

LER - The Critical KPI For Every Tech and Trade Service Business



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Why Technical and Trade Service Businesses Should Integrate LER (Labour Efficiency Ratio) Into Their KPIs.

If you're running a technical or trade service business—think plumbers, electricians, HVAC, engineers, field techs or IT wizards—you've probably spent countless hours wrestling with the question: How do I make more money without burning out my team or jacking up costs? Revenue's great, but profit? That's the real prize.

Enter the Labour Efficiency Ratio (LER)—a game-changing metric that flips the script on how you view labour. Instead of seeing your crew as a cost to cut, LER shows you how to turn them into your profit engine.

Here's why every trade and tech business should weave LER into their financial playbook—and how to do it without breaking a sweat.

Labour Is Your Superpower, Not Your Sinkhole

In trade and technical services, your people are the business. Your techs install systems, fix pipes, or debug networks—that's the revenue heartbeat. Meanwhile, your office crew keeps the jobs flowing and the chaos at bay.

But too often, we obsess over slashing labour costs when we should be asking: How much bang am I getting for every buck I spend on my team? That's where LER shines. It's not about working harder; it's about working smarter, measuring how much profit each labour dollar generates, and tuning your operation like a finely calibrated tool.

Optimising Labour Efficiency with LER

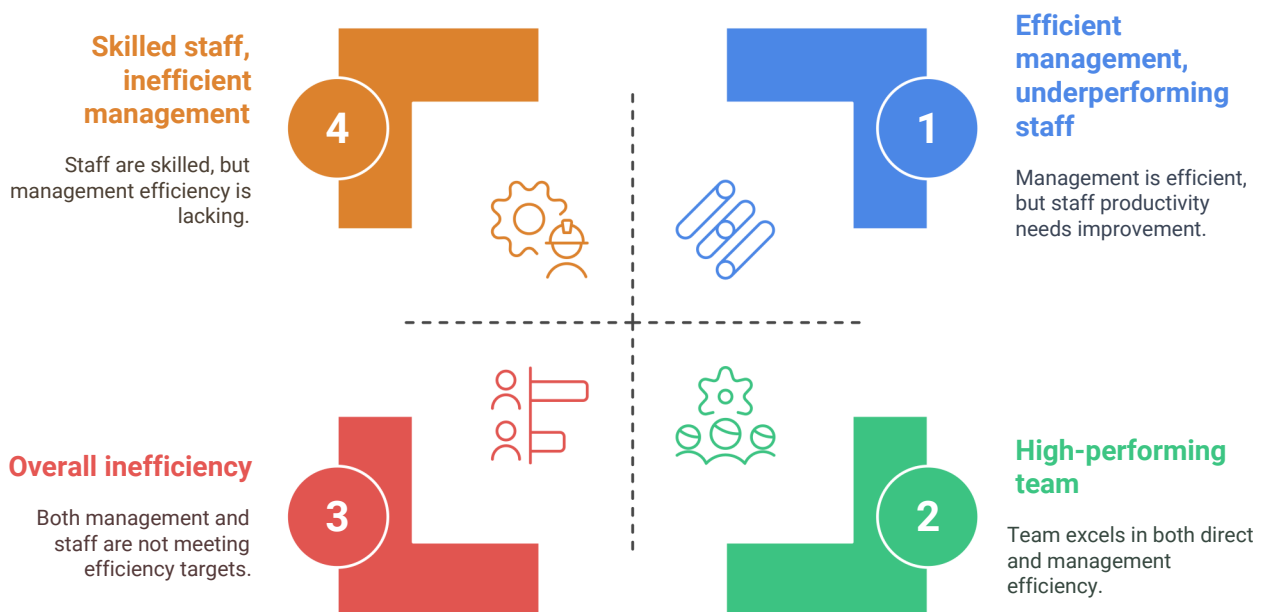


What Is LER, Anyway?

