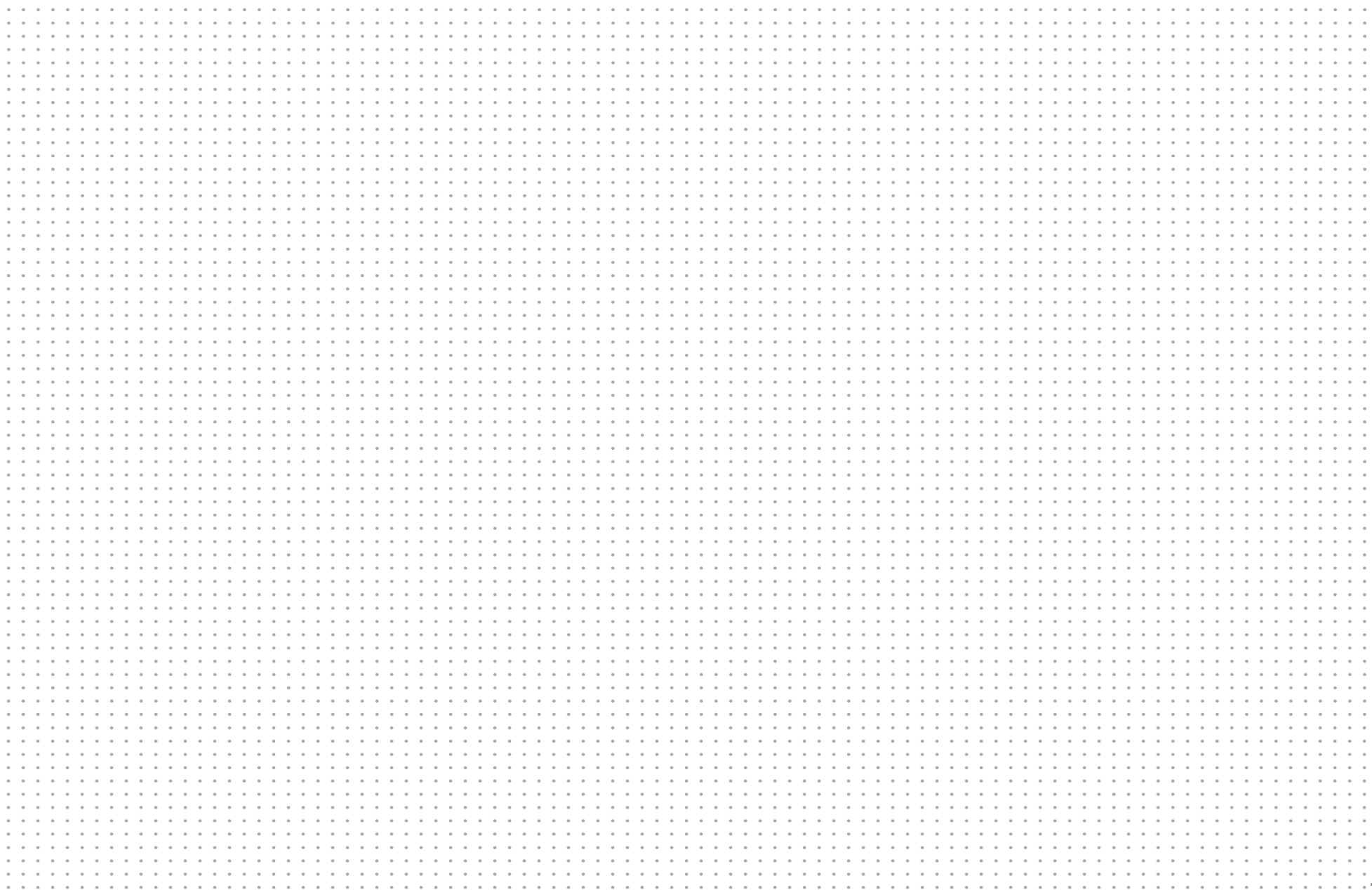
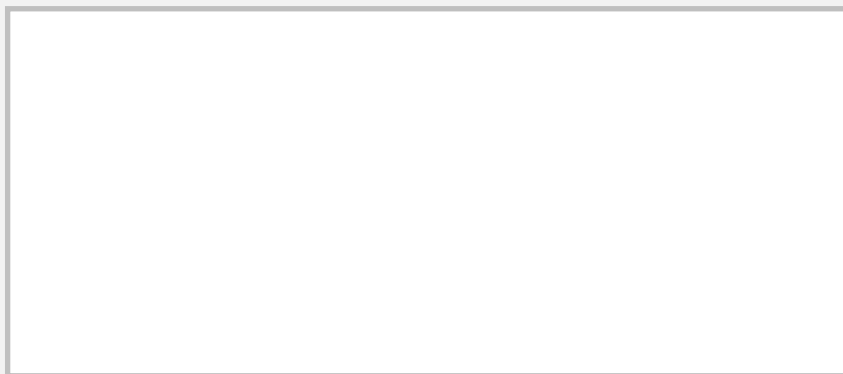


