



How to Maximize Your Diesel Repair Shop Profits

A Highway & Heavy Parts White Paper



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How to Maximize Your Diesel Repair Shop Profits

Like many other businesses today, getting the profits you need is a challenging undertaking for most diesel repair shop owners. The multitude of factors and variables involved in running a repair shop can make it difficult to hit the profit numbers required to not only sustain, but to grow the business.

Many owners make the mistake of focusing on increasing sales when they begin to see their revenue slipping. While this is an important long-term strategy, it almost never solves the problem in the short-term. A better approach is to take a good look at all the areas of the repair shop that you can improve on to help increase your profits.

In a diesel repair shop, there are essentially four factors that directly impact profits. These factors are: Efficiency; Labor; Parts; and Overhead. By analyzing these factors closely, you will most likely discover some things you can do to lessen their impact on your profits. In this paper, we will review each of these factors individually.

Improve Efficiency to Maximize Profits

It is estimated that as much as 80% of the time associated with a typical repair job is non-billable. This means that there is a huge opportunity to increase your shop profits through efficiency improvements. The more efficient your technicians are, the faster they will complete their work, allowing them to do more work, making your shop more money.

Making your employees more efficient doesn't mean making them work harder. It means providing them with the necessary tools, resources and processes to do their work more effectively. This requires putting in the time to thoroughly review your current workflow processes. Analyze every aspect of the process to identify the things that can be improved upon. Look for time wasters and ask questions. Are the necessary tools well organized and easily accessible? Are there any communication gaps? Is there too much paper work involved? Who's waiting on whom? Can tasks be re-assigned to even out the workload? Making workflow improvements will not only make your employees more productive, it will relieve them of the frustrations caused by the inefficiencies, thus boosting their morale and making their work more enjoyable.

Take a good look at how your processes overlap multiple departments. Your processes are only as good as the weakest link in the chain. Does everyone involved in the process give it the high degree of respect and importance it deserves? Do they all follow it with the same amount of enthusiasm and urgency? Do they fully understand the ramifications of not following the process? Depending on their experience, getting all your employees to view the importance of the processes from your perspective may require some mentoring and coaching on your part.

It is important to include your employees in the process analysis. They implement the processes every day, so they will have valuable input on how to improve them.



Manage your Labor to Maximize Profits

Managing labor to maximize profits can be challenging for any diesel repair shop owner. There are many aspects of labor that need to be scrutinized in order to get the most out of it. From recruiting, to training, to efficiency, to compensation, these components all have an impact on your bottom line. The question is, how do you know what that impact is? The only way to find out is to thoroughly analyze each aspect of your labor to determine how well it is performing toward achieving your overall financial goals. For a typical diesel repair shop, labor should account for 30% of total sales. In this article we will provide some insight into managing your labor to get the best results for your repair shop.



Recruit and Hire the Right People

Recruiting and hiring the right people for your shop is critical to your success. Employee turnover can cost your shop thousands of dollars per person in lost productivity, training, and recruiting costs. Anyone can look good on paper, so consider placing new hires on a probation period, during which they will have to prove they can do what they put in their resume. Not only will this tell you if they can turn a wrench, it will allow you to observe them closely to see if they fit in with your company culture, environment, work ethic, and processes. It will also help you determine if it would be beneficial for your shop to provide additional training for them to bring their skills up to par with the rest of your technicians. While this may add more time to your recruiting and training process, it will pay dividends in the long run by minimizing your turnover rate.

In order to recruit and hire the right people, you have to make your shop attractive to the type of people you want. Your shop needs to be a place they will want to come to, leave another job for, and stay with you for a very long time. This means you need to make your shop a clean, comfortable and positive working environment, free of any discomforts or barriers that cause frustration. This can include clean shower facilities, free snacks and beverages, lockers, and of course a quiet, comfortable break room.

Perhaps the most important advantage for attracting good talent is to have the latest technology available. This is especially true for the younger generation of technicians. Having outdated technology demonstrates a lack of commitment to the advancement of your shop capabilities, and will not attract new, motivated technicians. They will view working for your shop as a step back in their pursuit of a high-tech, progressive career.

