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Resources:

- **Labour Metric Ratios Excel template**
- **Video tutorial on using the template**

Understanding your labour metrics will help you survive the shortage of automotive technicians

By Geoff Mutton and Jeff Smit

It's going to take time for Australia to find any solution to the critical shortage of mechanics and technicians, so workshops will need to work smarter to maintain profits in the face of the inevitable upward pressure on wages.

The latest report '*Directions in Australia's Automotive Industry 2017*' from the VACC in partnership with Motor Trades Associations says there are currently more than 27,000 jobs in a variety of fields waiting to be filled. This is the highest ever recorded and this figure is expected to rise to 35,000 within a year.

There are calls for the formation of an Automotive Taskforce to deal with the problem. With the necessary involvement of trade organisations, associations and government, it is obvious that it will take some time before a coordinated approach to training and apprenticeships can be reached.

It follows that with more workshops competing for fewer good technicians there will be upward pressure on wage rates. This is basic economics; it's demand exceeding supply.

The big question being asked by most workshops is 'How much should I pay staff, and what hourly rate should my workshop charge?'

There are many dynamics attached to the answer. To help maintain the net profitability of your business, some calculations dealing with labour metrics will be necessary, leading to the development of labour rate and technician profitability ratios. Only then will the answer become clearer.

First, some basic information about each technician is needed:

1) *Know the total cost and hourly cost of your technicians.* Before any ratios can be calculated, you need to know the total employment cost of each staff member. This should be the gross wage including any bonuses or additional entitlements such as fuel cards, plus superannuation entitlements. The total employment cost divided by total hours worked will reveal the hourly cost of each staff member.

2) *Know labour revenue achieved by each technician.* You now need to know how much labour revenue each technician produces. Only sales of labour is relevant. Exclude parts sales. If your workshop runs a specialised automotive software program obtaining this number will be easy. If you run MYOB, Quick books or Zero, by giving everyone a specific labour code you could obtain this number fairly easily.

With these numbers, two important labour ratios can be calculated.

Overall labour rate ratio

Labour rate ratio is the difference between the average hourly cost or your labour (Including superannuation) and your hourly labour charge out rate (excluding GST).

For example, if you have an hourly labour rate of $100 (excluding GST) and your average labour cost is $31 per hour, then your labour-margin ratio is 3.2. This means that your labour charge out rate is 3.2 times the average cost of your labour.

From the TaT Biz 2014 benchmarking study, undertaken in conjunction with the Capricorn Society, the average labour ratio was 3.7, meaning that the average hourly labour rate was 3.7 times the average hourly cost of labour. Download the simple Excel worksheet that will calculate your labour rate ratio at www.tatbiz.net.au/resources.

In theory, the higher the ratio the better. However, be aware that your staff structure will impact this ratio. If you have only highly qualified technicians you can expect your ratio to be lower than if your staff is dominated by junior technicians and apprentices.

If your ratio is significantly less than 3.7, it's telling you that the gap between the cost of your labour and your hourly labour rate is less than average. If you are under pressure to increase wage rates, this will only reduce the ratio, further reducing your profitability. In this situation, to maintain your profitability you will need to either increase your hourly labour rate or reduce the average cost of your labour by recruiting an apprentice. The downloadable calculator will allow you to play around with various scenarios.

But note that this calculation is done using the average cost of your labour, not on the cost of individual staff.

The downside of this calculation is that is doesn't take into consideration how effective or productive your staff are. That is why this ratio needs to be viewed in conjunction with the technician profitability ratio.

Technician profitability ratio

The technician profitability ratio is simply the difference between individual labour revenue and the total technician cost.

For example, if one of your technicians generated labour revenue of $135,000 and their total annual cost was $65,000, they would have a profitability ratio of 2.08. Simply put, they generate labour sales of 2.08 times their annual cost.

You can download the simple Excel worksheet that will calculate your technician profitability ratio on our website at www.tatbiz.net.au/resources.

The 2014 TaT Biz benchmarking showed that the average technician profitability ratio (including apprentices) was around 1.91. This means that the average technician produced labour revenue of around 1.9 times their annual cost.

In theory, the higher the ratio the better. This ratio can be looked at individually or as a team average. Average labour sales of around two times the annual technician cost is a great target. However, be aware that your staff structure will impact this ratio. You will most likely find that your higher paid technicians dealing with more complicated jobs will have a lower ratio compared to junior technicians and apprentices who focus on simpler services and repairs.

When calculating this ratio on your technicians, you need to consider other roles they perform in the business. For example, if one of your technicians spends half their day serving customers in the front office, a much lower ratio must be expected.

Using these ratios to help you make decisions

Most workshops operate in a competitive market place, and being competitive obviously influences many decisions about labour rates, but performing these simple calculations will produce actual data that will help you make an educated decision.

Remember that if your wages bill increases and everything else stays the same, your profitability is going to fall.

The place to start is www.tatbiz.net.au/resources

Just go for it!