

# HELP! What's my hourly rate?

How to set your professional fee to ensure you make money



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I publish Bates InfoTips, a free monthly e-newsletter with tips, tricks and techniques for getting more out of your Web research. You can see back issues, and subscribe, at [BatesInfo.com/tips](http://BatesInfo.com/tips) I also publish the Info-Entrepreneur Tip of the Month ([BatesInfo.com/ie-tips](http://BatesInfo.com/ie-tips)), specifically for people who run their own information business.

The part of my business that I enjoy most is offering customized business coaching services to new and long-time info-entrepreneurs. You can see more info on this at [BatesInfo.com/coaching](http://BatesInfo.com/coaching), or just email me ([mbates@BatesInfo.com](mailto:mbates@BatesInfo.com)) and ask for my coaching FAQ letter.

I've also written a whole book about the info-entrepreneur profession - [\*Building and Running a Successful Research Business: a guide for the independent information professional\*](#). The second edition, published in 2010, is available through my [Bates InfoStore](#). I include half an hour of my business coaching services when you purchase the book directly from me.

I welcome any comments or questions you have regarding the material in this eTool.

*Mary Ellen*

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## HELP! What's my hourly rate?

Info-entrepreneurs are often asked what their hourly rate is. While the best approach is to redirect the conversation to the value offered, any pricing structure is ultimately based on an understanding of how much you have to charge for every billable hour or day.

There are two ways to determine your hourly rate. The first is to just do a gut-check, decide that you're worth, oh, \$200 an hour, and go with it. (And I hope that, if you do set your rate this way, you have a healthy amount of self-confidence. If your gut tells you that you are worth \$25 an hour, keep reading...)

If, on the other hand, you prefer to take the analytical approach—or at least be able to justify your fee in your own mind—here's a tool for determining what your *minimum* hourly rate has to be in order to be profitable.

### *What is the minimum I need to bring in this year?*

Your business has a lot of expenses—ranging from the monthly cost of your web host to what you pay yourself. In order to be profitable, you have to charge enough to pay for all your expenses, *including your salary*. The following is a list of the types of items you need to include.

Decide what **annual salary** you want to pay yourself. Be honest; don't estimate too low and don't expect to pay yourself \$200,000 the first year. Be sure that the salary you set for yourself reflects the added stress of running your business. Remember that this won't be your take-home pay; you will still pay taxes on your income, just like a regular salary.

**Additional household costs** you will incur because of your business. For me, that includes regular housecleaning services and a dog-sitter when I travel. For others, it might be child care or elder care expenses, or hiring the neighborhood kid to run errands. While they may not be considered deductible business expenses, this is money you will need to plan for in order to work efficiently.

Calculate what you will have to pay in **taxes**. Remember that, since you are now a business, even if just a sole proprietor, you will have to pay the taxes that your employer would normally pay. Don't forget that, if you're based in the US, you pay

both portions of the Social Security withholding. If you have been an employee recently, look at the FICA withholding and multiply that by two; that's what you'll be paying into Social Security now.

Now calculate how much money you need to set aside in a year for **retirement**. Since we info-entrepreneurs have no employer-funded retirement account, part of our business overhead includes our provision for retirement.

Next, figure out your non-reimbursable and **overhead expenses** for a full year. This includes everything except expenses you can bill back directly to clients, such as the cost of online searches or overnight delivery. It does not include your one-time office setup costs, but does include just about everything else you will be paying for, such as:

- Office rent for 12 months [If you work from home, you can expense a portion of your rent or mortgage payment]
- Utilities (e.g., business telephone line, broadband Internet service, domain host) for 12 months
- Insurance payments (health, business property, liability and, if necessary, errors & omissions) for 12 months
- Online information overhead or administrative fees for 12 months (This only includes subscription or minimum usage charges, not the actual costs incurred for client research, which you will directly bill back to the client.)
- Office supplies for a year (paper, toner, business cards, stamps, etc.) The amount of office supplies you will consume in a year may surprise you; estimate \$2,000 or so annually. In this digital era, sending hand-written notes and printed marketing letters has a lot more impact than sending the electronic equivalent, so budget enough to have a professionally done logo and stationery.
- Annual membership dues for professional associations, both info pro-related and those of your client base. These can look daunting, until you look at an association membership as the only direct expense required to market to your target market. Estimate \$2,000 a year, and make sure you use every opportunity to volunteer within the association.

