



ARE YOU PROFITABLE? THE ANSWER IS IN YOUR REPAIR ORDERS

Performing a variety of audits can unlock answers

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Many successful shops across North America have been noticing a reduction in car count this year — even those with huge marketing calendars. While there are many opinions on what is causing this trend, from weather to a decrease in sales of cars during the Great Recession, the reality is that we have to do something about it or experience a reduction in our income. Actually, many of our clients are experiencing the most profitable year of their career because they are focusing harder on their processes on each car. I'd like you to listen to Coach Steve Privette explain how you can become more profitable by examining your processes on every repair order.

In the 30-plus years that I have been in the industry, I was told to focus on sales, sales, sales, and the profits will come. While sales volume is certainly

important, I realized one day that sales alone do not pay bills at all — gross profit does! I have coached shops entering our ATI program doing \$10,000 in weekly sales and making money, but also shops doing \$60,000 in weekly sales and losing money. Which would you rather have: a \$10,000 sales day at 20 percent gross profit (\$2,000) or a \$5,000 sales day at a 60 percent gross profit (\$3,000)? I know, the best answer is a \$10,000 sales day at a 60 percent gross profit (\$6,000)! You can see why I say both sales volume and gross profit are equally important.

How do I manage both sales and gross profit? I measure the things that affect and provide it. During the time I was a fixed operations director for an auto mall, I decided to start auditing my daily repair orders to make sure my service writers were doing all that they could to produce both sales volume and gross profit.

Auditing repair orders

I asked my service writers to leave that day's invoiced repair orders on my desk at the end of each day for review. Every morning I would arrive at work about a half hour early to review the prior day's business. I used a checklist derived from key performance indicators on each invoiced repair order from the previous day. I would highlight anything I found that either was not done or was done improperly. I would check all the important margins to make sure they were where our goals were with each. I would then return the highlighted invoices back to my service writers to review and justify why any particular item on the list was not to goal and/or standard. This was of course my way of holding them accountable to continue to improve and generate the gross profit dollars we require to run a healthy business.

When I first began doing this process, I was finding many things that required

follow up and attention. As time went by I found myself highlighting less and less. Could it be that my service writers decided to make sure they were doing it right the first time, knowing that there was going to be accountability if they didn't? Of course as I was highlighting less, the sales and gross profit were rising. Imagine that!

Auditing parts margins

A few of the things I would check were things like parts margin, labor margin, effective labor rate, and whether a courtesy check/inspection was performed thoroughly, etc. Doing this process daily was not very time consuming, but it was extremely important.

Checking the overall parts margin on a repair order is quite easy, as in most cases your point-of-sale software will provide you the parts margin. In the event that it doesn't, you would simply add all of your parts cost together divided into the parts sales you collected from the customer. So, if the parts sales were \$200 and your parts cost was \$100 then you would have a 50 percent parts margin.

Auditing labor margins

Checking your labor margin is very similar; however, many point-of-sale software programs will not automatically provide you this. Just calculate what your labor cost was on the repair order divided into the labor sales you collected from the customer. If your

tech is flat rate and gets \$25 per flat rate hour, and you credited him or her with 3.0 hours on this repair order, then your cost would be \$75 plus tax and benefit load (benefits, payroll taxes, 401k, uniforms, etc.), which is normally between 12 percent and 25 percent. Let's say in this case it is 20 percent, so \$75 multiplied by 20 percent = \$15. Add the \$15 to the \$75 and your total labor cost was \$90. Let's say the labor sales were \$180 to the customer. In this case, dividing one into the other would leave you with a 50 percent labor margin.

Auditing effective labor rate

How about checking the effective labor rate on the repair order to see what your customers are really paying for your time? This is also quite easy. You are tracking your technicians' produced hours, aren't you? If not, you need to start. Just add the total time the technician produced on the repair order divided into the total labor dollars the customer paid for it. As an example, let's say the repair order had a flat rate water pump replacement on it along with a menu/canned oil change and transmission fluid change.

Water pump: 3.2 hours

Oil change: 0.3 hour

Trans service: 0.8 hour

On this repair order, total hours produced were 4.3. Let's say the customer paid \$408.50 total labor. Dividing hours into dollars, this would mean the effective

labor rate for this repair order was \$95. If your door rate is higher than that, you may want to look into why you collected a lower amount. Some things are justified like coupons, warranty, etc. Other reasons are not justified, like discounting to get the sale, etc.

Auditing courtesy checks

Another item I am looking for on my repair order audit is whether we did a courtesy check/inspection, and if so, did we do it right? We always recommend a two-part courtesy check form so you can provide the customer with a copy and retain a copy with the repair order. Many shop owners are using the electronic tablet courtesy checks. Doing it either way will allow you to review to see if a courtesy check was performed and if it was performed thoroughly. How many times do we see a courtesy check done by a tech where everything is checked off as "good" while the vehicle has 120,000 miles on it? Obviously they are pencil whipping or table checking it instead of actually doing it properly. This is an extremely important item to audit, as I believe it is the most valuable tool you have in the shop.

Repair order checklist

You can start to get a picture of all the valuable information by performing a daily repair order review. If you would like a copy of the ATI daily repair order review checklist simply go to www.ationline-training.com/2016-09 for a limited time to download your own copy. 

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Chris "Chubby" Frederick, CEO



CHRIS "CHUBBY" FREDERICK is the CEO and founder of the Automotive Training Institute. ATI's 115 associates train and coach more than 1,400 shop owners every week across North America to drive profits and dreams home to their families. This month's article was written with the help of Coach Steve Privette. cfrederick@autotraining.net