

5 Numbers You Need to Know Every Day

By Dave Luehr | 26 August 2020

During a time of economic uncertainty, it is more important than ever for small business owners to understand their financial key performance indicators and use these KPI's to make proactive adjustments to remain profitable. In the collision industry, far too many shop owners do not have a grasp on the financial side of their business. Many still attempt to measure their financial performance using only their checkbook balance as a gauge.

The modern collision repair business environment is becoming dominated by businesspeople. People who understand business as much or more than vehicle repair. The most successful of these businesspeople can tell you, at nearly any moment, precisely where their company stands relative to their financial goals.

Shop owners who refuse to become educated about the financial matters of their business, in my opinion, do so at their own peril. Fortunately for those willing to learn new business skills, it's not as difficult as one may believe to put basic financial metrics in place which will allow them to take a proactive financial stance in their business operations. In fact, to get you started, I will provide some basic financial metrics to look at daily.

Before we dive in, it's important to mention some foundational knowledge for shop owners and managers: understanding financial break-even and knowing how to create a basic budget. A budget is simply a projected financial statement that provides the shop with clarity on revenue and expense requirements. Go back and [read this article from December 2019 to learn more](#).

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1. MTD Revenue vs. Goal
2. MTD Labor Hours vs. Goal
3. MTD Deposits vs. Goal
4. WIP vs. Goal
5. Scheduled WIP vs. Goal

1. Month-to-date Revenue vs. Goal

Once a shop leader knows their yearly and monthly revenue goals (top-line sales), the best way to achieve them is by proactively knowing each day exactly where the company is at that point of the month financially compared to where they should be. This approach gives shops the ability to make necessary adjustments in real-time as opposed to the ridiculous, chaotic and common practice of trying to "make the month" during the last few days of the month.

The calculation is relatively simple. Here is an example:

For a shop to reach a goal of \$200,000 in a month with 21 working days, one would simply divide \$200,000 by 21 equaling \$9,524 per day of needed delivered revenue.

When the shop reaches the 5th working day of the month, for example, the revenue goal for that point of the month is \$9,524 multiplied by 5 (\$47,620).

Great shops know that leaving their destiny to chance is ludicrous; therefore, they know where they are at each day. Then, and equally important, they make business adjustment to keep the company on track. Most body shop management systems have a “vehicles delivered” report you can use to help you keep track.

Some shops take this revenue metric a step farther and like to also look at gross profit (earnings after direct costs) earned vs. goal. It’s certainly helpful to know how much gross profit dollars a business is putting towards its monthly expenses and puts into perspective when break-even is attained for the month.

2. Month-to-date Labor Hours vs. Goal

Similar to revenue vs. goal, knowing your produced labor hours each day is very important to proactive business management. Many contend that collision repairers primarily sell labor, so it just makes sense to measure the hours your team is producing as it does translate to dollars.

I find knowing this metric each day also helpful as it relates to employee engagement. Individuals and teams are always more engaged [when the company is keeping score](#) and all its players know if they are winning or losing. Labor hours are easy to understand, especially for the technicians that are producing them.

Labor hours needed each day is the same calculations previously mention for revenue; just swap out the dollars for hours.

3. Month-to-date Deposits vs. Goal

I commonly hear shop owners complain that they are profitable on paper, however they always seem to be in a “cash crunch!” This is another critical reason why managing a business only by checkbook balance is foolish. There are a handful of factors that consume cash even in a profitable business; therefore, it is important to learn the difference between income and cashflow. One of the big cash consumers is a shop’s accounts receivable (A/R).

We recommend monitoring the cash going into the bank daily separately from revenue. Money in the bank is cash; revenue is income. If your revenue is on track towards your goal, but your deposits are trailing behind, you could very well become cash-flow negative and then struggle to pay your bills. I cannot stress enough how big of a problem this is for many shops!

Daily deposits should be fairly straight-forward, not requiring a lengthy explanation from me. Most people simply write down the daily deposit amount vs. the goal from their deposit slip or perhaps from their accounting system.

