

The Auto Dealer's Original Fixed Operations Resource

Vol. 13, No. 1 - January / February 2016

FIXED OPS



THE MANY LAYERS OF FIXED OPERATIONS

Time To Pay Attention To Tire Sales

Warranty Parts Margin Increase

Competing With the Independents

Would You Service Your Vehicle At Your Store?

LEAN MANUFACTURING PROCESSES CAN MODERNIZE RECONDITIONING

AN EXERCISE TO OPTIMIZE THE CUSTOMER EXPERIENCE

THIS IS THE FIRST INSTALLMENT OF A THREE-PART SERIES THAT ADDRESSES RECONDITIONING TIME-TO-MARKET, OR TTM — A KEY PERFORMANCE INDICATOR FOR MORE SUCCESSFUL USED CAR OPERATIONS.

BY DENNIS MCGINN

By definition, time-to-market is the sum of time a car is owned by a dealership but not yet reconditioned and available for customer viewing.

This series will discuss TTM and other measurable key performance indicators adapted from modern lean manufacturing principles. The goal is to help Fixed Ops Directors and Service Managers deliver a more efficient, frictionless — and profitable — reconditioning service to their dealership's Used Car Manager.

Lean manufacturing, the foundational principle for workflow improvement, describes a discipline that seeks to remove waste from processes. Workflow practices seek to smooth out reconditioning disruptions, bottlenecks, and communications snags and delays.





A Service Department whose reconditioning services uses TTM disciplines can reduce reconditioning to four days or less.

Here's how:

- Streamlined workflow processes increase recon volume without diminishing reconditioning quality.
- Recon staff working to production and time goals are more efficient, helping reduce recon days from a more common (but costly and thus unacceptable) 10 to 15 days to just four days.
- Improved communications between Service / recon and the Used Car Manager speed mechanical approvals, keeping workflow in motion.
- Each day shaved off reconditioning equals a specific dollar cost, called a holding cost, that otherwise is charged against "sold" gross. More productive recon services are more profitable for the Used Car Department.

Stop the Margin Dive

It's no secret that dealers need to have a healthy Used Car business to be profitable. The profit window for a used car is about three weeks. If it takes seven days to recon a car that takes the Used Car

Department two weeks to sell, the car's value is already diving.

Since most dealerships operate on the 60-day turn rule to force a car to be whole-saled, there's an illusion that this three weeks (one week in recon and two weeks on the retail lot) is actually eight weeks. But the reality is that a car becomes stale after being marketable online (your first TTM goal) at three weeks.

The point is, used inventory must be managed by metrics — the numbers — because each day a vehicle is not sold, dealership holding costs (a percentage of overhead attributed to each vehicle acquired by the dealership) erode true gross.

For clarity on this, it can be helpful to look at how CarMax manages its inventory. It maintains daily activity information on every car, with managers reviewing pricing on those units that have not been demonstrated after only one week. The idea is to adjust the pricing to make any such units more marketable to move them to "sold" and out of inventory.

The point is, every process must drive to maximize margin.

