TRAINING DVD

# Why Do We Need To Charge So Much?

## Leaders Companion Guide


Grandy & Associates

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Thank you for choosing this program titled “Why Do We Need To Charge So Much?” In this program we will look at why contractors have to charge what may seem like a lot of money for an hour of work. At the same time, most contractors are not making nearly as much money as you may think they are even at those seemingly high hourly rates. We will dig into what causes this situation and let you know what goes into a properly created hourly labor rate.

This program is designed for the employees of a contracting company. As the owner of the company, you already know how tough it can be to be profitable. While it may be tough, it is definitely doable. Part of the challenge is getting your entire team on the same page. If you can gain alignment amongst your team, synergies kick in and profits can soar. This program can help your team understand why you need to charge what you do and how they play a part in making this hourly rate even more profitable.

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## How to use this Companion Guide

This DVD version of Why Do We Need To Charge So Much is intended to be presented in a classroom setting and lead by a facilitator. There is no better facilitator than you. As the leader of your company, you already know the challenges running your company. You may not have had training in the business side of your business but since you are the owner of the company, you have to learn this stuff. You know hard it can be to maintain cash flow, keep up with your payables, keep up with sales calls and proposals, maintain sales at a rate so as to keep the team busy and make some money, manage the team and keep the bathrooms clean. You do it all. You have skin in the game and so you don't have a choice.

Your team, on the other hand, doesn't have skin in the game. They come into work, hopefully do their job the way you expect them to and go home at the end of the day. Whether the company is making money or not, they still get a paycheck. They are not forced to learn the numbers side of the business. It's your role as the leader of the company or of your department to grow the future leaders of the company. It's your responsibility to help them understand how they play a part in the profitability of the company as a whole. This program is a tool to help you do just that.

During this program, we will

- Explore the initial problem that we see across the entire trades industry with labor pricing.
- Look at the cost of running a contracting company.
- Explore the cost of replacing trucks.
- Explain all aspects of billable and non-billable labor and its impact on labor pricing.
- Understand overhead expenses and how they affect labor pricing.
- Discuss profit and why it's so critical to the company you work for.

## Your team is not made up of professional students

Remember that your team is not made up of professional students. Chances are, they got into this career because they like working with their hands and fixing things. If they were motivated by sitting in a classroom and learning, they would likely be working elsewhere. While this program is only an hour long, if you just put in the DVD and play it, they will likely tune out and not pick up anything. They learn differently. You need to break it up into little pieces and engage them. Make it real for them.

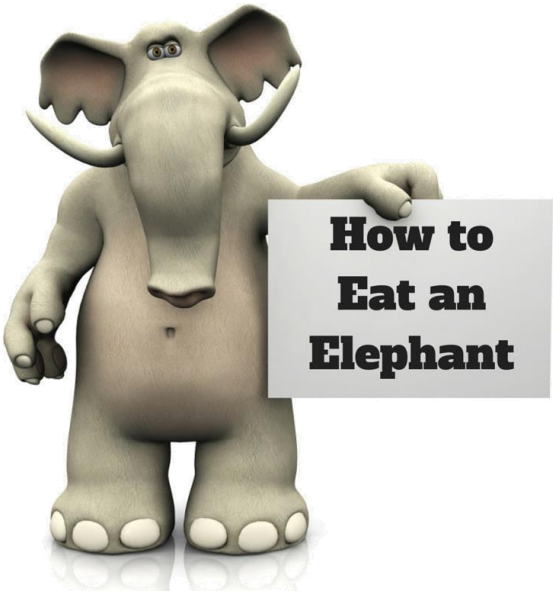
## Eat the elephant one bite at a time

Defining what it takes to be profitable and why this is important is a big discussion. It's not a topic that you can talk about once and assume they all know it. The old adage asks "***How do you eat an elephant?"*** The answer is ***One Bite at a Time***.

The program is broken up into different sections, each focusing on a different area of your business. Each section should be covered and then the team needs to be engaged. Review each section prior to viewing it with you team. Review the discussion points that we have outlined in this manual and be prepared to provide answers after challenging the team to come up with the answers on their own.

