Is this contract covering its costs?

A quick check for recurring office-cleaning accounts

Choose one completed month and one site. Use amounts in one currency, excluding sales tax. This check gives you a reason to investigate; it does not determine a market price or promise recovered profit.

1. Gather the same month of records

Revenue earned for the work performed: __________
Total paid labor hours for the site: __________
Fully loaded cost per labor hour: __________
Other direct costs and allocated overhead: __________
Your target margin after these costs: __________ %

Include paid travel, supervision and callbacks. A loaded rate includes wages and employer costs once. If different people have different rates, use their total labor cost divided by total hours. Do not count payroll burden twice.

2. Confirm what the numbers include

Have you included all visits and paid time? Are supplies, equipment, subcontractors and overhead captured once? Is the revenue for this service period rather than cash paid for another month? Mark missing records before calculating.

3. Do the calculation

Included cost = labor hours x loaded hourly cost + other included costs.
Margin = (earned revenue - included cost) / earned revenue.
Required price at target = included cost / (1 - target margin).

Enter a 25% target as 0.25. Revenue must be above zero and the target below 100%. A 25% margin is not a 25% markup. This measure includes only the costs entered and is not accounting net profit.

Turn the gap into a review action

Worked example - invented numbers

An office contract earns $4,500 for a completed month. The team records 145 paid hours at a fully loaded $25/hour, plus $475 of other costs and allocated overhead.

Labor cost: 145 x $25 = $3,625
Total included cost: $3,625 + $475 = $4,100
Remaining: $4,500 - $4,100 = $400
Margin after included costs: $400 / $4,500 = 8.9%

At a chosen 25% target

Required price: $4,100 / 0.75 = $5,466.67.
Price difference to review: $966.67 per month.
At the existing $4,500 price, allowed costs are $3,375. With other costs unchanged, the gap is $725, equivalent to 29 labor hours at $25/hour.

Choose the next fact to verify

Extra scope: list work requested outside the agreed service schedule.
Access delay: record the visit and paid waiting time.
Rework: identify the cause before proposing fewer hours.
Cost allocation: check that costs are complete and counted once.

Record one action

Site: ___________________ Review period: ___________________
Evidence to check: ____
Action owner: _________________ Due date: __________________
Decision after review: _____________________________________

Do not cut necessary service or assume a client will accept a price change. Review the existing agreement and staffing requirements before acting. If other costs alone exceed your target cost allowance, labor changes alone cannot close the gap.

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