Design Business Council

Calculating your hourly cost rate

Cost on hours, price on value.

The hourly cost rate is the foundation of a pricing policy. Understanding that cost is fundamental to calculating your true profit margin.

This is the formula we use.

48 weeks × 5 days = 240 days
− 10 public holidays

DIFFERS FROM STATE TO STATE

230 working days
× 8 hours per day

1,840 working hours
× 70% productivity

70% IS SUSTAINABLE. JUNIOR DESIGNERS 'ON THE TOOLS' MAY DO A BIT MORE, THOSE MANAGING OTHERS A BIT LESS.

1,288 billable hours

eg.

$$\frac{\text{annual expenses}}{3\times\text{staff billable hrs}} = \frac{\$516{,}000}{3{,}864} = \$133.50$$

round up

\$134
× 20% margin

THIS IS A CONTINGENCY MARGIN NOT A PROFIT MARGIN

\$160

$160 CHARGE OUT RATE

TWO WAYS TO USE THIS FORMULA

1. CHECK SALARIES

Comparing wages to hourly rates is one way to check the payment is reasonable and sustainable.

For example: a junior designer may be employed at $60,000 per annum + super.

Including expenses for hardware, software and overheads (the industry average is $7,500K) takes the total to $73,500K

The cost rate for the junior (using the example in the formual above) is $160 per hour.

The formula shows, at 70% productive, the junior can bill 1,288 hours per annum.

This means that the maximum return you can expect is $160 x 1,288 = $206,080.

Less the $73,500 = $132,580.

This is close to a 2:1 ratio.
The benchmark is 3:1.

Changes need to be made, maybe:

- pay this designer less (not appropriate), or
- increase her hourly billing rate (possible as she skills-up), or
- Increase her productivity (possible with juniors doing more repetitive tasks).

2. CHECK PRODUCTIVITY

Research says the maximum billable hours workers can consistently achieve is 80% of the work week. We use 70% as more sustainable and robust benchmark.

Assuming there is plenty of work in the studio: if the billable hours for a designer drops to 50% or less there's a problem.

Are unbillable hours logged because the brief isn't clear (causing rework), the designer needs guidance (training) or the client needs managing (scope creep)?

The data that comes from logging time is vital for profit analysis. The aim is for everyone to log eight hours per day.

Set up a "non-billable" job so down-time can also be logged. It's analysing these hours that leads to increased productivity.

For instance if there's a lot of non-billable time logged because of IT issues maybe the system needs an upgrade. Similarly if one client in particular leads to rework, client management may need to be improved.