Don't leave the room while they are watching as there will be questions that come up that you can help them with. We suggest that you play a section of the program and then engage them. Talk about how this applies to them and how it affects this company. Use the talking points and discussion questions to encourage discussion. Then, when the section is done, cut them loose and get them back in the field.

Don't cover more than one section at a time. Spread the content out over several meetings with each focusing on a different area of the company. Start each meeting out with a quick recap of what they learned last time. Ask them to tell you what they learned and how it applies to them.



## Layout of This Program

During this program we are going to create our own company. We're going to see what we have to charge to run a profitable business and find out where all that money is really going.

We're to create a company that makes a 15% net profit. To do this, we have to make a couple of assumptions.

- First, our company only does service.
- Second, the owner doesn't work in the field.
- Third, we have a full-time dispatcher and a full-time bookkeeper and
- Forth, our company has four full-time service technicians.

Once we have figured out what it costs us to run this company, we will enter all that information into the Labor Pricing for Profit software to find out exactly what we need to charge. Then we will start to see where the money is actually going. If you would like to purchase a copy of this software, go to www.GrandyAssociates.com/lp.


The sections covered are:

- Equipment Replacement Costs
- Labor
- Materials and material markup
- Overhead
- Profit
- What to charge?

## Week 1 – Introduction Discussion: Why are we doing this?

One of the questions you might get is that "We are techs. Why are we going through this stuff anyway?" The answer is simple. The team that is sitting in front of you is the team that will either make or break the profitability of the company. This team has the ability to enhance efficiency in the way the work and treat your customers resulting in increased profitability, or work inefficiently chewing up any profit dollars that may be earned.

When it comes to covering the costs of this company, there is really only one place to get money. That is the customer. Whether it's in the form of selling a new job, running a service call or performing a preventive maintenance agreement, our customers pay for our time. There are no other sources of income that the company has. The customer has to pay for it all. That means that every cost of the company has to go into the hourly rate.

Each and every employee from the owner through the newest team member plays a part in making the company run efficiently and profitably. This program will help you understand a little of what management has to manage in order to keep the company in business. If you understand how what you do plays a part in the bigger picture, you can do your part in making each team member and therefore, the company a success. The company won't succeed unless every team member succeeds.

## Equipment Replacement Costs

Equipment replacement costs are the expenses related to replacing our trucks and other major pieces of equipment needed to keep the company running. Equipment replacement costs are a very real expense in the company; actually the second greatest expense the company has.


It costs a lot of money to replace the trucks. The more often they have to be replaced, the more it will cost us. And when you think about it, there is really only one place that the company can get money to replace trucks and other major equipment. That's from the customer. This means we need to figure out what it's going to cost us to replace our trucks on a regular basis and build that into our hourly rate.

Ideally, you will know what your equipment replacement costs are. If you are not sure, consider getting the Labor Pricing for Profit software. This tool will help you know exactly what part of your required hourly rate is to cover equipment replacement costs. You can find information on Labor Pricing for a Profit software at www.GrandyAssociates.com/lp.

**Leader:** Play the DVD chapter on Equipment Replacement Costs

Video length: Intro 0:03:40 - Equipment 0:05:42

## Discussion Topics and Questions:

1. The cost of replacing our trucks is a very real expense to the company. In fact, how big of an expense did we say it is?
    a. The largest expense we have.
    b. The second greatest expense we have. (Correct Answer)
    c. The third greatest expense we have.
    d. It's not a very large expense at all.

2. How much does it cost to put a truck on the road for our company?

3. How much does it take to maintain one of our trucks each year?

4. What is the average inventory that we carry on our trucks?

5. What are things that we can do as techs / installers / drivers of our vehicles that could increase the life of them?

    a. Drive more efficiently
    b. Don't let trucks run while on service calls (to keep them warm/cool etc.)
        i. Note: I understand that in certain climates, you need to keep them running once they are started i.e. Canada
    c. Don't brake so hard
    d. Don't keep excess inventory on the trucks. This wears the truck, brake pads and suspension.
    e. Rotate inventory on the truck with the seasons. You don't need to keep 12 hot surface ignitors on the truck during the cooling season.
    f. Use the shortest or most efficient route from job to job.
    g. Restock your truck when you are at the shop eliminating needless trips to the supply house or shop.

