



Small Business Resources

Selected for Women Entrepreneurs by Women's Enterprise Centre

HOW MUCH IS YOUR TIME WORTH?

If time is money, how much is yours truly worth? If you charge less than your competition, potential customers might question the quality of your services. On the other hand, if you charge more, they might be frightened away. Somehow, you need to find a safe middle ground -- a reasonable price that attracts customers, while still providing you with a moderate profit.

One management consultant calculated that he must charge \$81 per hour to earn \$50,000 per year. Let's take a closer look at how to apply this formula to charge for your services.

First, to calculate the yearly billable time, deduct the following days from one year: 15 for vacation, 9 for holidays, 5 for sick, 12 for training, 44 for marketing (one day each week), 104 for weekends and 28 for administrative activities (one hour each day). In a non-leap year with eight-hour days, this leaves 148 billable days; or 1,184 hours.

Now, add the following fixed costs to a \$50,000 yearly salary for overhead: \$3,600 for insurance (medical, life, disability, liability, etc.), \$7,200 for rent (in a one-room office suite), \$5,000 for advertising (10 percent of expected gross revenue), \$6,000 for equipment and furniture, \$1,200 for client entertainment, \$2,000 for resources (books, magazines, organization membership fees, etc.), \$1,200 for telephone bills, \$1,200 for utilities, \$1,200 for office supplies, \$2,000 for travel, \$2,000 for accounting fees, and \$1,200 for legal fees. Omit corporate taxes for now. This means that to pay yourself \$50,000 per year, you have to earn \$83,800 in those 1,184 hours. That works out to nearly \$71 per hour. Adding a liberal 15 percent profit means you have to charge your clients \$81 per hour.

An hourly rate of \$81 may not sound bad, but will anyone hire you if the going rate is \$60 per hour? The answer is yes, depending on your image. However, the more likely answer, especially if there is a lot of competition for your type of service, is no.

You can probably reduce that hourly rate by closely examining your actual billable hours and overhead expenses. If you work out of your home, you don't have to pay rent or utilities. You might also bill more than 1,184 hours in a year to keep your rates down. Here are some other realistic considerations you must factor into your price:

Location vs. Price

A recent Department of Commerce report revealed that 38 percent of all high-tech professionals in the Washington, D.C., metropolitan area are in the data processing industry, whereas in the greater Los Angeles area, that number is only 8 percent. The high competition in the District of Columbia forces the price of data processing services to be among the lowest in any U.S. metropolitan city. Your particular region will dictate a ceiling for your prices, depending on the demand in that area for your services.

Image vs. Price

Most often, quality is not as important as "perceived" quality. For example, if your target client base is Fortune 500 executives, charging \$60 per hour when they are used to paying \$120 per hour might invoke doubt in their minds regarding your qualifications -- even if you are truly the best person for the job. You want to determine the average price range for your particular client base. Your prices should stay within the acceptable range, but can vary within that range depending upon the unique services or extra benefits you provide.

Other Benefits vs. Price

A client's decision to buy a product or a service is usually an emotional one. Some consultants have turned this into an advantage by giving money-back assurances of quality if the client is dissatisfied with the work. You can also add to the perception that you offer services that no one else has. For example, when you work with a client on a fixed-price contract, you often must have a one-on-one exchange of technical information. Clients will also call you regarding questions that may arise later. If you let them know ahead of time that they can ask as many questions as they want without worrying about the meter running, you have gained an advantage over your competition without really doing anything different.

As you can see, pricing your services is not a simple task of performing some calculations and coming up with a figure. Gather pricing information from your colleagues, customers and, if possible, your competitors. It will help you to determine the rate you should charge to position yourself to achieve your financial goals.

For more resources to Start or Grow Small Business, visit our website at www.womensenterprise.ca or call 1.800.643.7014.