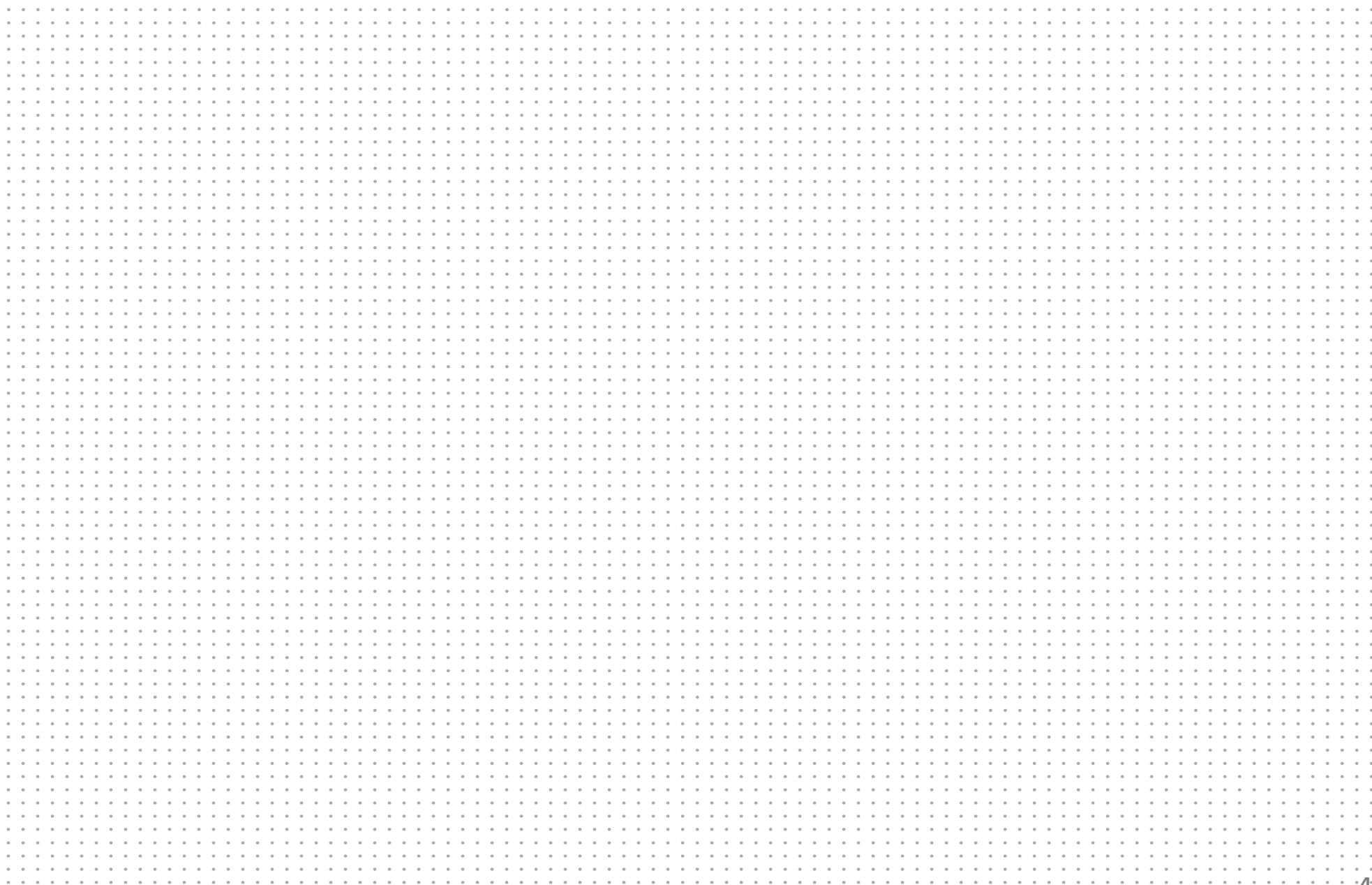
# Mastering Back Costing





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