



**Fixed Operations Digest** **April, 2016**

**In this issue**

- **Goals the Cornerstone of Success**
- **Developing Advisors and Estimator Pay Plans**
- **Upcoming Classes**



**Larry's Ramblings**

Everything I read these days about the Auto Industry has dire warnings that 2016 is not going to be a good year. The "experts" are warning that the industry is due for a downturn and that everyone should plan for the worst. Some companies have already reduced headcount and others are reducing inventories.

Here are my predictions for the remainder of 2016 - **Professionally** managed dealerships will have another outstanding year!

*"The will to win. the desire to succeed, the urge to reach your full potential... these are the keys that will unlock the personal excellence." - Confucius*

[See What Our Customers Have to Say](#)

**Goals The Cornerstone of Success**

While teaching my Service Manager College Course last month, I was surprised to discover that only one Manager in the class posted the Service Departments results for his employees to see. Further, not one Manager in the class actually set specific goals for an employee in their department.

**Consider this Question: Would you get on an airplane if you didn't know where it was going to land?**

**Goals** are vital for motivating employees and monitoring their performance. Goals are needed to:

1. Establish **DIRECTION** for on-going activities.
2. Identify **EXPECTED** results.
3. Improved **TEAMWORK** through a common sense of **PURPOSE**.
4. Heighten performance levels by setting **TARGETS** to be achieved.

Goals provide the **MOTIVATION** and **DIRECTION** necessary for growth and success in important areas of almost every business.

**For example:**

- \* If you or your dealership never sets goals for direction, how will your department know where it is headed?
- \* If no goals exist for progress, how does the department know where it is?
- \* If there are no goals for achievement, how will the employees know when they have arrived?

How can you expect your employees to be "High Performers" if you do not establish minimum performance standards for each of your departments?

Below, I have included the Edwards & Associates Goals for each Fixed Operation Department. Please feel free to copy these

that when your department hits all of these goals you will be managing a "high performance" department.

Once you establish your Departments Goals the next step is to share your goals with every employee who reports to you. One employee knows, and more importantly understands exactly what is expected of them daily, weekly and monthly you must not post results for every employee to see. A scoreboard that is highly visible for every employee to see is a critical success element for a high performance organization. Look at the Sales Department, they post every sale that is made on a large board for all the employees to see. Come to think of it, the only organizations I can think of that do not post results are T-Ball Teams and "most" Service Departments.

### E&A Service Department Performance Goals

Item	E&A Guide
Sales Goals	
Sales Produce sufficient Labor Required to generate 20% Net	20%
Produce sufficient Labor Hours Required to generate 20% Net	20%
Customer Pay Labor % of Total Labor Sales	70%
Repair Orders Per Consultant Per Day (Total)	12 Max
Average Parts & Labor Sold per C.P. R/O Written (Includes LOF's)	1.4
Overall Effective Labor Rate	Within \$5.00 (+) or (-) of Warranty Rate
C.P. Parts Sales to Labor Sales	85% PLUS
Average Monthly Sales Per Consultant	\$75,000 to \$100,000
Customer Pay Labor Sales Mix	
Competitive Work	10% to 20%
Maintenance Work	30% to 60%
Repair Work	30% to 50%
# of Consultants to Technicians (Depending on Production System)	1 for every 3 - 5 Technicians
Gross Profit	
Labor Sales	
Customer Pay	75%
Warranty	75%
Internal	75%
Total Labor Gross	75%
Parts Gross on C.P. Repair Orders	45%
Customer Pay Sublet Sales	25%
Expenses as % of Sales	
Cost of Labor	30%
Salaries & Wages as % of Sales	25%
Variable & Semi-Fixed Expenses as % of Sales	15%
Fixed Expenses as % of Sales	10%
Net Profit as % of Sales	<b>20%</b>
Other Items	
Technician Proficiency (Flagged hours -divided- by Clock hours available to work)	100% Domestic 120% Import
Facility Utilization	100%
Customer Retention	70% PLUS
Fixed Absorption	85% to 100%
Burden per New Vehicle Sold	Less than \$750.00 per Retail Unit
Carryovers	Not to exceed 10% of all R/O's written
Average Monthly Sales per Technician	\$17,500 Plus
Average Monthly Sales per Service Stall	\$17,500.00
Total Service Support Staff to Technicians	1 to 1.5

