

# An accurate hourly rate is the basis for effective pricing

*Pricing your work with confidence begins by determining your hourly shop rate*

By Jeff Cahill

**L**ike many writers, I kind of got stuck when I first started writing this article. After I did a sketch for the Design/Cost Workshop, the folks from SignCraft asked me to write about my hourly rate—I guess it’s rumored that I’m prosperity conscious, and I’m the first to admit that I value profit just after a job well done.

My main sticking point is that I can’t feel prosperous, thanks to the effects of the oil situation in the area where I happen to live and work. I’ve never lived through a recession, depression, economic setback, or whatever this period is called, and I feel kind of helpless. I’ve seen others lose their property, homes, businesses and all that, but it never seemed to threaten me—until now.

I had to dig real deep to remember the good times—back when we had eight people on staff, when there was 30-percent compound growth every year, when I was leasing two new Porsches and had lots of free time to enjoy life. That sure was good living.

After a lot of reflection, right now is good, too. There’s less stress, more promise of higher profits and potential time off, everybody is healthy and the sky is still blue. What

I got stuck on was the outward appearance of “what was.” I had to focus on the bottom line.

We all know that it’s not what you gross that counts; it’s what you keep!

As this article will show, I’ve recognized what I need to be happy and fulfilled, and I have to admit that it’s not the size of the business; it’s the quality! Downsizing one’s operation isn’t a defeat—sometimes it means the difference between that and success. If I hadn’t adjusted, I may well have been history by now. Don’t let your ego get in your way!

**First, how many hats do you wear?** I perceive the sign shop operator as having five or six facets. As with a precious stone, the total represents the value, and if any side or facet is missing or not balanced in its appearance, then the whole is affected, is imperfect and, alas, is not as valuable as it could be.

I mention this because I know of too many small shop owners who neglect the business end of their venture for lack of formal training, experience or a willingness to find out “what it takes” (from where, right?) to run their business successfully. They eventually find themselves unprofitable, deep in debt

POSITION	SOME OF THE REQUIRED SKILLS
“Design conscious” Salesperson	Cold calling, public relations, basic designing, estimating, negotiating, lead generating and follow-up.
Manager	Administrator: bookkeeping, cost accounting, material and time managing, bill collecting, planning, negotiating, scheduling, hiring and firing.
Designer	Concepts, sketches, permit applications, final drawings and patterns.
Manufacturer	Construction, painting/preparation, lettering and installation.
Engineer	Permit application, construction and installation, loading, stress and footing calculations.

and ultimately, back at work for somebody else. I, too, would like to produce and letter all day long, but as a small shop operator, I know I have to devote time to office matters and discipline myself to stay there until that necessary work is done. Balancing the artist and the business person seems to be an ongoing task for most of us.

Years ago, while pursuing maximum business growth, I found myself stepping out of the production role and being the salesman, engineer and administrator. I designed some of the signs, but delegated whatever I could to those who could operate the computer. Although gross sales figures were high, I learned something about myself: if I didn't have "hands-on" involvement, I didn't feel creatively satisfied. (It was sort of like chewing your meal, but not being allowed to swallow it.) Being the administrator, exclusively, is not my thing. But, I wouldn't have known that if I hadn't divorced myself from the creative elements of the business. So, now I'm back doing what I like best, and that more than compensates for the 10 or 15 hours of book work I have to do every week.

As the next section of the article shows, however, I may very well have painted myself into a corner, because just as surely as a larger operation requires a larger shop, the opposite is true for a smaller operation. With this big shop, it sometimes feels as if there's a millstone around my neck. Anyway, Figure 1 shows various facets, or positions, I mentioned above, along with some of their required skills. You're probably already aware that several of these positions have overlapping skill requirements.

A word about why I prefaced the salesperson facet "design conscious." I've found that in attempting to use standard salespeople, I was often forced to stay at the shop long into the evening, creating ideas and options that the salesperson was unqualified to present. Someone with a background in signs and their installation could have eliminated many vari-

ables, and would have made the designer's job (my job) a lot easier.

Ultimately, I ended up doing their job for them (establishing no need for their position). In time, it created resentments because of the overwork. Someone with experience in the graphics end of the business would be nice, but someone who has built, designed and estimated signs would be the ideal salesperson.