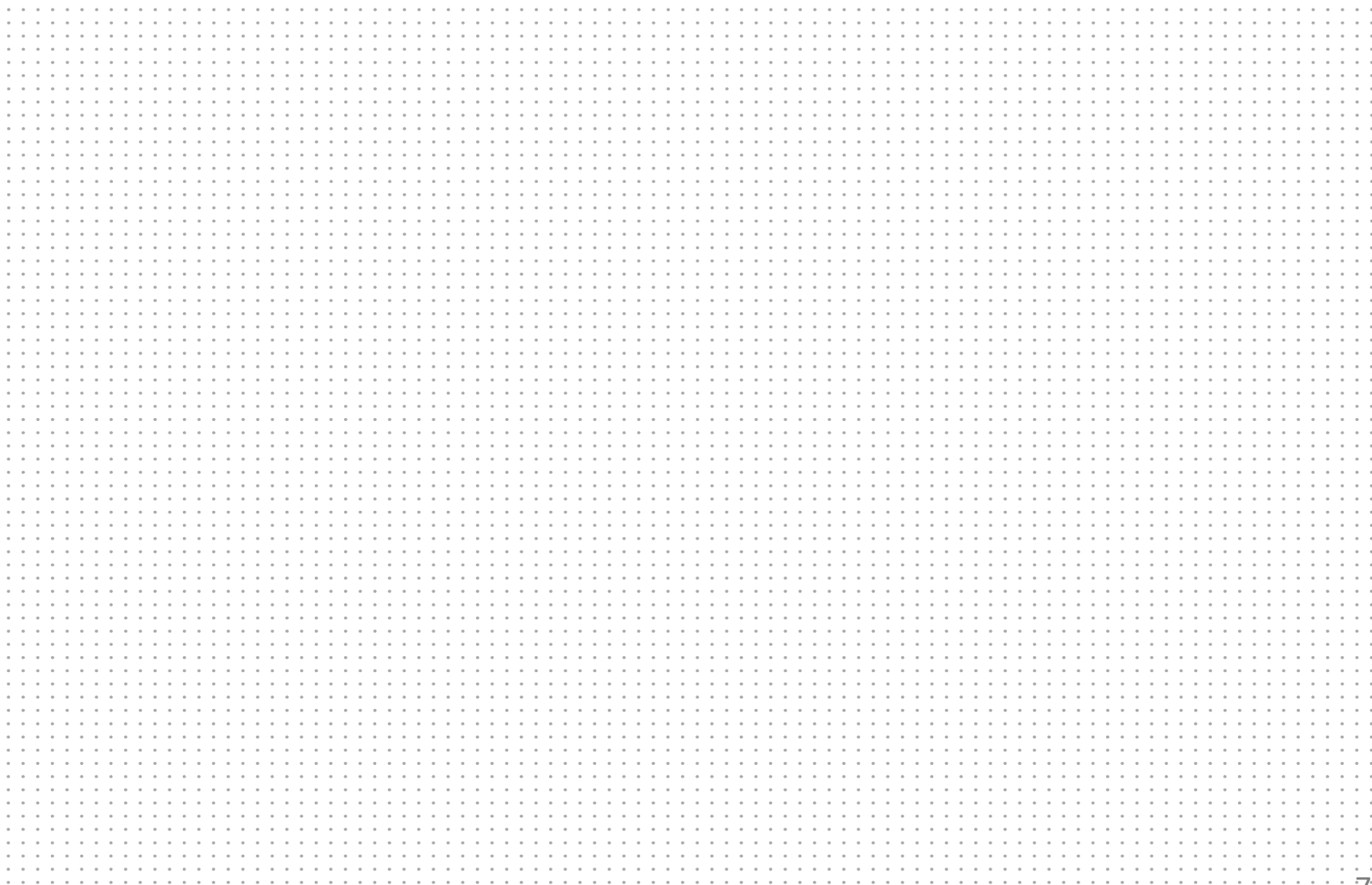


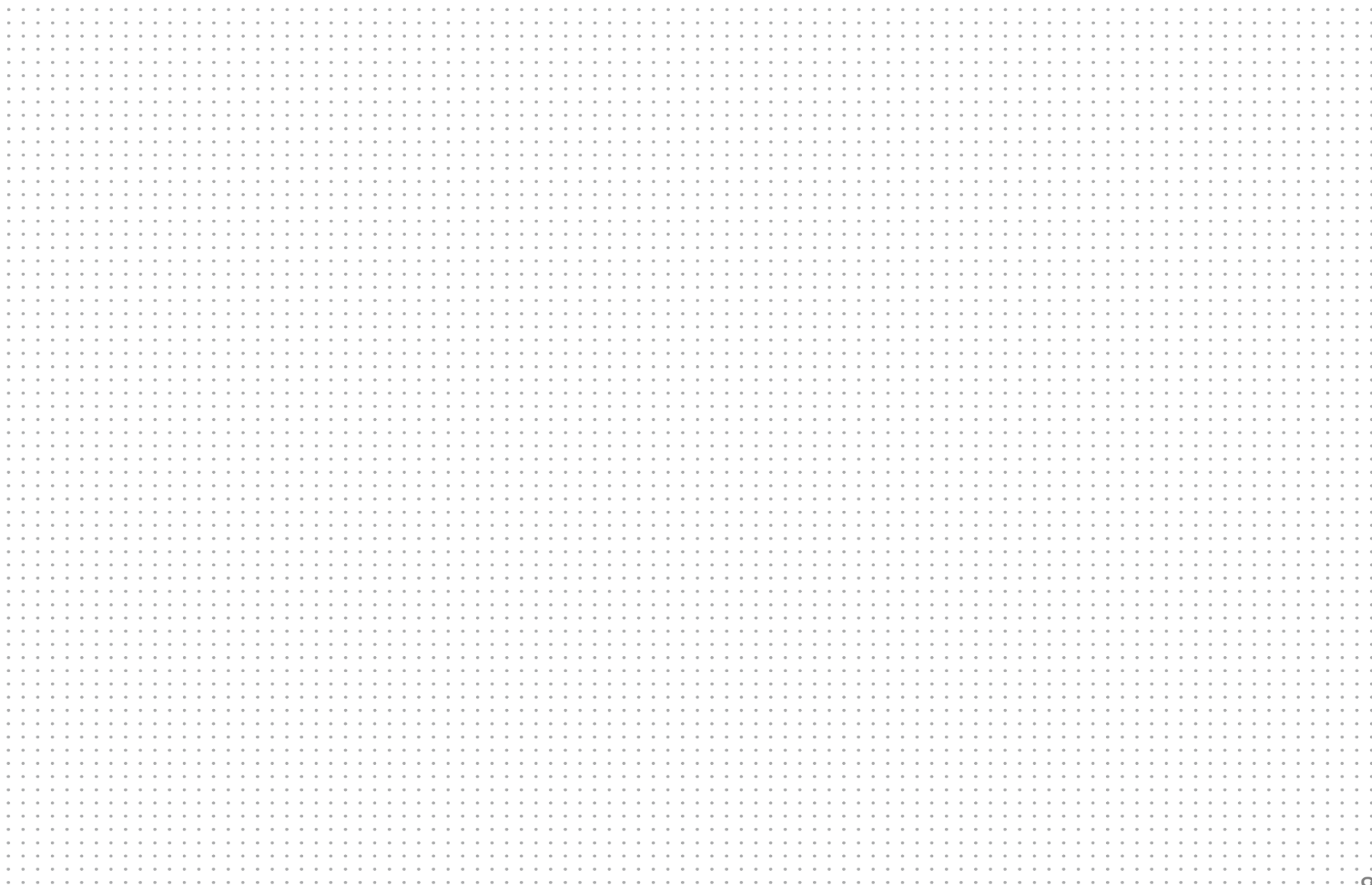
# 5 Key Principles...

