Identifying and Quantifying Inefficiencies in Auto Repair Shops -
Four Steps to Promoting Growth & Profitability
By: Alex Bunkers, Director of Operations, Tekmetric

Managing an auto repair business can get complicated. Between directing team members, communicating with customers and ensuring that technicians produce quality work, it can be difficult for shop owners to keep track of everything going on. However, to build a successful business, it is crucial to maintain a strong awareness on every aspect of the shop, from inventory management to proactively keeping up with KPIs. By understanding the business' daily operations and taking steps to identify and minimize inefficiencies, a shop owner can improve the shop's overall business performance and grow over time.

Establishing an Effective Shop Management System
Today's auto repair shop owners utilize a variety of systems to stay organized and track their business growth and efficiency – some more efficiently than others. The more efficient the system, the better metrics a shop owner can track and the more likely the business is to expand. Pen and paper tracking utilizes handwritten forms for invoices, part orders and customer contact information. This method tends to offer the least amount of information to shops, as they spend hours at a time maintaining the system itself, writing out crucial information or digging for forms to reference. At the end of the day, it can feel like a pen and paper system requires more effort to maintain, leaving very little time or an easy way to analyze deeper-level business growth metrics.

On the opposite end of the spectrum, a **shop management system (SMS)** can offer a digital, automated platform that can track information and dive deeper to provide key business metrics based on the data and information the system collects. Often, shop owners that use an SMS are able to save and store their shop's sales, expenses and customer information, as well as automate simple processes that may take longer with a pen and paper system. In many cases, an SMS enables better transparency to the inner workings of a shop to allow shop owners to identify which levers they can tweak as they strive to increase the shop's bottom line. As a result, they have more insight to improve processes in their shops at a granular level, from analyzing key metrics like car count and **average repair order (ARO)**.

Taking Steps to Identify and Quantify Inefficiencies
Strong oversight becomes increasingly more important as a shop grows; and shop owners must remain aware of areas where the business may be inefficient and adjust as needed. The more data available, the better equipped a shop owner is to identify inefficiencies, make corrections to help the shop run smoother, and know if their corrective actions worked. But where should a shop owner even start?

Put simply, a shop owner must take the time to identify key metrics important to their business, then take steps to improve the shop's performance for each key metric. In more detail, there are three steps one should follow to promote growth and productivity within a shop:

1. **Establish a baseline**. Identify and implement strong foundational KPIs and processes to understand where you're starting from.
2. **Improve the shop's processes**. Evaluate existing workflows and reactively adjust areas where they can become more efficient. As the owner, you should work on the processes and let the processes run the business.
3. **Track key growth metrics and trends over time.** Analyze the shop's performance at a deeper level and take proactive steps promote continued growth.

With this cycle in place, a shop can then identify its areas of improvement and begin making adjustments to reach its performance goals. This leads to increased productivity and, ultimately, increased profitability to the shop's bottom line.

Establishing a Baseline

You can't build a roadmap to where you want to be if you don't even know where you're at currently. It's important to establish a baseline and key benchmarks to measure progress over time. Building a consistent rhythm of processes and metrics for your shop will be foundational to identifying where you need to make improvements and be sure you're comparing apples to apples. Don't let yourself be paralyzed by trying to do too much at once. Pick a few KPIs to start with; work on improving these and add more as you master each one. To make sure you're not spinning your wheels, there are a few quick wins you can do to quickly improve efficiency on a day-to-day basis like ensuring you're leveraging all the settings and functionality of your SMS to automate and streamline repetitive tasks. When foundational settings and processes are in place and effective, a shop can experience greater productivity – and higher profits.

How effective is your shop at selling work?				
Total RO's ⑦	Hours Presented ⑦	Hours Sold ⑦	Close Ratio ⑦	Effective Labor Rate ⑦
130	313.72 total	282.22 total	82.62%	$103.19

What are your overall shop metrics?				
Avg. RO (Sales) ⑦	Avg. RO (Profit) ⑦	Avg. RO (Profit Margin) ⑦	Gross Sales ⑦	Gross Profit ⑦
$476.98	$153.90	32.26%	$219.71 / hour	$70.89 / hour
without Tires & Batteries below				
Avg. RO (Sales) ⑦	Avg. RO (Profit) ⑦	Avg. RO (Profit Margin) ⑦	Gross Sales ⑦	Gross Profit ⑦
$455.00	$143.46	31.53%	$209.59 / hour	$66.08 / hour

