

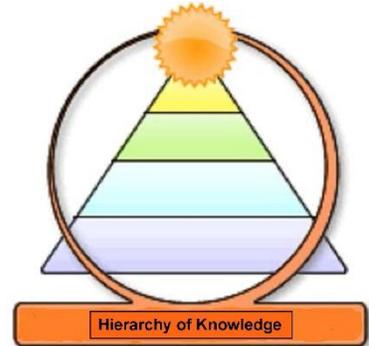
Move Up to the Next Level in Your Personal Performance

On Becoming a More Effective Dealer Manager: **PART 1 –Parts and Service**

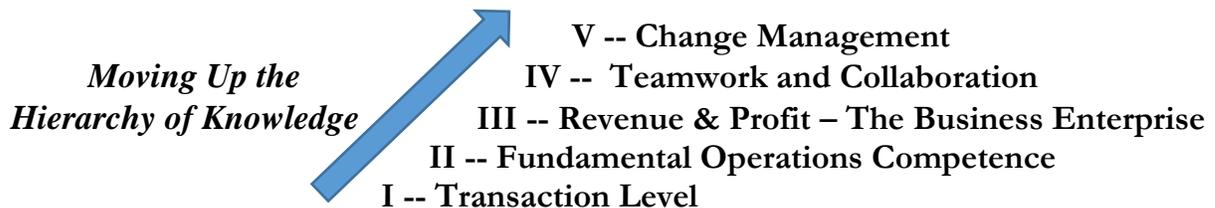
By **Walter J. McDonald**

I -- The Transaction Level

Why do so many dealer sales and operations managers appear to be stuck at the transaction level? They may be caught up in a whirlwind of activities, chasing back orders, struggling with rework, running after low-margin sales. They may be constantly reacting to emergencies, never getting ahead of the curve. Every day is a frustrating firefight.



Successful completion of transactions is important to the dealership. But in the midst of the fray, it is often extremely difficult to see how these problems can be solved more efficiently, at less cost and in a more customer-friendly manner.



Unless the manager can step back, gain some perspective and get a look at the Big Picture, he/she will be forever bogged down, reacting and firefighting.

If we move up the “Hierarchy of Dealer Knowledge” from the “Transaction Level” we can begin to identify causes of problems. And, we can start to structure proper Corrective Action.

II -- Fundamental Operations Competency Level

From this next step to a higher perspective, we can identify two of the fundamental, pivotal causes of frustration and heartburn in the business, keeping everyone in a reacting mode. (One each in parts and service.)

Parts

What do back orders, service labor inefficiency, delayed repair order completion, angry customers and hostility between parts and service and rentals and sales often all have in common? Answer: low immediate off-shelf parts fill rate to the Service Department!

Excellence in off-shelf parts availability of regular stock items for your primary lines is essential to eliminating a large source of problems and frustrations across the dealership. If the technician can't get the part for a customer's machine that's down, bad things almost always happen. No one is happy.

The first and most important proactive step to break out of the firefighting transaction mode is to improve off-shelf parts availability to the service department for your primary lines. Your target is over 95% line item availability. If your Parts Manager is competently managing your parts inventory and stock status report, there are only four reasons why you would be out of a regular stock item: 1) Strike at factory, 2) UPS/parcel delivery services on strike, 3) No dealer replenishment purchases, 4) the Parts Manager is not effectively utilizing the Stock Status Report.

Service

Another cause of disruptions and heartburn in the dealership is emergency breakdowns of customer machinery. This results in immediate scramble for a technician who may or may not have the right parts on arrival. Again, this forces the dealership to be in a reactive firefighting mode, at the mercy of random events that cause havoc on day-to-day operations.



After parts availability, the second most important proactive step to break out of this firefighting transaction mode is to initiate customer-wide machine inspection and scheduled maintenance service. Two major heavy equipment manufacturers each found that over 85% of emergency machinery breakdowns can be prevented through “fix before fail” maintenance programs.

