

THE ELR KILLERS

STOP LOSING
GROSS PROFIT
TODAY!

Uncover the hidden factors dragging down your Effective Labor Rate and implement proven daily strategies to drive immediate improvement.

What would **\$20** more in ELR mean to your bottom line?

Effective Labor Rate is one of the most critical factors in a service department, often presenting the greatest opportunity for growth. When mismanaged, it can result in thousands of dollars in lost revenue each month. Discover the top four reasons you might be leaving money on the table.

#1 PRICING BELIEF

Are you conducting an annual market analysis to compare prices for your services?

Is your pricing strategy positioning your business for growth? There's no harm in being number one in both quality and pricing. Your dealership represents the pinnacle of value and professional service, backed by the highest trained technical staff in the market - unmatched by any other service department.

Guidance for enhancing your pricing analysis approach:

- Select the top 10 highest-volume services for your service department.
- Ensure an apples-to-apples comparison during market analysis, and document any differences.
- Have a documented process outlining the questions to be asked during the market survey.
- Foster team collaboration by involving key members of your fixed ops team, enabling them to contribute and feel a sense of ownership.
- Share and communicate your findings both internally and externally.
- Create a comparative graph illustrating the primary maintenance components, highlighting what your service includes compared to your competitors.

#2 LABOR GRID

Have you conducted an analysis of your matrix labor grid performance?

Insights for Analyzing Your Internal Labor Grid:

- Generate labor grid utilization reports by individual team members, analyzing any exceptions.
- Review the most frequently adjusted labor times by operation code and individual hours to identify patterns. This often reveals inconsistencies in labor pricing within the DMS or Electronic Inspection Tool.
- Document all lost revenue due to improper grid usage, and communicate these findings to your Service Advisors. Emphasize the benefits for them and explain the importance of these insights.
- Analyze your most frequently sold labor times and implement a sales structure that optimizes gross margins for these services. For example, if your most commonly sold CP labor time is 2.5 hours, ensure this has a high ELR and gross margin built in to maximize revenue opportunities.

What is your average monthly **discount** total and **who** controls it?

#3 RO DISCOUNTS

Who has the authority to override your finances?

Regain command over missed opportunities using these techniques and insights:

- Post daily discounts by individual in comparison to customer pay sales totals.
- Review and update discount override permissions and limits, and analyze who has the ability to CSA (change sale amount) within your DMS.
- Check if ROs are being discounted and if the sale amount is being lowered on the same RO.
- Track the flow of money—where exactly are these discounts being recorded in your accounting system? Request monthly accounting details.
- Review your discount codes to ensure they are up-to-date and properly set up.
- Report the top 5 discounts used over a 3-month period, sorted by Advisor.
- Review common discount patterns to identify potential pricing opportunities.
- Engage with your team to collectively assess standard discounts, exploring whether service prices need adjustment to maintain appropriate gross margins after discounts.
- Ensure Advisors do not offer discounts immediately after the first “no” from the customer.
- Are you training your customers to decline service? Consider whether you send out discount offers immediately after a customer declines an upsell, instead of allowing Advisors to follow up personally.

#4 RO FOUNDATIONS

Are you training on proper RO (repair order) structure?

Discover the advantages to proper repair order structuring:

- Merging diagnostic lines with repair lines can boost gross profit and ensure customer clarity on related concerns. For example, if a customer arrives with a check engine light and needs an electrical sensor replacement, decide whether to keep the repair on the same line as the diagnosis or separate it.
- Establish a procedure for manual spot checks and RO reviews on a daily or weekly basis to maintain accuracy and consistency.
- Collaborate with your Service Advisors, highlighting the personal benefits they can gain by following proper processes.
- Bundle services into packages rather than offering them individually to enhance value and streamline maintenance sales. Ensure these packages are presented upfront at the service drive.
- Optimize the utilization of your labor matrix grid to maximize profitability.
- Ensure accurate labor type categorization for specific services to improve both efficiency and profitability.

