

PRICE PRESENTATION

Why do so many service companies insist on presenting prices in a way that consumers abhor? Consumers hate the uncertainty of time and materials pricing. Nine out of ten prefer flat rate. Yet, most service companies continue to bill time and materials.

The best way to present repair prices is the way homeowners prefer, right? This seems obvious. Give the customer what he wants and all that.

Yet, when it comes to pricing presentation, the customer's preferences do not seem to matter to most service companies. Most service companies persist in following the time honored antiquated practice of quoting open-ended repairs, plus parts. Most service companies charge time and materials.

The alternative is flat rate pricing. Flat rate pricing involves offering a single, up front price before starting a repair. This contrasts with time and materials pricing where a price is given for the material, but the labor is open-ended. Flat rate has been present in the automotive industry for a long time. Frankly, it's been present in most service industries for a long time, but only a minority of service companies use it.

WHY IS FLAT RATE CONTROVERSIAL?

Flat rate pricing is controversial. I am not totally sure why, but some oppose it with the vitriol normally reserved for college football rivalries. Their opposition is practically carries religious overtones (the Primitive T&M Church?).

These T&M zealots paint with a broad, inflammatory brush. Some refer to flat rate as "flat rape." Come on. It is just a pricing method.

I suspect that the T&M zealots are also the same people who play all kinds of pricing games. They accuse flat raters of hiding behind their price books, yet the T&M zealots disguise their true hourly rate. They probably do not know what their effective hourly rate is.

For the record, I'm a strong advocate for flat rate pricing, but not for the usual reasons. I like flat rate because consumers like it.

When I was running a contractor organization and we made the leap to flat rate, I commissioned a consumer survey about flat rate pricing. At the time, we estimated that roughly 3% of air conditioning contractors were using flat rate. Yet, one out of every two consumers preferred it.

To me, that seemed like a pretty good deal. Half the public wanted something that only 3% of our competitors offered. If I knew nothing else about flat rate, that would have persuaded me. And the preference for flat rate has grown since then.

Callahan Roach Products & Publications, a flat rate publisher, commissioned a similar study, using the same marketing research firm. Today, a stunning nine out of ten homeowners prefer flat rate to time and materials (T&M) pricing.

Throughout my career, I have had numerous opportunities to explore consumer sentiment about flat rate in focus groups. Regardless of the industry, consumers strongly prefer flat rate. It is a strong, emotional preference.

Consumers think flat raters are more honest. They feel relieved to know definitively what a repair costs before they agree to go ahead. They no longer feel the need to scrutinize and compare hourly rates. They do not feel the urge to watch the technician to ensure he is not padding minutes. It may not be rational, but that is how people see it.

Robert Wilkos, the Business Leader for Peaden Air Conditioning in Panama City, Florida, a trade association's national contractor of the year, says that he used to spend an inordinate amount of time on customer disputes when Peaden charged time & materials.

"People would call up and complain that the technician was only on the job 20 minutes, but charged 30 minutes," says Wilkos. "You have to talk with the customer, call the technician to find out what happened. The cost in management time was enormous."

"All of that went away when we switched to flat rate," added Wilkos.

Furthermore, consumers think they get better prices from flat raters. That may or may not be true. Possibly, it is a side effect of efforts by Congressional tax cutters to promote a flat tax. Consumers associate a flat tax with lower taxes and by transfer associate flat rate pricing with lower prices.

The term, “flat rate” has also been used by other companies and industries to indicate one low price. In other words, flat rate means the company does not nickel and dime the customer.

It should be noted that not all consumers prefer flat rate. Some like time and materials pricing. And some also like rotary phones, typewriters, and DOS, but that is not the direction of the market.

Whenever consumers indicate a strong preference, follow it. Why fight it? Leave that for your less enlightened competitors.

Let your competitors stand by the shore insisting the tide stop because they don't like it.

NOT FLAT RATE, BUT FAIR RATE.

One of the great ironies of charging time and materials is that you make more money with your slow technicians than your fast ones. The customer actually pays more for a less competent service technician.

How so? Slower technicians are usually less experienced and less competent technicians. This is not necessarily a bad thing. Not everyone is a superstar and not every superstar started that way. Regardless, slower technicians are probably paid less than faster technicians. Yet companies charge the same rate, no matter who is sent on the job. Thus, the longer a tech takes, the more money the company makes:

- Slow technician = longer time on the job = more billable time.
- Slow technician = lower pay = more gross profit per hour.

By contrast, your faster technicians probably cost the company more and bill less:

- Fast technician = less time on the job = less billable time.
- Fast technician = more pay = less gross profit per hour.

The customer pays more to give your slow technician experience. That is not fair to the customer. You profit less because your fast technician costs more and bills less. That is not fair to you.

Granted, a fast technician might be able to perform one more call per day, overcoming the penalty his speed and efficiency has cost you. He *might* be able to perform one more call. Then again, he might not. He might end up with more windshield time (and even his windshield time is more expensive).

Flat rate evens out the differences between fast and slow techs. The customer pays the same whether he is served by a fast tech or a slow one.

Your slow techs may take longer than the flat rate time estimate (though most flat rate systems are padded so that even the rookies can keep up). Even so, you pay them less per hour.

Fast techs may run under the time estimate, but you pay them more per hour. You see, things tend to even out with flat rate.

If a service company is to charge time and materials correctly, the company should take a page from the lawyers and the consultants. When I was a consultant, I charged \$3,000 per day. By contrast, I only charged \$2,000 per day for one of my employees. We charged different rates because we brought different skills and experience to the table.

If a time and materials company is really fair about it, the company would charge different hourly rates based on the skill level and experience of the technician. Of course, this can get mighty confusing. It is far simpler to charge the same hourly rate for everyone.

It is even simpler to charge the same rate for every given job/task/repair. And while we are at it, toss the parts and materials into the price to simplify it down to a single number. That is called flat rate pricing.