AUTOMOTIVE TRAINING INSTITUTE

ShopTalk

ATI Automotive Training Institute

www.autotraining.net 705 Digital Drive, Suite V, Linthicum, Md. 21090 • 1-888-471-5800

November 2014

The Math on Parts

By Tom McGee, Director of ATI Collision

Every week I have the opportunity to look at several profit or loss statements for shops in different parts of the country. When we do a shop analysis, one of the areas that we look at is parts margin. Not only are shops dealing with one or more estimating systems and parts procurement methods, they also handle multiple types of parts, vendors and discounts or markups to determine the sale price or cost of the parts.

For most shop owners, parts seem pretty simple. We have income for the parts sold and a cost for the parts purchased. So when looking at parts margin as a key performance indicator (KPI), I am often asked why is there a fluctuation in my parts gross profit margin?

Gross Profit Margin

Gross profit margin is calculated by subtracting cost of goods sold (COGS) from total sales and dividing that number by total sales. For example, if a shop sells a part for $125.00 and has a cost of $80.00 the gross profit margin is 36%.

Discount From List Price

When you calculate your parts margin you need to consider the discounts you are receiving from your vendors. For example, a shop may have negotiated different discounts off the list price with different dealerships.

If a shop purchased parts from three different dealerships and each had a different negotiated discount, the shop's gross profit margin would fluctuate depending on the list price of the parts and the discounts used to determine the cost paid.

	Sales	Discount	Cost	Gross Profit Margin %
Dealership 1	$175.00	30.00%	$122.50	30.00%
Dealership 2	$325.00	20.00%	$260.00	20.00%
Dealership 3	$235.00	25.00%	$176.25	25.00%
Total	**$735.00**		**$558.75**	**23.98%**

Cost Plus a Markup

Is there a difference between margins and markup? Absolutely. More and more in today's world, these two terms are being used interchangeably to mean gross margin, but that misunderstanding can have a drastic impact on the bottom line. Markup and gross profit margin are not the same! Shops must have a clear understanding of the two within a pricing model. **The term <u>markup</u> refers to the percentage difference between the actual cost and the selling price.** Many shop owners mistakenly believe that if a part is marked up, say 25%, the result will be a 25% gross profit margin on the income statement. But that's wrong.

For example, when a shop buys a used part for $100.00 and marks it up 25%, the selling price is $125.00. When you calculate the gross profit percentage on that part ($125.00 (sale) - $100.00 (cost) divided by $125.00 (sale)) the gross profit margin percentage is only 20%.

Parts Vendor Volume

The number of parts purchased from each vendor will also cause a fluctuation in the gross profit margin. For example, if one week or month you purchase more OEM parts than you do LKQ (used) or aftermarket, the margin will increase or decrease depending on the discounts applied to each part. Here is an example where a shop made six parts purchases and had a 23.7% profit margin for those purchases.

	List Price	Discount	Cost	Markup	Margin
OEM	$175.00	30.00%	$122.50		30.00%
OEM	$100.00	20.00%	$80.00		20.00%
LKQ (Used)	$68.75		$55.00	25.00%	20.00%
LKQ (Used)	$250.00		$200.00	25.00%	20.00%
Aftermarket	$50.00	35.00%	$32.50	35.00%	
Parts Store	$45.00	22.00%	$35.10	22.00%	
Total	**$688.75**		**$525.10**		**23.76%**

Parts vs. Materials

When you start analyzing your parts margin, you also need to consider how your estimating system is handing materials such as seam sealers.

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Chubby's Automotive Repair and Maintenance Forecast — to June 2017

All of us at ATI take our jobs very seriously and our mission is to help you drive your dreams and goals home to you and your families. I have been following ITR's economic forecasts for many years and their accuracy has been excellent. I asked them to create a special forecast for our industry in North America, and I would like to share it with you so you can better plan your ATI Five-Year Strategic Roadmap with your coach.

