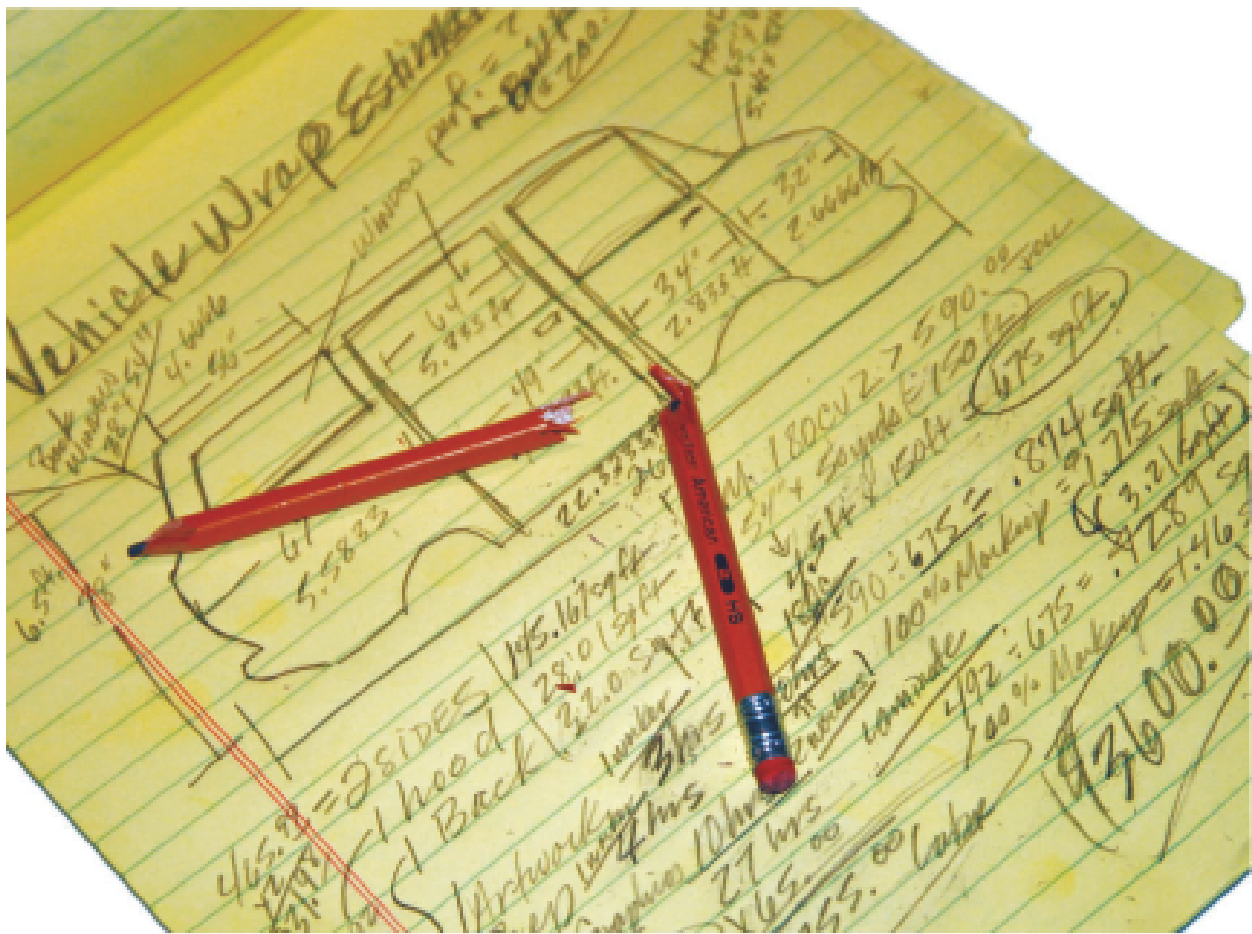


# How To Price Signs Right

If You're  
Pricing Signs Manually...



## Sign Pricing Is An Art

For that matter, signs are an art! And that's why they can be so difficult to price properly. Every time you are pricing sign work you are pricing a custom piece of artwork that cannot be properly priced without a lot of time, effort and forethought.

