

# How To Realistically Set Your Fees - Part 2

By Chuck And Sue DeFiore

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### Effect of Expenses

The last article examined how to calculate your realistic billable hours. If you remember, we arrived at approximately 1100 hours in a year. To earn our mythical \$46,000 per year, you needed to bill at a rate of \$42 per hour. Now we need to take into account the expenses of running a business and see where those put our hourly rate.

Most costs fall into three general categories: business and office expenses; salary and personal taxes; and, benefits and profit margin. In this article, we will concentrate on the first category, business and office expenses.

Everyday expenses are part of doing business, and these must be reflected in the prices you charge or you will not be in business for long. Expenses to consider are rent for office space. If you are home-based, you will still have an increase in utilities, such as gas and electric over your regular household bills. You will have telephone costs, postage, copying costs, stationery, office supplies, subscriptions and possibly, membership dues.

You will also need to make periodic upgrades to your office equipment and furniture. Items such as computer hardware and software; fax machine, copier, filing cabinets, telephone headsets, etc. All of these items add to the hourly rate you charge for your services. You must have a good estimate of what these costs total each year or you will end up cheating yourself. If you do cheat yourself, you are going to drastically increase your stress levels and lose much of the enjoyment of running your own business.

Let's plug some numbers into our costs and see how they affect our hourly rate.

Rent \$600 per month x 12 = \$7200

Utilities \$100 per month x 12 = 1200

Telephone \$100 per month x 12 = 1200

Postage \$100 per month x 12 = 1200

Copying \$50 per month x 12 = 600

Stationery \$25 per month x 12 = 300

Supplies \$50 per month x 12 = 600

Upgrades \$150 per month x 12 = 1800

Furniture \$50 per month x 12 = 600

Yearly Total = \$15,300

The yearly total comes to \$15,300, divide this by 1100 billable hours and you get approximately \$14 per hour. Now add this to the original \$42 per hour and you can see that you need to charge \$56 per hour to cover your hoped for \$46,000 per year income plus your expenses. If you are home-based, you can subtract the \$7200 per year in rent or about \$6.50 per hour from the \$56 above.

I have made a number of assumptions in arriving at these figures, your costs may be more or less, but this will give you an idea of what to look for and how to calculate your expenses. If you have any questions, write to me or give me a call and I will go over your situation with you.

Remember, in order to be fair with yourself and your customers, your prices must reflect the true cost of doing business. Do not ever apologize for your prices. You need to charge enough for you to live on and enough to stay in business to service the clients that have come to depend upon you. If some of your customers can't understand this, change your customers, not your prices.

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