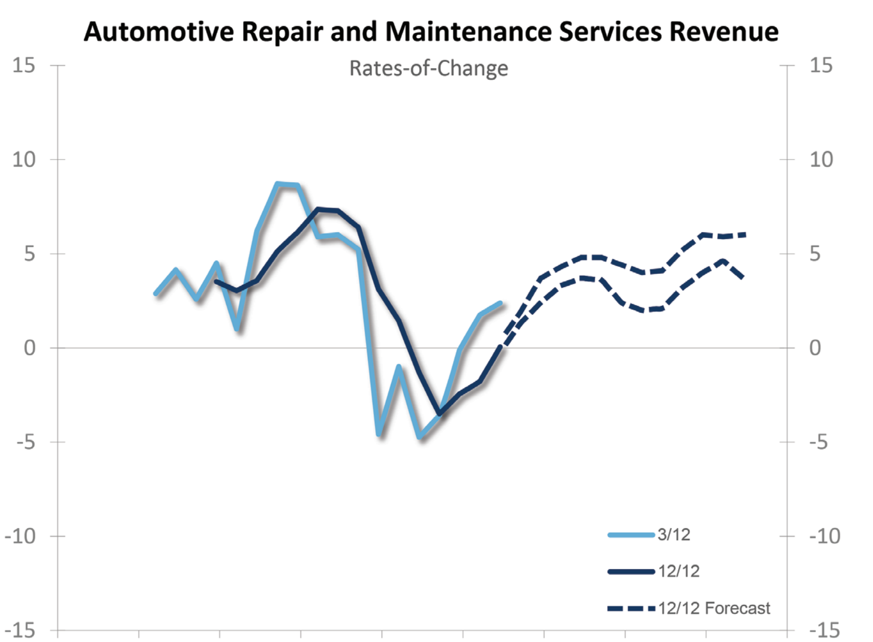
"The overall outlook for our industry is that the annual revenue will steadily climb throughout the period of the forecast. The pace will slow from mid-2015 into early 2016, and then quicken into 2017."

The overall outlook for our industry is that the annual revenue will steadily climb throughout the period of the forecast. The pace will slow from mid-2015 into early 2016, and then quicken into 2017. I have included the rate of change chart so you can compare your growth to that of the entire industry so you can understand if the growth came from your efforts or simply from the economy. Even though every area is in a different economic condition, the growth should be relative in most regions in North America. If you save this forecast you can see if my predictions come true; however, I think they will.

So, from a management perspective, what should our objectives be in this accelerating growth phase? I thought you would never ask! We have come from recovery into a growth phase, which will be eventually followed by slower growth, then recession, i.e., the Business Cycle. Those of you who are baby boomers have seen this cycle all too many times. In a growth phase, it is critically important to ensure quality control keeps pace with the increasing volume, as our industry expands over the next three years. Keep focused on your customer satisfaction reports and don't stop your random mystery shopping surveys of your front counter. If you take this growth period for granted, then later when the industry slows down, you might find you don't have enough customers to carry you through that cycle without having to invest tons in advertising — when you might not have it to spend.

Next, invest in your people development: hiring, training and retention. Make sure you take advantage of service management and second in command training here at ATI. Ensure you have the right price escalators and have correctly spaced out your price increases. Maximize your profit margins through differentiation; stand out from the crowd and set yourself apart. Communicate your competitive advantages and build your brand.

"... invest in your people development: hiring, training and retention. Make sure you take advantage of service management and second in command training here at ATI."



	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17
Lower Forecast Range	1.3	2.4	3.3	3.7	3.6	2.4	2.0	2.1	3.2	4.0	4.6	3.7
Annual Growth Rate (%)	**1.6**	**3.1**	**3.8**	**4.3**	**4.2**	**3.4**	**3.0**	**3.1**	**4.2**	**5.0**	**5.3**	**4.9**
Upper Forecast Range	1.9	3.7	4.3	4.8	4.8	4.4	4.0	4.1	5.2	6.0	5.9	6.0

ITR Economics™

If you have been following my succession strategy articles and you are thinking about selling your business, sell your business in a climate of maximum goodwill; the second half of 2016 and all of 2017 would be perfect for this as it looks now. This would pertain to an employee, family or outside purchase. Since it takes three to five years to prepare your business for sale, I would strongly suggest filling out our succession strategy checklist with your coach. Then have your coach hold you accountable to perform the necessary steps to ensure the maximum value for your business if my prediction is correct and the time is right.

C. L. Frederick

— Chubby

Do Tires Have An Expiration Date?

By Kim Hickey, ATI Coach

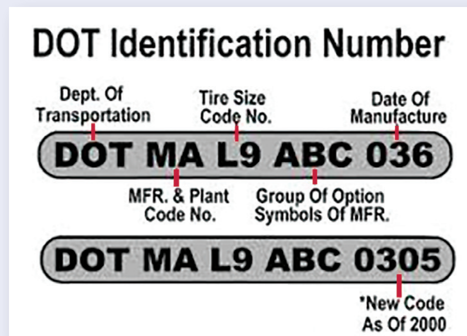
How many of you are having your techs record tire dates (including the spare if there is one)? How many of you are checking the tire dates when you are receiving your tire inventory? While no one can agree on how long a tire lasts, most experts say tires need to be replaced every five years, regardless of mileage.