6. What are the total equipment replacement costs that we have to add into our pricing each year?

7. What are the total equipment replacement costs that we have to add to each billed hour for our company?

# Week 2 – Direct Labor

## Review of week 1

Last week we talked about Equipment Replacement Costs. Spend just a few minutes on the things we covered.

1. Equipment replacement costs are the second greatest expense we have in the company.
2. This companies annual equipment replacement costs are: _____
3. Out of every hour we bill out throughout the year, $_____ goes to cover equipment replacement costs. (break this out by department if you have that available)
4. What are some of the things we said we could do as techs to lower equipment replacement costs?

## Direct Labor

As we start talking about labor, we need to break this down into a two different categories. The first is Field Labor or Direct Labor, and the second is Indirect Labor.

Field Labor is employees who are working in the field. They are actually doing the work. These are the employees whose hours may be charged directly to the customer. They work an hour, we can bill somebody an hour. In our company, this is our four service technicians. It could also be the installers, maintenance techs, even shop people whose time you charge directly to the job as they are working.

We will get to indirect labor in just a bit. For now, we'll focus on field labor.

When talking about field labor, we also need to talk about non-billable time. Non-billable time is the hours that the company has to pay our field labor for but cannot charge to the customer. This includes things like shop time, vacation pay, travel time, time spent on truck maintenance, cleaning the trucks, cleaning the shop. It also includes things like warranty work and any call backs. Remember we can't directly charge the customer for that time either yet remember, the customer has to pay it all.

Leader: Play the DVD video for the section on Direct Labor

Video length: Labor 0:13:26 (Indirect Labor Starts at 0:09:18)

Exercise: There is no silver bullet to profitability – just a bunch of small things that will make or break the company. If each tech were to get out of the office 10 minutes earlier each day, that is equal to about 50 hours per tech per year.

*10 minutes per day X 5 days per week X 50 weeks per year = Approx. 50 hrs / yr.*

That's 50 hours that won't be billed out this year per technician.

The typical company has a revenue per billable hour of somewhere between $120/hr and $175/hr. If you are using the Labor Pricing for a Profit software, you can find your revenue per billable hour by department under ***Reports*** and then ***"Cost of Non-Billable Time"*** report. If you don't know what your revenue per billable hour is, use $120/hr for this exercise.

> *If you take your 50 hours per year that won't be billed out and multiply it by $120 / hr, translates to $6000 per technician that won't get billed out this year.*

Have the techs do the math on these to come up with the answers.

> *Now have them multiply the lost revenue by the number of technicians your company has to determine the total lost revenue that 10 extra productivity per day means.*

## Discussion Topics and Questions

1. What is Non-billable time is the time?
    a. That that the company has to pay field labor but cannot charge to the customer.

2. If warranty work, call backs, vacation time, trips to the supply house etc are all unbillable, where does the company get the money to pay them?

3. The cost of non-billable time is the _____ expense of the company.
    a. Single greatest expense (correct answer)
    b. Second greatest expense
    c. Third greatest expense
    d. Smallest expenses

4. What is typical for non-billable time in the service department?
    a. Answer: 50%

5. What is our actual non-billable time per technician in our company?
    a. Calculate your rate prior to the meeting if you have these numbers available to you.

6. What is typical non-billable time for installers?
    a. Answer: 35%

7. What is our actual non-billable time in our install department?
    a. Calculate your rate prior to the meeting if you have these numbers available to you. Don't forget to account for those jobs where it takes more time to complete the installation than was in the bid. Remember your billable time is the time in the bid, not the hours that your team charged to the job.

8. Why are service techs so much higher than installers?
    a. Service techs have more drive Time between jobs. Installers go to one job and stay there for a much longer period of time.
    b. Installers typically know what they are going to a job for and can be prepared for it. Service techs don't know what they are getting into until they arrive at the job.
    c. Installers should have most of the required material with them when they go to the job. Service Techs may have to make a parts run in order to finish the job. You can't stock every service part needed on the trucks.
    d. Service techs oftentimes run call backs for the install department.
    e. If an install job is quoted around 32 man hours (2 techs, two days) and the team gets it done in 32 man hours, you have no non-billable time even if they took an extra break or had to run for parts. This doesn't happen with service calls.

