

## **OK TIRE & SERVICE CENTER: RIDING ON CUSTOMER SERVICE**

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*OK Tires was a local auto shop that thrived on great reputation that went as far as Jeff Roth did. His vision of customer service and his meticulous approach to shaping all physical and visible aspects of his business to portray a welcoming and trusting environment carried the business through bad economies and cyclical demand for auto maintenance and repairs. In line with being a relatively small business, the problems that Roth faced were similarly minor with short-term consequences. It had become vital that Roth manage his small workforce carefully throughout the peaks and valleys of business. Employing only one employee was often too much during slow seasons, but not nearly enough during peak seasons.*

*While Roth owned a business that had been a mainstay in the area for generations, thriving on the old-school and tried-and-true method of great customer service and reputation, it lacked the new-school methods to become more efficient: analytics. A simple and rough use of data collection and analytical tools would have solved some of the core problems that Roth faced, increased the efficiency in use of his resources, and could have increased profit margins.*

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### **OK TIRES HISTORY**

As Jeff Roth rubbed his rugged, engine grease-laden hands, he smiled while recalling a story about his father. His father, Chuck, used to bring him to the local hospital every morning for breakfast, which served \$2 specials, to feed his family hearty morning meals at a low cost. While Jeff painted a picture of Chuck's unwavering frugality, he let out a laugh that would endear even the most callous of people, exposing the charismatic, wrinkly smile that could only be described as infectious. To help understand Jeff and his approach to his auto and tire service, it was essential to understand the man that molded him: the hardworking and frugal father who approached life with light-heartedness and humor; always the genuine people-person.

Chuck Roth was always a man that believed in hard work. Throughout his life, he had several jobs that required heavy physical labor. Growing up, he worked summers on a farm in Des Moines, Iowa. As an adult, he started working at Firestone, which sold everything from car parts and services to home appliances like refrigerators. Chuck was a people-person. He started his career in sales at Firestone, then worked his way up to manager before he was 30. After some experience as a manager at Firestone, he began a new position as a national franchise seller for OK Tire Stores. The home office for OK Tire Stores was in Denver, Colorado, where he and his wife and two sons lived. As a national franchise seller, Chuck spent most of his time traveling to many locations selling and starting up new OK Tire franchises. He was part of each startup from selling the idea to helping select the location and showing the new owners how to use the new equipment. After many years spent away from his family, he decided to start doing some research on where he would like to buy his own OK Tire Store and settle down. He had traveled to Fort Walton Beach, Florida many times for work in the past and decided that was where he wanted to live.

In 1968, Chuck Roth opened his own OK Tire Store in Fort Walton (See Figure 4). At the time, one of his sons was 15 years old and the other son was only 5. His oldest son never showed any interest in working in the auto repair industry, but his youngest son was always playing with the tires and talking to the customers every time he came to the store. Once he turned 18, Chuck's youngest son Jeff started working with his dad at the store as a mechanic. For many years, Jeff and Chuck ran the store together and always considered it more fun than work. Jeff adopted the fun-loving, hard-working reputation that Chuck always had with his customers. When Chuck passed away in 2010, Jeff became the sole owner of the Fort Walton Beach OK Tire Store and renamed it OK Tire and Service Center. The business had always been an automotive repair shop, but he felt that only mentioning "Tires" in the name excluded the organizations from many other needs in customers' minds.

When Jeff took over, he understood that the environment was continually becoming more competitive, and success could not just be predicated on old-school values of hard work, trust, and loyalty. He began seemingly crude ways of advertising and attempted to involve himself, as a representative of his business, in the community to attract new customers. In addition, strong adherence to what he believed was excellent customer service would surely continue the success of his business but led to two main questions: was his customer service actually good, and if so, was it enough to keep his business competitive? Through the analysis of his business and the competitive environment, as well as some insight as to what automotive repair businesses faced in basic practices, potential avenues of optimization could be assessed, especially in the way Jeff utilized customer service.

### **ORGANIZATIONAL STRUCTURE**

Just shortly after Chuck bought the OK Tire Store in Fort Walton Beach, the national company decided to disband. He bought the store outright and it became a small corporation with him as the president. He decided to keep the name “OK Tires.” In 2010, when Jeff became the owner of the store, he became the president with his wife, Doris, as the vice president and his mother, Eunice, as the secretary until she resigned in 2014. All organizational decisions were made by these three officers. Jeff made most of the decisions regarding the operations of the store alone. These decisions included hiring, determining wages, buying equipment, and deciding customer discounts among others. In times of financial dilemmas or issues, Jeff and Doris would make decisions together. These types of decisions included buying land, making some trade deals, or taking time off. Taking any time off for Jeff would require the store to be closed for the duration of his vacation since he had no one to look after it while he was gone.

