The Labor Sales Division (continued)

The last segment of ***Learn To Earn*** began the discussion of the Labor Sales Division of the shop. It emphasized that you are in the time-selling (labor) business, not the parts-selling business. Repairing vehicles and using parts to complete those repairs are your "time-selling tools," but time is what you sell to customers. Customers come for service (time), not parts. They come to you for your repair skill — which is demonstrated in how you manage time.

The last segment introduced the Labor Sales Division *Critical Success Factors* and some of the financial formulas that enable you to track your performance in each of those *Critical Success Factors* areas. This segment will continue that discussion. It is recommended that you review the last segment in preparation for the material covered in this segment.

LABOR & OPERATING OVERHEAD

GOAL: ***Less than Labor Revenue.***

In the Labor Sales Division, the sale of time should at least cover your shop's labor expenses and operating expenses, leaving the gross profit from parts and sublet for shop Income (profit before taxes). The *Labor & Operating Overhead* form tells you:

- Needed labor revenue to cover Labor & Operating Overhead.
- Needed labor hours billed in the period to cover Labor & Operating Overhead.
- Needed Bay Efficiency Rate to cover Labor & Operating Overhead.
- Needed billed hours per day per bay to cover Labor & Operating Overhead.

Labor & Operating Overhead is made up of the following items:

- Any wages or commissions paid to technicians. This includes any wages or commissions that owners pay themselves when working as a technician.

  NOTE: In order to accurately track labor costs, it is important for an owner working part of the time as a technician to separate his/her technician income from manager income.

- All remaining personnel costs.
  - — Owner's non-technician salary.
  - — Wages paid to remaining shop management and staff.
  - — Payroll costs for the entire shop (including technicians). These costs include:
    - ✓ Payroll taxes
    - ✓ Workman's comprehensive
    - ✓ Medical benefits
    - ✓ Dental benefits
    - ✓ Eye care
    - ✓ Paid vacation
    - ✓ Paid sick days
    - ✓ Disability and life insurance
    - ✓ Pension plan
    - ✓ Yearly bonus
    - ✓ Non-commission incentive payments (Increases in commission percentages or dollars paid are included in the flat rate or commission wages paid to technicians section)
    - ✓ Profit sharing
    - ✓ Paid training
    - ✓ Tool allowance
    - ✓ Work clothes

- Operating Expenses. These expenses include, but are not limited to:

✓ Advertising
✓ Auto & Truck Expenses
✓ Bad Debts
✓ Business Insurance
✓ Credit Card Costs
✓ Depreciation
✓ Equipment Maintenance / Repairs
✓ Interest
✓ Legal & Professional Services
✓ Non-payroll Taxes
✓ Office Supplies
✓ Other Supplies
✓ Publications
✓ Rent / Lease / Mortgage
✓ Telephone
✓ Training
✓ Travel Expenses
✓ Utilities
✓ Miscellaneous

Labor & Operating Overhead

$ _____		Wages, Commissions and Bonuses Paid to Technicians (including owner's technician portion)
	$ _____	Owner's (non-technician) Salary
	+ $ _____	Wages, Commissions and Bonuses Paid to Shop Manager
	+ $ _____	Wages, Commissions and Bonuses Paid to Service Advisor
	+ $ _____	Wages, Commissions and Bonuses Paid to Remaining Shop Staff
	+ $ _____	Payroll expenses ***for entire shop*** (Workman's Comp., benefits, etc.)
+ $ _____		Total Personnel Costs (*Total of the above 5 items*)
+ $ _____		Operating Expenses (Rent, office equipment, supplies, leases, utilities, janitorial, etc.)
= $ _____		**LABOR & OPERATING OVERHEAD (NEEDED LABOR REVENUE)**
÷ $ _____		Average Shop Labor Door Rate (Per Billed Hour)
= _____		**NEEDED LABOR HOURS BILLED TO MEET LABOR & OPERATING OVERHEAD**
÷ _____		Billable Hours Available in Period
= _____	%	**NEEDED OPERATING EFFICIENCY RATE TO MEET LABOR & OPERATING OVERHEAD**
x _____		Billable Hours (Hours Open Per Day)
= _____		**NEEDED BILLED HOURS PER BAY PER DAY TO MEET LABOR & OPERATING OVRHD**

