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How to Increase Service Drive Gross Profits by \$200,000+ in Just 3 Months!

“We do not know what the future will bring ...

“But we can show you how you can dramatically increase your profits right now by following these three simple steps: Inspect, Recommend, and Sell. The results we show are based on 500 Customer Pay ROs a month ... so you can easily figure how much these ideas are worth to you.

“These ideas work—and I have more than 40 years’ experience (26 as a dealer, 15+ as a fixed ops coach) to prove it!”

— Don Reed, CEO
DealerPRO Training

Your Money Machine

No matter what your sales are—whether they are breaking records or disappearing entirely—there is one operation in your dealership that consistently brings in customers and cash—your Service Drive.

According to NADA in 2018, Fixed Operations now account for 50% of your total gross! So it just makes sense that if you concentrate on maximizing results in the Service Drive, you will maximize your dealership’s success no matter what.

All the increases in performance I’ll be presenting are based on your dealership meeting NADA guidelines of a 45% profit margin on Parts and 75% profit margin on Labor. My examples are based on 500 Customer Pay Repair Orders per month, so plug in your own numbers to determine the impact these steps will have on your bottom line.

Opportunities in Service Drive profit improvement exist in every dealership. Keep in mind, depending upon your franchise (domestic or import, for example), there is some flexibility in these numbers.



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#1: Inspect to Connect

Let's get into first gear ...

Look at your Used Car Department. Do you have a policy that all used vehicles be inspected for needed maintenance and/or mechanical repairs before the vehicle is offered for sale? Most of you, I'm guessing, would answer "yes."

Why Perform Thorough Inspections on Used Cars?

Because it's the only way to ensure your customer is buying a safe and reliable vehicle. . . and allows you to maximize gross profit per retail unit. This **company policy** also has a positive impact on CSI and promotes a positive image of the dealer in the community.

How much are you spending in reconditioning costs per retail unit? It's common to find dealers spending \$600 PRU. Let's say \$100 of that is for detailing, which leaves \$500 PRU in mechanical repairs.

If we take out \$250 for parts, that leaves \$250 in labor. With the average dealer in America earning \$115 per hour in labor that means the average hours per internal RO in used vehicle reconditioning equals 2.2 (\$250 divided by \$115).

Do this exercise in your own store by evaluating 50 internal repair orders and determine what your hours per RO actually are. Now ask yourself, "Who owned this used vehicle before I did?"

The answer of course is "a customer." So, whether the vehicle was a trade-in at your store, or you bought it at the auction, off the street or from a wholesaler, it belonged to "a customer".

Let's look back at our goal of 100% Service Absorption. IF...you performed a complete and thorough inspection on that used car when it still belonged to your retail customer, would you not find the exact same repairs and/or services? *Of course, you would!*

What are the benefits of performing thorough inspections on customer vehicles in your service department? The reasons are exactly the same whether you're servicing a used car (internal) for resale or servicing a customer vehicle. . . "to ensure your customer is driving a safe and reliable vehicle and maximize gross profit."



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Inspection Perfection

Performing thorough Multipoint Inspections (MPI) on every vehicle has a positive impact on CSI, owner loyalty and net profits.

If you're currently writing 1.5 HPRO on customer pay, and you establish a *policy* (RULE) of inspecting 100% of your customers' vehicles every day, you will increase your hours per repair order by a *minimum of .3 to .5*. What does that mean to a dealer writing 500 repair orders per month?

Some quick math shows us that 500 ROs, at .5 additional hours per RO, equals an additional 250 hours. At a \$115 per hour labor rate, that equals \$28,750 in additional sales. At a 75% gross profit margin, you're looking at an additional \$21,562 in gross profit per month.

We know that the average parts to labor ratio is at least 80% so we can also count on additional parts sales of \$23,000 (\$28,750 X 80%). With a parts gross profit margin of 45%, we generate \$10,350 in additional parts gross profit per month.

Combine the additional labor gross of \$21,562 with the additional parts gross of \$10,350 and you come up with \$31,912 in additional customer pay gross profit per month.

Earn Big Dollars

Annualize this and you put an additional \$382,944 in your bank account. Some of you will get there in a matter of months, some of you it might take longer. Why not make this inspection process a RULE?

If any of you have Service Managers/Directors telling you they're already doing thorough Multipoint Inspections on *every vehicle*, and yet your hours per RO are hovering around the 1.0 range, please take a closer look. Two keys here: 1. A thorough MPI and 2. Every vehicle. Is it company policy to perform a thorough MPI on recalls? Oil change customers? During your peak season?

There are dealers experiencing increases in customer pay gross profits in the **60% to 70%** range over the same period last year. How? By committing to holding employees to a higher standard by establishing "company policy" on MPIs. Why not do the same?



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#2: Recommend from a Menu

I'll go out on a limb and assume you've been to a restaurant?

Olive Garden? Outback? How about Longhorn? When you were seated at your table, were you presented a menu? Of course, you were! Did you have to ask for one? Of course NOT.

It is NOT an option to receive or not receive a menu. It is company policy that EVERY CUSTOMER gets a menu at these restaurants.

