

PMA

Benchmark

2023

Insights, Trends of Benchmarking
for Auto Repair Shops in USA

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INTRODUCTION

Thank you

We would like to take this opportunity to thank all our shops who took the time to complete the survey and share their data. Without you there would be no report. I would also like to thank the entire Paar Melis team – this report truly was a team effort and without their hard work it would have never come to fruition.

This benchmark report has been a concept I've been nurturing for years, with the intention of crafting and sharing with the industry. While I could have made educated assumptions about many of these figures, the depth of analysis we can achieve with this extensive dataset uncovers relationships that have not been explored to this level before. Since we have access to hundreds of financials of auto repair shops, we have a unique perspective of combining real verified financial figures alongside non-financial metrics gathered from our clients by our dedicated team.

We hope you enjoy reading the report and we welcome any feedback you may have to improve the report's utility.

Key findings

- 2022 was one of the stronger years that we have seen in a long time, and some might argue one of the better periods of automotive repair ever. Many shops have impressively achieved record-breaking sales seemingly month after month. However, within these metrics lies an argument that these sales increases don't always translate to a more profitable or successful business.
- Staff continue to play a crucial role in the profitability of a business. Among the more profitable shops, having a skilled team behind them is frequently attributed to their success. Conversely, some noted that poor staff performance, or downtime associated with training new team members, were factors that negatively impacted the bottom line.
- The evolving landscape of the automotive aftermarket industry undoubtedly raises concerns, yet a significant number of shops are adopting a philosophical outlook, considering it as a realm of opportunity. Among those who actively engage with their clientele, the firsthand observation reveals the swift transformations in customer preferences and business interactions. While some shops concentrate on maximizing their present-day profitability, others are directing their efforts toward future-readiness in the areas of Electric Vehicles (EV) and Advanced Driver Assistance Systems (ADAS), aiming to maintain a competitive edge. Interestingly, those who have embraced technology and built it up with solid support and integrated systems, are thriving, even if their immediate financial outcomes might not openly reflect this prosperity.

The Survey

The 2022 report involved a survey with two sections. As part of our commitment to obtaining comprehensive insights, we polled all our monthly clients - over 600! The initial part required shop owners to provide financial data, while the second section included optional qualitative questions for deeper industry insights. Validation of data was done by the PMA team, and 95% of contributors completed both sections. The qualitative questions focused on top performers' drivers and shop owners' suggestions, building on previous years' findings.

How the report was prepared

There are always metrics that are applicable to all shops, but location, size and type of shop can definitely muddy the waters when making some comparisons. To alleviate these variables, we have split this data a number of different ways.

- **Location:** Our firm works with shops nationwide so it was a no brainer to be able to split our data into more localized sections to gain insight into local and regional trends.
- **Size of Shop (Sales):** There are many expenses that larger operators have to incur, but there are many opportunities small shops may miss out on. Does this influence factors such as profitability, GP, or overall success?
- **Type of Shop:** Even beyond Parts GP and ARO, there were many trends that became clear when we started to sort Euro and Diesel shops from a general repair facility.

We also delved deeper into the results of top performers to identify the drivers behind their exceptional results. Top performers were classified as shops where their take home profits (pay and profit) were the highest as a percentage of sales:

- What financial aspects or KPI affected this most?
- What non-financial aspects are shared by most top shops?
- What aspects are deemed as something to avoid, or not represented, in the top shop group?

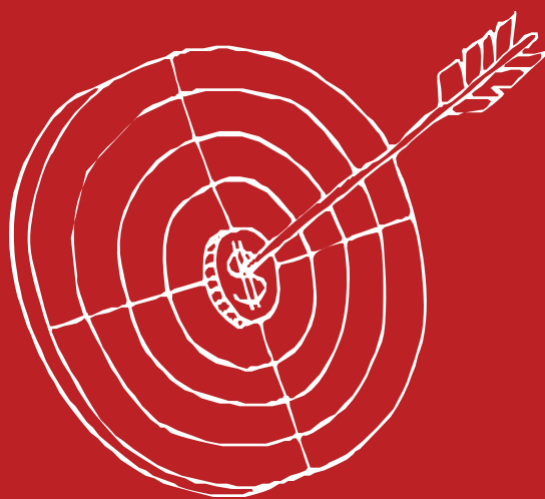
How to read the report

- Shops in some instances were able to provide more than one answer to a question, as a result, some of the tables add up to greater than 100%
- Be careful with making broad generalizations with some figures. While this is a large sample size, it is very small when compared to the overall industry. Our firm truly believes we work with the best operators in the business so a lot of the KPIs and metrics included are probably higher than the average when compared to the nation's shops.
- For ease of analysis some shops answers have been grouped together with similar groups (Pay Plans, Benefits, Etc.)

We hope that you appreciate and recognize the amount of passion and effort that went into making this report. It truly has been years, maybe decades, in the making and we are delighted to be able to share this with you.



Hunt Demarest, CPA/ABV
Partner, Paar, Melis and Associates



SNAPSHOTS

KPI - Financial



SALES

\$144,167



SALES PER TECH

\$32,254

59.3%

Labor GP%

45.2%

Parts GP%

51.4%

Overall GP%

Average shop sales per month were \$144,167, with an average profit margin of 9.9% across shops surveyed. The sample averages are a great starting point to analyze your performance.

Profit/Sales



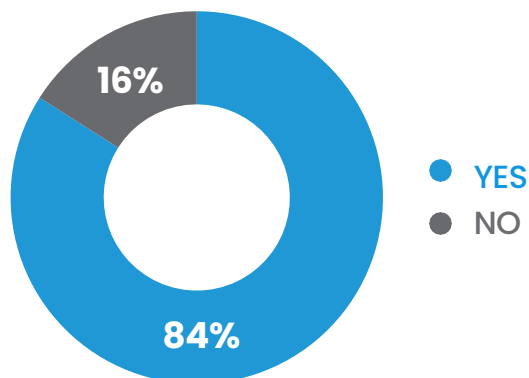
9.9%



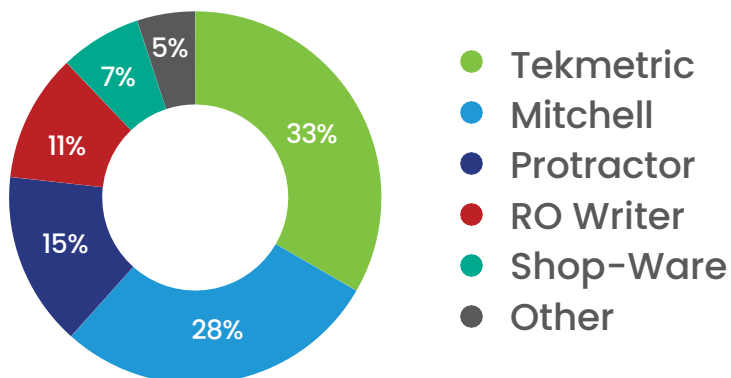
ARO

KPI - Non-Financial

Does your shop do DVIs?

