OH - THIS HAS TO STOP!!

An Industry Changing Editorial

By: Tyler Robbins

Hours per Repair order became the Industry's Fixed Operations "ultimate measurement" so fast about 40 years ago, that before anyone with a Fixed Operations background could actually explain to Dealers and GM's the great injustice and false sense of performance they were about to voluntarily accept and burden themselves with – It had already become THE measurement. This HAS to STOP!

Let us understand how this fiasco occurred in the first place:

Although not factually backed up with formal footnotes or dates, the first "Dealer 20 Groups" aka "Performance or Profit Groups" were established in the mid 1960's.

Originally established for "like-sized" dealers from non-competing markets to meet regularly to share "best ideas", they also compared each store within the group to the others within the group on expenses, as well as operational and personnel structures, effectively taking all of the "good ideas" from each dealership and incorporating them into one "ideal" operational and expense structure.

The principal is a great one, however, the attendees of theses original groups; in fact the attendees until the mid 1980's were exclusively the dealer themselves. Now, it is extremely safe to say, that virtually all "dealers", and virtually every Performance Group facilitator have "sales" backgrounds, not a fixed operations background. Human nature dictates that if you put any amount of people together with one common interest/knowledge – that topic will monopolize the discussions. So naturally, although the principal of a performance group is to discuss the entire business operation; sales operations, structures, expenses typically dominated and still dominate these meetings.

In the Sales Department, gross per vehicle and number of units retailed became the measurements of success, although, realistically, even those two measurements don't represent whether or not a dealership is "performing" well or not. Just as a point of interest, if Dealer A retailed 100 units at $2000 per unit, and spent $100,000 in advertising, and Dealer B delivered 100 units at $1500 per unit but spent nothing in advertising – which Dealer is out-performing the other?

Nevertheless, as these "sales-guys" participate in their Performance Groups, the topic of Fixed Operations will come up, however briefly, and thinking back to the 60's, these guys needed some kind of measurement to measure and ultimately challenge their Service and Parts operations to perform. On the surface, it would seem like Hours per RO would be the ultimate measurement, very much akin to Gross per vehicle, and it was quickly and widely adopted as "the" measurement.

Initially though, it was a better measurement, as it was all encompassing of hours and Repair Orders. By that I mean ALL of the various "pay-types" were included in the hours per RO number, so it was reflective of the entire service department – a true total of customer pay, warranty and internal maintenance, reconditioning as well as small and large repairs!

Hours per RO in the days of "all-pay-types" was a representation of the entire shop's performance, however as vehicle quality improved, the average hours of 'warranty' repairs dropped considerably, and the overall Hrs/RO began dropping as well (large warranty repairs made up a considerable contribution to the overall total) and as dealers attended their 20 Group meetings, their performance had seemingly dropped as well – which, as well as know, doesn't go over well in the "full-attack" curriculum that is a performance (20) group meeting!

Someone, somewhere, probably some Facilitator/Industry-Expert like me, recommended that warranty be dropped from the "measurement", and naturally, it seemed logical to drop internal at the same time. The logic behind dropping internal was so readily accepted by dealers as everyone believes that every "used-car" market is different.

In all fairness, a dealers “position” in their respective used-vehicle markets is different - Some dealers really only market used-vehicles of the same make, some market only “nearly-new” or “buyback” used vehicles, while others still market all makes, all models, all price points. Naturally, a dealer that commonly retails 10 year old used vehicles will perform more reconditioning (internal pay) whereas a nearly-new used vehicle dealer performs considerably less. So there was little if any debate in dropping these measurements!

So, unfortunately, rather than accept all of these realities for what it was, the manipulation of numbers (ever so common amongst performance group dealers) began to take hold. Although presented to the ‘Group’ with logical statements like, “Customer Pay is the one we can control”, which seems to make sense on the surface, realistically, the breaking-down of measurements to the point of it being only a “partial” measurement is really what occurred. This HAS to Stop!

In Domestic dealerships, especially in the 80’s and 90’s, and in some cases still today, warranty REPAIRS represented 50% or more of the entire shop’s work mix. As many domestic dealers (the pioneers of performance groups) work extremely hard to make up their lost warranty repairs, from a measurement perspective, Customer Pay Hours per RO represents only half of their actual performance. It doesn’t make a lot of sense to measure only half of your performance does it? Imagine if the showroom only measured the gross profit per unit on half of their vehicles retailed!

