



SELLING SECURITY SERVICES

KNOW YOUR BREAK-EVEN COST OF SERVICE

by

GRAYLING D. LIVINGSTON

GET A SECURITY QUOTE



Introduction

It happened again...you lost out on a lucrative security contract and found out that it went to the lowest bidder. Even more troubling, you know that the services cannot be effectively performed at that price without the security vendor operating the contract at a potential loss. Your first instinct might be to find a way to reduce your costs and maybe even your profit margin so that you can be more competitive next time. **WAIT!** I'd like to offer you a different way of looking at how you should price your security services. The continued effect of underbidding has caused the security industry to become undervalued by consumers and has created a cut-throat atmosphere within the industry. Neither of which is beneficial for the small operator trying to compete or even work with larger security companies.

How do you currently price your security services? For most security companies, having to compete on the lowest price is not a good policy or good for business. In the end, the right price for your service is that price the consumer is willing to pay for it.

However, making a mistake in your bill rate calculations could be even worse and rob you of your potential profit margins. In the security guard and patrol industry you have several ways to price your services. You can base it either on:

- Direct labor cost plus fixed overhead and profits; *(The most common way and most profitable)*
- Percentage of return on sales (better known in the industry as a Drop Profit

Account); or

- Direct labor costs plus management fees based on a target profit margin.

So, you keep asking yourself: **How can we tell if we are making money?** Should we be charging more for our service? How can we justify charging our clients more? Do you know how much it costs you to perform one hour of service? If you're basing your pricing strategy solely on your competition, you're playing a dangerous game.



For example, if your costs are \$45.00 per hour but your client industry only supports \$25.00 per hour, either your costs are too high or you're in the wrong market for your type of service industry.

There is an easy way to establish the **“going rate”** for comparable services, consider instead a pricing model like Get A Security Quote Breakeven Industry Rate where your pricing is based on how much it costs your client to perform one hour of service based on their industry financial factors. **In this eBook, we show you how to calculate that as your full hourly overhead costs**—so you can set the right breakeven price based on future guard force sales for your security guard & patrol services.

If you are going to price your services simply based on the competition, you'd better ensure you're making an exact apples-to-apples comparison, which is

easier said than done, and not something we recommend.

Let's get started.

Step 1. Start with direct labor rate for security staff



The first step to making an informed decision about pricing your security services is to calculate your billable direct labor cost. Your employees cost more than just the hourly rate or salary you pay them. Think about all the additional costs you must incur for each employee, from payroll taxes and worker's comp to healthcare and paid time off, and more.

An employee with a \$30,000 annual salary can end up costing you closer to \$50,000. Not accounting for this differential when pricing your services can be a serious calculation mistake.

Everything reflected on your billable employees' W2s, as well as any costs above

and beyond gross compensation, is your full labor costs. These costs should not be left out of the equation. Such costs include:

- FICA
- FUTA
- SUTA
- Workers' Compensation
- Healthcare
- Disability
- Paid Time Off

Once you've added up all your billable employee costs, it's time to account for your overhead.

Step 2. Calculate Your Overhead



Your next step is account for your overhead, or the ongoing expense of operating your business to keep the doors open. Your overhead includes both your annual indirect labor costs and other recurring business expenses, such as rent and taxes.

Start with your indirect labor, or the cost of your non-billable staff. Nontechnical

employees with annual salaries such as admins or marketing/sales professionals should be included in this category. These employees are still a cost on the business, they just don't bill by the hour.

Next total all your annual recurring business expenses. These expenses include all the costs on your income statement, outside of direct labor and direct materials.

These costs may include, but not limited to:

- Total Fee for incorporating the Business
- Rent
- Utilities
- Insurance, permits and licenses
- Business taxes
- Interest paid on taxes
- Marketing advertising
- Office supplies
- Security equipment
- Association dues

Once you have calculated your indirect labor costs and business expenses, added these two figures together. The result is your annual overhead cost.

Step 3. How Many Hours Did You Bill Last Year?

Before you can calculate how much it costs you to perform one hour of service, you must first calculate your total annual billable hours. In other words, you want to account for the number of service hours that were directly billed to your clients to generate revenue.



Don't forget to account for any employee's paid time off (sick days, holidays, and vacations). These hours should not be included in your total because while the employee got paid, the time was not billed to your clients. You'll also want to include billable hours worked by employees who performed both billable and non-billable work like (the business owner), as well as short-term or contract employees who do not work a full yearly schedule.

Once you've determined the total numbers of hours billed to you clients, you're ready for the final step.

Step 4. Your Final Bill Rate

Take your billable labor costs from **Step 1** and add it to your annual overhead costs from **Step 2**. The result is the true annual cost of your service delivery. Divide this number by your total billable hours from **Step 3** and you have arrived at your full hourly overhead cost.