In reviewing this list, you're probably already aware of all these responsibilities, but may not have put names on them. Good for you! You're already halfway there because you're aware of all the tasks. Knowing that these must be balanced, and accepting the responsibility, is half the battle toward their implementation. Devoting the time is the other half. Knowing this and not doing it won't help unless you hire someone else to do that work for you.

Since I was asked only to write about my justification for charging what appears to be an exorbitant hourly rate, I'd better focus on the first facet, namely, the salesperson and estimator. We can save the other positions for future articles.

As a "design conscious" salesperson and estimator, one must see the overall needs and tastes of the client, and be able to design according to the decor, the placement and the mounting possibilities. You must be knowledgeable of costs, so as not to oversell according to the client's budget, and not waste your time going down the wrong path. Tact is a valuable asset and diplomacy a skill worthy of learning, but remember that no account is worth landing if you're not going to make money on it. Hence the necessity of knowing one's actual costs. In other words, don't make a sale by compromising or backing down to the point where the job isn't worth doing. You won't feel like a winner and you'll eventually burn out. Also, if you go by other people's suggestions on what you should charge for your work, you may be digging a hole for yourself.

So, in these precarious economic times here

in the West, how can I justify a shop rate of \$84 per hour? Well, if you use my worksheet to calculate your hourly rate, you may find you should adjust yours as well. It all depends on what your needs are and what you feel you deserve.

**A little background** Those who have heard my motivational talk at various Letterhead meetings will probably remember the story of my last years in my native New Jersey, which I left about 13 years ago. I was sick and tired of working night and day, and only making wages (sometimes not even that) for a year and a half before my departure. I began resenting my customers, who I knew were home with their families while I was slaving away in the shop. I had virtually no free time. I felt I was charging a fair rate based on working eight hours a day, six days a week. (I figured the sixth day would make up for fruitless sales calls, required book work and other wasted time.)

Then several things began to dawn on me:

1. I allowed no real buffer for mistakes, over-scheduling or emergencies. My Sundays became that buffer.

2. I started watching my real production, and in an eight-hour day that time was actually four to five hours, so working evenings had become necessary to fill my production day!

3. After figuring my hourly rate based on what I could produce realistically, and being able to have evenings and one full weekend day off, my hourly rate needed to *double*. Where I had been charging \$18 per hour, I needed to charge about \$35.

Those of you who haven't heard this story, sit tight. Imagine being a client who has been accustomed to paying \$130 for a product, then coming in to reorder and being told it would be \$250 this time! I was scared. I imagined that everyone I'd done work for would go elsewhere. If I tried to initiate this increase, I might have to close the shop and find a job.

So, I considered the alternatives. I didn't want to go back to work for someone, but I wanted some profit. I wanted to be able to support my wife and myself on my income, and start a family. The more I thought about it, the more resolved I became.

I realized that I had nothing to lose! I couldn't go on the way I had been—something had to change.

I decided to send my regular clients a photocopied note explaining why a price increase was necessary. I outlined the long hours, my financial losses and my wife's necessity to work. I also mentioned that without this drastic change they'd have to go elsewhere anyway

if I was forced to close the business. I said that I knew some of them would stop doing business with me because of the 100-percent increase in cost. I also expressed the hope that if they liked the kind of work I'd been doing for them, they'd understand my position and support me.

What I hadn't figured on was the big Sign Writer in the sky. It's written in one or more books that "if you have the faith of a mustard seed, nothing is impossible for you."

I'd been a student of several spiritual doctrines and this was one of many tests in my life. I knew that I had always had food, water, shelter, etc., and this wasn't much different. I simply decided to give myself a new level of living.

My fears subsided, and do you know what? I lost only *three* customers. My work week shortened, my gross increased, I showed a profit, I had time off and on one of my frequent trips, I went west. I fell in love with Colorado, and six months later I moved there.

The reason for this story is twofold. First, I believe a person's "last straw" is subjective. Any of us at any time can decide it's time for a change and can make that change.

