

CREATING  
BUSINESS  
STANDARDS  
FOR  
CREATIVE  
SERVICES  
BUSINESSES

# *Creative* **BUSINESS**

INSIDE:

# HOW TYPICAL IS YOUR BILLING RATE?

**MANAGING  
YOURSELF & OTHERS**

**MARKETING &  
CREATIVE PSYCHES**

**AND REAL-WORLD  
BUSINESS ADVICE**

[www.creativebusiness.com](http://www.creativebusiness.com)

SEPTEMBER/OCTOBER 2011

VOLUME 23/NUMBER 7

## OUR TWO CHANGES, YOUR THREE CHALLENGES

This issue, our 209th, starts the 24th year of *Creative Business*. Normally this would be an anniversary without significance or comment, except that this issue also introduces a couple changes.

The first, readily apparent, is the redesign of our front cover, the first in ten years. As every CB reader understands, introducing a new look into an established publication can be problematic. Doubly so when the audience is comprised mostly of design professionals.

Although our desire has been around for some time, it was helped along by the second change. This is the first issue of CB that is all digital.

Subscribers who have been receiving the PDF edition all along will experience no difference aside from the cover redesign.



Format and content remain the same. For former print subscribers, though, this is their first PDF issue.

Why did CB go all digital? Because in the decade since we launched our first PDF edition it has become increasingly evident that it offers more readers more advantages. This is reflected in our subscriber base

which has steadily switched from the print to the PDF edition over the years.

PDF issues allow one-click downloading of the supplementary materials that have become an increasingly important part of what we deliver. Issues also can be archived more conveniently. Most recently, smart phones, and especially tablet computers, have introduced a level of convenience that can equal and sometimes exceed print. And ever-lower-cost in-office printing can provide a hard copy option for those desiring it.

Why the cover redesign? Because we felt the need to be more edgy and newsy given the editorial focus of CB. Also, to make a stronger statement about what was inside each issue.

Anyway, your comments are welcome, either to me privately at [mail@creativebusiness.com](mailto:mail@creativebusiness.com), or publicly on our new Facebook page.



The three articles in this issue, each in its own way, relate to challenges all readers face to a greater or lesser degree.

Finding out what others, often competitors, are experiencing and how you're doing relative to them is one of those challenges. The first article, on CB's Billing Rate Survey, starting on page 1, gives insight into others' pricing. It continues our coverage on the effects of the current recession. The survey

results are self-evident, and not what we would like to report. Still, it is always better to know than not.

The second article, starting on page 6, is a summary of what is certainly one of the most challenging aspects of running any successful business: being an effective manager—of yourself as well as others. The article covers ten basics and why they are important. Use them to examine, reinforce, and perhaps modify your style.

The third article, starting on page 8, about the creative psyche and marketing, regards a challenge that is unusual, perhaps unique, to creative entrepreneurs. Namely, the reluctance of many to embrace what is not only clearly in their self interest, but can be existential to their businesses. The article summarizes the origins of the problem, and why overcoming it is crucial.

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## CB SURVEY RESULTS

# Hourly Billing Rates. What Are Others Charging?

**W**hatever its deliverables, and irrespective of its size, a service firm's income comes primarily from selling time. And, since many of a firm's costs are fixed (overhead, rent, labor, etc.), profitability depends on how much time is billed, and at what rate(s).

The importance of billing rates to profitability can't be overemphasized. Firms that carefully estimate project needs, then multiply the hours required times one or more rates based on covering costs and profit, understand a project's potential profitability, and how much negotiation room they have with clients.

Those that don't go through this process trust a project's profitability to pure luck.

Yet however accurately calculated and effectively employed, billing rates never exist in a vacuum. Whether directly through acknowledgment, or through the pricing they establish, billing rates also affect a firm's positioning and competitiveness. This is especially true in recessionary times when clients are more price sensitive, and competition is greater.

So what effect has the recession had on billing rates?

To find out, in August we conducted an e-mail survey of approximately 2,500 North American principals of single- and multi-person creative firms. Recipients were asked to answer a few simple questions, some related to billing rates generally, and some related specifically to firms of their size.

Responses were anonymous and tabulated electronically. The response rate was nearly 25%, the highest of any of CB survey to date.

## ESTABLISHING RATE(S)

Before getting into the survey results, it would be helpful to review how a firm should establish its billing (labor) rate(s).

For a single (blended) rate, add up all expenses—overhead, salaries, benefits, amortized equipment costs, etc.—for a year. Add 20% or 25% to the total as a profit margin. Then, take the actual billed hours during the year, and divide the expense total by this figure. (Or as an approximation, divide by 50% of payroll hours, a conservative norm of many firms' actual billed hours.)

The figure that results, rounded up to the next \$5, is the *minimum* rate a firm must charge

## SELECTED SURVEY COMMENTS

- Increased access to Adobe programs, and free online art and templates have added to the pool of designers, regardless of education and experience. This has affected the perceived and actual value of good, appropriate design, and driven down prices with all but the upper-end clients.

- Finally starting to see increased business over the last 9 months. Plan to raise rates 10% in 2012.

- Billing at the same rate, but putting in more hours than estimated due to increased “hand-holding” time with clients.

- Profit margin is 14.6% this year, compared to 21.3% last year. Could be better, but not horrible.

- Bigger conceptual works can still be had. Smaller things are “templated” and pulled in-house.

- Many large clients are pushing back. One has cut our negotiated billing rate by 10%.

- I have found I got better clients who appreciate good design by raising my rate.

- Too many providers working at cut-rate prices for clients to pay our previous fees. We’re just starting to see some relief as the economy improves.

- Crowdsourcing has affected my business. I don’t want to lower my pricing but it is hard to compete.

- Total fees for most projects are approximately 50% of pre-recession. Contracts that once went for \$10k are now going for \$5k.

- My rates dropped when the economy tanked, so for the last twelve months I have been trying to get back to where I was.

- Get to know potential clients face-to-face. That is the way to get your hourly rate.

- Decreased before. Recently increased, but not to the same level it was 12 months ago.

- Rates have stayed the same, but client budgets have decreased.

- Raised rates in January. First increase in 5 years.

- I’ve developed a tiered pricing structure whereby the client receives more or fewer iterations of initial concepts based on which tier they select. Higher tier includes more r&d time as well.

- Rate reduced from \$100+/hour to about \$75 in recent years.

per hour to be profitable. A rate higher than this baseline will result in more profit; a rate lower, less or none.

That rate should be used for all clients. There is no financial justification (and seldom a reason) to have different rates for different clients.

Calculating one or more multiple or tiered rates based on workplace functions is a bit more complicated because it also involves apportioning average labor costs for the functions covered. The principle is the same, though. Firms using tiered rates today seldom have more than three.

With the occasional exception of high-salaried principals or “creative stars,” CB does not recommend multiple rates based on employee salaries. It is more complicated to administer and has little financial advantage.

