NORTH DAKOTA AUTO BODY ASSOCIATION
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Dedicated To Service & Excellence

NEWS • REPORT

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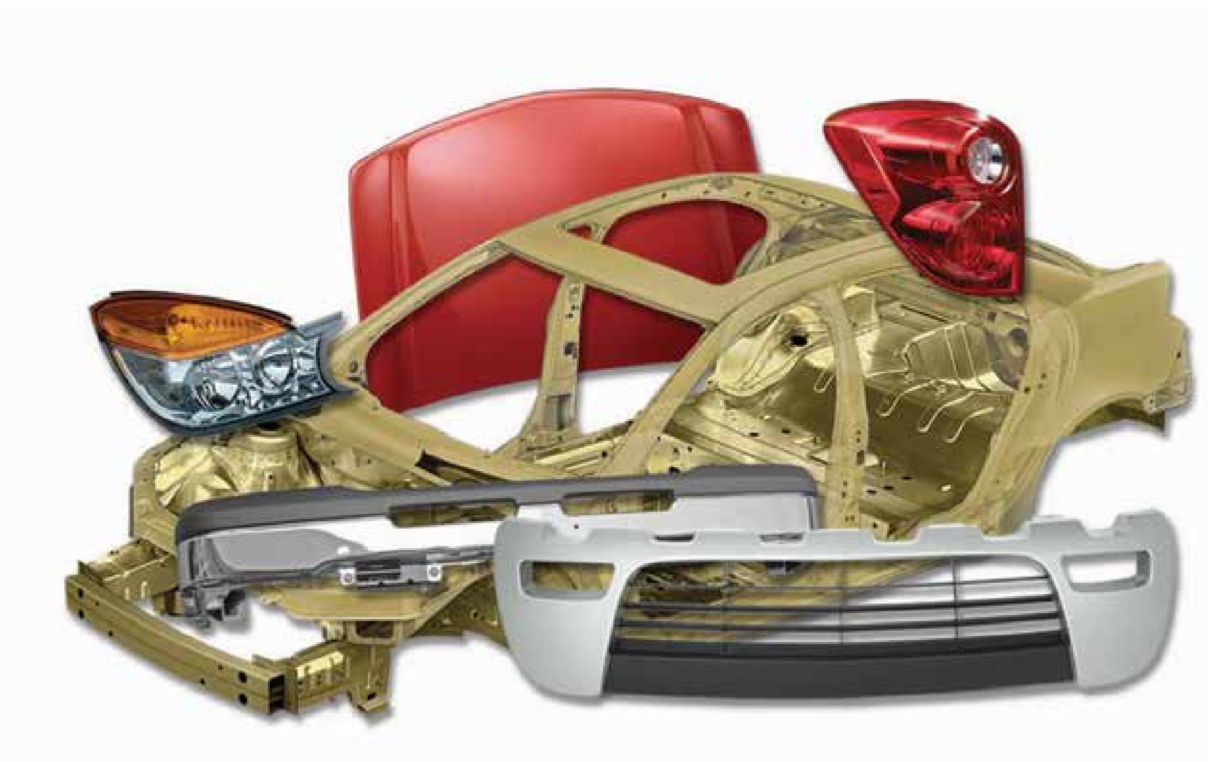

NEWS REPORT

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Issue	Copy Deadline	Printing Date
February-March	Mar. 1	Mar. 15
(Note: Dates for the pre-convention issue may vary.)		
May-June	June 1	June 15
August-September	Sept. 1	Sept. 15
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PRESIDENT'S LETTER

Hope you all have been successful in navigating through these challenging times we have faced lately. I can't speak for everyone, but we are faced with enough challenges in our industry and for some there is not enough room for more on our plates.

There will be an overwhelming amount of things we are uncertain of going forward, but some have stayed the same in our industry. People are still driving recklessly and at times turning their focus elsewhere still creating jobs for us. Mother Nature still has not forgotten how to unleash her fury on us between hail and high winds providing various income potential. And the deer population is still on our side.

There will be changes in how we will go about are daily routines, some good and some not as good. But they say change is supposed to be good … Right?

Hope you all had a wonderful summer and got a chance to spend time relaxing with family and friends.