Example of foundational settings to measure a shop's progress

Foundational settings are the standard configurations a shop owner can utilize to optimize their shop, such as automated parts matrices, canned jobs or other automations. When settings are in place and operating correctly, SMS settings can be the first layer to boosting performance. A strong foundation can open the door to greater achievement further into the future. However, a weak foundation can often become a roadblock, preventing a shop from achieving the next level of annual revenue or opening a second location. Shop owners must ensure they understand the settings and processes that make up the foundation of their business operations – then take steps to ensure they are as strong as possible.

An SMS can assist shop owners in automating foundational settings and embed consistency in tracking key metrics in a digestible format. While it is possible to track metrics with antiquated methods such as pen and paper or home grown tools, these 'systems' often take tremendous amounts of time to maintain. This prevents the shop owner from getting their head above the water working *in* the business instead of working *on* the business – an obstacle that can become impossible to overcome as time goes on.

A great example of using an SMS to automate a repetitive profit growing task is the implementation of a parts matrix (Exhibit B). Part sales are a primary driver of shop revenue. Making sure you're not leaving any money on the table for the thousands of parts being sold each month is not something you want to leave to chance. Many shops may not have a system in place to consistently mark up parts in order to achieve target profit goals. Some may rely on individual service advisors to determine a fair markup on each part, while others may have a guide that at least maintains consistency but may not generate the most profit by cost brackets.

Taking the time to think through and build a parts markup matrix can quickly increase part revenue while minimizing time and risk for miscalculations. Instead of spending precious time figuring out the right price for parts, shop owners can hit profit margin goals on a consistent basis. A parts matrix may take a bit more time on the frontend to setup, but it can make a great difference in a shop's performance, as seen in the illustration below.

Let's take a look at two shops, one with a parts matrix and one that does markups manually (Exhibit A). Even when the number of parts on an RO remain the same, the shop that has a parts matrix enabled is saving about 192 hours of time each year. If, for example, a Service Writer spends 30 minutes total on each RO, and the shop's ARO is $350, the shop experiences an additional cost of $134,400 per year!

EXHIBIT A: Sample Shop Data

Shop #1: No parts matrix; uses manual calculations for the RO	Shop #2: Utilizes a parts matrix setup
# ROs / day: 20 # parts on each RO: 5 - Total parts to markup each day: 100 - Time needed to markup each part manually: 30 seconds	# ROs / day: 20 # parts on each RO: 5 - Total parts to markup each day: 100 - Time needed to review automated markup and occasional manual markups: 5 seconds
Total time spent marking up parts each: - Day: 50 minutes - Month: ~20 hours - Year: ~228 hours	**Total time spent marking up parts each:** - Day: 8 minutes - Month: ~3 hours - Year: ~36 hours

EXHIBIT B: Sample Parts Matrix

Parts cost	Multiplier	Gross profit	Markup
$0.00 — $5.00	6.00x	83.33%	500%
$5.01 — $20.00	5.00x	80%	400%
$20.01 — $40.00	4.50x	77.78%	350%
$40.01 — $100.00	3.25x	69.23%	225%
$100.01 — $500.00	2.50x	60%	150%
$500.01 — $1,000.00	2.25x	55.56%	125%
$1,000.01 — $5,000.00	1.75x	42.86%	75%
$5,000.01 — $75,000.00	1.40x	28.57%	40%
$75,000.01 — Maximum	1.10x	9.09%	10%

Improving Workflow and Shop Processes

Once the foundation has been established, shop owners can then look to the existing workflows for additional improvement in the shop's operations. A strong workflow and process is crucial to shop growth and profitability, as it offers a standard response to something that happens on a daily basis. When the workflow isn't smooth, the shop can often experience bottlenecks that slow down its progress – and eventually affect its profitability over time. Workflow will be a blend of the shop management system and what's happening in the actual shop. How your shop blends software with reality for the easiest flow will take some time, but will be well worth it to make sure everyone is on the same page.

According to Eric Joern, CPA with Kaizen CPAs and Advisors, processes are key to addressing daily tasks and unexpected issues or crises that may pop up. "Without a process prepared for these situations, you leave yourself vulnerable to causing disruption and making decisions based on feeling only without having the data to support those decisions," Joern says.

