INDUSTRIAL FINISHES

Automotive and Industrial Coatings

KPI

KEY PERFORMANCE INDICATORS

Understand Your Numbers

SERVING SINCE 1958

What is a KPI?

KPIs (Key Performance Indicators) are measures in a business that are used to compare performance over time, across divisions within the same company, or across companies in the same industry. KPIs are typically easy-to-understand and easy-to-measure numbers that can be used to gage progress towards established goals.

The body shop industry has a few standard KPI measures that allow shop owners to determine how they stand relative to industry standards. Body shop KPIs don't compare how much is sold or how many earnings dollars a shop ends up with, but rather how effective a shop was at earning revenue and generating profit. Comparable KPIs are often rations or percentages, that regardless of shop size, still allow for a side by side comparison in terms of effectiveness of capturing revenue and profit.

A simple example of a KPI is gross profit percentage: Gross profit percentage will show an owner/manager if they earned more or less gross profit per each sales dollar even if the shop earned fewer overall sales dollars than in prior periods.

The benefit of using percentages as KPIs is that regardless of shop size/volume, shop owners can still compare percentages to other time periods, competitive shops, and national averages. Often, just the act of identifying a target KPI and challenging shop owners and employees for new ideas can result in improvement.

A review of the four profit centers in a Body Shop:

Profit Center ..... Gross Profit

Labor: 45% of Gross 63-65%

Parts: 40% of Gross.....28-32%

Paint Materials: 10% of Gross 35-45%

Sublet/Other: 5% of Gross 10%

Before addressing Paint and Material KPIs:

Labor- While labor is separate from paint and material profit, it should be addressed since it is the largest profit center in a shop. Profitability on labor largely depends on the shop's ability to widen the difference between the amount of labor being billed (effective labor rate) vs. the actual amount of labor cost paid to employees (effective labor cost).

Simply put:

effective labor rate – effective labor cost = labor profit

or:

hours billed – hours paid = labor profit

A shop can widen labor profit by spending less on the cost of actual labor (such as assigning lower wage employees to less technical jobs), or by carefully billing the correct labor rate for each of the different skills needed for the repair.

For Example: On larger jobs, frame work should earn the frame labor rate, mechanical should be billed at the mechanical rate, etc. It is important that shops charge these separate rates rather than just simply billing all of them at the standard body rate.

Dashboard KPIs:

There are several tools available to help body shops measure, track and analyze KPIs. These tools can be as simple as an Excel spreadsheet or as complex as multi-page reports. Often, KPI information is delivered via a dashboard. A dashboard is typically displayed on a web page which is linked to a database that is continuously updated.

Industrial Finishes & Systems has developed a KPI dashboard that is available to our body shop customers. This dashboard is accessed through a web browser and addresses five major body shop KPIs on two main tabs. The KPI tab allows shops to see cost/usage summaries as well as all the shop inputs used in calculating the KPIs. Shops can see changes from month-to-month and track improvement. The second tab is the margin tab. The margin tab allows shops to best demonstrate the effects of collecting a modest percentage increase in paint and material revenue and the dramatic effect this has on gross profit margin.

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Inputs and Profit

MO YEAR	TotalSales/X	P-M Sales/X	Paint Hrs.	RO Count	Paint Spend/X	Body Spend/X	PaintHrs /RO (>8)	Sales/RO (~$2.6K)	P-M Sls/ Pnt Hr. (~$30)	P-M Sls/ Tot Sls (10%>)	P-M Cst/ Pnt Hr.	Pnt Cst/Tot Sls (~4%)	Body Cst/Tot Sls (~2%)	P-M Margin (>35%)	FillRate
Apr 2018					$65,589	$20,363									99 %
Mar 2018	$2,232,692	$212,104	7,200	800	$93,807	$26,746	9.0	$2,791	$29.46	9.5 %	$16.74	4.2 %	1.2 %	43.2 %	98 %
Feb 2018	$2,188,916	$197,004	7,200	800	$91,050	$27,396	9.0	$2,736	$27.36	9.0 %	$16.45	4.2 %	1.3 %	39.9 %	99 %
Total	$10,734,1...	$851,824	32,800	4,000	$1,636,048	$528,689	8.2	$2,684	$25.97	7.9 %	$17.51	4.1 %	1.3 %	32.6 %	99 %

KPI's → ^ 1 ^ 2 ^ 3 ^ 4.a ^ 4.b ^ 5

1. PaintHrs/RO (>8) - The first measure is the average paint hours a shop is capturing on each repair order (RO). The industry target is 8 hours, but this can vary.

