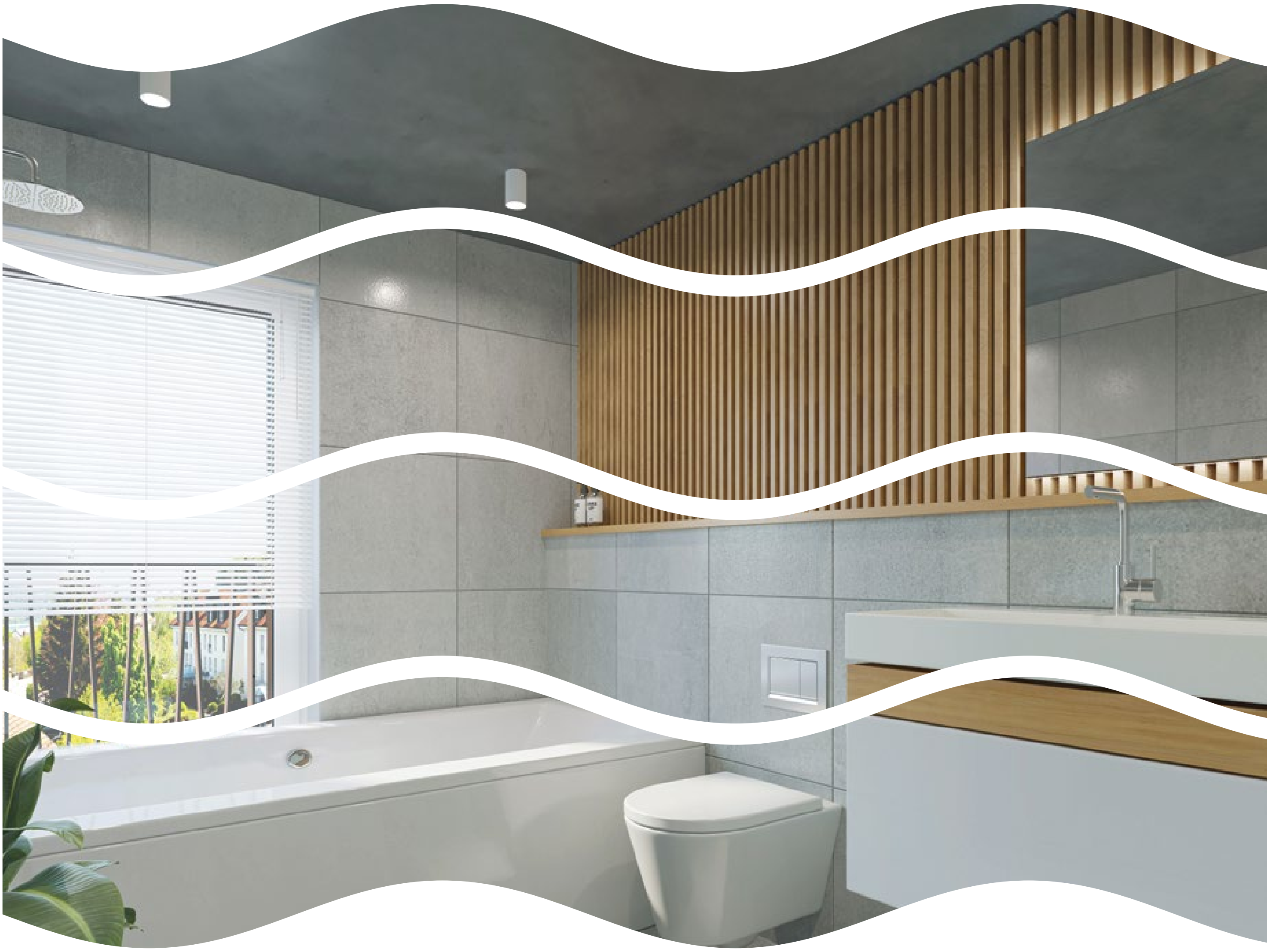
Calculating charge out rates.

A guide to profitable pricing for your plumbing and gas business.

Updated June 2023



Master Plumbers' Association of Queensland

Xact ACCOUNTING

It's easy to undercharge if you don't take into account all of the costs you incur when running your business.

