



In this issue:

- Upcoming Classes 1
- Tire Profits vs. Service Profits..... 1
- Polishing A Meadow Muffin2
- Leadership Article..... 3

Sam's Corner:

- Chubby's Masterminds . 4
- Seven at the Top..... 4



Upcoming Courses:

Shop Owners

- August 7-9 1
- August 21-23 1

Service Managers

- August 10-11 1
- August 14-15 1
- August 28-29 1
- August 30-31 1

Annual Advanced Owners Class:

- January 18-19 1
- Scottsdale, AZ

Tire Profits vs. Service Profits... Show Me The Money!

By Chris Frederick



Last month I wrote that this article would discuss ATI's 21 ways to increase tire profits. Instead, let's put that off until next month in order to understand that tires will always be more profitable than service.

First, thanks to all the Tire Review readers who responded to last month's article. It was the largest response to any article I have ever written! Some readers expressed concern that tire manufactures had gotten to me, possibly influencing me to favor tires. Truly, the fat boy can't be bought. I was simply wrong! It can be tough to learn new things because we all create belief systems based on what our mentors taught us. I would guess that a substantial majority of the 186,000 independent US shop owners don't realize that tires are more profitable than service. Most got into the tire business not for the money, but in order to offer their customers one stop shopping.

Let's compare the profits from a well performed hour of service to an hour of tire

replacement. For the auto repair hour, we will use a B Tech earning \$18.00 per hour with a 33% tax and benefit load. We will use the 53% parts margin generated by the ATI parts matrix and a very conservative labor rate of \$65.00 per hour. (Even if we used a higher labor rate - \$90.00, for example – it wouldn't make much difference.) Since most shops



have a 50/50 parts/labor mix, we will calculate one hour of labor and an equal volume of parts as 2 times the labor rate. Figure 1 illustrates the net profit on a \$130.00 sale.

Auto Repair

\$65 Labor Rate x 2 = \$130 per hr
• \$130 Sale

\$65 Labor \$65 Parts
- \$23.94 Tech - \$30.55 Parts
\$41.06 Labor \$34.45 Parts

Net Gross Profit = \$75.51 Per Hr

The result is a net gross profit of \$75.51...a great hourly return on auto service at 58% gross profit.

On the tire side, we will use 25% profit margin for the rubber, then add balance, valve stem, disposal fee, and tire protection plan. Our general service technician earns \$8.00 per hour with a 50% tax and benefit load. Again, it wouldn't make much difference no matter how much we pay him. Figure 2 shows the gross profit on the installation of one tire:

Tire Sale

	Retail	Cost	Gross
<u>Tire Unit</u>	\$79.95	\$60.00	\$19.95
<u>Balance</u>	\$9.95	\$1.00	\$8.95
<u>Valve Stem</u>	\$2.95	\$.25	\$2.70
<u>Disposal</u>	\$2.00	\$1.00	\$1.00
<u>Road Hazard</u>	\$8.99	\$.18	\$8.81
<u>Tech Labor</u>	\$0.00	\$1.50	(\$1.50)
Totals	\$103.84	\$63.93	\$39.91

The replacement of a single tire produced a profit of \$39.91. Four tires would yield \$159.64 in gross profit. As most professional installers can install a set in 30 minutes, **our installer could replace 8 tires an hour for gross profit of \$319.28...in one bay.** Even if he was only able to change 4 tires an hour, it would still generate twice the profit of an auto service hour. Our example demonstrates that the profit from tires is nearly 5 times higher.

Road hazard cost was calculated at 2% of sales from our clients' experience

Continued on page 2

Continued from page 1

measuring this very important Key Performance Indicator (KPI). (Good salespeople can sell road hazard warranties 75% of the time. We mark 50% as minimum acceptable performance training service advisors). Track the sales of all tire sale components every day for every service advisor to maximize profits; we measure 8 tire KPI's. If you don't measure it you can't manage it...right?

How Much Per Hour

- **\$39.91/** Tire Gross Profit x 4 Tires = **\$159.64** (30 Minutes)
- **\$319.28 per hour In One Bay!**

So, why has the tire business been so underrated over the years? To start with, consultants like me have been teaching gross profit percentages all our lives. From that perspective, the 58% service gross profit would well exceed the 39% from tires. However, in margin dollars- what we pay our bills with - tires will always win. Plug in your own numbers to see that tire gross profit dollars are substantially higher for the time.

In review, though service gross profit margin percentages are higher, tire gross profit dollars are substantially higher!

Let's Compare

- Auto Repair = \$75.51 Gross Profit Per Hr
- Tire Sale = \$319.28 Gross Profit Per Hr

Next month, we will begin to explore 21 ways to increase tire profits, including best practice benchmarks and Key Performance Indicators (KPI).