1. You Can't Bank  
Margin...

2. Master Manual...









# Profit and Loss Statement for July 2020

**SALES** **\$268,460**

**LESS COST OF GOODS SOLD**

Opening Stock	\$10,000	
Opening WIP	\$20,000	
Wages (on the tools)	\$62,509	
Materials	\$87,572	
Sub Contractors	\$7,563	
Less closing stock	\$10,000	
Less Closing WIP	\$20,000	<b>\$157,644</b>

**GROSS PROFIT** **\$110,816**

**LESS FIXED COSTS**

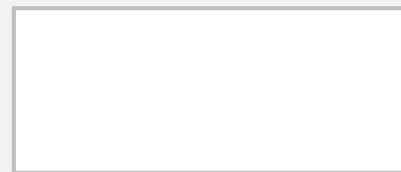
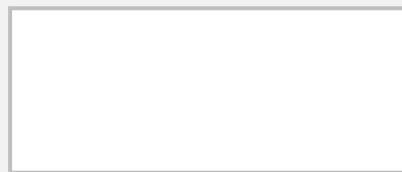
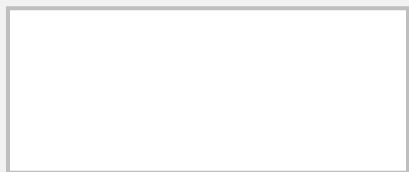
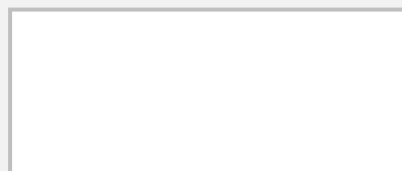
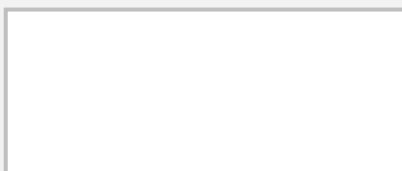
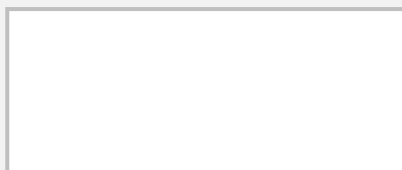
Bank fees	\$856	
ACC Levies / Workers Comp	\$1,258	
Marketing	\$2,485	
Power	\$502	
Phone	\$810	
Telephone	\$1,854	
Business Coaching	\$1,995	
Repairs & Maintenance	\$2,965	
Fuel	\$4,856	
Road user charges	\$851	
Accounting	\$850	
Insurance	\$1,595	
Rent & Outgoings	\$3,350	
Interest	\$917	
Stationery	\$386	
Office Wages	\$16,985	
Depreciation	\$1,859	
Salaries	\$8,333	
Subscriptions	\$1,452	
General Expenses	\$1,023	<b>\$55,182</b>
<b>NET PROFIT (PRE-TAX)</b>		<b>\$55,634</b>

## Notes

## The Mini Profit & Loss


<b>Sales</b>		<b>\$4,876</b>
<b>Less Cost Of Goods Sold</b>		
<b>Wages</b>	<b>\$1,100</b>	
<b>Materials</b>	<b>\$1,480</b>	
<b>Subcontractors</b>	<b>\$418</b>	
<b>Equipment Hire</b>	<b>-----</b>	<b>\$2,998</b>
	<hr/>	<hr/>
<b>Gross Profit</b>		<b>\$1,878</b>

Notes





# Back Costing Template

	A	B	C	D	E	F	G	H	I	J
1	<b>The Gross Profit Cheat Sheet</b>									
2	<b>Use this worksheet to back cost your jobs</b>									
3	Enter Job Name:									
4	Sales (excl. GST)			\$3,425						
5										
6	Less Cost of Goods Sold (Direct Costs excl. GST)									
7	Labour 1	\$	250.00							
8	Labour 2	\$	252.00							
9	Labour 3	\$	120.00							
10	Labour 4	\$	120.00							
11	Materials	\$	125.00							
12	Materials	\$	678.00							
13	Materials	\$	354.00							
14	Materials	\$	25.00							
15	Materials	\$	7.00							
16	Materials									
17	Materials									
18	Materials									
19	Subcontractors	\$	240.00							
20	Subcontractors									
21	Other Direct Costs									
22										
23	Total Cost of Goods Sold			\$	2,171.00					
24										
25	<b>Gross Profit</b>				<b>\$1,254.00</b>					
26										
27	<b>Gross Profit Margin</b>				<b>36.61%</b>					
28										
29	<b>Mark Up</b>				<b>57.76%</b>					

