

from:

Starting Your Career as a Freelance Illustrator or Graphic Designer

[chapter 8]

by Michael Fleishman



PRICING YOUR WORK AND GETTING PAID

Sometimes, it's extremely difficult to get clients to tell you precisely how much they want to spend until after you put the proposal in front of them. Then, somehow, they magically know exactly how much they can afford.

—Rex Peteet, Designer

The key is clear communication, fair negotiation, and the written agreement.

—Ellen Shapiro, Designer

Society calls creative folk ARTISTS (in big, bold, capital letters). Artists do what they do for a variety of reasons: personal satisfaction, for public recognition or the respect of their peers, for the sheer fun of it, for posterity or—dare we say it—simply for the bucks. Now, I believe most artists would work without getting paid—for love, as it were—but as **BUSINESSPEOPLE** (also in big, bold capitals) this would be *ruin*.

Like it or not, designers and illustrators must be businesspeople. So, this chapter deals with pricing your work. We'll discuss how to be adequately compensated for your time by making a proposal, writing contracts and letters of agreement, and collecting your money.

THE PRICE IS RIGHT?

What do you charge when you're just starting out? Your fee will most probably come down to answering these three questions: How much should you charge? How much could you charge? How much do you want to charge?

Think of these questions as the basic rules of thumb. Coming up with a pricing strategy that answers all of these points will help you know how to charge a fair price for your work. For a pricing strategy to succeed, both buyer and seller should demand these three things: a definite price, a fair price, and a competitive price.

How do you arrive at a value for your time that meets all of these criteria? You could charge by the project, knowing how a similar job has been priced out in the past (or by knowing what the competition is charging). Or you can arrive at an hourly fee based on your project expenses and the expenses you incur in the course of doing business.

WHAT TO CHARGE FOR YOUR TIME

You'll remember that in chapter 6, we discussed how to figure out what your break-even point will be. Let's review, in more detail, how to arrive at an hourly rate based on your start-up and variable expenses. Look again at the budget template, and refer to it when calculating what your expenses will be.

High or low, let's assume the following as an example of monthly expenses:

Mortgage/Rent	\$ 590
Repairs/Maintenance	30
Licenses/Permits/Taxes	50
Insurance	50
Utilities	150
Materials/Supplies	50
Shipping/Postage	40
Telephone/Fax	115
Travel/Transportation	50
Meals/Entertainment	75
Advertising/Promotion	90
Equipment	125
Accounting/Legal Fees	60

Payroll Taxes	50
Salary	2,420
<i>Total Monthly Operating Costs</i>	<i>\$ 3,945</i>
<i>Start-up Costs</i>	<i>\$ 3,000</i>

Take your monthly total from above and plug it into the following formula:

- ❑ Multiply your monthly operating costs by 12: $\$3,945 \times 12 = \$47,340$
- ❑ Add start-up costs: $\$47,340 + \$3,000 = \$50,340$
- ❑ Divide this figure by 52 to get the weekly cost of doing business:
 $\$50,340 \div 52 = \968.08
- ❑ Divide your weekly total by 5 to get your daily total: $\$968 \div 5 = \193.62
- ❑ Divide daily total by 5 (an average number of billable hours most people can get out of a working day) to get your hourly rate: $\$193.62 \div 5 = \38.72

This represents the absolute minimum you must charge as your hourly rate in order to break even. Remember, this is your break-even point—it doesn't take into account time off for vacation or sick leave, nor does it figure in any kind of a profit margin. However, let's assume that you wanted to realize a \$24,000 profit at the end of the year. You can break this annual figure down with the formula given above, and then add it to your hourly rate as follows:

- ❑ Divide \$24,000 by 52 to come up with a weekly figure: $\$24,000 \div 52 = \461.54
- ❑ Divide \$461.54 by 5 to come up with a daily figure: $\$461.54 \div 5 = \92.31
- ❑ Divide \$92.31 by 5 to come up with an hourly rate: $\$92.31 \div 5 = \18.46
- ❑ Add \$18.46 to your hourly break-even rate of \$38.72 in order to come up with an average hourly billing fee that will give you a comfortable profit margin: $\$38.72 + \$18.46 = \$57.18$

In order to cover the expenses of doing business and realize a \$24,000 profit at the end of the year, you will need to charge, on the average, \$57.18 per hour for your time and bill an average of five hours per day. Oh, and by the way, the above figures still don't factor in any vacation or sick time either (hey, I had to give you *some* homework).

