



Want \$10 More Per RO?

If you're not invoicing for paint and materials, you're giving away THOUSANDS of dollars each year.

By Patrick Yurek

Give me \$10.

Seriously. Gimme \$10.

In fact, give me \$10 for every car that goes through your shop.

No? (My guess is that you're thinking of telling me to go to someplace uncomfortably warm and reeking of brimstone).

Why would you give me \$10? Why not? You give at least that much to the insurance companies on every job - and I'm a heck of a lot nicer, I need the money more, and hey, I'm better looking than most adjusters.

Still not willing to hand it over? Then why are you giving it to insurers?

If you've got a smaller shop doing half a million dollars in annual sales, you do roughly 275 jobs per year (figuring that the average repair order is slightly more than \$1,800). Ten dollars per RO is "only" \$2,750 - enough for a paid vacation for two or three techs, a decent dent in junior's college tuition, a nice vacation with your wife, a nice ... well, you get the point.

If you run a bigger shop, say a million dollars annually in sales, \$10 per RO equates to a hefty chunk of a state-of-the-art welder, nice Christmas bonuses throughout the shop or a really decent dent in junior's tuition.

What's my point, you ask? That paint and material invoicing can lead to proper profits on paint, primer, sandpaper, filler, masking tape, masking paper, etc. Invoicing also can sometimes be an effective way to combat paint caps.

And, if nothing else, invoicing can help you add that \$10 per RO.

False Profits

I've heard claims from some shop owners and managers that they make 30 percent gross profit on paint materials. Some of the shop owners who claimed this margin had taken a physical inventory of all the materials on their mixing machine and then logged their paint purchases. At the end of the month, they took another inventory. They knew exactly what they used, exactly what they'd purchased and exactly what they'd charged.

One shop manager told me he even teased the 40 percent mark (39.82 percent gross profit). The only problem was that he didn't inventory his sandpaper, primer, masking tape, etc., and weigh those items into the equation. Talk about an erroneous sense of success. ("False profits"?)

The simple fact is that if you're not charging for body materials (including primer), you're giving them away. Oh sure, \$24 or whatever per refinish hour probably covers the basecoat and clearcoat and even allows for a decent profit, but that profit is quickly absorbed by other material costs in most cases.

If you want to really know how much materials are used on a job, have the tech put all the used sandpaper, grinding discs, empty seam sealer tubes, dust masks, etc. - even the masking paper and tape once they're removed - into a box tagged with the RO number. When the job is done, pull it all out and do a cost analysis.

Paint Caps

Some DRP agreements may require the shop to cap materials, and the decision to remain on these programs is obviously the choice of the repairer. But what about shops that haven't signed an agreement? Insurers often try to force these limits on them as

well, and everyone knows that you can't possibly earn a profit if you use \$400 worth of materials but are limited to billing for only \$250.

There are four solutions to this:

- 1. Accept the loss and make it up in volume.**
- 2. Collect the full amount from the insurance company.**
- 3. Offer an "alternative" paint line.**
- 4. Charge the vehicle owner the difference.**

If you chose No. 1, I can't help you other than to suggest you brush up on your business and math skills - a loss is a loss and cannot be made up for in a larger volume of losses.

The second choice would require some type of explanation to the insurance company. Stating that you don't accept caps might work, but more often than not, insurers have been known to say that's all they'll pay. Having the proper documentation can go a long way toward accomplishing the goal of proper compensation. To be most effective, this documentation would include an itemized invoice of the materials used.

The third choice is an option offered by a local body shop. They use a major paint line as well as an off-brand, but even then the off-brand sometimes isn't profitable if the job is large and the cap is low. Other downsides to this approach are that it actually helps insurers justify capping in the future and gives the vehicle owner the impression that the shop was simply overcharging in the first place (unless the shop fully explains how the repair is being done for less).

The fourth choice, billing the customer, is something most shops are uncomfortable with. This stems in part from not recognizing who the true customer is, combined with not being able to manage customers expectations properly, failing to educate the customer regarding what he's entitled to and mistakenly assuming that customers don't really care about the repairs as long as they get their vehicle back in a timely manner.

And, in some cases, the consumer doesn't even want to have to pay his deductible, let

alone additional money for materials. So even if the shop is comfortable with billing the consumer, an itemized invoice is an essential part of helping the customer to understand why \$250 isn't enough for a job that required \$400 worth of materials and supplies.

