

Service Better Practices & Benchmarks

For 20% Pretax Profits



The Use of Key Performance Indicators Service Operations

Many, if not most companies in the contracting trades have service operations.

These service department operations may support the company's installation, new home or warranty requirements so the company meets its service obligations while the most money can be made in the installation departments.

We have even heard industry "EXPERTS" state publicly, service is a NECESSARY EVIL, and you CANNOT make money in service. Balderdash!

It simply means they couldn't and these people try to superimpose their views on the rest of us while they try to sell us memberships to associations or clubs for big bucks!

Service is a great market to be involved in if you want to be there. If not, well, you probably won't make any money but it's not because you CAN'T!

The materials below are the better practices we feel are current within the service industry.

The benchmarks on page 5 and 6 represent much research within the service trades, and support known practices to produce 20% pretax profits within the service operation.

Obviously, the better practices need to be functioning well for these benchmarks to be achieved, but they do give you the opportunity to conduct a GAP analysis on your own service enterprise, and get the process started to making more money in service.

Use the benchmarks, as we suggest within our Internet learning site, together and not individually. One benchmark does not make or break a company, but together or as a group, they are powerful pieces of information that allow you to focus on your business priorities (Service related).

Use these to train your personnel, and continue to measure your progress. They all point to significant areas of business practice, and perhaps...the need to improve your processes.

Take a look at the information below, evaluate the content, and see what you find that allows you to consider adapting. Everything you see in a better practice you can find a solution to implementation and training on the web site.

As an old mentor of mine used to say, "Pick up the rock and look underneath, you'll never know what's under the rock until you look!"

Example Better Practice Description		Implementation Solutions
1	Having a Service Department Business Plan	Once a year plan, assign goals, weekly ops review.
2	Establishing A Clear, Precise set of Service Goals	Precise goals pay off these goals, goal boards.
3	Being Departmentalized and having Financial Controls in place	Complete accuracy, daily/weekly accounting, all costs match the service department revenues.
4	Establishing Service Benchmarks and Sub Benchmarks for Performance	Know your financial benchmarks and know your sub benchmarks for review and management purposes.
5	Your Employees know the benchmarks and sub-benchmarks	Pay/TRAIN the employees on these benchmarks and they will get to know them better, and why!
6	Getting your Street Labor & Pricing Set Properly	Street labor Rates need to be calculated and reviewed monthly and mirror your productivity.
7	Having a Precise Labor Control System	Labor is benchmarked at 22% of service labor sales.
8	Utilizing a Technician Friendly Flat Rate system	Flat rate can be an exceptional system – it can also be catastrophic. The process needs to be user friendly or it will not get used properly.
9	Recruiting, & Hiring Properly	Have a profile. Have a recruiting & training development process. Use hiring process of multiple person interviews and pre-employment testing.
10	Testing for Competency and Skills	All employee positions require competency testing.
11	Establishing a Disciplined Training Approach	Skill development plans & training outlined as part of job description and pay plans for employees.
12	Utilizing the Service Toolbox Approach	Tools required are outlined, how used, training.
13	Assigning Accountability for Inventory	Truck inventory is owned & accountable by truck by Technician as policy.
14	Inventory Replenishment	Kan-ban replenishment system using bins, daily usage & replenishment.
15	Having a Strong Emphasis on Service Agreements	Service agreements are essential to the success of customer retention, and for technician development, and lowering of marketing costs.
16	Customer service 1 st contact process to inform customer of method of payment	COD on all service calls-commercial billing only. Accept credit cards – pre-authorization process.

17	Having operational processes set to support the goals, such as service sales of equipment, sales of service agreements.	Properly organized collateral materials such as invoices, technician flat rate manuals, sales & educational materials, technician training for customer service, allows for performance to improve.
18	Public goal boards and employee incentives are used.	Publicly making all aware of key measurements focuses efforts toward those – a matter of competition.
19	Technician productivity reports are used, tracked, and reviewed with technicians.	Paying for performance based on productivity can only be accomplished if measurements can be tracked.
20	Use dispatching that organizes based on 4 C's - crisis, competency, closeness, customer recognition.	Allows maximum productivity and customer service to occur, maintaining benchmarks.
21	Having an image policy.	The company image controlled by policy for uniform, customer service, vehicles, and overall appearance to make professional statement.
22	Adopting a "Perfect Service Call" approach.	The exact standards for how to perform every service call, and the training to back it up.
23	Vehicle outfitting protocol to standardize layout, and design.	The service process and benchmarks depend upon good organization, having the vehicle outfitted properly makes this more likely to occur; makes inventory counts more effective, and eliminates shrinkage.
24	Implementing a communications platform that allows for instant communications, and daily accounting practices.	Radios, wireless internet, cell phones, whatever you require in your market to communicate instantly with field personnel.
25	Conducting service meetings with technician role-plays and practice sessions.	Using meetings as training sessions, with top performing technicians leading role-plays and working on skills with customers supports growth and improves technique.
26	Implementation of performance based pay system for compensation of technicians and service management team.	Not for everyone – but very effective in tying what behaviors you desire to rewards system.
27	Implementation of key performance bonuses for rewards, outstanding performance.	Rewards for specific contests, monthly, quarterly, for various items such as Indoor Air Quality, Accessory Sales, New Products etc.
28	Implementation of customer service follow-up and technician debriefing system.	After the service call debriefs and follow-up maintains accountability & discipline for perfect service call.
29	Use of an information system that documents customer records, transactions, and customer history in detail and archives this information for existing customer marketing and reference.	I/T systems all vary – the Information System MUST provide the data for customers, marketing to existing customers, and benchmark data.