LER comes in two flavours:

- **Direct Labour Efficiency Ratio (dLER):** This tracks how much margin your frontline workers—your techs and tradespeople—crank out per dollar you pay them. It's calculated as $(\text{Revenue} - \text{Non-Labour Direct Costs}) \div \text{Direct Labour Costs}$. A dLER of 3.0 means every \$1 spent on your crew delivers \$3 in gross margin. Sweet, right?
- **Management Labour Efficiency Ratio (mLER):** This measures your back-office and leadership team's impact, calculated as $\text{Contribution Margin} \div \text{Management/Support Labour Costs}$. An mLER of 6.5 shows your managers are pulling their weight to keep the profit train rolling.

Labour Efficiency Ratios in Service Businesses

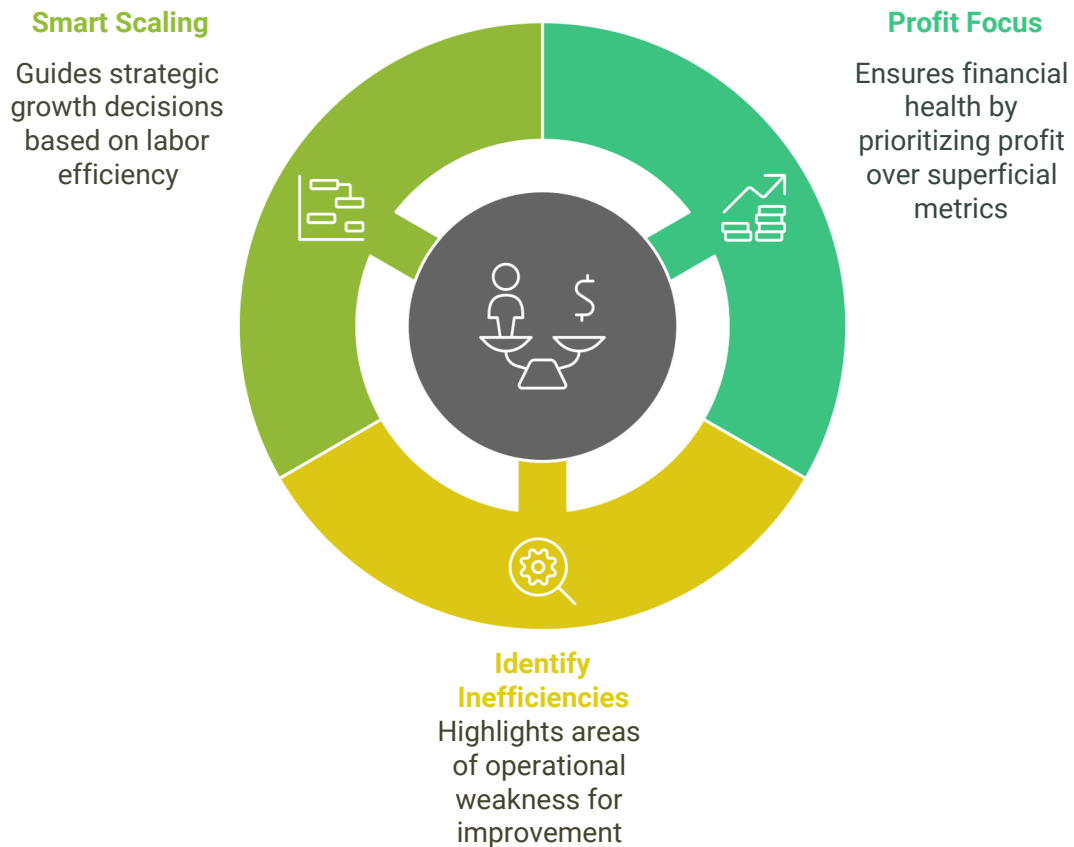


For trade businesses, where labour is the backbone and margins can be tight, LER cuts through the noise to reveal what's really working.

