

Learning Without Scars

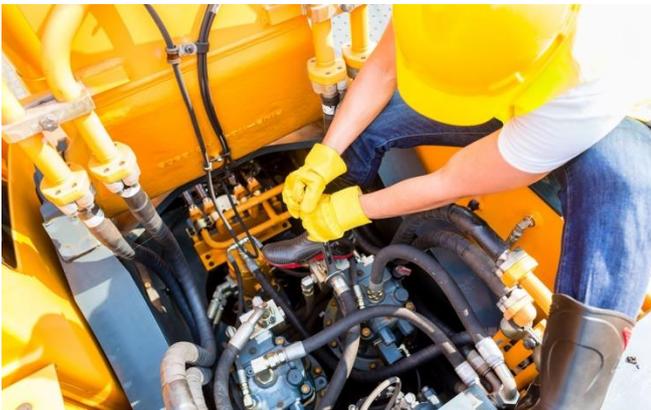
Quarterly Newsletter

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

The Service Business

Winter 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.



The Product Support Dilema - Equipment Maintenance

Over the past three to four decades, the Heavy Equipment Industry has seen many significant changes. The number of manufacturers, dealers, contractors, raw material producers, allied suppliers and employees has all been drastically reduced.

There have also been strong improvements in equipment design and manufacturing methods that have produced machines that are performing their work at much reduced owning and operating costs. This reduction has been as high as 50%. The dealers are left with the potential reduction of the parts and service marketplace by up to 50%.

The dealers have for years relied heavily on "absorption" as one of the critical management tools to produce the necessary profit required to operate a business. The absorption premise, that parts and service gross margin could cover all the dealership expenses, is now coming under serious pressure due to the lower parts and service volumes provided from the improved equipment. The dealers are now in a position

that their parts and service business is being driven from five major and very different areas:

- Wear Parts
- Remanufactured Components, Before Failure or Normal
- Maintenance Items
- Sudden Death Failures
- Extended Warranty Programs

Just as it has been important for the equipment owners to manage the operating costs of the equipment, the dealers now must become involved in the same thing. The Dealers must become involved with equipment maintenance. Equipment maintenance has not been an area that the dealers have excelled in, either in selling or performing maintenance. In fact, it was the first service that the dealers dropped in order that they are able to keep pace with the highly technical demands placed on them.

The end result from this truth is that the equipment owner either does the maintenance on the equipment or they contract with an independent mechanic or service. This has reduced the dealer share in the parts market of filters, fluids, electrical parts, sealing and sealant, lamps and gauges and others. It has also reduced the labor market share and allowed independents to obtain income in a mostly non technical manner.

The parts families that are involved with maintenance are all heavily competitive and, in most cases, purchased finished parts by the Equipment Manufacturers. This means that the dealers are selling the same part as a local competitor. The only differences are packaging and the prices. This is an extremely difficult area of the parts business to get back if the dealer is selling just the part. The labor portion of maintenance is normally an area that the equipment owner feels able to perform, or at the very least does not feel uncomfortable if someone other than the dealer does the work. If the dealer is selling strictly the labor to perform the scheduled maintenance, then this also is extremely difficult to sell.

One of the keys for dealers in regaining the maintenance business is the packaging of this service.

We must add more than the standard maintenance - we must repackage the product:

- perform maintenance on all equipment
- add machine operational tune ups
- include parts and travel
- add the potential of discounts for any major repair performed
- present the opportunity for increased labor warranty on repairs performed
- allow a guarantee of response time on field calls

In other words, we must become aggressive in packaging the maintenance service or the dealer will never get this business back.

In view of the highly competitive nature of the maintenance business in heavy equipment, a fully developed maintenance program is an absolute must if the dealer is pointing at obtaining “customer satisfaction.” Most service operations act only after the customer calls. It is extremely difficult to aim at lower operating costs for the customer if the only attention that is paid to the machine is when the customer calls in to the dealership. A regular call program of contacting the customer and discussing machine operating condition and hours and type of work should be initiated. Personal visits by service management to the customer jobsite would also be very helpful. How can the dealership show sincere interest in the customer machine if the only contact is initiated by the customer?

There are many tools available at a dealership to allow product differentiation. There are also other methods available to entice the customers to utilize dealer maintenance programs. For instance, one is the inclusion of the maintenance at the time of purchase that allows the maintenance service to be included in the finance package.

Clearly the parts and service business has changed. The machine demographics have also changed. The future appears to require that dealers become more involved in any aspect, of the marketplace, that allows reductions in the owning and operating expenses for the machine owner. Equipment Maintenance programs are but one part of the solution for dealers to recapture the business.

Manufacturer Prescribed Maintenance

Which source gets the majority of your business for manufacturer-prescribed maintenance? Over the years the market share for repairs, labor capture rate, has hovered around 40% to 50%. That is not true for maintenance. Maintenance market share, however, hovers around 10%. It varies from 5% to 15%.

