Your Warranty Rate Was Approved...

Don't Wait 12 Months to Address Your Effective Labor Rate

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Getting a warranty labor rate increase approved feels like a win. The manufacturer signed off, the new rate is loaded into the DMS, and the service department is now billing warranty repair orders at a higher number than it was a month ago. For most dealers, that's where the project ends - filed away until the next eligibility window opens - twelve months out, the next calendar year, or whatever cadence the applicable state statute sets. Some may even stop at service and never look into parts.

That's also where the money starts leaking back out.

You've Been Approved, So, What's Next?

The approved warranty rate is what the manufacturer agreed to pay per hour for warranty work, based on either a factory submission or a statutory filing under state law. The effective labor rate (ELR) is what the dealership actually collects, calculated by dividing total labor sales by total hours sold across a given category of work.

The bigger opportunity is what happens next. Approval doesn't just reset the rate - it resets the clock. The next eligibility window, whether that's twelve months out, the next calendar year, or a shorter interval set by the applicable state statute, is now on the calendar, and the best use of the time between now and then is improving ELR, not just generically raising the customer-pay rate and assuming the warranty rate will follow.

A statutory submission is built from the actual repair order data in specific categories of work, not from your door rate, so a generic customer pay increase is not, on its own, a strategy for an approval next time. What moves the number that matters is the ELR on the repair categories the submission actually draws from, which is exactly where leakage does its damage. Manufacturers often include work that would not traditionally be considered warranty-like such as batteries or brake pads with no noted failures on the repair. For that reason, you must be working on your overall ELR in repair, competitive and maintenance.

Focus Areas to Improve ELR:

Focus on Pricing Compliance (or lack thereof): Even a well-built, market-justified pricing grid only helps ELR if it's actually followed at the point of sale. Discounts granted off-menu, "customer relationship" pricing, and inconsistent application of op codes all pull the effective rate below what the approved grid would produce on its own. There will always be authorized discounting, but how can you cut down on non-authorized discounts? Auditing compliance and coaching advisors to quote and hold the posted price, without changing a single rate, is often the fastest lever available to move ELR, since it closes the gap between what the dealership is entitled to collect and what actually lands on the RO. You have a pricing policy for a reason, it should be followed.

One-line repair orders for Vehicles Over 60k Miles: A single-operation RO with no additional findings, no multi-point inspection, and no menu items attached is often a sign that an advisor moved through the visit quickly rather than working the full opportunity. High-mileage vehicles frequently have additional needs than just their oil change or brake job they originally came in for. When advisors are rushing, the work not sold is not only revenue, but it's also not what's best for the customer in many instances. If a repair is needed, at a minimum, the needed work should be recorded and declined by the customer.

Op code Misuse: Calculating your repair, competitive and maintenance ELR is often tied to op codes usage, so how a customer-pay repair is coded matters as much as what it's priced at. Advisors who default to a generic or catch-all op code, split a job across the wrong labor operation, or fail to code supplemental and diagnostic time separately are effectively reporting fewer hours at a lower blended rate than the work actually supports, even when the posted price was fully collected. Auditing CP op code accuracy and coaching advisors to code every repair to the correct operation, without adjusting a single price on the menu, can move ELR immediately, because it corrects how existing revenue gets reported rather than requiring the dealership to charge more.

Market-based pricing: Many dealers build customer-pay labor pricing, and by extension their warranty rate submissions, around a survey or matrix that was accurate when it was built but hasn't been revisited. Local labor markets move. Competing dealers and independent shops adjust their rates. A pricing structure that was competitive and well-supported eighteen months ago may now be leaving money on the table relative to what the market and the applicable state statute would actually support. Make market-based pricing decisions based on data, not feelings, to ensure you remain competitive.

General process drift: Advisor turnover, inconsistent multi-point inspection execution, and simple lack of oversight all compound the categories above. Fixed ops managers are also often stretched too thin to catch any of it in real time, without the hours in the day or the reporting tools to flag a mispriced RO or a miscoded op code before it closes, coaching happens after the fact, if at all, rather than at the point where it could have changed the outcome. None of these are dramatic on their own. Together, they add up to a meaningful percentage of customer pay and warranty gross profit that never makes it to the P&L.

