Pay for Performance Pilot (PFP) Phase 1 Study Results

Executive Summary

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Purposes

The Pay for Performance (PFP) Pilot Study Project was launched in order to test the hypothesis that a Technician who has received targeted training and has an incentive pay package tied to efficiency scores will outperform a Technician who doesn't and thus add more revenue to the Dealer's Service Department. This project consists of two phases: Phase 1- the Pay for Performance Pilot to test the above hypothesis, and if proven true, Phase 2- the NMEDA Certification Pilot to identify and standardize targeted training that is associated with improved Technician efficiency scores and increased SD revenues.

Situation

- Hourly pay packages are typical for Service Department (SD) Technicians in the Mobility Equipment Industry
- Because most SD Technicians have no stake in the business or incentive to perform more efficiently and are not trained or held accountable for performance, many SD's are supported by Sales and are not operating as profit centers.
- Many Dealer SD's do not invest in targeted Technician training or reward performance and experience high Technician turnover through transfers within and without the industry.
- Because there is no industry-wide recognized standard certification pathway or typical PFP career pathway, the industry may not always attract or retain the best & brightest possible new Tech recruits
- Therefore, the need for Phase 1- PFP Pilot to test and prove the hypothesis that an engaged Tech with some targeted training investment and pay incentives will yield better long term ROI for the Dealer, and Phase 2 to create a standardized certification program for technical competence to attract and permanently retain the best Technician talent possible for our members.

Study Design, Definitions, & Background

- Three NMEDA member Dealers in the US & Canada were invited in Jan. 2012 to participate in a six month test/control Pilot study and form the PFP-NC Sub-Committee Project Team. (Pay for Performance and NMEDA Certification Pilot)
- These Pilot dealers were invited to represent various sized member operations including: small/local single site (Courtland Mobility), medium/regional multi-sites (Superior Van & Mobility) and large / national multi-sites (Mobility Works)
- The Project Team met monthly between Jan. 2012-April 2012 to determine scope and scale of the Pilot and select included products to be measured with required trainings.
- The Project Team determined that 7 products would be included and Manufacturer Standard Hours would be used to measure efficiency scores.

- The 7 products and Standard Hours were: MPD or SureGrip HC at 5.0 Std. hrs., Bruno Joey Lift at 4.0 Std.hrs., Bruno TAS installation at 7.0 Std.hrs., DPA Braun lift and Interlock at 8.0 Std.hrs., Bruno Curbsider installation at 4.0 Std.hrs., Generic Inside Scooter Lift at 4.0 Std.hrs., and a SureGrip or other Left Foot Accelerator at 2.0 Std.hrs.
- Test Technicians were given the opportunity to receive a Pay for Performance hybrid package of base salary plus bonuses based on monthly improvements in efficiency. Test Techs were also given employer-sponsored manufacturer trainings for each of the 7 Pilot test products. Two of three Pilot participants had both Test and Control Techs.
- Each Pilot Dealer devised a customized Pay for Performance plan for their Test Technicians to reward improved performance over the 6-month pilot.
- Control Technicians were paid hourly and given no PFP rewards or targeted training.
- Efficiency Scores for Test and Control Techs were tracked monthly in a specially designed Pilot Scorecard spreadsheet.
- Efficiency was measured as: Efficiency = Billable Hours Produced / Clock Hours Worked – Comebacks. Example: If a Tech installs a Hand Control in 4.25 hours and creates 4 Billable Hours with no comebacks, he would be 94.1% efficient for that specific job. (4.0 / 4.25 = .941)
- PFP Pilot was conducted from May 2012-Oct.2012 at Superior Van & Mobility with Test 1 (Test Tech at South Bend, IN) and Control 1 (Control Tech at Ft.Wayne, IN), Courtland Mobility with Test 2 (Test Tech) and Control 2 (Control Tech) both at Burlington, Ontario and Control 3 (Control Tech) at Jacksonville, Florida.

Phase 1-Pay for Performance Pilot Objectives

- To test & prove hypothesis
- To measure potential revenue impact to a typical NMEDA Dealer SD
- To compare test and control tech performance levels
- To confirm need for Phase 2- NMEDA Certification

Study Findings:

A. "Apples to Apples"

Mike Murphy from Superior Van & Mobility selected "Test 1" as the Test Tech and "Control 1" as the Control Tech. Although at two different locations, Test 1 and Control 1 shared similar skill sets, knowledge, and experience in the industry. Because of these similarities, this pair presented our best "apples to apples" comparison. This pairing was designed to help explore the question, how will two very similar Techs perform comparatively given similar resources except for PFP and targeted training?