Whether your firm prefers to use one or several rates, keep in mind the interrelationship with billable efficiency (labor utilization rate). *A billing rate must provide a profit at a firm’s average billable efficiency.* If billable efficiency goes down and the rate stays the same, profitability will decrease.

### BILLING RATES AND PRICING

A billing rate multiplied by estimated work hours need not necessarily determine a project’s price. All it does is provide a best guess estimate of what should be charged if the project is to be profitable. If conditions warrant, or there is a value or usage component to consider, the price can be increased knowing that profit will increase proportionately. Conversely, a price can be lowered, as might be desired for a promotional or portfolio opportunity, knowing just how much doing so will cost.

Billing rates also provide a justifiable basis for the pricing of unanticipated project changes or additional services. And, of course, they are the only way to

bill open-ended or “meter-running” projects. It is for these reasons that we believe that billing rates not only have to be carefully calculated, but should be acknowledged when appropriate. (Also, see “Rate Visibility” on page 5.)

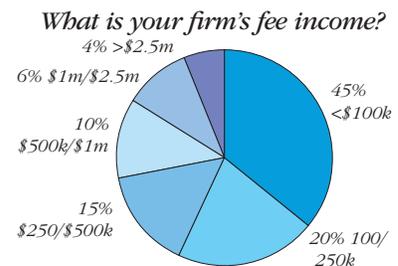
### ACTUAL VERSUS IMAGINED BILLING RATES

The rates firms actually end up charging (*billed*) are often less than the rates they use when estimating (*billing*). That’s because some work hours go unbilled when invoicing due either to errors, the desire to please a client, or to stick to an estimate. The result is that many firms have effective (realized) rates substantially below their estimating rate, or what they believe they are charging.

For this reason, respondents to this survey were asked to provide their *actual* billed rate, not the rate they might think they are using. Doing so certainly depressed some rates reported. (Also, see “Establishing Rate(s)” previously.)

### SIZES OF RESPONDENT FIRMS

The following question was included in the survey primarily as a means of segmenting responses.

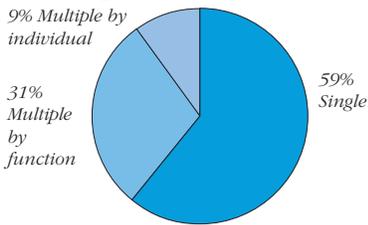


The responses to this question are unimportant from a survey standpoint. It does show, however, that survey participation was roughly representative of the creative services industry, where most firms are small. (The above percentage ranking would likely be reversed if it showed share of total client spending by firm size.)

> > > *Continued on page 5.*

## QUESTIONS NOT RELATED TO FIRM SIZE

*Does your firm use a single or multiple rates?*

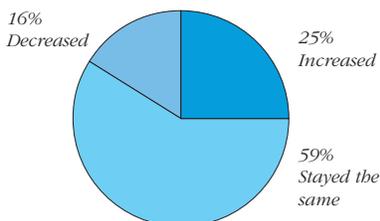


The percentage still using multiple (tiered) rates is a surprise, as it has been a declining practice, especially among project-based (e.g., design) firms. When many project functions are handled by a single individual, having one (shop) rate makes more sense. (For a single-person firm to have multiple rates makes no sense at all.) Having a single rate makes estimating easier, there's less chance of client questioning, and there's seldom a financial downside.

Nonetheless, some clients expect multiple rates, especially from a process-based firm (e.g., advertising) where work is often handled by several individuals at different levels. Multiple rates can also help large, project-based firms with employees at several different levels be more competitive.

For reasons mentioned previously, CB does not recommend rates based on salaries. (See "Establishing Rate(s)" on page 1.)

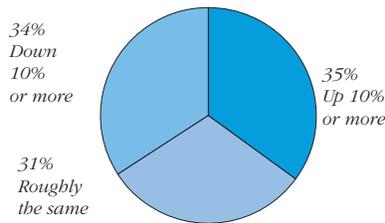
*In the last 12 months has your rate increased, decreased, or remained the same?*



The percentage of increased rates is positive, but much of it likely stems from returning to rates that had previously been lowered. It is encouraging that over half the respondents have not lowered their rates during the recession. However, the percentage of respondents who

have decreased their rates indicates that things have not improved much recently.

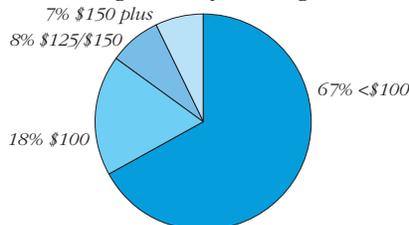
*In the last 12 months has your fee income increased, decreased, or remained the same?*



While related, changes in a firm's fee income can occur independent of billing rate changes. These results show a sharp decline from what was reported in our April 2011 Business Conditions Survey.

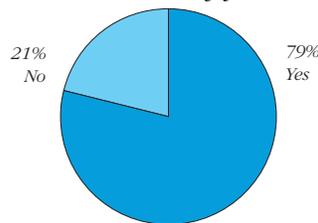
## FIRMS WITH FEE INCOME LESS THAN \$100k

*Average hourly billing rate.*

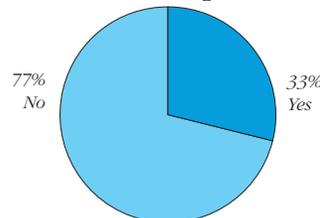


Firms billing less than \$100k are nearly always single-person, typically home-based, and sometimes not totally dependent on the income. Clients are often budget-focused small retailers, too. Both drive billing rates down. Most of the firms comprising the 67% at less than \$100 had rates of \$75 to \$90. A few, however, were at \$50.

*Are clients aware of your rate?*

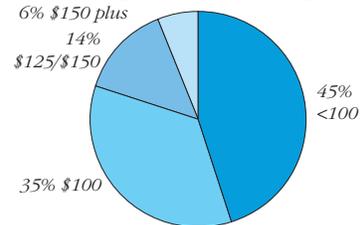


*If aware, is this a problem?*



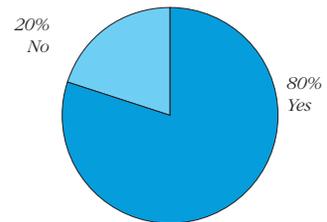
## FIRMS WITH FEE INCOME OF \$100k to \$250k

*Average hourly billing rate.*

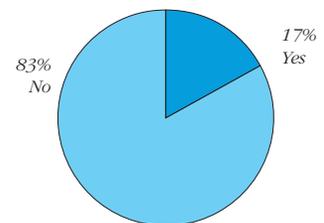


Small firms with this level of income typically have become established businesses, and have the expenses that accompany it. Higher billing rates point to the need to cover them. Many respondents with rates less than \$100 commented that it was a temporary situation driven by the recession.

