

*The goal
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Motor Dealer Services

Service Department Fundamentals The Profit & Loss Equation – “a fine line”

Automotive Dealerships are in business to make a profit!

The owners of the business have invested sometimes millions of dollars to create and sustain a modern, functioning dealership. The goal is to satisfy customers **and** produce a profit.

Profit is a good thing – it benefits the business, customers and staff today and into the future.

Profit means a “Return on Investment” (ROI). A good ROI makes it possible to invest back into the business to build an even better dealership – tools and equipment, facilities, training, people and so on.

Understanding what profit is and how profit is created in the Service Department is essential for all service staff. Why? Staff have a **huge** influence over the profit result of the department.

**The Service Department sells hours.
So how do these “hours” convert into dollars and profit?**

- Service Advisors and Cost Clerks “drive” costing by achieving a target GP%.
- Technicians are measured on their Sales \$ and/or Gross Profit \$ per month.

Understanding where these numbers come from and what impacts results is as important as understanding the hours. On the following page is the basic make up of a **Profit & Loss (P&L)** Statement.

A few key points to know about the P & L:

- Generated and reported at the end of each month and annually.
- Is the financial history of the business:
 - Where did the money come from (sales)?

- Where did the money go to (costs/expenses)?
- What money was left over (profit)?
- Each department (sales – new, sales – used, parts and service) will generate their own P&L with a total Dealer P&L consolidated each month.

Q: What is a good Net Profit for a Total Dealership (Admin, Sales, Parts & Service)?

A: Answer 2% of total sales - a fine line!

**Profit and Loss Statement
Month Ended 30 April 2009**

P&L Item	\$ example	Explanation
Sales	\$100,000	Sales or Revenue – generated from selling and invoicing labour hours (retail, internal, warranty), oils, sublet, and consumables. <i>Example: you sell 2 hours of a Technician’s time on a job at \$100 per hour; the customer is invoiced \$200 for labour.</i>
<u>Less</u> Cost of Sales	\$35,000	Cost of Sales – what it directly cost to make the sale. This takes into account the cost of labour, oils, sublet to generate the sale. <i>Example: the Technicians pay rate is \$25 per hour. If 2 hours were clocked on the customer job then Cost Of Sale = \$50.</i>
Gross Profit	\$65,000	Gross Profit – what is left over to meet the expenses of operating the service department. Usually expressed as a % of sales. <i>Example: $(\\$65,000 \div \\$100,000) \times 100 = 65\%$.</i>
<u>Less</u> Expenses	\$50,000	Expenses – The costs to operate the service department day in day out. This will include: rent, power, IT, marketing, cleaning, administration, insurance, depreciation, Indirect Salaries (eg Service Advisors, Service Manager, and Workshop Controller).
Net Profit	\$15,000	Net Profit – what is left over after all expenses - the “Bottom Line”. Out of Net Profit comes company tax, investment back into the business and dividends distributed to the business owners. Usually expressed as a % of total sales. <i>Example: $(\\$15,000 \div \\$100,000) \times 100 = 15\%$.</i>

“Money is plentiful for those who understand the simple laws which govern its acquisition”

George Clason

What can you influence?

Tick the items you can influence

Increasing Sales

- Accurately complete the Repair Order – customer concerns, time estimates.
- Suggest **relevant** additional services and products to the customer (Avoid over-servicing)
 - Check vehicle history for previously reported repair items?
 - A 0.2 hour increase on Repair Orders makes a huge difference
 - Can accessories be suggested?
- Encourage Technicians to inspect and report **additional justified** work as early as possible during the maintenance or repair.
- Ensure complete satisfaction of customers so they return! Treat them professionally, be enthusiastic, resolve their issues, and meet your commitments and promises.

Controlling Cost of Sales

- Accurately and legibly complete Repair Orders with detailed customer concerns and symptoms - will help technicians be more efficient on the job.
- Communicate with the workshop professionally (Clear, concise and factual).
- Ensure processes/facility assist in improving efficiency – are there opportunities to improve workshop layout?

Reduce Expenses

- Watch waste – reprinting repair orders, duplicating paperwork.
- Take care of facilities, tools and equipment – keep in good working order.
- Be aware of time spent on activities – phone calls, non productive activities.

5 Tips for Success

1. It all starts with Sales / Revenue; profitability becomes irrelevant without sales/revenue.
2. Generating Sales / Revenue relies on Technicians finding justified work and the service advisors selling the workIt's a Team Effort!
3. Increasing Gross profit is not necessarily about increasing the sell rate but controlling the cost of sales. Efficiency is the key.
4. The Net Profit is influenced by expenses; think twice about waste – reprinting R/O's, taking care of tooling – where can waste be eliminated?
5. Communication - Repair Order write ups by technicians assist Service Advisors when selling and justifying an invoice to a customer.

Summary

As with the hours, benchmarks exist for Gross Profit within the passenger vehicle industry

- Labour GP % = 75-80%.
- Service Department GP % = 60-65%

Understand and look where you have influence and control over Profit & Loss performance. It is the 1% improvements made each day that make the difference.

However remember it all starts with a sale!

This article was provided by Rob Boyle from Boyle Consulting. Boyle Consulting has in excess of 50 years experience and works globally in Aftersales Development with Dealerships and Manufacturers. They can be contacted on (07) 3870 4166.

More information



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