Be safe!!

Scott Heintzman, NDABA President

NORTH DAKOTA AUTO BODY ASSOCIATION CODE OF ETHICS

1. *To promote good will between the motorist and members of the Association.*
2. *To have a sense of personal obligation to each individual customer.*
3. *To perform high quality repairs at a fair and just price.*
4. *To employ the most skilled mechanics obtainable.*
5. *To use only proven merchandise of high quality sold by reputable firms.*
6. *To itemize all parts and adjustments in the price charges for services rendered.*
7. *To retain all replaced parts for the customer's inspection.*
8. *To uphold the high standards of our profession, always seeking to correct any and all abuses within the automotive service industry.*
9. *To uphold the integrity of all members of the North Dakota Auto Body Association.*

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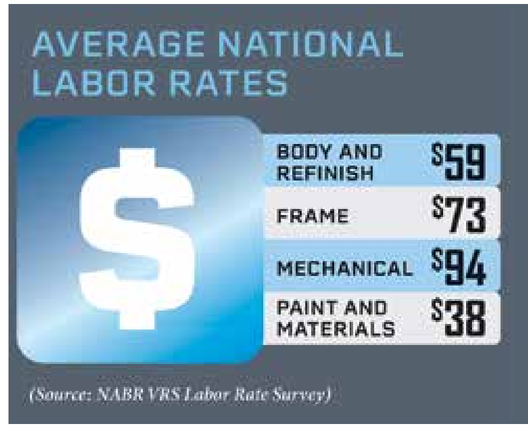
The Labor Rate: Where We Stand In 2020

Reprinted with permission from BodyShop Business, a Babcox Media publication

By Jason Stahl on June 23, 2020

With labor rates still suppressed in 2020, it's time for shops to understand their economics and get paid for all the procedures they do.



Ah, the labor rate. One of the most talked about, debated and scrutinized aspects of the collision repair industry. Why is it so low compared to other trades, and why has it not risen and kept pace with other professions? How can a mechanical service shop charge $100 per hour, while the average hourly door rate at a collision shop is a shade above $50?

We all know the answer: the presence and involvement of a third party in the business transaction between a collision repair facility and a consumer. That third party, of course, is the insurance company. Ninety percent of the time, insurers are paying the bill, so they're only doing their job by trying to mitigate costs. The problem is when that effort to mitigate cost robs the body shop of the ability to make an acceptable profit and denies the consumer of a quality, safe repair.

The question is, can anything be done about it? With car counts down during COVID-19 and the discount-by-volume business model struggling, can the industry make strides in getting paid more fairly? If not, why are we talking about it? Down the rabbit hole we go.

Making Strides?

Although some believe the collision industry has made strides with regard to the labor rate, most believe it is still much lower than it should be.

"Labor rates are still incredibly challenging in the industry," said Aaron Schulenburg, executive director of the Society of Collision Repair Specialists (SCRS). "The reason is because you have two segments of the industry that have opposing objectives: insurers who are trying to mitigate costs to the greatest degree possible, and independent businesses providing services at a profit. And those two things don't necessarily align, and it has impacted labor rates and the control insurers have over directing work and getting to consumers and being involved in the decision-making process."

There are some things, however, that Schulenburg said shops can do to make up for it, such as distinguishing themselves in their particular market.

"A lot of that is internally making decisions on how you approach repairs – finding tangible ways to differentiate your business and maybe aligning with certification programs that promote a specialty, ensuring that you have to have the skills, training and equipment in order to do certain tasks," Schulenburg said. "And those differentiated skill sets justify unique rates and associated charges.

"What does my market look like? Customers? Vehicles? How can I distinguish myself as more than a service [customers] need but a place they have to go to get a proper repair?"

Another avenue to get properly compensated is sharpening your estimating skills and making sure to prepare a comprehensive blueprint and capture things that other shops miss.

"It's good to be aware of what is in the estimating systems and be an expert on those systems to include not-included operations you may overlook," Schulenburg said.

One place collision repairers who want to write estimates that accurately reflect the time it takes to do certain tasks can go is the Database Enhancement Gateway (degweb.org). The DEG was developed to help improve the quality and accuracy of collision repair estimates through proactive feedback from the collision repair industry and other "end users" to the information providers (CCC, Mitchell, etc.) that supply the databases for the various estimating products.