### **INDUSTRY DESCRIPTION**

Industries in the Repair and Maintenance subsector restore machinery, equipment, and other products to working order. These establishments also typically provide general or routine maintenance (i.e., servicing) on such products to ensure they work efficiently and to prevent breakdown and unnecessary repairs (U.S. Bureau of Labor Statistics, 2015).

The automotive mechanic industry encompassed many aspects from service and labor to parts and equipment. In the United States, “there are no companies with a dominant market share” (IBISWorld, 2015). To enter the industry would take massive amounts of money to purchase property, equipment, hire skilled technicians or train them, and cover the employees with liability insurance and worker’s compensation. With the introduction of electric cars and computers in vehicles, mechanics have needed to update their education and tools to accommodate. Many problems that have occurred in owners’ vehicles have needed the inspection of a professional mechanic to diagnose them.

The automotive repair industry in Fort Walton Beach and the surrounding areas had more mechanical issues to consider with their customers because of the closeness to the beach. When vehicles were driven daily close to salt water, the sea spray would cause problems with the engine and other unseen areas of the vehicle. The auto mechanics in Fort Walton Beach had been diagnosing and repairing issues due to sea spray forever. Some mechanics would suggest to customers to keep their cars enclosed and away from the salt water and outside elements to decrease repair frequency.

Since many residents of Fort Walton Beach were retired and relocated from other parts of the country, they relied on the expertise of their local mechanic for geographic automotive factors. As of 2013, Fort Walton Beach, Florida had a total estimated population of 20,597, over 1,000 more people than 3 years prior in 2010. A full 18.8% of the population was 65 years of age or older. (U.S. Census Bureau, 2015). With almost 20% of the entire population being older, and likely retired, this was a large portion of individuals that would almost always stay up-to-date at their local mechanic shop. This demographic was much more likely to purchase luxury vehicles and to remain conscious about regular maintenance. 19.1% of the population was under 18 years of age or younger. Only 62.1% of the population of Fort Walton Beach fell in the range of 18 to 65 years old. The 18- to 65-year-old age group were typically the customers that would choose where to get their vehicle repaired based on price and convenience. With so many automotive technicians in the Fort Walton Beach area, this demographic was the most important to appease on their first visit.

#### **VALUE CHAIN -- SALES/MARKETING**

Despite being a small, local business, with only two employees, Jeff had always been actively engaged in advertising efforts. In the immediate area, he utilized two billboards facing both directions of traffic, as well as a marquee with replaceable letters. Jeff frequently used clever and humorous slogans such as “we have the cure for baldness” and “invite us to your next blowout” while also using slogans to reinforce his vision of care such as “your safety is our policy and “pre-purchase vehicle inspection is a must.” Additionally, he used graphics for an eye-catching presence in the area concurrently advertising with flags above the parking lot and streamers. Jeff furthered his advertising efforts by sponsoring events at local radio stations, such as the Z-Bash at a local night club called The Swamp. He distributed bottle-opener keychains with imprinted business information. Additionally, Jeff utilized *The Thrifty Nickel*, a local advertisement newspaper and direct mailing advertisement.

Jeff Roth continued to market his business as an honest, reliable, customer-friendly auto shop. Believing that word-of-mouth was a significant factor in soliciting new customers, Jeff constantly insisted on maintaining a clean and organized shop for a great first impression. Beyond the physical manifestation of trust and honest he wanted his business portrayed, Jeff had a firm belief that his customers should be offered honest estimates. He would often talk customers out of unnecessary or frivolous repairs recommended by other mechanics and general misinformation. Additionally, most estimates by other mechanics were routinely beaten with lower prices and nationwide guarantees on parts for better warranties. Moreover, the four generations of families that have been frequenting the business since 1968 have further solidified its reputation for a large base of repeat customers.

