THE KPI HANDBOOK

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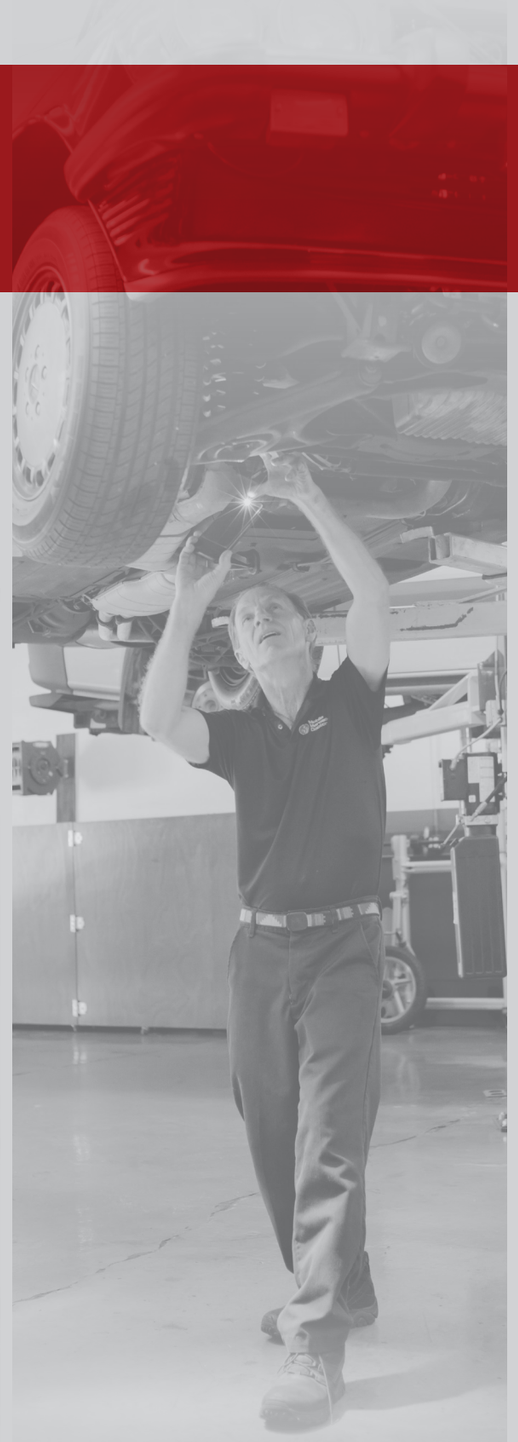
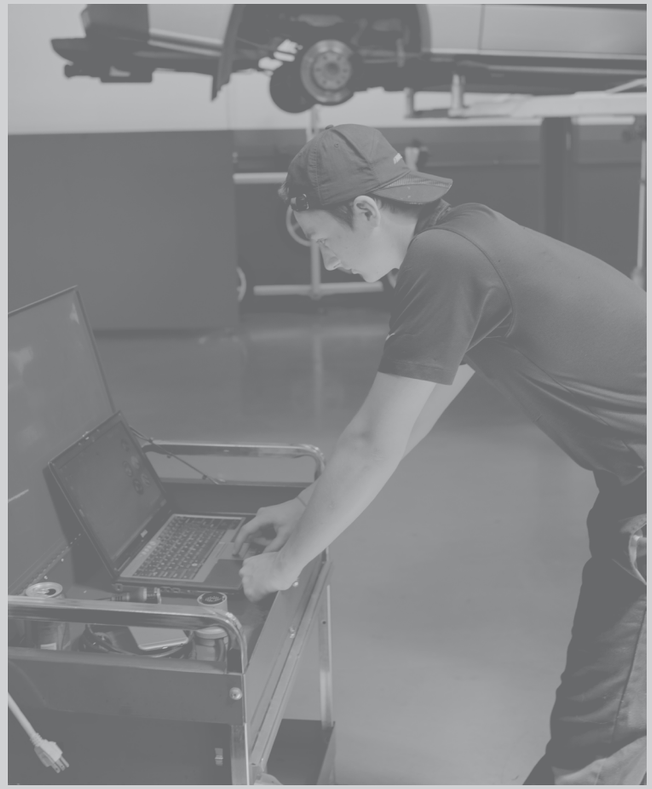




THE KPI HANDBOOK

Presented by: AutoZone

Key performance indicators (KPIs) are the numbers that define a shop's success or failure—the metrics that when collected, recorded, and analyzed correctly act as the lifeblood of a business, giving tangible and actionable information that helps industry leaders shape the future of their respective businesses.

