Let's Return to Old Time Rebuilding

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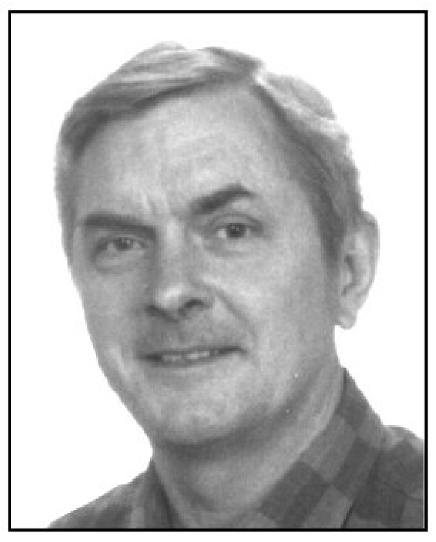

Several years ago, the Automotive Parts Remanufacturers Association (APRA) and Auto Electric Rebuilders Association of Canada (A.E.R.A.C.) held a joint meeting/trade show in Vancouver and I was invited to speak on my theories of how to run a business profitably, which I did, with a great deal of confidence.

Because of the changes that have occurred in the interim and are continuing at an ever increasing rate, I am no longer comfortable telling you how to do it. So what I am going to do is give you some thoughts and theories, and let you decide which, if any, are useful and might be implemented or incorporated into your business.

I am now of the opinion that we need to return to "old time rebuilding." Many of the suppliers are saying "we can sell it to you as cheaply as you can build it," and that is not true. If you believe this, you are headed for trouble. Suppose you can buy a Ford PMGR for $50 and you sell it for $100, thereby making $50. You calculate that it would cost you $50 to build it. There is the issue of time to do the work to factor in. You can buy in 10 minutes and build in 20 to 50 minutes.

I did a calculation that, replacing armature, brush rack, drive, solenoid and bushings, including labor and overhead, it should cost you about $50 to rebuild a Ford PMGR. A supplier recently offered new PMGRs for $50. The only difference between a new and the rebuilt I described is the housings and field case. Since these items do not need replacing every time, it is less expensive to rebuild than buy.

My point here is that the $50 it cost for you to rebuild, included something for your labor, rent, insurance, etc. The supplier would have to be below your build price by about 15 to 20 percent for the effect on you bottom line to be the same.

If you buy the unit for $50, all of the money goes into the supplier's pocket, whereas if you build it, part of that $50 cost is applied to your fixed expenses (rent, heat, wages, etc.), therefore when you make $50 profit you have two profits, not one. I am not saying don't buy, but think about it. If you have eight hours of profitable rebuilding work and three more hours comes in — buy it, but if you only have five hours and three comes in, build it.

Another thing to consider is how many times do you have to put everything new into a rebuilt? The probable answer is not often. Because we are rebuilders, we salvage, rework and reuse parts. That is the theory behind the rebuilding industry. Why throw out or scrap good used parts when they can be reused and save costs?

In my calculation of what it would cost to rebuild a PMGR I assumed that all the parts inside need replacing, which is not necessarily true, but I did not allow for replacing any housings.

Another time to buy is when you need cores. If you buy at $50 and sell at $100 exchange, you generate a core. If you get an aftermarket core back, unless you know for sure that you can get parts, throw it out. Only save OEM cores and only try to build OEM cores. Save cores until a slow period and then do all you have at one time. Build what you can and throw out the rest.

All of us have parts that are good and we'll use one day… maybe. Each square foot in your shop has a cost attached to it and takes rent (mortgage), heat, electricity and taxes. If all that is lying there is a bunch of old cores, they better be expensive ones. If it's old parts, you better get a lot for them when they are used because just sitting there they've increased in cost.

I have a jobber in Brantford who will sell you a Ford PMGR for $65 exchange with a 90-day warranty. If you want a year, that is $129. People tell me, "I can't compete with that!" and that is nonsense. If it costs me $50 and I sell at $65, I made money and I competed and because of the jobber, I only have to give 90 days. They only give 90 days, not 91 or 95, only 90 days, and they say to get one year it will cost $129. Same at my place and my cost is still $50, so I made even more money. By selling at $65, I made about 25 percent on margin — that's not bad.

Profit is Not a Dirty Word

Profits: the difference between cost and selling. Definitely not a dirty word. It can be calculated by markup or margin.

If you use markup, you are wrong! Discounts are given as a percentage of the selling price. In this case, if you gave a 10 percent discount you would have to give $6.50 off, not $5.

