

Learning Without Scars

Quarterly Newsletter

Dynamic Internet Based Learning
TRAINING SOLUTIONS FOR EQUIPMENT DEALERSHIPS
Construction • Mining • Agriculture • Cranes • Trucks • Trailers

The Service Business

Fall 2021

Providing skilled and highly trained technicians to repair, rebuild and maintain capital equipment is our mission. We must do this with a high degree of consistency and predictability relative to a schedule and price. To do so with a high level of labor efficiency and high levels of quality, the twin pillars of a successful service business is fundamental to our mission.



Quotations for Service Work

Providing skilled and highly trained technicians to repair, rebuild and maintain capital equipment is our mission. We must do this with a high degree of consistency and predictability on a schedule and price. Find the causes of customer complaints through the use of diagnostic inspections, not simply symptoms. Then create a “segmented” work order and provide price quotations and a guaranteed delivery date. And do it consistently.

This is what we refer to as the Work Order Process.

Many of our Learning Without Scars classes for the Service Group are tied into the process of performing repairs, rebuilds, and maintenance effectively and efficiently. From our classes on Inspections, The Work Order Process, Standard Jobs/Flat Rate, Labor Scheduling, Labor Efficiency, Service Delivery Systems and Leveraging Service Assets, we are aiming at predictably high quality and predictability in completion dates. The customers tell us in service that they want responsiveness and quality over price and

availability. If that is what they want why don't we give it to them?

We must be disciplined and predictable with our work. We have to follow a process that delivers the results that we are seeking. Our goals are simple: reduce the owning and operating costs of capital equipment for the owners while at the same time protect the residual value of the machine.

Quotations for Service Work

Every customer has several things in common. Most people who buy things want to know the price, how much is going to cost, before they place an order. Similarly, most people want to know when they can have it if they place an order. In most Service Departments we fail both of these tests. The quotations that we provide, if and when we provide them, are rarely the same as the invoice and the completion date that we give to the customer is hardly ever achieved.

If we were to measure the success of the Service Department in satisfying their customers from these two elements, the results would be absolutely terrible. This is one of the reasons why our market share in labor is as low as it is. Customers want consistency, customers want reliability, customers want quality, and customers want a fair price.

To satisfy the price being fair and accurate, the Service Department must create a quotation for all work that it is going to do. We have no hope of providing a quotation of work to be done unless we do a diagnostic inspection. Normally if the dealership does not do a diagnostic inspection, the service management will still provide a price. They will hedge around, think about it, and provide the customer with an estimate. The customer has come to understand that this estimate is not accurate nor necessarily reflective of the cost of the work to be performed. How does this customer, this dealership, present prices to customers of work to be done before it is done?

With the diagnostic inspection, and using job segmentation with standard job codes, quotations and pricing become very simple things. It is a lookup just as it is trying to find out availability and price of a part. Does this dealer provide quotations? Are the

quotations fixed? What is the variation of actual price to quoted price? How is this handled within the dealer business system? These are important questions that need to be answered through the performance of a review of the service department.

Posting Labor to Jobs

The asset that is offered to the market in the Service Department is labor. We sell equipment, and have an inventory of machines to support this activity; we sell parts, and similarly have an inventory of parts to support this business; in service we have an inventory of labor hours to support the repair and maintenance business. The difference between the parts and equipment groups and service group is that in service we manage labor for every hour of every day and ensure that it is being utilized as close to 100% of the time as possible. We have surplus equipment and surplus parts but we are not allowed to have surplus labor.

How is the labor managed in this dealership? Does the dealer business system generate a timecard for each job? Does this dealership use technology to post and manage labor? These are important questions that need to be answered during the course of this review. The mechanics in the shop when they arrived at work should have the day's work laid out for them in a common location from which the work is assigned. Is that how it is done at the dealership? If it is not you will need to create a process flow on how the work is managed within the dealership.

Some dealers will use a timecard, have the mechanic fill it out either during the course of his day or more normally at the end of the day and tell us which work orders, and or job segments, they worked on during the day and how long it took for each of them. We are relying totally on the memory of the technician. Don't forget that this is the foundation for the invoice to the customer. One would expect that the time that was applied to a job would have some degree of precision and accuracy. In conducting this review and watching how the labor is gathered, would you assume that the accuracy is acceptable?

