

CREATING
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Creative **BUSINESS**

INSIDE:

DO YOU MAKE ENOUGH?

PROVIDING CLIENT DISCOUNTS

AVOIDING PROJECT DELAYS

BUSINESS ADVICE

www.creativebusiness.com

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BEING PREPARED FOR WHATEVER HAPPENS

If there's one word that would describe *Creative Business*, I'd like it to be relevance. We try hard to make sure every issue has only material that is uniquely relevant to running a small creative organization more successfully. No feel-good articles. No trendy fluff.

Usually, this involves everyday-useful information, such as what appears on the pages following. Occasionally, it also involves a little exhortation. That's my purpose here.

Unless you've been off on a long sojourn in Antarctica, you've heard more than a little concern voiced about the state of the economy. (In other countries as well as the United States, too.)

If you have any history in our business you also know that when the econ-



omy catches a cold, creative firms can come down with pneumonia.

Fortunately, at this point we're still at the snuffle stage. Things might get worse. Or they might not. Regardless, though, sooner or later business conditions are going to deteriorate. It is inevitable. As someone who has weathered several

economic downturns before, I feel an obligation to advise you to prepare now, before it might be necessary.

Don't be misled by current activity. It could be short-lived. So for the present put aside any growth ambitions, and be content to live with today's staff and facilities until there are fewer uncertainties. This is not the time to make long-term commitments.

Keep an eye on leading indicators. Specifically: your firm's sales (future workload), its project pipeline (future income), and its billable efficiency (future profit). When compared with previous data, they will tell you what to expect long before it actually happens.

Work at differentiating yourself. Times of reduced business activity are times of greater competition. The more a firm is able to distinguish itself from competitors, the fewer projects it stands to lose. Even more important, the less price pressure and erosion of its margins.

Continue to market. Spending on marketing is discretionary, so it's easy to cut back when income falls. But this is usually shortsighted. Marketing is most effective at the very time when supply (competitors) outpace demand (projects). Firms most likely to come out of a business downturn in good shape are those that continue to maintain their marketplace visibility.

Watch your income/cost ratio. When business goes south, income drops but

costs don't. And when there's also inflation, a firm's costs rise but its prices often stay the same. Keeping the income/cost ratio stable requires cutting costs as income drops, and raising prices to match inflationary increases.

Focus on what's profitable. Analyze what's been most profitable in the past, then go after more of the same. Forget, temporarily, everything else, particularly projects and clients pursued more out of prestige and ego than practicality. In downturns, the priority must be on what best pays the bills.

Remember, it's a cycle. Sooner or later business conditions will return to where they once were. Meanwhile, you'll have to conduct your affairs more carefully. And stand prepared to do whatever's necessary to maintain viability. What you learn in the process, though, will make your firm stronger, and poised for even greater success in the future.

Finally, allow me to make an admission: this bit of advice is partially prompted by self interest. The success of *Creative Business* is dependent on your success. I want you to be prosperous enough in the future that you can still afford to be a subscriber.

Cam Foote

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PAYING YOURSELF:

HOW MUCH SHOULD YOU BE MAKING?

Let's begin with the short answer: lots.

You're an educated and talented individual. Whether working alone or managing staff, chances are you devote long hours to your business. You've also invested more than a little time and treasure into making it a success. And, unlike most of the working world, you've taken on financial and career risks in doing so.

All the above qualifies you for ample reward. But what's ample? How does what you take out of your business compare to what others take out of theirs? These are questions every self-employed creative ponders. And not ones easily put to peers.

PUTTING YOUR "TAKE" INTO PERSPECTIVE

A firm's accountant is the logical one to go to about money issues. He or she is not only familiar with your firm's financials but is also conversant with those of other small businesses. Yet if you've ever asked how much you should be making, the answer you've probably gotten back is something like, "as much as you possibly can."

Although glibness is a factor here, the rewards of owning a business have several dimensions which make it a difficult question to provide a straight answer to.

What stage? Where a business is in its development can make a difference in owner pay. For instance, it might be wise for someone building a promising business to settle for less now with the expectation of getting more later—that is, to invest

some "deferred compensation" into growth. Conversely, someone contemplating phasing out of the business might wish to take out more cash by scrimping on routine maintenance, investment, and upgrades.