## Signs Are Not Chocolate Chip Cookies

When we make a batch of cookies, we can figure out the cost of flour, eggs, milk, sugar, and whatever else goes into the mix (whoops! forgot to include the cost of the chocolate chips). So going forward, except for slight variations in the cost of materials, we pretty much know what a 3" cookie is going to cost to produce. So we know what to sell it for in order to turn a profit.



Signs, on the other hand, are all different. I don't care if one banner is substantially like another, they are different products and they need to be priced differently. One may have two colors. One may be full color.

One might have the name of the customer and everyone else they've ever known in 1" brush script that takes a whole week to weed and apply. << Shudder >> We've all been there.

## Let's Start This Discussion With Your Hourly Rate

What do you charge per hour? 50 bucks? 100 bucks? (God forbid) **25 bucks?**

Whatever your hourly shop rate is, why do you charge that? How did you arrive at that figure? Most people end up coming up with an hourly rate based on what they've heard others are charging, or sometimes even based on what they made at a day job, if they are relatively new in business.

I made this mistake when I went from working for 9 bucks an hour designing ads for a newspaper, and then started charging twenty-five bucks an hour making signs. I thought, holy cash cow, Batman, I'm swimming in dough!

I quickly learned the error of my ways. Within no time I was working morning to midnight, day after day, swimming in all the sign jobs I was "lucky" enough to get. Never mind that the locals had found the cheapest guy around, and they sure as hell were milking me!

These days I recommend jokingly to the hundreds of shops I've spoken with that struggle with lowball competitors that they start farming out their work to them and go fishing.

## Stop Using Your “Calculator On The Ceiling”

Many of you know this story already from my classes at the NBM sign shows, or from my blog on the [estimatesoftware.com](http://estimatesoftware.com) website. It's worth retelling, though, in context of how signs have been priced for years and how we continue to shoot ourselves in the foot.

Rewind to 1977. I was eight years old, and my mother had just opened Signs Limited in our basement in Winston-Salem, NC. For the next 14 years I watched her struggle to price her work, and manage to keep us afloat with very little cash flow. Every time the phone would ring, and a customer would ask for a price, she would say “let me go figure that for you.” Then she'd put the phone down, stare up at the ceiling, drum her fingers on the desk, pick the phone back up and give them a price. I never knew where that calculator was on the ceiling, but I knew it was there because she used it every day.



Fast forward to 1993. I started my own shop in Asheville, NC, Ampersand Signs & Designs. I had just come out of a job doing bookkeeping and advertising design for a local free paper, and had been making 9 bucks an hour there. So when I started making signs, I thought “WOW! I can charge TWENTY FIVE BUCKS an hour, and make a frickin’ killing!” I proceeded to do that and I did make a killing — of my business! Every day when I got up, I was poorer than the day before, and I didn’t know it.

## So What’s The Right Way To Figure Your Hourly Rate?

Figuring your own shop rate is actually very straightforward. Basically you need to gather up your overhead figures, determine how many hours you can bill in a day (this figure is way different from the number of hours you are open), set an amount of profit you’d like to achieve, and take your taxes into account.

Let’s walk through the steps.

### Overhead

Your overhead is everything you spend to run your business, not including materials for your jobs. The reason materials are not included is because they are paid for through marking up the cost on your materials when reselling to the customer, and you don’t need to recapture this money through your shop rate. Some very good examples of overhead are:

- Employees & Payroll (I recently read a fantastic book called *How to Get Rich: One of the World’s Greatest Entrepreneurs Shares His Secrets* by Felix Dennis, and in his book he says some hilarious things... one of them is “Overhead walks on two legs.” Funny man!)
- Advertising / Yellow Pages

- Shop Rent or Mortgage (if you work from home include your home mortgage, because then when you move to a shop you're already charging as if you're in one)
- Vehicle Payments
- Subscriptions to magazines or quoting software
- Lease payments on equipment
- Office Supplies
- Telephone, electricity, water & sewer service
- etc.

Gather up all these figures, and if you are using monthly numbers multiply by 12. This will give you your annual overhead, also known as your "nut." It can be pretty eye-opening to see what it actually costs you to run your business — and at this point you should start to see why this hourly rate stuff matters so much!

