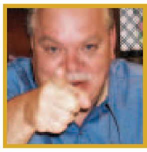

PROFIT MATTERS

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

Don't Let Discounts Make Your Shop D.O.A.

Is discounting killing your business? Yes! Now, I know what you're saying: Discounting helps create new customers and increase sales. But that is not always true. I do agree that discounting a service as an acquisition tool might help you attract new customers. But what type of customer did you just attract? And can you retain that customer for future visits? The answer to those questions depends on the efforts and passion of your service writer. And on the sales side, did you generate enough in sales to make the discount worth doing?

It's more than the discount given to make a profit. A 10 percent discount in sales does not mean you need to sell 10 percent more. Depending on your net profit margin, let's say 10 percent, you need to sell 10 times more than the discount to make the 10 percent discount. Remember, what you give away comes from the bottom line, not top line sales.

Let's review the ATI financial profit model to demonstrate the math:

100 percent sales
Minus 19 percent parts
Minus 20 percent tech cost loaded
Minus 7 to 10 percent sales cost loaded
Equals 50 to 54 percent weekly gross profit margin
Minus 30 percent fixed and operational cost
Equals 20 to 24 percent net profit

These are the percentages. Now let's look at the dollars:

$10,000 sales
Minus $1,900 parts
Minus $2,000 tech cost loaded
Minus $800 sales cost loaded
Equals $5,300 (53 percent gross profit [GP]) weekly gross profit margin
Minus $3,000 fixed and operational cost
Minus $2,300 week (23 percent net operating profit [NOP])

That's at a 53 percent weekly gross profit model.

Because of discounting, let's say our GP falls to 48 percent. How many dollars in sales do you need to maintain the profitability? And knowing that discounting does not change your fixed expense dollars, we will start there.

You still have $3,000 in fixed expenses, and you still want to make the NOP of $2,300. You still need $5,300 a week in gross profit. That $5,300 divided by 48 percent GP is $11,042 in sales to maintain the profitability. At your current ARO, how many more cars do you need (and at what cost) to increase sales by more than 10 percent? And, that does not include the additional tech or service advisor wages if they're on a production based pay plan (meaning they sell more, they get more).

What profit is lost if you maintain sales?

Sales	**$10,000 (and a 50/50 part/labor mix)**
COGs	**$2,150 (57 percent on parts)**
TCL	**$2,250 (55 percent on Labor)**
Sales	**$800 (8 percent of sales)**
WGPM	**$4,800 (48 percent GP)**
F&O	**$3,000**
NOP	**$1,800 week (18 percent net)**

That's now only 18 percent net, which is direct reflection of the five-point decrease in GP. That's $500 a week, or $26,000 a year in NOP. To make back that

QUESTION OF THE MONTH

QUESTION:

What holds most shop owners back from being profitable?

My answer is a serious misguided belief system that might have worked years ago when making a profit was easy but not with today's cost of doing business.

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

Photo: Getty Images / Team Static

$500 a week (a total of $2,300 in the previous exercise) at an 18 percent NOP, you would have to sell $2,777 more per week.

Recouping Lost Dollars

First, let's look at recouping the net profit dollars lost. Basically, this is the total dollars given away, divided by your NET profit margin. For example, if you give away $50 as a discount to a customer and your net profit margin is 10 percent, you would have to sell $500 in additional service to make back your $50.

Second, look the sales needed to make a marketed discount worth doing or to call it a win. Basically, this is the cost of the marketing campaign plus the dollars given as the discount divided by your gross profit margin. For example, let's say you spent $2,000 on a marketing campaign and the total discounts given were $1,000, for a total of $3,000 spent. Now divide that by your gross profit margin. If that number is 50 percent, you would need to generate a minimum of $6,000 in sales from that campaign to be a break-even. If that number is 40 percent, you would need to generate $7,500 in sales from that campaign to be considered a break-even at best. Keep in mind, we haven't even discussed your fixed and operating expenses.

There are three common types of discounting: marketing discounts, discounting as a closing technique and discounting to make unhappy customers happy. Let's look at the pros and cons of each.

Marketing Discounts

One pro to this is that you might attract price-conscious customers that you will hopefully turn into clients. (The only time this is really a pro is when those customers return for second and third visits at regular prices.) One-time visits are not a pro.

You can reward good customers for being loyal to you, like through a loyalty rewards program. You know what it costs to attract new customers; retention is definitely less expensive. If you do give marketing discounts, reflect the discount on the repair order so the customer feels the discount and it is measured by you and your accountant.

Now for the cons. You might attract bottom-feeder customers that use you for certain services and someone else for others. Also, you might train people to wait for your specials.

And job-based marketing is not effective for acquisition. Being that cars are much more reliable today than ever before, 95 percent of the people who receive your discounted marketing piece do not need the service at the time they receive it. And, you are giving away your profit.

But how do you fix it? First, do a better job on building relationships with your customers and differentiate yourself from any other service providers in your market. Utilize your existing database to increase your current customer visit frequency. Also, have your existing customers tell their friends, build your brand and focus on position marketing, not job-based marketing.

Discounting as a Closing Technique

Pros? Well, there are none. This is usually a crutch for weak or poor sales skills.

Cons? The profit margins on the job or service have been diminished leaving very little or no money for net. The owner is usually the last to get paid and the first to get, well, you know. Your credibility and pricing integrity are in question. Some might feel you were just trying to gouge them the first time and when you couldn't get that, you will take what you can get.

You train customers to say "no," knowing you'll cave. And, you are giving away your profit. Now how do you fix this?

Learn to create value with communication skills. Successful service advisors know how to utilize features and benefits of the services to justify the price. They know how to communicate with men and women, and they know how to handle objections, get to the root cause of the "no" and overcome the objection with integrity.

Prioritize the repair order, and complete the work the customer can afford if they say they are only working with a set number of dollars. Do not discount to match that set number of dollars. Also, question every discount given, and the reason behind it. Consider a compensation plan that both rewards your associates and holds them accountable, not only for sales, but for gross profit as well.

Discounting to Fix Unhappy Customers

A pro for this is discounting might satisfy an unhappy customer if you failed to meet their expectation. But this brings up other questions. Will it truly make this customer happy? And do you value the relationship with this customer? If the answer is "yes", then do what you need to do. If the answer is "no," then do not give the discount. Why give away the money if it does not make them happy or they are not going to come back anyway?

As for the cons, this typically does not satisfy the unhappy customer. It is usually something else they are unhappy with. And, you are giving away your profit.

How do you fix it? Focus hard on meeting customers' expectations of the car being fixed right the first time, deliver the car when promised (and keep constant communication with the customer on status or progress of the car) and never ask them to pay more than what they authorized. Always inform the customer of the total investment of parts, labor, shop supplies, disposal fees and tax.

Also, use a comeback log to learn from mistakes and minimize comebacks, and complete courtesy checks, keeping the customer fully aware of the condition of the automobile and maintenance services due and at what time. Do not put yourself in a position where they can say you should have told me.

And document as much as possible on the repair order and share all of the information with Mr. and Mrs. Customer. Consider a compensation plan that both rewards your associates and holds them accountable, not only for sales, but for gross profit as well.

Discounting can hurt your business and kill your profits. It just depends on how hard you want to work to make it back. Discounting might have a place in your marketing efforts — just measure how much you give away, how many return visits you get from the customers and how much in sales you need for the marketing piece to be a win and kill all other types of discounting. MA

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