Every business is different—but the numbers that affect repair shops are universal. And, knowing how to monitor and improve KPIs is an art.

That's what The KPI Handbook is all about. Sponsored by AutoZone and built on data, benchmarks and industry averages from the 2018 Ratchet+Wrench Industry Survey of over 400 shops and past *Ratchet+Wrench* stories, The KPI Handbook is here to explain the most critical (and simple) shop factors to track. While shops of different sizes and locations have different challenges and opportunities, all shops should be able to make use of these simple strategies to bolster their revenue, inspire confidence in their team and clientele, and move forward into 2020 with an actionable plan to repair vehicles and grow their business.

Establishing and tracking KPIs can help provide a better understanding of your business and how you can grow your shop. It wasn't by accident that AutoZone grew from a one-store business in 1979 to one of the leading suppliers of parts in the industry today. Together, the tools, experience and expertise of AutoZone, coupled with KPI data such as effective labor rate, technician efficiency and closing ratio, can help lead your business to better decisions and solutions.

Presented by AutoZone, The KPI Handbook is here to help identify the opportunities of today and help support the growth of tomorrow's repair shops using industry tools and expertise from a legacy of solving challenges.

THE KPI:

AVERAGE REPAIR ORDER (ARO)

WHAT IT IS: The average total cost of all repair orders

HOW TO CALCULATE IT: Sum total cost of monthly repair orders ÷ # of orders

INDUSTRY AVERAGE: $200–$399
For shops averaging more than $1 million in annual revenue, the average ARO jumps to $400–$599.

OPTIMAL BENCHMARK: $400+
The most successful shops maintain at least $1 million in revenue per year and are able to assess their growth opportunities using that figure. ARO is a huge factor in profitability and growth, and tracking it is as simple as using a spreadsheet and understanding why the numbers are the way they are. Shops with high AROs don't necessarily sell more repairs; they simply work smarter and understand what it takes to maximize revenue from every invoice.

HOW TO IMPROVE ARO:
By empowering your technicians with increased inspection times, you'll find more work for service advisors to sell and for your techs to repair. Everybody needs a few oil changes per year, but that's not where you'll make your money. That's low-hanging fruit.

Thorough inspections coupled with detailed paperwork will help convince clients that the work you're advising, in order to avoid future problems, is worth their time and money to repair. Many clients may not understand what's wrong with their cars; a thorough inspection process will help bridge the gap between the unknowable component creating issues under the hood and the tangible, repairable problem when it shows up on the inspection form.

Many shops use five hours as a benchmark for the technicians' average repair order. That may only account for 20–30 minutes per inspection, but you can (and should) bill for that as .2 of a labor hour. Your technicians are working, after all, and time is money.

ARO is also compounded by a thriving customer base; most shops lose an average of 18 percent of their customers per year, so capturing new ones with a clean shop, a knowledgeable staff, and effective print and digital marketing is key.

THE KPI:

AVERAGE HOURS PER REPAIR ORDER

WHAT IT IS: The measure of your technicians' average time per repair order

HOW TO CALCULATE IT: Hours worked in a week ÷ repair orders in a week

INDUSTRY AVERAGE: 2.50–3.25

OPTIMAL BENCHMARK: 3.50+
At its heart, hours per repair order (H/RO) reveals the difference between being busy and being productive. The goal is to achieve more hours billed than worked by the technician. That figure alone, however, isn't very useful; owners also need to know the average labor hours billed on each ticket. The ultimate goal is to have the number of hours billed exceed the amount of hours worked by the technician; achieving this benchmark will push each technician's productivity over 100 percent.

What makes H/RO unique is that it's universal—no matter where your shop is located, the nature of your repair work or the average income of your customers, H/RO is applicable. A shop in Duluth, Minn., should work as hard to achieve maximum H/RO as a shop in downtown San Francisco or Dallas.

At worst, remember the rule of three: for every 8-hour shift, a technician should average three repair orders at three billable hours each. That results in an H/RO score of 2.67 and a productivity rating at 112 percent.