*Are clients aware of your rate?*

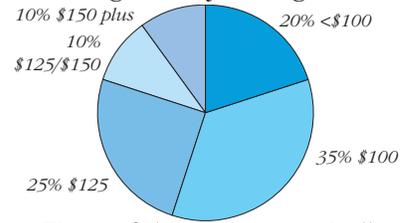


*If aware, is this a problem?*



## FIRMS WITH FEE INCOME OF \$250k TO \$500k

*Average hourly billing rate.*



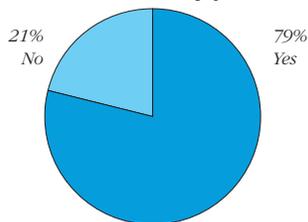
Firms of this size are typically two to five persons. With increasing size not only comes increasing overhead costs, but also a greater need to cover capital expenses. Note how the percentage of under \$100 rates has fallen. It is evidence of how difficult it is to run a stable firm with rates that low.

## SELECTED SURVEY COMMENTS

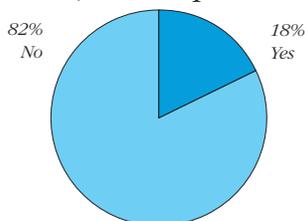
- Slow increase back towards pre-2009 rates, but not as high yet.
- Same work, smaller budgets = lower fees.
- More often than not I'm being asked to reduce and/or throw in extras to remain competitive.
- About 2 years ago, my hourly rates went up by about 30% based on experience and niche market. But have remained the same since.
- So many clients are buying software and training admin to do design work.
- Design is perceived as a commodity based on price!
- We have streamlined our processes to be more efficient. Now we are going to increase our rates.
- I took a phone call yesterday from someone looking to replace their previous design contractor. The rate: \$20/hr!
- Higher revenue because I increased my rate and went after larger clients.
- Too many grads of art mill colleges doing low cost and sub-standard work.
- Just yesterday I was asked by a long-time client to reduce my hourly rate for them by 25%.
- The glut of low-priced freelancers has brought down the value of good design.
- Our rates have stayed the same, but we have had to resort to giving time away to stay competitive.

### \$250/\$500k in income (cont'd)

*Are clients aware of your rate?*

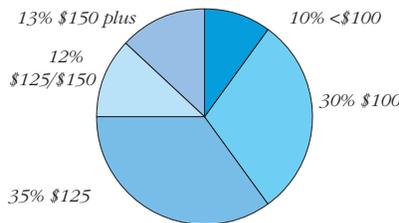


*If aware, is this a problem?*



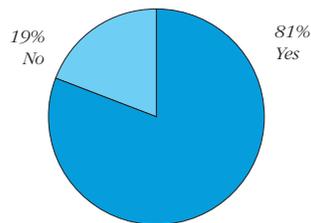
### FIRMS WITH FEE INCOME OF \$500k To \$1.5m

*Average hourly billing rate.*

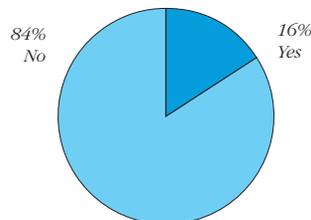


Firms big enough to have professional salespersons can mount a more consistent marketing effort. In turn this attracts larger, better-budgeted clients and permits higher billing rates. Clients are also less inclined to quibble over pricing when it appears to be carefully prepared.

*Are clients aware of your rate?*

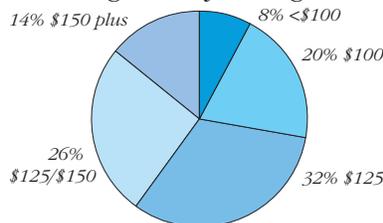


*If aware, is this a problem?*



### FIRMS WITH FEE INCOME OF \$1.5m to \$2.5m

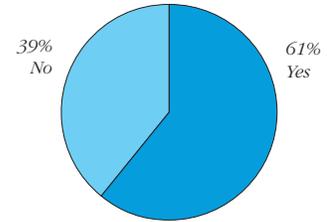
*Average hourly billing rate.*



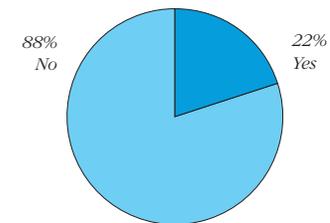
As firms get bigger, expenses rise, often disproportionately to workplace volume. This necessitates adopting more efficient estimating and production procedures, and increasing billing rates. Fortunately, more complex projects from larger clients usually make higher pricing possible.

### \$1.5m to \$2.5m in income (cont'd)

*Are clients aware of your rate?*

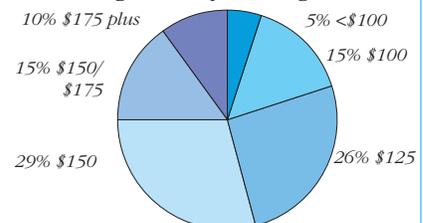


*If aware, is this a problem?*



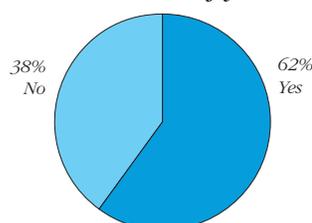
### FIRMS WITH FEE INCOME MORE THAN \$2.5m

*Average hourly billing rate.*

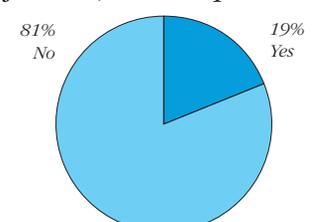


Up to a point, size clearly has an impact on a firm's average rates. A large firm can charge more because projects are more complex, and clients are better heeled. But when income exceeds a couple million \$, it typically has little effect. Of note here, however, is the first time \$175 an hour has shown up as an average rate.

*Are clients aware of your rate?*



*If aware, is this a problem?*



> > > *Continued from page 2.*

There was no attempt at geographic segmentation. CB's experience is that rates and prices vary less than is commonly believed, particularly among major metropolitan markets. As a generalization, the highest rates reported in the survey typify larger markets, the lowest smaller ones.

### RATE VISIBILITY

Excepting "meter running" assignments, most clients don't care about a firm's rate(s). They care about the cost of their project.

Given this, there is usually little reason to discuss billing rates unless asked. Bringing up the subject could encourage looking for ways to cut back on certain functions. On the other hand, a firm's billing rate(s) should never be a mystery. Acknowledging the value of its time is a hallmark of professionalism for any services organization.

Survey data show that a large majority of clients are aware of the hourly rates being charged, and have no problem with them. There is an uncanny similarity in the data that shows little difference between how clients of both large and small firms feel.

### RATE EXCEPTIONS

There is seldom any financial logic behind different rates for different clients. A billing rate is simply a management tool that indicates what a firm must charge per hour to be profitable. That figure rarely changes industry to industry, client to client, or job to job.

Any desire to reduce or increase what a client will end up paying should be at the project pricing level. Only there, by comparing what should be charged with a desired charge, will the effect on profitability be apparent.