This guide will show you how to accurately calculate charge out rates, ensuring you grow a profitable and sustainable plumbing and gas business.

It makes good commercial sense for businesses to regularly review their prices (at least once every quarter). This is particularly important considering the dramatic increases in material and labour costs over the last two years.

Negotiating tip:

If your clients are concerned about your hourly rate or the cost of materials, remind them of the critical role plumbing and gasfitting plays in everyday life, that our industry has worn extreme price rises over the last 18 months and that we charge considerably less per hour than other professions – e.g. lawyers and doctors.

Two Items Every Business Should Mark-up

- Labour costs
- Materials

Plumbing businesses sell two main items, **labour** and **materials**.

Both take time and money to manage so it's critical that they are marked up to ensure a reasonable profit.

Managing materials requires a range of tasks including administering trade accounts, timely payments to suppliers, time taken to source, specify, store, transport and return unused items.

Additionally, have you considered the materials you purchase that, for a number of reasons, don't get charged to the customer?

If you are not charging a margin to cover all of these costs, they are coming straight out of your pocket!

Quoting tip:

Allow time for site establishment, organising materials, return travel, clearing the site, inspections, liaising with client, builders and other trades, site meetings, contingencies and potential rework. Provide a list of exclusions on your quote to ensure you are not doing additional work for free.

Cost Base for your Charge out Rates

Many operators underestimate the cost of labour and materials by not considering all the components and this will impact on your margins.

1. To determine the cost of your labour, you need to take in to account employee leave, training days, rain/bad weather days and other lost days to work out your actual hourly cost per employee.
2. Add a markup to your actual cost – use the table to work out what this should be after determining your desired margin.
3. Make sure you are marking up your material costs to cover materials not charged and desired margins.

What's the Difference Between a Mark-up and Margin on Profits?

Margin – Shows the percentage revenue you wish to make after paying for your expenses to complete the job

Mark-up – The amount you put on top of your base costs to result in the desired profit

Tip:

Your mark-up needs to be high enough to not only cover your costs but also to provide you with a profit margin. If you know how much profit you want to make, you can set your prices accordingly using the margin versus mark-up formulas provided in this document.

Calculate Your Margin

Ideally a plumbing and gas business should be aiming to make a gross margin of 40% or more in order to be performing very well. Using the Margin and Mark-up Table, find your desired margin which will give you your mark-up percentage. Using the mark-up multiplier in the table, you multiply your cost base with your mark-up % which will then give you your charge out rate.

