



# A Dealer's \$27 Million Bad Day

Learn How Safety Pays When  
You Strive for Zero Losses



*The direct and indirect costs of a workplace injury or illness can have a significant impact on a dealer's bottom line. When you look at just how quickly those costs add up, it becomes clear just how well "safety pays" as you set your sights on achieving a zero-loss rate.*

### **True or False:**

A workers' compensation accident costing a dealership \$824,000 in direct and indirect expenses might require more than \$27 million in sales to make up for the loss.

**The answer very well could be true.** But, before we dive into an example to illustrate this, let's take a quick look at why the direct and indirect costs of a workplace injury or illness can add up so fast.



## **A Look at Direct and Indirect Safety Costs**

Fortunately, the U.S. Occupational Safety and Health Administration's (OSHA) has developed a [safety Pays estimator tool](#) that lets you evaluate the direct and indirect costs depending on specific circumstances. It uses profit margin, average costs of an injury or illness, and an indirect cost multiplier to predict how many sales a company would need to cover loss costs. And, the results can be eye opening.



Direct costs include the more obvious things like workers' compensation payments and medical expenses. Depending on the severity of the injury or illness, this could mean medical costs totaling hundreds of thousands of dollars.

**For indirect costs, we're talking about things like:**

- ◆ Wages paid to the injured worker that weren't covered under workers' compensation
- ◆ The time lost and associated wage costs due to work stoppage as a result of the injury
- ◆ Resultant overtime costs
- ◆ The time supervisors, safety managers, and clerical staff must spend addressing issues related to the injury
- ◆ Replacement worker training costs and accounting for their learning curves
- ◆ Clean-up and repair costs when there's damage to materials, machinery, or other property as a result of the accident
- ◆ Job accommodations needed for the injured worker
- ◆ Rescheduling and lost productivity

And, those are just the ones that directly have to do with the workplace.

**Additional indirect costs may include:**

- ◆ OSHA fines and lawsuits
- ◆ Third-party liability and legal fees
- ◆ The injured worker's pain and suffering
- ◆ Bad publicity and a loss of goodwill toward the company as a result

Generally speaking, indirect costs often run over 100% over and above direct costs. So, when you add them all up, it becomes clear why maintaining a safe work environment pays.

## A (Really Bad) Day in the Life of an Auto Dealer

*Let's go back now and talk about that dealership that would need to do around \$27 million in sales to make up for a workers' compensation loss of \$824,000 to illustrate just how costly it can be when workplaces don't put safety first.*

Let's say Dealership ABC has a forklift (a powered industrial truck). But, it doesn't have any safety training or safety policy concerning the operation of this forklift. An accident occurs when an employee who jumped on the forklift to deliver a heavy part to a service bay for installation slams into a car backing out of the service bay because the brakes failed.

The forklift driver's leg gets pinned under the cage that surrounds the driver's seat. Once he's freed from the forklift, he's rushed to the hospital where his leg needs to be amputated. He also sustained a concussion and broke a bone.

As a result of the accident, the part that was being delivered on the forklift (an engine core) slides off and knocks two big drums of oil, which rupture and spew oil all over the parking lot. The oil goes down the storm drain, which leads to a creek, and the dealership doesn't have a spill-prevention plan in place at this time.

Hopefully, you can already see that the lack of safety training or a safety policy (not to mention a spill-prevention plan) is likely to have a negative, cascading effect on the total loss cost.



*Just how costly will this accident be for Dealership ABC?  
We collected some costs from previously published citations and examples.*

### Let's take a look:

- ◆ Direct medical costs for the amputation (\$96,003), concussion (\$54,571), and fracture (\$54,856) for a total of **\$205,430**, according to OSHA's Safety Pays estimator
- ◆ Indirect costs of **\$105,603** (this is where lost work time, replacement worker costs, pain and suffering, etc. come into play), according to the Safety Pays estimator
- ◆ Multiple OSHA citations totaling **\$130,900** for<sup>1</sup>:
  - not ensuring that the operator had successfully completed powered industrial truck training (a serious violation of \$5,500)
  - for the driver not wearing a seatbelt (a \$4,400 violation)
  - for not ensuring that the forklift brakes were operating in a safe condition (a willful violation of \$60,500)
  - for not doing any pre-trip inspection on the forklift (another willful violation of \$60,500)
- ◆ EPA penalty of \$17,500 for not having a spill-prevention plan and clean-up costs of \$15,000 for a total of **\$32,500**<sup>2</sup>
- ◆ Legal settlement of **\$350,000**, which comes after the attorney for the injured employee reminds the dealership and its insurer of all the OSHA citations that constitute a mound of evidence that could be used to demonstrate the dealership's negligence for not having a forklift safety training program and not inspecting the brakes or repairing them<sup>3</sup>

With Dealership ABC paying **\$824,000** in losses on this one incident alone, the impact on its bottom line could be quite staggering. If we assume the dealership has a 3% profit margin and it performs oil changes for \$16 each, it will need to pull in **\$27.5 million** to make up for this loss. So, this is one reason why safety pays and why the goal is to strive for zero losses!

<sup>1</sup> [https://www.osha.gov/oc/citations/Kroger\\_Company\\_1005045\\_0326\\_15.pdf](https://www.osha.gov/oc/citations/Kroger_Company_1005045_0326_15.pdf)

<sup>2</sup> <https://archive.epa.gov/epa/newsreleases/claremont-nh-auto-dealer-settles-epa-oil-spill.html>

<sup>3</sup> <https://www.alllaw.com/articles/nolo/personal-injury/settlement-value-ankle-claim.html>

## More Reasons Safety Pays

### Let's look at experience modification ratings.

Now you may be thinking, "Hey, we have workers' compensation insurance, so that will offset our direct costs, right?" Yes, to a point. The employee's medical treatment would be covered under your policy, but it's important to recognize that a workplace incident is likely to impact your experience modification rating (EMR).

