

Costing and Pricing

A Cultural Enterprise Office guide to measuring the cost and value of your work.

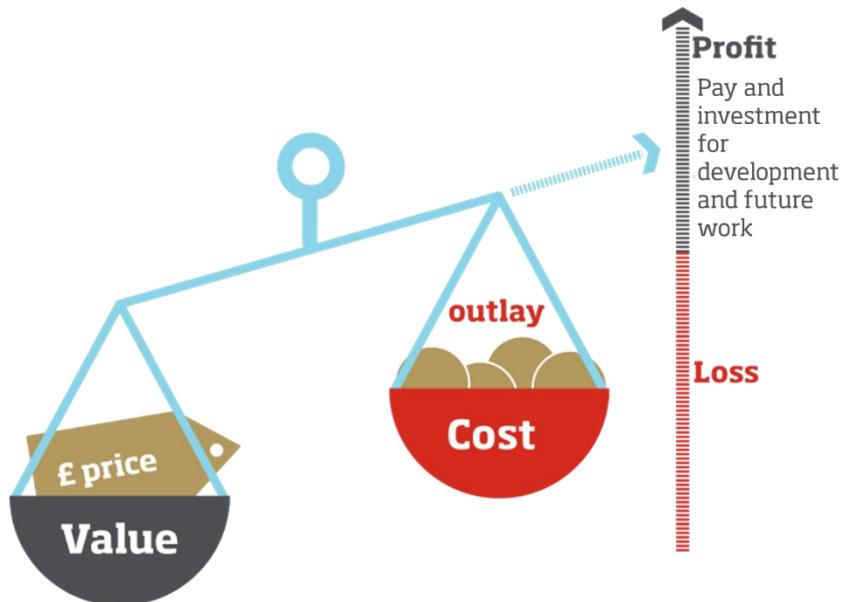
The way your work is valued, and the costing and pricing strategies used, will depend on the art form you operate in, as well as its location(s) and audience(s). This guide introduces tools that will help you think about the value of your work.

Introduction

When pricing work, you're aiming to balance two things. The **market value** – or the amount your clients or audiences are prepared to pay, and your **outlay** – your costs, including materials and time.

Researching the market for similar products or services to yours will help you arrive at market value. You want your price to reflect that value.

If, once you've added up your costs, they come to more than the market value, you'll need subsidy and investment. Ideally, market value should be greater than costs, giving you a margin to invest in your business.



Considering Value

The value of your work is influenced by:

- Distinctiveness – is it unique, or similar to what's offered by others?
- Market price – does it merit a low price or a premium rate?
- Adoption – how established is your relationship with your audience? How quickly will your work be purchased? What's its shelf life?

These factors create the **context** in which you present your work. That helps your clients, customers and audience to judge its value.

For instance, in an established venue with a knowledgeable audience, the work may be highly valued, considered premium and sold quickly. Elsewhere, however, the same piece may be under-valued and unable to command the price you want.

Think about these factors as part of your market research. They'll help you explore the range of income streams you can access.

Income streams

Depending on your skills and activities, and the variety of products or services you offer, you may be able to access a number of income streams for your work.

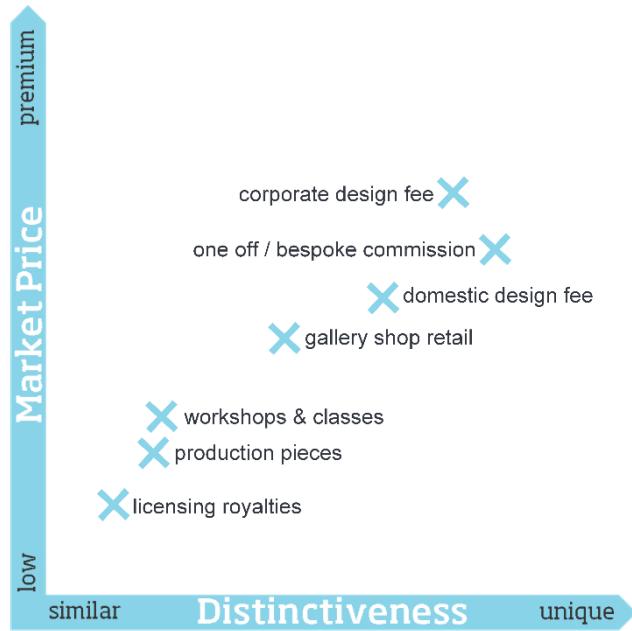
For instance, you might earn a reliable, frequent income by producing editions, taking on a regular gig, copywriting or delivering workshops. At the same time you could be creating one-off, higher-priced works that will take time to achieve their true value, but will also raise your profile and establish your reputation.

The example below shows how to consider the range and value of different income streams by plotting them against **distinctiveness** and **market price**.

First, place the streams along the **distinctiveness** axis according to availability, exclusivity, competition and frequency (of production or delivery).

Then find their place on the **market price** axis according to your customers' perception of their value, budget, affordability and comparison to current market rates.