"It's a mechanism to become more proficient at estimating systems and capture missing operations and errors in there," Schulenburg said. "Even if something is based on historical data, if the model has changed, you can address that."

Not enough repairers know about the DEG, and too few visit the website to make inquiries. Even so, repairers have made over 10,000 inquiries on the site. It's very easy to do, and you typically get a response within 24 hours. The inquiry process follows these steps:

- Inquiry received by the DEG
- Inquiry submitted by the DEG to the information provider
- Information provider or DEG requests additional information
- Response/resolution received from the information provider

Compare and Contrast

Collision repairers like to draw comparisons between their average door rate and other trades' rates to show how far behind they are, but some people wonder if that's a pointless exercise because it doesn't change anything. But Schulenburg believes holding up bodymen's pay to other skilled laborers' pay does have some merit.

"Is it a viable point to point to other trades' pay? Does it provide justification in consumers' eyes? Does it help when in the process of dealing with legislation? Does it help to draw parallels to other industries that have seen increasing rates without a third party to suppress them? Yes, it's a great parallel to draw and there is nothing wrong with that," Schulenburg said. "Belaboring things that don't move the needle for you, however, is counterproductive. Repairers need to ask themselves, what moves the needle in my business? What drives more profitability? There are a lot of mechanisms out there when you focus on what you do and what others don't. Look inward and adjust your practices and find the things that work."

A National Survey

Labor rates are Sam Valenzuela's business. As founder of National AutoBody Research (NABR), he created the Variable Rate System (VRS) to help both insurers and body shops address labor rates – a critical economic factor in the health and sustainability of the collision repair industry.

Valenzuela believes there are two main factors that have contributed to the labor rate being suppressed: insurers and repairers themselves.

"My family used to own mechanical shops, and we had full control over labor pricing," he said. "In collision, there are some of the same things as mechanical, such as training, tooling, equipment and environmental regulations, but the biggest difference is the presence of insurers.

"If you look at any type of insurance, homeowners or health for example, insurers are doing their job in helping to keep their claims costs low. Their presence helps keep pricing in check, but in [NABR's] opinion, it has been held down too much over the years. Labor rates in their current state are not sustainable – maybe enough to barely keep a shop alive but not thrive."

But Valenzuela puts some of the blame squarely on repairers' shoulders, saying that they don't have a deep enough knowledge of their own economics and the key drivers of value and profit. Once you know that, he said, you then have to aggressively manage it and ask for it.

"We've seen too many shops behave as if their labor pricing is what it is and they don't have control over it," Valenzuela said. "They believe if they raise their posted rate a few dollars, it won't change anything for them because insurers still won't pay more. It's a learned helplessness. They can exert more control over pricing then they think, but we recognize it's not easy."

(Source: BodyShop Business Facebook page)

Steps Toward Change

The first step to solving the problem, Valenzuela said, is to try to change repairers' attitude.

"The first thing is to start with one's

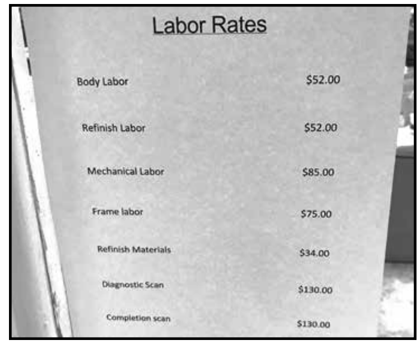
(Continued on next page)

Have You Ever Adjusted Your Labor Rate To Get Work? **_Yes 59%_** **_No 41%_**

(Source: 2019 BodyShop Business Industry Profile)

Do You Feel You Have The Ability To Charge Regular Rate Increases? **_Yes 43%_** **_No 57%_**

(Source: 2019 BodyShop Business Industry Profile)



Rates posted in the customer reception area of a body shop in Akron, Ohio.

The Labor Rate ...

(Continued from previous page)

mindset. People have to believe that they can win this battle. If they don't believe that, you've already lost, so why play the game? One's attitude and behavior is critical."