HOW TO IMPROVE IT:
H/RO suffers because of the daily goings-on at a shop; a poorly laid out floor, difficulty getting cars in and out of bays, running errands, test drives—all contribute to poor H/RO. An overstaffed shop, however, is the No. 1 reason for low H/RO scores.

WANT TO IMPROVE H/RO? HERE ARE SOME STRATEGIES:

COMMUNICATE BETTER. As in all shop factors, communication and transparency is key to a successful shop. If the service advisors and technicians aren't on the same page or if the manager or owner isn't aware of what's happening every single day, it's time to evaluate why. It starts with communication.

USE A REPAIR CHECKLIST. Every repair should have a checklist. From simple oil changes and seasonal maintenance to engine overhauls and complicated drivetrain repair, every part, component, issue and fix should be recorded. Every operation should be billed to either parts or labor—a checklist will show you every little detail.

RETRAIN CUSTOMERS. Customers don't need to draw techs away from other work for spot inspections or questions; that's what calendars and appointments are for. Customers need to understand that time is money, and taking technicians away from the work they're meant to do is costly to everyone involved.

THE KPI:

TECHNICIAN EFFICIENCY

WHAT IT IS: Technician efficiency is the measure of a technician's billable hours (booked time on the repair) compared to the actual hours needed to complete the work. Tech efficiency can be measured on a per-job basis or over a period of time (weekly, monthly, yearly). The efficiency figure shows the rate at which technicians get the job done once they begin working on the repair order.

HOW TO CALCULATE IT: Flat rate hours produced ÷ actual hours worked

INDUSTRY AVERAGE: ***80–99%***

OPTIMAL BENCHMARK: ***100%+***
Ninety-four percent of shops surveyed with more than $1 million annual revenue track technician efficiency, and roughly 1 out of 3 of those shops report technician efficiency above 100 percent.

HOW TO IMPROVE IT:
Many owners track KPIs such as technician efficiency, but few know what to do to improve it (or are simply scared to implement change). It's not as frightening as the ledger may seem.

Let's say your shop rate is $90 per hour. Your three technicians are inefficient by .3 a piece, and that adds up. That's $30,000 of lost work per year.

How do you empower your technicians? Proper equipment is one of the main factors. Most heavy equipment needs to be updated every three to five years and regularly serviced and maintained in the interim. Diagnostic software, on the other hand, needs to be updated quarterly or better in order to keep up with the rapid pace of technology. Information is money, in other words. Be sure you make the most of both, have regular processes to ensure the tools and tech on the floor are as up to date as can be, and are ready to service the next customer rolling through your doors.

Properly training technicians is another way to ensure high efficiency. If they don't know what they're doing, you're probably not the first to know. Be sure to keep easy and open communication about your techs' abilities, and give them the opportunity to improve via trade shows and specialized training to bolster their skill set.

Average hours per repair order also affects efficiency. Informed, efficient service advisors enable your technicians to maximize their potential; inefficient advisors make for inefficient technicians, and you can't afford either. The national average of hours per RO is roughly 1.8–2.4, but many shops can—and should—do better.

THE KPI:

TECHNICIAN PRODUCTIVITY

WHAT IT IS: Technician productivity refers to the time a technician is available to work measured against the actual time spent working on positive cash flow repair orders. Tracking productivity shows you the actual time your technicians work in a day and allows you to see whether the shop has enough work for them and whether that repair order is actually ready for work when they are available.

HOW TO CALCULATE IT: Hours worked ÷ hours available

INDUSTRY AVERAGE: ***80–89%***

OPTIMAL BENCHMARK: ***90%+***
Of the shops surveyed, only 41 percent with an average of $1 million and more in annual revenue reported productivity rates above 90 percent.

HOW TO IMPROVE IT:
Low productivity is not a problem that gets better with time or by ignoring it once it raises its ugly head. It needs to be dealt with now. And it starts with asking the right questions.

ARE MY TECHS BUSY ENOUGH? Low car count is one of the most severe factors contributing to low productivity. You need to know what the average week looks like in your shop in order to assess common tech productivity. Low car count can actually be curbed fairly quickly by increasing efforts in marketing or by making the more difficult decisions in changing staff levels. Low productivity, however, has less to do with technicians and more to do with ownership. Good techs deserve steady work; are you providing it to them?

