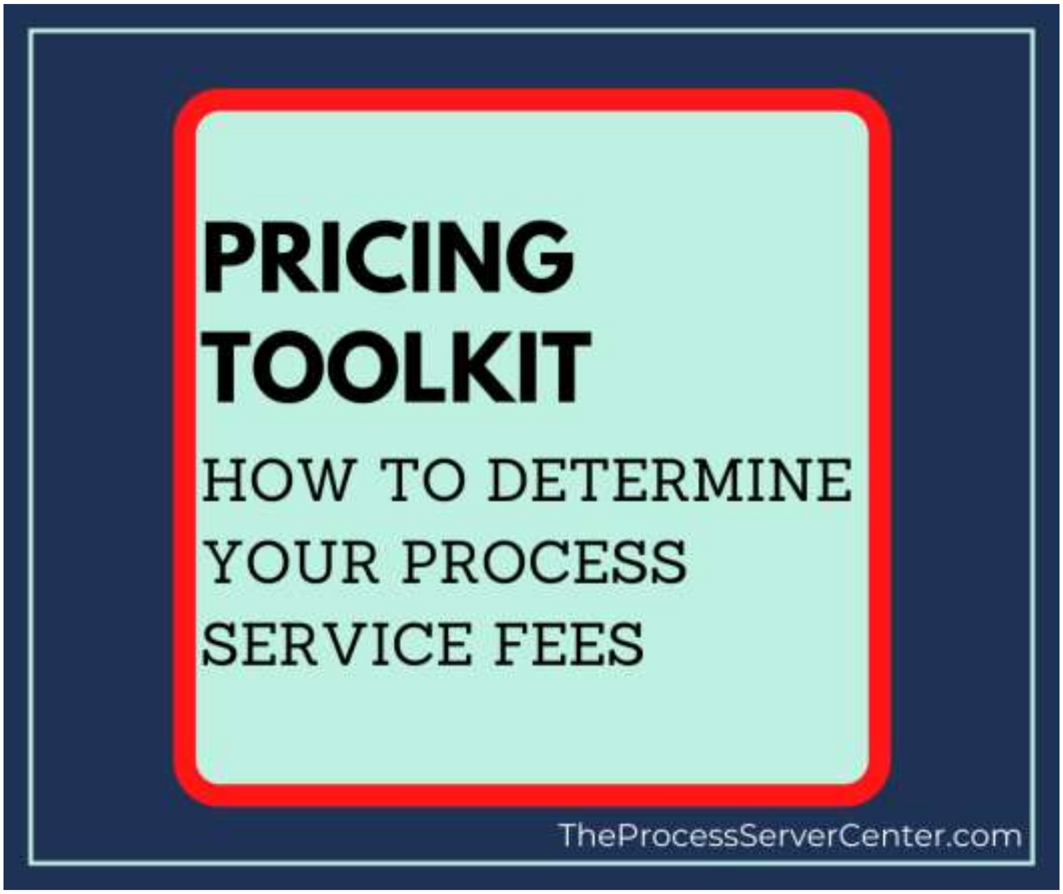

WHAT TO ASK YOURSELF BEFORE YOU SET YOUR PROCESS SERVICE RATES?

(Courtesy of the Process Service Center)

Get your process server rates right and you will dramatically increase the likelihood of creating a process service business that perseveres and takes care of you financially. The questions below intend to guide and help you make the right decisions about your process service fees. Use this guide at least once a year to revisit and update your fees in order to maximize your profit.

WHAT ARE YOUR SHORT-TERM AND LONG-TERM GOALS?

Reflecting on your short-term and long-term goals will help you decide on what matters to you most as a person. Your short-term goals, e.g. to increase your service volume by 20% this year would tell you how many services per month you must have in order to achieve this increase.

WHAT ARE YOUR EXPENSES?

Knowing your costs is just a starting point for service pricing. Remember that you must make at least your costs to reach your break-even point. You can break down your costs into two categories:

- **INDIRECT OR FIXED EXPENSES** (overhead, general or administrative expenses)

These indirect expenses for process service businesses include:

Rent if you are renting an office

Utilities

Equipment and maintenance like printer, copier, fax, computer

Software for process servers

Insurance for process server

Indirect labor (e.g., office help)

Marketing and advertising

Membership in professional organizations

- **DIRECT COST PER SERVICE SOLD**

The direct expenses include all costs associated with completing a service of process or a batch of services. The good news about process service is that indirect costs are usually low and direct costs exist only if you have work. Direct costs include:

Labor per service or batch of services

Gas

Supplies (paper, toner)

DETERMINE YOUR CURRENT TOTAL COSTS

Add together your **DIRECT AND INDIRECT EXPENSES** to determine the total amount of money you must cover during a time period.

