

How To Realistically Set Your Fees - Part 1

By Chuck And Sue DeFiore

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Calculating Billable Hours Myth Vs. Reality

We all know there are 52 weeks in a year and 40 working hours in a week. Therefore, we can bill 2080 hours per year, right. Wrong. Too often this is the trap that many new service businesses fall into.

The first step in calculating your billable hours is to define a realistic working year. If you were employed elsewhere, you would expect or want at least two weeks vacation time, one week sick time, one week personal time and paid holidays. So, where does that leave us - 52 weeks minus four weeks leaves 48 weeks minus about 10 paid holidays, or a total of approximately 46 weeks per year.

OK, you say, that means I can still bill for 46 weeks times 40 hours per week or 1840 hours per year. If I charge \$25 per hour that comes to \$46,000. Not bad, that is more than I was making on my previous job. Wrong.

What you have just established is a realistic working year, not the number of billable hours. You still need to account for marketing time, administrative time, bookkeeping time, equipment maintenance, continuing education, etc. You also need to calculate in equivalent time for self-employment tax, local business taxes, etc. In many locales, this can add up to an additional 20% or so in time or money.

If we assume approximately one hour per day for marketing and one hour per day for administrative, etc., (and this is a very conservative estimate, then we need to subtract: 46 weeks times 5 days per week equals 230 days at 2 hours per day equals 460 hours, from 1840, for billable time left in a year of 1380 hours. Now subtract approximately 20% for the above taxes or 276 hours and that leaves you with 1104 billable hours in a year. And this may still be high, but at this point, you can see to earn that \$46,000 per year you will need to charge \$46,000 divided by 1104 hours or about \$42 per hour.

There are many factors which need to be examined in setting your fees. We'll look at those items that need to be taken into account, such as business expenses, insurance, pensions and profit margin, in upcoming articles.

Hopefully, this article has at least pointed you in the right direction.

Next article we'll take a more in depth look at the role expenses play in setting your fees.

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