

Profit from the Vin Waterhouse Labor Factory

It wasn't that long ago Warren Parr, owner of Complete Car Care in Fresno, California, was ready to walk away from the repair business. He was working six days a week, until 10pm most nights, and some months he relied on a line of credit to help meet payroll. His shop was very busy, but financially the business was just spinning its wheels. And Parr couldn't figure out why.

Then he learned about Vin Waterhouse's Labor Factory and everything changed.

"When I came back from training class I began applying everything I learned and it made a difference from day one," he said. "Soon, I was able to be home in the evenings to have dinner and spend time with my family which was very important. My stress level went down and I started making money.

"What I learned was this: I wasn't making enough profit the way I was charging for parts and labor. I was doing things the 'old way,' back when about 81% of repairs were standard mechanical work and the business mix was approximately 50% parts/50% labor. Shops used to make a lot of money that way, but it's not possible anymore because vehicles have changed."

Mechanical Repairs Down, Diagnostic Repairs Up

Vin Waterhouse, president and founder of The Waterhouse Group, an automotive accounting, consulting, and training company, explained. "Improved vehicle quality and the growth of electronics mean today's shops sell fewer parts per driven mile. Look back 10 years and you'll see that average parts gross profit percentage has decreased and the average shop's net profit has declined from a little over 5% to just above 3%

today. Net profit of the top 25% most profitable shops has declined from about 18% to just over 14%. That's mostly due to vehicle changes, electronic equipment, cost of information and training, higher wages, and fewer parts sold per driven mile. As the industry continues to evolve, shops will continue to make less and less profit unless they adjust."

To increase their success, automotive repair shops have to change the way they charge for labor. Because shops perform less standard mechanical repairs these days and much more labor intensive and diagnostic work, they need to be earning the majority of their profit in labor—or service—much like plumbers, electricians, carpenters, accountants, and lawyers. While the fundamentals of profit are still parts, labor, and time, the standard measurements and benchmarks have changed due to vehicle design and engineering improvements.

"Take spark plugs, for example. There was a time when it was common to change spark plugs every 12,000 miles. For a V8 engine, a repair shop could count on selling and installing 96 spark plugs over the course of a typical vehicle's 100,000-mile life," said Waterhouse. "Today, some vehicles require spark plugs only once per 100,000 miles. That's only 8

spark plugs in all, or possibly 16 if the vehicle is still being driven at 200,000 miles. And in the case of a vehicle's exhaust that would be replaced on average every 3-4 years a generation ago, it's rarely replaced today thanks to stainless steel components."

At repair shops in 2020, standard mechanical work includes things like brake jobs and drive belt replacement. But instead of making up about 81% of repairs as in the past, they now comprise only about 30% of a shop's repair work. That's a significant drop considering standard mechanical jobs are among the most profitable because there are two full profit centers—parts and labor.

Labor intensive repairs account for about 15% of work today and the percentage is growing. Changing a front bulb on a vehicle is one example of a labor intensive job. The technician has to remove the entire front bumper to get to the source, replace the bulb, and then re-install the bumper. "Billing two hours for removing and replacing the bumper at a normal labor rate is the financial equivalent of performing a two-hour repair and not selling any parts," Waterhouse said.

Diagnostic repairs have grown to approximately 55% of today's repairs.



According to owner Jerry Silguero, SS MotorTrendz offers more than vehicle repair, the team offers a complete vehicle and customer service experience.

Waterhouse noted, “Diagnostics are the most expensive to perform for several reasons: They usually require the most highly skilled and highest paid technician, special tools, and access to information from companies like Identifix and others. In many cases, only a few, if any, parts are needed. Using the old school formula of charging based on 50% parts/50% labor, the more diagnostic work a shop performs, the less profit that shop will make.”

Three Types of Work Require Three Separate Labor Rates

The answer to that dilemma according to Waterhouse is to use three separate labor rates according to the type of work performed—standard mechanical, labor intensive, and diagnostic.

“It just makes sense to have a standard, labor intensive, and diagnostic labor rate with the average profit built in,” he said. “First an owner needs to know his or her

It makes good business sense to have a standard, labor intensive, and diagnostic labor rate with the average profit built in. For more information about The Labor Factory and to find the formula to calculate labor rates, go to www.vinwaterhouse.com.

average combined labor and parts gross profit dollars per billed hour. Then for every repair that provides less than average gross profit dollars per billed hour, the shop sells the parts at cost and uses their labor intensive or diagnostic labor rate as appropriate. In essence the lost profit on labor intensive and diagnostic repairs is built into the appropriate labor rate. I put the formula to calculate the labor rates for you on my website, www.vinwaterhouse.com. And there’s no charge for that.”

Like Parr, Jerry Silguero is a believer in Vin Waterhouse’s Labor Factory. Silguero worked as a technician primarily at dealerships before opening his own shop, SS MotorTrendz, in Angleton, Texas, in 2016. Although he also spent some time as a service manager, Silguero said it didn’t require him to get into the numbers for determining labor rates.

“When I opened my shop, I was just using one labor rate. In that first year in business I soon realized my margins were not correct,” he said. “And it cost me a lot of money.”

Then Silguero took Waterhouse’s class and it changed the way he did business. “Like most shops these days our work is geared more to diagnostics than just replacing parts,” Silguero said. “Now I gauge labor intensive jobs up front and use the appropriate labor rate depending on the work to be done. I’ve been working around cars a long time, but like a lot of technicians who go into business for themselves, I wasn’t prepared for all the financial aspects. And I never gave a lot of thought to labor rates.”

Parr added, “Using the proper labor rate is essential for all AutoCare Centers. As cars become increasingly more sophisticated, diagnostic work is more and more of what we all do. Here at my shop we pride ourselves in our diagnostic ability. We may charge a little more per hour, but customers choose us because we do quality work and get their job done right.

“Diagnostics require well trained techs. And our industry needs to pay a competitive wage in order to attract quality technicians to our industry. In determining the labor rate, Vin’s formula even takes into account the cost of training and technology. Just as vehicles are evolving, automotive repair shops need to evolve as well. And you’ve got to make a profit and charge the proper labor rate in order to do it.”

“What I’ve learned from Vin Waterhouse changed my outlook on training,” Silguero said. “It’s important to the success of my business and it’s definitely worth the investment.”

The Waterhouse Group’s Auto Repair Shop Courses

Over 20,000 people have attended Vin Waterhouse’s classes. His courses focus on applying the techniques and methods of the 25% most profitable shops in the country so shop owners like you can learn from the best what is working and not working. Classes can help reveal huge profits that you may have been missing as well as how to better manage you shop’s finances. Courses include:

- 2020 Financial Management for the Auto Repair Business
- 3 Minutes An Hour
- 2020 Service Manager Plus
- 2020 Financial Health Check
- 2020 Profit-Ville
- Profit-Makers Bi-Monthly Online Business Management Teams