Coach and Train to Correct Mistakes

It is rare to find an employee who does everything right. We all make mistakes. How you handle employees who make mistakes determines how good of an employer you are. Obviously, you can't fire someone every time they make an honest mistake. If you did, neither you, nor the employee would learn anything from it. When an employee makes a mistake, use it as a teaching opportunity to coach them on what they did wrong and train them how to do it correctly. This tells the employee that you care about them and want them to succeed. That will motivate them to do a better job and work harder.

Motivate your Employees

Employees do better quality work in a shorter amount of time when they are appreciated and happy. Unhappy employees are not motivated to perform at a high level. If unmotivated employees are holding back your shop productivity, it is time to consider implementing some motivation techniques. Typically, these methods include some type of incentive reward and recognition for high performance. The most common of these methods is an Employee of the Month program where the employee receives some type of reward, like a monetary gift card to a local retailer or restaurant. Or you may institute a program where everyone in the shop is rewarded for reaching a specific quality, productivity, or sales goal. This reward could include a dinner party, a picnic, or a group outing to a concert or sporting event. But be sure not to set your goals too high. If they are unattainable or induce a high degree of stress in the shop, it will have a negative impact on morale, performance, and quality.

Improve Labor Efficiency

You only get paid for the work you perform. So, the more work you get done, the more profits you make. A large percentage of diesel repair shop labor is non-wrench time. By reducing your non-billable time, you will greatly increase your repair shop profits. In order to do this, you need to determine where time is being wasted and make changes to improve the efficiency of your workflow process. The best way to do this is to map out your current process. This method is often referred to as Process Mapping. The objective of Process Mapping is to document every step in the workflow process, in the form of a flow chart diagram. This provides you with a visual diagram of your entire process that is easy to follow and understand.

Once the map has been created, you can review it to identify where problems occur that slow down the process or waste valuable time. When you discover an inefficient step that needs to be improved, consider carefully all your options to improve it. Ask yourself questions like: can the task be reassigned to someone else?; can technology be utilized to complete the task better or faster?; can the task be eliminated from the process? If your labor rate is \$100 an hour, a technician that wastes only 6 minutes per hour is costing you \$10 in labor sales. That equates to \$80 a day; \$400 a week; and \$1,600 a month for each technician. You do the math. If you minimize non-wrench time, your shop will be more efficient, allowing you to repair more vehicles, thus increasing your profits substantially.

Optimize Your Compensation System

How you pay your employees has an impact on your profit, as well. As you probably already know, there are several different pay systems you can utilize, including hourly, salary, or flat rate. The trick is determining which one works best for your repair shop, in terms of maximizing profits, controlling quality, and benefiting your technicians.

Depending on who you talk to, there are pros and cons to each pay system. One shop owner will say that technicians are happier with a flat rate pay system because they have a greater earning potential. However, the downside to this system can be lower quality work, due to the temptation for technicians to push jobs through the shop faster, resulting in the need for more quality control oversight by management. On the other hand, the faster the jobs go through the shop, the higher the profits are. The key to a successful and profitable flat rate pay system is to hire quality-minded, skilled technicians who take pride in doing good work fast.

Another shop owner may claim that a salary pay system is best for their shop because technicians know exactly what they are making at the end of the day. And some would say they are more likely to perform higher quality work, because there is no incentive to rush jobs out the door. One downside to this is that production has to be managed closely to ensure jobs get done on time. You have to manage a balance between quality and time in order to get the volume you need to make a profit. Implementing a bonus system can help motivate hourly and salary workers to meet production requirements.

Determining which pay system works best for your repair shop comes down to how well it suits your shop culture, if it meets your quality and performance standards, and how it impacts your profits. Don't be afraid to experiment with a few methods before making a final decision. The ultimate goal is to structure your pay system so that when your technicians make more money, you make more money.

Maximize Profits through your Parts Department

Your parts department plays an important role in generating profits for your diesel repair shop. A typical diesel repair shop should keep the cost of parts at or below 25% of sales. Making adequate profit margins on parts and having the right parts on hand is critical to long-term profitability. Balancing these two components to ensure speedy service and customer satisfaction is the ultimate goal of your parts department. They need to make a fair profit on parts sales, minimize repair cycle time, and give your customers a good reason to keep coming back. This may sound like a big responsibility for your parts department to assume, but their performance plays a key role in the overall profitability of your shop.

