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BUSINESS

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How do you determine how much to charge?

IRIS TAYLOR
MINDING YOUR BUSINESS

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You're starting a consulting business - or, it's up and running, but obviously your services aren't priced right.

How do you determine how much to charge?

Follow this advice from Richmond Service Corps of Retired Executives (www.richmondscore.org) Vice Chairman Bob Sibley and Peri H. Pakroo, owner of the New Mexico media-consulting firm p-brain media and author of "The Small Business Start-Up Kit" (Nolo \$29.99).

First, why is it so important what rate you set for your product or service?

"The rate you set definitely says something about how you value yourself," said Pakroo, interviewed last week in New York.

"It gives a signal about how your services are valued in the market. If they are too high, people expect a reason. If they are too low, it sends the signal that you're desperate. It's related to the image of your business."

Said Sibley: "The price of your service has to reflect the value of your service and the competitive market. It has to cover at least your expenses. If you're not charging enough for your services, your company isn't going to be able to function. If you overcharge for your service, you obviously aren't going to get any business and your company isn't going to function"

Now, here are their tips:

- Tinker with a formula. "Using a formula is a great way to get started," Pakroo said. Calculate a potential hourly rate for your small business, with no employees, using this simple formula:

Desired annual salary + annual fixed costs + desired annual profit divided by annual billable hours = your hourly rate.

Salary is how much you'd like to earn annually. How about, say, \$30,000 for starters? Fixed costs are what you spend each year on rent, utilities, office equipment, computers and other overhead items: \$25,000, do you

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think? That's \$55,000 so far. Desired profit - that's what you're in business to make, not just a paycheck. What about 20 percent above your salary and fixed costs? That's an \$11,000 profit. So, your total costs and profit equal \$66,000.

Now for billable hours. That's harder to estimate. But, let's see, there are 52 weeks in the year and a 40-hour workweek, giving you 2,080 potentially billable hours a year. Reduce that by the number of nonbillable hours you expect to expend for vacation, administrative paperwork and selling your services. Perhaps 50 percent to 80 percent of those 2,080 hours will be billable. Let's use 60 percent. Your estimated billable hours will total 1,248.

Divide \$66,000 by 1,248 for an hourly rate of \$52.88.

- Determine what the market will bear. Maybe \$52.88 per hour will pay your salary and overhead and give you a profit. But no one who compares prices will pay that amount if it's too high. You've got to "look at the market and see what fits in," Pakroo said.

She, for example, could charge a higher hourly rate for her media consulting in New York than in New Mexico. So call around and see what competitors are charging in your market area, then tweak your hourly rate accordingly.

- Let SCORE help price your goods and services for free. Most, though not all, of SCORE's clients are startups inexperienced in pricing, Sibley said. They may have worked in the industry that they want to start a business in for many years but never in pricing, estimating or selling.

Arriving at the right price for their particular product or service requires preparing a complete business plan, Sibley said.

Call (804) 771-2400, Ext. 131, and schedule an appointment to come in for a free consultation, or pay \$45 and attend one of the group's many specialized workshops.

Learn, for example, every type of overhead peculiar to your type of business, and what's realistic to expect by way of profit.

"I don't care what you're doing - selling beauty products or operating a restaurant - you have to know how to price your product or service," Sibley said.

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