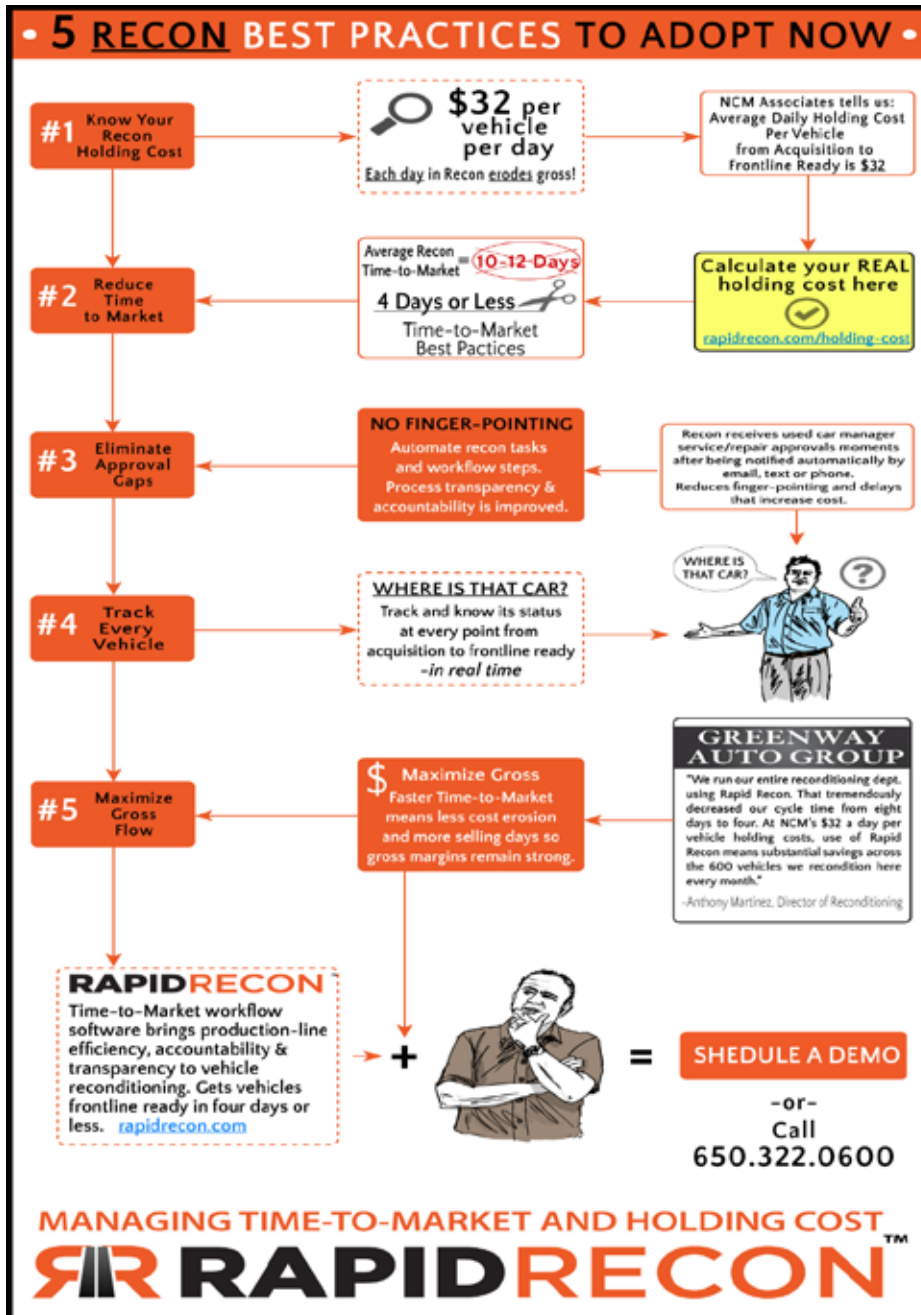
Even without the recon burden, the Fixed Ops Director and Service Manager are challenged to increase Service drive demand, maintain Customer Satisfaction Index and incentivize Service Advisors to upsell Service work. Now add in recall demands that take production focus off customer-pay work, and these additional pressures dilute margins.

So given that reconditioning is not usually what the Fixed Ops Director or Service Manager thinks of as a first priority — and the Used Car Manager, to the contrary, is convinced that is Service's only responsibility — there's an imbalance between these departments' perceptions and urgency about getting trades processed through Service immediately.

This imbalance can be a thorn in the side of the GM who has to manage both businesses.

Traditional Processes Don't Work

Fixed Ops is where most of the recon cost resides within the TTM challenge. When citing TTM best *practice* metrics, I'm drawing here on hundreds of live reconditioning TTM software systems in use at those dealerships, which have processed more than 1 million cars.



Admittedly, best practices also rightly include trial-and-error observable knowledge; that is, experience gained by standing in Reconditioning Departments observing both excellent and self-defeating practices.

The best practices discussed here also are validated by consistent performance across the top tier of these dealerships.

When it comes to reconditioning, Fixed Ops on any given day is often called out as the bottleneck that keeps the Used Car

Manager from having enough cars to sell. The blame, more often than not, is the process (or lack of process) used.

In most Service Departments, the approximation of recon cycle time is a spreadsheet of some sort — an actual spreadsheet or whiteboard likeness of it. Unfortunately, almost no one really believes the spreadsheet data is correct, but for a number of reasons it lives on with the belief that "it's better than nothing."

However, spreadsheets are static tools in an increasingly dynamic environment. They are, therefore, no longer the right tool (if they ever were) for measuring and managing reconditioning.