### **VALUE CHAIN -- IN-BOUND/OUT-BOUND LOGISTICS**

Jeff utilized a simplistic in-bound logistics system with multiple parts warehouses and delivery services. Approximately 90% of the parts were delivered from these warehouses and if he needed parts, he simply issued orders on the internet and the required parts were delivered along with his regular orders. Using a charge account, Jeff did not have to pay for parts individually, even when he had to special order them. Jeff did not ship or deliver anything through his business and only offered warranties on parts and repairs he did.

### **VALUE CHAIN -- CUSTOMER SERVICE**

In line with how Jeff has marketed the business, he made a conscious and continued effort to make every customer feel that he or she were welcome by cleanliness and organization, and with a hearty handshake and greeting. The welcoming atmosphere was accentuated by his efforts to stop what he was doing and address customers immediately, significantly eliminating wait times. Moreover, his constant presence in the shop provided a steady consistency in the relationship with customers.

Beyond the welcoming atmosphere, the trust and care he provided was exemplified by gestures, such as advising customers to get a second opinion on a quote if he sensed that the customer thought his estimate was too high. Jeff explained that he did this because he did not want to place any pressure on his customers. Additionally, he tried to be as thorough as possible on safety inspection of cars, meticulously inspecting everything from the complex electrical systems to the horn, going the “extra mile” to inspect areas that other mechanics did not consider. He would often drive customers home and come pick them back up when the vehicle maintenance was finished, something not done by other local mechanics. In conjunction with his attitude toward repairs, he tried to maintain an open line of communication with customers. Noting that while some customers were impossible to satisfy, he always maintained an open and empathetic attitude, attempting to show that he had their best interest at heart. Often this attitude led to the resolution of most problems. Jeff’s vision of customer service was simple: treat every car like it was one of the family’s, and give the customer great value for his/her money with fair pricing.

### **VALUE CHAIN -- PROCUREMENT**

Jeff enjoyed flexible relationships with his suppliers for procuring parts and supplies. With the advent of sophisticated internet ordering, it was easy for him to determine exactly what he needed and how long it would take to deliver. Additionally, many of his suppliers called him periodically to offer promotions and special deals. Most importantly, the warehouses matched prices of their

competitors, and would often match the competitor's lower price that was out of stock when a quote had already been given to a customer. For instance, if Jeff had quoted a certain price for a repair, and the part for that repair was out of stock for one supplier, a competitor who offered the same part at a more expensive price would sell it to him at the cheaper price. This type of relationship had led Jeff to offer consistently fair pricing throughout the years.

#### **VALUE CHAIN -- ADMINISTRATIVE/HUMAN RESOURCES**

Jeff Roth maintained a lean approach to employment, saving money by employing only a few employees. This had led to him taking on an all-encompassing managerial role, which included taking on hiring and human resource management. Jeff mostly employed only one technician, but had employed up to four, which included his own father at the time. When he did hire, like most businesses, Jeff simply did not want potential employees to be a liability. His view of a liability consisted of not having the expertise to diagnose and repair vehicles the first time, and not being able to present the company positively in the eyes of customers. He attempted to look at potential employees the way a customer might see them; portraying the same inviting and customer-friendly vibe that Jeff continually conveyed. He understood the importance of aligning his vision of customer service with how an employee presented himself. In terms of the actual work, faulty repairs were evaluated on a case-by-case basis. Jeff believed that mistakes happen, and would fully honor any warranty. On the other hand, he had a zero-tolerance policy on gross negligence or faulty repairs due to an employee's intoxication or inebriation.

#### **VALUE CHAIN -- RESEARCH AND DEVELOPMENT**

The continually shifting landscape of automotive and technological innovation forced Jeff to stay up to date with new cars entering the market with their own unique repair processes. An important way Jeff and his employee had kept up with the changes were with subscriptions to several trade publications that detailed new techniques and trends in automotive repair, repairs which might require new and special types of equipment. If there was demand for different and new repairs, he would invest in the equipment. For instance, Jeff explained that when he first started, drum brakes were the predominant brake system in cars. Eventually, vehicles transitioned to using disc brakes that required machining tools for rotors. It was not until disc brakes were rapidly becoming ubiquitous that his shop began investing in the equipment to service the new braking system. Furthermore, when brake systems were having various electrical problems that required advanced diagnostic tools; Jeff had begun to invest in the equipment necessary to service them.

## COMPETITION

OK Tire Store faced high competition. Within only 5 miles from its location, eight other competitors offered the same or very similar services.