**Not-for-profit discounts.** Since a firm's costs and need

for profit don't change when working for not-for-profits, any discount is a charitable donation. There is no additional tax benefit, and it is often to an organization that wouldn't otherwise be supported with a donation.

Although common among creative firms, not-for-profit discounts are not a business norm. So it raises a question: if large businesses, such as local utilities, don't provide discounts, why should small creative businesses?

This said, many charitable organizations expect a not-for-profit rate. Logic aside, having one might be necessary to pur-

Lack of marketing and equipment costs also allow a similar reduction when working on-site for a client. Temp agency rates are normally set by the agency.

### SURVEY CONCLUSIONS

The preceding charts show *average (mean)* billing rates as reported by firms of eight different sizes. What it doesn't show is two conclusions that could only be gained from inside access to all the data.

**\$25+ drop.** An analysis of the billing rates reported in 2011 showed an average of \$35 less than those in the survey we

**\$25+ average drop in the last four years. \$90+ needed for long-term viability.**

sue not-for-profit clients and governmental RFQs. When provided, not-for-profit rates are typically 10% to 20% less than normal rates.

**Volume discounts.** There is no economy of scale in producing creative materials, thus little financial justification for billing rate reduction based on a client's volume. If a price break makes marketing sense, it is better provided as a "favored client" or other reduction off the normal project price.

**Retainer discounts.** In contrast to the above, reduced billing rates do make sense with retainer agreements. This is because a retainer also guarantees cash flow, and providing a rate discount is the tradeoff for it (*quid pro quo*). The reduction is typically 10% to 20%.

**Professional discounts.** Other creative firms hiring an outsider want to markup the bill at least 50%. Offering a professional discount of up to 25% off a normal billing rate can make this profitably feasible because there are few if any marketing costs involved.

conducted in 2007. That survey, however, was less structured, and didn't attempt to distinguish between imagined and actual rates. Taking this into account, our calculation is that average billing rates have declined about \$25 in the last four years.

**\$90+ needed.** It is possible to survive on average rates as low as \$50 an hour, especially for single-person firms. But a long-term, stable business requires \$90 or higher. If a firm's average is less, it should be temporary.

How come? Because a stable business has to be able to cover normal business expenses. Firms that charge much less than \$90 can't. For instance, they often have no marketing costs because they are riskily dependent on one or two clients. Or the business is being subsidized by having no facilities costs (home office), no benefits costs (provided by a spouse), or taking low salaries. Also, there is usually nothing left for capital investment, or providing for long term personal security (401k funding).

# Ten Principles For Managing Yourself, Employees, & Clients

**Whether you work alone or supervise dozens of employees, managing is a key element of business success. Few things ever get done without involving others. And how well others respond is often the deciding factor in a firm's efficiency and profitability.**

Managing is not always a stimulating activity for someone with a more artistic than organizational mindset. At its heart, though, are just a few principles to master. The ten summarized here—our choice of the most important ones for creatives—provide a strong foundation for business success and personal satisfaction.

## #1 BE CONSISTENT

First and foremost, good management is about consistency. The expectations of others—employees and clients—drives much of the way they think, act, and respond to any situation. When others know what to expect, their interests become more transparent, productive discussion is easier, and potential crises drop to mere possible concerns. When others don't know what to expect, it works the other way around.

In particular, arbitrary behavior by the boss is among the most common complaints of employees. Many of the challenges faced in creatives' jobs can't be foreseen, so employees' only guide is what past experience tells them would be acceptable. Even secure employees are often reluctant to make

decisions and take chances when they are unsure of how the boss would react. As a result, motivation and creativity suffer.

*Make logical, more or less consistent decisions, and stick with them.*

## #2 AVOID MICROMANAGING

Excessive involvement by the boss is also high on the list of harmful management traits. Common in all small businesses, it can be particularly destructive in creative firms because they are so dependent on the energy and innovation of employees.

Principals who over direct confuse the importance of their own personal preferences with what is in their firm's best interests. ("My name is on the door, so we do things my way here.") The bigger the firm, the more damaging this perspective is.

The cost of micromanaging can be high because it demoralizes the very individuals the firm depends on for efficiency and quality, it decreases the firm's market opportunities by homogenizing its products, and it spreads principals too thin, directing their energies away from the functions only they can handle.

*Principals should set a firm's standards and make sure they are observed. Employees should be largely left alone to decide the best way to meet them.*

## #3 LEARN TO DELEGATE

Having others do things cheaper and better is a time-proven way to make a business more profitable. And not just in multi-person firms. For instance, preparing your own tax returns rather than employing an accountant could be a costly mistake even for those who work alone.

In firms of up to a couple dozen employees, everything can be ultimately delegated except executive and fiduciary responsibilities. In larger firms, strategic decisions are the only responsibilities that can't be.

Yet, principals are too often reluctant to delegate as their firms expand. Sometimes it's because of low priority—"When I get time I'll get around to it." Other times ego is involved—"No one else could handle things the way I can."

Whatever, failing to tap into the employee gene pool deprives a firm of new ideas. Delegation also forces principals to institutionalize and run their firms more as normal businesses, less as personal fiefdoms.

*The cost of an occasional delegation failure will be less than the savings from increased productivity.*

## #4 WORK WITH THE BEST

Don't scrimp when hiring. Get the very best employees you can afford. What you'll get back in increased productivity and quality should more than make up for the extra cost. Also, select for diversity, never for their similarity to your style or experience. And don't worry about employees ultimately moving on, even to start their own businesses. What you'll get before then will make hiring a good investment, especially if they are covered by binding non-compete agreements.

Choose the best suppliers, too. Their performance reflects on you.

And not least, be proactive in going after who you would like to do business with. The organizations a firm works with and what it works on affect principals' satisfaction and employee

morale, not to mention profitability. Equally significant, a firm's clients today affect those it will attract tomorrow.

*Whether it is employees, suppliers, or clients, flying with eagles attracts more eagles.*

## #5 DISPLAY CONFIDENCE

Psychology plays an important role in management, especially when it comes to self-confidence. Whatever the subject, your own conviction is a prerequisite to gaining the respect of others, and in winning them over to your point of view.

Mannerisms or comments that express uncertainty—indecision, apologies, lack of enthusiasm etc.—are picked up by others, feed their misgivings, and undermine your goals.

For instance, never be lackadaisical about what you believe will work best for a client. A strong opinion is what they are paying you for, and what every good one expects. Respect the viewpoints of others, and recognize when it is better to acquiesce to their judgments. But don't soft-peddle your own convictions.

*Self-confidence is necessary to gain the confidence of others.*

## #6 ACT DECISIVELY

The flip side of confidence is indecision, typically seen by others as a sign of weakness or lack of commitment. Respect and success follows those who are not afraid to take the initiative when it's called for.

Even in situations where making a decision means going out on a limb, it is often better to take a chance than to take the safe route of waiting for confirmation. No one gains respect by being timid, especially when deadlines or schedules are at risk.

