PROFIT MATTERS

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

You Might Be Measuring Tech Productivity All Wrong

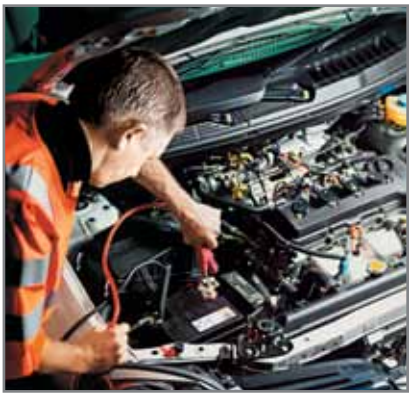
I wanted to begin this month by thanking all of the Profit Matters readers who have emailed me over the years telling me how much they enjoy reading our articles. If you haven't picked up on it yet, I am recognition dependent, not money motivated, and my No. 1 passion has been helping shop owners grow over the past 40 years. I do realize that in order to stay up with the changing times you need to stay close to where the action is, which is in your repair shop.

Last month, we hit a monumental goal for all 82 associates at ATI, which I couldn't have done without their help. We wanted to personally coach more than 1,000 shop owners every week in our Re-Engineering Program, and we hit that milestone last month. What that means to you is we are not just teaching strategy, but implementing change in more than 1,000 shops a week in every state in the U.S. and Canada. In addition, 25 percent of all the shops in North America have been to our AMI accredited Workshops and had their operations and financials analyzed by our management consultants in their shop.

What would you say if I told you that your current way of measuring technician productivity is not effective? Typically, most shops measure technician production based on billed hours versus hours available. The auto repair and service industry has been measuring productivity in this manner forever. Now I am not saying that measuring billed hours is not effective to motivate or provide performance feedback to the technician. What I am saying is that billed hours alone do not guarantee the sales and gross profit dollars needed for your shop and your financial model. Dollars pay the bills, not billed hours.

Every shop, no matter how large or small, has a sales and gross profit dollar need. You need to understand these numbers, as well as the financial model and formulas to achieve them. Then you use the GP dollars needed to create any type of break even or win number, not just sales. But that is a different topic for a different time.

I also am saying that measuring billed hours alone for monitoring the performance of technicians is susceptible to two huge business metrics, your parts/labor ratio and your effective labor rate.



First, Parts/Labor Ratio

Parts/Labor Ratio — What percent of sales are parts and what percent is labor? If your shop does an average of $10,000 a week in sales, and parts are $4,500 and labor is $5,500, you have a 45/55 parts-to-labor ratio. Or, if the sales were $5,500 in parts and $4,500 in labor, you would have a 55/45 parts-to-labor ratio.

The auto repair and service industry has been 50/50, parts to labor, for as long as I can remember. And regardless of the financial model you are chasing, parts sales and profits are needed to make the model work and be profitable. How does this relate to tracking billed hours alone for production? If a technician is focused on labor and labor alone, you might not sell enough parts to feed your model or to make the sales/gross profit dollars you need to break even, or better yet, win.

QUESTION OF THE MONTH

QUESTION:

Are 33 Weekly Performance Indicators really necessary?

If you don't measure it you can't manage it!

Do you have a question for Chubby? Email him at cfrederick@autotraining.net.

Photos: Getty Images: Peter Dazeley

Effective Labor Rate

Effective Labor Rate — This basically is your total labor sales, or individual tech's labor sales, divided by the billed hours by the team or individual tech. For example, your shop labor rate is $80, Technician A bills 36 hours and generates $2,380 in labor sales. Take the $2,380 in labor sales, then divide by the 36 hours and you get $66.11 as an effective labor rate. You collected 82 percent of your door rate. At 100 percent of your door rate, the total tech labor sales should have been $2,880.

I know some of you are saying that you have heard a different definition for effective labor rate. That might be true, but we are going with this for this exercise, being that it has a direct reflection on sales, gross profit and NET. I also know some of you are saying that the drop in the rate is the nature of the beast, but that is note true. Warranty work, where the part failed, not the technician, might be the nature of the beast, but can be minimized.