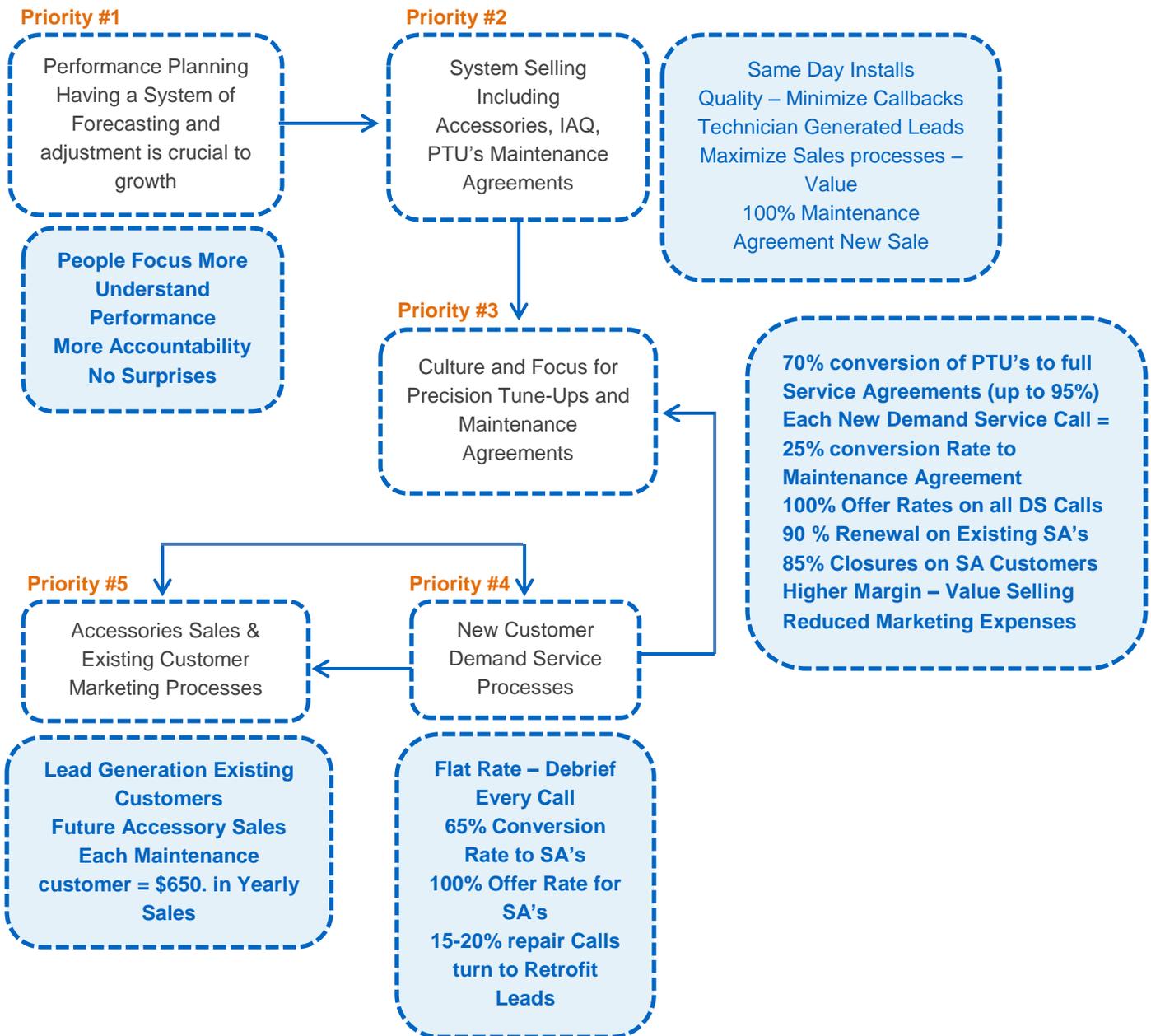
30	Matching service invoices to history, above in practice 29, so records detail all equipment issues, and avoid customer complaints.	Documenting service transactions properly to eliminate nuisance Service Agreement complaints.
31	Use of extended warranties judiciously and in concert with proper maintenance, not as a substitute.	Tie all extended warranty practices to maintenance agreement system you use in the company. Big and bold – Proper maintenance =warranty.
32	Technician utilization system to keep technicians busy and grow service sales.	Training technicians to recognize and identify opportunities based on a company standard, not their personal standard. You need the standard.
33	Technician to conduct basic indoor air quality checks on all maintenance and demand service calls to eliminate mold risk.	Having a defined IAQ system for your technicians to present, and be trained upon. If they are comfortable with it they will present it. Visa-versa.
34	Consider service pods at point where size allows geographic location of technicians to develop a market and drive replacement sales – size of company is factor.	At a time when large enough – defining geographic areas for technicians to work in and develop – called market pods – makes lead creation, dispatching, and management easier.
35	Establish a tool policy for acquiring tools.	Part of employee handbook. As long as they stay an employee, pay for the loan to acquire the tool kit – they leave – they own the note.
36	Career path the technicians with levels of testing, skills, certification, and training – tied to pay.	Levels of technician skill – levels of pay, vacation, etc....so there is more than just a paycheck to see as the end game for a technician.