In some recent hidden camera reports and studies, tire dealers have been captured on film selling tires that were made anywhere from last month to 12 years ago! Once you start checking tire dates, you will find a surprising number of vehicles with old tires, and also with all four tires having completely different year dates.

Let's just throw some things out for discussion and see what sticks. Tires are made of rubber. We know that it is recommended that you replace your belts and hoses (that are rubber) every five years. Why? Because the rubber starts to degrade. We have also always been taught that heat affects rubber greatly. Can you think of many things that get heated up more than tires? Even if they are not admitting it, tire manufacturers must know something about the effects of age on tires too. If they didn't, why would most tire manufacturers' warranties cover their tires for only four years from the date of purchase or five years from the week the tires were

manufactured? Why wouldn't they extend the warranty for the life of the tires, or for a period of 10 years? Experts say that as tires age, the adhesion level of the rubber material that holds the belts together starts to degrade and reduce. Consumer Affairs has reported that SRS (an auto safety research firm) petitioned the NHTSA to require easily readable creation dates on car and truck tires. The SRS has been tracking the many fatalities and serious injuries that have been associated with age-related tire tread separations. In many of these cases, the tires were unused spares and showed no signs of degradation. It has been found that aged tires are often unsuspectingly put into service after having served as a spare, being stored in garages or warehouses, or simply used on a vehicle that is infrequently driven. In many instances these tires show no visible sign of deterioration, and absent any visible indicators, tires with adequate tread depth are likely to be put into service regardless of age.

The Tire Identification Number for tires produced prior to 2000 was based on the assumption that tires would not be in service for ten years. While they were required to provide the same information as today's tires, the week and year the tire was produced was contained in the last three digits. The two digits used to identify the week a tire was manufactured immediately preceded a single digit used to identify the year. Since 2000, the week and year the tire was produced has been provided by the last four digits of the Tire Identification Number, with the two digits being used to identify the week immediately preceding the two digits used to identify the year.



If you would like some links with more information on tire safety and tire-date related accidents, please email me at **khickey@autotraining.net**.

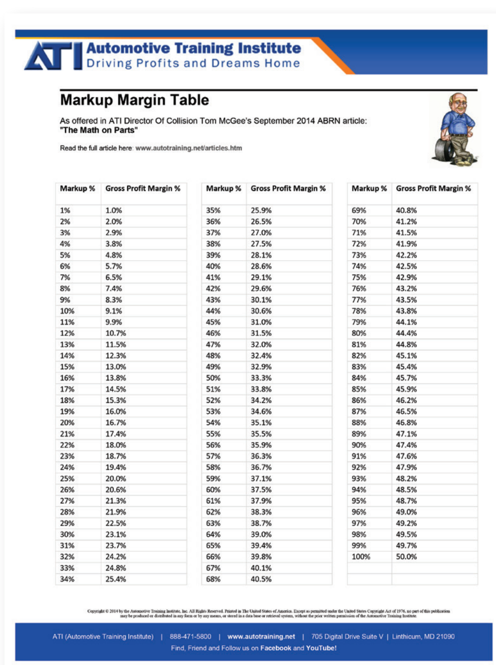
The Math on Parts

Continued from page 1

For example, if you charge seam sealer to a vehicle repair order, and the estimating system treats that material as a part, you may be impacting both your parts and paint margins. In this situation it is not uncommon to have the sale of the seam sealer shown as part revenue and the cost applied to your paint and materials. While it may not be significant if you only consider that one vehicle, it can be important over a period of a month, quarter or year.

Markup vs. Margin

When purchasing parts or other products or services on a cost plus a markup, you must understand the gross profit percentage you will make on that purchase. We have created a table for you that shows the gross profit you will make based on the markup percentage applied.



