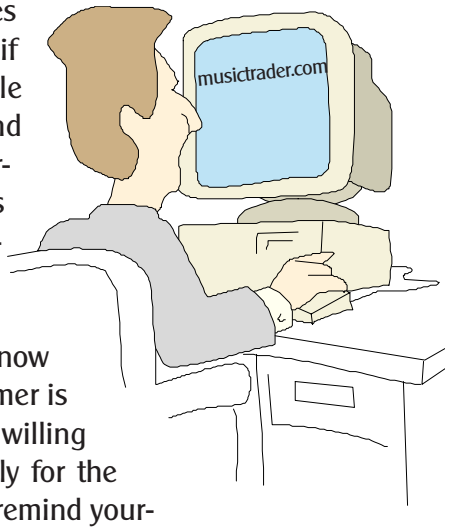
PRICING YOUR SERVICES FOR PROFIT

by Lars Kirmser

The day-to-day operation of a modern music business is far more complicated than it was a few short years ago. This is largely due to the fact that today's entrepreneur must compete in a *globa*l market. Our potential customer has access to goods and services that, prior to the internet, were simply not practical or viable resources for them. In other words, the price that Dennis Bamber, owner of The Brasswind and Woodwind, charges for a flute repad will affect the price I may charge for the same service. (Please note, however, that I said *affect*, not *set*.) On the other hand, the good news is that Dennis Bamber's potential customers will also have access to all other internet music companies offering similar goods and services on the web. So, if you have a viable web presence, and you are able to market your products and services competitively, you will be able to compete with anyone. But know this, today's customer is a savvy hombre, willing to search endlessly for the best deal; always remind yourself of this fact.



It's no secret that anyone can sell a product or service cheaper than the next fellow, however, the key word in the topic at hand is *profit*. And, to market a service or product profitably, one must understand the principal elements making up the ultimate price charged your customer.

Establishing the price of both products and services involves determining the actual *cost of goods and services* multiplied by a so-called *margin of profit*. The cost of goods will be made up of any number of *direct costs* as well as *indirect costs*. Direct costs are those costs associated with providing a service or acquiring a product (i.e. wholesale cost of item and shipping expenses). Indirect costs would be those expenses associated with the storing, displaying, insuring, maintaining, advertising, and any depreciation experienced in the value of the merchandise. All these expenses added together will make up the total cost of this item. Added on to this cost is the margin of profit that you have established as appropriate. And, if all goes according to plan, and your price is consistent with the prevailing rules of supply and demand, you will likely sell your merchandise to a customer.

As if determining the price of goods isn't complicated enough, establishing the cost of services may become a bit overwhelming. This is because the elements making up the final charge for services are often more variable and significantly less predictable, especially when estimating time required to complete a task, as well as wages paid to the technician. It is with the service charge that I will address the balance of our discussion.

The three major elements of a service charge are:

1. The direct cost of materials, parts, and supplies
2. The costs of operation (i.e. total shop overhead)
3. The planned margin of profit

Of these three elements, the cost of materials, parts, and supplies will usually be the least conspicuous of the total service charge, followed closely by the planned margin of profit. The portion attributed to the total cost of operation (shop overhead), particularly those charges attributed to the cost of direct labor (or sub-contracted labor), will usually offset the other two factors by a considerable margin. There are occasional exceptions to this of course, but not often as a rule. In any case, all

factors must be accounted for when establishing a service charge.

Remember, each aspect of a service must contribute its share to the profitability of the entire shop. It would be a mistake to allow one phase of the service charge to offset losses created by any other phase. For example, it is not advisable to automatically raise your hourly service charge across the board to offset shrinking profits. Operating in this fashion would be to operate blindly, and will eventually cause you to lose control of all elements of your pricing structure. Instead, you must isolate your actual costs and raise any deficient portion of your price structure by an appropriate amount.

COSTS OF MATERIALS, PARTS, AND SUPPLIES

A number of factors must be considered when arriving at a fair mark-up rate for all materials, parts, and supplies utilized in the service of musical instruments. When a person sets up shop, a considerable amount of capital is invested. A portion of this capital investment may have even been borrowed, in which case it may have to be repaid with interest. These inventory items must be shipped, stored, and maintained in our leased shop space. It is appropriate that we be allowed to pass these very real expenses on to our customers. The only question that remains then is, exactly how much mark-up would be considered reasonable in terms of our desired margin of profit, and acceptable in terms of our clientele.

