

Top Tips

Finance 101: Growing Your Business While Managing Costs

Running a successful auto repair shop demands a solid financial strategy. Maximizing deductions, improving margins, and managing expenses can help operators increase profitability and generate the resources needed to grow the business. Read on for actionable steps shop operators can take to strengthen their financial foundation.

1

Maximize small business tax deductions.

Auto repair shops can deduct a wide range of business expenses, including tools, equipment, and parts. For example, Section 179 in the U.S. tax code allows full federal tax deductions for equipment purchases of qualifying assets up to the annual exclusion amount in the year the asset was purchased. The Fuel Tax Credit provides a refundable credit for work-related fuel use. Shops can also claim certain deductions related to maintaining inventory. Detailed records are essential for any deduction. Digital platforms such as AutoZonePro consolidate purchase and payment information, making it easy for shops to track spending.

2

Leverage the qualified business income deduction.

Suppose the business is organized as a pass-through entity, such as a limited liability company or S corporation. In that case, the entity may qualify for a 20% qualified business income, or QBI, deduction on business income under IRS guidelines.

3

Use depreciation strategically.

Businesses can use accelerated depreciation methods to deduct the cost of assets more quickly during the early years of an asset's life, reducing taxable income during those years and providing a financial benefit. In the U.S., the modified accelerated cost recovery system is used for federal tax purposes. Other methods, such as the double declining balance, 150% declining balance, and sum-of-the-years-digits, are allowed in specific situations. All of these front-load depreciation expenses, meaning more of the asset's cost is written off in the early years, lowering taxable income during that time.

4**Add a business line of credit before you need it.**

Establishing a line of credit can give shops more flexibility to expand their business, increase inventory, or cover short-term cash gaps. AutoZone has partnered with OnDeck to provide automotive business funding. Shop operators can create a revolving credit line with limits ranging from \$6,000 to \$100,000 that they can draw from 24/7. OnDeck also offers lump sums via term loans between \$5,000 and \$250,000.

**5****Offer customer financing options.**

Partnering with financing companies that offer customers financing can boost sales and increase the average ticket while helping customers get the services they need. AutoZone partners with Synchrony Car Care, which lets shops offer promotional financing directly to customers. The average Synchrony Car Care credit card first purchase is \$916. Shops receive access to business-building tools and insight, like information on how many cardholders live within 10 or 25 miles of the business and cardholders' available credit limits. Participation in the Synchrony Car Care program also provides shops the opportunity to offer consumer rebates that are stackable with manufacturer rebates at no cost to the shop.

6**Control inventory and shop supplies.**

Inventory is expensive and ties up working capital. A digital platform connects shops to available inventories in real time, making it easy to deploy a just-in-time inventory model by monitoring what's in stock, identifying alternatives if parts are backordered, and providing real-time updates on orders and estimated delivery times. The systems also reduce the risk of errors when ordering by featuring multiple product photos to help technicians confirm selections visually, increasing accuracy and reducing the risk of returns.

7**Maximize gross profits on parts.**

Parts sales are a major contributor to shop income, but markups can be inconsistent. Tracking gross profit on parts ensures shops are pricing correctly across different categories and can uncover missed margin opportunities and improve cash flow. Digital ordering systems make it easy for service writers and technicians to compare prices, access current promotions and special offers instantly, and better manage parts costs.

8**Increase efficiency inside the shop.**

Increasing efficiency inside the four walls of the shop helps maximize throughput and lets technicians accomplish more billed work throughout the day. There are several ways to save time, such as utilizing VIN scanning instead of requiring techs to enter the 17-digit number manually, which also reduces errors, and placing parts orders digitally rather than calling and relaying information on the phone. Using mobile technology within the shop also makes it faster for technicians, service writers, and shop managers to share information and collaborate.

9**Monitor key metrics.**

Tracking key performance indicators lets businesses measure progress and spot opportunities for improvement. KPIs like technician hours billed versus worked, parts availability, and repair cycle time can highlight bottlenecks, while monitoring costs per repair order and parts-to-labor ratios help pinpoint where money is being lost. Data also allows shops to improve staffing, scheduling, inventory, and shop processes.

10**Analyze financials regularly.**

Analyzing financial information is essential for making informed operational decisions, identifying hidden costs, and improving overall performance. Critical financial metrics include profitability, accounts receivable aging, and average repair order (ARO). Shops can analyze monthly profits by reviewing income statements and focusing on net profit, gross profit, and operating expenses. Unpaid invoices hurt cash flow, and monitoring how long it takes to collect payments allows shops to follow up quickly. AROs help shops understand customer buying patterns and gauge upsell effectiveness.

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**Contact your tax advisor or CPA for more details on the Section 179 deduction. Financing is provided by third parties who are not affiliates of AutoZone. All of the advertised loan programs, rates, terms, and conditions are subject to change at any time without notice. An extra charge may be imposed at the end of the lease depending on the residual value of the leased goods.*

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