Menus Empower Your Customers

Not only does every customer get a menu, they get *multiple* menus. Let me explain. Already on your table is a *drink special menu* and soon your waiter/waitress will also be offering the *appetizer menu*. Next comes the *main entrée menu* and/or *special of the day*.

After you've finished your meal, another menu: the *dessert menu* (this may even include a beautiful tray with a show/tell of dessert options) Oh, and I almost forgot my favorite—the *wine menu*, which was probably presented when you first sat down.

The point I'm making is that 100% of their customers are presented **multiple menus** 100% of the time. This process is not an *option*; it is a RULE. Why? Their RULE simply means that every customer is given the opportunity to make *choices*. That's plural not singular.

Offered Choices, Customers Choose More

Choices are made based on the customer's perception of likes and dislikes, value, price and benefits. Are the food servers *high pressure*, forceful salespeople? Do they offend you by offering *multiple menus* that allow you to make *choices* based on your individual wants and needs? Do they refuse to offer you a wine menu because they don't think you can afford a \$50 bottle of wine?

Do they ignore the dessert menu presentation because they think you "look" like someone who doesn't buy dessert? The answer is obviously "NO" ...they don't make judgments before giving their customers choices. When it comes to presenting menus in the service drive, however, your average Service Advisors make judgments all day long!

There are a number of reasons they make these judgments. . . one being the lack of professional sales training. . . but we'll save that topic for another time.



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What About a Maintenance Menu?

Ask yourself a couple simple questions:

If my Advisors presented a *maintenance menu* to 90-100% of my customers, on each and every visit to my Service Department, would sales go up, go down or remain the same?

If my Advisors allowed my customers to make individual choices in maintaining their vehicles, based on their individual wants and needs (value, price, likes, benefits), would my CSI, Owner Retention and retail sales go up, go down or remain the same?

Obviously, I don't need to answer those questions for you. A menu process will increase your hours per customer pay RO by another .2 to .3 which, based on our earlier example of 500 CP RO's, equates to: $500 \text{ CP ROs} \times .3 = 150 \text{ additional hours @ } \$115 \text{ labor rate} = \$17,250$. Assuming a 75% profit margin, you'll produce an additional \$155,250 per year in labor sales and \$74,520 in parts sales annually (based on 80% parts to labor ratio and 45% margin).

Building Profits, Step by Step

Combine these numbers and you gain a total of \$229,770 per year ($\$155,250 + \$74,520$) or \$19,147 per month in additional parts and labor sales, simply by training your team to use maintenance menus with every customer, on every visit.

If we add this to what we have already gained from a thorough inspection process on every vehicle (\$382,944), our new total gross profit improvement stands at \$612,714 annually for every 500 CP ROs written per month. Inspections + Menus = Higher Customer Satisfaction and Higher Gross Profits!

100% of Your Customers, 100% of the Time

The only way to achieve these numbers with your MENU PROCESS is to make it POLICY. Meaning, it is not an option....it is a company requirement that 100% of your customers will receive a menu presentation, 100% of the time on each and every visit to your dealership.

It does not matter how old they are, their "perceived" income level, what part of town they're from, the age of their vehicle, or who they're friends with.

The only criteria that matters is their status as YOUR CUSTOMER. They will all be treated the same. They will all be given the opportunity to say "YES" to any and all of the services that you provide. It is not your Service Advisor's job to make choices for your customers.



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It is your customer's vehicle, your customer's money. . . and your customer's decision to make! Wouldn't you agree? In summing up so far, is there anything about making an additional \$612,714 in gross profit per year, or more, that you don't like?

If you're serious about improving Customer Retention and CSI, and maximizing gross profits in the Service Drive, then let's move on.

#3: Sell More Hours Per Customer Pay RO

You need to consistently enforce discipline and accountability for performance. *When we look at performance with regard to Customer Pay Hours per RO, there aren't many people being held accountable to a high standard, since the industry average still hovers around 1.2 – 1.5 hours per CPRO.*

To Get Different Results ...

You need to start *doing different things or doing things differently* if you expect to accelerate your profits and grow your Service traffic. And the first step is to recognize that you must compete on the same playing field as your aftermarket competitors. And in doing so, you must beat them at the game of gaining and retaining customers!

Quick Lube Isn't That Difficult...

Let's look at a simple quick lube experience. In an effort to stay tuned (pardon the pun) with the marketplace, I take one of my family's vehicles to an aftermarket quick lube type facility for an oil change and my other vehicle to my new car dealer where I leased the vehicle.

Every single time I visit the quick lube facility (no appointment necessary) the following happens:

- I am offered additional services and products
- I am shown my air filter
- They check and tell me my tire pressure
- Wash my windows
- Vacuum my interior
- They inspect all of my fluid levels (and show them to me if they are dirty)
- They inspect my wiper blades, belts and hoses
- They inspect the undercarriage for any visible signs of fluid leaks
- And they list ALL of these items on my repair ticket with "NO CHARGE" printed next to every item they inspected



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- They offer me a savings of \$5.00 on a tire rotation if I get it done while they are changing the oil in my car
- And review the repair ticket with me line by line, with at least 5 items showing "NO CHARGE"
- Finally, they review with me what will need serviced on my next visit and I am out the door in a reasonable amount of time

If I bought only the oil change, my total bill would have been \$28.95 plus tax; however, in reviewing my records I notice that my average expenditure on each visit is about \$85.