The second thing is making pricing transparent, Valenzuela explained. A good example is gas stations, where the price can be easily seen on a sign out front.

"Body shops' labor rate is public information too – the posted rate, door rate, rack rate, price of labor, whatever you call it," he said. "It's important that pricing is transparent, and that's where our Variable Rate System comes in. A big step toward a free market economy is knowing what prices are."

The third thing is knowing who the customer is. Some shops believe that the customer is the vehicle owner, while other shops believe the insurer is the customer. Still others believe they have a dual customer: the vehicle owner and insurer. Valenzuela believes wholeheartedly that the customer is the vehicle owner.

"Whether it's a DRP or non-DRP relationship, the customer is not the insurer," he said. "When I take my car to get repaired, I owe that shop 100% of the bill. The insurer doesn't owe the shop a penny. In practice, the insurer often pays on behalf of the consumer, but legally, once that customer signs the repair order, that is a contract between the consumer and the shop. The consumer then turns around to the insurer and says, reimburse me. Insurers are indemnifiers.

Certified vs. Non-Certified

The NABR survey found that the average posted body rate for mass-market OEM-certified shops and non-OEM-certified shops is $58.

"This says that if OEM-certified shops think their labor is more valuable than non-certified shops, that value is not showing up in their labor prices," says Sam Valenzuela, founder of National AutoBody Research. "Or, said differently, from the perspective of what their price communicates about the value of their labor, OEM-certified shops don't think their labor is worth any more than if they did not have any certifications. If they do believe their certified labor really is worth more, then their labor price is not communicating that."

The average posted body rate for luxury OEM-certified shops is $63, a statistically significant difference from other shops.

"For what could be a variety of reasons, luxury OEM-certified shops price their labor higher, reflecting a higher value for luxury collision certified labor."

"Shops are sellers, consumers are buyers, so it doesn't matter what insurers say they pay in the market. What they are really saying is, this is the rate we reimburse our customers at. They are not saying this is the price we will pay for labor. It's a bummer for the customer because they will get stuck with the bill. Many shops eat the difference, while some are getting better at collecting the difference from the customer. But remember who the customer is. More and more shops realize that and do a good job of having a formal process to set expectations up front."

The fourth thing, Valenzuela said, is to remember that customer-pay is the best way to measure market price. Valenzuela believes that whenever a consumer pays for something, whether it be a computer, smartphone or the $100-per-hour charge at a mechanical shop, that is proof that they accept the price.

"When we look at customer-pay data in, say, Massachusetts, the prevailing rate, or what insurers say they'll pay, is $38 to $40 an hour, the lowest in the country," Valenzuel said. "But customer-pay data in Massachusetts averages in the mid-50s and goes as high as $95. A consumer paid that, which is proof of market price."

Valenzuela contends that the more of that kind of data you have, the stronger the argument you have about the market rate.

"And then the next step is to translate that and say, why do insurers have the privilege of paying a rate lower than that? I don't know the answer to that."

Valenzuela acknowledges that all shops are different and have different prices. So what is the range of acceptable prices? Once a shop figures that out, shops can then operate in that range.

"And then hold their ground and enforce the market rate. If you have a special deal with an insurer for a discount on labor in exchange for volume, that's a business decision. If you don't have a contract, there's no reason for a shop to have to accept a below-market rate or be forced to pay someone else's contracted rate."

Finally, shops need a repeatable process. Valenzuela said that his system is part of that, but it does not deliver a higher labor rate to repairers on a silver platter without their involvement.

"Shops need to understand what the right labor rate is for their individual shop, post the rate, change their profile in the estimating systems, fill out the NABR survey to make [the rate] visible to everyone, and write an estimate at that rate and enforce it. It can be difficult, but they have to do that.

"Just like a flywheel, it takes effort and torque to get it moving, but once it gets moving, it doesn't take as much effort to get it moving."

All Shops Are Alike?

As a former body shop owner and current owner of Auto Damage Experts, which has been providing automotive inspection and expert legal services nationwide since 1997, Barrett Smith knows well the inequity of the body labor rate. But, like Valenzuela, he believes shop owners are complicit in the problem.