CHARGING BY THE PROJECT

You may also want to determine, on a per-project basis, what fee you think you will need to be fairly compensated for the job. Let's assume your client is willing to spend \$2,500 for a brochure. First, estimate and deduct production costs. We'll say this comes to a total of \$900. After the \$900 for production costs has been deducted, you're left with \$1,600 as compensation for the labor, or your time on the job. If you divide this by your hourly rate of \$57.18, you end up with about twenty-eight hours to spend on this job. In other words, you will need to limit yourself to twenty-eight hours in order to be adequately compensated for your work.

Now, let's go back to what the perceived value of your work is. Is \$2,500 a fair price and competitive rate in your area for this type of brochure? This is where your instincts, experience, and assessment of the market value of your work come into play. Research and regard the so-called going rates carefully. If you fees are strictly bargain basement, smart buyers may equate this with poor quality product.

Conversely, inflated pricing will lose you a job just as easily ("You're way too expensive and just not worth it. I can get it cheaper down the street!"). An honest price that reflects market value—whether it's the high or low bid—is always the best. And as Roger Brucker advises, "Sell the price before you send the invoice."

So, your average hourly rate should also factor in what you think the going rate is for different design tasks (the *Graphic Artists Guild Handbook: Pricing and Ethical Guidelines*, distributed by North Light Books, gives rates and billing procedures that are customary for professionals in the graphic arts). A job demanding a lot of production, and very little design or illustration, will yield a lower price (based on perceived value of the expertise going into it) than one requiring the skills of an experienced designer/illustrator and production manager.

When determining what to charge, don't forget that you're a start-up business. Any figures quoted here are just ballparked. The numbers found in the *Graphic Artists Guild Handbook* represent an average that includes studios and agencies that have been in business for years. Factor in your experience and reputation when determining what your fees should be. If you've figured you need to charge \$57.18 per hour to cover expenses and turn a profit, you may want to establish a range where you bill *less* per hour for production and clerical time and *more* per hour for design and illustration time. (Creative time, including client meetings and concept development, is generally billed at a rate of about one-third over the fee charged for production). It should also be mentioned that you might want to mark up outsourced services (printing, copywriting, etc.). The ballpark here is 15 to 20 percent.

One final note: When talking to a client about fees and expenses, refer to the project "budget," not "what it will cost" or "the money involved." If they seem reluctant to talk about what they expect to spend, explain to them that it's mutually beneficial to let you know what they've been allocated or are able to afford.

HIGH AND LOW

It's safe to say that at the beginning of your career you won't be commanding the fees of an established studio. Oh, there's nothing to stop you from quoting high prices, but without a proven track record, you're going to be one unhappy (and maybe hungry) camper.

You'll have to price competitively. Sometimes (and probably more often at first), this means lowballing a bid to get a job. I talked to many designers who still use this strategy to get a particularly valuable assignment. This is not a mistake, nor does it reflect the fall of the high and mighty—it's just business. These designers, with years of experience (plus an overflow of clientele and lucrative fees), are looking at the big picture and thinking in the long term. Clients may choose you simply because you're new and a good buy. So, don't think "cheap," think "reasonably priced." Don't say "discounts," say "negotiation."

Low prices are not forever when your work is good and your services are in demand. However, you need to build up a portfolio, and in order to do this, you must initially look at the scope of the assignment rather than the figure on your invoice. You will want to do pro bono work as well. Killer design jobs that yield

great-looking samples and/or prestige are excellent self-promotion vehicles and valuable bargaining chips for your design future.