Labor & Operating Overhead

$ 13,025.00		Wages, Commissions and Bonuses Paid to Technicians (including owner's technician portion)
	$ 4,000.00	Owner's (non-technician) Salary
	+ $ _____	Wages, Commissions and Bonuses Paid to Shop Manager
	+ $ 3,500.00	Wages, Commissions and Bonuses Paid to Service Advisor
	+ $ 1,000.00	Wages, Commissions and Bonuses Paid to Remaining Shop Staff
	+ $ 3,215.00	Payroll expenses ***for entire shop*** (Workman's Comp., benefits, etc.)
+ $ 11,715.00		Total Personnel Costs (*Total of the previous 5 items*)
+ $ 10,500.00		Operating Expenses (Rent, office equipment leases, supplies, utilities, advertising, etc.)
= $ 35,240.00		**LABOR & OPERATING OVERHEAD (NEEDED LABOR REVENUE)**
÷ $ 60.00		Average Shop Labor Door Rate (Per Billed Hour)
= 587		**NEEDED LABOR HOURS BILLED TO MEET LABOR & OPERATING OVERHEAD**
÷ 1056		Billable Hours Available in Period
= 56	%	**NEEDED BAY EFFICIENCY RATE TO MEET LABOR & OPERATING OVERHEAD**
x 8		Billable Hours (Hours Open Per Day)
= 4.48		**NEEDED BILLED HOURS PER BAY PER DAY TO MEET LABOR & OPERATING OVRHD**

LABOR AND OPERATING OVERHEAD RATE

GOAL: ***Less than True Shop Billing Rate (Billed rate per hour shop is open).***

The *Labor and Operating Overhead Rate* tells you how much it costs you in labor and Operating expenses each hour your shop is open. It is based upon the total dollars you pay to technicians, whether they are paid hourly or flat rate.

Labor & Operating Overhead Rate

Labor and Operating Expense Per Bay for Each Hour OPEN (not hour billed).

CALCULATED FOR: ☐ DAY ☐ WEEK ☐ MONTH ☐ YEAR DATE: _____ TO _____	
$ _____	Labor & Operating Overhead Dollars
÷ _____	Billable Hours (Hrs Shop Open x # Bays)
= $ _____	**Labor & Operating Overhead Rate**

Labor & Operating Overhead Rate

Labor and Operating Expense Per Bay for Each Hour OPEN (not hour billed).

CALCULATED FOR: ☐ DAY ☐ WEEK ☒ MONTH ☐ YEAR DATE: 10/1 TO 11/1	
$ 35,240.00	Labor & Operating Overhead Dollars
÷ 1056	Billable Hours (Hrs. Shop Open)
= $ 33.37	**Labor & Operating Overhead Rate**

When the *Labor and Operating Overhead Rate* is compared with the *True Shop Billing Rate*, you get an immediate picture of how well your shop is performing in terms of generating enough Labor Revenue to cover Labor & Operating Overhead.

In our example shop, the *True Shop Billing Rate* is $27.56 per hour and the *Labor and Operating Overhead Rate* is $33.37 per hour open.

True Shop Billing Rate

Labor Revenue Per Bay for Each Hour OPEN (not every hour billed).

$ 29,100.00	Total Labor Dollars Produced (Billed) in Period
÷ 1056	Billable Hours (Hrs. Shop Open x # Bays)
= $ 27.56	**True Shop Billing Rate**

Discussed in the previous segment.

$27.56	True Shop Billing Rate (Labor Revenue Per Hour Open for Business)
– 33.37	Labor & Operating Overhead Rate (Cost Per Hour Open for Business)
<$ 5.81>	**Shortage Per Hour Open**

NOTE: The $5.81 shortage is covered by "stealing" from your Parts & Sublet profit (calculated later).

