

Subject:

Prospering in a difficult
business environment

Essential Reading:

- Rebuilder
- ✓ Shop Owner
- Center Manager
- Diagnostician
- R & R

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The New Year: *It Will Be as Good as We Make It*

Happy New Year, and my fondest wish is that all our readers enjoy the coming year in good health.

Last year was a continuation of the difficult business environment our industry has been facing for the past five years. Our tendency as businessmen is to view the tough market we are in solely from a shop perspective. This is natural, as self-interest rules us all, but a good look around at the big picture is necessary to put the situation in proper perspective.

The "Big Three" domestic automakers are facing the toughest business decisions since the Great Depression. Most of the Tier One OEM suppliers to the domestic market are either in bankruptcy reorganization or have downsized and sold off unprofitable divisions. The unions are in tough shape with plant closings and the movement of domestic manufacturing offshore creating a great loss of jobs. Our industry is intertwined with the automakers, and the times are difficult. It is easy to lose hope, it is easy to throw in the towel, and it is difficult to work out a solution to the present situation.

Our industry once was made up of 25,000 to 28,000 shops dedicated solely to transmission repair. I don't have good numbers, but my guess is that we now have 10,000 to 12,000 transmission shops. There are probably 150,000 general-repair shops, and an aggressive car-dealer body that is after our repair market. Leasing, cash-back programs and long warranty periods have kept a lot of business from coming into our shops, to say nothing of

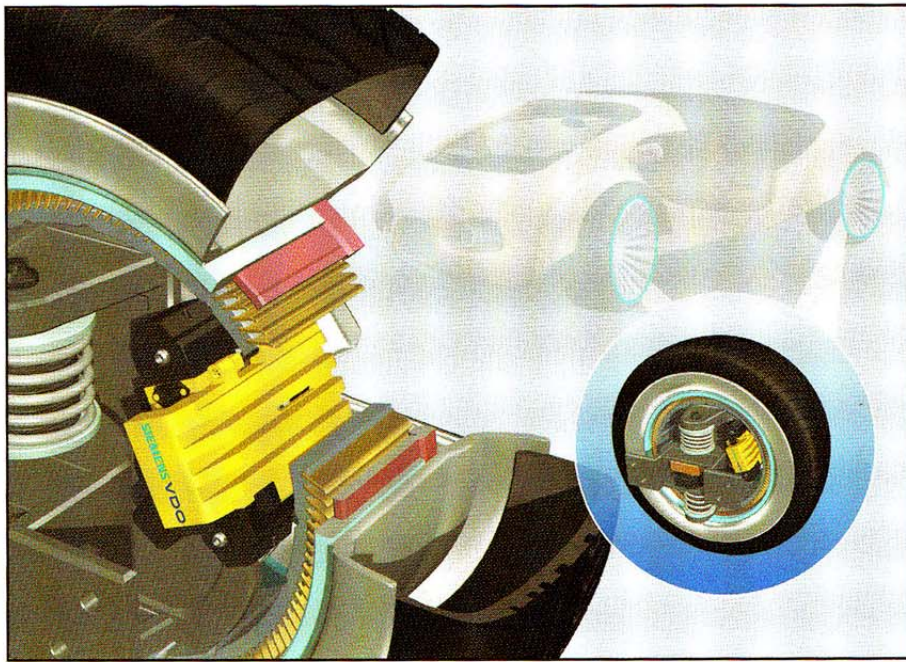
the fact that all the manufacturers are building good product from a mechanical standpoint.

This is the reality, and examining carefully how the carmakers will get out of this mess will guide you on what you need to do not only to survive but also to prosper. There is no question that the carmakers will be very different companies in the future or they will be out of business. Their size will change, and they will be smaller and leaner companies. They will concentrate on the vehicles that are profitable and desired by the public. The dealer bodies will shrink, as a smaller group of dealers will ensure that there is an increase in profitability for those remaining in business. Our industry will follow suit, as there are still too many people fishing in the same pond.

What can you do this year to increase your profit structure and create growth in a flat market? It can be done, and it has to be done if we are to survive. Continuing to do the same things while expecting different results is one definition of insanity. Now is the time for careful self-examination and a resolve to change the way we do business to create new profit centers and create maximum efficiency from the old. The way to start is to get reality in touch with your ego. Self-deception is like cheating at solitaire; it affects only you.

What do you do well and profitably? What do you struggle at and lose money on? Do you understand the new technology and, if not, are you willing to invest the time to learn?

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At this point you will need to make a commitment, because if you do not wish to learn the technology and keep up with it on a daily basis, you should make a career change. After a thorough examination of your assets and liabilities, think out a plan for 2007 (short-term goals) and begin to implement it. The following paragraphs are meant as suggestions and food for thought.

Profitability

Is every process in your business profitable? Do you know the difference between markup and margin? Spending a lot of production time on low- or no-profit work wastes resources and will put you out of business. Learn how to charge for your work on the basis of the markup you need to make the profit level desired. Create your own list prices and charge for your work according to the needs of your business, not the suggested prices pushed on you by huge corporations.

Your minimum profit margin must be in excess of 40% for you to survive. Weed out all the services that you cannot make profitable. There is no point in doing anything at a loss. If you or your peo-

ple are struggling with certain units and don't seem to be able to avoid comebacks, stop building them. Don't turn the work away; buy reman or factory units and get out from under the warranty issues.

