

Labour... What is it costing you?



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19/09/2012

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What is the correct price to charge for a picture frame? This is a question I hear even experienced framers asking; and it's not surprising, as pricing a frame can be complex.

There are many framers who struggle to make enough money to pay the bills at the end of the month. They multiply their materials by a factor of 4-5 or higher hoping to cover all their costs, yet still struggle to make ends meet. Why is this?

Manufacturing frames is labour intensive, not only is making the frames labour intensive but all the other factors of keeping the business running suck up valuable time. This gives framers a limited amount of time to recover the costs of running their business; making it vital for the correct amount of labour to be calculated into every job. Labour is by far the biggest cost of manufacturing most frames, and only by accounting for it can you be sure that you're pricing profitably.

In this article we will explore the cost of labour and how to reliably calculate this cost into a frame.

How do I work out what my labour charge should be?

The labour charge includes all the costs of running the business, excluding materials. Of course wages make up the labour charge, but it must also cover the cost of rent, electricity, telephone and advertising to name a few. These are costs that come to business whether frames are being made or not; it's therefore necessary to account for the labour charge when pricing a frame.

Expense item	Cost £	times per year	Total cost
Drawings/ Wages	£1,500.00	12	£18,000.00
Rent & council tax	£1,100.00	12	£13,200.00
Electricity	£250.00	4	£1,000.00
Telephone/communications	£80.00	12	£960.00
Insurance	£950.00	1	£950.00
Depreciation	£290.00	1	£290.00
Bank/ Merchant fees	£70.00	12	£840.00
Accountant fees	£570.00	1	£570.00
Interest on loans	£110.00	12	£1,320.00
Marketing/ Advertising	£100.00	12	£1,200.00
Motor vehicle	£40.00	12	£480.00
Office supplies	£15.00	12	£180.00
Licences/ Subscriptions	£30.00	12	£360.00
Repairs/ Maintenance	£20.00	12	£240.00
Waste/ Refuse	£20.00	12	£240.00
Total annual fixed costs			£39,830.00

Figure 2: Example annual expense items

Where do I find my running costs?

Most businesses should be able to calculate their running costs from their annual budget supplied by their accountant or through accounting software. (Last year's profit and loss report gives last year's costs, but pricing should be based on budget costs i.e. expected costs for the coming year.) If you are a new business you will need to look at your recent bills and make forecast estimates.

Personal drawings.

In this example personal drawings are listed as an expense. Tax authorities generally do not consider personal drawings a tax deductible business expense, but most small business owners need to live on money taken from their business whether it is taken as wages or personal drawings. Therefore you should calculate whatever personal drawings you take in lieu of wages into the cost of making the frame.

How do I apply the labour charge into the price of the frame?

To calculate the labour charge into the price of the frame it's necessary to calculate an **hourly rate**. This rate allows the business to charge proportionally for the time required to make the frame. In order to calculate the hourly rate, you need to know your annual running costs, as well as how many hours you charge out; you need to know how many hours your business actually spends manufacturing frames each year.

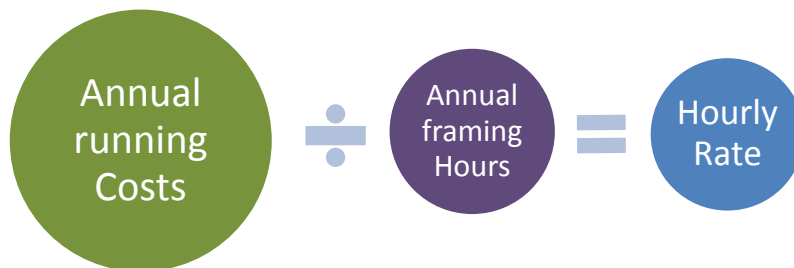


Figure 3: Hourly rate is fixed running cost divided by framing hours

How many hours do I spend manufacturing frames?

It's easy to fall into a common trap when working out time spent framing. Many framers calculate their hourly rate based on the hours they're open. But it's not possible to charge out opening hours: Nobody is going to pay you just for opening the doors! You can only charge out for the time spent making frames.

The best method for working out the hours spent manufacturing frames is to look back at your past job sheets, this will help you calculate how many hours of work there were each week. It's worth looking at job sheets from different times of the year so busy and quiet periods can be averaged into your calculations.

Our analysis of hundreds of framing shops has shown that a one person framing shop open 45 hours per week spends on average **16 hours per week** manufacturing frames.

This can seem hard to believe at first, just sixteen hours per week, but have a look at last week's job sheets and see how many hours work there were. A lot of time can be spent on customer service, stock control, merchandising, cleaning and deliveries to name a few.

Busier shops with extra Staff will have more manufacturing hours. However even a person engaged as a framer won't spend all of their time manufacturing frames. Even where a framer is employed only to frame and not tasked with answering the telephone, taking deliveries or sweeping up; at most this framer may only spend 80% of their time actually framing.

Be conservative when working out the number of hours actually spent manufacturing frames, as over-estimating will decrease your profitability. Be mindful though of what your potential framing hours are, if you have the ability to frame 16 hours per week but choose to frame for only 10, your hourly rate is going to increase considerably and there is a risk you may price yourself out of the market. Businesses need to have turnover to be competitive.

Once this information has been gathered it is possible to calculate your hourly rate.

Figure 4 below shows the total number of framing hours per week, and the number of weeks trading each year. By multiplying the two numbers together the total framing hours per year is calculated.

