

Developing Pay Plans for Advisors & Estimators

By: Larry Edwards

How much money should a good service advisor or estimator make? The actual range is so broad that the numbers do not have any meaning. They range from \$45,000 to \$115,000 annually. If you look at these numbers you immediately ask yourself, how can someone making \$45,000 per year be as good as someone making \$115,000. It is because they are in two completely different areas of the country. It has nothing to do with abilities; it has everything to do with your market area. Instead of comparing yourself to your market area, a much better way to establish pay plans for these key positions is to base it on a percentage of their total parts and labor sales potential.

Now I can give you a guide number! My guide is that the advisors and estimators total compensation should not exceed 5% of their total parts & labor sales. If you want to pay your employees as a team to encourage them to work together the same 5% rule applies. However, you must split the 5% between all of these employees. For example, if you have three advisors you would divide 5% by 3, and the guide would now be 1.67% each.

The big question is how should you split the 5%? Do you put it all on salary or part salary and part commission? If you choose commission, then what do you base the commissions on? Here is how I do it. First, if you are paying a salary now, and if it is not more than 50% of this employee's compensation then I leave it alone. If I can start from scratch, I usually set the salary between 35% and 50% of the total compensation.

How do you arrive at the total compensation figure? There are two ways;

1. Begin with the number of repair orders you want the writer to handle each day. For example let's say 12 customer warranty and internal repair orders per day. Now I want them to handle no more than 12 r/o's per day and I want them to sell 2.0 hours per r/o at my desired shop effective labor rate. How about \$110.00? Now that's 12 r/o's times 2.0 hours per times \$110.00. That comes out to \$2,640.00 per day in labor sales. Don't forget parts. I want one-to-one parts to labor ratio so I take the labor number and double it for total daily sales goal of \$5,280.00. Now I want them to repeat this 21 times each month, so if I multiply \$5,280.00 by 21 (work days) I get a monthly sales goal of \$110,880.00. 5% of this is \$5,544.00 per month in total POTENTIAL compensation.
2. Take the number of technicians this writer will be writing for and multiply out their Parts & Labor sales potential. My rule of thumb is that you should have one writer / estimator for every three technicians, so let's use my rules for this example. Three tech's working eight hours per day and producing at 110% Proficiency would produce 26.4 billable hours each day. Now, if we multiply this by my desired labor rate of \$110.00 per hour it comes out to \$2,904.00 in labor sales. Again, we have to double labor sales to get our desired parts & labor sales. So our daily sales goal for four techs is \$5,808.00. Now we multiply this by 21 working days and we

have a monthly potential parts & labor sales of \$121,968.00. 5% of this works out to \$6,098.40 per month.

Some of you are thinking why aren't my writers hitting these sales numbers today? It is probably because you are not achieving a \$110.00 per hour labor rate and / or your technicians are not producing at 110%. Or, you have your writers writing 15 plus repair orders each day, and they are only able to take orders and do not have any time to actually sell.

Remember, this pay plan will reward top performance only when it is achieved!

Now that we have established a total compensation goal and we have determined what a top performer should be able to achieve. We can start developing the specifics of our compensation package.

First, let's subtract the base salary. For this example, I will use 35% of total compensation as a salary and the income from my example number 1. If we take \$6,098.40 per month and multiply this by 35% it comes out to \$2,134.44 salary. Since I like to keep things simple I will round this down to a monthly salary of \$2,000.00 that leaves me approximately \$4,000.00 per month in commissions and incentives.

Let's not forget the incentives! I usually take a half percent away for incentives such as spiffs on maintenance menu sales, engine oil flushes etc. So the salary at 35% represents 1.75% of my 5% (if you don't believe me work it out yourself). And if I take another 0.5% for incentives, then I have 2.75% left to pay in commissions.

You have several options here on how to split this up, but the ones I find most effective work something like this.

1. 1.5% of total customer, warranty and internal parts & labor sales
2. An additional .5% if the writers individual CSI scores are above the target you set (usually regional average)
3. If the CSI target is achieved additional commissions can be earned
 - a. .25% if you sell more than 50 menus in a given month (2 per day)
 - b. .25% if your C.P.E.L.R. is \$110.00 per hour or more
 - c. .25% if your F.R.H. Per C.P. r/o is 2.0 or more
4. Potential total commissions = 2.75%

Lets see now, we have 1.75% of their pay in the form of a salary, and they have the potential to earn another 2.75% in commissions. So, using just one hand, that comes up to four and one half fingers, or 4.5%. Remember the incentives? One half percent of \$6,048.00 equals \$302.40 available for incentives. I like to

move the bar around on these by offering them a different spiff / incentive programs every month or at least every quarter. Some of the things that I include in the program are;

- Menu Sales
- Flushes
- CSI
- Multi Point Inspections Run
- Sales from Multi Point Inspections
- Accessories Sold
- Specific services such as a brake flush
- Clean work area
- One item repairs or lack of them

You decide which two or three items you want to spiff this month, then you decide how many of each item you want to get for example two per day. You then divide your desired amount into the dollars you have to spend and you have the amount of spiff you can pay per item. One of the great things about this plan is that it keeps the writers focused on the four key variables that we need them to accomplish in order for us to achieve our goals.

Developing pay plans to help you achieve your desired objectives should not be a difficult task. You just need to decide, what your objectives are, and then do some simple math to determine how much potential you have in your shop. The largest problem I encounter is dealerships that are expecting their writers to handle more customers than is practical every day. Or, they have too few writers for the number of technicians. In my opinion, many dealership service departments are under staffed with service writers! And, as a result, they are doing their customers and themselves a disservice because the advisor cannot spend an adequate amount of time with each customer. This is evidenced by the fact that the more tickets and advisor writes each day, the less hours they sell on each ticket!

You can also use these same guidelines to develop pay plans for Body Shop estimators. I find that the 5% compensation rule works very well in the body shop too.



Larry Edwards is the founder and president of Edwards & Associates Consulting, Inc. E&A specializes in assisting auto manufacturers, auto dealers, and auto repair facilities in improving their results.

He can be contacted at 1-800-979-9904 or online at www.edwardsconsult.com