



Tradie Gauge™ – Definitions, Theory and Assumptions

1. If you are the only worker, assume that you are a contractor to the business.
2. Fixed costs are an approximation of what it takes to be open. It does not break into fixed and variable - e.g. line rental and phone costs. Deliberately, we have avoided making it too complex under the notion of 'reasonably accurate'. If you want to alter the fixed costs regularly, you can.
3. Desired profit of the business – this is for John Doe Pty Ltd; John Doe is treated as a worker and yes, he can be paid at a higher rate.
4. Breakeven is when all fixed costs are covered but the business makes no profit.
5. Target Net Profit is the fixed costs plus the profit you desire. If you are over this, you are exceeding your target. In the field, if this is exceeded and the client begs for a discount, you know how much leeway you have before cutting into your desired profit.
6. Breakeven (in units) = $\text{Fixed Costs} / (\text{Selling Price per unit} - \text{Variable cost per unit})$.
7. Breakeven (in dollars) = Breakeven (in units) * Selling Price per unit.
8. It may be the case that you go with a project that just contributes to overheads (i.e. your fixed costs).
9. Contributing to overheads may be okay for incremental business; e.g. show your worth to a new client. Do this all the time and you'll make no profit.
10. This model does not calculate any tax - either GST, PAYG or Income Tax.
11. Always compare how much you need to charge with what you are planning to charge.
12. If you have fixed costs of \$5,000 per month and you want to make \$10,000 per month, you need to make around \$86 per hour after workers are paid! Without including any profit made on materials and parts.

13. How much you need to charge is very much dependent on what the mark up is on the labour (the worker).

14. Quick guide to mark-up - 100% mu = 50% gross profit; 50% mu gives 33% gp; 33% mu gives 24% gp. Don't confuse mark-up, margin, gross profit and cash.

Mark-up – the factor you apply to cost to set your retail price

Margin – The difference between the retail price and the cost

Gross Profit – All the margins together for the whole business. Tradie Gauge™ does not calculate for the whole business; that is for your accountant. It's to see if the quote is in line with what you want, *before any work commences*.

15. Twist™ can be very profitable if other jobs are waiting. A worker may do 40 hours but you charge out 60. You must have top class workers to do this. This concept is leverage that is very advantageous to the business. Clients must not be aware of this. But if the client agrees to an all up quote, they do not need to know what happens with the Tradie's economics. Tradie Gauge™ is not for clients of tradies.

16. Charge for ALL materials even if the client is given a total price quote. You must make your margin on materials.

17. This model is based on a vehicle servicing business. It can be used in any business when both materials and labour are sold.

18. The average number of hours available for the business to be open is 173.2 hours per month. (40 hours per week multiplied by 4.33, the average number of weeks in a month. This factor is used for overhead calculations.

19. 'Reasonably accurate' avoids complexity. Your accounting system has the actual numbers and you can tweak the settings accordingly. It does not matter to Tradie Gauge™ about public holidays, nor whether the business closes down in February compared with December. If you close down for a month, the overheads will be calculated over the months that you are open. This obviously increases the Net Hourly Rate to achieve your objectives. In a strange way, it is the basis of your costs of going away.

20. Earning months per year. This is when you are open. Tradie Gauge™ works on the simple principle that Tradies cannot sell anything if the business is shut as physical labour is involved.

21. Lookback™. This enables you to compare what you thought would happen with what actually happened. It enables you to fine tune both Tradie Gauge™ and even your business practices.

We welcome any changes and additions to this document. You can submit these to peter@elevanto.com.au