

EXECUTIVE SUMMARIES

When fixed coverage lags, the problem might be the pay plan not the service advisors 2

Case study:

▶ A Toyota dealership with fixed coverage in the mid-50s pinpointed a low parts-to-labor sales ratio as the culprit. The service manager started holding daily sales meetings with his service advisors to encourage more parts sales. It turns out there was a better solution.

Suggested solution:

- ▶ To change the behavior of employees, telling them to change isn't always effective.
- ▶ Review the pay plans to see if they are sending the wrong message.

Arizona dealer seeks customer service edge with holiday valet service 2

Idea:

▶ In a competitive market, service managers need every edge they can get to keep customers coming back. An Infiniti store in Scottsdale, Arizona, wants to give "valet" service a try during the holidays.

Implementation:

- ▶ Promote the service with an e-mail blast to customers, prospects, and folks who haven't been in for a while.
- ▶ Target customers due for scheduled maintenance to maximize upsell opportunities.

Loyalty programs offer chance to snare repeat business even in a down market 3

Situation:

▶ Too many dealership customers stop coming back for service after their new-car warranties expire. One approach is to give the customers a reason to return with rewards for loyal service.

Strategy:

- ▶ Beat the quick lube operators at their own game with a punch card or key ring tag that encourages multiple dealership visits.
- ▶ Make customer retention part of your everyday business practice.

Tire deals, pictures fuel growth at California Ford service department .. 4

Concept:

- ▶ Dealership service departments need to stand out from

the competition by giving customers a reason to remember them. The manager at this Ford store tried a couple of ideas and saw his sales increase by 12%.

Practice:

- ▶ If you already give your customers a multi-point inspection report, try adding a photograph of the problem so customers can actually see the damaged parts.
- ▶ Photos add "third party" credibility to your service recommendations.
- ▶ Don't ignore tires as a source of new business.

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Problem:

▶ Service departments are heavily reliant on their computer systems. So when the computers go down, work in the service department is likely to grind to a halt.

Solution:

- ▶ Anti-virus programs and spam blockers aren't enough to protect the DMS.
- ▶ A new service, Websense, provides e-mail and Internet security.

Montana dealership hikes accessories sales 85% with new training and software 6

Target:

▶ Find a way to dramatically increase service department gross profits and raise shop utilization rates without a major investment by the dealer.

Approach:

- ▶ Focus on accessories sales.
- ▶ After an initial investment in training and tools, use a "pre-packaged" accessory kit to get the work done.
- ▶ No investment in parts inventory.

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Observation:

▶ What gets measured, gets improved. It's not sufficient to do multi-point inspections, service managers need a tool improve accountability and track results.

Recommendation:

- ▶ Effective measurement tools will allow the service manager to service advisor closing ratios.
- ▶ Monthly reports aren't timely. A daily reporting system is needed.

When fixed coverage lags, the problem might be the pay plan not the service advisors

Last month, *Service Manager* reported on a case study involving an apparently successful Toyota dealership in Pennsylvania. The problem we identified was that, although the store was profitable and the service operations were running well by most measures, the fixed coverage ratio was only in the mid-50s. The service advisors were selling lots of labor, but parts sales were lagging.

Fixed coverage, you will recall, represents the ability of a dealership to “cover” its operating expenses with the gross profits generated by the service and parts departments (and the body shop if the dealership has one). Dealers strive for 100% fixed coverage, but a realistic target is 75% to 80%.

Check the pay plans

In our case study, the service manager’s solution was to get more involved in the service advisor’s sales efforts. He instituted a daily sales meeting just before the doors opened in the morning. Service advisors were reminded that their goal was sell \$1 in parts for every \$1 of labor.

The idea is a good one as far as it goes, but Gene White, president of Gene White Management in Slidell, Louisiana, came up with an even more obvious solution. See if you can figure it out.

Here’s the actual service advisor pay plan for the Toyota dealership:

1. Weekly salary of \$250.
2. Commission based on individual flat-rate hours sold.
3. Weekly bonus of \$135 - \$260 for shop efficiency.
4. Weekly bonus of \$125 - \$200 for effective labor rate.

5. Weekly bonus of \$50 - \$150 for hours/repair order.
6. \$2.00 for every menu sale.
7. Monthly CSI bonus.

Service advisors in this dealership

earn \$50,000 to \$60,000 a year.

It looks pretty comprehensive doesn’t it? If you can spot the flaw in the pay plan, go to the head of the class with Gene White.

