

How Much Is Your Time Worth?

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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.

1. A STEP-BY-STEP EXAMPLE

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.

1. **First, to calculate the yearly billable time, deduct the following days from one year, as shown below.**

DEDUCTION	NUMBER OF DAYS
Vacation	15
Holidays	9
Sick	5
Training	12
Marketing (1 day/wk)	44
Weekends	104
Admin activities (1 hr/day)	28
TOTAL	217

- Therefore, the total billable days left (365 less 217) is 148. At 8 hours per day, you have 1,184 billable hours in a year.

2. Now, add the following fixed costs to a \$50,000 yearly salary for overhead (NB: We'll omit corporate taxes for this example.):

EXPENSE	AMOUNT
Insurance (medical, life, disability, liability, etc.)	\$3,600
Rent (in a one-room office suite)	\$7,200
Advertising (10% of expected gross revenue)	\$5,000
Equipment and furniture	\$6,000
Client entertainment	\$1,200
Resources (books, magazines, organization membership fees, etc.)	\$2,000
Telephone bills	\$1,200
Utilities	\$1,200
Office supplies	\$1,200
Travel	\$2,000
Accounting fees	\$2,000
Legal fees	\$1,200
TOTAL	\$33,800

- Therefore, to pay yourself \$50,000 per year and cover \$33,800 in overhead expenses, you have to earn \$83,800 in those 1,184 hours.

3. **Now figure out your hourly rate by dividing \$83,800 by 1,184 hours.** This works out to nearly \$71 per hour. Adding a liberal 15% 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.

2. SOME CONSIDERATIONS

Here are some realistic considerations you must factor into your price:

LOCATION VS. PRICE

A past Department of Commerce report revealed that 38 percent of all high-tech professionals in the Washington, D.C., metropolitan area were in the data processing industry, whereas in the greater Los Angeles area, that number was only 8 percent. The high competition in the District of Columbia forced 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.

STILL HAVE QUESTIONS? WE CAN HELP!

Women's Enterprise Centre is the leading full-service business resource for existing and aspiring BC women entrepreneurs. We provide business loans up to \$150K, business skills training, personalized business advice, mentoring, practical resources and a supportive community to help women business owners gain the skills, mindset, financing and networks they need to realize their business potential.

We offer free business advisory services for entrepreneurs in all stages of business. **Plan to succeed today with our personalized support.**

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