

What is the Appropriate Retail Service Rate?

To be sure, your retail shop rate is only one of the elements that affect your ability to generate reasonable service profits. The size of your service operation, the recovery rate of hours purchased and expense control are all factors in relative success of your service pricing decision as the base of your service revenue “pyramid.”

In very simple terms, you need to have a strong and balanced pricing base as you begin to work on service quality issues (recovery) and before you can attack service quantity issues (capacity).

I very much believe in substance over form. In that spirit, let me state my case for having an appropriate retail service rate (shop rate).

1. Usually we gauge our shop rate in competitive terms, i.e. how much do other dealers in my area charge? This practice assumes your competitive dealers and servicing independents have some reasonable “method to their madness.”
2. Realistically speaking, the most important question to ask is, “How much must we charge to enable us to hire, train, and retain excellent technicians?” In other words, your shop rate probably has more relevance to your cost of labor than it does to retail competition. You must be able to purchase quality labor inventory from technicians and make a reasonable gross margin as a result.
3. Most dealers know the cost of a stable and productive technician labor force. Let’s assume a scenario. A dealer determines the appropriate wage structure for the operation to keep a professional and stable technician work force. The operation will work 2,200 hours per year.

Average tech. Wage \$16.50

Wages @ 2,080 hours \$34,320

OT Wages, 120 Hrs. \$2,970

Total \$37,290

Avg. Hourly Wage \$16.95

Retail Rate \$59.50

We have determined the cost of a unit of labor based on a realistic knowledge of our market. Then we have priced it using a 3.5 wage multiple to give us a chance to have an appropriate gross margin on our labor product (60% or greater).

4. If this rate calculation would price you above your competition, you can:

- A. Ignore the truth and continue to hire inexperienced technicians.
 - B. Ignore the truth and lose your best technicians.
 - C. Curse loudly and blame your service problems on either manufacturers or the lack of work ethic in today's society.
 - D. Decide that you can charge more because you have the investment in facilities, tools, and training. In addition, you have a staff that knows and cares about the time sensitive nature of service operations.
5. It is abundantly clear that you cannot pay wages and benefits suitable for today and receive time performance that has no measure and no guideline. We simply need to have our technicians understand that time is the key component to service pricing, not rate. In all the years I have been associated with service operations in the power equipment industry, I can count on very few fingers the number of times I have been asked about labor rates. The customers don't care at all how you arrive at your totals; they just want to know the price of the job.
6. You can charge more per hour than competition, and as a result, you can pay more to hire and keep quality technicians. However, you must do the following:
- A. Start building a job-pricing schedule for your dealership.
 - 1) Include technicians in the process.
 - 2) Start by pricing your most common jobs.
 - 3) Build your price schedule though experience and research.
 - 4) Largely disregard manufacturer schedules. Rely on your own experience and dealer generated job schedules (Ag or OPE Flat Rate Guide).
 - 5) Catalog your job prices in your business system software so parts prices can be automatically updated and labor can change as rates are changed.
 - 6) Quote the price of a complete job, not each individual element.

- B. Make estimates on most jobs. Have technicians take part in the formulation of estimates. Within reason, this time is chargeable on the work order.
 - C. Make sure that technicians understand that they must clock into a new segment of the work order when they run into trouble. Too often we include these problems with the main job and cannot collect the extra time.
 - D. The service team must communicate with customers – absolutely no surprises!
 - E. Technicians must completely document and write up a completed work order. This is part of the trade off for receiving wages and benefits commensurate with a professional in today's service industry.
 - F. If for any reason time must be written off when the work order is completed, the technician should initial the segment being cut. It is good for both education and accountability.
7. Ultimately, service profitability is a function of price per unit and the recovery of those units. If a picture is worth a thousand words, look at the matrix of wage multiple and recovery rate. The resulting effect on gross profit can be readily seen.
8. Balance is important. A low wage multiple will greatly damage your service gross profits. A very high wage multiple will likely lead to poor quality work and turnover.

If we are ever going to overcome our service profitability issue, we must start with our pricing. It is one of the very few elements of your business where you can actually control pricing decisions. You cannot charge too much in an hourly rate for a dedicated professional, and you cannot charge little enough for sleepy-eyed slug who would need time lapsed photography to detect movement.

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