

Driving Profit into Your Service Business

Determination of Employee Cost Considering Paid Hours Versus Billable Hours Wages Only

Employee Payroll Hours: 40 hours X 52 weeks per year = 2080 Hours
- 302 Hours

Minus Non-Billable Hours:

2 weeks paid vacation	- 80
2) 15minute breaks per day	- 130
Training and/or Safety 1 hour per week	- 50
Redo or Comeback Labor 2%	- <u>42</u>

With 100 % of employee working hours billable and no overtime the employer has available to bill: 1778 Hours

If the employee is making \$20.00 per hour and works 2,080 hours his wage cost is \$41,600 per year.

His true cost, considering wages alone, per billable hour is \$ 23.40 per hour or 17% higher. This is determined by dividing \$41,600 (wages) by 1778 (billable hours).

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Additional Expenses that need to be Factored to Establish Technician Labor Rates

- **Social Security**
- **Medicare**
- **Employee and Dependent Health Insurance**
- **Workers Compensation Insurance**
- **IRA, ESOP, Employee Retirement**
- **Uniforms**
- **Training**
- **Equipment**
- **Building Maintenance**
- **Building Rent/Depreciation**
- **Building Insurance**
- **Product Liability Insurance**
- **Service Writer Salary**
- **Service Manager Salary**
- **Parts Washer use and Disposal**
- **Shop Towels and Car Blankets**
- **Shop Helper/Parts Chaser**
- **Vehicle and related Cost for Parts Chaser**
- **Vehicle Pick-Up and Delivery**

All of these expenses can be determined on a per hour basis by taking the total cost of each item and divide it by the total available billable hours of all technicians. Add all of the per hour costs to the \$23.40 actual hourly wage to find the true actual hourly cost.

These hourly expense costs are valuable for negotiating wage adjustments.

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Establishing a Door Rate

A **Door Rate** can be established once the **True Actual Hourly Service Technician Cost** has been determined.

To determine your **Door Rate** you need to survey your competitors for their hourly rate. You also need to survey your customers to determine how they perceive your company. Do they believe your company is unique and a better value than your competition? If your customers believe you offer greater value than your competitors you can add a higher profit and charge a higher Door Rate. If your customers do not feel you offer equal or greater value, you need to find why they are not satisfied with your service or the image of your company. A company with a bad image cannot charge a profitable Door Rate and may not be able to cover technician costs.

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Determination of Door Rates

To determine your Door Rates you need to know the value of the services you are providing to your customers.

How to determine the value of your services

List all of the services you offer and survey all your employees to find out:

- What services do you believe our company offers?
- What services do we do well?
- What services do we not do well?
- What services should we add?
- What services should be deleted?
- Are we effective in getting our message to our customers?
- How do you feel we can do a better job of getting our message out to current and prospective customers?
- What incentives can we offer employees to increase sales?
- Can you recommend a market or service that we are not currently offering?

Survey people in your community to determine the image of your company:

- Is your company an asset to the community?
- What is the reputation of your employees in the community?
- What is the reputation of your company management in the community?
- What is the opinion your neighbors have regarding your physical plant?
- What is the reputation of your business practices in the community?
- Does your business support your community?
- Do the consumers of your community support your business?

Survey your customers and potential customers to determine awareness and competency of your service offerings:

- What services does our company provide you?
- Are you satisfied with our service level?
- How would you rate the service provided by our company?
- How can we improve our service to your company?
- Are you aware of other services our company has the technology and trained technicians to serve your needs?
- What additional services would you like us to add?
- If you do not use our services, why not?

These are suggestions that may or may not fit your company needs. If your surveys indicate high ratings from your current customers you can charge the same Door Rate or higher than the Truck Dealers that are your competition. These surveys will also help determine needed attention.

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