Where located? The value of one's paycheck is somewhat relative. Some areas have higher average salaries, but also have higher costs of living. Vice versa, too. For readers living outside the U. S., salaries tend to be lower and taxes higher, but benefits greater. In short, what one makes has to be considered in the context of the lifestyle it makes possible.

How received? Principals can be rewarded four ways: 1) salary, 2) profit, 3) perks, and 4) equity. But how to equate how much each is worth? The right mix will be different for each individual because of personal choices and tax considerations.

How consistent? Creative businesses are more volatile than most others. Clients come and go, and their budgets rise and fall. So only a several year average of compensation is even worth considering.

How important? This shouldn't be an issue, but it often is. Those not dependent on the income from their businesses expect less than those who are. This can become a self-fulfilling prophesy: because they are willing to accept less, they end up making less, and their income skews the average.

who hasn't occasionally transgressed.)

Add up all these personal "business" expenses and multiply the total by 0.40, a rough approximation of the after-tax savings you're benefiting from. (Example: the cost of a hundred dollar dinner that's justified as a business expense probably costs you [in form of your firm's decreased earnings] only sixty dollars, which is the equivalent of getting a forty-dollar salary increase.)

The resulting figure—money received plus money saved—is

Individuals working alone who simply take cash out of the firm as needed have more of a hobby than a serious business; principals of multi-person firms who do it are bad financial managers.

Non-salary income. This is how principals should be compensated for whom they are, what they have invested, and the success of what they own. How much, or little, work they do have no effect on non-salary income.

Most non-salary income comes from a firm's profit, or what's left over after all business expenses, including principal's salaries, have been paid. How much profit is paid out versus retained ("C" corporations), and to whom and when it is distributed (any organization) is at the owners' discretion. (Also, see "Distribution" on page 3.)

In addition, there is the long-term possibility of equity income—the sale of the firm, some of its assets (e.g., real estate), or a principal's share of them. Unfortunately, for most principals this is more of a dream than a reality, as most small to mid-size creative firms have little or no saleable equity.

SALARY DETERMINERS

Only when principals are paid reasonable salaries can non-salary be determined, and principals rewarded for their ownership. So what's reasonable?

Market rate. A principal's salary should be commensurate with her or his daily contributions and degree of responsibility. Also, comparable to what would be made if working elsewhere, and what the firm would have to pay if it were to hire a replacement.

Based on these factors, in metropolitan areas of the United States this would mean from \$65,000 to \$85,000 for an individual working alone. For principals of two-person firms (whether other principals or employees) the range would be

Looking at self-employment income is not the same as looking at a paycheck.

Here, we'll only consider guidelines for principals of established, serious businesses.

COMPUTING YOUR YEARLY FINANCIAL "TAKE"

Start by writing down your before-tax salary, the total of what you've paid yourself on a regular basis throughout the year. Then, add to it any non-salary income you've also received—occasional disbursements, bonuses, and profit.

Now, enter an estimated amount for the tax-deductible personal perks ("writeoffs") that you've benefited from as a firm principal. Do not include company benefits, such as health insurance, that employees also receive.

Perks include those activities and items that are largely personal in nature but are claimed as tax-deductible business expenses. For instance, occasional personal meals, travel, entertaining, recreation, and purchased items. (Although payment of personal expenses with company funds is illegal and can result in penalties, it is doubtful there's a self-employed person

an approximation of your annual financial reward.

SALARY VS NON-SALARY

Note that we've considered salary and non-salary income separately. Why not just lump everything together? Because doing so makes it difficult to track how well a firm, or its principal(s), is doing at any given time. (Also, depending on the firm's legal structure, it could have tax implications.)

Salary income. Whatever a firm's size, when it comes to pay it should treat principals as employees. That is, they should be paid regular salaries based on their contributions, not who they are. That principals be required to earn their keep is especially important in firms with more than one.

When principals receive a market-rate paycheck, a firm's true expenses can be accurately determined and allocated. A regular salary also helps an individual live within his or her means. And it is the only fair way that multiple principals can be rewarded according to their individual effort.

