



The 4 Essentials to Achieving 100% Service Absorption



Don Reed, CEO
DealerPRO Training

Want Some Good News?



You have the perfect
processes in place to
get you exactly what
you got last year!

- Zig Ziglar

Service Absorption. . . the definition



The percentage of total dealership expenses
(less new & used car sales departments' variable expenses)
that are absorbed by the Fixed Operations
Departmental Gross Profit

What does 100% Service Absorption mean to Dealership Profitability?
No New or Used Vehicle Sales Dependency

It's Time To Get Serious. . .



. . . About Service
Absorption!

- Don Reed



4 Essentials to Increasing Service Absorption

1

CONTROL EXPENSES
Manage by Measurement

2

IMPROVE PROFIT MARGINS
Industry Guides

3

RAISE SALES per RETAIL
REPAIR ORDER
Service Drive Processes

4

INCREASE the
NUMBER of
REPAIR ORDERS
Sell more appointments



CONTROL EXPENSES

- ▶ Manage by Measurement – This Year vs. Last
- ▶ Dealer vs. Industry Guides – Over or Under

**Can you save your way into
Profitability?**



CONTROL EXPENSES

Question:

Are your expenses *too high*, or
is your gross profit *too low*?



IMPROVE PROFIT MARGINS

Retail Parts Gross Profit @ 45%

- Install Parts Pricing Matrix
- Eliminate Unauthorized Discounts

Retail Labor Gross Profit @ 75%

- Install Variable Labor Rates
- Hire “C” Level Technicians
- Eliminate Unauthorized Discounts

Gross Profit is a Matter of **DISCIPLINE**




RAISE SALES per RETAIL RO

- ✓ **IMPLEMENT** a Service Drive Walk Around
(Adds 0.2 HPRO)
- ✓ **PRESENT** a Maintenance Menu
(Adds 0.5 HPRO)
- ✓ **ADVISE** on Inspection Results
(Adds 0.5 HPRO)

(25 – Used Car Recon Analysis)

It All Starts With Training. . .



If you fail to get the proper kind of instruction, no matter how much you practice, you're going to get better at making yourself worse.

- Bobby Jones, Pro Golfer

11 MULTIPOINT INSPECTIONS

Benefits:

- 1 Increase Technician Productivity**
- 2 Improve Customer Satisfaction**
- 3 Increase Service Absorption**
- 4 Ensure Consistent Customer Safety**

ABC MOTORS

27-Point Inspection

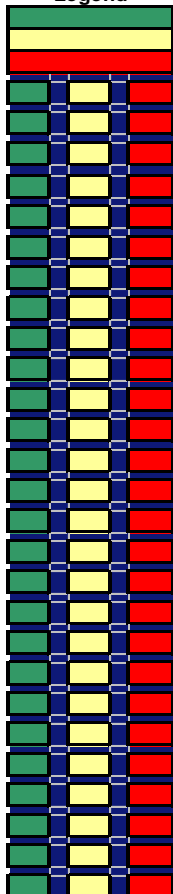
CUSTOMER NAME: _____

MILEAGE: _____

VIN #: (Last 8)

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Legend



- Pass
- Needs Future Attention
- Requires Attention Now

- Emergency Brake Adjustment
- Clutch Adjustment
- Inspect Headlights (Operation and Adjustment)
- Inspect Stop, Tail and Turn Signal Lights
- Inspect A/C Pollen/Cabin Filter
- Inspect Wiper Blades (Includes rear)
- Inspect Air Filter
- Inspect Battery Cables
- Inspect Hoses (Radiator and Heater)
- Inspect Coolant _____ F (Temperature Protection)
- Inspect Engine Drive Belts (Condition & Adjustment)
- Inspect Fluids (Oil, Trans., Brake, P/S, Washer) Level & Condition
- Inspect Throttle Body
- Inspect Clutch Hydraulic System
- Inspect Brake Hydraulic System
- Inspect Engine and Transmission for Leaks
- Inspect front end linkage
- Inspect Struts/Shocks for Leaks
- Inspect CV Boots/Joints
- Inspect Front Brake Pads _____ % (Approx. Remaining)
- Inspect Muffler Exhaust pipes and hangers
- Inspect Tires For Signs of Alignment Problems
- Inspect Right Front Tire Tread Depth: _____ /32
- Inspect Left Front Tire Tread Depth: _____ /32
- Inspect Right Rear Tire Tread Depth: _____ /32
- Inspect Left Rear Tire Tread Depth: _____ /32
- Inspect for needed Maintenance

Comments: _____

HUNTER
Engineering Company

(Your Logo)

Welcome to Hunter Engineering Co.