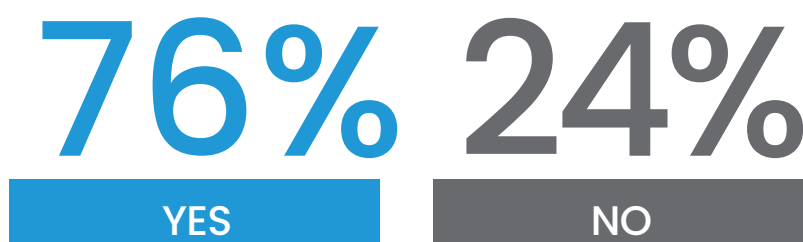


What SMS software do you use?



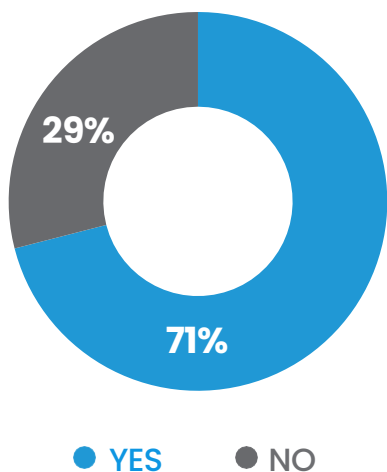
Benefits

Do you offer Health Insurance?

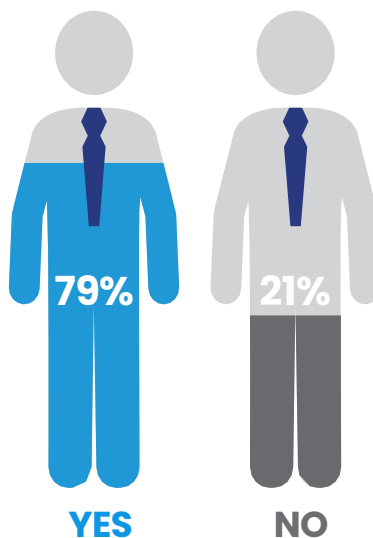


Retirement

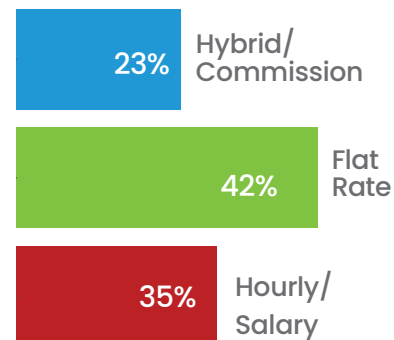
Do you offer a company sponsored retirement plan?



Coaching Company?



Tech Pay Plan



KPI - Financial

| Metric | Average |
|--|-----------|
| Avg. Monthly Sales (AMS) | \$144,167 |
| AMS / # of SW | \$72,318 |
| AMS / # of Bays | \$19,287 |
| AMS / # of Tech | \$32,255 |
| GP\$ Monthly (After SW) / # of SW | \$32,282 |
| GP\$ Monthly (After SW) / # of Bays | \$8,484 |
| GP\$ Monthly (After SW) / # of Tech | \$14,263 |
| Labor GP% | 59.3% |
| Parts GP% | 45.2% |
| Shop Supply Sales / Overall Sales | 3.3% |
| Shop Supply Cost / Overall Sales | 0.7% |
| GP % Before SW | 51.4% |
| GP% After SW | 43.6% |
| Advertising / Sales | 2.9% |
| Education (Training, Prof Development, Coaching) / Sales | 1.16% |
| Rent / Sales | 4.5% |
| Total Expense / Sales | 33.7% |
| Owner Pay / Sales | 6.4% |
| Profit % as % of Sales | 9.9% |
| Owner Pay + Profit / Sales | 16.36% |
| ARO | \$686 |
| Car Count - Monthly | 253 |
| Car Count / # of SW | 121 |
| # of Tech/# of SW | 2.55 |
| Productivity ((Labor Sales / Labor Rate)/(# of Tech x 2080)) | 57% |

Strengths/Weaknesses

Top 3 Strengths

- Customer Service
- Strong Reputation
- Internal Culture



Top 3 Weaknesses

- Staffing/Tech Shortage
- Efficiency and Productivity
- Communication



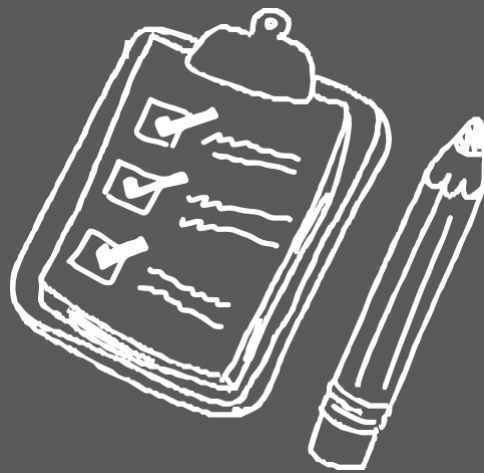
Not only did we interview shops about the financial and non-financial aspects of their business, but we also asked them to highlight their shop's biggest strengths and weaknesses.

There was a long list of each, covering a broad range of various situations but the above top 3 in both categories showed up consistently.

The surprising aspect of these results is that they seemed to be widespread throughout the industry, affecting large, small, multi-shops and everything in between. Underperforming shops report the same strengths and weaknesses as some of our Top Shops.

So, if there are issues that everyone is facing, does that mean there is nothing we can do about it? Not at all. It's not that staffing or productivity is impossible to fix or will never change. But these are deeper issues that don't always have a quick fix. They can be a focus point going forward. No business is perfect, even the best out there, and the savvy shop owner is constantly tweaking and analyzing their business to make it as strong as they can.

"In most cases, strengths and weaknesses are two sides of the same coin. A strength in one situation is a weakness in another, yet often the person can't switch gears. It's a very subtle thing to talk about strengths and weaknesses because almost always they're the same thing." ~ Steve Jobs



TOP VS. NOT

Methodology

What is a Top Shop? (“Top” = Top 10%, “Not” = Bottom 10%)

If you ask what makes a Top Shop, you are going to get a lot of different answers depending on who is asking and who is answering. Are you the leader of your community that is constantly giving back? Is your shop on the cutting edge of new technology and constantly training your team? While the term is subjective, in our case we wanted something that was easily measured and applicable to shops of all shapes and sizes.

The Metric

Owning your own business or being self-employed can have many benefits, but it's not without its own pitfalls. Being an entrepreneur is not for the faint of heart and takes a lot of risk, time, and dedication. However, if done correctly, it can be very financially rewarding, and can set your family and future generations up for success. It only makes sense for our “Top Shops” to be our most profitable shops.

Since officer payroll, or lack thereof, is one of the largest variables in our study, we added officer payroll plus profit to come up with a business's true earning potential. If we were only to measure dollars, the numbers would not have been applicable to businesses of varying sizes, so these figures were turned into a percentage of sales.

At the end of the day what we measured was for every dollar that comes through the door in sales, how much of that ended up in the owner's pocket. We didn't want to see the shops that did the most, but the shops that did the most *compared to what they had*.

