Understanding Productivity and Efficiency

By KELLY MATHISON

Service financial and performance tracking can be confusing for service managers and technicians. Some systems use different terminology, such as revenue recovery, charge-out efficiency or service recovery that can also cause additional confusion.

In this edition of *Top Metrics to Watch*, I will try to explain **Productivity** and **Efficiency** in a way that may help your employees understand how they can make a difference in shop performance in these two areas.

A generic formula of Productivity is 1) revenue hours divided by 2) available hours.

1. Revenue hours

Revenue hours are hours posted to revenue work orders. Generally, this would be customer labor sales, warranty labor sales and internal labor sales, e.g., equipment setup, predelivery or trade reconditioning.

In most shops, these are charged at the retail shop rate. Nonrevenue hours would be technician time posted to nonpaying jobs, such as general shop and yard maintenance, servicing company vehicles or helping another department. In most dealerships, nonrevenue work is charged at cost or nonrevenue shop rate. Some systems consider nonrevenue work as "lost time." It is primarily the job of service managers to maximize revenue work and minimize nonrevenue work.

2. Available hours

In most cases, a technician is paid for all hours during the work year, including vacation, holidays, paid time off, etc. However, because of paid time off, they are only available for a reduced number of hours.

EXAMPLE: 40 hours per week x 52 weeks per year equals 2,080 technician paid hours. Minus 180 hours of vacation, sick days, statutory holidays or other paid time off and that total drops to 1,900 available hours.

Productivity measures a service manager's ability to assign as many available hours as possible to revenue jobs.

Due to unavoidable lost time from training, breaks and delays, it is very difficult to have a technician on revenue jobs at all available hours.

A good target guideline is 85% of available hours posted to revenue jobs (85% Productivity)

EXAMPLE: A technician's annual available hours of 1,900 x 85% equals 1,615 revenue hours annually to revenue jobs.

A generic definition of Efficiency is billed hours divided by available hours.

Efficiency measures a technician's ability to complete an assigned task in the most efficient manner and document the work performed so that maximum time can be billed.

Billing gains are a key part of efficiency. Billing gains occur when a technician can beat standard flat rate times, but the quoted time can still be billed out.

A good efficiency target guideline is greater than 100%.

EXAMPLE: A standard job is quoted and billed at 7 hours, but the technician completes it in 6 hours. In this example, the efficiency rate would be 116% (7 divided by 6 = 116%).

On an annualized basis, an experienced technician who is available for 1,615 hours, should be able to bill out greater than 1,615 hours annually.

Although *Productivity* falls primarily on the service manager and *Efficiency* on the technician, teamwork with other departments can have a huge impact. For example, good communication with the sales department means the service manager can schedule new machine predelivery and speed up trade reconditioning, reducing lost time. If there is good communication with the parts department, valuable time can be saved getting parts to technicians.

If service administrators can work with technicians to improve work order documentation, write-offs can be reduced and additional hours can be fairly billed on many workorders, including warranty.

Finally, if the whole dealership is involved in promoting extended warranties and proactive preventative maintenance programs, it will increase customer and warranty labor sales, drive parts sales and boost overall customer satisfaction through better uptime and reduced ownership costs.

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KELLY MATHISON is a trainer and consultant for the Western Equipment Dealers Association's Dealer Institute.

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During WEDA's Dealer Institute programs, we ask dealers to share their successful best practices. Here are a few:

5 BEST PRACTICES TO IMPROVE Productivity

1. Service managers must ensure they have revenue jobs lined up prior to each day so technicians can log directly onto those work orders when they arrive. Have secondary revenue jobs available so techs can transition from one revenue job to another in case of delays or as segments are completed.
2. Do not allow technicians to log on to nonrevenue jobs unless assigned by the manager.
3. Resist pulling technicians off revenue jobs to do nonrevenue work.
4. Have a proactive marketing plan to increase customer labor sales through inspections or preventative maintenance service programs. Proactively schedule warranty or manufacturer recall program work.
5. Work with the sales department to proactively schedule machine set up, predelivery or trade reconditioning jobs to reduce delays.

5 BEST PRACTICES TO IMPROVE Efficiency

1. Invest in technician training and special tools to allow technicians to complete tasks as efficiently as possible. Assign jobs according to their individual skill level to maximize success.
2. Reduce lost or wasted technician time looking up parts, picking parts or waiting for instructions.
3. Train technicians to have good documentation skills so additional time spent on diagnostics or extenuating circumstances can be appropriately billed out.
4. Transition from hourly rates to a standard or flat rate system so customers are quoted a standard price to make the repair. Give the technician an expected time to complete the task. "Give the customer a price, give the technician a time."
5. Obtain customer approval on estimated jobs and do not proceed on additional repairs without approval from the customer.

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