

Markup Vs. Margin; Are You Really Making Money?

**By Mike Weinberg
Contributing Editor**

In the rough-and-tumble real world of transmission repair, there are many details of the business that must be watched carefully at all times. You have been reading this column on standard-transmission repair, and we have gone over a large volume of technical material. In this issue we will look at some of the pitfalls you need to avoid to make sure the work you are doing is profitable.

One of the problems with manual transmissions and transfer cases is variety. On the automatic side there are limited variations in units. For instance, a 700-R4 master kit will cover multiple years of transmission production, and the differences usually are confined to the number of clutches per pack, valve-body and governor calibration and, on the later models, electronic differences. In the stick side of the business there is tremendous variation between units on the basis of ratios, engine sizes and vehicle application. This is one of the reasons that very few shops stock much inventory for stick repair. This also makes it difficult to obtain the right parts. In order to have any chance at getting a correct quote on parts, you must properly identify the unit you are working on. This means that you need to have the unit completely torn down and clean when you begin to price the job. Now you can check every part for wear or damage. Remember, the cost of any parts you miss on the original estimate probably will come out of your pocket. It has been my sad experience that once the quote is made to the customer and he agrees, it becomes carved in stone.

It is next to impossible to raise an agreed-upon price for an estimate.

When you call your gear vendor, you should have the following information available:

- Year, make and model
- Number of forward speeds, and 2WD or 4X4
- VIN and production date
- Engine size and type (diesel or gas, turbo or non-turbo etc.)
- The tag number from the transmission or transfer case
- Case casting numbers
- Tooth counts on the gears you wish to order
- The main bearing numbers (input, rear mainshaft and countershaft bearings).

One question I hear all the time is, "Why do you need all this information? It is just a 5-speed." It should be obvious that in order to get the right parts you have to properly identify which unit you are working on. As an example, look at one of the most-popular 5-speed units, the T-5. It originally was designed and produced by BorgWarner, but the design and manufacturing rights were acquired by Transmission Technologies Corp. The ID tag number for the T-5 was 1352-000-000. 1352 identifies the trans as a T-5, the 000 in the second sequence means it is a complete assembly, and the last three digits indicate the application. The unit started at 1352-000-001, and the latest versions are 1352-000-262. This means that 262 different models of the T-5 have been produced worldwide.

This is only one of many popular units. You as a rebuilder have no way of knowing that the unit you are working on is the one that came in the vehicle. I have seen thousands of cases where some bright-eyed "expert" put a 4-cylin-

der trans behind a V-8 or a unit for use with a gasoline engine into a diesel vehicle, with a major loss of drivability and the usual destruction that takes place. Sadly, for every four shops that wish to do quality repair work at reasonable prices, there is one shop that cares for nothing more than separating the customer from his money. These shops do not have customers; they have "victims." When you possess the correct information, it becomes much easier to obtain the right parts and to verify that the unit you are working on actually belongs in the vehicle you have in your shop.

The second area that limits shop profitability usually is the correct pricing for your work. The labor rate is misunderstood in our industry. I have seen labor rates picked at random, much like lottery tickets, or based on the competitor down the street in a false sense of being competitive. Your labor rate must fit your overhead and the profit structure you wish to earn. Obviously you cannot get rich from one repair. To get a correct figure you must add up all your fixed overhead costs, which include rent, utilities, insurance, advertising, uniforms etc. but does not include parts costs.

Now compute how many billable hours your work force can produce. For example, if you have three people working eight hours a day, you have the potential to generate 24 hours of billable labor per day. Notice I said potential, for the reality is that you probably will never achieve more than six hours a day of production per man. This gives you 18 hours for each of the five workdays, or a total of 90

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hours of billable labor each week. Divide your weekly fixed cost by 90 hours and you have your breakeven point.

Example: Your fixed costs amount to \$260,000 a year. Divide that sum by 52 weeks and you get \$5,000 a week. Dividing that by 90 gives you \$55.56 per hour as a breakeven point. Now you must factor in how much profit you wish to achieve. If 30% is your desired gross-profit margin, your gross sales must exceed your breakeven point by 43%. This means gross labor income of \$79.45 per hour based on true costs and a 30% gross-profit margin.

You are aware of what the manufacturers charge for list price. What does list price actually mean? Absolutely nothing to our bottom line. In truth, list is really manufacturer's suggested list price (MSRP). By federal law no manufacturer can set a required list price. Rather, it can suggest a price based only on what it deems to be a satisfactory gross-profit margin. The big question you have to ask yourself is whether you can survive on whatever margin a disinterested third party suggests you can make.

