



The Stay Creative Series

# GETTING THE NUMBERS RIGHT

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The *Stay Creative Series* is a collaborative compilation of articles, providing resources and perspectives for small creative businesses from leaders in the industry.

CHAPTER 1

# STOP GIVING AWAY YOUR BILLABLE TIME

BY David C. Baker, ReCourses

How much are you giving away to clients because of the omissions and "guesstimates" of time spent on the project? Do you question what can be charged back to the client, write off an hour spent on a project because you like your client or don't want to be seen as a penny pincher? Would you like to stop "subsidizing" clients at a personal expense to your quality of life? This month we discuss what classifies as billable and non-billable and how you can bill for more of your time.

## **TRACK ALL TIME.**

It is important to know how much is eaten up in administrative time, billing or looking for lost files. When administration time is justified as billable it can be entered on the invoice as a line item, usually at a lower hourly rate than creative. Alternately, many firms calculate administration and clerical by incorporating it in their mark-up as an overhead cost, similar to the way a mechanic recoups shop costs. Educate your staff on the importance of tracking all time spent on a project.

## **BILL MORE TIME, PERIOD.**

Clarify your definition of what is considered billable. Any task that staff does that they would not be doing if that project did not exist should be tracked and considered billable time. Billing in 15-minute increments ensures you get paid for the 5 minutes you spent looking up a previous job for a client.

## **EXAMPLES OF BILLABLE TIME.**

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Make sure that your definition of "billable" time is sufficiently broad (any time specifically tied to a project is billable). That includes travel time, meetings, planning, coordination, research, proofreading, editing, attending press checks, uploading files and clerical time that pertains directly to the project. There are grey areas where you may end up giving away time. Example, an established client phones; they spend 15 minutes talking about a project and 15 minutes chatting about their kids and the home renovations they are doing. Bill for the full 1/2 hour, as you would not have been talking to the client if it weren't for the project. Educate the client that your time is valuable.

## **EXAMPLES OF NON-BILLABLE TIME.**

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Proposal writing, team-building or innovation sessions, staff meetings regarding process or new business strategy, human resources, internal marketing and promotion, vacation, sick time, lunch, and training.

## **SHOW NON-BILLABLE.**

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Keeping track of the non-billable time or additional time not only provides accountability, but a tally of the additional hours that were spent on the project billed at \$0.00 will increase perception of the project's value. By showing non-billable items, the pricing is better understood and satisfied clients pay their invoices faster.

## **LESS ADMINISTRATION = MORE CREATION.**

Analyse the details of why the amount of non-billable time is as high as it is. Ways to speed up the admin process should be discussed. Cutting down on these types of non-billable tasks frees up time for billable creative. Detailed time entries regarding non-billable give insight on any potential time vortexes or black holes that need addressing.

## **REVIEW ALL TIME ENTRIES.**

At the point of billing, all time spent on the project should be reviewed and a decision made of what details and line items are going to be included. For example, the 5 minutes that it took to email files for the project may appear minor but combined with the additional calls and interruptions from the client, justifies the half hour charge for project coordination, etc.

## **DON'T STOP**

Continue to track all time spent with a client even after a project is closed. Create a docket or project for miscellaneous time for your clients when they call in with requests for files or maintenance after a job has closed. Have everyone on your team enter time when a client calls with a request, comment or revision. When reviewed at the end of the month, a series of small 5-minute changes can add up to...

enough for an additional invoice of an hour or two, or can be included on the client's next bill.

## **WHAT IS YOUR UTILIZATION RATE?**

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Determining your utilization rate is a quick, easy way to determine the current health of billing practices in your company.

## **BENCHMARK.**

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"With a normal client mix (i.e. no single client source that accounts for more than 25% of the Agency Gross Income) A firm should be capturing 60% of the total time available. Individuals within that group will bill at far more or less than the group average, but the group itself should be at 60%"

Increasing your billing efficiency by even a marginal amount can have a substantial impact on your bottom line. Example: Let's say your firm's current billing efficiency is at 65% (24 hours out of a 40 hour work week). Capturing and billing an additional 20 minutes/day equals an increase in billable efficiency of only 1.25% - the effect on the bottom line however is an increase of over \$12,000/year per employee!

<b>% Billable</b>	<b>Billable Hrs/Week</b>	<b>Rate</b>	<b>\$ / Week</b>	<b>\$ / Year</b>
65.00 %	24.0	\$100.00	\$2,400.00	\$120,000.00
66.25 %	26.5	\$100.00	\$2,650.00	\$132,500.00

What would increasing billable efficiency by one percent mean to your bottom line?