4. Work-in-Process (WIP) vs. Goal

Another cash eating monster that people overlook is simply WIP. WIP, in this context, is the customers’ vehicles that are on the shops’ property that are either waiting to be worked on, being worked on, or finished and waiting to be picked up.

The most efficient, profitable and cash-flow-positive businesses seek to hold only enough inventory on the property as needed to meet the revenue goal demands. Inventory is WIP, plus all other raw materials required to produce the damaged vehicles into finished products. Parts, materials, labor, etc. A “grab the keys” mentality often contributes to cash flow problems because the business has more vehicles than can be repaired in a timely fashion, plus all the inventory and other headaches.

At Elite, we teach our clients a simple Optimum WIP Calculation.

Avg. (desired) cycle time multiplied by daily units, dollars, or hours produced, equals Optimum WIP.

Example: 8-day cycle time x 4 cars a day = 32 Optimum WIP

A business should know every day where they stand compared to their Optimum WIP and then act accordingly. If WIP is too high, they may need to ramp up production. If WIP is too low, they may need to bring more work in quickly or revenue could suffer.

Any body shop management system can quickly provide a shop with WIP metrics, assuming the management system is being properly updated.

5. Scheduled Work-in-Process (WIP) vs. Goal

Scheduled WIP is what shops commonly refer to as their “back log.” It is a buffer that ensures on-site WIP doesn’t drop below optimum levels.

This metric is good to measure and contributes to two key proactive behaviors. First, if scheduled WIP is too low (only a day or two) it is time to sell, sell, sell! When scheduled WIP is too high, then customers may begin to drift away to your competitor and a shop may want to look at ways to ramp up production through hiring, extending work hours or other methods.

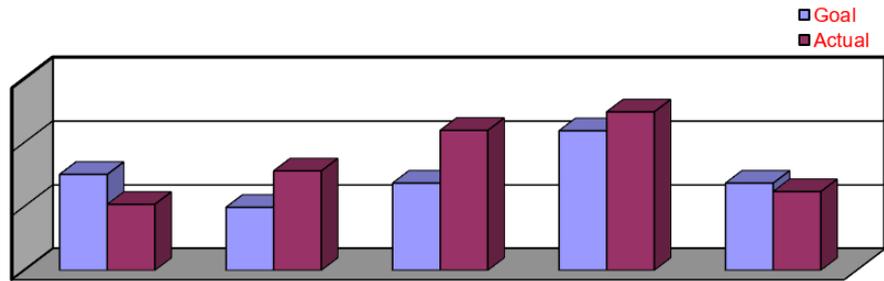
To properly measure scheduled WIP, a shop needs to consistently convert scheduled work into a repair order so that it can easily be measured using the management system’s reporting. Some shops seem reluctant to convert jobs into a RO until they actually arrive, but I advise all work that is scheduled in or have parts pre-ordered to have been converted and assigned a RO number.

Conclusion

I want to emphasize that, as a successful business owner, one does not have to become a financial wizard. A dedication to understanding and doing the financial basics well is usually enough. I, like so many others in the collision repair industry, started out as a technician and not a mathematician, but I swear to anyone reading this that technicians are just as smart and possess a rare capability to figure things out. By putting a little of that crafty technician innovation toward working on the business, I believe people like us can be incredibly successful.

As a gift to you, my team and I are making our [Elite Daily Dashboard available to you as a free download](#). This simple tool will allow you to see how you are performing relative to the 5 numbers you need to know every day! Enjoy!

Store Name
 Month



	Deposits	Labor Hours	Sales (\$)	W.I.P.	Sched. WIP
Monthly Goal to Date	\$75,121	494	\$68,291	\$109,266	\$68,291
Actual to Date	\$51,727	779	\$109,544	\$124,029	\$61,662
Difference	(\$23,393)	285	\$41,253	(\$14,763)	\$6,630
Daily Goal	\$15,024	99	\$13,658		

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