\$75,000 to \$115,000; \$100,000 to \$135,000 for five-persons; \$125,000 to \$165,000 for eight-persons; and \$150,000 to \$200,000 for twelve persons.

Again, these ranges are based on market factors and do not include any non-salary compensation for investment in the business or its ownership.

Boss-to-employee salary ratio. Another way of determining principals' salaries is in relation to how much a firm's employees make. Given the large variety of firms, high-to-low ratios or a percentage of payroll don't work well for this purpose. But relating principals' salaries to a firm's highest paid employees does. For most, a principal—the boss—should be receiving a salary 10% to 15% greater.

When this boss-to-(highest-paid)-employee ratio is out of line it usually means that principals are being paid too little, top employees too much, or vice versa.

One possible exception is when there is a highly-talented "star" employee. This should not be a concern, though, assuming principals more than make up the difference later in non-salary compensation. Unless there is an unusual and temporary situation, a principal's total compensation should always be significantly higher than that of the highest paid employee. Otherwise, why take on the risks of ownership?

NON-SALARY DETERMINERS

When principals are paid regular salaries suitable to their responsibilities it is possible to get a good feel for how well the firm is also doing.

Profit. It is the universal measure of business performance. It can be a crucial factor in negotiating a line of credit, getting a loan, or selling a business. Internally, it indicates how much leeway a firm has in hiring or promoting staff. It provides funding for new equipment or facilities. It helps institutionalize

a firm by making strategies less dependent of principals' idiosyncrasies. And it is necessary to provide a rational basis for employee bonuses and profit sharing.

For all these reasons, firms should produce a profit, not just pay expenses and provide everyone with good salaries.*

Assuming principals draw reasonable, market-rate salaries, a healthy creative business should have a goal of earning 15% of AGI.** Obviously, more is preferable but higher margins in service businesses are unusual. (In

distributed; exceeding profit goals by 10% means \$10,000. The formula can be kept private until the total bonus figure is announced.

Profit distribution to principals is according to their ownership share and typically at year end. For United States LLCs and "S" corporations, such distributions are treated as salary. For "C" corporations, they are taxed at both the corporate and personal levels as dividends.

Here is the way a profit distribution might look for a five-person, \$700,000 (AGI) LLC with a

A principal's compensation has four elements: salary, profit, perks, and equity.

a recent year, the average of the world's six largest publicly-traded advertising agencies was 11%.)

Bonuses & profit sharing.

They have a long tradition in the creative services industry for good reason—they can both motivate employees and reward them for extra efforts. This said, principals often deprive themselves of suitable compensation for their ownership investment and risks by setting the employee threshold too low.

Creative Business recommends that the threshold for employee bonus or profit sharing be a profit of at least 5% of AGI. That is, that principals reserve any profit below this amount for themselves. Generosity beyond can be discretionary.

Distribution. Employee bonuses and profit sharing are more motivating and rewarding when goals have been announced, and progress tracked against them. Also, when paid quarterly or semi-annually.

The goal does not have to be made public, only the degree to which it was exceeded or fell short. For example: meeting profit goals means \$5,000 will be

principal who draws \$115,000 in salary. At year end there is an 8% profit of \$56,000. This is split roughly three ways: \$18,500 (33%) is distributed to the four employees as a bonus (\$4,625 each); \$15,000 (26%) is invested in new equipment; and \$22,500 (41%) is a year-end distribution to the principal, raising her or his annual pay to \$137,500.

RAISING THE NUMBERS

Some firms have difficulty paying market-rate salaries to principals. Even more have difficulty doing it and still turning a profit. The causes are much to firm-specific and complex to address here in detail. But the root of the problem(s) usually lies in one or more of four areas.

*Principals of U. S. firms structured as "C" corporations might wish to reduce profits for tax reasons. Nonetheless, showing some profit is usually advisable.

**AGI is Agency Gross Income or a firm's income that excludes "pass throughs" such as what is received then paid out for client printing or media. AGI is composed primarily of fee and markup income.

Insufficient marketing.