In the musical instrument repair business it is customary to charge the customer a 100% mark up on all materials, parts and supplies that go into the repair of their instrument. In other words, if in the course of repairing a trumpet, we replaced three valve springs that cost us $1.50 from the supplier, then we would charge our customer $3.00 for that set of valve springs (2 times our cost = a 100% mark up). At first, this may seem a bit unreasonable to persons new to the business, but let me assure you that there are a number of other types of businesses that operate on a 200%, 300%, and even as much as 400% mark up factor! For example, retail clothiers and jewelers will often fall into this category. Whatever type of business we look at, the mark-up percentage used will depend upon considerations such as the relationship of the total costs of operation (overhead) as compared to the total sales volume generated. Furthermore, the initial investment and cost of opening a business is usually more expensive for retail establishments such as clothiers and jewelers than it is for an instrument repair shop. As a consequence, they will naturally be required to recover their additional expenses by employing a greater mark-up factor.

Where these broad comparisons are interesting, we shouldn't be overly concerned with businesses which do not compete for the same consumer dollar as we do. What is important, is that similar businesses will have relatively similar overhead expenses. That is why we should use a mark up factor generally accepted to be appropriate to our own industry. In business, a mark up is necessary to offset the very real hidden expenses necessary to maintain an adequate inventory. In my opinion, this 100% figure is a minimum mark-up, with 125% being a more reasonable figure. This larger factor will permit the shop manager to not only replace the parts, materials and supplies used in the repair of an instrument, and to pay for the overhead necessary to keep and maintain an inventory, but it will allow for inventory expansion and shop capitalization (ie. to purchase additional tools, upgrade and maintain machinery, as well as to expand services offered).

It is often necessary that we purchase and store inventory items which may not be required for an indeterminable length of time. Often, we are required to have this kind of inventory on hand so that we may avoid the waiting period that goes along with certain rare or hard to get items. If you don't maintain an adequate inventory, it is possible that you will be unable to perform lucrative repair jobs resulting in lost revenue. If a supply item is rather expensive, but is readily available from a supplier, and is not expected to be turned over in your inventory within, say a six-month period of time, then wait until the need for it arises before you call the order in to your supplier. If, on the other hand, an item can be expected to be required within this period, and is not readily available, then you should try to keep the item in stock. I am, of course, referring only to those relatively expensive inventory items, which are rarely required. I will address this topic more completely in a later chapter entitled "PURCHASING AND INVENTORY MANAGEMENT".

SIC Number	Type of Business	Cost of Sales	Gross Profit	Operating Expenses	Operating Profit Before Taxes	Cost of Sales Inventory (Median values)
5942	Books and stationery	59.0%	41.0%	34.5%	6.5%	2.8
5946	Cameras and photographic supplies	70.1	29.9	26.7	3.1	3.4
5992	Cut flowers and growing plants	46.0	54.0	46.1	7.9	8.3
5912	Drugs	67.3	32.7	29.1	3.6	4.4
5399	Dry goods and general merchandise	66.6	33.4	33.5	-0.1	2.7
5651	Family clothing	62.9	37.1	34.4	2.7	2.6
5713	Floor coverings	69.6	30.4	27.1	3.3	7.1
5712	Furniture	60.2	39.8	39.2	0.6	2.6
5541	Gasoline service stations	70.7	29.3	25.2	4.1	19.6
5411	Groceries and meats	77.1	22.9	20.4	2.4	16.6
5251	Hardware	63.6	36.4	31.7	4.8	2.4
5722	Household appliances	64.9	35.1	29.9	5.2	3.9
5641	Infants' clothing	60.5	39.5	35.2	4.3	2.3
5921	Liquor	78.5	21.5	18.9	2.6	7.3
5947	Luggage and gifts	55.6	44.4	40.7	3.8	2.5
5611	Men's and boys' clothing	60.6	39.4	38.9	0.5	2.1
5944	Jewelry	52.8	47.2	39.6	7.6	1.2
5733	Musical instruments and supplies	60.8	39.2	32.3	7.0	2.3
5231	Paint, glass and wallpaper	60.8	39.2	32.9	6.4	4.0
5732	Radios, TV, and record players	65.8	34.2	29.0	5.2	3.2
5812	Restaurants	46.9	53.1	48.8	4.3	26.8
5661	Shoes	59.3	40.7	36.2	4.5	2.2
5941	Sporting goods and bicycles	67.1	32.9	31.5	1.4	2.2
5621	Women's ready-to-wear	59.4	40.6	37.3	3.3	2.9

One of the most common mistakes made by shop owners is to keep too much inventory on hand. It is much better to order readily available items in quantities which will be expended within a six month period. This way, you don't have your capital setting on the shelf getting old and gathering dust, when the money you used to pay for these items would do you more good in your bank account, or paying for your operating expenses. Obviously though, many considerations exist when buying shop supplies such as buying in volume to take advantage of price breaks and special promotions, but try not to get caught in the trap of being overstocked.

