



Recently, I came across an article I wrote 20 years ago for [the Auto Parts Report](#). After reviewing this article, I thought it was worth a second look. It surprised me that while terminology has changed, the message has not. In fact, in 2009 this message is more important today than it was in 1989. Shop owners must be competent in both technical and management skills to grow in this economy. Let me know your thoughts!

## From the Trenches

By Vin Waterhouse

## the Auto Parts Report

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Everywhere you go today, you'll hear auto parts people talk of change and the need for training to cope with it. The needs are many---from product knowledge to the understanding of mid-year changes in high tech electronics. Yet the most common complaint I hear is that, while independent installers are suffering more than ever, they still don't hold training as a high enough priority for their own survival, and they continue to operate much as they did 30 years ago. *Why?*

In the past, we installers solved our problems two ways: sell our way out by volume, at almost any expense; or buy our way out by seeking additional discounts from suppliers. I consider both to be driving our business through the rear view mirror. There is no shortage of cars to repair and no shortage of suppliers. Our problems are *financial* and I suggest we look at them from a financial point of view. If we understand the financial impact of what we do and don't do, then we're prepared to make decisions about the extra effort and training required to survive in today's competitive market place.

With so much recent emphasis on price, we've lost sight of the fact that the parts business and the labor business are separate and distinct. There are *two* basic manufacturers in our industry, not one. There are factories which manufacture parts for sale, and the installers, who "manufacture" labor for sale. The WD's ,jobbers and other outlets provide distribution and resale functions.

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Let me start at the installer level and work back to the manufacturer. Consumers will bring their cars to repair facilities for two reasons; either they can't fix the cars themselves, or they don't want to. Therefore, once a car is left at the garage, the appropriate parts sales are a given.

Parts supplier's sales are based on their installer customer's ability to attract customers, diagnose symptoms, and make the repairs. So the focus should be at the installer level---with a full understanding of the shop's efficiency rate and productivity rate. Our premise is: the more cars repaired by the installer, the more parts sales for the supplier. The reverse is true; fewer repairs, fewer parts sales for the supplier. For example, if we can show an installer how to make 11 repairs a day instead of ten, the supplier on average will see a ten percent increase in part sales. If suppliers sell only parts, and don't provide advertising, technical information, equipment, and the related services required, productivity and parts sales must go down because the number of cars the installer can and will repair per day will go down. All other activities, including sales promotions, incentives, and premiums are a waste of effort, time, and money. Supplier can only sell as many parts as can be installed on the consumer's malfunctioning cars. How many extra repairs are performed because of stock lifts, line changes, and liberal return privileges?

We believe that a high enough shop efficiency rate, the proper productivity rate, and a labor rate developed from actual cost up, the installer can pay all his bills *with labor sales alone* and have the *profit on parts as gravy*. We teach this at our Dealer Asset Management Seminars----and it works!

The greatest dichotomy of function, trust, and understanding lies between the jobber and installer. Factories, WD's and jobbers (and I've been a part of it) have subliminally educated the installers, through constant promotions, premiums, and awards for "astute purchasing," to think that they're in the parts business. In fact, the installer is in the labor business, and the parts are simply add-ons.

This further adds to our industry's compressed margin problems. When installers run into financial woes, their first step in expense reduction is to seek greater discounts or change lines. We show installers that with an 81% efficiency rate, 60% gross profit on labor and a 35% gross profit on parts, they can pay all their bills with labor sales alone, and have the profit on parts as gravy.

An increase in shop productivity of just 10%, from 55% to 65%, will improve gross profit dollars on labor sales 5.3 times greater than the gross profit dollars on parts sales using the labor and parts gross profit percentages above. Finding the profit becomes obvious; it can be achieved by a balanced inventory alone. If the installer's parts sales to his customers are guaranteed, and repairing more

cars makes sense, then down time---potential labor hours unbilled---is seen to be very expensive. If installers buy quality parts, support their jobber-suppliers with 85-90% of their purchases, pay a fair price and don't grind for discounts, demand that the jobbers help balance their inventory by stocking coverage based upon repair order study and not depth, then down time will be reduced. Shouldn't the installer do all this if the labor profit is much greater than parts profit?

The benefits of financial understanding at the installer level affect every level of distribution, and cannot be overlooked. Some key points:

- The installer must see that there are enormous profits in the labor business and shift his emphasis from parts to labor
- It benefits the installer to support the jobber by buying quality parts at fair prices and tailoring his inventory to coverage, not depth---in many cases stocking more, not less.
- The installer should want fewer unnecessary hot shot deliveries, reducing installer down time and jobber delivery expense. Fewer deliveries mean fewer phone calls from installer to jobber, raising productivity at both ends.
- High tech clinics will be demanded by installers and *pulled* through the system instead of being pushed down through the levels by well-intentioned manufacturers. Attendance and interest will improve dramatically.
- Equipment sales should improve as installer's improved knowledge creates demand.
- WDs should find jobbers easier to deal with, because jobbers will be able to sell more products with less pressure for discount, with fewer deliveries and counter calls.
- Reduce financial pressure on jobbers should relieve some jobber pressure on WD's for price, unnecessary stock checks, and costly "will calls" and "must haves" that hamper daily shipping of routine stock orders.
- WDs should then put less pressure on the manufacturers for price, and look more for clinics and tech info, advertising, banners, posters, etc. The goal is to improve the public image of the installers in the areas of price and competence. After all, isn't that what the entire automotive aftermarket is all about anyway?

If we focused some of the millions of dollars, the wealth of talent, advertising campaigns, posters, promotions, and manpower from every sector into a financial understanding of the impact of our decisions, we would see an unprecedented interest in training at every level. Training alone can produce the thoughtful decisions that improve performance and profits for all. Let's go for it.