But others like discounting, menu or maintenance services without flag times, and paying techs for services that the shop doesn't charge for (courtesy checks and free brake inspections) are fixable.

Measuring technician productivity by billed hours alone really is a could or should argument. Example: I could wear a Speedo, but should I? Tracking technicians' billed hours as an effort/expectation to bring the needed sales for your shop doesn't always bring the needed sales.

I want to show you a more effective way of measuring technician productivity and performance. It has your shop's sales and gross profit need in mind: total sales by tech. I said, "total sales by tech," based on your parts/labor ratio, your labor rate and the clock hours by each technician.

Setting Expectations by Individual

For example, let's say your labor rate is $80 per hour, your parts/labor ratio is 50/50 (national average) and the technician is on the floor for 40 hours a week.

HOURLY: $80 divided by 50 percent (labor percent of sales) = $160 per hour ($80 in parts sales and $80 in labor sales) to be 100 percent productive per hour. Now you have your tech's hourly budget.

DAILY: $160 per hour (technician's hourly budget) times eight floor hours = $1,280 per day to be 100 percent productive per day. Now you have your technician's daily budget.

WEEKLY: $1,280 per day (technician's daily budget) times five days a week = $6,400 per week in sales to be 100 percent productive. Now you have your technician's weekly budget.

YEARLY: $6,400 per week (technician's weekly budget) times 50 weeks (one paid week vacation plus one week of holidays for this example) = $320,000 in annual parts and labor sales to be 100 percent productive. Now you have your technician's annual budget.

Measuring Productivity by Individual

YEARLY: Let's say your tech bills $240,000 a year in "total sales" (parts and labor). Take the $240,000 and divide by

the expectation of $320,000 (above math) = 75 percent productive for the year.

WEEKLY: Let's say your tech bills $4,800 a week in "total sales" (parts and labor). Take the $4,800 and divide by the expectation of $6,400 (above math) = 75 percent productive for the week.

DAILY: Let's say your tech bills $960 a day in "total sales" (parts and labor). Take the $960 and divide by the expectation of $1,280 (above math) = 75 percent productive for the day.

HOURLY: $4,800 a week in "total sales" (parts and labor) divided by the 40 floor hours = $120 in sales per hour. $120 divided by $160 (technician's hourly budget) = 75 percent productive per hour.

Setting Expectations by Team

Let's say your labor rate is $80 per hour, your parts/labor ratio is 50/50 (national average), 3.5 technicians and the technicians are on the floor for 40 hours a week.

HOURLY: $80 divided by 50 percent (labor percent of sales) = $160 per hour multiplied by 3.5 techs = $560 in parts and labor sales to be 100 percent productive per hour. Now you have your team's hourly capacity.

DAILY: $560 per hour (team's hourly capacity) times eight floor hours = $4,480 per day in parts and labor sales to be 100 percent productive per day. Now you have your team's daily capacity.

WEEKLY: $4,480 per day (team's daily capacity) times five days a week = $22,400 per week in parts and labor sales to be 100 percent productive. Now you have your Team's weekly capacity.

YEARLY: $22,400 per week (team's weekly capacity) times 50 weeks = $1.12 million in annual parts and labor sales to be 100 percent productive. Now you have your team's annual capacity.

The same math can be used to determine the shop capacity, just replace the number of techs with the number of bays.

The cool thing is that ATI's Six Keys to Productivity and the ATI Efficiency Robbers still apply. The only thing you need to change is the way you lay out your expectations and measurement of production: dollars not hours.

As I had said previously, measuring technicians' productivity is a could or should argument. You could keep doing what you're doing, measuring billed hours alone. But how's that working out for you? Or maybe you should rethink the way you set expectations and measure your technicians' productivity and effectiveness. Which way makes more sense to you?

If you would like Bryan's ATI Technician Shop Capacity Calculator, you can have it as a gift from us by clicking on www.ationlinetraining.com/2011-09.

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