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BIO:

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Your Service Department: A Hidden Gem

By Rashaan Baskerville

If you're reading this and the sun is still rising every day, it's likely a great time to improve your profitability in your Service (and Installation) department. In the past, the Service department had traditionally been a loss leader for most dealers and, therefore, represented one of the biggest and quickest opportunities for a dealer to grow their profitability. And that remains true to this day, despite the fact that most full-service dealers have already transitioned their Service departments from a loss leader to a profit center.

With the transition to focusing on Service department profitability, dealers like you have had to shift the mindset of your organizations, along with overhauling processes and systems to match your new ambitions. As with any complex organizational change, it can be frustrating because it takes time to implement and you are never truly "finished" as long as you are still in business.

But what if you had a roadmap to show you how to grow your service department profitability by 25% or more over the next year? Well, to guide you on your journey toward greater Service department profitability and consistency, this article will cover five areas that will help you polish your gem of a Service department.

Service Department Sales Mix

Within the Service department, there are three general categories of sales: service contracts, non-contract maintenance and repair, and installation. Each of them has a typical range of material gross margin (GM) rate associated with them, with installation being the lowest and service contracts being the highest.

So, one of the ways of driving up your overall department profitability is by shifting the mix toward more profitable work. We have seen some of our clients make this change and significantly increase profit. Of course, you would get the greatest impact if your existing service business is heavily skewed toward installation sales. With an overall GM rate increase of 5 percentage points, you can take home an extra $50K for every $1M of total service sales, which translates to a profit increase of at least 25% for many businesses.

Proper Staffing

As with any company that has employees, fuel dealers must deal with the challenge of hiring and maintaining the right mix of talented techs. In recent years, the difficulty in finding and keeping your best techs has only gotten harder. How do you hire the right number of techs, get the right mix of techs for your sales mix so that you have the proper tech types working on the proper job types, and plan for the future by keeping a sustainable mix of seniority levels?

There are many creative approaches to attracting top talent, including various pay incentives and bonuses, outsized benefits plans, greater vacation allowances, company outings, and more. However, many dealers avoid them because they all raise your expenses. But how much profit are you losing already due improper staffing, leading to subbing out work at low margins, lower customer satisfaction or losing jobs altogether due to long lead times, the cost of inefficiency because you have a service tech leading an install job, or vice versa?

These costs are typically below the radar because you don't get hit with an invoice, however they are real costs to your business. They can and should be calculated so that you can make the best decision. By knowing how much profit you are already losing in these areas, you can determine the proper budget for attracting the right talent to increase your overall profitability, and lower your stress levels in the process.

Pricing Mastery

A sound pricing model is at the heart of every successful business. For your Service department, the most important factors are setting your labor rate according to your cost structure and consistently achieving your targeted material GM rates. In the cost/billable hour analysis that we perform for our clients, we start by calculating the total cost of Service payroll and then add all of the supporting costs to maintain the department. Finally, we add your profit margin to come up with the ideal billing rate. This is an exercise that every dealer should complete.

As mentioned earlier, your overall Service GM rate is affected by your sales mix. However, even more important is setting the proper target for each category of revenue. This is particularly important when your costs are rising rapidly due to inflation and supply chain issues, as they have been in recent years.

The next thought for many dealers is, "yeah, I could raise my labor rates and GM rates, but won't I lose customers?" Yes, you may lose a few jobs here and there, however the increased profit on the jobs you maintain will far outweigh the lost profit on highly price-sensitive jobs. In fact, based upon the industry shortage of techs, we often see dealers paying significant overtime to keep up with their backlog. In these cases, they get the double benefit of lowering their overtime expense while making more revenue overall.

We already covered an example of the impact of an increased GM rate, so we will now cover a labor rate example. For a sample company, let's assume a fully burdened hourly labor cost of $185 and a target labor margin of 30%. That translates to an hourly labor rate of $264. So, if a business has 5 full-time techs and is charging a labor rate of $199/hour, they are losing over $380,000/year! This includes a conservative assumption of -10% loss of business due to raising their labor rate. Yep, this is a big deal.

Minimizing Downside Impact

There are two key cost drivers that every Service department should track and optimize, chargeable callback ratio and excess calls on equipment covered under a contract. Chargeable callbacks are unintended repeat visits to the same home within 30 days for a related issue, whereas excess calls are for unrelated issues.

Both of these costs can quickly eat away your profit if you are not closely managing them. Many chargeable callbacks are limited in what can be billed to the customer and some are not billable at all. While excess calls covered under a contract may be billable, the coverage limits profitability and, in extreme cases, the labor and travel costs can turn the contract into a loss leader in just a month.

We have seen some instances of double-digit visits to the same home within 30 days. At a cost/visit of $75, a $299 service contract with limited billable work can be upside down by more than $450 in just a month. With the service exception reporting we provide for our clients, they are able to proactively minimize the biggest losers and grow their profitability. Even without extreme cases, the annual cost savings can be significant solely based on the volume of total calls.

Maximizing Upside Opportunity

Similar to cost, there are two key revenue drivers that every Service department should track and optimize. In the case of revenue, however, the drivers are more related to process vs. metrics. First, your Service department can benefit from an effective system for consistently cross-selling excess calls into new installations. Not only does this reduce the cost of excess calls, but it also increases your billable hours. If you have also raised your labor rate, as noted above, there is a compounding effect on your revenue growth. An added benefit is that your workforce productivity will increase, and you can complete more jobs in the same amount of time, when you are not constantly fighting fires associated with excess calls.

The second vital piece of Service department upside is an effective system for delivery drivers and service techs proactively asking customers about the maintenance of their equipment. As the face of your company and your customers' trusted advisors, your frontline workers are a valuable asset for growing your service department. Dealers who structure this system with the proper training and accountability systems, can grow significantly while also cutting advertising costs.

Conclusion

As you can see from the five sections above, there is tremendous potential for profit growth within nearly every Service department. In fact, after taking a brief survey within our Angus Energy team of industry experts, averaging 20+ years of experience, none of them has ever seen a company that is doing everything perfectly. There are some companies doing very well in all areas, however this group represents 10% or less of the industry. For the remaining 90% of dealers, you've just found your hidden gem! | FON