The *True Shop Billing Rate* must equal or exceed the *Labor and Operating Overhead Rate* to maximize the profit for your shop.

MARGIN VS. MARK-UP

MARGIN is the amount remaining after the cost is subtracted from an existing selling price of products and/or services sold. MARGIN is the resulting percentage of the selling price that the difference (Gross Profit) represents.

$15.00	**Selling Price (pre-existing)**
– $10.00	Cost
$ 5.00	Margin (Gross Profit) Dollars
÷ $15.00	Selling Price (pre-existing)
33%	**MARGIN %**

MARK-UP is the amount added to the cost in order to arrive at a selling price. MARK-UP is the percentage of the cost that must be added to the cost in order to acquire the desired or needed Margin (Gross Profit) dollar or percentage amount.

100%	
– 33%	Desired/Needed Gross Profit %
67%	Cost % of Selling Price

$10.00	Cost
÷ 67%	Cost % of Selling Price
$14.93	Needed Selling Price
– 10.00	Cost
$4.93	Gross Profit Dollars
÷$10.00	Cost
49%	**Mark-up %**

The **Gross Profit Mark-up Guide** on the next page will help you determine the mark-up percent of cost you must to add to your cost in order to achieve the gross profit you need.

How to Improve Gross Profit on Labor Sales

There are five main areas for improving gross profit on labor sales:

- Profit Eating Time Losses
- Theft
- Pricing and Credits
- Labor Rate
- Additional Areas for Charges

If you are not achieving a 60% gross margin on your labor sales and meeting your Labor & Operating Overhead through labor sales, the following are steps you can take to improve your labor gross profit percentage.

PROFIT EATING TIME LOSSES

Profit Eating Time Losses are areas that are costing you money — productivity time that you may not realize you are losing. The first place to raise your Bay Efficiency Rate to the goal of 80% is right on your own doorstep. The following are the time bandits – areas that are stealing profits from your business:

- **The number of vehicles through each bay daily.**

  The more cars you run through your shop does not mean that you will make more gross profit. The goal today is to honestly and ethically maximize every vehicle that comes into the shop. It's better to make $1,000 on three vehicles than a $1,000 on ten vehicles. Three vehicles per $1,000 are easier on your facility, your equipment and your people. The number of vehicles through each bay per day is not the "turn and burn" theory, but efficiently, honestly and ethically maximizing each vehicle as they go through your bay.

  The Customer Communication Form is the place to begin this process. The CCF helps you sell more needed work to customers — legitimately increasing the ticket amount of vehicles already in your shop. Having an aggressive Shop Labor Door Rate can also increase your ticket average.

Desired/Needed Gross Profit %

- **Technician competence and productivity.**

  Are your technicians trained for the jobs you have them doing? Untrained, incompetent, mis-assigned technicians are some of the primary reasons the national average for bay efficiency is so low. Too many technicians are wasting time by working on vehicles they shouldn't be working on.

Continued on page 6

Gross Profit Mark-up Guide

To calculate the mark-up needed to achieve a specific percentage of gross profit, subtract the desired gross profit percentage from 100%, and then divide the product/service cost by the remaining percentage. For example:

For a gross profit of 20%:

100% – 20% GP = 80%: $10.00 cost ÷ 80% = $12.50 selling price.

$12.50 selling price – $10.00 cost = $2.50 mark-up.

$2.50 mark-up ÷ $12.50 selling price = 20% Gross Profit.

$2.50 mark-up ÷ $10.00 cost = 25% mark-up percentage.