"As long as insurers can hang their hat on the fact that 'all body shops are alike,' and all they owe is what the average shops charge – and as long as DRP shops oblige them – they will continue to use such arguments to take unfair advantage and receive the continued benefits of doing so," he said.

Asked if there was anything repairers could do about it, Smith said his dream would be for every shop to list and receive ample compensation for each and every procedure, part and material.

One alternative, in his mind, is for repairers to abandon fictitious hours or "units" and start to charge a "procedural charge," where they would simply list the service and charge a dollar amount.

Smith does not believe legislation or government intervention is the solution. On one hand, he sees mandates and requirements tied to advanced technologies that would encourage repairers to raise their prices, but he hasn't yet seen that rate increase. Aluminum, he said, was the same way.

"The same thing happened with the introduction of aluminum in collision repair. Although repairers were forced to make substantial investments in equipment, training, certifications and specific space for aluminum repair, little in the way of elevating rates and allowances have resulted."

Smith believes collision repairers in part are to blame for getting themselves in the "mess," and likewise will have to rely on themselves to get out of it.

"The collision repair industry will be responsible to get themselves out of the mess which they and their forefathers have allowed themselves to get into," Smith said. "It will begin by getting the education they need to see the big picture and the important role they play in it."

Jason Stahl has 26 years of experience as an editor, and has been editor of BodyShop Business for the past 14 years. He currently is a gold pin member of the Collision Industry Conference. Jason, who hails from Cleveland, Ohio, earned a bachelor of arts degree in English from John Carroll University and started his career in journalism at a weekly newspaper, doing everything from delivering newspapers to selling advertising space to writing articles.

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Collision Repair Errors, Customer Modifications, Road Conditions Can Hinder GM Vehicle Calibrations

By John Huetter on July 6, 2020

Reprinted with permission from SCRS-repairer driven news.

Sometimes, a variable out of a body shop's hands can slow or prevent the calibration of certain General Motors sensory technology — and sometimes, the collision repair itself might deserve the blame, according to a new ADAS guide from the automaker.

GM's recently released "Driver Assistance Systems" document isn't a substitute for its official vehicle repair instructions. But it's a good way to familiarize yourself with the technology before beginning formal OEM procedure research and attempting the actual repair on a specific year-make-model-build.

The new guide also provides another handy jumping-off point for troubleshooting scenarios in which three pieces of ADAS tech — the front-view windshield-mounted camera, the left- and right-side object sensor modules and the long-range radar sensor module — calibrate slowly or not at all.

The shop

In some cases, the reluctance to calibrate might be the auto body shop's fault.

According to General Motors, the windshield camera's failure to calibrate could be attributed to a camera "not properly installed or is not fully secured in the windshield bracket" — or the windshield itself "not properly centered in the windshield opening."

The long-range radar sensor module might fail to calibrate or calibrate slowly if the vehicle received an "Incorrect collision repair," still has "Collision damage," or includes a "Bent or damaged Long Range Radar Sensor Module bracket or mounting surface." (The module is usually "in the center grill area, behind the brand emblem," according to GM. Sometimes, it's "located behind the lower fascia.")

GM said the left- and right-side object sensor modules normally would calibrate themselves, and "no specific calibration is required as a part of service." (Though it seems like you'd want to alert the owner that the parts might not immediately have full function.) But a shop's missteps or omissions can "slow the calibration process and result in limited system functionality" for that technology, according to GM.

These issues could arise from "Damage to the rear fascia, underlying vehicle body structure, or sensor bracket" or "Incorrect collision repair," GM wrote.

The customer

Sometimes, the customer's poor treatment of the vehicle might be to blame — as might actions the customer considered improvements.

"Dirty windshield glass" or a "Cracked or damaged windshield" can affect the windshield camera calibration, according to GM.

But so can "Vehicle add-on equipment that blocks the Frontview Camera – Windshield, such as a windshield tint strip or vinyl banner, or equipment that blocks the view of the road, such as bug deflectors or grill guards," the OEM said.

The OEM also said "Mud or slow build-up in the sensor area" can compromise the left and right object sensor modules' ability to self-calibrate. Ditto the addition of "Bumper stickers or labels on the rear fascia or bumper near the sensor." (The modules are "located on the left and right vehicle body sides, behind the rear fascia, or in the rear bumper," according to GM.)