Why It's a Must for Tech and Trade

1. **Profit Over Vanity Metrics:** Revenue looks sexy on paper, but if your techs are overworked or your office staff's bloated, profit vanishes. LER ties labour directly to your bottom line, aiming for that minimum 10%+ pre-tax profit. (but you can easily push profit to 20% - 30%+ with the right focus)
2. **Spot the Leaks:** Low dLER? Maybe your techs are bogged down by inefficient schedules or underpriced jobs. Weak mLER? Your dispatcher or sales lead might need a shake-up. LER pinpoints where the system's creaking.
3. **Scale Smarter:** When dLER climbs past your target (say, 3.0), it's a green light to hire more hands—or boost revenue without adding headcount. No more guessing when to grow.

Integrating LER into Business Strategy



Your LER Playbook: Plug It Into Your P&L

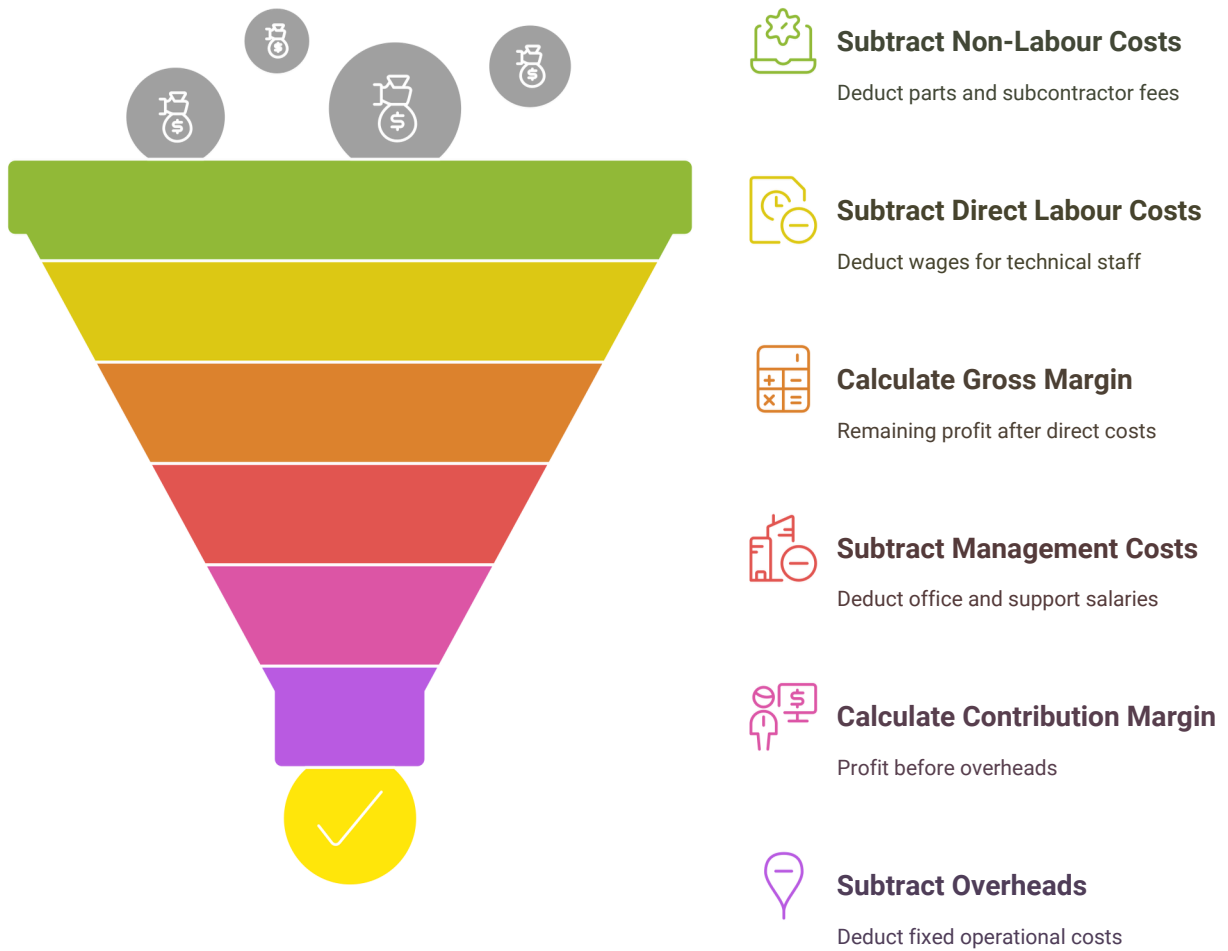
Ready to make LER your new best friend? Here's how to weave it into your Profit & Loss (P&L) reporting, tailored for the nuts-and-bolts world of trade and tech services.

