

IF IT'S FIXED IT'S PROBABLY BROKEN

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

Is it because it's seen as the "complaint department", the "back-end" of the business, the "red-headed stepchild", or the "necessary evil"? 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 \$2,000 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 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 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 \$30**. 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 2-liter bottle of Coke for \$3.99 what do you think about that store's overall pricing? (For you non-shoppers, 99¢ is a good price for 2 liters of Coke).

- **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¢ 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 that many dealerships spend so much time, money and effort in training vehicle salespeople but invest so little on training their true front-line 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 that in these high times it's easy not to pay attention to the “back-end” of the business? .

Whatever the reasons we can't forget our past. We're in a historically cyclical business. Sales go up and sales go down. It would be easy to forget our past due to this incredibly long sales

roll that we've been on. But to forget the past and not be prepared for the impending and inevitable downturn is akin to burying our collective heads in the sand. We continue to see that the most successful dealers over the long run understand that fixed should be considered not as the "back-end" of the dealership but, rather, the "backbone" of the business

If you think fixed isn't broken, take another look. The time to fix fixed is when your dealership is profitable. Not when it's not.