Efficiency

You have only so many productive hours each day and you have a set number of people. This means that you must use those assets in the most-efficient manner. There is less repair work by volume, so you must maximize profits on every job.

Example: The shop has one rebuild, who is capable of tearing down, cleaning and rebuilding one automatic unit each day. Maybe he can be pushed to 1.5 units a day before attention to detail and quality begin to slip, so how do you increase your business? You buy reman units from outside sources and increase your weekly gross revenue. Using reman units does two things: It gets you out from under warranty liability, and it permits you to gross more dollars.

If you know your breakeven point is five units each week and that pays your fixed overhead, anything you can bring in over

that point is profit. Do not get into the ego trap of "We can build anything." Ask yourself, "Can we build anything profitably within our time frames for efficiency?" What takes away from profit is a waste of time and effort.

Technology

A great number of people in our industry are overwhelmed with the new products and the changes that influence our current market. You need to go to school every day to understand the theory and need for these new systems. Set some time aside to read and learn about what you are going to work on. This is a lifetime commitment for a professional. There will never be a time you can stop learning, because there will never be a time without new and changing technology.

Market share, customer safety, fuel efficiency, environmental protection and lower cost of manufacture will always create the need for more-advanced systems. If you miss two hours a day of TV time to enhance your diagnostic skills and improve your understanding, you have gained, not lost.

Right now, epic changes are coming toward us at full speed. No matter what form the technology takes, someone will have to fix it. If you have that knowledge and understanding, you will survive and prosper; if not, you will be bypassed and replaced. In the next 10 years you will see changes on a scale that is mind boggling.

For instance, there is a good chance that the torque-converter-driven transmissions we know and love will be no more. The manufacturers are developing new designs and producing transmissions that are much more fuel efficient and weigh less than the converter-driven units.

Expect huge numbers of "automatic" gear-driven transmissions without planetaries. Siemens VDO,

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a huge electrical manufacturing conglomerate, is developing a vehicle drive system that eliminates the engine, transmission and differential from the vehicle. The company is incorporating the drivetrain, brakes, shocks and steering into the wheels. Each wheel will have its own electric motor, suspension components and brakes (see illustration on page 22). Electric motors driving each of the four wheels will be very efficient and will be able to act as generators during coast and braking.

Fantasy? No, fact, as the electronic wedge brakes of this design are already slated for production cars in the next three years. Hydrogen cells, gasoline- or diesel-electric hybrids and many new transmission designs already are entering production. They will inevitably wear out or break, and understanding the technology gives you the opportunity to profit from the future.

Marketing

Many think of this term as the buzzword of large corporations. Every time you speak with a customer you are, or you should be, marketing – selling yourself to the public. Now you need to both improve your marketing and open up new markets. If you sit around and wait for business to come to you, disappointment will be all you get. Review the area you serve to see which goods and services you can add to your existing facility to increase your market share.

Is your shop near the water? Is there a market for marine transmissions and gear drives you can serve?

Are there a number of diesel and gas pickups and SUVs in your area to whose owners you can sell performance-enhancing computer packages? Can you sell performance and race work to car enthusiasts in your area? A small niche market will not support you by it-

self, but a collection of niche markets can fatten your profits nicely. You already have the investment in a facility and people, so building some niche markets can be done very efficiently with little added expense.

I just got back from the Performance Racing Industry trade show in Orlando, Fla. The hall is a million square feet under one roof, and it was packed. This is a trade-only show (the public is not invited), and it had about 50,000 attendees for several thousand exhibitors. No matter how bad things get in the economy, there is always money for the toys.

Pro racing is a big industry, but one you have a problem getting into. The enthusiast market is huge and growing. There are endless options for improving vehicle performance that you are positioned to sell to your customers. Engine enhancement, suspension products, improved brake systems, performance exhaust systems and transmission products are all services you can perform every day. You have the people, the space and the skill to add to your market share.

People

Every business is only as good as the people who comprise the workforce. In this day and age there is a terrific shortage of people coming into the skilled trades. As part of your survival and growth plan, you need to think about gaining and creating good employees.

The current trend is for shops to pirate labor from other shops in a never-ending downward spiral. We need to attract new technicians, and to do so you must be prepared to create them. You need to take people who know little or nothing and teach them.

It is also necessary to provide a safe, clean and future-promising environment to keep them with you for a career. Installation work is physically demanding, and as

the workforce ages you need to have new bodies to do the work. There is always a risk that the training you will invest in them will leave with them for greener pastures. This risk goes away if you provide them with a decent pay scale and a benefit package. All this costs money and time, but it is part of the investment necessary to maintain and grow your business.

Look for people who are curious about how things work. Ask whether, when they were kids, they took things apart and tried to put them back together. These are the candidates you can turn into technicians. If we as an industry do not create new technicians, no one will do it for us.

It is a new year. Today is a great day because we woke up breathing; the rest is up to us. There are problems and there are opportunities, and we can create more opportunity from the problems. Every achievement comes with risk and the possibility of failure, but to remain stationary and do nothing is terminal. Take a good look at where you are, determine where you wish to be and begin the journey to get there. Along the way you will trip, but you will pick yourself up and continue to your goal. The only thing that counts is how badly you want it.

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