1330 Buffalo Road, Rochester, NY 14626
585-413-0574
www.DocsFS.com

Pricing So You Profit

Episode 139

Understanding that a company owner knows the method of pricing so they profit, seems obvious. But in my experience, new and not-so-new commercial cleaning companies often focus on GETTING the work more. Don't misunderstand me. Landing a new cleaning contract is a crucial step toward growing any janitorial business. But having work and having profitable work are not the same thing. I've witnessed many cleaning business owners leave money on the table without even knowing it.

When I talk to contractors about their billable rates, the first thing I hear is, "Well, I'm just matching what my competitors charge." Those are dangerous words and that's a recipe for disaster. That's exactly why so many hardworking entrepreneurs are working 60-plus-hour weeks just to break even and have so much money on float.

The truth is, pricing your services isn't about matching the market. It's about understanding what it actually costs you to do business. YES, I DO mean every single expense, every single hidden overhead, every factor that eats into your profit margin. And I mean *everything*.

The Labor Burden is Just the Beginning of Your Pricing

Most owners think, "I pay my person $18 an hour, so that's my cost." Wrong. That $18 is just the starting point.

Your real labor burden includes:

- Payroll taxes (FICA, SUI, FUI, Medicaid—typically 9-12%)
- Workers' compensation insurance (which can range from 2-12% depending on your state and your claims history)
- Paid holidays and PTO (2-5%)
- Training costs (1-2%)
- Uniforms
- Employee benefits like healthcare

When you add it all up, that $18/hour person actually costs you closer to $22, sometimes more. That's the fully weighted burden of your hourly rate. This is where most owners lose sight of their profitability.

The Direct Costs Add Up Fast

Then there's everything else. Are you buying your cleaning chemicals from the dollar store at a dollar per bottle, or are you sourcing concentrated solutions at pennies per quart? That's a massive difference in your actual cost per job. What about paper products, equipment depreciation, repairs, fuel, vehicle costs, cell phones, and quality inspections? Every single one of these needs to be tracked and factored into your pricing.

Remember Your Overhead When Pricing

Beyond the job itself, you've have office staff, marketing, payroll processing and accounting. Have you included legal fees (yes, you should have a business attorney on retainer)? Big ticket items like insurance, rent, utilities, software, and bank fees must be considered. These overhead costs typically add another 10-20% on top of your labor burden.

Pricing and Your Profits

And then, the word that clients hate to hear, **profit**. You absolutely must build profit into your rates. This isn't greed; it's survival. Profit is how you fund equipment upgrades, handle emergencies, and keep your business growing. Most cleaning companies aim for 10-15% profit margin.

The Math That Actually Works

Let's do the real calculation: an $18/hour employee with a $3.96 labor burden, $2.25 in direct costs, $4.27 in overhead, and $5.03 in profit gives you a billable rate of **$33.51 per hour**—not the $20 you might be charging right now.

What's that gap? That's the difference between a thriving business and one that's slowly going under. Don't make the mistake of saying, "I'll make it up in volume". That will only mask the problem.

Take Control of Your Numbers

I've created a spreadsheet tool that breaks down every single expense category you need to track. It's just **99 cents to download**, and it includes all the fields you need to calculate your true billable rate.

Stop undercutting yourself. Stop joining your competitors in the race to zero. Download the pricing calculator today for 99 Cents, and if you want personalized guidance, my coaching services are here to help you build the profitable business you deserve.

Your numbers don't lie. But if you're not tracking them, you're flying blind. Contact me to schedule your coaching calls and get ready to build a profitable Cleaning Company.

The audio version of this podcast can be found on YouTube or my website.

[00:00:02.17] - Ray
Joel, we're talking about how to determine your billable rate.

[00:00:06.29] - Joel
You just match the next lowest price. That's what everybody tells me.

[00:00:10.16] - Ray
But my friend Joel doesn't tell me that.
[00:00:12.02] - Joel
No, that's a recipe for disaster.

[00:00:13.29] - Ray
Let's not do that. What do you really tell your customers?

[00:00:17.08] - Joel
I tell them, well, how much are you paying your employee? And they go, what are you paying your staff? And I go, where are you in the country? Because minimum wages are different in every state. Some are as low as the federal minimum. Some states have higher minimum wages and it depends sometimes on business category, age. There's a lot of different things. So it all starts with how much are you paying your employee per hour.

[00:00:39.06] - Ray
Now, the employee rate is your most expensive single unit, is that correct?

[00:00:43.18] - Joel
That is correct. It's typically 80+% of every dollar when you look at it as a full weighted burden for the company. And that's where people don't understand what's a fully weighted burden. And that's all the things that go into your price per hour. So we'll make this easy math. If someone says, oh, I pay my people $10 an hour. All right. It's a 10-hour job. $10 an hour. That's $100 that they're going to pay the person, right? That's it.

[00:01:08.24] - Ray
No.

[00:01:09.18] - Joel
There's, there's so much more. You have to look at how much are your payroll taxes, what's your SUI, your FUI, your FICA, your Medicaid. Those are usually somewhere between 9%

and 12% of what an employee's rate of pay is. So if we use 10% of $10, that's an extra dollar. What's the worker compensation rate? And this is a real big one because new startup companies, like if you're in New York State, you get pushed to the state fund. You hate getting pushed to the state fund because it is the highest you will ever pay for workers' comp. When I finally had a company long enough and it could go out to open market, which means other insurance companies can finally bid on your worker comp rate, They look at a lot of factors such as how many employees, your turnover, if you've had any claims and all that. And then they determine the risk factor for your industry and what every business category of every person's doing for you. If they're just cleaners, if they're office staff, if they're salespeople, if they're a business owner who stays in the office or a business owner who goes on customer visits, are they doing floor work, carpet work?