Even import dealerships have considerably different work mixes of customer pay, internal and warranty, which, in utilizing the Hrs/RO measurement only measures a percentage of their total work load. Again, would a showroom measure F&I gross per unit by only measuring “some” of the products they sell?

But these obviously logical reasons for Hrs/RO being a poor measurement only represent “some” of the story!

We have clearly and unarguably demonstrated above that Customer Pay Hours per RO is an incomplete measurement, recognizing that Tyler alone cannot change this fact, let’s, for the time being, accept that Customer Pay Hours Per RO will be the universally accepted measurement.

Many would argue that Hrs/RO, although not the greatest measurement, is a great measurement when compared. That meaning, by comparing your Hours per RO today with your Hours per RO tomorrow would be a good measurement - NOT.

Since the industry elected to remove "warranty" from this calculation, the ONLY Flat Rate Hours that were 100% consistent amongst all dealers (of the same brand) were eliminated – that leaves only Customer Pay Flat Rate hours to be included in the calculation.

Consider who determines the flat rate hours for customer pay maintenance and repairs within every dealership. It is the dealership itself that makes that determination. Although there are several published industry guides designed to keep these flat rate hours consistent, even Chilton, Mitchell, Motor, etc labor time guides are inconsistent within themselves. So if Dealer A is diligently using one guide and Dealer B is diligently using another, even if there work mixes were identical, they would have different flat rate totals, thereby having different Hrs/RO.

Realistically though, even if they were using the same labor guides, very few (I have yet to come across even one in all of my travels) could be deemed to be using the guide "diligently". In the "real-world", right or wrong, most Service Managers and Service Advisors use the "call-back" method of flat rating – in other words, they "call-back" to the technician and ask "how long do you need/want for X repair?" This unfortunately all too common method means that Technician 1 will call-back one flat rate time, whereas Technician 2 will most likely call-back another! Think I'm wrong? Pull 5 Repair orders of the same repair (not maintenance) performed by different technicians and see for yourself!

What all of this means is that to compare or to stand alone on its own, repair flat rates are so dramatically inconsistent from one tech, one advisor and one dealer to another, how could it be used to effectively compare?

Take that whole principal a step further with respect to maintenance.

Many of those “Performance Groups” took the manipulation yet another step further, and elected to remove “Oil changes” from the Hours per RO measurement. This one has always baffled my logical sense of reality. The manipulating dealers contention on this decision being, Oil Changes are really a ‘loss-leader’ and really should be classified more as advertising or promotions than anything else, and since there are so many of them, it has a dramatically negative impact on the Hours per RO calculation.

Without question, the most performed service or repair in ANY Service operation is the oil change. How could one logically agree that eliminating the most performed “sale” in service should be eliminated from the count?

That principal would be like a Honda dealer showroom voluntarily choosing not to count its Civic sales because they are lower grosses! Come on – like the Honda Civic to a Honda dealer’s sales department, the Oil change is to any service department! It has to be counted!

Now, assuming that the dealer does buck the trend and decides to count the oil changes, even this extremely common service, performed by anyone and everyone does not have consistent flat rate times. Even within the same Dealer group, I have found oil changes to be as low 0.2 and as high as 0.5.

Considering the frequency of oil changes (we all know the impact of frequency) performed in a given day, week, month at a dealership, this little difference in flat rate times will have a dramatic affect on the overall number.

If the most common automotive service on the planet has this kind of disparity, one has to assume that tire rotations, brake jobs, wheel alignments, etc will have even more disparity from one dealer to the next (even with the same Groups), thereby, in simple terms, means – comparing Apples with Doors! Not even remotely close to each other!

Let’s take it even further…..

Some dealers do not charge any labor for some items like wiper blades or air filters, while others charge small amounts like 0.1 or 0.2.

So assume that a customer walks in off the street and needs wipers blades – the dealer that charges nothing for labor doesn't even need to create an RO. They will most likely have the customer purchase the wiper-blades over the Parts front counter, and a parts guy or service advisor will put them on for the customer at no charge. This also means NO RO is generated, therefore, NO 0.1 per that RO.

Another dealer who does charge labor opens an RO, charges out the part and charges 0.1 to put the blades on. This dealership just created a 0.1 per RO Repair Order.

