DRIVING INSIGHTS

EPISODE 19: STRATEGIC BLUEPRINT

Hours Per RO: The Silent Profit Killer

The Limitations of Hours Per Repair Order (RO)

Hours Per RO, while widely used, falls short in capturing the full picture of service department performance. This metric can be easily manipulated, encouraging behaviors that may not align with customer interests or long-term dealership success. It fails to account for job complexity, work quality, customer satisfaction, or parts profitability. Its narrow focus often leads to short-term thinking, prioritizing numbers over excellent customer service. While recognizing its historical value, understanding these limitations is crucial for developing more comprehensive and effective performance measures. By moving beyond Hours Per RO, service departments can better assess their true efficiency, customer loyalty, and long-term profitability.

Alternative Metrics

Total Revenue Per Customer Visit is a powerful metric that combines both labor and parts sales. It encourages service advisors to consider all aspects of a customer's needs, rather than focusing solely on labor hours. This metric helps paint a clearer picture of the overall value each customer brings to your business.

Total Revenue Per Customer Visit is calculated by dividing the total revenue (labor + parts) by the number of repair orders. To interpret this, a higher number indicates you're maximizing each customer interaction. If this number is low, it might suggest missed opportunities for recommending necessary services or a need for more comprehensive vehicle inspections.

Customer Retention Rate is crucial for long-term success. It measures the percentage of customers who return for service over a specific period. A high retention rate indicates that you're providing value and building lasting relationships. This metric encourages behaviors that foster loyalty and repeat business.

Customer Retention Rate is determined by dividing the number of returning customers by the total number of customers in a given period, then multiplying by 100. A high percentage indicates strong loyalty. If this number is low, it's a red flag that customer satisfaction may be lacking or that competitors are winning over your customer base.

Net Promoter Score (NPS) goes beyond traditional satisfaction surveys. It measures how likely customers are to recommend your service department to others. This metric is a strong indicator of customer loyalty and can predict future growth. A high NPS suggests that you're not just satisfying customers, but creating advocates for your business.

Net Promoter Score (NPS) is calculated by subtracting the percentage of detractors (those who rate you 0-6 on a 10-point scale) from the percentage of promoters (those who rate you 9-10). A positive score is good, while a negative score indicates more detractors than promoters. The higher the positive score, the better your customer loyalty.

Average Annual Revenue Per Customer aligns closely with the concept of customer lifetime value. It encourages a long-term perspective on customer relationships and helps identify your most valuable customers. This metric can guide strategies for customer retention and targeted marketing efforts.

Average Annual Revenue Per Customer is calculated by dividing total annual revenue by the number of unique customers served. A higher number suggests you're effectively maximizing the value of each customer relationship. If this number is low, it might indicate a need for better customer retention strategies or more comprehensive vehicle care recommendations.

Multi-Point Inspection Completion Rate is a process-focused metric that can drive both customer satisfaction and additional sales opportunities. It ensures that vehicles are thoroughly checked, potential issues are identified early, and customers receive comprehensive information about their vehicle's condition.

Multi-Point Inspection Completion Rate is the number of completed inspections divided by the total number of repair orders, multiplied by 100. A high percentage indicates thorough service practices. If this number is low, it suggests missed opportunities for identifying additional service needs and educating customers about their vehicle's condition.

Follow-Up Call Percentage measures the rate at which service advisors contact customers after their visit. This metric encourages proactive communication, which can improve customer satisfaction, address any post-service concerns, and open up opportunities for future business.

Follow-Up Call Percentage is calculated by dividing the number of follow-up calls made by the total number of repair orders, then multiplying by 100. A high percentage shows proactive customer service. A low percentage might indicate a need for better post-service communication processes.

By implementing these alternative metrics, service departments can gain a more nuanced understanding of their performance over time. These measurements encourage behaviors that align with long-term success, focusing on customer satisfaction, loyalty, and overall value rather than short-term gains. It's crucial to look at trends rather than isolated numbers, as sudden changes can signal shifts in performance or customer behavior that warrant investigation. Regular calculation and analysis of these metrics provide valuable insights, allowing service departments to make data-driven decisions that improve operations and enhance

customer satisfaction. This approach fosters a culture of continuous improvement, ensuring that the focus remains on building lasting customer relationships and sustainable business growth.

Best Practices For Implementing These Metrics

The key to success lies in a structured approach and clear communication. Here's how to effectively introduce these new performance indicators:

Start with education. Hold team meetings to explain the new metrics, their importance, and how they align with the department's goals. Make sure everyone understands why you're making this change and how it benefits both the business and the customers.

Set realistic benchmarks. Don't expect perfection from day one. Establish baseline measurements for each new metric and set achievable targets for improvement. This gives your team something concrete to work towards.

Integrate the metrics into daily operations. Update your software systems to track these new measurements. Ensure that these metrics are visible and easily accessible to all relevant staff members. Consider creating dashboards that display real-time data.

Provide ongoing training. Offer regular sessions to help your team understand how their actions impact these metrics. Role-playing exercises can be particularly effective in demonstrating how to improve customer interactions and boost key indicators.

Align incentives with new goals. Revise your compensation and bonus structures to reflect the new priorities. This ensures that your team is motivated to focus on the right areas.

Encourage open communication. Create channels for staff to share their experiences and challenges with the new system. Their feedback can be invaluable in refining your approach.

Monitor and adjust. Regularly review the impact of these new metrics on your operations. Be prepared to make adjustments if certain measurements aren't providing the insights you need.

Lead by example. Management should embody the principles behind these new metrics. When leaders prioritize customer lifetime value and satisfaction, it sets the tone for the entire department.

