



Pricing for Profit

Solid Business Techniques
for a Profitable Photography Studio

Bryan Caporicci & Robert Nowell

“If you do work you **love**, but it doesn’t generate a good income, your business will fail.

If you do work you **hate**, but it generates a good income, your health will fail.

If you can’t do what you love and make it **profitable**, you’ve either got a hobby or a headache, not a sustainable business.

Don’t settle for anything less than **passion** and **profit**.”

- Steve Pavlina

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About the Authors

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Bryan is the lead content creator at SproutingPhotographer.com and the host of the Sprouting Photographer Podcast. He teaches at workshops across North America, including industry-leading conventions and conferences such as WPPI, Shutterfest and Canada Photo Convention. Bryan is also the CEO and Founder of Sprout Studio.

A Word from the Authors

Even though we come from different backgrounds and years in the business, one thing that we both recognize in our industry is that many photographers, while full of passion for their craft, are sadly lacking that same level of passion for the business side of running a studio.

Regardless of whether you are just starting out, or have been in business for several decades, the principles of “Pricing for Profit” are a necessary and important part of ensuring that you are able to live the life that you deserve.

Because we are very passionate about this topic and have held several sold-out business workshops with a great response from attendees, we were encouraged to put our workshop into a book in order to reach a broader audience.

Hopefully, through our experiences in running our own photography studios, we can spare you the headache of attending the school of hard knocks.

It has been our pleasure putting our thoughts into book form, and we hope that the information contained within benefits you and your business.

Introduction

Photography is enjoyed by people world-wide and can be a very fulfilling and enjoyable hobby. There are many who transform this hobby into their career, and so a photography business is born. Unfortunately, because these businesses begin with the love of photography, as opposed to strong business principles, they are often met with challenges right from the start.

There are a few books on the topics of photography and business, however we were unable to find a book that clearly outlines a step-by-step process to pricing photography services and products. In addition, no book under our scrutiny actually spelled out how to plan and organize your photography business volume.

We designed this book for photographers who are both just starting out, and for photographers who have been in business for years. We also understand that there are two different ways that a photographer can run their business; home-based or out of a retail location. We will address all of these different situations throughout this book.

It may surprise you to know that the time you spend running a photography business will be taken up mostly by business and less by photography.

Let's think about what went through our minds when we first thought about starting a photography business. The vast majority that get into photography as a career, begin because they are creative and visual. Those that are able to make their business flourish, realize early on that they need to have a strong understanding of business in order to make their career successful.

Photographers are unique in the sense that we almost start our business backwards. The majority of successful businesses are founded by people who studied business first and then decided what they were going to sell second. For example, how many accountants do you know who decided one day "I'm good with numbers" and started their own accounting firm? Most accountants will go through extensive training and internships before they even considering starting their own company. With photography though, most don't have formal business training, marketing experience, or a financial background. We just know that we love photography and want to do it full-time.

While nothing will replace the value of formal education, extensive research, continuing education courses, business workshops, and so on, we are offering

this book to you as a means of taking the mystery out of pricing your photography for a profitable bottom line.

Pricing for profit is one piece of the puzzle, and this book will be one of many stepping stones that will bridge

the gap between loving photography and running a photography business.

1 Bookkeeping

Laying the Foundation

The importance of a solid bookkeeping system cannot be stressed enough, and it is crucial that we lay out the foundation, first, before we move forward. Can you imagine a homebuilder building a beautiful home, with high quality materials on top of a foundation made out of sand? Even though they have the best materials used in the house, the entire home will eventually collapse because the foundation isn't adequate. This is no different in our business, we need to build our business on top of a sturdy foundation, and that starts with bookkeeping.

Every business needs to keep a accurate set of books that are kept up-to-date. There are four main reasons for this:

- 1) The government requires that every business keeps a set of books. It's the law! It is how a business determines how much tax they have collected and how much they must remit to the government throughout the year.
- 2) It's important to analyze trends in your business to figure out where your strongest and weakest points are. Keeping track of all of the different

products and services that you provide and sell, and their profitability allows you to make intelligent decisions for change.

- 3) It provides you with the ability to evaluate your bottom line every month by looking at a Profit and Loss Statement. Having this information readily available will help you from making poorly-timed purchases for your business when you don't have the cash to do so. If you aren't closely following your bookkeeping, it may appear that you have a good amount of money in the bank, whereas in reality that money is reserved for paying payroll and expenses (including your wages).
- 4) After having a few years of properly kept books, you can use your bookkeeping system to analyze and compare year-to-year and see if you are increasing your gross sales in the way that you had projected in your business plan.

The first step in building a proper foundation is defining your bookkeeping system and determining a management system for the studio.

A **bookkeeping system** is an accurate method for recording your invoice transactions and expense

transactions. It simplifies the reconciliation of your bank statement to your day-to-day business activities, from a financial perspective. We recommend hiring an accountant to help set up and maintain your bookkeeping system.

Quickbooks is a one bookkeeping system that is easy to use and fairly comprehensive. It can be purchased for approximately \$150/year. The Canadian version of Quickbooks is a Windows-only software that you install on your computer. It is an ideal, easy-start-up system for a first time business, and it is widely accepted and used among accountants and advisors in the financial industry. It is important to note that Quickbooks is only a bookkeeping system, and it is not a management system. It will take all of your customer data, keep track of invoices, expenses, receipts and bank reconciliations. It will not perform managerial-style tasks, such as lead tracking, e-mail correspondence, and automatic invoicing. While you can certainly supplement your bookkeeping system with a managerial system, Quickbooks will still be more than likely an integral part of your bookkeeping system, as required by your accountant.

A **management system** puts into place a series of repeatable procedures that determines the efficiency of your business workflow. It is the “recipe book” of your business, and contains all of the different “recipes” that make your photography business flow. If you wanted to bake a perfect chocolate cake, time-and-time-again, you know that you would follow a time-tested recipe. By using the same ingredients in the same quantities, in the

same order, you are following a repeatable system that more or less guarantees the same outcome every time. For all areas of a photography business, we need to create recipes for getting work done in an efficient and timely manner. All successful businesses have systems in place that make repetitive tasks easy to follow and track. It’s why you can order a Big Mac at McDonalds all over the world and have it taste exactly the same. There are several software solutions available, such as ShootQ, Tave, Studio Cloud, 17 Hats or Sprout Studio. It is important that you find a system that is easy to use so that you will use it consistently.

Comparative Analysis

It is important to be tracking your income and expenses appropriately so that in several years time you can have an accurate history of numbers to compare to. As you can see in Table 1.1 on Page 18, sales from small product photography for this commercial photographer have declined from 2009 to 2011. At the same time, sales from location photography have increased from 2009 to 2011. In doing this exercise and by analyzing his figures, this photographer can determine that he is seeing less business in one particular market area and more business in another. Perhaps he was doing so well with small product photography in 2009 that he decided not to spend money in marketing in 2010 and 2011, which had a negative impact on sales. At the same time, his location photography increased significantly from 2009 to 2011 and he did not necessarily spend more money in marketing. You can see

how analyzing the return on investment on marketing from year to year is important in deciding where to spend your money. This photographer is having almost the exact same annual revenue from 2009 to 2011, while spending less on marketing. In analyzing these figures, he can determine whether or not he wants to spend the marketing dollars to increase revenues from small product photography, or whether he wants to let location photography continue to organically grow without the marketing dollars.