# Week 3 – Indirect Labor

## Review of week 2

Last week we talked about direct labor. Spend just a few minutes on the things we covered.

1. Non-billable field labor is the single greatest expense in the company.
2. Non-billable time is made up of warranty work, call backs, company meetings, holiday time, vacation time, sick time, trips to the supply house or shop, time charged to jobs that isn't included in the bid or flat rate code.
3. Techs have a lot of control over non-billable time.
4. Revenue per billable hour is the total revenue received by the company per hour billed to the customer. Our revenue per billable hour is $_____. Every hour that should have been billed is a loss of these dollars. Once gone, they can't be recovered.
5. 10 minutes per day equals $_____ per year in profit that the company will never see.

## Indirect Labor

Up until now, we have been talking about those employees who are in the field. They were considered direct labor. However, contrary to some beliefs, companies don't run themselves. They need management and they need someone to run the office.

Someone has to make the investment of time and money to get the company going…. And keep it going. That would be the owner. The owner's salary for our sample company is about $75000 per year. Now some of you are thinking "Man, that's a lot of money". Well, note that this salary is only about $25000 per year higher than the top paid technician in the field. That equates to about $480 per week. In exchange for this, the owner has to take on 100% of the risk in running the company, they don't get paid if things are slow, and they have to carry the entire load, that is both the pressure and the stress of the company day in and day out. When you go home, you can truly leave work at work. As the owner, that's almost impossible to do.

You get paid each pay period that you work. That's not always the case for the owner.

The single best way to ruin a company is with poor paperwork and work flow in the office. It takes a dedicated team in the office to support the staff in the field. This part of the team also has the ability to make or break the profitability of the company. Just missing one invoice can mean far more than just not getting paid for a job. It will also mean that the company will have to do tens of thousands or even hundreds of

thousands of dollars of work just to pay for the missed revenue. We will get into just how much in a later section.

**Leader:** Play the section of the DVD starting with indirect labor. It is our suggestion that you don't try to cover both direct and indirect labor in the same session as it will get too long. Unfortunately, there is not a chapter break on the DVD for indirect labor.

Video Length: Indirect Labor Starts at 0:09:18 of the Labor chapter. Indirect labor section length is 4:30.

## Discussion Topics and Questions

1. What would happen if the office staff were not there?
    a. The company would lose money due to:
        i. Jobs not getting invoiced
        ii. Inefficiencies in the field
        iii. Customer's not able schedule jobs and service calls
        iv. Materials not getting ordered or arriving on time.
        v. Required government paperwork not completed resulting in fines.
        vi. Vendors not getting paid resulting in getting cut off.

2. What are some ways that the office staff can help profitability?
    a. Reducing customer dissatisfaction by handling customer complaints on the phone.
    b. Efficient routing of the service techs.
    c. Lining up material for jobs
    d. Scheduling of jobs
    e. Sales of new jobs
    f. Handling all those items in question #1
    g. Others that the group comes up with.

# Week 4 – Materials

## Review of Week 3

Last week we talked about indirect labor. Spend just a few minutes on the things we covered.

1. The office staff also plays a significant role in controlling costs and increasing the company efficiency and profitability.
2. The office staff keeps the company out trouble by paying the bills, keeping up with government and insurance regulations, handling customer complaints, selling jobs, invoicing jobs, ordering material and much more.
3. The field technicians can either work with the team in the office or work against them. Either way, everyone needs to remember that WE ARE ALL ON THE SAME TEAM!

## Materials

The average parts markup across the trades industry is 100%. If you take all the big parts, the small parts, the expensive parts and the inexpensive parts and average them out, we average somewhere around 100%. When you use parts that are $1.00, $2.00, $5.00, the mark up is typically 300% or more. When you are at parts that are $50.00 to around $100.00, the markup may be somewhere around 100% and when you are dealing with more expensive parts, the markup is less. But when you average them all out, it will come out to somewhere around 100%.

Yes the company is making money on the parts that we sell but that money, as you know, doesn't just go into the owners' pocket. Profit from parts sales can and does cover some of the cost of running the company. In fact, the profit made on parts and materials actually lowers the hourly rate that we have to charge to the customer.

