

Are You Priced Correctly??

Pricing strategies can make the difference in being successful or not. Most contractors believe that sales drive the business, but actually profits do. No matter what you sell and how much you sell, you only have profits left to invest and grow value in the company. We have all heard the stories of contractors who grew themselves into bankruptcy by not watching the profit line.

As a contractor, you should review all your pricing strategies for all of your products and services twice each year. Typically we change our prices in February and September of each year. In February, using your last year's profit/loss or this year's budget, calculate your breakeven selling price for all that you sell. Do the same in September, but use year-to-date data. Once you have the breakeven for the products and services you sell, add a profit for each. For example, you might buy a piece of equipment for \$800, but financial

calculations show you need to add for overhead burden an additional 25% to breakeven. Add the cost, \$800 to the overhead of \$200 (25% of \$800) to get a breakeven sell price of \$1000. The item did not cost you \$800, but actually \$1000. This breakeven sale price of \$1000 includes the cost of the item and overhead associated with the item, but NO PROFIT. We would not sell this for \$1000 but more than \$1000 to lock in some profits.

After you determine a breakeven for each item you sell, divide the breakeven value by (100%-Profit% wanted). If we wanted to sell an item for a 25% profit who's breakeven is \$1000, we would take $\$1000 / (100\% - 25\%)$ or $\$1000 / 0.75$. Our sales price would be calculated to be \$1333.33. This price would cover our original cost, add appropriate overhead, and finally, add 20% net profit.

Change your pricing strategies twice each year for ALL the products and services you sell. Your

overhead changes and your cost of goods changes, so you need to change your prices. Your accountant can assist you in determining breakeven values for both labor and inventory that you sell or you may consider the breakeven program called ProfitTracker. Either source will provide you the information you need to properly price for profitability.

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