How does that affect his overall customer pay Hours per RO? You're right, it negatively affects his number, however, isn't it the job of the Service Department to sell labor? Which dealership in this example would you rather OWN?

It's not just about 0.1 or 0.2 wiper blades or bulbs or any of these specific services, or the logic in charging or not charging a customer for these services - it is about this flawed "Customer Pay Hours per RO" as the ultimate measurement principal.

There are other factors to consider as well, and although, I am making a long argument, longer – the industry needs to take a long hard look at the road it has taken and the fact that this same road is potentially a dead end!

Some dealers put intense value on "gross profit percentages". So, if the percentage of gross profit is the driving force, than naturally labor times can easily be sacrificed for more labor dollars.

Assumptions for example: Technician Cost is $25 per Flat Rate hour.

Dealer A – Wheel Alignment = $99.95 / Flat Rate Time = 1.5 therefore $62.00 of Gross profit or 62%.

Dealer B – Wheel Alignment = $99.95 / Flat Rate Time = 1.0 therefore $74.95 of Gross profit or 75%

Regardless of which structure your operation prefers – the dynamic of flat rate times versus labor sales is an ongoing see-saw. Certainly in this example, Dealer A will likely have the higher Hrs/RO, but does that make him better?

Take this wheel alignment, as a principal a step further – some dealerships don't have their own alignment machine, and thus are forced to sublet that work out.

From a service sales performance, the Advisor who sells the alignment in a store that has no alignment machine has sold the exact same service as an Advisor in a store with an alignment machine, however because it is a "sublet" repair, there will be NO hours at all credited to the Repair Order, and therefore, no impact on their specific hours per repair order. This sublet phenomena in some dealerships, applies, not just to alignment machines, but in some cases, specific types of "work" that are not performed in some dealerships, while performed in others, whether that be REMOTE STARTERS, (which typically have a high flat rate time), or Transmissions, etc. Very common within Dealer Groups who are geographically located close to one another, or "some" of the dealerships are located "close" to each other often share 'overload' work with their partner or sister dealerships. Naturally, if Dealer X is sharing with Dealer Y – what kind of work do you think gets shared? Would Dealer X really send Dealer Y "gravy" or "high flat rate" work?

Not that I am getting off track, I am merely demonstrating the "realities" of flat rates in the real-world. They vary dramatically from dealer to dealer, brand to brand.

I could probably stop with the points demonstrating the ineffectiveness of the Hours per RO measurement, I'm sure my point has been made, but if I am going to change the industry, because his HAS TO STOP, I can't stop with just a few examples!

Take for yet another example - Maintenance packages. I have been the World-Leader of the anti-fluff Service Menu for years, and yet, the headway being made by "Fixed Operations Professionals AGAINST Fluff-Filled Menus" seems to be having little impact.

Without getting into details on fluff (read my many menu articles found on www.ATi360.com) we all know that "checks & inspects" are free virtually anywhere, however many maintenance menus, specifically mileage interval packages contain these checks and inspects.

With some manufacturers and their customers, the 'value' of these Complimentary (or not) Inspections is tied up within the contents of the maintenance packages. Many high end manufacturers sell major interval package for considerably more than the individual contents of that package would cost if purchased separately.

Let's take a major import manufacturer as the example, as they have transitioned to an almost illegal, price fixing maintenance menu in both their higher end as well as mainstream franchises. Lets call them Manufacturer X and Manufacturer Y.

A Service #2 Service for a model in Manufacturer X dealerships, according to their nationalized (Communist?) pricing model sells for $197.95 and includes an Oil Change, Tire Rotation and an inspection of various fluids, components and systems. The real content of this service is an oil change and tire rotation (0.6 would be the most common flat rate total for this package), yet the flat rate time as dictated by the manufacturer is 1.2 hours.

These Manufacturer X & Y customers however have been conditioned over the years to perform these packages and do so much more readily and without question than would another manufacturer' customers; let's call those domestic manufacturers' customers Z. So like the well trained sheep that X&Y customers are, they file in every 6000 or 8000 KMS for their "shaving" – Baaaaaaa.

I include Manufacturer Z customers in this example for more than one reason though; First and foremost, Manufacturer Z customers' have, over the years, been conditioning differently – they have been taught the difference between ACTUAL content and the Inspections that are "no charge". In fact, manufacturer Z customers have been targeted along with their domestic manufacturer friends for a lot longer and more intensely than the import manufacturers by the great and powerful AFTERMARKET world!

