Edwards & Associates
Consulting • Training • Research
Profitability Consultants to the Automotive Service Industry

Fixed Operations Digest June, 2017

## In this issue

- **Larry's Ramblings**
- **Automotive Service Disruptor on the Horizon**
- **100% Fixed Coverage Fantasy or Fact**
- **Upcoming Service Managers College**
- **Complementary Profit Potential Analysis**

*Don't sell your ideas short. People are putting $3.00 in vending machines to purchase a small bottle of water.*

*Alan Weiss PHD*

## Larry's Ramblings

I am having a hard time obtaining a clear vision of how 2017 is going to shape up. Are we going to have another consecutive year of growth or have we reached the peak of the current business cycle. By the way the current automotive business cycle is one of the longest sustained positive cycles the automotive business has ever experienced.

I look at hundreds of dealership financial statements monthly and so far this year I see no clear indication; some dealers are still experiencing double digit growth while others are experiencing single digit growth or less. The first two months were not good then March was fantastic. April was only slightly above average?

On top of my fears that our Industry might have already peaked I recently discover a true "Disruptor" on the horizon.

" A disruptive innovation is an innovation that creates a new market and value network and eventually disrupts an existing market and value network, displacing established market leading firms, products and alliances. The term was defined and phenomenon analyzed by Clayton M. Christensen and coworkers beginning in 1995."

Wikipedia definition of Disruptor

YourMechanic.com has the potential to truly disrupt dealership service as it currently exists. Imagine taking automotive service business that has essentially worked the same way for over 100 years and turning it on its head. Forget all the rules, forget how it was done in the past and start from the premise of what do customers want?

Edwards & Associates
Consulting • Training • Research
Profitability Consultants to the Automotive Service Industry

Fixed Operations Digest June, 2017

# Automotive Service Disruptor on the Horizon YourMechanic.com

I am sure that many readers of my newsletter have never heard of this company. Rest assured, you will be hearing a lot from them in the very near future! Your Mechanic just raised millions in a new funding round to further expand its current footprint. Wall Street believes this company will be an "Uber Type" disruptor to the traditional automotive service business.

They have already worked out national agreements to service large rental car fleets as well as fleets for other large companies with lots of vehicles that need servicing.

When I first came across this my first question is "where are these people going to find mechanics?" Just about every dealership in America is looking to hire technicians. I went to their web site and reviewed their recruiting and merchandising tactics. Guess what? They are recruiting your technicians!

They offer flexible hours so that currently employed technicians can work as much or as little as they want. They specifically target dealerships with phrases from current employees like;

" *What I like best is the freedom and flexibility with my schedule, and not having a foreman or service manager hanging over me."*

*"There's no middle man messing everything up. I get to have direct contact with my clients, leaving no room for miscommunication."*

*"We handle marketing, booking appointments, delivering parts, buying insurance and providing support. You do what you love - fix cars. We take care of the rest."*

*"Our mechanics make anywhere between $40-$60 an hour based on their location, skills and level of experience. We pay flat rate and we don't do any warranty work. You get paid fairly."*

*"This company is growing rapidly and they truly care about the technicians. I can't ask for anything more. I love this job!"*

After reading their web site I was ready to sign up myself... Not really but I can sure see how a lot of dealership technicians are looking at this thing and wondering how great life would be at $40.00 to $60.00 per flat rate hour?

My biggest fear is that current dealership technicians are going to sign up for this program and work part time to earn a few extra dollars. But, where are these technicians going to get the special diagnostic tools that are required to work on today's vehicles. And who paid to train the technicians? Dealerships Paid!

If dealers aren't careful a disruptor is going to take the technicians you paid to train and these technicians are going to "steal" your special tools so they can go out and earn double what you are paying them.

For those people reading this who do not believe me I say Fine...
For those people reading this who have the same fears about this as I do here are my recommendations.

1. Put all of your special tools in parts and lock them up. When technicians check out a special tool put the tool number in the parts section of the repair order with a $500.00 list price. When it is turned in reduce the price to zero.
2. Have your employees sign a 3 year training reimbursement agreement that requires the employee to reimburse the dealership on a pro-rated basis for any training they received that the dealership paid for. I have a sample if you will send me an email I will forward it to you.
3. Clearly Define your dealerships "Moonlighting Policy" put it in writing and have everyone sign it.
4. Start paying your technicians what they are worth! I firmly believe a Master Level Certified Technician is worth between $40.00 and $60.00 per hour. Yes in order to pay them these rates <u>you must increase</u> your hourly rate to $150.00 to $200.00. When I tell managers to do this their face wrinkles up, they stick their thumb in their mouth and go curl up in a corner. Pretending you can get away with paying technicians low wages so you can charge low prices to customers is going to KILL dealership service. In the 1990's I had dealership customers charging $125.00 per hour and those same dealers had the highest Service Satisfaction and Retention number for their franchise in the country. In Canada we have several dealers who charge $150.00 per hour or more.

