Setting Your Flat-Rate Prices
by Charlie Greer

Transitioning from charging by the hour to working out of a flat-rate book requires you to make certain you cover all your overhead expenses, including the expense of non-billable time spent driving, performing warranty service and in training, and provide you with a reasonable profit that is fair to you, your employees and your customers.

You can set your prices up to do all this, and make the purchase of additional tasks and a service agreement a "shoo-in."

The correct way to price jobs that ensure you've got all your expenses pertaining to that job, including what it costs you in overhead, is to use the "break-even point" method.

The "break-even point" method:
Your "break-even point" is the dollar amount you need to bring in every billable hour, just to pay ALL your costs of doing business, and is the most accurate way of ensuring you're charging enough money to pay every single one of your expenses and make mo' money.

Once you know your true cost per billable hour just to stay in business, you KNOW whether or not you're going to make any money when you take on a job.

Determining your "break-even point":
Your "break-even point" is more accurate when your company is departmentalized and you do a separate one for each individual department. The minimum you should do is separate your company into a "Construction" and "Service/Installations" departments. Ideally, you'd separate your "Service" from your "Installations" departments.

When you departmentalize your company, take a few minutes to go over your financial statements and use your best judgment in applying what percentage of each of your expenses, such as rent and utilities, should be applied to each department.

The math:

1. Determine an annual cost for "Materials Shrinkage" (unaccounted for loss of materials due to loss, theft, etc.) by multiplying the total amount you spent at parts houses and multiplying it by a reasonable factor. For 10% shrinkage, multiply by .1. For 20% shrinkage, multiply by .20, etc.

   Annual Material Costs X .1 = Materials Shrinkage (10%)

2. Next, we'll determine your "Cost of Doing Business." Your "Cost of Doing Business" is how much it costs you to keep your doors open for one year, and pay all your employees, but not do any work.

   Add up ALL your expenses, and deduct anything you directly "job cost," such as equipment rentals, subcontractors, commissions, and anything you spend at a parts house. Do NOT consider any labor expenses as “job costs.” You’ll still include labor as a job cost when you reconcile your jobs; just don’t include labor as a job cost” during this step.

Feel free to call me at 1-800-963-4822 to ask, “Does this include EVERYTHING, like FICA, unemployment insurance, employee benefits, rent, advertising, depreciation and my salary?” The answer is, yes.

To determine your “Cost of Doing Business,” subtract all your “job costs (except labor)” and “materials shrinkage” from your total annual expenses.

Annual Expenses – Job Costs – Materials Shrinkage = Cost of Doing Business

3. Divide your “Cost of Doing Business” by the number of billable hours per year. Use about 1,000 hours per service technician who does nothing but run service calls, and 1,750 hours per installer who does nothing but installations.

   If you’ve separated your company into at least two departments, say “Service Department” and “Installations Department,” and you’re doing a separate “break-even point” for each department (which you should), you may have techs who go back and forth between service and installations. For a tech who splits his time equally between the two departments, use 500 hours as the divisor for the “Billable Hours per Year” for your “Service Department,” and 875 hours as the divisor for the “Installations Department.”

$$\frac{\text{Cost of Doing Business}}{\text{Billable Hours per Year}} = \text{Break-even Point}$$

Now you know how much you need to charge per billable hour, just to stay in business and pay your employees (without generating any profits).

Even non-billable time spent driving, diagnosing, selling, doing paperwork, running warranty calls, training, on vacation and sick time is covered in your “break-even point.”

Don’t be surprised when your "break-even point" calculation shows that it costs a lot more per billable hour to run your company than you’re currently charging. It’s very common.

Setting your prices:
You’ll have four price levels per task. Having four price levels for each task you perform is what ensures more tasks per call (which means a higher average invoice and an increase in efficiency, hence mo’ money) and the service agreement sale, because the lowest priced way to do everything is by buying a service agreement and getting the service agreement discount. So, if they have a legitimate need to have more than more than one thing done, and they like to save money, they’ll get it done all during the same call as opposed to putting it off to a later date.

