



Newsletter Article

Don't Miss Repair Rate Opportunities

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Don't Miss Repair Rate Opportunities

It's like visiting an old friend, but looking at him in a different way. Instead of reviewing your repair rates and effective rates just for warranty rate increases in the service and body shop departments, consider reviewing your rates for the financial opportunities available to your dealership.

As warranty continues to drop as a percentage of our total business and with better used vehicles available to the used car department, we can now say that the significant opportunity is not in repairing but **maintaining** vehicles. But don't discount the financial effect that your repair rate can have on your operations. As you review your mix of work and look at the pattern, as long as repair operations are not 0%, we have an opportunity. The question is how much of an opportunity exists.

What we don't want to happen is to reduce that opportunity by pricing ourselves out of the market. So here are the key things to consider when reviewing your repair rate:

What are current repair hours billed as a percentage of customer pay?

As repair work continues to decline, several things happen including a reduction in the exposure that our guests have to our repair rate. Don't underestimate this. When service departments were doing 70-80% repairs, guests had an impression that it was expensive to go to the dealer because many times it was to repair (not maintain) their car. Many stores have a variable maintenance rate, but not a variable repair rate. Variable repair rate options need to be considered. ATcon grid pricing is an option that allows for a variable repair rate with a target return. There are many variables of this method, but the most common current version is the "rollover type". This targets higher rates of return on work performed at the rollover hour target and then reduces as the hours increase. If you have questions, give us a call and we can review your specific situation. Importantly, the exposure that we have on this rate is much less than in the past and at the same time this is an option in dealing with cost of sales increases on skilled technicians. Do you charge enough for the highly skilled work?

It can be just as easy as determining if the rate that you think you are charging is really what you are charging. This can be accomplished by running an effective rate report in the DMS, reviewing repair orders, or using ATcon's Electronic Repair Order Analysis ("EROA™") program. The question is---is the correct repair rate being used every time?

What is your effective rate on these repair operations? And how close are you to the expected repair rate on repair operations?

Both of these questions are obviously related, but with one difference. Are you starting at the correct rate? Or are you accounting for discount, coupons, specials, and policy by reducing the rate on jobs? This requires review.

If you are not charging the correct repair rate on repair work, why not?

Discussing with an advisor as to why they are not charging work according to established policy seems like an easy conversation, but there may be more to it. There are the normal issues--- fear of the customer's rejection, lack of management and lack of training, but what else? If you know that you have a market-sensitive repair rate or grid and guests are not having the work done at least 60% of the time, take a look at two additional

things---1) labor hours requested to perform the work and 2) parts pricing. These will also have a significant effect on closing to a sale. A reproducible time standard in many states is a requirement. That is, you must be able to tell the guest how you determined the charges for labor, if requested. Example: "We use a grid repair labor rate and warranty time plus 30% for the hours." The question is---is it the rate, hours, or parts (or any combination) that is reducing the close?

Do you charge internal repair work at the same rate as customer pay ("CP")? Remember, vehicle sales are based on cost.

The old conversation about charging the same for internal work as CP is as old as the hills. My experience indicates that if you do charge retail, several things happen:

1. Internal gross goes up.
2. Fixed coverage goes up.
3. Grosses on new and used cars may sometimes go down, but not at the same rate as parts and labor gross goes up. Example, if we charge \$10.00 per hour and the average internal recondition is 4.5 hours; we will apply an additional \$45.00 per unit. Will this cost the department a car sale? Even if we give away \$44.99 of this, we still made \$.01 more per car.
4. Used car department makes better buying decisions.
5. Priorities in the shop are impacted.

What is the local average repair rate (including dealers and local repair facilities)?

It is necessary to conduct a repair rate survey at least every 6 months, but preferably each quarter. Being the highest in the market is not the best situation, but being in the game is important.

Do you "job price" work and not sell by parts, labor, and hours?

Listen to your advisors and how they sell work. Do they talk about parts, labor, and supplies before the guest asks for detail, or do they offer it immediately? Most guests only want three things---1) What will you be doing? 2) What will it cost? and 3) When will it be completed? Offering more than this may lead to many questions and confusion. Job pricing should be provided every time and the details only when requested.

If someone calls the department and asks for your labor rate, what will employees say?

Responding to questions concerning your labor rate may seem simple, but what is the rate to perform the job? The repair rate may be much higher than the rate charged for an oil change. One method is to respond by stating that you job price work, for what job would you like me to provide a quote. Call the service department anonymously and see what they say.

Are you required to post labor hours on the customer's copy of the repair order?

At one time the automotive industry was singled out and required to post labor hours on the CP repair orders. This is no longer the case in many states. If you still are posting them, call your state dealer association and ask for clarification. Your dealership is probably a member and there is not a fee for this information.

For additional information on Grid Pricing or other topics, visit our website www.atconsse.com. ATcon has several tools to assist your dealership in Business Growth and Development. Contact us for information on Performance Groups, Training Seminars, Electronic Repair Order Analysis (“EROA™”) and a host of other helpful business solutions.