

Why Do We Need To Charge So Much?

Most technicians, and many employees, literally think the difference between what they are being paid, and what the customer is charged, is all profit. The thinking is *"We are doing all the work and the owner is getting rich...right?"* Wrong!

It costs a lot more to run a company than most anyone, but the owner, realizes. Believe it or not most companies earn less than a 5% net profit....before taxes!

This class will clearly show what it really costs to run a small business and therefore why they need to charge what they charge.

This program is perfect for all employees, but especially for technicians!



"Today you learn why the company needs to charge what they charge."

Tom Grandy, Founder

Seminar Special

Check out the last page of this handout for savings of over 50% on four (4) of Grandy & Associates most popular business building tools!

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Why Do We Need To Charge So Much?



"They pay me \$18.00/hour and charge the customer \$85.00/hour. The owner must be rich...right?"

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Pricing Is A Sensitive Issue!

Assumptions of most techs and company employees:

The company pays the tech \$18.00/hour and charges the customer \$85/hour. The company (owner) MUST BE RICH!

It costs far more to run a company than most people realize.

The average landscape company makes less than a 5% net pre-taxed profit!

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We Are Going To Create A "Sample Company"

Objective:

We want to determine how much our Sample Company needs to charge per hour to cover all its real costs of doing business while generating a 15% pre-tax profit.

Assumptions:

- Sample Company only does landscaping.
- Owner does not work in the field. The company has a full time designer/dispatcher and a full time bookkeeper.
- Company has four (4) full time techs in the field.

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We Are Going To Input The "Sample Company" Into Our Software

All the data will be entered into Grandy & Associates "Labor Pricing for a Profit with Cash Flow Projections" software to determine what the customer needs to be charged per hour to cover costs while generating a 15% pre-tax profit.



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Equipment Replacement Costs

Equipment Replacement cost is typically the second highest cost of doing business the company has!

Where did all the money go? Oh, I forgot. We had to replace one of the employee's trucks last month!"



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Calculation Of Annual Equipment Replacement Costs - Example

Purchased a nearly vehicle in 2015 for \$25,000 and it is estimated to last another three (3) years.

Cost of a new truck 3 years from now

Calculation: = \$ 27,000

Number of years till replacement = 3 years

Cost of equipment three years from today = \$27,000

Annual Equipment Replacement Cost

= \$27,000 / 3 years

= \$ 9,000 / year (Landscape highest)

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How Do Equipment Replacement Costs Relate to Dollars/Hours Charged The Customer?

Example:

Company "A" has three techs who are able to charge an average 32 hours per week, per tech, to the customer.

- Total hours charged to the customer for the year:
= 3 techs x 32 billable hours/week x 52 weeks
= 4,992 hours/year
- Total equipment replacement costs for the year:
= \$ 42,750

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How Do Equipment Replacement Costs Relate to Dollars/Hours Charged The Customer?

Example: (continued)

Equivalent hourly rate:
= \$42,750 / 4,992 hours
= \$ 8.56 / hour



What is this telling me?

This means that \$8.56 of the final hourly rate (whatever that rate is) must be set aside in order to replace equipment when it wears out.

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Our Sample Company Has The Following Vehicles:

- 2013 Ford Van** – Estimated cost \$27,000 to replace it two years from today.
- 2014 Ford Van** – Estimated cost \$28,000 to replace it three years from today.
- 2015 Chevy Van** – Estimated cost \$30,000 to replace in four years.
- 2017 Flatbed Truck** – Estimated cost \$50,000 to replace in seven years.
- 2015 Vehicle** – Owner vehicle estimated cost \$40,000 to replace in three years

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What Is The Annual Equipment Replacement Cost For The Sample Company?

Do the math:

Truck #1 - \$27,000 / 2 years -----	\$ 13,500
Truck #2 - 28,000 / 3 years -----	9,333
Truck #3 - 30,000 / 4 years -----	7,500
Truck #4 - 50,000 / 7 years -----	7,143
Owner - 40,000 / 3 years -----	13,333
Total equipment replace cost	_____
for the year -----	\$ 50,809

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What Is The Annual Equipment Replacement Cost For The Sample Company?

What is this telling me?

This means our Sample Company needs to build \$50,809 per year (\$4,234/month) into the operating budget in order to replace equipment when it is wears out.

It costs a lot to run a profitable company!

