



The Price Is Right?

The pricing in this industry is a problem. Last month I posed the question: How much more do you charge for a 40" x 60" piece than a 30" x 40" piece, and is it twice as difficult to complete?

To an accountant it might seem that it is twice as big, so it will take twice as long and you should charge twice as much. In reality, though, there are other factors. A 40" x 60" piece of glass, artwork and frame is much harder to handle and often requires two people. In addition, there is twice as much area to get clean before you can fit the piece. If you are fitting two 30" x 40" pieces, you can clean and fit the first piece, put it aside, and go on to the next. You're done. You never have to worry about the first piece again. However, with a 40" x 60" piece, you can clean the first side, get all the dust off, move to the second side, and you wind up having to clean the first side again because a dust particle has moved back there.

What it comes down to is this: You need to know how long it actually takes to fit a frame, not how long you think it takes. The key to pricing is to have the same profit margin on all jobs, whether they're large or small, simple or time consuming, wood or metal. This is important so that when you budget your cost of goods sold, which is your material and direct labor cost for each job, you can budget for profit.

In the 40" x 60" example, the fitting charge should probably be three to four times the fitting cost of a 30" x 40" piece; even though the frame is only twice as big, the fitting takes three to four times longer. There is also a much higher probability that you will have to take the piece apart later because there's something wrong. You just can't take half the picture apart—you have to take the whole thing apart.

Here's my basic strategy for setting up a budget, which relates directly to pricing. There

are three major components to your income statement: fixed costs, cost of materials and direct labor. If you decide to keep your material costs to 30%, you need to mark up enough to accomplish that. Once again, an accountant might say, "Well, that's easy. Mark it up 3.33 times." A smart accountant will recognize that there are factors that will effect that number such as discounting, redo pieces, scrap factors, and even a bounced check. Think about it, if a job isn't paid for, it's going to raise your cost of goods sold.

If you don't do a lot of discounting, take a lot of bad checks, and are fairly careful about your quality of work and scrap, then you probably will have to price things at a 25% cost of goods (four times material including scrap, or about six times the raw cost before scrap) for it to end up being 30% at the end of the year. The extra 5% covers discounting and miscellaneous.

The next part is where I've seen the biggest mistake in the business—the owner's time. You need to separate your time as a framer from that as a business owner. If part of your job is framing pictures, you need to charge for that labor. Your time is not to be paid for with profits! Profit is the return on your investment in the business. Simply put, if your income from the store is \$20,000 a year, you have no profit. You merely provide a job for yourself. This is only a start.

The best advise I can give you is that if your accountant hasn't explained this yet, fire him. Find an accountant who knows how business works instead of one who just fills out tax returns.

P.S. I've just published a book, *The Street-Smart Entrepreneur: 133 Tough Lessons I Learned the Hard Way*. You can either buy it at Walden Books or directly from the publisher at (800) 352-2873. ■