### E&A Parts Department Performance Goals

Item	E&A Guide
Total Department Gross	32%
Salaries & Wages as % of Gross	45%
Variable & Semi-Fixed Expenses as % of Gross	25%

Fixed Expenses as % of Gross	10%
Net Profit as % of Gross	20%
Other Items	
Sales per Counter Person	\$40,000 per. Mo. @ cost
Fixed Absorption	85% to 100%
Burden Per New Vehicle Sold	Less than \$750.00 per Retail Unit
Return on Investment	45% to 55%

## E&A Collision Department Performance Goals

Item	Estimate
Labor Gross Profit	70%
Parts Gross Profit	38%
Materials Gross Profit	45%
Materials Net Profit	30%
Sublet Gross Profit	10%
Total Department Gross Profit	50%
Technician Proficiency	17%
Open Repair Orders Less Than 50% of Average Months Repair Orders Written	50%
Receivables Less Than 50% of Average Months Total Shop Sales	50%
DRP Ranking in Top Ten Percent of DRP Shops in Your Market Area	10%
Walk In Estimate Closing Ratio 70% or Better	70%
DRP Estimate Closing Ratio 90% of Assignments	90%
Dollar Value of Estimates Written Should Be Within \$300 + or - Estimates Sold	\$300
Average Repair Cycle Time	3.5 days
CSI Survey Results	95%
Total Sales Annual Growth	10%
Support Salaries as % of Labor Sales	25%
Semi Fixed as % of Labor Sales	15%
Fixed as % of Labor Sales	10%
Net as % of Labor Sales	20%

## Developing Effective Pay Plans for Advisors and Estimators

How much money should a good Service Advisor or Estimator make? The actual range is so broad that the numbers do not have any real meaning. They range from \$45,000 to \$85,000 annually. If you look at these numbers you immediately ask yourself, how can making \$45,000 per year be as good as someone making \$85,000. It is because they are in two completely different areas of compensation. One has nothing to do with abilities but has everything to do with your market area. Instead of comparing yourself to your market area, a better way to establish pay plans for these key positions is to base it on a percentage of their total Parts and Labor Sales potential.

I can give you my guide number. E&A's Guide is that the Advisors and Estimators total compensation should not exceed 5% of individual Parts and Labor sales. If you want to pay your employees as a Team to encourage them to work together the same rule applies. However, you must split the 5% between the three employees. For example, if you have three Advisors you would divide the 5% and the guide would now be 1.67% each.

How should you split the 5%? Should you put it all on salary, or part salary and part commission? If you choose commission, you base it on? Here is how I do it. First, if you are paying a salary now, and if it is not more than 50% of this employee's compensation I would leave their salary alone. If I can start from scratch, I usually set the salary between 35% and 50% of the total compensation.

How do you arrive at the total compensation figure? There are two methods;

Method 1. Begin with the number of Repair Orders you want the Writer to handle each day. For example, we prefer that you keep the range of 12 Customer Warranty and Internal Repair Orders per day. I do not want an Advisor to handle more than 12 R/O's per day. I want them to sell 1.5 hours per R/O at my desired Shop Effective Labor Rate. A good target would be \$120.00 per hour. Now that's 12 R/O's times 1.5 hours sold per R/O times \$120.00. That comes out to \$2,160.00 per day in Labor Sales. Don't forget Parts. I want a one-to-one Labor Ratio so I take the labor number and double it for total daily sales goal of \$4,320.00. Now I want them to repeat this 21 times a month.

Example: If I take the labor number and double it for total daily sales goal of \$4,320.00. Now I want them to repeat this 21 days a month, so if I multiply \$4,320.00 by 21 I get a monthly sales goal of \$90,720.00. 5% of this is \$4,536.00 per month in total POT compensation.

Method 2. Take the number of Technicians this Writer will be writing for and multiply out their Parts & Labor sales potential. My is that you should have one Writer/Estimator for every three Technicians. Three Technicians working eight hours per day and 110% Proficiency would produce 26.4 billable hours each day. Now, if we multiply this by my desired labor rate of \$120.00 per hour out to \$3,168.00 in labor sales. Again, we have to double labor sales to get our desired Parts & Labor sales. So our daily sales Technicians is \$6,336.00. Multiply this by 21 working days and you have a monthly potential Parts & Labor sales of \$133,056.00. This works out to \$6,652.08 per month.