Either way, when you have the ability to compare numbers from year to year, you will likely want to make some adjustments. The only way to help you make these decisions is by comparative analysis through your bookkeeping history.

A good accountant (we recommend seeking out a “managerial” accountant) will sit down with you, at the end of the year and compare your figures and advise you accordingly.

Table 1.1

Sample comparative analysis of annual revenue for a commercial photographer

	2009	2010	2011
Small product photography	\$36,000.00	\$33,000.00	\$21,000.00
Location photography	\$49,000.00	\$51,000.00	\$63,000.00
Aerial photography	\$12,000.00	\$13,500.00	\$12,600.00
Event photography	\$23,000.00	\$21,000.00	\$24,500.00
Total revenue	\$120,000.00	\$118,500.00	\$121,100.00

Track Product Lines and Profitability

A product line is a set of related products or services offered by a company. For example, the Coca Cola company not only produces Coke as we know it, but also Coke Classic, Diet Coke, Coke Zero, Sprite, and so on. Each of these different products are considered to be their own product line.

As a photographer, it is important for you to be as specific as possible with narrowing down your product lines and service options. For example, it wouldn't be very helpful to be able to compare "Wedding Packages" over the course of three years, because that is far too generic. If, however, you could compare "Wedding Album Sales" vs "Digital Sales", that would be extremely helpful in moving forward with making decisions.

We recommend the following "generic" breakdown in Table 1.1 on Page 18 for your product-lines. While this is certainly not all-encompassing, it gives you a good idea as to where to start. You may certainly need to adjust, according to your business model.

Table 1.2

Services	Products
Portrait Photography Family Portraits - Studio Family Portraits - On-Location Individual Portraits - Studio Individual Portraits - On-Location Business Portraits - Studio Business Portraits - On-Location Baby/Infant Portrait - Studio Baby/Infant Portrait - On-Location Pet Portraits - Studio Pet Portraits - On-Location Event Photography ... etc	Prints Loose Prints 4×6 5×7 8×10 ... etc Mounted Prints 4×6 5×7 8×10 ... etc Canvas Prints Collage Prints
Commercial Photography Industrial Photography Product Photography Aerial Photography Location - General	Print Collections
	Framing
	Proof boxes
Wedding Coverage	Hard-cover books
	Albums Photo-Cover Upgrades Leather Upgrades Additional Spread Upgrades Size Upgrades ... etc
	USB Keys
	Cards Thank-You Cards Christmas Cards Announcement Cards
	Slideshows
	Retail Goods Photo handbags Photo jewelry Mousepads ... etc

If you are going to offer a specific range of products and services in your product line, it is important that you have the confidence, ability and knowledge to supply them properly to the market that you are selling to. For example, a photographer may be tempted to put “aerial photography” in his list of services because he feels he can do anything that involves a camera. If he has not properly researched the costs involved nor practiced the art of aerial photography, then when the opportunity arises, he will be ill-prepared to provide the quality product that he advertises.

While having an extensive product mix is important, it is also necessary to consider other factors when laying out your product lines. Don't confuse your customers with so many options that they cannot come to a purchasing decision. Most professional labs offer 8×10 and 11×14 print sizes, as well as at least half-a-dozen other sizes in between. It is often easy for us to adapt that product line and offer all of these sizes, however, it is sometimes overwhelming for clients to have that many options. It is easier for a client to jump from an 8×10 to an 11×14 if those are the only two options, and easier for your retail price to jump from \$65 to \$110. Framing is another example where it is important to limit product lines for ease-of-purchase. Instead of having your client pick from a giant carousel of 100's of framing options, ask them “What color did you have in mind?” and you can then select three for them to choose from, and those three can be three different price ranges. Give them options - Good, Better, Best.

It might be important to mention at this point that when you create all of these product lines, you will likely have no clue as to how to price each of the individual products. We are going to show later on, how you need to look at the whole picture when it comes to profit, because the formulas that we will provide you with on how to price your work can not be used across your entire product and service line. You need to be selective as to which products will create the greatest profits. For example, grocery stores will often put milk on sale for such a low price that they will actually lose money on that product. You notice, however, that they put milk at the back of the store, and make you walk past dozens of other items in order to get to the milk. Their product line tracking and comparative analysis most likely show that along the way, you will pick up something else.

While they may not make any profit from milk sales, they will more than make up for the difference by receiving a greater profit from the other items. Remember, though, that it was the milk that got you in the door in the first place.

To put that into photography studio terms, an example would be to advertise a promotion that offers half-price session fees. The desired result is to get more sessions, and therefore, the higher number of print sales that result will more than make up the difference from the lost revenue of the sessions.

CHAPTER 2 Gross Profit

Definitions

In order to fully understand where profit comes from, let's define some terms that help explain the different factors that affect profitability.

The fundamental formula that is at the heart of "Pricing for Profit" is:

$$\text{Gross Revenue} = \text{Fixed Costs} + \text{Cost of Sales} + \text{Business Profit}$$

Gross Revenue is the amount of money that you take in at the end of the day. It is the total sum of all of the income that you make in a year. This is *before* you pay expenses, salaries, taxes, and so on.

Fixed Costs are the expenses that you incur regardless of how much business you do. These expenses are fairly consistent, month-to-month, and will remain relatively constant. Examples of fixed costs include phone line, internet, insurance, utilities, rent or mortgage, and so on.

Take insurance as an example - it's monthly cost will not increase or decrease based on how much business you do, and that is why it is considered a fixed cost.

Cost of Sales are also known as "Variable Expenses". These expenses are payments that fluctuate with the amount of business that you do. If you do more business, the cost of sales go up, and if you do less business, the cost of sales go down; they are directly proportional to your business activity. Take print fees from your lab as an example - if you do more portrait sessions and sell more prints, you are going to be paying more to your lab, and the reverse is also true - if you do less portrait sessions and sell less prints, you are going to be paying less to your lab. The cost of sales for an individual product line is considered the sum total of *everything* that goes in to creating that finished product or service, including hard costs, material costs and time.

Business Profit is the actual money left-over in the business, after you have been paid and all of your expenses have been paid, and is considered the true profit of your business.

Fixed Costs

The first thing that you need to decide is whether you are running your business from home or from a retail location. We firmly believe that anybody starting up a photography business should start by working from home while keeping their “9 to 5” job until the finances allow them to become a full-time photography studio. Professional Photographers of America suggests in their business benchmark survey handbook that a photography business should be grossing \$100,000 before going full-time. Many of you reading this have already made the decision to either work from home, or from a retail studio, and you may want to re-evaluate that decision upon reading this book.

It may sound impressive to be able to say “I grossed \$200,000 last year”, but what is far more important than the gross revenue is how much money you personally make, as the business owner. Instead of focusing on the total gross revenues, let’s focus on personal income. Many photographers run a studio with high figures of gross revenue but live cheque-to-cheque because all of the monies made in their business are used to pay off high expenses.

Let’s look at some typical photography studio monthly expenses.

These numbers will obviously vary from studio-to-studio, and will also depend greatly on whether you are a home-based business or a retail business.

If you are running your photography studio out of your home, you need to calculate how much space in your

house your business takes up. This needs to be calculated properly, and shared spaces (space that is used for business and for personal use) cannot be counted. As an example, if you use your sunroom for only business, and it is a 20×20 room (400 sqft), and your house is 1600 sqft, then your business takes up 25% of the house. This number is important to know.