Civic, health, or arts organizations frequently cannot pay very much, but often offer exciting creative opportunities and fabulous exposure. These "little" jobs are also fun and satisfying. Nonpaying only in regard to your pocketbook, pro bono assignments can be stimulating design challenges and wonderful reputation builders. When working with these groups, it's okay to ask about being reimbursed for out-of-pocket expenses or negotiating a trade-off in services. You'll find out more in chapter 9 about the promotional value of pro bono work.

WORKING ON SPEC

XYZ Company has a plum assignment. The art director gives you a buzz to say that they're also considering three other designers around town. Your studio is definitely in the running, but XYZ is asking all concerned to do a spec layout for evaluation.

You may agree to do this little freebie in the obvious hopes that you'll land the account, but most designers will tell you that this is a mistake. I agree. You're working for nothing, with no guarantee that you'll be paid. If the client likes your concept, maybe—just maybe—you'll get the job (and with competition, the odds only get worse).

The Graphic Artists Guild regards spec work as an unethical practice for designers. And obviously, it won't be cost-effective or time-efficient for a busy designer with a new design firm. As designer Bennett Peji says, "Your ideas are your most valuable asset, and working on spec is essentially giving away your design. A designer only does this when he or she feels less experienced, less capable, and simply has the time to do free work."

Your savvy prospects probably won't ask you to work on spec. Those who do will (most likely) understand your diplomatic refusal. Uninitiated (or possibly unscrupulous) clients need to be educated, but still turned down politely.

If you feel you must work on spec, keep your time to a bare minimum. Only submit basic ideas and simple sketches (no finished illustrations, full-blown presentations, or refined comps). Place your copyright notice on all visuals, and date everything. Photocopy all graphics and paperwork. Now, dig up that old rabbit's foot for luck—you may need some!

PREPARING AND PRESENTING A PROPOSAL

Keep in mind that unless you get the job and can bill your client for your time, every written proposal costs you time. Although it's an essential part of doing business, writing a proposal is basically non-revenue-producing work. You'll want to give every pitch your best shot, but don't overdo it—keep your time to a minimum.

Your proposal should say, "This is me. Here's what I have to offer. You're special. I've got a solution to your unique problem. Here's how I can meet your needs."

Your proposal will also be the means by which your clients compare your costs and concepts with that of your competition. It stands to reason, then, that a good proposal is crucial. The components of a well-written proposal should include:

- ❖ **Introduction:** This reiterates the sequence of events so far and what you've discussed with your client, "As you remember . . . as we discussed. . . ."
- ❖ **Analysis:** This shows that you have listened to what the client has said. You've looked at the problem, studied their market, and investigated the competition. Now, present this research as facts and figures. Tailor your analysis to this individual client's special situation and design needs.
- ❖ **Creative Process:** Answers. What makes this job a singular design challenge? How will your concept solve the problem as outlined?
- ❖ **Production Process:** How will the bright idea be guided into reality?
- ❖ **Fees, Billing, and Timetable:** Be specific, detailed, accurate, and honest.
- ❖ **Your Track Record:** Back yourself with a résumé, mission statement, or a statement of the philosophy behind your business. This may provide the final touch in convincing a client that you're the design firm to hire. Don't be afraid to toot your own horn.

Present the proposal in person. One-on-one, face-to-face is the best way to immediately meet the issues and address any questions. After all, a written proposal is merely words and numbers on paper, and your reputation is only a lofty intangible. You, in the flesh, are another matter. A personal presentation shows your commitment to the project, to the *team*, and is a dramatic demonstration of who you are and what you can do. You care enough to be there right from the beginning, and you'll be there all the way. You can solve the problem. You're there to say, "I'm here to give you the answer!"

By that same token, if the proposal must be mailed or delivered, follow up immediately to make sure this valuable package arrived safely, and avail yourself for discussion. Lastly, try to close the sale. Strike while the iron is hot at the end of the personal presentation. If the proposal is mailed, target a confirmation/award date.