As Gene correctly guessed, the

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Arizona dealer seeks customer service “edge” with holiday valet service

It’s a competitive market out there. Between a weak economy, and low-balling independent lube chains, service managers are looking for new ideas and new ways to separate them from the pack and keep customers coming back.

At Infiniti of Scottsdale in Arizona service manager Bob McGinnis and service director Frank Canisales have decided to make the holiday season work for them by offering a holiday valet pickup and delivery service for customer using their shop.

“We’re looking for a different edge,” Frank told *Service Manager* recently.

The program just kicked off Nov. 11, so at our deadline it was too early to say in specific terms how the program had impacted business, but Frank says customers have told him they are excited about

it – and appreciative.

E-mail promotion

To promote it, they did an e-mail blast to existing customers, prospects, and those who hadn’t been back in a while. They also alerted local media.

“We wanted to do something really nice, really luxurious, for our service customers during the holiday season,” said Bob. He’s been with the shop since it opened in 1990.

Their Holiday Valet program runs until New Year’s. It’s free, and of-

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service advisor pay plan does not provide any commission or bonus for parts sales. It turns out that this is a flaw in many of the service ad-

visor pay plans we review. Parts sales are taken for granted. Some dealerships take the simple approach and pay service advisors a flat percentage (usually 4% to 6%)

of combined labor and parts sales. Gene suggests replacing one of the labor-oriented bonuses in the above pay plan with a bonus for parts gross profits. ❖

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fers pick-up and delivery of vehicles for service customers.

They are targeting customers who need regularly scheduled maintenance, such as the 7,500 mile inspection, or the 15K inspection. But it is also open to bigger, unexpected maintenance work such as tires, brakes and alignments.

Advance planning

But Bob and his team didn't want this program to turn into *The Nightmare Before Christmas*. So they sat down and thought it through beforehand. "This is the first time we are doing this, but we expect the demand to be pretty high," Frank notes.

All requests for appointments must be made with 24 hours notice, and will be subject to prior appointments already on the service sched-

ule. The pick-ups and deliveries will run from 7:30 am to 7:30 pm, Monday through Friday. No weekends.

Bob's team at Infiniti will handle the car pick-ups and deliveries, with backup from other personnel as needed. Just like a restaurant that offers carry out, Bob has set a delivery area that is finite, but that covers virtually all his car owners. ❖

Loyalty programs offer chance to snare repeat business, even in down market

While the sales figures for new cars, especially domestics, are pretty chilling these days, service departments can thrive in a down market, experts tell *Service Manager*. Some of it is basic common sense: When money is tight, people are more inclined to coax their old car along with service rather than buy a new one.

But service managers we've talked to have also told us that "loyalty programs" can be a big boost. The problem is that sometimes service managers don't really understand what a loyalty program is or is all about, says Andy Wolfe, managing partner at Dealer Concepts, and a pioneer in the concept for service departments.

"There is such a gigantic need for dealerships to understand loyalty programs today," he tells *Service Manager*. The reason is simple: Times are tough, customers are struggling financially themselves, and quick lube shops and other competitors often do a better job of marketing to existing customers, he says.

Fixed operations figures

Studies done over the last few years also show that service accounts for the lion's share of profits at most dealerships (see box below).

that's more the job of traditional advertising, e.g. "Come to Our Shop in January and get 10 percent off Any Service" coupons.

2006 Profits Profits by Department (according to NADA)

- New Cars: -3.3% (vs. 14.5 in 2005)
- Used Cars: 28% (vs. 27% in 2005)
- Service and Parts: 77% (vs. 66% in 2005)

But a key to making a loyalty program work is understanding what it is – and isn't. For example, some service managers make the mistake of thinking the goal is to get a customer to come into your shop for a single visit. That's an important thing to do, Andy points out, but

Training customers

Instead, a loyalty program, often featuring a punch card or key ring tag, should "train" your customers to make multiple visits to your shop with the lure of a reward, e.g. a free oil change after you've paid for three.

Repeat continued on page 4

Repeat *continued from page 3*

“Loyalty programs create ‘stickiness’ at your dealership,” Andy explains. “They give customer a reason to come back without having to rely on traditional advertising alone.”

And as NADA and others have

LOYALTY PROGRAM EXPERT OFFERS FREE WEBINARS

Dealer Concepts Managing Partner Andy Wolfe will conduct a free webinar, “Retaining Customers during Tough Times,” every Tuesday and Thursday at 2pm EST. Any dealer or service manager can register. Info is available at www.yourloyaltyrewards.com/register/

The one-hour webinar will include a presentation and Q&A session. Discussion areas during the presentation include how to:

- ▶ Cultivate a culture of retention
- ▶ Create and build a successful loyalty program
- ▶ Utilize the Internet as a retention tool
- ▶ Motivate customers
- ▶ Maximize profits

demonstrated, winning customers for profitable service business actually helps to win them for new car sales anyway. Some studies have found that Regular service customers are 17 times more likely to buy their next vehicle from their servicing dealers.