IS MY DISPATCH PROCESS EFFICIENT?
Look at your counter—are tickets waiting to be serviced? That's work that needs attention. Many shops implement call times directly on the ticket indicating when the service advisor will call the client for recommended repairs. Job boards specific to each technician will let everyone know the expected work for the day and what's in the queue. Create a system that works for you—simply color-coding repair orders as waiting to be serviced, being serviced, or finished will work wonders for understanding what's happening around the shop.

IS MY PARTS PROCESS ADEQUATE?
Shops need parts just as people need food; if you can't get it, you're not happy. When parts are delivered, are they on time and of high quality? Are they even the right part? While many shops keep a steady cache of filters, wipers and other simple, seasonal needs, larger repairs require more complicated components. Keep a checklist or requisition form for standard repairs of above-average complication and precision.

Electronic parts ordering is another surefire way to get what you need when you need it. Integrating a checklist to work seamlessly with digital parts software and sourcing ensures getting the right part, every time.

THE KPI:

GROSS PROFIT ON PARTS

WHAT IT IS: The difference between the revenue of a job and the cost of completing it as it relates to parts, excluding all overhead costs

HOW TO CALCULATE IT: Job (or repair order) revenue – parts

INDUSTRY AVERAGE: ***50–59%***

OPTIMAL BENCHMARK: ***60%+***

HOW TO IMPROVE IT:
The No. 1 way to increase gross profit on parts is to simply make a parts matrix. A parts matrix is a spreadsheet that describes each mark-up for parts of different prices, allowing shop owners to achieve specific gross profit percentages on every part sold. It can be a daunting task, but your future revenue will show the results.

Every shop is different, but every price matrix should work the same despite varying parts, percentages and costs. It starts with knowing your annual gross profit goal and breaking that down by month, week and even hour to achieve the most accurate matrix for your goals.

These are just examples but they serve to show how effective the matrix can be, and why keen service advisors will be able to effectively upsell more expensive repairs without needlessly fleecing your clients. A parts matrix is a representation of your clients' trust in your prices and services above anything else—take the time to build it respectfully and it'll serve that time and effort tenfold.

Adjust the matrix over time based on workload and the most common repairs that exceed the first price threshold or two. See what works. Conform markups to specialties or dealer parts, which are often more expensive, and look for opportunities to save money in the aftermarket by purchasing OEM-like quality parts such as Duralast. During slow weeks or months, tweaking even a small part of the matrix will help you make your gross profit goals over time without overhauling the entire matrix. You may find that some jobs are not worth marking up very much due to minimal gross profit return.

HERE'S AN EXAMPLE OF A SAMPLE MATRIX:

PARTS COST	MULTIPLIER	GROSS PROFIT	MARKUP OR MARGIN
$0.01–$1.00	3.5	71%	250%
$1.01–$5.00	3	67%	200%
$5.01–$75.00	2.5	60%	150%
$75.01–$150	2.25	56%	125%
$150.01–$300	2	50%	100%
$300.01–$1,000	1.85	46%	85%
$1,000.01+	1.75	43%	75%

THE KPI:

GROSS PROFIT ON LABOR

WHAT IT IS: The difference between the revenue of a job and the cost of completing it as it relates to labor, excluding all overhead costs

HOW TO CALCULATE IT: Job (or repair order) revenue – labor

INDUSTRY AVERAGE: ***60–69%***

OPTIMAL BENCHMARK: ***70–75%***
Labor varies wildly and really represents a KPI that can make or break your shop. Look at the difference between shops that tracked gross profit on labor and those that didn't:

	TRACKED KPIs	DIDN'T TRACK KPIs
GROSS PROFIT MARGIN ABOVE 50%	63%	41%
GROSS PROFIT MARGIN ON LABOR ABOVE 50%	67%	39%

HOW TO IMPROVE IT:
Every minute of your staff's time is valuable—every minute in service to a customer should be billed. Missing opportunities to bill customers due to relatively new practices in auto repair—such as diagnostics—is wasted time and money. Not charging (or not charging accurately) for diagnostics will hurt your gross profit labor dollars in ways you never thought possible. It will also have a negative impact on effective labor rate and ultimately your bottom line.

Overcoming the idea that you shouldn't charge for diagnostics often comes from a surprising source—the technicians. The perception for many is that they simply have to plug in a computer to a car and the software spits out a clean answer, and that is false. It takes time to correctly diagnose a vehicle, understand the codes and react appropriately. The most common technicians diagnosing vehicles in a small shop setting are often the most senior technicians who understand more than anyone that their time is valuable.

