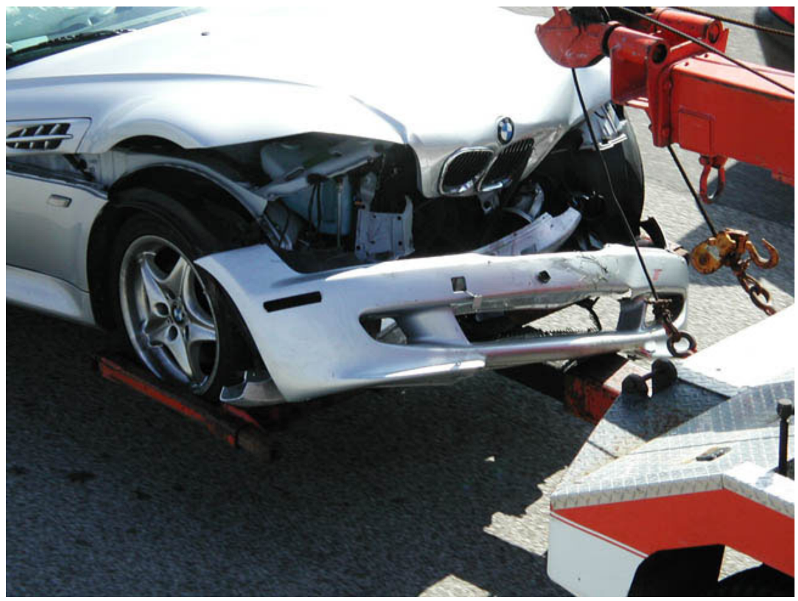
Benchmark of the Month

Sublet and Towing Profitability Improvement

by Tony Passwater



As we finish our examination of the basic benchmarks you and your business should be tracking and responding to each day, week and month, this month's issue on sublet and towing profitability improvement should complete your better financial understanding of your business and improvement goals.

Since these two remaining typical profit centers only constitute a very small percentage of your total revenue, great effort can't be spent on them that would be better spent on the other profit centers discussed in the prior three

***e-BSB* articles. I realize that every "penny" counts, but too much time spent on these won't provide the return as would working on parts, labor, or paint and materials profitability.**

If you haven't read the prior articles, I highly suggest you do so before reading this arti can review the previous articles at *http://www.aeii.net/published.html* or at *www.bodyshopbusiness.com.*

The Target

Since the most common transactions in these areas, by definition, aren't performed internally company or staff, they're often just payments made for services performed by a person or cor for the vehicle, on behalf of the customer.

This payment is typically made to the vendor or provider of the service, and an expected "mar calculated on the estimate or final bill to compensate for the outlay of monies for the services. Typically the industry has used anywhere from 10-25 percent for these "markups."

For these profit centers, we suggest targeting a 25-30 percent gross profit percentage.

Knowing What Markup Is Not

One of the interesting observations we've identified is that many shop owners and managers, as insurance personnel, don't know the difference between a 25 percent markup versus a 25 gross profit.

You should make sure what your target for gross profit is going to be first, and either use the appropriate markup if your estimating system only allows markups or set your systems to use profit to determine pricing.

What's the difference?

For example: You buy a part from a vendor, and there's a "list" and "net" price.

The part lists for $150, and your agreement is to get a 35% discount.

$150 x 35% = $52.50. Your cost is $97.50.

This provides you $52.50 gross profit dollars or a 35% gross profit percentage.

Now markup: You buy a LKQ part for $97.50, and your agreement is a 35% markup.

$97.50 x 35% = $34.13. The list you use on the estimate is $131.63.

This provides you $34.13 gross profit dollar or a 25.93% gross profit percentage.

As you can see, markups and gross profit aren't the same. To obtain the gross profit percenta want, divide the cost of the item by the difference the gross profit percentage desired is from ' percent.

If you want 25% gross profit from an item, divide the item cost by .75 (1.00 - .25)

Item Cost = $100. Divide by .75 = $133.33. This will give you a 25% gross profit.

Accounting Distribution Practices

Proper paint and material distribution is often badly done as mentioned in the last article, but s sublet. There are many reasons this happens, but mostly it's the lack of either understanding commitment to ensure that income and expenses are reported properly.

Often items are listed in the sublet column for the revenue, but the costs are charged to anoth account when the purchases are accounted for. The following are but a few examples commo reviewed:

- Front end/four wheel alignment revenue in Sublet but costed in Mechanical Labor (or vice ve

- Reconditioned parts revenue in Sublet but costed in Parts (bumpers, radiators, mechanicals

- Cover car, tint, hazardous waste, undercoating in Sublet revenue but costed anywhere else.

- Glass replacement revenue in Sublet but costed in parts, glass labor or other.

- R&I time for back glass or quarter glass paid to technician but glass company invoice in subl

The list goes on and on. The key is that if you're going to accurately track profit centers, you M make sure the revenue and costs are being distributed properly.

So what's stopping you? Generally, there are some initial limitations to software in both the estimating systems and management systems on how they handle certain items. But ultimate the job is closed, the final bill needs to reflect the proper accounting distributions.

We've worked with clients on many occasions to ensure this is done. Otherwise, the financial statements are just garbage, and doing proper comparisons for improvement is impossible. Tl critical practice of proper distribution is the key to getting a better financial handle on the busin is relevant to all profit centers.

