a Constellation Software Company

How to Improve Service Productivity and Efficiency by Tracking the Right Metrics

Are You Tracking
the Right Productivity Metrics?

Kelly Mathison

Trainer and Management Consultant with the Western Dealers Association Dealer Institute

If you want to effectively drive productivity at your dealership, you need to track the right metrics. While tracking the wrong metrics can lead to false-positives and dead-ends, tracking the right metrics can offer real insights into your service department productivity and bottlenecks that need fixing.

In this guide, we've teamed up with Kelly Mathison to share insights into how dealers like you can improve service productivity and efficiency by tracking the right metrics, based on Kelly's 30+ years of experience working in the Ag equipment industry.

Service: Your Primary Commodity

When you really think about it, the primary thing we sell in the service department is technician labor hours.

Look at it this way: let's say you've bought a part for $30 at 8:00 in the morning and at 9:00 in the morning, we still haven't sold it. It's still sitting on the shelf. Then, somebody comes in at 9:00 or 9:05, we can say, "No problem, we can sell that to you. It's still sitting on the shelf."

This is not the case when you buy technician labor hours. If a technician punches in at 8:00 in the morning and we do not sell that hour, at 9:00, you have to buy it again. If you buy a technician hour and you don't sell it, it's gone. You can think of this as your "**labor inventory**."

Calculating Your Labor Inventory

Let's say you have one technician, for easy calculation. Now, let's say that we pay that technician for we pay 40 hours a week, 52 weeks a year. That means you have purchased about 2,080 labor hours.

Now, let's assume they have two weeks' vacation. There's 80 hours of inventory you've paid for, but where they're not at work. You also maybe have statutory holidays - let's say another 60 hours. Then, we also have paid days off, like sick days - let's say another five days.

That means despite purchasing 2,080 hours, you only really have them available at work for 1,900 of those hours.

A parts person might think, "Well, that's sort of crazy. Why would I buy $2,080 worth of parts only to have some of it just go in the garbage before I even get a chance to sell it?" But that's the difference between parts and service.

Which KPIs should you track to manage labor

inventory effectively?

Service Department KPIs

1. Productivity:

Billed hours ÷ worked hours

Example:

Techs are paid for 11,000 hours but only available for 10,100 hours, with 8,400 hours posted to revenue jobs.

8,400 / 10,100 = 83.1%

Target 85% or greater.

(Sometimes referred to as "Revenue Recovery")

2. Efficiency:

Billed hours + gains or losses ÷ revenue hours

Example:

Techs are clocked onto revenue jobs for 8,400 hours but you bill 8,750 hours.

8750 / 8400 = 104%

Target 100% or greater.

(Sometimes called "Charge Out Efficiency" or "COE". This includes billing gains or losses.)

Calculating Productivity

Realistically, you can't have a technician on a revenue-paying job every hour that they're clocked in. They have things like training, or maybe they're helping another department.

So, it's better to set a target for how many of their hours should be spent on revenue-paying jobs – for example, 85%. That means that 1,615 of the 1,900 hours are being spent on revenue-paying jobs.

Now, the question is this: Is it realistic to have your technicians on paying jobs for 1,615 hours a year?

Well, it should be, right? Now that you have them on revenue jobs, is every hour that they spend on a paying job billed out?

That's where efficiency comes in.

Retail Labor Analysis

Now, let's do an analysis of one hour. This often comes up with both technicians and customers. They'll come in and say, "Oh, you've got a labor rate of $120, but I know you're only paying that technician $30. Therefore, you're making $90." That's the way they think.

Think about it from an operational standpoint: you have $90 of gross margin, that's true, but then, what are you doing with those dollars? You pay the expenses. Most expenses in a dealership run 50% or higher of the operation of your revenue. So, let's just say half of $120 is going to pay expenses - you're making $30 net operating income.

But here's the problem: that's assuming that you're 100% productive, which we know is not true. So, if you take 85% productivity, your net income is 85% of the $120. Meaning your effective labor rate is, really, only $102.

Now, the technician still wants to be paid the same amount of money. That doesn't change. Your expenses don't change. So, suddenly, that $30 that we thought we're making got knocked down to $12.

Here are those productivity numbers broken down:

Example:

Retail labor rate	$120
Tech Salary (Cost of sale)	30
Gross margin	90
Expenses /hr	60
Net operating income	**$ 30***

*Based on 100% productivity

At 85% productivity, what is your net income?	$____?
$120 x.85 = $102 "Effective Labor Rate"	$102
Tech wage	-$30 COS
Expenses	-$60
Reality	**$12.00 net income**

DIS
a Constellation Software Company

Calculating Efficiency

Now, let's talk about efficiency (also known as charge-out efficiency). This compares the hours sold to the hours available to sell. Hours sold includes any billing gains or losses.

