

WHAT SHOULD I CHARGE?

**SMART PRICING STRATEGIES
FOR DESIGNERS**

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Marketing-Mentor.com



How to Figure Your Hourly Rate

Most designers wonder if they're charging enough. You probably do too. And you probably aren't.

Where does your hourly rate come from? Out of thin air? From an industry guide? Is it a number that's close to or the same as what your competition charges? Is it a number you chose because it's comfortable to you and no one complains about it? (By the way, if you're getting every job you bid on, you're probably not charging enough.)

Or did you sit down and figure out how much you need to charge in order to earn the living you need and achieve your goals?

For most, the answer to that last question is no. But if you don't figure out what your hourly rate must be in order to cover your expenses, how will you know if you are charging enough? Here's the process you must go through to figure out the hourly rate that you must charge in order to earn the living you want. Follow along with the example on page X.

Step 1: Determine your salary. That's right, you get to decide. What is the salary you need your business to pay you, before taxes. Let's work with \$40,000. This is the "100%" figure that corresponds to Peleg Top's Money Management System.

Add 30% on top of that to cover your income tax. 30% of \$40,000 is \$12,000. Therefore, you need to pull \$52,000 per year from your business.

Step 2: Figure your labor hourly rate. That is how much money you make for every hour that you work, or, more accurately, for every hour that you bill a client. To do that, determine how many hours you'll be working for clients in a year. 1142 hours is an industry standard used for figuring hourly rates, and it's based on a 40-hour work week. (If you're working part time, figure it based on the number of hours you actually work per week.)

Based a standard 40-hour workweek, there are 2080 working hours in a year (52 weeks x 40 hours/week). In reality, however, people get sick and take days off. The standard number used for days off is 176 hours (that's 22 8-hour days). So, $2080 - 176 = 1904$ working hours in the year.

That doesn't mean you're billing all 1904 hours. If your business is healthy and thriving, you'll spend approximately 40% of your time on administrative duties, managing, invoicing, filing, marketing, travel, etc. So that means 60% of your time is billable. 60% of 1904 is 1142.

To calculate your hourly rate, take the total salary you need (\$52,000) and divide it by 1142 hours. That brings your labor hourly rate to \$45.53. If you work and bill 1142 hours at this rate, you'll make the after-tax income of \$40,000 you want.

Step 3: Determine your business overhead by adding up all your expenses. (See Business Overhead Worksheet). It's very important that you understand how much it costs to actually run your business. A lot of people, especially solo entrepreneurs, underestimate this. If you work from home, your home and business expenses probably get mixed together. Plus, working from home, you don't "feel" the expenses as much as you would if you worked in an office and had to write checks for rent, phone, Internet, etc.. That's why it's important to separate the two. You should have a business checking account and understand what percentage of your home expenses are actually business expenses. If you had to go out tomorrow and rent an office and not use the convenience of home, how much would that cost?

In our example, let's say you spend \$35,000 per year to run your business. So add \$35,000 to your salary -- 52,000 -- and you get a total of \$87,000. That's how much you must bring in to cover your salary and overhead.

If you are spending \$35,000 a year on a business that's paying you only \$40,000, your business expenses are really high and you should look for places to cut expenses.

Step 4: Make sure your hourly rate covers your overhead. Your Overhead Hourly Rate is what you must charge just to cover your overhead. You determine this by first figuring what percentage of your total salary is the business overhead. So take the overhead (\$35,000) and divide it by the total salary (\$52,000) = 67.3%. That's your Overhead Hourly Rate.

Multiply that percentage (67.3%) by your Labor Hourly Rate (\$45.53) to find out how much to add to cover not only your salary but also your expenses. In this example, \$30.64 an hour will cover overhead.

Step 5: Add your labor hourly rate to your overhead hourly rate to find the total hourly rate required to cover both your salary and your overhead. So: $\$45.53 + \$30.64 = \$76.17$.

Step 6: Add your profit. You're working to make a profit, right? It's up to you how much profit you want to make. 10-20% is standard. In this example, we'll add 10% profit. So take 10% of the combined hourly rate of $\$76.17 = \7.62 . Add that to the combined labor and overhead rate = $\$83.79$. Round it up to $\$85.00$ an hour.