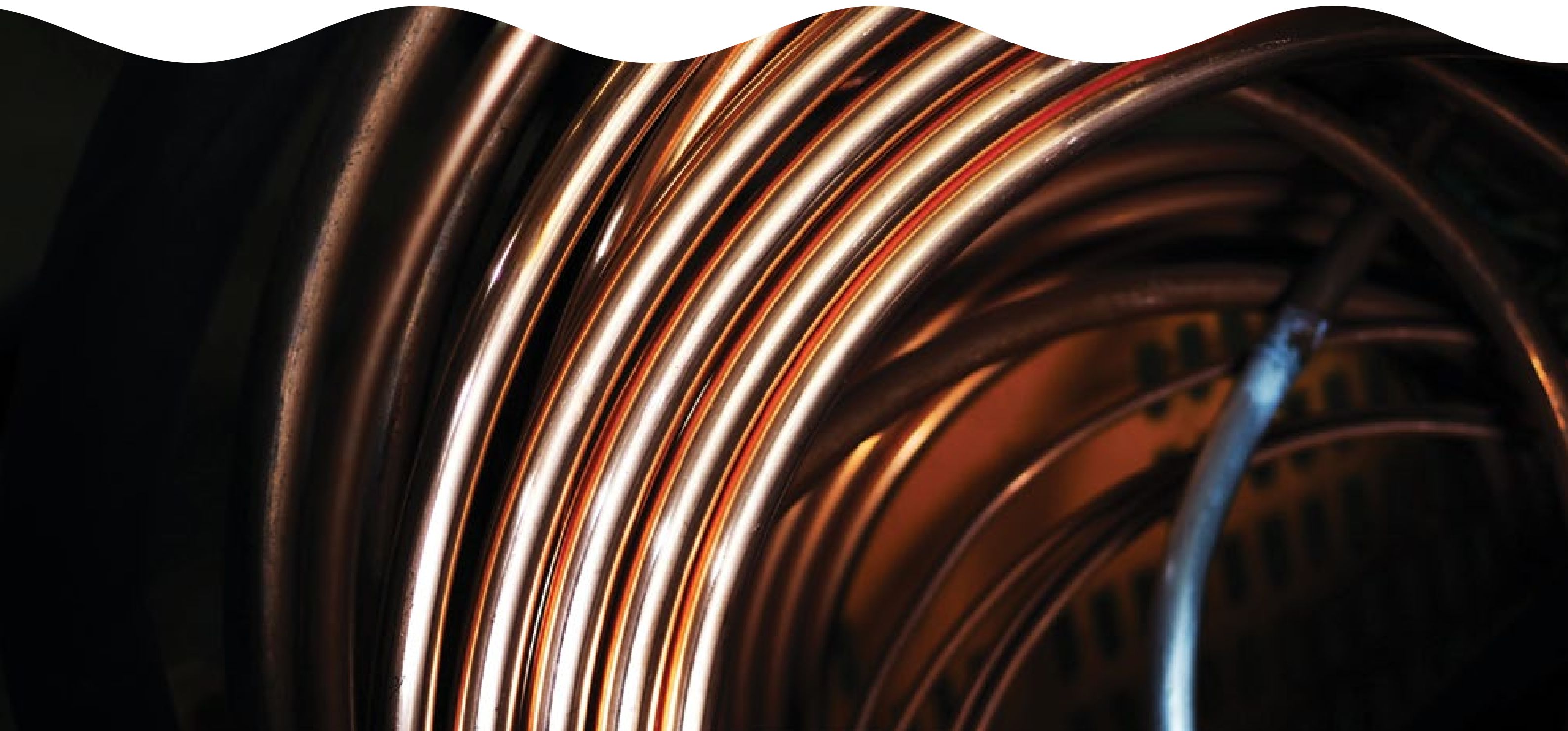
Margin and Mark-up Table

Tip:

Always work out your charge out rates for labour and materials separately as your material mark-up percentages will vary depending on individual product costs.

Desired Margin	Mark-up Percent	Mark-up Multiplier	Desired Margin	Mark-up Percent	Mark-up Multiplier	Desired Margin	Mark-up Percent	Mark-up Multiplier	Desired Margin	Mark-up Percent	Mark-up Multiplier	Desired Margin	Mark-up Percent	Mark-up Multiplier
1%	1.01%	1.010	21%	26.58%	1.266	41%	69.49%	1.695	61%	156.41%	2.564	81%	426%	5.263
2%	2.04%	1.020	22%	28.21%	1.282	42%	72.41%	1.724	62%	163.16%	2.632	82%	456%	5.556
3%	3.09%	1.031	23%	29.87%	1.299	43%	75.44%	1.754	63%	170.27%	2.703	83%	488%	5.882
4%	4.17%	1.042	24%	31.58%	1.316	44%	78.57%	1.786	64%	177.78%	2.778	84%	525%	6.250
5%	5.26%	1.053	25%	33.33%	1.333	45%	81.82%	1.818	65%	185.71%	2.857	85%	567%	6.667
6%	6.38%	1.064	26%	35.14%	1.351	46%	85.19%	1.852	66%	194.12%	2.941	86%	614%	7.143
7%	7.53%	1.075	27%	36.99%	1.370	47%	88.68%	1.887	67%	203.03%	3.030	87%	669%	7.692
8%	8.70%	1.087	28%	38.89%	1.389	48%	92.31%	1.923	68%	212.50%	3.125	88%	733%	8.333
9%	9.89%	1.099	29%	40.85%	1.408	49%	96.08%	1.961	69%	222.58%	3.226	89%	809%	9.091
10%	11.11%	1.111	30%	42.86%	1.429	50%	100.00%	2.000	70%	233.33%	3.333	90%	900%	10.000
11%	12.36%	1.124	31%	44.93%	1.449	51%	104.08%	2.041	71%	244.83%	3.448	91%	1011%	11.111
12%	13.64%	1.136	32%	47.06%	1.471	52%	108.33%	2.083	72%	257.14%	3.571	92%	1150%	12.500
13%	14.94%	1.149	33%	49.25%	1.493	53%	112.77%	2.128	73%	270.37%	3.704	93%	1329%	14.286
14%	16.28%	1.163	34%	51.52%	1.515	54%	117.39%	2.174	74%	284.62%	3.846	94%	1567%	16.667
15%	17.65%	1.176	35%	53.85%	1.538	55%	122.22%	2.222	75%	300.00%	4.000	95%	1900%	20.000
16%	19.05%	1.190	36%	56.25%	1.563	56%	127.27%	2.273	76%	316.67%	4.167	96%	2400%	25.000
17%	20.48%	1.205	37%	58.73%	1.587	57%	132.56%	2.326	77%	334.78%	4.348	97%	3233%	33.333
18%	21.95%	1.220	38%	61.29%	1.613	58%	138.10%	2.381	78%	354.55%	4.545	98%	4900%	50.000
19%	23.46%	1.235	39%	63.93%	1.639	59%	143.90%	2.439	79%	376.19%	4.762	99%	9900%	100.000
20%	25.00%	1.250	40%	66.67%	1.667	60%	150.00%	2.500	80%	400.00%	5.000			