Increased Costs

WE'VE ALL HEARD THE LINE, "THAT'S overhead. We don't pay for that." And some shop owners simply don't give these statements much further thought. The problem is, with an average net profit (what's retained at the end of the year) in the low single digits, everything that's "overhead" has to come out of gross profit - resulting in less net profit.

How many of you shop owners have actually sat down and figured out how much it costs you every time the booth kicks into the bake cycle? How is that gas bill being paid? Overhead?

Years ago, before heated booths, the gas bill was typically only for heat in the cold weather and a small water heater. Then BAM! Bake booths came along and so did better and more expensive clearcoats that have to be baked to cure. Did insurers suddenly start adding "heating fuel" or "gas for booth" line items to their appraisals? Did the labor rate suddenly jump up a couple of bucks? Did the insurance industry begin allowing substantially more for paint materials?

NO? So how are shops getting compensated for this additional gas bill?

That's a fairly "hidden" example of the increased costs of doing business the collision repair industry has incurred.

Another prime example that everyone is familiar with are the annual price increases by the material manufacturers. And these don't only apply to paint. Nearly every manufacturer of sandpaper also has an annual price hike, and since they're the ones that typically make the masking tape, paper, plastic, body filler, buffing pads and compounds, etc., all these materials go up as well.

Business 101

WHEN BILLING FOR HARD PARTS

(replacement sheet metal, bumpers, etc.), most shops use the manufacturer suggested retail price, and they get a discount off the list price that allows them to earn a profit on the part.

As the part price increases, so does the profit earned. If a part has a list price of \$100 and the shop gets a 30 percent discount, the shop pays \$70 and earns \$30 - a true 30 percent profit. If the list price increases to \$200 the next year and the shop gets the same 30 percent discount, the shop would pay \$140 for the part and earn a \$60 profit - still retaining a full 30 percent profit.

Even used parts price increases are compensated for by the billing method - cost plus a percentage. A \$100 part with a 25 percent markup yields the same profit margin as a \$200 part with a 25 percent markup; both have a gross profit percentage of 20 percent.

It's important to note that a 25 percent markup does NOT equal a 25 percent profit (a 25 percent markup yields only a 20 percent profit).

Profit percentage is determined by dividing the profit amount by the selling price. If an item that costs \$80 is marked up 25 percent ($\$80 \times 25 \text{ percent} = \20) and sold for the marked up price of \$100 ($\$80 \text{ cost} + \$20 \text{ markup} = \100), it yields a 20 percent profit margin: $\$20$ (profit amount) divided by \$100 (selling price) = .20 - the decimal equivalent of 20 percent.

However, when it comes to paint, it's not quite the same thing. Sure, "C" schedule pricing or whatever the jobber/manufacturer calls it is still a discount off the "list" price, but there's another important factor in this equation. Let's say that a gallon of sprayable clear has a "list" price of \$100 (wishful thinking). Let's also say that the shop gets a 30 percent discount off the list price on materials, so you might think that the same rules would apply as with the hard parts. But you'd be wrong.

The additional factor here is that the shop isn't selling the product for the

manufacturer's list price. For ease of calculating, let's say the sprayable gallon of material covers the surface area equal to six hours (yes, it's apples and oranges already). Let's also say the shop gets \$24 per refinish hour for materials. That would make the actual selling price of the clear \$144.

$\$44 \text{ profit divided by the sale price (to calculate gross profit percentage)} = 30.55 \text{ percent.}$

Not bad. But the next year, when the sprayable gallon goes up 10 percent, the cost to the shop becomes \$77 ($\110 less the 30 percent discount).

And if the per-refinish hour rate for materials doesn't go up, the selling price remains the same ($\$144$), but the gross profit is reduced to 23.61 percent ($\$144 \text{ selling price minus } \$110 \text{ cost} = \$34 \text{ profit. } \$34 \text{ profit divided by the } \$144 \text{ selling price} = .2361$).

Even if it was one of those "magical" years where the insurance industry "allows" a marginal increase in the material rate (say for example, \$2 per hour), the shop still loses money. The clear won't go any further, so you'd still get the same six hours' worth of panel coverage (yes, still apples and oranges), the selling price would be \$156 (six hours times \$26 per refinish hour), the cost to the shop would remain at \$110, but the dollar profit would go up to \$46.

However, the gross profit percentage still went down: $\$46 \text{ profit divided by a selling price of } \$156 \text{ yields only } 29.48 \text{ percent gross profit - a loss of "only" slightly more than } 1 \text{ percent.}$

Considering that the typical shop doesn't earn a net income of even 10 percent, 1 percent would be huge. (But this is just a fictitious example. A real sprayable gallon of clear costs more than double that price and actually gets more coverage than six hours.)