EFFECTIVE LABOR RATE WORKSHEET



UNDERSTANDING & CALCULATING EFFECTIVE LABOR RATE (ELR)

Use this worksheet to better understand how to properly calculate and control effective labor rate (ELR). Test the impact of small discounts over time to see their larger effects.

CALCULATING ELR

To properly calculate the effective labor rate, take the total retail labor sales, subtract any discounts given, and divide by the total labor hours paid to the technician.

$$\begin{array}{ccccc} \$223.45 & \div & 1.5 & = & \$148.96 \\ \text{TOTAL SERVICE} & & \text{TOTAL HOURS} & & \text{EFFECTIVE} \\ \text{LABOR SALES} & & \text{BILLED} & & \text{LABOR RATE} \end{array}$$

CALCULATING YOUR NUMBERS

$$\text{Total Labor Sales} - \text{Total Discount} \div \text{Total Hours Paid to Tech} = \text{Effective Labor Rate}$$

$$\text{Total Labor Sales} - \text{Total Discount} \div \text{Total Hours Paid to Tech} = \text{Effective Labor Rate}$$

UNDERSTANDING THE IMPACT

What was the true cost of the discount?

$$\text{ELR with Discount} \text{ vs } \text{ELR with NO Discount}$$

$$\text{ELR Impact of Discount} \times \text{Average Hours Sold In One Month} = \text{Total Impact / Gross Loss}$$

MULTIPLY BY 12 TO UNCOVER THE ANNUAL IMPACT!

THE REVERSE

Utilize your target Effective Labor Rate (ELR) to determine the total labor retail price and develop an optimized pricing strategy for the recommended service or repair.

$$\text{Targeted ELR} \times \text{Total Hours Requested} = \text{Total Retail Labor Charge}$$

ADD THIS, ALONG WITH YOUR TOTAL PARTS & SS, TO CREATE YOUR RETAIL ESTIMATE.

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CALCULATING ELR

To properly calculate the effective labor rate, take the total retail labor sales, subtract any discounts given, and divide by the total labor hours paid to the technician.

$$\frac{\$223.45}{\text{TOTAL SERVICE LABOR SALES}} \div \frac{1.5}{\text{TOTAL HOURS BILLED}} = \frac{\$148.96}{\text{EFFECTIVE LABOR RATE}}$$

CALCULATING YOUR NUMBERS

$$\frac{\$1,355.42}{\text{Total Labor Sales}} - \frac{-\$150.00}{\text{Total Discount}} \div \frac{11.4}{\text{Total Hours Paid to Tech}} = \frac{\$105.73}{\text{Effective Labor Rate}}$$

$$\frac{\$1,355.42}{\text{Total Labor Sales}} - \frac{\text{NO DISCOUNT}}{\text{Total Discount}} \div \frac{11.4}{\text{Total Hours Paid to Tech}} = \frac{\$118.89}{\text{Effective Labor Rate}}$$

UNDERSTANDING THE IMPACT

What was the true cost of the discount?

$$\frac{\$105.73}{\text{ELR with Discount}} \text{ vs } \frac{\$118.89}{\text{ELR with NO Discount}}$$

$$\frac{\$13.16}{\text{ELR Impact of Discount}} \times \frac{609}{\text{Average Hours Sold In One Month}} = \frac{\$8,014.44}{\text{Total Impact / Gross Loss}}$$

MULTIPLY BY 12 TO UNCOVER THE ANNUAL IMPACT!

THE REVERSE

Utilize your target Effective Labor Rate (ELR) to determine the total labor retail price and develop an optimized pricing strategy for the recommended service or repair.

$$\frac{\$165.00}{\text{Targeted ELR}} \times \frac{2.5}{\text{Total Hours Requested}} = \frac{\$412.50}{\text{Total Retail Labor Charge}}$$

ADD THIS, ALONG WITH YOUR TOTAL PARTS & SS, TO CREATE YOUR RETAIL ESTIMATE.

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