1. Express 10 Minute Oil Change
2. Walmart Tire & Lube
3. Pep Boys Auto Service & Tire
4. Thompson's Auto Service
5. Precision Tune Auto Care
6. Al's Auto Repair
7. Stinehardt Imports
8. AAMCO Transmissions & Total Car Care

**FIGURE 1:**  
**OK Tire Store Strategic Group Map (Carroll, 2015)**

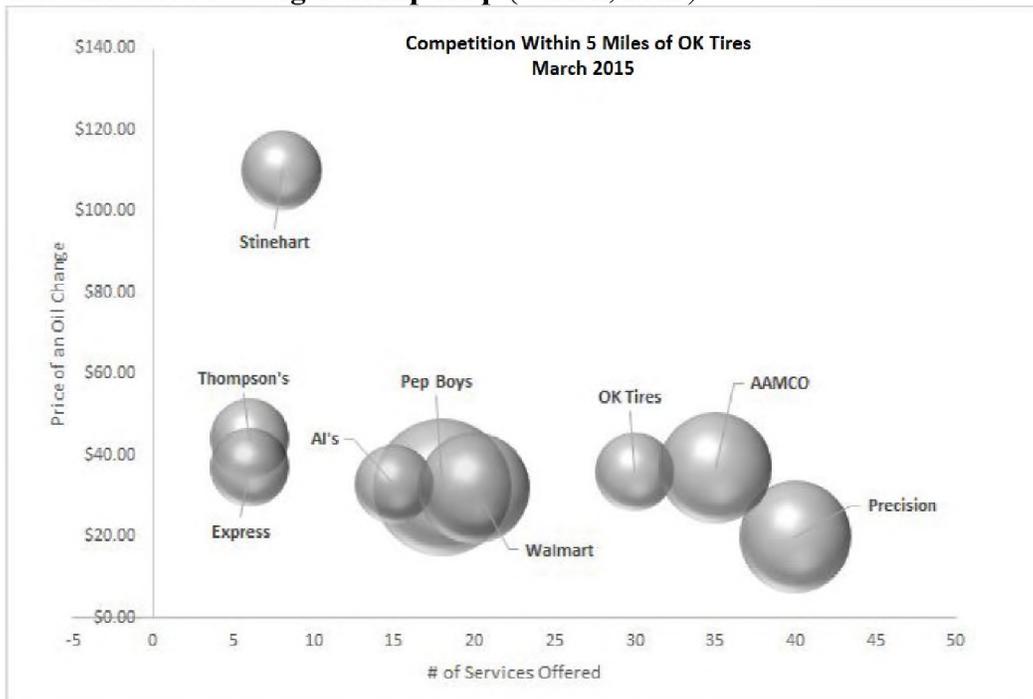


Figure #1 above showed the strategic map in the surrounding immediate area of about 5 square miles in Ft. Walton Beach, FL as of March 2015. The vertical axis indicated the dollar amount for a standard oil change, up to 5 quarts of regular grade oil, and the horizontal axis depicted the range of services each location offered. A standard oil change was used as a variable as this was a service frequently offered and repeated (commonly done every three months or within several thousand miles). The size of the bubble gave the strategic alignment conducive to the amount

of locations in the immediate area. The third variable used to demonstrate market share was the number of stores of a particular branded chain. The number of shops, under the same name, was the best quantifier that could be used to demonstrate the market share. Although many of the chains are franchised, the assumption was made that customers choose a brand name over a particular shop.

**FIGURE 2:**  
**Strategic Group Price Comparison (Carroll, 2015)**

<b>Business Name</b>	<b>Number of Services</b>	<b>Oil Change</b>	<b>Brake Check</b>	<b>Tire Rotation</b>	<b>Locations</b>
OK Tires	30	\$35.88	\$0.00	\$20.00	1
Pep Boys Auto Service & Tire	18	\$31.99	\$14.99	\$0.00	3
Thompson's Auto Service	6	\$43.94	\$40.00	\$35.51	1
Precision Tune Auto Care	40	\$19.90	\$15.99	\$29.90	2
Al's Auto Repair	15	\$32.81	\$16.00	\$16.00	1
Express 10 Minute Oil Change	6	\$36.98	\$34.95	\$21.95	1
Walmart Tire & Lube	20	\$31.88	\$0.00	\$36.00	2
Stinehardt imports	8	\$110.00	\$110.00	\$30.00	1
AAMCO Transmissions & Total Car Care	35	\$36.77	\$38.00	\$25.00	2
<b>Total Averages</b>	<b>19.78</b>	<b>\$42.24</b>	<b>\$29.99</b>	<b>\$23.82</b>	<b>1.56</b>

Note: OK Tires charged its customers before adding tax. This data was the basis of strategic group map in Figure 1. Only three of the services were listed in the figure because these were the services that all the listed competitors had in common with OK Tires, and thus, could serve as points of comparative analysis.