Some of these problems could have been addressed during the repair (cleaning a dirty part). Others, the shop or insurer might want to educate the customer about in advance. ("We might need to remove your '26.2' bumper sticker to fix your car right.")

A 2022 Chevrolet Traverse High Country is shown. Off-center glass can affect the calibration of a General Motors frontview windshield camera, according to the OEM. ***(Copyright General Motors)***

The road

And sometimes, the road and calibration drive itself might be to blame. Insurers and customers should take note of this as well. Based on GM's discussion of calibration conditions, it seems labor times might vary between regions — and even day-to-day for a specific shop depending on traffic.

For a repairer desiring to calibrate a GM windshield frontview camera, "An ideal calibration environment is a two-lane divide highway with lane makings on both side of the lane, driving the vehicle between 56-90km/h (35-56 MPH)," GM wrote. It said faster or slower speeds than the 35-56 mph range can affect calibration.

Even more conditions are needed to calibrate a long-range radar sensor module. "An ideal calibration environment has stationary objects on the roadside, such as mailboxes and street signs, minimal curves and hills, multiple vehicles to follow at a distance of 30-50 m (100-165 ft) while driving the vehicle greater than 56 km/h (35 MPH)," GM wrote.

Heavy or stop-and-go traffic can affect either component's calibration, according to GM — but so can "No traffic" in the case of the long-range module.

"Curves in the roadway" and "Mountain roads" may hinder the windshield camera calibration, as might "Sharp curves" and "Mountain or hilly roads" for the long-range module, GM wrote.

The frontview camera also might not calibrate as easily with absent, "Poor" or "Botts Dots-type" lane markings or in "adverse weather, such as snow, fog, or extreme rain, or driving directly into the sun."

The long-range sensor also has issues with tunnels and a "Limited number of road side objects."

Even the self-calibrating left- and right-side sensor modules might have problems on certain roads. GM said the process could be affected by "Operating the vehicle in an area with no traffic or a limited number of road side objects."

How Much Should You Pay Yourself?

Reprinted with permission from BodyShop Business, a Babcox Media publication

By Hank Nunn on December 8, 2014

A good understanding of your P&L statement will allow you to pay yourself properly without hurting your business.

"I pay myself $100,000 per year, plus all the cash I can take!"

That was the response I got when, as a young shop owner, I asked an older, established owner how much he paid himself. I was curious about how much I should make and how I should pay myself. His answer didn't help me.

Compensation for employees is usually pretty simple. We know how to pay technicians and other employees. Flat rate within a market is pretty standard. Hourly rates are also market-driven based on job and required skill level.

But what about the owner's paycheck? It may seem that the owner has the best job. But few understand the hours the owner puts into the business and the risk the owner has taken.

There's a large part of ownership that no one sees. Owners sacrifice. In a very young business, they sacrifice a lot! The owner works the longest hours, sometimes with no compensation so that payroll or other expenses can be met. The owner takes out and personally guarantees business loans. The owner is also on the hook for employee mistakes and can be sued for just about anything at any time.

Owners earn compensation in two ways. First, the owner should earn a paycheck just like any other business employee for working in the business. Second, the owner should earn a return on their investment in the business.

The decision on how much an owner should or could make is best made with the advice of a good, business-focused CPA. Owners should have a complete understanding of the company profit and loss statement. Remember: If the company isn't profitable, the owner makes no money!

The Paycheck

As noted above, if the owner is functioning as a manager or technician (or both), the owner should draw a paycheck just like all of the other employees.

Some owners of new or smaller business may simply "draw against the net," writing a check to themselves and posting the money as an owner's draw against profits. Obviously, if there is no profit, the draw is taken against the owner's equity. But there are several problems with this method of compensation. Taxes are not taken into account, and benefits aren't included. Thus, there is a significant risk of "overdrawing" and running out of money before monthly bills are paid.

Additionally, the P&L does not reflect a true picture of the business. Since the owner's pay comes from net profit, overhead is not accurately presented and the net profit is overstated.