Procrastinating seldom makes decisions come easier, either. And how many good ideas have died, or opportunities lost because of a lack of assertion or too much consideration?

*Chances are your gut feel on what must be done, and when, is right more times than not.*

## #7 AVOID SURPRISES

Avoiding surprises among clients has to be a high priority in a business that produces loosely defined, subjectively-judged, customized products. Nonetheless, surprised clients are the source of countless and costly misunderstandings.

The problem is lack of communication, usually a reluctance to face up early to the financial effect of creative and schedule changes. Whatever the cause, the longer discussion on the effect is delayed, the less likely for a mutually-agreeable resolution.

Without prior agreement, clients should never receive an invoice different from what they have previously agreed to, despite whose fault it might be.

*An invoice with numbers that surprise a client is a (usually costly) management failure.*

## #8 HAVE A PLAN

Creative businesses are something of a schizophrenic mix of creative activity which rewards spontaneity, and business activity which rewards planning. It's a reality with potential conflict.

Because the latter is usually less enjoyable and always less pressing, it often gets short-shrift. Yet firms that don't take the time to plan for the future get stuck in a reactive cycle. The pressing demands of others end up controlling their business. And no business can ever prosper when it is not in charge of its own destiny.

The only way to break this cycle is to be proactive about the way the business should develop: consider regularly whether it is on the right course, develop plans to make it better, then take the steps to achieve them.

*A long-term, successful business requires the control that comes only from charting its own future.*

## #9 EXPECT THE UNEXPECTED

Not all planning should involve working with what you know or can anticipate. The other side of planning is preparing for the unexpected, those events that are largely unpredictable, but could have an even greater impact on a business, and the personal lives of its principals.

That the unexpected is unpredictable is not an excuse for not planning for the most common situations. As examples: how to cope with a major client departing, resulting in a sudden income drought?...or is there a contingency plan should a disaster make a firm's offices uninhabitable?...or who will assume a principal's responsibilities should she or he become incapacitated?

*Sooner or later, most creative firms, particularly smaller ones, face one or more unexpected events that threaten their existence.*

## #10 MAINTAIN BALANCE

Finally, managing is not just about handling relationships with others. It is also about the relationship between our own two lives—professional and personal. Each affects the other.

Although we are all different in many ways, one thing we have in common is being in a career that can be highly stressful. Being able to dissipate that stress plays a large role in maintaining personal and business health over the lifetime of a career.

For most of us, this requires developing a diverse range of outside interests to balance work life stresses. What's important, though, is not how we do it, but that we recognize the problem and address it.

*Staying mentally healthy over one's work life is the most important managing principle of all.*

**CB**

# The Creative Psyche And Its Marketing Downside

**The creative psyche, the essence of individuals who are driven to create, perfect, and improve, is a wonderful thing. In countless ways it defines an approach to life, nearly always for the better. But when it comes to the world of commerce, it can be a mixed bag. This is especially so when it comes to marketing one's own business.**

One of the ironies of the creative services business is that we who make our living addressing the marketing needs of others are often inept marketers of what we ourselves do. We recognize its importance—except, that is, when it comes to spending our own money.

Sometimes we don't do any marketing, relying instead on word-of-mouth to sustain our businesses. Sometimes we do it only after discovering that the project pipeline is drying out. And sometimes we invest our money in all the wrong places.

## THE DIAGNOSIS

These problems have roots in the creative psyche, and they flower in the everyday business world. As creatively gifted individuals, we expect success to be primarily a function of our talent.

In our hearts, most of us would prefer to operate a “practice” supported by needy and appreciative clients who seek us out for the benefits of our talent

and wisdom. This desire seems vindicated whenever our talent, as evidenced by the work we produce, wins praise from current clients or leads us to new ones. It is the creative skill, not the marketing, that gets all the credit.

To a large extent, this is justified. As in any industry, the better the product, the greater its sales, and the more successful a business will probably be. But also, as in any other industry, there is a lot more to success, especially long-term success. This is particularly so when success is defined in terms of growth, profitability, and owner satisfaction.

As important as the quality of their products is, businesses in other industries largely accept the fact that quality is seldom enough for growth or stability. Marketing is also necessary. If businesses don't constantly market their products, many potential customers will never know of them, or only the wrong types of customers will know of them, or they won't be able to generate enough volume to price competitively.

Several decades of following the fortunes of creative firms both large and small points to the inescapable conclusion that there is a nearly perfect correlation between a creative organization's profitability and longevity, and its embrace of consistent marketing activity.

## THE NONBELIEVER PROBLEM

There is, one could posit, something of an ethical disconnect in individuals who recommend marketing activities to their clients but won't practice the same in their own organizations. That aside, there is a common belief among artistically talented

individuals that marketing should not be necessary. If an individual or organization is good enough, the reasoning goes, the world should beat a path to their door.

In other words, any marketing activity is considered a negative reflection on their creative talent. So to the extent that there is any marketing activity, the individual or organization conducts it reluctantly, usually as a temporary solution to a business downturn. When situations improve, the activity stops.

Should you need proof, consider asking this of any principal or freelancer at a gathering of creatives: “Does your firm do much marketing?” Chances are the answer will be something like this: “Not really. Our business comes by referral. Oh, last year, when times were tough, we did a little, but that was an exception.”

Such a response is a good representation of reality, and it also indicates a common reluctance to admit to marketing even where it does occur. Most creative organizations expect to get their business from referrals and consider anything else a compromise.

## THE INCONSISTENCY PROBLEM

Although the primary purpose of marketing is to bring in business, it does not necessarily have to be the immediate purpose. Indeed, selling, the most recognized aspect of marketing, is only one of its functions. The danger of considering marketing strictly in a business-generating (sales) context is that it keeps an organization from reaping supplementary benefits.

When marketing is initiated only when necessary to generate

This article is adapted from the newly published, “Creative Business Guide to Marketing.” See the back cover for more information.

new business, it is less effective and more costly. There are none of the scale economies and benefits that come from the awareness that accompanies consistent activity.

As understandable as this is, especially for freelancers and small, resource-thin shops, it is hardly the way to build a stable business. It may at first seem counterintuitive, but marketing when you're busy is as important as when you aren't.

Tellingly, inconsistency also exacerbates the business roller coaster effect: marketing when there is little business brings in more, which then encourages cutting back on marketing, which ultimately results in a drop in business, which then encourages renewed marketing. And so on.

Consistent marketing is the only way to minimize the workflow peaks and valleys inherent in any service business for the following among other reasons.

#### **Memory is short-lived.**

Many clients purchase creative services only occasionally. Other clients only occasionally change or add suppliers. When the time comes to find a new supplier or award a project, clients remember those who have been in frequent contact. Most others have been long forgotten.

**The better the job, the longer the process.** Landing good projects and clients typically requires multiple contacts over several months. Delaying marketing until you are not busy produces either a workflow drought or the need to accept lesser jobs and clients to maintain cash flow.