Now that we have that percentage, you are allowed to write-off that percentage of your monthly house expenses as a business expense. In our example above, where your business takes up 25% of your house, and your mortgage is \$800 per month, you are allowed to use \$200 of that as a “business expense”.

It needs to be noted, again, that any shared space cannot be written off as a business expense. It is crucial that you are realistic with these numbers and calculations, because if you are ever questioned by the government (Canada Revenue Agency or the Internal Revenue Service), you will need to prove that the space is used exclusively for business.

In matters of business and personal space, we recommend that you consult with a tax specialist to clear up any grey areas.

If you are running your photography business out of a retail space, it makes these calculations much easier. You know what your lease is, you know what you pay for utilities, and you know what you pay for taxes.

Regardless of whether you are operating out of your home or out of a retail-based location, below is a list of expenses that a typical studio will incur.

Phone line/Internet While it is less of a profit/loss consideration, we do think that from a business perspective, it is very important to have a separate phone line for your studio and for your house. From a work/life balance perspective, we feel that it is important not to be using your cell-phone as your main business phone number. Therefore, the additional phone line will have to be considered as a business expense, as will your internet connection.

Credit card monthly fees Anyone who wants to be taken seriously as a business and wants to charge the kind of money that a boutique-style business should be, needs to project a professional image. Any business that does not accept credit cards transactions would not be considered viable in today's marketplace.

Bank account fees Most businesses will have a combination of several different types of bank accounts - savings, chequings, holding accounts, credit cards, line-of-credits, mortgages, and so on. More than likely, there will be bank account fees on these accounts.

Hydro, Gas, Water, Property taxes, Security system, House insurance, Mortgage, Mortgage Insurance As previously discussed, if you are a home-based business, a percentage of these house expenses will have to be taken as a business expense. Retail-based businesses will incur 100% of these expenses.

Web hosting No business can survive without a website these days, and it is as important as a business card. You should look at all of the different options for web hosting to see which meets your needs.

Bookkeeping While many photographers start out with the honorable intention of doing the books themselves to save money, many often fall behind and realize that the bookkeeping is not their forté. We therefore recommend hiring a bookkeeper to do your monthly reconciliations.

Car insurance, Gas, other Automobile expenses Much like house expenses, business automobile expenses will need to be calculated as a percentage of your total expenses, based on how much driving you do for business vs how much driving you do in total. You should be logging your business commutes in mileage.

Business insurance There are many companies that will give you a generic insurance policy or package, and for our business, that is sometimes insufficient. We recommend meeting with an insurance agent and discussing your specific insurance needs such as full replacement value of your equipment, contents insurance, a floating policy for your equipment that leaves the studio and liability insurance. Also, be sure to be specific about having indemnity insurance which covers you against lawsuits. You may also want to investigate disability insurance which will replace your business income in the case that you have an accident or incur a disability

that will prevent you from working over a longer period of time.

Marketing Marketing is a topic for another book, but for the purposes of this one, suffice to say that you will obviously need to market your business. This expense needs to be budgeted and calculated as a part of your fixed expense.

Education Education is important for every photographer as we never stop learning and growing, however, you will want to take a budgeted and measured approach to attaining education. Many photographers spend a lot of time trying to perfect their technique, but we recommend balancing that time spent with honing their business skills.

Photography gear Photographers often will purchase whatever gear they want whenever they want, and we suggest that instead of taking the monies out of your personal income to purchase photography equipment, budget for it in your fixed expenses.

Office supplies Office supplies can be anything from paperclips to printer paper to cleaning supplies, and although they are all relatively small expenses, they certainly add up and contribute to the big picture.

Studio samples Studio samples are the only way for customers to physically appreciate the quality and craftsmanship that goes into your finished products.

In order to create the desire necessary to make a sale, a customer needs to be able to see and touch the product that they are contemplating purchasing. It is the best possible way to help them visualize what their photographs could look like in its finished form. Studio samples need to be replaced at least once a year so that repeat clients see fresh work displayed when they visit.

Software Almost any software that you buy today requires that you upgrade it regularly. For example, as photographers, we know that we are going to be paying a monthly subscription fee for Adobe Creative Cloud for the rest of our lives. These kind of expenses (as well as the purchase of new software) need to be budgeted for and accounted for.

Backup solutions Whether you choose to have an online backup service, or you choose to purchase additional hard drives for your backup solution, you will need to have some sort of workflow set-out to allow you to protect your images and your business files. This is a known expense that will occur every year and/or month, and so you need to account for it.

Professional and association fees These fees refers to membership fees for professional associations as well as online communities. This is one way to get access to an enormous pool of information that will further your craft and business. A word of caution that some photographers become “forum junkies” and spend way too much money (and time) each month on online forums and discussions.

Remember that all things are good in moderation. These fees don't necessarily need to be just photography-related, but will also include other associations and professional fees such as the chamber of commerce, Rotary, local networking groups, and so on. Remember that all things are good in moderation. These fees don't necessarily need to be just photography-related, but will also include other associations and professional fees such as the chamber of commerce, Rotary, local networking groups, and so on.

The chart to the right represents one month's studio fixed expenses. It is easy to see how all of these small expenses easily add up to become a significant total. While we have come to this figure for illustrative purposes, you will certainly have to come up with your own fixed costs to figure out your total expenses. Note that we haven't taken into consideration your salary yet.

Personal Income

Before you can even begin to know how to price your work, you need to start with the central idea of what you want to make as a personal income from your business, and this figure will help you price what you sell and how much you'll need to sell.

Consider how many hours photographers put into their work week, doing what they love, that does not yield a return on their time equity. If you are going to work a 44 hour week, you should be entitled to a similar income

Table 2.1

Sample monthly studio expenses

Phone line	\$40.00
Internet	\$50.00
Credit card machine	\$25.00
Security system	\$40.00
Bank account fees	\$15.00
Hydro	\$125.00
Gas	\$100.00
Water	\$30.00
Property taxes	\$50.00
Web hosting	\$15.00
Automobile expenses	\$150.00
Bookkeeping	\$100.00
Car insurance	\$50.00
Business insurance	\$50.00
House insurance	\$50.00
Marketing	\$250.00
Education	\$250.00
Photography gear	\$300.00
Office supplies	\$20.00
Studio samples	\$100.00
Cleaning supplies	\$10.00
Software	\$100.00
Backup solutions	\$90.00
Professional fees	\$75.00
Mortgage/studio lease	\$800.00
Mortgage insurance	\$25.00
Gas	\$200.00
Total	\$3,110.00

as others who put in the same workload in other jobs. The average professional makes between \$60,000 and \$80,000 per year, and so why should we not be entitled to the same amount?

We can't just pick a figure randomly for personal income because we feel that we are worth it. Instead, several factors need to be evaluated. Consider that teachers must spend a minimum of four years in university obtaining a degree, and then go to teacher's college for a full year, all the while obtaining experience teaching through several placements. In order for photographers to hope to make comparable incomes to people so highly trained, it is important to realize all the skill sets required to be financially successful as a photographer. To consider a reasonable personal income, we need to master the following skills:

- ♦ Interpersonal/Relational
- ♦ Communication
- ♦ Organizational
- ♦ Artistic
- ♦ Technical
- ♦ Marketing
- ♦ Sales

Anyone who excels at all of these skill sets will likely have a comfortable income working as a professional photographer.

Let's put things into perspective and realize that, as photographers, even though we love what we do, we need to be paid appropriately in order to provide the comforts and security for ourselves and our families.

