

# Can you afford to hire great techs and writers?

Shops must begin raising their labor rate to remain competitive

Overheard veteran coach Brian Hunnicutt explaining to his 20 Group his feeling on the future of hiring and retaining great employees in the years to come. Brian began his talk by saying, "The topic that gets the most reaction from my clients when I bring it up is labor rate. It is always followed by silence."

What is your labor rate and why is it the rate that it is? What would happen if you increased it by \$25 an hour? \$50 an hour? Here you were just thinking that I was talking about \$2 or \$5 an hour, right?

The reason that labor rate is even a topic right now is because of your employees or the lack of great employees.

## Better benefits and pay

Let's see how this is going to play out as the lack of technicians becomes even greater. Who will have the best techs? Will it be the shop that pays them OK or the shop that pays them better than average? Is the average going to go up? I believe it is. So if you are supposed to make at least 60 percent on the labor margin and you have to factor in whatever your extra load is that

you are paying them, it stands to reason that the labor rate will need to go up.

## Effective labor rate vs door rate

Does your door labor rate match what you are really collecting per hour? What is your real or effective labor rate? Take your labor dollars and divide them by the hours you give your techs credit for performing — that is your effective labor rate. Most shops are around \$15 to \$20 under their door labor rate. Say you do \$10K in labor sales and you have a \$100 labor rate. You would need 100 hours to get your labor rate. But your techs got credit for 120 hours. Your labor rate is now \$83.34 an hour.

What do you charge for an oil change in labor? If you charge \$10 labor for the oil change, what credit do you give the tech who did it — .1, .3 or .5 hours? Unless you only gave them .1, your labor rate is not really your labor rate. You just lost .2 or .4 hours with the other responses.


So what is your effective labor rate? That is the number we need to use to see if you are in fact hitting the right 60

percent margin in your labor.

The type of shop you own or manage tells us how many hours per vehicle you should be shooting for. Quick lubes would love to have .75 hours with the huge car count. For tire shops and state inspection shops, the goal is 1.5 hours per vehicle. Regular auto repair shops are going for 2.5 hours and Asian and Euro shops go for 4 to 7 hours per shop, with Asian on the low end and Euro on the high end.

So a normal shop is 2.5 hours, and if you raised the labor rate \$25 per hour, then the normal increase to the customer would be \$62.50 on a 2.5-hour job. Is this a deal breaker? It is if you are selling price rather than warranties and benefits.

On a 10-hour job it would be an additional \$250, but the bill would already be around \$2,000. Is an additional \$250 a deal breaker? We may not be able to raise our rate to \$25 or \$50 an hour all at once right now, but we need to start moving it up if we are going to attract and pay the best techs and service writers.

If you are interested in a worksheet that will help you determine what your effective labor rate is, simply go to [www.ationlinetraining.com/2016-10](http://www.ationlinetraining.com/2016-10) for a limited time to download your own copy. 

## Stay the Best

**Our life-changing 1-Day Workshops are coming to venues all over the US and Canada!**

- The average attendee picks up 3-8% profit
- We've helped more than 25,000 shops over 35-plus years
- Rated the #1 management consulting firm in the industry by Frost & Sullivan

**ATI** Spots are limited. Find out when we'll be near you and sign up online at [atiworkshops.com](http://atiworkshops.com)

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 Brian Hunnicutt. [cfrederick@autotraining.net](mailto:cfrederick@autotraining.net)