**CHAPTER 2**

# **HOW PROFESSIONALS NEGOTIATE PRICE**

**BY Maria Piscopo**

Pricing is one of the most complex and grueling aspects of the design and illustration business. You can read the books and go to the seminars, but at some point you have to talk to clients. We asked creative professionals what price-negotiating techniques work for them and how they find common ground with clients and agree to a price. Whether you are an experienced professional or just starting out, these tips and techniques will give you a much better grip on pricing and the negotiation process.

Perhaps the best pricing technique we've discovered is to write a good proposal...

...says Ed Brodsky, a partner at Lubell Brodsky Inc., a past president of the Art Directors Club, and a faculty member at School of Visual Arts, NY, "We start a proposal by restating the criteria for the project. This reminds everyone - including ourselves - what it was we agreed to try to accomplish. Next we explain what we plan to do in broad, general terms. This is followed by a more specific list of the work we intend to do, a price for each of these procedures, and a total. We almost always end the proposal by telling the client how excited we are to be considered for this interesting project and some of the benefits we expect the client to realize from our efforts. Perhaps the biggest advantage of writing a good proposal is that after we write it we often realize that the project can command a much larger fee than we initially thought. This alone covers the cost and time of writing the proposal and also has become the main reason we have successfully been able to raise our fees."

ICON Imaging Studios owners Harry and Cyndy Geier say, "We give clients three possible solutions to their needs. Each solution varies in regard to services and related prices. The client responds to the one that fits most comfortably into the budget - on the terms you set - but often will bracket up to the next price level in order to receive more services."

## **GUNNAR SWANSON'S THREE RECOMMENDATIONS**

(Gunnar Swanson Design Office and the author of *Graphic Design & Reading*)

- 1.** "First, leave yourself room to do less. If you give a proposal for a trademark design and the client comes back and says, 'How about 75 percent of that price?' and you agree, then you have told the client that your pricing is arbitrary and you will do any job for less than your bid. If you respond with something like, 'I can do it for that price but instead of getting six roughs to choose from you'll get three and instead of refining two I'll refine one', then the client can still make a deal with you but won't bargain you down on every subsequent job."
- 2.** "Second, make sure you understand the approval process. Write out the steps in every proposal or contract. A job that needs to be approved by one person will take a lot less time than one that needs to be approved by a committee. There are few better ways to sink a design project than to have someone who wasn't at the meetings (or, worse yet, someone you've never met or even heard of) second-guess an earlier decision..."

Make sure you involve everyone who has a voice in the decision. Sometimes you can't deal directly with real decision makers. This is a bad situation. Charge more and write even tighter proposals or leave the job to some other sucker. Third, never, ever take a job where you will resent having done it because of the price.

"For the initial meeting, at least, I try to encourage clients to meet with me in my studio, rather than going to them," says Louise Fili of Louise Fili Ltd. and co-author of Design Connoisseur.

"Somehow seeing the body of my work on display and my office's perfect view of the Empire State Building adds credibility and makes my fees a little easier to accept."



Many of my clients are chefs. When they ask me why my fees are so high (which they aren't), I ask them why risotto costs \$35 at their restaurant. I never quote fees over the phone, unless I foresee a situation where someone expects to get a logo for \$50. The one time I did give a logo fee verbally, the person was shocked. She said, 'But it's only four letters!' That's an interesting concept - charge by the letter."

Don Sparkman of Sparkman + Associates and author of Selling Graphic Design says...

"The most common mistake creative professionals make when negotiating price is that they do not ask for a retainer or a percentage up front. Also, many do not specify what their fees are for."

For instance, a proposal states that logo/logotype design costs \$10,000. Fine, but it doesn't say how many ideas the client will get. The client can ask to see round after round of ideas. If the designer tries to tell the client that the \$10,000 is used up, the client can correctly point out that the contract states that he or she would get a logo for that price and that hasn't been done yet."

Common mistakes include taking money negotiations personally. "Or being shy about talking about the money and getting what you need out of the deal," says Swanson. Most design clients sell stuff. They figure out what their product costs them to produce or what it's worth on the market. If a customer wants something cheaper or can't afford their product, they don't think they are being insulted. Why do graphic designers assume that someone turning down their price means they're not worthy? If you make a sale every time you talk to a prospect you either have otherworldly powers or you aren't charging enough."

3. "Finally, Liane Sebastian, author of Digital Design Business Practices, offers this perspective, "Pricing a project isn't as tricky as getting the price - either through negotiation or through project management. You must know your overhead and what you need to keep the office rolling and profitable. With that knowledge, your prices have conviction. Awareness of what the competition is charging and what the market will bear will also help you find the right client and/or project matches. Be willing to walk away from the wrong ones and have confidence that better clients - the right match - will come along."

