



PROFIT MATTERS

HOW DO YOUR NUMBERS LINE UP? | BY CHRIS "CHUBBY" FREDERICK

Is Your Labor Apple Going Bad?

Many times during the course of a busy day I've started to eat lunch or a snack and I get interrupted. Have you ever taken a couple bites from an apple and have to put it down to take care of something? The problem is that when you come back, it has already started to turn brown and just doesn't look as good as it did.

The same thing happens to your labor margin. If you "put it down" or don't pay attention to it on a constant basis, you will find your labor margin going bad and it just doesn't look the same on your bottom line. A complete understanding of what affects your labor margin — and how to hold a 60 percent margin fully loaded with benefits — is essential to maintaining a profitable shop.

One of the major things that contributes to a declining labor margin is your payroll as compared to your labor rate. Labor is a commodity that you buy and sell, much like your parts inventory. The major difference is that, like the apple, it goes bad on a constant basis. Labor is perishable; you purchase it for a short period of time and when the time is up, you have to re-buy it. One of the problems is with that big juicy apple, the "A" techni-

cian. We know that they don't "grow on trees," so when that talented tech comes along, we have a hard time not bringing him/her on board. The only problem is that the big juicy apple comes with a big juicy price — and rightfully so, given his/her skills and talent. But do we need him/her, and can our labor rate support him/her and still give the shop the profit that it needs to make?

Many owners need some help keeping things in line — a good accountant who understands the automotive field or some type of professional coaching, for example. It helps prevent the tunnel vision that occurs when running a busy shop.

Analyzing the situation

We need to look at our labor rate and see whether it has the ability to support the staff that we have and still give the shop

the return it needs. A Labor Rate Analysis is a simple way to check on your more expensive employees and see whether your labor rate can support them.

Take your most expensive technician's flat rate (or his/her hourly pay, if that is your pay system), then add to his/her pay for that one hour the additional costs involved in having the technician there. You have to keep in mind that they cost you more, sometimes much more, than just the basic pay. Take into consideration the FICA, FUTA, SUTA, workers compensation, unemployment insurance, any health insurance, vacation time, sick time, uniforms, etc. Take all these factors and add them to the hourly rate for the one hour. This gives you the actual cost involved for that big juicy apple.

Now, remembering that this labor is something we buy so we must sell it to make a profit, we take the total that we have come up with and multiply it by 2.5 to give us a 60 percent margin on the tech's labor. The number that you come up with should be at or lower than your current labor rate. If not, then you either need to raise your labor rate or you may not be able to afford that apple.

Shopping the competition will let us

QUESTION OF THE MONTH

QUESTION:

How are the pricing of tires and batteries handled in the Parts Matrix?

ANSWER: These are exceptions to the Matrix — seen as commodities and often shopped on price. Leverage your relationship here. Like a family doctor, if they believe in you, they'll trust your recommendations, value the peace of mind you provide and accept the fees charged without objection.

Do you have a question for Chubby? E-mail him at cfrederick@autotraining.net.

know whether we are charging a competitive price for our labor. If we are lower than those around us, we can raise our rate and that may help, but if we have a labor rate at or above the competition and the magic number that we found at the end of the exercise is higher than our current labor rate, guess what: You can't afford the big, juicy apple that you have! See **Figure 1**.

Remember, we divided the expenses by the amount of time the techs are standing on the floor. So if they are billing out less hours than they are on the floor, this will increase your actual cost per hour. The majority of shops we consult with are making a 60 percent profit on the first hour, but by the time they calculate their profits on the 40th hour, they are making only a 15 percent profit margin. This is where most owners are getting hurt. See **Figure 2**.

Many of our clients have a labor rate that is higher than the competition and their lot is full of cars. The reason for this is their clients are willing to pay more because they trust them completely and like the experience of visiting their shop. Be very careful attempting this strategy, however, unless you have done an extensive customer satisfaction survey and have scored higher than a 95 percent CSI rate.

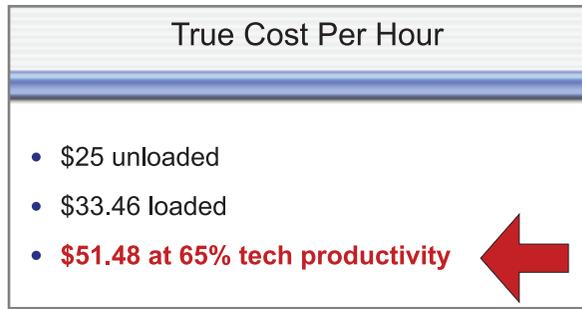
Selling the right mix of parts versus labor will help. Making sure

FIGURE 1

Technician gross income per hour <i>(You can obtain this from your P&L shop labor cost/tech ten/hours on the floor)</i>					\$8-\$25
FICA, FUTA, SUTA (Approx. 11.5% x per hour rate)					\$0.92-\$2.88
Worker's compensation (6% mod. rate x per hour rate)					\$0.48-\$1.50
Enter dollar value of benefits your provide:					
Benefits	Annually	Monthly	Weekly	Hourly	
Health	\$2,059.20	\$171.60	\$39.60	\$0.99	
Life	\$93.60	\$7.80	\$1.80	\$0.05	
Disability	\$374.40	\$31.20	\$7.20	\$0.18	
Uniforms	\$421.20	\$35.10	\$8.00	\$0.20	
Vacation	\$640.00- \$2,000.00	\$53.33- \$166.67	\$12.31- \$38.46	\$0.31-\$0.96	
Holiday	\$384.00- \$1,200.00	\$32.00- \$100.00	\$7.38- \$23.08	\$0.18-\$0.58	
Lunches	\$520.00	\$43.33	\$10.00	\$0.25	
Sick	\$192.00- \$600.00	\$50.66- \$63.38	\$11.70- \$14.63	\$0.09-\$0.29	
Training	\$192.00- \$600.00	\$50.66- \$63.38	\$11.70- \$14.63	\$0.09-\$0.29	
Tuition	\$600	\$50	\$11.54	\$0.29	
Misc.					
Loaded technician cost per hour:					\$12.03-\$33.46
					+40%=60% G.P.
Adjustment for shop productivity by tech (60% to 100%)					\$30.08-\$83.65 +60%=-100%
Needed Labor Rate					\$50.13-\$83.65

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FIGURE 2



that we have our maintenance items priced properly, giving us a good margin, and making sure that we have systems in place to maximize their sales, will also help.

Another guideline is to watch your staffing and make sure you have the right staff for the job. The expensive “A” technician is offset by your lower-level technicians who make less but are able to perform the maintenance items. Keeping your less-expensive technicians productive will help your labor margin, plus you are building the bench for the future. Having the right mix of high to lower skill-level technicians is a huge key to maintaining the right 60 percent profit on labor.

How do we know if we have the right mix? Too many times, owners/managers just go with what they think “feels” right. Instead of guessing, try this exercise: Take all the invoices for a certain time period — the longer, the better. Break them down into piles based on what level of skill was needed to perform the task that the car originally came in for. Then count up the number of labor hours

on the invoices. It does not matter if you have an oil change in the “A” tech pile — if it started with a diagnostic, then that is the pile it goes in.

At the end, you should have four piles broken down into “A” through “General Service” technicians, and you should know how many cars are

in each pile and how many hours each level technician is performing. This will give you a good guide on what type of staffing you need, compared to what you have.

Remember that the big juicy apple looks good, but once the day has started, you have just taken a big bite. Make sure the last bite of the day is as good as the first. *ML*

Chris “Chubby” Frederick is CEO and president of the Automotive Training Institute. Contact Chubby at cfrederick@autotraining.net.

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