

How to Set the Right Price and Why it Matters

Pricing Part 1: Goals, Calculations and Markups

Help us customize the webinar for you:

<https://www.surveymonkey.com/r/DCB2X9H>

(Link is in your chat box – just click it.)

There is a lot of complicated math
in the Landscape Industry.

Defining Success

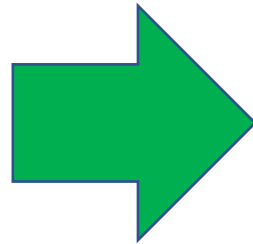
Greater
Profit
Margin



Greater
Life
Margin

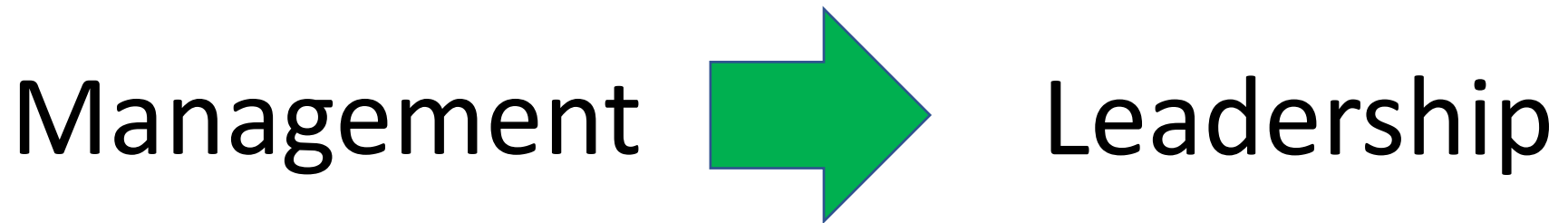
A Transition in Decision Making

Guess
&
Wait



Know
&
Decide

A Transition in Role



Owner Focus



As We Implement the Path to 12%
As the Company Grows

The Herring Group Path to 12%



Goals of Pricing Calculations

~~I am pretty sure our pricing is good.~~

~~I spend a lot of time reviewing proposals.~~

~~My total gross margin in QuickBooks is lower than expected.~~

Common Problems

Failure to Anticipate Labor Rate Changes

Incorrect Labor Burden

Inaccurate Knowledge of
Overhead Costs by Division

Confusing Markups & Margins

Moneybag Math Does Not Work

Not Pricing Services Strategically

The Cost of Mistakes

[Go to Excel Spreadsheet](#)

Pricing

In Aspire	Revenue
	Direct expenses Direct labor Direct materials Equipment rental Subcontractors Other direct costs
BOTH Actual & Estimate	Gross profit

How much do we charge for each direct expense to **“recover” overhead** and **“create” the operating profit?**

Indirect expenses Vehicles and equipment Indirect labor Other indirect expenses	Not in Aspire
Sales and mktg expenses General and admin expenses	
Operating profit	

Determining Overhead Recovery

- Budget dollars (common)
 - Revenue
 - Direct costs
 - Overhead costs
 - Preferably by Division
- Review historical trends (Herring Group)
 - Each direct cost as a % of revenue
 - Each overhead cost category as a % of revenue
 - Preferably by Division
 - Faster
 - Works well if the company is stable or growing

Pricing Steps Simplified

0. Clean up your chart of accounts.
1. Determine wage rate by division for the next 12 – 18 months. (Current wage rate without overtime plus possible wage increases.)
2. Determine labor burden. (Any cost in QuickBooks that is “above” the gross profit line and is not directly costed to a job.)
3. Gather your income statement data.
 - Minimum: QuickBooks income statement for Last Twelve Months (LTM)
 - Ideal: QuickBooks income statement for last 36-60 months (columns by month)
4. Populate the spreadsheet.
5. Determine the markups and target net margin.
6. Publish The Profit Model.

Get the Templates

- <https://herring-group.com/pricing/>
- Enter name / email
- Click the link on the page OR click a link in the email that is sent to you

Step 4

		Enter QBooks LTM	Used for Markups
In Aspire	Revenue	Result of costs & markups	\$ 1,000 100.0%
	Direct expenses		
	Direct labor		\$ 300 30.0%
	Direct materials		\$ 100 10.0%
	Equipment rental	In estimates	\$ 30 3.0%
	Subcontractors		\$ 50 5.0%
BOTH Actual & Estimate	Other direct costs		\$ - 0.0%
	Gross profit		\$ 520 52.0%
Not in Aspire	Indirect expenses		
	Vehicles and equipment		\$ 100 10.0%
	Indirect labor	Overhead to be	\$ 60 6.0%
	Other indirect expenses	recovered thru	\$ 20 2.0%
		markups	
	Sales and mkting expenses		\$ 40 4.0%
	General and admin expenses		\$ 180 18.0%
	Operating profit	Profit to be created thru markups	\$ 120 12.0%

Step 5 – Determine Markups and Target Net Margin

Go to Excel Spreadsheet

Pricing in Aspire



- Branch
- Division (most common)
- Service Type (great, but more complicated)

Step 6 – Publish the Profit Model

Go to Excel Spreadsheet

In two weeks ...

- Fundamental Principles of Pricing
- Narratives for Pricing
- Calculating Labor Rates
- Calculating Labor Burden

Questions / Survey / Contact Info

- Survey:

<https://www.surveymonkey.com/r/LVRS82J>

- Get an Aspire Demo:

<http://info.youraspire.com/request-a-demo-0>

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