



# Strive to Exceed Breakeven: Part 2

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If you remember, last month we talked about how understanding the numbers is the key to profitability. If you really want to be profitable, you need to know your numbers. We discussed the difference between fixed and variable overhead costs and estimated what “normal” billed hours were for the service and installation departments. By the time we finished Part 1, we had developed the following hourly rates:

	Service	Installation
Average Hourly Rate Pd to Techs	\$18.00	\$16.00
Fixed Overhead Rate per Hr.	\$64.23	\$21.87
Variable Overhead Rate per Hr.	\$16.23	\$12.85
Net Profit Per Hour	\$17.37	\$5.63
<b>Hourly Rate =</b>	<b>\$115.83</b>	<b>\$56.35</b>

The above hourly rates were developed based on billing out 1,000 hours per year for our one service tech and 3,600 total hours for our two installers. If we bill out less than the above hours, all our fixed overhead costs will NOT be covered. If we bill out exactly 1,000 service hours and 3,600 installation hours, we will have covered our estimated overhead and profitability goals will have been met.

Now for the fun part – once we exceed our budgeted hours, 100 percent of the fixed overhead is covered and it drops out of the equation. That means all additional hours billed out for the year, over and above our estimated billed hours, will have NO fixed overhead on them. That’s huge from a profit standpoint! Let’s see how exceeding our breakeven will affect both service and installation.

### Service:

The hourly rate for service is \$115.83, which

includes \$64.23/hour in fixed overhead leaving a net profit of \$17.37 or about a 15% net profit. Once the budgeted billed hours are covered the net profit goes from \$17.37 per billed hour to \$81.60 per hour ... or a whopping 70% profit margin!

I don’t know about you, but if it were my company, I would make every effort to exceed my budgeted service hours as soon as possible. Think about it: if our service tech could bill out

even 50 additional hours per year, that would generate an additional profit of \$4,080. The overall principle is to be conservative when estimating our billed hours, and then strive to exceed those hours as soon as possible.

### Installation:

When it comes to installation, the basic principles are very similar to service, but the overall application is a bit different.

Like service, we want to strive to exceed budgeted hours. Let’s assume it’s mid-November and the installation crew has billed out 3,500 of their budgeted 3,600 hours. The company now has a chance to bid on a large job that will require 350 man-hours to complete and they can finish it by the end of the year. Can the company lower their bid price on the job and still make a nice profit? You bet they can! It will only take an additional 100 billed hours to meet their budget for the year, at which point the fixed overhead of \$21.87/hour will drop out. That means 250 of the 350 man-hours will not have any fixed overhead attached to them.

Now let’s do the math. The company could technically lower their bid price by \$5,467.50 (250 hours x \$21.87) and still make the same

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profit. In most cases they will not need to lower their bid price anywhere near that amount to get the job, however they now have the flexibility to lower it if they wish.

If the company were to get the 350-hour job without lowering their price they would actually INCREASE their normal profit margin by the \$5,467.50 figure. Either way the company wins, once they exceed their break even hours for the year!

The same principle holds true throughout the year. Let's say it's May and the company has billed out 43 more hours, year to date, than they were budgeted to bill. That means

Now it's time to have a meeting with our service techs. The conversation needs to go something like this:

*"Hey guys, we have completed our budget for the coming year. Because of the increased cost of doing business we are going to have to increase our hourly rate for service to \$115.83. Now for the good news! Our budget is based on each one of you guys producing 20 billed hours per week. The other 20 hours are what we call non-billable hours which includes shop time in the morning and afternoon, travel time between jobs, callbacks and several other things.*

*Here is the deal. If you can reduce your non-billable time, and therefore increase your billable hours to exceed the 20 budgeted billed hours a week, we will pay you one additional hour's pay for every hour you bill out over and above 20 billed hours a week. Now we are all aware that some weeks are busier than others so we will pay bonuses on a monthly basis.*

*"As an example let's say you bill 24 hours week one, 18 billable hours week two, 22 billed hours week three and 23 hours during week four. That means for the month you had a total of 7 hours over budget. To calculate what your monthly bonus will be, it would be seven hours times your base hourly rate.*

*Now for the really good news. The total billed hours per week will INCLUDE overtime hours. That means during those long summer days when you traditionally work five to 10 overtime hours per week, your bonuses for working those extra hours will be substantial. Now keep in mind we have budgeted 20 non-billable hours a week. If you can get out a little quicker in the*

the sales person now has the opportunity to lower the price of their next job ... if they choose to. They don't have to lower it, of course, but they now have the flexibility to lower their pricing if they want.

Like we said earlier, understanding your numbers can make a huge difference in the company's bottom line profit.

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*mornings, maximize your travel time and keep callbacks to a minimum, exceeding the goal of 20 billed hours a week will be very reachable even without overtime."*

When the bonus program is presented in this way your techs should have substantial buy-in. It also rewards the techs who are willing to work overtime and encourages the service techs to use their time more effectively each day.

How does this program affect the company's bottom line profit? If you will remember our fixed overhead of \$64.23 becomes 100% profit when we exceed 20 billed hours a week. Our service tech is making \$18 per hour, so with taxes he is perhaps costing the company \$20/hour.

If we pay the tech \$18, and added \$2 for taxes, that means the tech made a nice bonus and the company made an additional profit of \$44.23/hour for every hour over 20 billed hours per week. That is what I call a win-win. What about those overtime hours? Now we are paying the tech time and a half, so with taxes he is costing us \$30/hour. That still leaves the company with an additional \$34.23/hour. Wow, still a win-win!

It is my hope that this series of articles has done two things for you. The first objective is to help you understand the value of exceeding your breakeven billed hours. The second objective is to help you realize the value of understanding the numbers in general. Keep in mind that the most profitable companies in the trades industry are run by owners that truly understand the "business side" of their business. That's right; if you really want to be profitable you need to know your numbers.