In order to make the correct (profitable) decisions on pricing your parts, you must understand the difference between percentage of mark-up from cost and the gross margin on sales dollars. I have included here a table that shows you what percentage of

Markup Vs. Gross Margin

PMU on Cost \$	GM on Sales \$	PMU on Cost \$	GM on Sales
100.00%	50.00%	50.00%	33.33%
99.00%	49.75%	49.00%	32.89%
98.00%	49.49%	48.00%	32.43%
97.00%	49.24%	47.00%	31.97%
96.00%	48.98%	46.00%	31.51%
88.00%	48.72%	46.00%	31.03%
94.00%	48.45%	44.00%	30.66%
93.00%	48.19%	43.00%	30.07%
92.00%	47.92%	42.00%	29.55%
91.00%	47.84%	41.00%	29.08%
90.00%	47.37%	40.00%	28.57%
89.00%	47.09%	39.00%	28.06%
88.00%	46.81%	38.00%	27.64%
87.00%	46.52%	37.00%	27.01%
86.00%	46.24%	36.00%	26.47%
85.00%	46.95%	35.00%	25.93%
84.00%	45.65%	34.00%	25.37%
83.00%	46.36%	33.00%	24.81%
82.00%	46.05%	32.00%	24.24%
81.00%	44.75%	31.00%	23.66%
80.00%	44.44%	30.00%	23.08%
79.00%	44.13%	29.00%	22.48%
78.00%	43.82%	28.00%	21.88%
77.00%	43.50%	27.00%	21.26%
76.00%	43.18%	26.00%	20.63%
75.00%	42.06%	25.00%	20.00%
74.00%	42.53%	24.00%	19.35%
73.00%	42.20%	23.00%	18.70%
72.00%	41.86%	22.00%	18.03%
71.00%	41.52%	21.00%	17.36%
70.00%	41.18%	20.00%	16.67%
69.00%	40.83%	19.00%	16.97%
68.00%	40.48%	18.00%	15.25%
67.00%	40.12%	17.00%	14.63%
66.00%	39.76%	16.00%	13.79%
65.00%	39.39%	15.00%	13.04%
64.00%	39.02%	14.00%	12.28%
63.00%	38.65%	13.00%	11.60%
62.00%	38.27%	12.00%	10.71%
61.00%	37.89%	11.00%	9.91%
60.00%	37.50%	10.00%	9.09%
59.00%	37.11%	9.00%	8.26%
68.00%	36.71%	8.00%	7.41%
67.00%	36.31%	7.00%	6.54%
56.00%	35.90%	6.00%	5.66%
55.00%	35.48%	5.00%	4.76%
54.00%	35.06%	4.00%	3.86%
53.00%	34.54%	3.00%	2.91%
52.00%	34.21%	2.00%	1.98%
51.00%	33.77%	1.00%	0.99%

mark-up you need to make from cost to achieve the desired gross margin on the sale. For instance, if you wish to make a 25% margin on parts sales, you must mark up the parts by 34%. This may seem confusing, but the math in the table is established fact. Many shop owners believe that if you want to make a 25% profit you mark up your parts by 25%; this actually gives you a gross profit of 20%. Obviously, you will have volume customers and wholesale accounts in which you are willing to work on lower margins because of the increased volume.

I speak with owners of many shops that do quality work but are always struggling to make ends meet. Most of their problems occur because they do not price their parts and labor correctly and never make enough money on each job. When I explain how to price parts on the basis of your real cost of doing business, I always meet resistance: "How can I charge more than list?" Since list is only a suggestion, why not? Look at what you do in ordering parts, which in most instances requires either a trip to the supplier in person or communication by fax to identify the right parts. You now advance the money for the product and wait to get paid. You accept this as part of your daily routine, but what would it cost the customer to leave work and chase down the required parts?

The leaders in this concept are the big oil companies. Years back when you

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pulled in for gas, they checked your oil and water, filled your tank, cleaned your windshield and gave you a dish, glass or other promotional item. Now they have us standing in the wind filling our own tanks, cleaning our own windshields and checking our own oil for gas that is five times the price or more.

The second part of the equation is that if you don't charge enough for your work and can't generate the necessary profit margins, the inevitable comeback sucks what little profit you made out of the job and leaves you in the red. Establish a profitable labor rate, learn the difference between the percentage of markup and gross

margin, and make each repair truly profitable.

In every area of the country there is always a shop that offers low-ball numbers for transmission repair. It sells transmission repair at half the price any decent shop has to charge. Its work also is half the quality of that produced by any decent shop. There always will be a certain type of customer who will be attracted by price alone. These people deserve each other and the grief, small-claims courts and judgments that follow. When you get your prices earning you a decent, fair profit for your time and investment, the final thing you need to learn is that there are some customers you are

better off without. Nobody ever gets ahead by doing work basically for free and having the vehicle ready yesterday. **TD**

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