“Dealers who are serious about succeeding must make customer loyalty and retention part of their every day business,” Andy says. But that’s not as easy as it might sound, he warns. For starters, many dealerships focus a huge amount of time,

money and other resources on new car sales – sometimes at the expense of service.

For example, the average dealership spent almost \$400,000 on advertising last year, and almost 90 percent of that went toward new car sales, not promoting service. “Over five years of ownership, this means that \$328,157 was spend on a three week window acquiring a new customer which leaves \$36,461 to *keep* these customer over the next five years,” Andy says. ♦

Need to convince your GM to invest in service promotion? This might help

If you are a service manager who needs some ammo to convince the GM and others that your department deserves more seed money, consider this:

An October 2008 study from the respected Deloitte research and analysis firm says profit from service and parts operations is more than 53 percent higher than overall business profitability.

“By neglecting service and parts, automotive companies jeopardize their business models. Inviting competitors to exploit captive markets is a dangerous game. Service is a crucial link to customer loyalty and retention,” they say in the report.

“Success in servicing a sold product is typically a crucial component in building a manufacturing brand. Failure in the service business can mean the slow (or sometimes not so slow) death of a brand,” adds the report, “Ladies and Gentlemen, Start Your Service Engines.”

Tire deals, pictures fuel growth at California Ford service department

Service business is up at least 12 percent and tire sales have increased by 100 percent in the past year since Simi Valley Ford tried some new wrinkles: inspection reports with photos, and a “buy three, get one free” tire deal, says president Larry Hibbler.

Offering extensive inspections to customers has been popular, he reports, but the program really took off when they added detailed reports with photos of the potential work, e.g. corroded battery or worn belts or tires.

“Customers would say they want-

ed to think about it,” Larry reports. Many would get home and not return. But with inspection reports that have clear photos of the projected service work, Larry says many more are coming back or calling the next day to schedule the work, even if it’s a big ticket item.

“The reports with photos almost act like a third party” in customers’ minds, Larry says. Instead of feeling like the dealership is pushing them to make a repair, they can simply look at a photo and that tells the story in a non-aggressive way, he says.

“Our customers say they love the photos in the inspection reports,” Larry says. His shop inspects every car and conducts a walkaround, too.

“Photos are better, more detailed inspection reports have improved our service profits by 12 to 15 percent,” he says.

And he’s also scoring with a new tire promotion that has boosted tire sales by 100 percent and started bringing in many non-Ford customers. “They come in for the tire deal and we win them as longer-term service customers,” Larry says.

Larry also says a Ford Advantage card program that gives “points” per dollars spent in the shop has had

a positive impact. It’s been especially helpful holding on to a disappointed customer. “Instead of losing them or having to give a refund, we just tell them that we can add some extra points to their card” and it is a more cost-effective way to make an otherwise irritated customer feel better and keep coming back to Simi Valley Ford for service, he says.



Nevada dealership group protects computers from hackers, downtime

Six months ago the computers at the Michael Hohl Automotive Group were going down “all the time,” recalls information technology manager Doug Hays. With more than 100 employees and nine dealerships across northern Nevada, Doug struggled with protecting network computers from viruses, Trojans and other scary online threats.

The Hold Auto Group includes Buick, Cadillac, GMC, Honda, Chevrolet and Subaru. They also have two RV dealerships. The group also specializes in parts sales and services, and has a growing online presence that offers financing, inventory, parts ordering and appointment requests.

Employees using compromised websites

The compromised computer network problem was bigger in the sales department, but service and especially parts had their share of troubles, Doug tells *Service Manager*. “We would lose a computer weekly or more often, sometimes all day, and sometimes having trouble retrieving vital information on that computer.”

Even though they regularly installed and updated various anti-virus systems and anti-spam blockers on their Email server, employees were inadvertently introducing malware into the organization by

unknowingly visiting comprised web sites and clicking on spam links that connected them to infected sites, Doug says. “I spent the majority of my day cleaning machines and worrying about losing confidential data.”

But he’s recently installed Websense’s Hosted Email Security system and reports he hasn’t had a down computer since. “We used to have computer down all the time, and now we don’t,” Doug says.

“With the hosted deployment option from Websense, we saw results immediately. In just a few short months of having the product up and running they have paid for themselves in terms of time saved cleaning machines,” he reports. “Websense also allows us to allow our employees to use the Internet safely and productively, while reducing our business risk.”