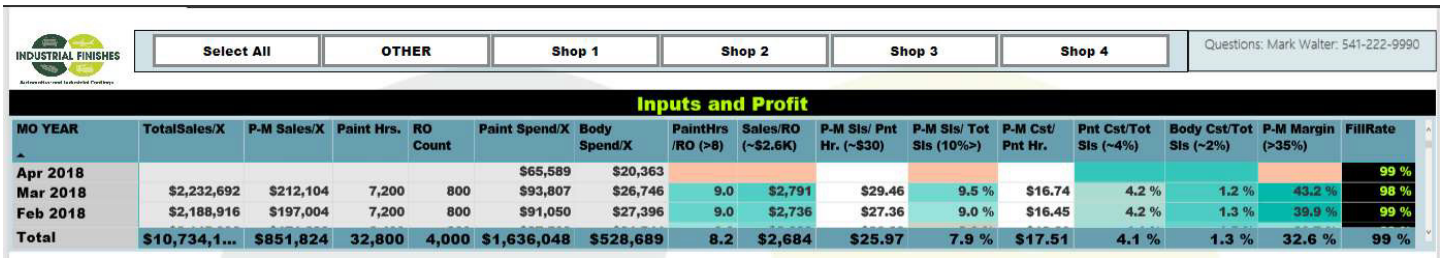
Lower hours per RO may be due to:

- Shops may miss simple aspects of a repair that may require additional attention or blending.
- Shops working closely or exclusively with dealerships tend to have smaller jobs prepping cars for sale that include less paint hours. A lower average hour per RO for these shops might be the norm and their baseline for improvement.
- Shops are often under pressure from insurance adjusters to reduce the size of the repair (referred to as base coat reduction).
- Oversight and incomplete documentation on the estimate can leave a shop short on labor, parts, paint, and materials reimbursement since these are reimbursed based on RO hours.
- Regardless of the particular repair circumstances, it's important to only include ROs that include refinish work as to not unnecessarily dilute your KPIs.

2. Sales/RO (approx. $2.6K) - This KPI measures the overall size of each RO, including reimbursement for labor, paint and materials, as well as parts. Anything under $2,600 indicates an opportunity to look at the estimate process.

There is a clear difference between a parking lot estimate and a thorough 'Repair Plan' that evaluates damage and meticulously documents each photo and references P-Pages. Time spent completing a quality repair plan communicates and justifies what is needed to execute a proper repair.

In addition to following a repair plan, having regular estimate audits by a manager/owner and asking paint and body technicians to spot check for missed opportunities can help ensure a thorough estimate.



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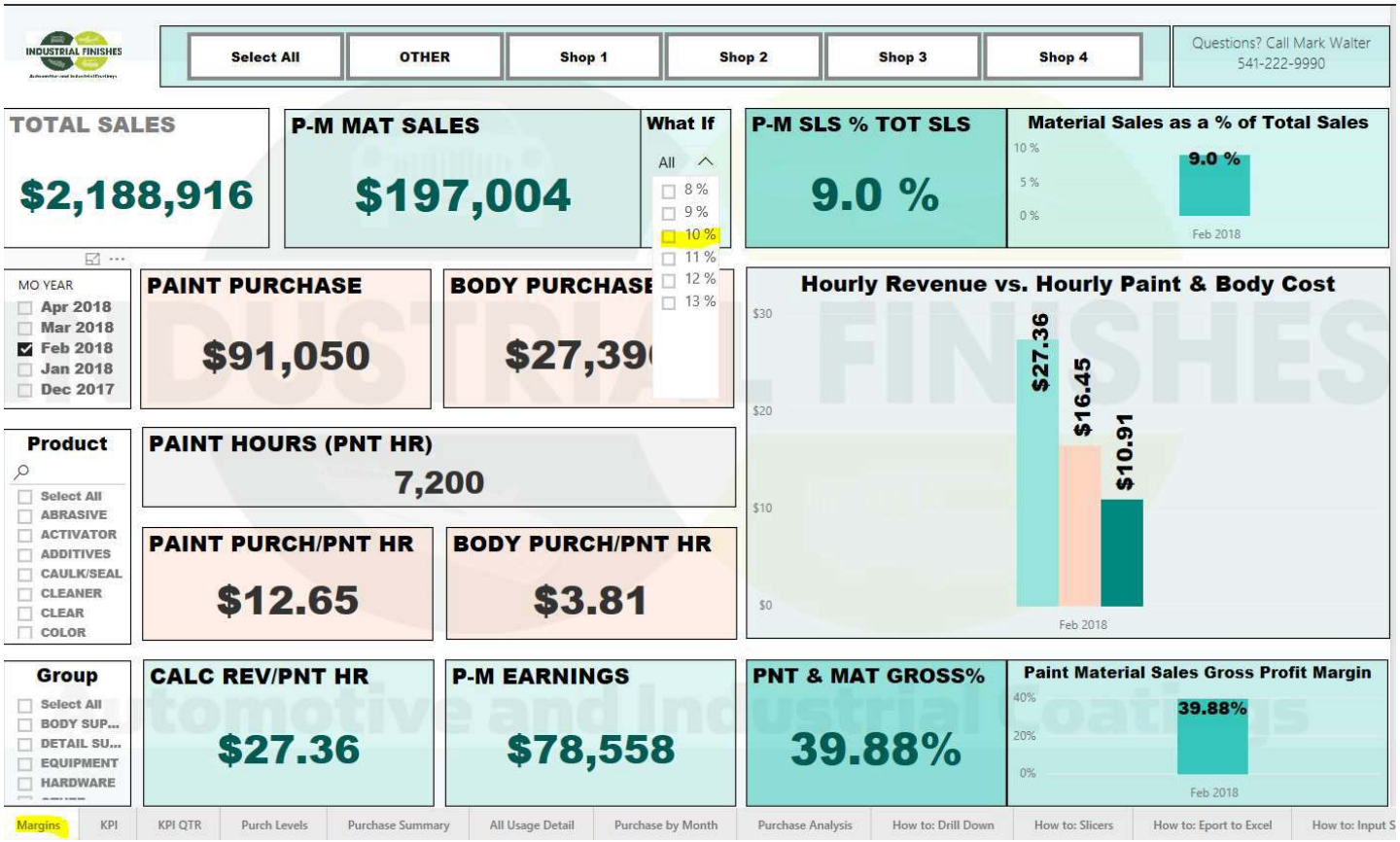
3. P-M Sls/Tot Sls (10%) - This is the key KPI that drives paint and material profitability and represents the percent of total shop refinish sales earned specifically to cover paint and materials costs. Most shops are fully aware of this calculation as this KPI is part of what a Direct Repair Program (DRP) uses to grade participating shops.