**Consistency costs less.** The more consistent your activities, the more routine they become and the less they cost. Costs decline with promotional frequency, and administrative efficiencies accrue when procedures become routine. The most difficult and expensive marketing always happens under the pressure of immediate necessity.

## **THE BENEFITS OF BEING A MARKETING BELIEVER**

Essentially, marketing is nothing more than the process of making a firm better known. The benefits of doing this in addition to increased sales are manifold, but the following five stand out.

**Finding new kinds of projects and clients.** When an organization merely relies on current clients or referrals, chances are it will get mostly more of the same type work.

The only way to break the pattern, to get out of the "same-old, same-old" rut and land different types of projects and clients, is to promote the organization's capabilities to a new, wider audience. Relying solely on referrals takes the direction of an organization out of its own hands and places it into the hands of others.

#### **Positioning the business.**

In the absence of marketing activity others will draw their own conclusions regarding an organization's strengths and capabilities. Only through direct marketing activity is it possible to redefine an organization and break out of the category that clients tend to place it in. Doing so enables an organization to create its own business image, its positioning, rather than sitting by while clients do it by default.

Better yet, more accurate positioning has the business benefit of encouraging new types of referrals. In addition, it can enhance an organization's staff morale, make recruiting talented staff easier, and intimidate competition.

#### **Avoiding "spiraling down."**

Long-time clients often take familiar suppliers for granted, which can result in unreasonable demands, lack of pricing flexibility, or categorization. Such clients' referrals are mostly to others who have similar or lower-level assignments; they rarely lead to higher-level clients or yield higher-level opportunities.

In short, projects and clients seldom get better over time without a marketing effort. You can think of it in terms of evolution: new blood is necessary to stay healthy and grow.

**Avoiding too much from too few.** One of the leading causes of creative firm failure is the loss of one or more clients who are responsible for a large chunk of business. Further, when a few clients dominate a firm's income, it can easily be held hostage—financially and creatively—to their unreasonable demands.

Only by soliciting new clients and projects—via marketing—can a firm protect itself against these dangers. From both a financial and a creative standpoint, it is far better to have a few projects from many clients than to have many projects from a few clients.

**Enhancing satisfaction and profitability.** This is the most significant, and often unappreciated, benefit of marketing. For any organization to be successful in the long run, and to provide an enjoyable lifestyle for its principals, its workflow needs to occur in a consistent, predictable manner.

The greater the predictability and stability of an organization's workflow, the higher its profit and principals' satisfaction will be. By helping to promote workflow predictability and stability, marketing makes planning easier, deploying resources more efficient, and amortizing fixed costs over a broader base.

Marketing is, in other words, more than the path to a business's success, it is also the path to personal enjoyment of the business.

**CB**

# LOGO PRICING... TRUST ACCOUNTS... WHAT'S BILLABLE?... STAFF PAY... A WRITE-OFF?... TYPEFACE TRADEMARKING... CONCEPT PRESENTATION... REDUCING MEETING TIME

# Advice

Creative Business—September/October 2011

**I have a client who wants a logo that will be affixed to their hardware product. It will be sold through a big box chain of stores. They plan to start out regionally. If successful they'll then go nationally, and maybe even internationally.**

**I'm not sure how to price this. In other words, how can I price in advance when I don't know whether the product will have a regional, national, or international presence?**

The value of any branding certainly increases proportionate to its exposure. And the price for developing it also increases, if not always proportionately.

But the price is seldom determined by market value. For a variety of reasons, it is very difficult

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to use value as the primary basis for pricing creative work.

What makes branding efforts more expensive for nationally or internationally available products is the time and effort that goes into development, based on the importance to the client. (And the labor rates of the firm doing the developing.)

A firm developing such material can spend weeks researching what every competitor is doing, evaluating the environments in which the product will be displayed or sold, doing trademark searches, and considering future variations and line extensions.

After this comes creative development, and trying out various ways to distinguish the product at the sale level, perhaps even involving focus groups.

All this, or little of it, is why branding projects can run from a few thousand dollars well into the six figures.

Therefore, the pricing in projects such as yours has to be based on how much money the client is willing to invest in the process. Explain to them what you could provide at several different price points.

**We landed a new client whose lawyer is including a contract clause requiring that their (relatively small) deposit be put into a "Client Trust Account." In eleven years of business, we've never been asked to do this. It appears like maybe a standard practice of law firms.**

**We've offered them several references, and could easily refund part or all of the deposit if they decided things weren't working out. Should we acquiesce? Is it worth the hassle?**

We have to admit that we have never run into this either. We presume that it is the lawyer who will be holding the money in trust, and that nothing would have to be set up. If not, it is probably not worth the hassle.

If the lawyer will be holding the money, the arrangement would be no different than doing a job without a deposit.

There are two reasons for a up-front deposit, which putting the money into a "trust account" negates. One is that it provides some measure of protection against clients who later won't

pay or delay paying for various reasons. The other is that it makes the job more costly to produce because you have to work longer off your money (salaries & overhead) before getting paid.

Also, bear in mind that clients (and their lawyers) this concerned often turn out to be difficult to deal with on other issues as well. It usually indicates a confrontational mindset.

*(Update: Turns out that a special "trust account" would have to be set up. After discussion, the client's lawyer withdrew the contract clause.)*

**We've had a client for almost a year, and finished a large web project for them a few months ago. They have ongoing needs, but won't sign a maintenance/retainer agreement with us. So our best option has been hourly billing in 15 minute increments for any extra work.**

**We've explained to them numerous times that any time we spend—whether it's planning, e-mails, phone calls, materials, and so forth—is considered billable. We**

**track it very carefully using Basecamp.**

**Lately, they've been expressing that they are tight on money, and are questioning our billing for some of the estimating they requested.**

**If it takes us a lot of time going back and forth to respond to their questions and ideas, then we draft an estimate, then they decide not to do that project, shouldn't that time be billed?**

What to charge for and what to give away as a cost of doing business is always a tough call. Obviously, the more important and profitable the client is the more you can afford to give away.

As a guideline, most firms would not charge for an estimate on a defined project, but most probably would for planning activity or something that is hypothetical.

If feasible, you might also want to consider including in your estimates for this client a provision for the extra work that experience indicates will come later. It will cover many of your future costs, but avoid the sense of being "nickel and dimed" that clients often resent.

Otherwise, you should not charge directly for preparing an estimate, but you probably should merge the preparation time it takes within it. This won't cover future expenses on the "false alarms," but it will on the others.

A way some firms use to discourage clients from wasting their time is to adopt a minimum fee of

at least an hour (sometimes two) for anything that involves more than answering a simple question.

