

5 Keys to PROFITABILITY in a Service Business

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Did you make what you expected to last year? If so, do you know why? Because, if you made money and don't know why, you could just as easily have lost money and not know why. Being profitable in any service business comes down to understanding and controlling five key aspects of your business.



1 Know Your Costs

» We are experts in our trade. Working our way up from apprentice to journeymen, we have spent years developing our knowledge and honing the skills of our trade. When it comes to our costs, however, many of us tend to avoid that knowledge, as if, what we don't know can't hurt us. So we continue to work longer hours making less than we expected and never really understanding why. The simple truth is that fully understanding your actual, not just approximate costs is the first key to a successful business. This chart will show you how a seemingly minor miscalculation really impacts your business.

Number of Employees	Miscalculation		
	\$ 0.50	\$ 3.00	\$ 5.00
3	\$ 2,916.00	\$17,496.00	\$ 29,160.00
4	\$ 3,888.00	\$ 23,328.00	\$ 38,880.00
5	\$ 4,860.00	\$ 29,160.00	\$ 48,600.00
6	\$ 5,832.00	\$ 34,992.00	\$ 58,320.00
7	\$ 6,804.00	\$ 40,824.00	\$ 68,040.00
8	\$ 7,776.00	\$ 46,656.00	\$ 77,760.00
9	\$ 8,748.00	\$ 52,488.00	\$ 87,480.00
10	\$ 9,720.00	\$ 58,320.00	\$ 97,200.00

This chart reflects how much a company would lose, at year's end, by under calculating their billing rate.



2 Control Your Costs

» Once you know your actual costs, you must watch out for "expense creep". This is the gradual increase in a line item that we may not be paying too much attention to. These are the expenses that fall through the cracks. Take, for example, a company cell phone with a \$39.00 per month plan. Slowly, directory assistance calls at \$1.20 per call slip in, followed by text message charges, and maybe personal calls. Before you know it, this line item has crept up to \$53.00 per month. Imagine how this expense would impact your bottom line if it were multiplied by 50 line items and 5 employees.



Brian Drucks

Brian is the fourth generation of his family to be in the paint business. He started his own residential wallpaper company and 10 years ago decided to start a commercial paint and wallcovering firm. Last year his company went union. Drucks Inc. currently employees 20 painters and it's clientele includes Giant Stadium, Retail stores and Office buildings throughout New Jersey and New York. In addition, Brian started Yourcostcenter.com a software company that helps Service Companies, understand and develop their company's pricing. His software company is a PDCA Passport provider. Brian lives 1 hour west of NYC with his wife and 11-year-old daughter.


3 Know Your Production

» How long does it take to paint a 6-panel door? If it takes 1 hour to sand and 1 coat a door, one would assume you could paint 8 doors in a day. Yet considering set up, clean up, break time and trips to and from vehicles, you might in actuality only be getting 6.5 doors done per day. Miscalculate each item you paint on a job site by 20%, multiplied by each employee, multiplied by the approximate 244 days in a year that we work, and it is no wonder why so many business owners are working long hours to cover salary's of their employees. At least, when it comes to understanding production rates, you have the PDCA estimating guide to get you started.

4 Control Your Production

» Do you have a system to measure and control production? Clear expectations must be set and measured, as well as conveyed to your employees to assure your budget will be met. The problem with operating without a system in place is that work can expand to the time allowed. For example, if you had 3,250 square feet of sheet rock, which needed one coat of primer, and you use a production rate of 500 square feet per hour, you have a 6.5-hour allowance. However, without clearly stating that this should take 6.5 hours, there is the potential for a worker to stretch it out to 8 hours. Remember measure what you treasure, and our treasure is time.

5 Find a Client Base That Fits Your Business Model

» It is crucial to understand that your client base needs to be the right fit for your service. With limited time and money to invest in developing a client base, be sure the client will be a match for your specific level and type of service and price structure. Don't waste valuable resources bidding to clients that are not a match because it may seem like an easy mark. Rather, spend your time cultivating client relationships that will be a "win, win" for all parties. Reaching your potential as a profitable and successful service business is truly a marriage of skill in your trade, and knowledge of your costs, production and client base. 

The PDCA created Contractor College to provide the best source for education in the painting and decorating industry. The accreditation program from Contractor College doesn't just present a lot of theory or out-of-date information everyone already knows. The instructors are among the best in their industries and professions. They offer practical, state-of-the-art education that covers every aspect of running a successful contracting business, including Finance and Banking, Insurance, Management and Human Resources, Sales and Marketing and Products and Equipment.

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