CHAPTER 3

# RETHINKING HOURLY RATES FOR CREATIVE SERVICE FIRMS

BY David C. Baker, ReCourses

There's a lot of confusion in the marketplace about hourly rates, and the bad practices in the past don't deserve emulation now. Let's think a little more clearly about the function of hourly rates at your firm.

## HOURLY RATE: FROM FINANCIAL TOOL TO POSITIONING TOOL

If you want to make money, charge for at least 60% of all the time at your firm (composed of individuals who will bill more or less than that average for the group). Your utilization rate is far more integral to making money than the hourly rate you use to charge clients. Let me state it this way – Your utilization rate is a financial tool; your hourly rate is a positioning tool. Utilization x Positioning = Wealth.

**At one point or another, nearly every firm has fallen into the trap of thinking they should fix their lack of wealth by raising their rate.**

You might very well need to raise your rate, but that's only because you aren't positioned properly. If you aren't making enough money, you need to charge for more of your time. (By the way, the national average is a woeful 42%.) If you aren't positioned highly enough, you need a higher hourly rate—whether or not the client knows what that rate is—because that will result in higher project costs.



So the high school of making money is to fix your utilization problem. Once you've fixed that and the group as a whole is billing for 60% of the available time (with individuals billing 0-85% of their time, based on the role they play), you go to the college of pricing and maintain that utilization at a higher hourly rate. Finally, you go to the third step, graduate school, and start selling your services in packages for a flat fee, which results in much more money per hour than your hourly rate would ever yield. But you cannot go to graduate school without first finishing college.

“Fix your utilization first or the talk about “value billing” is hollow.”



Which leads to a discussion of why billing for time and materials is a midway stop between losing lots of money and making lots of money.

## TIME AND MATERIALS, OR WHEN TO TALK ABOUT HOURLY RATES

Before answering that question, consider this. The only time it makes sense to work for time and materials (commonly referred to as T & M) is if that allows you to capture more of your time than you otherwise would. In other words, if your utilization (billable efficiency) is less than 60%, you'll make more money on a T & M basis.

Otherwise you're minimizing opportunity by locking yourself into how much time you can sell instead of charging fees that reflect the true value of what you do.

In fact, I'd recommend that you never talk about your hourly rate(s) except when you need to position yourself highly in the eyes of the prospect or client. Engagements should be priced in large, round numbers and should never break out hours. Even dreaded "scope creep" shouldn't use the language of hourly rates. Instead, you should identify any scope creep by using the document that defines the engagement, and then simply tell them how much more it will cost to make those changes (not how much you are going to charge per hour). Don't automatically go into T & M mode at the border of scope creep, since scope creep needs to be defined, too.

Before moving on, think for a minute about the pressure the procurement departments are placing on agency compensation these days. The biggest problem this poses for well-positioned firms making a lot of money is that it stalls the relationship at the college level (see above), yielding a profitable relationship that is also transactional in nature. It's one more reason why you need the power of marketing to give you the option of saying no. Now back to hourly rates and how they should be constructed.

## **TIERED VS. BLENDED HOURLY RATES**

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Thank goodness the trend of hourly rates is away from complexity, because in the past there were separate rate structures for different clients, different tasks, and different employees. Mapping it out looked like an aerial view of a snake pit. So for decades the trend has been toward greater simplicity, but you still see different rates for senior and junior people, and at times you'll even find rates for non-profit and for-profit work. But the steady trend has been toward blended rates, and from the surveys I've seen, the majority of firms are now using them. This is a movement that I endorse because there are three important reasons why blended rates make more sense than tiered rates. First and foremost, hourly rates are positioning tools and not financial tools (see above). The message of a blended rate is this: all the work our firm does is of the same quality.

It's not like a cable with strands of different materials, but rather more like a pipe fed by different sources, all mixed together so that the sources are indistinguishable to the client. What the client sees is X Agency's work, not the work of a certain individual. Second, a blended hourly rate focuses your job as a principal or manager on shaping other people's work, not doing the work yourself.



“If a client wants to buy your personal work, your staff is incompetent or you've positioned them inappropriately or you are a control freak.”

And you are really a freelancer with a lot of helpers! "But I should be giving my time away with a blended rate that's lower than I would charge personally?" No. Your work is to make the work of others better, and that should be reflected in the rate that they are charging. Third, a blended hourly rate makes it easier to estimate project costs and to marshal the resources to do the work profitably.

## SETTING YOUR HOURLY RATE

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If you agree that your hourly rate is a positioning tool, don't use a spreadsheet to establish the right one. Instead, start with the most important rule: it must have three digits (\$100 or above).

The second important rule is that it be rounded to retain that consultative feel (vs. a transactional one). That means \$100, \$120, \$125, \$150, \$160, \$175, \$180, and \$200 promote better positioning than \$110, \$115, \$130, etc. Be the agency your client wants you to be, and if they want you to be something that doesn't fit you, find another client.