All differences between cost and selling need to be calculated as margin, not markup. If it costs you $40 and you want to make 30 percent, you must sell if for $57.15, not $52. If you needed to give a volume discount of 10 percent, you wouldn't want to tell the customer what your cost was by offering him $4. $57.15 minus 30 percent is $40, but $52 minus 30 percent is $36.40.

There are many ways to calculate "margin," which is setting your profit as a percentage of your selling price. My way is to subtract your desired profit percentage from 100, and divide your cost by the remainder. An example would be: it cost you $6.50 and you wanted 40 percent profit, subtract 40 from 100 equals 60. Divide $6.50 by 60 equals $10.83.

If you were to use "markup," it would be $6.50 plus 40 percent equals $9.10. To prove I am correct, subtract 40 percent from both selling prices and see what happens. $10.83 minus 40 percent equals $6.50, while $9.10 minus 40 percent equals $5.46.

We usually buy at pricing that is below jobber because we are considered to be manufacturers. This means you need to add to your cost to get to jobber, never mind get to trade or list. There will always be some fool who will sell it cheaper. Don't compete on price. Ask if the jobber has the technical expertise to help with problems, does he have the test equipment, can he check inside to see what is wrong?

If the guy brings a new unit which is not yours and wants it tested, charge him! He bought it somewhere else and they made the money. Now he wants you to bail him and them out. Your time is valuable, charge for it. If the guy complains about the fee, tell him to take it to where he got it and let them check it. If he walks out to go somewhere else… you didn't need him.

All he wanted was something for nothing. He'll go find someone else, waste their time, and probably never buy anything from them, just the same as he was going to do with you. He's already proven that he wants cheap, not good. Even if he does agree to buy from them, he will haggle the price down and whine and complain about how they are using him wrong.

Know Your Costs

How many of you know what your dollar per hour cost of operation is? How many of you know what "cost of operation" is, period?

Your "cost of operation" is all your fixed costs, everything you spend to operate your business except parts purchases and wages. Heat, electricity, equipment purchases, maintenance, toilet paper, solvent, everything you buy that goes into the business except wages and parts. It's all the money you have to spend so that you need wages and parts.

Now, what do you need to know this for? How else can you tell if you are making money? Is your labor rate too low or too high? If it's less than $60 or $65 per hour it's probably too low. You don't bill eight hours per day, you have too many other things to do: order parts, talk to customers, work on units, talk to people who want something for nothing, solve problems in production or give advice as to why the perfectly good unit you just sold doesn't work on the vehicle.

You sold $1,000 today, had a really good day…or did you? If you don't know what it costs to be open, how can you tell?

The expensive way to get this number is to hire your accountant to find it. He/She will be more accurate than me, but better be sitting down when you see the bill.

My way goes something like this:

1. Get the checkbook for two years and add up all the checks that were written.
2. Go back to the beginning and total all the checks that were for direct wages (to employees), and for parts (to suppliers).
3. Third, subtract wages and parts from total checks written.
4. Divide the answer from number three by 4,160 (8 hours x 5 days x 52 weeks x 2 years). The answer is your dollar per hour cost of operation. Do not be surprised to find a number greater than $50. This would mean that the first $400 per day in sales goes to keeping the shop open. Now you have to buy parts and pay wages. That's $400 per day, $2,000 per week, $104,000 per year in sales just to keep open.

Remember your $1,000 day? How does it look now? By my calculations $1,000 less $400 leaves $600. Parts cost were $300, that leaves $300. Not too bad unless you have an employee and have to split it. If the employee makes $12.50 per hour, you are left with $200 for your eight (?) hours of work.

Even if you are on your own, you don't work eight hours per day. What about being in at 7 a.m. to open, and you leave on average at about 7 p.m. after finishing the paperwork, which means you work, at least, between 60 and 70 hours per week and make about journeyman's wages. But then you're the boss and get to set your own hours, take time off whenever you want, and make all the money.

Is my answer accurate? No, but it's a whole lot better than not knowing at all and/or making plans by guessing. Another thing to look at, by knowing a figure for your cost of operation, it is easier to price any quotes where the customer wants discount based on volume.

I touched on it earlier, but space is a real problem. Each square foot in your establishment costs you money to own/rent, maintain, insure, pay taxes on, and heat or cool. Why would you allow a pile of cores you don't want to take up space? Remember you own/rent to the roof. Put cores in things that go up! We used some old wooden bearing boxes (about 3 wide by 2 high by 11/2 deep). We put a two-by-four on the floor, about 20 inches from the wall and put a row of boxes on it on their sides, screwed them together and to the two-by-four and then installed several other rows on top, with each screwed to the one touching it. We installed dividers in the boxes and ended up with about 2,000 square feet of core storage that takes up about 75 square feet of floor area.

