

## Plain facts about being in business

**Susan Butterworth, 2001**

Please write in letters of fire before your eyes: I am in business; this is not a hobby. If you do not charge what your work is worth you will go broke. It's that simple and you owe no one an apology for it. The suggestions that follow are distilled from the sometimes painful experience of two public historians, Graham and Susan Butterworth, over sixteen years in practice. I am only too aware of how difficult it is ever to be paid a realistic rate because history is unavoidably labour-intensive and therefore costly, but a clearly understood basis for estimation is a great help in assessing whether a project is likely to be economic.

Most public historians do not understand how to cost projects because their experience of remuneration is drawn from what they have earned as salary, not from being in business. What you get as a wage earner is only part of what it costs to employ you. Your employer has to provide accommodation and equipment, administrative support, sick leave, annual leave, maybe training or other benefits like superannuation or a medical insurance scheme. These in general add up to about as much again as the worker's salary.

If you are employing yourself you have to provide all these things as well as your salary and so you have to earn enough to cover them. This is your charge-out rate. You also need to understand the law relating to provisional tax and GST so that you keep as much of your income as you are legally entitled to.

When you are in a solo practice, as the vast majority of us are, you perform every function of business from office cleaner to chief executive and all of these functions have to be performed in your working time. This means you cannot give your entire time to writing or research, so your charges have to allow for 'unproductive' but unavoidable activities such as:

- Office housekeeping - correspondence, filing, cleaning, maintenance of your computer, replenishing supplies, doing your tax and GST if you do your own, and miscellaneous running around
- Networking - looking for jobs, going to book launches, seminars and lectures so as to keep yourself visible; keeping in touch with colleagues; playing your part in your professional organisations; preparing applications for funding for projects
- Professional development - keeping up both in your own field and in ancillary fields such as computer skills; remember that when you undertake these you will usually not only be paying all your own costs, including travel and accommodation, but you will forgo chargeable working time, so the cost to you is greater than the cost for someone attending through their job
- Broader reading (including on the internet) to keep you generally up to date
- Time without work, for gaps of weeks or even months between jobs are a fact of life in our insecure profession; we cannot insure ourselves against them but they are one of the factors to be borne in mind in establishing the level of income we are aiming at; it is a well established principle of employment that contractors are paid at a higher rate than permanent employees are to compensate for the lack of security.

If on average you are spending more than two-thirds of your working time on 'chargeable' activities you are probably neglecting the 'business' aspect of your practice. This of course will vary greatly at different times; if you have a deadline to meet, you will drop everything else for a while, but the other tasks will be waiting afterwards.

## Other business costs you must meet

- Annual leave, sick leave;
- ACC and superannuation;
- Depreciation, upgrading and repair of computers and other equipment such as a fax or copier if you have them. The computer will have to be replaced at least every five years from new. (It may still be working after five years but will probably be outdated and risk trapping you with software that no one else is using);
- Library;
- Office stationery and consumables such as diskettes, copy paper, printer cartridges, diary, business cards, letterhead – it all has to be paid for;
- Office equipment such as filing cabinets, shelving, proper ergonomic chair, desk, footstool etc; if you get RSI from bad equipment you will not be able to work;
- Professional expenses such as membership of societies, subscriptions to periodicals;
- Use of your car for business purposes;
- Use of room within your home for business purposes, including its heating, insurance and a proportion of your rates and mortgage (or rent if you are renting). You claim for this on a pro rata basis for the area so used e.g., if the study is 15 percent of the house, then you can claim 15 percent of the expenses. It is usually not advisable to claim on your telephone because it may then be treated as a business connection that will put your phone bill up enormously.

All but the first two categories are tax-deductible, but you must keep proper financial records in order to claim them. For example, you will need to keep a car log and record other expenses as you go. For this purpose, it is preferable to pay for business related costs by cheque rather than cash or EFTPOS and make sure you fill in the reconciliation, (e.g. 'Whitcoulls - office stationery') as this gives you a convenient running record for tax and GST purposes. If possible keep a separate bank account for your business activities so that they can be 'ring-fenced' for accounting purposes. This will also help you see where the money goes.

The GST proportion of your study expenses is reclaimable. As a rule the amount saved is barely worth the time it takes to calculate it, but if you decide to make major alterations or redecorate, the GST is well worth having. It will help you to have established a prior track record of claims with the IRD.

Remember also the need to be able to dress professionally when occasion requires. If you have to appear before a tribunal or work with other professionals a dress code is very definitely in place and a suit or women's equivalent, presentable briefcase and so on are necessary to command respect. Most people are only too willing to regard us as quaint and unworldly without giving them the excuse of looking the part.