It's far better to make the owner an employee of the company so that owner compensation is shown on the P&L as an overhead expense. Taxes and benefits are deducted and paid just as with any employee, and the owner still has the option to draw additional funds from profits if warranted.

How much should you pay yourself? If the business is in its infancy, probably nothing. Remember, the company has to make a profit before anyone can be paid. Most business consultants suggest that new owners make sure they have sufficient cash on hand to go six months to one year with no income from the business. The first year is tough!

Business Plan

In a perfect world, the owner creates a solid business plan prior to opening the doors. That business plan may show the owner working for no compensation for the first six to 12 months, but after that initial period, the owner may plan for a minimal paycheck for the next six to 12 months, then increase owner's compensation as the business builds.

But the world is not perfect, and most new business owners

(Continued on next page)

How Much ... *(Continued from previous page)*

don't plan for living on no pay for six to 12 months. The new owner may be working for nothing, but other employees are getting paid. Resentment builds, the new owner decides to pay himself too soon and cash flow issues result. Cash flow difficulty is the No. 1 cause of new business failure. As a business matures, the owner can finally receive a paycheck. That's a good thing!

Owner pay comes in many forms. Obviously, there is the paycheck. As noted before, the owner should be paid just like any employee if the owner works in the business on a day-to-day basis. But there are other ways that the owner receives compensation, such as a company car, contribution to retirement plans, flexible hours, expense accounts, insurance benefits, etc. Work with your accountant and tax advisor to make sure those additional benefits are appropriate. It's really hard to justify a boat, plane or RV as a reasonable business expense for a three-year-old collision center selling $80,000 per month.

One rule of thumb: if the owner manages the business day to day, the owner's base pay should be equivalent to the amount the business would have to pay for a general manager. If a mid-sized shop in a market can attract a good manager for $75,000 per year, then $75,000 plus appropriate benefits would be a good base annual compensation for the owner.

Be careful when adding those extra benefits! The business needs to make money. Most use a minimum 10 percent of gross sales as a goal for net profit before taxes. That 10 percent net profit allows money to be reinvested in the business, loans to be paid and money to be paid to ownership as dividends if the company is a corporation. But if the total of owner's compensation plus owner's benefits such as the car, expenses, bonus, plane, boat and RV drive the net profit below 10 percent, the owner is being overcompensated and the business is being hurt.

What if the owner is doing work in-shop? Maybe the owner works on customer's cars doing some body or paint work. If so, the owner should pay themselves an hourly rate or flat rate, just as the other productive employees are paid. But make sure that the total owner's compensation does not drive that net below 10 percent of gross sales.

As the business evolves, many owners hire managers to run the company. As the owner's active role in the business is reduced, the owner's pay should shift from being an employee of the company to that of being a stockholder. The manager's wages should be shown as overhead, and the owner's pay will come as a dividend payment.

Some may wish to remain on the payroll in some capacity in order to stay on the health plan, continue to drive the company car and pay into Social Security and other taxes. That's fine! But make sure that the owner's compensation is not driving the net profit below that 10 percent figure.

Equity

As a business grows, its value grows as well. We all understand how a home increases in value over time, and the payoff is reduced over time by making monthly payments. The difference between the fair market value of the home and the loan payoff is the owner's equity in the home.

Building a business is the same thing. Over time, the value of the business grows and the money owed against the business is reduced by making lease and loan payments.

While business valuation is a complex issue, there are two basic methods of determining the value of any business: cash flow or net asset value.

Net asset value is usually used to value a poorly performing business or one that's very heavily invested in inventory. The business is worth its "net assets," usually as shown on the balance sheet.

Owner Pay Do's and Don'ts

DON'T:

- Pay yourself a salary within the first six months to a year of owning the business
- Allow your compensation to drive net sales below 10 percent
- Take cash from your business

DO:

- Pay yourself via a paycheck like a regular employee
- Pay yourself a minimal paycheck after the first six months to a year
- Increase your compensation as your business builds
- Pay yourself (if you manage the business) the amount the business would have to pay for a general manager

Cash flow valuation uses the net positive cashflow to determine the value. In this method, the net positive cash flow (usually EBIDTA or Earnings Before Interest, Depreciation, Taxes and Amortization) is multiplied by a number to arrive at the business value. The number, or multiplier, is a negotiated number representing the number of years the buyer is allowing the net positive cashflow to repay the investment made in buying the business.