Some dealers use technology to the point of having a terminal available for each technician. The technician can go to the terminal and post their own time to the job that they are working on. This obviously is much more accurate.

Other dealers use some kind of scanning equipment. Where a barcode, or other similar readable icon, is scanned and loaded into the computer system in this

process. This also has a much higher degree of accuracy. It is important that labor management and control is done with precision and accuracy. This is important both for the customer in the form of their invoices but also for the dealership in the form of accurate collection of labor history against specific jobs.

This is the foundation of the flat rate system. The flat rate system is the tool that will allow those customer needs of price and time to be satisfied prior to the job being started. This is why the operational review of all elements surrounding work orders is so critical.

Did you know that our training courses are offered in English, Spanish and French?

Ordering and Returning Parts to the Parts Department

Nearly every work order that is required to repair or maintain equipment will require some parts and materials. The technician who is performing the work is the individual that knows what is required. With various levels of training of technicians and varying degrees of technology in place through dealer business systems, the parts ordering and returning process runs a full gamut from almost a manual situation to a fully driven technology solutions where parts are ordered by the technician at the machine.

The objective in any repair and maintenance operation is to be able to adopt the technical work at a very high degree of labor efficiency. In order to operate at high degrees of labor efficiency, it means that the technician must be able to stay on the job and not be interrupted. That means that the parts should be ordered by the technician from their Bay. In order to do that we can use either a telephone to order the parts from the Parts Department or a computer terminal with the technician either type entering the parts required or using a touch screen on a schematic of the area of the machine on which the work is being done.

For most dealers involved in a service review, we will have the situation that the technician will walk to the Parts Department and the technician and an employee in the Parts Department will together determine what parts are required to complete the repair. This is a case

where anything that can be done by one person is better done by two people. This is also totally false. To make matters worse, many times when the technician arrives at the "back counter" there are other technicians waiting.

The individuals conducting the review need to study how this process is performed and through observation verify that what they were told is factual. Ordering parts is a very important aspect of the technician's job but it is also one that we need to perform in such a manner that the technician has an easy time in performing his duties. A complete and accurate workflow process for parts ordering should be a byproduct of this operations review.

Purchasing and Subcontracting

During the course of conducting repairs and maintenance on equipment and components we use labor and we also use parts sometimes, however, we find that is necessary for us to buy something from someone else in order to be able to complete the work. These types of transactions, these outside purchases, have several different names. Other than outside purchases probably the most common name for these activities is "sublets".

These outside purchases take on two forms; one form is strictly parts that need to be purchased and the remainder which is appropriate are things that have labor involved in their creation. I'm a strong believer that each of the operating departments of the dealership should look after their sphere of responsibility. In the case of outside purchases, that means to me that the Parts Department should be the ones that are purchasing the parts that are required by the Service Department that we do not have. The Parts Department has all of the procedures, the processes, the history keeping and systems that are required to manage the parts business. These outside purchases should be treated as a part. Many times, the Service Department will buy the same part many times in which case the company should have that part in inventory. The company should be able to negotiate a better price from the supplier. The company might even choose a different supplier for price or quality or some other reason. During the course of this review there needs to be determined if outside purchases are items that should be processed by the Parts Department.

If there is labor required in the outside purchase, for instance magna fluxing a cylinder head, then it is logically a function that should be performed by the Service Department. Clerically a purchase order needs

to be created, someone needs to determine who the supplier should be, the "job request" should be performed between the dealer Service Department and the outside supplier, the size and scope of the job should be determined, the pricing completion dates should be accepted. And outside purchase needs to be made.



At this juncture, it is important also to remind ourselves that we do not maintain any sort of history on outside purchase process. It is for that reason that even if it is performed by the Service Department, I would like the outside purchase process to be similar to the ones that we employ in the parts system. That way we will maintain history and at some point in the future, will probably have received sufficient demand that would justify carrying that particular item in an inventory.

How does the dealership manage the outside purchase from a system point of view? Do they keep history on these items? Do we ever add them into inventory to improve our effectiveness in conducting the repairs? These are important questions that need to be answered by this review. The outside purchase price should be negotiated. I would not expect the dealership to be paying the same price as any other customer in the area. We should be able to negotiate a price based on the dealership's purchasing power that would present us with some form of a lower price than what either our customers or our competitors could receive from the suppliers.