There are several key questions to consider when evaluating a shop's workflow:
- What tasks take the most time throughout the workflow? Can these tasks be completed faster?
- Are there significant bottlenecks in the process that may be slowing down overall operations?
- Can an additional tool like a digital SMS reduce the time to complete this process?

After establishing where bottlenecks occur, a shop owner can analyze where the workflow can be adjusted to increase efficiency and productivity. Certainly, a preventative step and solution to many bottlenecks is an SMS given it removes the hassle of storing handwritten notes or boxes of printed files. Through automation and cloud-based information storage, an SMS can allow shop owners to reduce the time spent updating records and adding new information, thereby increasing productivity.

For example, perhaps service advisors are required to update guests once their repairs are 50% of the way through. To get that information, they regularly check in with the technicians. However, an SMS can offer a smoother form of internal communication through technician notes added real-time on each repair order (RO). This keeps technicians and service advisors on the same page, transforming the shop's workflows and making it easier for the team to work in harmony.

Jennifer Mikulski from Mike's Auto Repair in Haddam, Connecticut experienced a tremendous bottleneck when it came to her invoices. First, she would handwrite an invoice based on the customer's needs and repairs completed. From there, she would take the time to scan an invoice into QuickBooks to reference at a later date as needed. "I was duplicating handwritten invoices in QuickBooks," Jennifer said. The entire process took too much time – hours that could have been better spent scheduling more appointments or interacting with customers.

When Jennifer's shop began working with a digital shop management system, she was able to reduce time spent on invoices by entering information directly into the system to create and save a repair order. Now instead of searching for a handwritten invoice, Jennifer can type a keyword into her computer and pull the RO information in seconds.

Noah Nowak with AXP Auto, a three-location auto repair business in Massachusetts, also experienced the advantage of an SMS for removing bottlenecks. Before implementing an SMS, "We never got customer emails because we had no way of using that ability." However, with a strong SMS in place, his team's estimate approval process has been streamlined, since "we seek most customer approvals via text and email."

**Tracking Trends and Key Growth Metrics**
After a shop has established its *reactive* metrics and course-corrects as needed, the shop owner can shift their attention to *proactive* metrics and identifying trends. Tracking trends and key growth metrics allows a shop to identify weak spots within its operations and adjust as needed to take advantage of opportunities.

When a shop owner begins tracking key growth metrics on a regular basis, they will begin to notice trends that regularly affect the business. These trends can range from the makes and models the shop works on the most, to the easiest upsells. After identifying regular trends, a shop owner can then adjust the shop's workflow or processes to leverage the trends to grow the business.

For example, a shop owner might consider the type of makes and models their shop regularly services. At the same time, they can also examine what makes and models that bring in the most profit for the shop. These might be different vehicles than those the shop sees more frequently. However, these two metrics offer insight on both a foundational and deeper level. On a foundational level, the shop owner can see the vehicle they service more than all others – information that is great when it comes to inventory tracking and even marketing to customers.

On a deeper level, the shop owner can also see which vehicles bring in the most profit for the shop when serviced. This may allow the shop owner to identify a new market to enter and begin investing in the tools to service those vehicles more often. From there, the shop owner can push to service more of these highly profitable vehicles, thereby increasing the shop's overall profitability.