For example, if reconditioned parts in the sublet column are inputted into the sublet revenue department while the invoices for these items are entered into the Parts Cost of Goods Sold (— because the person manually entering in the invoices doesn't know if on the specific repair the items are revenue in parts or sublet — the profit percentages for both of the departments affected.

Since, in many cases, the rules of each work provider differs on these, it takes a committed effort on the person closing the file or creating the final bill to make sure the distribution is correct. We've suggested creating a hand stamp or an "Accounting Instruction"

Reviewer: ____________________

Date: ____________________

4000.00 Parts: $ __________

4100.00 Metal Labor: $ __________

4200.00 Paint Labor: $ __________

section on the file that must be completed to demonstrate that it's been reviewed and completed. The sophistication of this would be based on the accounting detail of the client's system and personnel. As an example:

4300.00 Mechanical Labor: $ _________

4400.00 Frame Labor: $ _________

4500.00 Paint/Materials: $ _________

4600.00 Sublet: $ _________

4700.00 Towing: $ _________

2700.00 Sales Tax: $ _________

Total Sale: $ _________

Then, when invoices are received, the proper COGS account must be used to ensure it matcl where the revenue is going. This becomes challenging, but it's still achievable if invoices from specific vendor can be distributed into different accounts based on an individual repair order c provider.

What to Do?

The first thing to do is to begin the transition to gross profit percentage from the typical marku explained earlier. This will generally meet resistance from just about everyone, including work providers, since your market area has been doing it the "wrong way" for 50 years. You need t educate your marketplace to assist in updating these practices.

The next approach is to do a better job when looking at your options for suppliers of these ser Make sure you're utilizing the best performers in your area to "sublet" services you don't do in These negotiation points relate to the following:

Timely Service: How easy is it to get our vehicles done?

Competitive Pricing: Are prices competitive and appropriate for the market?

Quality of Service: Are the vehicles done accurately?

Convenience and Location: How easy is it to do business with them?

Additional Services: What will they do for your business?

Terms: How are invoices and discounts handled?

Use the same approach we suggested with part suppliers: Negotiate an agreement of the bes the above. Make sure that you consider all the factors and that you put them on the table for discussion. It pays to do this every year.

You should also analyze how much volume for each of these specialized services you purcha year and consider if it's better to bring them "in house." Some may and some may not financia make sense. But you may also open up an additional service and revenue area you hadn't co in the past.

You'll also need to consider your costs associated to taking these vehicles to the sublet vendo don't have them picking up and delivering. (Yes, they pick up and deliver too!)

You should always weigh the cost of being competitive to the quality of the service you receiv makes very little sense to contract with the cheapest service only to have consistent comebac result. These all add costs to your operation, which probably don't show up in the typical "ben for these services — but they kill your bottom line.

Once you've decided on these areas, including additional service, the terms are the most criti this discussion. Many work providers and your market area only allow a set markup (or no ma these services, such as towing. The terms are critical then to offset this "constraint."

Insist on having a 30-day account established that when paid by the 10th of the following mor you're able to take an accounting discount of 15-20 percent (or more if appropriate). This give incentive to pay your bills on time and to hit the gross profit targets discussed here.

Towing and Storage

It's important for you to determine your rate for inside and outside storage. This cannot be dor collusion or illegal setting of prices by a group of shops, but you do need to determine what th market rates are.

You also may have agreements in place that limit your invoicing of storage for a set period of Make sure to revisit this to ensure that a reasonable time frame is being considered and that delinquent cases are invoiced as well as paid by whomever picks the vehicle up.

In this review, also consider the administrative costs that may be charged for vehicles disman total loss assessments, etc. Don't give it away if not agreed to.

If you have a large storage capacity, look to partner with a towing provider. Get the vehicles th and make the property generate some revenue. If you have very limited space, your storage r should reflect this since your space is more valuable. Storage revenue can be very consideral go a long way in improving this profit center.

Where Does That Leave Us?

To date, we've ventured through the typical profit centers that are commonly benchmarked. W discuss a few other areas such as detailing, additional services or car rentals. They're not nor benchmarked, but they do add to the overall profitability of your business when implemented p

I'll be presenting a new program at NACE this year in Las Vegas, on Nov. 3 at 10:30 a.m. to 1 on this area called, "Finding Additional Profit Centers — A Must for Today's Business Future." encourage you to join me.

In summary, we've reviewed the basic gross profit targets you should be considering for your business. These are but the beginning, and they require consistent and accurate measureme utilized.

We work with shops worldwide to assist owners and managers to understand not only what th mean, but how to effectively measure them, manage them and improve them. These articles s have provided a toolbox full of tools for you to use in this process of improvement. But the key be: What will you do differently tomorrow than you're doing today? Can you afford not to do something?

If you need assistance, contact me directly, go to our Web site at *www.aeii.net* or go to BOSs at *www.TheBOSs-Online.com.*

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We Want Your Feedback

This *e-BSB* feature is the fourth in the series. I ask you to provide me feedback by e-mailing your comments and questions to *Tony.Passwater@aeii.net.*

Coming Next Time ...

We'll begin to focus on how each of these profit centers anc relate to total sales of your company, what these benchmark to your business and what targets should be placed on th