

IF IT'S FIXED IT'S PROBABLY BROKEN

Why is it that fixed operations, specifically the service department, strikes horror—or at the very least—apathy in the hearts of so many dealers and general manager?

Is it because it's seen as the complaint department; the back-end of the business; or the red-headed stepchild? Is it because most dealers and/or general managers have come up through the variable end of the business, the glamorous end of the business, the front-end of the business, where we “clip” \$2000 coupons and deal with \$10k-100k transactions? As a result, is there a comfort zone with the sales end of the dealership and a lack of knowledge and therefore comfort with the after-sales end of the dealership?

Ask yourself this question: If not for CSI and manufacturer requirements, would you even be in the service business? Obviously, most dealers and general managers have a great appreciation for the profit contribution provided by their service activities. But, surprisingly, many do not. For those who don't, consider the following:

- **No other product in your dealership can produce 75% gross profit margin as does service labor.** You should be achieving 75% gross profit on all of your labor categories, including warranty and internal.
- **The battle for customer retention is won or lost not in the four hours in the new vehicle department, but in the four years in the service cycle.** Customer loyalty isn't what it used to be. By the end of their warranty period, only 30% of your customers still utilize your service department with the other 70% having defected to the competitive marketplace. Successful dealers understand that the service cycle is a large and important part of the buying cycle and work towards retaining their clients for all of their service needs, thereby building customer loyalty and improving repurchase rates.
- **Customer perceptions of your dealership are built more by your service department than any other entity.** Other than the switchboard operator, Service Advisors interact with more customers every day than any other employee. A Service Advisor sees
- five- ten times more customers every day than a new or used salesperson.

How does a customer perceive your dealership when he/she calls in and gets a less than courteous switchboard operator, is transferred to service, listens to the phone ring repeatedly, then is greeted by a rushed and impolite Service Advisor?

We were in a service department recently that had a large sign posted where every customer who drove in couldn't miss seeing it. In large letters it read: OIL CHANGE \$35. What do you think customer

perceptions are of this dealership? Don't think for a minute that dumb pricing in the service department doesn't impact the total dealership. If you go in a grocery store and the first thing you see is a sign for a 2-liter bottle of Coke for \$3.99, what do you think about the store's overall pricing? (For you non-shoppers, a good price for 2 liters of Coke is about \$1)

- **If your service department is “variable dependent” and vehicle sales tank, so will your fixed operations.** In service we sell five labor types: customer, warranty, service contract, NVI (PDI) and internal. What happens when you sell fewer new and used vehicles? Obviously, your warranty, service contract, NVI and internal sales will dive along with your vehicle sales. If you haven't worked on building and maintaining your customer-paid portion of your business, and the majority of your labor sales are in those “variable dependent” categories and vehicle sales go down, “Danger, Will Robinson!”
- **\$1 in labor sales can actually produce more than \$1 in gross profit.** How is this possible? Easy. That's because of the parts-to-labor ratio which states that for every dollar of labor sold there is a corresponding amount of parts sales. For example: let's assume you sell 75 cents of parts to every \$1 of labor and you sell a \$100 labor job. That means that you also sell \$75 in parts and with 75% gross on labor and 40% gross on parts you would gross \$75 in labor and \$30 in parts for a total of \$105 gross on \$100 in labor sales.

Taking all of these points into consideration, why is it that many dealerships spend so much time, money and effort in training vehicle salespeople but invest so little on training their true frontline troops, the Service Advisors? Could it really be that dealers and general managers really don't understand how important fixed operations are to their overall long-term success? Or is it that the good selling times of yesteryear, it was easy not to pay attention to the “back-end” of the business?

Whatever the reasons, we can't operate business as usual. We're in a historically cyclical business. Sales go up and sales go down but we can't bury our heads in the sand and hope everything turns out okay. We continue to see that the most successful dealers over the long run understand that fixed operations should be considered not as the “back-end” of the dealership, but rather as the “backbone” of the business.

If you think fixed isn't broken, take another look. And then fix it!