From the data organized on the map, one could conclude OK Tire Store was attempting to differentiate itself among its competitors by offering a large number of services at a competitive price. The competition-wide average price of an oil change between was \$42.24. OK Tire Store was charging only \$35.88 for a standard oil change, which gave them some opportunity to capitalize on the market share. The closest competitor to OK Tire Store was Precision Tune Auto Care and AAMCO Transmissions & Total Car Care which had nearly the same amount of services offered and an oil change price of \$19.90 and \$36.77 respectively. Some of the competitors seemed to have offered significantly fewer range of services to cut down on fixed costs, and through specialization, could potentially do more volume in business. Express 10 Minute Oil Change, for instance, only offers five different services (i.e. oil changes, tune-ups, air conditioning refill, brakes, fuel injection, transmission flushes.) that require a minimum number of tools and limited technical expertise. Other competitors most likely offered a larger range of services due to the ability and technical expertise to do one special repair that may translate to many other repairs. The tools, equipment, and expertise required for a particular repair simply blankets less technical and complicated repairs, allowing a business such as Precision Tune Auto Care to offer its wide range of services. (See Figure 2, above.) OK Tire Store needed to remain competitive by monitoring its closest competitors and keeping in range of the best offers on the most demanded services.

### **ENVIRONMENTAL**

According to the *Florida Handbook of Solid and Hazardous Waste Regulations*, wastes that were considered special or hazardous required particular handling and management for proper disposal. Wastes that required OK Tire & Service Center to pay for a disposal service included:

- wastes associated with the maintenance and disposal of equipment and machinery, including automobiles and boats
- used oil and filters
- lead-acid batteries
- devices containing mercury, cadmium, or lead
- antifreeze and other similar products

In continued regulation documents, under section 403.751, Florida Statutes, state law also prohibited the following:

- disposing of oil into sewers, drainage systems, and septic tanks
- disposing of any oil into surface water, groundwater, or watercourses, including marine waters
- disposing of used oil in a landfill
- mixing used oil with solid waste that is intended for disposal in a landfill

- mixing oil used with hazardous waste so that the oil is unsuitable for recycling (Olexa, 2013)

The best way to dispose of the used oil extracted or discarded from auto service centers was to present it for recycling. Used oil filters also had to be recycled properly. The Environmental Protection Agency (EPA) regulated oil filters and the Florida Department of Environmental Protection (FDEP) had taken the responsibility of enforcing the rules set forth by the EPA. Commercial disposal of used oil filters involved at least one of the following:

- recycling non-hazardous wastes (drained, crushed and sent for scrap metal recycling)
- delivering hazardous filters to a registered Used Oil Filter (UOF) processor for reuse

OK Tire also needed to properly dispose of waste tires abiding by the Florida state rules and regulations. Tires that had been removed from a motor vehicle, tires that had not been retreaded or regrooved, or tires that were no longer suitable for their original use could only be disposed of at a permitted solid waste management facility. Whole tires were not allowed to be disposed of in a landfill and must be cut into very small pieces to be permitted into a landfill.

OK Tires had scheduled waste pick-ups with local businesses. Shoreline Environmental Incorporated paid Jeff for the waste oil. "Shoreline recently dropped its price to \$2.00 a gallon to me. The company collects antifreeze for free, although I just signed a contract with them. Shoreline will charge me \$25 for every 55 gallons of antifreeze that is hauled away. There is no charge for the removal of old oil filters" (*Roth Transcript, 2015*).

Another company, Typified Mechanical and Salvage collected the scrap tires from the business for a fee. "I pay \$1.50 per tire up to \$5 depending on the size of the tire. The company comes by my store once a month. Depending on how much is in the truck at the moment, he will sometimes come back the next day to pick up the rest" (*Roth Transcript, 2015*). Jeff also explained that the county of Okaloosa would come and spray the junk tires with mosquito poison once every two months for free.