DETERMINE YOUR OVERHEAD PERCENTAGE OR RATE

The overhead rate or the overhead percentage is the amount your process service business spends on providing services to its customers. If your overhead rate is 20%, it means the business spends 20% of its revenue on providing services. A lower overhead rate indicates efficiency and more profits. To calculate the overhead rate, divide the total direct costs of the business in a month by its monthly sales. Multiply this number by 100 to get your overhead rate.

For example, say your process service business had $10,000 in direct costs in a month and $50,000 in sales.

Overhead Rate = Overhead Costs / Sales

The overhead rate is $10,000 / $50,000 = .2 or 20%

This means that the process service business spends twenty cents on overheads for every dollar that it makes.

WHAT ARE YOUR COMPETITORS CHARGING?

Your competitors are playing in the same arena. Ignoring their strategies for pricing services doesn't help you break the mold in your industry. Instead, it leaves you ignorant about what is happening in your market. And, you need to know how the market is doing before setting a price that nobody can afford. Keeping an eye on competitor pricing reveals what sets you apart. If you charge more than your competition, show customers the value of the unique experience your company offers.

WHO ARE YOUR CURRENT CLIENTS AND HOW MUCH ARE THEY WILLING TO PAY?

Regularly review your current client accounts, particularly the ones who give you more than 10-20 services per month. A successful process service is built on many smaller accounts, each of which makes up your business. The more smaller accounts you have, the more stable your business will be in the long run, as it will be well diversified. A well-diversified business is better protected in case a client leaves for another process server or goes out of business. On a regular basis review your client accounts and determine their profitability on a monthly and annual basis.

DEFINE YOUR FAIR PROFIT MARGIN

Your profit margin is how much your process service business will bring in after subtracting the cost of goods sold (COGS). Coming up with a fair margin is key to turning a profit. If you want to know how to determine pricing for a service, start by determining your operating profit margin and your gross profit margin.

- **OPERATING PROFIT MARGIN**

The operating profit margin for your process service business is how much money you make after you cover all the costs for a job/service (like labor, gas, supplies) but before you add on any taxes or interest.

How do you calculate operating profit margin?

To calculate your operating profit margin, divide your operating income (earnings before interest and taxes are deducted) by your net revenue (the amount you make after direct costs are subtracted).

Operating profit = *Income /Net Revenue*

For example, if your company did a job and charged the client $150, and your costs were $100 before taxes and interest, your operating profit margin would be $50 (or 33%). Your operating profit margin is typically shown in a dollar amount as opposed to a percentage. Operating profit margin is a good way to get a quick look at how well your process service business is performing. It tells you how much money you have to put towards costs outside of the operation of your business, such as taxes. You can use it to see if your job expenses increase or decrease over time and make adjustments as necessary.

- **GROSS PROFIT MARGIN**

Your gross profit margin is the amount of money you have left from jobs (or sales) after you subtract the direct expenses. Generally, your gross profit margin is a dollar amount instead of a percentage.

How do you calculate gross profit margin?

To calculate your gross profit margin, take your net sales and subtract your cost of goods or direct expenses. Then, divide that number by your net sales.

Gross Profit Margin =*Net Sales – Cost of Goods / Net sales*

So, why is this important?

Your gross profit margin is important because it helps you to keep track of your labor expenses. You can use it to see how these expenses grow or decrease over time. This gives you an indication of when you need to reconsider a contract. For example, if your gross profit margin shrinks over time, it may be because your direct costs have slowly increased. This could mean that you need to renegotiate with your clients, adjust your service fees or minimize your expenses by cutting time spent per service without compromising the quality.

HOW TO DEFINE YOUR SERVICE RATE

As a process service business, it is best that you charge your customers per service or job rather than by the hour. To come up with a per job/service rate, you can:

Use your hourly rate and estimate how long it will take to perform the service. Charge a fixed price for each service. If you decide to use an hourly rate as a starting point, in order to determine your per service/job rate, multiply the time you think it will take you by your hourly rate. To charge a fixed price for each service, factor in your costs, the market, your value, time, and profit margin before coming up with the rate.

TIPS FOR SUCCESSFUL PRICING

- **Monitor profitability monthly**

You need to understand the profitability of your process service business every month. Each month you must have your financial statements from the previous month. In addition to understanding your monthly profitability, you need to understand the profitability (or lack of profitability) of every client account you have. Make absolutely sure you know the degree to which every client is contributing to your goal of making money each month.

- **Be wise about raising your prices**

It is a fact of life that you will have to raise prices from time to time as part of managing your business prudently. You have to constantly monitor your price and your costs so that you are both competitive in the process service market and that you make the kind of money you deserve to make in your business. But there are risks to raising prices, particularly when your customers are going through tough financial times.

- **Be wise before you expand**

Before you congratulate yourself on a new client acquired, remember that this client used to be someone else's. That happens a lot in process service and the main reason behind it is that process service business grow too fast too soon. Make sure to prepare yourself for a potential increase in volume and how such an increase will affect your time and available resources.

Build a Successful Process Service Business | Learn How

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