← Plug your numbers into the yellow boxes

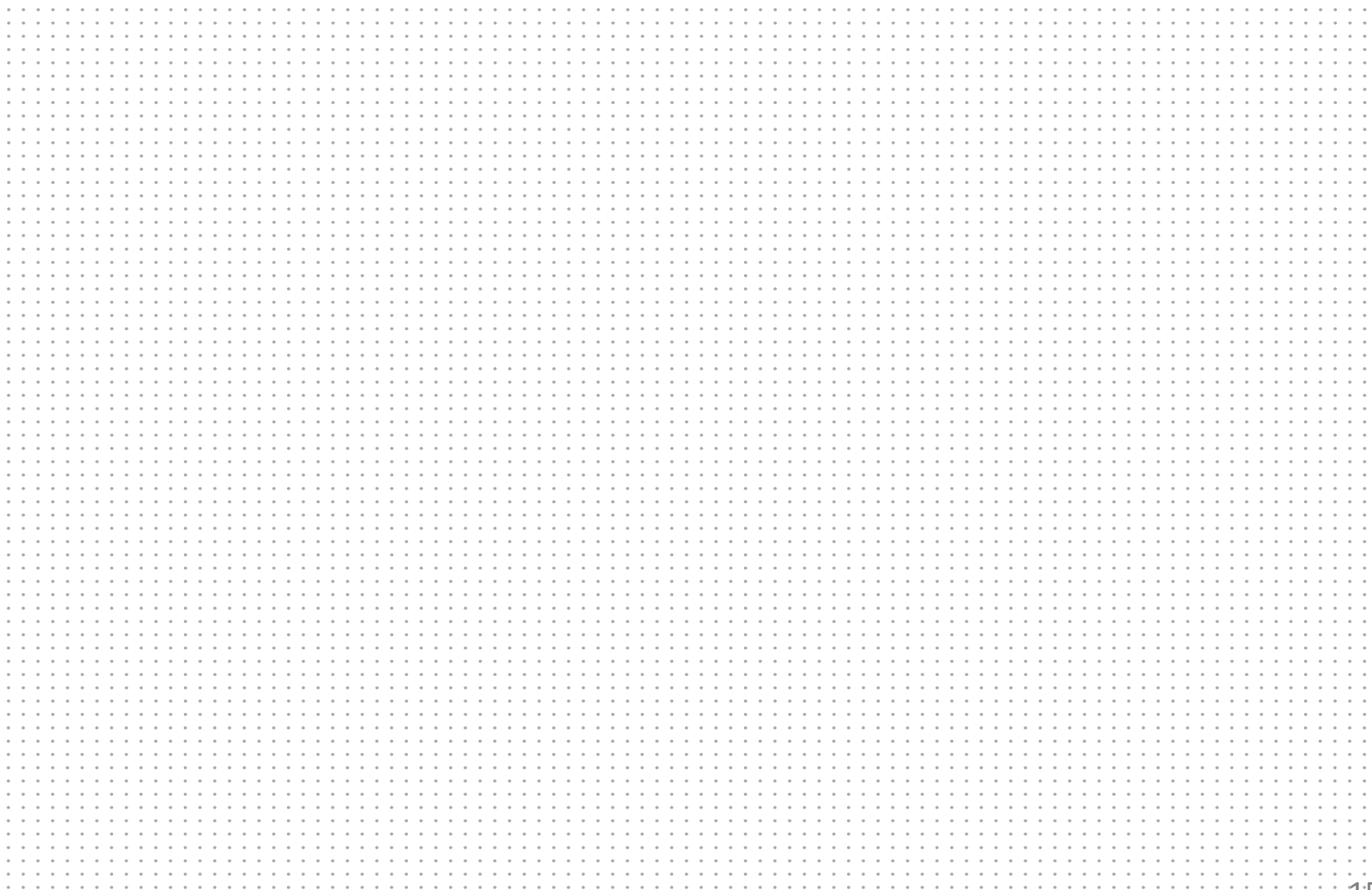
## Back Costing Example

**Sales:** \$5,976 (Excluding GST/Tax)

### Notes

**Labour:** John 26.5 hours @ \$32 P/H  
Nick 20 hours @ \$30 P/H  
Jacob 8 hours @ \$20 P/H

**Materials:** Invoice #1 \$1602.49  
Invoice #2 \$638.49  
Invoice #3 \$14.54



# Back Costing Example

*James runs an Electrical Contracting business. He's got a nagging feeling that some of his work is more profitable than others, but he isn't sure how to figure this out. Some of his work has high margins and other work has lower margins but the jobs are bigger.*

*James has figured out that his business does 3 main areas of work.*

- 1. Working with building contractors to wire new houses*
- 2. Maintenance and service work for homeowners*
- 3. Ventilation systems*

*For each type of work James has got some figures together around revenue and profit per job.*

*For his work with builders the average job is \$15,152. The average gross profit margin is 38%. The average gross profit in dollar terms is \$5769. The average hours per job is 114.5.*

*For his maintenance and service work the average job is \$464. The average gross profit margin is 63%. The average gross profit in dollar terms is \$293. The average hours per job is 3.1.*

