to fulfill immediacy needs on the part of customers' expectations. If the technician recommends that a customer needs new tires, having them put on while the customer waits vs. coming back in a few hours is critical. Most of the time, if customers are required to return at a later date or even time in the day, they probably will not return to the dealership but will purchase the tires elsewhere. Therefore, the Parts Manager needs to stock the most popular brand, quality, and sizes of tires and backfill with the deliveries from the tire distributor as inventory is depleted.

Gas, Oil, and Grease (GOG) is one of the most critical inventory items to maintain current levels because they are involved in almost every Repair Order. The term is somewhat outdated because modern vehicles do not require grease (lubrication) on parts. Oil is supplied today in bulk through containers on the Service Department property and distributed through oil lines that the technician can use to measure out precisely the amount of oil needed in the vehicle vs. the old method of using oil cans with disposal issues associated with them. With German-engineered vehicles that use up oil during operating them, technicians often will add oil beyond the manufacturer's required levels of 8 quarts. They might top off the vehicle with 8.5 quarts with the extra oil charged to the Service Department as an expense vs. charged to the customer. Some dealerships will fill the vehicles being serviced with Gasoline as a courtesy to their customers to maintain loyalty in the face of competition.

Body Repair parts kept in inventory for the Service Department vs. the Collision Center are the most common ones needed for more routine repairs (e.g., bumpers, headlights, taillights, radiators, etc.), those repairs that generally can be completed in the same day. Those parts that require multiple days for a Collision Center to repair will not be kept in inventory but will be special ordered when required for a Repair Order from the Collision Center.

### **Efficiency of Maintaining Inventory Levels**

Parts inventory is an indicator of a dealership's integrity, commitment to customer service, and discipline to carry out a consistent process. Integrity is measured by having accurate physical inventory when compared to the inventory on the books. Commitment to customer service is measured by fulfilling Repair Orders in a timely manner. Discipline is measured by having sufficient inventory to meet customer needs the majority of the time without inflating the inventory to such a level as to drain cash from the dealership with inventory that is depreciating in value. "Age is never our friend" in terms of parts' value.

There are occasions when customers create a Special Order for a specific part that has no previous history of being ordered by the dealership. Often these Special Orders are accessories to vehicles (e.g., special colored wheels, spoilers, heated steering wheels, etc.). A problem that occurs often is that the vehicle owner, after ordering the special part, does not come back to reclaim it due to a change of mind. This can create a significant problem for the dealership because Manufacturers typically do not want their parts back and that holds true particularly with



special-ordered parts. One method for controlling inventory of Special Order Parts (SOP) is to ask the customer to pay for the part in full or at least a significant down payment for it. When the SOP arrives in the Parts Department, the customer will be contacted to set an appointment to pick up the part or often to have it installed on the vehicle by the Service Department. After multiple attempts of trying to reach the customer to come in for the part, the dealership will need to determine what to do with it. The part could be sold on eBay or advertise the part at 50% discount on Internet sites that advertise obsolete parts for purchase.

In the case of Special Orders, care must be given to order the correct part. If the wrong part is ordered from the Manufacturer, the dealership cannot just send back any part to the Manufacturer. Every Manufacturer has its own policies for returns of parts that depend on time frames for when the returns occur. BMW, for example, has a liberal policy of taking any returns regardless of age. There usually is a 5% return fee or if the dealership is returning more than 4% of a parts order, there will be a 25% return fee of the value of the parts.

### **Accuracy of Inventory Levels**

The accuracy of inventory levels is an activity of comparing the inventory levels in the accounting system with the physical inventory levels determined by perpetual bin counts where each parts employee checks assigned bin areas daily so that the entire inventory is physically counted twice annually. One report that is used to measure the accuracy of parts inventory levels is the Negative on Hand Report. This report measures the parts that were requested but were not physically available in the inventory when needed. The report is run on the last day of the month to account for what has been ordered but is not in inventory and has not been paid for yet by the customer.

Other reports used to measure the accuracy of parts inventory levels are Depreciation Report on Aging Inventory that identifies parts that have exceeded the standard shelf life and have not been sold yet as established by dealership policy. The goal is for inventory to be sold within 60-90 days. The Outstanding Order Report measures when a part on the shelf was not received properly (logged) into the inventory but was paid for by the Accounting Department on an invoice. What is done when these reports identify a difference between the system inventory and the physical inventory is that the employee who discovers the discrepancy (e.g., only 2 in physical inventory but 3 are in the system for a particular part) needs to communicate the

discrepancy to the managers in a timely manner and an effort is made to determine where the misalignment occurred.

**CHAPTER 4 ASSIGNMENT:  
Parts Metrics**

To determine the date that each report is due, refer to the Course Chart in Blackboard. The report is due at 11:59 p.m., Eastern time. Each report should be written to sufficiently cover each topic but not less than 500 words. You will use your class notes, any materials provided by the instructor group, and your own research online (e.g., Cox Auto, NADA, etc.) in the public domain.

In this report, students will describe how a Parts Department within an automotive dealership manages inventory and achieves profitability by answering the following questions based on what was learned from the textbook and other research:

1. Describe the Service Pricing Guide (SPG) concept and how it applies to managing inventory value within the dealership Parts Department.
2. Describe the concept of Parts Inventory Management and why it is important for the dealership's financial success.
3. Describe the Phase In / Phase Out concepts and apply the concepts to a dealership's parts inventory.
  - a. What are the criteria to Phase In parts?
  - b. When are the criteria to Phase Out parts?

## CHAPTER 5: PARTS OPERATIONS

### Overview

The Parts Department is likely the most profitable Strategic Business Unit (SBU) in the dealership. It is tied to the need of vehicle owners to maintain and repair their investments in the form of their vehicles, there are multiple customer outlets for the Parts Department, most customers are paying at the full retail price, and, unlike the Service Department that uses the most employees in the dealership, a properly functioning Parts Department can run effectively with a small number of employees. In this chapter, the discussion will focus on how a successful Parts Department should operate.

In the diagram of a typical dealership layout (located in the Appendix of this handbook), it is noteworthy that the Parts Department is centrally located to the Service Department for its top customer group – the service technicians, the Collision Center if co-located with the dealership, and the lobby of the dealership for retail customers. The Parts Department also has access to the exterior of the building for shipping and receiving materials outside of the dealership. The pressures on running an effective and efficient Parts Department are significant. To be effective requires that the minimum wait time occurs between when a part is requested and when a part is installed where it is intended to be placed. To be efficient requires that the process of being effective is achieved with the least cost of resources. It would be wonderful if the needed part was available 100% of the time when requested but that is infeasible and even if it could be achieved would involve an enormous investment in inventory.