So your business is thriving and if you're billing 1142 hours at \$85, after business expenses and taxes, you will take home the \$40,000 that you want, plus 10% profit.

Now, \$85 is the base hourly rate to work with. It's not necessarily what you should be charging; it's the minimum you must charge to run this business profitably. Once you calculate this rate for yourself, you'll know the base of how much you'll have to figure into a project. You must charge AT LEAST this much. You can charge more, as much more as you like.

If you're figuring out an hourly rate for a two-person studio, you simply double the 1142 hours since you have two people working. So 1142 hours becomes 2284 hours. The salary has to be doubled, the available hours has to be doubled. But there should be only one business overhead number, because it's the overhead for the whole business.

YOUR HOURLY RATE

1	Estimated salary		<u>\$40,000</u>
2	Estimated taxes - Add 30%		<u>\$12,000</u>
3	Total Salary for the year		<u>\$52,000</u>
4	Yearly business hours	2,080 > 1904 after vacation & sick days	
5	60% billable efficiency	1,142 billable hours per year	
7	Labor hourly rate (total salary (line 3) / 1142) =		<u>\$45.53</u> labor hourly rate
8	Business overhead expenses:		<u>\$35,000</u>
9	Business overhead + salary = TOTAL		<u>\$87,000</u>
0	overhead as % of Salary (line 8/line3)		<u>67.30%</u>
1	Overhead hourly rate: Labor Hr. Rate x OH % (line 10xline7)		<u>\$30.64</u> overhead hourly rate
2	Rate to recover Income + OH: (\$45.53+\$30.64)		<u>\$76.16</u> WHAT YOU MUST CHARGE!
3	Profit percentage		
4	Hr. Rate x 10%		<u>\$7.62</u>
5	Add to Hr. rate		<u>\$83.77</u> WHAT YOU SHOULD CHARGE!
6	Round it up...		<u>\$85.00</u>

HOURLY RATE IS \$85.00 PER HOUR.

YOUR HOURLY RATE

1 Estimated salary _____

2 Estimated taxes - Add 30% _____

3 Total Salary for the year _____

4 Yearly business hours 2,080 > 1904 after vacation & sick days

5 60% billable efficiency **1,142 billable hours per year**

7 Labor hourly rate (total salary (line 3) / 1142) = _____

8 Business overhead expenses: _____

9 Business overhead + salary = TOTAL _____

0 overhead as % of Salary (line 8/line3) _____

1 Overhead hourly rate: Labor Hr. Rate x OH % (line 10xline7) _____

2 Rate to recover Income + OH: _____
(\$45.53+\$30.64) **WHAT YOU MUST CHARGE!**

3 Profit percentage _____

4 Hr. Rate x 10% _____

5 Add to Hr. rate _____
WHAT YOU SHOULD CHARGE!

6 Round it up... _____

HOURLY RATE IS \$85.00 PER HOUR.

Marketing Mentor

FREE OFFER

OUR OFFER TO YOU: 1/2 HOUR FREE CONSULTATION

This is where we practice what we preach. We want to learn about you so we can provide information and services to help you build your business. In return, we offer you a free, 1/2 hour consultation with Ilise Benun, during which she'll answer your 3 most pressing marketing questions and, if you're interested, tell you how the Marketing Mentor one-on-one coaching program can help your business grow.

What is your biggest obstacle to marketing? (Check one.)

- I have no time to do it.
- It's too overwhelming.
- It's too expensive.
- I don't like it.

What do you need to learn? (Check all that apply.)

- How to develop the self-confidence I need to get the word out.
- How to set realistic marketing goals and a plan to achieve them.
- How to feel comfortable networking with anyone.
- How to ask for what I need: money, information, projects, contacts, etc.

What would you like to accomplish? (Check all that apply.)

- Develop a cold calling campaign to a specific market.
- Develop a new web site (or revamp an old one).
- Drive traffic to my web site.
- Develop an email marketing campaign.
- Other: _____

What kind of help do you need? (Check all that apply.)

- A partner to bounce ideas off of.
- A professional to guide me.
- A catalyst to inspire me to achieve my goals.
- Someone to keep my marketing on track.

Name:

Company name:

City, State and Country:

Phone number:

Email address:

Web address:

Best time to talk:

Sign me up to receive quick marketing tips by email!

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