**My firm has one full-time and one part-time employee besides myself. The full-time employee has been with me for a little over two years, starting as an intern in college. I have been giving her raises about every six months to bring her salary up little by little.**

**She now makes \$16 an hour, and wants a raise to \$20. She said I can afford it because I should charge clients three times what she makes, and I'm charging them \$75 an hour.**

**Is she right? I would love to give her the increase, but I can't see where it is possible. Lately, business has been fluctuating between \$10,000 and \$15,000 a month.**

She may or may not be worth the \$20 an hour, but she is right that employee salary costs have to be marked up by at least three times. So by that measure, you should be able to afford the raise if your labor rate is \$75.

Why you can't afford this could be related to how busy she is. Or that she is busy but you are not. You also have one person too many for the income you mention. Unless you can increase your revenue, you need to get rid of the part-time person.

With two individuals billing at least 50% of combined salary hours at

\$75 an hour, you should be able to pay her the \$20 an hour, and take home slightly more for yourself.

In the long-term, though, you need to focus on building a base of clients who can pay you \$100 an hour or higher. Only then will you be able to pay your staff good salaries, write yourself a good paycheck, and accumulate the capital a business needs to survive.

**I billed a client \$9,000 for a job that had lots of last minute changes, and ended up \$1,500 over estimate. Long story short, they objected to many of my rush fees, and I agreed to split the difference. I got a check for \$8,250.**

**I figured I would just write-off the \$750 loss against next year's taxes. How do I show this? Do I have to provide the invoice and the check as proof?**

Unfortunately, unless your firm is set up on an accrual (versus cash) tax basis, you won't be able to take a write down.

Chances are you would know if you were on the accrual method. If you have an accountant (which we highly recommended) ask. If you are, he/she will handle it for you.

In the cash method, you report only the income your firm receives and the expenses it pays. In the accrual method, you report income when earned (invoiced) and expenses when incurred (billed).

In other words, in the cash method you count real money (cash), in the accrual method you count obligations (accounts receivable and accounts payable).

Most firms without inventories use the cash method because it is simpler. This includes most self-employed individuals, and small to mid-size service firms.

The reason it is not possible to writeoff a bad debt when using the cash method is that you cannot take a deduction for something you never had. So since you didn't receive the \$750, you can't later take a writeoff for it.

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## CREATIVE BUSINESS MANAGEMENT METRIC

### BASE CANCELLATION FEES ON TIME WORKED, OR 20% OF JOB ESTIMATE, WHICHEVER IS MORE.

Fees for cancelled projects should normally be hours worked times a firm's hourly rate plus expenses. We do not recommend arbitrary kill fees unless projects are cancelled before significant work has been completed. There, we recommend 20% of the estimate as fair compensation for reserving production time. We suggest adding the following to all proposals: *In the event of the cancellation of this project or any delay of more than one month, we will invoice you for the greater of either: 1) all work completed up to the date of notification, including expenses, or 2) 20% of the agreed upon estimate plus expenses.*

**I took a font that is in the public domain, redrew a few characters to make them distinctive and used them in a mark for one of my clients. They like it and would like to register it. What is the process?**

First be sure that the font you used really is in the public domain because the registration process will expose your work to legal and public scrutiny.

Trademark registration is handled by the Patent and Trademark Office (PTO), Washington, DC 20231, (800)-786-9199, [www.uspto.gov](http://www.uspto.gov).

Their 24-page booklet, “Basic Facts About Trademarks,” explains what you need to know. Do a search and download it from the above site. All the forms needed can also be downloaded.

The most common grounds for denial are that the mark could be confused with one previously registered. And since the process can be expensive and fees are non-refundable (\$325 for each class of trade requested), a prior search of existing trademarks is wise. This is a separate process usually done by a search firm. (For information see: [www.compumark.thomson.com](http://www.compumark.thomson.com), or [www.micropat.com](http://www.micropat.com).)

The trademark registration process is straight forward, but given the legal implications and the cost of mistakes, it is best to inform your client of the basics, then recommend they contact a patent and trademark attorney.

**We’ve just had another request to make some major and very bad modifications to a well thought-out and designed piece. It happens a lot with this client. Maybe you have some words of advice on how to prevent it. I realize there is a fine line between trying to retain the integrity of a design and executing the client’s wishes.**

We don’t have an answer other than to say that when you first present a concept you should always do so in the context of how it meets the client’s previously stated objectives and desires. Also, to try to anticipate and cover any potential client concerns before they have a chance to voice them.

For instance: “In working out this design approach, we were particularly careful to (mention design element) as a way of ensuring that we meet your objective of (mention objective).”

If you do get blindsided, about all you can do is tell the client why in your professional opinion their request would not be in their best interest. In a friendly tone say that while you will certainly do whatever they want, your experience (what they are paying you for) indicates that it would be a bad way to go.

In discussing why, be careful not to talk in terms of bad design or extra work, and don’t be defensive. Rather, speak in terms of the potential their changes might have on viewer confusion, dif-

ficulty in understanding, poor image, etc. In short, don’t argue for the design, argue for its communications effectiveness.

If all this fails, you then have to make a decision: you either resign the business, or you do what they want. Except in extreme cases we suggest the latter—grit your teeth, do it, and smile all the way to the bank. It is the client, not you, who will suffer.

**I’m a copywriter with years of experience, but new to freelancing. I find I have to spend a lot of time in meetings to get the facts I need. When I worked inside this wasn’t a concern.**

**Now that I’m working for myself, I feel like I’m losing money when sitting in boring meetings where I don’t learn that much.**

**If I charge for all my time, I’m afraid I will price myself out of the client’s budget. If I don’t, I may end up taking a bath. Any ideas on how to streamline information-gathering?**

Many clients, particularly those who have never worked with a writer, overestimate how much information and interviewing are required.

We suggest you start the process with the individual who has the primary responsibility for the product or service, ideally a marketing type. Ask him or her to treat you like a customer and give you a “sales pitch” in their own words. (If they aren’t a marketing type,

ask them to describe the product as concisely as they can in just five minutes.) What they will say is probably all you need to know, and when reorganized, tightened up, and stylized, all you have to write.

After this, all that should be needed are a few other short meetings to get corroboration and any additional details. Inform the client that too many meetings will just muddy the water, and waste their valuable time (and possibly run up your bill).

You should, however, also be sensitive to the “political” nature of some meetings and interviews. Depending on the importance of the project, it may be necessary to involve several client individuals. This gives each a sense of involvement (being listened to) which makes approvals easier later. Needless to say, any meetings and interviews, “excessive” or not, should be billable time.

**CB**

For additional, peer-to-peer advice, visit the CB-sponsored “Graphic Design Business Group” at [www.linkedin.com/groups?gid=2114283](http://www.linkedin.com/groups?gid=2114283).



# YOUR CREATIVE BUSINESS ARCHIVE

The following items are available without charge to *Creative Business* newsletter subscribers on request to [circ@creativebusiness.com](mailto:circ@creativebusiness.com).

Please limit requests to no more than two items at a time, and allow up to a day for fulfillment, although we usually fulfill within several hours.

Items referenced in this issue can be downloaded immediately without charge from the URLs indicated in the text.