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Field Labor - (Define Terms)

Field Labor:

These are the employees who are actually doing the work and whose hours may be charged **DIRECTLY** to the customer. In our Sample Company, there are four (4) field techs.

Non-Billable Time:

These are the hours that the company pays FIELD LABOR for but **CANNOT** charge directly to the customer (shop time, vacation pay, travel time, vehicle maintenance, etc.)

If the owner works full time in the field he or she is considered field labor!

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Typical Non-Billable Time

Vacation - Holiday - Sick

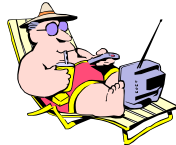
80 hours --- Two weeks vacation (3.8% of total time)

72 hours --- Nine (9) paid holidays (3.5% of total time)

40 hours --- Five (5) sick days (1.9% of total time)

= 192 hours / 2080 hour year

= 9.2 % Non-Billable time



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Model Employee

Assume the "model" employee has a minimum of one hour a day that is non-billable (shop time, travel, company meetings, etc.):

= 1 hour / day x 47 working weeks

= 235 hours per year (11.3%)



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Model Employee's Non-Billable Time

Model employee's non-billable time:

3.8% ----- Vacation

3.5% ----- Holidays

1.9% ----- Sick Pay

11.3% ----- ONE hour a day

20.5% Non-Billable Time

Now Add In:

- Callbacks
- Warranty Work
- Company Meetings
- No-Show Calls
- "Make Work" Jobs Around the Office
- Work 35 Pay, Pay 40 Hours

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Industry Norm For Non-Billable Time for Service Techs

Type Employee	% Non-Billable
Field Labor	30% - 35%
Lawn Maintenance/Irrigation	40% - 55%



What is this telling me?

This means 30-50% of the time a tech is paid for cannot be charged directly to the customer. This "cost of non-billable time" must be built into the cost of doing business...therefore into the companies hourly rate!

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Our Landscape Crews Have The Following Technicians:

Tech #1 – Paid \$18.00/hour and has 30% non-billable time.

Tech #2 – Paid \$22.00/hour and has 30% non-billable time.

Tech #3 – Paid \$20.00/hour and has 30% non-billable time

Tech #4 - Paid \$23.00/hour and has 30% non-billable time

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What Is Cost of Non-Billable For Our Sample Company?

Do the math:

Tech #1 @ \$18.00/hr x 2,080 hr/year ----- \$ 37,440

Tech #2 @ \$22.00/hr x 2,080 hr/year ----- \$ 45,760

Tech #3 @ \$20.00/hr x 2,080 hr/year ----- \$ 41,600

Tech #4 @ \$23.00/hr x 2,080 hr/year ----- \$ 47,840

Total wages for the year ----- \$172,640

Cost of non-billable time for the Sample Company:

= \$172,640 x 30% non-billable

= \$51,792/year (Wow)

What Is Cost of Non-Billable For Our Sample Company?

What is this telling me?

The cost of non-billable time (time the company pays the tech for but cannot be charged directly to the customer) is \$51,792. This is a real cost of doing business. Who pays for it? The customer must. This cost is just like rent, utilities, marketing, etc. all of which need to be covered in the hourly rate the customer pays!

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Sale Of Materials

The material markup for the industry is 100% or more.

I knew it...the company owner is making a bundle on the plants/materials we sell....right? Wrong!

What is this telling me?

The markup on materials can, and will, absorb some of the companies overhead cost. In essence, the markup earned on the sale of materials helps to *LOWER* the companies hourly rate!

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Our "Sample Company" Has The Following Material Sales:

Total material sales for our four field techs within the Sample Company is:

= \$160,000/year

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Office Salaries:

A company does not run itself, it takes people:



Owner:

Someone has to make the investment of time and money to get the company going – and to keep it going. That would be the owner. The owner's salary is \$75,000 (note this salary is only about \$25,000, or \$480 a week, more than the top tech). The owner, however:

- Takes 100% of the risk
- Doesn't get paid if things are slow
- Carries the load (pressure and stress) of the company 24/7

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Office Salaries:

Office Manager:



This person takes care of the day-to-day operations of the company and earns a salary of \$35,000. This person:

- Pays the bills
- Takes care of taxes and does payroll
- Invoices the customer and takes care of receivables
- Is responsible for all the accounting functions that Uncle Sam requires!

