



PROFIT MATTERS

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

Sizing Up Your Shop With Surveys

How are the tire and service shops in North America doing? In light of the economic downturn, you would expect the answer to be bad, awful or terrible. While there are areas that have been hit much harder than others, there also are many shop owners holding their own and a few having record years. Many shop owners got scared and were forced to make tough decisions they wouldn't make before the "Great Recession."

They looked at their help, pay plans and, most specifically, productivity and began to demand production. They were forced to make decisions they wouldn't have made before (but absolutely should have).

These shops were sleeping giants where fear acted as a catalyst for improvement. According to our annual survey, stress was way up in 2009 because shop owners were forced to change many of their long-term operational practices.

first time is accomplishing. Our 2009 ATI training and coaching clients represent 947 shop owners that report their financial data every week to a personal coach, who helps them implement changes to their business. These owners are students of the business, with about half of them working on their business and not in it. They range from two- to 22-bay shops with average

tenure in the business being 14 years.

The numbers represent the ATI profit model goal and are achieved by our very best clients. These shops are located in very strong markets, have been in business a long time and are active in learning new skills to grow their business.

We have certain formulas that make up the results, which will help you better compare your results to these. Throughout the rest of 2010, we will address each category in detail so you can have a better understanding of why we do what we do.

PARTS MARGINS: The percentage is generated with parts, hazmat and shop supply sales less all associated parts cost. Many shop owners are convinced they can't hold more than 50 percent on parts, so they don't accomplish it. Almost 1,000 shop owners did accomplish it by using the ATI Parts Matrix. Our matrix is sim-

ATI FINANCIAL SHOP SURVEY

	Seminar Attendees	Coaching Clients	Top Shops
Parts Margins	35%	52%	60%
Labor Margins	37%	57%	60%
ARO	\$185	\$338	5 times labor rate
SPBT	45%	76%	80-125%
GPM	35%	49%	54%
Profit	2.5%	19%	20-30%

QUESTION OF THE MONTH

QUESTION:

Chubby, should I hold my service manager accountable for holding a specific gross profit margin on the repair order?

Yes. They should have the ability to hold margin if they are creating the estimates.

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

ply multipliers that mark up the less expensive parts more than the expensive parts where there is increased customer sensitivity.

LABOR MARGINS: This is labor sales minus tech payroll fully loaded. Costs include FICA, FUTA, SUTA, Workman's Comp, insurance, holidays, vacations, sick days and training. Typically, labor margins are affected more by shop productivity than your actual labor rate.

ARO: Average repair order is a good benchmark to measure the effectiveness of the techs and service manager working as a team. Written courtesy checks performed for the customer's safety and reliability present a relationship-based service advisor with the right amount of cars per tech/day.

SPBT: Shop productivity by tech is the number of hours billed versus the number of hours on the floor. You will notice most shops are billing less than half the hours the techs work. Re-engineering your business will improve this percentage. Stabilizing car count by scheduling the next appointment coupled with the basics of generating good average repair orders is the key to a high productivity percentage.

GPM: Gross Profit Margin at ATI is measured by all sales minus all parts associated cost, all labor cost fully loaded and all sales cost fully loaded at the front counter. These percentages range from 35 to 54 percent. If you were doing \$500,000 in annual sales and you were the owner of just the 49 percent shop, you would earn \$70,000, more than the 35 percent GPM shop owner. This is the second most important of all the key performance indicators behind gross profit dollars.

PROFIT: This is cash profit after subtracting expenses from gross profit dollars. It is

what buyers of your business are looking for when you plan to retire. Most owners receive three to four times earnings before taxes plus inventory and real estate when they sell. Since most buyers with money don't want to work in operations, make sure you have a good service manager or the buyer will reduce your profit to cover the cost of hiring one.

Summing It All Up

This year's data shows the challenges faced by shop owners in an economic slowdown. While there are some notable bright spots, most of the key performance indicators indicate flat or slightly declining results when compared to 2008.

I was surprised this year to find shop owners finding creative ways to be successful. Many that experienced fewer customer visits worked on their ARO and GPM to make up the difference. I believe we will see a brighter picture in 2010. I recommend using this survey as a tool to benchmark your performance, review policies, systems and create a better shop in the 2010.

Scholarships Available

To learn more, look into scholarships being offered right now from ATI for 2010 to *Motor Age* readers. To apply, send an e-mail to Chubby Frederick at cfrederick@autotraining.net and tell him why you deserve a scholarship made available by ATI, Customer Link, Moving Targets, Alldata and LSI.

Chris "Chubby" Frederick is CEO and president of the Automotive Training Institute, a 2008 Frost & Sullivan Customer Value Leadership Award recipient and backed by 147 AMI credit hours. Frederick is assisted by George Zeeks and Brian Canning in preparing his monthly column.

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- ✓ **Reduce Stress**
Let ATI's professional coaches help you re-engineer your business!
- ✓ **Increase Free Time**
Let Chubby help you hire and train a 2nd in command!



"Our profit has increased an unbelievable amount and our parts margin has jumped over 14 points."
— Joel Haver, Co-Owner, Haver Brothers, Omaha, NE

Don't let the economy hinder your shop or family life. Move past it! ATI will show you how.

This could be your chance to win!

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Travel expenses are the responsibility of the winning shop owner.

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