

Counterman Quarterly Newsletter



Watching Profit Margin %

In the last Counterman Newsletter I addressed a basic topic of "Are You Making Money?". In this previous article I explained the "net-profit" and this amount is what you (as a business owner) must survive on. This small margin (usually a mere 5% to 15%) can be a volatile number because many variables combine to calculate this number. This is however, an extremely important number, but is such a small number to start with, it takes very little to throw it into a direction that can result in profit margin loss. As I expand on this topic and dive in a little deeper, I hope to show why it is so important to keep an ever-watchful eye on your profit margins on a regular basis. Keeping a close eye on this number can help increase it. We are going to look closer and offer some advice on where and what to look for and what you can do to help prevent profit margin loss. You should know what your goal profit margin % is when studying the data provided by Counterman.

Parts and labor, though two different entities, both have a cost associated with them (Labor Margin = labor per hour, minus mechanic pay. Parts Margin = Parts Selling Price, minus parts cost + employee handling and stocking costs). There are additional variables to consider, like whether you pay your mechanics flat rate or eight hours a day. Or, if you purchase parts on credit and/or credit cards (APR%). Regardless, there is a cost associated with both. The way the data is presented and what you can do to increase these margins is different for parts than it is for labor, so each will need to be addressed individually.

LABOR PROFIT MARGIN %

An extremely sensitive area of controversy and not everyone will agree with me on this. Labor margins must take in consideration 'How mechanics are paid' vs. 'Hours of labor charged for any given job', which is termed 'Mechanic Efficiency'. If you pay your mechanics a 'Flat Rate' (meaning they are paid an hourly rate from the number of hours billed to the customer), not only makes it near impossible to lose

money on the labor, because you are paying the mechanic from the number of hours you are billing the customer, it also makes it simple to calculate. The only way to lose labor money on a 'Flat Rate' job would be to under bid the job to begin with. Even though you (as a business) don't lose any direct labor money on an under-bid job, your mechanic definitely could. Generally, flat-rate mechanics make substantially more than a paid 40-hour per week mechanic because they are only paid for the time they are turning wrenches. If you pay your mechanics an hourly rate for the time they are there (i.e. eight hours per day), comparing billable hours per day (or per week) will help in finding each mechanic's efficiency %. In either case, you would compare the number of billable hours to the number of hours you are paying the mechanic. So over one weeks time, the starting point would be 40-hours mechanic pay. Then look at the billable hours for that mechanic. For example, if the mechanic efficiency was at 60%, this mechanic would have to have 24 billable hours within one week ($40 \times .60 = 24$). Depending on your shop rate per hour and the mechanic's pay-rate per hour, figuring out the profit margin % for mechanics becomes simpler to understand by the mechanic's efficiency %, which equals mechanic profitability. In most circumstances, running the "Service Department Report" will provide the information required for each mechanic. This is a filtered report, wherein you would want to use a date range. If you want to see individual parts and labor amounts for every invoice, choose a "Detail Report". If all you need is a summary (i.e. totals only), then choose "Summary Report". In the filter grid, select a filter of "Mechanic, EQUAL XX" (where XX is the mechanic's code). This will show totals for Parts, Labor, Warranty Parts, Warranty Labor, along with the total number of labor hours. Totals are all added up for you. The "Profit Margin %" is also shown on this report to make the process easy to understand. Both parts and labor are considered when calculating the total profit margin %.

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IMPORTANT!

**** = OEM Franchise Only!**
(If non-franchise, only retail prices will be provided)

Custom Chrome has stopped supplying quantity breaks in their price book!

UPDATED PRICE BOOK VENDORS (ON THIS CD) 40-NEWLY UPDATED PB'S!

AJ	Adjure Lighting
AD	Advantage Perf. Dist.
AP	Andrews Products
AR	Arctic Cat**
AN	Arlen Ness
BI	Bell Industries
BM	BMW Motorcycles**
CA	Castle Sales
CCI	Custom Chrome, Inc.
DS	Drag Specialties

FH	Fulmer Helmets
FX	Fox
HD	Harley-Davidson**
HH	Helmet House
JG	James Gaskets
JM	Jim's Machining
KN	K&N Engineering
KM	Kawasaki Motors**
KK	KK Motorcycle
KT	KTM Motorcycle**

KA	Kuryakyn
MA	Marshall Distributing
MC	McDonald (<u>COST ONLY!</u>)
MP	Motion Pro
MU	Mid-USA Parts
PS	P.C. Sunglasses, Inc.
PU	Parts Unlimited
PO	Polaris/Victory/Indian**
PT	Power Twins
RO	Romaha

SB	Sullivan Brothers
SM	Southern Motorcycle
SN	Sullivan's USA
SS	S&S Performance
TM	Triumph**
TR	Tucker Rocky
VH	Vega Helmets
VT	Tedd's V-Twin
WP	Western Power
YA	Yamaha**



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WATCHING PROFIT MARGIN % *(continued...)*