Although, I am not suggesting that domestic customers are better educated than import customers, I am suggesting that the perceived prestige in being an import customer has, over the years, conditioned them to do whatever and pay whatever to maintain their prestige vehicle, whereas the domestic customer is considerably more 'discerning'.

The bottom line of this long-winded example is that the 1.2 performed for this Service 2 in an import dealership, would be no more than 0.8 in a generously paying domestic dealership.

This also represents why it becomes such a challenge to compare HRS/RO.

Additionally, many manufacturers have a 12 month, 20000km "adjustment" warranty period, whereby items like wipers are covered for 12 months, whereas other manufacturers carry a 36 month warranty on these same items.

For a Manufacturer that provides the 12 month “adjustment”, realize, adjustments, as named tend to be smaller 0.2 - 0.4 types of repairs, and after that 12 month period are “customer pay” items which obviously AFFECT the Customer Pay Hours per RO. Consequently, manufacturers carrying the 36 month warranty on these items, never have to generate a Customer pay RO for these services, therefore not affecting their Hrs/RO number whatsoever!

But wait, there’s more ………

We initially discussed some of the realities of the showroom, but those same realities can have a dramatic affect on the hours per RO of a Service Operation as well.

Many ‘second tier’ manufacturer dealerships were for many years, a glorified used vehicle lot for larger groups, effectively having the benefit of new vehicle dealer financing available to their used vehicle customers. While this is still common all over North America, these manufacturers have been pushing their dealers to “focus” on their particular brand, and many dealers have begun to do just that.

Consider a brand has only been in the country for a few years, and many of those dealers were/are former Used Vehicle Dealers only and although they sold the odd NEW vehicle, for the most part, their profitability has been generated through used vehicle sales. If and more so, when that dealer “focuses” on his new vehicle business – consider what will occur in the Service Department.

When a showroom is selling considerably more used vehicles (higher gross per unit), the service department has the benefit of customers on the road with OLDER vehicles and little if any “warranty”. When those customers would need “service”, traditionally, it would be repair work on older vehicles – High flat rate hours thus high Hrs/RO. Once new vehicle (lower gross per unit) sales focus begins, now the vehicles on the road are NEWER with warranty, or, in flat rate hour terms – LOW flat rate hours (oil changes and rotates for the 1^{st} 12 months) means low Hrs/RO. It will be at least 3 years before the new vehicle sales focus has any relevant impact on the Service Department.

This principal does not apply only to second tier manufacturers, although it is certainly more common amongst them, it applies to any dealership that has a considerable shift in the vehicles they sell as well as the pure volume of vehicles sold.

All of these demonstrations haven't yet addressed the human nature element of Service Managers and Service Advisors.

Whether their respective pay plans are dependant or impacted by Hrs/RO, or whether over the years, we've simply (and wrongfully) conditioned them to be so focused on Hrs/RO, the reality is, Managers and Advisors are very much aware of their "number" and make great efforts to improve it.

Realistically though, their individual or group efforts may or may not be to the betterment of the dealership as a whole.

No, I am not speaking about Effective Rates, although ELR is very important too, I am speaking about "decisions" that will be made by Managers and Advisors in their recommendations to customers, handling of customers, and decisions they may make on behalf of customers.

Take the "Walk-Around" as an example:

A 2009 model pulls into the drive. The advisor knows that this vehicle is either in the drive for "warranty" or one of its first "services". We all know that most early services are nothing more than oil changes, which will ADVERSELY affect an Advisor's Hrs/RO. Let's assume this vehicle has arrived for a minor warranty 'adjustment'. If the advisor performs the Walk-Around and does an excellent job with it, and ultimately sells the customer an oil change – this RO goes from a Warranty (non-counted) RO to a small 0.3 Repair Order. I know it sounds simple, but this is an everyday reality for an Advisor especially if there pay is somewhat contingent upon their Hrs/RO performance – What would you do?

What if, tomorrow – an additional 500 oil changes were coming through your Service Departments? I mean, completely additional, but, they would not be anything more than an oil change?

Do you want em?

Of course you do! As a dealer – I want that "extra" oil change sold without question! As the dealer, it is also important to recognize what will happen to the Hrs/RO – it goes down.

