



Bulletin

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November 2019

ASSOCIATION CONTEST

CONGRATULATIONS TO RALPHS MOTOR REPAIR OF WASHINGTONVILLE, NY.

The OCTOBER 2019 ASSOCIATION MONTHLY CONTEST WINNER!!!

Please read through this bulletin for your chance to win!!! Call the office with the correct answer to the trivia question and you will be entered in the monthly drawing for a chance to receive a free month's dues; a value of \$45.00.

2019 HOLIDAY RAFFLE AND ANNUAL DINNER

Don't miss out to be a part of the 2019 Holiday Raffle. Each ticket is a \$50.00 donation. The lucky grand prize winner will receive \$5,000.00. The second prize winner will receive \$1,000.00 and third through seventh prize winners will receive \$250.00 each. The drawing will be held at our annual General Election dinner on November 12, 2019.

All are invited to attend this event at Stone Manor 101, 101 Saw Mill River Road, Hawthorne, NY on November 12, 2019. Doors open at 6:30! Bring questions and concerns that you'd like addressed. **Reservations are mandatory.**

NYVIP MESSAGE NO. 253

Inspection stickers with an expiration year of 2021 are now available to order.

To order stickers on the NYS DMV website go to <http://dmv.ny.gov/sticker/default.html>

It is your responsibility to order next year's stickers promptly so that you have proper supply on hand by January 1, 2020. Sticker orders are processed in the order received. Please allow 3-4 weeks for processing. If you have any questions, please contact Sticker Issuance at (518) 474-2398.

DETERMINING YOUR LABOR RATE

Like any business, finding the right price is always a challenge. Lots of questions may run through your mind:

Am I charging too much? How do I factor in taxes? Should I keep up with competition? Is there a simple equation?

As an owner, you want to give a great value, but to give that value, you need to charge fair wages. "I used to be the cheap guy in town and I was oblivious to it," says Tatsu Tsuchida, acting manager of Tokyo Automotive in Placentia, Calif., a seven-employee, 5,000-square-foot, \$1-million-per-year business. "Determining the proper labor rate is important to keep up with technology, pay your guys right, make the shop look like a million bucks, and to attract the right customer—and to pay yourself properly."

SHOP STATS: Tokyo Automotive Location: Placentia, Calif. Operator: Akio and Tatsu Tsuchida Average Monthly Car Count: 87 Staff Size: 7 Shop Size: 5,000 sq ft. Annual Revenue: \$1 million

The entire 32 years that Evic Svedberg, owner of European Autowerks in Virginia Beach, Va., has been in business, he's always charged what he believes is fair. "Your labor rate is 50 percent of the equation," Svedberg says. "When it comes to auto repair, 98 percent of it is labor and parts. If it's half of the equation and usually 55 percent of sales, then it's hugely important to have the right number."

SHOP STATS: European Autowerks Location: Virginia Beach, Va. Operator: Eric Svedberg Average Monthly Car Count: 200 Staff Size: 7 Shop Size: 6,700 sq ft. Annual Revenue: \$2.2 million

Tsuchida's current labor rate is \$140, while his diagnosis rate is \$160. And for Svedberg, his labor rate is set at \$129.22. But how did these shop owners come up with their labor rate? Ratchet+Wrench sat down with the two auto repair shop owners for tips on how they determined their rate while ensuring maximum profitability.

1. Change your perspective.

Unlike Svedberg, who was never shy about charging what he needs for the job, Tsuchida went through a period of trying to believe in the value of his work and his shop. Tsuchida says owners not charging enough and being scared to charge more aren't doing enough to warrant the expense. He says those underpriced shop owners are usually the ones content to pay the rent and feed themselves. They likely employ family, college students, and themselves to take advantage of the cheap labor, he says. "We would balk at how expensive the dealer was, and how they would charge exorbitant prices for services customers didn't need, and we would cut corners because of it," Tsuchida says. "After a while, we decided that we were shooting ourselves in the foot."

2. Hold on to your ideal customer.

After recognizing he didn't charge enough—or what he calls the second step of the "awakening process"—Tsuchida realized that he was scared that raising his labor rate would scare off customers. Tsuchida says the frugal customer—which makes up 15–20 percent of the population—is roughly 30–40 percent of a cheap shop's customer makeup.

"Our shop tanked during this stage, but somehow my parents stuck with my vision, and some of my better customers stayed," Tsuchida says. "The better customers who stayed were generally the people who would randomly stick an extra \$40 on our counter and walk away. Later, when we questioned why, they said, 'You deserve more.'"