In previous days, the concept was to have a narrow selection of part items with a deep inventory to cover the potential service requirements most needed on a regular service day. It was expected that an unusual part needed would require several days before being available for installation. Today, with the supply chain logistics coupled with technology available, Parts Departments can widen their inventory with more parts that cover more possible repair needs and go with less depth of those parts because the inventory can be replenished quickly, sometimes within the same day. Part of the pressure to maintain an effective and efficient inventory management system within the Parts Department is that, like pre-owned vehicles inventory, the

parts inventory is paid by the dealership with cash. Every part sitting on the shelf is cash not available to the dealership to use until that part has been paid for by the customer.

There are three primary customer categories of a dealership Parts Department: (a) Retail Internal – primarily the dealership Service Department and Collision Center if the dealership owns one, (b) Wholesale – primarily independent service and body shops where there is a contracted business relationship, and (c) Retail External – primarily do-it-yourself customers and those wishing to purchase manufacturer brand apparel and vehicle accessories. Of these various customer groups, the dealership Service Department is the largest category and the top priority for the Parts Department because of the franchise relationship with the Manufacturer. It is important that the dealership complete the customers' Repair Orders in a timely manner to maintain customer satisfaction and thus in good relationship with the Manufacturer. In the next section, how to manage the inventory is discussed.

### **Supply Chain Logistics**

The Manufacturer determines which parts units are kept in inventory and the minimum quantities of parts required to be stocked by the franchised dealership Parts Department. The remainder of the stock levels are left to the local dealership managers and is based on historical data contained within the Dealership Management System (DMS) and on pending Repair Order needs. What has changed dramatically recently has been the ability of delivering parts to dealerships quickly using a supply distribution system driven by database systems.

For parts that are standard (e.g., oil filters, air filters, etc.), resupply is achieved through inventory management systems that monitor stock levels of the parts as they are received into inventory and removed from inventory through purchases. Under normal conditions, the resupply can wait until the next business day to replenish standard stocking levels. Dealerships will have relationships with various forms of parts suppliers starting with the Original Equipment Manufacturer (OEM) from its regional Distribution Center that usually can deliver an ordered part by the next business day if ordered by close of business. If the dealership needed an OEM part on the same day, and the OEM Regional Distribution Center was unable to deliver that day, the dealership might purchase the part from a competitive OEM-branded dealership's Parts Department. Other options for suppliers of non-OEM parts would be local independent parts stores (e.g., NAPA, AdvancedAuto, AutoZone, O'Reillys, etc.) where either a dealership Parts

Department employee can pick up the part from the store or have the part delivered by the store to the dealership Parts Department.

For larger dealership groups, it often makes good economic sense to establish their own parts warehouse and distribution center to move the inventory closer to the “front lines”. For example, the Hendrick Automotive Group maintains a regional distribution center in the Charlotte, North Carolina area that services all of North Carolina and Georgia dealerships in addition to three other regional centers in the United States. OEM regional parts centers will supply the Hendrick center on a daily basis. In turn, the Hendrick Distribution Center in Charlotte has 28 trucks that deliver to the various dealerships within the region. Some trucks deliver overnight to Georgia and North Carolina outside of the greater Charlotte area so that the parts orders arrive at the remote dealerships early in the morning before the dealership is open for business. The other trucks route to the local dealerships during the day usually with two regular stops per dealership per day. In the local dealerships, parts orders submitted by late morning will arrive in the afternoon; parts orders submitted by close-of-business will arrive the next morning.

If a rush order is placed, a special truck may be dispatched to the dealership with that order and any other parts scheduled to go to the dealership at that time. If a truck is at least half full, it is economically a good shipment. In those situations where a small part is needed and is not scheduled for a regular run and there are no other parts to be delivered to the dealership, the decision may be to use a shipping carrier (FedEx or UPS) or delivery service to fulfill the order. Though the dealership may pay \$10 shipping for a \$3 part, the economics of not sending a special delivery truck makes sense and the ultimate goal is that a customer and a service technician are waiting for the part to complete a Repair Order. Sometimes, small dealerships form a cooperative arrangement with large dealerships that have a fleet of delivery vehicles to deliver parts to the small dealerships for a fee on their routes to their own network of dealerships.

The first employees to arrive on a dealership lot each morning are those employees from the Parts Department who are assigned the responsibility to login the parts delivered that morning before the Service Department opens. These employees will ensure that every part on the shipping invoice is accounted for and in good condition. The process is enhanced by the use of scanning software that tells the employee in which bin in the Parts Department the item will

be placed. Depending on the size of the parts order, this receiving the inventory may take an hour or more. Often more than one employee is needed to complete the tasks in time for the start of the business day in the Service Department.

The next stage in the process is to assemble the parts required for the first Repair Orders of the day in the service bays. Some dealerships bundle the parts into plastic containers and keep the containers in the Parts Department awaiting the Dispatcher to assign the order to a Service Technician for pickup from the Parts Department. Other dealerships have “runners” assigned to either the Parts Department or the Service Department who will deliver the parts containers to the pre-assigned service bay for the Repair Order. Throughout the business day, the process will continue of technicians going to the Parts Department to pick up needed parts or a runner delivering the parts to the designated service bay for the technician assigned to each Repair Order. When it is discovered that a part is needed to complete a Repair Order, and the part is not in the Parts Department inventory, then the part needs to be located and a decision made on how to obtain the part and when it can be expected so that it can be determined what to do with the service technician until the missing part arrives.

Because most of the parts in inventory for a franchised automotive dealership originate from the Manufacturer and is a major source of income for the OEM, factory audits are conducted frequently by Manufacturers. The audits are focused on checking parts inventory levels, warranty rates for labor door rate, following proper procedures especially in making keys (BMW) to ensure that proper identification was obtained before a key was distributed, proper levels of fluids were dispensed according to what was required on the R.O.s., etc. Factory Audits occur annually or every 2 years and lasts 2-3 days when the auditors are on the dealership premises. Often the auditors will come on short notice.

Auditors will find some charge backs (costs to the dealership) for parts and service where there are discrepancies in inventory levels between what is listed in the inventory system and what is on the shelf. There always will be charge backs to some extent because it is the auditors' job to find them and because the management of inventory is so complex. Often, a service technician thinks a part may be needed on a Repair Order, removes the part from inventory and takes it to the workstation only to discover the part is not needed. The technician forgets to replace the unused part back into inventory while an audit is being performed. Another example

of discrepancy that would trigger a charge back might be of a dealership installing a part for a warranty repair order that was not purchased from the Manufacturer. The part might have been purchased from an after-market source and installed as warranty part. In those situations, the Manufacturer could require the vehicle to be brought back in and a Manufacturer part installed in its place. The dealership would be required to pay back the Manufacturer for that part and the labor for installing the part and there may be a financial penalty assessed the dealership through a charge back. This would be in addition to the damaged relationships with the Manufacturer. In addition to Factory Audits performed by Manufacturers, dealerships conduct internal audits of inventory annually by hiring an external company to ensure everything is in order.