The most savvy shops understand diagnosis as an increasingly critical part of the initial inspection and bill it according to gross profit per hour—what they need according to weekly, monthly and annual gross profit goals.

Because most diagnoses take roughly an hour, bill them accordingly to make up for lost parts and service time; an accurate result will save you more in the long run anyway. Many owners use a labor matrix in addition to a parts matrix, and diagnostic billing is often 1.4–1.6 the normal hourly rate.

Be prepared to train your service advisors into how to properly sell a diagnostic test; it's about value to the vehicle and customer safety, not about finding ways to charge an extra $100. Be transparent and show customers the device, explaining in simple terms the long-term value the diagnosis offers in a rapidly changing marketplace.

THE KPI:

EFFECTIVE LABOR RATE

WHAT IT IS: Effective labor rate is the measure of what your shop is actually making per billed hour

HOW TO CALCULATE IT: Total labor sales in dollars ÷ total labor hours billed

INDUSTRY AVERAGE: ***$90+***

OPTIMAL BENCHMARK: ***$100+***
Effective labor rate (ELR) depends on many of the same shop factors as technician productivity: technician efficiency, higher AROs, increased closing ratios and more all contribute to improving effective labor rate. At its heart, ELR boils down to this: improved efficiencies will enable more hours to be billed out in the same amount of time.

Anything you can do to increase the efficiency of your techs will increase your effective labor rate, which will directly change your bottom line without changing what the customer is being charged. Decreasing technician downtime and working to speed up customer authorization of repairs (rather than simply charging more) are two of the more obscure ways to improve ELR.

HOW TO IMPROVE IT:
Improving ELR has more to do with incentivizing and keeping your staff motivated. Here are five key takeaways about how to do just that:

1. SYSTEMS AND STANDARD OPERATING PROCEDURES:
Well-defined, transparent policies and procedures with an answer to almost any situation. It may seem daunting at first, but even something as simple as cleaning the coffee machine on a regular basis and establishing a schedule and standard operating procedure to do so will contribute to ELR.

2. STAFF: Having a staff that cares about each other and wants to work together is key. Keep communication open and easy, and hold enough staff meetings so everyone works toward tomorrow—together.

3. TRAINING: Establishing regular training intervals (weekly/quarterly/monthly) or being open to industry training opportunities will show your staff you care and empower their skills in the shop, translating to more and better repairs at a faster rate.

4. EQUIPMENT: The tools and technology of the repair industry are constantly changing; is your shop equipped to keep up with the technological tide? Not having to wait for answers or the right tool goes a long way toward improving ELR.

5. FACILITY: A clean shop speaks volumes about the work done inside it, and it also ensures that staff are able to find exactly what they need and aren't wasting time walking around the shop floor trying to locate a particular tool.

THE KPI:

CLOSING RATIO

WHAT IT IS: Closing ratio is the percentage of items sold on any given visit, regardless of cost, scope or scale.

HOW TO CALCULATE IT: The # of items (repairs) offered ÷ the # of items sold

INDUSTRY AVERAGE: ***50-59%***

OPTIMAL BENCHMARK: ***60%+***, although keep in mind the nature of the work being sold. Your shop may aspire to a 95 percent closing ratio, but if the majority of your work is simple maintenance, you probably aren't presenting terribly complicated nor expensive recommendations to your customers.

If your shop handles more than just routine maintenance, however, it gets a little more complicated. How do you effectively present, educate and sell your customers on the larger repairs? Many experts agree that 75–85 percent or so closing ratio is ideal for many shops due to the hundreds of possibilities they encounter every day.

Shops that reported AROs higher than $400 recorded lower closing ratios (60–69 percent) than those below $400 AROs (70–79 percent).

HOW TO IMPROVE IT:
If you're dissatisfied with what you perceive as a low closing ratio, the first thing to do is establish benchmarks. Will you count oil changes as closing ratio factors? By limiting the scope of your closing ratio repairs, you can more easily establish a baseline and build from there. Here are some strategies to help improve your closing ratio:

1. IMPROVE YOUR HOURS PER REPAIR ORDER.
More thorough inspections yield more work.

2. SET CLOSING RATIO GOALS.
As the severity of the repair order goes up, the closing ratio per order should go down. For example, oil changes and air filters could close at 95 percent; wipers at 70 percent; belts at 55 percent. Services and safety issues should vary between 50 percent and 75 percent, say, because they require a little more salesmanship (for a lot more profit).

