

ShopTalk



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**July 2015
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What is your real labor rate?

Steve Privette, ATI CFRM

When we open our shop doors every morning, we typically have two products to sell, parts and time. We sell our time at an hourly rate we call our "labor" rate. When talking to shop owners I often refer to our labor rate as our "desired" rate, because we don't always get our labor rate for all of the time we sell to customers. As an example, let's say your labor rate is \$100.00 per hour and a customer gets an oil change that you pay a tech 0.3 hours to perform. If you were going to get your labor rate for that service, you would have to charge \$30.00 labor for that 0.3 hours, which in most cases we cannot do while being competitive. Let's say you get a more realistic \$10.00 labor for an oil change, which would calculate to \$33.34 per hour on that service (\$10.00 divided by 0.3 = \$33.34). There are many things that prevent us from getting our "desired" rate, like coupons or discounts off labor, warranty time where we are paying a tech but getting no labor payment from the customer. Then there's our menu/canned price maintenance services where to be competitive we do not always get our "desired" rate.

Your effective labor rate is what I call your "real" rate. It is easily determined by dividing the total time you sold to a customer by the total labor dollars they paid for that time. Below is an example of a repair order estimate for a customer that came in requesting an oil change and a coolant leak diagnostic, while we have a "desired" labor rate of \$100.00 per hour:

Oil change 0.3 hours, customer labor \$10.00
 Water pump 3.0 hours, customer labor \$300.00
 Coolant service 0.8 hours, customer labor \$60.00
 Total estimate 4.1 hours, customer labor \$370.00
 \$370.00 divided by 4.1 = \$90.25 effective labor rate on this repair order.

So in this example we sold our time for \$90.25 per hour instead of the \$100.00 per hour we desired, because two of the menu/canned services in the estimate were not priced at our \$100.00 labor rate in order to be competitive. In

addition, when the customer comes in to pick up the car they may present you with a coupon or discount which may then be applied to labor and lower our "real" rate even further.

A good practice would be to determine your effective labor rate on your estimates or ROs before you present the sale, to make sure it is reasonable by adding up the total time on the RO divided into the labor dollars we will be asking the customer to pay; and if not, tweak your estimate to compensate.

Additional ways to combat the things that lower your "desired" rate are to implement the labor matrix which helps to offset the things that hurt your labor rate. Your diagnostic rate should be higher than your regular labor rate, which should also help to compensate for those hours sold to customers where you do not get your "desired" rate. How about when performing warranty repairs for failed parts, to submit a labor claim to your parts vendor to get some labor dollars back. When raising your labor rate do not forget to adjust your canned/menu set jobs to reflect the rate increase. If you do not do this in reality you are only increasing your flat rate hours sold, as opposed to ALL of your hours sold.

Way too often do I see shop owners not giving the effective labor rate the attention it requires. We are always focused on the other key performance indicators such as parts margin, labor margin, average repair order, etc.

Keep in mind also when determining how much you can afford to pay a tech, you should be basing that calculation off of your effective labor rate (real), not your door rate (desired). Making this mistake will make you wonder why you are not getting the labor margin you expected after setting up a flat rate pay plan for a tech.

So remind yourself that you only have two things to sell, parts and time. How much are you really selling your time for?

Sam's Corner

Nominate an ATI Alumni for 2015 Motor Age Top Shop Contest

I can't begin to tell you how proud of you I am! Regardless of your short or long term success in our program, it takes real guts to take feedback and attempt change in your business. Many of you have succeeded in re-engineering your business beyond everyone in your area and are looked up to as an authority in automotive service. It is truly important to the industry to be able to see what is actually obtainable by the top shops in North America. We all need to see the real high-water benchmarks in profits, marketing, operations, websites, aftermarket involvement and community activity. It helps make everyone better and there are a lot of ATI clients that fit this description. ATI Top Shops are the best of the best! We don't just measure sales volume! We are focused on being the best from our gross profit to our humanitarian efforts. If you are too bashful to nominate yourself, nominate another ATI Alumni shop. Last year, long-time ATI Alumni member Doug and Linda Whiteman from George's Sierra Shell were featured in Motor Age magazine's Top Shop Contest as the first-place winners.

I am personally asking you to enter or nominate a friend for the 2015 Motor Age Top Shop Contest. Yes, you will be on the front cover of the largest automotive shop owner magazine in North America. Yes, you can hang it on the wall of your shop's waiting room and receive tons of local press, which will all be good for your business. But the most important reason is you will give everyone in the industry standards to look up to that really mean something. You are so much farther ahead than the average shop in North America and it is important you share your success so others have something to aspire to!

There will be one Grand Prize and nine First-Place Prize Winners. First-Place Winners and their shop will be featured in a shop profile in the Top Shop section of the December 2015 issue of Motor Age. Your coaches and I have been writing articles in Motor Age for almost a decade. They are a class act and read by 150,000 owners and service advisors. Mention Chubby and ATI in your training and education responses, it might help!