Items are described at either [www.creativebusiness.com/forms.lasso](http://www.creativebusiness.com/forms.lasso), or [www.creativebusiness.com/articles.lasso](http://www.creativebusiness.com/articles.lasso). They can also be purchased there by both non-subscribers and subscribers for immediate, 24/7/365 downloading.

All forms, rationales, and articles are also on our current CD-ROM (CD-13), along with newsletters from 2006 to 2010.

## Business Forms

- Appointment letter
- Arranging letter
- Client backgrounder
- Client review letter
- Client survey form
- Client survey letter
- Creative brief questionnaires
- Creative review checklist
- Emergency planning form
- Employee performance evaluation
- Employee profitability record
- Employee evaluation & salary adjustment
- Estimating worksheet
- Illustration questionnaire
- Job application
- Job description
- Job description (intern)
- Job offer letter
- Marketing plan worksheet
- Mission statement
- Model release
- New hire welcome letter
- New hire welcome letter (intern)
- Non-compete agreement
- Non-disclosure agreement
- Press release
- Project budget form
- Proofing authorization
- Referral letter
- Release compliance letter
- Subcontracting letter & agreement
- SWOT analysis form
- Time sheet
- Trend calculation form
- Value proposition worksheet
- Web survey form
- Work-for-hire agreement
- Workstation exercises

## Business rationales

- How we work
- Measuring the true cost of creativity
- Professional standards of practice
- Professional copy/design/illus rationales
- Should I have a minimum fee?
- Ten keys to client loyalty
- Ten presentation tips
- Why we don't do spec work

## Management articles

- A better way to structure your firm?
- A legal primer: what you should know
- Arbitration and mediation?
- Business planning
- Choosing and registering company names
- Costs and benefits of self employment
- Creative bumout. Are you a candidate?
- Eight creative business case studies
- Employee bonuses: what makes sense?
- Evaluations & raises: doing them right
- Expand with virtual or contract employees?
- Growing through merger or acquisition
- Hiring your first employee
- How much should you be making?
- How well matched to business are you?
- Insurance: protection from the unexpected
- Job descriptions (includes templates)
- Keeping an eye on cash flow
- Location and digs, how important?
- Losing naivete & guarding against fraud
- Moving to a new office or studio
- Non-competes. How important?
- Overtime and breaks: what's required?
- Profitability. How does yours stack up?
- Scheduling. Avoiding costly miscues
- Size. What's right for a creative company?
- Teaming, partners & subcontracting
- Working alongside a significant other

## Marketing articles

- A creative person's short course in marketing
- A perspective on marketing in a recession
- Awards: how important to business?
- Client loyalty. Procedures for enhancing
- Cold calling. Overcoming your reluctance
- Communications audits.
- Competing in the Inter(tra)net market
- Conflict of interest. What is and what isn't
- Coping with incompetent clients
- Creative briefs: what, when, and how
- Dealing with opinionated clients
- Exorcising the fear of rejection
- Going after those naming projects
- Graphic standards. Providing to clients
- Handling a client's creative suggestions
- Helping clients set a literature budget
- How to hire a creative supplier
- Improving your presentation closing ratio
- Making the concept presentation
- Making the portfolio presentation
- Making the process presentation

- Overcoming those presentation jitters
- Preparing simple marketing plans for clients
- Presentation hostility. Overcoming
- Pro bono work: when does it make sense?
- Promoting your business. What works best
- Proofs & sign off standards
- Prospecting and mining for clients
- Referrals what is wrong and right about them
- Resigning projects and clients with dignity
- Responding to the ROI question
- Sales & marketing: when, who, and how much?
- Sales help. When it is affordable, and isn't
- Samples & testimonials: guidelines for using
- Selling your ideas without selling your soul
- Selling your own products, a practical primer
- Should you or should you not sell printing?
- Specialization. The arguments for and against
- Strategies for a "graying" business
- Strategies for working indirectly
- Tactics for facing increased competition
- Talent reps. What you need to know to find one
- Understanding and pricing not-for-profits
- What is it that makes a firm an "agency?"
- When is a concept original, derivative, or a copy?

## Pricing articles

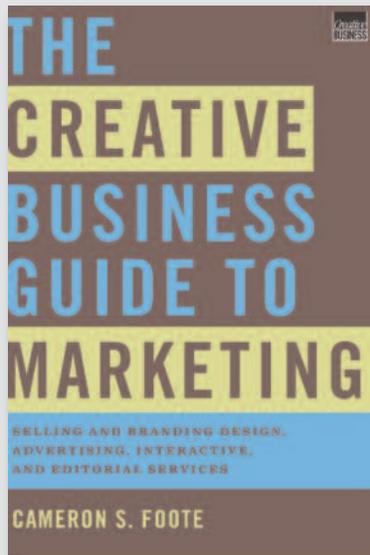
- Billing rates. Is one or several best?
- Change orders: a practical solution?
- Charge for a second concept?
- Comparing a client's in-house prices to yours
- Conducting a billable efficiency check
- Contract, letter of agreement, or proposal?
- Copyright and file ownership
- Dealing with RFQs and multi-bid projects
- Determining a client's budget
- Five problem-pricing alternatives
- Handling up-front pricing inquiries
- Hourly billing rates. What's the range?
- How many concepts and changes are included?
- How much would you charge? (price examples)
- Job cancelled: how much to charge?
- Markups -- why, when, where, and how much
- Pricing logos, marks, and identities (branding)
- Progress payments rationale
- Raising prices without raising a flap
- Reconsidering and readjusting pricing
- Retainers & replying to discount requests
- Understanding client payment procedures
- Value-based pricing. Is it possible?

## Booklets

- Pricing and billing standards
- Fifty business standards
- Personnel policy standards
- Valuation and sale standards

## Ten+ years of CB back issues

## YOUR CREATIVE BUSINESS REFERENCE LIBRARY



### Marketing Insight

**New! Just Released.** More creative firms fail to achieve success, or go out of business, because of lack of marketing than for any other cause. Without regular marketing, a business finds itself on a feast-or-famine roller coaster at best, at worst struggling for its very existence.

“The Creative Business Guide to Marketing” is for anyone who has had difficulty prospecting for clients, needs to know more about hiring and motivating business development (sales) personnel, or has been less than successful in converting presentations into projects, and concepts into client-approved work.

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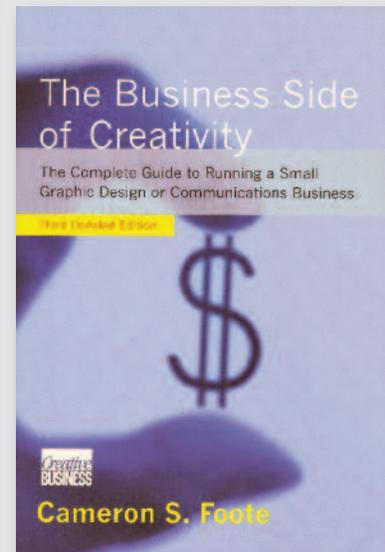
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