



PROFIT MATTERS

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

Why Some People Always Make Money in the Service Business

Many of us have been surprised by the way this recession has affected our businesses. Who would have thought OEMs would go bankrupt and so many new car dealers would close their doors? Then for every independent shop we see experiencing increases in sales due to lack of new car sales, there is a shop located in a challenging area of high unemployment experiencing decreases in sales.

The reason some shop owners always make money regardless of sales is they have low overhead. Typically, the reason most shops go out of business is based on multiple problems happening all at once. It usually is not just one thing. Multiple problems occurring at once with your market and your employees could affect sales 20 to 40 percent in an instant. Those owners who are controlling their costs and not just cranking up sales every year to cover their overhead increases are in a much safer position.

Perform an Internal Audit

My head coach, Brian Canning, has to make sure his coaching staff is putting our 945 weekly coaching clients in a safer position, especially while the economy recovers.

Since last February, he has spent untold hours explaining the virtues of the selling process, the inspection process and the extraordinary opportunities presented by this current economy all in an effort to assure improved return in an environment that is far different from what we have seen in the past.

A huge problem I am discovering in



addressing sales and gross profit is that we are awash in expense and seeing little or no benefit to our improved top line performance because our fixed costs are out of control. Or, as in many cases, we are simply unaware or uninterested in where our operating expenses are and, as a direct result of this, we are working hard to see very little return.

In the end, the bottom line is the bottom line, and if you are not doing the things necessary to assure that you are profitable, you are working very hard to get nowhere. I recommend that you perform an internal audit to determine where your profit model is and work to position yourself for improved profitability going forward. These efforts start paying off the moment you implement them and generally are simple, with huge potential impact.

Shoot for 20 to 30 Percent Cash Profit

It is a sad commentary on the automotive repair industry to note that the average shop in the U.S. is generating net operating profit of about 6 percent. I know very few people who work as hard as the average shop owner. I think it's very sad that in putting in all of those hours, in meeting those huge challenges every day, owners see only a very modest return on his or her investment in both money and time.

It matters very little if you have great car count, the very best technicians and the most up-to-date equipment and pro-

QUESTION OF THE MONTH

QUESTION:

What is the biggest mistake very profitable shops make?

Thinking it will never stop making that kind of money. My wife would tell you I have been guilty of that myself.

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

RAYBESTOS™ CHASSIS TECH TIP

Problem: Non-adjustable cam bolts

Vehicles Involved:
2005-09 Infiniti QX56

The Raybestos Chassis Solution:

Infiniti QX56 vehicles were manufactured with non-adjustable bolts for the lower control arm where it mounts to the chassis. The manufacturer has released cam bolts to replace the OE bolts so the wheel alignment can be adjusted: 54580-7S005 for the bolt, and 54559-7S005 for the cam washer. Raybestos Chassis has an eccentric cam bolt kit available for this vehicle: part number 611-1192 contains enough replacement bolts and cam washers to service one control arm. A wheel alignment will need to be performed to the vehicle after installation of the replacement cam bolts.



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vide the best customer service if you are not modeled to generate reasonable profit. Reasonable profit in this case would be somewhere between 20 and 30 percent net operating profit (NOP).

Though many of the shop owners I talk to appear to be ashamed and feel guilty about generating numbers like these, other service industries routinely achieve similar numbers. And given the reliance our society places on personal mobility, I am very confident in saying that most of our customers are happy to pay us and see us viable, knowing we are there to service their vehicles.

My effort here is not to talk about gross profit, margins or productivity, but to address fixed cost and our operating expense to assure that once we have made the sale and generated that gross profit, we are able to hold on to a good portion of that money and assure cash flow.

Examine Every Expense

As you get ready to close out your month-end books, I ask that you look at what your current monthly expenses are and look for ways to cut these expenses. By itself, expense control is rarely capable of transforming a business from losing money to generating massive profits. But with just a little effort, the average shop can affect significant savings and improve that bottom line.

Explore opportunities to save as your lease comes up for negotiation and as part of this, evaluate all of the various insurances you are carrying. This is a challenging economy for many industries, and you will find many of your vendors loath to lose you as a customer and are very willing to sharpen their pencils and offer you deals that will allow you to save thousands in annual premiums. The same could hold true for other vendors.

Examine and assess who is providing your payroll and accounting services, trash pick-up, uniforms, marketing and even your telephone company or the guys who handle your advertising. I see a lot of money spent on advertising and on marketing that has long since ceased to provide a return, and I suggest you examine very closely how you are spending those dollars. Spend it if you feel that there is a tangible value, but look for opportunities to save.

Every Dollar You Save Is Yours

I am not suggesting that you ask for unreasonable accommodations that would potentially harm your vendor, but I am asking you to pursue modifications that would allow you to improve your profit standing while strengthening and reinforcing the good working relationship you already enjoy with your various vendors.

You may be able to consolidate all of your business with one vendor in exchange for an improved pricing structure. It needs to be a win-win arrangement. Having strong viable vendors is as advantageous to you as being viable and able to pay on time for increased volume is to your vendors. Most importantly, you get to see that return on investment that has been eluding you these many years.

As I had indicated, it is not likely that addressing fixed cost by itself will transform your business overnight, yet it is very typical to trim these expenses and immediately enjoy the benefit of improved positive cash flow. Every penny you save in fixed cost flows immediately to the bottom line. Stop your stepping over or discounting those pennies and try picking them up instead. They add up and spend just fine.

Fixed cost should normally run somewhere between 24 and 30 percent of your gross sales, and to whatever degree you can reduce this number, you will see a corresponding increase in cash flow. Most often this is accomplished by reducing expense and increasing sales. Your ability to control expense will always determine how profitable you are. Do yourself a big favor and dig into these numbers and trim any fat. Your wallet will have no trouble noting the difference.

Cash is King

In the wide world of business, cash is king. Without changing one thing operationally, you can literally transform your business. In 2009, profit might be a destination worth your effort. Certainly we cannot continue doing the same things and expect to thrive.

Chris "Chubby" Frederick is CEO and president of the Automotive Training Institute. He is thankful for assistance from George Zeeks and Brian Canning in preparing this monthly column. Contact Chubby at cfrickard@autotraining.net.