

Know Your Numbers

By Bob Cooper of Elite

Over the last 25 years I've been amazed to discover just how many shop owners are lost when it comes to knowing and understanding "the numbers". In order to build a successful auto repair shop, you are going to need to know two sets of numbers: your "financial" benchmarks, and your "operational" benchmarks. Without a clear understanding of these benchmarks, it becomes quite challenging for shop owners to pinpoint where they are falling short of their goals, and where improvements need to be made. Far too many times I've seen shop owners finally start monitoring these numbers closely, and quickly realize that for years they haven't been charging enough for parts, have been overpaying their employees, have been operating inefficiently, etc. There's no doubt about it: A clear understanding of your shop's financial and operational benchmarks is critical to effective auto repair shop management.

Since your part cost is one of your largest expenses, it's something you need to monitor continuously. At Elite, our top clients spend no more than 52% of the dollars they bring in through their part sales, on part cost. This means that if they bring in \$40,000 in part sales by the end of the month, the cost of those parts should not exceed \$20,800 ($\$40,000 \text{ in part sales} \times 52\% = \$20,800$ part cost.) If you find you are spending more than 52% of your part sales on part cost, then you need to take a good hard look at how you price your parts, any parts that are being replaced at no charge, your warranty failures, purchasing habits, and the possibility of theft.

When it comes to your direct labor (the cost of your techs), the top shops we work with spend no more than 40% of the dollars they bring in through labor sales, on technician pay. This means that if they bring in \$40,000 in labor sales by the end of the month, their technician payroll does not exceed \$16,000 ($\$40,000 \text{ in labor sales} \times 40\% = \$16,000$ labor cost).

You also need to pay close attention to the cost of your service advisors, and here at Elite, we like to see that number at no more than 8% of your total part and labor sales. For example, if your shop generates \$80,000 in

monthly auto repair sales, your advisors should not be costing you more than \$6,400.00 ($\$80,000 \text{ total sales} \times 8\% \text{ target} = \$6,400$ advisor cost).

You'll need to watch your "operational" benchmarks very closely as well. One key indicator is your labor hours per repair order, and our top clients consistently generate at least 2 - 2.5 hours of labor sales with their average repair order. If you are not seeing 2 - 2.5 hours per repair order at your shop, you need to review your vehicle inspection process, what's being recommended to your customers, and the declined services.

And then lastly, after you pay all your expenses, there's the money that is left over for you. In business we call that profit, and the top shops will typically earn a profit of 15 - 20% of sales. So if your shop is generating \$80,000 in monthly sales, in most cases, you should be able to earn \$12,000 - \$16,000 per month in taxable income. The good news is, if you know your numbers, and if you never put money ahead of people, you should be able to generate these profits in a professional and ethical way.

"Since 1990, Bob Cooper has been the president of Elite (www.EliteWorldwide.com), a company that strives to help shop owners reach their goals and live happier lives, while elevating the industry at the same time. The company offers one-on-one coaching from the industry's top shop owners, service advisor training, peer groups, along with sales, marketing and shop management courses. You can contact Bob at contact@eliteworldwide.com, or at 800-204-3548."

