



Accounting
& Payroll

Quick Tips for Automotive Repair Shops

Business advice, profitability tips and more
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Gross Profit Margins for Auto Repair Shops [Quick Tip]



Set Goals for Your Gross Profit Margin (GPM)

Setting and hitting appropriate GPMs is crucial for your automotive repair shop to maintain success. At a minimum, set goals to achieve a 50% profit margin on sales of parts and accessories. Parts and accessories purchased from dealerships are normally priced somewhere lower on the spectrum, while parts and accessories purchased from jobbers are normally priced higher on the spectrum. An overall pooled margin of 50% is a realistic and attainable goal.

Every job is different. But over a long period of time, such as a month, strive to average at least \$1 for labor for every \$1 of parts sold. If your labor sales are significantly higher than your parts sales over time, it usually means that you aren't marking your parts up enough.

If your parts sales are significantly higher than your labor sales over time, it usually means that your shop labor rate is too low.

Under the model described in this blog, you will average 70 percent combined gross profit on labor and parts sales.

Boost Your Profit Margins

To reach higher gross profit margins, owners and operators try some or all of the following best practices:

- Set diagnostic rates equal to labor rates
- Implement matrix pricing for parts
- Factor drive time before and after repair work into the work order
- Charge for shop supplies and environmental fees
- Negotiate with vendors on parts and supplies
- Track inventory to reduce parts theft
- Evaluate labor rate increases on a periodic basis
- Find opportunities to raise average repair orders
- Focus on customer service to retain quality customers
- Track productivity of technicians and service writers
- Pay employees using a commission-based system
- Invest in top talent and training
- Develop plans for growth
- Outsource accounting activities

These best practices require owners to stay out from under the hood to monitor the health of their business. If you structure your gross profit margin goals accordingly and track your sales and cost activity, your focus can shift to maximizing volume based on potential per service bay.

Suggestions for Service Advisors When the Shop is Slow [Quick Tip]



Focus on Activities to Increase Sales

There's always work to be done when your automotive repair shop is experiencing a slow day. But when the workload is down, your service advisors should remain focused on activities related to bringing in more business, not administrative work or other tasks around the shop.

9 ways service advisors can drum up some business on slow days:

1. **Check the calendar for future appointments that could be rescheduled for the current day.** Customers are often pleased to bring in their vehicles sooner rather than later if their schedule allows. One way to prompt the conversation is with a courtesy reminder call for the originally scheduled appointment.
2. **Identify estimates for work that was never performed,** and follow-up with those customers to see if they still need to get the work done.
3. Go over previously **closed orders with recommended repairs** and contact the customers as a courtesy reminder.
4. If you've had any **no-shows in the previous weeks,** reach out to them to reschedule.
5. **Contact customers on your direct mailing list** to determine if they've received the most recent campaigns. Not only is this a good way to gauge if the marketing materials are resonating, it's also a way to spark maintenance conversations.
6. Pick up the phone and simply **reach out to customers to say "thank you for your business."** Leave the conversation to that simple statement. A simple effort goes a long way in terms of loyalty to your shop.
7. **Hit local establishments in your immediate area** to distribute a business card and any flyers with your current specials. Many customers prefer dropping off and picking up their cars near their places of work.
8. Estimate current mileages on vehicles in your database to **identify scheduled maintenance recommendations.** Give those customers a call, even if they are in an automated email workflow.
9. **Tap your employees' networks** to offer referral discounts on certain services and repair work.

Hopefully, these activities will fill out the day's workload, but that isn't always the end goal. Often, the steps you take to ensure more business will pay off with fewer slow days in the future.

Asking for Online Reviews for Your Auto Repair Business [Quick Tip]



The Importance of Online Reviews

Happy customers are leaving your shop after some repair work on a daily basis. Are you asking them to share their experiences with your business online?

If not, you could potentially be losing out on business.

Online reviews on popular sites such as **Yelp**, **Google**, and **Facebook** have become popular destinations for the curious consumer researching automotive repair service providers.

In fact, nearly **9 in 10 consumers read online reviews** to determine the quality of a local business.

That being said, you have multiple opportunities to ask for referrals directly from your customers. As part of your customer service strategy, make it a habit to ask for a review face to face in the shop. But don't stop there. Make it easy for customers to remember and complete the task.