Key Performance Benchmark		Rationale
1	Service labor costs unburdened at 22% of service labor sales.	Controls the labor component in service at a rate allowing gross margins to be at 60% or above.
2	Gross margins in service at minimum of 60%, target 65%.	The margin of 60% minimum is based on Direct Labor, Direct Labor benefits, commissions, permits, equipment, materials, subcontracts, warranty reserve, extended warranty.
3	1000 service agreements based on each 1 million in replacement + service+ maintenance combined revenues of company. Target is 1500 service agreements per million.	Allows customer retention, more referrals, more existing customer accessory sales, and reduces external marketing costs.
4	Lead creation of 50% of replacement leads from service, and 25% of leads as referrals from service for target of 75% lead creation.	Service department practices can create leads more effectively than external marketing and reduce marketing costs below 3% of company sales.
5	Warranty reserve at or below 1%.	Technician accountability, training, and quality process to maintain low callback ratio.
6	1st time call completion ratio of 85% with target of 90%.	Allows more calls to be captured, requires excellent inventory management & replenishment, dispatching, and customer admin.
7	Service sales at minimum of 25% of revenue mix, not to exceed 30% of revenue mix.	Enough service is critical to growing company sales and margins, offering opportunities for leads; too much service over 30% shows a lack of lead creation.
8	Direct labor field personnel at 2, for every 1 internal support admin person.	Driving productivity up, higher before hiring is crucial to maintaining overhead in relationship to gross margins.
9	Service vehicle productivity at minimum of \$ 100,000; target \$125,000 for residential, target \$250,000 commercial, target \$80,000 maintenance.	These productivity measures require low non-billable hours and good management practices.
10	Materials costs at 13-15% of service sales.	Proper pricing for service labor, and buying properly from suppliers to maintain margin %.
11	Offer rate for service agreements at 100% of all Demand Service Calls, conversion rate at minimum 25%, target 50%. Target conversion rate to PTU's is 60%.	Building service agreements supports customer retention, lowers marketing costs, builds growth in revenues, and higher margins.
12	Service agreement renewal from service at 85%, target 90%.	Maintains service agreement growth.
13	Overhead – or Selling, General & Administrative (SG&A) expenses to be lower than 45% in service if allocated to a departmental P&L.	Overhead in service is greater due to support required; maintain a close control on SG&A here so margin of 65% to overhead of 45% leaves 20% pre-tax profit.

14	Service department 15 days accounts receivables; target is zero, unless commercially based. Less than 30 days for commercial.	Service receivables are unnecessary and cost admin. Time and effort. Up front process reduces need for any receivables.
15	Timely, accurate, departmental accounting reports – weekly for KPI's, target is daily for KPI's – weekly operational reviews and total accountability for performance measurements outlined.	Information supports key decisions, great information leads to greater decision making possibilities.
16	The closure rate for sales leads produced from demand service at 75%, the closure rate for sales leads produced from maintenance agreements at 80%.	These leads are qualified, improved leads versus externally marketed leads.
17	Labor sales to parts sales ratio of 2 to 1 in your service department.	If pricing is set properly, and the technicians are not repairing items they should be replacing, the ratio will maintain itself based on your pricing.

The Business of Service / Creation of Leads from Service The Service Leads Business Model

Residential Replacement & Service Business Model



The Steps of What You Need to Create Service Leads

1. Demand service marketing plan for lead assignment count and “How To” of creating leads from demand service.
2. Technician “Turnover” process.
3. Technician rules of the road for creating the “Turnover.”
4. Technician training and customer relationship process.
5. Technician steps & training for expectations for the service call (Perfect Service Call).