## **FINANCES**

OK Tire Store had been slowly increasing its profits for years. In 2013, it had its best year with the highest sales and income. From studying the financial statements for four consecutive years, one could calculate the important financial ratios, including the Dupont Formula, and compare them to each other to see if the company has been successfully growing. The ratios could also be compared to the

average industry ratios to determine if OK Tires was behind, ahead of, or close to other similar businesses nationwide. This comparison can be seen in Figure 3.

**FIGURE 3:**  
**OK Tire Store's Financial Data (Roth, 2015)**

<b>In U.S. \$</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
Net Income	16,027	21,114	40,715	22,692
Net Sales	354,765	381,709	386,074	385,191
Total Assets	331,878	315,622	324,652	310,288
Net Worth	306,706	299,776	307,646	294,054
Current Assets	120,205	101,721	110,290	94,387
Current Liabilities	14,908	15,846	17,006	16,234
Inventories	4,002	0	0	0
Cash	108,021	92,913	97,378	82,547
EBIT	201,005	211,364	231,867	216,738
Interest	6,572	6,072	6,315	6,045

<b>OK Tires Financial Ratios</b>					<b>Industry Average Ratios for Small Company Size as of November, 2014</b>
<b>Year</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	
Dupont Formula/ ROE	5.23%	7.04%	13.23%	7.72%	3.29%
Current Ratio	8.06	6.42	6.48	5.81	2.55
Quick Ratio	7.79	6.42	6.48	5.81	1.55
Cash Ratio	7.25	5.86	5.73	5.08	0.765
TIE	30.59	34.81	36.72	35.85	1.98

OK Tire had been steadily increasing its net income from 2011 to 2012. In 2013, the business almost doubled their net income simply due to low costs. The sales had continued to increase each year until 2013. Per the quarterly updated ABI/INFORM database, the industry average quick ratio was 1.55, and the current ratio was 2.55 for automotive oil change and lubrication services (2014). OK Tire's current ratio, or liquidity ratio, was twice the amount of the industry average in 2014, meaning that it was more capable of paying back its financial obligations. A current ratio under 1 would suggest that the company had more current liabilities than current assets and would not be able to pay them off. Since OK Tire's current assets were 5.8 times the amount of its current liabilities, if something were to happen that would require Roth to liquidate the assets, he would have far more than required to pay off his debts. The business's current ratio is the same as its quick ratio for years 2012 to 2014 because the store had no recorded inventories. Jeff Roth explained that this was due to his buying supplies on a demand basis. In 2011, he purchased equipment that was recorded as inventories. Since the industry average for quick ratio was 1.55 compared to the current ratio of 2.55, most companies have at least some inventories listed under its current assets.

In the automotive repair and maintenance industry, the average wage for employees was \$18.37 an hour, working approximately 36.2 hours per week (U.S. Bureau of Labor Statistics, 2015). Since Roth only had one employee, he was saving many costs on worker wages. If he could do most of the services without his head technician, he would actually be at more of an advantage when his employee did not show up to work, as happened frequently. However, when his technician did not show up and the store got extremely busy, Roth was forced to give longer wait times to customers, a disadvantage.

### **STRATEGY**

OK Tire Store had strategically placed itself in the lower price range with a limited amount of services offered, as depicted in Figure #1. Jeff Roth had decided he needed to differentiate from the numerous surrounding competitors. His business prided itself on the concept of low cost and hard work, but so did many of the other competitor's shops in Ft. Walton Beach. "One thing about low cost is that a lot of those shops try to upsell from their advertised prices. You go in for a special price and they say 'well that's for a different model, yours is going to be more expensive.' That's another thing that I think my customers appreciate. If anything is going to cost more, I always call them beforehand" (Roth, Transcript *Strategy*). He prided himself on "going the extra mile" for people and most of his business came from either word of mouth or repeat customers that trusted him. "I do just a little bit more than customers ask for and every time they come in and really be conscientious

about what they're wanting to have done instead of trying to get my own agenda involved" (Roth, Transcript *Strategy*).

OK Tire Store was also greatly focused on offering the best price for quality materials. The operation was not nearly as large as some of the surrounding competitors, but "the only way a competitor could get a cheaper price than me is if they are willing to buy more than what I'm willing to stock" (Roth, Transcript *Strategy*).

Figure 4 Photograph of the OK Tire Service Center



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