# Getting Paid for Investing in Facility, Equipment and Training

by **Stacey Phillips**, Assistant Editor

Collision repair shops learned what it takes to keep up with the increasing rate of technological innovation and implementation, during a recent talk by **Tim Ronak,** Senior Services Consultant from *AkzoNobel Coatings*. Ronak spoke to attendees during NACE about "Getting Paid for Investing in Facility, Equipment and Training." The following is based on his presentation.

Ronak said the technological face of the automotive industry is evolving exponentially. Some of the factors involved in these changes include onboard safety systems and controls; telematics and web-connected vehicles; accident avoidance; autonomous driving capability; hybrid power systems; and CAFE requirements.

Now, more than at any other time in the past, higher specialized environments, equipment and training is required, according to Ronak. "In order to be capable of repairing and servicing this new auto technology, businesses are required to invest capital in people and tooling to stay current and capable," he said. However, many businesses are realizing a shorter period of return on their investment (ROI).

### Current and Past Collision Industry Labor Profitability Trends

Ronak explained how gross profit, in terms of the True Cost of Labor (TCL), has been declining over the years. In just the last two years alone, there are more facilities recording less than 50 percent TCL.

Ronak said that a decreasing TCL can be attributed to four factors:

**1) Wage and benefit unit costs rising faster than lagging labor reimbursement rates**

This includes the impact of higher costs to retain a decreasing number of skilled trainable workers. Ronak defined a "unit" as a measurement of time that it takes an average skilled technician with an average set of tools in an average equipped facility to complete a specified operation.

**2) Absence of a retail door rate in market areas**

Ronak pointed to the fact that there is currently no prevailing rate survey process in place. In addition, there is often a perception that customers should pay the same or less than insurers.

**3) Credit Card Effect**

Ronak said the increasing use of credit cards for payment is eroding the realized labor gross profit as shops are taking cards for the payment of jobs and deductibles. "Shops have not adjusted to the retail pricing model to deflect this increasing erosion of marginal profitability," he said.

For example, to cover the credit card fee with a seven percent sales tax, you need an additional $3.26 to $6.66 over the original $60 door unit rate to cover the lost revenue. In this case, the adjusted retail door unit rate would need to be at least 5.4 percent to 11.1 percent higher to just preserve the previous profit margin. Ronak said the retail differential may need to increase by 15 percent if a component is built in to shield against fees paid when a deductible is paid with a credit card.

**4) Vehicle Technology Advancing at Frantic Pace**

With vehicle construction and technology changing yearly, repair methodologies become outdated quickly. Vehicles require specialized training and no longer can one skill fit all vehicles. In addition, there is more of a requirement for precision with technology such as accident avoidance and on board safety systems. Ronak said OEM certification is now required to restore some of this technology. "It is now more important than ever to ensure that a facility restore a 4.5 star crash-rated vehicle back to the same 4.5 star crash rating," he said.

### How Much to Invest in Facility, Equipment & Training

Ronak said it can be very difficult to determine how much to spend on facility, equipment and training since each business has its own needs. Ultimately, facilities will make a choice depending on what services they offer to customers such as aluminum repair, OEM certification, and servicing hybrid technology.

### How to Determine ROI and What is a Reasonable Return

Investing in a business requires a return greater than what is available in alternative secure investments. Ronak recommended that an analysis be done prior to making an investment to determine what it will actually cost the business. "The idea that capital investment is 'just a cost of doing business,' is a myth," he said. "People invest for the singular incentive of a return!"

Ronak explained that ROI essentially compares the magnitude and timing of investment gains directly with the magnitude and timing of costs. "A high ROI means that gains compare favorably with costs," he said. "The goal is not to simply break even. The reason to invest is to generate a return."

Costs include such things as interest expenses/finance charges, property taxes, and the opportunity cost of alternative investments.

> *The definition of "Customer Value" is: "ANYTHING the customer is willing to pay for,"*
> ***—Tim Ronak, AkzoNobel***

He advised that investors have a minimum target return they are willing to accept, which should typically be higher than a more secure alternative investment.

### Payback Time Period to Expect for an Incremental Investment

Since each investor will have his/her own rationale for determining the expected payback period, Ronak recommended performing a more complete ROI analysis that factors in all costs as they occur against the desired rate of return. Some of the considerations include time frame, residual value, technology, setup costs and finance charges.

### Equating Capital Expense for Training, Facility and Equipment into a Reimbursable Charge

Ronak said that the actual capital needed for the investment needs to be quantified first. Then the acceptable return for that investment of capital should be defined. He stressed the importance of then determining how to capture revenue related to an expense and how to apportion the expense to the revenue it generates.

**Training:** Ronak said that training is becoming an annual requirement for individual OEM certification and some of it can be very expensive and time consuming. "These costs need to be tracked and considered when determining the rate you choose to invoice for that skilled and capable labor resource," he explained.

Since the average tech will generate about 3,000 units of billable labor per year, an annual training expense of just $6,000 (including tuition, testing, wages, travel, meals, accommodation and certification fees), it results in a training surcharge of $2/unit billed. If that labor is specialized to a particular OEM and requires an annual renewal, it could be a recurring charge.

Ronak asked attendees to also consider that perhaps only 50 percent of the time the tech is actively engaged in work that requires that certification, the required reimbursement could double to $4/unit billed to recapture the investment in training.

**Facility:** Additional facility expenses may imply that a shop is increasing its capacity or reconfiguring use of a facility or portion of that facility. "A reasonable expectation would be to determine break even and return sales targets," said Ronak.

**Equipment:** Businesses equipping to service or repair new technology may not necessarily increase efficiency, according to Ronak. "In some instances specialized tooling may quickly become obsolete as new devices are deployed." This implies that the $12,000 self piercing rivet tool that may be used five times before a new replacement version is required should be critically considered. He said it might be better to rent these pieces of equipment and charge them on each job … much like a frame fixture/jig.

When calculating equipment expenses, Ronak said to determine the total equipment investment, determine the required return on that investment and then calculate incremental sales targets that provide sufficient returns. If additional volume is not forthcoming, he said to consider a higher door unit rate for work and then develop a plan to achieve sales targets.

Ronak then addressed the final question: "Are these expenses just the cost of doing business?" He said the definition of "Customer Value" is: "ANYTHING the customer is willing to pay for."

"It is not a large inductive leap to infer that a customer would be willing to pay to ensure the 5 star crash worthiness of the vehicle would be restored back to a 5 star through the repair process by properly equipped and trained resources," said Ronak.

"When investment costs are incurred for the singular purpose of creating customer value they should be passed on as a cost to the customer in one way or another," said Ronak. "The challenge is to clearly '***know your cost'*** before you justify and ultimately ***'establish your price.'"***