How to Use the Report

While there is no wrong way to use these numbers, there are some items that need to be mentioned in order to gain greater efficacy from the study.

- **Discretionary and non-recurring charges affecting the bottom line:** Larger figures have been adjusted to increase accuracy but few small businesses have financials that truly ignore all outside variables. If anything, some of the figures are even better than they show on paper.
- **Financial vs. Non-Financial:** There are many financial aspects that created correlation between different KPI's and practices, but some of the non-financial metrics can also highlight things that top shops are doing that are truly driving numbers that matter.
- **Broad Spectrum:** If you were to look at the Top Shops in real life it would probably be hard to gather many similarities. The beauty of this industry is there isn't one way to create a successful business. Some Top Shops create a fast-paced commission-based culture while others have figured out how to create a machine based on an all-salary team. Most of the Top Shops are using DVI's (digital vehicle inspections) while others have created juggernauts doing it the old-fashioned way.



*What can we try and replicate, and what should we avoid, to align with Top Shops?
How can we avoid pitfalls of the “Not”?*

KPI - Financial



SALES

\$114,324

\$155,143



SALES PER TECH

\$27,975

\$38,246

● Top 10%

● Bottom 10%

57.2%

62.6%

Labor GP%

39.0%

47.5%

Parts GP%

45.7%

54.4%

Overall GP%

● Top 10%

● Bottom 10%

The Top 10% shops were able to secure 36% more sales per month than the bottom 10%. This resulted in better returns across most other metrics and over 6 times greater owner pay + profit.

OWNER PAY + PROFIT/SALES



28.41%

● Top 10%



4.46%

● Bottom 10%



\$673

\$670

ARO

● Top 10%

● Bottom 10%

Labor Analysis

LABOR RATE



BOTTOM 10%

\$140

TOP 10%

\$136

SALES PER TECH

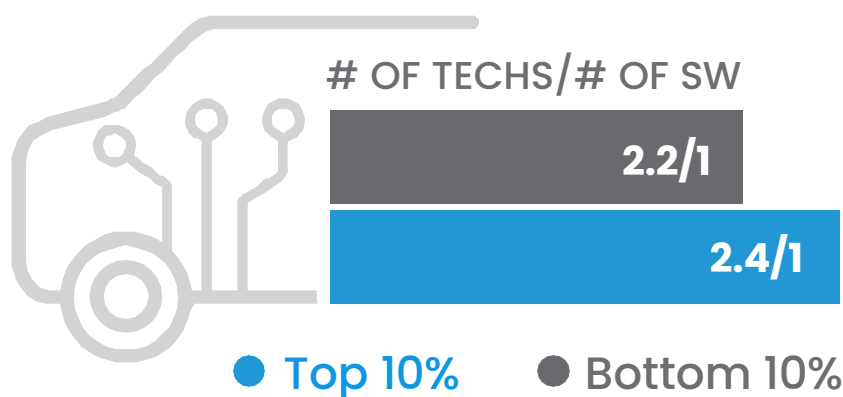


BOTTOM 10%

\$27,975

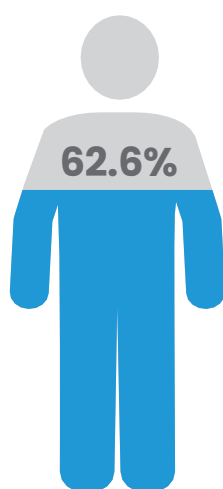
TOP 10%

\$38,246

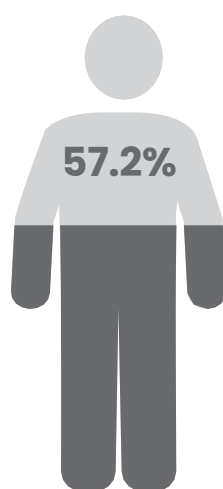


Top shops had more techs per SW. Their techs were also more productive achieving a better return on Labor GP%.