Why "Wait and See Next Year" Is an Expensive Strategy

The submission cycle - whether it runs annually, on the calendar year, or on whatever interval the applicable state statute sets - creates a natural, but misleading, sense of closure. Once the new rate is approved, it's easy to treat the labor rate conversation as done for the year.

A dealership that doesn't monitor its effective rate between submission cycles is, in effect, forfeiting warranty dollars for future submissions. Every unaddressed month between submissions is also lost data that could have been used to build an even stronger case for the next increase - a self-reinforcing gap that widens over time instead of closing. Even if you get an increase, is it truly what you are entitled to and did you receive it timely? Managing the submission process matters; all year round.

The Statutory Filing Advantage

Most dealers default to a factory submission each year because it's familiar. Fewer are aware that every state has some form of retail warranty reimbursement legislation on the books, allowing dealers an often more favorable path: a statutory submission based on state law rather than OEM policy.

The two paths differ in ways that matter:

- **Different qualification thresholds:** A factory protocol might require as few as 20 consecutive qualified repair orders closed in the prior 30 days, or just a survey, while a statutory submission in many states requires a larger sample, often 100 qualified ROs - a broader dataset that can often better reflect the dealership's true retail rate.
- **No market survey requirement:** Statutory submissions generally rely on the dealership's own customer-pay repair order data rather than a competitive survey, removing a step that's often the weak-

est and most subjective part of a factory submission.

- **Binding response timelines:** Statutory law typically obligates the manufacturer to respond within 30 to 60 days, compared to factory processes where there's no guaranteed turnaround.
- **A formal rebuttal process:** If a statutory submission is denied or reduced, most state statutes provide dealers a defined path to dispute the outcome - a protection that doesn't exist under a purely voluntary factory process.

Dealers who compare both paths every year, rather than defaulting to whichever one their factory has always used, frequently find that the statutory route produces a higher supportable rate. Given that the underlying customer-pay repair order data required for a statutory filing overlaps heavily with the exercise of auditing effective labor rate leakage, the two efforts naturally reinforce each other: the same close review of pricing, op codes, and RO-level detail that uncovers monthly leakage is also what builds a stronger, better-documented statutory submission.

FOPC: Closing the Gap Requires Ongoing Visibility, Not an Annual Event

Fixing the effective labor rate gap isn't a one-time project - it requires the kind of continuous, data-driven oversight most service departments aren't structured to do on their own, on top of running day-to-day operations. That's the gap that a resource like the Fixed Ops Performance Center (FOPC) from Armatus is built to close.

FOPC pairs proprietary data analysis with hands-on coaching to give fixed operations leaders ongoing visibility into exactly where labor rate, pricing, and process leakage are occurring - not just once a year at submission time, but on a continuous basis. That combination matters because the same underlying discipline - accurate coding, complete RO documentation, current market-based pricing, visibility on discounting, service advisor actions, and clean customer-pay data - is what drives both a stronger effective labor rate today and a better-supported rate submission next year, whether that submission goes through the factory or through a statutory filing.

Knowing when the next eligibility window opens is only half the equation. The other half is spending the time before it arrives on ELR, not on a blanket customer-pay rate change assumed to carry the warranty rate up with it. An approved warranty rate is a starting point, not a finish line. The dealerships that protect their fixed operations profitability are the ones that treat effective labor rate management as a daily discipline rather than an annual, or once-per-eligibility-cycle, filing - and that pair their rate strategy with the ongoing process and pricing guidance needed to actually realize the rate they worked to earn.

Author Bio:

Jordan Jankowski is the Chief Operating Officer at Armatus Dealer Uplift. He has played a key role in consulting on 25 warranty reimbursement laws across the country and is widely considered a subject matter expert in this highly technical arena. Jordan manages a team of over 70 people, who produces thousands of retail warranty reimbursement submissions each year.