**Leader:** Play the chapter for Materials from the DVD. Total video length is 2 minutes. The video is short but spend some time of the following exercise.

## Discussion Topics & Questions

1. If we discount the materials what has to happen to our labor rate?
    a. The labor rate has to go up to make up for the decreased profit on the materials. This material profit was offsetting some of our overhead. If we discount the materials, we have to cover this overhead somehow. The only thing left is our labor rate.

Accounting for all materials used is critical to the profitability of the company. If we don't account for all the materials used, something still has to pay for them. The company is incurring the cost but not seeing the revenue. You can easily calculate how much more you will have to sell in order to pay for the cost of the parts not accounted for.

Example: If the tech doesn't account for a thermostat used on a job and that stat cost you $75.00. To determine how much you need to sell to cover the cost of that missed thermostat, you would divide the cost by your company's net profit.

If your company has a net profit of 3%, then the math looks like this:

$75.00 / 3% net profit

= $2,500

That means you will need to sell and install another $2,500 in jobs just to pay for the $75.00 part that was not accounted for on that last job. Also, keep in mind that that next $2,500 job will be at zero profit since the profits that would have been there are covering the cost of this thermostat.

Example 2:

The techs are not keeping their truck in order and there is a control or fixture (use whatever applies to your company) that in not in the packaging and is rolling around the back of the truck and is now scratched and can no longer be sold. This part cost your company $250.00. How much more do you need to sell in order to cover the cost of this part?

$250 / 3%

= $8,333

Example 3:

On a recent job, when you were cleaning up, there were spare copper fittings, BX and pipe insulation that was just swept up and thrown away. The total cost of these materials was $400 and should have been returned to inventory for use on future jobs. How much will we need to sell to make up this loss?

$400 / 3%

= $13,333

Example 4:

The office misplaced the paperwork to a recent installation job and it never got invoiced. The total bid on that job was $5,000. Now a few months later, the customer is refusing to pay. How much do we need to sell to make up this loss?

$5,000 / 3%

=$166,666

This same example can be run using any scenario. How much more would we have to bill to make up those extra 10 minutes per day with a revenue per billable hour of $120?

# Week 5 – Overhead

## Review of Week 4

Last week we talked about Materials. Spend just a few minutes on the things we covered.

1. The markup on materials offsets a part of the companies overhead.
2. If we discount the materials, then we have to increase the labor rate to make up for the lost profit on those materials. This material profit was offsetting some of our overhead. If we discount the materials, we have to cover this overhead somehow. The only thing left is our labor rate.
3. If we don't account for all of our materials on a job, we have to sell a lot of additional revenue in order to make up for the lost materials. Something still has to pay for it.

## Overhead

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

If you have a slow day at the office, guess what, we still have to pay the rent, we still have to pay the utilities, and we still have to pay the insurances and a whole bunch of other costs that we are going to look at. Just because the phone isn't ringing, doesn't give us a pass on paying these bills each month.

Overhead falls into a couple of different categories. The first is company matching taxes. These are the taxes that they company pays over and above what you pay as an employee. When you get your pay check each pay period, you have to have 7.65% of your gross wages withheld for social security. This is also referred to as FICA. Well guess what, the company has to match this. They have to pay another 7.65% of whatever you make and send that in as well.

Then, there's another cost called FUTA, or Federal Unemployment. It's not a big number but it is .8% of whatever you make. You don't pay this but the company has to.

Then there's a third one called SUTA or state unemployment tax. Don't confuse these two with your state and federal withholding, their different. State unemployment varies from state to state and from company to company. For most companies, this is anywhere from 1% to as high as 15% of your gross wages. If your company hasn't had people laid off, your rate might be a little lower but if they lay off even one person, look out. Your rate can go up 8, 10, even 12% of whatever employees are earning.

Leader: Play DVD chapter for Overhead. Video length – 14:18

## Discussion Topics and Questions

1. What is overhead?
    a. Overhead is what it costs the company to open the doors each and every day. If we don't bring in that revenue each day that is money that will never come in. It has to be paid somehow.

2. A few weeks ago we talked about Equipment replacement costs. We also talked about ways that we all could reduce these costs. Would some of those same ways of lowering equipment replacement costs also lower overhead?
    a. Yes – driving the trucks more efficiently will lower fuel costs and maintenance costs on the trucks. Not overloading the truck with inventory will not wear the breaks as fast requiring more maintenance etc.