Another common mistake is to price out inventory based on original prices. This is particularly easy to do when these supplies have been in stock for a long time, or no effort is made to update stock prices. You must use the replacement cost of an item as the basis for your charges. It may seem like extra work, but it is so important that you update the wholesale costs of your inventory on a regular basis. This task can be handled any number of ways, but I find that if you record the part description, its catalogue number, the name of your supplier, and the current wholesale price, on a standard label in or on front of the relative parts drawer, every technician in the shop can effectively price out repairs with the minimum of hassle or loss of potential profits.

OPERATING EXPENSES (OVERHEAD)

Operating expenses may be broadly defined as all cumulative costs that are required to operate and keep your business going. This is, of course, exclusive of the other two factors already mentioned, namely the cost of inventory, and your planned profit margin. Below, I have listed those specific categories of expense items that make up your total OVERHEAD. Study the categories carefully.

- WAGES OF TECHNICAL STAFF
- WAGES OF NON TECHNICAL STAFF
- TAXES AND LICENSES
- RENT/MORTGAGE
- INSTALLMENT BUSINESS LOAN (OPENING CAPITAL)
- POWER/LIGHT
- HEATING/COOLING COSTS
- TELEPHONE/INTERNET
- WATER & SEWAGE
- REPAIRS TO BUILDING & EQUIPMENT
- INSURANCE
- ADVERTISING

- GENERAL OPERATING EXPENSES
- LEGAL/PROFESSIONAL SERVICES
- DEPRECIATION
- MISCELLANEOUS EXPENSES

As you may notice, this list consists of several diverse expenses. Some are relatively fixed on a short-term basis like the rent, wages, depreciation, insurance costs, and installment loan payments. Other variable expenses are not so stable and will often change radically from one month to the next. Expenses falling into this variable category would be advertising, utility costs, wages, and professional services. The nature of these so called fixed and variable expenses will complicate your projection and evaluation of the business overhead. An advisable technique for controlling these operating expenses is to incorporate budgetary planning into your management duties. This will allow you to plan your operation in advance, and to measure and compare actual results. This calls for precise forecasts of expenses for each item of the list during a given month, quarter, or year. As your business proceeds, you will want to compare actual bills with these forecasts, and make the appropriate adjustments in your spending habits.

Good budgeting will enable you to: 1. Establish reasonable profit and expense objectives. 2. Draw up a feasible plan to reach these objectives. 3. Measure your progress at regular intervals toward these goals. 4. Provide information that may be used for projecting future evaluations of profit and expense trends. The following is a list of business practices, which can often have major affects on the overall profitability of your enterprise:

PURCHASING EXPENSES - Buy only what you need and can justify keeping in stock. If you are not buying your materials and supplies from the most economical supplier, then change. Are you taking advantage of cash discounts?

INVENTORY SHRINKAGE - Losses due to stock attrition, employee theft, or excessive waste among your technicians can cost you dearly if not controlled.

PAYROLL - Do you have too many or too few persons on the payroll? How much overtime is being paid unnecessarily? Is your employee turnover excessive? Are you training apprentices just so they can go into competition against you?

INSURANCE COSTS - Have you shopped around for the best package that you can get? Are you over insured? Underinsured?

INVENTORY CONTENT - Are you stocking more than you really need to provide a complete service? Are the items in stock really necessary, or are they just nice to have?

TAXES - Are you paying more than your fair share of taxes? Have you sought out expert advice from a professional?

ADVERTISING - Are you advertising effectively, or are you spending dollars on promotionals that are not paying off in real sales? Keep accurate scores on which types of advertising that work most effectively for you. Remember, the most expensive is not necessarily the most effective! Seek the advice of those in the know. What is your competition doing? Is it working for them?

OUT OF CONTROL OVERHEAD - Expenses like the telephone, subcontract labor, travel and entertainment, and direct labor costs have a propensity for getting out of control unless you evaluate these expenses on a regular basis.

PLANNED MARGIN OF PROFIT

As a businessperson, you may logically expect to operate from year to year within one of three possible scenarios. You will either sustain a loss, you may break even, or, if you have planned and acted wisely, you may realize a profit from your business. There is a rule of thumb that states at the end of the first year of business you may expect to lose a little money; at the end of your second year you will probably just break even; at the end of the third year you are likely to realize

your first real profits. Inasmuch as this general rule does tend to ring a certain amount of truth, one should always keep in mind that it is certainly possible to make a profit at the end of your first year of operation. This can be achieved, however, only if you manage your shop according to shrewd business practices. After all, since all similar businesses are required to pay nearly the same for similar services and goods, the real basis for the failure or success of a business is based almost solely upon the manager's ability to hold down operational costs (overhead) and to establish effective policies.