LABOR GP%

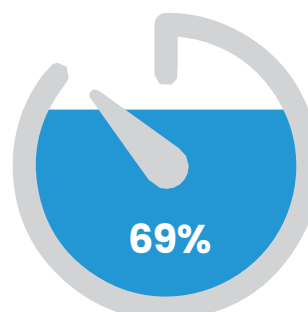


Top 10%

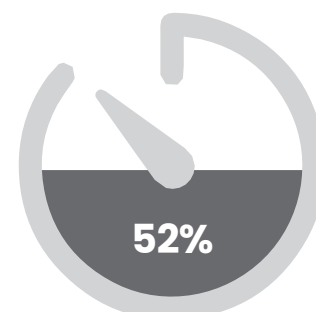


Bottom 10%

TECH PRODUCTIVITY



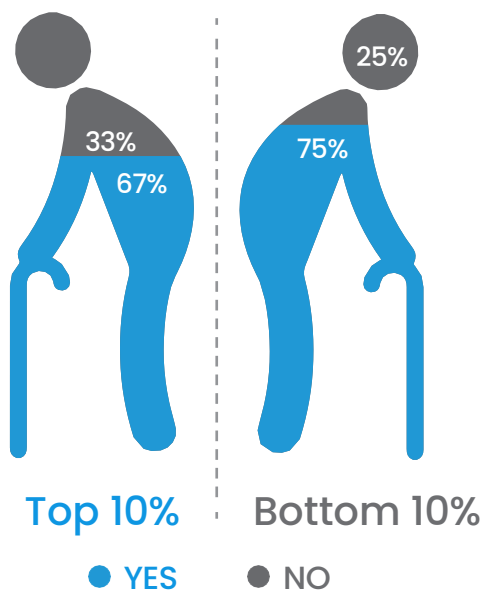
Top 10%



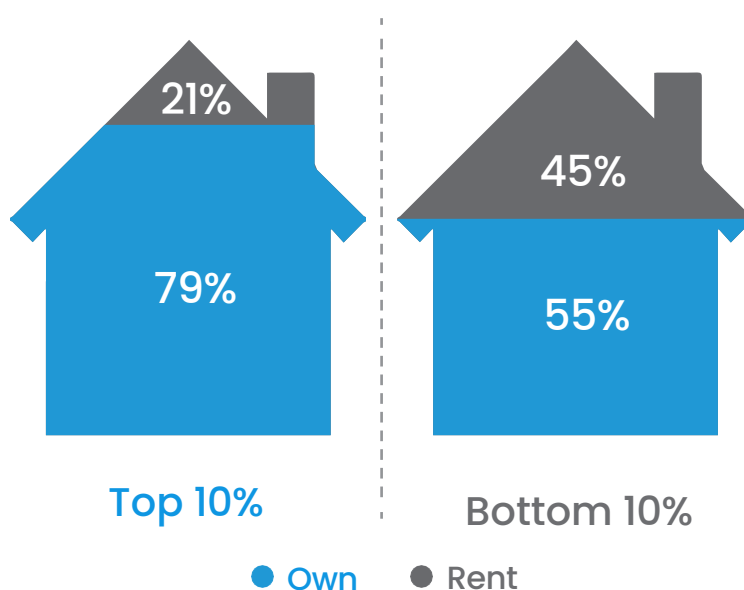
Bottom 10%

Non-financial

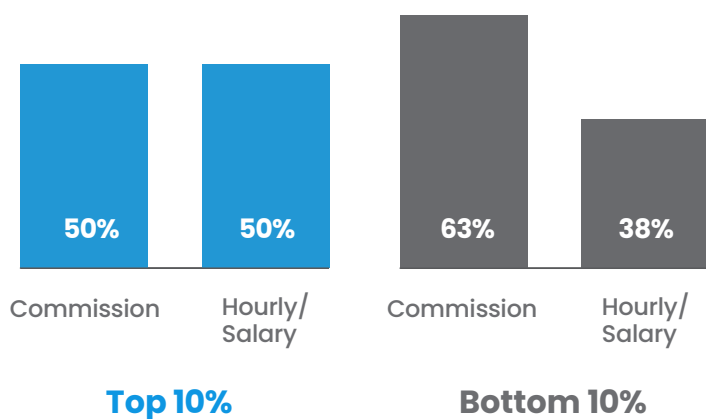
Offer Health and Retirement



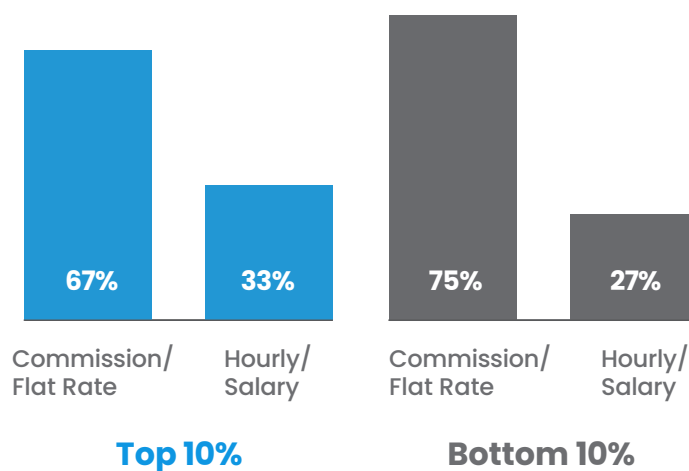
Rent vs Own



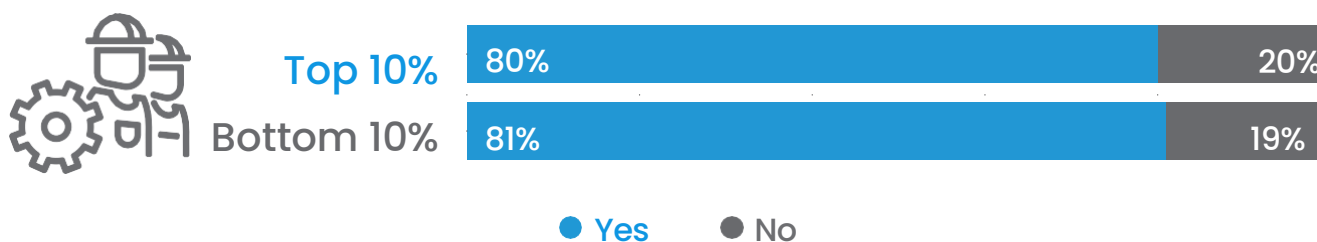
SW Pay



Tech Pay Plan



Coaching Group



What to Do vs. What Not to Do

Top Shops (Top 10%)

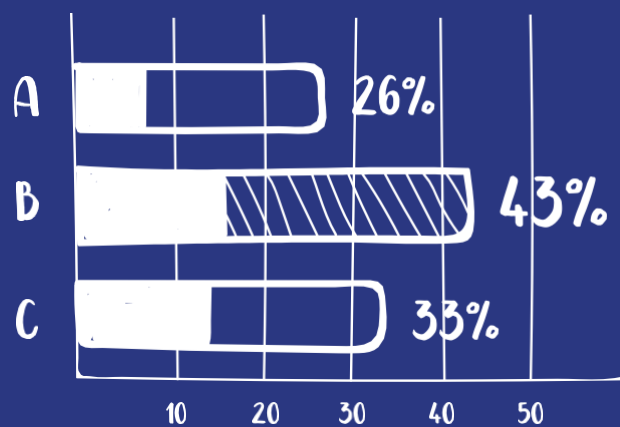
- **Productivity:** This is a metric that I have always preached about and probably covered the most when talking with clients or doing podcasts, trainings, and seminars. If you look at the leading indicator of Labor GP% you can see a correlation between Top Shops and higher labor gross profit. Labor gross profit is primarily driven between two distinct areas: pricing spread and productivity. Pricing spread is a metric that measures the spread between how much you pay for labor and how much you charge for labor. However, if you notice there was not a large correlation between Top Shops and labor costs or rates. This means that the major driver of Labor GP% was not actually price, but productivity. Even with varying types of pay plans, the businesses that were able to get top production from their team were able to deliver stellar profit levels at all sales volumes. Implementing changes and motivating the team is a tricky proposition, but the shops that have dedicated time and energy in this area have been delighted with the results.
- **Parts Gross Profit:** This metric yielded a higher correlation with overall profitability than I initially expected. While there is no right way of running a shop, the numbers don't lie: if you have a higher-than-average Parts GP% you only increase your chances of creating a more profitable shop. Does a low Parts GP% doom your business? No, but without major gains in other areas, it definitely makes the road a bit tougher.
- **Employee Benefits:** One of the trickier aspects of trends is measuring correlations and trying to separate from causations. Employee benefits are a great highlight of this very principle. You will notice that 80% of the Top Shops offer a benefit package for their employees which is almost double the percentage of the Not Shops. Does this mean that if you offer benefits that your business is set up for success? Maybe, but if you don't make a healthy profit, the idea of a benefits package might not be a viable option.

Not Shops (Bottom 10%)

- **Sales:** Sales are something that people like to set goals for and brag to colleagues on new targets or results, but as we can see have no relationship with ultimate success. This is a primary example of working smarter and not harder. Making more money is a very basic idea, just work harder and longer than you have in the past and you will make more money. Now if you want to do that in a scalable and sustainable way, you have no choice but to learn to perfect your metrics and squeeze profits out of all aspects of your business.
- **Pay Plans:** Remember that coach or shop owner that told you Flat Rate was the only thing that worked, and it was impossible to motivate or create a money-making machine without it? Turns out the numbers would argue the exact opposite. 80% of the Not Shops do indeed have some sort of commission-based plan whereas only 60% of the Top Shops do. Is it really the pay plan that is making all the difference? Or how these plans are implemented, measured, and managed?
- **How Much is Your Time Worth:** The hardest part of any conclusion is there are aspects that just cannot be quantified in a uniform way. Would you rather make 20% net income and work 60 hours a week? Or would you rather take 15% home but live on the other side of the country and run your shop from your couch? There are many shops that have chosen to reduce their time and pursue other interests, and in a lot of cases sacrificing some levels of profit. The easiest shop to run is one that is overstaffed and has redundancy; the most profitable shop to run is understaffed and on the knife's edge of capacity. Where you choose to operate on that spectrum is up to you.