The following are mark-up calculations for 5% - 80% gross profit percentages:

TO DETERMINE THE SELLING PRICE

For a Gross Profit of →	Divide the Cost By → Or, Multiply the Cost By the Selling Price Percentage			
		Cost	+ Mark-up	= Selling Price
5%	95%	100%	+ 5.3%	= **105.3%**
10%	90%	100%	+ 11.1%	= **111.1%**
15%	85%	100%	+ 17.7%	= **117.7%**
20%	**80%**	100%	+ **25.0%**	= **125.0%**
25%	75%	100%	+ 33.3%	= **133.3%**
30%	70%	100%	+ 42.9%	= **142.9%**
35%	65%	100%	+ 53.9%	= **153.9%**
40%	60%	100%	+ 66.7%	= **166.7%**
45%	55%	100%	+ 81.8%	= **181.8%**
50%	50%	100%	+ 100.0%	= **200.0%**
55%	45%	100%	+ 122.2%	= **222.2%**
60%	40%	100%	+ 150.0%	= **250.0%**
65%	35%	100%	+ 185.7%	= **285.7%**
70%	30%	100%	+ 233.3%	= **333.3%**
75%	25%	100%	+ 300.0%	= **400.0%**
80%	20%	100%	+ 400.0%	= **500.0%**

Analyzing technician productivity by comparing hours billed with actual time worked on each job will help you determine which technicians are most competent for which jobs. You need to assign the right jobs to the right technicians to maximize their productivity.

Technician productivity can be increased by:

- Creating a team and a family environment. Technicians are more productive when they are happy to be in your shop.
- Scheduling technicians properly.
- Putting the right tech on the right job.
- Providing technicians with the right training, tools, equipment, etc.
- Running promotions on the kinds of repair jobs your technicians are best qualified to perform.
- Performing weekly reviews of production results, any roadblocks, and what you and your technicians need to do to get on track. You must solve any issues together instead of competing or blaming each other for problems.

- **Vehicle analysis time.**

  Are technicians wasting a lot of time trying to figure something out because their egos won't let them get on a technical hotline to find out what their problem is, so they can get on with completing the repair? It is more efficient for your technicians to call the tech hotline right away so they can get on with repairing the vehicle right away.

- **Comebacks.**

  Do you track your comebacks? Do you know each technician's average comeback rate? Do you know what they have comebacks on? You need to determine how much each comeback is costing your shop.

  For example, you charge a customer $70.00 for one hour of labor. The next day the customer comes back to fix what wasn't done right the day before. That technician is currently working on a car that will go out at about $280 in labor. The technician gets pulled off the job he's currently doing to work on yesterday's customer's vehicle (which neither you nor the technician are getting paid for).

  If it takes him another hour to fix the comeback, you've not only lost $70.00 for that hour lost, but when the technician returns to the job he was working on, he's lost an hour of completing that job, and finally, that's an hour that can't be applied to another job waiting to be worked on. When you add in your parts and sublet portion of the additional work you missed, how much did that comeback actually cost you?

  NOTE: If you are paying your technician an hourly wage, he is getting paid for an extra hour of work that you are generating no revenue on.

  You need to track each comeback in your shop. You need to be able to determine the types of jobs that are most likely to comeback on each technician. Once those are determined, you need to make sure each technician receives whatever additional training is needed to reduce the comebacks. If the problem persists, even after training, you may need to seriously consider terminating the technician because he is most likely costing you more than he's making for you.

- **Tool time.**

  How much time do your technicians spend with tool salespeople? Three technicians spending 30 minutes with a tool salesperson is 1½ hours of lost labor billing. If you are running 50/50 on labor and parts, that is the equivalent of 3 hours of billable labor spent hanging out with the tool man. With a $70 labor door rate, that's $210 in lost production. Tool salespeople need to be limited to time before work, lunch hours and after work hours.

- **Telephone calls.**

  Everyone has telephone calls. Every time a technician is interrupted in the middle of a job, it stops the job and it takes time for him to get his head back into the job.

- **Breaks — Restroom, Smoke, Lunch, etc.**

  Obviously people need to use the restroom. But, 15-minute, 30-minute, 40-minute restroom breaks may be signaling an abuse of time.

  Extended smoke breaks, mid-morning and mid-afternoon breaks, and lunch breaks eat up valuable billable time. While it may only be a few minutes here and there, the minutes begin to add up.

