

# Why You Can't Make Money Charging \$25 an Hour

By Monroe Porter



Many small contractors mistake wages with what they should charge a customer for their services. Since many contractors start out moonlighting and doing side jobs, such logic is understandable. Unfortunately, side work is just that, side work. The part-time contractor is probably earning most of his livable income through regular employment. Plus, I suspect many part-timers are taking cash and not paying taxes on their work.

## A simple scenario

So let's develop a simple budget for a small start up contractor.

Truck/Maintenance/Gas, Oil/Insurance	\$10,000.00
Tools and Supplies	4,000.00
Phone	2,000.00
Office	2,400.00
Advertising	1,200.00
Insurance	1,000.00
Bookkeeping, Accounting & Legal	2,400.00
Computer	700.00
Office Supplies	500.00
Dues & Subscriptions	400.00
Uniforms	400.00
Owner's Administrative Salary	15,000.00
<b>Total:</b>	<b>\$ 40,000.00</b>

The above costs are purely fictitious and have been put together just for this example. While your numbers may vary, you can determine similar costs. Take your checkbook and other records and estimate your costs. If you do not know, guess. An educated guess is better than having no budget at all. Also, note we have not included retirement compensation, hospitalization or other owner benefits in the above example.

We have included a \$15,000 cost for owner's administrative salary, which covers non-field activities such as estimating time, billing, etc. It is important to build this owner non-field time into the budget. If not, a small contractor ends up doing all of these chores for nothing and working for his customer for free.

It is also important to note that we budgeted \$10,000 for truck expenses. Many contractors make the mistake of not adequately budgeting to replace equipment and end up with worn out, run down equipment because they cannot afford to replace it.

## At what point are we profitable?

What do we have to charge per hour to turn a profit? We need to recoup the \$40,000 overhead cost before any profit exists. Let's look at what these numbers mean in actual compensation. In our example, we are assuming the owner would work 2,000 hour year in the field (40 hours a week, 50 weeks a year).

One might argue that our budget is too high. Even if the budget was \$10,000 less, charging \$25 per hour would only reap \$35,000 a year. Is it really worth owning a business? All the headaches, hassles and other day to day stress is just not worth the hassle.

## More employees and more volume doesn't always mean more profit

I know what you are thinking. We aren't just a one-man band. We have employees and more volume. That will make us profitable. Suppose at \$25 per hour, you employ another person and have 2,000 more hours. This will generate another \$50,000 in revenue, so now your \$25,000 (from the above chart) return at \$25 per hour plus our \$50,000 turns into \$75,000 income.

But wait ... you are going to have to pay that person. With payroll taxes and insurance, that person is going to cost you at least \$15 per hour, or \$30,000 a year. In reality, \$20 per hour is more likely and that equates to \$40,000 yearly. And of course, if you are paying workers compensation, the hourly rate will probably have to go much higher. So all of this \$50,000 in sales is not profit and there is a good chance this new employee will not work as fast as you.

You might generate more income, but there is also more financial strain as you add people. You may need more tools and another truck. You will have to sell more jobs, do payroll, etc. An owner and another person might make a living at \$25 per hour as long as they control overhead, the owner continues to work in the field and you stay as productive as you once were. But why not do this at \$35 or \$40 an hour? Have a real business and not just a job.

And remember, if you go to three or four employees, soon you will no longer be able to work in the field. Production will slow and overhead will increase. So my statement stands: It is very difficult, if not impossible, to make a profit at such a low hourly rate work.

## Get paid what you deserve

Again, I know what you are thinking. "There is no way I can sell my work that high." We have lots of contractors who charge \$40 and above for their services. Maybe the reason you cannot sell higher than you do is right between your own ears. Or maybe it is because you have not taken the time to make a budget and do not want to overcharge your customers. Or maybe, because you do cheap work, you attract cheap customers. Possibly you need to find a different customer base.

Many small contractors make less money than if they had a job. So why put themselves through being self employed? Some prefer to work by themselves, be small and make a good living. Cheers and hip, hip hurray for those folks. Free enterprise is a wonderful thing.

I have, however, found there is another group of contractors who stay small because the owner wants to take cash, cannot work for

Hourly Labor Rate With Overhead and Profit	Total Yearly Field Hours	Total Income (Hours x Rate)	Overhead As Budgeted	Total Income Less Overhead	Administrative Owner Salary (Remember 15k was in our budget)	Total Owner Compensation (Including the 15k Admin)
\$15.00	2,000	\$30,000	\$40,000	<\$10,000>	\$15,000	\$5,000
\$20.00	2,000	\$40,000	\$40,000	-\$0-	\$15,000	\$15,000
\$25.00	2,000	\$50,000	\$40,000	\$10,000	\$15,000	\$25,000
\$30.00	2,000	\$60,000	\$40,000	\$20,000	\$15,000	\$35,000
\$35.00	2,000	\$70,000	\$40,000	\$30,000	\$15,000	\$45,000
\$40.00	2,000	\$80,000	\$40,000	\$40,000	\$15,000	\$55,000

We are basically taking our hourly rate and multiplying it by the number of field hours produced, and then subtracting our \$40,000 overhead. We have already built a non-field owner salary of \$15,000 into our budget, so we have to add this \$15,000 administrative salary to the total income, less overhead, to arrive at total owner compensation. As you can see in this example, \$25.00 per hour equates to \$25,000 a year, which is barely a livable salary.

someone else, won't pass a drug test, etc. These are the folks who cheat the system and make it difficult on everyone.

In closing, I want to make it clear. I am all for the small contractor. In fact, I doubt you have ever read one of my columns that promotes bigness or growth. Most of the contractors that go broke do so because they grow too fast and are too cheap. So staying small is a great idea, I just think you should be paid what you deserve.