When profits do in fact decrease because of ineffective management, you will usually be able to pursue one of three alternatives. First, you may choose to automatically pass the cost of this inefficiency onto your customer. You then are faced with whether or not your customer will be willing to pay the price increase, or, will you have priced yourself right out of the market! Secondly, you can absorb this inefficiency by being willing to accept less money for your efforts, which, in turn may jeopardize your ability to turn a profit. Thirdly, you could carefully evaluate your operating expenses and bring them back into their proper perspective.

The actual amount of profit, as compared to the total costs of operating your business is referred to as your *profit margin*, and is expressed as a percentage. In other words, profit is the amount of money or increased equity left over at the end of your fiscal year after all the bills have been paid, and this monetary value expressed as a numerator over your total operational costs will equal your percentage of profit margin. This figure will depend primarily upon two factors: 1. What you charge for your services, and 2. Your total cost (overhead) to provide these services to your customer. Naturally, we would like this profit margin to be as high as is possible, however, we must remain within certain strict limitations that are imposed by our competition and by our market (supply and demand). In general, the range of gross profit margins in all American business will range from as little as 20% up to 55% or more, depending upon the type of business and their operational format. For a musical instrument repair facility, I suggest that a gross profit margin of somewhere around 40% be used. This gross profit margin would then result in an operating profit (before taxes) of around 8 to 10% on investment. This margin should allow for a reasonable amount of capital development and business growth.

DETERMINING YOUR PRICING POLICY

There are four common methods used in business today to determine pricing policy. The most common method, called "cost plus pricing", is the one that I recommend you use when initially setting up your pricing structure. The other three methods are: "follow the leader", where you literally follow the prevailing prices of your competitors; "less than cost pricing", where you sell your service at a slight loss to generate cash flow or dump hard to sell merchandise to limit your eventual losses (a temporary device at best) and, "intuitive pricing", where you set your prices simply by estimating the maximum amount that your clientele will be willing to pay for your services. There are times in the course of running a business that you will find it appropriate to use any or all four techniques, however, I strongly advise that you rely upon the cost plus method for all long range decisions. Using this method will require that you carefully analyze all the charges that affect your cost of repair.

VARIATIONS IN PRICING POLICIES

Furthermore, it would be advisable for you to select a bookkeeping system that will accurately reflect these direct and indirect costs. This way you can examine and analyze your operational expenses regularly. We have used QuickBooks Pro financial software (by Intuit) in our retail music store since 1994. We have been very happy with the range of capabilities of this product provides. This kind of software will allow you to review your operation frequently so that you may keep your services within a competitive range of your market. If your prices are found to be consistently a bit higher than your competition, however, just remember that today's consumer is usually very willing to pay above average prices for above average services. Many of you may recall Erick Brand's motto: "Do it Better, Not Cheaper!"

For years, I made a practice of collecting musical instrument price lists from virtually every part of North America. In doing so, I discovered that until the development and wide spread use of the internet, prices for musical instrument repair would vary greatly, depending upon ones geographic location. This was due to a number of factors, the relative cost of living index being the most influential. According to economic statistics, it costs nearly twice as much to maintain comparable standards of living in a large city like New York or Los Angeles as it does in an average sized city in the Southeast U.S. In addition, to geographic location, the prevailing wages of local job markets will radically affect these cost of living factors, and consequently, the going price of technical services. This isn't quite the case today, however, as the internet has effectively "homogenized" or equalized the costs of technical services available to virtually everyone to a large degree.

In the past, a company engaged primarily in the national market would be compelled to used a slightly different set of rules when analyzing their market area then the company who was dealing strictly on a local basis. The charges of the company dealing nationally would be more likely to reflect the mid range of the national averages for instrument repair, whereas the higher repair prices would be present in the larger metropolitan areas, while the lower prices would predominate in parts of the country where the cost of living and wage index was reduced. However, since the costs of new musical instruments vary only slightly from one part of the country to the next due to the predominance of wholesale and mail order companies, and because of the influence of the internet, we are finding that the difference between the upper ranges and the lower ranges of repair charges in this country is getting to be narrower all the time.

It is important to note that there exists a point at which it is generally considered to be economically unjustifiable for an individual or a dealer to recondition an instrument (regardless of what part of the country one resides). For an individual retail customer this point is somewhere around 50% of the suggested retail cost of a comparable new instrument, and for the music dealer, this point is approximately 50% of the wholesale cost of a comparable NEW instrument. This is only a rule of thumb and should never be used as the sole consideration when setting your pricing structure. It may be used, however, as a rough economic guidepost when setting the upper limits of your overhaul prices.

PROJECTING YOUR ANNUAL COSTS OF OPERATION (OVERHEAD)

The best way to establish your anticipated break even point is to create a reasonable business scenario. It should be as close to a real working model as you can imagine. For the purposes of demonstration, I have created just such a model.