The EMR is a calculation workers' compensation insurers use to determine how much you'll pay in monthly workers' compensation premiums. It's retroactive and looks back 3 years. **If, during that timeframe, you've had more losses compared to the industry average, you'll pay more in insurance premiums.**

They take the industry average, which is factored in as "1." The more claims you have above the industry average, the more you're going to pay in premiums. If you're below 1, you're going to pay less because the insurer will have deemed your facility safer (and a lower risk).

All in all, companies with ratings above 1 might pay as much as 40% more in workers' compensation premiums while those with EMRs under 1 may save more than 10%.

In our forklift example, if we assume that Dealership ABC only had that 1 incident for the 3-year EMR lookback period, we can assume that its EMR won't be too bad. That's because, while this was a severe incident, the measure is against the industry average for the number of claims. But, if the forklift accident was one of many claims over that 3-year period, Dealership ABC could experience skyrocketing workers' compensation insurance premiums.

As a best practice, reach out to your workers' compensation insurer to find out your EMR if you don't already know it.

## Another thing to consider is incidence rate.

The U.S. Bureau of Labor Statistics has a [calculator and comparison tool](#) that shows the relative level of injuries and illnesses among various industries, organizations, or operations within a single organization.

### Specifically, the tool lets you enter:

- ♦ The number of hours employees actually worked
  - ♦ A value for the total number of non-fatal work-related injury and illness cases, the number of cases involving job transfer or restricted work activity only, and/or the number of cases involving days away from work
  - ♦ The year, your area, super sector, and industry
- ... and many more.

Since a common set of factors are considered for a set amount of time, this can be useful for determining problem areas and for making adjustments to policies and practices to achieve zero losses.

### Here's a closer look at the incidence rate (IR) calculation in action.

The IR represents the number of injuries and illnesses per 100 full-time equivalent (FTE) workers. This takes the total number of injuries and illnesses in a workplace (N), which can be found on a facility's most recent OSHA 300A form, divided by the total hours all employees worked in a calendar year (EH). The total is then multiplied by 200,000—the base for 100 equivalent full-time workers working 40 hours a week for 50 weeks a year—which gives you the IR.

## Calculate Your Incidence Rate

**Incidence Rate + (N/EH)x 200,00**

**N** = number of injuries

**EH** = total hours worked by all employees during the calendar year

200,000 = base for 100 equivalent full-time workers (working 40 hours per week, 50 weeks per year)



### Here's an example:

**N = 4**

(you can find "N" from your OSHA Form)

**EH = 160,000**

(80 employees x 40 hours x 50 weeks)

$$(4/160,000) \times 200,000 = 5.0$$

For context, for 2019 the IR of total recordable cases in private industry was 2.8 cases per 100 FTE workers according to information BLS released in November 2020.

So, just because you have workers' compensation insurance in effect to cover a workplace injury or illness, when you factor in the EMR and the IR, your insurance premiums could be much higher when losses occur. And, when you couple these with all of those direct and indirect costs for each loss, it's clear why safety pays.



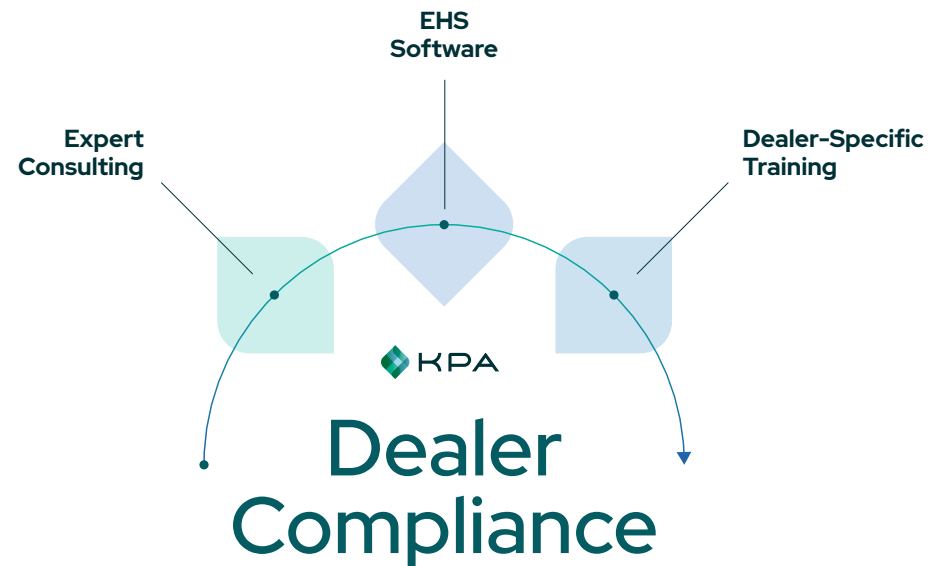
# Make Safety Pay With KPA

*KPA's unique combination of expert EHS consulting services, software, and training can provide the coverage your people and your dealership needs.*

KPA clients have access to over 120 field consultants across North America who are available to deliver both on-site and virtual compliance support, as well as audit loss control services. Additionally, KPA's Vera Suite software helps dealers manage their EHS, F&I, and HR programs in one comprehensive platform.

The combination of KPA's software platform and deep industry expertise helps clients manage risk, streamline operations, and reduce costs.

*If you have questions on how to determine the likely direct and indirect costs of workplace accidents and injuries and want tips on how to lower your IR and your EMP as you strive for zero losses, reach out to KPA today.*





*KPA's online, on-site, and on-call resources help clients automate manual processes, reduce the total cost of risk, and manage safety in one comprehensive platform.*

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