

Cutting



EDGE

BY BOB CLEMENTS

Your time ... what's it really worth?

In service and parts, time saved equals money made

IN service and parts, there is a direct correlation between time and labor. The less time it takes a tech to service a piece of equipment, the fewer techs you need in and out of peak season and the more money you make as a dealer. The same holds true in parts. Lower the transaction time per customer (internal and external) and you will need fewer parts people and thereby improve your overall profitability.

Time is the enemy of profit. Invest in tools, such as software and systems, to reduce time and improve efficiency. To determine if such a tool will make more money than you invest in it, calculate your time value proposition by department.

Service department time value

To determine your service department time value, divide your posted labor rate by 60 minutes.

$$\text{Posted Labor Rate} / 60 = \text{Time Value}$$

If your posted labor rate is \$60 per hour, then your time value is \$1 per minute. If your gross profit margin is 45 percent (your goal should be 55 percent), then each minute you sell is worth \$.45 toward profitability ... which doesn't sound like much until you multiply it by 60 minutes ... then it's \$27 per hour.

Improving your time value by just 10 percent can add \$4,050 net profit per tech. And this is *net* profit, not gross profit, so it's money you can pocket at the end of the year.

Parts department time value

To determine your parts department time value, use this formula:

$$(\text{Parts Gross Profit} / \text{Total Transactions}) / \text{Transaction Time} = \text{Time Value}$$

But first, you'll need to determine your gross profit:

$$\text{Total Parts Sales (TPS)} - \text{Cost of Goods Sold (CGS)} = \text{Gross Profit (GP)}$$

Example: (\$200,000 - \$120,000 = \$80,000)

Then determine your number of transactions. You can do so by running a report from your business management software (include over-the-counter and service department transactions) or by doing a random sample of nine days of sales tickets (six in peak season).

$$(\text{Total of Sales Tickets} / 9) \times 365 = \text{Total Transactions}$$

Example: (162 / 9) x 365 = 6,570 Total Transactions (TT)

Time value for your parts department is the same as your average transaction time. To determine your time value, use a stopwatch to time 10 parts counter/customer interactions (internal and external).

Find the average time it takes to complete transactions from start to finish. Typically, OPE parts departments average seven minutes per transaction (your goal should be four minutes). The current length of your current parts transactions may surprise you.

Take the current average (seven minutes) and use the formula mentioned earlier:

$$(\text{Parts Gross Profit} / \text{Total Transactions}) / \text{Transaction Time} = \text{Time Value}$$

Example: (\$80,000 (GP) / 6,570 (TT)) / 7 = \$1.74 Time Value

In this example, for every minute a customer is at your parts counter, you make \$1.74 of gross profit. To increase your parts time value, either increase the average amount earned for each transaction (up-sell) or reduce your time per transaction.

If you shorten your parts department transaction time by just 20 percent, you will save 84 seconds per average transaction. That's like adding 154 hours, or 19.2 days of free labor per year, which improves your time value from \$1.74 to \$2.17.

By doing a simple conversion and assuming you pay an experienced parts person a minimum of \$125 per day, you can easily gain an additional \$2,400 of net value over the year.

Like in the service department, staging and tools are the fastest ways to improve time value in parts. Harness your business management software (if you don't have it, invest in it!) and run a report to determine your parts sales by volume. Improve your time value by placing the fastest moving parts closest to the parts counter.

Some dealers use a hundred different Web sites to look up parts rather than invest in a product like PartSmart™, where all the data is quickly available and integrated into their business management system. Two of our Bob Clements International, Inc. dealers, Harvey Fox at Hilltop Lawn and Garden in East Earl, Penn., and Nathan Hill at Hills Power Pro in Tullahoma, Tenn., combined their software and parts lookup into one system at each of their respective dealerships, and each reduced their transaction time by more than 25 percent.

Calculating your time value proposition for service and parts will go a long way toward improving the management of both departments as well as improving the net profits of your dealership. ■

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