*For his ventilation work the average job is \$3776. The average gross profit margin is 45%. The average gross profit in dollar terms is \$1701. The average hours per job is 12.2.*

*Can you help James and figure out what work makes the most gross profit per hour?*

## Notes



# Gross Profit Calculator

<b>Category (e.g. Job Type / Clients etc.)</b>				
<b>Average Revenue / Sales per job</b>				
<b>Average Gross Profit Margin per job</b>				
<b>Average Gross Profit Dollars per Job</b>				
<b>Average Hours Worked per job (Onsite)</b>				
<b>Gross Profit Per Hour (Gross Profit per job / Hours Worked per job)</b>				

**Notes**

# **Back Costing Questions**

## **Interrogation Questions:**

**How much quoting time is required?**

**How much administration time is required?**

**How many site (sales) visits are required?**

**What's the typical conversion rates (low, medium, high)?**

**Investment of equipment required?**

**How easy / difficult to find team members?**

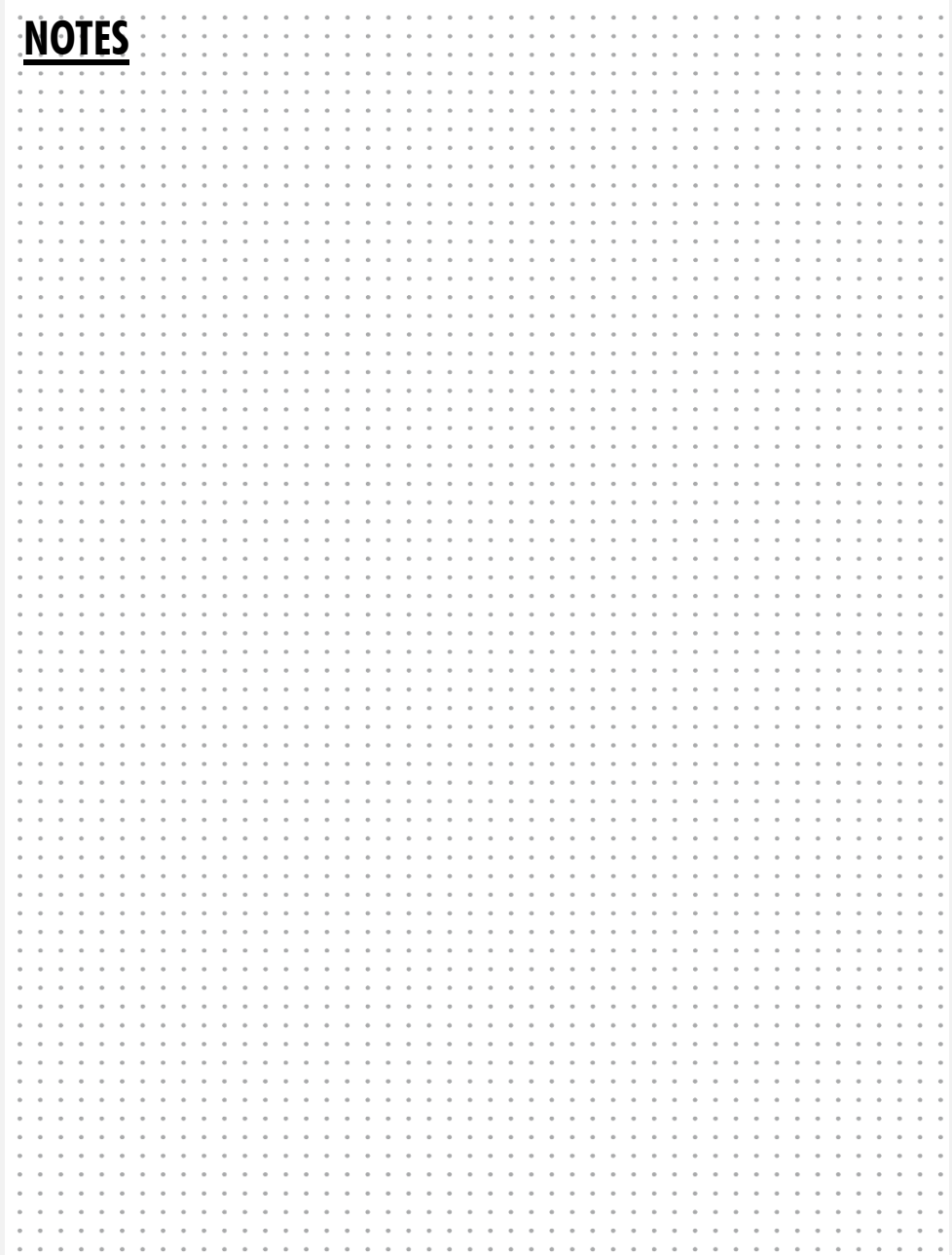
**How easy / expensive is it to get these clients?**