- Travel and registration costs for a minimum of two professional conferences a year (Yes, you need to attend at least two—to market yourself, refresh your professional skills, and stay on top of the issues in your clients' industry.)
- Office equipment (Assume that you will have to replace your computer every two to three years, and that you will eventually need to purchase or upgrade other equipment, such as your phone, printer, and so on.) Estimate \$1,000 a year for capital expenses.
- Accountants' fees, magazine subscriptions, and other miscellaneous costs

It is hard to estimate all of this ahead of time. For most people, these overhead costs run between \$20,000 and \$40,000 a year, plus salary, necessary household expenses, taxes and retirement.



### *What if I'm doing this part time?*

Running an information business part time is possible; much depends on what your end goal is. Keep in mind that many of your overhead expenses are fixed; you pay the same for your broadband access, whether you are working full time or part time. That means that you may have to charge *more* per hour than a full-time info-entrepreneur, who has more billable hours over which to spread the fixed costs.

Do you want this to turn into a full-time job within a year? If so, calculate your hourly rate based on what you anticipate your full-time salary and expenses will be when you are doing this full time.

Do you plan on doing this part time indefinitely? Then decide how many hours you expect to work (keeping in mind that you will probably bill only 50% of that time) and how much you want to earn for that amount of work. Put those numbers into the cheat sheet and see what your hourly and daily rate is.

## *How many hours can I expect to bill during a year?*

Now let's figure out how many hours you can bill in a year in order to cover those overhead costs. It is probably not as many as you think.



**Part-timers:** Note that this calculation assumes that you are doing this full time. If you plan on working part-time, run these same calculations to see how many billable days you will have available. Keep in mind that you will at best only be able to bill about half of your total hours.

- Start with 52 weeks.
- Subtract at least two weeks for vacation if you live in the US (at least one week of actual vacation and a week of random days when you need to take a "mental health day"). If you consider a mere 10 vacation days a year to be barbaric, subtract as many weeks as you expect to take off.
- Subtract another one to two weeks for doctors' appointments and sick days.
- Subtract another two to three weeks for non-billable holidays. (This includes all the holidays that regular employees get; they won't be calling you on those days—and, let's face it, do you really want to be in your office working on New Year's Day?)
- Subtract one to two weeks for attendance at professional conferences (this is essential for marketing your business).
- Subtract at least one week for unexpected IT or software problems. Remember, you don't have an IT department, and you have to get your problem resolved without relinquishing your computer while it is being repaired. This can also cover days when you are unexpectedly down; the power goes out, your broadband connection is down, you spend the day dealing with a plumbing disaster... you get the idea. And yes, I have had all of those days.

This probably leaves you with about 42-44 billable weeks. It's amazing how fast the time flies, isn't it?



**Part-timers:** If you are approaching this as a part-time job for now, remember that you still have the same fixed overhead costs but now you have fewer hours in a year in which to recoup those costs.

How many hours will you bill each week? For most independent info pros working full time, 20 to 25 billable hours a week is considered very good, assuming you work at least 40 hours a week. You will spend the rest of your time marketing, answering email, marketing, preparing for presentations, marketing, sending out invoices,



marketing, paying bills, marketing, and so on. Trust me on this, you will spend a lot of your time marketing. Bottom line, **you will be able to bill no more than roughly 1,000 to 1,100 hours a year**, assuming you can generate that much work, week after week.

What's the result? For projects that you calculate by the hour, you will probably have to bill *a minimum of* \$100 to \$175 an hour, plus expenses. For projects you bid by the day, you will probably need to bill *a minimum of* \$700 to \$1,000 a day, plus expenses.