Over at least a decade of joint experience and working out our own tax returns we have come to the conclusion that the direct costs of being in business are about 30 percent of our income.

## Costing a job

We have arrived at the following formula for estimating the time required for most proposals. It is of use particularly in making formal applications for funding as it provides a defensible basis for calculation. You may care to alter the figures to suit your own experience but the formula covers most of the usual considerations. It is based upon the assumption that the proportion of research time to writing time is about 60:40. In other words for each day of writing there will be 1.5 days of

research. Some of the following figures have been rounded to the nearest whole day or week for clarity. 'Working' days assumes five in the week, while 'calendar' weeks is the usual seven. This is just a reminder of the 'real time' that elapses at different stages of the project.

On an assumption that an average production of writing to a finished state, i.e. including circulation of drafts, revisions etc is 1000 words per day it is easy to work out the time required for a given production. If 70,000 words (including appendices, etc is required) this calls for 70 days' writing plus 105 days research, total 175 working days for the main text. This is 35 calendar weeks, not allowing for public holidays. This figure includes the 30 percent of 'unproductive' time discussed above.

Add to this the post-writing work of editing, photo research and captioning, indexing, promotion and similar activities. This is where historians most often rob themselves by charging either nothing or too little. However, there is a large input of time at this point and it must be included. This is harder to estimate exactly as much depends upon the number of illustrations and any particular difficulties with the text, design etc. As a rule of thumb, however, this process will take at least 25 percent of the research/writing time, (and probably more for a heavily illustrated work) so for our example above of 70,000 words, post-writing is about 44 working days or 8.5 calendar weeks. This gives a total of 219 working days or 45 calendar weeks.

In a long-term project of several months or more you will need to allow for annual leave. Allowing one day for every three calendar weeks gives 17 days per year, which is a little low but convenient to calculate. In 44 weeks 14.5 days annual leave will accrue. There are usually 8 to 10 annual public holidays; as 44 weeks is 85 percent of a year 7 holidays should be allowed for. So, total holidays 21 days in round figures.

This is about 48 weeks. It is a fairly tight schedule, but can be done, especially since in practice there is likely to be a gap between the end of writing and the beginning of editing and the production process will be part-time and discontinuous over perhaps 10 or 12 weeks. The whole project from start to finish will probably spread over about 16 months, and you would be free to take on other work after about 12. It may be advisable to include about 15 percent contingencies for illness, unavoidable delays and similar.

In this following paragraph GST has not been included in order to make the points more clearly. It would have to be included if quoting to a client.

Thus 219 chargeable working days has to finance 336 total days, including weekends and leave. Each 8-hour working day is also 30 percent non-chargeable. Thus there will be about 5.5 chargeable hours in each of the 219 days. This gives 1205 chargeable hours. Then the gross total needs to be reduced by 30 percent for the costs of being in business. The table below calculates these figures for a hourly rates of \$45 and \$50 (GST exclusive).

For 1205 chargeable hours:

Gross@45/hr  
-30% business exp.  
Net

\$54,225  
\$16,267  
\$37,950

Gross@50/hr  
-30% business exp.  
Net

\$60,250  
\$18,075  
\$42,175

It will be readily seen that this does not promise riches beyond the dreams of avarice, but it provides a template for assessing the economic value of a project. If a client only has a research and writing budget of \$30,000 (GST excluded) then it is only economic to contract for a manuscript of a maximum of 35,000 words at \$45 per hour or about 30,000 words at \$50 per hour. If your client is able to provide you with an office, computer, research assistance or other benefits you will be able to adjust the expenses portion of the project.

The other main factors that will have to be considered in the total budget are expenses, because it may be unclear in some cases whether they are your responsibility or that of the client. This should be made clear in the contract. (Production costs are not included here as they are wholly the client's responsibility.) Items to remember in the budget include:

- Travel and accommodation
- Photocopying
- Photographs/maps/other graphics; get quotes if any special work is required
- Toll calls, especially if you are interviewing by phone; postage may be an issue if you have to post or courier either large volumes of mail or large items such as boxes of documents.
- Any consumables for which the client is paying (e.g. audio tapes, printer cartridges, paper); these can mount up in a book-size project.
- Hire or purchase of any special equipment
- Any special training you may require; this does not often arise but you may need to go on a course to brush up your language and culture skills if dealing with an ethnic group, or to get a grasp of some technical aspect of your project
- Copyright fees and clearances
- Anything else?