The four prices you'll use are:

1. **Initial Task: Standard Rate for Non-Agreement Customers**
2. **Initial Task: Service Agreement Customers (Discounted 15% lower than the Initial Task: Standard Rate for Non-Service Agreement Customers)**
3. **Additional Tasks: Standard Rate for Non-Service Agreement Customers**
4. **Additional Tasks: Service Agreement Customers (Discounted 15% lower than the Additional Tasks: Standard Rate for Non-Service Agreement Customers).**

Your service agreement customers will get an across-the-board 15% discount on parts and labor. Don't worry, you can afford it. More on that later.

We're going to take them out of order, but you'll soon realize this is the intelligent way to put together a price book.

"Additional Task: Service Agreement Customers" Price (price #4, from above):
This is your lowest price in the book. We'll make sure it covers what you need to hit your "break-even point" and your desired 20% net profit.

Here's the procedure for arriving at that price:

1. Determine the number of hours a given task will take
2. Multiply the number of hours by your "break-even point"
3. Add to that number your direct cost for materials, rentals, subcontractors, and any commissions that may apply
4. Divide that sum by .80 and you've got the "Additional Task: Service Agreement Customers" price.

$$\frac{\text{(Job Hours X Break-even Point) + Direct Costs}}{.80} = \text{Additional Task: Service Agreement Customers Price}$$

This price covers every single one of your expenses, and provides you with an overall net profit (before taxes) of 20%. Any more money that you get for performing this task than this calculation provides is gravy.

Since all costs associated with parts, i.e. acquisition, theft, breakage, loss, damage, warranty, etc. are already incorporated into your "break-even point," you only need to divide your parts costs by .80 to get your 20% net profit on parts. I realize this may sound a little odd, because most people are used to using a sliding scale of multipliers on parts, but you only need that sliding scale when you're using guesswork to determine overhead expenses. We're not guessing at our expenses any more—they're ALL covered in our "break-even point" calculation.

"Additional Tasks: Standard Rate for Non-Service Agreement Customers" Price (price #3, from above):
This is your second lowest price.

Divide your lowest price, the "Additional Task: Service Agreement Customers" price (price #4, from above), by .85.

$$\frac{\text{Additional Task: Service Agreement Customers Price}}{.85} = \begin{array}{c}\text{Additional Task: Standard Rate for}\\ \text{Non-Service Agreement Customers price}\end{array}$$

Now, the "Additional Task: Service Agreement Customers" price is 15% less than the price for "Additional Tasks: Standard Rate for Non-Service Agreement Customers."

"Initial Task: Standard Rate for Non-Agreement Customers" Price (price #1, from above):
This is your highest priced task. It includes an almost arbitrary number that is added to your "Additional Tasks: Standard Rate for Non-Service Agreement Customers" price (price #3, from above).

That means there's a built-in discount on anything done beyond the initial task, and provides your customers with a financial incentive to do more than the bare minimum. It also means mo' money for you.

Most people add from $50-75 to price #3.

You can also add a "dispatch fee" (also known as a "trip charge", "travel charge" or "service call fee") as yet another discretionary charge (even mo' money). Your "dispatch fee" is whatever number you believe your market will bear. The "dispatch fee" should be something, but the lower it is, the easier it is to "capture" incoming calls.

The easiest way to capture calls, and give customers a sense of urgency to make a decision once the tech is there, is by "waiving" the dispatch fee if the work is performed on the same visit.

Initial Task: Service Agreement Customers Price (price #2, from above):
This is your second highest price:

Multiply the "Initial Task: Standard Rate for Non-Agreement Customers" price (price #1, from above), by .85.

Now you've got your four prices.

Higher Service Invoices:
When you show your customers a comparison between the total cost of having three or four tasks done on separate trips, and paying the "Initial Task: Standard Rate for Non-Agreement Customers" price for everything, versus having it all done on the same day, and getting both the discounts for the additional tasks and the service agreement discount, your customers will jump at the chance to save, at times, a couple hundred dollars.

Consequently, you'll sell more service agreements, have happier customers and employees, and make mo' money.

CHARLIE GREER helps service technicians and salespeople convert to using flat-rate pricing on service calls in "Tec Daddy's Service Technician Survival School on DVD" and at "Charlie Greer's 4-Day Sales Survival School." For information on Charlie's products, or to order your free catalog, call 1-800-963-4822, or visit him on the web at www.charliegreer.com. Email Charlie at charlie@charliegreer.com.