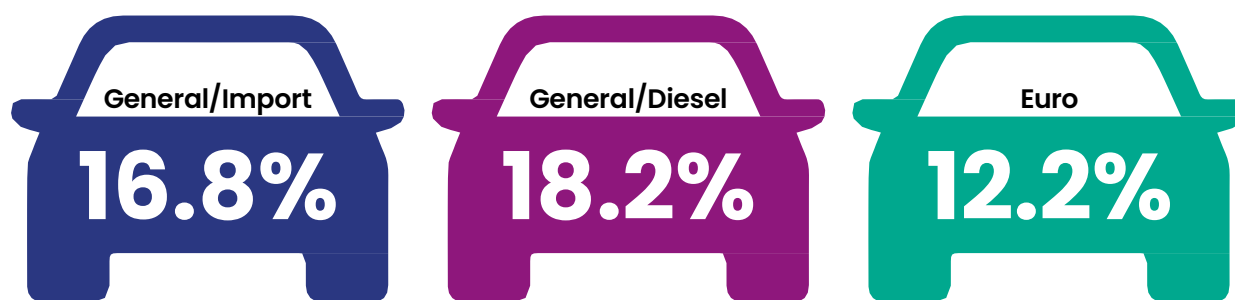
Profit is what happens when you do everything else right.

| Metric | Quartiles | | |
|---|------------|-----------|-----------|
| | Bottom 10% | Avg. | Top 10% |
| Avg. Monthly Sales (AMS) | \$114,324 | \$144,167 | \$155,143 |
| AMS / # of SW | \$61,579 | \$72,318 | \$87,190 |
| AMS / # of Bays | \$16,308 | \$19,287 | \$21,348 |
| AMS / # of Tech | \$27,975 | \$32,255 | \$38,246 |
| GP\$ Monthly (After SW) / # of SW | \$23,360 | \$32,282 | \$42,043 |
| GP\$ Monthly (After SW) / # of Bays | \$6,117 | \$8,484 | \$10,485 |
| GP\$ Monthly (After SW) / # of Tech | \$10,514 | \$14,263 | \$18,369 |
| Labor GP% | 57.2% | 59.3% | 62.6% |
| Parts GP% | 39.0% | 45.2% | 47.5% |
| Shop Supply Sales / Overall Sales | 3.9% | 3.3% | 3.0% |
| Shop Supply Cost / Overall Sales | 0.8% | 0.7% | 0.4% |
| GP % Before SW | 45.7% | 51.4% | 54.4% |
| GP% After SW | 37.9% | 43.6% | 47.9% |
| Advertising / Sales | 3.3% | 2.9% | 1.8% |
| Education (Training, Prof Development, Coaching) / Sales | 1.16% | 1.16% | 0.94% |
| Rent / Sales | 5.5% | 4.5% | 3.4% |
| Total Expense / Sales | 37.2% | 33.7% | 27.5% |
| Owner Pay / Sales | 3.8% | 6.4% | 8.0% |
| Profit % as % of Sales | 0.7% | 9.9% | 20.4% |
| Owner Pay + Profit / Sales | 4.46% | 16.36% | 28.41% |
| ARO | \$673 | \$686 | \$670 |
| Car Count - Monthly | 201 | 253 | 270 |
| Car Count / # of SW | 108 | 121 | 148 |
| # of Tech / # of SW | 2.21 | 2.55 | 2.36 |
| Productivity ((Labor Sales / Labor Rate)/ (# of Tech x 2080)) | 52% | 57% | 69% |

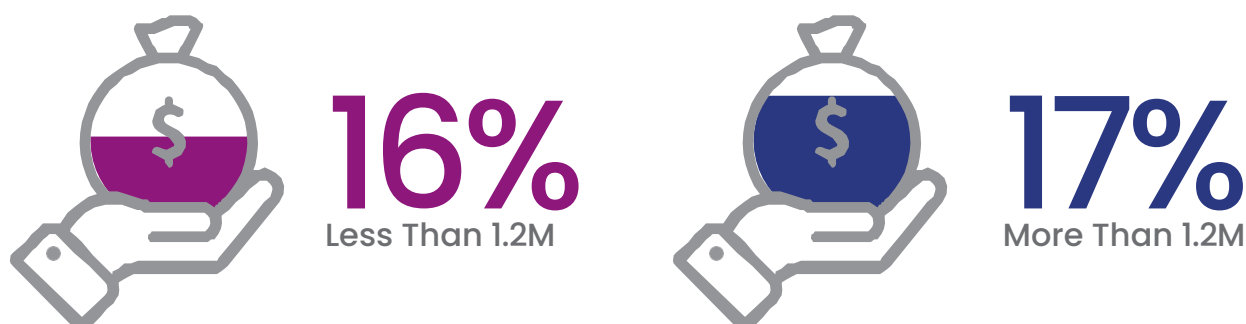


DATA BY LOCATION, TYPE AND SIZE

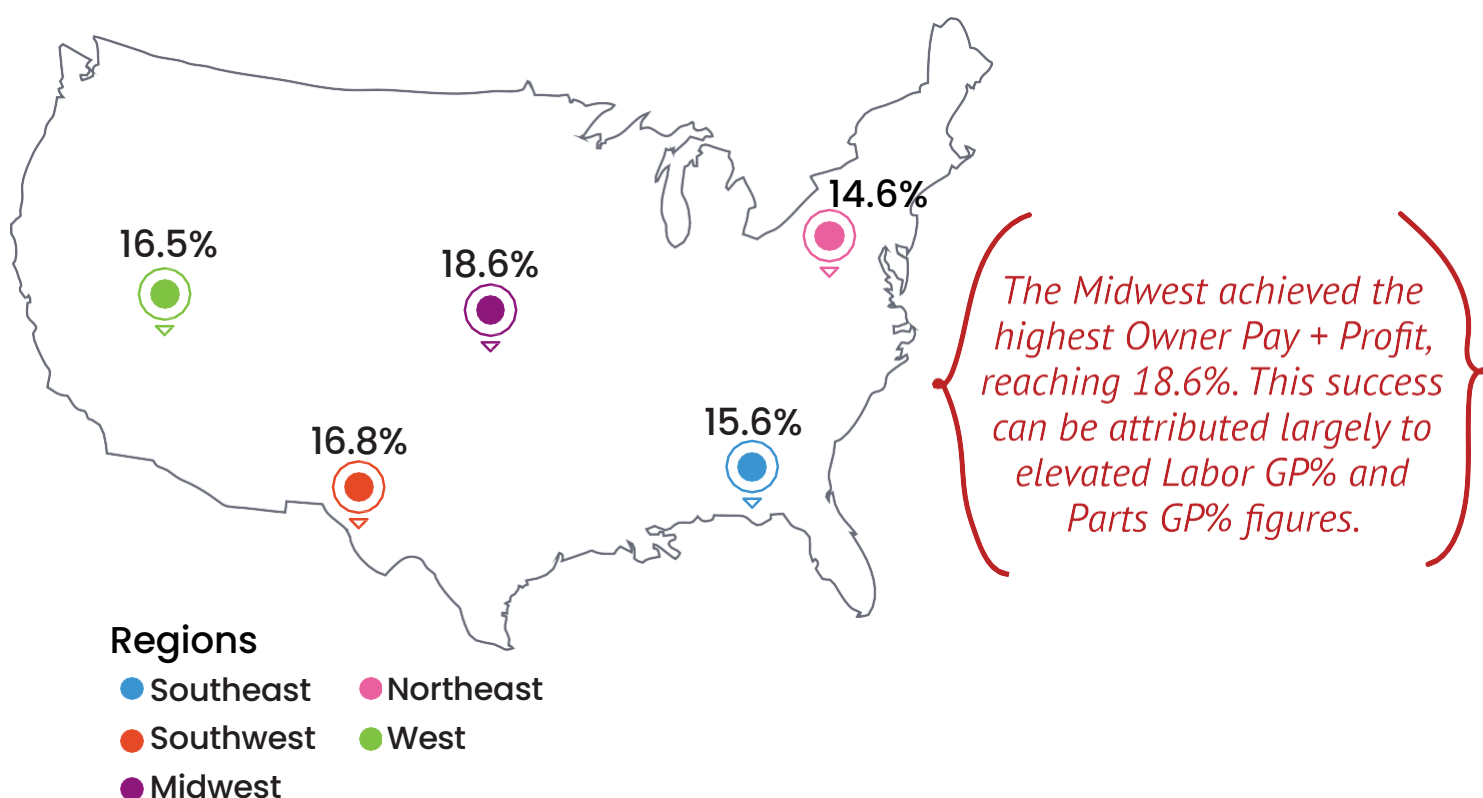
Owner Pay + Profit / Sales per Type of Shop