Step 1: Break Down the Numbers

Start with your P&L basics:

- Revenue: Cash from jobs—installs, repairs, service contracts.
- Cost of Goods Sold (COGS): Split this into:
 - Non-Labour Direct Costs: Parts, tools, or subcontractor fees (e.g., \$200K for copper piping or server hardware).
 - Direct Labour Costs: Wages for your techs and tradespeople (e.g., \$150K).
- Gross Margin: Revenue minus COGS—your first profit checkpoint (e.g., \$450K).
- Management/Support Labour Costs: Pay for your office crew—dispatchers, sales, managers (e.g., \$60K).
- Contribution Margin: Gross Margin minus Management Labour—profit before overheads (e.g., \$390K).
- Overheads: Rent, truck maintenance, ads, insurance (e.g., \$150K total).
- Pretax Profit: What's left after the dust settles (e.g., \$240K).

Financial Flow in Service Businesses



Step 2: Crunch the Ratios

Add these to your P&L:

- $dLER = (Revenue - \text{Non-Labour Direct Costs}) \div \text{Direct Labour Costs}$: Say Revenue is \$800K, Non-Labour Costs are \$200K, and Direct Labour is \$150K— $dLER$ is $\$600K \div \$150K = 3.0$.
- $mLER = \text{Contribution Margin} \div \text{Management/Support Labour Costs}$: With \$390K Contribution Margin and \$60K Management Labour, $mLER$ is 6.5.

