



## *The Low-Cost Oil Change Doesn't Have to be a Loser!*

One of the biggest challenges facing service managers in almost every franchise dealership today, is the ability to maintain a reasonable amount of gross profit in today's VERY competitive, very easily shopped repair and maintenance market. And at the center of the controversy is the \$49.95 (or similarly priced) oil change service. Nowadays, many manufacturers have a nationally advertised oil change or oil change/tire rotation deal. And to be quite honest, even if your

manufacturer doesn't advertise that service, it doesn't mean that there's not a market price for it in your corner of the world. At the end of the day, you really DO need to sell your most popular service at a price that encourages customers to come to your shop. But, how do you do it without losing your shirt?

Well, let's look at a few angles on this issue. First, let me say, there just isn't a ton of profit margin on this service. You can slice and dice it any way you want,

but at the end of the day, \$49.95 only goes so far. You don't necessarily have to lose on it, but you sure aren't going to get rich on selling nothing but oil changes. So your strategy needs to be one in which you mitigate any loss, while remembering the real reason for the service...Get a customer's car in the shop, so that you earn the opportunity to: a) explain any needs they may have today and; b) earn their future business based on their overall experience today. So,

before we even get into pricing, your number one mission, is to ensure your advisors and technicians all have a clear understanding of their mission when a customer comes in for "just an oil change".

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Consider putting some ideas on paper, maybe hold a lunch meeting, or a short after hours meeting to discuss it with everyone in detail and make sure they all understand their responsibilities. It is a small investment of time but will pay HUGE dividends in the long run.

Now for the pricing. Your first mission is to determine your dead cost of goods on the service. I would recommend that you do this same exercise for both the oil change alone as well as the oil change/tire rotation service. The numbers will vary some between the two but the steps to get there are the same. Okay, so what are all the items that go into determining the cost of the service? Well, let's start with the easy stuff. You'll need an oil filter, maybe a drain plug washer, and oil. But don't forget the labor cost! This is the area where, in

my opinion most people miss the mark. You MUST determine the entire cost of the service in order to properly direct the profits (no matter how much or how little they are). Most stores will determine the parts sell price with little to no regard for the labor cost, and the service side of the house ends up taking the big hit. It is really important that you sit with the parts manager and at least try to get an equal or fair amount of profit to each department.

You'll have to rely on some averages here to get the job done. Let's start with labor since it's relatively easy to calculate. You'll need a financial statement and a report from your DMS that gives you your effective rate. Make sure they both represent the same period of time. For example, if you're using a May financial statement, make sure your ELR report is run for Jan 1 to April 30.

Now start by looking at your year to date gross profit percentage for LABOR ONLY. Be careful not to use the overall service gross profit percentage since that will likely include shop supplies and/or sublet sales. You'll want your gross profit percentage based on labor sales ONLY. This amount should include the adjustment for unapplied labor as you'll want to be sure you're getting a true cost of sales.

***You can split it up however you chose, but the bottom line is, BOTH departments can make something using this method.***

Subtract your gross profit percentage from 100% to determine your cost of sales as a percent. For example, let's say your Labor Gross Profit is 73.5% based on your financial statement. Subtract this from 100% and you'll be left with 26.5%. What that means is simply, your cost of sales (or total technician payroll is equivalent to 26.5% of your sales. Here's where most people get confused: Yes, you are looking at (in this case) 4 months' worth of sales BUT what's really represented is one average

hour of labor sold many times over. Whether you sold 1 hour or 6,000 hours, you still pay your technicians 26.5% of what you collect. So from here, simply take your overall effective rate from your DMS report and multiply it by your cost of sales percentage. For the purpose of this exercise, let's assume your overall effective rate is \$104.50 according to your DMS report. You'll simply calculate:  $\$104.50 \times 26.5\%$  which equals \$27.69. This will represent your average cost of one hour of labor sales YTD. And using this method will protect you as much as possible as you build your pricing moving forward. The biggest consideration here is whether you spread oil changes throughout the shop. If the vast majority of your oil changes are being done in your express area or by lower paid lube technicians, you may just want to use their average cost for your calculation. But a lot of the stores that I've been in lately, tend to spread them out amongst most or all of the technicians in the interest of getting the customer out as quickly as possible when the lube technicians are busy. If that's the case in your store, using this calculation will help

protect you so that you don't take a big hit for doing what's in the customer's best interest. Simply multiply your calculated cost by the flat rate time for the service. For my example, I'll use 0.7 for my flat rate time:  $\$27.69 \times 0.7 = \$19.38$  cost.

Now, to the parts side...for your oil filter, you'll most likely need to determine your WEIGHTED average cost. This is much easier than you may think. Let's take a fictitious oil filter P/N 1234. Look in the parts master screen of your DMS and write down your cost and the last 12 month's sales of the part. In this case, we will use  $\$3.23$  with 1500 sold in 12 months. Our second filter, P/N 5678 has a cost of  $\$4.75$  and sold 230 units in the last 12 months.

Our second filter, P/N 5678 has a cost of  $\$4.75$  and sold 230 units in the last 12 months. One more quick calculation: P/N 1234 Cost  $\$3.23 \times 1,500 = \$4,845$  and P/N 5678 Cost  $\$4.75 \times 230 = \$1,092.50$ . So...your total

amount of parts sold was  $1,500 + 230 = 1,730$  and your total sales (at cost) was  $\$4,845 + \$1,092.50 = \$5,937.50$ . Your average cost is simply the total sales divided by the total part count or  $\$5,937.50 / 1,730 = \$3.43$ . Of course, you'll have more than two part numbers but the process is the same. At the end, you'll be left with a weighted average cost of your oil filter.

Now just get your oil price and your drain plug gasket (both at cost) and let's add everything up. We have  $\$19.38$  in labor +  $\$3.43$  filter +  $\$0.75$  gasket +  $\$16.50$  for oil =  $\$40.06$ . Subtract this from your sell price of  $\$49.95$  and you're left over with  $\$9.89$  to divide between the 2 departments. You can split it up however you chose, but the bottom line is, BOTH departments can make something using this method. Just like any good team, both departments working together can get past the "we can't make any money selling oil changes" argument. But remember my opening

statement...this particular service is not designed to get you rich, it's designed to put a customer in your service lane. The rest is up to you.

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If you would like any help with these or any other calculations, please don't ever hesitate to call or email and we will be happy to walk you through any of the calculations or even help you with some variables that are specific to your store. Thanks for reading our VERY first newsletter article and we hope you'll join us next month!

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