While we certainly can't try to justify that a photographer should make as much as a neuro-surgeon, the fact is that we aren't really trying to justify anything. We simply are saying that our income has nothing to do with being a photographer, and has everything to do with being an entrepreneur. One of the benefits of getting into business for ourselves is that our income potential is limitless. Along with this potential for reward is the enormous risk of failure, which is something that we accept as entrepreneurs.

Many photographers see themselves as artists, and not as entrepreneurs, and have never taken the time to analyze what it costs to run a photography business. There are too many of them are working at the poverty line and struggling to make ends meet. This is not why we got in to business for ourselves.

We start with determining our personal income by considering what our life goals are and what our lifestyle demands. As important as a business plan is, it is an important idea to take stock of what you want your life to look like. Things to consider in planning your personal income are; putting kids through school, vacations and travel luxuries such as a cottage or a boat.

Taking this into consideration, we need to determine what is a reasonable goal as a personal income. For example, let's say that you hope to start, next year, with a personal income of \$50,000. This is not to say that you would limit yourself to \$50,000, every year, for the next ten years. Entrepreneurs would want to, by definition, exponentially grow their income, year-by-year, and you should be no different.

If you make a personal income in your first year of \$50,000, hopefully, you would make at least 10% more the second year, and another 10% more the third year, and so on and so forth. We have outlined the how-to of this in a section later, titled “Increasing Profits”.

The reason that some people avoid thinking about or discussing these kinds of important goals is because they feel it makes them materialistic. Material goods are a reality of life in the western world and how you spend your income on yourself and on others is entirely up to you. The idea of being an entrepreneur is not to make you rich, but instead to give you a rich life.

Business Profit

After you have paid yourself a salary from your business, it is still recommended that your business makes a profit. We recommend your business profit be 10% of your gross revenue. This is the money that you can re-invest into your business in purchasing equipment such as computers, camera gear or studio upgrades. These kinds of purchases are considered assets of the business, and will depreciate over time. If you have employees you could also consider sharing some of the business profits as an incentive bonus.

Cost of Sales

Cost of sales, also known as variable expenses, are all the fees that go into the making of a finished product. Let’s use the retail coffee industry as a hypothetical example:

- ♦ \$0.02 for the lid
- ♦ \$0.03 for the cup
- ♦ \$0.05 for the coffee
- ♦ \$0.11 for the cream (while some may not want cream, others will want more cream, and so you have to factor in some average amount)
- ♦ \$0.23 for the employee’s wage who pours the cup of coffee (assuming the employee makes \$14/hour and takes 60 seconds from start to finish to make the coffee and serve it to the customer)

The total cost of the cup of coffee for the company is \$0.44 total. If the price to the customer for this cup of coffee is \$1.44, this does not mean that the company is profiting \$1.00 on every cup of coffee sold. The revenue from that \$1.00 pays for other expenses such as marketing, cleaning staff, advertising, and basic overhead. What is left over after paying these expenses is what is considered the business profit.

Often times, photographers will think that the cost of an 8×10 print is just the hard cost of the print, which could be no more than a couple of dollars. Using the example above, this is similar to calculating the cost of the cup of coffee to be just the coffee and cream. If we assumed this, where would the wage for the employee come from and who pays for the lid and cup?

In the photography industry, there are many factors that go into the cost of a print, more than just the paper that the image is printed on. Less tangible components, such as retouching, sorting, ordering, packaging and shipping also need to be factored in.

One of the best ways to explain how much we need to break down these costs and expenses is illustrated perfectly when instead of asking what an 8×10 costs, we calculate the costs involved with delivering an 8×10 to a client?

Table 2.2

Lab cost of print	\$3.79
Shipping cost	\$5.00
Retouching time	\$2.92 (5 minutes)
Ordering time	\$2.92 (5 minutes)
Packaging materials	\$2.10
Packaging time	\$2.92 (5 minutes)
Total	\$19.65

As you can see in the chart above, there are many other necessary elements in delivering the 8×10 to the client, and the time involved for each of these needs to be considered when calculating cost of sales. For this example, we allocated 5 minutes each for retouching, ordering and packaging the print. Assuming that we wanted to make \$35/hour, each 5-minute time allocation is worth \$2.92 (\$35 divided by 60 minutes multiplied by 5 minutes).

This activity needs to be considered when calculating cost of sales for all product lines in your business. Here is another example for pricing a 10-spread wedding album for a client. Let us assume:

- ◆ You spend, on average, 18 minutes, designing each spread, which would yield 3 hours total (18 minutes per spread × 10 spreads = 3 hours total time for design)
- ◆ The album has an average of 4 images per spread, which would mean there are 40 images in the album (4 images per spread × 10 spreads = 40 images per album)
- ◆ You spend, on average 3 minutes per image for retouching, which would mean that you would spend a total time of 2 hours to retouch the images in the album (40 images × 3 minutes per image = 2 hours total time for retouching)

If you are not as efficient as the assumptions above, then you will be spending even more time (and money) per album. Once you calculate these specifics, you may decide that it would make more sense for you to hire a designer or a retoucher to do these tasks, instead.

Table 2.3

Album cost from manufacturer	\$300
Shipping cost	\$40
Communication time	\$35 (1 hour)
Design time	\$105 (3 hours)
Retouching time	\$70 (2 hours)
Ordering time	\$11.66 (20 minutes)
Packaging time	\$8.75 (15 minutes)
Total	\$560.41

As you can see, the total cost of delivering this finished album to your client, in this case, would be \$560.41. It should be obvious that there is no actual profit in this figure, it is simply the cost of delivering the album.

Often photographers simply “double” the cost of the album from their manufacturer (\$300), without taking into consideration all of the other elements involved. This would result in a \$600 album price to the client. You can see, above, that the actual cost of delivering that album is \$560.41. So if you merely doubled the cost of just the album itself, you’d actually only be profiting \$39.69. This leaves no room for fixed costs, business profit, and other expenses. When it comes down to it, \$39.69 profit on a product that is as time consuming as an album to produce, shows that there is little point in offering a product at such a low profit margin.

Clearly, you can see why it is so important to take many of the different factors that we are pointing out into consideration before determining your pricing.

Piece of the Pie

Recall the formula that was previously discussed:

$$\text{Gross Revenue} = \text{Fixed Costs} + \text{Cost of Sales} + \text{Business Profit}$$

To demonstrate the breakdown of gross revenue, we will illustrate with a pie chart, the numeric relationships between the individual items.

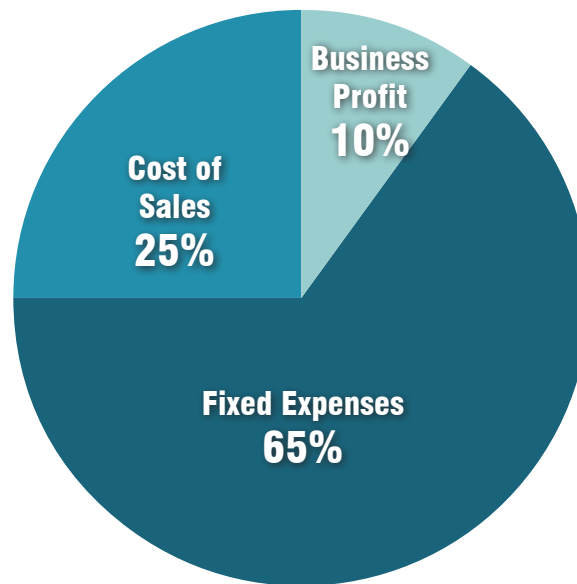
The gross profit is represented by the whole pie (see pages 42 and 43). We discussed earlier how business profit is suggested to be 10% of the gross revenue, and we therefore now have 90% of the gross revenue to split up between fixed costs and cost of sales.