Even if you have doubts about the actual market share what we can agree on is that customers consistently tell us the main reason is convenience. We have known for years that the customers want their maintenance work done while they are not working. This means evenings, nights and weekends. Why is convenience still an issue? Is it possible that we don't listen? There are many reasons for this dilemma.

The message we get from Product Support Executives and Service Managers is that they cannot find and hire sufficient technicians to look after the repairs and warranty work that is required currently. Have you heard this? I am sure you have. I have heard this reason for my complete career in this Industry. Obviously, I am sympathetic to it. I understand it. But I don't accept it. There are other answers.

I guess this is a situation where we really do get what we deserve don't we?

The world of customer service and selling really does rely a lot on the suppliers performing services and selling products that satisfy customer needs. Perhaps we don't believe that as much as we should. Or perhaps there are other reasons why we rate so low with the customer on maintenance services.



Irrespective of the reasons we really must be able to perform at the customers' convenience if we are to penetrate this market. Do you want to walk away from 50% of the available labor market? I hope not.

A key element of the maintenance service work is that any problems with the machine will be found during the course of the maintenance service. If I control the maintenance service at least I will have the opportunity to quote of the repair. If I am not performing the maintenance service the odds indicate that I will not even be in on the quote for the repair.

Think about it. Maintenance services performed by the dealer will at least afford the dealer the opportunity to quote on the repairs.

The customers have told us in surveys for several decades that they purchase the manufacturer recommended maintenance on the basis of Convenience – more than 40%, price – more than 30%, technician expertise – more than 10% with quality of work and warranty filled out the remainder.

The number one and two reasons are convenience and cost. We must be able to do this work off shift for the customer. The cost side of the equation is also quite simple. Why are we charging journeymen's rates to perform a 250 hour and 500-hour service? Check out activity-based costing and calculate the actual cost of performing maintenance services. We really MUST do a better job on this in the future.

Did you know that we are fully accredited as a provider of continuing education through the International Accreditors of Continuing Education and Training (IACET)?

Oil and Filter Changes

As many of you know there are very few customers who actually follow the prescribed manufacturers maintenance. The maintenance details and outlines in the owners and operator's manuals are designed by the manufacturer to maximize life and minimize operating expenses. It is all based on Life Cycle Management. With Telematics and Sensors we can track machine work as well as component and critical element conditions. That is the foundation of the recommendations for maintenance. Many customers simply drop fluids and replace filters.

So we need to understand which source gets the majority not just of your repair and maintenance business but also your oil and filter change business? This is another aspect of the repair and maintenance business.

For this work, we get around 5% of the available work. With the customer performing more than 75% of this work with Independent mechanics doing the majority of the remainder.

Pointing back to the 40% that dealers get or all repairs here we get 5%. If we are truly concerned about the operational effectiveness of the machine, we can't let maintenance be construed as strictly changing filters and fluids. This question implies that a large number of our customers view maintenance as just that. Operating costs, repair costs and machine effectiveness are all affected by this type of thinking.

This can only be overcome by proper market coverage and good well-trained salesmen. How do you stack up? Oh, and by the way how is your parts market share in this area?

Some Things to Consider

Create a separate workforce to perform maintenance services.

- Specifically Trained Maintenance Technicians.
- Use Experienced journeymen for the 2000 hour and other more comprehensive services.
- Have a different department in your financial statements for maintenance.
- Use specifically designed Maintenance Vehicles.
- Have separate branding.
- Establish Maintenance Specific pricing
- Whatever your journeyman labor rate is divide it by two for maintenance
- Create Standard Prices – Flat Rates for all maintenance work
- All maintenance work will be done at the same price whenever the work is done. No overtime charges.

Satisfy the needs and wants that customers have for their work. Do it whenever they want it done. Establish individual territories for maintenance technicians. Have the maintenance technician and the customer establish their schedule for the work. Create an incentive program for the maintenance technicians to reward customer retention and labor effectiveness.

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.

Class References

[Maintenance Programs](#)
[Best Practices](#)
[The Art of the Possible](#)

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Do You Know The Answer?

The major construction equipment companies are Caterpillar, Komatsu, Deere and Volvo.

Which one of those four was the first one founded?

Educational Resources

All of the resources listed below can be found on our website : www.LearningWithoutScars.com under the Resources menu.



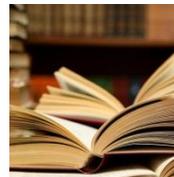
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We created a list of recommended books that have come across our table and that we thought you would enjoy reading. They are sorted by category and cover a wide range of topics to enhance your knowledge.



In collaboration with Reedz, we are offering educational audio tracks in multiple languages! We hope that you find the content engaging and beneficial to your work.



Your opinion is important to us! We are always looking to help people through engaging material. If you have a question or a specific topic you would like us to cover in a future newsletter, please email Ron ron@learningwithoutscars.com