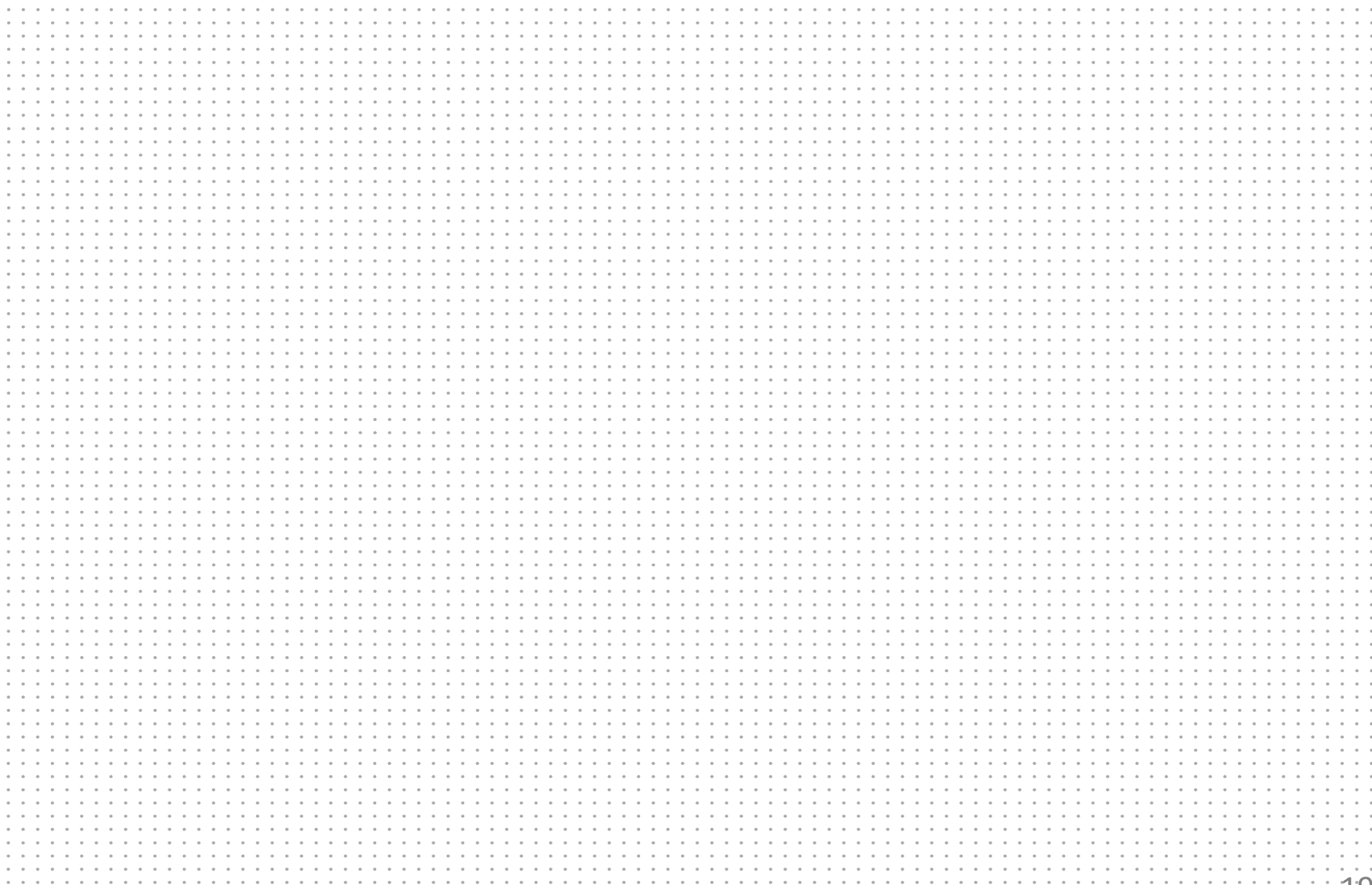
**How easy is it to schedule and utilise your labour?**