[00:02:13.26] - Joel
Every category has a different workers' comp rate. So that's going to fall somewhere between 2% and 12% as well. Are you offering paid holidays and paid time off? That too is going to factor somewhere between 2 to 5% of a price. How much training are you putting in? The training cost per person is about 1 to 2%. Uniforms, that could be as little as half a percent or 1%, or if you don't have uniforms, obviously it's nothing. Employee benefits, are you paying healthcare and anything else along that line
besides the paid time off? That's gonna be somewhere between 3 and 15%.

[00:02:47.10] - Ray
Now, Joel, it seems to me everything that we've talked about really centers around the employee, around the staff. Insurance effectively does as well, but obviously, you know, workers' comp. But beyond that, materials.

[00:02:58.15] - Joel
Well, that's the next part. We have our direct operating costs. So we need to know what is the cost of our cleaning chemicals? And you need to know what the end cost is per unit. So if you go to the dollar store, you buy something off the shelf for a dollar, or you buy something from a JanSan provider that's a concentrate, and you can mix the chemical and do it for 6 cents a quart, as opposed to $1 per quart, your real costs are much less. You pay higher upfront because they're concentrates. Other things that are considered under your direct operating costs are going to be things like any paper products if they're supplied. Are you supplying the toilet paper, the paper towels, the hand soap, the liners? Equipment depreciation. Well, what are you going to need? Do you need a vacuum? Do you need a Brute Barrel, which is a trash collecting unit? Do you need an auto scrubber? Equipment repairs. What is your historical repair on equipment? How much fuel? Well, let's see, that's a variable kind of rate because it changes sometimes day by day, hour by hour, depending on what's going on in the economy.

[00:03:56.25] - Joel
What's your vehicle costs? Are you leasing vehicles? Are, do you have a vehicle that's paid off? Are you saving for another vehicle? A car note that you have to pay every month? What are your costs of the cell phones? Do you have landlines? What about the quality inspections that you should be doing? Who's doing them and how long is it taking? So you have those additional direct costs that you have to figure in, and then you want to add in company overhead because as you alluded to, there's other things that are involved. Well, what are the people that work in the office? What are their salaries? You, the owner, are probably

working in the office. Do you have an HR person? You have somebody doing marketing, somebody doing payroll. These are all functions of people that might be in your office. Do you have a sales department? Are you paying commissions? Are you paying bonuses? Do you have an accounting team? If you don't have an accounting team, do you have an outside person that is checking your books in order to do your reconciliations on a monthly and quarterly basis? What are your insurance rates?

[00:04:54.04] - Joel
What's your rent, utilities? How much are you spending towards marketing? Do you have any software? What are the office supplies, your pens, your pencils, your Post-it notes, your folders? Legal fees. Oh, I never got sued. Well, you should have a business attorney on retainer at a very minimum, or have one that over time they drop the retainer and they just work on an hourly basis because you develop a relationship. And what are your bank fees? Oh, I've never bounced a check. Okay, wait till that one time.

[00:05:21.02] - Ray
You will.

[00:05:22.20] - Joel
So it may be somewhere between 10% and 20% of the overall cost of the labor burden. And then, oh my goodness, Oh my goodness, that dirty word that no client wants to hear.

[00:05:34.11] - Ray
Can I guess?

[00:05:35.05] - Joel
Go ahead.

[00:05:36.00] - Ray
Profit.

[00:05:36.21] - Joel
Profit. Oh my God, that word is so dirty. Yeah, you have to make a profit in order to keep your business going. This is how you get the money that you can put into savings to save towards equipment for another job. And a lot of companies in our industry try to pitch 10 to 15%. Love to get more, but that’s very hard to do when you're looking at the base services of cleaning. So, that is how you're going to figure out what your billable rate is. You're gonna take that first hourly wage, what is the labor burden, add in your direct overhead costs and your profit, and come up with a per hour cost. So let's be realistic. I said $10, let's say that we started out with $18. That was $18 an hour. You have a labor burden of about $3.96. Your direct costs are gonna relate to about $2.25 per hour, overhead of $4.27, and a profit of $5.03. So your billable labor hour would be about $33.51 based on an 18-hour employee.

[00:06:38.02] - Ray
Joel, is there any chance that you have maybe a spreadsheet or some other document that would clearly fit this calculation and at the very least list all the fields that the business owner should be filling in so they really do know how to price their efforts?

[00:06:55.02] - Joel

Of course I do.

[00:06:56.28] - Ray
Would this by any chance be something like, oh, a 99-cent download?

[00:07:01.16] - Joel
I do believe.

[00:07:02.23] - Ray
It's like magic.

[00:07:03.23] - Joel
Absolutely. There are so many factors that most business owners do not consider. And when they go in and they are struggling for a sale, sometimes they are willing to match a price when they know that their price point is gonna put them outta business based on the fact that they are undercutting themselves.

[00:07:20.28] - Ray
We've talked about the race to zero.

[00:07:22.13] - Joel
Yes, we have. We have a downloadable with this episode based on how to come up with your bill rate. We also have other attachments at the end that show other services and books to help support your journey. And we are looking forward to hearing additional comments on things that you would like to hear us talk about.