



Business guide

Work out a price for your service

A number of service providers simply pitch their price somewhere near the middle of the prevailing market rate. But it makes sense to calculate your overhead costs and hourly rate to work out what price you should charge to ensure the income from your business meets your expectations.

Your overheads

The first thing you'll need to work out is how much money you need to cover your overheads or fixed costs for a year. Be sure to include any rental costs, utility bills, advertising, computer and Internet costs, stationery and postage, administration and transport costs.

Ask your accountant or financial adviser to look over your calculations to see if you've forgotten to include anything.

Consumables

Some services will require you to provide consumables. An acupuncturist, for example, would probably use several acupuncture needles for each consultation, an advertising agency will use quite a bit of ink and paper to present their concepts to a client, and someone offering a car valet service would use different products depending on the type of valet service chosen.

You'll need to decide whether to build these consumables into your overhead costs, add the costs to those specific services only, or charge your client separately for these. The advertising agency would probably include their stationery and printing costs in their overheads.

The acupuncturist might work out the average number of needles used in a consultation and add this to their consultation price while deciding to bill each customer on a cost-plus profit percentage basis for any herbal remedies provided. The car valet service provider would probably add a consumable cost to each different valet service, charging enough to cover the car shampoo for a basic wash, more to cover a wax and polish, and adding on the tire polish costs plus a small profit percentage for his top-level valet service.

Your earnings

Work out how much money you would like (or need) to earn in a year. This could be based on your personal expenses and the bills you need to cover or it could be based on the going industry rate for someone of your level of experience and ability. If you use the rate quoted by other service providers in your field, remember that this won't be the basic rate they receive in their pocket – it will be the rate they charge clients and will include their overhead portion as well.

Billing hours

Next you'll need to work out the number of hours you are likely to be able to bill in a year. Remember you will have to spend some of your time doing administration, advertising and finding new clients, and you'll want to take a holiday and have some provision in case you fall ill... so you'll probably only be able to charge for four to five hours out of every working day – possibly less if you are in the early start-up stage without a steady stream of customers.



Business guide

To allow for holidays and illness, you can assume you'll be working 40 weeks in the year. If you're able to get 5 hours of billable work every day, that amounts to 40 weeks x 5 hours per day x 5 days a week = 1000 billable hours in a year.

Calculating your hourly rate

To calculate your hourly rate, add your overheads and your earnings – say \$48,000 in overheads and \$40,000 for your first year of earnings = \$88,000. Divide this by the number of billable hours you'll have in the year ($\$88,000/1000 = \88) to get your hourly charge out rate of \$88.

If the rate you work out doesn't seem reasonable for your industry, you might need to find ways to trim your overheads, plan to work more hours or lower your income expectations.

Our acupuncturist in the above example could reduce their overheads by sharing premises with someone offering a complementary service, or by visiting clients at their homes rather than renting premises. They could also work longer hours, or offer their services after office hours to attract more clients.

Calculating your service rate

Depending on the industry you work in, you might simply decide to charge per hour or part thereof in 15 minute increments, but in many instances your customers will want to know, up front, how much they can expect to pay for a particular service.

Use your hourly rate to work out your service rate based on the time you anticipate the job will take. Our acupuncturist has worked out he spends an average of one hour with a client for their first consultation and 30 minutes for follow-up treatments. Based on this, he will charge \$90 for the first consultation (one hour at \$88 plus \$2 for needles and other consumables) and \$45 for follow-up consultations ($\$88/2$ because the consultation is only 30 minutes plus \$1 for needles and other consumables).

Similarly, a course presenter would charge $\$88 \times 4 = 352$ for a morning presentation lasting four hours. They might also add on extra for travelling time.

Discounts

Depending on the industry you operate in, you might offer a 10 or 20 percent discount for large volumes of work, or regular work, particularly if this enables you to bill more than your estimated five hours a day and reduces the amount you need to spend on advertising.

Multiple rates

Depending on your industry and the services you offer, you might charge different rates for different markets or different services. A writer writing for magazines or newspapers, for example, would usually charge per word, and would charge one rate to write a general article and a higher rate to write an article requiring specialist knowledge. However, if the same writer wrote for the corporate market, they would probably charge per hour. Similarly, if the writer also offered copy-editing and proof reading services, the hourly rates for these services would also vary – depending on the skills required, the complexity of the work, and the market rate for the different services.



Business guide

You might be in a similar situation and need to work out different rates for different services and different markets.

Calculating your hourly rate and various services rates provides you with the information you need to make informed pricing decisions on the services you offer.