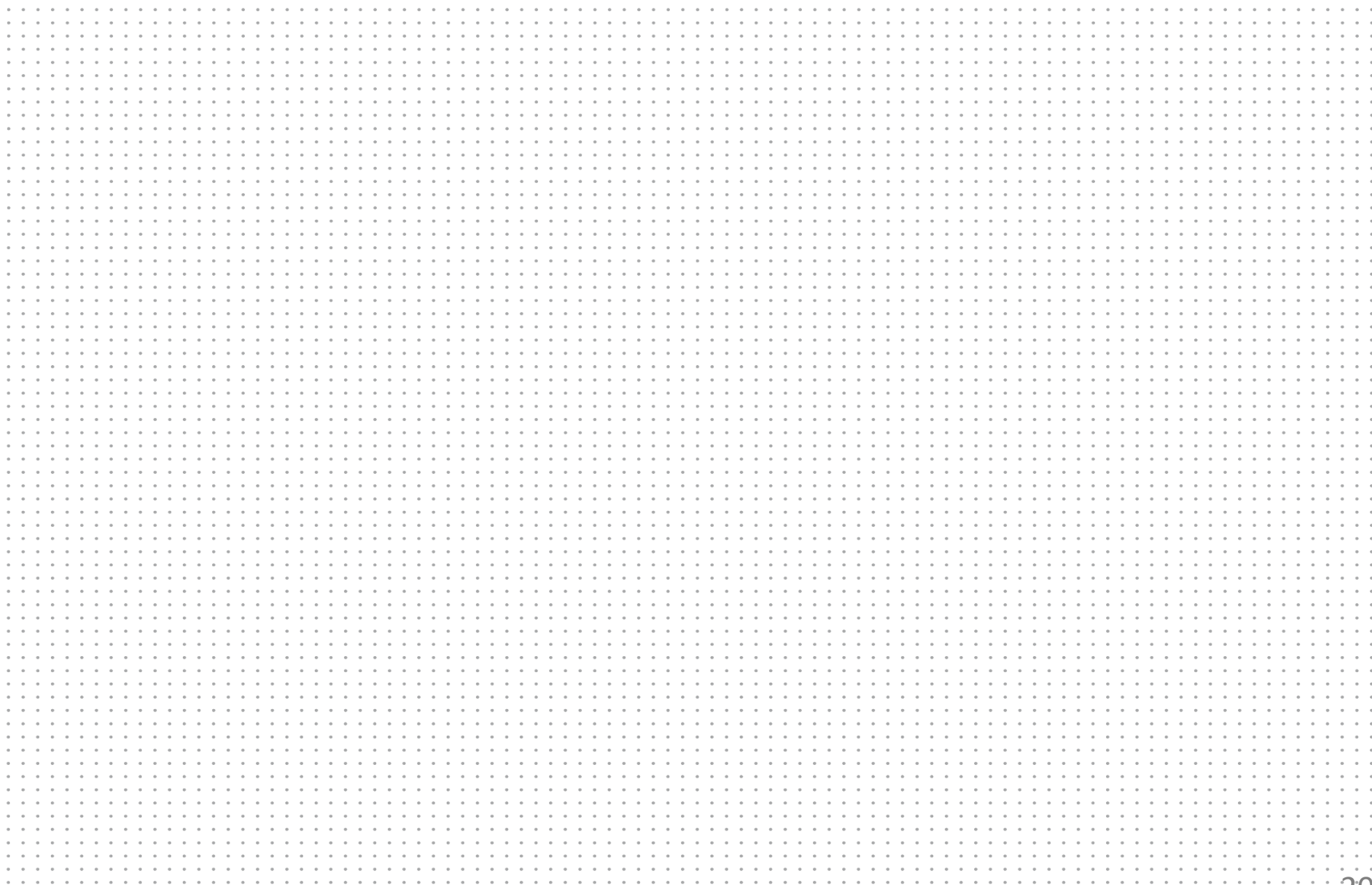
**How easy is it to systemise the onsite work?**

**How easy / difficult is it to train this work?**

## **NOTES**







# The Profit Maximiser

## PRICING

- Have and review your target margin for each type of work (e.g. Maintenance 55% plus, New Homes 35-40%).
- Price for Gross Profit Margin, rather than Mark-up.
- Charge a service fee for attending a job (e.g. \$165 for turning up, including first 30 mins of labour, no materials).
- Charge for all variations.
- Exclude variations from contract retentions.
- Include a specified number of trips to site & charge for extra trips. Stop Contractors messing you around.
- Create set prices for regular maintenance / servicing jobs. Make set prices higher than time & materials invoices.
- Increase your mark-up on materials and / or sub-contractors.
- Increase your hourly charge out rate. Aim to be in the top 25% of charge out rates. Companies charging the average rate seldom make good profit.
- Increase the charge out rate for apprentices. Charge tradesmen rates when doing tradesmen work.
- Limit the amount of charge out rates. Different rates for different clients generally means you are discounting more than you should.
- Charge more for specialist work (e.g. gas fitting, heavy industrial, advanced electronics and programming etc).
- Increase your travel charge. Create a "Travel Zone" with increasing charges the further the zone is from the workshop.
- Increase your consumables charge.
- Stop working for free (e.g. Site Inspection fee for quotes)
- Stop discounting.
- Improve accuracy of labour & material take offs.

## PRODUCTIVITY

- Back cost every job to determine profit and hours used.
- Review the margin on every charge up invoice prior to sending to ensure you are hitting your gross profit margin targets.
- Institute a replace rather than repair policy.
- Negotiate better price and terms with suppliers.
- Create Pre-Job checklists to ensure jobs are well organised.
- Create Quality Assurance checklists to ensure jobs are completed right the first time.
- Ensure you have the best tools and equipment so that jobs are completed quickly and efficiently.
- Manage your team combinations so the best mix of skills are on the right jobs.
- Use apprentice and semi-skilled labour for less complex jobs (e.g. group or high-volume builders).
- Build a high performing team culture that values hard work, accountability and self-motivation (i.e. Core Values, Rules of the Game, Performance Appraisals, Incentives, Team Meetings etc).
- Create a Van Stock template to ensure trips to the merchant are minimised.
- Create a material ordering process to ensure materials are on site, on time.

## UTILISE YOUR ASSETS

- Reduce or eliminate labour-only work as you are unable to sell materials with labour.
- Ensure the team only takes their appropriate breaks for smoko and lunch.
- Charge clients for trips to suppliers that result from completing their job.
- Have tradespeople travel directly to site rather than coming to the workshop each morning.
- Install GPS units in all trucks / vans to track vehicles, keep team members accountable and provide information when clients query invoices.
- Improve your job scheduling process by training a dedicated person (people) and having a back stop of non-urgent jobs.
- Market locally to reduce travel times and improve scheduling efficiency.
- Grow your sales to maximise the fixed costs on your business.
- Choose profitable market niches rather than price competitive jobs.
- Proactively market your business to increase your choice around clients and jobs. Work with the higher profit clients and sack the low profit clients.
- Employ a gopher to collect materials, dump rubbish, get lunches etc to maximise tradesperson time on the job.