ESTIMATING COSTS

Coming up with a budget for a job isn't too difficult once you've determined what tasks need to be done. Assuming that you have an hourly billing rate for the tasks involved, estimate the amount of time needed to perform each task. If you charge \$30 per hour for production time and you estimate it will take five hours to do the layout, multiply \$30 by five to come up with an estimate of \$150 for this part of the job. Use the same task list that served as your scheduling guide, and do this exercise for all tasks involved in your project. Don't forget to figure in charges for your consultation time in meetings with clients, vendors, and other suppliers (you may also want to estimate your time for creating the initial estimate and invoicing afterwards).

An illustration or design job, even a small assignment, is a bit like a ride on the Orient Express for your clients. They have a vague notion of how the train works, but don't really understand how to get to the destination safely, on time, and at the stated fare. They are hoping to get to this destination with personal service and tender care. Now, think of a runaway train going incredibly fast and out of control, arriving who knows where or when or in what condition. The crash of a runaway train is an apt metaphor when you consider that a botched job with an

errant budget will lead to the wreck of a business relationship. But the design process can be a splendid trip—an edifying journey for both you and your client (and another feather in the engineer's cap). There should be no unpleasant surprises and no unhappy conclusions. Figuring costs and keeping track of expenses to stay on budget is the way to keep things running smoothly. (See chapter 7 for a sample budget worksheet.)

GET IT IN WRITING

A handshake is a fine token of trust and cooperation, but this gesture provides no real information and is hardly legal proof of any transaction. Once your proposal has been accepted, it's important to establish with your client what the breakdown of expenses (compensation for time and reimbursable costs) on a project will be and how it will be billed.

Both clients and creatives should be well aware of the absolute necessity for some sort of written documentation at the outset of a project. You needn't fear or loathe this paperwork. Not to worry—what you want to write is a short instrument that clearly and simply spells out intent, a documentation of who buys what from whom, for how much, and when payment is due.

The Written Agreement

A confirmation of assignment (also called a confirmation of agreement), contract, or written agreement is a legal promise. It's the document that defines the all-important relationship between you and your client. Common sense tells us to avoid the ambiguity of a spoken exchange and the pitfalls of selective memory. As movie mogul Samuel Goldwyn used to say, "A verbal agreement isn't worth the paper it's printed on."

The wording of any contract should be clean, clear, and complete, and the document should be drafted in contemporary language—archaic Latin buzzwords or bombastic legalese don't validate a thing. Information should be accurate, and language must be explicit, leaving no possibility for inference or assumption.

A simple letter of agreement works for many creatives who delineate their terms and payment schedule on small jobs in this way. A formal contract on a store-bought form is okay, but it may not give you the leeway to customize terms for individual clients or address special situations. This approach may also be too "cookie-cutter" for clients who rightly demand individual attention and may wonder why you, Mr. Big-Time Artist, didn't bother to design your own forms. It's better to go with custom contracts of your basic terms and conditions built off a template and tailored to the client's project. These agreements are easily generated on even the most Spartan computers.

The Elements of a Written Agreement

Your written agreement should clearly define a number of salient points for all concerned, including: the project and scope of assignment, what and when services will be performed, how long it will take to perform these tasks, what it will cost, who pays for what, how and when payment will be made (stating that fees and expenses will be billed on an itemized invoice), responsibilities (what the

JUST SWAY NO—ROGER BRUCKER'S POCKET GUIDE TO HANDLING OBJECTIONS

1. First, celebrate the objection. Say something like, "Good question . . ." or, "I would want to be satisfied on that issue before buying, too" or, "I used to wonder about that myself."
2. Next, ask why. "Why do you bring up that issue?" or, "Why do you think my design is (too) expensive?"
3. Now, rephrase the objection with the emphasis on the drawbacks: "You're concerned about paying too much and getting too little value."
4. Deliver the appropriate information. "Prices for this quality of work range from \$500 to \$800. Our price of \$550 includes many extra values, such as doing it right the first time and meeting your deadline" or, "We save your time by doing it right. If our work is faulty, we'll fix it."
5. Ask if the concern is overcome. "Does that help you feel better about the value of our design?" or, "We could do the first one. If it isn't satisfactory, there's no charge."
6. Finally, ask for the order. "When do we start?"

design firm does and what the client does), what constitutes extra work (corrections, additions, and alterations), how additional work will be compensated, and protections for both parties (rights and copyrights).

