16 Tools to Build Your Service Labor Business

The sweet sixteen that will make you dramatically more profitable. By

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Industrial Equipment Dealers want and need to know how to improve service labor sales and profitability. To them, until now, nothing seems to work very well. I have just completed four consulting projects for equipment dealers and a series of five dealer workshops for an equipment manufacturer. All of these efforts were focused on improving service and parts operations. Working with these many dealers, we applied these 16 tools with very good results. And, I thought you might be interested in what worked best.

1. Rank Aftermarket Customers by Sales Opportunity

Ranking service and parts direct customers is nothing new. This is easily done to identify your largest current aftermarket accounts. The added, most useful dimension is determining "aftermarket potential" by account. Account aftermarket potential is based on the number of units he owns times an annual labor and parts "consumption factor."

Your aftermarket sales opportunity is the account's total potential less your current service and parts sales to him. Rank service customers separately from parts direct customers who do their own maintenance. Which of your current accounts offer you the greatest incremental sales opportunity based on their current mix of units? This is extremely valuable information and enables a highly focused business aftermarket development effort based on just a little work on Excel. (If you don't know what your customers own, it's time for a customer census.)

Some manufacturers provide unit consumption data by equipment type to their dealers. If yours can't, it's not that difficult to approximate the amount. Two quick sources include your rental fleet and large customers who keep very accurate equipment maintenance records. You want to know how many labor hours and how many parts dollars does one piece of each type of equipment consume in a typical year. Your estimate does not have to be exact. If you have many lines, first focus your efforts on your most populous units. If you sell underground tools such as directional drills and trenchers, they consume large amounts of parts and supplies annually. So, do each. If you sell everything from wheel loaders and excavators to skid steer loaders, you can develop one consumption factor for heavy equipment and another for light. This is a great part-time assignment for a young business admin student intern.

Customer	ZIP Code	Number Units in Fleet	P & S Consumption Factor $	Annual P & S $ Potential	Dealer P & S $ Sales	Current Sales % of Potential	P&S $ Sales Opportunity
Albert Grimes	**60047**	**57**	**2980**	**340,860**	**11,224**	**3.4**	**329,636**
Yancy Const.	**60056**	**82**	**3200**	**262,400**	**93,578**	**35.7**	**168,822**
Tupelo Materials	**60007**	**93**	**2700**	**251,100**	**106,795**	**42.5**	**144,305**
Hensen Demolition	**60090**	**42**	**3200**	**134,400**	**3,184**	**2.4**	**131,216**
Folkert Const.	**60008**	**26**	**4900**	**127,400**	**212**	**0.2**	**127,188**
Lake Hills Services	**60074**	**13**	**3700**	**48,100**	**2,116**	**4.4**	**45,984**
Huff	**60056**	**91**	**2100**	**191,100**	**148,325**	**77.6**	**42,775**
Kolowski Ltd.	**60006**	**39**	**1800**	**70,200**	**62,100**	**88.5**	**8,100**

In the chart above, the dealer adjusted his consumption factors based on the type of units in each account. He worked through his customer base in batches of 50. The batch categories were roughly sorted by number of units.

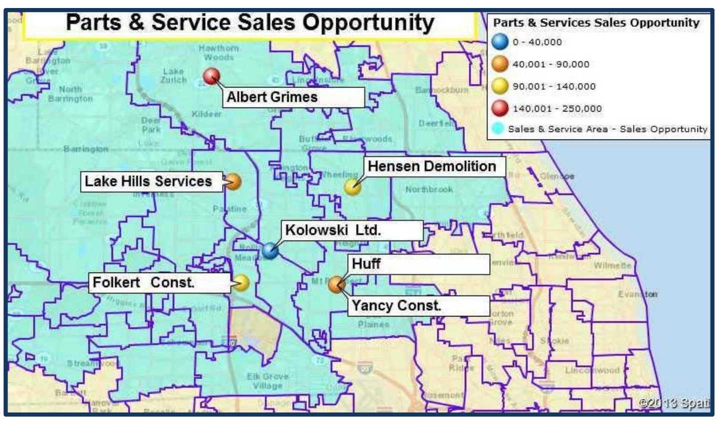
Once the spread sheet was completed, the dealer sorted customers by P&S $ Sales Opportunity, largest to smallest.

The resulting ranking report of aftermarket customer sales opportunity is amazing because most likely no one in your service and parts operations ever considered a focused sales approach on those newly identified high-potential accounts. See Folkert Const., for example.

2. Plot Aftermarket Customers on a Wall Map

Many dealers find it extremely useful and informative to create a large wall map of at least 24" x 30" representing customer locations. This tool assists you define aftermarket sales opportunities. Managers find it easier to visualize geographic clusters of opportunity on a map vs. a columnar list of customers and prospects. See sample map below.

Very inexpensive software and printing resources are now available to create informative and helpful tools to assist plan sales and customer support campaigns. Customers and prospects can be indicated on the maps by a wide variety of symbols and sizes and colors.