DRPs often shoot for this KPI to be below 10%. However, most shops believe 10% is the ideal rate.

While most shops are familiar with the 10% target, very few shops know the impact that 1% can have on gross margin. **An increase of just 1% can improve gross margin on each revenue dollar by 6%-8%. In dollars, increasing this KPI by 1% can raise total margin dollars for the month by 30%!** (Dashboard users can test this theory by using the 'Margin' tab and the 'What If' drop down on that page to test different scenarios.)

Margin Tab:

The margin tab in the dashboard is used to measure actual profit margin, as well as the impact of a 1% 'What If' scenario.



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4a & 4b. Pnt Cst/Tot Sls (approx. 4%) & Body Cst/Tot Sls (approx. 2%) - These KPIs compare paint and material (both paint and body) costs to total sales. This is a popular industry measure that shops use to gage cost/usage.

Shops may believe that cost is the issue if this KPI exceeds 6%. However, in many cases this presents an opportunity to look at factors such as inefficient paint equipment, poor training or technique, or simple overuse of liquid per repair.

Challenging or incenting a painter to reduce the rate of liquid per paint hour can shave costs and improve gross profit.

5. P-M Margin (>35%) - The final measure is the calculated profit margin percentage. This is calculated as:

(Paint & Material Sales - Paint & Body Costs) / Paint & Material Sales = Paint & Material Margin

If the shop measures KPIs 1, 2, 3, 4a, and 4b at or above their goals, the shop should achieve paint and material profit margins above 35%-45%.

Shops that want to achieve paint and material profit margins above 45% need to focus on both the estimate process (and subsequent repair plan) as well as effectively managing paint and material usage rates.

Conclusion:

Understanding a body shop's key performance indicators (KPIs) is crucial to managing your growing, profitable business. Assessments made through KPI analysis often lead to the identification of potential improvements. That's why KPIs are so often associated with improving operational performance.

Fortunately, there are tools and resources available to help process data and present KPIs in clear, understandable terms. It's essential to choose tools that work for you that are supported by experts who are ready to help you find meaning in the numbers.

Our KPI dashboard, Performance Tracking Portal, can provide a central way for shops to track and measure improvements made to both revenue per RO as well as product cost/usage per RO or paint hour.

Performance Tracking Portal is available to all Industrial Finishes & Systems customers. It's a very easy-to-use tool. You don't need a business degree and you don't have to be an I.T. professional to unlock the value of understanding your business KPIs. Our in-house experts have worked with hundreds of body shops to help improve profitability. All that is required of you is the willingness to invest a modest amount of time and attention to reviewing your KPIs and considering the impact that small, often incremental, changes can make to your bottom line.

If all your paint distributor provides is a can of paint, you are not receiving the resources and support you need. To learn more about the services that make Industrial Finishes & Systems a unique fit for your shop, visit **www.industrialfinishes.com**, email **info@industrialfinishes.com** or call **(800) 531-1305**.

Performance Tracking Portal