ATTENTION SHOP OWNERS AND MANAGERS:
If you have something you would like to share,
e-mail your coach or ATI at
office@autotraining.net.

Polishing A Meadow Muffin – Shine Versus Time

By Brian Canning



As an industry we are generally terrible at interviewing & hiring and compound this failing by holding on to bad employees. We ask poor questions, we hire out of desperation and fearing to be without, we hold on to employees that do not begin to meet our needs or expectations. It is almost a miracle that we ever end up with capable, appropriate employees and too often this is the result of chance and not process. A formal hiring process, a clear job description and a system of progressive discipline will all help us, but a willingness to pull the trigger might serve us best of all.

Whether it is a staff of unproductive technicians or a service advisor that is falling short of expectations, we need to make every effort to bring them into the fold or recognize that we have a bad fit. We need to see genuine effort to achieve, improve and excel or we need to renew our search. Once we have defined the job, set expectations and provided training, it is reasonable to expect performance to that standard. There will even be occasions where we will have to revisit the job and redefine our expectations but at a certain point we need to recognize when our employees are either incapable or unwilling to do what we have asked and we either accept something less or find somebody that will give us what we are asking for. Owners have worked very hard over the years to settle for something less. There are rough stones out there that we can work with and polish and make into gems. There are even rougher stones out there

that we can work with and they too will eventually shine. Then there are rough stones out there that are just rough stones. No matter how hard we work, no matter how hard we polish them, they will never shine. Strive to find the gems or near gems and discard the rough stones.

I have a wonderful client from the Mid-West who has suffered with a service manager that is unmotivated and a drain on the operation. To my client's credit, he has recognized these shortcomings and has pushed ahead with necessary changes despite this key employee resisting and even impeding the effort. Again to my client's credit, he has now drawn a line in the sand and expects change or he will hire a new service manager. This has been an ongoing challenge and it took many months for the client to recognize what was happening, accept what he needed to do and finally act on the issue. In his head my client knew that we needed a new approach and that the service manager was the issue. It is extremely difficult to set aside a thirty year relationship. In the end it was the client's passion for his business and his determination to upgrade the operation that got us moving in the right direction.

Whether it is a long term employee who just isn't getting the job done, or a short term employee who hasn't lived up to our expectations, we very typically have a hard time coming to grips with the need for a change or improvement. We have one-on-one meetings, we back off on our expectations and we make excuses and allowances for their inabilities and shortcomings. We even give raises and accept their

minimal efforts and allow our goals, vision and viability to fall by the wayside. Worst of all, we keep polishing and coaxing, convinced that we can make them shine. Though neither money, nor motivation has made any difference in this person, we continue to hold onto false hope and we continue to polish and we continue to waste our time. This muffin will never shine. It is likely that this person is driving customers away and just as likely that your business is suffering reduced sales, profitability & productivity because you are employing this person. It is time to take action to resolve the issue.

As a result of your efforts over the weeks and months, you have given this employee every reasonable opportunity to improve their performance. They have elected not to listen nor take advantage of training opportunities but rather they have elected to do their own thing. It is now your job to show them the door back into the free enterprise system. Make the extra effort and take the time to find yourself the right employee and let our under achiever find happiness elsewhere. To whatever degree possible, hiring and firing needs to work for us and we must begin yet again to explore our options the moment we are aware that we have the wrong employee. This is an urgent call to action, not a time to procrastinate. Never give up on finding the right employee and try to never settle for less. Your business goals and livelihood demand the very best and this is especially true when dealing with staff.



Inspired Leadership...Wrapping Your Package

By John Lewis



Car count is a marketing challenge and because of a huge number of requests I am going to address the marketing process in a series of articles starting with the fundamentals and ending with unique tips to increase the return on investment of your advertising.

The way you wrap your package is part of the solution to the car count challenge. What I mean by "Wrap your package" is how you, your employees, and your facility look, behave, and perform. Visiting many shops around the country makes several commonalities brutally obvious. Too many business owners have a lack of foresight and do not give enough thought or invest that extra 10% into the appearance and ambiance of their shops. This extra care could give them a tenfold return on their investment.

In today's very competitive business climate, being unique and different have never been more important. To begin, take a hard look at your 'package' with a jaundiced eye. I mean get out a clip board and make a list of every single thing about your 'package' that you feel could be improved. Then have your wife or mother do the same. When done, I suspect you will be shocked. And that's a good thing because it will help you get motivated to do something about it.