Owner Pay + Profit / Sales per Size (Annual Sales)



Owner Pay + Profit / Sales per Regions



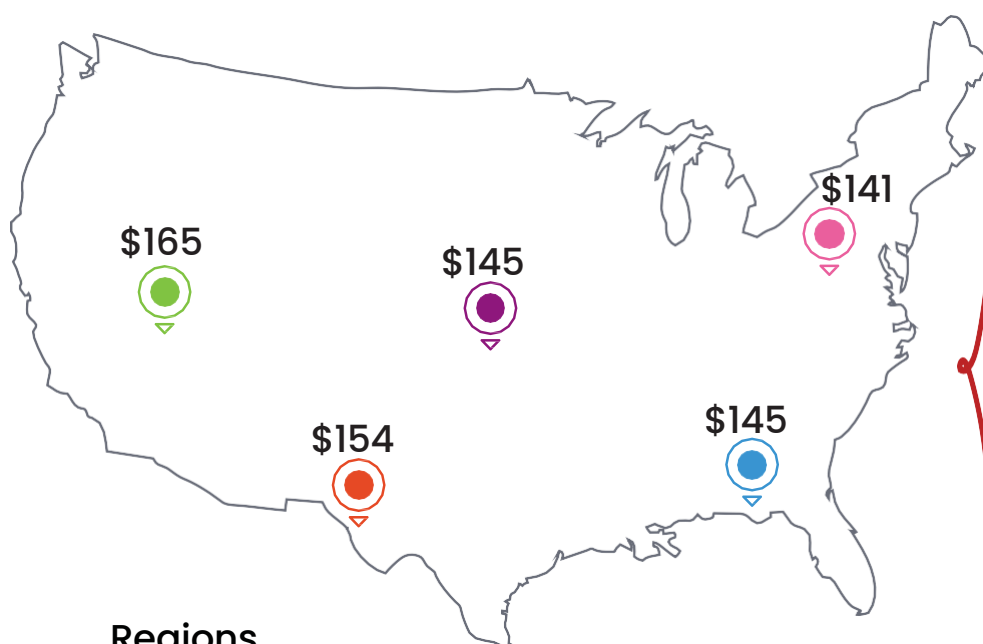
Rate per Type of Shop



Rate per Size (Annual Sales)



Rate per Regions



Regions

- Southeast
- Southwest
- Midwest
- Northeast
- West

The Northeast reported the lowest rates, accompanied by the highest total expense at 35.6%. In contrast, the West was able to command the highest rates, accompanied by slightly lower total expenses at 33.2%. The Midwest with rates of \$145 achieved the highest Owner Pay + Profit figure.

| | Metric | Regions | | | | |
|---|--------|-----------|-----------|-----------|-----------|-----------|
| | | Southeast | Southwest | Midwest | Northeast | West |
| Avg. Monthly Sales (AMS) | | \$167,364 | \$133,656 | \$143,069 | \$123,444 | \$152,026 |
| AMS / # of SW | | \$74,603 | \$68,190 | \$65,974 | \$72,125 | \$77,512 |
| AMS / # of Bays | | \$16,965 | \$17,550 | \$17,418 | \$20,964 | \$21,661 |
| AMS / # of Tech | | \$34,542 | \$31,090 | \$29,773 | \$32,195 | \$32,990 |
| GP\$ Monthly (After SW) / # of SW | | \$34,077 | \$30,451 | \$30,301 | \$32,237 | \$33,265 |
| GP\$ Monthly (After SW) / # of Bays | | \$7,618 | \$7,740 | \$7,981 | \$9,002 | \$9,327 |
| GP\$ Monthly (After SW) / # of Tech | | \$15,648 | \$13,980 | \$13,610 | \$14,052 | \$14,072 |
| Labor GP% | | 60.6% | 58.9% | 62.3% | 57.7% | 58.0% |
| Parts GP% | | 46.7% | 44.7% | 47.0% | 44.3% | 43.9% |
| Shop Supply Sales / Overall Sales | | 3.3% | 3.4% | 3.8% | 3.4% | 2.8% |
| Shop Supply Cost / Overall Sales | | 0.6% | 0.5% | 0.6% | 1.0% | 0.7% |
| GP % Before SW | | 52.2% | 51.9% | 53.7% | 49.4% | 50.7% |
| GP% After SW | | 43.4% | 43.8% | 45.6% | 42.7% | 43.1% |
| Advertising / Sales | | 2.8% | 3.1% | 3.6% | 2.8% | 2.5% |
| Education (Training, Prof Development, Coaching) / Sales | | 0.97% | 1.12% | 1.65% | 1.12% | 1.03% |
| Rent / Sales | | 3.7% | 4.8% | 3.9% | 4.9% | 5.0% |
| Total Expense / Sales | | 32.0% | 33.6% | 33.9% | 35.6% | 33.2% |
| Owner Pay / Sales | | 4.5% | 6.6% | 6.8% | 7.5% | 6.5% |
| Profit % as % of Sales | | 11.4% | 10.2% | 11.7% | 7.1% | 9.9% |
| Owner Pay + Profit / Sales | | 15.95% | 16.80% | 18.57% | 14.60% | 16.46% |
| ARO | | \$665 | \$687 | \$634 | \$628 | \$778 |
| Car Count - Monthly | | 350 | 227 | 278 | 220 | 217 |
| Car Count / # of SW | | 139 | 109 | 117 | 137 | 108 |
| # of Tech / # of SW | | 2.20 | 2.32 | 3.52 | 2.38 | 2.44 |
| Productivity ((Labor Sales / Labor Rate)/ (# of Tech x 2080)) | | 60% | 56% | 57% | 56% | 58% |