According to a recent Professional Photographers of America (PPA) benchmark survey of professional photographers in the United States, cost of sales should be 35% of gross revenue for a home-based business, and it should be 25% of gross revenue for a retail studio.

Why, though, would the retail studio have a lesser percentage than the home-based studio?

Remember that we have 90% of the pie remaining to be split up between fixed costs and cost of sales. We know that a retail studio has higher fixed costs than a home-based business, and therefore this portion of the pie will be greater for a retail-based studio than that of a home-based studio. Cost of sales, which takes up the rest of the pie, will therefore be a smaller number (25%) for a retail-based studio, whereas it will be a larger number (35%) for a home-base studio.

Retail Studio Gross Revenue Breakdown



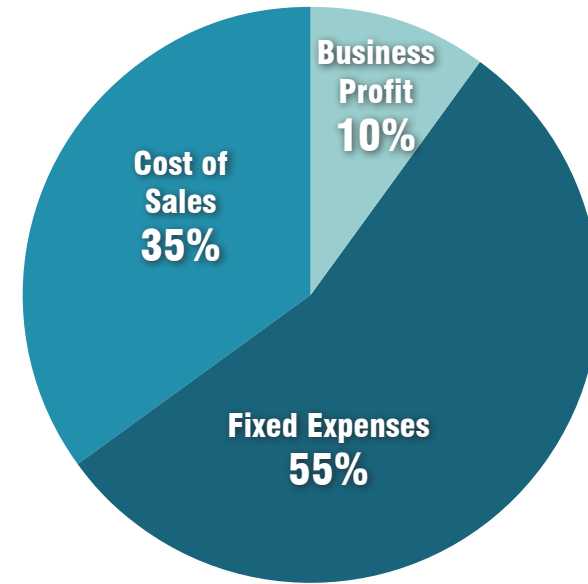
Since, for a retail studio, cost of sales is recommended to be 25%, and business profit is recommended to be 10%, we can go back to our original formula.

$$\text{Gross Revenue (100\%)} = \text{Fixed Costs (?)} + \text{Cost of Sales (25\%)} + \text{Business Profit (10\%)}$$

In order to calculate the missing fixed costs percentage, we subtract cost of sales (25%) and business profit (10%) from the gross revenue (100%) to get 65%. Therefore, for a retail studio, we now have the final formula of:

$$\text{Gross Revenue (100\%)} = \text{Fixed Costs (65\%)} + \text{Cost of Sales (25\%)} + \text{Business Profit (10\%)}$$

Home-Based Studio Gross Revenue Breakdown



Since, for a home-based studio, cost of sales is recommended to be 35%, and business profit is recommended to be 10%, we can go back to our original formula.

$$\text{Gross Revenue (100\%)} = \text{Fixed Costs (?)} + \text{Cost of Sales (35\%)} + \text{Business Profit (10\%)}$$

In order to calculate the missing fixed costs percentage, we subtract cost of sales (35%) and business profit (10%) from the gross revenue (100%) to get 55%. Therefore, for a home-based studio, we now have the final formula of:

$$\text{Gross Revenue (100\%)} = \text{Fixed Costs (55\%)} + \text{Cost of Sales (35\%)} + \text{Business Profit (10\%)}$$

Mark-Up

When a price is “marked up”, it means that there is an amount added to the cost price to calculate a selling price. It is this “marked up” amount that takes into account overhead and profit.

You’ll recall our example from the retail coffee industry, where the cost of a cup of coffee came to \$0.44. We also had indicated that if the company charged \$1.44, it would not yield \$1.00 of profit. The mark-up factor in this example, is 3.27, which means that the cost of \$0.44 was multiplied by 3.27 to reach a retail price of \$1.44.

Earlier, we discussed how some photographers simply double the hard cost of a product and consider that a viable mark-up. We can see now that this is not only unprofitable, but it also doesn’t cover all of our fixed expenses.

Cost of sales tells us what percentage of gross revenue is taken up by our variables costs, however, that doesn’t help us determine accurate pricing. In order to do so, we must take our cost of sales percentage and turn it into a mark-up factor. It is this mark-up factor that we will multiply our cost of sales by to reach a profitable pricing structure. To do this, we simply calculate how many times our cost of sales (COS) number goes into 100%.

Therefore, we get:

$$\frac{100}{\text{COS}} = \text{Mark Up Factor}$$

For a home-based business, which has a 35% cost of sale, we have:

$$\frac{100}{35} = 2.85$$

And for a retail-studio, which has a 25% cost of sale, we have:

$$\frac{100}{25} = 4$$

Mark-Up Factors	Home-based studio = 2.85
	Studio = 4

Therefore, our mark-up factor for a home-based business is 2.85 and our mark-up factor for a retail studio is 4. This means that we will multiply our cost of sales for every individual item by 2.85 to get our final pricing for a home-based business product or service, or by 4 for a retail studio product or service.

Let’s show an example below.

Let’s recall our cost of sales for an 8×10 print. You’ll remember that we calculated the costs involved with delivering an 8×10 to a client to be \$19.65. If you are running a homebased business, you will multiply this number by 2.85 to reach a profitable print price of \$56.

This means that if you sell your 8×10 print for \$56, then you will have paid for all of the hard costs (the print, the ribbon, the box, the tissue paper, etc) as well as the time to retouch, order and package the print. This \$56 print price has allowed you enough margin to cover your fixed expenses and produce a business profit.

Let’s repeat this process for a few different products and services.

Table 2.4
Pricing a 10-spread wedding album:

Album cost	\$300
Shipping cost	\$40
Communication time	\$35 (1 hour)
Design time	\$105 (3 hours)
Retouching time	\$70 (2 hours)
Ordering time	\$11.66 (20 minutes)
Packaging time	\$8.75 (15 minutes)
Total	\$560.41

Pricing for a base album for a home-based business =
 $\$560.41 \times 2.85 = \$1,597.17$

Pricing for a base album for a retail-studio = $\$560.41 \times 4 = \$2,241.64$

Table 2.5
Pricing a wedding collection that includes an engagement session and 12-hours of wedding coverage:

Communication time	\$8.75 (15 minutes)
Meet-and-Greet time	\$35.00 (60 minutes)
Communication time	\$11.66 (20 minutes)
E-session gear prep time	\$8.75 (15 minutes)
E-session driving time	\$23.33 (40 minutes)
E-session time	\$52.50 (90 minutes)
E-session offloading time	\$5.83 (10 minutes)
E-session back-up time	\$5.83 (10 minutes)
E-session selection time	\$26.25 (45 minutes)
E-session colour-correction time	\$35.00 (60 minutes)
E-session setting up ProSelect time	\$5.83 (10 minutes)
E-session viewing appointment time	\$35.00 (60 minutes)
Communication time	\$17.50 (30 minutes)
Pre-wedding appointment	\$26.25 (45 minutes)
Wedding gear prep time	\$17.50 (60 minutes)
Wedding day time	\$350 (10 hours)
Wedding day assistant wage	\$150 (10 hours at \$15/hour)
Wedding offloading time	\$17.50 (30 minutes)
Wedding back-up time	\$8.75 (15 minutes)
Wedding selection time	\$70.00 (2 hours)
Wedding colour-correction time	\$210 (6 hours)
Communication	\$8.75 (15 minutes)
Wedding viewing appointment	\$35.00 (60 minutes)
Total	\$1164.98

Pricing for a base wedding collection for a home-based business = $\$1,164.98 \times 2.85 = \$3,320.19$

Pricing for a base wedding collection for a retail-studio = $\$1,164.98 \times 4 = \$4,659.92$

CHAPTER 3 Methods for Pricing

While we are emphasizing in this book the mechanics and formula for pricing (i.e. cost of sales, fixed costs, and the need for profit), there are many factors that must be considered when arriving at your product prices.