Encrypted Email

The Websense Hosted Email Security system eradicates spam while

protecting against viruses, phishing and other malware. The solution also keeps organizations’ essential information from leaving the company by encrypting and protecting outbound service Email. The solution protects against malware and delivers granular Web filtering and centralized policy management for any type of environment, including those with remote locations, home offices, and mobile laptops.

All Websense solutions are powered by the ThreatSeeker Network, which continuously monitors the Internet for changes and emerging threats. The resulting information is immediately incorporated into the company’s Web, data and Email security solutions. The result is that the network adapts to the rapidly changing Internet threat environment at speeds Websense says is not possible by traditional security solutions.

“We’ve had no problem installing or training our team to use it,”

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Doug says. Questionable websites are blocked, but it is easy to override that and allow them in if they are okay. Doug says he has probably allowed about fifty different websites in since installing the system. “Downloads are the most dangerous,” he adds. Websites and Emails with downloadable attachments present the highest risk, so

those he examines closely via Websense.”

Service writers and techs use the system by logging in with a password from whatever location they want to use.

Doug reports that for safety’s sake he automatically blocks all

training videos and presentations – but that it’s easy using Websense to go back into the system and allow them through. It’s as simple as entering the domain name in a field on the screen. ❖

For more information, go to www.websense.com.

Montana dealership hikes accessories sales 85% with training, software

Two years ago service manager Steve Goff didn’t think much or about accessories sales. “We would react if a customer asked about something, but we didn’t focus on it much.”

That was then and this is now. Since installing DealerTrack software and training his team on how to effectively and smoothly upsell on accessories, Steve tells *Service Manager* that his accessories business is up 85 percent — so much so that he’s about to break ground on an all-accessories annex to his Montana dealership.

The 12,000 square foot facility will sell accessories for all brands, even though Steven’s Notbohm Motors in Miles City Montana is a Chevy shop.

“We made a decision two years ago to hit accessories hard, and it has paid off for us,” Steve says. He’s also leveraging the accessories business to get more into body detailing and other specialized work. “It’s improving CSI and our bottom-line because we can now be a one stop shop for customers,” he says.

Upfront investment in training and tools

But without the right training and tools, the accessories business is a bear that scares off a lot of service

managers, Steve says. “This business is huge, there is so much to know... and if you make a mistake and fail to live up to a promise with a customer you can lose that business forever.”

Most auto manufacturer CRM and DMS systems don’t handle accessory sales well, says DealerTrack accessories solutions manager and director of DTA Solutions Jason Bernstein.

“We bridge that gap and help with tools and training to sell accessories, but the dealership has to be committed to selling them...it’s not going to automatically happen by installing the software,” he tells *Service Manager*.

DealerTrack also offers a one-to-two-day training course called Accessory School that helps service advisors and others learn the finer points of upselling accessories.

Three modules

Steve uses the DealerTrack Accessories Solution, which features three integrated modules:

■ **Buy:** This is an electronic catalog featuring products from a broad network of OEM and aftermarket suppliers. “I can instantly see where a part is, how long it will take, and give the customer the exact price based on what different vendors are charging for it,” Steve says. The e-catalog allows his team to quickly browse and locate a wide range of accessories that match the customer’s car, and then highlights the most popular choices. Steve’s dealers can then make a purchase directly with their mouse. Steve says a big advantage of this is it allows him to be “confident” that he can deliver what he promises both in terms of price and timetable. Plus, he doesn’t have to keep an extensive inventory of parts and accessories stored on-site.

■ **Sell:** This component can help dealers maximize the profitability of their accessories from any location in their dealership and websites. It includes “cool ideas,” which are media presentations of accessorized vehicles and per-

sonalization so that a customer can “see” how various accessories will look on their vehicle. It includes a 3D visualize feature that lets customers “build” their own personalized vehicles on line. “That’s a huge sales tool for us,” Steve says. Oftentimes a customer will be on the fence about whether to make a purchase, and then will decide to buy it after they “see” their chrome wheels, fog lights, or other accessory online.

■ **Manage:** This component helps dealers maximize profitability by managing the entire sales and fulfillment process in one integrated system, either from one store or across their entire network. It enables dealers to track and manage every accessories lead, and then develop Email or direct mail campaigns targeting the dealership’s existing customers or prospects. It also tells dealers which accessories are selling well and which aren’t moving.