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Office Salaries:

Designer/Dispatcher:



The designer/dispatcher is paid \$32,000 a year and takes care of:

- Helps answer the phone and schedules the work
- Assists owner in design of projects
- Orders materials and supplies
- Communicates with the customer

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What Is The Cost Of Office Salaries For Our Sample Company?

Salaries:

Owner	\$ 75,000
Office Manager	35,000
Designer/Dispatcher	<u>32,000</u>
Total Office Salaries =	\$ 142,000

What is this telling me?

Office salaries are "another" cost of doing business. Who pays for them? Right, the customer. This cost must be covered as part of the hourly rate!

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Company Matching Taxes

These are the taxes the company pays over and above what the employee pays. ***It's another cost of doing business!***

- FICA - Social security and Medicare (7.65%)
- FUTA - Federal unemployment tax (.8%)
- State Unemployment tax (1%-15%)



"It's a constant battle covering all the real costs of doing business while still generating a profit"

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Company Matching Taxes

Example:

FICA Tax	7.65 %
FUTA Tax80
State Unemployment Tax ----	<u>3.00</u>
Total Matching Tax Rate =	11.45 %

What is this telling me?

For every \$100 in gross wages the company pays out, it costs them another \$11.45 in matching taxes (another cost of doing business!)

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What Is The Rough Cost Of Matching Taxes For Our Sample Company?

Total Company Wages:	
Office Salaries -----	\$ 142,000
Four (4) techs wages -----	<u>172,640</u>
Total Company Wages = \$ 314,640	
Cost of Matching Taxes:	
= \$314,640 x 11.45%	
= \$36,026	

What is this telling me?
 Company matching taxes are "another" cost of doing business. Who pays for them? Right again, the customer in the form of the hourly rate!

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Overhead

Overhead represents the general costs of running the company. These costs are incurred all the time! These costs of doing business **STILL** have to be paid if no work comes in.


Owner Pressure!
 Does the owner look older than their years? Do they seem a bit nervous when things are slow? There is a lot of pressure that falls on the shoulders of the owner when it comes to meeting payroll and covering those fixed costs of doing business! Next time you see the owner....thank them for providing you with a job!

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Overhead Costs For Our Sample Company

Advertising:		<u>Annual Dollars</u>
General Advertising -----		8,000
Insurances/Taxes/Contributions:		
Insurance - Liability -----		4,000
Insurance - Workman's Comp -----		7,200
Insurance - Health (company portion) -		8,800
Contributions -----		1,200
Retirement:		
Owner's Retirement -----		2,000
Employee Plans -----		6,000


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Overhead Costs For Our Sample Company (continued)

	<u>Annual Dollars</u>
Building/Utilities:	
Utilities	3,800
Rent	12,000
Building Repairs	500
Dues/Subscriptions:	
Trade Association Dues	350
Subscriptions	200


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Overhead Costs For Our Sample Company (continued)

	<u>Annual Dollars</u>
Office Expenses:	
Telephone	\$ 2,400
Office Supplies	3,000
Postage	1,200
Bad Debt	4,200
Credit Card Expense	5,000
Professional Fees:	
Accounting	3,500
Legal	500
Consulting	500

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Overhead Costs For Our Sample Company (continued)

	<u>Annual Dollars</u>
Travel/Entertainment:	
Conferences	\$ 1,000
Meals	1,500
Travel – General	3,500
Loans/Leases:	
Loan #1 - Vehicle	3,600
Loan #2 - Vehicle	8,500
Interest on Line of Credit	2,400

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Overhead Costs For Our Sample Company (continued)

	<u>Annual Dollars</u>
Computers:	
Maintenance Contract	1,500
Small Tools and Equipment:	
Small Tools Used On Job	800
Miscellaneous Supplies Used On Job	1,500
Auto/Truck Expense:	
Gasoline	16,600
Maintenance	4,500
Total Overhead for Sample Company	= \$ 119,750

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Total Cost To Run The Company!

What is this telling me?

Total cost to run the company:

- Overhead we just listed totals ----- \$119,750
- Equipment replacement ----- 50,809
- Cost of non-billable time ----- 51,792
- Matching taxes ----- 36,026
- Office salaries ----- 142,000

Sample Company = \$453,755

Does this surprise you? It costs a lot to run even a small four technician service company!

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Overhead Costs For Our Sample Company (continued)

Think about this?

