

# Service Lane Profitability

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## Fixed Operations: The Back End or the Backbone?

My friend, Bob Atwood of NADA, set me straight a few years ago when I referred to the service department as the “Back End.” Bob taught me that, in fact, fixed operations was the most profitable area in the entire dealership. Not an afterthought, not a necessary evil, not something we could live without; but rather fixed operations is the centerpiece of the dealership...the “Backbone” of the business. Bob is right!

Many second- and third-generation dealers grew up on the variable operations side of the business. And, frankly, they just aren’t as comfortable with parts and service as they are in new and used car sales. Their strength is in sales.

Many service managers, on the other hand, have spent their entire careers working on cars, writing up repair orders, and dealing with ever-changing technology challenges...not to mention CSI scores and productivity issues on top of everything else. Yet many service managers are lacking in sales techniques and selling skills.

Fixed and variable operations are located under the same roof; yet, they are often worlds apart. It is time to bridge those two worlds. Stop thinking of your dealership as the “Sales Department” and the “Service Department.” Rather, it’s time to view your business as the “Sales Department” (variable ops) and the “Other Sales Department” (fixed ops).

Here’s how you do it:

1. Have a weekly service sales meeting with your service advisors and technicians. These meetings should be lead by the best sales people in the dealership; for example: the F&I manager, the general sales manager, the top car seller this month, and the dealer. Additionally, you should depend on your suppliers and strategic partners to help with the training. If your vendor partners can’t provide you with the kind of training that will grow your business, then you don’t need them around. Last, but not least, be sure to check out all the video sales training seminars being offered. Many of these are directed squarely at the service department.
2. Make sure you have enough personnel on the service drive during peak traffic hours. If your advisors are dealing with more than 15 customers per day, it’s costing you money. The more time they spend with each customer, the greater the sales penetration and the higher the CSI. For service advisors to reach their sales potential, you have to make sure they have enough support personnel to assist them. This includes porters to move cars and keep the traffic flowing. After all, the service lane is really our service “sales floor” and we must keep it

uncluttered and presentable. You also need a “lane ranger” or “fluid checker” to pull the vehicle’s vital fluids, check batteries, belts, and hoses. This person serves as a facilitator to the advisor in the sale of preventive maintenance services. Don’t forget the phones. Most incoming calls (like appointments and status calls) can be handled by someone other than the advisor...thus giving them more time with live customers on the drive.

3. Increase the number of technicians. If your advisors say they don’t upsell maintenance for fear they can’t get all the work out, then it’s time to increase your production staff. Capacity issues are problems that can create great opportunities for growth. You don’t have to hire an “A” level technician. Technicians at a “C” or “D” level can perform most maintenance services and they are much easier to recruit. In a recent DFO magazine article, Jeff Sacks, of NCM Associates, explained the value of one technician. Jeff says, “Assume the following: An effective retail labor rate of \$80 per hour with a 70% gross margin; a ratio of parts to labor of 0.80 with a parts margin of 40%; producing only 40 hours per week for 49 weeks. Taking all of the above into account, the dealership will produce additional gross of close to \$160,000 per annum! Your numbers may differ, but when you slot in your variables, the gross generated will be significant and maybe even higher, based on a change in the above assumptions.” You have to sell a whole bunch of cars to gross \$160,000!

According to the latest NADA statistics, while fixed operations only accounts for 12% of the total revenue, it produces over 60% of a dealership’s net profit.

Quoting Bob Atwood again, dealerships typically gross 5% on new cars, 12% on used cars, and 38% on parts. Yet, you gross a whopping 70% in the service department. Therefore, the quickest way to increase gross is to sell service!

To further make the point, consider the closing rate of ups to sales in variable operations...it’s about 30%. (For every 100 people in the front door, you sell about 30 cars.) But, in fixed operations the closing rate is 100%! Every person that walks through the service door produces revenue for the dealerships –WOW!

If a bus load of buyers showed up on your sales floor every morning to buy cars, I am sure you’d take the appropriate steps to capture the revenue. I want to challenge you to take the same action on your service sales floor...it’s the backbone of your business!

## **CALL OUT:**

**While fixed operations only accounts for 12% of the total dealerships revenue (top line), it produces over 60% of the net profit (bottom line!)**

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