

Pricing with Confidence: Understanding Your Costs and Charging Properly

By the end of this session, you will know:

- Your overhead recovery cost per hour
- Your true cost of labour per hour
- Your minimum viable charge-out rate
- Why small price increases massively impact profit

Reality Check

Most people don't blink at an extra \$10 to \$20 on groceries. That's often a 10 to 15 percent increase week on week.

The commercial reality is: prices and wages always go up.

If you are not increasing your prices, you are making less money every year. Even if turnover stays the same.

Exercise 1: Allocating Fixed Costs to Your Labour Rate

How much overhead does every saleable hour need to recover?

CRITICAL DISTINCTION:

- Fixed costs = wages for people who DON'T bill time
- Labour costs (Exercise 2) = wages for people who DO bill time

Step 1: Total Annual Fixed Costs

List ALL costs that exist whether you do one job or ten. DO NOT include wages for billable staff.

Fixed Costs (examples: rent, vehicles, insurance, admin wages, software, phones, marketing, accounting, licences)

TOTAL ANNUAL FIXED COSTS	\$
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Step 2: Total Saleable Hours

Number of revenue-generating staff: _____

Scenario A: Best Case (75% utilisation)	
222 working days × 6 billable hours	1,332 hours
× Number of billable staff: _____	
Total Saleable Hours (Best Case)	
Scenario B: Realistic (65% utilisation)	
222 working days × 5.2 billable hours	1,154 hours
× Number of billable staff: _____	
Total Saleable Hours (Realistic)	

Step 3: Fixed Cost Recovery Per Hour

Total Fixed Costs	\$
÷ Total Saleable Hours (use realistic)	
= FIXED COST RECOVERY PER HOUR	\$

This is not profit. This is not wages. This is just keeping the doors open.

Step 4: Reality Check

Your current hourly rate	\$
÷ Fixed cost recovery per hour	\$
= Result (should be 3 or higher)	

Example: \$100/hour rate ÷ \$40/hour overhead = 2.5

This means you only have \$60 left for labour AND profit. Often not enough.

If this number is less than 3, you have a problem.

Exercise 2: Calculating the True Cost of

What does one hour of labour actually cost the business?

ONLY include wages for staff whose time is BILLABLE to clients:

- Qualified tradespeople
- Technicians who bill hours
- Anyone whose time appears on invoices

Do NOT include:

- Office admin
- Your wage (if you're not billing time)
- Anyone already counted in Exercise 1 fixed costs

Step 1: Annualise The Wage

Base hourly rate (average for your team)	\$
× 38 hours per week	
× 52 weeks	
= Base annual wage	\$
× 1.12	
= TRUE ANNUAL LABOUR COST	\$

- **Step 2: Cost Per Billable Hour**

True annual labour cost	\$
÷ 222 working days	
÷ 5.2 billable hours per day (realistic)	
= TRUE LABOUR COST PER HOUR	\$

Exercise 1 (Fixed Costs):

- Includes non-billable wages (admin, office staff)
- Spread across all saleable hours

Exercise 2 (Labour Costs):

- Includes ONLY billable wages (people whose time is sold)
- Calculated per hour of Your actual work

They are separate. They are additive. You need both.

Critical check: *If you included the same wages in both exercises, you've double-counted. Go back and remove billable staff wages from Exercise 1.*

Exercise 2.5: The "Am I Actually Making Money?" Check

The Breakeven Reality Check

Add your two numbers together. This is your BREAKEVEN rate.

Fixed cost recovery per hour	\$
+ Labour cost per hour	\$
= BREAKEVEN RATE (no profit)	\$

This is your **breakeven rate**—the absolute minimum you can charge without losing money on every hour worked.

The moment of truth - Compare this breakeven rate to your **current average rate charged**.

Bringing It Together: Minimum Charge-Out Rate

Now add profit margin. For a sustainable business, you need 15-20% net profit MARGIN (not markup).

CRITICAL: 20% margin is NOT the same as 20% markup!

Labour cost per hour	\$
+ Fixed cost recovery per hour	\$
= Total costs per hour	\$
÷ 0.80 (for 20% net profit margin)	
= MINIMUM VIABLE HOURLY RATE	\$

Why divide by 0.80? Because 20% margin means profit is 20% of the selling price, not 20% of costs.

Example: Costs = \$100. For 20% margin: $\$100 \div 0.80 = \125 . Profit = \$25 (which IS 20% of \$125).

Net Profit Margin Needs to Cover

- Equipment replacement
- Lean periods and cash flow buffers
- Your actual wage (if you're working IN the business)
- Business growth
- The reason you took the risk in the first place

Materials Markup

Material markup covers:

- Your time ordering and coordinating
- Your cash flow risk (you pay before they pay you)
- Your warranty exposure
- Storage and handling
- The fact that you're extending them credit

Understanding markup vs margin:

20% markup ($\times 1.20$)	= 16.67% margin
25% markup ($\times 1.25$)	= 20% margin
33% markup ($\times 1.33$)	= 25% margin

Recommended: Minimum 25% markup (20% margin) on all materials

Gross Profit Per Hour

Why different trades/businesses charge different rates

Your actual profit comes from labour margin PLUS material margin combined.

Example: Electrician vs Plumber

TRADIE 1	
Hourly labour rate charged	\$95
+ Materials per hour (avg)	\$200
Material margin (25%)	\$50
Total gross profit per hour	\$145
TRADIE 2	
Hourly labour rate charged	\$120
+ Materials per hour (avg)	\$50
Material margin (25%)	\$12.50
Total gross profit per hour	\$132.50

The tradie 1 lower labour rate is offset by material sales.

The tradie 2 needs a higher labour rate because they have fewer material opportunities.

Calculate Your Gross Profit Per Hour

Your hourly labour rate	\$
Average materials installed per hour	\$
× Material margin % (e.g., 0.25)	
= Material margin per hour	\$
TOTAL GROSS PROFIT PER HOUR	\$

The Power of Pricing Leverage

Small price increases have a massive impact on profit.

Why?

Price increases drop straight to profit.

Example: Starting Position	
Annual revenue	\$500,000
Annual costs	\$450,000
Net profit	\$50,000 (10%)
After 10% Price Increase	
Annual revenue	\$550,000
Annual costs (same)	\$450,000
Net profit	\$100,000 (18%)
Result: Your profit DOUBLED	

Pricing is a decision. Avoiding it is also a decision.

Remember: Turnover is vanity. Profit is sanity. Cash flow is king.