| | | Size (Annual Sales) | |
|--|--|---------------------|------------------|
| Metric | | Less Than 1.2M | More Than \$1.2M |
| Avg. Monthly Sales (AMS) | | \$85,856 | \$174,444 |
| AMS / # of SW | | \$60,847 | \$78,332 |
| AMS / # of Bays | | \$16,327 | \$20,870 |
| AMS / # of Tech | | \$26,994 | \$34,986 |
| GP\$ Monthly (After SW) / # of SW | | \$27,533 | \$34,726 |
| GP\$ Monthly (After SW) / # of Bays | | \$7,259 | \$9,127 |
| GP\$ Monthly (After SW) / # of Tech | | \$11,946 | \$15,444 |
| Labor GP% | | 58.4% | 59.8% |
| Parts GP% | | 43.5% | 46.0% |
| Shop Supply Sales / Overall Sales | | 3.7% | 3.1% |
| Shop Supply Cost / Overall Sales | | 0.9% | 0.6% |
| GP % Before SW | | 50.3% | 51.9% |
| GP% After SW | | 43.6% | 43.7% |
| Advertising / Sales | | 2.8% | 3.0% |
| Education (Training, Prof Development, Coaching) / Sales | | 1.53% | 0.97% |
| Rent / Sales | | 4.9% | 4.3% |
| Total Expense / Sales | | 36.2% | 32.4% |
| Owner Pay / Sales | | 8.7% | 5.3% |
| Profit % as % of Sales | | 7.4% | 11.3% |
| Owner Pay + Profit / Sales | | 16.01% | 16.57% |
| ARO | | \$636 | \$712 |
| Car Count - Monthly | | 145 | 309 |
| Car Count / # of SW | | 111 | 126 |
| # of Tech / # of SW | | 2.34 | 2.65 |
| Productivity ((Labor Sales / Labor Rate)/(# of Tech x 2080)) | | 47% | 62% |

| Metric | Type | | |
|---|----------------|----------------|-----------|
| | General/Import | General/Diesel | Euro |
| Avg. Monthly Sales (AMS) | \$140,782 | \$137,927 | \$159,904 |
| AMS / # of SW | \$68,650 | \$97,279 | \$90,368 |
| AMS / # of Bays | \$18,919 | \$18,520 | \$20,076 |
| AMS / # of Tech | \$31,765 | \$31,557 | \$38,718 |
| GP\$ Monthly (After SW) / # of SW | \$30,867 | \$44,595 | \$39,682 |
| GP\$ Monthly (After SW) / # of Bays | \$8,336 | \$8,432 | \$8,715 |
| GP\$ Monthly (After SW) / # of Tech | \$14,127 | \$13,968 | \$16,726 |
| Labor GP% | 59.2% | 56.4% | 61.9% |
| Parts GP% | 46.1% | 41.9% | 40.2% |
| Shop Supply Sales / Overall Sales | 3.5% | 2.6% | 2.8% |
| Shop Supply Cost / Overall Sales | 0.7% | 0.5% | 0.6% |
| GP % Before SW | 51.7% | 49.3% | 50.5% |
| GP% After SW | 43.8% | 44.3% | 42.6% |
| Advertising / Sales | 3.0% | 1.9% | 2.8% |
| Education (Training, Prof Development, Coaching) / Sales | 1.21% | 0.89% | 0.97% |
| Rent / Sales | 4.5% | 2.7% | 5.3% |
| Total Expense / Sales | 33.5% | 30.9% | 35.3% |
| Owner Pay / Sales | 6.5% | 4.8% | 4.8% |
| Profit % as % of Sales | 10.3% | 13.4% | 7.4% |
| Owner Pay + Profit / Sales | 16.8% | 18.2% | 12.2% |
| ARO | \$612 | \$1,112 | \$1,085 |
| Car Count - Monthly | 268 | 136 | 158 |
| Car Count / # of SW | 126 | 92 | 92 |
| # of Tech/# of SW | 2.53 | 3.05 | 2.41 |
| Productivity ((Labor Sales / Labor Rate)/ (# of Tech x 2080)) | 57% | 62% | 65% |



SHORT TERM INDUSTRY OUTLOOK / ISSUES



ADAS

In the quest to improve safety of drivers on the road, we are seeing ever changing technology show up on vehicles that were once fairly basic. Not only has this dictated ever changing new service procedures, but it's also pushing shops to start looking at the future of auto repair. From starting standalone ADAS facilities to implementing ADAS services into their current shop, the shop owner of the future is embracing this technology and getting ahead of the curve. Depending on what makes and models of vehicles your shop works on, this could be something that you have noted to expect in the future, but for most owners these issues are likely to have already surfaced in the course of their daily operations of running a shop.

- **Sky high profits for ADAS shops:** I have worked with clients at the beginning stages of opening their ADAS-only repair shops and was blown away by the expected margins. Doing it in real life was going to be the true test to see if the expectations matched reality. While the sample size is small, ADAS specialty shops are realizing sky high profits because of the lack of competition and cutting-edge nature of the trade.
- **Regulation:** One of the strange aspects of the automotive aftermarket is the overall lack of regulation for repair shops or their technicians. My clients would not feel comfortable with me preparing their returns without the CPA designation or something to prove that I am competent. Have your clients ever asked to see the qualifications of who is servicing their vehicle? There is a growing section that not only expects regulation but is calling for it. While there are no official regulations dictating auto repair or ADAS calibration standards and intervals, many shops have implemented their own standards to not only take care of their customers but get ahead of what they expect to be law in the future.
- **Education:** Ten years ago, if I used the acronym "ADAS", only a small fraction of even the readers of this study would likely recognize it, let alone have any sort of procedures in place. Flash forward to today, the average shop owner has probably at least heard of ADAS, even though they might not deal directly with it in their shop. The consumers are no different, but in most cases, are still completely unaware of ADAS and how interrelated this technology is. Sure, they know that when they get distracted the car will slam on the brakes and beep at them. But do they really understand how the car knows that, how it calculates how hard to apply the brakes, or even how far away that obstacle is? Sadly, very few do. This has turned a lot of shop owners into educators because if you want to sell someone a 4-wheel alignment with ADAS calibration for \$550 (the rate one of my clients charges), you are going to have to explain to them why it's not applicable to compare it to the national chain down the street selling the same alignment for \$79.95.

In 2020, only 10% of vehicles on the road were equipped with ADAS, by 2030 that number is expected to increase to over 30%.



