

## Flat rate versus time and material pricing

Right off the bat with most of the discussions or debates concerning flat rate and time and material companies owners react to the pricing and work that borders into the ignorant. Each side desperately tries to force the issue of neglect, disdain, and a lack of ethical behavior as part of the argument. When ethics and integrity are absent it does not matter what kind of pricing is available the unethical person will try to take advantage of their customers whether they are flat rate or time and material.

There are many types of flat rate pricing companies and they are similar with the basic philosophies. Give the client a price before the work is started and receive approval from the client prior to the start. Typically it is called flat rate however straight forward and upfront pricing are commonly used phrases describing flat rate.

There are successful organizations that enjoy flat rate and time material pricing. A company will need to discover which way is more profitable and best suited for their company. There are unethical actions that can be found on both sides of the fence with either flat rate or time and material companies. With that stated the focus should be on the positive aspects of both ways to price service calls helping the client. What advantage is there for the client and the organization?

One of the myths concerning flat rate pricing and that is there is no hourly rate. There is an hourly rate factored into flat rate pricing. Flat rate pricing also includes the cost of doing business that is called overhead. It also includes the margin on materials that is necessary to run a business. It factors all costs of doing business and includes those costs in the bottom line to the consumer.

Time and material companies do the exact same pricing with the exception it is in two phases one is cost of materials with the margin and an hourly rate that includes the cost of doing business. No big philosophical difference at this time. When I am in discussions with owners the feeling from them is the inability to cover all costs of doing business with time and material. The per hour dollar rate would overwhelm the customers and create bad will between the company and customer as soon as price is discovered. Frequently with time and material companies the solution is presented as a price presentation.

The major difference during the discussions with owners is time and material companies will ask straight forward questions concerning what is the price to do a simple task. Flat rate companies are usually more skilled at sales and those type questions are not that simple to answer. Time and material companies are quick to answer this question of how much to do this simple task. The answer is this product costs this much and I charge this per hour. My question is always how long will this take you and will you stand behind that time and price you have quoted. The answer is yes if the job is as stated. Many times the job is not the way it is stated by our customers. The customer is not the expert and that will always influence the description and what is really going on with the issue the customer is experiencing. Questions must be asked and a physical check of the problem is required to make a determination of the real problem and proper solution.

Let us take a look at what other types of companies give flat rate pricing and you should realize that flat rate pricing has always been a way of life with many organizations and that the consumer market accepts flat rate pricing. Some organizations are; Restaurants, shoe stores, Wal-Mart, K-mart, car dealerships, hardware stores, home centers, furniture shops, tile companies, wholesalers, and eye care, glass organizations, doctors, hospitals, gas stations, grocery stores. These are a few companies that give the price before the actual exchange of the product and service.

A little realized point is everyone who receives a pay check for services rendered is a reflection of flat rate pricing. There is an agreement of the wages received prior to starting any and all forms of employment. So much thought for those powerful words of resentment from those who oppose flat rate pricing that have agreed to this type of payment for their services rendered.

Flat rate pricing realizes that no two people have the same skill levels and does not punish a client due to the skill level of the service technician. In a perfect world all service technicians would have the same product knowledge, skill, and speed level to install the product and to solve issues that the client may have. I do not move as fast as I once did and that means some of the service calls I run take a little longer than they did back in my hay day. However time is still shorter than the technician that has been in the service industry five years or less. Flat rate has discovered these trends and is factored in with flat rate. It uses an average length of time to decide the actual amount of time to complete different type service tasks.

Another pricing dilemma with all service companies is the overhead including but not limited to the office staff, vehicles, insurance, insurance for the building, maintenance of the vehicles and building expenses. Frequently a time and material shop cannot account for this cost of doing business due to forcing the per hour rate to a very high dollar number' Not including these costs to do businesses in the pricing will eventually lead to a loss of revenue that is necessary to run a productive and successful company? Every dollar lost to a company equals ten dollars that must be made up elsewhere.

Every business owner that I have had discussions with concerning the overhead costs refuses to add those costs into the per hour rate. Their reasoning is the client would blow their top off due to excessive numbers. One slight problem with this thinking is the cost to do business and it must be included or the profit and margin is affected and depleted by ignoring those costs. The quality of personnel within a company is affected and little growth or expansion can be experienced. Cash in pocket does not amount to the worth of a company. Cash flow is not measured in a month to month basis. Cash flow is the strength of a company and can the company exist one year with a slow economy or more without sacrificing the core essentials of that company. That is what is meant by having a cash flow.