The two most important things to remember are that the annual price increase affects all materials and that this annual price increase drastically drops profit margins if there's not a corresponding hourly rate increase (if the shop charges on the basis of \$XX per refinish hour like the vast majority do).

A far better method from an accounting and profit standpoint is a cost-plus markup or a profit-margin-based system for billing. By utilizing a cost-plus or a standard profit margin method, the shop can assure a steady fixed return on investment - without having to try to compare apples and oranges. Both of these methods are based on the actual cost and set a profit accordingly.

Getting Started Invoicing

THE FIRST STEP TO INVOICING FOR ANYTHING is to know the costs associated with the products or services being charged for. This applies to anything being invoiced. Whether it's the job itself, listing the parts and labor, or a materials invoice listing the individual items, knowing the cost is a necessity.

When invoicing for materials, one of the first things to decide is whether the selling price will be determined by the suggested list price, a cost-plus (markup) or a profit margin method. If you decide to use a cost-plus-markup or a profit margin method (as opposed to the list price), it's important to first determine what your desired profit margin is.

To find the selling price once you've determined the desired profit percentage, simply divide the cost by the reciprocal (the difference between 1 and the desired profit percentage) of the desired profit margin. For example, if the cost of an item is \$80 and the profit percentage you desire is 20 percent, divide \$80 by .80 (1 - .20) - .20 is the decimal equivalent of 25 percent. \$80 divided by .80 = 100, which achieves your desired profit percentage of 20 percent. If the cost is \$150 and your desired profit margin is 25 percent, divide \$150 by .75 to achieve a selling price of \$200 - and a profit percentage of 25 percent.

Another important aspect of invoicing materials is knowing how many units there are per box. For example, a box of 20 grinding discs costs \$77.73, and the odds are that you're not going to use the entire box on a job.

You can calculate the selling price two ways. You could mark up the entire box and then divide by the number of individual units, or

you could find the cost of each individual unit and then mark it up. Both ways work out the same: \$77.73 divided by 20 = 3.8865 each or \$3.89 per disc.

Let's say that you decide you need to earn 35 percent on paint and materials (a higher profit on materials helps to offset other expenses that are difficult to get paid for, such as gas for the booth heat, booth filters, etc.).

\$3.89 divided by .65 (reciprocal 1 - .35) = \$5.99 (selling price \$5.99 minus cost \$3.89 = profit \$2.10.

Profit \$2.10 divided by selling price \$5.99 = .3505 or 35 percent.

Available Systems

The PaintEx Materials Accounting Program and MEG (Materials Estimating Guide) from Mitchell have both been around for many years. With both of these systems, the invoice amount for basecoat changes with the color code being applied - unlike the typical "rate per refinish hour" calculations used by estimating systems in which white basecoat is paid at the same rate as red basecoat.

Both of these programs have built-in figures for most materials, but these prices can be adjusted as necessary by the user. You can review all your materials invoices for sandpaper, seam sealer, rivets and everything else and then plug in those numbers. This can be somewhat time consuming, but it's well worth it in the long run.

After every job, it's just a matter of selecting how many units of what materials were used from the master list and generating an invoice. This detailed invoice lists the quantity, description and price of the materials used for that specific job.

Mitchell's offering is the only one that comes in book form as well as on CD. Since profit margins are profit margins whether or not your shop has a computer system, this is an excellent option for those who need it in paper form.

PMCLogic from ComputerLogic is the newest materials invoicing program, and it

looks completely different than the other two offerings. Instead of selecting materials from a list, PMCLogic has graphics of the vehicle body that are used to select the panels being worked on. Clicking on one of the graphics shows a list of possible operations - Replace (OEM, Used and Aftermarket), Repair, and Refinish only (blend). By checking the appropriate box, the materials typically used for the procedure are automatically entered into the invoice. PMCLogic has a lengthy list of materials from a large number of manufacturers and averages the prices to calculate a selling price. In the sandpaper category, for example, it lists 3M, Mirka and Norton in several different grits. If the average price isn't accurate enough, the shop can create its own "templates," reflecting their actual pricing and materials used.

All of these systems allow the user to retrieve customer and vehicle information from the estimating system. And once all the operations/ materials have been selected, the user can generate an invoice that lists the materials used for that particular job. (PMCLogic lists materials panel-by-panel, operation by operation).