For example, let's say a technician logged on to a revenue job. This could be a customer or a warranty. They're logged on to that job for 35 hours. But let's say you've allowed more time for that technician to do it, and they beat that time, and you can bill out 38 hours. You would then have a billing gain of 3 hours. So, in this case, 38 divided by 35, you'd have 108.5% charge-out efficiency (COE).

Example:

Tech has logged on to a revenue job for 35 hours, but the job was quoted and billed at 38 hours. Therefore, a billing gain of 3 hours.

38 / 35 = 108.5% COE

Calculating Efficiency

Here's another example: a billing gain. A billing loss would be when you have 35 hours on a job, and you only bill it out at 32. But in this case, you'd have only a 91% charge-out efficiency. This falls on the technician to make sure they give you enough information and do the job in an efficient manner, so you can bill it out. But it also falls on the Service Manager to say, "Do I quote this a little bit higher and give myself some room, or am I writing this off for the wrong reason?"

Example:

Tech logged on to revenue job for 35 hours and it's billed out at 32 hours. Therefore,
a loss of 3 hours.

32/ 35 = 91.4 % COE

Labor Sales Tracking

In addition to tracking productivity and efficiency, you should also track your labor sales. By breaking down your labor sales, you can track which types of sales are driving revenue at your dealership and which are not. Not only that, but if all the labor that you sell throughout the year (from customer to internal to warranty) equals 100%, you can set goals for which percentage of sales you want to come from where.

Example:

Revenue labor sales (retail rate)

- Customer 65-75%
- Internal 15-25%
- Warranty 10-20%

Non-revenue labor sales (reduced rate)

- Maintaining company equipment (shop or yard)
- General shop cleanup
- Rework, make busy work

Now that we've identified service department KPIs, how can you put them into

use at your dealership?

Who is Responsible for Productivity and Efficiency?

Productivity and efficiency falls on the shoulders of **Service Management**. That's because, essentially, it's the measurement of the Service Manager's ability to schedule available technician hours towards revenue-producing jobs.

A quick example: A technician comes into work and punches in at 8:00. The Service Manager says, "Oh, I haven't got anything lined up for you. Go make yourself busy. Go sweep the floor." That's not the technician's fault, right? That is up to Service Management to say, "You punched in at 8:00. Here's a customer job," or, "Here's a setup pre-delivery job." Thirty seconds after 8:00, the technician is on that work order.

Because of things like training and breaks and delays, you cannot go over 100% of productivity – and that's why we aim for 85%.

Tech scheduling can be made a lot easier by using a tool like DIS Service Scheduling, which enables you to track work orders and assign jobs.

DIS
a Constellation Software Company

How Can You Improve Productivity?

Here are a few best practices for improving productivity:

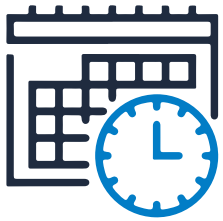
- ✓ Proactively book Revenue Work (C.I.W.)
  - Create and market Inspections & Service PMP's
  - Pre-book PDI, set-up and trade reconditioning jobs
  - Schedule Warranty, Recall & Product Improvement programs
- ✓ Schedule jobs prior to start of every day
- ✓ Have secondary jobs available for quick transition
- ✓ Proactively monitor tech job progress (use "walkaround" sheets to log progress)
- ✓ Contract out non-revenue work
- ✓ Don't allow techs to log into non-revenue jobs
- ✓ Reduce/eliminate "make busy work"

How Can You Improve Efficiency?

- ✓ Ensure you have trained techs and proper tools
- ✓ Assign techs to jobs where they can succeed
- ✓ Quote or estimate whenever possible
- ✓ Create flat rate or standard job codes
- ✓ Train techs on proper documentation
- ✓ Reduce labor write-offs
- ✓ Segment work orders
- ✓ Speed up parts requisition times
- ✓ Pre-plan jobs to reduce time wasting activities

If you can measure it,
you can manage it.

Work with a dealer management system to make a real impact on your service productivity and efficiency



DIS Service Scheduling

Schedule, prioritize and track work orders quickly and efficiently, while tracking technician productivity.

DIS Service Logistics

Boost service technician productivity by letting them access and update work orders, customer details, parts inventory and other vital information on their mobile device.

Reach out to learn more about DIS at **1-800-426-8870** or **sales@discorp.com**

DIS
a Constellation Software Company

Thank you!

a Constellation Software Company