If the prospect of trying to charge your customers \$1,600 for a wedding album with only 10 spreads seems unattainable, that's ok. Consider these figures to be a starting point, and realize that other factors need to be taken into consideration to calculate an appropriate mark-up on your products and services.

We have already said that in other businesses, certain items will be marked-up differently.

Let's remind you of the grocery store example, which priced their milk at a lower mark-up in order to get you in to the store, and therefore into purchasing other items while in the store.

Weddings are an excellent parallel to this example. While you may price your 10-spread wedding album *under* the suggested marked-up price of \$1,600, you will likely price your additional wedding album pages at a higher marked-up price, which averages the entire product to have a healthy profit as long as you can upsell.

There are other factors to consider alongside cost of sales when pricing your work, such as quality, perceived value and confidence.

Quality

The quality and artistic measure of your work will have a healthy influence on how you can price your photography. In order to sell something to someone, you have to provide a quality of service or product that the client couldn't produce on their own. If your photography resembles the basic snapshot-style of images that anyone could take with their own point-and-shoot camera, chances are you cannot charge anything in the neighborhood of what we are suggesting. If, on the other hand, your photographs exhibit a quality of light, posing and finesse that makes your work stand above the competition, then you certainly can demand a premium for your creative fees.

If you are providing a product (i.e. a portrait book) that is of the same quality that your client can produce on their

own with minimum fuss and expense, then you certainly will have a hard time selling that product to anyone, at the mark-up that we are suggesting. If, however, the quality of your sample books are over-and-above anything that that customer has ever experienced, then you can demand a higher dollar amount for that product. The saying “you get what you pay for” is prevalent here.

In a digital age, where people are photographing things every day, more than ever, as an entrepreneur, our job is to create a service and product that our clients couldn't possibly do for themselves. While there are enumerable vendors that offer great quality products to professional photographers, it is vital for the success of your studio, that you are offering the highest quality of products available. That, coupled with a superior customer experience will ensure that you will have customers for life.

Perceived Value

We have all heard the saying that beauty is in the eye of the beholder, and this is true of the professional photography industry. We are all taking pictures with high quality cameras, processing them similarly in computers using similar software, and we are all likely using quality labs for our prints and books. How is it then that some photographers are able to command such a premium for their products and services while others struggle to make ends meet?

The way that a client perceives a product or service is directly related to the price that they are willing to pay for it. People buy things not necessarily for the thing itself, but rather for the way that the thing makes them feel. This has been proven to be true time and time again in all kinds of business environments.

Perceived value can come from things such as how we package the goods that we deliver our clients, to the length that we will go to to provide exceptional customer service.

If you create a higher perceived value for your photography and your products, then you can demand a higher price for those products and services.

The idea of perceived value is also important to note from product line to product line. For example, you would want the perceived value of a 16×20 print to be much higher than that of a 4×6 print. The price difference between an 4×6 print and a 16×20 print isn't going to be that much in terms of actual cost to us (you still have to spend the exact same time preparing, retouching, ordering, shipping, packaging), and the only difference is the hardcost of the print. Let's say that that difference is \$15. Because you want to create a higher perceived value for your 16×20 print versus your 4×6 print, you are going to price your 16×20 at more than a \$15 difference from your 4×6. Your 4×6 print may end up being marked-up by 2.25 whereas your 16×20 print may end up being marked-up, intentionally, by 5.5 in order to create a higher perceived value.

You've heard the expression “what the market will bear” and we need to use common sense when creating our

price-list through the eyes of our customers. For example, after having just paid the photographer a session fee to create the photographs, many customers would find it difficult to justify spending over \$50 on a small 4×6 print because it's very size creates a lower perceived value. It seems less significant to the client than the impact of a larger wall portrait.

While we may not be able to use our above formula to price our 4×6 print (which could be, for example, $\$18 \times 2.85 = \51.30), we will more than make up for it when we sell our 16×20 print at, for example, \$165 (which is marked up by 5).

Some of you may be wondering how it will be practical to even use a mark-up factor now.

It might seem daunting to have to consider perceived value, quality and the original markup figure. You definitely need to have a starting point, and we believe that starting point for print sales should be your 8×10 print. It is the size most-requested by customers, bar none.

It is the ideal place to begin your mark-ups at your 2.85 factor for a home-based business or 4 for a retail studio. You can then adjust and amend your larger sizes with a higher mark-up factor, and your smaller sizes with a lower mark-up factor. You will end up with an average of the appropriate mark-up factor for your business.

Confidence

Confidence is a photographer's ability to sell him or herself and his or her products or services without any hesitation or apology. It is especially important for starting out photographers, to disassociate themselves from their own price list. We have often heard photographers saying that they would never buy photography at the prices that they themselves charge. As a result of that thinking, they find it extremely difficult to sell to others when they don't believe in their own pricing system.

You need to be confident and sure of your pricing structure, and you need to present it in such a way that instills confidence in your client. If you don't believe that they will buy, it is likely that they will sense that. If you don't believe that what your selling is worth the price you're charging, they will see that as well. This is why it is important to be extremely confident in the prices that you are asking.

This is a factor in determining pricing, because, if you truly cannot get over the idea of charging \$65 for your 8×10 print, then you shouldn't charge that, because no one will buy it if you don't believe in it yourself.

If you continue trying to run your business below what you should be charging, to allow you to make a reasonable living, then you won't be in business for very long.

4 Calculating Business Volume

We previously discussed a ground-up approach to pricing your work in calculating your cost-of-sales, and multiplying it by your mark-up factor. This is a great indication of where to start your pricing, however, it is on an individual-item and/or service basis. These calculations are not helpful when it comes to figuring out how many weddings we should photograph per year, or how many portraits we should photograph per week. A look at the bigger picture will help us in putting all of the pieces together - personal income, business profit, cost-of-sales and fixed costs.

In this section, we will create an important business financial plan that will help map out the specifics of what we need to accomplish, financially. This will show us how to pay our business expenses, run a profitable studio and live the lifestyle that we desire. Hopefully you will see from this, the need to be deliberate about calculating prices instead of pulling them out of the air.

What we need to do is calculate what our gross revenue needs to be, and then break that down into number of sessions, and price per session.

Remember our magic formula from earlier:

$$\text{Gross Revenue} = \text{Fixed Costs} + \text{Cost of Sales} + \text{Business Profit}$$

There are four steps to calculating our business volume. Steps 1 through 3 have previously been discussed, and in Step 4, we will use calculations to conclude our business financial plan.

- 1) Decide cost-of-sales, business profit and fixed expenses percentages
- 2) Decide personal income
- 3) Calculate monthly fixed expenses
- 4) Break down these numbers, based on percentages

STEP 1

First, we need to decide what percentage of our gross revenue is going to be cost-of-sales (remember the pie charts from earlier). We previously discussed that it is recommended for home-based studios to have a cost of sales of 35%, and for a retail studio to have cost of sales of 25%. We will, for the purposes of this example, use the home-based studio approach.