Are your current Writers not hitting these sales numbers today? If they are not it is probably because you are not achieving a \$120.00 per hour labor rate and, or your Technicians are not producing at 110%. Also, it could be because you have your Writers writing more Repair Orders each day. When Service Writers write more Repair Orders than they have time to physically complete all of the work required, they are only able to take orders, because they do not have the time needed to "sell the additional items" customer's

Remember, this pay plan will reward top performance only when it is achieved!

Do not forget incentives! I usually take a half percent away from my pay calculations to use for incentives. Incentives on the part of me want my Writers selling such as spiffs on Maintenance Menu Sales, Flushes, etc. So the salary at 35% represents 1.75% of total sales. If I want away another 0.5% for incentives, then I have 2.75% left to pay in commissions.

You have several options here on how to split this up, but the ones I find most effective are.

1. 1.5% of total customer, warranty and internal parts and labor sales
2. An additional .5% if the Writers individual CSI Scores are above the target you set (usually Regional Average)
3. If the CSI Target is achieved, additional commissions can be earned
  - a. .25% if you sell more than 50 menus in a given month (2 per day)
  - b. .25% if your C.P.E.L.R. is \$120.00 per hour or more
  - c. .25% if your F.R.H. Per C.P. r/o is 1.5 or more

When you put this all together you have 1.75% of their pay in the form of a salary, and they have the potential to earn another 2.75% in commissions. This comes up to 4.5%. Remember the incentives? I like to move the bar around on incentives/spiffs by offering different spiff/incentive programs every month. Some of the things that I include in the program are:

- Multi Point Inspection Sales
- Sales from Multi Point Inspections
- Accessories sold
- Specific Services such as a Brake Flush
- Clean work area
- One item Repairs or specifically fewer one item R/O's

Decide how many of each item you want them to sell, for example two per day. You then divide your desired amount into the amount you have to spend (.05% of total pay) and you have the amount of spiff you can pay per item. One of the great things about this plan is that it keeps the Writers focused on the variables that management needs to accomplish in order to achieve your departments goals.

Developing pay plans to help you achieve your desired objectives should not be a difficult task. You just need to decide what your objectives are and then do some simple math to determine how much potential you have in your shop. The largest problem I encounter is that dealerships are expecting their Writers to handle more customers than is practical every day. Or, they have too few Writers for the number of Technicians employed.

You can use these same guidelines to develop pay plans for Body Shop Estimators. I find that the 5% compensation rule works well for the Body Shop.

## Edwards & Associates Institute for Fixed Operations Management College Courses

### Upcoming Classes:

**Parts Manager College Course... May 24 - 26, 2016** Charlotte NC for more information [Click Here](#)

**Advanced Service Consultant Selling Skills... June 28 & 29, 2016** Charlotte NC for more information [Click Here](#)

**Service Manager College Course... July 26 - 28, 2016** Charlotte, NC for more information [Click Here](#)

## Executive Learning Resource for Top-of-the-Line Fixed Operations Managers or those who want to be

A free monthly newsletter about Automobile Dealership Fixed Operations. Based upon the Consulting, Training and Research work done by Edwards & Associates and Edwards CMC.

*A Publication of Edwards & Associates Consulting, Inc.*  
Office: 5615 Harrisburg Industrial Park Drive, Charlotte, NC 28075  
Mail: P.O. Box 621360, Charlotte, NC 28262  
Telephone 1-800-708-7587  
Volume 161, April, 2016  
[www.edwardsconsult.com](http://www.edwardsconsult.com)

© copyright 1999 - 2016 Edwards & Associates Consulting, Inc. & Larry Edwards CMC All rights reserved.

[Website](#) [Corporate Overview](#) [Testimonials](#) [Consulting Services](#) [Library](#) [Contact](#)

SIGN UP FOR EMAILS

SHARE THIS EMAIL

newsletter@edwardsconsult.com  
<http://www.edwardsconsult.com>