Although a lot of his frugal customers left, some did stay on to support "I learned that if you work with some of them, they responded well," Tsuchida says. "They might have to break the bigger tickets into two or three visits, but despite their budgets, they would rather have me working on it because they trust no-one else."

3. Do the math.

Svedberg has never used an exact formula when trying to figure out his labor rate. He suggests instead to use a coach to help with rate. With the coach, you will discuss labor rates, the business as it was, if the business is profitable and if the rate needs to be changed. But how does Svedberg track these numbers to determine this? Each week and each month, Svedberg puts everything about the business into a spreadsheet. This way, owners can see the issues and look at the trends to determine if the labor rate could be adjusted. Any price increase needs to be done through your labor rate, not parts prices, and Svedberg says to make sure to look at your effective labor rate and ensure that labor rate increases aren't simply being made to make up for a low ELR. While Svedberg doesn't necessarily have an exact formula for how he charges, Tsuchida brings it down to an exact science.

$$\text{The formula is this: } \frac{2(\text{wage}) \times 1.25}{.4} = \text{Labor Rate}$$

Let's break this down: Let's say a technician's wage is \$30. Double this number and multiply it by 1.25 for taxes, FICA, FUDA, worker's comp, and any other fees involved. When you get to the total (in this case \$75), divide it by .4 to make your profit. The total comes out to \$187.50—this is your labor rate. Tsuchida says you can turn that around to determine a technician's wage, too. This way, you don't have to hire a coach every time to determine if you need to increase your rate.

3. Import the underlying factors.

"Go by the job and have a different labor rate for different things," Svedberg says.

After you get the right number, owners have to consider other factors that affect this rate. Some important factors include: cars over 10 years old, market competition, cars over 20 years old, classic cars or over 30 years old, lower rate for friends and family, and specialty vehicles, such as motorhomes or Lamborghinis. Tsuchida's general policy for model year 2000 to 2012 vehicles is that his labor rate drops between \$125-\$140 from his initial cost of \$140.

4. Check the competition.

To keep up, Svedberg cold calls dealerships and other auto repair shops to ask what their rates are. However, he suggests being smart with your tactics and using an outside source, as dealerships are getting wise about this tactic. "Look at the market competition and look at what you work on," Svedberg says. "Remember, European is usually at a higher rate."

For Tsuchida, he checks the competition, but it's not a part of the whole equation.

"Neighboring garages labor rate is a consideration, but not the only criteria," says Tsuchida. "I don't mind being the more expensive shop, as most of my customers are not the price-conscious variety."

5. Gage customer reaction.

When you have the right price point figured out, how do you implement it without customers getting upset? Svedberg says he's never had to explain his rate; he only explains the price by the job and that the auto repair shop expects to make a profit and to make enough money to warrant the job. Svedberg also advises a shop should rethink its labor rate every year, usually going up about 1 to 3 percent. And if you find you are really underpriced and need to go up a lot after looking at the numbers, Svedberg says to just increase it all at once—the customer won't even notice such a change, as long as the job is explained correctly. Tsuchida doesn't have a problem raising his labor rate going forward and will adjust the price here and there to where it should be. If customers do make a comment about the price, however, he simply rattles off the benefits of why they do business with them—loaner cars, OEM quality parts, and a promise to not cut corners, for example. "If they do not understand at that point, they are not likely my ideal customer," Tsuchida says.

As published in ratchet and wrench

WELCOME NEW MEMBERS

J & E Service
Croton On Hudson, NY

Katonah Auto Services
Katonah, NY

CLASSIFIEDS

Business / Building For Sale

Location: 68 East Main Street, Elmsford, NY 10523 PH: 914-592-9739
Building Type: *Downstairs* – 3 bay auto repair facility with 2 in-ground lifts, office and customer waiting area. Air compressor, waste oil heater, WiFi enabled, 2 bathrooms, parking lot for customer cars.
Upstairs – Two commercial rentals (currently occupied). 2 parking spots, on-street parking. Rental space can be reconfigured. Rentals currently cover property taxes.
Square Feet: *Auto Repair Facility* – 1500 sq. ft.
Upstairs Rentals – 1500 sq. feet
Willing to accept down payment and hold mortgage for 10 years.

TRIVIA QUESTION

What is Tsuchida's formula for labor rate?
Call with a correct answer to qualify for a free month's dues!!!!

I hope you enjoyed reading this month's bulletin. If you have any questions feel free to call the association. We are here to help you and your industry.

Regards,
Carla Obalde
Operations Manager