### **Phase In / Phase Out**

As stated previously, managing the vast inventory within a dealership's Parts Department that can be valued in the millions of dollars is critical on two fronts: Effectiveness and Efficiency. To be the most effective would mean that there never was a situation when a part was unavailable when needed. To be the most efficient would mean that there never was a part remaining on the shelves at the end of the work day or that every part would be sold within a short time period. Both of these extreme circumstances are unrealistic, so the goal is to find the optimum balance between Effectiveness and Efficiency when determining stock levels within the Parts Department inventory. For example, one of the inventory units that occupies the largest space is tires due to the many sizes, brands, and quality levels. Remember that tires bring minimum profit but maximum benefit to customer loyalty retention. The decision of stocking levels for tires to be determined by the Parts Manager is answered by the following questions:

- Historically, what tires do our customers purchase?
- How fast can I be restocked when a set of tires is sold?
- What promotional sales are running that might increase the demand for the tires?
- What are the dates of the promotion?

During the course of managing the Parts inventory within a dealership, purchases are made when customer sales support the current inventory levels. However, over time, those purchases may decline and not be noticed readily by the Parts Manager because of the size of inventory and the day-to-day volume of business occurring. The goal for a part in inventory is



that it should be sold within a reasonable time period (usually within 90 days or sooner). For parts that sit on the shelves longer than 90 days, consideration should be given to first reduce or even discontinue ordering the part until the inventory is zero or find a buyer if the part has been on the shelf one year or longer. This concept is called Phase Out. The sooner the Parts Manager discovers an aging part, the more options are available to find that buyer.

On the other hand, Phase In is the concept where it becomes obvious to the Parts Manager that a particular part that is not kept in inventory is being special-ordered on a regular basis, typically special ordered 3-4 times within 3-6 months. To ensure that future delays will not occur for this part, the manager may order a small quantity to be kept in inventory to improve the time to complete associated Repair Orders. The Manager will want to closely monitor these Phased-In parts for an initial period of time to determine if the need continues to be there that justifies the inventory stocking decision. Usually, a Phase In decision is more closely monitored and corrected if inaccurate than a Phase Out decision. In a Phase Out decision, the passage of time can be a detriment. One solution to discovering potential Phase Out conditions is to use the periodic internal inventory audit to question parts that have not sold recently. Dealership Parts Departments are conducting internal audits of inventory on a regular basis by using a rotational system so that each part category is audited at least once per quarter. In addition, there is an incentive to discover potential parts to be phased out because Manufacturers do offer a return allowance to the dealership on a quarterly basis whereby the dealership can sell back parts to the Manufacturer less a restocking fee. The other options for liquidating a Phased-Out part is to sell the part to other dealership Parts Departments, sell to independent stores, or sell the part on the Internet. Finding a buyer is easier today than in the past. Any part can be sold for the right price. If all else fails, the part can be disposed of and the value written off as a loss on the Parts Department accounting ledgers.

### **Service Pricing Guide (SPG)**

For the primary customer of the Parts Department, the dealership's Service Department, pricing is not a concern for competitive positioning because the full retail price is charged in most situations. Where competitive pricing becomes a factor for the Parts Department is in the other areas of Wholesale and Retail for external customers. The Service Pricing Guide (SPG) was mentioned in the Service Operations chapter in terms of establishing labor rates (Customer-

Pay Flat Rates and Warranty-based Door Rates). The Service Pricing Guides published by the OEMs also establish the Manufacturer's Suggested Retail Price (MSRP) for parts produced by the OEM and serve as the benchmark for pricing the parts from the dealership to its various customer groups. Not all dealerships use SPGs because there are many inconsistencies in pricing when compared with other organizations that publish more competitive prices, what the market is paying for the parts. Today, how many customers pay MSRP for anything? The main purpose of the Service Pricing Guide for a dealership is to establish the benchmark for the discounted price the dealership must pay the Manufacturer for the part.

Customers always remember one price – the first one given. It is very difficult to go up from that original price quoted. Therefore, it is important for the dealership to establish a fair and competitive price that will attract the optimum amount of sales while remaining profitable – bearing in mind that the Parts Department is the most profitable department in the dealership and responsible for providing coverage of the dealership's fixed costs even during times when variable sales operations are not experiencing high volumes. Part of the price calculations is to compare prices in the local market to ensure that the dealership's rates are competitive. Independent shops usually always quote ranges because they do not have the extent of database programs to help price the parts; however, the Parts Manager should remember that official Manufacturer parts should be priced higher than generic parts because of the higher demand for customers who desire only OEM parts in their vehicles, especially those still under warranty. Most warranties stipulate that installing non-OEM parts can void the remaining portion of the warranty.

The most competitive pricing areas are in the parts associated with the basic maintenance services performed frequently during the year and can be performed by consumers at home vs. using a service shop: oil, oil filters, air filters, tires, etc. These parts typically are at market-based pricing. It is important for dealerships to set competitive prices even in their captive Service Department Repair Orders. The customer does not discern whether the high price for repairs is coming from high labor costs or high parts cost. If the price is considered too high, customers will abandon the dealership and move their maintenance and potentially even their repair services to independent service shops. If customers do not need to haggle for a price, they tend to remain loyal to dealerships for performing their maintenance and repair needs.

A method used by dealerships to remain price competitive is to offer price discounts primarily based on vehicle mileage whereby, within the first 100,000 miles, a discount of 20% would be given on labor and 10% on parts. At 150,000 miles (usually vehicles between 5 and 6 years of age) a labor discount of 25% and a parts discount of 10% would be given. At 200,000 miles, the discounts might be 35% off labor and 15% off parts. The discount formula would vary depending on the model of cars and on local competitive market conditions. Metro areas are far more competitive than rural areas for pricing purposes. The primary goal for offering price discounts on parts and labor is to maintain profitable market share and not to lose Service Department business to independent service shops.

A major obstacle in selling tires is that customers often do not have the money at the time to make the needed tire purchase. To offset that obstacle, dealerships will offer credit terms through the tire manufacturer or the dealership may offer free credit for 60 days through an outsourced company. In parts required for Collision Centers (body shops), the pricing systems usually are set up by the insurance companies so that each part item has one price nationally.

### **Staffing in the Parts Department**

This section will focus on the various employee roles found within a typical dealership Parts Department. In larger dealerships, there may be one or more individual employees performing the stated tasks, and in smaller dealerships, multiple responsibilities may be covered by one Parts Department employee. The actual job titles may vary in some dealerships.

