

What the labor component stands for today

Successful machine shop operators across North America must become very focussed on their knowledge base within their operation. A machine shop's skill level and knowledge base is expressed through its labor rate/door rate. The labor rate of any machine shop represents the **competency level** of the shop. The door rate is not a competitive market pricing issue as are commodities, yet many machine shop owners and managers look at it exactly that way. Consider if you sought out the cheapest heart surgeon along with the cheapest anaesthesiologist what the end results could be. You are looking for competency and skill to resolve the problem.

The new mind-set change for this industry is to understand that you are not selling a job today to a customer base but rather you are being hired by the customer/client to solve their problem and look after them. Think about that. **"We are being hired for our advice and skill; (as you would hire an accountant, lawyer, doctor, or engineer) and we counsel our customer and clients as to what is in their best interest."** It is a completely different machine shop mind-set and approach to business but many older machine shop owners have a tough time with this new perspective and responsibility.

On the other hand, no machine shop has the right to charge top rates to the public if they are incompetent in terms of vehicle engine knowledge; conversely, too many shops do not charge enough for the skill level they have acquired. Skilled shops must charge "the right" dollar for their skill level. Don't sit there and look around the market at everyone's pricing to determine the door rate because every shop is not the same in their depth of knowledge capabilities and service levels they offer.

For five years now I have been talking about the necessity of at least two door



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rates. One is obvious; the basic work rate used for general engine work and the second is a diagnostic rate representing the skill required to diagnose an engine problem or interpretation of critical technical information. If your shop is still stuck on one "catch-all" rate, then I would recommend getting into a proper business class to learn how to and the benefit of implementing two door rates as

a minimum requirement. Engine complexity requires a broader depth of knowledge and to maintain the right skill level in terms of machinist capabilities to handle the technology and equipment, the right dollars must flow into a shop to support its capabilities. Analysis and interpretation problems require a diagnostic rate. Those shop owners who ignore this business strategy and stick with one catch-all rate will find each year getting more difficult. They are not changing their business model required to stay up with the times in our industry. Inertia in this business is a road to bankruptcy.

The basic "machinist" door rate is established for "remove, replace and repair". The second door rate is established for "diagnosis and interpretation" and is usually referred to as the shop's "diagnostic rate". This rate is used for "interpretation of numbers, graphs, electrical, and codes". This rate is critical in a shop today in order to bring in the right dollars if a shop wants to sustain the right skill level. In this category, more training, more equipment and more one on one time with the customer/client is required to sustain shop credibility, consequently, the lower "machinist" door rate is not sufficient.

INTRODUCE YOUR CLIENTS TO A THIRD DOOR RATE

Our studies have shown that a third door rate is now required within a typical machine shop today. The importance of understanding this logic to this point is to realize that a shop must acquire specific skills over a period of time in order to complete the "loop of knowledge" to serve a client professionally. The critical business philosophy to understand is that a client is not paying a shop "to fix a problem now". The client is hiring the

shop for “their knowledge obtained to this point in time”. To gain this knowledge a shop has and does incur costs, and future knowledge will incur additional costs if the shop wants to remain “on top of their game”. Rates will be adjusted as these future costs are continually evaluated.

The client today requires the “right competency and service” backed up with the business philosophy stating, “I will not let you down”. Free service is not the right service that supports the shops competency, yet, many machine shops still run their business model this way. “I must give this customer a break because I can’t charge that” we think. The right service simply means applying the right skill level in the shop to deal with the task that is required to be solved. Obviously skill levels vary dramatically within a shop and it is important for management to deploy the right skill level on a job with the end result being a totally satisfied client leaving the building.

Why have we not educated the customer/client to this message? The reason seems to be that most machine shops came from an era where “commodities” priced right was the way to make a profit, certainly not focusing on the labor end of the business. Today knowledge is our business and billed labor hours per invoice is THE number to focus in on coupled with the SITE EFFICIENCY number to ensure the shop is and sustains its profitability.

This new third door rate represents a skill level that is often over looked. Our studies have shown that it can represent in the range of an additional \$15,000 to \$40,000 per year in an average operation when implemented properly. With this much money involved, it is definitely worth consideration. This third door rate is called the “mechanical diagnostic rate”. It represents the “see, feel, hear, touch, and smell” skills the machinist has obtained over time. Many machine shop owners continuously give this knowledge away seemingly thinking they are providing “good service” to the client, and it goes with the territory of running a shop today if the shop wants to sustain its clientele. Nothing could be further from the truth. This rate level adds, on average, only twenty to thirty dollars to the grand total amount of an invoice. On a typical invoice ranging from \$750.00 to 950.00, the additional twenty to thirty dollars will

not lose the business, and if it does, then management must seriously consider that it has not delivered perceived value to the client. Do the math. If a shop averages 100 invoices a month then an additional \$20 for this skill level represents \$2,000 per month or an additional \$24,000 per year. An additional \$30 brings that number to \$36,000 per year.

There are mathematical formulas and procedures to establish and implement all the various labor rate levels and that can be learned in a business class, however, the important point is to now acknowledge that the consumer has not been properly educated as to what the labor rate in a machine shop stands for.

The labor rate in a shop represents the knowledge base sustained in the shop.

The door rate established in a shop should not say “this is what we fix it for”, it should represent “the depth of skill level achieved so far”. When a shop does not have a good, or right, skill level, the rate is, or should be very low but, conversely, when the skill level is above normal in the marketplace the door rate must reflect that level also. **The labor rate in a shop represents the “knowledge base sustained in the shop”.** Consider that once a customer/client understands this message then arguing about the labor factor doesn’t make sense any more. The important point for management to understand here is to ensure the implementation and execution of the philosophy to the customer/client will be “we will never let you down” by this business.

Consider that our industry is moving forward at a rapid pace and shop management must get their head around professional business strategies that will maintain the right skill level within the

machine shop coupled with the implementation of a business process that creates total client satisfaction. When you start to ignore this type of independent machine shop strategy and business knowledge, the shop debt level continues to soar, cash is always tight to non-existent, management wages are at a level of buying a job, stress levels are far from normal, family life is seemingly always on the back burner, and the business really is no fun anymore. Under these criteria, management should make the decision to learn now and get on with it, or do themselves and the industry a favor and get out of business before it is too late. A tough message — yes — but it is the right message.

Slow down and consider how the machine shop is educating the marketplace about the labor component on the invoice. Don’t keep management’s head in the sand thinking that discussing the knowledge base of the shop is not worthwhile to the shop’s clientele. By discussing the skill level required today could be the best thing that ever happened to the relationship with the customer, but ignoring this discussion could be the biggest management mistake ever made in the business. We are the independent sector. We are in the service and quality business. We are in the knowledge business. Who out there wants our knowledge? We won’t let you down.

Consider your marketplace statement. ■



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