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the service department

The service group is the one that has the largest differences between best practice dealers and the rest of the dealers. It is also the group that has the largest management challenge both in the level of skills available and the level of commitment to growth and development of the group. Further the service department is the major differentiation between the authorized equipment dealer and the competition. With equipment or parts there is always another product that will be available. With labor there is a clear distinction available to the buyer. This is going to be even more evident as equipment becomes more technologically advanced.

As well the availability of skilled mechanical personnel is going to be an even more serious challenge in the years ahead. Dealerships will have to embark on serious training programs and employee recruitment plans. This also exposes a very troubling situation. In the Product Support Opportunities Handbook, the customer respondents to the surveys told us that "Convenience" and "Responsiveness" were two of the key determinants in choosing to whom they would go to get repairs and maintenance for their equipment. This addresses very clearly the need for more and better skilled mechanical personnel.

And also the service managers in most dealerships are already overworked and under a high level of stress. Asking them to add mechanics to respond to customer needs is a hard sell. They are already unable to keep up with the demands of the marketplace.

The overall business side of the service management discipline needs to be reviewed from top to bottom, a task that we are attempting in a process driven manner.

SERVICE SALES – CUSTOMER, INTERNAL AND WARRANTY

Sales of labor in the service department are performed for three distinct groups. The customers as a group are straightforward. We perform the work and send out invoices and receive payment. The internal group consists of the sales department, the parts department for component rebuilds and the rental group in recent years. Finally is the work that is performed to complete a warranty repair that is billable to the supplier.

Each of these groups has different expectations of service and work performance. The quality of work expectation should be the same but it is not always the case. The charge rates are another thing altogether. For the internal departments there is never a price that they don't want to have reduced. In many dealers the internal departments get subsidized pricing as a result of being an internal department. This is a significant and clear indication as to where the priorities are placed within the dealerships. The internal departments continue to think that they should get preferential treatment in scheduling and pricing. The suppliers view warranty as an expense and many do not want to pay the amount that would allow the service department to make a modest profit. They too want high quality repairs and very comprehensive documentation to justify the warranty payment when all the dealer is trying to do is fix the machine so that it works properly and satisfies the customer's needs and expectations.

Service Department Employees

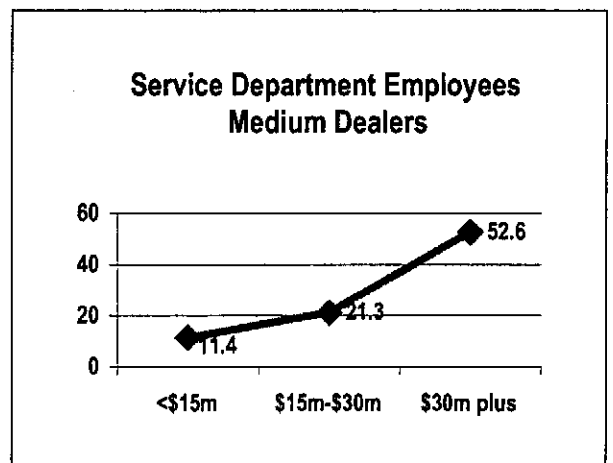
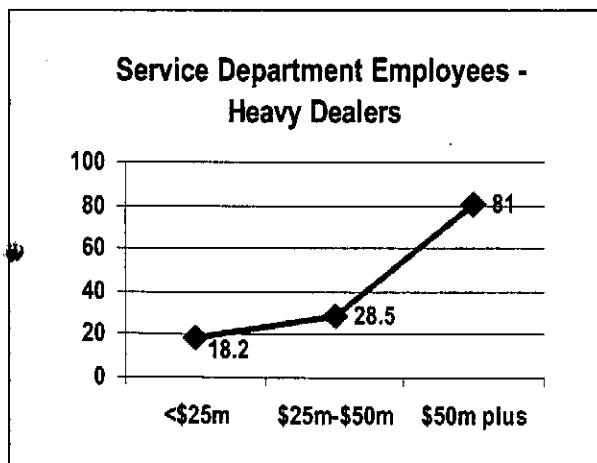
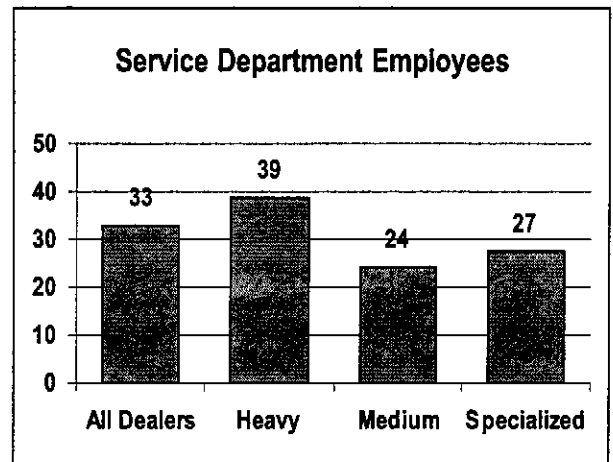
More than 65% of dealers responding to the service portion of the survey have 50 or more employees in the service department.

The typical AED dealer has 33 employees in the service department. Heavy dealers have 39; Medium 24; and Specialized 27.

Heavy dealers with annual sales volume of \$50 million plus employ 81 in the service department, while Heavy dealers with volume of \$25 million to \$50 million have 28.5 employees and Heavy dealers with sales of less than \$25 million have 18.2.

Medium dealers with sales of less than \$15 million have 11.4 service department employees, Medium dealers with \$15 million to \$30 million in sales volume have 21.3, and Medium dealers that do in excess of \$30 million have 52.6 service department employees.

The typical AED dealer has 33 employees in the service department.



The labor performed by the service department covers work done by many methods and many locations, from highly technical work requiring very specialized skills and tooling to the planned maintenance as set out in the "Owners Manual" of the machine.

Suggested Action

- A. Determine the ratio of labor sales for each of the customers internal and warranty work groups.
- B. Review internal pricing policies to determine if retail pricing is in use for all internal activities. If the internal groups receive a subsidized rate, a discount from normal retail, you will need to provide a calculated retail rate for these internal activities in order to be able to compare yourself against the metrics put forward here.

NOTE: All operational aspects from work order open through invoicing will be dealt with in their spot later on in this Handbook. They are not dealt with repeatedly for each of the following labor categories.

FIELD REPAIRS

The work done in the field has taken on a more important position in recent years as many customers prefer to have the mechanic on their jobsite so that they can watch the work being done. This is as much a reflection of the trust that the customer has in the dealer performing the work as it is in the urgency of the repair. The average job in the field takes about four hours to complete plus the travel back and forth to the dealer facility.

Normally the repairs in the field require quick response because the machine is not working. It is "down." This also requires a specially skilled mechanic who cannot only resolve most equipment mechanical needs but also one who can work without supervision on the customer jobsite.

Finally the size of equipment used, has in many cases, become so large that the machine cannot be brought into the dealer shop. This has also changed the nature of the work that is done in the field as the large machines with work performed on them are all requiring the work be done on the customer jobsite.

Responsiveness with field repairs is a serious issue that points to the continuing need for labor utilization as one of the driving forces behind staff levels. In most service departments the level of overtime for the field mechanics is excessive. The high performance dealers have recognized this fact and have staffed the group appropriately. The high overtime levels in the field are seasonal phenomena for many dealers yet there is a serious need to address this more practically than has been the case yet for most dealerships. One item that must not be overlooked in this overtime case is the safety of the personnel.

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