

What Are You Worth?

Discovering what you should charge for your services

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Introduction

- Who I am
- What TradeMark does
- Presentation available at:
<http://www.trademarkmedia.com/presentations>



Introduction

What you should get out of today:

- Why is charging what you're worth important?
- Billable vs. Non-billable time
- Fixed-bid Projects vs. Time & Material based Projects
- Computing your Hourly Rate
- Next Steps
- Open Discussion / Question & Answer



Why is charging what you're worth important?

- To make a profit
- To build your self-esteem
- To manage your work-load
- To attract the right clients
 - Perceived value



Billable vs. Non-Billable Time

- Definitions
- How much should you work?
 - % of time vs. # of hours
- What should be counted as billable?
 - Admin tasks – risks and client expectations
 - Support contracts and retainers
- It's important to track your time



Fixed-bid Projects vs. Time & Materials

Fixed-bid Projects

- Pros:
 - Simple pricing
 - Potential to earn more
 - Easier to manage (less time reporting)
- Cons
 - More detailed Scope of Work
 - More ways to lose money
 - Inefficient work
 - Unforeseen issues
 - Client changes and Scope Creep
- Advice
 - Write your Scope carefully & stick to it
 - Be efficient with your time (and track it)
 - Always over-estimate & expect the unexpected
 - Manage client expectations



Fixed-bid Projects vs. Time & Materials

- Time & Materials
 - Pros
 - Less detailed Scope of Work
 - Less ways to lose money
 - Fall back on your hourly estimate
 - Cons
 - Complex pricing
 - Profit is tied to hours
 - Harder to manage
 - Advice
 - Think about fixed costs as well as hours involved
 - Find out budget of project first: There is more than one way to do things
 - Always over-estimate
 - Manage client expectations



Fixed-bid Projects vs. Time & Materials

- Managing client expectations
 - Set a precedent early
 - Ask them how to handle changes to Scope
 - If you “work something in” let them know that it's not customary



Computing Your Hourly Rate

2 different scenarios

- Technician-run Company (one employee)
- Diversified company (multiple employees)
 - Could be all technicians or a combination of technicians and support staff



Computing Your Hourly Rate

Technician-run Company (one employee)

1. Define your annual salary
2. Define all of your annual expenses
3. Define your annual billable hours
4. Add your annual salary and your annual expense and divide this number by your billable hours to compute your hourly rate.

$$\frac{\text{Annual Salary} + \text{Annual Expense}}{\text{Billable Hours}} = \text{Hourly Rate}$$



Computing Your Hourly Rate

An Example: Technician-run Company (one employee)

John is starting a car repair business by himself and wants to decide how much he should charge per hour.

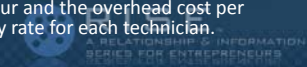
1. John wants to make \$80,000 per year
2. John has determined that his annual expenses will be \$20,000 per year
3. John would like to spent 30 hours per week fixing cars (or 1,560 hours per year)
4. John adds his annual salary and his annual expenses and divides this number by his annual billable hours (1,560)
 - $(\$80,000 + \$20,000)/1,560 = \$64.10$ per hour



Computing Your Hourly Rate

Diversified Company

1. Define the annual number of billable hours for each technician
2. Define the annual salary for each technician
3. Define the other annual payroll expenses for each technician
 - Includes taxes, health insurance, etc.
4. Divide the total payroll expense (salary + other payroll expense) by the number of billable hours for each technician to compute the payroll cost per billable hour
5. Define all annual overhead expenses and divide among technicians
 - Does not include payroll expense for technicians
 - Does include payroll expense for all other employees
6. Divide the overhead expense by the number of billable hours for each technician to compute the overhead cost per billable hour
7. Add the payroll cost per billable hour and the overhead cost per billable hour to compute the hourly rate for each technician.



Next Steps

After you've figured out how much you will charge:

- Research the market to see if your charges are in line with the competition
- Adjust your charges based on client feedback
 - If you're not busy enough, don't assume it's because you're charging too much
- Adjust your charges as your business changes



Conclusion

- Charging the right amount is important for many reasons
- Think carefully about how much you'd like to earn and how many billable hours you can work
- Be careful when deciding to price a project on a Fixed-Bid or Time & Materials basis
- Compute your hourly rate and charge accordingly



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