Let us presume that we have performed all the necessary market research, and have established that the local market would support a full service shop with three full time technicians. In addition to these three technical staff, we will employ one full time non technical person. Each employee will work a 40-hour week, and, after one year's continuous employment, will receive a one-week paid vacation and eight paid holidays throughout the year. As I outline this scenario, you may refer to the sample work sheet containing a breakdown of all anticipated operational costs for one year of operating this shop. As you review this work sheet, be aware that expenses for elements such as wages, rent, and utility charges may vary considerably, depending upon your own unique situation. In addition, be aware that all weekly and monthly costs are averaged out.

After adding up the costs per year column we arrive at the *projected costs of operation* for one complete year. In other words, this amount of money would enable us to operate our shop for one year without a profit or taking a loss (breaking even). Therefore, if we intend to end up with a 15% planned profit margin after all our bills and expenses are paid for, we must add an additional 15% of this projected total to arrive at the projected gross sales required. Therefore, .15 X $214,188 = $32,128.20, or, the amount of *net profit* that we would hope to end up with at the end of the year, in the form of cash and/or increased equity. Furthermore, $214,188 + $32,128.20 = $246,316.20 which we shall call the *projected annual gross sales*. Knowing this figure will

DESCRIPTION OF EXPENSE	COST/WEEK (estimate)	COST/MONTH (estimate)	COST/YEAR (estimate)	% BUDGET
Payroll (total)	**$2,934.72**	**$12,707.33**	**$152,488.00**	**71.2%**
Payroll of Owner - manager	$1,154.73	$5,000.00	$60,000.00	
Payroll of Technical Staff	$1,479.98	$6,408.33	$76,900.00	
Payroll of Non-technical Staff	$300.00	$1,299.00	$15,588.00	
Taxes and Licenses	**$115.47**	**$500.00**	**$6,000.00**	**2.8%**
All state and local taxes				
Social Security				
Unemployment				
Rent - Triple Net Expenses *	**$519.63**	**$2,250.00**	**$27,000.00**	**12.6%**
Installment Business Loan +	**$115.47**	**$500.00**	**$6,000.00**	**2.8%**
Power-Light	**$34.64**	**$150.00**	**$1,800.00**	**0.8%**
Heating/Cooling Costs	**$46.19**	**$200.00**	**$2,400.00**	**1.1%**
Telephone	**$23.09**	**$100.00**	**$1,200.00**	**0.6%**
Services Purchased (total)	**$96.23**	**$416.67**	**$5,000.00**	**2.3%**
Security System - Monitoring				
Trash Pickup				
Sewer - Water				
Credit Card Services				
Sign Lease				
Internet access				
General Operating Expenses (total)	**$46.19**	**$200.00**	**$2,400.00**	**1.1%**
Cleaning Supplies				
Rugs, Towels, Toilet Paper, etc.				
Office Supplies				
Business Cards, Stationary, Fliers, Pricelists, etc.				
Packaging Materials				
Insurance (total)	**$23.09**	**$100.00**	**$1,200.00**	**0.6%**
Workmen's Compensation				
Group Medical Coverage				
Business Insurance Package (Fire, Theft, Baylee, Liability)				
Professional Services	**$23.09**	**$100.00**	**$1,200.00**	**0.6%**
Accounting Services				
Legal Services				
Repairs to Bldg. & Equipment	**$23.09**	**$100.00**	**$1,200.00**	**0.6%**
Advertising	**$46.19**	**$200.00**	**$2,400.00**	**1.1%**
Depreciation (total)	**$46.19**	**$200.00**	**$2,400.00**	**1.1%**
Hand Tools				
Stationary Power Tools and Equipment				
Parts, Materials, and Supplies				
Donations	**$19.25**	**$83.33**	**$1,000.00**	**0.5%**
Bad Debt	**$9.62**	**$41.67**	**$500.00**	**0.2%**
Totals	**$4,122.17**	**$17,849.00**	**$214,188.00**	**100.0%**

** 1500 sq. ft. @ $18.00/ft./yr.*
+ $50,000 @ 12%

15% planned profit margin $32,128.[20]
Gross sales required to achieve 15% profit margin = $246,316.[20]

enable us to calculate the *projected hourly service charge*, which we must use to realize our planned profit margin of 15% over our break even point. Before we can establish this hourly service charge, however, we must estimate the number of *productive work hours* for one entire year.

Let us now investigate the relationship between these so called *productive* work hours and those, which I refer to as *non productive* work hours. First of all, productive work hours are those hours, which can be directly accountable to the generation of income in the shop. Whereas, non productive work hours cannot be directly accountable to the generation of income. An example of this non productive type would be those hours spent by your office or administrative staff. Even though the work performed by these individuals is absolutely necessary for the overall operational success of your business, no income may be directly attributed to them. In addition, the hours paid during vacation periods of your entire staff will also be considered non productive work hours, as no income is generated during their absence.