One problem with any static production tool is that it's difficult to share, in this case with the Used Car Manager. A technology-based workflow tool that provides the Used Car Manager and the Fixed Ops Manager — simultaneously — with key reconditioning status information eliminates the imbalance in information about vehicles in reconditioning and eliminates finger-pointing.

Workflow Improves Outcomes

Until 2011, the spreadsheet or a shared Google document were the only viable workflow tools for managing reconditioning. Then, the idea of using real-time workflow technology, a proven production tool popularized by Toyota, brought exciting new advantages to vehicle reconditioning.

Here's how this technology can increase recon productivity and reduce its costs:

- It defines the work that needs to be done to achieve a specific outcome, clarifying processes and procedures — and who does what, when and how.
- It identifies key steps in a process and which if any can be eliminated to speed workflow and remove costs.
- It assigns people having the right skill sets to specific task assignments to ensure efficiency and quality.
- Relieves management of focusing on tasks to manage more strategically.
- It builds rhythm and flow into work, and confidence in those challenged with turning out higher production at less cost.

Thus, reconditioning processes driven by workflow software provide the capability missing in a spreadsheet — real-time, mobile integration of time-to-market metrics for every car along every step.

Now every individual responsible for some aspect of getting vehicles front-line ready (including Technicians, Detailers, Photographers and Vendors) can interact in real-time



through their smartphone, making it easy for them to show how efficiently they are performing their work.

This also means the Used Car Manager now has real-time status data on a desktop, tablet or smartphone to know precisely where inventory is in the recon process and when it will be frontline-ready.

Workflow is the perfect productivity tool because it incorporates existing processes by linking them all together as a set of interdependent steps with their required actions, yet is responsive to process changes when needed in a matter of minutes.

Implementing a properly planned workflow system with the help of a qualified process performance manager can provide:

1. Immediate bottleneck relief
2. Excessive cost relief
3. Positive accountability
4. The foundation for time-to-market workflow optimization (the discussion coming up in Part Two of this series).

Reduce Recon to 3 to 5 Days

One well-worn phrase I hear from Fixed Ops Directors and Service Managers is,

“a system is only as good as the people using it.” This is a valid reaction to change, especially when prior change efforts based on attempts to improve efficiency and accountability in reality created more work and failed the test of adoption.

For instance, there will always be the one unyielding individual clinging to their flip phone, if you will, who just does not want to be connected, no matter what.

However, the vast majority of people working for you are capable of and will embrace change if it makes their job easier and holds everyone to the same standard. In fact, everyone who has been able to evolve to the brave new world of texting is already fully qualified.

A Service and Reconditioning Department committed to a faster TTM goal should be able to manage recon at a four- to five-day level. Some exceptional stores are able to operate in a three-day range by keeping Service at a four-hour average and detail / photos to an eight-hour average.

To consistently and verifiably deliver these metrics, there must be an accurate measurement of all vehicles as they complete each step all along their way to the front line.

To achieve a consistent four-day recon cycle Service, Parts, Detail and Photo need to be completed in three or fewer days. That leaves one day for bodywork, off-brand recall and warranty work and any specialty sublet work. Vendors who take care of wheels, glass, bumpers, interior and PDR can do their work in parallel or even on the front line.

Used Car Approval

An efficient recon operation starts with the Used Car Manager releasing trades or cars arriving from auction or program buys, followed by the taking of three to 10 initial photos to capture any early customer interest. Not all dealers do this on the front end, but most do, which puts pressure on recon to get the cars to the front line.