“This has brought a lot of new money into our shop and broadened our gamut” of offerings, Steve says. At a time when new car sales are slow, he says being able to find a new revenue stream like this is especially welcome. “At our shop, fixed ops covers about 80 to 90 percent of the dealerships expenses, and we rely on these accessories sales now” to improve the bottom-line, Steve adds. ❖

Daily data key to profitable service department; Utah dealership service business climbs 15%

At the height of The Cold War with the former Soviet Union, President Ronald Reagan liked to remark that when he negotiated with the Soviets he took the attitude of “Trust, but verify.”

That’s probably not a bad approach for service managers (and GMs) to take when managing their service departments.

For example, Saturn of St. George in Utah saw its service department business increase by 15 percent when it installed tools that provided them daily numbers on car inspections and how techs and service advisors were recommending the work and making the sale.

“It was a process change that became a cornerstone of our increased success,” General Manager Travis Bostwick tells *Service Manager*. “If there’s no accountability, there’s no success,” he says. Now he can know at the end of each day how effective his folks are when it comes to recommending service options – and closing the deal.

In days past, he and his service manager would get monthly reports

with service numbers. “Getting those numbers is the only way to get the pulse of the service department,” he says. But the problem with getting the numbers monthly is that it is hard to keep up with problems to fix them and even harder to spot problems before they become worse.

But in the nearly two years since he’s installed MPi’s (www.mpifix.com) inspection tools, Travis says service business is so good that he doesn’t even need to run than many aggressive special offers. “Part of it is the economy,” he admits. In other words, in a down economy like we’re experiencing today, people are more inclined to fix cars rather than buy new ones. Still, measuring and reporting numbers each day, as opposed to monthly, has made his service advisors and others more on their toes and efficient in dealing with customers.

It’s not the tool itself that is important, it is more the concept of demanding regular, real-time statistics and results in your shop that matters, Travis says. “Unless you really have a strong feeling for what’s going on in your service department, you’ve got to have accurate, frequent numbers to work with,” he says. ❖

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Expense control: More dealers squeezing \$\$ out of used oil

In case you haven't noticed, the cost of heating oil for homes and businesses, including dealerships, went up along with the cost of gasoline. And even though the price of gas has come down recently, heating oil has been slow to follow. That's because oil distributors try to lock in their costs early by purchasing inventory in the futures markets.

So more car dealers are getting on board with ways to tap a nearly limitless supply of fuel oil: the used oil removed from customers' vehicles during oil changes.

Volkswagen says it "wants our new showrooms to be gems, a thrill for buyers and places of exquisite comfort."

One VW dealership in York, Pa., took the "exquisite comfort" directive seriously. A radiant heat system provides comfort for buyers and employees alike. The system extends outdoors, as well, so that sidewalks and entryways remain free of snow and ice all winter long. And for the ultimate in fuel efficiency, they get the heat at no cost by burning used motor oils and hydraulic fluid.

"In the winter, we see a great transformation," said Chris Bernlohr, general manager of York Volkswagen. "Customers are immediately aware of the unusual comfort they have in a facility with whole walls of glass, just the opposite of what you'd expect."

York VW's commitment to comfort extends beyond the public areas and offices and into the extensive, 24-bay service area, a place of work for technicians that's now as comfortable as the showroom.

A.D. Supplies of Willow Grove, PA, a supply and installation firm specializing in automo-

tive and industrial wash-water recycling and waste-oil-fired and forced-air heating equipment, designed and installed the system.

York VW managers took several additional steps on their own to ensure the comfort of employees and customers, and to reap the rewards of an investment in the "heat-for-free" concept. Clean Burn waste-oil boilers burn a random mix of used motor oils, crank case oil, transmission oil and hydraulic fluid.

In Illinois

"It's been two or three years since we've had to buy fuel for heating," said Michael Bonak, service manager at the Sam Leman dealership near Peoria, Illinois.

That's because the dealership installed a special furnace that runs on used oil from the 30 oil changes it does each day, five days a week. The specially designed furnace is fed by a 2,000 gallon holding tank behind the shop. The oil is burned, and it heats the garage area all winter with great results, keeping the shop in the 70 degree range.

There was a time when service stations were charged to have the oil removed, but because of a demand for the used oil and the uses being found for it, many aren't charged and even get paid for the byproduct, according to folks at Future Environmental, a regional oil recycling firm based in Mokena, Illinois. ♦

DealersEdge Service Manager (ISSN 1084-3272)

is published 12 times a year by
DealersEdge/WD&S Publishing
10 West 7th Street, P.O. Box 606
Barnegat Light, NJ 08006

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Subscriptions: 800-321-5312;
Subscription rate: \$327 yearly;
\$567 two years; \$787 three years.

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