Internally, key metrics can also be used as a motivational tool to promote growth among the shop's technicians and/or service writers. For example, key metrics can track how much a service advisor is contributing to the overall daily sales. Sales is a highly competitive aspect of the business, and service writers play a significant role and can get highly competitive. If a service writer is producing thorough ROs and selling more, other service writers will take note and improve their own processes.
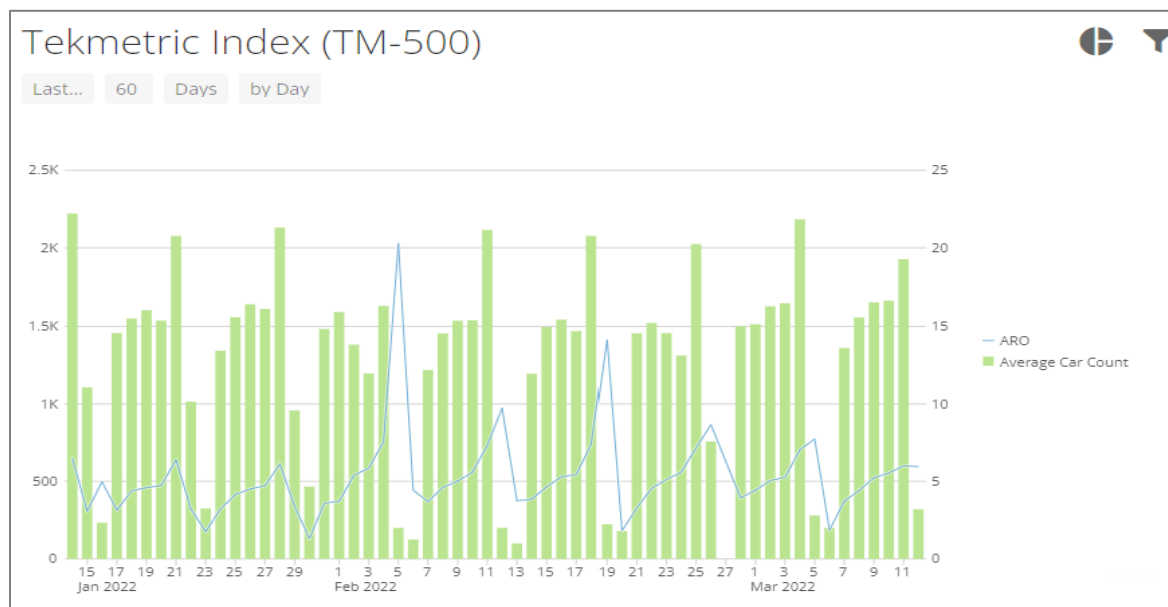
Example of shop metrics measured over time, gathered from the TM-500, an online industry analytics tool by Tekmetric Shop Management System

Metrics can also be used to identify the shop's highest performers, creating a coaching opportunity among the service writers. Tracking metrics like technician productivity can help identify the habits a shop's highest performers have, and this knowledge can be used to coach team members who are striving to improve their numbers.

Maintaining the Cycle Long-Term

At the end of the day, tracking trends and key metrics at a deeper level offers the shop owner greater insight into the business and its short- and long-term progress. However, looking at the numbers alone isn't enough. To truly experience growth, it is important for a shop to move beyond just identifying metrics and taking steps to improve them. The shop must also regularly report metrics, so the shop owner can compare metrics over time and track the shop's progress.

An SMS offers an automated approach to reporting, which means the shop owner is spending less time crunching numbers, while still building a deep understanding of the business. Jennifer with Mike's Auto Repair and Noah with AXP Auto both understand the importance of reporting. At AXP Auto, Noah says "we mainly use the End of Day Report, as well as Sales Tax and Fees reports." Both reports offer regular insight into the shop's daily progress, giving AXP Auto a history of the shop's progress and details on what the shop can do to improve the next day.

At Mike's Auto Repair, reporting through an SMS offered insight Jennifer had never been able to track before. "Prior to [our SMS], I never looked at average repair order dollar (QuickBooks wasn't worth my time to pull it). But that's a KPI that [our coaching group] sets for us," Jennifer says

Tracking information like ARO spend did more than tell Jennifer how the shop performed on a daily basis. In fact, it led to more awareness of the repair order dollars the shop was achieving and allowed them to adjust to increase the overall amount.

According to Jennifer, "This SMS tool does help us to evolve our mindset and how we approach our business in general. For the first year ever – and I feel that [our SMS] was a huge part of this – we did over a million in sales."

This tactic – regular tracking of the key metrics she had identified – made an enormous difference in Jennifer's shop revenue. The information from the metrics doesn't spur change by itself. Instead, Jennifer and her team regularly tracked their progress and took action to adjust as needed, which resulted in a true impact on the shop's profitability over time.

This cycle of identifying metrics, making corrections as needed and tracking key information over time can lead to tremendous business growth and allow shop owners to tap into new potential. Overall, the process can be simpler than it sounds: an SMS can assist tremendously in gathering information quickly and easily, presenting it in a clear format for shop owners. When a shop owner is aware – on a deep level – of every aspect of the business, they are able to identify areas of growth and opportunity. Even further, they are empowered to set realistic goals and take the steps necessary to achieve them – thereby supporting the shop in reaching new levels of growth and profitability that had not been possible before.