A Parts Runner is an entry-level employee position. The purpose of the job is to ensure that the service technician has the part he or she needs in a timely manner because the more vehicles that go through the service bay in a day means more parts installed and revenues and profits gained. The Parts Runner will take the parts that have been bundled by a Parts Representative for a Repair Order and deliver the parts to the service technician waiting for them. Usually, the Parts Runner will be stationed at the Parts Department window when the parts order is received via the DMS Repair Order system. When a vehicle Repair Order has been completed and the vehicle is driven out of the service bay, the Service Dispatcher will assign the next Repair Order to a technician and any parts known to be associated with the new Repair Order will be bundled by the Parts Representative and delivered by the Parts Runner to the

technician in his or her designated service bay. In a typical-sized dealership Service Department, there are 1-2 Parts Runners assigned to each Parts Representative.

A Parts Representative typically can support 10-14 technicians as long as the parts needed for service appointments have been pre-filled and depending upon the efficiency of the parts employee. During busy times of the day, a Parts Representative may assume the role of Parts Runner to avoid the need to hire another employee. The Parts Representative is at the computer 7-8 hours per day serving the different customer categories (Wholesale, Retail, and Service Bay). The key success factor for a Parts Representative is accuracy so that a vehicle is not disabled waiting for a part when the wrong part was ordered the first time and that the inventory levels remain accurate.

There are many variances in parts items depending on colors, features, functions, etc., each with a part number that could be very similar to another part number in the category. For example, interior seats have different colors, but some have heating in the seats and some even have air-conditioning. If the Parts Representative is not careful, the wrong seat could be ordered. Because Parts Departments would not stock vehicle replacement seats, the delays in the process of ordering and receiving the wrong seat and then repeating the process to receive the correct seat could mean days, if not weeks, of delays in having the customer back in his or her vehicle. To mitigate these types of situations, there often is communication between the Parts Representative and the Service Technician to make sure the order is correct. For dealerships using electronic DMS systems for assigning parts in inventory to Repair Orders, the average wait time from the request being entered into the DMS until the part in inventory is identified is less than one minute; however, there could be as many as 50 parts required on an R.O. One of the responsibilities of the backroom Parts Representative is to perform daily bin counts. The goal is to have every parts bin hand-counted once every 6 months. To achieve this goal, a specific number of bins need to be inventoried on a daily basis.

Another role as Parts Representative is the Retail Counter Representative who has the same access to the DMS inventory system but handles walk-in retail customers and customers on the telephone. There could be 100 calls or visits per day at the dealership Parts Department Retail counter. If the Parts Representative serving the Service Bays were required to answer these calls and visits, it would create a conflict of priorities with the dealership customers waiting

for their vehicles to be serviced. A software innovation has been developed that allows the technician to make a request for a part, check the inventory level of that part to determine if the part is available, and reserve the part for the technician's R.O. The Parts Representative can pull the part in a non-emergency way and distribute the part to the technician. Sometimes a Parts Representative may need to check with the technician to ensure that the requested part that is pictured in the computer is the same as the part in the customer's vehicle. To achieve this comparison, the Parts Representative visits the Service Bay area with a portable computer that links to the DMS inventory system. The technician will point out the old part in the vehicle and the Parts Representative can then ensure that the right part will be ordered.

Some of the best Parts Representatives come from Service Technicians who have worked as a technician for 15-20 years. At some point, technician's skills begin to wane because of age but the knowledge they possess on vehicles is invaluable to serving as a Parts Representative, especially working the Service Bay window. Another good candidate for the Parts Representative position is one who works on his or her own vehicles. For the Retail Counter, good candidates are those who are passionate about the brand with some sales experience, members of the local car club, and influential persons in the community for drawing in new customers to the dealership. Even community college graduates with no experience but who would love to work in parts can serve in the shipping and receiving department, as a driver in the supply logistics area, or a parts runner. ), and local parts store manager (assistant parts manager only because they have not learned the culture of the dealership yet to be observed to see if they will fit into the culture).

How many employees should be hired for the Parts Department? There is no hard rule but key measurement criteria that will be discussed in the next chapter of this handbook include the revenues per employee, desired levels of Repair Order turnaround, the length of time needed to conduct physical inventories, the time required for daily bin counts, the proximity of the inventory (inside the Parts Department vs. located in an auxiliary location), etc.

The final roles discussed in this chapter are those of the Parts Department management team. The Parts Department Manager's success depends upon having the right number and quality of employees on staff, well-trained, who communicate effectively, are highly motivated, etc. The primary responsibilities of the Parts Manager are supervising the staff during the day

and sometimes filling in for the other Parts Department employees as needed to pick up any slack in production. First thing in the morning, a couple of hours are spent by the Parts Manager going over reports from the day before to see what is happening with the fulfilled orders and those orders carried over because of missing parts. The key report is the Work-In-Progress Report that indicates how much of the parts inventory value being billed to the Service Department has not been completed from the previous day. The WIP Report may be checked in the middle of the day also. The Parts Manager will then meet with the managers from other departments to discuss any problem areas that affect their departments. In addition to the General Parts Manager, there may be an Assistant Manager if the Parts Department is staffed with more than 10 employees.

**CHAPTER 5 ASSIGNMENT:  
Parts Operations**

To determine the date that each report is due, refer to the Course Chart in Blackboard. The report is due at 11:59 p.m., Eastern time. Each report should be written to sufficiently cover each topic but not less than 500 words. You will use your class notes, any materials provided by the instructor group, and your own research online (e.g., Cox Auto, NADA, etc.) in the public domain.

In this report, students will describe how a Parts Department functions within an automotive dealership by answering the following questions based on what was learned from the textbook and other research:

1. Describe the three (3) categories of customers of a dealership's Parts Department and what their needs are to be filled.
2. All customers are important, but what is the prioritization order of the three customer categories to the Parts Department?
3. Describe the Inbound Supply Logistics process for the dealership Parts Department receiving inventory.
4. Describe the Outbound Supply Logistics process of the dealership Parts Department delivering products to its customers

## CHAPTER 6: COLLISION CENTER

### Overview

As stated in Chapter 1 of this handbook, most dealerships do not have a Collision Center (body shop) as part of their Fixed Operations for multiple reasons: (a) low profit margins (average of 10%), (b) insurance companies dictating the relationship directly with customers in a secondary relationship role, (c) the unique skill sets needed by Collision Center technicians, etc. The reasons for a dealership to have a Collision Center are (a) driving more sales for the Parts Department, (b) being in a position for a vehicle sale if the damaged vehicle is totaled, and (c) providing full service for the dealerships' customer base. In this chapter, the details of how a Collision Center operates and key metrics will be discussed.