Example: A collision center has a net positive cash flow of $150,000 per year. It has a strong business, is well managed without the owner's full-time involvement, has a solid crew and has shown several years of positive sales growth. Using that information, the owner negotiates a multiplier of 3.5. The business has a value of $525,000 ($150,000 x 3.5). Remember, that does not include the real estate! In selling the business, the owner should negotiate a fair market rent for the property.

Rental income is an area frequently overlooked as owner compensation. Often, the business owns the real estate housing the company. As time passes, the loan balance diminishes while the fair market lease rate increases. The building and business should be separate entities, with the business paying a fair market rent to the owner of the real estate, usually the owner of the business. The difference between the fair market rent and the payment can be income to the owner. In our example, the owner will receive $525,000 for the business plus rental income from the property.

Rental income provides a terrific tool for allowing continuing income to a parent who's leaving the business to their children or selling the business to an outside entity or MSO.

Business owners should keep an eye on equity as they build their business. To maximize equity, the business must be profitable, should show steady sales growth and be systems driven so that the company is not dependent on the owner for daily operations.

To illustrate the point, let's remember the line given by the veteran shop owner at the introduction of this article: "I pay myself $100,000 per year, plus all the cash I can take!" Taking cash from the business may seem like a good thing on the surface. Naturally, taking cash avoids paying income tax and other taxes on the revenue. That's why it's illegal. But taking cash also causes a significant negative impact to the owner's equity in the business. Let's say the owner "pocketed" the customer's $250 deductible, which was paid in cash. Being a smart owner, he backed the $250 out of the RO so that the sales and deposits matched, thinking no one would catch him. (Hint: The IRS can, and they do catch that!)

The owner has money in his wallet, but that money did not go through the business and did not show up in sales. In fact, that $250 came right out of net profit! Since the business value is based on steady sales volume and profitability, taking that $250 reduces the net positive cashflow and the multiplier. If we use a multiplier of three, that $250 cost the owner $750 in business equity! Plus, the owner now has to wonder if "they" will catch up to him. All that to save $50 in taxes?

Summary

There is no simple answer to the question, "How much should I make as the owner of a collision center?" But we can illustrate a solid owner's compensation plan.

Let's assume that the owner also manages a collision center. The shop is doing $2 million per year in annual sales and has a net profit margin of 10 percent, or $200,000. The owner is being paid a monthly salary plus benefits, with a company car and expense account. The owner also owns the property, which has a fair market rent value of $10,000 per month. Loan payments plus maintenance expenses, insurance and reserves total $8,000 per month. A good general manager would cost $80,000 per year.

A fair owner's compensation would be a base pay of $80,000 per year plus the current benefits. Additionally, since the business is profitable, the owner may reasonably take a quarterly dividend of 30 percent ($60,000) of the net profit. That would probably be paid on a quarterly basis, leaving 70 percent of the net to be reinvested in the business. The owner is also making $2,000 per month as rent.

Let's add it up: Base pay of $80,000 plus benefits, $60,000 in dividend income, $24,000 in rental income = $164,000 in annual income. Plus, as time passes, the owner is earning increased equity in both the real estate and the business.

Yes, that's a simplistic illustration. The numbers and percentages used are for illustration only. In the real world, owners should work with their accountants to decide just how much the business can afford to pay the owner and how to structure that compensation in such a way that tax impacts are minimized. In our example, maybe that dividend being taken should be made as a 401K contribution?

By truly understanding the financial structure of a business, and working with a business-focused CPA or accountant, a good compensation structure can be created for the owner.

Hank Nunn is a 35-year collision industry veteran. He is now retired.

The views expressed in articles throughout this issue are those of the writers, and do not necessarily reflect views of NDABA.

Readers are welcome to react to views expressed here or elsewhere in the magazine by writing:

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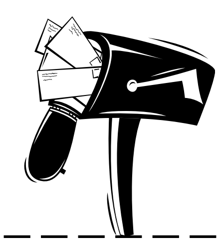

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