3. What are company matching taxes?
    a. The withholding that comes out of the employees paychecks.
    b. Funds equal to the employee withholding plus federal unemployment. ***(correct answer)***
    c. A cumulative total of all the taxes the company has to pay.

4. Sometimes we don't get paid by our customers. This impacts our company just like any other overhead expense. For our company, we typically average $_____ in bad debt each year. What are some things we can do to reduce the amount of bad debt we see as a company?
    a. Collect at the end of every service call. The value of what you do is never worth more to the customer than the moment you provide those services. The more time that passes between providing the work and getting and invoice to the customer, the greater the chance of getting a customer complaint and not getting paid.
    b. Provide more value to the customer than what we are charging them for. When the value exceeds the price, the customer will buy.
    c. Follow up calls to the customer to make sure we have exceeded their expectations.
    d. Other responses?

# Week 6 – Profit

## Review of Week 5

Last week we talked about Materials. Spend just a few minutes on the things we covered.

1. Overhead is everything that it costs us to run the company on a day to day basis.
2. Even if we have a slow day or a slow week, the company still has to pay the overhead costs of the company. This make being profitable even more critical.
3. The company pays matching taxes above and beyond the withholding taxes that you pay as an employee and can be as high as 18% more than what you get in your paycheck. Failure to pay these taxes or paying them could cause the Government to shut the company down.

## Profit

We need to clarify a few terms that are thrown around all the time when it comes to profit. The first is Gross profit. Gross profit is the profit made on work done after paying the direct costs. Direct costs are the cost of the technician, cost of materials, cost of permits, things like that. It does not take into account all the general overhead we talked about in the overhead section of this training module. We often hear of installation technicians looking at a job that the company sold for $15000 and saying, "man, the boss made $15000 on this job. He's getting RICH!

First, let's be clear, the "boss" didn't bring in the $15000, the company did. There is a difference. And the company didn't make $15000. They brought in $15000. Again - a big difference. They still have to pay for all that equipment, pay wages, pay office salaries, pay all those overhead expenses, put money aside for trucks, and on and on.

The same thing happens in the service department when companies are charging a higher hourly rate. We hear something like" we are charging the customer $180 per hour and I'm not getting anywhere close to that. The boss is getting rich!" Again - not quite right. You have to remember, we haven't paid the bills yet.

Gross profit is what's left over to pay the bills and hopefully generate net profit.

The second term is the one we just hinted at – Net Profit. Net profit is the money left over after buying all materials, labor and overhead costs are paid, but BEFORE taxes are paid. A fair number to shoot for is 15% pretax net profit. The sad truth is that very few service companies achieve this goal.

Net profit, if there is any is most often used to fund the growth of the company. It doesn't go into the owner's pocket so he can buy a condo at the beach.

Leader: Play the DVD chapter for Profit. Video length – 3:48

## Discussion Topics and Questions

1. Why do we need to have profit after we have covered all expenses?
    a. Fund receivables. As the company grows, the amount of money customers owes the company will grow as well. Remember that even though that customer has not paid yet, the suppliers want to be paid right now. You want to get your pay check right now; the rent still needs to be paid by the first of the month and so on. Receivables are not really a good thing. The company can't pay the bills based on what customer's might pay us some day.
    b. Pay for Inventory – As the company grows, more inventory will be needed to keep up with the work that is being done. We have to pay for that increased inventory somehow.
    c. Cover cash flow needs – as the company grows, more and more "cash" is needed on a daily basis for payroll and expansion.

2. A company's profit is everything charged above what is paid to the employees.
    a. True
    b. False

3. What is the danger of making too little profit or no profit on a regular basis?
    a. While the company may be covering costs of operation, if there is little or no profit, the company is walking a tight rope. If just one little thing goes wrong – a job goes south, a truck dies, the computer gets a virus and shuts down, the market slows down and sales are slow – the company is in real trouble.

# Week 7 – What to Charge

## Review of Week 6

Last week we talked about profit. Spend just a few minutes on the things we covered.