PARTS PROFIT % MARGINS

Keeping the 'big picture' in mind, I have found, shooting for the best profit % margin (when considering what to sell any given item for) is the goal. Knowing a higher profit margin equates to a higher net profit at the end of the month is a motivating factor when setting inventory pricing. However, everything should be considered when setting prices. Sure, you want to have the profit % as high as you can get it, but if it is too high you won't sell any. So it is a balancing act to remain competitive in today's market and still maintain a decent margin. To complicate this even further, vendors and suppliers will often raise the dealer (your) cost of their items, while not raising the MSR (Manufacturer's Suggested List) price, which results in just taking a bite right out of your profit margin. In addition, there is likely an abundance of items you sell in your shop that can be found online at rock-bottom prices, with many shoppers trying to locate the best deal they can get. This all results in quite the challenge when trying to squeak out a profit margin in a retail motorcycle shop environment. Unfortunately, how you handle these challenges is not the topic of this article. How to keep a watchful eye on your profit % margins is. Counterman tracks profit % margins throughout the program

and information in this regard is available in many screens and reports. The goal here is to help you understand the importance of profit % margins and what to watch for. Once you make a regular habit of keeping a close watch on this percentage, you can take any necessary steps to keep the profit % margins as high as possible. First, the 'Big Picture'. You likely run the Cash Drawer Report on a daily basis to reconcile your daily dollars. On the "Summary" portion of this report are some percentages representing profit margin. "Gross Profit Margin %" represents the total margin for the date of the report. Below this is a separation of the margins for Labor and for Parts, providing profit % margins for each. This will tell you with one quick glance if you have reached your daily goal. It is also important to mention, customer discounts directly affect these margins! Another way to help keep the margins up is to minimize discounts. If this is your first consideration of better tracking of your margins, I would suggest running a report of any inventory items that are currently setup for anything less than a 20% profit margin. With this list in hand, an educated decision can be made on a case-by-case basis on whether or not you can raise any prices. Here are

the basic instructions for running this report, keeping in mind, this is a filtered report that (when selecting the two filters below) will only include items that are actually in stock and are priced at or below the 20% profit margin:

1. Open the Main Menu and select 4-Filtered Reports.
2. Select A-Inventory Listing.
3. Leave the Report Sequence on "Vendor", then choose two filters (keep in mind, these filters 'may' need to be created). First filter is:

<input type="checkbox"/>	Gross Profit %	LTEQ	20
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4. The second filter is:

<input type="checkbox"/>	Qty Available	GT	0
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5. The lower portion of this screen is for pricing information that will be printed. In this scenario, we want to see the difference between "Cost" and "Selling Price", so you will only need the first two columns:

Column	R=Mr/P=Price/C=Cost	Column Heading	I=Increase
1	C	COST	
2	P	SELLING PRICE	
3			

6. You have the option of creating an Excel spreadsheet, should you need the data in this format, by selecting the checkbox below for this report.

7. Process the report. You should see the part number (a.k.a. "Product Code"), description, bin location, cost and selling price. This will make it a fairly simple task to make the necessary inventory adjustments.

When it comes to high selling ticket items, these will also be on this list. You cannot do much to increase the profit % margin on high ticket items because the profit margins naturally tend to go down considerably as the cost and selling price of high ticket items goes up. My suggestion would be to look for any items priced under somewhere around \$300.00. There will also be many items you just can't do much about. It can be a juggling act, between getting your customer what they need, keeping them happy, and making a profit, especially on high ticket items. The fact remains that many items are offered on the internet these days for much less than you would pay in a retail store, resulting in a level of difficulty when setting pricing. Often times, if you are installing the item, you can make up for a low profit margin on an item in the labor profit. I would suggest, trying not to make a habit of it, but losing the job due to the price of an item may not be the best approach. Again, you want to aim at the best profit margins you can get. This does not mean you can always attain that target. The idea here is, Counterman is providing the data for you to make an informed decision on whether or not you can increase margins on any item(s). It will take some time and effort

to go through this report and decide if an increase is good or bad decision. Addressing each inventory item may seem tedious and pain staking, but the reward will increase the net profit at the end of the month. It is definitely time well spent. For example, if you were to minimally increase the net profit of a modest shop making a net monthly profit of 15% from \$5000, by say 2% would put an additional \$100 in your pocket at the end of the month. If you take that number and multiply it over 12-months, you have \$1200 more than you would have had at the end of the year.

The process of editing these items from Inventory Maintenance can be made quicker by setting the same filters as mentioned earlier, when in the Inventory Maintenance screen. Once the filters are set, you can either edit, or pass onto the next inventory item that meets the filter criteria. To begin this process, have the previously printed report in hand, then access Inventory Maintenance. Select 6-Set Filter, then check the same filters I have already mentioned. The first item will appear on the screen. Make your edits to the margin, then ESC, then press "N" (for Next) and the next item meeting the filter criteria will appear on the screen. You can choose to edit or go to the next item. Repeat this process until you reach the last item for the set filters.

Ralph Weaver