Please see "Apples to Apples" chart below:

"Apples to Apples"

Comparative impact over a year illustration:

Test 1 (younger with training & incentives) and Control 1 (younger without training & incentives)

Storyline: Test 1 with training & incentives comparatively outperformed Control 1 who had no incentives

	Start	Finish	Improved or declined
Test 1	93.1%	103.3%	**10.2%**
Control 1	94.2%	97.4%	**3.2%**

<u>If over a year and assume:</u>

1. 160 available Billable Hrs per month (40 hrs x 4 weeks)
2. Shop rate is $100 / hour
3. 160 available BH x 12 months = 1920 available BH / year

<u>Test Tech</u>	BH ava.	Eff.	Rate	Annual Impact
Test 1-start	1920	93.1%	$100.00	$178,752.00
Test 1-finish	1920	103.3%	$100.00	$198,336.00
			Test 1-NET	**$19,584.00**

<u>Control Tech</u>	BH ava.	Eff.	Rate	Annual Impact
Control 1-start	1920	94.2%	$100.00	$180,864.00
Control 1-finish	1920	97.4%	$100.00	$187,008.00
			Control.1-NET	**$6,144.00**

Test 1, the Test Tech, was given the opportunity to earn Pay for Performance incentives and receive targeted training relative to the 7 products selected for the Pilot. As seen in the chart above, Test 1 demonstrated a 10% increase in efficiency during the six-month pilot. Given the assumptions above, his improvement in training and performance efficiency would bring in an extra $20,000 to his Service Department. Control 1, on the other hand, had no PFP incentives (hourly only) and no extra training. Control 1 also improved, but only slightly relative to Test 1. If this SD had all Techs on a Pay for Performance incentive plan with targeted training and tracked / rewarded monthly efficiency gains even more profit would be generated from this SD.

"Apples to Apples" conclusion: all things being equal, Techs with PFP and targeted training will significantly outperform similar Techs without incentives or training.

B. "Apples to Oranges"

Tom Lancaster from Courtland Mobility selected "Test 2" as the Test Tech and "Control 2"as the Control Tech. Although both were working at the same single site location, Test 2 and Control 2 shared very different skill sets, knowledge, and experience in the industry. Because of these differences, this pair represented our best "apples to oranges" comparison. This pairing was designed to help explore the question, how will a very young and relatively inexperienced Tech perform with PFP incentives and targeted training against a much more experienced Tech who has no incentives or extra training? Please see "Apples to Oranges" chart below:

"Apples to Oranges"

Comparative impact over a year illustration:

Test 2 (less experienced) and Control 2 (more experienced)

Storyline: Test 2 with training & incentives closed gap on Control 2 even though much more experienced

	Start	Finish	Improved or declined
Test 2	97.9%	100.5%	**2.6%**
Control 2	105.8%	101.9%	**-3.9%**

<u>If over a year and assume:</u>

1. 160 available BH per month (40 x 4)
2. Shop rate is $100 / hour
3. 160 available BH x 12 months = 1920 available BH / year

<u>Test Tech</u>	BH ava.	Eff.	Rate	Annual Impact
Test 2-start	1920	97.9%	$100.00	$187,968.00
Test 2-finish	1920	100.5%	$100.00	$192,960.00
			Test 2-NET	**$4,992.00**

<u>Control Tech</u>	BH ava.	Eff.	Rate	Annual Impact
Control 2-start	1920	105.8%	$100.00	$203,136.00
Contr. 2-finish	1920	101.9%	$100.00	$195,648.00
			Contr.2-NET	**-$7,488.00**

Interestingly, Test 2, the much less experienced Tech with PFP incentives was able to close the gap on the much more experienced Control 2 from about 7% difference in efficiency at the Pilot's beginning to almost a dead heat at the end of the study. Also, lost opportunity costs should be considered. If Control 2 had also received PFP incentives and targeted training, perhaps he would have improved his own efficiency scores and also added more to the company's SD bottom line. "Apples to Oranges" conclusion: even when all things are unequal, Techs with PFP and targeted training will comparatively improve against more experienced Techs without incentives or training.

C. "Status Quo"

Ray Morton selected "Control 3" from MobilityWork's Jacksonville location as a stand-alone Control Tech. No Test Tech was available at this location.

No Pay for Performance impact over a year illustration:
"Control 3", no Pay for Performance incentives or targeted training.
Storyline: Control 3 has no P&L stake in the business, no motivation to improve, hence missed opportunities.