Celebrate successes. Recognize and reward improvements in these metrics. This reinforces their importance and motivates your team to continue focusing on them.

By following these best practices, you can smoothly transition to a more comprehensive measurement system that truly reflects your service department's performance and drives long-term success.

Reference Chart Comparing Old And New Metrics

TRADITIONAL METRICS	NEW METRICS
Hours Per Repair Order	Total Revenue Per Customer Visit
Labor Efficiency	Customer Retention Rate
Parts Gross Profit Percentage	Net Promoter Score (NPS)
Customer Satisfaction Index (CSI)	Average Annual Revenue Per Customer
Additional Services Recommended	Multi-Point Inspection Completion Rate
N/A	Follow-Up Call Percentage

This chart serves as a handy reference point for service departments making the shift. Let's break down each comparison:

Hours Per Repair Order vs. **Total Revenue Per Customer Visit:** The new metric provides a more holistic view of customer value, incorporating both labor and parts sales.

Labor Efficiency vs. **Customer Retention Rate:** While labor efficiency focuses on short-term productivity, customer retention emphasizes long-term relationship building.

Parts Gross Profit Percentage vs. **Net Promoter Score:** NPS gives insight into customer loyalty and potential for growth, rather than just immediate profitability.

Customer Satisfaction Index vs. **Average Annual Revenue Per Customer**: The new metric ties customer satisfaction directly to financial outcomes over time.

Additional Services Recommended vs. **Multi-Point Inspection Completion Rate:** This shift focuses on thorough vehicle care rather than pushing additional sales.

The new **Follow-Up Call Percentage** metric doesn't have a direct traditional counterpart, highlighting the increased emphasis on proactive customer communication.

By comparing these metrics side-by-side, service departments can clearly see how the new measurements provide a more comprehensive view of performance. This chart can be a valuable tool in team meetings and training sessions, helping staff understand the rationale behind the transition and how it aligns with improved customer service and long-term profitability.

Tips For Transitioning To A More Holistic Measurement Approach

This shift can be challenging, but with the right approach, it can lead to significant improvements in both customer satisfaction and long-term profitability.

- Start by clearly communicating the reasons for the change to your entire team. Explain how the new metrics will provide a more accurate picture of the department's performance and how they align with the company's overall goals. This transparency helps reduce resistance and builds buy-in from your staff.

- Implement the new metrics gradually. Begin by running them in parallel with Hours Per Repair Order. This allows your team to see the differences in real-time and understand how their actions impact both old and new metrics. It also provides a transition period where you can iron out any kinks in data collection or reporting.

- Provide comprehensive training on the new metrics. Ensure that every team member understands not just how to calculate these measurements, but also how to interpret them and what actions can improve them. Role-playing exercises can be particularly effective in demonstrating how different customer interactions can impact these metrics.

- Adjust your incentive structures to align with the new metrics. This might mean moving away from bonuses based solely on Hours Per Repair Order and implementing rewards for high customer retention rates or Net Promoter Scores. Be sure to involve your team in discussions about these changes to ensure they feel the new system is fair and achievable.

- Use visual aids to help your team track progress. Dashboards displaying real-time data on the new metrics can be powerful motivators. Consider setting up screens in the service area that show daily or weekly performance on key indicators.

- Encourage open dialogue about the transition. Regular team meetings where staff can discuss challenges and share successes can help smooth the process. This feedback loop is crucial for refining your approach and addressing any unforeseen issues.

- Be patient and persistent. Changing ingrained habits and mindsets takes time. Consistently reinforce the importance of the new metrics and celebrate improvements, no matter how small. With time and consistent effort, your team will adapt to the new system and begin to see its benefits.

By following these tips, you can successfully guide your service department through this important transition, setting the stage for improved customer relationships and stronger long-term performance.

Checklist For Evaluating Your Current Performance Measurement System

This tool can highlight areas for improvement and guide the transition to a more holistic approach.

Metric Diversity:

□ Do your metrics cover all aspects of service department performance?
□ Are you measuring both short-term efficiency and long-term customer value?

Alignment with Goals:

□ Do your metrics reflect your department's overall objectives?
□ Are they consistent with your company's mission and values?

Customer Focus:

□ Do your measurements capture customer satisfaction and loyalty?
□ Are you tracking metrics that predict future customer behavior?

Data Accuracy:

□ Is your data collection process reliable and consistent?
□ Are there any metrics that are frequently manipulated or gamed?

Actionability:

□ Can your team directly influence the metrics through their actions?
□ Do your metrics provide clear guidance for improvement?

Timeliness:

□ Are your metrics updated frequently enough to guide daily decisions?
□ Do you have both leading and lagging indicators?

Accessibility:

□ Can all relevant team members easily access and understand the metrics?
□ Are your metrics displayed in a clear, visual format?

Balance:

□ Do your metrics provide a balanced view of financial and non-financial performance?
□ Are you avoiding over-reliance on any single metric?

Benchmarking:

- ▫ Can you compare your performance to industry standards or competitors?
- ▫ Are you tracking your own progress over time?

Review Process:

- ▫ Do you regularly review the relevance and effectiveness of your metrics?
- ▫ Is there a process for updating or replacing outdated measurements?

By working through this checklist, service departments can identify gaps in their current measurement system and prioritize areas for improvement. This evaluation process is a crucial first step in developing a more comprehensive and effective approach to performance measurement.

Remember, the goal is not to have a perfect score on every item, but to use this checklist as a springboard for thoughtful discussion and targeted improvements. Regular review and adjustment of your measurement system is key to maintaining its relevance and effectiveness in driving your service department's success.