3. BE EXPLICIT ON COSTS.
Transparency is key. Don't beat around the bush on costs or try to hide anything; you'll lose customers.

4. MAKE A SALES GAME PLAN.
You don't need to sell 100 percent of all repairs right away. Safety and reliability of the vehicle are key, so focus on the conversation that has to happen to secure a service or safety sale.

5. EVALUATE PERFORMANCE.
Work with your staff toward achieving these goals. Some may excel at selling some parts or service and struggle to sell others; work together as a team to help everyone make the most of their repairs.

6. TRAIN TO IMPROVE.
Training offers endless opportunities for revenue and personal and professional growth. Don't skip on training just because it means a day out of the shop—find a solution to get everyone what they need.

THE KPI:
NET PROMOTER SCORE

WHAT IT IS: A survey measurement from 0–10 indicating your customers' overall perception of your brand and how likely they are to recommend your shop to friends or colleagues. The survey covers a wide range of topics and every answer counts toward the overall customer experience.

EVERY 0-6 ANSWER counts toward a ***DETRACTOR.*** These customers are unhappy at best, unlikely to return to the shop, and may discourage others from using your services as well.
EVERY 7-8 ANSWER counts toward a ***PASSIVE*** customer. These customers are generally satisfied but may not actively promote your shop in their daily lives. It is unlikely, however, they're discouraging others from your services.
EVERY 9-10 ANSWER counts toward a ***PROMOTER.*** These customers are your real fan base, loyal and enthusiastic about your shop and the work you do. They are likely to spread the good word on your behalf and will positively respond to good work and feedback.

HOW TO CALCULATE IT: Once the survey results are tallied, subtract the detractor percentage from the promoter percentage. For example, if your survey indicated 15 percent detractors, 15 percent passives, and 70 percent promoters, your NPS score would be 55 (70 - 15).

INDUSTRY AVERAGE: 60–80

OPTIMAL BENCHMARK: 90+

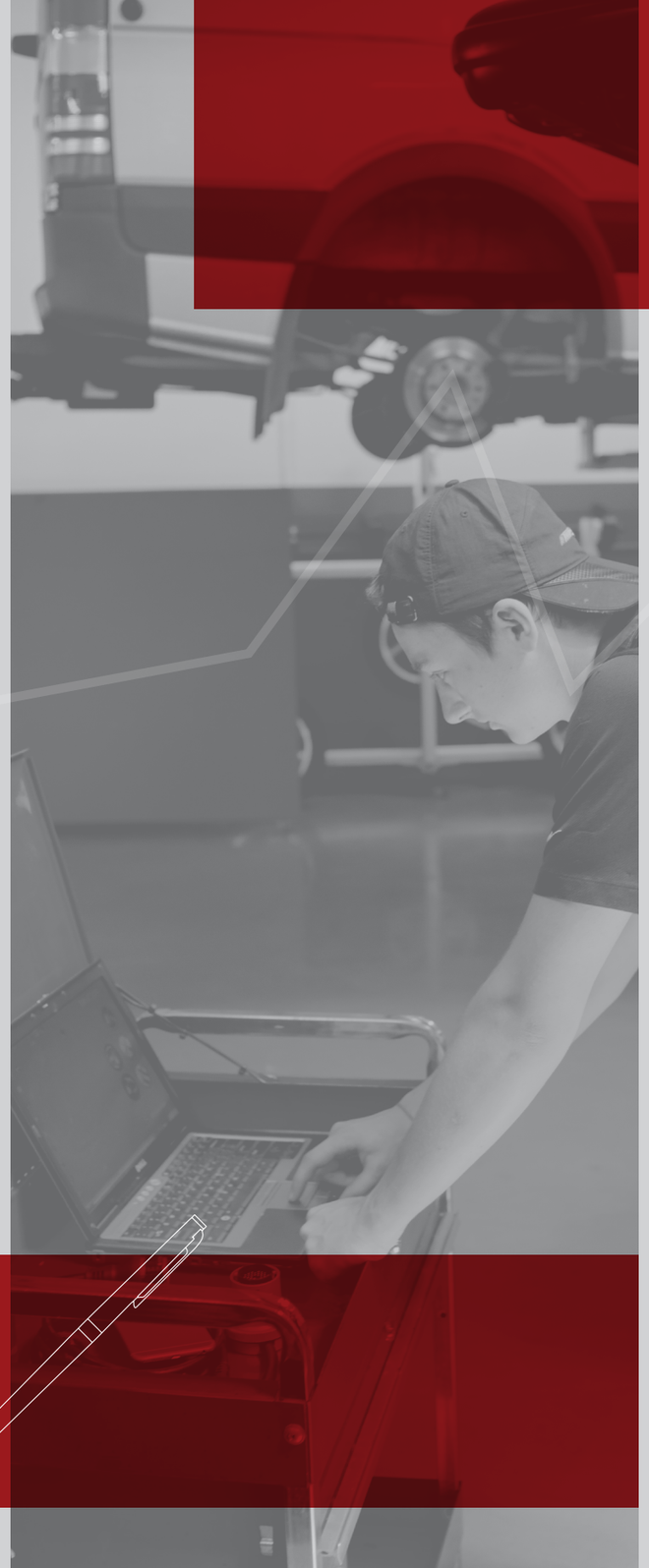
HOW TO IMPROVE IT:
Many shops implement a brief NPS survey via email after completing a ticket and keep a stack of physical surveys on the counter. Your NPS provides a real-time, to-the-month indication of how your brand sits in the minds of your customers. More detailed questions about cost, repair, customer service, communication and more lead to more data, which will help you dictate what needs to change to improve your NPS score over time.

