BY BOB CURRIE

Beginning Service Department Expense Recovery

Easy ways to make your shop more profitable.

OUR LAST ARTICLE, "Expanding Service Department Metrics," set out some traditional and some new metrics to measure service department performance. The importance of a well-managed service department is becoming more evident as the years go by. It was only a decade ago, as internet transactions became more important, that many manufacturers' marketing departments began debating the idea of internet transactions as a "disintermediation strategy" going forward. The debate centered on whether internet would replace dealers as the channel to market. What we have learned in the last decade is that the internet has not disintermediated distribution. In fact, in today's world, distribution is becoming even more critical as a channel to market because of this focus on service.

However, let's not view service in too narrow a dimension. Clearly, service includes mechanical service provided to producers to keep their equipment operating at its maximum efficiency. Service can also relate to equipment sourcing and disposal services–our sales department–which today operates with more service mentality than traditional sales transaction mentality. The next phase of dealer/producer relationship, precision farming, has a significant service component to it. So, you see how our business to business relationship has really been penetrated deeply by this service mentality.

Nevertheless, let's return back to mechanical service. Certainly we want the quality of service to remain high, but the issues we are addressing here are service metrics. The last article talked about labor measurement; this article will focus more on expense management.

All of the non-labor costs are normally shown in operating expense. In today's world, a critical measure is our ability to recover these expenses as fees charged to end users. We all understand that fees charged to us, like everyone else, can be annoying, and we wish there was another method. We can try to bury all these fees in the labor rate, but that will drive the labor rate significantly higher, perhaps maybe $20 per hour higher, so we will have greater anxiety about our labor rate and be disinclined to want to recover all these charges. If we don't recover these charges, then we'll show higher operating expense and less profit contribution. So the dilemma of charging fees or making less profit has always been with us.

The response to this dilemma is that for all fees charged, the service organization must have prepared scripts with which they can articulate why fees are necessary and actually valuable to customers. The development of these scripts is a separate task and one we will address in the next article. Here, we want to identify and construct the appropriate fees and the desired amount of each fee that will be necessary to maintain the correct operating expense level.

▶ **Shop Supplies.** This is one of the easiest areas of expense recovery. We know of very few dealers who are not already charging shop supplies. The question is the rate at which they are being charged. In our practice with agricultural equipment dealers, the relevant rate of shop supplies charge is 5 to 7% of labor billing with no maximum. There are some dealers who will charge 5% of labor billing up to a maximum of $20. So, this caps service invoices at $400 labor and does not apply fees for labor in excess of that. On occasion, we find dealers who charge no shop supplies for invoices over $400 because that is the maximum, and charges in excess of the maximum become disqualifiers. Our best dealers are charging shop supplies at 10% of labor. The expectation is that the shop supplies recovery portion is 200% of the actual expense.

▶ **Vehicle Expense.** The recovery rate varies by size of the vehicle. Service vehicles at the pickup truck size are roughly $18,000 per year to operate, all costs included. So, if this vehicle accumulates 18,000 miles per year, then the cost to operate it is $1 per mile. To recover every mile, charge $1 per mile and thus cover your expense. For service repairs where mileage cannot be charged (contracts, some warranty, and the like), then a $2 per-mile charge is necessary if the recovery rate of actual mileage is only 50%. Our experience is that most dealers charge $1.75 per mile for vehicles in this category.

For larger vehicles, boom trucks, the annual operating cost is closer to $36,000 per year, or a cost per mile of $2. Again, if you can only recover this 50% of the time, then the rate to customers needs to be $4 per mile to achieve 100% recovery. Most dealers charge $3 per mile for trucks in this category.

Remember the smaller vehicle as an example; this vehicle incurs expenses of $18,000 per year. A good technician is able to bill 1,800 hours per year. Trying to recover vehicle expense through the labor rate means an increase in labor of $10 per hour to fully recover the $18,000 (on a boom truck, the rate increase becomes $20 per hour).

These are two principle recoveries needed in the service department in order to properly manage operating expense. The next article will talk about three additional expense recovery opportunities: fuel surcharge, technology fee and environmental fee. Since all organizations potentially have a low tolerance for change, working on shop supplies and vehicle recovery in the short-term allows you to reinforce some easy wins before you move on to additional fees that are more problematic. ■

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.