

How to determine your hourly rate

What's it cost you to open the shop door each morning?

The basis for knowing what to charge for your signs is knowing what it costs for you to operate your shop for each hour of production time. That's the minimum rate the shop must charge for production time so that their expenses (sometimes called overhead or indirect costs) are covered. These

indirect costs are there whether the shop makes a sign today or not. (Direct costs are those that relate to producing a specific sign—such as paint, vinyl and substrate.) You need a way to recover your indirect costs by spreading them across all of the jobs you do, and your hourly rate is one of the easiest ways to make that happen.

If you don't already know your overhead, the worksheet provided here will help. It's designed for the typical small shop. It takes a little research into what things are costing you, but the result can be surprising—even if unpleasant. Even so, these numbers are the cold hard facts required for your shop's survival.

When you enter your monthly wage, remember that this is before self-employment and income taxes. If you know what you need to net and want a rough estimate of what your gross salary should be, add 30 percent to the net and use that as your weekly gross. If your business is a corporation, your wages will be handled as if you were an employee. See your accountant if you'd like a more exact estimate of your taxes.

Start with what you need to earn There are 52 weeks in a year, which averages out to 4.34 weeks per month. (Yes, we all say there are 4 weeks in a month, but that only comes out to 48 weeks per year.) Multiply your weekly gross salary by 4.34 and enter that as your own monthly gross wages.

Here's an example. Say you need to net \$1000 per week. Add 30 percent to cover taxes

Put the overhead worksheet to work

As you use the worksheet at right to determine your monthly overhead, keep these points in mind:

- *Gross Earnings: Owner* are your total earnings before any taxes are paid. Use the *Determining your monthly gross wages* worksheet to get the number for your gross monthly earnings.
- Remember that the value of most computer hardware drops to just about nothing in three years. If you paid cash for hardware (rather than leasing it) divide the total by 36 months and put that figure in for your monthly cost. That way you'll have the money to replace it when the time comes.
- If you have a home-based shop, you still have "rent" to pay. It won't be as much as commercial space, but you're providing the space and utilities needed for your business to operate. Otherwise your overhead savings benefits only your customer—not you. Besides, if circumstances change and you need to rent commercial space, you won't have that built into your pricing.
- Knowing your expenses is essential. The only items you can leave blank on the worksheet are those that you are sure that you do not incur during the year. If not, you're only fooling yourself.

Monthly overhead worksheet

Expense	Monthly average
Rent/Mortgage	
Electricity	
Water/sewer	
Natural gas	
Telephone	
Cellular phone	
Internet access	
Security system	
Answering service	
Trash pickup	
Uniforms	
Cleaning/janitorial	
Loan payments	
Advertising, Yellow Pages	
Advertising, other	
Bookkeeping services	
Subcontract labor	
Association dues	
Licenses: Business	
Licenses: Other	
Accountant	
Bank charges	
Postage	
Printing	
Office supplies	
Miscellaneous supplies	
Workshops/seminars	
Subscriptions	
Lawyer	
Film and prints	
Entertainment/lunches	
Travel	
Contributions	
Other	
Subtotal:	

Expense	Monthly average
Equipment:	
Computers	
Software/upgrades	
Cutter	
Digital printer	
Router table	
Other large tools/equipment	
Small tools	
Other	
Vehicles:	
Vehicle payments	
Gasoline	
Vehicle service	
Other	
Taxes and Insurance:	
Insurance: Health	
Insurance: Liability	
Insurance: Vehicle	
Insurance: Property	
Insurance: Worker's Comp	
Insurance: Other	
Taxes: Other	
Payroll:	
Gross earnings: Owner	
Wages: Staff	
Taxes: Unemployment	
Taxes: FICA	
Other	
Subtotal this column:	
Subtotal from column at left:	
Total monthly overhead:	

How many “billable hours” do you average each day?

Determine your gross wages...

Accountants, small business consultants, the US Small Business Administration—all agree that business owners who pay themselves a weekly paycheck are more likely to succeed than those who live on a feast-or-famine cycle based on when checks come in. A regular paycheck helps stabilize your cash flow and keeps your expectations realistic.

To make sure you get a check even for a slow week, you must build that into your pricing. Start by multiplying what you need to net each week by .30 and add that to your net. (That gives you 30 percent to roughly cover income and self-employment taxes.) Then multiply that number by 4.34, which is the average number of weeks per month—52 weeks divided by 12 months. The result is your average monthly gross wages.

Monthly gross wages	
Average weekly net wages:	
Increase by 30% to cover taxes	x 1.30
Subtotal:	
Times the average number of weeks per month	x 4.34
Average monthly gross wages:	

...then your hourly rate

Calculate your hourly rate	
Monthly overhead	
Multiplied by 12 (months)	x 12
Annual overhead:	
Divided by annual billable hours	÷
Hourly rate before profit:	
Plus your profit percentage	
Hourly rate:	

and you get weekly gross wages of \$1300. Multiply that by 4.34 and you get average monthly gross wages of \$5642.

Next, you add up all of your monthly expenses, multiply that by 12 and you have your annual overhead. Now you’re ready to turn that into your hourly rate. But first you need to know how many billable hours you average per week.

Billable hours A portion of every day is absorbed by tasks essential to your business but not connected to producing any particular sign—talking to prospects, answering the phone, paying bills, ordering materials. They are part of being in business, but they usually can’t be billed to a specific job. The cost for this time must be distributed over all of your production time.

The hours of actual production time are called billable hours. That’s the number of hours per week that you’re able to actually make signs. Depending on your business, your billable hours may be as little as 20 hours a week. The only way to know this for sure is to track your production hours and total work hours for a typical week.