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Markup Margin Table

As offered in ATI Director Of Collision Tom McGee's September 2014 ABRN article:
"The Math on Parts"

Read the full article here: www.autotraining.net/articles.htm

Markup %	Gross Profit Margin %	Markup %	Gross Profit Margin %	Markup %	Gross Profit Margin %
1%	1.0%	35%	25.9%	69%	40.8%
2%	2.0%	36%	26.5%	70%	41.2%
3%	2.9%	37%	27.0%	71%	41.5%
4%	3.8%	38%	27.5%	72%	41.9%
5%	4.8%	39%	28.1%	73%	42.2%
6%	5.7%	40%	28.6%	74%	42.5%
7%	6.5%	41%	29.1%	75%	42.9%
8%	7.4%	42%	29.6%	76%	43.2%
9%	8.3%	43%	30.1%	77%	43.5%
10%	9.1%	44%	30.6%	78%	43.8%
11%	9.9%	45%	31.0%	79%	44.1%
12%	10.7%	46%	31.5%	80%	44.4%
13%	11.5%	47%	32.0%	81%	44.8%
14%	12.3%	48%	32.4%	82%	45.1%
15%	13.0%	49%	32.9%	83%	45.4%
16%	13.8%	50%	33.3%	84%	45.7%
17%	14.5%	51%	33.8%	85%	45.9%
18%	15.3%	52%	34.2%	86%	46.2%
19%	16.0%	53%	34.6%	87%	46.5%
20%	16.7%	54%	35.1%	88%	46.8%
21%	17.4%	55%	35.5%	89%	47.1%
22%	18.0%	56%	35.9%	90%	47.4%
23%	18.7%	57%	36.3%	91%	47.6%
24%	19.4%	58%	36.7%	92%	47.9%
25%	20.0%	59%	37.1%	93%	48.2%
26%	20.6%	60%	37.5%	94%	48.5%
27%	21.3%	61%	37.9%	95%	48.7%
28%	21.9%	62%	38.3%	96%	49.0%
29%	22.5%	63%	38.7%	97%	49.2%
30%	23.1%	64%	39.0%	98%	49.5%
31%	23.7%	65%	39.4%	99%	49.7%
32%	24.2%	66%	39.8%	100%	50.0%
33%	24.8%	67%	40.1%		
34%	25.4%	68%	40.5%		

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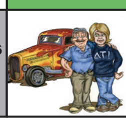
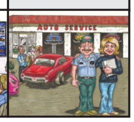
Try it free for a limited time by going to **www.ationlinetraining.com/abrn1409**. It also makes a great tool for training and coaching your staff on how the work they do makes a difference to the business.

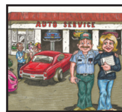
Tom McGee is Director of ATI Collision for the Automotive Training Institute, founded in 1974. ATI's 108 associates train and coach more than 1,150 shop owners across North America to drive profits and dreams home to their families. You can contact Tom at **tmcgee@autotraining.net** and visit ATI's website at **www.autotraining.net**.

Your Available Training Programs for December ’14 and January ’15

December 2014

Monday	Tuesday	Wednesday	Thursday	Friday	Saturday/Sunday
1 **Service Advisor** 1 of 4	2 **Service Advisor** 2 of 4	3 **Shop Owner** 1 of 9	4 **Shop Owner** 2 of 9	5 **Shop Owner** 3 of 9	6/7
8	9	10 **Shop Owner** 7 of 9	11 **Shop Owner** 8 of 9	12 **Shop Owner** 9 of 9	13/14
15 **Service Advisor** 3 of 4	16 **Service Advisor** 4 of 4	17 **Hanukkah** **Shop Owner** 4 of 9	18 **Shop Owner** 5 of 9	19 **Shop Owner** 6 of 9	20/21
22	23	24	25 **Christmas**	26	27/28
29	30	31 **New Year’s Eve**			

January 2015

Monday	Tuesday	Wednesday	Thursday	Friday	Saturday/Sunday
			1 **New Year’s Day**	2	3/4
5 **Service Advisor** 1 of 4	6 **Service Advisor** 2 of 4	7 **Shop Owner** 1 of 9	8 **Shop Owner** 2 of 9	9 **Shop Owner** 3 of 9	10/11
12 **Shop Owner** 4 of 9	13 **Shop Owner** 5 of 9	14 **Shop Owner** 6 of 9	15 **Advanced Sales** 1 of 2	16 **Advanced Sales** 2 of 2	17/18
19 **M.L. King Jr. Day** **Service Advisor** 3 of 4	20 **Service Advisor** 4 of 4	21	22 **California Service Advisor** 1 of 4 **Staffing & Hiring** 1 of 2	23 **California Service Advisor** 2 of 4 **Staffing & Hiring** 2 of 2	24/25
26 **Master Mind Denver**	27 **Master Mind Denver**	28	29	30	31

SOLD OUT

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705 Digital Drive, Suite V
Linthicum, Md. 21090