Tips for Increasing Online Reviews & Testimonials

- **Include online review information on invoices and receipts.**
- **Create handouts and in-store signage to encourage customers to visit you on Yelp, Google, and Facebook.**
- **Supply comment cards in the waiting area for customers to leave feedback. Ask for permission to use their comments as testimonials on your website.**
- **Design an online form for customers to provide testimonials online and dedicate areas on your website to highlight the most appealing reviews.**
- **Request customer feedback in follow-up emails with customers and add quick links to your preferred online review sites within your email signature.**
- **Implement specific email campaigns based on generating testimonials or online reviews.**

Enhance Your Customer Service

Boosting your online presence on third-party websites is an important part of attracting new business and interacting with existing customers. Responding to reviews, both positive and negative, should be an extension of your customer service. It helps with branding and building trust with your customer base.

Although word-of-mouth recommendations are still touted as the most trusted form of referral, 88% of consumers say they trust online reviews as much as personal recommendations. Incorporate steps to increase online reviews for your automotive repair business throughout the customer service process.

How to Increase Average Repair Order for Your Shop [Quick Tip]



Average Repair Order (ARO) is one of the most important indicators of a healthy and profitable automotive repair shop. Increasing and maintaining higher ARO allows your staff to work efficiently while making the shop more money in the process.

Here are 5 Ways to Increase ARO for Your Auto Repair Shop:

1. Target Quality Customers

There are discount shoppers and there are quality customers. Yes, providing incentives to attract new customers is valuable, but you shouldn't use discounts

for the sake of increasing car counts. In your marketing and advertising efforts, target quality customers -- ones who know the importance of regular maintenance and are willing to invest in their vehicles.

2. **Use Manufacturers' Recommendations**

Treat each visit from a customer as an opportunity to provide the best service possible. This means reminding car owners of the recommended service intervals for their vehicles and the reasoning behind the recommendations.

3. **Inspect Each Vehicle**

Inspections should happen on a consistent basis, even during those routine oil change jobs. Your customers choose to use a reputable independent auto repair shop for a reason. They expect you to diagnose potential issues on their vehicle when they bring it in for any service. A thorough inspection of each vehicle will help increase ARO.

4. **Work Together**

Technicians are focused on diagnosing and fixing vehicles. That's the bulk of their work. Smart owners also train their technicians to be excellent communicators. Once they assess a vehicle, they need to effectively communicate any issues to the service writer. With good information up front, the service writer is able to relay important details to the customer, resulting in more sales of parts and services per vehicle.

5. **Remember the Little Things**

It may be a bulb for a dome light or a battery for a keyless remote, but those little add-on items can certainly add up over the course of a year. One of our clients is the the number one customer for light bulbs for his vendor. Why? He makes sure his staff identifies if any bulbs are out on vehicles coming into the shop and makes sure they ask if customers would like them replaced. Because the bulbs are inexpensive (around \$5), he finds that most customers agree to have them replaced. Those few extra dollars per thousands of cars a year go directly to the bottom line.

Do I Need a Higher Car Count or Higher ARO? [Quick Tip]



When it comes to running a profitable auto repair shop, successful owners recognize the balancing act between maintaining a proper car count and maximizing the average repair order (ARO) dollars.

The best-run shops know their break-even point: the number of cars needed on a weekly basis multiplied by the average dollar per job that will earn enough gross profit to cover operating costs and expenses.

You are not in business to break even. Car counts and ARO numbers should be analyzed and used for strategic business decisions to increase profitability over time.

Which scenario are you in?

Does your shop turn over a lot of cars but the ARO is lower than it should be?

Not only is the model not profitable, you also run the risk of burning out your employees. In this scenario, you may need to retrain your staff on scheduling appropriately, diagnosing maintenance issues, and selling additional services to customers. This is also the time to check if your labor rates are too low, or if your parts margins need to be tweaked.

OR...

