

Business Owner,

I want to share some business concepts with you.

I want to create this concept in your mind and follow along. It might inspire you to think differently. Let's go back to a time when it was just you. Keep this concept in mind when I relay this to you.

Below is a list of things, to consider, and should be factored in to the cost of doing business (yearly costs):

<u>Items</u>	<u>Your Numbers</u>	<u>My Numbers</u>
Salary- if you want to work for yourself, you better plan on paying yourself more than what you used to make working for someone else- put in what number you think is appropriate- \$50,000-\$75,000		100,000
Insurance- Health-if you have a family- if not, adjust accordingly		9000
Insurance –business-general liability		1200
Insurance- vehicle- (new)		1000
Truck-(new)-(5000 down plus payments-500/m (I know you don't have to have new- but keep the thought flowing)		12000
Fuel, maintenance & repairs-		4000
Cell phone		1000
Office phone		1000
Fax		500
Advertising and marketing (new company)		6000
Computer, fax, copier		2000
Office supplies		500
Software		1000
Rent- (even if you are renting your garage)		6000
Professional services- attorney & accountant		3000
Bad debt & bank fees		1000
Dues and subscriptions		1000
Training		1000
Licensing fees		1000
Tools		5000
Utilities		1200
Retirement-8% of Salary		8000
Payroll taxes (FICA, SUTA, FUTA, STATE) 25% Salary		25000
Disability insurance		2000
Yellow page ad- this might be high, but you need to be recognized, since you are new		2000
Donations		500
Federal tax		5000
Postage		200
Other		
Total		\$201,100.00

Think about the time when you started your business, and think about the initial startup costs. Make believe it was just you, with no helpers, no one answering the phone. The typical sole proprietor. I am going to list some costs for the startup of this business for you to analyze (please comment on them). We will use these numbers to think about how your business was then, and what it is like now.

So, this is a substantial number. I can imagine you can cut some of these costs, but others you can't.

Based upon this information, let's look again at the sole proprietor. This person has the following hours available for the year: 52 weeks x 40 hours = 2080 hours. I want to take 2 weeks off a year, so let's chisel that down to 50 weeks x 40 hours = 2000 hours. I also want to take a few of the ubiquitous holidays, so let's take another week off the total.

We are now at 49 weeks x 40 hours = 1960 hours. If we take the total cost of doing business, from page 1 we will divide the \$201,100.00 dollars, by the 1960 hours. We come up with \$102.60 per billable hour.

How much are you charging?

It will get worse.

Why?

How many actual hours are you actually producing? Well, let's back out the estimating time, the drive to meet the customer time, the supply house time, the mistakes time, the paper work time etc.....

Would you say, you can only bill for 6 out of the 8 hours in a day, on average? So, instead of 40 hours, per week, let's say 30 hours (6 hours per day x 5 days per week) x 49 weeks = 1470 hours.

So, if we divide the \$201,100.00 by the 1470 hours, we come up with \$136.80 per billable hour.

It gets worse. Why? That is to **break even!**

In order to recoup your billable hour efficiency, you need to do one of two things; lower your costs, or increase your billable hour charges.

Even if we go back to the original model, and cut our wages in half, to \$50,000.00, we will still need to charge a lot more than we are probably charging:

\$201,100.00 (old salary included) - \$50,000.00 = \$151,100

\$151,100 (new salary) / 1960 hours = \$77.09 or divide by the 1470 hours = \$102.78 to again, **break even.**

I think it is time for many contractors to look at their costs more effectively. Sure, you can enslave your significant other to do the books and paper work for free, but is that fair?

Or you could hire, and get out of the sole proprietors role, and encumber more challenges and more overhead costs, which will increase the bottom line. Why be in business and constantly worry about the looming threat of price slashing and the race to the bottom? You'd be better off working for someone else and remove the risk and spend more time doing other things. Wouldn't your family like to see more of you? How about your son's baseball game? Want to go fishing more often?

You fill in the blank on how you want to shape your future. What I can say, without planning, your future or inertia will do it for you, so you need to decide.

You are wondering why I sent this to you. So, I hope this will spawn some thoughts to look at how you are proceeding or perceiving the business you created and look for other ways to make it work.

This has been also part of the impetus for flat rate pricing. We recoup all of our costs for doing business. Not just shuffling money through the bank account, which almost forces you to never stop, or there will be nothing in your account. This is also why, historically, 2 out of 5 contractors go out of business in the first 5 years. They are always caught up in the “going rate” trap of what this other entity is charging for a project. If the other entity doesn’t know what there costs are, how can they charge the correct price?

People will grouse that we are overcharging or marking up to high materials, but cheating ourselves on labor? Why is this? Do we see accountants, attorneys or doctors doing this? Aren’t we professionals?

Think about this....have real wages for carpenters and electricians really gone up in the last 10-15 years? No! Carpenters and electricians we making about the same money back then, as now, plus or minus a few bucks! And now we are praying we can make money on materials to fill the gap?

Lastly, this is not just about money, but time. One thing is certain, we are all never endowed with the same amount of money, intellect or luck, but we are *all* given an equal amount of time every day- 24 hours.

So, I’ll ask you two things-

1. How are you spending your time?
2. Is there anything more important than how you feel?

Anyway,

Have a great day!

Keith Cronin