Here's an example

Let's assume:

- You have 5 billable staff working an average 1,792 hours per year (8,960 total annual billable hours)
- Your billable direct labor cost is \$134,400 per year
- Your annual overhead expense cost is \$240,000 per year

To calculate your full hourly overhead cost, follow these steps:

- 1) $\$134,400$ (billable direct labor costs) + $\$240,000$ (annual overhead cost) = $\$374,400$ (true cost of service delivery)
- 2) $\$374,400 / 8,960$ (total annual billable hours) = **\$41.78** (full hourly overhead cost)

You must charge an hourly rate of \$41.78 per hour to breakeven.

Continuing with the example above:

- 1) $\$41.78$ (full hourly overhead costs) divided by $.70$ = $\$17.91$ or 30% profit margin
- 2) $\$41.78 + \$17.91 = \$59.69$

If you want to determine how much you must charge per hour to achieve a desired profit margin of 30%, simply divide your hourly overhead cost by $.70$ = Total Bill Rate.

In this example, if you desire a 30% profit margin on direct labor and overhead costs, you must charge a minimum of \$59.69 per hour.

Common Pricing Mistake

Let's look at a direct labor cost plus fixed overhead and profits example. Direct labor cost of \$15.00 and total overhead/ operation cost of \$18.12 = \$33.12. Divide \$33.12 by .70 = \$47.31. That generates a \$14.91 profit which equals 30 percent of \$47.31. **See**



Example A - Sample Bill Rate Breakdown.

On the other hand, in Example B, if you took the same direct labor costs of \$15.00 and total overhead/operation costs of \$18.12 = \$33.12. Multiply \$33.12 by 1.3 = \$43.05. The \$9.93 profit that results is only 23% of \$43.05. Not to mention that a 168-weekly hourly account, would cause you to lose \$4.98 per billable hour or \$43,505.00 in annual net profits or 30% in profit. It would also take a replacement cost in future guard force sales of \$145,016.00 using the pricing method shown in **Example B.**

Example A - Sample Bill Rate Breakdown

Security Officer Wages	\$15.00
Overhead & Operations Cost	\$18.12
Total	\$33.12
Profit 30%	\$14.91
Total Billing Rate	\$47.31

Example B - Sample Bill Rate Breakdown

Security Officer Wages	\$15.00
Overhead & Operations Cost	\$18.12
Total	\$33.12
Profit	\$9.93
Total Billing Rate	\$43.05

Get A Security Quote

Who We Are & What We Do

Get A Security Quote (GASQ) is a search for hire, lead generation, and sales support-type service that support contract security firms, to include investigations services, security consulting, sales & marketing activity. GASQ specializes in sending and receiving qualified client request for services, referrals and qualified leads to a network of licensed, insured, qualified, and experienced contract security service providers and other security professionals. We also work with end-users of contract security services who don't want to own (or own) a full-time security staff and are looking for the best value for their money and expect the services to match the fees or services.

Our mission: *"Bring our client opportunity to our professional network of preferred security vendors attention and assess their fit to respond--all of whom will be pre-screened, qualified, licensed, insured, and experienced in the client industry."*

Our vision: We believe as a company our professional network of security service providers should not have to compete based on price alone. *Prequalify end-users and sellers before pursuit inspired our vision of a request for security services process that provide the end-user with information that allow them to make an intelligent decision regarding the service being requested.* It also meant the security service provider can open about the confidential details about their business to someone who is likely to buy, able to buy, and who can benefit from what they must offer at a cost less than what those clients would pay if they

owned or performed the function in-house.

Our objective: To provide our end-users of security services insight about the value of our company's recruit for hire process, risk assessment process and how our pricing by client industry allows our preferred vendors to provide their services at a cost equal to or less than what our end-users would pay to perform the function in-house or recover or replace their investment. GASQ pricing by industry and cost of service benefit analysis of outsourcing their security services versus performing the function in-house clearly shows the return on investment, projected break-even point, payback recovery cost, and future sales needed to replace the potential financial investment/expense.

FINAL THOUGHT & NEXT STEPS

Finding the true hourly cost of running your business isn't just an exercise in computational skills. It's an important part of pricing your security services to ensure you're earning your desired profit margin while still providing value and quality service to your clients.

Making an informed decision about pricing your services to achieve your desired profit margin on labor starts with a thorough understanding of your overhead burden. With this calculation, you'll be able to determine a true measure of profitability and know with certainty if you should be charging more or less for your services.

Ready to Learn More?

Yes, I'm Interested in a Guard Force Sales Breakeven Analysis!

**Call GASQ at (404) 922-2872 or
email info@getasecurityquote.com**

with the following information:

Your Full Name

Your Email Address

Your Phone Number

**Learn more about the other services that GASQ offers to security vendors on
our website at www.gasq.us**