3.0 Hours per RO: The Death Spiral

Okay, if you have a Ferrari service department or are planning on selling your dealership in the next year, you need read no further. Does not apply.

If you are a dealer who is interested in long-term profitability in your dealership, this Bud's for you.

Let's first make sure we're on the same page here. What we're talking about is the average number of *flat rate hours* that we sell per *customer-pay repair order*. Our acronyms of the day are: FRH and CPRO.

Okay, you may say, "I want to be on the left side of the 20-group composite and 3.0 FRH's per CPRO is the number we all strive for, so what's the prob?"

Let me again eliminate the exotics where 3.0 FRH's per CPRO is actually pretty lame. I mean, how many FRH's are there in a 15,000-mile service for, let's say, a Maybach? Don't know exactly, but you know it's got to be exponentially higher than the .3 (three tenths) for an LOF (variable guy translation: lube-oil-filter) in a GM store.

So we're looking at 75-90% of franchise dealerships. And here's the beef: If your service department is averaging 3.0 flat rate hours per repair order—or heading there-- you're in deep doo-doo. Why? I'm glad you asked.

First off, there's this concept called customer retention. Interesting concept customer retention, but for some reason it seems to continually take a backseat to the higher gods of FRH's and CSI as relates to the service department.

Simply put, customer retention is one of the most important, if not *the* most important factors in the long-term profitability of the dealership.

Ooh, lofty statement. Okay, so let me count the ways.

Ask one of your new/used salespeople what type of prospect they like seeing come on the lot. That's an easy one, like the $100 question in "Who Wants to Become a Millionaire?" Of course, it's the *repeat buyer*. Better grosses, less objections to overcome, yappita, yappita. And, throw in how much you spend on average to "conquest" new customers.

So how do we ensure that we have more and more of these repeat buyers come in to the showroom and press hard, four copies, bottom copy's yours?
Can you say retention? Sure, I knew that you could.

The battle for customer retention is not won or lost in the 4-5 hours of the purchase of the vehicle, but in the 4-5 years of the service cycle. I read recently where -- survey says -- franchise dealerships retain only 38% of their customers maintenance business in *year one* of ownership. Survey also has been saying for years that by the end of the vehicle warranty period only 33% of a dealership's customers still even darken their doors. At all. For anything. Gone. Yours to begin with and they left you for a reason.

In my last article I addressed this drain, no, hemorrhaging, no, great sucking sound of our customers defecting to the monster that we ourselves created and continue to subsidize.

And what are the reasons why our customers Dear John'd us? Customers want essentially four things: *Quality, convenience, service, price*. We all want those things when we make purchases, in some order of importance. Me, I'm a convenience guy first, service next, then price/quality but they've all got to be there. I don't like waiting in line and I'm lazy enough to pull in to the local honk-and-bonk to buy a six-pack instead of the Wal-Martasaurus right next door and save $1.62 (see, I can do research). Bet a lot of you are the same way and so are your customers.

However, convenience, quality, and service can all be trumped by the Ace of Spades: PRICE.

And so, we arrive at the beginning: **3.0 Hours per RO**: The Death Spiral. Let's do the math, shall we? Assumptions: **$90 door rate** (front-enders: this is the "posted", "stated", or rate per flat rate hour that we charge customers for labor, not to be confused with customer effective labor rate, which is normally a lot less, or OELR which is, oh well, forget it, maybe in an upcoming article), a **parts-labor ratio of 75%** (the average parts sales to labor sales on a CPRO), **8% shop supplies**/waste disposal/HWD or whatever acronym you so desire, and **7% sales tax**.

If you slogged through the last paragraph here's where we are now:

- 3.0 CPRO X $90 = $270.00 labor sales
- $270 labor sales X .75 = $202.50 parts sales
- $492.50 total sales x 8% = $39.40 shop supplies
- $202.50 parts sales X 7% = $14.18 sales tax
- Grand, grand, really grand total: **$526.08** (trust me on the math)

So, in plain English, your *average* customer on an *average* visit to your *average* service department will spend an *average* of $526.08. Realizing that every other service visit by the customer is essentially an LOF (let's say $35?) then that means that to average $526.08 we have to offset a $35 RO with a $1,017.16 RO.

Methinks customers may have a problem with this. Call me strange if you must, but I think I'd have a problem plopping down more than five Franklins and a

Jackson on my average visit to my average franchise service department with my average family Truckster.

Negative customer perceptions are very much like a nasty virus. They are not restricted to service but are generously sprayed over all departments of the dealership. And, like Ebola, it's spread orally. People talk and then they talk some more. And it continues to spread. You lose your customer *and* you build negative perceptions in your marketplace but, hey, we're averaging 3.0 hours! We're a left-sider!

You might recall my first paragraph where I stated that if you wanted to sell your dealership in the next year, hey, go for it. Pump up those numbers on the financial. You need not worry about the coming death spiral, let the new guy sweat it.

I say death spiral because as more customers defect and more negative perceptions grow in the marketplace, more must be done to hit the numbers as RO count and total gross deteriorates. "More power, Scotty!" More hard selling! Pop every hood, pull every stick, squeeze every hose, honk every horn! Raise the rate! Damn the torpedoes (read customers), full speed ahead!" And the death spiral churns merrily along.

Okay, by now some of you are not happy with having your paradigms pilloried. I feel your pain. You want answers to the issues we've raised here. But, sorry, I've run out of space and you'll have to wait for another article for the answers (ouch, not nice, kind of like how American Idol throws a commercial at you JUST before they announce who gets the boot).

For now, suffice it to say that we must look at the total picture of service (and parts) profitability and customer retention in today's marketplace and end our fixation with the singular component of FRH's per CPRO. We must have a balance and longer term view than EOM financials or daily docs. We also have to understand that the marketplace is not standing still and it's certainly not waiting for us to catch up.

But all is not lost, because after all, we are still birthing new service customers every day out of variable operations whom have yet to be exposed to the dreaded 3.0 death spiral.