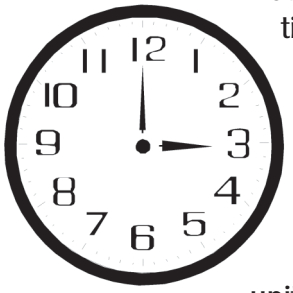
OK, let 's calculate just how many hours will likely be spent in productive work by our staff of three fulltime technicians and one office person. To begin with we all know that there are 52 weeks in one year. So, 52 X 40 hours = 2080 hours, or the maximum number of hours an employee could work in one year working 40 hours per week for 52 weeks. Since it is customary for an employer to allow 8 paid holidays (64 hours) and one weeks paid vacation (40 hours) to their fulltime employees, we must deduct these hours (104 hours) from this 2080 total (2080 104 = 1976 hours). Furthermore, we know that it is only reasonable to expect our employees to miss an occasional day of work for illness or other personal reasons. Taking this fact into account, we shall allow for one day per month absence for illness and/or personal reasons (96 hours). Therefore, 1976 - 96 = 1880 total projected work hours per fulltime employee per year.

I know that deducting these hours from our total may not seem reasonable, since, after all, we will not be paying a wage to our employees for the days they miss due to illness or whatever. However, you must remember that for every hour an employee is not working in your shop, you will be unable to benefit from the potential profits they normally generate. As we will soon discover, this results in a net loss of around $30 per hour per employee! So, the next time a technician misses a days work, you may be tempted to remind them of the $240 in potential income you lost due to their absence!

Now, since all our office person's hours will be considered as non productive hours, we end up with three fulltime technicians, each expected to work for 1880 hours during the course of one years employment. But before we calculate the anticipate hourly service charge, let us take a practical look at how an employee is likely to spend their average 8 hour workday. It would not be practical to expect each employee to be 100% efficient, and be able to account for all 8 hours in direct billings. After all, there are many times when an employee's duties are not billable (i.e. answering phone calls, conferring with customers, paperwork, estimates, etc.). So, I will allow for 2 hours per day per technician on average to account for duties falling into this category, and this one-hour per technician will only be for the actual days we can expect them to be at work on the job. To establish this figure, we must calculate the number of days each employee will actually be on the job (as opposed to those holidays, vacation days and sick days). Therefore, we will take the anticipated number of hours present during the year (i.e. 1880 hours) and divide that number by 8 (the number of hours per day) to arrive at the number of days we can expect each employee to be present per year. Therefore 1880 ÷ 8 = 235 days per year x 2 hours per day or 470, which will be the number of hours per employee we can expect not to be able to bill directly. The 1880 hours per technician now becomes 1880 - 470, or, 1410 projected productive work hours per technician. So, 3 x 1410 = 4230 hours, which then becomes the total projected productive work hours for one entire year. And it is with these 4230 hours that we MUST generate the $246,316.[20] we need to realize our overhead and 15% planned profit margin. Therefore, we may now establish our projected hourly service charge by dividing our projected gross sales by our projected total productive work hours or, $246,316.[20] ÷ 4230 which equals $58.23 per hour labor charge. To

help build in a small cushion, most shop managers would round off this hourly charge to a straight $60.00 per hour service charge, which, at the time of this writing, is the approximate national average hourly service charge.

IMPLEMENTING YOUR HOURLY SERVICE CHARGE



I have found that if you divide each hour into 10 equal time units (one time unit = 6 minutes), you will be able to simplify your billing procedures quite effectively. With our established hourly service charge at $60, we will then charge $6 for every time unit or part of a time unit that we use to repair an instrument. For example, if a task requires 45 minutes to complete, then you would bill the client for 8 time units ($48). By charging a full $6 for the partial time unit, we are able to build in an additional cushion to cover for paperwork, conferring with the customer, and other necessary elements that are hard to account for in the overall service charge.

Along with this policy I strongly suggest that you establish a minimum service charge to be equal to at least 3 time units ($18 - 20 in this particular example). Also, if you are able to perform a specific task more quickly than the going charge would suggest, do not hesitate to charge your customer a price that is fair and compatible with the prevailing rate. This deviation from standard pricing policy should only be applied to special cases, as it would tend to be an otherwise dangerous practice to base your prices solely upon the local market. In cases such as this it must be stressed that *speed* is only acceptable when accompanied by *quality*, and as professionals, quality must be accompanied by speed. Only hobbyists can afford the luxury of taking their own sweet time.