- **Research.**

  No one has all the answers. Sometimes technicians lose time because they won't ask for the information they need. At other times, they can spend too much time researching a problem. Too much time spent researching may indicate a competence problem and/or a training need.

- **Gathering Information**

  Technicians can lose a lot of productivity time gathering the information necessary to perform a repair job. It is the Service Advisor's responsibility to make sure technicians have all the information they need before the technician is assigned the job.

- **Helping teammates**

  Part of a productive shop is the assistance technicians are willing to give each other. But, like all the other time bandits, too much time helping teammates creates problems. When one technician is spending time helping another on a repair job, work isn't being done on another job by the helping technician, and two technicians are now working on a job being billed at a single technician rate.

  It is important to promote teamwork. A quick, knowledgeable answer from a teammate can increase productivity. But too much time (and socializing) will eat away at your billable time — time that can never be recovered.

- **Parts downtime**

  Nothing can be more frustrating for a technician, or more costly for a shop, than downtime created by the lack of parts or having the wrong parts. In cases where the vehicle has been torn apart, lack of parts or the wrong parts ties up a bay that cannot be used for another job. Again, it is the Service Advisor's responsibility to make sure technicians have all the parts they need and have the right parts before they are assigned the job.

- **Customer authorization downtime**

  Waiting to reach, or hear back from, a customer to receive authorization for repairs can tie up a technician and a bay unless the process is managed carefully. This is one reason some technicians won't inspect a vehicle thoroughly or report additional needed work to the Service Advisor. When paid on a flat rate or commissioned basis, losing time waiting for the customer's authorization costs the technician income.

TIP: One way to reduce lost productivity due to customer authorization downtime is to provide each customer with a pager that will alert them immediately when you need to talk with them about their vehicle. When they come to pick up their vehicle, you retrieve the pager for use the next day.

The bottom line is that there are many areas that can steal valuable minutes away from your billable hours and your profits.

Business Improvement Assignment

Calculate the remaining *Critical Success Factors* illustrated in this segment for your business. Track them on a monthly basis. *Continue to track your Bay Efficiency Rate / Billed Hours Per Bay Per Day on a DAILY basis.*

Begin a series of shop meetings to cover the *Profit Eating Time Losses*. Be sure to ask your staff for their ideas on how to improve the time losses. Review any shop issues that have come up in previous shop meetings.

Keep discussing ways to improve the performance of your shop. If assignments have been made to staff members, get reports on results and next steps to take (and by whom).

A spreadsheet program that calculates all of the *Critical Success Factors* can be ordered through:

Wilson Development Group, Inc.
(913) 327-5460
E-mail: LWilson@wdgweb.com

Review Quiz

Answers to quiz at the bottom of this page.

Volume 2, Segment 4

Circle Your Answers

1. Labor & Operating Overhead is made up of.
   A) All wages or commissions paid to technicians (including owner's portion as a technician).
   B) All personnel costs.
   C) All operating expenses.
   D) All of the above.
   E) None of the above.

2. To maximize profitability, the True Shop Billing Rate must equal or exceed the Labor & Operating Overhead Rate.
   A) True
   B) False

3. You must mark up your cost 33% in order to achieve a 33% margin.
   A) True
   B) False

4. One way to reduce Profit Eating Time Losses is to:
   A) Simply increase the number of vehicles through the shop.
   B) Have technicians meet with tool salespeople before or after work hours.
   C) Assign whichever technician is free first to whatever job is next.
   D) All of the above
   E) None of the above

5. Customer authorization downtime can be reduced by giving each customer a pager for notifying them when to call your shop.
   A) True
   B) False

Don't miss out on 25 TSP bonus points! Here is how to add 25 TSP bonus points to your account!

- Complete the above quiz by circling your answers.
- Completely fill out the information below:(Please print. Information must be legible to receive credit)

  Account Name:_____ Date: _____

  TSP Account #: _____ Phone Number: _____
- Fax this page to the following number 1-800-550-2654.
- Keep for your records.

Review Quiz Answers: 1:D / 2:A / 3:B / 4:B / 5:A