PROFIT MOTIVE: YOUR COMPASS TO FINANCIAL SUCCESS

What your techs really cost you

Maintaining a profitable labor margin is necessary for a shop to be successful.

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A collision repair shop is in the business of selling labor, parts, paint and materials and, in some cases, services that are sublet to another business. The shop must have the ability to produce enough sales while maintaining costs to generate a profit.

With increasing influences on parts purchases and, in some cases, caps on paint and materials, a shop must make a large percentage of its profit on labor.

Today, shops face several challenges. In addition to producing a proper repair and providing exceptional customer service, they must also be able to pay a qualified and skilled technician a fair wage while making a profit with the labor rate that the shop is able to charge.

Shop owners must constantly look at and evaluate the number of technicians employed and its payroll compared to the labor rate. Shop owners have to continuously ask themselves, "Do we need him or her?" and "Can our labor rate support this technician and still give the shop the profit that it needs to make to stay successful?" A complete understanding of what affects your labor margin — and how to hold a profitable labor margin — is essential to maintaining a profitable shop.

When looking at your labor costs, you have to keep in mind that your technicians cost you more, sometimes much more, than just their hourly rate. You need to look at your labor rate and see whether it has the ability to support the staff that you have and the benefits package that is offered while still giving the shop the return it needs.

A simple way to see where you are in terms of profit and margins is to perform a Labor Rate Analysis. You can use this process to evaluate one of your more expensive technicians, and you will be able to see whether or not your labor rate can support them.

Start by taking your most expensive technician's flat rate (or the hourly rate, if that is how your pay system is structured), and then add to that the additional costs of taxes and benefits involved in having the technician there. Make sure your Labor Rate Analysis takes into consideration the FICA, FUTA, SUTA, workers' compensation, any health, life or disability insurance, vacation time, sick time, uniforms, etc.

So let's just say you pay $3,000 a year in health insurance for this technician. You take the annual cost and divide it out to determine the per-hour cost. Here is the formula:

$3,000 divided by 12 months = $250 per month

$250 per month divided by 4.3 weeks in a month = $58.14 per week

Divided by a 40-hour work week (it could be more) = $1.45 an hour for health insurance

Take all these costs (FICA, etc.) and add them to the hourly rate to determine the actual cost per hour for that technician.

Now, remembering that labor is something you buy and therefore must sell at a profit, take the total actual cost per hour that you have come up with and multiply it by 2.5 to give you a 60 percent margin on the technician's labor.

The margin number that you come up with must be at or lower than your labor rate. If not, you will most likely have to make some business changes to continue sustaining your profitability over the longterm. You may not be able to continue to offer the benefits package that you currently provide. You may need to look at an alternative compensation plan, or you may not be able to afford that technician.

You can visit www.ationlinetraining.com/abrn1307 to get a Labor Rate Analysis form that you can use to compare your loaded labor cost to your labor rate.

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