Second, I believe we all must believe in something greater than ourselves. Something that provides or gives that eternal spark, something that we can trust in beside ourselves. It can be love, God or anything positive that allows you to take yourself less seriously.

These two pieces of information have held me—and others—in good stead. We're not trying to be arrogant when we say we deserve better; we're sharing the fact that we know it's possible to change our attitude. It's possible to pull yourself up by your own bootstraps, and it certainly is possible to succeed.

**Present conditions** My current situation isn't much different. The economy is down and my volume has dropped. There's been a steady stream of businesses going bust or leaving town for greener pastures. I just finished sacrificing a year and a half of wages to pay off \$40,000 in corporate debt. I ran it up and I did the risking, so I paid the bill. (And, my wife supported me while I paid it off.) I don't believe in walking away from anyone who has given me credit—it catches up to you.

I've reduced my work force by 75 percent, consolidated my bookkeeping to just myself and a CPA, closed down my retail store and cut or canceled all extraneous expenses. This will leave me with a fair income, time and room for tinkering and spare money to invest. (That's if the volume continues, the economy stabilizes and the overhead doesn't increase

## Jeff Cahill's worksheet for determining an hourly rate

"While I was giving talks at some of the Letterhead gatherings," writes Jeff, "I was repeatedly asked if there was a form that 'inquiring minds' could use to establish a basic hourly charge. Not knowing of any, I vowed that I would put one together. This worksheet is the result."

Before going on to the steps below, analyze your expenses using the chart at right to get a monthly total.

1. Multiply monthly total at right by 12 to get your annual expenses. \$ \_\_\_\_\_

2. Enter the amount that you'd like to net each week. \$ \_\_\_\_\_

3. Multiply line two by 1.39. This will give you the gross amount based on a 28-percent tax obligation. \$ \_\_\_\_\_

4. Multiply this by 52 for your gross annual income. \$ \_\_\_\_\_

5. Add totals from lines 1 and 4 to get your estimated combined gross sales and income. \$ \_\_\_\_\_

It's important to be aware that this figure represents everything you want from your business, so don't be conservative on the expense or income totals.

The next step is figuring your production time. You have to be honest with yourself to determine an effective hourly rate. If you feel you produce 10, 30 or even 50 hours per week, then use that figure in the steps that follow. If you're not sure how many hours of actual production you average each week, it may be helpful to use a clock that can be switched off. Over a week or two, let the clock run when the actual product is being produced. If you're interrupted by a phone call or a client, turn it off. Add your daily totals to get a weekly total. (Don't include sales or "running around" time.)

Figure how many weeks you want to work. You'll need extra cash for those vacations, so it's necessary to bank the extra profits from the increased hourly rate that will result from this figure. You'll need the number of weeks you plan to work (52, 51, 48, etc.) for the next step.

Enter total from line 5. \$ \_\_\_\_\_

Divide this by the number of weeks you plan to work. This new figure is the amount you need to net each week to reach your goals. (I'm not forgetting materials.) \$ \_\_\_\_\_

Divide this total by the realistic estimate of weekly production hours determined hours above. \_\_\_\_\_ hours  
Now you have your hourly rate. \$ \_\_\_\_\_ per hour

Don't hesitate to recalculate your rate as needed. Figure it every six months or when expenses change.

When you price a job, all that is necessary is to figure how many hours or portions of an hour it will take to complete a particular function, multiply that times your new hourly rate, and add the cost of materials plus the markup. I try to mark my materials up 20 to 50 percent, depending on the material and what the market will bear. Don't forget to include sales tax in your bid. Many clients presume your price includes all taxes.

## Monthly expenses

Rent/Mortgage	
Utilities	
Phone	
Advertising, Yellow Pages, etc.	
Insurance: Liability, workmen's compensation, etc.	
Insurance: Auto and other	
Janitorial, bookkeeping, etc.	
Vehicle payments	
Gas and oil	
Maintenance	
Company benefits	
Association dues	
Licenses:	
Business, auto, registration	
Contributions	
Workshops/seminars	
Continuing education	
Magazines	
Unemployment taxes	
Taxes: FICA, etc. (See step 3)	
Other taxes	
Machinery	
Equipment	
Small tools	
Alarm system	
Answering service	
Trash pick up	
Lawyer	
Accountant	
Uniforms	
Bank charges/penalties	
Credit card charges	
Postage	
Printing	
Office supplies	
Film and prints	
Entertainment/lunches	
Travel	
Equipment leases/rentals	
Other: Use separate sheet if necessary and enter subtotal here.	
<b>Monthly total</b>	

Note: If you're converting weekly figures to monthly figures, multiply by 52, then divide by 12. Otherwise, your figures will be too high.

drastically.) Interestingly, we're now doing 60 percent of the highest volume we ever hit, but with only 25 percent of the help.

