

We're Talking Dollars, Not Hours

Labor hours or units are like Vegas gambling chips: They're easier to throw away than actual dollars. Retraining our brains to think of these hours as dollars, though, will lead to greater profitability.

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I've learned many things over the years, and one of them is that I'm a poor gambler. Because of that, I don't gamble. But Las Vegas has a unique way of separating a man from his money, and one of those ways is to take your dollars and give you chips. Why chips? Because someone figured out a long time ago that we're more likely to throw down a chip than our money. We understand dollars, but we don't understand chips because we don't immediately associate them with our hard earned dollars.

So, it's much easier for someone to part with a \$100 casino chip than a \$100 bill. And it's much the same way with collision repairers when we discuss labor hours or units with insurance adjusters. We allow them to cut .5 here and there without realizing that every .5 they take costs us \$20 or more. Try this the next time you allow someone to cut your labor time: For every half hour you give back, take a \$20 bill and light it on fire. This is exactly what you're doing, because every half hour you give back is money you're throwing away.

Retrain Your Brain

We need to retrain our brains to think in terms of dollars, not hours, because it's that sort of thinking that will lead to us being much better off and more profitable. Take the average 4.0-hour dent at a body labor rate of \$40 per hour. This equates to charging \$160 to repair any 4.0-hour dent. Now the adjuster comes in and deducts 1.0 hour because he only sees a 3.0-hour dent. Even though your repair time may have been worth 5.0 hours, you're thinking it's only 1.0 hour instead of a \$40 deduction. Because of this mindset, we're way too eager to reduce our repair time by this hour.

So far, no big deal. But let's take a look at what you just agreed to. First, you agreed with the adjuster that you were overcharging him in the first place. Second, you just reduced all future 4.0-hour dents to only 3.0-hour dents. Third, you affected every other shop the adjuster enters and reduced their 4.0-hour dents to only 3.0 hours. Fourth, you just gave him 25 percent off of labor on top of any other discounts you may already be giving. If we look at this in terms of dollars, we just gave back \$40 without even a second thought. Now, we're only charging \$120 for the damage. What can you really buy nowadays for \$120 in regard to skilled labor?

More Bang for Your Blend

If you train everyone to think in dollars and not hours, you'll find that you'll be much closer to what it actually takes to turn a crummy job into a good one. Take blending, for instance. This is something we do every day, but we never really think about blends in terms of dollars. If I'm blending a hood according to industry standards, I'm paying for the privilege of guaranteeing the most noticeable part of a vehicle, not to mention the part that fails the most. Any time we blend a hood, we're losing money. Let's look at the labor hours we get paid to blend a hood. An average hood blend is between 1.0 and 1.8 hours plus materials. When we convert this to dollars using our same \$40 per hour rate, this comes to between \$40 and \$72, with \$72 being on the high side. Add \$24 to \$44 for the cost of materials and we're refinishing a hood for a total of \$64 on the low side and \$116 on the high side. The clear for the hood costs twice this amount.

My point should be coming in loud and clear now. If a customer came into my front door (unless it was my mother), I wouldn't think of painting his or her hood for \$116, let alone \$64. We do this because we aren't thinking in terms of dollars but in terms of hours or units. Just like gamblers in Las Vegas, we're disassociating ourselves with the dollar. When you explain this to adjusters and you show dollars, they begin to understand how far off their labor hours really are. This means that I'm going to pay the insurer for the privilege of blending any hood if I use labor hours instead of dollars. I don't know about you, but if someone grabbed me on the street and asked me for a price to paint his hood, I'd probably say around \$400.

Big Volume, Low Profits

We must also look at DRP agreements and realize that many times, we're paying insurance companies for the privilege of repairing their policyholders' cars. We give them a discounted labor rate and they reduce our repair times as well. Think in terms of dollars and you'll rethink some of your agreements.

I had a DRP that was sending me more than \$1 million in business per year. I thought I was making plenty of money, but then I figured in the cost of two full-time employees (an estimator and a customer service

representative) and a yearly rental bill between \$15,000 and \$20,000, along with the insurer's discounted labor rate. And guess what? I found out I was losing about \$10,000 per year. I had all of the repair hours I could handle but not enough dollars. Do you really think you'll stay in business if you get more and more cars to lose money on? It's just a matter of time before we'll all be forced to think of dollars. The fact is my mortgage cannot be paid with labor hours: It and all of my bills need to be paid in real dollars.

My paint bill needs to be paid in dollars, too. I started to invoice my materials and, much to my surprise, found I was paying far more for them than I was charging. This is because we started using labor hours, not dollars, to charge for paint materials. What does one have to do with the other? Well, either I paid so much for my materials or I didn't – this doesn't take a rocket scientist to figure out. I'm not overcharging, I'm only asking to be paid for what I purchased. Once again, we think in terms of Las Vegas chips instead of dollars. We have no problem charging for part price increases because we use dollars. Are we too stupid to figure out what the actual dollar amount of the paint really is? No, so why do we use a formula that's guaranteed to cost us money? Again, think in terms of dollars, not labor hours or formulas based on labor hours. Either it costs a certain amount to do something or it doesn't. It's either profitable or it's not – this is basic business.

Remember, we're the ones who assume the liability for everything we touch, and calculating in a margin for error is part of this cost. When you blend that hood and it fails a year later, you can't write that customer a check for \$116 and tell them to go away. They'll make you redo that hood and you'll lose again. Just the fact that we guarantee our work should merit a surcharge.

We really must retrain our minds and get away from this hour-based formula and start thinking in terms of dollars. If we do this, we'll see our profits increase, and the unprofitable procedure or repair will become a thing of the past.

Writer Lee Amaradio Jr. is the president and founder of Faith Quality Auto Body Inc. in Murrieta, Calif. His 32,000-square-foot state-of-the-art facility employs 65 full-time employees and does \$7 million in gross sales. In business since 1979, Lee attributes his success to having a great team of quality people supporting him. Lee says that he "sees the handwriting on the wall" and believes that "now is the time for us to reclaim our industry, before it's too late." He can be reached at lee@faithqualityautobody.com.