Keep track of what cores you have. If you have five of some things you sold once last year and not this year, get rid of it. The core business stinks at the moment, but even if you get only scrap prices, you are ahead of storing those five pieces forever, because you may never need them.

Keep you shop clean in at least the areas that the customer can get into and/or see. How do you expect the customer to have faith in what you do if all he can see is a pile of dirty junk?

Advertise Effectively

I am really ambivalent about advertising. How many of you have pens in your pockets? Unless it's from your own company, without looking, whose name's on it? And if you know whose name's on it, has it ever affected where you buy things?

Last year, I received about 14 calendars with various pictures and scenes. I kept one for the shop, one for the office, and one for home. The rest went into the garbage. I can't tell you whose name is on the ones I kept. I chose them for the scenes. One is of golf and the other landscapes. I don't allow scantily clad lady calendars in the shop and have a really low opinion of shops where I can see them. I am not a prude, but many people have social or religious beliefs that are offended by these things. So why would you have them around?

I have always felt that Yellow Pages are about the best available for our business, although now I wonder. Watch where they put you. My first ad was put under "Automotive Service–Electrical." Nice ad, but not effective. The next year, the same ad was in the same place with a listing under the individual headings of "Starters–Alternators–Batteries," telling people to look under "Automotive Serve–Electrical" and was very effective, and remains reasonably so.

People have formed an opinion of what is wrong with their cars when they start to look for help. The think, "my starter is bad," and they go looking for "starters." If you're not there they will take whoever is. They have no concept of the silly convoluted way that the telephone company wants to do things. By the way, the cost of my year two ad was the same as year one. All I said was it wasn't effective and if I couldn't get the referral ads for the same price I would cancel. There is enough competition now that they will cooperate.

Other than Yellow Pages, what is the best advertising you can do? I know word-of-mouth is best, but think about how you can get it. A really positive strategy is to go out every week, for about one hour (and have it planned), and call on customers. You are the boss and you are taking time to call on him. His ego is now expanded and you have created a great impression. If you have a new product or service, he will now probably listen.

Unless you absolutely can't avoid it, don't hire a salesman. Do it yourself. Even if you have a salesman, go out regularly and meet the bosses. You are the best advertisement for your company.

A note on charitable donations: If you get a plaque or a certificate or a picture in the paper (that you could frame), make any donation you can afford. If you get your name in a program at the local arena, see the comments about pens. If you get a coupon book, don't even think about it! More than 75 percent of the time less than 10 percent of the coupons in those books are used — the rest expire unused.

Be Smart When Pricing

It is not necessary to be the lowest in town; better to be the best. In almost every town there is a Wal-Mart/Zellers type operation and there is a Sears/Bay operation and both survive. There will always be people for whom the lowest price is the most important thing. They want to be able to say, "I only paid $10 for mine." They don't ever say that they've had to take it back three times because of problems. You don't want to deal with these people. They are a lot more trouble than profit.

Something that occurred to me was freight. Not shipping to the customer, although that can be really expensive, but bringing the parts to you. Do you include a freight factor in your cost of parts? I add 10 percent of its cost to the price of each part before I start calculating my margin or anything else.

This means my margin/pricing calculations will look like this: Cost of part from supplier: $1.50. I start there and add $1.50 plus 10 percent to get $1.65. I want 30 percent to the lowest price, so 100 minus 30 equals 70. Then $1.65 divided by 70 equals $2.36 or jobber. To this I multiply by factors to get the rest of the price levels:

∑• $2.36 x 1.35 - $3.19 or trade
- Trade x 1.3 - $4.15 or retail
•∑ Retail x 1.2 - $4.98 MSRP

No one expects to get MSRP but you could try. It shows the customer that he's getting a price break. Your figures could vary depending on where you live/work. I know some people in northern Canada who start at my "trade" price and begin their calculations, but their problems and costs of getting parts are much greater than mine.

I am finished now. If there is something you can use — use it. Modify it, think about it, don't put if off. What worked for last month may not work this month. Watch trends, what sells. Watch how soon the thing that sells doesn't anymore, and respond. When I got in the electrical rebuilding industry, it was a license to print money. Now, the press is broke and you have to make your money by hand.

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