### Work Flow Process

The obvious purpose of a Collision Center is to repair body damages to vehicles after being involved in an accident that requires major repairs. The process begins with the vehicle owner usually contacting his or her vehicle insurance company or contacting the vehicle insurance company of the driver who is at fault in the accident to begin the claim process. With accidents involving wildlife, a comprehensive rider on the insurance policy is involved. Filing with insurance companies accounts for over 96% of all Collision Center transactions. Another 1-2% of the transactions occur when a private party pays. In many of these few cases, the vehicle owner may wish to avoid filing a claim and is willing to pay cash to avoid increased premiums, or a policy being cancelled, or avoiding an entry into the vehicle's CarFAX history for future resale purposes. The other 1-2% of Collision Center transactions are to repair dealership vehicles that may have been damaged in a storm, or during a test drive, etc.

The insurance company will arrange for a rental vehicle to be used by the vehicle owner during the repair time based on the policy provisions held by the owner. Owners without rental vehicle coverage will pay for their own rental vehicle or make other arrangements for transportation while their vehicle is being repaired. The insurance company will require the owner to obtain estimates from three different body shop facilities pre-approved by the insurance company for having such repairs completed on the vehicle. It is worth noting that an estimate is



not a guarantee of final costs because there could be hidden damages, to be discussed in more detail below.

The wrecked vehicle will be moved, if necessary, from where it was towed after the accident to the Collision Center that has been approved to perform the work order. Upon arrival at the Collision Center, a Center employee will take photos of the vehicle to be provided to the insurance company or owner as documentation of the damages. A Center technician or manager will write an initial estimate and send it to the insurance company or vehicle owner of the work that is expected to be performed. After the party that will be responsible for payment of the work accepts the initial estimate, the vehicle is thoroughly inspected by a Center technician. If any previously unknown problems are discovered in the thorough inspection, a supplemental order will be added to the original estimate. The updated estimate with the supplemental order will be sent to the responsible party for payment of the repairs. If the final estimate is accepted by the responsible party, work can begin on the damaged vehicle.

The parts that require repairs or replacement will be removed from the vehicle. The replacement parts will be ordered from a Parts Department of a dealership or from another parts supplier. Painting of damaged exterior panels is performed when the panels are disassembled from the main body of the vehicle with all connecting sections disassembled and placed together to blend the colors. When all replacement parts are in inventory at the Collision Center, they are assembled on the vehicle. Approximately 90% of the time, the parts are replaced and not repaired for the same economic reasons discussed in a previous chapter. Repairing a part takes too much time for a trained technician to complete the task and, even then, the repaired part may not be as good as just replacing a part rebuilt or brand new from the manufacturer. Whether to replace or repair the broken part is determined by computer diagnostics in most of today's vehicles.

After all of the work has been completed on the vehicle, it is inspected by a technician to ensure that all parts are working properly, even those not involved in replacement. The owner is notified throughout the repair process of the ongoing status of the repairs. When the vehicle is ready to be picked up, the owner is notified. When the owner arrives at the Collision Center, the Estimator will walk around the vehicle with the owner to confirm that the repairs have been completed to the owner's satisfaction. The owner will sign the release form that authorizes the

Collision Center to notify the insurance company to release the funds for the repair order in agreement with the final estimate amount. In the cases where the customer will be making the payment, the signed release form acknowledges the amount to be paid by the customer. If there were costs above the final estimate, the customer usually must bear those costs in order to receive the vehicle. The time between when a vehicle owner drops off the vehicle for repairs and picks up the vehicle is called the *cycle time*.

### **Operations Considerations**

Many dealerships that have Collision Centers choose to co-locate them with the other dealership departments for multiple reasons: (a) close proximity to the Parts Department, (b) close proximity to the New and Pre-Owned Sales Departments, (c) ready access to a rental car company or loaner vehicle fleet used for Service Department purposes, and (d) more economies of scale by using the same real estate vs. a separate lot and buildings in a remote location. In addition, some Collision Centers are used as PDI (Pre-Delivery Inspection) Centers where vehicles for a multi-site dealership are delivered to this site, inspected, prepped and delivered to the receiving dealership.

The Collision Center has the largest exposure to environmental concerns out of all departments within the automotive industry. There are many regulations on just the paint aspect of the work, not to mention the enormous investment required for the equipment that protects the Collision Center work from surpassing environmental regulations. In the paint booth, no gases can be allowed to escape into the atmosphere. To be a Manufacturer-certified Collision Center, the right tools and equipment need to meet both environmental considerations and meet the Manufacturer's standards for repair.

Besides dealerships, who offers Collision Centers? There are various forms of non-dealership Collision Centers. Caliber Collision is a large franchised organization in addition to Maaco Paint, and there are many privately owned, individual shops. Local shops appeal to customers of older vehicles while certified Manufacturer shops appeal to owners of recent model year vehicles. When Manufacturers certify a Collision Center initially, that certification is permanent unless there are ongoing issues that would cause the Manufacturer to de-certify the Collision Center. However, Manufacturers will inspect the final work of Collision Centers when changes have been made to the vehicle model design. For example, BMW I series cars have

microfibers in the carpet requiring different tools than for previous models. Some of the independent shops are specialists like the Porsche shop in Charlotte where the owner restores old Porsches and customers drop off their classic vehicles, pay \$50,000 and tell the owner to let them know if he needs more money to complete the restoration. The turnaround time for completing the restoration could be 6 months to a year or more. Dealerships do not want that kind of body repair business because they prefer high volume work in short time frames.

### **Staffing Considerations / Job Functions**

The primary reason there are few Collision Centers is the difficulty in finding good people to staff them. Collision Center work requires technicians with unique skillsets and there are few technicians in the industry with those skillsets. Some have described the technicians at Collision Centers as “artists” because of the demand to restore the vehicle to its original appearance. Based on the law of supply and demand, Collision Center technicians can be paid more than technicians in Service Departments, and often Collision Center technicians move from Center to Center to acquire more pay. A Master Technician will receive around 70% of what the insurance company will pay the body shop for the work. The remainder goes into supplies and parts and 10% to profit. Apprentices receive about 30% of what is paid by insurance companies or \$35,000-\$45,000 per year. Master technicians make more than twice that annual pay.

Part of the shortage of qualified Collision Center technicians is due to individual small shops transitioning into today’s model of large dealership-based Centers. In the small shops, technicians could work when they wanted, wear what they wanted, have the hair length they wanted, etc. In the large dealership-based Centers, technicians wear uniforms and work assigned business hours. The challenge in staffing body shops is significant and a reason for many to avoid having a Collision Center. Painters, especially, are in high demand and low supply. To offset the shortage, dealerships often try to locate skilled painters and body technicians at local community colleges. Body Shops typically use manual painting vs. automated painting as done in the original manufacturing process because there are not enough paint jobs in a Collision Center to justify the enormous costs of an automated painting setup.