A good parts department is worth their weight in gold if they have a thorough understanding of the diesel repair parts market, and use that knowledge to support the needs of the customer service department and repair technicians. The key to developing a successful parts department is to have a long-term strategy for profitability that can be sustained through good management methods.

Here are some good management methods you can implement:

- Utilize a comprehensive, electronic parts management system with a dashboard that provides real-time vendor purchasing history, pricing, and profit per sale metrics, so the parts manager can see how the department's performance impacts shop profits.
- Research and know part profit numbers by manufacturer. This will help you make smart, timely purchase decisions.
- Be deliberate about pricing your parts. Determine the margins you need, and back into a parts pricing matrix. Insert that matrix into your parts management system so you can easily access it when you sell a part.
- Consider purchasing aftermarket parts, whenever possible. More profit can be gained from aftermarket parts versus OEM, and the quality and warranty can be just as good, or better.
- Work with your parts vendors to get better discounts. Most suppliers have volume purchase programs that can save you money on the parts you use most.
- Don't always go for the lowest price if it takes too long to get the part and causes a delay in repair cycle time. The small profit percentage you make won't offset the cost of a dissatisfied customer.

- Charge for every miscellaneous part that gets used on a repair job. Those small clips and bolts that get thrown in for free can add up to hundreds of dollars by year-end.
- Reduce or eliminate errors in ordering. Ordering the wrong part and arranging returns and replacements increases costs and reduces margins. Train staff to improve accuracy.
- Use your service department to build incremental parts sales. Have your technicians perform a full inspection at each customer visit, highlighting problems and recommending repairs.
- Track your parts inventory turnover rate closely. Keep fast-moving parts well-stocked and minimize slow-moving inventory. Analyze the information over time to identify trends so you can automate the ordering of fast-moving parts, saving you time.

Control Overhead Costs to Maximize Profits

Overhead costs are the expenses associated with running your diesel repair shop that are not directly attributed to a sale or a repair order, such as rent, insurance, utilities, office staff, etc. Overhead is identified on your Profit & Loss statement as a summary of these expenses. The cost of overhead should be no more than 10% of your sales. Any increase in overhead expenses takes away from your profits, unless your sales increase as well.



There are several overhead items in every business. Some believe that not much can be done to reduce overhead, but it can. Every line of overhead on your P&L is usually someone else's sale, which means they are controllable or negotiable. Review each cost carefully to see what can be done to reduce them. Even small adjustments can contribute substantially to making your repair shop more profitable.

In most businesses, there are two types of overhead costs: fixed; and variable. Fixed costs usually don't fluctuate each period. Variable costs increase and decrease, due to changes in business activity. Here are some tips to help you identify and control overhead costs:

- Diesel repair shop business costs can be classified as direct costs or indirect costs. Direct costs relate specifically to the repair process and are trackable and measurable. Parts and labor are considered direct costs. Expendable supplies used for repairs can also be considered direct costs, but tracking them is not usually practical or feasible, so they are usually treated as indirect costs. Rent and utilities are classified as indirect costs, and are considered overhead expenses.
- Fixed overhead costs are the same each and every accounting period. Rent, equipment leases, insurance, and office staff are examples of fixed overhead costs.
- Fixed overhead costs can change over time. Try to estimate future cost increases in those items, and plan and budget your business accordingly.
- Variable overhead costs change with business activity, such as an increase in sales volume. For instance, if your volume increases, then your electricity usage will increase as well. If you offer performance bonuses to your technicians, based on volume, then those costs are also variable. The increase in volume may also cause an increase in shop supply usage.

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- Project variable overhead costs based on anticipated sales growth. Increasing sales is always your objective. So consider the associated variable overhead costs when planning your sales growth strategy. But most likely, the overhead will be a much smaller percentage than the increase in sales revenue.
 - If you project an increase in sales volume, and you're concerned about being short-staffed, don't assume you need to start hiring more repair technicians. That could only compound your overhead problem. Instead, consider whether improvements in your processes or technology upgrades would make your shop more efficient, allowing you to handle the increase in volume with your current staff.

It is important to never be complacent in any area of your diesel repair shop business. Don't get so caught up in the problems of the daily operations that they distract you from focusing on the aspects of your business that can make a positive impact on your revenue and profits. Take some time every day to look at the big picture and you will start to see your bottom line improve.



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