A reasonably priced map resource is www.MapBusinessOnline.com. This web based mapping software is a very userfriendly program that supports both Windows and Macintosh web browsers. Business data can be easily imported from Excel spreadsheets or text files. The user can save maps as Jpeg, PNG, or PDF images. An annual subscription for a single user costs about $250.00 per year.

Then, working from your PDF map file provided by *MapBusinessOnline.com,* Office Max can print color images from 24" wide to up to 60" in length for just a few dollars each. Call first to make sure their printer person is available.

Three of the most useful maps we helped this dealer develop included:

Map A -**All dealer equipment customers by ZIP**. Four current fleet size categories by symbol size. Yes/No PM Contract by symbol color. *The dealer could immediately see which large machinery customers were under PM agreements or not.*

Map B -**All current aftermarket customers by ZIP**. Four current customer fleet size categories in units by symbol color. Current P&S sales opportunity potential shown by symbol size. *This dealer saw where your large aftermarket sales opportunities were located.*

Map C –**All Parts Direct customers by ZIP.** If you have numerous parts-only accounts that do their own maintenance, do one map for them using logic of Map B. *The dealer easily determined where his large aftermarket parts direct sales opportunities were located. Some of these needed special order/receipt/delivery arrangements or consignment inventory accommodations for their remote location. Ask me for my convenient consignment inventory control technique.*

3. Profile Your Largest Aftermarket Sales Opportunity Customers

Who are their key players and aftermarket purchase influencers? What is the nature of their fleet, application, utilization, work environment, maintenance issues, down-time and emergency service history, and current maintenance practice? What is their attitude toward your dealership? What is their payment history? If you would like a handy profile worksheet to help you get better acquainted with these important accounts, just let me know. Most dealers maintain a very poor information data base on these high-value accounts.

When looking at your customer base, also do two essential computer runs: customer ranking report by aftermarket total dollar sales and customer ranking report by aftermarket gross profit margin percent. Who are paying your bills? Which should be developed? Analyze what your customers are purchasing from someone else that they can purchase from you. How can you win that business? Maybe you do the maintenance but they seasonally rent from someone else. Maybe you can discover a pattern in your customers purchasing and it is a business you need to get into? Maybe if you had it available they would buy it from you?

You are not in the business of selling parts and service…

You are in the business of selling up-time and productivity!

4. Build Up-Time Strategies for Your Largest Aftermarket Accounts

Remember, you are not in the business to sell parts or service. You are in the business to sell up-time and productivity improvements. Once you help your account determine his hourly cost of downtime, you can build a very persuasive case for your "fix before fail" maintenance support efforts. These can include everything from periodic inspections to a full-scale PM Program with oil analysis or even full or guaranteed maintenance agreements. Your "fix before fail" strategies enable you to schedule and make essential repairs at your customer's convenience as well as yours. This greatly reduces fire drills in busy season, ensuring higher levels of customer satisfaction. You become a strategic partner with your most important accounts.

5. Organize and Present Executive Level Recommendations

Your top 25 high-potential aftermarket accounts deserve a thoughtfully prepared and presented "Maintenance Cost Reduction Strategy" by your top executives including your Dealer Principal, Service Manager, Sales Manager and Field Sales Rep. Come prepared with an analysis of <u>their</u> recent maintenance cost history.

Determine what costs were incurred through normal wear and tear, what amount of the total was due to poor maintenance practices and what cost was caused by operator abuse. As much as 40% of their maintenance cost could fall into those second two, controllable expense categories.

Top executives in your dealership should meet with these 25 most important accounts in a formal review at least quarterly. Discuss the last quarter, frequent repairs, damage by unit and operator, review the partnership, measure their satisfaction level, are you responding in time, what can the dealer do better, what units may need replacement soon for budgeting? Does your dealership have a fleet management system customers can see on line? The one question you want answered in great detail: "Other than price, what can we do to help you make more money?"

Offer suggestions on how you can team up with them to manage and control these costs through better "fix before fail" maintenance procedures, operator training and closer monitoring of unit life-cycle costing. Let me know if you would like my article on equipment life-cycle costing techniques. It is a simple economic model that illustrates when a unit should be replace based on cost over time.

6. Expand PM Program to All Accounts

Once you have successfully implemented your "fix before fail" strategies for your highest aftermarket sales opportunity accounts, roll it out to second and third tier customers. Use your map of "account clusters" so that you can promote and sell PM Programs in confined geographic areas to facilitate efficient completion of scheduled inspections. You must track PM completion ratio to stay profitable and competitive. Make absolutely certain you have the proper scheduling, dispatching, training and manpower to do it well. If you fall behind, is it a manpower or scheduling issue? As for our manpower needs calculator.

You must track PM completion ratio to stay profitable.

If you are really hungry and aggressive, conduct a full market census of competitive users. A part-time student intern with a good telephone personality works well. (Ask me for my customer census survey form.) Based on the vulnerability of your competitors' aftermarket reputation, pursue maintenance business from their accounts using all the tools mentioned above. Best high-potential prospects can be mapped to facilitate coverage. Parts can be obtained out-of-state at a discount.