Breaking Down Labour Efficiency Ratios

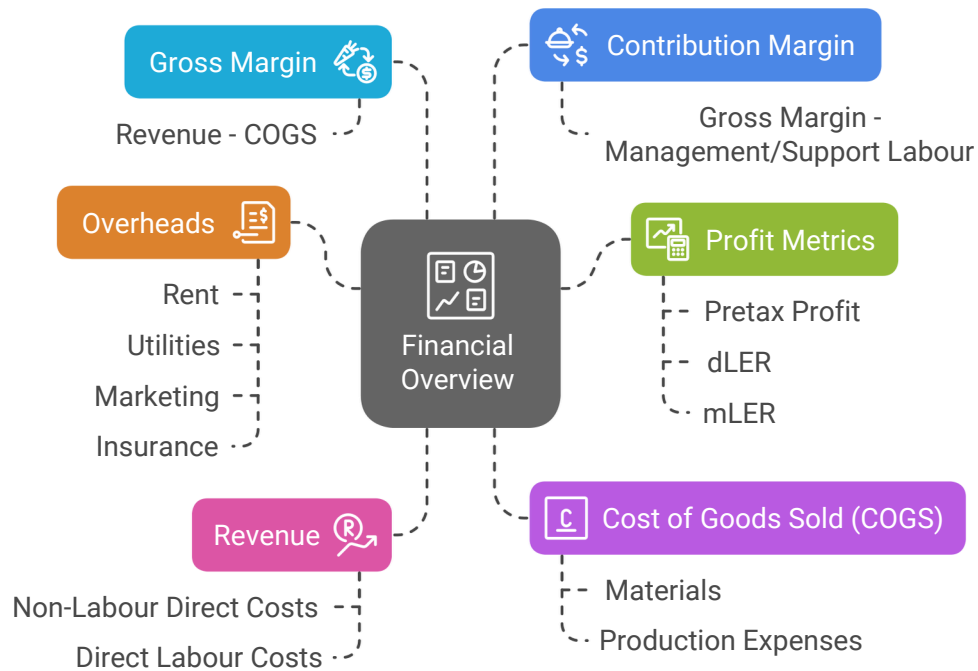


Step 3: Revamp Your P&L

Tweak your P&L template to look like this:

- Revenue: \$800,000
- (-) COGS:
 - Non-Labour Direct Costs: \$200,000
 - Direct Labour Costs: \$150,000= Gross Margin: \$450,000
- (-) Management/Support Labour: \$60,000= Contribution Margin: \$390,000
- (-) Overheads:
 - Rent, Utilities: \$80,000
 - Marketing, Insurance: \$70,000= Pretax Profit: \$240,000
- dLER: 3.0
- mLER: 6.5

Financial Performance and Efficiency Metrics



Automate it in Xero or QuickBooks—set it and forget it!!

Step 4: Set Your Sights

Aim for:

- dLER: 2.0–3.0 minimum. Trade businesses with low material costs (like IT services) might push for 4.0+.
- mLER: 6.0–8.0. Your office team has to hustle to justify those salaries. Check your last 12 months to find your baseline, then aim to hit a minimum 10% pre-tax profit.

Efficiency and Profitability Hierarchy



Step 5: Keep Tabs

Track LER monthly or quarterly. Use a rolling 12-month average to smooth out slow seasons (hello, Winter freezes or Dec/Jan breaks!). Throw it on a dashboard with revenue and profit—suddenly, you're a data-driven boss. If dLER dips, your techs might be overbooked. If mLER sags, rethink that extra admin hire.

Step 6: Make Moves

Here's where LER gets actionable:

- **Boost Top-Line Revenue:** Crank up revenue to juice your ratios. Raise rates 10% (e.g., \$800K to \$880K), upsell maintenance plans, target a new market niche or hit new neighbourhoods. With costs steady, dLER jumps to 4.53 ($\$680K \div \$150K$) and mLER to 7.83 ($\$470K \div \$60K$). More cash, same crew—profit nirvana.
- **Hire Smart:** dLER over 3.0? Add a tech to handle the extra jobs revenue growth brings.
- **Trim Fat:** Low dLER? Cut material waste or renegotiate supplier deals. Weak mLER? Streamline office roles.
- **Overhead Check:** Strong LER but thin profit? Slash that \$70K marketing spend if it's not pulling jobs.



Step 7: Rinse and Repeat

Review LER monthly with your team. Adjust targets as you grow—new service lines might shift the maths. Dig deeper by breaking it down per crew or job type to find your MVPs (Most Valuable Players!!).

Real-World Win: A Sample Snapshot

Imagine your HVAC biz:

- Revenue: \$800K
- COGS: \$350K (\$200K parts, \$150K techs)
- Gross Margin: \$450K
- Management Labour: \$60K

- Contribution Margin: \$390K
- Overheads: \$150K
- Pretax Profit: \$240K
- dLER: 3.0
- mLER: 6.5