Project-based firms need a constant flow of new work. The only way to be reasonably assured of getting it is with consistent marketing. Firms that rely on the whims of a few clients or the vagaries of referrals will always have more difficulty achieving financial stability.

Low billing rates. What a firm charges for its time has to cover its overhead, salaries, and profit. Since outside expenses (overhead) are difficult to reduce, low income typically means principals' salaries and a firm's profit suffer. In today's business environment hourly fees from \$100 to well over \$200 are normally necessary, depending on a firm's size.

Low billable efficiency. A service firm's labor utilization rate, that is, how many work hours are actually billed out, is a crucial financial indicator. When it falls below 50%, the firm either has too many employees, too little work, or is not billing out every potentially billable hour.

Rapid growth. Increased costs can easily exceed increased income when growth is not carefully monitored. A firm shouldn't grow faster than the ability of its principals to control it. Bigger is not necessarily more profitable.

HANDLING PERCEPTIONS

The salaries a privately held business pays and the profits it generates are no one else's business. Nonetheless, perceptions are important. Most employees and clients expect and respect prosperity; many are suspicious of and resent wealth and extravagance.

Employees'. A common misconception, especially among those who have never worked for themselves, is that creative firm owners make more than they do. Employees are usually aware of prices charged, but grossly underestimate business costs.

What employees believe would make little difference except that it can lead to alienation that affects the firm's morale, lowers productivity, and increases turnover. This is especially so in firms with bonus plans that don't live up to expectations.

Clients'. Here, an exaggerated sense of a firm's prosperity can affect price negotiations and bargaining, especially with smaller clients.

Good clients want their suppliers to be profitable and stable. But most don't expect, and would resent, any indication of getting rich off their business. The more of the firm's business a client represents, the more this holds true.

Countering. For employees, it's done primarily through education. Employees who are in the dark about business are prone to exaggerate a firm's profitability and its owners' incomes. All employees need to be exposed to the costs and pricing of the work they handle, and to the firm's sales and overhead costs at staff meetings. Help them appreciate that the firm's prosperity is their best guarantee for job security, future salary increases, and larger bonuses.

For clients, the way to counter potentially damaging impressions is with discretion and sensitivity. Principals (and sales and account personnel) should be careful not to flaunt prosperity. This isn't to say that the fruits of success shouldn't be enjoyed, just that it should be done in moderation where it could create impressions that negatively affect business.

Too much evidence of prosperity, such as making sales calls in a luxury automobile, can trigger self-defeating envy among mid-level client personnel. Principals of single-person firms should be particularly careful about appearances when calling on clients who regard them as their peers.

ADDITIONAL SALARY DATA

Salary levels for employees are relatively easy to come by in this, the Internet age. Unfortunately, there is little comparative data for principals. What little does exist gives only averages and doesn't relate to firm size, so is of little value.

Specific sites for researching creative salaries include:

www.designsalaries.com,
www.creativegroup.com,
www.howdesign.com, and
www.coroflot.com.

**OTHER DETERMINERS**

The profit a firm produces and the salaries and disbursements principals take provide a way to quantify and assess the value of self-employment. Aside from the pleasures and freedoms it allows, money is important because it is a way of marking progress and keeping score. It also is the best indication of a firm's viability.

This said, money and business satisfaction are hardly synonymous. Most self-employed creatives are in business for considerably more than a paycheck. They found and grow their firms for a combination of reasons, usually and most notably the freedom it provides to pursue their own dreams in their own fashion.

Self-employment also comes with numerous lifestyle benefits—working flexibility, no boss, the opportunity to select projects, peer recognition, and the possibility of mentoring others, to mention but a few. There is no totally objective way to put a value on all this.

So balance is equally important in considering how much you should be making. The goal should be to maximize your salary, but without compromising lifestyle factors.

RESPONDING TO REQUESTS FOR SPECIAL DISCOUNTS*

You're wrapping up a pitch to a well-qualified prospect. They say they like you and what they see. You like them and the size of their account.

Then comes the pricing discussion. Yours aren't that high and judging by the quality of what they're accustomed to, there shouldn't be a problem.

