

A Freelancer's Pay...

An excerpt from *The Designer's Common Sense Business Book*

Designers seem to be most uncomfortable when dealing with the financial end—pricing, billing, bookkeeping, collecting money and paying taxes—of their businesses. (So am I.) But you can eliminate a lot of the hassle and worry by applying simple common sense to money matters.

There's nothing wrong with being money conscious. In fact, if you want to stay in business you have to be, but feeling self-conscious about money can be financially fatal. I'm not saying that greed is good or anything like that; I'm talking about knowing the value of a dollar—and your work. You are entitled to get paid for your work. You're entitled to get good value for the money you spend, too. So check your humility at the door, along with a disdain for doing business.

Much of what goes into keeping your financial affairs running smoothly is rather boring when compared with designing. That's why it's to your benefit to set up systems to handle money matters as efficiently and effectively as possible. Spend a little time up front, save a lot of time later. Since I've never enjoyed it either, I'm glad I can pass along some ideas that took me a long time to discover.

Pricing Your Work

The most difficult decision for designers is how much to charge for their services. Finding that answer seems simple enough: Just learn what other designers charge and go with that. But when designers who are self-employed for the first time hear that others are getting \$50, \$60 or even \$75 an hour, they cringe - not because they think that's peanuts, but because they think that's more than they're worth. So they decide to base their charges on what they made while working for somebody else. If they made \$30,000 a year, a little calculator action quickly tells them that figure works out to \$15 an hour. So when they figure they have to pay their own health insurance and taxes, \$15 becomes \$20 or \$25 an hour.

Other designers get a budget from the client and know he or she is only willing to spend a certain amount. They work backward, allocating production costs, design and production time, overhead and profit to match that amount. Let's say A. Designer has a budget of \$1,200 for a poster. First she deducts the estimated cost of producing it (paper and printing), about \$400. That leaves \$800 for labor, overhead and profit. From that \$800, she subtracts \$80,

which represents a 10 percent profit margin. The remaining \$720 covers labor and overhead.

A. Designer has an overhead ratio of 40 percent, so she divides \$720 by 1.4 (1 = 100 percent labor, plus .4 = 40 percent overhead) to get the amount left for labor. That's \$514.29, which she rounds up to \$514.30. When she divides that \$514.30 by her hourly rate (cost of labor), \$40, she learns that the maximum time she can spend on the project and still make her profit is 13 (actually 12.85) hours. That's fine as long as thirteen hours is enough to complete the job properly. If it isn't, A. Designer could end up eating into her profit or lose money altogether.

Neither method of pricing work is the best, most realistic one.

Because it's not a question of how much you, the designer, should charge; it's how much your business should charge in order to pay for its operation, which includes your salary, and make enough to put a little aside for a rainy day when bills pile up and every client you have seems to be on vacation. So before you do the humble pie routine as you shyly decide what to charge, take a good look at the big picture—the cost of being in business.

So, How Much Should You Charge?

You should charge at least enough to cover the cost of doing business. That's not some random figure pulled out of the air; it's based on real expenses called operating costs or overhead, which include: rent, utilities, leasing equipment such as a fax or copier, telephone, materials and supplies, insurance, taxes, payroll or personal draw (what you pay yourself if not incorporated), travel and entertainment, memberships, petty cash and postage.

To determine your operating costs, list a month's ongoing expenses. If you're already using a disbursement journal, take your totals directly from there. Otherwise, go back through your bills for the last few months to determine your average monthly expenses. Next, if you've been in business for a year or less, you need to know how much you invested in things like equipment and

What Supplies and Materials Are Overhead

Many designers have trouble deciding which items are overhead and which are billable. Here's how to determine that. You need certain tools and materials simply to operate your business, including pencils, markers, layout paper, tracing paper, vellum, sketch pads, rulers, wax, erasers, spray mount, etc. These items are part of your overhead expenses and aren't billable to clients.

Billable materials include any special item that was purchased for use on only one project—a gold marker or specific Pantone markers and papers or Letraset type. All the boards, acetate overlay sheets or rubylith used to produce a mechanical should be billed to the client under miscellaneous materials. If a project calls for more than ten photocopies, that should also be billed to the client under miscellaneous. Purchases of specific materials in large quantities, such as balsa wood for a model, or any single item that costs over \$25, should be listed separately on the bill. If you buy a special piece of equipment to complete a job, such as an opaque projector for a large-scale illustration, you can't bill the client for it unless the client has previously agreed to foot the bill. Otherwise consider it to be part of your overhead. (Always borrow or rent equipment for one-time use if you can.)

furnishings, business cards, stationery, envelopes, self-promotional materials, a telephone, an answering machine, etc. You should include these start-up expenses in your overhead to recoup them over the next year.

A Formula for Determining Your Prices

Here’s a pricing formula to determine your fees. I’ve used a set of figures for a typical designer working at home. This designer has budgeted a salary of \$24,000 a year or \$2,000 a month to cover living expenses. The overhead—expenses not related to a specific project—breaks down like this:

Home Office Rent	\$ 250/mo.
Salary	2,000/mo.
Utilities	50/mo.
Taxes	400/mo.
Insurance	250/mo.
Equipment purchases	300/mo.
Equipment leases	175/mo.
Furniture purchases	100/mo.
Sick days/paid vacation	154/mo.
Self-promotion	35/mo.
Office supplies	60/mo.
Art supplies	60/mo.
Travel expenses	40/mo.
Business entertainment	40/mo.
Savings for retirement	<u>167/mo.</u>
Total Operating Costs	\$4,081/mo.