Simply go to www.searchautoparts.com then hover over Motor Age and then click on Top Shops. Download the Top Shop Rules and start the process of filling out the information. It will take some effort on your part to answer the questions, and those of you working on your business instead of in it have the time! I will also be giving special recognition at our next SuperConference and dinner with yours truly to show our appreciation. Now's a good time, get started and delegate some of it; prove you're a great leader! I always knew it!

Thanks,

-Chubby

C. L. Frederick



Congratulations to ATI President's
Award Recipients

Every year, ATI recognizes our best of the best by inducting them into The President's Club. These associates have consistently demonstrated an unparalleled commitment and dedication to ATI and our clients. Please join us in congratulating them on their outstanding performance in 2014.

Kevin Allen
Mike Bennett
Geoff Berman
Paul Colison
Chuck Dailey
Nadine Durbin
Mike Haley
Jason Hawkins
Kim Hickey
Brian Hunnicutt
Rick Johnson
Kevin Meyers
Steve Privette
Bryan Stasch
George Zeeks

The Coach's Corner

What is Your Focus?

Rick Johnson, ATI Coach

What are you truly focused on when running your business? Making money is a common answer that I hear. We spend a large part of our day chasing money and looking at the bottom line; and I think we should watch our profits, but let me share with you a quote that comes from one of my all-time favorite people to quote. And that is Henry Ford; I believe it is fair to say that Mr. Ford knew a thing or two about running a business and money. Henry Ford said, "A business that makes nothing but money is a poor business."

Wait, what? I wonder what he meant by that? Do you suppose he meant that if all we focus on is money and the making of it that we have it all wrong? Do you suppose he meant that our focus is wrong — that if all we really think about and spend all our efforts on is making money, that we run the risk of failing? Well, here is another quote by good ole Henry: "A business absolutely devoted to service will have only one worry about profits. They will be embarrassingly large."

Wow! I love that! Who wouldn't want embarrassingly large profits? Could it be that some of us are not devoted or "focused" on service and we are constantly chasing money and the making of it? Could that really be our biggest problem? So what do you think would happen next week, next month, next quarter if we decided to take Mr. Ford's advice and be devoted to customer service? I don't mean just talking about customer service, just giving lip service to the idea, but really truly deciding to provide the best damn customer service you have ever done and certainly better than anybody in your area.

Maybe try cleaning up the office and shop, getting rid of 10-year-old magazines and putting on a fresh coat of paint. Replace the lighting with brighter modern lights and some new chairs and some refreshments. How about some new uniforms that don't look like they have been patched and washed 300 times? How about getting up from your chair and greeting the customer as they come in the door and grabbing a clipboard (or today a tablet) and going out to his or her car and getting the mileage and doing the walk-around? Building

value in his or her car and finding something to admire on it? Then actually looking up previous recommended services and recommending that the customer take care of those things as well. Pulling a maintenance schedule and going over that with them and showing genuine interest in not only the vehicle but the customer as well.

Then of course setting the customer's expectations and exceeding them as far as price and done times. Doing a real quality control process as far as road testing and cleaning up the car when done to ensure that the vehicle is truly ready for delivery. Reselling the job when the customer picks it up and again going over the features and benefits of what they just invested in. Setting the next appointment and a real policy of follow-up calls and thank-you calls as well. What I am talking about here, of course, is what we teach in class! Most of us can talk the talk, right? Mr. Ford suggests that we actually walk the walk.

I am personally witnessing the reverse cycle of focus where I live. The previous owner of a business was amazing at customer service. He had a tremendous business and following, and the customers were very loyal and loved the guy. He never focused on money and was constantly reinvesting in the business, and you could see it. The new owners, however, are focused on nothing but money! They have let the business suffer the last six years and have not invested one dime back in the business. And yet they have doubled the prices of what the previous owner was charging because they constantly have a lack of funds. I have tried talking to them and they just don't get it. It is a sad thing to witness, and I am sure that they will soon have to sell as they just won't be able to make it much longer.

So, sit down with your staff, ask the hard question: What are we focused on? And if not on customer service, then I strongly recommend that you point your compass in that direction and quit just chasing money. Mr. Ford had something to say about a business that was only making money! Instead let's make happy, well-served customers who leave our business saying, "WOW why would I go anywhere else?"

One last quote from Henry: "If everyone is moving forward together, then success takes care of itself."



"Opportunity is missed by most people because it is dressed in overalls and looks like work." – Thomas Edison



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Back To School Savings

Mike Bennett, ATI Coach

It's July, and you are probably asking "why is Mike talking about the kids going back to school"? Well, traditionally the end of August through first part of September can be a real lull in business. Let's face it, this is a traditional time when vehicle repair and maintenance is pretty low on the family budget and attention totem pole. If you want to maintain decent car count, this is an opportune time of year to send out a "Back to School" active customer base special. Now is time to start preparing as you have about 6 weeks till the reality of the season hits us. Whether you want to

do this in-house or have a company handle for you, you need to get working. Please see the sample of a special I have used at my shop as well as a great example from a fellow ATI shop owner. Feel free to use as you will or come up with something on your own. Whether you use traditional mail or email, you need to be prepared and start to work on this. Please share your ideas and send to me at mbennett@autotraining.net.

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