	Start	Finish	Improved or declined
Control 3 (Control)	107.7%	95.2%	**-12.5%**

<u>If over a year and assume:</u>
1. 160 available BH per month (40 x 4)
2. Shop rate is $100 / hour
3. 160 available BH x 12 months = 1920 available BH / year

Control Tech	BH ava.	Eff.	Rate	Annual Impact
Control 3-start	1920	107.7%	$100.00	$206,784.00
Control 3-finish	1920	95.2%	$100.00	$182,784.00
			Contr.3-NET	**-$24,000.00**

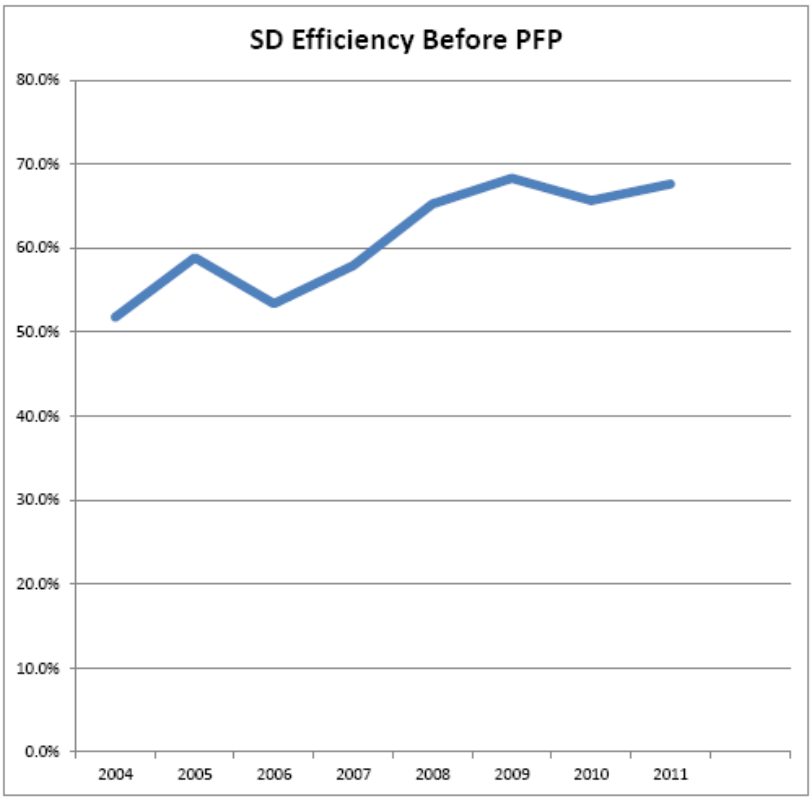
Control 3's story represents a Control Tech with no PFP incentives or targeted training. In this case, Control 3's decline in efficiency could be attributed to many factors some of which may not be controllable. However, this data illustrates that there could be a high cost associated with maintaining the status quo. "Status Quo" conclusion: investing in SD Techs with PFP and targeted training could return a better SD bottom line than simply maintaining the status quo with "Pretty Good" Techs with no PFP incentives or training investment.

D. "Multi-year PFP Case Study"

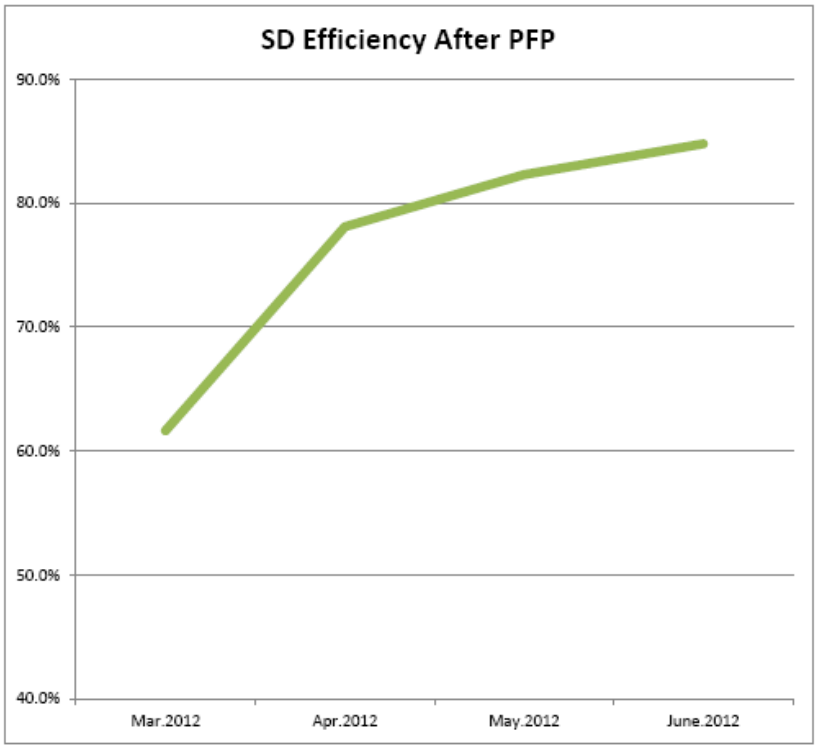
An anonymous NMEDA Dealer member agreed to supply recent 2012 PFP data from their Service Department compared to the previous 7 years without Pay for Performance incentives in place. Please see "Multi-year PFP Case Study" chart below:

Service Department Efficiency
Before and After Pay for Performance (PFP)

Year	BH	CH	SD Efficiency
2004	5803.0	11204.0	51.8%
2005	7349.0	12486.0	58.9%
2006	7361.0	13793.0	53.4%
2007	6838.0	11810.0	57.9%
2008	7291.0	11175.0	65.2%
2009	6495.0	9506.0	68.3%
2010	6334.0	9648.0	65.7%
2011	7190.0	10635.0	67.6%
Totals	54661.0	90257.0	60.6%
Averages	6832.6	11282.1	60.6%



Mo./Yr.	BH	CH	SD Efficiency
Mar.2012	1281.8	2079.1	61.7%
Apr.2012	745.0	954.0	78.1%
May.2012	674.0	819.0	82.3%
June.2012	903.0	1065.0	84.8%
Totals	3603.8	4917.1	73.3%
If Annual	10811.4	14751.2	73.3%



Multi-year PFP Case Study Potential Impact in Dollars and Cents:

This multi-year case study data shows a number of interesting findings that have potential impact to a Dealer's Service Department. Let's consider what this might look like in an average small single location SD with 2 full time Technicians:

1. 12.7% SD efficiency Gain in just 4 months with a PFP incentive plan in place. This is a steeper improvement for the SD than that of the past 4 years!
2. If a small one location SD with 2 Techs was 12.7% more efficient over a year consider the impact if 160 available working hours / month x 2 Techs x 12 months @ $100 / hour then:
    - If 60.6% efficiency (2004-2011 average above) then $232,704.00 revenue of BH generated
    - If 73.3% efficiency (2012 average annualized) then $281,7472.00 revenue of BH generated
    - PFP gain after implementation is nearly $50,000 in just one small SD with 2 Techs
    - If this shop attains 100% efficiency, then $384,000.00 revenue of BH generated (160 available hrs/month x 2 Techs x 12 months x 100% x $100/hr.)
    - At 100% efficiency, a small SD would capture more than $150,000.00 revenue of Billable Hours generated currently lost to inefficiency and poorly trained and under incentivized Techs.

Multi-year PFP case study conclusion: it pays to implement PFP and targeted training in the SD.

Learnings:

- **<u>Apples to Apples = PFP Outperforms:</u>**
  When comparing two similar Techs, the Techs with PFP incentives and targeted training will significantly outperform their colleagues who have no PFP incentives or intentional training. Superior Van & Mobility's Test Tech improved 10.2% vs. Control Tech's 3.2%. Annualized for a small shop scenario with two Techs, 10.2% improvement adds about $20,000 to SD revenue.
- **<u>Apples to Oranges = PFP Closes the Gap:</u>**
  When comparing a young inexperienced Tech with incentives against a much more experienced colleague, Techs with PFP and targeted training will comparatively improve relative to their counterparts who have no incentives or training. Courtland Mobility's Test Tech made significant productivity gains while the vastly more experienced Control Tech remained steady. As a back story, the Test Tech who is more engaged and has a deeper stake in the business can expect to improve even more significantly over time.
- **<u>Status Quo = Money Left on the Table:</u>**
  When no PFP incentives or targeted training is invested there is no compelling reason to improve, in some cases lost opportunity costs can keep SD earnings down or even unprofitable.
- **<u>Multi-year Case Study = PFP makes the SD Grow:</u>**
  The anonymous case study data showed that just 4 months of PFP incentives and targeted training spiked efficiency scores by 12.7%, SD growth that had not been realized in the previous 7 years! As seen in the analysis, even in a small shop this can have a significant annualized impact on profitability growth in the SD.
- **<u>Hypothesis supported:</u>**
  Although not a scientific study, this Phase 1 Pilot data supports the hypothesis that a Test Tech with PFP incentives and targeted training will outperform a Control Tech.

Caveats:

- PFP record keeping cumbersome, need for customized, integrated software. (i.e., MobiliTrax)
- PFP incentives and targeted training must have top-down buy in to be successful.

Recommendations:

- Publish/share Phase 1 PFP Pilot findings, share with Board and membership.
- Encourage Dealer members to adopt customized PFP incentive plans with Targeted training.
- Spotlight current Dealer members who have already successfully adopted PFP & Training or developed infrastructure. (i.e., Cecil Bullard, Tom Lorenz, Tom McGraw)
- Begin Phase 2- NMEDA Certification Pilot, to create a required standard level of Technician competence for our industry.