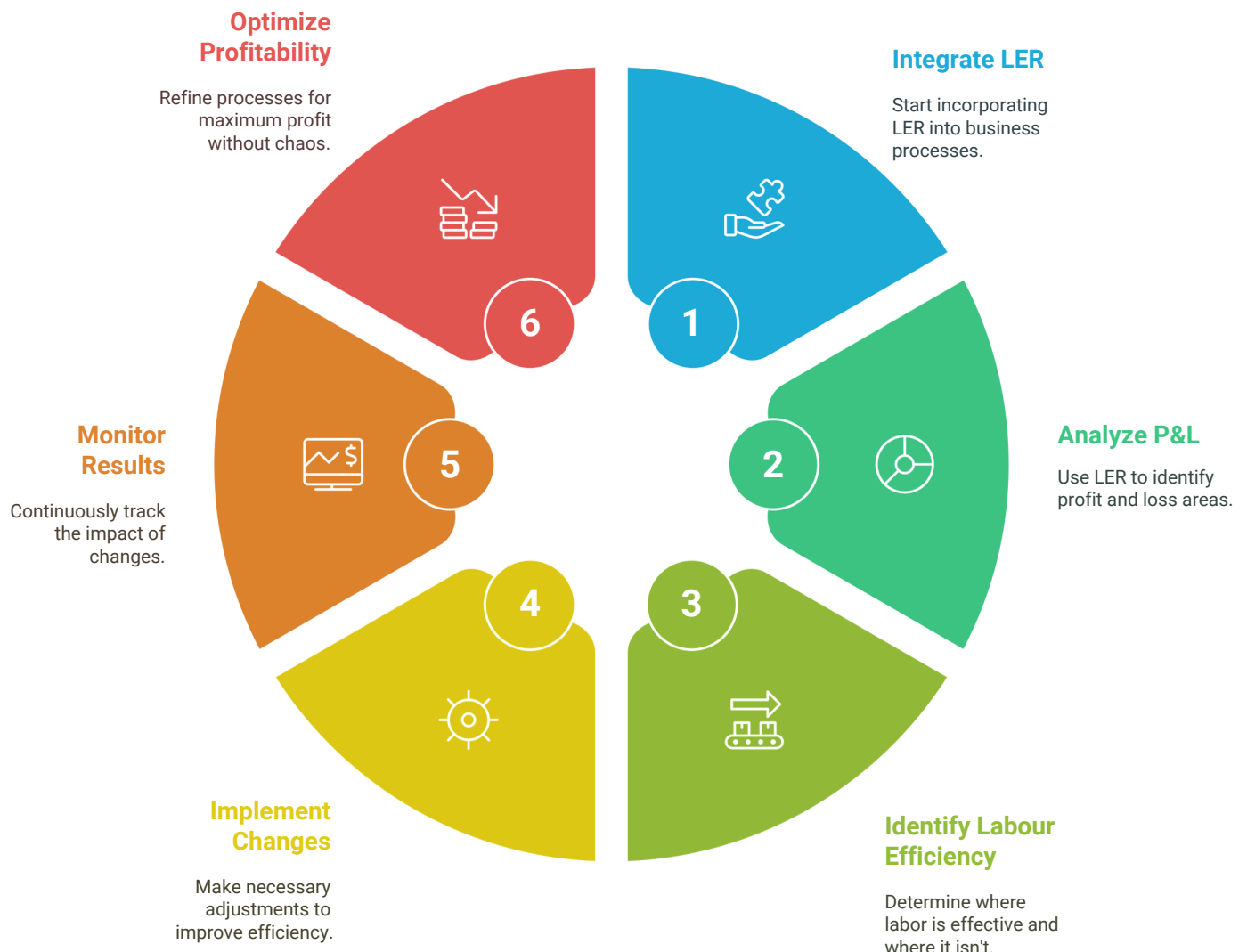
Bump revenue to \$880K with a price hike—dLER hits 4.53, mLER 7.83, and profit soars. That's LER in action.

The Bottom Line

For technical and trade service businesses, LER isn't just a number—it's a lifeline.

It turns your P&L into a treasure map, showing where labour's paying off and where it's leaking. Integrate it, act on it, and watch your profit climb without adding chaos. Your crew's already skilled—now make them profitable.

Leveraging LER for Profitability



Ready to tune up your bottom line?

Drop me a line at info@techandtradiecoach.com

Or book in a quick chat here: <https://www.techandtradiecoach.com/book>