NOTE 2: This table is a guide only. We recommend that you consider your business needs and do not rely on the table to determine your desired margin.



Example 1. Calculating Your Hourly Charge Rate

Example Calculation		
Business operating days (5 days per week)	52 weeks x 5 days	260 days
Chargeable Hours Per Day	**260 days / 40 hours per week**	**6.5 hours**
Lost Days in the Year	Holidays Public Holidays RDO's Sick Days Training Days Rain/Bad Weather Days Quiet Trading	20 days 10 days 12 days 10 days 5 days 5 days 5 days*
Total Lost Days	**Sum of all lost days in the year**	**67 days**
Total Chargeable Days	**Totals days of work – Total lost days**	**193 days**
Total Chargeable Hours	**Total chargeable days x Total chargeable hours per day**	**1,255 hours**
Employee Costs	Tradesperson Wages Super – 11% from July 1 2023 Workcover	$88,920 $9,781 $950
Total Employee Cost	**Sum of all employee costs**	**$99,886**
Cost Per Hour	**Total employee cost / Total chargeable hours**	**$78**
Target Margin	**Margin on labour hours required**	**50%**
Hourly Charge Rate	**Rate you will charge employee to customer**	**$157**

NOTE: If you are operating as a sole trader, your chargeable days and chargeable hours per day may differ. You can adjust these figures accordingly. The percentage of hours charged will also generally be greater for construction work than maintenance work due to the extra work required to put together quotes and completing the job. This should be considered when calculating your hourly rates for construction work compared to maintenance work.

*Many businesses are reporting an increase in quiet days due to slower demand, delays in projects and other interruptions. Be sure to factor this into your calculations to suit your specific circumstances.

Material Mark-up Considerations

Things to consider:

/ The mark-up provided through these calculations should be an AVERAGE across your business.

/ There will be some very low cost items that can be marked-up by as much 300% or more while larger items, like a new hot water system, will only be able to be marked up by a small percentage in order for you to remain competitive.

/ Your location will also have an impact on pricing – this will vary depending on the item or role you are pricing,

/ E.g. charge out rates in South East Queensland are on average 28% higher than in Far North Queensland.

Likewise, many regional areas are struggling with labour shortages, which is adding a premium to hourly rates.

Disclaimer: This document has been jointly prepared by MPAQ and Xact Accounting. It is intended as an industry guide only and should be adapted according to individual circumstances.

Example 2. Material Mark-up Calculation.

5% Material not charged add 5%	5.00%
Desired profit margin	15.00%
Overheads as a % of turnover	25.00%
Desired margin required (overheads + desired profit margin)	45.00%
Mark-up required to achieve 45% margin (refer back to margin and mark-up table)	81.82%
Material charge out after mark-up (example used: $150.00 item) (Material cost × Mark-up multiplier)	**$272.70**

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For more information or to access the online calculator, visit mpaq.com.au or phone 07 3273 0800.