1. Profit is not a dirty word. The company needs profit over the long run in order to not only survive but also to grow.
2. Profit is NOT everything over and above what the company pays you.
3. Net profit after taxes is needed to fund the growth of the company, cover receivables, pay for inventory and cover cash flow needs during slow weeks/months.
4. Not making a profit on a regular basis puts the company at risk because if anything goes wrong, we might not be able to cover it.
5. The typical company takes until the second week of December each year to cover the fixed overhead expenses. It is only after this happens that we can start to earn profit for the year. Oh, and you probably want off for the holidays…right?

## What to Charge

Note: This section is a little longer. The video will be longer. Remember, you are tying everything together here. If possible and if you are comfortable, I suggest you have some of your numbers available to share with the team. If you need help with this piece, feel free to give us a call. In the video, we are using our Labor Pricing for a Profit software. Consider purchasing a copy of this software and modeling your company. You will have all the same information that we are showing in the samples but it will be more real. Find more information on this software at www.GrandyAssociates.com/lp.

When it gets to the point of sharing your information, you will want to make sure you are not exposing employees' wages. There are some other expenses you may want to hide as well. Give us a call. We can help you with this. We do it all the time with our clients.

Throughout the last several weeks, we have learned what it costs to run our small company. We have to crunch all the costs of operation that we covered over the past 6 weeks and somehow boil it down to an hourly rate.

Keep in mind that when we were talking about the field labor, we also talked about billable hours. All of the companies over head needs to be spread across these billable hours. While the company owner is making their best guess as to how many hours you will bill out this year, keep in mind that the hourly rate that they come up with will only be accurate if the company bills out those hours. If the company doesn't bill out the number of hours that we thought, then we just went through the entire year billing out an hourly rate that was too low.

Bill out the hours. Do whatever you can do to increase the number of hours you bill out. Do it with integrity and honesty but do what you can to increase these hours. You never know what next month or next fall will bring. Don't slow down just because it's been a busy spring. If fall is lousy, all those extra hours that may have been billed could be eaten up very quickly. The future of the company and your future depends on it.

Leader: Play the What to Charge Chapter from the DVD. Video length – 22:28

## Discussion Topics and Questions

1. Your company's hourly rate is based on the number of hours that you thought you were going to bill out this year. What happens if we don't bill out as many hours as we thought we were going to?
    a. We won't cover all our costs of operation. We don't make any profit until we have covered all our costs for the year. If we do this for too long, we will have to make some cuts. We don't want that to be in people.

2. Some of our customers may think our hourly rate is too high. Yet it is imperative that we charge what we need to charge to cover the costs of running the company. How can we charge what we need to?
    a. Flat rate or Upfront pricing. Most all customers want to know what it will cost for a repair. If you are charging by the hour, you are basically saying to the customer "Just Trust Me". That will only lead to frustration and unhappy customers.
    b. If you are giving the customer a price up front for the repair, then they can make a knowledgeable decision as to move forward or not.

3. If the hourly rate is too high, then there are only two options to lower the rate per hour.
    a. The first is to lower our expenses. Keep in mind that there are only three things that you can do to lower your price. On the surface, you might say we can lower costs. Stop and think for minute. What can you do without today that won't impact your performance and your ability to do the job? Unless you are being wasteful on what you are spending money on, there won't be much. Those three things are:
        i. Cut corners – don't want to go here since this is an integrity issue.
        ii. Cut profit – unfortunately that's why we were increasing the price to begin with. We weren't making any profit.
        iii. Buy cheaper equipment – this one actually has the opposite affect since there is markup on the materials we are installing. Remember that that material and equipment markup will offset some of your overhead. If you use cheaper equipment, you also reduce the amount of profit we were earning. As a result, you will have to increase your labor rate to make up the difference.
    b. The second thing is to increase your billable hours. If you bill out more hours than you thought you were going to for the year, then you will cover all of your fixed overhead costs for the year. Once you have billed out enough hours to cover your fixed overhead costs for the year, all of those expenses are covered. All the money that would have covered those expenses now becomes profit.

        The second thing that happens when you bill out more hours is that now you have more hours to spread ALL of your overhead costs across. As a result, the cost per hour for your overhead is less per hour. This will allow you to lower your hourly rate while still covering the cost of operation and still generating a profit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