Laying a foundation

Creating and hitting service department labor budgets

By KELLY MATHISON

Creating a service labor budget can be a stressful and intimidating time for many service managers. In many cases, service managers are comfortable when it comes to technical product knowledge but are less familiar with financial budgeting.

For some dealers, the budgeting process consists of looking at last year's numbers, adding a percent or two and that's about it. Others take a more in-depth approach.

In this article, I will share a way to create a conservative, basic, yet effective labor budget and provide suggestions to keep you on track throughout the year.

Labor inventory has NO shelf life.

Understanding labor inventory

If we buy an oil filter at 8 a.m. and don't sell it by 9 a.m., we still have it on the shelf to sell later in the day. However, if we pay a technician starting at 8 a.m. and don't sell that hour of labor by 9 a.m., that hour is gone. We would not allow this to happen with our other inventory but tend to do it too often with labor inventory.

Some loss of labor inventory is unavoidable.

How do you calculate your available labor inventory (see Chart 1)?

Realistically, there will be some non-revenue time, including training, breaks, talking with customers, waiting for parts, etc. We want to keep that to a minimum. We also want to minimize precious technician time spent on non-revenue workorders such as general shop cleaning, servicing internal company vehicles and other "make-busy" work.

Generally, we want at least 85 percent of the available time to be assigned to revenue-generating workorders.

We also know that there will be other areas of lost time, including training, breaks, interruptions, talking with customers, waiting for parts, etc. Generally, we want at least 85 percent of the available time to be assigned to revenue workorders. Example: 1,920 available hours x .85 = 1,632 revenue hours per technician.

By using this basic formula, you can plug in your own numbers (highlighted in red, see Chart 2 above) to come up with a realistic target.

Putting your budget to work

Now that you have a realistic and attainable budget, you must get your whole team engaged to help hit the target. This begs the question, "How do you eat an elephant?" Answer, "One bite at a time."

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Chart 1. calculating available labor inventory

Technician hours paid per week, per year	40 hrs. x 52 weeks	=	2,080 hrs.
3 weeks paid vacation	40 hrs. x 3 weeks	=	−120 hrs.
1 week sick time, paid leave or other paid time off	40 hrs. x 1 week	=	−40 hrs.
Total hours available			1,920 hrs.

Chart 2. calculating realistic target for service net income dollars

Weeks per year		Hours worked per week		Number of techs		Total paid hours
52	x	40	x	6	=	12,480
Total paid hours 12,480	−	Paid vacation/sick time off 960	=	Total hours available 11,520		Productivity 85%
Total revenue hours = 9,792	x	Retail shop labor rate $120 /hour	=	Total labor sales dollars $1,175,040	−	Technician salaries $424,320
Service GM dollars = $750,720		Service dept. direct expenses $633,720	=	Service net income dollars $117,000 (10 percent)		

Chart 3: technician revenue hours by month

Total available hours 9,792	/	Months per year 12	=	Monthly billing target 816 hours	/	# of techs 6	Hrs. billed/tech/month 136

Take it one step further and break it down into weeks:

Chart 4: technician revenue hours by week

Total available hours 9,792	/	Weeks per year 52	=	Weekly billing target 188.31	/	# of techs 6	Hrs. billed/tech/week 31.4

The same logic applies when trying to hit your budget.

In the next examples, Charts 3 and 4 *(see charts opposite)*, we had a target of 9,792 revenue hours for the year. By breaking it into smaller bites, we can use it as a scorecard to engage technicians and service administrators to hit the target.

Keeping your eye on the ball – and on the scoreboard

Do you ever notice professional (and amateur) athletes constantly check the scoreboard or game clock during a game?

Yes, they may be watching the replay of their goal celebration on the big screen, however, they are also aware of the score and the time remaining on the clock. The same should apply to your team.

Top performing service managers make a habit of keeping score and ensuring the whole team is aware of the time remaining on the clock.

This is as easy as putting up the weekly and monthly targets on the shop whiteboard for all techs to see then updating the progress (score) on a regular basis. This can be done as a group or by individual technicians.

Some service managers have reported that this alone can be a magic bullet.

"Techs will check to see how many hours they need to bill to hit their monthly or weekly target, then put an extra effort into handing in their workorders on time," according to one service manager.

Others have reported it has a positive effect on the whole service team including service administrators.

Another service manager commented during a training session, "I now hear our service administrator checking with the techs to see what workorders they can close prior to the end of the day, week or month… it's sort of like an in-house competition to hit the targets."

Best practices
for keeping your labor budget on target

- Have a marketing plan to ensure you have revenue jobs available throughout the year.
- Quote 100 percent of the retail jobs to reduce writing off labor.
- Never quote hours to a customer.
  - Give the customer a price… give the technician a time.
- Implement a standard or flat-rate pricing method to allow techs to succeed.
- Don't wait until the month end to "batch close" workorders.
  - Close workorders every day; month-end then becomes just another day.
  - The older the workorder is, the harder it is to close and collect.
- Train technicians on proper documentation methods.
  - Properly documented workorders are easier to close and show value to your customers.
  - Document throughout the day.
  - Document the time and steps taken to diagnose.
  - Document the time and steps taken to repair.
  - Document the time and steps taken to test the repair.
  - It's what you write, not how much you write.
- Never allow technicians to clock on to "non-revenue" workorders without approval from the service manager.
- Have revenue jobs lined up for each tech prior to the start of every day.
- Have secondary revenue jobs ready to assign in case of delays or interruptions.

Be realistic

Realistically, you won't hit the target every week, especially when you have techs away on training or vacation. However, you will have weeks where you will exceed your budget target. The trick is to ensure you are endeavoring to make up lost ground when you can, with a focus on the monthly, quarterly and annual targets.

Best practices

It is a key responsibility of the service manager to ensure technicians are assigned to revenue work orders at all times.

Top performing service departments have shared some of their other "best practices" *(see sidebar above)*.

In my upcoming articles, I will discuss ways to take your service profitability even higher. For more information on upcoming aftermarket training programs, visit WEDA's Dealer Institute at www.dealerinstitute.org. WED

To discuss a customized aftermarket program for your organization, send request to info@westerneda.com.

EDITOR'S NOTE: If you would like an Excel spreadsheet template to create your own labor budget, please send a request to Kelly. Also, if you have a best practice you'd like to share with Kelly, please write to kelly@kayzen.ca.

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