7. Upgrade and Refine Inspection Procedures

They way to derive most benefit from "fix before fail" is through comprehensive inspections. Do you have a good one for each type of equipment you sell? Is it current? Are your technicians trained to complete it properly? Do they know the very best way to present their recommendations to the customer? Remember, your field service technicians can have the highest level of credibility with customers. Higher than anyone else in your business! Customers will listen to them. And, the implications of this are huge.

8. Track Second Segment Work

Second segment work is the service and parts sales generated through equipment inspections. These sales should be tracked by technician, by customer and overall average per inspection. Your team will quickly see the sales value of each inspection and will encourage your managers to ensure that your technicians are properly trained with the right inspection forms. It is essential to track and monitor second segment work. As a stand-alone activity, inspections are typically unprofitable. Make certain your business systems identifies second segment work generated. This revenue stream justifies everything, including repeat machine sales.

9. Equip Technicians with Effective Procedures and Proper Training and Incentives To be successful, you must establish effective procedures and policies for the technician who does the inspection. How does the recommended repair get communicated to the customer? When is the customer asked to OK the repairs and by whom? How does the technician document the customer's refusal to proceed with repairs if the machine is to be tagged and shut down for safety? How does he prevent your liability in case of operator accident? How does the dealer train the technicians to do all this properly? Finally, what type of lead fee is paid to the technician for identifying an opportunity to sell a replacement machine? Remember, he likes to fix things, not sell them.

10. Establish productivity and efficiency standards for technicians
The three most important metrics for technicians are productivity, monthly dollar billing and efficiency. Productivity is weekly hours billed ÷ hours available. Monthly dollar billing is the total labor sales for that technician that month. Efficiency should be calculated for each job and weekly overall. Efficiency = Estimated Time ÷ Actual Time on this job and all jobs for the period. As you are able to improve your data on estimated times, you will benefit through being able to provide more accurate customer estimates. In addition you will have a valuable tool to identify technician problems and training needs.

Remember: Each incremental dollar of billing achieved through increases in technician productivity incurs zero cost. In addition, each incremental dollar of billing also carries though parts sales at full gross profit margin. If a dealer really wants to increase profitability, the first place to look is improving service labor productivity.

11. Set monthly dollar billing goals for technicians over $10,000 per month. If not there, you need to find out why quickly. Compare what the very best are doing compared to the average? What is the difference? What can be done to help the lower billers achieve what the top producers are doing? You do not want to waste their time on facilities maintenance and other non-revenue producing activities.

12. Work on off-shelf parts fill rate to service
We found that as much as 50% of improvements in labor productivity can be attributed to better supervision with performance metrics. And, 50% can be directly attributed to improved off-shelf parts fill rate **to the service department**. (The other 50% is based on better supervision with individual technician productivity metrics.) Your immediate off-shelf parts availability to support primary lines should be well over 90%. If not, determine why. Then fix it.

Up to 50% of labor productivity improvements are achieved through better off-shelf parts service fill rates.

13. Eliminate dead stock that compromises working capital
One of the big reasons why fill rates can be low is that a large portion of your inventory is dead. We just worked with one dealer in which 28% of his stock had zero movement in 12 months. And, this excluded protected stock for new models. Considering direct and indirect and opportunity costs, his $385,000 in dead stock was costing him $481,000 in reduced operating profit every year. And, it crunched his inventory turns down to only 2.3.

14. Structure long-term customer retention best practices

What are you doing to defend the service and parts customers you already have? Are you building a high level of product support and customer service? Have you constructed such a robust, protective defensive perimeter around your customer base that you can ward off all competitors? Remember, low price is a terrible defensive strategy. Excellence in product support is the best. Do you offer full or guaranteed maintenance opportunities to help the customer avoid the variable costs of running their business, and fixing the cost, less damage?

Construct a robust defensive perimeter around your customer base with a high level of product support to ward off competitors.

The biggest challenge in running a business is to avoid surprises, like major repair expense the customer was not expecting. The value to your dealership of offering fixed cost maintenance is that you will not lose the business to a competitor over a labor rate, you will lose it because you do not respond and keep them up and running.

15. Track overall aftermarket product support metrics

Today, the computer is the great equalizer. Even the smallest dealer can afford a management information system to provide essential data to deliver excellence in your service and parts operations. The rule of thumb is that your new information systems investment returns about four times the cost. We have covered most of the essential metrics in this article. And, the important point is that if you can't measure it, you can't manage it!

16. Pursue absorption rate as much as you pursue new equipment unit sales

Absorption Rate is the final quantitative data point you must track: Gross Profit from Service+Parts+Rentals ÷ Operating Expenses Less Variable Commissions. Set 110% as a strategic goal. There are dealers at 130% or better but it took them 5 years to do it. Why not start today?

If you have any comments or suggestions regarding these 16 tools, we'd welcome your feedback.

Walter McDonald is President of The McDonald Group, Inc., Arlington Heights, IL. Walter has been a frequent guest contributor to *Material Handling Distribution Magazine.* Since 1975 Walter has presented over 2,650 workshops and seminars all over the world for equipment dealers, including several for MHEDA. You are welcome to contact Walter at *Walt@McDonaldGroupInc.com* or 847/340-5518. You are also invited to visit his new web site: *www.McDonaldGroupInc.com*.