Implementing a comprehensive machine inspection program means that customers will suffer far fewer unexpected breakdowns. The dealership will be able to schedule these maintenance procedures at their pleasure, when convenient to both the customer and the dealership. Result: greatly reduced dealer heartburn and much happier customers. With proper maintenance procedures heavy equipment emergency breakdowns can be reduced to 15% of total repairs. And, in the forklift industry, we have seen entire fleets where unscheduled, emergency repairs were driven down to only 3 to 5% of shop work. This was achieved through effective end user scheduled maintenance programs.

A second big stress reducer in the Service Department is to minimize customer “status calls.” As much as 85% of customer calls during the day are to determine status of a repair or quote, etc. By being proactive, Service Managers can reduce these interruptions to only 5%. Call the customer when something unexpected is going to happen, when the estimate is too low, when there is a delay, when a promise is not going to be kept. The significance of this is huge. Status calls from frustrated customers can permeate the business with unneeded interruptions from sales to aftermarket. And, the remedy is so simple: *Contact the customer!*

III -- Revenue and Profit Level – The Business Enterprise

At this next level up the Hierarchy of Dealer Knowledge, dealer managers begin to understand they are managing a business. In addition to managing Transactions, managers take the first step to better understand and control the drivers of Revenue and Profit.



Business financial operations are tracked and illustrated by Departmental Sales, Gross Profit, Departmental Expenses and Profit After Direct Expenses (PADE).

At this level, successful dealer managers work toward improving sales volume with higher margins. They are also charged with properly managing the assets under their control.

Parts

As much as 53-55% of dealership parts sales are driven by Repair Orders. And, machine inspections are, by far, the most important driver of Repair Order sales. Parts sold on Repair Orders initiated by machine inspections are usually sold at or near undiscounted list price. These parts sales are the result of Second Segment Work identified in machine inspections. Therefore, an effective machine inspection program directly benefits incremental parts sales and improved profitability.

In terms of asset management, parts managers must balance inventory stocking levels essential to providing high fill rates with adequate inventory turns. Gross Turns should be in the range of 4.8 to 5.0. And, the biggest obstacle to an acceptable turn score is parts obsolescence. Obsolescence must be kept to under 9-10% of inventory value.

Service

If managed properly, service generates the highest gross profit margins in the business. And, the key driver of service profitability is labor productivity, the ratio of hours billed to hours available to work. Anything that contributes to higher service labor productivity and profitability should be examined. An extremely valuable amount of billable service labor hours appear each morning at the start of the working day. The very best dealers are able to utilize and charge out at least 90% of those available hours. If these hours are not captured and billed through real work each day, they are lost forever.



Clearly, the number one contributor to improved labor productivity is off-shelf parts fill rate to the service department. If the technician can access the right part exactly when he needs it, he can complete the job efficiently and move on to the next one. If he has to wait for a part, he has to stop the work, move on to something else and start over later. A tremendous distraction and cause of very costly inefficiencies!

Service labor volume is best driven through machine inspections. No other activity has more immediate impact on building service department sales.

The biggest asset the service manager controls is the shop floor space. What is the weekly productivity of each service bay? What is the actual percentage of time billed against total potential for your service bays? Are you billing out 90% of the available time to work in each bay? Or, are you using empty bays to store old used equipment?

IV -- Teamwork and Collaboration Level

The most successful and profitable machinery dealers recognize the mutual interdependency of service, parts, rentals and sales. These dealers recognize the Service Department as the backbone of any highly profitable, customer driven dealership. And, the Parts Department is the ultimate support department of the Service Department. These management teams do everything possible to support the whole organization with customer friendly excellence in delivering top notch service.