11250 Hunter Drive
Bridgeton, MO 63044
(314) 731-3020

M-F: 8:15 am - 5:00 pm

Sa: Closed

Su: Closed

Alex Nicholas, Service Manager

Complimentary Vehicle Inspection 02/10/15 9:00 AM



Nissan 2012 Altima Sedan 215/55R17



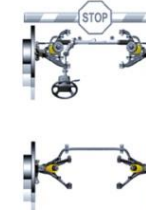
Odometer
25,143



Stopping Check

FAILED

- Front-to-Rear Brake Balance
- Front Axle Left-to-Right
- Rear Axle Left-to-Right



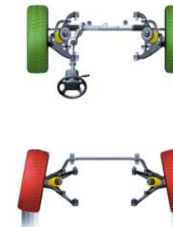
Recommend a Brake Inspection
for Thickness Verification



Wheel Alignment

FAILED

- Front Total Toe
- Rear Total Toe
- Front Camber
- Rear Camber



Recommend an All Wheel Alignment for
Added Tire Life, Fuel Economy and Safety



Diagnostic Check

PASSED

- Check Engine Light - OFF
- 0 Trouble Codes are present



No Additional Service Needed



Tire Tread Depth

PASSED



Tread depth values are in inches.



Battery Health

PASSED



Measured: 461 CCA Voltage: 12.12 V
OEM Ref.: 585 CCA

Good Battery

SAMPLE



INCREASE # OF REPAIR ORDERS

HOW?

- ✓ Sell more Appointments
- ✓ Schedule First & Next Appointment
- ✓ Appointment Reminders
- ✓ Call No-Shows
- ✓ Telephone Training
- ✓ Convenient Hours of Operation
- ✓ Owner Retention Marketing Plan

What's Your Number?

	DealerPRO Guide	Actual
Total Customers Per Day Per Advisor	12	
Total Shop Productivity (Hours Billed to Clock Hours worked)	120%	
Labor Gross Profit Per Technician per Month	\$13,400	
Service Bays Per Productive Technician	1.0	
Labor Gross Profit Margin	75%	
Parts Gross Profit Margin	45%	
Number of Technicians Per Advisor	4	
Number of Hours Per Customer Pay RO	2.5	
Policy Adjustment as a % of Service Gross	2.0%	
Service Operating Profit as a % of Gross Profit	20%	
Parts Operating Profit as a % of Gross Profit	30%	
Service Absorption	100%	

Let's Build a Business Plan:

Assumptions

- Increase Labor Profit Margin to 75%
- Improve Parts Profit Margin to 45%
- Raise Retail Labor Sales by 0.3 HPRO
- Increase the Number of RO's by 10%



Calculator

Profit Improvement Plan



	Current	Potential	Increase	Annual Increase
A Average Retail Repair Orders per Month	1000	1100	100	1200
B Average Retail Hours per Repair Order	1.2	1.5	0.3	N/A
C Retail Effective Labor Rate	\$85.00	\$95.00	\$10.00	N/A
D Average Retail Labor Sales per Month	\$102,000	\$156,750	\$54,750	\$657,000
(A X B X C)				
E Average Retail Labor Gross Profit Margin	72.0%	75.0%	3.0%	N/A
F Average Retail Labor Gross Profit	\$73,440	\$117,563	\$44,123	\$529,470
(D X E)				
G Parts to Labor Ratio	80.0%	80.0%	0.0%	N/A
H Average Retail Parts Sales per Month	\$81,600	\$125,400	\$43,800	\$525,600
(D X G)				
I Average Retail Parts Gross Profit Margin	39.0%	45.0%	6.0%	N/A
J Average Retail Parts Gross Profit	\$31,824	\$56,430	\$24,606	\$295,272
(H X I)				
K Total Parts & Labor Gross Profit	\$105,264	\$173,993	\$68,729	\$824,742
(F + J)				