Cost of sales = 35%

Next, we need to give a percentage of our gross revenue to business profit. We recommended 10%.

Profit = 10%

Last, we need to give the remaining percentage of our gross revenue to fixed expenses.

Fixed expenses = 100% - cost of sales - business profit

Fixed expenses = 100% - 35% - 10%

Fixed expenses = 55%

STEP 2

We need to decide how much personal income you would like to make per year. Be realistic and base this number on your experience, confidence and quality of work. Note that this personal income amount is considered to be gross personal income and you will be taxed on this number. For the purposes of this example, let's give ourselves an annual personal income of \$60,000.

Personal income = \$60,000

STEP 3

We need to outline and calculate all of our monthly fixed expenses, and turn this into an annual amount by multiplying our monthly number by 12. We had previously done an exercise where we calculated all of a

typical studio's monthly fixed expenses, and we arrived at the number of \$3,110.00. We will use this number for our example, here.

Monthly fixed expenses = \$3,110/month × 12 = \$37,320/year

STEP 4

Recall the formula:

Gross Revenue = Fixed Costs + Cost of Sales + Business Profit

If we want to calculate the monetary value of gross revenue, we need to have the monetary value of its sums (business profit, cost-of-sales, and fixed expenses). At this point, all we have is a percentage for business profit (10%), a percentage for cost-of-sales (35%), and a percentage for fixed expenses (55%). Remember though, that fixed expenses are simply the sum of your annual fixed expenses plus your annual personal income. We can then calculate the monetary value of "fixed expenses" by adding these two numbers together:

Fixed expenses = annual fixed expenses + annual personal income

Fixed expenses = \$37,320 + \$60,000

Total fixed expenses = \$97,320

Now that we have the monetary value of the fixed expenses portion of our formula (\$97,320) as well as the percentage value of the fixed expenses (55%), we are able to calculate the rest of our numbers.

In order to calculate the monetary value of cost-of-sales and business profit, we need to figure out the monetary value of one percentage point. By doing this, we can then multiply this one percentage point value by 35 to get our monetary value of cost-of-sales, and we can also multiply this one percentage point value by 10 to get our monetary value of business profit.

To calculate what the monetary value of one percentage point is, we need to divide the monetary value by the percentage that the monetary value takes up:

$$\frac{\text{Dollar value}}{\text{Percentage}} = \text{Dollar value of one percentage point}$$

In this example, the only piece of the pie that we have both the dollar value and the percentage value for is fixed expenses.

$$\frac{\text{Fixed Expenses in \$}}{\text{Fixed Expenses in \%}} = \$ \text{ value of 1\%}$$

Therefore:

$$\frac{\text{Fixed Expenses in \$} = \$97,320}{\text{Fixed Expenses in \%} = 55\%} = \$ \text{ value of 1\%, which turns out to be } \$1,769.45$$

Now that we have the monetary value of one percent, we can calculate what the monetary value is of any percentage in our formula. Cost-of-sales is 35 percent, and therefore, to get the monetary value, we must multiply the 35 (which is our cost-of-sales percentage) by the monetary value of one percent as previously calculated (\$1,769.45).

Still with us?

$$\text{So, } 35 \times \$1,769.45 = \$61,930$$

We now have our actual monetary value for cost-of-sales, which is calculated to be \$61,930.

The last piece of the pie to calculate is our business profit. Much like we did with cost-of-sales, we can calculate the monetary value of business profit. Business profit is 10 percent, and therefore, to get the monetary value of Business Profit, we must multiply the 10 (our business profit percentage) by the monetary value of one percent as previously calculated (\$1,769.45).

$$\text{So, } 10 \times \$1,769.45 = \$17,694.50$$

Therefore, our monetary value for business profit is \$17,694.50.

Let's re-cap. We have now calculated the monetary value for fixed expenses, cost-of-sales, and business profit, and we have all pieces of the pie in the proper monetary values:

Fixed expenses = \$97,320.00
Cost-of-sales = \$61,930.00
Business profit = \$17,694.50

All that we have to do is add up these three monetary values to achieve the monetary value of gross revenue. In other words, how much money we need to make in order to pay our expenses, pay ourselves, and have a business profit left over.

Gross Revenue = Fixed Expenses + Cost-of-Sales + Business Profit
Gross Revenue = \$97,320 + \$61,930 + \$17,694.50
Gross Revenue = \$176,944.50

Business Financial Plan - Determining Gross Revenue

We have calculated how to price our photography, and how much we need to make in a year, but there is still a piece of the puzzle missing. The next step is to calculate the necessary volume of business. The volume of business will also need to be broken down into the individual product lines and services.

Continuing our example from the previous section, we have calculated that we require a gross revenue of \$176,944.50 in order to achieve:

- ♦ A personal income of \$60,000
- ♦ To pay for our \$3,110.00 monthly fixed expenses
- ♦ To create a business profit of \$17,694.50
- ♦ To pay for all of our cost of sales

The question now is how do we obtain this gross revenue?

We turn to math once again, to show us what we need to do, in terms of business volume and how it's broken down into actual jobs to attain that figure.

While this procedure is applicable for any kind of photography business, be it commercial, portrait or wedding, for the sake of simplicity, our example will be done using wedding and portraiture.

This is the point in the formula where you will need to do some serious thinking and lifeplanning.

You need to ask yourself four questions:

- 1) What percentage of your business do you want to be weddings?
- 2) How many weddings do you want to photograph per year?
- 3) What percentage of your business do you want to be portraits?
- 4) How many portraits do you want to photograph per year?

The numbers that you decide for these questions may need to have a bit of tweaking once you calculate how much you need to charge. For example, you might say that you only want to photograph 5 weddings per year, and then in the coming formula, you might discover that you need to charge \$20,000 per wedding. This might seem a little unrealistic for your market and therefore you may need to adjust your target number of weddings per year to be 20 weddings at \$5,000 per wedding. Let's not get ahead of ourselves though and let's calculate our target numbers.

For the purposes of this example, let's say that we answered the previous questions as follows:

- 1) What percentage of your business do you want to be weddings? **60%**
- 2) How many weddings do you want to photograph per year? **25**
- 3) What percentage of your business do you want to be portraits? **40%**
- 4) How many portraits do you want to photograph per year? **2 per week or 104 per year**

Our gross revenue as previously calculated needs to be \$176,944.50. We will split this gross revenue up into revenue from weddings and revenue from portraits. Since we would like to have 60% of our business come from weddings, and the remaining 40% come from portraits, we will simply split up gross revenue into these percentages.

$$\text{Revenue from weddings} = \$176,944.50 \times 60\%$$

Therefore, the revenue that we need to generate from weddings is \$106,166.70.

$$\text{Revenue from portraits} = \$176,944.50 \times 40\%$$

Therefore the revenue that we need to generate from portraits is \$70,777.80

Now we need to take these gross revenue monetary amounts, and split them up into the number of sessions and/or weddings that we would like to have per year:

$$\frac{\text{Revenue from weddings}}{\text{Number of weddings}} = \text{Revenue per wedding}$$

$$\frac{\$106,166.70}{25} = \$4,246.67$$

We conclude from this formula that for every wedding we photograph, we need an average revenue of \$4,246.67. Let's apply the same formula to portraits:

$$\frac{\text{Revenue from portraits}}{\text{Number of portraits}} = \text{Revenue per portraits}$$

$$\frac{\$70,777.80}{104} = \$680.56$$

We conclude from this formula that for every portrait we photograph, we need an average revenue of \$680.56.