High-Performance Metrics

In addition to fostering team play, these dealerships measure and monitor Key Performance Indicators designed to enhance the efficiency of their operations and improve the customer experience with their dealerships. Some of the performance metrics they measure and monitor are:

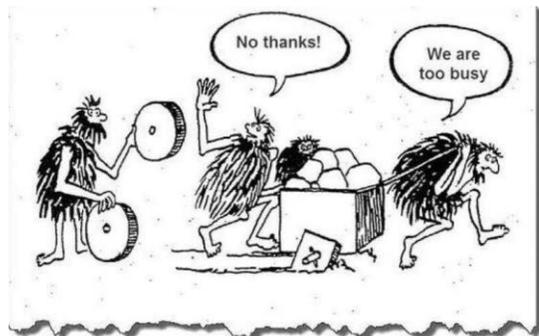
- Off-shelf fill rate to be over 93% for stocking items.
- Inventory accuracy through cycle count to achieve < 1% item count variance.
- Cause and effect of emergency backorders and efficiency in expediting emergency backorders.
- Technician Productivity to over 90%. (Hours billed/hours available.)
- Service Department Recovery Rate to over 75% (Hours billed/hours paid.)
- Increase Customer Labor Rate Multiple to over 3.1.
- Reducing Unacceptable Unapplied Time to under 4%. (Rework, etc.)
- Reduce customer “status calls” to under 5%.
- Achieve “Preferred Vendor” status with over 40% of service and parts customers by having more than 6 sales transactions with each per year.

NOTE: These *High-Performance Metrics* are explained in detail in my “*Master’s Program in Dealer Management*” book series.

V -- Change Management Level

In order for a dealership to grow and prosper, it must change and adopt improved processes, systems, management tools and controls. Competitive pressures and industry trends today require the dealership to either grow or go.

Dealer management teams who refuse to take advantage of new and better information technology quickly lose competitive advantages because competitors are able to make better, quicker decisions at lower cost. Competitive pressures require lean distribution management, doing more with less. This means simplifying processes through automation, utilizing assets more effectively to produce higher margin transactions, improving communications with customers and team members, and responding more appropriately to OEM requirements.



All of this requires change. Change in management attitudes. Change in organizational culture. Change in how problems are diagnosed and solved. Change in what management tools are used and how they can be applied more effectively.

The biggest obstacle to successful implementation of this process is the whirlwind of activities surrounding completion of day-to-day tasks.

Dealer managers who are able to break through and achieve great success have several things in common:

1. They focus on only one or two really big opportunities for improvement that will have dramatic positive impact on financial results.
2. They identify, track and monitor the essential quantitative performance metrics most relevant to exploiting those opportunities.
3. The progress scores are published within the team.
4. The management team is accountable for the success of the Remedial Action Plan. And, progress is reviewed frequently by the team.

The challenge for dealer managers is discovering ways to implement required Action Plans when under pressure while not falling back to the Transaction Level and succumb to the windstorm of crises and emergencies of the day.

The Hierarchy of Dealer Knowledge for the effective manager, demonstrates the necessity of focusing on “the Really Important,” structuring appropriate Action Plans, monitoring progress, tracking results and maintaining commitment within the organization to make it happen.

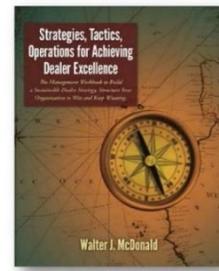
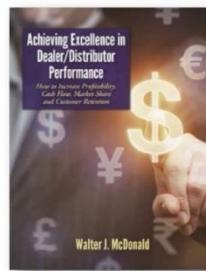
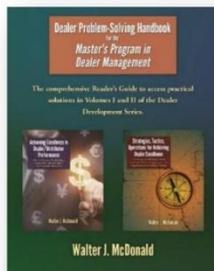
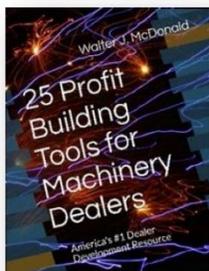
NOTE: Part 2 of this article, “On How a Field Sales Representative Can Become a More Effective Dealer Manager” will appear in the next edition of this NEWSLETTER.

Bring these Powerful Tools to Your Dealership

This Five Step Hierarchy of Dealer Knowledge are just a sample of the fresh, new approaches to dealer business management found in my *Master’s Program in Dealer Management*. To learn more about how your business can benefit from our workshops and publications please contact:

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