That’s not all that difficult—it just takes a little discipline to jot down what time you start and end the work day, and how much time you spend doing production work that customers are paying for—actually making the signs. Try it for a week.

Few of us are as productive as we’d like to be. The distractions and interruptions are inevitable. It’s unrealistic to believe that you, as a shop owner, can do actual production eight hours a day, every day. That time that you cannot bill to actual sign production yet is essential to running your business has to be factored into your pricing. Without knowing your billable hours, you’ll probably spend a lot of evenings and weekends making up the time you’re not charging for during the workday.

So let’s say you spend about 15 hours per week dealing with customers, making sales calls, running errands, ordering materials and so on. Assuming a 40-hour workweek, that leaves you with 25 billable hours per week.

Let’s say you want three weeks off for vacation/sick time each year. That leaves you with

The numbers don't lie: One shop arrives at an hourly rate

Let's take a look at how one hypothetical sign maker might use these worksheets to calculate an hourly shop rate. Say our friend Jim, proud owner of Action Signs, is in a suburban town and works alone. He leases a 1200-square-foot shop in an industrial park, and has a basic computer setup. He just bought a two-year-old pickup.

Jim and his wife have one child and he provides the family's health insurance. He has a cell phone, high-speed Internet access, a basic Yellow Page listing—and sponsors a Little League team. He

watches his expenses closely and has a loyal customer base.

He works at being efficient and doesn't mind doing a little of the shop's paperwork after hours if necessary. He has logged his production time and gets in an above-average 30 hours per week of billable time. He allows himself three weeks for vacation and sick time, giving him 49 work weeks per year, or a total of 1470 billable hours per year.

Let's take a look at his numbers.

Expense	Monthly average	Expense	Monthly average
Rent/Mortgage	1000.	Equipment:	
Electricity	35.	Computers	50.
Water/sewer	30.	Software/upgrades	125.
Natural gas	40.	Cutter	50.
Telephone	25.	Digital printer	—
Cellular phone	40.	Router table	—
Internet access	40.	Other large tools/equipment	50.
Security system	—	Small tools	25.
Answering service	—	Other	—
Trash pickup	10.		
Uniforms	—	Vehicles:	
Cleaning/janitorial	—	Vehicle payments	250.
Loan payments	—	Gasoline	200.
Advertising, Yellow Pages	50.	Vehicle service	50.
Advertising, other	—	Other	—
Bookkeeping services	—		
Subcontract labor	—	Taxes and Insurance:	
Association dues	10.	Insurance: Health	700.
Licenses: Business	10.	Insurance: Liability	80.
Licenses: Other	—	Insurance: Vehicle	100.
Accountant	50.	Insurance: Property	80.
Bank charges	—	Insurance: Worker's Comp	—
Postage	5.	Insurance: Other	—
Printing	10.	Taxes: Other	—
Office supplies	20.		
Miscellaneous supplies	20.	Payroll:	
Workshops/seminars	25.	Gross earnings: Owner	5642.
Subscriptions	10.	Wages: Staff	—
Lawyer	—	Taxes: Unemployment	—
Film and prints	10.	Taxes: FICA	—
Entertainment/lunches	—	Other	—
Travel	20.		
Contributions	25.	Subtotal this column:	7402.
Other	—	Subtotal from column at left:	1485.
		Total monthly overhead:	8887.
Subtotal:	1485.		

Monthly gross wages	
Average weekly net wages:	1000.
Increase by 30% to cover taxes	x 1.30
Subtotal:	1300.
Times the average number of weeks per month	x 4.34
Average monthly gross wages:	5642.

Calculate your hourly rate	
Monthly overhead	8900.
Multiplied by 12 (months)	x 12
Annual overhead:	106,800.
Divided by annual billable hours	+ 1470
Hourly rate before profit:	72.65
Plus your profit percentage	7.27
Hourly rate:	79.92

Jim's hourly rate: \$80 per hour

If you take his monthly expenses of \$8900 and multiply that by 12, you have \$106,800. Divide that by his annual billable hours of 1470 (that's 30 hours per week times 49 weeks) and you get about \$73 per hour. Jim thinks 10% is a fair profit, so he adds that and gets a shop rate of \$80 per hour. If he estimates his time accurately in his bids this year, he'll earn \$50,000 in wages, plus about \$10,700 in profit.

49 production weeks per year. Multiply 25 hours per week times 49 weeks and you have 1250 billable hours per year.

Don't forget profit Once you know your annual expenses and billable hours, simply divide your annual expenses by the annual billable hours and get your hourly number. But before you begin using that to start estimating, you must add profit—your reward for the risks and responsibilities of owning your own company.

Owning a small business is risky—less than 50% survive to see their fifth anniversary. Your company is subject to the ups and downs of the marketplace. Your livelihood depends on your ability to work efficiently and effectively. This involves more commitment than is expected from an employee. Profit doesn't just happen — it must be built into your pricing.

Say your hourly rate at this point comes to \$50. If you feel that 20% is a fair profit, add that in. You're at \$60 per hour.

To accurately price a sign, you must multiply your estimate of the hours it will take to produce it and add in the cost of the materials used—with the appropriate markup. Markup is an increase in the actual cost of materials to cover waste, handling and the cost of having money invested in inventory. The amount of markup among the shops we have surveyed ranges from 33 to 100%.

If you use that hourly rate in your pricing, estimate accurately and manage to do about 25 hours of actual production each week, you should net about \$50,000 in wages, plus about \$6000 in profit in the year ahead—and get three weeks of paid “personal time”. •§C

Check out EstiMate Software's Profit Watch [www.estimatesoftware.com], a free download designed to help sign shop owners develop their hourly rate.