

TradePros Network - Performance Series:

In this series I present some key operational topics that are of common significance to all contractors who operate a service company or service department. Improvement in the key areas of: **Pricing, Purchasing, Recruitment, Cash Flow, Inventory, Sales and Marketing** will greatly impact your company. Please enjoy these brief articles and I hope they cause you to consider new ways to enhance your service offering- Mike McBride, Founder and president of TradePros Network.

Pricing Service Work

One of the key performance drivers of any business is your pricing philosophy and strategy! Many contractors stumble in this area, largely due to lack of perspective about the various inputs to consider when setting a pricing philosophy and strategy. You may ask what is a *pricing philosophy*? Your *Pricing Philosophy* takes into consideration your company culture and the marketplace. If your culture reflects values like service excellence and integrity you want your pricing to be consistent with those values. In most cases only those pricing policies that are extreme in any direction or confusing create a conflict with stated values and image.

Pricing Strategy is where you take into consideration the costs and levels of service you are offering and contrast that strategy with the competitive marketplace. Some questions to ask yourself:

1. Do I have pricing distinction for all the various service levels? I am not just speaking of regular vs. overtime rates. It needs to go deeper than that. Have you established different hourly rates for a general Journeyman vs. veteran Motor Control Specialist? How about a 'green' apprentice vs. a 3-4 year apprentice ready to transition to journeyman status? My point here is that not all labor offered to the market costs you the same nor should it be valued the same to the customer. Consider the hourly rates of one experienced JW in a fully stocked service truck vs. a JW who reports to the worksite with his own vehicle. Is there a distinction in the rates charged? There sure is a distinction in your cost per hour.
2. Related to above is pricing distinction between same day response and scheduled/relaxed response for non urgent response. It certainly is less costly to provide the open or lax schedule than it is to drop everything and respond right now in order to meet customer demands. I have found that many customers when offered a lower rate for scheduled service find that their issue is not really that urgent. Using a **Pricing Strategy Matrix** can allow you to take into consideration all of your service call options and provide calm consistency to all customers by anyone on your staff scheduling a call.
3. These first two pricing considerations deal with hourly rates for service/trouble calls. It is likely for most contractors to have a greater percentage of their "Service Work" fall in the category of small projects, and not trouble calls. Small projects for the purpose of this discussion are those jobs taking from 1-15 days and require no on site project management supervision. The technicians

self-manage the small project. These jobs may be T&M, Cost Plus, or Fixed Price. In order to have the proper pricing strategy for these jobs you need to consider your operational costs, marketplace competition, and margin expectations. I have found that contractors operating similar departments with similar service expertise can vary significantly on pricing this category. Why is this? There are a number of things to consider, but I would offer that at the top of the list is not understanding your cost of this offering. This is largely due to the variety of jobs that fit in this very important category of Small Projects.

Let's consider the following example to discover more:

Central Electric (fictitious) has an excellent reputation, a large number of repeat customers, and does a combination of new construction (40%), Small-Medium projects(40%) and service work/trouble calls (20%). Right away we know that each of these sales sectors carries different overhead and market pricing constraints. The new construction sector is typically the most price competitive, especially when quotes are managed by a GC who is a very price savvy buyer. The jobs are built to spec so there is very little price differentiation available to Central Electric. On the other end of the spectrum is the trouble call/small call jobs typically one day or less in duration. Depending on the customer there can be a wide range of pricing scrutiny by the customer and the job is largely priced off of T&M. So your quoted rate/hr. locks in the majority of your pricing flexibility. Having a pricing matrix helps here the most so you can price the job appropriately based on which level of tech and schedule intensity is required. It is the **S mall -Medium Projects** which are performed direct to the customer where pricing has the most flexibility. The key to pricing these jobs competitively and yet with good margins is to know your true cost of delivering these jobs. It is crucial to compare pricing from both a cost up and a margin down viewpoint. If Central Electric is a \$10MM/year company that means that they perform \$4MM in the small-medium project category. This is the category offering them the greatest pricing flexibility. If they can achieve an **8 %** improvement in top line pricing it drops **\$320K** to their bottom line. Since this category involves jobs of many different scopes of work it is imperative that you have pricing tools that compensate for the high labor/low material jobs vs. labor/material balance jobs vs. low labor/high material jobs. Central Electric is aware that the vast majority of their operational overhead is tied to labor hours, not material cost. So they developed a **sliding scale**: they evaluate the job by the net margin provided after attributing the true overhead of the labor in comparison to the net margin provided by the supplied materials and equipment. They used to evaluate all jobs by % margin contribution only before overhead and this does not tell the correct story. Now they compare both margin % to the margin per hour, aka **MPH**, and now they see a more well rounded and complete picture of the margin contribution of these various job types. Their pricing strategy allows them the confidence that they are not significantly over or under pricing the jobs. By the way, they increased prices modestly and still perform very competitively and they have that **\$ 320K** to expand their business.

Next in this Performance Series I will share some insights and comments about Purchasing and the significant role it plays in a contractors success. What percentage of your sales relates to material and equipment supply and rentals?. **I f you guessed around 40%... you would be right!**

If you would like assistance in improving the performance of your company please contact me. I offer 1 and 2 day Leadership Workshops at your place of business. Topics regarding culture that are typically requested include: Establishing Guiding Values, Developing a Mission Statement, integrating these values in your Marketing plans, Employee Empowerment strategies, to name a few. Performance based workshops covering Best Practices in Pricing, Purchasing, Sales and Marketing of your service business are available as well.. These workshops can be custom designed around your needs and scheduled according to your best time of the week.

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Best,

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