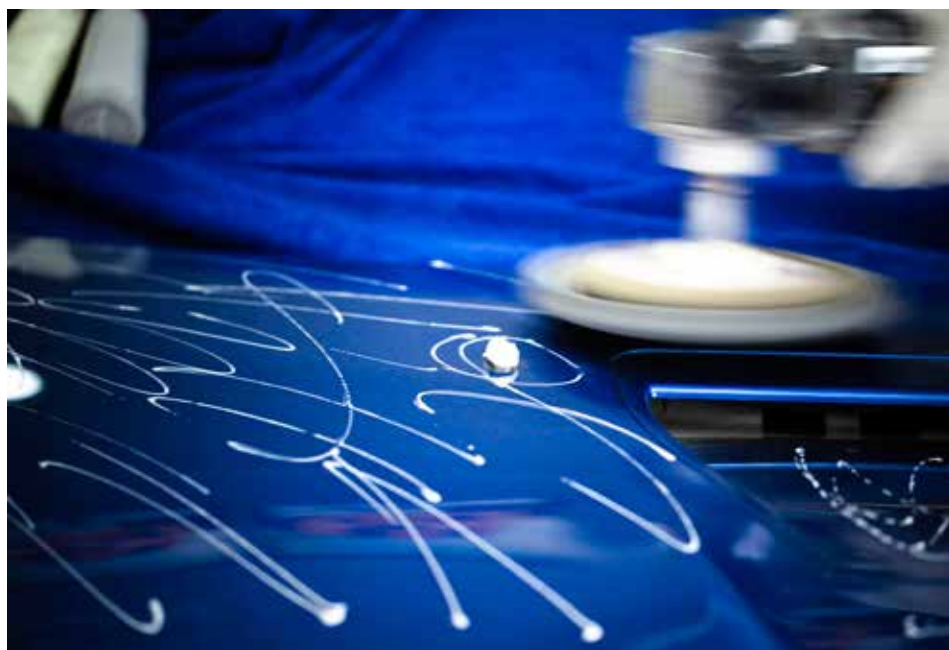
Depending on the size and structure of the dealership, there may be an Internal Service Advisor, a Service Manager, a Recon Manager or an Inventory Manager responsible for the Repair Order (RO) process and the completion of all approved work. The next step is a mechanical inspection in which a Technician creates an RO for recommended repairs.

0 All	38
1 In-Transit	2
2 Initial Pictures	
3 Waiting for Shop	4
4 Service Matt	2
5 Service Shane	2
6 Service Wallace	1
7 Main Shop	1
8 UCM Approval	1
9 Warranty Work-Off-S	3
10 Spec Parts Ordered	1
11 Body Shop	2
12 Detail	3
13 Final Pictures	
14 On Front Line	16

One crucial element when performing at this level is Used Car Manager approval. In some dealerships, the Used Car Manager approves every car. Others, to sidestep the need to get approvals for every purchase, have moved to a process permitting recon to spend an amount, often \$500 or a per-mile amount, under which the work is pre-approved.

The “Best Practices” for approval is now only 10 minutes, which is accomplished by texting notifications to the Used Car Manager. These approvals likewise flow through a mobile website where, to whatever level of detail may be necessary or is listed, the Used Car Manager can make decisions without having to stop what he or she is doing or even having to flip a screen in order to give the go-ahead response.

Once approval is received, parts can be pulled or ordered and the mechanical work completed more quickly. If a car requires warranty or recall work that cannot



be done in-house, the work is sent to that make's dealership.

Mechanical is almost always completed first in most reconditioning workflows, with Body Shop when needed done in-house or subcontracted, as are PDR, glass, interior, bumper, wheels and, finally, detail and a full set of photos.

**FIXED OPS HAS THE
IMPORTANT ROLE IN GETTING
PARTS AND SERVICE
OPTIMIZED — THAT'S THE
FIRST ORDER OF BUSINESS
IN ANY EFFICIENT RECON
OPERATION.**

Fixed Ops' Key Role

Fixed Ops has the important role in getting Parts and Service optimized. That's the first order of business in any efficient recon operation.

Any dealership that's reconditioning 70 or more cars a month should have dedicated Techs for mechanical recon — even if only two, with the main shop as overflow. With several Techs (and using workflow as

shown below) each can have from two to five cars in process so there's always a car to work on even if parts for some cars are not in stock.

Best practices averages for mechanical should be in the four to five hours range per car, but physical limitations and brand need to be taken into account. High-line, brand-best practices are higher as are departments processing a high percentage of certified. These operations may need to push mechanical hours to 10.

The two most important factors in any effective recon system are its ease of use by individuals using the tool and balancing the workflow, starting with Fixed Ops, where most of your recon cost occurs. If you get this right, a consistent three- to four-day TTM average is within reach.

Next time, we'll take a look at other examples of high-performing recon operations, how they got there and how they stay in the top tier.



Dennis McGinn is founder and CEO of Palo Alto, CA-based Rapid Recon, the industry's most-advanced time-to-market (TTM) reconditioning workflow software for auto dealership reconditioning and used car departments.