*Trying to be the best quality service provider and the lowest priced competitor at the same time is ruining dealership service. There is a Disruptor on the horizon, if you continue to run your service department the way you always have you will be one of their first victims.*

## 100% Fixed Coverage...Fact or Fantasy

I have personally managed a Dealership Fixed Operation with 124% fixed coverage and I have several dealership clients who finished last year with fixed coverage well in excess of 100%. Achieving this is not a fantasy!

The 64,000 dollar question (you younger readers won't get that) is what it takes to achieve 100% fixed coverage. There is, as with nearly everything we encounter in life, a mathematical formula that will answer this for you.




Formula for determining Sales required to achieve 100% Fixed Coverage:

_____________ ÷ ______________ = ______________
Total Dealership Total Dealership Fixed Sales Required
Fixed Expenses Fixed Gross Profit % for 100% fixed Coverage

Example:

$2,223,205 Fixed Expenses ÷ 50% total FIxed Gross = $4,446,410 Total Dealership Total Dealership Fixed Sales Required to achieve 100% Fixed Coverage

Now that we know the size of the task facing us there are two things we need to do.

Step 1. is to determine the percentage of contribution of each fixed department and their current gross profit percentages.

Step 2 Figure out what each fixed department needs to generate in sales in order to achieve our objective, 100% fixed coverage.

With this information we can now calculate what each department needs to do in order to achieve our goal. Note: always work with Y.T.D. numbers doing this exercise, one month's information may skew the results dramatically. So always try to do this on Y.T.D. numbers.

Current Y.T.D. Sales and Gross

Service = $1,508,172 at 70% gross profit

Parts = $1,870,392 at 40% gross profit

Collision = $ Zero (this dealer does not have a collision shop)

Total Fixed sales = $3,378,564

Contribution:

Service $1,508,172 ÷ $3,378,564 = 44.6% Service Contribution

Parts $1,870,392 ÷ $3,378,564 = 55.4% Parts Contribution

Total Fixed Sales needed to achieve 100% fixed coverage (at current gross profit %) = $4,446,410

Service sales needed to achieve 100% fixed coverage:

$4,446,410 X 44.6% = $1,983,098 less current sales $1,508,172 = $474,926.00 additional service sales over 12 months or $39,577 additional monthly sales. At a $125.00 labor rate this would require two additional technicians.

Parts sales needed to achieve 100% fixed coverage:

$4,446,410 x 55.4% = $2,463,311 less current sales $1,870,392 =$592,919 additional service sales over 12 months or $49,410 additional per month.

Here is the point where most people throw up their hands and say "no way can I increase my fixed sales $80,000.00 per month. I have a name that describes this behavior. I call it "lazy and unimaginative" < yes that is a real word!

Here is what I would do, my next step would be to conduct an analysis of this dealerships assets. Assets include facility, employees and customers. Step one here would be to determine if service has the facility capacity to add additional sales revenue. The formula for facility capacity is;

Number of service stalls x number of hours the stalls are used each day x Overall effective labor rate = facility sales potential

Facility Utilization formula:

Facility sales potential ÷ actual labor sales = % of facility utilization

The facility in the previous example has 10 stalls and they are currently using them 8 hours each day five days each week. If they were to implement a four day work week being open ten hours each day six days each week their capacity to produce labor goes from 8 hours each day x ten stalls x 21 days (5 per week) = 1680 hours of stall capacity per month at 100% technician proficiency.

If you implement the four-day work week plan then it would look like this. Six days each week X 10 hours each day x 26 (6 days x 4.3 weeks per month) = 2600 hours of stall capacity per month at 100% technician proficiency.

Now that we know the shops capacity we can calculate the current facility utilization. Current average monthly labor sales = $125,681 divided by current E.L.R. $103.00 = 1220 actual labor hours sold.

Now divide potential hours available by actual hours sold to determine percentage of facility utilization.

1220 ÷ 2600 = 46.9% facility utilization

Now we know that this dealership has the potential to grow their business by over 50% before they run out of space. And if they do run out of space they still have the option of two shifts which would give them another 25% more facility utilization. We can now look at the current service customer retention and determine if they have an opportunity to bring in additional service business.

If you would like to learn more about how your dealership can achieve 100% plus fixed coverage I suggest you enroll in one of my Service Manager College Course scheduled for July 25 thru 27.

ENROLL

*These classes are not confirmed until we receive 5 enrollments & then we will notify you that the classes are confirmed

## For a complimentary *Profit Potential Analysis (PPA) Report* on your Service, Parts, or Collision Department click below:

**Service** **Parts** **Collision**

**Executive Learning Resource for Top-of-the-Line Fixed Operations Managers or those who want to be *Volume 175, June 2017***
A free monthly newsletter about Automobile Dealership Fixed Operations. Based upon the Consulting, Training and Research work done by Edwards & Associates and its Chairman, Larry Edwards CMC.

***Volume 175, June 2017***
*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
**www.edwardsconsult.com**