

Why does labor profit matter to everyone?

Paying great wages with great benefits while staying profitable can be done

Over the last 40-plus years helping shop owners grow, the biggest challenge I see is consistently holding labor profit. Trying to make your customers, technicians and service advisor happy while remaining the best shop in your market can be extremely difficult. I was sitting in one of our classes listening to head coach George Zeeks explain how to do it, and I want to share his suggestions with you.

George began by saying: “I understand that everyone wants to make their dollars go farther — I do, too. The problem is when skilled professionals misunderstand that concept. Imagine that you have a brain tumor. Imagine that you went to get second, third and fourth opinions on your medical condition and made your final decision based solely on price. It may very well be your final decision! The same applies to auto repair and any other skilled labor situation. I get that medical choices and auto repair are not the same thing, but understanding what factors your customers are basing their buying choices on is fundamental to your success. The decision is and should be based on where they will get the best service at a fair price. If you are basing your business model on cheap prices then you will have to have lower wages to stay open. Then, it follows that you cannot have great technicians with a low pay scale. Poorly skilled techs make poor decisions and cars don’t get fixed. Customers share this information with other potential customers

and now you’re in trouble. The question is “How do I pay my staff a great wage with great benefits and still stay profitable?” The answer is much easier than you may think.

Charging the customer

The age-old debate between an hourly wage and the flat-rate system has been around forever, it seems. Hourly employees need to be motivated to produce at higher levels, and the flat-rate staff will race through the job just to make money. It’s a common urban myth that is sometimes true. Neither part of the argument is completely true or false. As usual, the truth lies somewhere in the middle. Based on human nature, everyone needs to have some type of incentive system to spur higher production while maintaining great quality control. The real issue is not how you pay your staff or how much you pay them. A basic problem is understanding what level of production you need from each employee to support their pay and holding them accountable to that standard.

TO KEEP ANY KIND OF PROFIT MODEL, WE HAVE TO HAVE TECHNICIANS AT DIFFERENT SKILL LEVELS AND APPROPRIATE PAY LEVELS.

The bigger problem is knowing what and how to charge the customer for that skilled labor. If you don’t charge enough, you’re out of business. Charge too much

and customers don’t return and you’re out of business. Fortunately, this question is not as difficult as it may seem.

Let’s look at the wide spread of services you provide to the public. They can start at the basic oil change, which many customers have become used to at a lower price point. The services continue all the way up to intermittent performance diagnostics, which the customer expects you to fix the first time, whether you are able to reproduce the problem or not. Doctors don’t have that same problem. If they see you again it is because you need additional tests, which people gladly pay for. Well, almost gladly.

This means that to keep any kind of profit model, we have to have technicians at different skill levels and appropriate pay levels. The problem here is how do we pay the technicians what they need to make and still make a profit to keep the doors open. Let’s start with the entry-level technician. This is typically a lower-wage position and many owners feel it is not possible to make money off a lower-skilled technician. Too many times they get relegated to the role of janitor when they don’t have work to do, and it becomes part of their job. If that’s you, then you’re missing the point.

Training and profit are the two keys to grow this employee. Whenever possible, this person should be working on learning new things and growing their skill set. It pays off for them and for you. Many times people talk about how hard it is to find a good technician, and yet they

don't have a training program in-house to make their own people better. This is especially true for the entry-level tech.

A quick way to pick up extra work that the customer needs and that will help make the position more profitable is tire rotation and balance. Check your invoices and see if a minimum of 50 percent of your oil changes have tire rotations attached to them. If not, you're losing opportunity for profit and growth. The customer needs the service and you may not be providing it. Next, look at the rotations and the brake inspections. For those of you who have a tire balancer, try taking the worst tire from the car and checking the balance. You don't have to check all of them, just the worst one. How many are out of balance? You will probably find that around 90 percent of them need to be balanced and the customer just doesn't know. If you save your customer money on tires, they will love you for it. It never hurts to make a little profit while you're doing the right thing.

Book time isn't real

Now let's go to your A/B technicians. We all understand what "book time" is for repairs. The problem, at least here on the East Coast, is that winter plus salt plus rust means that the book times are not real anymore. Look for those things and build them into the estimate. It's better to quote it upfront and then take it off the bill later if needed than to try to add it after the fact, when you have to torch off a bolt due to excessive rust. Look at the age of the cars you are seeing. This will continue to be a problem far into the future. This is a necessary topic for discussion in the shop and will help everyone, including your customer. It's not a perfect solution, but it's a great place to start.

Another problem in the productivity and profit department is the amount of

time, knowledge and equipment that it takes to do the repairs. Take, for instance, a heater core replacement on a late-model F-150. In some cases, the dash has to come off. This takes a higher level of skill, which, by the way, you are paying for. Then we have all the extra little annoying problems that come up. The retaining clips are old and some will break. Now we have to order new ones. This costs us and the technician productivity and money. What about very technical issues when replacing difficult parts or sensors? Again, we have extra costs. Your scanner is one of the most expensive items in the shop and has to be updated on a regular basis. We have information costs to provide the latest, up-to-date information on repairs and service alerts (TSBs and pattern failures). Not to mention the cost of having a high-level technician capable of doing the repair right, the first time.

Effectively using labor matrixes

A way to make sure that you are able to pay for all the things involved in these types of repairs is a labor matrix. Almost all the dealerships in the country use this and most of the independent shops as well. The labor matrix factors the amount of time on a difficult job and increases the labor rate per hour. This way, your extra costs are covered, since you are using your most expen-

sive technicians and your most expensive equipment with an increase in risk. You simply plug in your labor rate and the increase that you want to see. Most shops will have a factor increase of 2 percent. On a two-hour job, with a normal labor rate of \$100, the matrix would increase the cost of the repair to \$210. In that case, you are collecting only \$10 more (or \$5/hour) than you would have normally. In the case of a five-hour job, the total would be \$555, or \$5.55/hour more than you would have normally charged. As a consumer, I want things that are fixed right and that will last. I'm willing to pay a little more to have the right person do the right job. You need to have the money to be able to attract the right people to do that job. The sad part is that if you don't, someone else will. Where does that leave you?

If you would like a copy of ATI's Labor Matrix for your shop, simply go to www.ationlinetraining.com/2016-11 for a limited time for your own copy. 



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