Motor vehicle	£40.00	12	£480.00
Office supplies	£15.00	12	£180.00
Licences/ Subscriptions	£30.00	12	£360.00
Repairs/ Maintenance	£20.00	12	£240.00
Waste/ Refuse	£20.00	12	£240.00
Total annual fixed costs			£39,830.00
My business spends this many hours a week framing			16
My business is open this many weeks per year			50
Total hours Framing per annum =16x50			800

Figure 4: Total framing hours per year

It's then a simple case of dividing the total annual running costs by the number of framing hours each year to calculate an hourly rate that will cover all your running costs.

Office supplies	£15.00	12	£180.00
Licences/ Subscriptions	£30.00	12	£360.00
Repairs/ Maintenance	£20.00	12	£240.00
Waste/ Refuse	£20.00	12	£240.00
Total annual fixed costs			£39,830.00
My business spends this many hours a week framing			16
My business is open this many weeks per year			50
Total hours Framing per annum =16x50			800
My hourly rate = £39,830 ÷ 800			£49.79

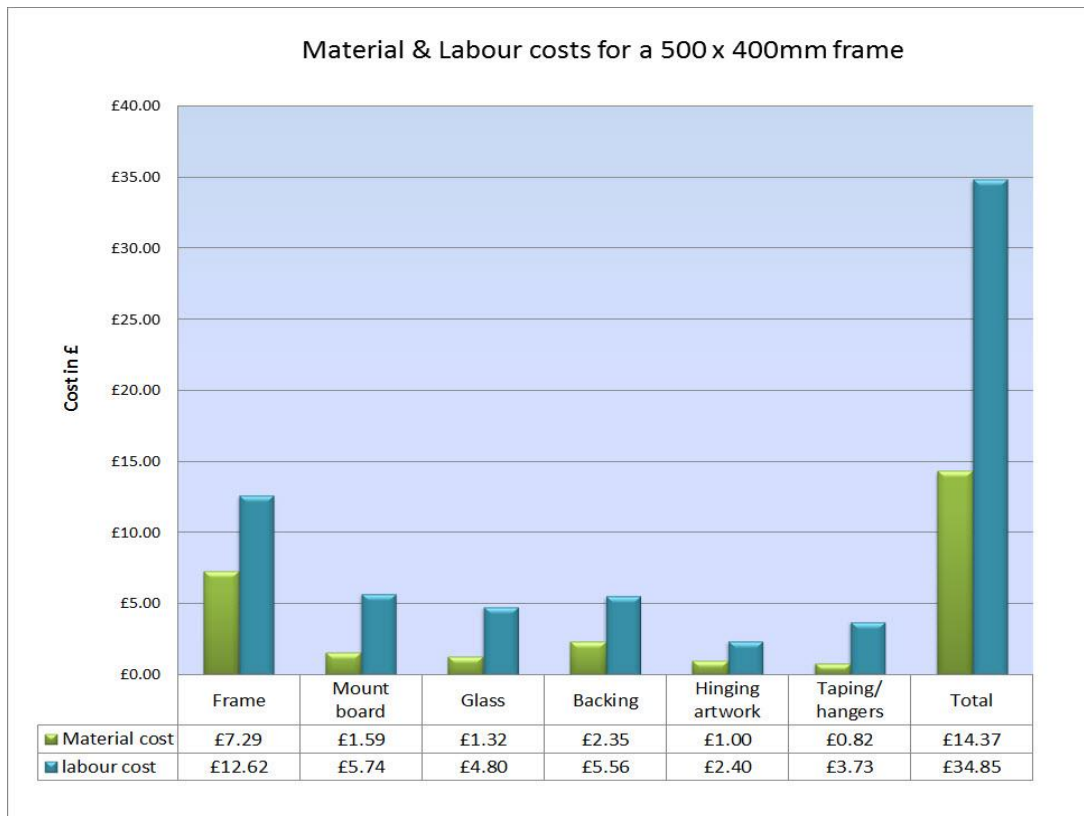
Figure5. Hourly rate for labour is £49.79

In this example it's costing this business £49.79 every hour they're manufacturing frames, and this cost needs to be accounted for into the time it takes to manufacture a frame.

How do I attribute the hourly rate into the price of the frame?

We now know what hourly rate to charge and this rate can now be proportioned into the time it takes to manufacture varying frames.

In the example below a framer estimates this framing job will take 42mins to complete. If we divide the hourly rate of £49.79 by 42 minutes; the labour charge for this job calculates at £34.85.



Graph 1: Material and labour costs for a 500 x 400mm frame

Looking at the breakdown of cost in Graph 1 above you can see that for each component the labour cost is far higher than the material cost. In this example the total labour cost is £34.85 and the material cost is only £14.37. Labour accounts for 71% of the cost of manufacturing this frame.

Our analysis of hundreds of framing shops has shown that labour is generally between 70% and 80% of the cost of making a frame. When you understand this, it's easy to see why it is so important to include labour into the cost and not just add it on later.

It's worth noting that in many circumstances small frames take only slightly less time to manufacture than larger frames, which is why it is important that the correct time is calculated into every job to maximise profitability. Bespoke framing businesses rarely have the volume of turnover to afford to lose money in any area of framing.

Clearly any pricing scheme simply based on multiplying material costs by a factor, gives the illusion that there is a very healthy profit being made, when in fact the most costly part of making the frame, labour, has not been accounted for.

It's only by correctly costing labour and then combining your material costs that you can be confident that every frame you price covers its costs. This lays a firm foundation for profitability and provides consistency in price for the customer.

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