## **Performance Metrics**

The primary performance metric for Collision Centers is to be fast and accurate with the repairs because whoever is paying the bill, usually the insurance company, wants to minimize the number of days necessary to pay for the rental vehicle used by the end customers while their personal vehicles are being repaired. Just to give a perspective, State Farm Insurance pays an average of \$1 million per day in rental vehicles for its clients. Considerations of a job well done: safety within the Collision Center, how well the paint matches between old and new panels, the final fit and finish appearing as if the vehicle never was in an accident, and all done in a timely manner. Therefore, Estimators need to take sufficient time to come up with as accurate an estimate as possible. The customer and the insurance company will be putting time pressure on completing the estimate quickly. Service technicians will perform any engine work; the body technician will perform any work required on the frame, and the painter does the finish work. All technicians will work together as a team to communicate throughout the entire Repair Order and all should have the same high expectation of quality work for the final product to be acceptable.

## **Relationships with Insurance Companies**

As stated previously, relationships by the Collision Center with Insurance Companies are critical because 96% of all business coming to the Center is directed by the responsible insurance company. To maintain an effective and efficient process with the goal of completing the work quickly and with quality, insurance companies have lists of pre-approved shops for different makes and models of cars where customers can get immediate approval. The customer can choose to go with another shop but, in doing so, risks resistance from the insurance company and potential delays in having the vehicle repaired if the chosen shop does not meet the insurance company's criteria. If the Collision Center has both a preferred relationship with customers so that they request the dealership's Collision Center, and a pre-approved relationship with the insurance companies, that would be the best position to be in for sustained level of business.

Insurance company criteria for selecting shops to recommend include (a) cycle time to complete repairs, (b) total costs compared to standard costs for specific work, (c) Customer Satisfaction scores, etc. Typical cycle time to complete most repairs from the time the estimate is approved until the customer drives the repaired vehicle off the lot is 2-3 weeks. Service repair rates at body shops are around \$50/hour while the Service Dept. is \$110/hour. Therefore, the

Parts Department is where the profitability is for the dealership. Having access to reconditioned parts that are certified by the Manufacturer helps to lower costs and can give dealership-based Collision Centers a more favorable status with insurance companies. The goal is for dealership Collision Centers to become a certified Direct Repair Program (DRP) Center with the insurance company. If the Collision Center has done well before on behalf of the insurance company, usually the approval is instantaneous, and work can begin.

**CHAPTER 6 ASSIGNMENT:  
Collision Center**

To determine the date that each report is due, refer to the Course Chart in Blackboard. The report is due at 11:59 p.m., Eastern time. Each report should be written to sufficiently cover each topic but not less than 500 words. You will use your class notes, any materials provided by the instructor group, and your own research online (e.g., Cox Auto, NADA, etc.) in the public domain.

In this report, students will describe how a Collision Center (Body Shop) functions within an automotive dealership by answering the following questions based on what was learned from the textbook and other research:

1. Explain why many dealerships do not have a Collision Center as part of their fixed operations.
2. Explain why the other dealerships do choose to own a Collision Center.
3. Explain what criteria insurance companies use to recommend specific Collision Centers to their clientele.
4. Describe the process from the moment a vehicle is involved in an accident to the moment when the customer drives off the Collision Center lot with a fully repaired vehicle.

## CHAPTER 7: SUPPORT DEPARTMENT RELATIONSHIPS

### Overview

In this final chapter, it is good to review how the various departments of the automotive dealership specific to the Fixed Operations' departments must coordinate their activities so that the entire dealership benefits from an effectiveness (achieving the dealership's goals and mission) and from an efficiency (achieving the goals with the least amount of resources required) perspectives that will lead to the dealership growing and prospering into the future. Primarily, the relationships that will be covered in this brief chapter are as follows, in no particular order:

- Parts and Service
- Parts and Collision
- Service and Pre-Owned Sales
- Service and Loaner Fleet
- Service and Business Development Center (BDC)
- Fixed Operations and Accounting Department
- Fixed Operations and Finance Department

### Parts and Service

The relationship between the Parts Department and the Service Department have been discussed at some length previously in this handbook. It is important to review the essence of that relationship at this point to ensure that students remember these key elements when working at an automotive dealership in their careers. The Parts Department typically is the most profitable department in the dealership because the parts are sold often at full retail price and the Parts Department requires fewer employees to manage effectively and efficiently. The Service Department relies significantly on the Parts Department to provide the needed items to complete the Repair Orders so that the Technicians can move on to the next Repair Order in a timely and profitable manner for the Technician.

To achieve optimum coordination between the two departments involves (a) effective 2-way communications, (b) doing a task once accurately, and (c) making collaborative decisions when following policies does not provide solutions of problems. Effective 2-way

communications involve the Service Department accurately diagnosing the precise parts that are needed for the work to be completed on the vehicle year and model related to the Repair Order. Conversely, the Parts Department needs to communicate the availability of the needed parts and the expected delivery date and time when parts are not already in inventory. Often these communications occur through accurate data entry into the Dealership Management System (DMS). Sometimes the communications need to be in person. When Service Technicians “borrow” a part from the Parts Department to determine which part is needed, the Parts Department needs to record that “loan transaction” and the Service Technician needs to either return the part for check-in purposes or document in the DMS the installment of the part in the vehicle on the Repair Order.

Effective communications play a significant role in performing tasks accurately the first time and not resulting in double work that is costly both in terms of expense and in terms of customer dissatisfaction. While the Service Technician bears some responsibility to request the correct part, the primary responsibility falls on the Parts Department to order and stock the correct parts. This can be difficult given the many unique parts that vary by manufacturer, vehicle model, year, colors, functions, etc. Just one part number that is mistyped can result in delays of reordering and receiving the correct part and the extra expense of handling the unneeded part. Remember that Manufacturers do not like to receive return parts and the methods for returning parts is limited. Disposing of the incorrect part can be costly to the dealership.

The best method to run any organization is to establish policies and procedures for as many situations that can occur within the organization and to train employees on those policies and procedures that have proven to lead to effective and efficient operations. However, not every situation can be anticipated. Life always presents interesting twists. Most of these unique situations can be handled by skilled employees and move on with the routine tasks. In those unique situations that involve two departments like Parts and Service, there should be some communications as to what the final successful solution was so that the information could be available in the future if a similar situation occurs. If the situation occurs often enough, then the solution needs to become part of the policies and procedures documentation of the dealership.



## **Parts and Collision**

The relationships between the Parts Department and the Collision Center are similar to those of the Parts and Service Departments though the actual parts being ordered are typically different. One key difference is that most of the parts needed in a body shop repair order are not kept in standard inventory and thus those parts need to be ordered, typically from the Manufacturer. There will be longer delays in receiving the parts which will require more communications by the Parts Department with the Collision Center on expected delivery dates and times. Remember that, though the timeframe in repairing damaged vehicles is longer than the typical timeframe associated with maintenance and minor repair orders, completing the work as soon as possible is a key metric in determining the prospect of future sales. In the case of Service Departments, the time pressure is from dealership customers, whereas in the case of body shop work, the time pressure is from the insurance companies.