For many beginning independent info pros, this rate may sound absurdly high; others may look at the number and imagine six-figure salaries their first month in business. Reality lies somewhere in between.

Your clients probably won't focus on your hourly rate—particularly if, when you quote on a project, you present the total, not-to-exceed budget and focus on the added value and analysis you provide. Most clients—the kind you want to attract, anyway—are accustomed to paying hefty rates for consultants.

If your intended client base is likely to balk at your rate, think long and hard about whether you are willing to take a substantial pay cut to work for people who cannot afford your fees.

If, on the other hand, you look at an hourly rate of \$150 and imagine that you really will be able to bill 40 hours a week, 52 weeks a year, think again. Finding clients means marketing, and marketing takes time, particularly the first few years.

Take the five-year perspective and base your business on a client base that can easily afford your hourly rate... for whom your rate is unremarkable.

And keep in mind that this is the minimum of what you need to charge, and it assumes that you are able to bill at least 50% of all your working time. I usually advise new info-entrepreneurs to add 15% to the bottom line to cover the fact that they probably will *not* be able to bill all the hours they have available.

## *Cheat sheet for establishing your minimum hourly rate*

Fill in the amount for each of these items:

\_\_\_\_\_ Your annual salary (what you *want* to earn, not what you'll settle for)

\_\_\_\_\_ Annual overhead (utilities, subscriptions, professional memberships, etc.; usually \$20-\$40K)

\_\_\_\_\_ Outsourced household responsibilities (childcare, housekeeping, etc.)

\_\_\_\_\_ Taxes (based on your anticipated annual salary)

\_\_\_\_\_ Retirement savings

\_\_\_\_\_ Other overhead specific to your situation

\_\_\_\_\_ **TOTAL** This is the total amount of revenue you need to generate through your professional fees over the course of the year.

For hourly rates, divide that total number by 1000, which is the average number of hours you can bill in a year, assuming you are working full time.

For daily rates, divide that total number by 120, which is the average number of days you can bill in a year, assuming you are working full time.

**REMEMBER:** This number is the *absolute minimum* you charge per day, assuming you are billing *all available time*.

## *Excel cheat sheet*

Attached is a spreadsheet you can work with, which includes calculations for both full-time and part-time businesses.



**Part-timers:** Use the second, part-time calculator rather than the first one, which is for full-time info-entrepreneurs. The part-time calculator assumes that you are working on your business for 20 hours or 2.5 days a week.

If you are not able to open the Excel spreadsheet, email Mary Ellen at [mbates@BatesInfo.com](mailto:mbates@BatesInfo.com) for a copy.



## *About Mary Ellen Bates*

Mary Ellen Bates is the owner of Bates Information Services, providing strategic business research to business professionals, and consulting and training services to the information industry. She provides half- and full-day workshops on effective online research and other topics related to knowledge work.

Mary Ellen offers strategic coaching services to new and long-time information entrepreneurs and other info pros. She offers both a strategic perspective and a practical approach to helping you create a business that you love and that is profitable. See more information about her coaching services at [BatesInfo.com/coaching](http://BatesInfo.com/coaching).

Mary Ellen is a frequent keynote speaker, and is the author of seven books and innumerable articles on the information industry. Her latest book, the second edition of **Building and Running a Successful Research Business**, is available at [BatesInfo.com/store](http://BatesInfo.com/store).

Mary Ellen offers two free email monthly newsletters:

"Bates InfoTip" ([BatesInfo.com/tips](http://BatesInfo.com/tips)) and

"Info-Entrepreneur Tip of the Month" ([BatesInfo.com/ie-tips](http://BatesInfo.com/ie-tips))

If you would like to subscribe to either, just ask ([mbates@BatesInfo.com](mailto:mbates@BatesInfo.com))

She blogs at [Librarian Of Fortune.com](http://LibrarianOfFortune.com)

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