The company needs to bring in \$ 8,726/week just to cover the cost of operation...**NO profit!**

Does this surprise you? What position do you think the company is in when only \$4,000 is generated for the week?

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What's Is The Company's Goal for Net Profit?

Net Profit:

- What is left after ALL expenses are paid
- Industry average profit is usually 3-5%



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What Is Profit Used For?

What is this telling me?

Profit is NOT a dirty word nor does the owner get to put it all in the bank.

Uncle Sam gets at least 25% of the profit. What's left is used to:

- Fund receivables (more sales you have the more money is outstanding)
- Pay for inventory (as the company grows more inventory needs to be purchased – Net profit pays for it!)
- Cash flow – As the company grows more and more "cash" is needed on a daily basis for payroll, expansion, etc.

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Let's Enter The Sample Company Data Into Grandy & Associates Software Program

We now know what it costs to operate our four tech Sample Company. The question now is.....

"Now much do we need to charge the customer per hour to cover our costs while generating a 15% pre-taxed profit."



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The Sample Company Needs To Charge \$88.32/hour To Cover Costs And Make 15% Pre-Tax Profit

The company must charge the customer \$88.32 per hour to cover costs while generating a pre-tax profit of 15%

Department	Calculation Method	Rate
Installation Department	Desired Net Profit Percentage	15%

Company Totals				
Sales	\$ 787,743			
Net Income	\$ 118,165			
Profit %	15.00%			
Break-even Date	11/02/2010			

Installation Department				
Billable Hours	5,296.00			
Materials Contribution	150,000			
Current Rate	\$88.32			
Break-even Rate	\$66.01			

Hourly Rate	Total Sales	Net Profit	Percent Sales	Profit per DL Hour
88.00	938,000	168,430	20.19%	31.99
97.00	833,712	164,134	19.69%	30.99
98.00	828,416	159,038	19.17%	29.99
96.00	823,120	153,542	18.65%	28.99
94.00	817,824	148,046	18.13%	27.99
93.00	812,528	142,550	17.61%	26.99
92.00	807,232	137,054	17.09%	25.99
91.00	801,936	131,558	16.57%	24.99
90.00	796,640	126,062	16.05%	23.99
89.00	791,344	120,566	15.53%	22.99
88.32	787,743	118,165	15.00%	22.31

Break-even: The company needs to charge \$66.01 just to cover costs...no profit!

The Sample Company Needs To Charge \$113.20/hour To Cover Costs And Make 15% Pre-Tax Profit-If Customer Provides Materials

The company must charge the customer \$88.32 per hour to cover costs while generating a pre-tax profit of 15%

Department	Calculation Method	Rate
Installation Department	Desired Net Profit Percentage	15%

Company Totals				
Sales	\$ 509,507			
Net Income	\$ 109,929			
Profit %	15.00%			
Break-even Date	11/02/2010			

Installation Department				
Billable Hours	5,296.00			
Materials Contribution	0			
Current Rate	\$113.20			
Break-even Rate	\$98.29			

Hourly Rate	Total Sales	Net Profit	Percent Sales	Profit per DL Hour
123.00	651,400	141,050	21.77%	26.70
120.00	646,112	136,054	21.13%	25.70
121.00	640,816	131,258	20.48%	24.70
118.00	630,224	120,646	19.14%	22.70
119.00	624,928	115,450	18.48%	21.70
117.00	619,632	110,254	17.79%	20.70
116.00	614,336	104,758	17.05%	19.70
115.00	609,040	99,462	16.33%	18.70
114.00	603,744	94,166	15.60%	17.70
113.20	599,507	89,929	15.00%	16.98

\$113.20 if owner provided materials

The Sample Company – Individual Overhead Cost Per Hour

Fixed Expenses		
Advertising	8,000	1.96
Yellow Pages	6,000	1.47
Insurance-Liability	4,000	0.98
Insurance-W/C	7,200	1.77
Insurance-Health	16,800	4.12
Contributions	1,200	0.29
Owner's Retirement	2,000	0.49
Employee Plans	6,000	1.47
Utilities	3,800	0.93
Rent	12,000	2.94
Building Repairs	500	0.12
Trade Association Dues	1,200	0.29
Subscriptions	200	0.05
Telephone	1,200	0.29
Office Supplies	3,000	0.74
Postage	1,200	0.29
Bad Debt	4,200	1.03

The \$8,000 spent on advertising makes up \$1.96 of our \$137.98 rate per hour

Rent is \$12,000 per year and makes up \$2.94 of our \$137.98 rate per hour

Bad Debt (customers not paying the company) costs the company \$4,200 per year and makes up \$1.03/hour of the hourly rate!