Two of my major obligations just went up by \$2000 each per year—liability and workmen's compensation insurance. My shop rate had been \$80 per hour for the past two years and, with no other expenses to cut, I had no choice. In order to keep my projected income stable, I added the increased premiums to my worksheet, divided them all up and came up with about \$83 per hour. I rounded that off to \$84 per hour because I figure my jobs by portions of the hour. It's a heckuva lot easier to figure 1/4 of \$84 than \$83. Divided in thirds, \$84 per hour would equal \$28 for every 20 minutes. I always round off to the next higher evenly divisible dollar. (That's my hedge against inflation.)

Now, we'll see if the economy gets better. If not, this 5000-sq.-ft. building with aggregate overhead costs of \$54,000 a year might have to go. (But, first I'll bump up my rates proportionally and find out how much I can get per hour!) I could very well find myself in a four-car garage next year, but that will be all right. I know I'll still have food, water, shelter, etc.

**Fine-tuning your rate** Some sign shop operators have asked me: "If I calculate my hourly rate and it comes to \$100 per hour, do I divide it in half if there are two of us?" My reply is to suggest that they take this thought process a few steps further. What if there are 100 of you—could you stay in business at a \$1.00 per hour shop rate?

Obviously not. I believe that in a large operation there's room for fudging with the figures, such as amortizing (averaging out) the insurances over the average total of people on staff as well as other fixed expenses. But, because the majority of us are one-person to ten-person shops, I believe we need to base our overhead on the hypothesis that we've all been deserted and will have to run the show by ourselves. Treat the "others" (subcontractors, employees, partners) as if they had their own businesses under your roof. That way, if they left you, the gross sales would undoubtedly decline, but your net income wouldn't.

As you use the table I've laid out, remember that my own personal experience has been the major contributor to its composition. Input from accountants, attorneys and business acquaintances has influenced that experience, so I must pass credit on to them. (They should likewise take blame, too, I suppose!)

Bear in mind that this is what works for me. It's comfortable for me, but it may not be for

you. If you have a system that works, too—one that lets you make good money without hurting anyone—I'd like to see a copy. The goal is to arrive at guidelines that we sign artists can use without having to go to college and earn an MBA. After all, with that degree we'd be working for some big accounting firm and not doing the type of work we most enjoy!

I've been accused of being a moneymonger by at least one person. I'm sorry only in that such shortsightedness closes the eyes to new options. When I first started lettering, it was only a hobby and I had a construction job to fall back on. I used to do my sign work for free. Guess what happened when I decided to do sign work for a living!

Between my sign business and my inventing hobby, I devote the majority of my time to my bread and butter—sign work. Although they're equally satisfying creatively, I must give my greater attention to that which pays the bills. But, someday I'm going to find a buyer for one of my products or I'll market one myself. Neither of these are mercenary endeavors. They're God-given talents just as any other trade or profession, and I feel we should be financially compensated or rewarded for the effort we combine with that talent.

I never take advantage of my customers. I know they are the lifeblood of my business. If I can do a job in two hours at \$84 per hour, and it takes a competitor three hours at \$55 per hour, aren't I still competitive? The point is, I'm more profitable with my time, but the systems I have in place to help me work more efficiently are basically responsible for my higher overhead. In fact, the customer may be paying less! My efficiency recently landed us a \$30,000 contract. Because of the systems we have in place, we were the low bid.

Quality work deserves quality compensation and lower quality work deserves lower compensation. It's a matter of attitude. Make up your own mind to which you think you deserve. Don't forget that if you want to elevate your position, that's up to you, too. Good luck! •§



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