A WORD ABOUT SPECIAL DISCOUNTS

As a precaution, guard against getting into the habit of indiscriminately giving your services away. This practice can reduce your overall profitability more than you can afford. Often, however, we are compelled to pull a stuck mouthpiece, replace a worn waterkey cork, or give away small inexpensive parts or materials without charging the person. There are times when this kind of generosity is in fact simply good business practice. After all, the few minutes that we donate, or the pocket change that we forego by giving these services away may well be that which compels this same customer to come back and gladly pay for your services in the future. I believe that only a small fraction of our clientele will be inclined to take advantage of this generosity. But, make no mistake, there will always be a few that will make genuine pests of themselves, given the opportunity. So. after a customer begins to wear out their welcome, start charging them the going rate. But, be sure to inform them up front that you will be charging for your services, so they may be given the opportunity of not getting the work done.

There is, of course, a gray area that you may run into when confronted with this decision. My advice is, if after careful consideration and in your best judgment, that by giving an individual a reasonable discount you will likely generate a considerable number of referrals or repeat business, then this may be the best route to go under the circumstances. Be cautious when setting this precedent though, since it is a lot easier to disallow a discount in the first place, than to revoke one at a later time.

It is my opinion that 25% or thereabouts is a fair discount to be allowed your wholesale clients (ie. other repair shops or retail music stores). To offer them less would not allow them a particularly fair mark-up, thus discouraging them from doing business with your shop; to offer them more than 25% would, on the other hand, allow them enough mark-up potential to actually compete for some of the same retail customers.

RULE OUT IMPULSES!

It is often a temptation to make promises that we are unable to keep, just so we have a better chance of being awarded a bid. These promises may take the form of unrealistic completion dates, exaggerations of the probable results, or estimates on the low side of reality. Just keep in mind that the momentary elation that your

customer expresses at your hasty promises will be transformed into anger 10-fold when your promises are not kept. It has been my experience that most customers will express more disappointment when their completion date is not met, than they do if the due date is kept, but with a slightly higher repair charge than quoted. With a little practice and an adherence to these basic rules, you will usually be able to keep your cost estimates well within tolerable limits; limits which will allow each job a reasonable profit potential.

If, after the job is completed and priced-out, you find that the actual price exceeds your estimate by more than 10%, find out why! You will be interested to know that in many states, the customer is not legally required to pay beyond a specific amount over the quoted price. If you discover while repairing an instrument, that more extensive work is required than your customer bargained for, it will be necessary for you to get in contact with your client and inform them that further repairs and charges will be in order. If they cannot justify the additional cost, then you are relegated to repair the instrument as best you can for the quoted price. All efforts must be made, however, to avoid letting any instrument leave your shop in unplayable condition. If, on the other hand, the customer gives you the go-ahead, you will have averted a potentially ugly incident.

ESTIMATING THE COST OF REPAIR

The first step in estimating the cost of repair, whether it is for a $5000 school inventory contract or for a $20 playing condition job, is to be absolutely sure that you understand the task completely. You must ask questions like: Do I know exactly what the customer wants and expects? .... Does the customer completely understand my recommendations? .... Will the job be economically feasible for me to do in my shop? .... Will I be able to make a profit on it?.... Do I have the trained staff and the necessary tooling and materials to perform the task properly? .... How about enough capital .... enough time? And lastly, on those bigger contracts which may involve credit, have you inquired into the credit and financial status of your customer? This whole process will involve studying job requirements, gathering the pertinent data and evaluating all the known facts and probable events, and must be done in a timely fashion.

Many repair technicians tend to get discouraged, or at least frustrated by the uncertain nature of many of these elements of cost analysis. "I do the best that I can and hope that everything works itself out!" they might say. Others, just as unrealistic, will base the cost of their repair solely upon the market conditions or upon their competitors prices. They may also make the mistake of *unit pricing* or assign arbitrary percentages to key elements of the overall cost. For example, they might let the total cost of the service charge be equal to X times the amount paid in direct labor to the technician performing the work. These shortcuts may work from time to time, however, they do not compensate for the peculiarities of each element of the repair task, nor does it guaranty the consistency that is necessary in setting up pricing policies. Occasionally you will lose a job bid to your competition by insisting upon estimations that reflect a realistic profit margin for you, however, it is more important that you keep up with the costs of your operation and make EVERY job have profit potential. Let the competition play the "cut-throat" game, for it will eventually be his throat that ends up getting cut!

At best, estimating the cost of a repair job is a time consuming task; a crucial element of your business that cannot be slighted. If you will take just a moment to analyze the important elements of cost estimating, you may be encouraged to see just how simple it can be. As is the case with solving any definable problem, cost estimation can be approached from a purely logistical point of view. Let there be no mistake, however, cost analysis will require patience, careful attention to detail, and a thorough knowledge of the operational and technical requirements of the job. By carefully adhering to the following five steps, you will be able to control the variability, and eliminate much of the confusion that cost estimation may otherwise cause.