**Monthly Overhead Figures x 12 = Annual Overhead**

## Billable Hours

"I'm open 8 hours a day, so that's my billable time." Wroooooooooooooong. Your billable time is the time you spend actually working on projects for your customers, that they are paying you to do. In a one man shop like mine that meant about 4-6 hours of my 12 hour day. The rest of the time I was running around, spec-ing jobs, doing errands, hauling posts and plywood... you get the idea. The best figure I've been able to come up with as a suggestion to you is to figure out:



- How many employees you have that actually do project related work
- Whether they are part or full time
- Multiply the part timers by 3 hours and the full timers by 6 hours. That will give you your daily billable hours.

Now let's make it annual. Assume that you are not working for a month of the year due to vacations, holidays, you name it. Even if you really are working (I know I was), *make this assumption anyway* so that you can actually take a vacation! You probably desperately need one. That leaves you with a 48-week work year. Take the 5 or 6 days you are open each week, multiply that figure by 48, and then multiply the result by your daily billable hours.

$$\text{Work Weeks} \times \text{Days You Are Open} \times \text{Daily Billable Hours} = \text{Annual Billable Hours}$$

Now that you have your annual overhead and your annual billable hours, you can do the first eye-opening bit.

*This is the scary part.* Take your annual overhead, and divide it by your annual billable hours. This is the hourly rate you have to charge just to BREAK EVEN.

$$\text{Annual Overhead} \div \text{Annual Billable Hours} = \text{Break Even Hourly Rate}$$

Wow. If you've never done this before, it's probably a good time to crack open a beer and stare at a wall in amazement. Usually this figure is actually pretty close to what you are charging now.

Why?

People have an instinctual understanding of what their costs are. What we don't have an instinctual relationship to is *profits*. So we pretty much charge what we know we have to, from instinct, but don't build in any profits for ourselves. That's what we're going to do next.

## Profit

Yes, the P word. There are a couple of approaches to this question, and a couple of ways to figure it. The first way is as a dollar figure you want to earn. The second way is as an overall percentage.

I like the first way, because I know that any time I need to make more money I can just up the figure and watch the dollars roll in. An average shop will have about 16 billable hours in the day, or 3,840 billable hours in the year. So adding just ONE BUCK to my shop rate will put \$3,840 more in my pocket in one year, or \$320 in one month. Got a surprise expense? Raise your rate a buck. These are hard numbers, folks, not "fuzzy math." Your hourly rate is your number one tool in your business arsenal.

*Here's how to do it the first way, as a dollar figure you want to earn:* this is easy. Take the figure you want to earn each week as pure profit, multiply it by 52 (you want to profit every week, even if you're working only 48 weeks). That's your annual profit target.

*To do this the second way, as a percentage of profit:*

Take the percentage amount you want to see as profit and do the following math (i'll use 35% as an example):

- Subtract the percentage from 100 (this gives you your margin, or 65 in my example).
- Divide the result by 100 (this gives you your profit factor, or .65 in my example).
- Divide your annual overhead by your profit factor and you will get the annual profit target you are looking for.

“But Mark, if I want 35% of \$100,000 overhead, I just use \$135,000, right?” Nope. The reason is that you’re looking for a percentage of your total billing, not a percentage of your overhead.

\$35,000 is 35% of \$100,000, sure. However.. once you add the \$35,000 to your overhead, your total billing is \$135,000 — and \$35,000 is just 25.9% of that figure. You’d be missing your target.

With the method above, you come out with  $\$100,000 \div .65 = \$153,846$  ... and \$53,846 is 35% of that total. If that doesn’t make sense, read it again.. or just follow the steps. They work.

### **Taxes**

Shiver. Yeah, they suck. There is a way to make sure you pay them ahead of time, though, and not lose your shirt — you can build them into your hourly rate.

First, remember that you only pay taxes on your profits — the government is friendly enough to let you deduct your overhead expenses from your taxes. Otherwise we’d all be seriously screwed.



Basically, you do the same thing as the percentage method for profit I outlined above, but only to your profit figures. When you do this, remember federal, state and local taxes — and add ‘em up! It can be a mighty big number. I’ll use a figure of 40% as an example, and yes, it really can get that high.

Here’s the math:

- \* Subtract your tax rate from 100 ( $100 - 40 = 60$ , your margin figure)
- \* Divide the result by 100 ( $60 \div 100 = .6$ , your tax factor)
- \* Divide your Annual Profit Target by your tax factor to get your Annual Tax Burden.

$$\text{Annual Profit Target} \div \text{Tax Factor} = \text{Annual Tax Burden}$$

Now For The Fun Part (Drumroll Please)...