Economy – Inflation, Interest Rates, & Labor Shortages

Coming into 2022 I don't think that there were many people that really knew what to expect. Pandemic restrictions were still a major reality for a lot of metropolitan areas and even entire states all around the country. While consumer demand seemed to be at an all-time high, increased prices, interest rates and a tough job market created some tricky situations for a lot of shops. The average shop owner that I talked to had weeks long backlog at times not only due to increased demand, but the lack of quality applicants. This has limited a lot of shops' growth potential. Increased interest rates and costs have forced businesses to increase their prices at a pace that has never been seen in the modern era. We enter 2023 with a cautiously optimistic mindset. While major indicators spell trouble on the horizon, the economy not only seems to be hanging on, but continuing on a bullish climb.

- **Inflation & Labor Rates:** Inflation is actually the friend of Parts Gross Profit dollars since you are marking up the sale price based on your costs. If that part that used to cost \$50 now costs \$60 and you maintain the same % margin, you are going to make even more money. However, labor is generally a static number - unless you monitor this, your profits are being eroded rapidly by skyrocketing operating costs. This has led to shops increasing their rates to keep up with rising costs and stay competitive in the labor market. Updating rates was something often done at the beginning of the year, but at the pace we saw in 2022, most shops moved to a quarterly or even monthly frequency.
- **Tech Shortages:** What if I told you I could get you one qualified technician to start work next week and you just had to give me \$10k for a finder's fee? Would you pay that? For those of you that said yes, I bet you wouldn't have the same answer even 5 years ago. With virtually zero unemployment, the automotive industry was no different than most others in struggling to fill vacant positions. From bidding wars on pay rates to rather aggressive negotiations with current employees and their bosses; we have been dealing with more labor issues than ever before. With the still increasing costs and a shortage of a younger generation entering the trade, this will continue to be an issue for the foreseeable future.
- **Interest Rates:** The COVID era was an extremely prosperous era for the automotive aftermarket as a whole. Not only from increasing demand and profits, but expansion and acquisitions at paces that we have never seen. One of the major factors of this was historically low interest rates making borrowing money easier and cheaper than ever. Flash forward to today, rates are at the highest level since the 1980's and have majorly impacted how businesses operate. That deal that looked great at 3% might not look so good at 9.5% as I have seen first-hand with clients. The higher interest rates have turned out to be a major highlight for the more fiscally conscious shop owner. With savings rates in the 4-5% range, savers are being rewarded handsomely, especially considering these rates are 20-30 times higher than rates were in pre-pandemic times.

Average monthly vehicle ownership costs have increased by over 25% since 2020.



Consolidation/Private Equity Acquisitions

Auto repair shops have always been an attractive business to invest in on paper - low capital expenditures up front to open and high net profit percentages to look for on the back end. Even in downturns in the overall market, shops have always held their own and even prospered while other businesses suffered. In the last 2 years we have seen a meteoric increase in consolidators and private equity entering the market and paying top dollar for shops. Compared to most all other industries, the automotive repair industry is extremely fragmented with larger regional and national chains only making up a very small percentage in the overall market share. This trend of consolidation has been going on for years in the collision world - are we seeing just the beginning on the repair side?

- **Multi-Location Premiums:** If you are looking to get into golf would you go and buy one club, one by one? Of course not, and the institutional investors buying up auto repair shops aren't looking to do that either. If they want to have a presence in your area, they don't want one shop, they want to cover the entire market. This has made multi-shop operators the main target of consolidators and investors. It is much easier for them to buy 10 locations from one seller than it is to negotiate 10 different sales. Also, these groups are already operating under one umbrella, so not only are they easier to run, but probably more profitable in the long run as well. For this reason, there have been sky high offers never seen before for established multi-shop operators looking to move on.
- **Torpedoing Existing Deals:** Whether you were planning to sell to a family member or a key employee, I have seen first-hand the chaos that these well-funded investors can do to existing plans. I know you really want your manager to buy your shop and maybe have already agreed to a deal for \$500k, but if a regional brand offers you 5 times that are you going to be willing to say "no"? Most owners are not, and I have seen 2nd and 3rd generation shops fall to the same fate. No one can compete with the kind of offers that these outfits are paying, and it has changed the landscape immensely already.
- **Gold Rush:** While the market has remained hot even up until the publishing of this report, some wonder if we are seeing a bit of a gold rush with these larger investors and if this will come to an end. There are many theories and very few facts on what these larger investors plan to do with the shops they end up acquiring. There are outfits running 50+ shops in different states, with different names, shop management software, pay plans, demographics, etc. Does that sound like something you would like to run? I didn't think so, and most likely neither do they. Most feel that the buyers we are seeing now do not plan to hold for the long term but turn around and package it to sell to the final buyer. If that transaction happens and is successful, we will probably see this model play out for a while. However, if there is not a large, interested buyers pool at the end of the tunnel, or the valuations don't make sense, this could be a fleeting cash grab that might not be around for much longer.

Highest multiple for one of my shops sold in 2022 was 11 times earnings, compared to an average of 2.5-3 times which is the general industry standard.



CONCLUSION / WRAP UP

While we are all in the same industry the one resounding conclusion that really struck me was how different most shops are when you really investigate how they operate. From a top producing euro shop to a struggling general repair facility, from a small shop in west Indiana to a large multi-location operator based in Arizona; we were able to take a deep dive under the hood to try and gain some clarity on keys to success and areas of caution.

The major common factor from all our Top Shops was an above average gross profit with most of the significant gains coming from stellar technician productivity. Surprisingly there was virtually no sort of correlation between labor rates and profitability regardless of location. There were several indicators that seemed to group the underperforming shops together. However, most of these indicators seemed to be trailing effects of an underperforming shop versus causation of their poor results.

2022 brought many highlights to the industry as well as a lot of changes. What 2023 will hold is still being written, but if the past few years have taught us anything, it is to expect the unexpected. Overall economic concerns have been commonplace in recent memory which maybe is no surprise that the economy seems to continue to trudge forward and grow. While you might not have any control over the economy, you do have complete control over your own business (some more than others) and we hope that this report has given you tools and information to make it even better.

This report is something that has been a long time in the making, and we are so proud to be able to share this and give back to an industry that has done so much for us. I would be remiss to not thank all my clients and my team that dedicated their time, energy, and information to this report. The results speak for themselves, and we are all excited to see what the future brings, and to do this all over again next year!



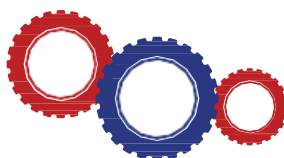
Hunt Demarest, CPA/ABV
Partner, Paar Melis and Associates



Expert Accounting and Tax Partner for Automotive Repair Shops


As a leading accounting and tax company with over 30 years of experience in the automotive repair industry, we are your trusted experts in handling the unique financial challenges that your business faces.

At Paar Melis, our team of skilled accountants and tax specialists knows the ins and outs of the automotive repair sector. We've mastered the complexities of accounting for repair shop operations, inventory management, revenue recognition, and tax compliance, among other critical aspects.



Connect with us!

Contact Info

 301-829-4646

 info@paarmelis.com

 www.paarmelis.com



Podcast

Join Hunt weekly as he discusses the financial side of owning an auto repair shop, helping shop owners nationwide develop a core understanding of their shop's financials.



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Hunt's under the hood look into the financial side of running an auto repair shop. Learn to master your numbers and take your shop to the next level.



