Benchmark of the Month

Sales and Costs Breakdown

by Tony Passwater

Our examination of the basic gross profit benchmarks has ended, and now it's timely to begin looking at each of the profit centers as compared to total sales and their costs related to total sales.

You should be tracking and responding each day, week and month to the profit levels of each of the profit centers we've reviewed so far. This next set of benchmarks (which we're about to cover) are usually reviewed on a monthly or quarterly basis using the Profit and Loss Statement.

In the past articles, we examined the targets that are commonly considered for gross profit in each profit center. We're now focusing on what percentage of the total sales these profit centers represent regarding both revenue and expenses.

Why Is This Important?

First, if you have a specific profit center that you make a very small margin of profit with and it becomes a major percentage of your total sales, your total gross profit will be reduced even to the point where you don't make enough gross profit dollars to pay the bills.

Second, by understanding what distribution other successful repair facilities normally achieve, you'll be able to better analyze your distribution in a comparative sense.

For example: You make 60 percent gross profit on labor and 5 percent on parts and materials.

Job 1

Total Sale: $1,000

Sale Breakdown:

In this example, if this was your average distribution for your sales, to stay in business, you better do a lot of

Parts $900

Materials: $50

Labor: $50

$900 x 5% = $45 (Parts)

$50 x 5% = $2.50 (Materials)

$50 x 60 = $30 (Labor)

Total gross profit dollars: $77.50

Gross profit percentage of: 7.75%

volume to generate enough dollars to pay the bills.

In this case, the percent to sales for each profit center are:

Parts: 90% (Sale/Total Sales = 900/1.000)

Materials: 5% (Sale/Total Sales = 50/1,000)

Labor: 5% (Sale/Total Sales = 50/1,000)

This is a very extreme case, but just imagine if the whole month, quarter or year were filled with this type of job?

The Targets

From examining thousands of Profit and Loss Statements, we've identified targets for each profit center that successful organizations perform at. As with any target or benchmark, there are variations based on a specific shop due to many factors.

Variations can include:

Type of vehicles: Prestige vehicles generally have higher priced parts.

Type of work: Performing fleet/dealer work may increase your labor percentage.

How sales are distributed: Is everything itemized or grouped (labor to include some materials)?

Typically the percentage to sales track as follows:

Metal labor*	27.50%
Paint labor	17%
Parts	39.70%
Paint/materials	10%
Sublet	3.30%
Towing	1%
Other	1.50%

*Metal labor is the combined total of body, frame, structural and

Metal labor is combined because tracking the individual profit departments isn't done consistently enough to allow for individual analysis. Body labor in itself usually tends to track at 22.50 to 23.50 percent.

In our example, that specific job was outside a normal distribution. Again, if that job were "typical" for that business, that shop certainly couldn't function the same as other collision repair businesses.

In the example, the business would need to re-think how it was going to provide its service. A typical collision shop has very definite fixed expenses from the building, equipment and administrative/management staff. And all these need to be paid from the gross profit dollars generated by each job.

Our example, however, may better represent a mobile glass service that has no office or administrative staff. I'm not saying this is the model for our example, but I want you to see that distribution (breakdown) of the sale is important.

mechanical labor.

Costs to Sales

The other side of the equation looks at your costs for each of the profit centers compared to the total sales. This tends to allow for different-size operations to compare themselves.

Typically the costs to sales track as follows:

Metal labor*	9.63%
Paint labor	5.95%
Parts	26.20%
Paint/materials	5.10%
Sublet	2.80%
Towing	1.62%
Other	1.05%

*Metal Labor is the combined total of body, frame, structural and mechanical labor.

In our Job 1 example, the costs to sales for each profit center are as follows:

Parts: 85.50% (Costs/Total Sales = 855/1,000)

Materials: 4.75% (Costs/Total Sales = 47.50/1,000)

Labor: 2% (Costs/Total Sales = 20/1,000)

This may give you a false sense of assurance since your costs for materials and labor are better than the typical industry targets. This can be a good sign, but you need to analyze the total picture and note that parts are, again, way out of the normal range.

This variation also changes the dynamics of cash flow. We'll look at this area more in-depth in the future, but this cost example makes it very important that your revenues (accounts receivables) are kept in tight control.

The terms of the materials and parts are also critical. It would be important to not be on COD for obtaining the parts in this example and waiting 60 to 90 days to collect the revenue. Since your total gross profit is a mere 7.75 percent, the money you'll need to pay the bills until the revenue is received certainly may be used more profitably elsewhere. If there were a high percentage of non-collectables, then the business would continually be in a poor cash flow position (more on this in a later article).

Implementing Improvements

Improvements aren't as straightforward as looking at earlier gross profit targets. This analysis does, however, show where your efforts for improving gross profit will improve the bottom line the most.

As I stated in earlier articles in this series, focusing on improving gross profit on your sublet profit center may often not be your best choice when it typically only represents 3.30 percent of your total sales and only 2.80 percent of your total costs to sales. But, also as stated before, everything is important.

Proper prioritizing, however, will give you the best return for your efforts.

The improvement order to look at is parts first, then labor, then paint and materials, and then sublet and towing.

Most often, paint and materials are looked at first because it's easier to "beat up" on the paint jobber or manufacturer than it is the part suppliers or than it is to improve profitability of labor.

Take the time to revisit the past articles that outline the improvement plans and ideas for each profit center. If you haven't read them, go to *www.bodyshopbusiness.com* and click on *e-BSB* Archives. Or you can go to my Web site at *www.aeii.net/published.html.*

Getting Started

Many times, we find improvement happen in this area by working with the estimators and parts managers through on-site, one-on-one training programs. Often these levels are improved significantly through better training and procedures to follow.

One thing is for certain: If you don't measure and monitor it, you can't manage it or improve it.

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

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

All the benchmarks we've discussed so far are achievable. Ask yourself what achieving or exceeding these target benchmarks will mean to your business and profitability.

Can you afford not to do something?

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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 ...

Our next article will begin to focus on benchmarks related to facility utilization and employee to sales ratios. We have more than 40 benchmarks to go!