



Fixed Operations Digest

February, 2015

In this Issue

- Larry's Ramblings...
- Quotes From Dr. Weiss
- Prescriptions without diagnosis is Malpractice
- Labor Sales Required to Achieve 20% Net Profit

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Larry's Ramblings

I have just returned from the annual NADA Dealer Convention in San Francisco (the most expensive city in America). NADA is a great place to recharge your batteries, compare notes with other dealers and Managers find out about the latest innovations in Automotive Retailing and Service. I want to thank everyone who stopped by our booth to meet with me and Gary. One thing that Gary and I both live for is hearing success stories from our dealer clients. It was great hearing about all the successes our clients had last year in their Service, Parts and Collision departments. We were trying to keep score of how much additional net profit our customers made in 2014 over 2013, but we lost count at 15 million.

To all of those who stopped by our booth and visited with us, Gary and I want to say THANK YOU! We appreciate your business and we value your friendship.

Also, at NADA I observed a lot of "MIRACLE SEEKERS", Dealers who are looking for that magical solution that will solve all their problems. And, of course, the NADA convention is chock full of "Miracle Makers", companies whose product will cure every ill your dealership could ever imagine.

Notable Quote from My Mentor:

We want to attract and retain good customers, yet we hire and tolerate employees with no enthusiasm or service ethic.

Dr. Alan Weiss PHD

NOTE: The 2015 100 R/O Survey is now available for a free copy send an Email to Larry@edwardsconsult.com

Writing Prescriptions "before" you Diagnose the patient is MALPRACTICE

When you have a problem be sure to diagnose the root causes of the problem before you start writing prescriptions. Recently I had a dealer call me and wanted me to come to his dealership and train his service consultants how to sell. "Why do you believe your service consultants need sales training?" I asked.

The dealer responded, "when I asked my service manager why he could not generate a net profit he informed me that his service consultants were lacking in sales skills."

I asked the dealer to send me copies of all the sales tools that his service manager has made available to his Consultants to assist them with their selling job. Next, the service manager called and asked me specifically what I was looking for? Service Menus, Pricing Guides, Merchandising Displays, Selling Guides, Write up process guides etc. Here is what the manager told me;

1. We do not have a service menu...we have a quick lube operation and we just send all the "Oil Changes" over there.
2. Our DMS has a pricing guide program but we do not use it. Why do you not use it? Answer; the prices are not right! (Isn't this what we have a manager for...to establish, then maintain our prices?)
3. Merchandising displays? Yes, you know those visual displays we put in the service drive and customers lounge to encourage customers to purchase additional goods and services once they arrive at our shop. "We have a tire display in our service drive." Is this the only merchandising display you have? "Yes" Let me ask you, do you have prices on this tire display? "No."

4. Please tell me about your service selling guides? "What is that?" It is a list of additional items that you recommend your consultants add to a job. For example; when you sell a water pump, don't you want them to also recommend new hoses, hose clamps and antifreeze? Or when you sell a brake job don't you want them to recommend new brake hoses, spring kit, bearing re-pack and a brake system fluid exchange? Answer; "my guys are all experienced, they know what to recommend!"

In this case, it is not the service consultants who need training. The service manager has not provided his writers with the tools they need to sell. It is human nature to look outward for solutions to your problems. Too often dealers and managers look for new systems to solve problems. Before you invest in a new system, be sure you employ the right processes and provide your employees with the tools they need to do their job.

Most of the time when I ask a manager why their department is performing below expectations they almost always blame the problem on outside forces. Forces that are beyond their control. When you encounter problems in your business, before you write a prescription, please make sure you have accurately diagnosed the cause of the problem.

From the Archives

Is your Service or Collision department generating enough labor sales each month to produce a 20% net profit on labor? The formula for determining labor sales needed to produce a 20% net profit to sales is the same for both departments.

Why 20% net to sales? We know from experience that this is what top producing service and collision managers are capable of producing. In fact, we have several dealer clients whose managers are producing over 25% net to labor sales.

Following is the formula we use to calculate this.

Labor Sales Required to Produce a Profit Formula;

Average month's gross profit %	_____
Less 10 Points (Desired Net profit on Labor)	- _____
= Divisor	_____

Average Months Expenses	_____
Divided by your Divisor	÷ _____
= Labor Sales Required to Produce a 10% Net Profit	_____

Once you know how many labor dollars you need to produce a profit, you need to determine if you have enough technicians to produce sufficient billable hours each month to achieve the desired profits. Following is the formula that will help you determine how many technicians you need to produce a 10% net operating profit.

Technicians Needed To Produce Desired Net Profit

Formula: Part 1.

$$\begin{array}{r}
 \text{Individual technician hours worked each day} \\
 \text{Times (x) 90\% Proficiency} \\
 = \text{Technician labor hours available to sell each day} \\
 \text{Times (x) 21 (average work day's month)} \\
 = \text{Individual technician labor hours available to sell per month}
 \end{array}
 \begin{array}{r}
 \underline{\hspace{1cm}} \\
 \times \underline{\hspace{1cm}} \\
 \hline
 = \underline{\hspace{1cm}} \\
 \times 21 \\
 \hline
 \underline{\hspace{1cm}}
 \end{array}$$

Formula Part 2.

$$\begin{array}{r}
 \text{Labor sales required to produce a 10\% net profit} \\
 \text{Divided by current Overall Effective Labor Rate} \\
 = \text{Monthly hours needed to produce a 20\% net profit}
 \end{array}
 \begin{array}{r}
 \underline{\hspace{1cm}} \\
 \div \underline{\hspace{1cm}} \\
 \hline
 \underline{\hspace{1cm}}
 \end{array}$$

Formula Part 3.

$$\begin{array}{r}
 \text{Monthly hours needed to produce a 20\% net profit} \\
 \text{Divided by individual technician labor hours available to sell} \\
 \text{Each month} \\
 = \text{Number of technicians needed to produce a 20\% net profit}
 \end{array}
 \begin{array}{r}
 \underline{\hspace{1cm}} \\
 \div \underline{\hspace{1cm}} \\
 \hline
 \underline{\hspace{1cm}}
 \end{array}$$

Note; Technician Proficiency = hours flagged divided by hours available to flag

My philosophy is "water always finds its own level." By this I mean, your current employees are, for the most part, working at a pace that suits them, not a pace that suits you. When you add additional technicians it forces your service consultants to sell more. Or in most cases simply take in more work. It also forces your technicians to do a better job of looking for additional potential sales. Think about what happens now. If you will check, the days that you sell the most per repair order always occurs on your slowest days. Hiring additional technicians has the same effect as a slow day. It forces everyone to do a better job with each sale opportunity!

Want more Profit in your Fixed Operations...
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Upcoming Schedule:

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- Parts Manager College Course March 17-19, 2015 Charlotte, NC click here to [Enroll Today](#)
- Service Managers College Course April 21 - 23, 2015 Charlotte, NC click here to [Enroll Now](#)

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