You'll find more information on contracts, and a wealth of contract samples, in Tad Crawford's *Business and Legal Forms for Graphic Designers, Business and Legal Forms for Illustrators* (both Allworth Press), and the *Graphic Artists Guild Handbook: Pricing and Ethical Guidelines* (distributed by North Light Books).

Letters of Agreement

One way to draft an agreement between yourself and a client is to divide your exchange into two distinct documents: (1) the general contract delineating your working arrangement and (2) the letter of agreement outlining the particulars on a specific job.

Before you draft anything, discuss all particulars and negotiate terms (except price, which you will stipulate in writing). Once you and your client are in accord, send the general contract as a written confirmation of what was discussed. This is an outline of the basic provisions that you and your client have worked out.

Send this general contract at the outset of your relationship, so that redundant paperwork with later assignments is avoided. Then, before you begin work on an

assignment, send a letter of agreement for the client to sign and return as a confirmation of the details outlined in your contract. Also, stipulate that additional letters of agreement will cover all work on other projects. Get the document signed, returned, and filed. (Of course, both parties should sign and file individual copies of all paperwork.)

Finally, remember that contracts and written agreements are merely pieces of paper. A signature doesn't ensure performance or payment. What actually makes for a solid deal are the people who sign on the dotted line. And while reaching an agreement is often easier said than done, if you work with honest, ethical, and reasonable folks (like yourself), you should have no problem.

SALES TAX

Many start-up businesses ignore charging (and then actually remitting) sales tax. Let's clarify: You don't pay sales tax; your client does. It is your responsibility to collect sales tax for the state at designated intervals. If the state discovers that you should have collected, but did not, you will be liable for this tax plus penalties. The state will catch up to you, so the best advice is to keep squeaky clean with your state's agency and requirements (and your local tax laws, too).

BILLING PROCEDURES AND PAYMENT SCHEDULES

Being charged by the hour, regardless of whether the rate is fair or the time reasonable, scares most folks half to death. (Remember when the plumber came to fix that pipe in your attic?) But a flat fee allows too much room for abuse of your time, responsibilities, and energies. The client wants to get his money's worth, so you may be asked to jump hoops as a result. Complications play havoc with your schedule, so you underestimate the workload or costs involved. Here's a nice alternative: Estimate or quote the job at a specific price, billed in phases. Detail each phase explicitly, and specify that extra work not covered in the agreement will be charged to the client as an additional expense at your hourly rate. You may also want to bill by completion of phases or consider installments based on a different criterion. The following are some payment schedules to consider:

- ❑ **Payment in Thirds:** Many artists make it a standard practice to ask for one-third of the total fee for a job upon agreement, one-third upon approval of comprehensives or roughs, and the remainder due within thirty days of delivery of the final.
- ❑ **Payment in Halves:** If the job you are working on is larger in scope, you may consider asking for one-half of the fee upon agreement and the rest in scheduled installments or monthly payments.
- ❑ **Payment in Full First:** For smaller jobs, get your fee in cash, up front.

Finally, many designers also recommend giving totals when invoicing clients rather than itemizing the number of hours and their billing rate. Although you should let your clients know up front what you charge for your time, there's no need to raise your clients' curiosity about why they were charged a given rate for a particular task.

Two final points: (1) Make sure your paperwork states that your estimate does *not* include the tax (this will ensure that there are no rude surprises for unknowl-

edgeable buyers) and (2) get yourself a tax-exempt (or resale) certificate so that subcontracted vendors do not charge *you* sales tax.

