

Labor Rate Committee
Re:labor cost and consideration

Dear Attorney Powers and Stacey Gotham just my thoughts on the labor rate. In a service business, the margin on labor charged versus labor paid is not a single, fixed number but a strategic calculation that varies by industry and business goals. A common rule of thumb is to set a billing rate that is 2.5 to 3 times the employee's direct hourly cost.

This markup ensures you cover not only the employee's wage but also all associated costs and a profit.

Understanding the key cost components

Your employee's direct hourly wage is only part of the total cost. A profitable billing rate must account for the "fully burdened" cost of labor, plus overhead and profit.

1. Direct labor cost:

Wages and salaries: The employee's base pay.

Payroll taxes: Employer-paid taxes like Social Security and Medicare.

Employee benefits: Health insurance, retirement contributions, and paid time off

Employees are paid for 2080 hours per year, my average collision tech is \$35 per hour times 2080 = \$72,800 times 30% for benefits and FICA/Soc Sec etc.equals cost of \$94,640 per year.

The labor rate needs to be billed on billable hours. Thus 4 weeks vacation minus 160 hours, 11 paid holidays minus 88 hours two 15 minute breaks for 48 weeks equals 120 hours this calculation equals 1752 hours

Now out of the 1752 hours the employee's are actually working. Time needs to be dedicated to training and continuing education. minus 24 hours per year.

One and half hours per week x 48 to clean/ maintain and inventory tools minus 72 hours

Thus leaving 1656 actual billable hours. Divide this number into \$94,640 the actual cost per hour for the employee is \$57.15 per hour of actual working time. Every resource I checked, stated that in a service industry the rate collected (IE: charged to the customer) should be 2-3 times the cost of the employees cost per billable hour.

$2x = \$114.30 / 2.5x = \$142.88 / 3x = \$171.45$

** Vacation and holiday times are based on what the insurance industry gives their employees as a lot of shops have lost technicians to the insurance industry and the collision shops need to be on equal footing.

** I do understand the automotive industry utilizes flat rate time formulas which cut both ways, sometimes a little high and sometimes low. On average the technology and structure of the modern vehicles does not create an environment where the times are excessive.

** I use this formula for my shop and utilize 2.75 times which will bring us to \$157.16 per hour.

My current posted rate is \$149.75 from
the last time I reviewed my costs. The 2.75 is needed to support the manager and other non
production staff.

** in a service industry using the gross sales approach for determining labor costs is not a valid
approach in my opinion.

Regards
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