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The Sample Company – Individual Overhead Cost Per Hour

Bad Debt	4,200	1.03
Credit Card Expense	5,000	1.23
Accounting	3,500	0.86
Legal	500	0.12
Consulting	500	0.12
Conferences	1,000	0.25
Meals	1,500	0.37
Travel	3,500	0.86
Loan #1	3,600	0.88
Loan #2	8,500	2.09
Interest-Line of Credit	2,400	0.59
Computer Maintenance	1,500	0.37
Computer Training	4,000	0.98

It costs the company \$5,000 for letting customers place their invoice on credit cards. That equals \$1.23 of the companies hourly rate.

A few years ago things were really slow and the company had to borrow on it's line of credit. That interest cost makes up \$.59/hour of our rate!

Have you noticed something? Every cost of doing business (rent, bad debt, cost of non-billable time, etc.) all must be paid by the customer. If the companies hourly rate does not cover the cost...the company goes out of business and NO ONE has a job!

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The Sample Company – Individual Overhead Cost Per Hour

Small Tools	800	0.20
Supplies	1,500	0.37
Gasoline	16,500	4.07
Vehicle Maintenance	4,500	1.10
Dispatcher Wages	31,998	7.85
Office Manager Wages	35,000	8.59
Owner Wages	75,000	18.40
Fixed Payroll Taxes	12,379	3.04
Equipment Replacement Fund	50,509	12.47
Unbilled Labor	91,989	22.42
P/R Taxes on Unbilled Labor	8,041	1.97

The dispatchers wages makes up \$7.85 of the companies hourly rate

Note the cost of Non-Billable Time and the cost of Equipment Replacement

Let's talk about these two things for a minute.

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Is Our Sample Companies Rate High?

Q: Is the company making a huge profit?

A: No

Q: When there is a profit, where does it go?

A: The profit pays for the following

- Roughly 25% of the profit is paid to Uncle Sam in the form of taxes
- Funds receivables
- Buys inventory
- Funds the growth of the company and.....
- If there is any left the owner might get to put a few dollars in his/her saving account for working 80 hours a week and carrying the stress of running the company!

Seminar Special

- “Labor Pricing for a Profit with Cash Flow Projections” Software -**
This user friendly Windows software is the ideal tool for modeling your company for maximum profitability. Once modeled you will know what to charge in each department, you will have a month-by-month cash flow budget at your finger tips and you will have your monthly cash flow projections for the coming year! In addition to labor pricing and cash flow it also tells you what to charge for an annual maintenance agreement. When you are done, make as many copies as you wish and start the “what if” process of changing things to MAXIMIZE your profitability. Price includes two detailed Tutorial CD’s and **Lifetime Support is FREE!** All for only \$399.95 + \$15.00 shipping → **\$414.95**
- “Why Do We Need To Charge So Much”** DVD explains to techs and employees why you need to charge what you charge! The cost is \$97.95 + \$10.00 shipping/handling → **\$107.95**
- Company Policy Manual** A detailed Company Policy Manual is perhaps one of the most important document a company produces. This 96-page document (on a CD in Word so you can make all the changes/additions and deletions you wish) can either be the basis for creating an initial document or serve as a checklist for a Company Policy Manual you already have in place. It is a bargain at \$149.95 plus \$10.00 shipping /handling → **\$159.95**
- Service Managers' University Training CDs** This CD set contains eight (8) Self-Paced Training Modules. **Each CD contains Knowledge Checks and a Final Quiz to help you retain the information.** If you want to learn how to “manage” a profitable service department, this program is for you. The investment is only \$349.95 + \$10 shipping/handling → **\$359.95**

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~~\$1,042.80~~
\$ 499.95

One-On-One Company Overview (**\$500 Discount**)

I will come to your location, model your company (by department) and create a financial “Business Plan” for your organization. It’s like going through our two-day Planning for Profit class.....but on a personal, more detailed level. The overview takes two days. The total investment is ~~\$4,500~~ \$4,000 + travel. One right decision would cover your investment many times over!

Please call us with more details of having you come to our location for a personal **Company Overview**.

Method of payment: ___ Check enclosed ___ COD ___ VISA/MC/AMEX
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