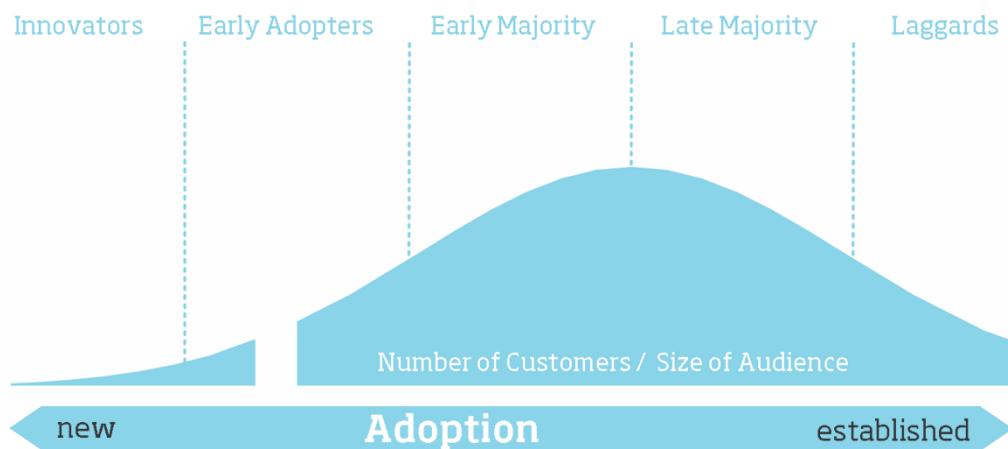
Example: potential income streams for visual artists, designers and makers.



Try creating your own graph. Plot your potential income streams. Next plot the position of the venues/agents/spaces you want to distribute and sell through. Consider the prices they charge and the distinctiveness of their offer. Then ask yourself the following questions:

- Is your work in the same area as the work they usually present?
- Which matches your work's profile best?
- Which could present your work now and in the future?
- Which work will you prioritise?
- How does your decision impact on your cash flow and the investment required in your business?

Exploring the third factor — **adoption** — might help you answer those questions. Consider how new or established your work's profile is to the clients and audiences you're trying to attract. Try splitting clients and audiences into groups of people who seek out new work (innovators, early adopters and early majority) and those who gravitate to more established work (late majority and laggards).



Now think about where these clients and audiences are. List the type of venues, distributors and/or publishers who work with and attract them, and highlight those that fit with your work.

Costing Work

The cost of making your work might differ from the amount at which it is valued. A costing exercise will identify that difference, and establish whether you're likely to break even.

If the cost of creating the work means you're making a loss, you need to think about:

- Presenting it in a different context so it can increase its value. This could mean working with a different audience or market, or adding value to your presentation and reputation.
- How to make savings in the time or resources used to produce the work.
- Subsidising the work through other profitable activity and outside investment.

The key elements making up cost are:

- direct costs - specific to the **piece** (e.g. materials, hires, delivery and time)
- overheads - general to the **business** (e.g. rent, power, phone, insurance)

Direct costs should be easy to allocate to specific work, and are often itemised in an invoice or detailed in a project budget. Overheads are usually allocated as a **proportion of your annual running costs**, equivalent to the time spent on work. They are often presented within a daily rate.

Costing your time and calculating a daily rate

One of the key costs you need to consider is your **time**. There's a simple formula for finding a daily rate. Add your **annual** salary and overheads, then divide by the days you're available to work each year.

The illustration below will help you find the figures you need. Just fill in the boxes and add the totals.

When you're working out **days available to work**, make an allowance for admin (e.g. invoicing, planning and marketing), so it becomes part of your rate.

You should aim to spend 25 - 40% of your time on administration. Any less and no-one will know about your work and you won't be in control of your paperwork. Any more and it may not be financially viable, unless you have very low overheads.

If you **don't** allocate any time to admin, you'll be doing all the chores in your own time for no pay.



M	T	W	T	F	S	S
days available to work						

Rent, mortgage, insurance		Rent, rates, power & insurance	
Council tax, electricity & gas		Repairs & renewals: property & equipment	
Telephone / internet line rental		Phone, fax, stationery & office costs	
Debts, credit card, bank charges		Interest & bank & credit card, financial charges	
Food, clothing & personal allowance		Car, van and travel expenses: after private use proportion	
Regular events, birthdays, holidays		Accountancy, legal & other professional fees	
Insurance, savings		Wages, salaries & staff costs	
Tax		Other allowable business expenses	
National insurance			
Total Personal Salary		Total Overheads	



Overheads plus Salary	Days per year	Weekends	Holidays	Contingency	Admin	Total days available	Daily Rate	Hourly Rate
no admin time £27,000	365	104	30	5	0	226	£119	£15
admin at 25% £27,000	365	104	30	5	56	170	£159	£20
admin at 40% £27,000	365	104	30	5	90	136	£199	£25

Pricing

Once you've worked out all the costs associated with a piece of work, and its value to your clients and customers, you'll be able to establish a price. Ideally that should equal or exceed your costs.

Pricing structures for each creative industry vary. You'll need to do sector-relevant market research to find the one best suited to your work.

Income

The price and the number of sales or fees associated with your work will form your **income**.

It's common practice to present predicted sales figures and funding along with costs your budget, so the balance of **income** and **expenditure** can be viewed easily.

These figures can also be entered into a **cash flow** calculation that shows the impact of outlay and income over time, and establishes a timescale for breaking even.

What next?

You'll find further information on this subject in our other guides and support directory.

Costing Your Time and Daily Rate Calculator

Cash Flow Guide

Disclaimer: We want to keep you in the know, so we offer a wide selection of useful resources. But Cultural Enterprise Office isn't responsible for the advice and information of external organisations in this document. So if you have any questions, please contact the specific organisation directly.