But they expect a discount because they're... a not-for-profit... a start-up... a trade association... an agency... a relative... an old college roommate. Or they want a discount for early payment.

How to respond? Resist giving them special treatment? Cut your price to land their business? Inflate your pricing now so you can later give them the discount they expect? And if you do give a discount, how much?

HAVING ARTIFICIALLY HIGH "NORMAL" PRICES

Let's get this out of the way first. *Creative Business* does not recommend "marking up to mark down." So-called "sucker rates," charged to clients who don't have the foresight to negotiate or ask for a price break, are unethical and bad business.

A firm should treat all its clients fairly and without discrimination. To do otherwise is to sow the seeds for business troubles. Sooner or later clients catch on and go elsewhere.

THE USUAL REASONS

Assuming your firm's pricing reflect its costs, and that you desire a successful and stable business, any discount has to be

in your firm's interests—not just the client's. In short, discounts should *never* be just given out arbitrarily.

Some pricing discounts are good business practice, many more are not. That is, a few will actually add to a firm's bottom line; most will subtract from it.

"We're a not-for-profit." The most common request for discounts comes from these organizations. The rationale is that you should provide a break to help them out—to contribute to all the good things they are working hard to accomplish.

In essence, giving them a discount will be making a (not tax-deductible) donation to their organization. So first ask yourself this: is this organization one you really want to give some of your income to? Then consider whether other, major suppliers (e.g., utilities) also provide discounts. Finally, think about whether the organization's employees (e.g., its president) work for well-below-average salaries. Unless these answers are all "yes," think twice about whether you should contribute.

"We're small and poor." The scenario usually goes like this: they love your work and really want to work with you, but just can't afford it without getting a price break. Such requests are often made by start-ups and smaller companies and are usually sincere, although occasionally only a negotiation tactic.

Whichever, be careful not to let flattery overrule reason. There are, after all, hundreds of organizations that can't afford your level of work. Moreover, the chances are slim that a small client will favor you should they grow larger. Why should you let another organization's size or financial problems become your profitability problem?

"We're an agency." Their reasoning is that your prices are too high to allow them to apply a profitable markup, which could well be the case. So you have to decide whether it is worthwhile to lower your prices so they can get the markup they want.

Should you work for an agency (or other creative firm) at a discount when you can work for other types of clients without giving one? Can second-party work at a discount be profitable?

"We're friends." These are perhaps the hardest requests to react to: a friend, acquaintance, or relative needs something done and thinks of you. In theory, it should be good for both of you—she gets quality work for less, you pick up a good project without any time or expense. In practice, though, it seldom works out that way.

Even with a discount, your prices could be much higher than she expects. And since outsiders are seldom familiar with the creative process, her expectations could also be excessive. With all good intentions, business from friends often turns out to be less money, more hassle. This, not to mention that it could also strain an otherwise good relationship.

WHEN A DISCOUNT MIGHT MAKE SENSE

Despite the above, giving a discount doesn't always lead to problems. There are times when a special price reduction—typi-

*Not covered in this article are discounts based on the volume of work from one client. For information on handling them, download the article "Replying to Discount Requests by Offering Retainers" free until May 1st from www.creativebusiness.com/CB178.lasso.

cally 5% to 10%—makes sound business sense. It depends on the circumstances.

Any discount should, however, be on a case-by-case basis, and explained to the client as an exception to normal practices. This not only imposes some discipline in granting discounts, but more important, it emphasizes that the client has received special consideration.

When it encourages higher volume. The article described in the inset on page 5 covers how client requests for discounts based on the volume of their

The other is underestimating the work involved, and forgetting that the less clients invest in a project the less attentive they will be to the producer's (your) needs.

When it substantially reduces acquisition costs.

When a typical firm's marketing costs—everything from web sites to sales pitches—are tallied and prorated, they can add up to 20% or more of the fee billing for each client. Given this, providing a 5% to 10% discount to an existing, low-maintenance client could be a very

1/3 midway, and the balance upon completion. Offering a 2% discount for a 50% (rather than 33%) up front payment might make sense because it speeds up a firm's cash flow.