Let's start with the front of your shop and the parking area. If the parking area is merely asphalt, how about installing some concrete or brick planters bordering the asphalt where shrubs and flowers can make

things more friendly and inviting. If the front of the building is cinder block as many shops are, some siding and maybe a little brick or stone work can be done very economically (if you have a tight budget you should make the folks at your local Home Depot, Lowe's, etc your best friends). One caution on color; stay away from green as for some strange psychological reason it is offensive to some people in a business environment. White or



cream are good safe colors and use warm friendly pastels for accent. You want the exterior of your shop to be a warm inviting place.

Your reception area design is critical. Work stations should be designed so that your customer and your service advisor can stand or sit next to each other rather than being separated by a counter. Counters are dividers. They separate people from each other and make it more difficult to create a warm relationship between customer and advisor. All books, manuals, and paper work should be placed in files, cabinets, or book cases.

Your service advisor should wear slacks (never jeans or shorts) and a starched, pressed long sleeve shirt (stay away from knit golf style shirts as most of them look worn and faded after a few launderings)

with your logo on the front. All employees (including yourself if you are working in the business) should wear this style 'uniform' and a name tag to make it easy for your clients to identify your employee's.

Your waiting area should get the most attention. I have seen too many that look like the inside of a bus station. For some ideas on decorating this area, think 'den' and Starbucks. You want a warm and friendly atmosphere, a place where you would gladly spend the day. With a little money, thought, and effort, you can create a mini Starbucks atmosphere with coffee, tea, and hot chocolate in thermoses along with fresh cookies and some fruit. A mix of current magazines (*Cosmopolitan to Car & Driver*) in a display rack

along with your accessory catalog is a must. A toy box for children is also highly recommended. Yes, it will cost a few extra bucks every day but the effect it will have on your customers will be priceless. A flat panel TV playing DVD's of recent movies peppered every twenty minutes or so with commercials for your services, tires, and the accessories you sell would be icing on the cake. Make sure you keep techs out of this area for a multitude of reasons. It is exclusively for spoiling your customers and exceeding their expectations.

While you're at it, have your wife come in and redo that awful rest room so it looks like the bathroom at home; the nicer the better. Your customers will be blown away and actually tell their friends what a nice rest room you have and what a great experience it is to have their car

serviced at your 'very unique' and customer friendly shop.

For those of you that are cynically thinking that all the above is a waste of money and unnecessary in order to be in the automotive service business, may I quote Oscar Wilde who once defined a cynic as "someone who knows the price of everything and the value of nothing."? May I also suggest that this investment is part of your customer retention program, vitally important to your image and to the way your customers think of you? Stop thinking of your shop and business as a place where people get their cars serviced and start thinking about ways you can make it a "make people happy car boutique" where your customers can have a wonderful experience being pampered and pampering their cars. Like the folks at Disney, become an Imagineer. Think unique!

In the next issue, we are going to start addressing marketing from the perspective that most of us see it. The black art (some would lead you to believe it's a science but it is not) of creating strategies and campaigns that actually bring in new customers for the first time as well as strategies to retain and bring current customer back more often. We will start by addressing the most important piece of this mysterious puzzle. You! You and how important the way you perceive things (belief system) affects your ability to sell market your services. Among the many things we will learn will be that doing the wrong thing can very often be the right thing to do when marketing. Have a wonderful prosperous month and lead on.

Sam's Corner: Chubby's Mastermind Club

By Chubby

On June 1st and 2nd, we held our first Mastermind Meeting with 18 of the most successful ATI clients in the U.S. These owners shared their best practices and time to help all of us learn the best ways to attract new customers, increase profit, retain key employees, fight the new car dealers, retain customers and work on your business not in it. These owners

are extremely passionate about their business and our industry. I want to personally thank all of the Mastermind members for contributing so much to each other and all of us at ATI.

We are all about listening to you to help learn new ways to help you grow. I have a personal commitment to make ATI a product driven company not a sales driven company.

That means we are committed to being the best training and coaching company in the U.S. We will all grow together and with integrity, honesty and a win/win for all.

[A Special Thank You To:](#)

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Bill Ferguson
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Ginger Griffin
Dean Wright
Scott Osborn
Steve Ammazalorso
Doug Hillmuth
Billy Hillmuth
Kim Krietz
Charlie Krietz
Tony Klis
Harry Simon
Bruce Nation

Seven At the Top, *Congratulations to All!*

This Month's Winners are:

Steve Wager

Steve's Intermountain Service Ctr
395 S. State Street
Provo, UT 84606

Richard & Scotty Garrett

Butner Car Service
202 Central Avenue
Butner, NC 27509

Willy Hess

Waldorf Ultra Service Ctr
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Dave & Jan Murphy

Murphy's Auto Care
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