

AIA 2009 Ontario Grand Forum



**How To Profitably Grow  
Your Service Business**

# Test Your Service Knowledge

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True   False   Not  
                  Sure

1. The best metric for comparing the profitability of various types of work is job profit/man hour.

# Test Your Service Knowledge

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True   False   Not  
Sure

2. The most profitable type of work is tires. It easily beats tune up's, oil changes, and brake work.

# Test Your Service Knowledge

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True   False   Not  
                         Sure

3. Most retail tires stores can dramatically increase sales and profits without increasing car count.

# Test Your Service Knowledge

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True   False   Not  
Sure

4. To get a meaningful score card, tires and service need to be tracked as two separate, but interdependent departments.

# Test Your Service Knowledge



True   False   Not  
Sure

5. Shop (or technician) productivity measures technician hours billed as a percentage of technician hours worked. (hours billed/hours worked)

# Test Your Service Knowledge

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True   False   Not  
Sure

6. Shop productivity is the most reliable metric for tracking the health of a service department.

# Test Your Service Knowledge

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True   False   Not  
Sure

7. A typical aftermarket repair shop averages about 60% shop Productivity.

# Test Your Service Knowledge



True   False   Not  
Sure

8. “Real Time” margin management requires immediate access to all costs associated with the job before the customer is given a quote.

# Test Your Service Knowledge

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True   False   Not  
Sure

9. “Pure Gross Profit” is the difference between sales and cost of goods sold before deducting the cost of wages and overhead. It is a more consistent guide than gross profit that includes the cost of labour.

# Test Your Service Knowledge

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True   False   Not  
                         Sure

**10.** A healthy overall pure gross profit margin for tires will be about 35-40% while the service department should average 65-70%.

# Market Movement



- Replacement Tire Sales are up
- Tire Margins are down
- Service Sales are up
- Service Mix is growing
- Car counts are growing
- Total Miles driven are growing

# What Worries Dealers



1. Profitability
2. Customer Retention
3. Cost of Business Insurance
4. Getting / Keeping Qualified Employees
5. Cost of Wages / Benefits
6. Tire Pricing by Suppliers

# Dealer Obstacles

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- Lack of Benchmarks / Business Acumen
- Lack of Real Time Margin Management
  - Workflow Interruptions

# Two Stores In One



	<b>Typical Tire Store Service</b>	<b>Healthy Tire Store Service</b>
<b>Jobs per Day</b>	<b>12</b>	<b>12</b>
<b>Avg Invoice Value</b>	<b>\$180</b>	<b>\$230</b>
<b>Daily Sales</b>	<b>\$2,160</b>	<b>\$2,760</b>
<b>Labour Mix %</b>	<b>45%</b>	<b>50%</b>
<b>Pure Gross Profit \$</b>	<b>\$1,361</b>	<b>\$1,877</b>
<b>Pure Gross Profit %</b>	<b>63%</b>	<b>68%</b>
<b>Shop Productivity</b>	<b>60%</b>	<b>80%</b>

# Annual Profit Impact (300 days)

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## Small Increases in Sales and Margins ...

	<b>Typical</b>	<b>Healthy</b>
Sales	\$1,248,000	\$1,428,000
Net Profit	\$ 64,824	\$169,237
Profit %	5.2 %	11.9 %

**... Drive Large Bottom Line Improvements**

# The Numbers That Matter

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## Sales Drivers

- Invoices per Day
- Average Invoice Value

**Invoices/Day X Avg. Invoice \$ = Daily Sales**


# The Numbers That Matter

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## Profit Drivers

- **Labour Mix**
- **“Pure” Gross Profit**
- **Technician Productivity**
- **Tire Mix**

# Profit Drivers – Labour Mix



## **Labour Mix**

- The ratio of Labour Sales to Total Sales
- Should be tracked separately
- Critical contributor to gross profit and technician productivity
- Target for 50% Labour Mix

# Profit Drivers – “Pure” Gross Profit

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**Sales – Cost of Goods Sold = Pure Gross Profit**

- Labour is not part of the costs, as it is typically not a “True” cost
- Gross Profit % can be a management metric, but it is not a profit metric.
- Remember you get paid by Gross Profit \$

# Profit Drivers – Technician Productivity



**Billed Hours / Worked Hours = % Production**

- The most reliable metric for overall Health
- 10% improvement can net you an additional \$16,000 in Labour Sales per Technician

(Based on \$80.00 / hour Shop Rate)

# Profit Drivers – Gross Profit \$ / Man Hr.

	<b>Brakes</b>	<b>Oil Changes</b>	<b>Tune Ups</b>	<b>Tires</b>
Sales	\$124	\$94	\$94	\$415
Cost of Goods Sold	\$35	\$28	\$20	\$280
Labour Costs	\$24	\$10	\$24	\$10
Job Profit	\$65	\$56	\$50	\$125
Completion Time	1 Hour	1 Hour	1 Hour	1 Hour
Job Profit/Man Hr.	\$65	\$56	\$50	\$125

# Profit Drivers – Recap

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## **Average Work Order Value**

- Avg. Invoice value does not go up by \$50 on every invoice, it goes up by \$200 on 3 daily invoices

## **Smarter Pricing**

- Smarter Pricing delivers 4% Gross Profit Margin improvement

**Will Add \$100,000 in Net Profit**

# Accelerating Workflow



## 1. Pre – Service Routine

- Need to Get Mileage on the Drop
- Need to Discuss Maintenance

## 2. Vehicle Checkout (Inspection)

- Need Consistent Procedures (MAP Program)
- Need Findings Recorded for Customer

# Accelerating Workflow



## 3. Estimate and Sell

- Need Online Integration to Parts Suppliers
- Pricing Matrix

## 4. Work Completion

- Track Deferred Work for Future

# Accelerating Workflow



## 5. Vehicle Delivery

- Story Book Style Invoice
- Next Visit Appointment
- CRM Reminders via Email or Postcards

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**Thank You & Questions**