Now you're ready to figure your hourly rate! Do it this way:

Add up your Annual Overhead Figure, your Annual Profit Target, and your Annual Tax Burden. This figure is commonly referred to in business as your "Nut." Make of that what you will. Divide this figure by your Annual Billable Hours and you will have the hourly rate you must charge to make the money you want to make.

It sure isn't twenty five dollars an hour, is it?

$$\text{Your "Nut"} \div \text{Annual Billable Hours} = \text{Required Hourly Rate}$$

### This Is The First Way Good Software Helps You Price Signs Right

You can do this manually, or you can use good software to do this. First of all, this is \*built in\* to EstiMate in the Hourly Rate Wizard, right on the "Configure & Manage" Toolbar.



The Hourly Rate Wizard takes you through all the steps we've discussed above - the overhead worksheet, your billable hours and profit requirements, and your tax burden. The final page of the wizard will show you the minimum hourly rate you need to charge.

A screenshot of a software window titled "Hourly Rate Wizard". It has four tabs: "Welcome", "Overhead Worksheet", "Work, Profit And Taxes", and "Summary". The "Summary" tab is selected. The content area shows a summary of calculations for determining the minimum hourly rate. At the bottom, there are buttons for "<< Prev", "Next >>", "Help", "Save Changes", and "Cancel".

**Hourly Rate Wizard**

Welcome Overhead Worksheet Work, Profit And Taxes **Summary**

**Summary**

OK! Now it's time to see just what you should be charging your customers for your time.

Your annual overhead is \$120,000.00  
 You can bill your customers 1440 hours per year  
 This means you must charge your customers \$83.33 per hour to meet your overhead.

However - you indicated that you'd like to earn profits of \$26,000.00 after taxes.  
 With a tax rate of 25.00 percent, you must then earn an additional \$34,666.67 per year.  
 If we add this \$34,666.67 to your overhead, then you must charge your customers an additional \$24.07 per hour to earn your desired profits.

So for your business to cover \$120,000.00 in overhead and earn \$26,000.00 after taxes, you have to charge your customers a grand total of \$107.41 per hour to meet your goals.

**Your Minimum Hourly Rate Should Be:**

**\$107.41**

<< Prev Next >> Help Save Changes Cancel

## OK, I Get It About The Hourly Rate -- What About Materials?

Materials are the other side of the equation when pricing sign work. While much simpler than your hourly rate, they are crucial to pricing and you have to take them into account every time you quote a job.

Normally, when pricing work, you will look for suppliers that have the best prices or whom you have the best relationship with, order supplies, and mark them up for the job.

Or do you? Many small to medium sign shops, surprisingly, either don't mark up the materials, or they add a tiny markup such as 10% or 20% to the materials they buy. This is a big mistake!



Material markups should form a core part of your pricing strategy. At minimum you should mark up your materials 100% in order to cover both additional profits and waste factors. This is one way to really speed up your manual quoting processes, by simply marking up your materials healthily, and not having to account for waste factors in your pricing methods.

Good pricing software will help you to get past the material issues by maintaining a list of all the materials you use in your work and automatically applying them to the quote with a proper markup. This reduces the time spent getting the material cost info and figuring waste factors down from minutes to microseconds.

## Production Time and Machine Speed

Sure, we all know how long it takes to print a banner. To cut vinyl for a 4x8, weed it and apply it. To wrap a truck.

Or do we?

When you're shooting from the hip to figure out how long production will take, you'll be wrong almost every time. This comes down to our basic belief in ourselves -- it's not a bad thing! We will expect that we can "knock it out" and then it will invariably take longer than we thought. So we can either time job after job after job and average it out until we have a clue, or use good software to calculate production times.