Let's do a final summary. In order for us to achieve:

- ♦ A personal income of \$60,000
- ♦ To pay for our \$3,110.00 monthly fixed expenses
- ♦ To create a business profit of \$17,694.50
- ♦ To pay for all of our cost of sales

We need to photograph:

- ♦ 25 weddings per year, at an average of \$4,246.67 per wedding
- ♦ 2 portraits per week, at an average of \$680.56 per portrait

If the idea of photographing 25 weddings per year at an average of over \$4,000 or the idea of photographing 2 portraits per week at an average of almost \$700 is blowing your mind, then you will obviously need to adjust this entire formula to something that makes more sense to you. Keep in mind that for anyone hoping to make a living out of professional photography, these figures are

not out of line. If these numbers seem completely out of your reach at this point in your career as a photographer, you will either need to:

- ♦ Adjust your goal as a personal income
- ♦ You may need to adjust your fixed expenses
- ♦ You may need to find a way to increase the volume of business that you are able to do

You may feel that this formula doesn't apply to you, but whether you realize it or not, you are living this formula already. It is the basis of how any business works to survive and to succeed. If you are not doing the kind

of volume or charging the prices that you calculate, then you are either not taking the personal income that you need or your business is not having a profit at the end of the year. At the very least, if you are not making the kinds of projections that we are discussing, you are likely not running a business, but are instead pursuing a hobby.

You can see, now, how any photography business (whether home-based or retail) must exceed \$100,000 in gross revenue in order to provide a healthy personal income.

CHAPTER 6 Increasing Profit

When we give workshops on the business of photography and pricing, we commonly hear photographers protest when we suggest that they might need to go back to their studios and raise their prices. They worry that they will lose clients and business, and it would be a legitimate fear if you went home and tripled all your prices overnight. Instead, we'd like to show you how raising your prices by only a small amount, amortized over the year, can increase profits significantly.

The simplest formula for profit is as follows:

Profit = (# of sessions × \$ per session) – expenses It is clear to see that there are only three ways to increase your profits:

- ♦ Increase the # of sessions
- ♦ Increase the \$ per session
- ♦ Decrease your expenses

For the purposes of this book, where we are discussing “Pricing for Profit”, we will focus on the second method of increasing profit, which is to increase the amount of revenue per session. It just so happens that this is also the easiest factor to influence, as increasing the number

of sessions involves marketing, and decreasing your expenses is often very difficult.

Simply put, we are recommending that you raise your prices in order to increase your profit. We are suggesting a rational and measured approach to price increases. Small increments of 10%, 15% or even 20% will yield significant increases to your bottom line.

Let's look at the example that we have been discussing throughout this book.

WEDDINGS

We had determined that we needed to photograph 25 weddings per year, with a gross revenue of \$4,246.67 per wedding. We know that cost-of-sales is 35%, and therefore, should be \$1,486.33 per wedding. That leaves us with a gross profit of \$2,760.34 per wedding.

If we increase our wedding prices by only 10%, that would yield us a gross revenue of \$4,671.34 per wedding. Since we are not necessarily doing any extra work, our cost-of-sales remains the same, and our gross profit per wedding increases to \$3,185.01. That is an additional

\$424.67 of pure profit per wedding. In this example, where we photograph 25 weddings per year, this would yield a total increase in profits of \$10,616.68.

Not bad for a small increase in prices of 10%. Most photographers admit that their clients wouldn't really even notice an increase in prices of 10%, yet in the big picture, it represents significant gains for us as the

business owner. What photographer wouldn't want an extra \$10,000 of profit in their pocket, at the end of the year?

When we try a 15% increase in prices, we find that it yields an additional gross profit of \$22,295.02.

Observe in the chart below how we can create additional gross profit by raising prices by 10%, 15%, 25% and 50%.

Table 6.

	Current	10%	15%	25%	50%
\$ per session	\$4,246.67	\$4,671.34	\$5,138.47	\$5,652.32	\$6,217.55
Cost of sales	\$1,486.33	\$1,486.33	\$1,486.33	\$1,486.33	\$1,486.33
Profit per session	\$2,760.34	\$3,185.01	\$3,652.14	\$4,165.99	\$4,731.22
Annual Profit	\$69,008.50	\$79,625.18	\$91,303.52	\$104,149.69	\$118,280.49
Extra Profit		\$10,616.68	\$22,295.02	\$35,141.19	\$49,271.99

PORTRAITS

We had determined that we needed to photograph two portraits per week, with a gross revenue of \$680.56 per session. We know that cost-of-sales is 35%, and therefore, should be \$238.20 per portrait. That leaves us with a gross profit of \$442.36 per portrait.

If we increase our portrait prices by only 10%, that would bring our gross revenue to \$748.62 per portrait. Since we are not necessarily doing any extra work, our

cost-of-sales remains the same, and our gross profit per portrait increases to \$510.42. That is an additional \$68.06 of pure profit per portrait. In this example, where we photograph two portraits per week, this would yield a total increase in profits of \$7,077.82.

For a meager 10% increase in your prices, you gain an additional profit at the end of the year of \$7,077.82. That would make a nice family vacation, don't you think?

Observe in the chart below how we can create additional gross profit by raising prices by 10%, 15%, 25% and 50%.

Table 6.2

	Current	10%	15%	25%	50%
\$ per session	\$680.56	\$748.62	\$782.64	\$850.70	\$1,020.84
Cost of sales	\$238.20	\$238.20	\$238.20	\$238.20	\$238.20
Profit per session	\$442.36	\$510.42	\$544.44	\$612.50	\$782.64
Annual Profit	\$46,005.44	\$53,083.26	\$56,622.18	\$63,700.00	\$81,394.56
Extra Profit		\$7,077.82	\$10,616.74	\$17,694.56	\$35,389.12

To summarize, if you were to increase your prices by 10% across the board (for both portraits and weddings), you would gain an additional gross profit of \$17,694.50.

Is almost \$20,000 enough to convince you that raising your prices is a good idea?

Conclusion

We mentioned in our introduction that “Pricing for Profit” is just one piece of the puzzle. This book will be one of the many stepping stones that will bridge the gap between loving photography and running a photography business.

If you hadn't realized it before, you perhaps now realize that pricing our work as photographers is an art and a science. We have given you the necessary tools in this book to objectively calculate and determine how you need to price your work and services to give you the lifestyle that you want. Obviously, there is much more to it than this book can include. Other pieces of the puzzle that you must consider that guarantee success to this formula are marketing and sales.

We have used sales figures in our examples that some might find hard to believe. Experience has shown us that if you have a quality product, know how to sell it, where to sell it and who to sell it to, success is imminent.

While the business side is critical, we shouldn't underestimate the importance of the craft, style and quality of your photography. The art of what you do has to be of such a high degree that it is a desirable product. Let's face it - it's far easier to sell an amazing portrait to a client versus one that is merely acceptable.

Your business is sure to flourish when you focus on the principles that we have outlined in this book. Also, because you are thinking about the big picture, you will have a map that will keep you on course to a business structure that allows for a more predictable and secure lifestyle. As a result, you will be at a place of personal satisfaction and therefore your photography has no where to go but up.

May we recommend that you will also invest time in your continuing education as an entrepreneur studying various topics such as marketing, selling, branding and workflow.