


Chapter 4

Know Your Costs

Caution: Never assume that you know your costs and by all means don't guess. It's too important to your success

Know your costs

You cannot be profitable in your business if you do not know what your costs are. I speak to many shop owners and most have no idea what their costs are. Many think they know but most are guessing. *There is nothing more important to your success than knowing your costs.*

Knowing your overhead costs as well as the time it takes to accomplish specific job tasks like repairs, hardware removal, etc. are vital. There are many methods available to measure and reaffirm your shop costs, just be certain that measuring these costs becomes routine in your shop. *Measure your cost often, they change.*

I'm sure that many of you are operating computer accounting systems and have reports that show you your costs. However, for any of you who are not doing that, use the simple work sheet on the next page to figure your operating overhead.

Measure your costs often, they change!

Never guesstimate the time you *think* it is going to take to accomplish a task. Chances are you will be wrong.

Remember that you don't have to calculate the time it takes to do every job in your shop, just measure routinely.

Do time studies.

Never guesstimate the time you *think* it is going to take to accomplish a task. Chances are you will be wrong. Simple, easy to do, time studies will provide you with an accurate evaluation of costs and time and their outcome will often surprise you. We use our work orders to provide average time estimates to do specific tasks. It does not matter how you collect and/or average your time so long as it is collected and used. If you continually collect information you will have a good average time estimate on what it takes to do similar tasks. Remember that you don't have to calculate the time it takes to do every job in your shop, just measure routinely. Once a month, once a quarter or even once a year, whatever schedule works for your business. Just be certain that you measure!

Know Your Costs

Town & Country Sales

DATE	PROMISED DATE
1/6/2004	1/20/2004

PENDING
(non-posting)

BILL TO
DEBBIE FITZGERALD

WORK ORDER

TCS TAG#	ITEM	DESCRIPTION	DONE BY:	DATE	TIME
1	60 REGLUE	BARLEY TWIST LEG TABLE NO TOP ONLY LEGS REGLUE AND DOWEL REGLUE Sales Tax	JOE	1-12-04	10:40 FIN 11:50
		55 ⁰⁰ 1.79 hr \$47.40 hr			

PLEASE FILL IN ALL INFORMATION AS EACH STEP IS DONE

Our work order travels with each piece as it travels through the shop. It is very easy to use the same work order as a place to record your time. File these time study work sheets and review them to establish average time estimates on similar furniture items.

If you are not making money in your business... then it is a hobby!

When using this pricing system you must learn to think of each job as a series of timed tasks to be performed. Once you begin to think in minutes instead of dollars then apply your hourly shop rate to find a minimum price to work from.

Now that I have the information, what next ?

There are many ways to use the information that you collect. Each business is unique, large or small, employees or no employees, all of these things will factor into how you can best utilize the data collected. Our business as an example has employees so we track our work and our costs by department (stripping, repairing, finishing, etc.). Remember that there are no limits to what you can do with your information, but the primary goal is to know the time it takes to do a task. Once you know this, then you can calculate how much it will cost your business to complete the task profitably. We have now discussed how to collect all of the information you will need to begin profitable pricing in your business.

Now for the big question; how do I price my work?

If you have followed our suggestions and filled in the previous forms then pricing your work has just gotten easier.

In order to utilize this information we need to begin thinking about jobs as individual tasks and the amount of time it takes to do them. Once we can calculate the time required to do a job then use your minimum overhead rate from page 27. Calculating your base cost using this system will ensure you of making a profit.

Now lets practice!

In the following chapter there are line drawings of common furniture. Use these work sheets along with your time studies and other information to help in estimating the average times to accomplish specific tasks.