Formula:

1. Divide your total monthly operating costs by 4 to get your weekly overhead costs.

$$\$4,081 / 4 = \$1,020.25$$

2. Divide the weekly total by 5 to get your daily operating costs.

$$\$1,020.25 / 5 = \$204.05$$

3. Divide your daily operating costs by 6, the average number of billable hours most people can manage to squeeze out of an eight-hour day.

$$\$204.05/6 = \$34.00$$

This figure, rounded off to the nearest dollar, represents the absolute minimum amount you can charge per hour just to break even. And that’s assuming you bring in enough design projects to bill six hours a day, five days a week, fifty weeks a year (and saving

You’ll Never Get What You Deserve If You Don’t Ask for It

You may feel perfectly justified in setting a certain hourly rate for your time, but then some creatives back down when they think a client doesn’t have the money to spend. Don’t fall into the trap I sat in many times, that is, making assumptions about a client’s finances or budget based on appearances, hearsay or business status. You must first decide how much your time is worth, and then ask for it. You will never get it if you don’t ask for it, if a client asks you to cut corners, shave production costs, not your fees. But when you do cut corners, always advise your clients that a certain degree (and be specific about what that is) of quality will be lost. Assure them that you are happy to do it as long as they know what they are sacrificing. If you do decide that a particular project has merit, either because it will increase your exposure or because the project represents something that’s important to you, then reduce your fees. But only do it to the point where you are still certain you can cover your own operating expenses.

money each month so you can afford to take two weeks vacation a year). Since that may not always happen, especially when you're starting out, your hourly rate should actually be slightly higher than your break-even point to allow for that. Working through this formula should make you think twice about the fees you should charge. We're not even talking about profits at this point, just survival. If you want to see any profits—that's money you can save toward new equipment, a nicer studio or improving your standard of living—you must increase that hourly rate by at least ten or fifteen dollars an hour. In our example above, that would mean charging between forty and fifty dollars an hour. But don't just pull a number out of your hat. Add a percentage for profit—at least 10 percent, but 15 to 20 percent is better—to your hourly fee. Also remember that you can raise your hourly fee for certain kinds of clients or projects. Clients in large cities are accustomed to paying higher hourly rates than those in small cities or towns and should be quoted a corresponding rate. Projects of very high value to the client, such as an identity design, or ones where client expectations and standards are quite high, such as packaging design or a corporate annual report, should be charged an hourly rate that reflects the situation.

Variable Fee Scale

You can have a variable fee scale for different services. Most designers charge their highest hourly rate for concept development and design work, because these are the most demanding in terms of the designer's creativity, talent and skills. Client meetings may also be charged at that rate because these occur at the client's convenience and require high-level communication skills. Paste-up and clerical work are often priced about one-third below the rate for creative work. For example, at a fee of \$60 per hour for creative work, that'd be \$40 per hour for paste-up.

I strongly recommend that you use a variable rate for your time and your employees' time. If you're worried that the client will question the difference, simply quote totals for your design time on your estimates and don't give an hourly fee for each. This is not being mercenary; you're simply charging a fee that reflects the value of the services you offer. It also helps you pay your employees or freelancers what they're worth.

When to Raise Your Fees

Expenses will increase as you add new clients, hire employees, buy new equipment, or expand your office space. Then you'll need to reevaluate your fee structure to continue making ends meet. Use the formula presented above to calculate an increase that reflects the additional expenses. If your business expenses have stayed

fairly level, but your reputation and capabilities have increased, you are a more valuable designer and are entitled to raise your prices.

When you decide to raise your fees, always inform your clients in writing ahead of time. Don't surprise them on the next bill. You don't have to go into any lengthy explanations. Send a short letter to each client stating that, "Due to an increase in operating expenses, we are forced to raise our fees effective as of (a specific date). We regret having to do so and have made every attempt to keep the increase as low as possible." Add to this blurb your new hourly fee or, if you do have a variable price scale, include a breakdown of services rendered for each new rate.

Markup

Most designers also add a markup, a standard percentage—usually 15 to 20 percent of the total—onto the costs of project materials and outside services. More experienced designers and larger design firms charge a higher markup than those just getting started. However, markup can go as high as 100 percent for projects that require overnight turnaround. This isn't an arbitrary fee; it's the standard industry charge to cover administrative handling and processing of the account and the use of your funds until the client reimburses you since you often must pay the vendor before the client pays you.

Although it's perfectly all right to charge a markup, you shouldn't tell clients what that percentage is. Just quote the total cost including markup on estimates and invoices. There may be times when you'll need to reduce your markup in order to make the numbers work on a project that's important to you but which has a very tight budget. But don't tell the clients you've done so, although you can make a point of letting them know that you spent a lot of time reworking the numbers to fit their budget.

Are Retainers for You?

Working on retainer is becoming a more common practice for designers than it was several years ago. Some designers are now asking clients to commit to a six-month or one-year service contract called a retainer, with a specific sum of money paid to the designer on a monthly basis as a service binder. Future design and consultation services are billed against the retainer.

The advantage to the client is that he or she will get a reduction of your hourly rates (usually 25 percent) in exchange for paying a monthly fee, and this contract gives them priority over per-project clients.

The advantages to you of working on retainer is the client's commitment to working with you in a partnership type of arrangement and the guarantee of a set monthly cash flow. The disadvantages include the client calling you with very minor questions and, sometimes, questioning whether or not he is getting what he's paying for.

Before you establish a retainer situation with a client, talk with other designers who are doing this or contact your lawyer or accountant, for whom working on retainer is a common practice. If you decide to establish retainer working relationships, don't do it with all clients. The best clients are those who have many projects to give you exclusively throughout a specified period of time and who will not pester you inappropriately.