

# A Practical Approach to Setting Shoeing Prices

Make sure you're not subsidizing horse ownership for your clients

By Esco Buff, CF, PhD

There are many reasons why farriers do not make enough money or why their shoeing businesses fail. The biggest reason is many farriers may have little or no understanding of business.

According to the United States Small Business Administration, two-thirds of all new businesses survive at least 2 years but only half of those are still around at 4 years. If you don't want to become one of these negative statistics, you need to work on your business as well as in your business.

Personally, I'm about making money to support my family. Money does not make me happy, but I have found that a lack of it can make me miserable. That's why I pursued a business education. I thoroughly enjoy horse-shoeing, but I do it mainly because it lets me earn enough to support my family. My practice is profitable and allows me more time with my family. What's great is to be in a business that I actually enjoy.

## Profits And The Bottom Line

To be successful in business you need to change your attitude about yourself and toward your business. You need to stop being so protective of your customers' pocketbooks and start meeting your own economic needs and those of your family. There are three

main ways to increase your profits:

1. Invest.
2. Increase prices.
3. Decrease expenses.

This article will focus on increasing profits by looking at how to charge for hoof-care services.

- Some of the pitfalls in trying to increase your profits are:
- Charging different prices for the same service.
- Discounting services regularly.
- Not making regular price increases.
- Worrying too much about potential customer losses.



## Summit To Feature More On This Topic

If you want to know more about setting effective prices and how to implement regular price increases, be sure to attend Esco Buff's presentation "A Practical Approach To Setting Prices," at the 2010 International Hoof Care Summit in Cincinnati, Ohio, Feb. 2 to 5. The lecture will outline an easy-to-understand, easy-to-implement and practical method to determine what you need to charge to build a sustainable farrier practice and how to go about making regular price increased more palatable to your customers.

For more on the Summit, turn to Page 12.



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- Undercharging for your services.
- Obtaining and maintaining customers by setting the lowest prices in your area.
- Rating your customers by an A-B-C method instead of by percentage of profit margin.
- Working harder instead of smarter.

One of the most frequent questions I hear from farriers — whether established farriers, novices or those who are new to an area — is "How much should I charge?" That's closely followed by, "Am I charging enough?" Many shoers charge what the average farrier in their area is charging or adjust their charges downward, based on their own misperceived value.

Some farriers even undercut all the local farriers by charging the lowest prices in the area. None of these methods will increase your profits in a healthy manner. What you need to do is learn how to do three things:

1. Determine what to charge.
2. How to evaluate whether or not you are charging enough.
3. How to schedule regular price increases.

## Practical Price Setting

So how do you go about correctly setting effective prices? Some solutions can be overwhelming and complicated. Experienced businesses people use spreadsheets and in-depth software

programs. For many farriers, this can be too complicated and time consuming. A simpler way of knowing how much you need to charge is the General Business Profit and Loss Method or simply the “working backward method.”

This method works on the principle of how much you want to earn per hour, per week, or per year. For example, the minimum wage is now \$7.25 an hour. Following general business guidelines, if you were to net (how much you have left over after paying expenses and taxes) \$10,000 a year, you would be making \$4.81 an hour. That’s not even minimum wage.

To break even with the minimum wage, you need to net around \$17,125 (working 40 hours a week for 50 weeks a year). Are you doing this? More importantly, does this adequately provide for your family?

If not, making the decision not to raise your prices means you are working at a less-than-minimum-wage job that doesn’t meet your economic needs. Farrier work is hard enough. Operating a business at a continual loss makes little sense.

### Your Monthly Needs

In working backward to figure how much you need to charge, **Step 1** is to determine how much money you want to net each month. Let say \$1,500 a month or \$18,000 a year. Remember, you owe taxes on your net. Multiply your net by 1.1807 to obtain the net before taxes.

$\$1,500 \times 1.1807 = \$1,771$  a month (\$21,252 a year).

Most small businesses have expenses of from 30% to 50%, profits of from 10% to 50% and pay 15% to 45% in taxes.

A general rule of thumb is to figure that a third of your gross goes toward taxes, a third toward expenses and the remaining third is profit. To be more precise, use the net business income profit ratio (the ratio of net profits to total sales) which generally will translate into around 40% of your gross sales as profit.

Continuing, now multiply your net by 2.5 to calculate your gross.

$\$1,771 \times 2.5 = \$4,427$  a month

(\$53,130 a year).

Now you have determined how much money you need to gross (total sales) to obtain your desired net.

### Your Workload

**Step 2** is to determine how hard you want to work to earn that gross. How many weeks a year do you want to work? Lets say 48 weeks (give yourself 4 weeks of vacation and holidays). To determine how much money you need to make in a week, divide your gross by the number of weeks worked.

$\$53,130$  divided by 48 = \$1,107 a week (\$221 a day). This works out to \$28 an hour for an 8-hour day.

So are you making \$221 a day? If not, then you need to either lower the amount you want to net or increase your prices.

### Setting The Base Rate

How much do you need to charge your customers? In service industries that depend more on labor than parts, common procedures are: To bill by the hour; by estimates of the normal time to do a job; or charge a flat rate for a particular service.

If you charge by the hour, you will fall short of your desired net because you have not taken into account the lag time between customers. For farriers, it probably works best to charge a flat rate for a particular type of job, based on the average amount of time it takes you.

**Step 3** is making sure your are setting up the estimated flat rate based on correct labor ratios, which include down time or in our case, travel time.

In farriery, I’d suggest starting by figuring out how long the average trim takes you. Let use 20 minutes. How many trims can you reasonably do in a day, including travel time? Five? Seven? 10? If you need to gross \$221 a day, and you estimate five trims, you need to charge \$44.20 per horse (\$221 divided by 5). If you can do seven trims, you need to charge \$31.57 per horse. If you can do 10, that’s \$22.10 per horse.

Let’s use five horses at \$44.20 per trim for the next step.

**Step 4** is ensuring your work-to-price ratios are correct. For instance, if trimming takes you 20 minutes, then

adding two shoes should take you about 40 minutes, and four shoes about an hour.

If it takes you 20 minutes to trim a horse and you charge \$44.20 per trim, your fee for two shoes should be at least \$88.40 per horse, and your fee for four shoes should be at least \$132.60.

If you don’t have these ratios calculated correctly, you may actually be losing money to shoe a horse. For instance, if you charge \$40 to trim a horse, you net \$16 (gross  $\times$  0.4 = net or  $\$40 \times 0.4 = \$16$ ). If you charge \$65 to apply two shoes, you net \$26.

You were paid more money, but you actually netted \$6 less than you needed for the time involved. If you had charged \$80, then you would have netted \$32 ( $\$80 \times 0.4$ ). That’s the ratio you want; a 20-minute trim for a profit of \$16 and a 40-minute shoeing job for a profit of \$32. It’s a simple case of twice the time for twice the profit.

If you can trim a horse in 20 minutes, but need an additional 30 minutes to apply two shoes, and another 30 to apply four, you need to multiply your trimming base rate by 2.25 rather than by 2 to net the same amount.

Following this ratio principle will ensure that you are getting equal pay for equal amounts of time worked. **Q**

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*If you have a question or topic you’d like addressed in this column, e-mail it to [ptearney@lesspub.com](mailto:ptearney@lesspub.com). Put Hoof-Care Bottom Line in the subject line. Questions can also be mailed to American Farriers Journal, P.O. Box 624, Brookfield, WI 53008-0624.*