



Service department expense recovery

EVERY day it's clearer ... success in service department operations is critical to long term success. Gone are the days when service was simply a way to drive satisfaction so customers would buy the next piece of equipment. Today, service, and the derivative benefit of parts revenue, is a significant profit center of its own, and a way to develop long-term relationships with customers. You must examine service profitability to ensure profit *and* customer satisfaction is fully realized.

First, let's review expectations. Typically, we measure service performance as a percent of *labor revenue*. Why? Because often we find dealers include expense recovery items in labor which causes labor to be overstated and, as a result, all percentages of expenses are distorted. Further, we expect technician's wages to be about 35 percent of labor sales yielding a gross margin of 65 percent. From this gross margin, subtract approximate overhead personnel and benefits, (20 percent); operating expenses (10 percent); and occupancy expense (5 percent). This yields a service net profit after direct expenses of 30 percent – which should be your target.

This column covers operating expense control, *not* driving gross margin or controlling personnel expense, so be cognizant of this in your accounting. Generally, gross operating expenses are about 13 – 15 percent. From this, subtract your expense recovery, normally 3-5 percent. This yields a net operating expense of 10 percent. If recovery is shown as a revenue item, adjust your thinking now.

Four major expense recovery areas:

Mileage

The usual cost of a service truck is between \$15,000 and \$25,000, depending upon size. If a smaller truck travels 15,000 miles per year, a \$1 per mile rate is appropriate, assuming all mileage is billable (often not the case for warranty repairs). If a larger truck travels fewer miles, say 12,500 miles, but expenses are \$25,000, then it would command a \$2 rate per mile. Generally, dealers in our dealer groups charge \$1.50 per mile, but we ask them for more details, such as what was the *total* vehicle expense for a set period (month, quarter or year), what is the *actual* mileage revenue recovered and whether this mileage revenue is greater than the expense, to help them arrive at the optimum fee strategy.

Shop supplies

Includes cleaning supplies, small hardware items, adhesives, and the like. Dealers in our dealer groups often charge a minimum 5 percent of invoice labor per repair order, up to 7 percent. The best performance we've seen (in only a few dealers) is 15 percent. Yet, the profit margin of shop supply recovery can be far greater than for mileage. While mileage is normally a 100 percent recovery (expenses and recovery being equal), supplies are generally a 200 percent recovery (twice as large as the expenses).

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Data connection fee (DCF)

This new line item charge relates to recovering expenses associated with acquiring and using technology and training, not simply an internet connection fee. If it were labeled as such, it would only be applicable when you hooked the computer up to the equipment. Because so much technology and training is now online based, state-of-the-art repair services require a dealer to have instant information on diagnostics, repair methodology, service bulletins, service campaigns, etc. Clearly this information and training yields the customer significant benefit ... more than the slight fee and can add considerably to the "Package of Value" you deliver to customers. This fee is normally \$25 per repair order. Some dealers charge \$50. Do the math to see the opportunity: If 10 technicians complete three work orders per day for 221 days per year at \$25 per order that equals \$165,750! That's a significant contribution to operating expense reduction.

Miscellaneous

This category includes an environmental charge, oil and fluids disposal, tire disposal, etc., which can and should be applied on an individual basis depending upon the work being done and the extent of disposal issues.

Implement expense recovery strategies

Each expense recovery opportunity should have a script that service employees use to explain to customers why the charge is needed and fair. If employees say to the dealer principal, "We charge for these items when we can get away with it," that implies these charges are not legitimate. Yet, they are *very* legitimate and *much* needed. Relate it to how you charge for freight on new tractor or combine purchases. If a customer said, "Freight charges are not appropriate", you would have to reply that you simply can't give them away because you incurred the expense. Likewise, service recovery charges must be explained in a way that makes customers comfortable, not capriciously given away. By doing so, you can lower your service operating expenses by as much as 5 percent. ■

BOB CURRIE is the president of Currie Management Consultants. His firm works with dealers and manufacturers of industrial products to streamline operations, improve performance and create success and is active in dealer consolidations, mergers and divestitures. Visit www.curriemanagement.com to learn more.