CHAPTER 4

# AGENCY CHECK-UP

BY Second Wind

## HOW ARE WE DOING?

Below are some basic figures that will help you determine if your agency is “in the pink” or “feely poorly.

- On average, agency gross income (billings minus direct costs) should be around **30%** of total non-capitalized billings.
- Your payroll, including the owner's salary, should be no more than **50%** of agency gross income.
- Another way to look at the same figure is to compare the number of employees per 100,000 of agency gross income. The ideal is about **2 per \$100,000**.
- The average agency's net profit before tax is **5%**.

## BILL WITH MARK-UP

- The average agency markup for a \$1000 outside buy is **\$223**.
- The average agency earnings for a \$1,000 outside buy, if the agency charges for hours spent in supervision instead of taking markup, is **\$122!**
- Keep trying to take markups rather than billing for time spent whenever you can. It's more profitable.

## RESULTS-BASED COMPENSATION

Get paid for results. Clients respect agencies who are willing to put their money where their mouth is. Being paid on results is an idea whose time has come.

Here is a step-by-step example of a results-based agency compensation program.

1. Calculate the agency blended rate.
2. Offer the client **25%** discount on blended rate.
3. Determine measurement criteria for success.
4. Negotiate rate increases based on agency performance. (Up to **25%** above blended rate)
5. Set all media commissions and outside services as net.

## BLENDED RATES

The secret to making money on blended rates is to get the client to agree to a satisfactory blended rate. This is in most cases, lower than the rate normally billed by top management, but higher than the rate normally billed by other staff members. After the client is on board, the agency pushes as much of the daily service responsibility down to mid and lower level employees as much as possible.



## How To Blend Rates:

Total agency payroll	\$200,000
Divided by # of anticipated billing hours on the account	7,000
Time 3 (for overhead)	x3
Equals the agency blended rate	<hr/> \$85 Per Hour

## PROGRESS BILL

Progress billing means you bill the client for work completed on a monthly basis whether the project is completed or not. This technique of speeding cash flow, if it is sold and administered correctly, can be acceptable to the client.

When an agency progress bills, invoices should look something like this.

<b>Acme Advertising: Project/Job 2018 Annual Report</b>	
Initial project estimate 5/2/2018	\$13,500
Previously Billed	\$1,300
Previously Billed	\$8,456
<b>Please pay this amount by 7/15/2018</b>	
Total billed to date	\$9,756
Remainder in budget	\$3,744

## HALF-YEAR CHECK-UP

I have always recommended you conduct a half-year agency financial review. By this I don't mean a cursory look at financials, but a complete study along with appropriate adjustments. The best way to do this is to gather your partners, key employees, etc. and move off-campus for a half-day uninterrupted meeting. At this meeting you should study the financials, examine current new business opportunities, and review the agency's vision and mission statements. This gets the agency back on track, if necessary, and focuses your efforts for the next six months. Following are some markers you can use for guideposts.

First and foremost, look at the billings. Have you met projections? How do you compare with last year at the same time? Remember to look at your work in progress. Your real billings for the period must include charges you've incurred but haven't billed to the client. Sometimes there are significant hours and outside charges logged but not yet billed to the client.

Also check the following additional markers:

1. Agency Gross Income (AGI) should be about 35% billings
2. Payroll should be no more than 50% of AGI
3. Net profit before tax and bonuses should be 7% of billings and 20% of AGI.
4. Each employee should bill three times their salary

5. There should be no more than 1.5 people per \$100,000 of AGI
6. Average collection time for invoices should be 34 days
7. 15% of assets should be in cash or equivalents
8. Accounts Receivable should be about 50% of assets
9. Fixed assets (furniture, cars, computers etc.) should be 25% of assets
10. Long and short term debt should be no more than 15% of liabilities
11. Accounts Payable should be around 35% of liabilities
12. Net worth should be about 30% of total assets

# ABOUT FUNCTIONFOX

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FunctionFox timesheet and project management software was created by an ad agency for creative professionals, advertising agencies, and in-house creative teams. Simple and powerful, it has more than 100,000 users in graphic design, advertising, marketing, multimedia, and public relations, and is ranked number one in North America. This intuitive, web-based system helps boost productivity, improve communication, reduce admin time, and increase profitability for users in more than 120 countries.

Get your FREE Demo at [www.functionfox.com/demo](http://www.functionfox.com/demo)

“FunctionFox has changed my life! At the click of the mouse I can get information that previously had taken hours to generate on our manual system. I so regret not having initiated FunctionFox sooner.”

- JOANN WOOD - WDG COMMUNICATIONS