The magnitude of delays increases if the part that was ordered is incorrect or does not fit the body of the damaged vehicle. Therefore, the requirement by the Collision Center employee to be specific in measurements, accuracy in paint colors, etc. intensifies. It probably is best if more than one Collision Center employee inspects the vehicle and confirms the accuracy of the order request and that the Parts Department employees double-check the accuracy on their end as well.

## **Service and Pre-Owned Sales**

The primary relationship between the Service Department and the Pre-Owned Sales Department is when a customer trades in a vehicle for the new one being purchased. If the Pre-Owned Sales Manager determines that the trade-in vehicle will be resold from its inventory vs. sold wholesale to another dealership or through an auction, that will require the Service Department to perform whatever repairs that are needed to bring the vehicle up to specifications for the sale. If the vehicle is eligible for being sold as a Certified Pre-Owned (CPO) Vehicle under the Manufacturer's warranty, additional services may be required (e.g., replace the tires, etc.) that might not be necessary if the vehicle is not eligible for CPO status. Even if the vehicle will be sold at wholesale and thus not become part of the dealership's inventory, there may be repairs that are needed to bring the vehicle up to a drivability level as a minimum level.

These requirements place time pressure on the Service Department that is managing its regular service appointment, walk-in appointments, work on new vehicles just received on the lot for sale, preparing new vehicles that were sold for the customer to drive off the lot, warranty work, manufacturer recall work, and mechanical repairs to vehicles in the Collision Center, if owned by the dealership. The challenge for repair work on vehicles being added to the Pre-Owned vehicle inventory is that the first 21 days after receiving the vehicle and paying cash for it are the critical days for selling the vehicle due to rapid depreciation on the value of used vehicles. The number of days the vehicle is not available for sale waiting for the Service Department to complete its work reduces the opportunity for a profitable sale. The solution used often by dealerships is to move up the priority of completing repair work on any pre-owned vehicle where a customer is interested in purchasing it. On the first day that a pre-owned vehicle is accepted in a trade, photos are taken, and the dealership's website is updated to include the newly-added vehicle.

To avoid overwhelming the capacity of the Service Department requires ongoing communications between the Pre-Owned Sales Manager and the Service Department Manager. If the Service Department is inundated with work, the Pre-Owned Sales Manager may need to sell a vehicle wholesale instead of retail or the Service Manager may need to obtain authorization to extend the work hours of some technicians to meet the extra demand temporarily. The Service Manager needs to communicate in the regularly-scheduled meetings of the dealership management team the current status of work demand so that other managers can adjust their current procedures before a situation arises that could create a problem for the dealership at large.

### **Service and Loaner Fleet**

As stated previously, not all dealerships provide loaner vehicles for their service customers. It is expected by the Manufacturers of Highline vehicles that franchised dealerships will include a loaner fleet. Some Import and Domestic dealerships have begun offering loaner fleets as a competitive advantage. Other dealerships provide onsite rental car companies (e.g., Enterprise) for customers to rent their own vehicles for repairs that will take a few days to complete and where customers have no alternative means of transportation. The goal for all

scenarios is where the Service Department completes the Repair Orders as quickly as possible so that the dealership is paid, and the loaner vehicles are returned in a timely manner.

One significant contributor to a successful relationship between the Service Department and the Loaner Fleet management team is to communicate effectively and regularly the status of the Repair Order. Initially, a best estimate of when the Repair Order will be completed provides an indication of which loaner vehicle is available during that specific start and end date and time to be used for the customer of that specific Repair Order. Imagine the puzzle board of the BMW dealership that has 144 loaner vehicles and an employee that manages the distribution of those vehicles. If all goes according to plan, the process has a certain level of complexity. However, how often do plans go as expected? The results can be a much more complicated process of scheduling the loaner fleet availability.

Some of the problems in availability of a loaner vehicle is attributed to the customer who decides to delay picking up his or her vehicle after being notified by the Service Department that the repaired vehicle is ready. This happens often in the Highline dealership when there is no sense of urgency on the part of the customer to return the newer model loaner vehicle for his or her older owned vehicle. Some dealerships begin charging a daily rate for customers who abuse the system in this way. On the Service Department end, it requires maintaining status reports to the Loaner Fleet Manager of any changes in status if a part has not been delivered as planned or a technician requires more time to complete the Repair Order. Obviously, the Service Center needs to inform the Fleet Manager as soon as possible when the expected completion of the Repair Order is firmly established so that the Fleet Manager can be in contact with the customer to return the loaner vehicle.

### **Service and Business Development Center (BDC)**

Not all dealerships use a Business Development Center (BDC) to manage service appointments. For those dealerships that do not use a BDC, the function of receiving calls from customers asking for service appointments is handled internally by either dedicated inbound-call employees or by the Service Advisors. Many dealerships avoid the Service Advisor option because it detracts from the personal contact with customers who are in the Service Department when the Advisor must interrupt the conversation by receiving a telephone call. Whatever method is used, the same criteria are needed to ensure the service appointment process is handled

in an effective (maximizing the service appointments that can be scheduled) and an efficient (completing the service appointment call as quickly as possible) manner.

The two key responsibilities in this relationship is to ensure that the Service Department accurately informs the appointment takers of the available time slots for the different levels of service required (the Supply), and the call center accurately informs the Service Department of how many service appointments have been scheduled into the future (the Demand). In any service-related operations, regardless of industry, Time is the number one enemy. If a moment in time passes and there is an idle seat on a mode of transportation, or a berth on a cruise ship, or an empty bay in the Service Department that no customer paid to occupy, that is sales revenue lost forever and cannot be recovered.

There is a limit at which customers are willing to wait for their vehicles to be serviced before they choose a different repair shop. The dealership needs to ensure that the service dates are not beyond its customers' expectations. Therefore, the Service Department, armed with the information provided by the BDC or other call center organization as to the current demand on service appointment dates, can adjust by adding service hours to the department, adding technicians to the schedule, etc. The Service Department can notify the BDC or other call center organization when additional service appointment opportunities have been made available so that more appointments can be made.

### **Fixed Operations and Accounting Department**

This section is not limited to just Parts, Service, or Collision Center but applies to all three departments within the Fixed Operations of the dealership. All financial transactions conducted by the various departments of the dealership flow through the Accounting Department. According to a profession accounting firm, in the automotive dealership industry, the Accounting function is second only to a hospital accounting system in its complexity. Add to that fact that automotive dealerships operate on 12 individual sales cycles within a calendar year, the complexity intensifies with time pressures. The Accounting Department is the final stop on the dealership being paid for products sold or services rendered. The Accounting Department produces valuable financial reports that managers of each department use to measure their performance.