Most NPS surveys top out around 10 or 12 questions, and many use fewer. It's also important to remind customers that their answers have real results on the shop, and that you take their feedback seriously and appreciate their time.

HERE ARE SOME SAMPLE QUESTIONS:

1 to 10: Satisfaction with the quality of the repairs.
1 to 10: Satisfaction with the service.
Y or N: Was the vehicle ready when promised or was it early?
Y or N: Did the shop keep you informed during the process?
1 to 10: Satisfaction with the cleanliness of the vehicle.
1 to 10: How likely would you recommend to a friend or family member?
Y or N: After repairs, was it necessary to return to the shop for "re-work"?

Many owners implement staff-wide bonuses based on monthly NPS scores. It's a team effort from start to finish, so it's something everyone can get behind, contribute to and benefit from.



THE KPI:
NET PROFIT

WHAT IT IS: The actual profit after working expenses not included in the calculation of gross profit have been paid.

HOW TO CALCULATE IT: Total net revenue – all gross profit expenditures

INDUSTRY AVERAGE: 10–14%

OPTIMAL BENCHMARK: 15% OR HIGHER

HOW TO IMPROVE IT:
There are myriad ways to improve your net profit. Here are 8 quick strategies. You don't need to implement them all to bolster that ledger, but achieving balance between some of these will certainly help:

1. MAKE BUDGETING A PRIORITY.
Budget for as much as you can. That includes ARO, monthly car count, labor rate, and more for what comes through the shop. Savvy number crunchers take into account much of what occurs outside the shop floor, too, such as tool and equipment upgrades, marketing, training and more.

2. IMPROVE VENDOR RELATIONSHIPS.
Healthy vendor relationships make for healthy margins. Foster relationships with those who service your shop and you'll find direct results in your ledger.

3. HIRE THE RIGHT PEOPLE.
Many shop owners and employees spend more time there than at home, so treating staff like family is a common sense way to build camaraderie and trust—the two things that keep customers coming back.

4. LEARN, GROW & TEACH.
Join a mentorship or peer group and attend industry conventions and training.

5. UNDERSTAND YOUR NUMBERS.
It's all well and good to record KPIs and monitor budgets and expenses, but understanding how and why those numbers move the way they do is the first step in fixing them.

6. DON'T FOCUS ON PRICE.
Customers understand there's a cost to doing business. Focus on the needs of your customers and staff above prioritizing price.

7. NEVER STOP LEARNING.
Besides peer groups and industry training, there are endless other resources to help your shop achieve maximum potential. Books on leadership, podcasts on company culture and online webinars and virtual training represent growth opportunities outside the purview of your shop's regular hours.

8. WORK SMARTER, NOT HARDER.
Work Smarter, Not Harder. Tracking KPIs and other shop factors isn't just good for your business—it's good for your peace of mind and long-term viability. Utilizing tools such as ALLDATA enables your technicians to get the right answers and achieve the proper diagnosis and repair the first time, eliminating unnecessary labor and comebacks.