1. IDENTIFY AND ISOLATE THE PROBLEMS TO BE CORRECTED

This is the time that all aspects of the job should be clarified. For example, do you fully understand exactly

what the customer wants done to his damaged instrument? Is he saying "overhaul" or "rebuild" when he really means for you to put it only into "good playing condition"? Never relay too heavily upon what the customer actually says. Learn to interpret and verify what he really means. After all, not being an instrument technician, you can hardly expect that he will always use correct nomenclature and trade jargon.

It is your responsibility, then, to be absolutely sure that you understand what the customer is asking you to do. Once this is understood, you must thoroughly inspect the instrument to verify the problem(s), and follow this inspection with a clear and simple explanation to your client. Refrain from using complicated language or unfamiliar terminology in your explanation. They will appreciate your patience and will be particularly thankful for your professional analysis.

As a professional, you must always evaluate your customer's repair needs HONESTLY, and if appropriate, recommend an alternative course of action, or correct any misinterpretations on their part. This can, and should be done in such a way so as not to offend them or to insult their intelligence. If they, for example, ask for a complete overhaul, and in your best judgment the instrument only requires a complete repad, then it is your professional duty to explain the reasons for your evaluation. If, after your explanation, they continue to insist upon a complete overhaul, then go ahead and satisfy their request without further discussion.

2. DECIDE UPON THE MOST DESIRABLE METHOD OF REPAIR

Often, there may be any number of acceptable ways to approach a specific repair problem. The actual method of repair chosen must occasionally be selected on the basis of its compatibility with whatever limiting factors that may be present. For example, if the instrument to be repaired must be used on a day-to-day basis, then this could limit the amount of time that the musician could afford to be without his instrument. In such a case, time would be a major consideration if no loaner is available. Or, if the customer can only afford to pay a limited amount of money, then this may affect the choice of repair methods used. In other cases, you may require tools or equipment that are not on hand in your shop. Or, perhaps you lack the skills to do the job properly, and a subcontract would be in order.

Another consideration might be that the instrument is so worn or obsolete that no amount of reasonable repair would ever be able to bring the instrument up to lasting playable condition. In such a case, the probable end result could not justify any attempt at repair, and an alternative course of action might best be the purchase of a new or used instrument in good playing condition.

Will the method of repair considered be likely to affect the overall value of the instrument adversely? After all, there are a number of repair techniques that may be appropriate for student-grade instruments yet would never be used on professional-grade instruments. Does the customer have a strong preference?

It is fairly common to have dealings with the type of individual who will insist upon having you replace only one pad or only one cork, in an effort to save money. I generally respond to this customer by first informing him of our minimum charge (ours is $20) and that I will use the entire time allotted not only to repair the one item he has requested, but also examine the rest of the instrument and make sure that it is in playable condition. It is of prime importance to not let an instrument out of the shop in unplayable condition.

The following steps should be performed concurrently with one another:

3. LIST EACH OPERATIONAL ELEMENT IN ITS PROPER ORDER

4. ESTIMATE THE TIME UNITS REQUIRED TO COMPLETE EACH ELEMENT (TOTAL-UP)

5. ITEMIZE ALL PARTS, MATERIALS AND SUPPLIES THAT ARE REQUIRED

Once the method of repair has been decided upon, it will then be necessary to itemize the major elements of the job at hand. With experience, many of the common and more routine tasks may be evaluated in your head, however, until you become absolutely sure of a job, it is best to get into the habit of actually writing down all

the operational elements on the form in their proper sequence. As each step is listed, all parts, materials, and expendable supplies used are also listed and priced according to our planned mark-up of 125% over our current wholesale price. Incidental supplies such as solder, touch-up lacquer, buffing compounds, etc. are noted at their appropriate step on the form, but assigned one all-inclusive charge at the end of the estimate to cover their minimal yet very real costs.

As each step or operational element is listed, a reasonable estimate in time units for an instrument in average condition is assigned to it. In cases where an instrument may require extra time, materials or replacement parts, you will be required to estimate these extra charges and add them on to your established "average estimate". If an operational step is significantly less than a single time unit in length, then an estimate of the actual number of minutes the task is likely to take should be placed adjacent to the step in the time units column with a circle around it so as not to confuse it for time units. At the end of the estimate these actual minutes will be added up and translated into relative time units and added to the overall total.

To demonstrate just how this system may be used, I have included an entire outline of the complete overhaul process of a trumpet/cornet. Following this outline you will find a breakdown of the major elements of the overhaul process and the relevant data pertaining to each operational element. This should help clarify just how this system may be utilized effectively in your own shop environment.

In order for you to become proficient at this, I would suggest that you organize similar listings for tasks that you perform on a regular basis in your own shop. Keep these listings on file and update them from time to time. As you increase your hourly service charge you will simply multiply your time unit totals times the new hourly service rate to establish updated prices. Try it, it works!