To maintain a successful relationship between the individual Fixed Operations Department and the Accounting Department requires that detailed information associated with any business transaction within the department be reported accurately and quickly. These functions usually are produced through the Dealership Management System (DMS). One of the benefits of the DMS is the capability to discover data entry errors so that the input is correct the first time it is submitted. The data that are entered can be viewed by all relevant departments once the transaction is in the system. The weak link that is controllable by each employee with responsibility to perform data entry into the DMS is to not delay in doing so. If the employee has the information that is needed to be entered and is distracted with another task before entering it, there is potential for missing transactional information requiring excessive manpower to locate it and complete the transactions.

In the same way, the Accounting Department needs to ensure accuracy of data and to produce timely reports for managers. When discrepancies occur, the Accounting Department needs to work with managers to resolve them.

### **Fixed Operations and Finance Department**

The relationship between the Finance Department of the dealership and any of the Fixed Operations is on an occasional vs. a regular basis. The Finance Department's primary role is to ensure that the dealership's cash flow is not restricted and that the assets of the dealership are producing desired returns on the investment. The Finance Department provides the initial capital funding for the departments of the dealership when it opens. This capital funding includes initial inventories, furniture and fixtures, and initial working capital until the department can become self-sufficient from the sales generated by the department (usually 45-60 days). On occasions, when some departments exhaust cash reserves and are thus in financial crisis, the Finance Department may be called upon to advance additional capital funding on an interest-bearing loan basis to the imperiled department for a limited time to be restored to financial health.

It is incumbent upon managers within the various Fixed Operations departments to manage the resources of the department in a manner that does not reach a crisis situation that needs the extra assistance of the Finance Department to rescue it. This effort can be achieved by maintaining an operation where customers continue to want to bring their business and thus sales are healthy and growing, by controlling labor and inventory costs, and by reducing waste or

write-offs of unnecessary parts. In addition, Fixed Operations managers need to be vigilant on studying financial reports produced by the Accounting Department and looking for areas where problems could be arising. Early detection and correction can save major embarrassment and emergency responses later. Fixed Operations managers should seek assistance and/or advice when they need help rather than to hide or delay because of fear or pride. Everyone in the dealership is on the same team, and the team can only be as strong as its weakest member.

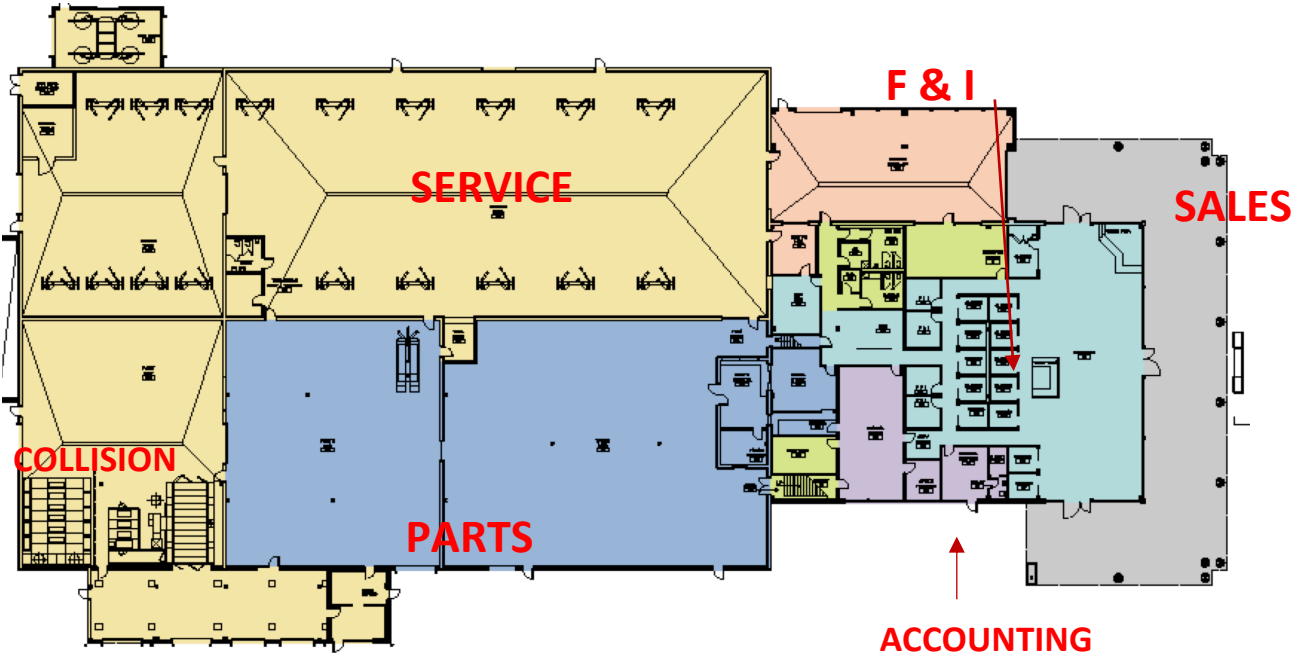
### **CHAPTER 7 ASSIGNMENT: Support Department Relationships**

To determine the date that each report is due, refer to the Course Chart in Blackboard. The report is due at 11:59 p.m., Eastern time. Each report should be written to sufficiently cover each topic but not less than 500 words. You will use your class notes, any materials provided by the instructor group, and your own research online (e.g., Cox Auto, NADA, etc.) in the public domain.

In this report, students will describe how the various fixed operational departments work with other departments of an automotive dealership by answering the following questions based on what was learned from the textbook and other research:

- Describe the relationship between the Parts Department and the Service Department.
- Describe the relationship between the Parts Department and the Collision Center.
- Describe the relationship between the Service Department and the Pre-Owned Vehicle Sales Department.
- Describe the relationship between the Service Department and the Loaner Fleet Manager.
- Describe the relationship between the Accounting Department and the Service Department.

**APPENDIX: DEALERSHIP LAYOUT EXAMPLE**





## **NADA DEALERSHIP MANAGEMENT GUIDES FIXED OPERATIONS**

### **Service Department:**

- SP24: A Dealer Guide to the Three Ps of Effective Service Management
- SP25: Handling the Morning Service Rush
- SP20: Recruiting and Developing Technicians
- SP3: Repair Order Analysis
- SP22: Service and Parts Communication
- SP29: Service Department Performance Analysis
- SP13: Technician Retention
- SP10: Effective Service Advisor

### **Parts Department:**

- SP21: A Dealer Guide to Parts Inventory Management
- SP2: Improving Parts Inventory Efficiency
- SP7: Parts Checkup: Performance Level Analysis
- SP5: Parts Management and Profitability
- SP30: Top Five Ideas for Managing Parts Department Inventory Performance

### **Collision Center:**

- The Secrets to Body Shop Profits: The Dealer Handbook