

**THE PRICE IS RIGHT:**  
Knowing your costs & **Pricing**  
**for Profit**

Hugh A. Joyce

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**Introduction**

- Hugh Joyce and James River Air Conditioning Co.
- Today we will discuss Service and Replacement Installation Pricing and Gross Margin Ratio strategies.
- Review some of the common pricing mistakes contractors make.
- Investigate market factors the influence pricing.

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**Agenda**

- Determining Target Gross Margins
- Flat Rate Service Pricing systems
- Time and Material Service Pricing
- Replacement Installation pricing strategies
- Gross Margin to Labor ratio analysis
- Estimating sheets and templates
- Warranty reserves

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## Overview

- The QUESTION: “What should I charge and how should I track my pricing success”?
- It’s all about the Overhead.
- Let’s work to make pricing quick, easy, and RIGHT.

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## Hugh’s Terms

- Gross margin to labor
- Break even margin ratio
- Collected Revenue per hour
- Labor to Materials ratio

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## Determining target gross margins based on industry benchmarks:

- Service repairs
- Replacement systems
- New Construction

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## Overhead Analysis

- Allocation of overhead to field labor.  
Calculation
- Gross margin to labor analysis
- Overhead targets

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## Gross Margin to labor calculation

JRAC RESIDENTIAL DEPT MONTH OF SEPTEMBER 2006	Month-To-Date			Year-To-Date		
	This Year	Last Year	% Chng	This Year	%	Last Year
<b>SALES - RESIDENTIAL</b>	\$ 496,624.78	\$ 552,156.21	-10.1%	\$ 6,774,186.73		\$ 5,307,886.65
<b>COST OF GOODS:</b>						
LABOR	\$ 89,415.55	\$ 104,845.22	-14.7%	\$ 1,125,732.31	16.6%	\$ 958,141.72
MATERIALS	\$ 49,376.91	\$ 49,970.32	-1.2%	\$ 619,524.00	9.1%	\$ 433,421.35
EQUIPMENT	\$ 90,903.54	\$ 63,016.73	44.3%	\$ 1,222,561.79	18.0%	\$ 868,062.81
SUBCONTRACT	\$ 24,794.91	\$ 18,196.53	36.3%	\$ 357,372.52	5.3%	\$ 208,767.84
COMMISSIONS	\$ 17,364.80	\$ 22,022.18	-21.1%	\$ 311,104.48	4.6%	\$ 254,930.61
WARRANTY	\$ 172.10	\$ 2,900.36	-94.1%	\$ 49,323.42	0.7%	\$ 62,184.82
<b>TOTAL COGS</b>	\$ 272,027.81	\$ 260,951.34	4.2%	\$ 3,685,618.52	54.4%	\$ 2,785,509.15
<b>GROSS MARGIN</b>	\$ 224,596.97	\$ 291,204.87	-22.9%	\$ 3,088,568.21	45.6%	\$ 2,522,377.50

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## Service

- Desired GM = 58%-72%
- Collected dollars per hour = \$125-\$200
- Labor goal as sales percentage = 16%-20%
- Materials as sales percentage = 10%-13%

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## Flat Rate Pricing Strategies

- Labor Rate determination
- Component charges
- Gross Margin Analysis
- Discounting strategies
- Collected revenue report
- Monitoring tech productivity
- Special pricing

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## Service T&M Pricing

- Gross margin and overhead analysis
- Margin targets
- Collected revenue per hour

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## Replacement Installation Pricing

- Gross margin target establishment
- Gross Margin to labor price adjustments
- Equipment to sales analysis
- Estimate template
- Cookbook pricing examples

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## Warranties

- Warranty accrual
- Warranty accounts
- Warranty funding
- State Laws

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## Estimate sheets and templates

- Job estimate sheet
- Flat rate sheet
- Weekly service report
- Actual vs. estimate job report

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## Surcharges

- To use or not to use
- Fuel, environmental, etc...

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## Summary

- Labor and overhead!
- Actual performance vs. estimated
- Measure measure measure

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## Question and Answer

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