Time and material companies rely on quantity to override costs or they are a one or two man shop. These shops are one injury away from going out of business. Traditionally they go out of business due to undercharging and not being able to hold on during a time of crisis. The cash flow of hand to pocket is stopped and the work has stopped due to injury. However these type shop owners are proud to say I work every day 10-12 hours a day. These hard working individuals are over worked and underpaid and it takes a toll on their bodies both mentally and physically.

At one time or another almost every person that enters into business has done this to him or herself and over the years has learned a better way. Some must learn a difficult lesson while others will learn by reading and getting involved with sales organizations that can offer some type of help either business wise or trade skill wise. Some owners outright refuse to even listen and have a negative reaction because they believe that someone is telling them they do not know or understand how to run a business. The feeling is one of being attacked by someone who has not taken the time to understand him or her and does not fully understand their business. Understand that people are willing to help and give advice and sometimes it is for free however the majority of time it will cost the professional. This provides another avenue of resentment that someone will charge the organization money to help that organization. Put sensitive feelings aside and learn to listen and see if there is a better way to run your organization.

My father's father ran this business the way it is now and my father ran the business the way it is now and I am continuing to run this business this way. How much sense does that make? The definition of insanity is doing the same thing over and over and expecting different results. Longevity does not mean it is being run correctly. An old saying is practice makes perfect and I say that is false perfect practice makes perfect. Practicing wrong procedures produces a false sense of security that things are good. It is now time to take that long walk from the front porch of safety to the road and experience change. Change is rough and it can be tough to accomplish especially when the mind is not made up to change. The only argument is ignorance.

Listen to those who have found a different way. Use their knowledge and skill and see where some of those tools may fit into your toolbox. Flat rate has some exciting and different viewpoints that will dramatically increase your company's profitability. It does not mean you must be flat rate in order to adopt the philosophies. Some flat rate philosophies that are essential to growth and stability are:

- Inspect every home. This allows the service technician to become familiar with the clients home and help the client. The inspection will allow the service technician to inform the client on issues that will show up and become a potential problem for the client in the next twelve months.
- This inspection will save the client time and money in the future to have it repaired or replaced at the time of your first visit. The client will not miss work waiting for you the service technician to arrive at their home or place of work. Many clients work and in order to have the service technician visit they must take time off work losing valuable time and money.
- Saving the client money should be a factor with any business. The service technician has his tools already set up and there is no second trip or service charge. This alone is a huge savings to the client and to the company. The company has less wear and tear on their vehicles and less stress on their service technician. Less time on the road means a longer lasting vehicle to most companies.
- Flat rate companies track their technicians on a number of items. One of which is productivity. How are your service technicians stacking up to their per hour rate? A technician should not be paying for him or herself. They should be paying for all the staff in the company. A technician's salary should only be 25% of their production. Adding the cost of materials it should be less than

50%. This gives the company 50% to pay for overhead costs, the cost of doing business and profit. With little or no tracking the company is at a loss to discover which service technicians is really the best fit for your company. Many owners would be surprised that the wrong technician has been picked as their best technician with proper tracking.

- Clean uniforms and neat clean service technicians are critical for the company and to a client who is deciding to trust the service technician's solution. Often a dirty, unshaven, shoddy work clothes and boots technician is sent to a client's home and immediately red flags are raised with the perception of the type work the client will receive. Jeans with holes, t-shirt and a stained cap and tennis shoes informs the client the service technician is there to get in and get out and he or she might just be in the way to get out of there. It really does not matter that this perception could be false it is the perception the client holds right or wrong. It does not make sense to add to this perception. Start today building separation between you and the competition that includes unlicensed and unqualified personnel.
- Fully trained service technicians will give the client a sense that he or she is not just a number and a dollar amount. The technician can give importance to the client and will allow the client to make the best possible choice to overcome the issue or problem being addressed at the client's home. Including the client with the decision will empower the client to be part of the solution and have an enjoyable ownership exchange.

Today is a great day to start looking at things with an open mind discovering ways to help improve the daily operations of your company? Make the necessary profit to maintain a focused energetic staff that is there to help your clients overcome any difficulty he or she faces.