Finally, we come to the selling price for the outside purchase. In all standard charges it is important that we recover all of the costs associated with that which we are consuming by charging for them on a work order. The outside supplies, the outside purchases, are no different. We should recover all of the costs associated with sourcing, purchasing, defining the specifications, receiving the finished good, and processing the invoice and making the payment for the outside purchase. This means that we need to recover all of the costs associated with operating a Service Department. The cost of operating a Service Department is equal to the expense percentage of sales for all of the expenses of the Service Department. The usual standard of expenses to sales for a Service Department is 40%. What is the expense to sales ratio for this dealership for the Service Department?

If the objective on a standard charge, such as an outside purchase, is to recover the expenses then the gross profit for the outside purchases should be equal to the expense to sales ratio for the Service Department in the dealership with whom the review is being conducted. To put it into simple terms if the expense to sales ratio is 40% then the markup to be employed upon cost of an outside purchase should average 1.67 times.

Managing Work in Process

The work in process at a dealership is normally quite large. It consists of work orders for customers, internal departments, warranty, and other miscellaneous sources. It contains labor, parts, standard charges, outside purchases, travel and various documents including the service report. Most dealer business systems contained standard reports that are used to evaluate the effectiveness of service operations by measuring work orders from the date that they were opened to the date that they were closed and invoiced.

There are two main measures that can be effectively used to monitor how well work in process is being managed. One of them is the total labor that is on work in process and the second is the number of days since the last labor was performed on the work order. Each of these two elements can have standards attached to them so that they can be managed and controlled.

Sometimes however, dealerships use the number of work orders as a statistic to determine effectiveness of the service management and or the total dollar value of work in process including parts and supplies and standard charges. Using these types of measures might be effective in the right circumstance but normally leads to management modifying their operational behavior to satisfy the standards that are being put forward.

We need to, through discussions and observations, make a determination of how effectively work in process is being managed. Does the work order get closed within 24 hours of the last labor being applied? If it does then there is very little that we can complain about regarding the management of jobs flow. If the date that the work order is closed varies from the last date of labor than we need to look at the total labor that is sitting in work in process at any point in time.

One of the measures that we have employed successfully in the past is to make a determination of what the average number of hours is on the work order by work order category. In other words, how many hours are there on customer shop jobs? How many

hours are there on field customer jobs? How many hours are there on internal shop jobs? How many hours are the error on warranty jobs? And so on... With these statistics we can determine what the standard should be for how many hours should be in work in process. If for instance the average hours on work orders in the shop for customers is 20 hours than work in process should never contain more than 40 hours of work for customers times the number of work orders that are open. In other words, we can tolerate double the standard work time being in work in process at any point in time. This is just the law of averages. Some jobs will just have been opened with very little labor on them, perhaps just an inspection, some jobs will be waiting for parts some jobs will be waiting for customer approval some jobs will be underway it will be a mix in other words of all progress points of all work orders.

A short report needs to be prepared that describes how management looks after work in process. If work in process is not managed properly it means that there will be a flurry of activity in the last week or several days of a month in closing jobs. This type of deadline work takes and destroys the normal flow of work through a service operation. Work order should be close all through the month. If the work order closing is sporadic then the sales reporting against which we would be managing the financial aspects and expense controls of the department is lost. Managing the work in process asset is a critical performance point in service operations.

How the dealer performs in this review and what the dealer agrees to do in the joint action plan will go a long way towards improving the customer satisfaction and operational effectiveness of the Service Department.

Class References

[Work Order Process](#) | [Service Delivery Systems](#) | [Leveraging Service Assets](#)

Learning Without Scars



As a third-generation educator, it is easy to say that teaching and training are in the blood for Ron Slee. From his beginnings as a coach, through his time at McGill University, Ron developed a foundation for the work he does today.

Learning Without Scars provides comprehensive online learning programs for employees starting with an individualized skills assessment. These assessments allow us to then create a personalized employee development program. From their assessed skills, the employee is asked to select from classes designed for their skill level which allow them to address the gaps in their knowledge level. This allows the employees to move through four progressive categories of learning: Basic, Intermediate, Advanced and Expert.



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