What KPI
has the
Most Impact
on **Gross Profit?**

**TECHNICIAN
PRODUCTIVITY**

COMPENSATE TO MOTIVATE

Hourly and Flat Rate Technicians

- Pay incentives on hours produced
- Hourly Base Compensation: \$12.00 per hour?
- Performance Bonus: Added to the hourly base compensation. Based on the number of billable hours produced per week as follows:

Weekly Hours		Per Hour
25 - 29	=	\$1.00
30 - 34	=	\$2.00
35 - 39	=	\$3.00
40 +	=	\$4.00

HOURLY TECHNICIAN PAY PLAN

Hourly Rate	Hours Worked	Weekly Pay	Weekly Pay Increase	Productivity	Hours Produced	Cost per Flat Rate HR	ELR	Gross	Gross %
\$15.00	40	\$600	N/A	50%	20.0	\$30.00	\$90.00	\$1,200	66.7%
\$16.00	40	\$640	\$40.00	63%	25.0	\$25.60	\$90.00	\$1,610	71.6%
\$17.00	40	\$680	\$80.00	75%	30.0	\$22.67	\$90.00	\$2,020	74.8%
\$18.00	40	\$720	\$120.00	88%	35.0	\$20.57	\$90.00	\$2,430	77.1%
\$19.00	40	\$760	\$160.00	100%	40.0	\$19.00	\$90.00	\$2,840	78.9%

COMPENSATE TO MOTIVATE

**Advisor
compensation
based on
individual
sales or gross
profit:**

Service Advisors Compensation Calculator	
Total Labor Sales YTD	
Customer Labor	\$674,315
Warranty Labor	\$209,844
Internal Labor	\$457,819
Other Labor	\$0
Total Labor Sales	\$1,341,978
Total Parts Sales YTD	
Customer Parts	\$629,561
Warranty Parts	\$248,892
Internal Parts	\$276,469
Other Parts	\$0
Total Parts Sales	\$1,154,922
Total Repair Order Sales (All Advisors) \$2,496,900	
Total Compensation YTD	
Total Compensation (All Advisors)	\$124,800
Compensation as a % of Sales	5%
Compensation as a % of Gross	10%

COMPENSATE TO MOTIVATE



Parts Counter Personnel

- Bonus based on P&S Gross Profit – All RO's
- Bonus based on Shop Productivity

Appointment Coordinators

- Bonus based on Appointments
- Bonus based on Menu Sales
- Bonus based on Lost Sales Conversion



11 Establish Accountability Standards for all employees

**There is a Cancer that is prevalent
in Service and Parts Operations**

Lack of Accountability!

Show You Care by Asking the Question:

“If there was just one thing I
could do for you that would
make your job more productive
and more enjoyable,
what would it be?”



Establish Accountability Standards for all employees

- Top Performer vs. Underachiever
- Don't Know How or Don't Want To
- Employee "BUY IN"

You're NOT Running a Democracy!

“BUY-IN”...

“I will need to speak with my Advisors to get their PERMISSION to start a training program.”

- Dealer who lost \$350,000 last year in Service

“I will need to get buy-in from our technicians BEFORE we can implement an inspection process on all vehicles.”

- Dealer averaging 1.0 HPRO

“I will have to get buy-in from my managers BEFORE I can decide to proceed with a training program.”

- Dealer who's averaging 46% Service Absorption

BUY IN:

- **Military**
- **Athletics**
- **Business**

IT

IS

NOT

OPTIONAL

D11 FEAR OF FAILURE... ... Prevents GREATNESS

Robert Lewandowski (2019)

Shots 123

Goals 29

Score % 24%

76% ?



You Miss 100% of the Shots You Don't Take

TAKE THE SHOT!

“Sprawiaja, ze to swietny rok”

11 Dealer Kongres



Thank you!



Don Reed, CEO
Dealer*PRO* Training