CHAPTER III

UNDERSTANDING YOUR OVERALL EFFICIENCY

"For every action,
there is an opposite and equal reaction."

- Sir Isaac Newton

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The secret to increasing your profitability lies within your ability to control your work, rather than your work controlling you. This chapter explains how Overall Efficiency measures the performance of the Service Department enabling you to control the direction of your business.

OVERALL EFFICIENCY EXPLAINED

The basic calculation for Overall Efficiency is Hours Sold divided by Hours Attended and the general idea to succeed in business is that you need to sell more hours than your Technicians attend. It's not rocket science, it's pocket science. When Hours Sold are greater than Hours Attended Overall Efficiency will be reporting greater than 100%.

This being said, it's critically important to understand that you do not have any *direct* control over your Overall Efficiency because it is only a result that is generated from other areas of your performance. You cannot do anything at an operational level to improve your Overall Efficiency because the Hours Sold are controlled by Productivity and the Hours Attended are controlled by Utilisation. Therefore if you wish to improve your Overall Efficiency you have to achieve it by improving your Productivity and Utilisation.

Understanding that Overall Efficiency is the product of your Productivity and Utilisation is fundamental to

gaining control of your Service Department because it informs you whether all your hard work and efforts are achieving harmony and balance on the shop floor. Let's take a closer look at how the three operational efficiencies work together.

There are three inextricable links that exists between all three of the operational efficiencies of the Service Department and understanding these links unlock the secrets of how to operate the department more effectively, and also how to make more profit but remember that a chain is only as strong as it weakest link so you really need a good understanding of how these links operate.

You already know that the basic formula for Overall Efficiency is Hours Sold ÷ Hours Attended x 100 but there is also another method of calculating Overall Efficiency which is much more revealing about the skills of the management team. The formula is:

Utilisation x Productivity = Overall Efficiency

It doesn't matter whether you use this formula or Hours Sold ÷ Hours Attended because the answer you will get is exactly the same. However, it is the understanding of the fact that Overall Efficiency is the result of Utilisation *multiplied* Productivity that yields the real power. This point is critical because it means that you must increase your Productivity by getting your Technicians to beat the allocated job times *and you must also* increase your Utilisation by filling the time you have saved with more work otherwise there's no point in beating the allocated job times because you will just create Idle Time.

OPPOSITE AND EQUAL REACTIONS

Sir Isaac Newton taught us that for every action, there is an opposite and equal reaction. Within the Service Department this effect is evident between Productivity and Utilisation because they are constantly pushing and pulling against each other to gain dominance. Let's take a closer look at how this happens on the shop floor by building a simple business model so that the effects of any performance development can be clearly seen. The following examples demonstrate how Newton's law of opposite and equal reactions affect your operational performance and why it is so important to monitor your Overall Efficiency.

THE BASIC MODEL

(A) Number of Technicians = 4
(B) Hours Attended p/Tech. = 40
(C) Total Hours Attended = 160 (A x B)

Now let's make it nice and easy and say that the Hours Worked are reported at 144 and the Hours Sold are reported at 158.40 which means that the three Operational Efficiencies can now be calculated:

(D) Hours Worked = 144
(E) Hours Sold = 158.40
(F) **Utilisation** = 90% (D ÷ C x 100)
(G) **Productivity** = 110% (E ÷ D x 100)
(H) **Overall Efficiency** = 99% (E ÷ C x 100)

By using this model you will see what happens to the operational performance in the Service Department when something changes and how it is then reported in your operational efficiencies.

In this next example, let's say that the department successfully increases Productivity to 120% by the Technicians completing their work quicker than the allocated job times, but the questions are:

1. What will happen to the operational performance of the department?

2. What will happen to the Overall Efficiency?

The model below provides the gain in Productivity and the asterisk marks show the figures that will need to be recalculated in order to illustrate the changes in operational performance. Obviously, the question mark remains on Overall Efficiency.

(A) Number of Technicians = 4
(B) Hours Attended p/Tech. = 40
(C) Total Hours Attended = 160
(D) Hours Worked = *
(E) Hours Sold = 158.40
(F) Utilisation = *
(G) Productivity = 120%
(H) Overall Efficiency = ?

STAGE 1: GETTING STARTED

The department has increased Productivity to 120% by the Technicians beating the allocated job times which means that they spend less time clocked onto each job and the result is that the Hours Worked will be reduced. In order to obtain the revised number of Hours Worked,

Chapter III Sample

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