Not only does the Hrs/RO go down, but that additional oil change is performed at a considerably lower effective rate, which means a considerably lower gross profit percentage too.

Do you “still” want them when all of these “perceived” negatives are a direct result?

I could go on further still, but for now, this is enough……

The real challenge is not whether or not you will continue to measure Hrs/RO, but more importantly – if not measuring Hrs/RO – what SHOULD you measure?

It really is a lot simpler than it seems:

In the Showroom – before ANYONE looks at the gross per unit – the showroom counts the count. Ultimately – the number of units sold is the most important measurement, then it is units sold vs. objective, then gross per unit is next. Naturally, inventory counts on the ground are relevant to the performance of a showroom. One doesn’t want to have 500 units in stock if they sell 50 per month right? Naturally, advertising expense is a vital number in the showroom, and if we sell 50 units per month @ $1500 gross per unit, hopefully we didn’t have to spend $75,000 in advertising to get it!

Service is really no different!

First and foremost – the TOTAL number of hours (ALL PAY TYPES) is what will pay the bills and more!

TOTAL Hours SOLD relative to Total Hours Available (like inventory on the ground, except in Service, we want to sell the entire inventory everyday)

If a shop has 10 technicians working an 8 hour day assuming 100% productivity, you have 80 hours to sell EVERY DAY – concentrate on selling all 80 before worrying about what makes up that 80!

If one had to choose - would you rather have 80 hours per day at 0.5 per RO OR 60 hours per day at 2.0 per RO?

Although, more a by-product of your work mix than anything the advisors do or don't do, Effective Labor Rate is a better number to watch.

If I sell 80 hours @ an ELR of $100 – I have made more than an ELR of $90.

BE CAREFUL – ELR is just a by product of work mix…. Maintenance is typically a lower ELR than Repair, so don't have unreasonable expectations of your ELR.

Quick ELR Math:

ELR on Maintenance is $60 and it represents 60% of your work mix.
ELR on Repair is $100 and represents 40% of your work mix.

Very simply then – your Total ELR should be: $76.00

If your actual is higher than this $76, all that means is that you are doing more repair than maintenance as a percentage of your mix – that's not necessarily a good thing!

If your actual is lower than this $76, you are doing more maintenance, also not necessarily a good thing.

ELR is a like ideal body weight – you want to get to the ideal number, anything over or under simply means, you're not there yet!

At the end of the day – MORE HOURS in TOTAL is the goal, certainly "maximizing" every opportunity that comes to your dealership is important, in fact it is vital, but don't until the shop is selling ALL of the hours and then some, really, do you want to confuse (and manipulate) the issue by partially measuring anything else?

Too many dealers are just too focused on this miserable and ineffective Hours per RO Calculation and it has to stop – GROWTH is the goal, and until Dealers specifically understand the damage they are doing by continuing this ongoing injustice, it will only get worse – STOP IT NOW!

Join "Fixed Operations Professionals AGAINST Hours Per Repair Order Measurements" Today!

This article, as I know, is considerably longer than most of my articles, and I do appreciate your taking the time to read it through to the end. More than your "reading" it though – I really want to have your feedback.

Send me an email through the link below and tell me your thoughts – for/against/good/bad/whatever – It's important!

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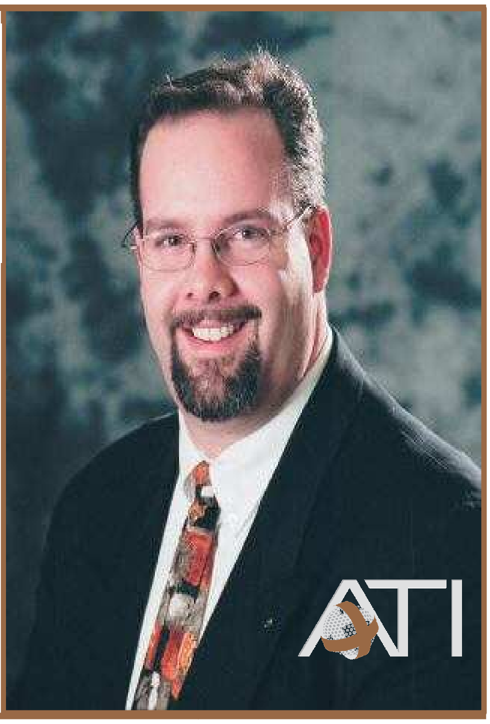

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