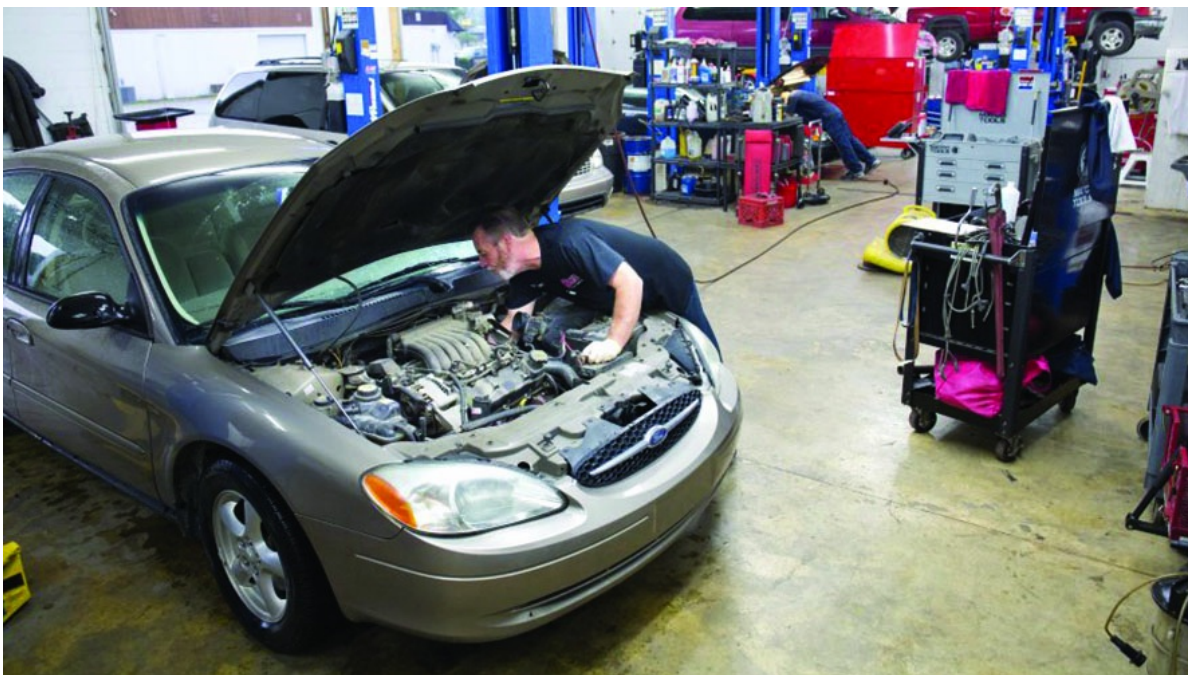
Does your shop have a respectable ARO, but you're not attracting enough customers?

It may be time to up the marketing and advertising budget to increase traffic from your existing customers and target market. Top shops clearly define their business model and the type of customers they prefer, and their marketing and advertising resonates with those ideal customers. They also automate maintenance reminders for current customers to increase return traffic on a consistent basis.

Although car counts and ARO dollars will vary from shop to shop, every shop needs to be aware of its break-even point to set realistic goals. Sometimes our clients equate a busy shop to a successful shop. This isn't always the case. In some cases, it's a matter of slowing down, restructuring your pricing, focusing on increasing ARO, and targeting the right type of customers.

We help operators analyze the type of work they're performing and their production capacity to create a formula to fit the model and size of their shop.

Low Labor Rates are Hurting Your Automotive Repair Business [Quick Tip]



There's a common misconception among automotive repair shop owners regarding labor rates. Some owners feel they need to offer labor rates under the local market average to attract and retain customers, and they've been targeting low rates for years based on the competition. This mentality can drastically affect your profits.

How Low Labor Rates Can Hurt Your Business

As an example, consider a shop that charges \$10 below the average labor rate in the area and has an average of 2 hours of labor per job -- that means the shop is potentially losing out on \$20 per job.

If the shop averages 500 cars a month, that \$20 quickly turns into \$10,000 of

potential loss per month, \$120,000 for the year.

Granted, some of those potential earnings would be paid out to employees, but the most of it would go to the bottom line. The compounding effects of trying to land more customers by dangling a \$10 carrot on the labor rate doesn't promote long-term success.

But some operators still resist recommendations of raising labor rates because they are afraid to upset loyal customers or to hear customers complain.

The reality of the industry is, if you don't get any or very few complaints, your labor rates are too low.

How many price-related complaints do you receive?