GETTING YOUR MONEY

New clients can be big risks as well as great opportunities. There's always the chance that any of your customers may be slow to pay or not pay at all. Exercise a bit of caution to save yourself some time, energy, and money. It certainly makes sense to do the following on big jobs, but consider making these policies part of your standard procedure in dealings with all clients. By doing so, you're less likely to get burned (remember: it's your money they are holding).

First off, get everything in writing. Have your client sign all agreements and sign off on any correspondence or documentation.

Be informed. Reach out to the creative and business communities for information about this client. Ask around; consult the Better Business Bureau; visit the Internet. If warranted, get all financial particulars, including the name of a new client's bank, by having him or her fill out a standard credit application (generic forms can be found at your office supply store).

Next, investigate three or four credit references that your client has supplied to you (and again, consult the Better Business Bureau). The size of a savings or checking account is no guarantee that you will ever see that money. Remember, you want to check history, not security. This kind of checking may be unnecessary with a client like Procter and Gamble or *Time* magazine, but do investigate as appropriate. Integrity is not always synonymous with the perceived size of the name or reputation.

Get a personal guarantee of payment from the owner, not the corporation.

Don't finance your client's job. The fees for your professional services don't include outside purchases (called out-of-pocket expenses). Itemize these expenses, and add a service charge to the bill (generally 15 to 20 percent). You can also stipulate that outside purchases such as printing and photography will be billed directly to the client (or request a retainer or advance so that you have cash up front to pay these vendors).

The Fine Art of Not Getting Stiffed

You've stipulated your billing policy in a written agreement with your client. It should state when payment is due for services rendered. Now, you need to bill and receive payment at each stage of the agreed payment schedule before proceeding to the next stage. Before any unpleasantness occurs, make sure all terms of your agreement are perfectly clear. Take a job only when you are certain both parties know when (and how) payment is due.

But what do you do with slow-paying or nonpaying clients? Here are a few words of advice for dealing with deadbeats. (You may label these characters a little more colorfully, if you prefer.) Leonard Bendell, author of *Payment in Full* (Triad Publishing), offers these suggestions for successfully getting what's due:

- ❑ Invoice when work is delivered with the terms "net 30 days."
- ❑ If you're not paid within fourteen days, remind the client with a second statement.

- ❑ The bill is overdue if not received within forty days.
- ❑ At the forty-day point, ask why you haven't been paid.
- ❑ Find out when you can expect payment, or state when you expect payment, but don't threaten.
- ❑ Be reasonable, understanding, but resolute. Offer an alternative payment plan (for example, weekly installments over three months).
- ❑ Don't harass. There are laws, such as the Fair Debt Collection Practices Act, that govern collection methods.
- ❑ Send more letters or make intermittent phone calls until you're paid or the bill is seventy-five days overdue. If the account has not been settled at this point, you could sue in small claims court. As designer Larissa Kisieleska tells us, "Even a certified letter stating intent to file in small claims can often yield results."
- ❑ You could hire a collection agency. (However, agencies usually keep about half of what they collect.) Or you may decide to cut your losses if you now feel getting any money from the client is unrealistic.

WHEN PUSH COMES TO SHOVE

Get a lawyer if you have a legal problem, contract questions, or a dispute with a client. I personally know one artist with a law degree, but he is a most definite exception to the rule. Even if you consider yourself to be the Perry Mason of the design world, a little legal advice can only help. Bottom line: While you may be able to negotiate a minor altercation (a small settlement or a small claims court agreement) on your own, get a lawyer for anything that entails a larger legal or economic dispute.

As defined in the *Graphic Artists Guild Handbook*, "small claims courts give access to the legal system while avoiding the usual encumbrance, costs, and lengthy duration of formal courts . . . [the] procedure is streamlined, speedy, and available for a minimal fee. Artists can handle their own cases with a little preparation." If you must go the legal route—and your claim is simple or the sum of money concerned is minor—a small claims procedure is a decidedly easier way to get your day in court. Consult your city's clerk of courts or the Better Business Bureau for more information and guidelines.

On a side note: Membership in the Graphic Artists Guild offers the opportunity to utilize your chapter's grievance committee.