A discount for monthly, instead of progress, billing is also possible. It will smooth out cash flow, but it might not be cost effective due to the expense of added paperwork.

When it supports a cause you believe in. This falls into the realm of emotion, not economics. Only you can decide whether working at a discount for an organization will provide enough satisfaction to offset the lost income.

There are, though, two things that need to be kept in mind. 1) It is self-defeating for a business to make charitable contributions until it is stable and profitable. Don't risk your future by doing a good deed. 2) Only *cash* contributions to charitable organizations are tax deductible in the United States. Other donations are 100% generosity.

When you desperately need work. We put this last because necessity trumps all other reasons. Sometimes any income is better than none. You have to do what you have to do.

We understand. But we also want to caution against acquiescing too quickly. A client might be just testing, looking for a better deal. And any labor hours committed at a discount today will no longer be available to sell at full rate when more business comes in.

HOW TO RESPOND TO GENERAL REQUESTS

Most projects require some negotiation with the client as well as some price modification. For the reasons above, however, "discounting" should apply to only a very few. When not handled carefully the term implies discrimination (against clients not so favored), and it downscales a

Be understanding, but don't let clients' problems become your problems.

business can be handled in a way that is beneficial for both parties. The only downside is the risk of concentrating too much of the firm's income in one place.

When it provides an entrée. Some businesses and industries can be tough to break into. Offering or agreeing to a discount—i. e., lowering the client's risk factor—could make all the difference. Whatever income is given up could be more than made up through getting to know the client, gaining industry experience, or obtaining a portfolio sample.

The risk, of course, is the possibility that the special discount will somehow become the norm.

When it produces "good-will" benefits. Occasional projects, especial public service ones, have visibility, publicity, and referral benefits that can outweigh any income lost. How much to discount them, right up to 100% (pro bono), depends on the projected impact.

There are two dangers here. One is overestimating the impact of the project.

cost-effective way to build their loyalty.

The absence of acquisition costs for agency and other third party work also provides some pricing flexibility. The caveat in both cases is simply that the work has to be profitable enough to afford the discount.

When it results in faster invoice payment. Payment delays and preparing multiple invoices are costly. So a fast-pay discount to speed things up can make economic sense. The most common is stated on invoices as "2%/10, Net 30." That is, when paid within 10 days the client can take a 2% discount. Full payment is otherwise due within 30 days.

Here the risk is that clients will take the discount and still pay on their normal schedule. Thus, effectiveness depends on enforcement. This is easier for firms with professional bookkeepers because it eliminates any reluctance of a principal about rebilling a shortfall.

When it results in a larger up front payment. Most firms bill project work in phases, typically 1/3 of an estimate at start,

firm's positioning (think Wal-Mart).

One or more of the three following responses will deflect most discount requests.

“Our margins are too low.” Don't be afraid to comment on your legitimate need to make a reasonable profit. An organization that can't appreciate this will be problematic in more ways than just pricing. No client worth pursuing will ask you to take a bath on their projects.

“Our business success is based on careful estimating, and keeping our costs and margins very low. Because of this, we are able to offer a few select clients high quality work at lower than average prices. Unfortunately, the downside is that this doesn't allow us much room for negotiation.”

“We treat all clients and jobs the same.” Differentiate yourself from firms that readily provide discounts, especially those that have higher than normal pricing just to make discounting possible.

“Some of our competitors have artificially high ‘normal’ prices that they seldom charge. This allows them to offer their clients what appear to be discounts. We never engage in this practice. With us, our lowest price is always our regular price, and always very competitive.”

“It will raise prices to our other clients.” When a service firm maintains a reasonable profit margin, reducing prices to some clients requires raising them to others to compensate. For example, giving not-for-profits a discount would mean raising prices to corporate clients. Not only is this unfair, it makes a firm less competitive overall.

“We pride ourselves in providing the very best work at the lowest possible prices to a variety of clients with different needs. If we were to offer discounts to certain clients we would have to

make up for it by charging other clients more. We don't think this is an ethical business practice.”

HOW TO RESPOND TO FRIENDS' REQUESTS

For reasons stated previously (see “We're friends” on page 5), it is often better not to accept work from friends, whether discounted or not.