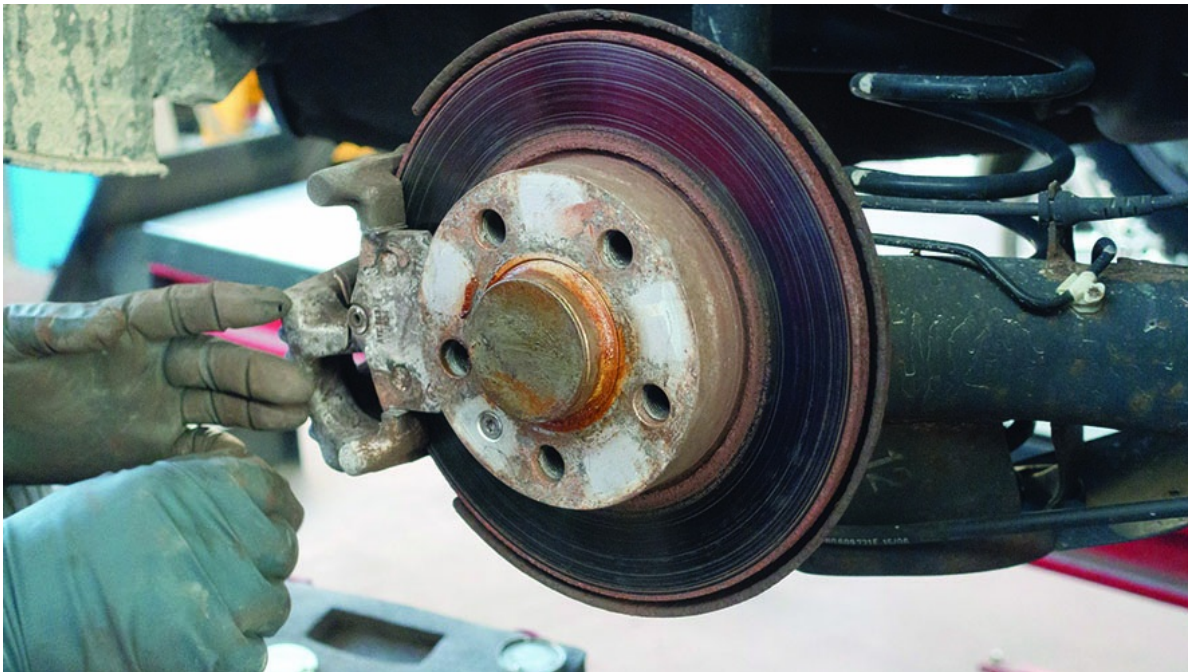
When we partner with auto repair shops, we ask how many complaints related to price they receive in a typical week? Let's consider a shop that averages 2 complaints on 100 cars per week. In this case, a shop owner is resistant to raising labor rates based on 2% of his direct customer feedback.

Why would any business owner allow 2% of his customer base to drive pricing decisions?

Bottom Line:

Labor rates should reflect the value of your service. And at the end of the day, a difference of \$10 on your labor rate shouldn't cost you the job. By adjusting your labor rates appropriately, you can also position your shop to avoid "bottom-feeder" customers who will always look for discounts and turn down regular maintenance recommendations that boost average work order numbers.

What are Ideal Hours of Operation for Automotive Repair Shops? [Quick Tip]



Is your shop only open during normal business hours, say from 8am to 5pm? If so, you may be leaving money on the table.

Profitable repair shops capitalize on the demand for early morning and evening hours on both ends of the traditional workday because customers don't want to (or can't) take time out of their regular working hours to drop off or pick up their vehicle.

If your shop isn't accommodating these types of customers, not only have you missed out on their initial business, you've probably lost them as potential customers in the future as well. That's bad for any business.

What, then, are the ideal hours of operation for an auto repair shop?

For many shops in the Twin Cities, we recommend opening at 7am and closing at 7pm during the week. We find that clients who follow the “rule of sevens” tend to do well under this model.

Adjusting your hours to capture this business can make a bigger difference than you may think. The discrepancy in sales between shops that offer a few extra hours and those who stick to traditional workday hours is rather striking when you compare multiple shops of similar size and location. To further maximize potential sales, we also suggest opening on Saturday for core hours during the day, at a minimum, 8am to 3pm.

Strategies for staffing these hours should also be taken into account. Lean crews can usually handle the early morning and late evening interactions, while your core group of service advisors and techs can focus on extensive repairs throughout the day.

To increase and maintain sales growth for your automotive repair shop, it is important to stick to the extended times permanently and to make your customers and potential customers aware of your hours. Be sure to use [marketing and advertising](#) campaigns (signage, direct mail, website, social media, email) that highlight convenience and flexibility for patrons to drop off or pick up their vehicles before or after work.

Looking for More Tips?

Boost your shop's performance
with our FREE ebook:

10 Traits of Successful Automotive Repair Shops

Download your copy and start
increasing profits at your shop
today!

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