Do You Make Oil Changes Difficult?

Now, compare this visit to my new car dealer who happens to be the largest volume dealer in Columbus, Ohio for this particular make of vehicle:

- I must call and make an appointment first, and sometimes I can't get in for at least a couple days!
- When I arrive and meet the Service Writer (read: Order Taker), I am offered no additional services or products
- I am asked to wait in the customer lounge and the cashier will call me when my vehicle is ready. About 45 minutes to an hour later, the cashier calls out "Mr. Reed your vehicle is ready. Your LOF is complete and your total is \$28.95 plus tax".
- My windows are not cleaned
- My interior is not vacuumed
- I am shown nothing that was replaced, removed, completed
- I am given no review of any kind, nor of any inspection of my vehicle
- I am offered no "savings" today
- There is nothing on my repair order that shows "NO CHARGE"
- I am not advised of my other fluid levels and/or condition
- I have no idea if my tires were looked at, forget about properly inflated
- The Cashier doesn't know my future service requirements, nor does he/she schedule appointments, so I leave with no future plan to return

And this nice young cashier hands me my keys and receipt...my ONE ITEM REPAIR ORDER...called a 'LOF' (I pronounce it "loaf" since loafing seems to be the acceptable culture in this service drive!) and I'm frustrated and out the door, wondering how this service department stays in business.



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The Difference *Service Sales* Makes

So let's compare the financial aspects of each of these scenarios. I spend about \$85 at the aftermarket and about \$29 at the new car dealer. The difference between these two repair orders amounts to \$56. Now look at your ROs and add \$56 to each customer pay repair order and you decide whether or not that amount of money is significant to you.

If you write around 500 customer pay repair orders per month, you're missing out on about \$28,000 in sales per month or about \$336,000 per year, according to this aftermarket

experiment. Your combined gross profit in parts and labor as a percent of sales is going to average somewhere around 60% (probably higher), for additional gross profits of \$201,600.

If your parts and service departments are already profitable, then of course you realize this \$201,600 drops straight down to NET OPERATING PROFIT. If you've got a dedicated express lane, this number is very achievable and your Advisors need to be professionally-trained salespeople to make it happen.

I reviewed this scenario with a dealer at the NADA convention who was writing about 1,000 customer pay repair orders per month and I asked him if this made sense to him. His response was: "Sounds like a new boat to me!"

Real Opportunities, Right Now!

I've given examples based on a real-world experience using a base of 500 customer pay Repair Orders a month. With these parameters, you can add hundreds of thousands of dollars to your bottom line.

These numbers are based on our experience with hundreds of dealers nationwide ...

#1: Inspect every vehicle for safety & reliability	\$382,944
#2: Use Maintenance Menus to provide customer choice	\$229,770
#3: Advise and sell to your LOF customers—don't settle for one item ROs	<u>\$201,600</u>
Total:	\$814,314
Per month improvement	\$ 67,859
Three months:	\$203,578



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These Dealers Are Smiling ... All the Way to the Bank!

These aren't funny numbers! However, results will vary! That's because few dealers operate in textbook conditions, and there's some real-world overlap.

But we have real world experience with hundreds of dealers who are using these rules to generate hundreds of thousands of dollars in additional Service Gross Profits every year.

In fact, our dealers are generating more than \$300 million in added Service Gross Profits every year by not only taking advantage of these opportunities, but also by building top performing advisors through customer-driven selling skills ...

You can't afford to neglect Fixed Ops! Our Top Dealer generated nearly \$1 million added profits in his first year. Determine what your true profit potential is. This opportunity is waiting for you. It's time to seize it.

Only by giving your existing customers the attention they deserve and want, will your service sales and RO counts provide the added profits you will need to accelerate through a slowdown.

Customer Relationships Are the Key

Your customers want their vehicles to be safe and reliable. That is the mission of your Service Department. Paying attention to the backbone of your dealership starts with how your people treat your customers during each and every visit to your dealership. It is imperative that your dealership maintains a presence in the eyes and minds of your customers.

- Do you give your customers reasons to come back?
- Is your dealership different than the competition?
- Do you have a user-friendly appointment system on the phone or online?
- Are you competitive with the marketplace?
- Do you keep your name in front of your customers regularly?
- Do you strive to exceed their expectations?

If you are not giving your existing customers the attention they deserve and want, your service sales and RO counts will remain stagnant and the aftermarket will continue to lure customers away.



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Provide your customers with the highest level of service you possibly can. You'll be rewarded with higher CSI and gain greater profits in service and parts . . . not to mention, you'll sell more vehicles to these loyal customers who like your product, like your dealership and probably like you as well.

Don't wait – evaluate your Service and Parts strategy for your existing customers now...they are worth it! Show them how much you appreciate their business and give them reasons to come back.



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