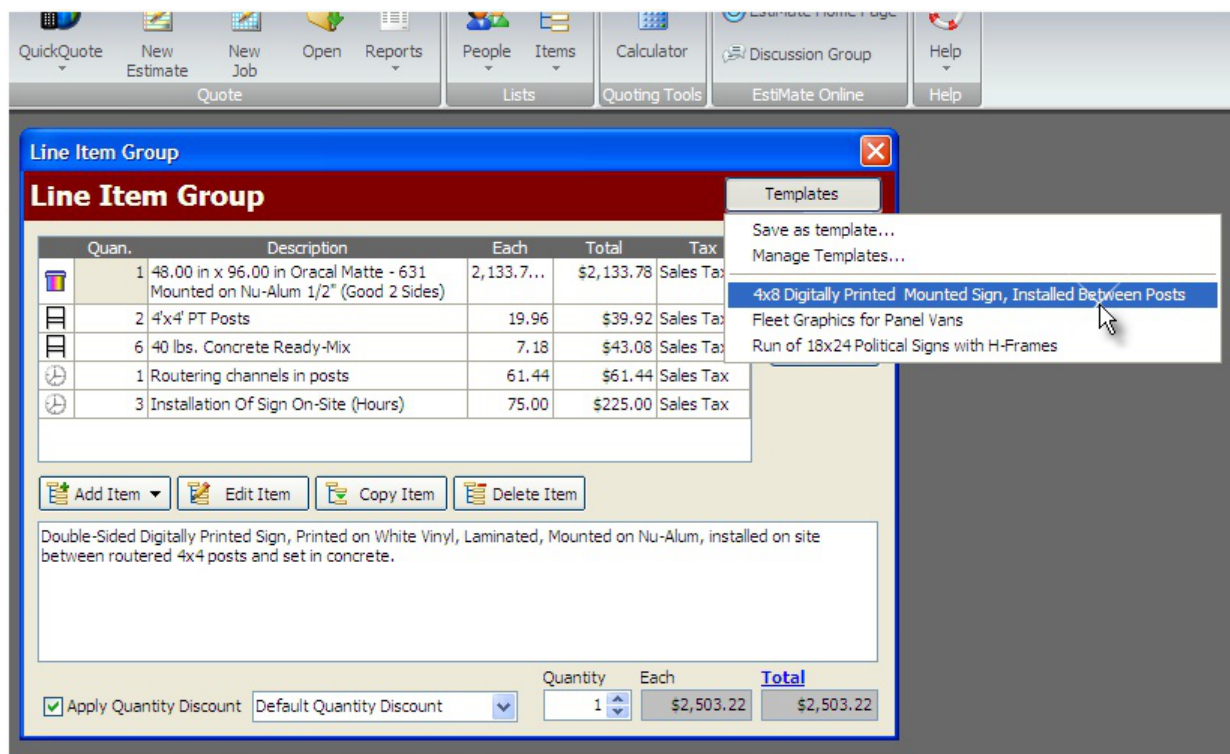
Whatever you do, don't forget to bill for the printing time - it's worth every penny of your shop rate. That machine is expensive and will need replacing one day. You should constantly be collecting on it's efforts.



## Finally, The Big Profit-Killer: Forgotten Variables

- Have you ever installed a sign, only to realize that you never figured the concrete into the initial bid for the customer?
- Have you ever forgotten to include the cost of the expensive banner tape you use to hem a banner?
- Have you ever forgotten to include the cost of transfer tape when producing a large run of signs?
- Have you ever forgotten to include that extra half hour it took to run to Home Depot?
- Have you ever given away your design work?
- Have you ever charged for a grommet?
- Have you ever used premium vinyl because it's all you had, without having checked stock before doing a quick knock-o" job?
- Have you ever used Omega Board instead of plywood, and not charged the customer?
- Have you ever figured out the exact price of the ink on your printed sign jobs?

The list goes on and on. Nearly every time you a price a job manually, you will forget something. Quote 2 to 3 jobs a day and you will be in over your head and not even know it. That's one of the most powerful reasons to use software like EstiMate.



EstiMate's templates allow you to build complex quotes once and then have them at the click of a mouse any time you need them in the future. This is just one of hundreds of examples of ways good solid sign pricing software can guarantee you profitable quotes and make sure you don't leave any valuable money on the table!

## **In Summary - Use Software, Not Pencils, Calculators or Spreadsheets**

Good pricing software can mean the difference between breaking even - or even going out of business - and stellar probability *no matter what the hell the economy is doing!*

Spreadsheets work, but they are hard to configure and printing a good looking quote is next to impossible. Manually scratching out figures and typing them into Microsoft Word makes it pretty, but damn it's time consuming!

With EstiMate you can get quotes out in seconds (see the templates above!) and get back to work, making sure that your quote arrives in front of the customer first and makes a killer fist impression.

As we say around here... Happy Pricing!

There's a lot of money out there despite the crap we are being fed about the economy. Make sure every bill with your name on it ends up in your bank account!