A real-world example:

Let's look at an actual (although imaginary) repair. Let's say you've got a 2003 Black Camry in the shop with a two-hour dent in the fender. According to Pathways, the refinish time is 1.8 plus .7 for clearcoat, for a total of 2.5 hours. I think the average material calculation is somewhere around \$22 per refinish hour. That means the shop gets \$55 for paint and materials. Fifty-five dollars for pre-wash solvent and towels, latex gloves, grinding discs, anti-corrosion primer, body filler and hardener, body filler mixing sheets, latex gloves, coarse sandpaper, dust masks, razor blades, finishing glaze, finishing sandpaper, paper and tape to mask for priming, primer and catalyst, scuff pad (or super-fine sandpaper to promote adhesion), adhesion promoter (if used), sanding paste (if used), jamb-masking materials (for the hood and door), tack cloth, pre-paint solvent and towels, basecoat and reducer (and catalyst if used), clearcoat activator/hardener (and reducer if required), paint suit, spray gun cleaning solvent, masking materials (tape

and paper for hood, bumper, wheel well, door), ultra-fine sandpaper (for denibbing), buffing pad, buffing compound, polishing pad, polishing compound, car wash soap, wash mitt, towel, etc.

Fifty-five dollars?

Care to take a guess at the actual costs? Me neither.

When I took over the helm at a dealership in New York, the paint materials costs (and profits) were being calculated by simply taking the amount of materials "allowed" and multiplying that figure by 75 percent. This showed an artificial profit of 20 percent. I didn't notice how far off this was for the first couple of months, but when I finally saw the financial statement, I nearly had a heart attack.

At about the same time, New York state issued "Circular Letter 16," which gave me all the support I needed to begin invoicing.

Our paint and materials profit jumped from 7 percent to approximately 28 percent.

Twenty-two dollars per paint hour or whatever the regional rate is might be fine if you use some generic paint, off-brand sandpaper and only paint white cars, but if you use any of the major paint brands, and paint red cars, green trucks and blue SUVs, you should re-assess how you're charging for materials - unless you're on some unheard-of pricing plan where you pay the same amount for red as you do for white.

For most paint brands, red can cost two to three times as much as white, so why would you calculate them at the same hourly rate?

Just Do It

"Patrick, I understand all this, and it sure would be nice just to get even a portion of

what I'm missing out on, but I can't get my estimators to create the invoices."

Insurers Change Their Tune?

At a recent Collision Industry Conference (CIC) meeting, Michael Lloyd, the material damage manager for California Casualty, said his company was exploring other ways of calculating material costs. Apparently, the other ways include paint and materials invoicing. "We've been looking at a couple programs that are on the market right now and have some interest in them," says Lloyd. Could this be a sign of changes within the insurance industry? We can only hope so. Interestingly, Lloyd alluded to the fact that the carrier is interested in being able to document that they paid for the proper procedures - and included the necessary materials to perform these procedures in their entirety. Regardless of who or what's influencing this change (maybe the California BAR?), this sounds like it could be a good thing for the repair industry.

Say what?

It sounds as if the tail is wagging the dog here. Who's the boss?

One of the biggest hurdles to overcome when invoicing is that it's something new for estimators to deal with, and if it's not mandatory, they usually won't do it or they make excuses about why they couldn't create an invoice.

Maybe you, as the owner, should try something similar on Friday - give them one of their own excuses as to the reason you haven't gotten around to writing their paychecks. I'd bet they have a different attitude.

Most shops pay their estimators on a percentage of the estimates they convert to actual ROs, and in some cases, the writers also get a bonus based on profits. The profit-based incentive should be enough to encourage writing materials invoices, but some estimators are either comfortable with what they're making or too lazy to take the initiative to do more.

In cases such as this, the solution is simple: You're the boss - make it a rule that every RO is accompanied by a materials invoice.

Whether or not that invoice is submitted is a management decision (based on a variety of factors such as whether or not the insurer in

question is a DRP partner). At least that way, your estimators will get in the habit of invoicing.

And let's face it. Giving away 1 percent or more of your income is foolish (unless you want to give it to me, that is). Any owner or manager who has ever griped about profits in the collision industry owes it to himself to consider investing in an invoicing system.

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Invoicing Programs

Mitchell International
(800) 238-9111; www.mitchell.com

PaintEx
(888) 888-5501; www.paintex.com

PMCLogic by ComputerLogic
(800) 288-6564; www.pmclogic.com