Plead busyness. Indicate that as much as you appreciate the thought and would like to help out, you are snowed under. Apologize and offer suggestions on other firms that might be able

The other approach is to say, “I don't have an ‘agency discount’ per se. However, my cost of obtaining new business is normally in the range of 10% of a job's billings, so I would be willing to discount my normal fees by this amount.”

In either case, be sure to make the arrangement conditional on getting paid promptly (within 30 days), despite when the agency's client pays them.

A SUMMARY

Don't be naive or get taken advantage of because of your

Discounts are often not necessary, and other types of companies seldom offer them.

to take on the project. Or, if this is inappropriate, agree to accept it but say that it will have to be “put on the back burner” until work for regular clients has been completed. This might take a while.

Do it as a favor or for barter. Even a heavily discounted bill (“friend's price”) will probably appear excessive, particularly among those who have no experience purchasing professional services. So keeping fees out of the equation, charging only for expenses or trading services for services, is often the best way to accept a friend's project.

HOW TO RESPOND TO AGENCY REQUESTS

Given that other creative firms subcontracting to yours expect to add a reasonable markup to your bill, a special, reduced fee makes sense. Assuming that profit can be made at this fee, there are two approaches to consider.

One approach is to have two rates, one “direct-client” the other “agency.” Think of it as retail and wholesale pricing.

firm's size. Most client-requested discounts are not in your self-interest, and are often unnecessary even where they appear customary. Providing them is rare among larger companies and those in other fields.

In a few situations, however, providing a discounted price is to your advantage. Learn to recognize the difference between what can hurt your firm in the long run and what can benefit it.

Before agreeing to (or offering) a discount, go over all the reasons—pro and con—above. Specifically, ask yourself whether you really want to subsidize another organization, however well intentioned they are, out of your profits. Or is there an offsetting, compelling reason for you to do so.

Finally, keep in mind that giving a client a discount will set a precedent, and probably be expected in the future. What if their business (or that from others they refer) turns into a large portion of your income? Do you want to encourage the growth of less-profitable business?

WORKING AROUND THOSE PROJECT DELAYS

Whatever the product or result—branding, ads, web sites, brochures, publicity—in essence creative businesses sell time. The more efficiently and faster functions can be performed, the more potential for making money.

Little wonder, then, that a project delay can be so frustrating. It upsets timetables, saps initiative, requires rescheduling, disrupts cash flow, and increases costs. Yet delays are also part and parcel of service businesses. They can never be wholly eliminated, but they can be minimized.

THE COMMON SITUATIONS

Careful planning notwithstanding, nearly every project has contingencies and unknowns that could derail it. Some situations, though, are more likely to be problematic than others. Be forewarned. There's an odds-on possibility of significant delay in the following.

When a new product is being introduced. Few new products ever follow a client's timeline. There's a budget shortfall, a beta test fails, manufacturing can't deliver on time, distribution turns out to be not ready, and so forth. And even when introduced on time, supporting activity, such as advertising and product literature, usually must

This article supplements "Avoiding Costly Scheduling Miscues," which appeared in the March/April 2007 issue. A .PDF copy can be downloaded free until May 1st at www.creativebusiness.com/CB178.lasso

be produced on a compressed, last-minute schedule.

When the stakes are very high. Some projects, such as branding, are so important to a client that there's a degree of internal discussion and contention that will make moot even the most "realistic" of schedules. Expect projections to be constantly revised.

When the priority is very low. The other side of the above is when projects can't seem to rise to a level that requires attention. Updating a web site is a common example. It's important, but probably not crucial. The client has bigger issues to contend with right now.

When many individuals are involved. CB's "Law of Geometric Delay" predicts that missed dates will increase geometrically as the number of individuals involved in the input and approval process increases. Clients with large bureaucracies and those in the not-for-profit sector are repeat offenders.

When last minute information is crucial. Inevitably, it will come later than expected. Yet the project's due date can't be set back for legal, financial, or marketing reasons. So it's necessary to burn the midnight oil to compensate. Anyone who is involved with annual reports or press conferences has experienced this.

When you're dealing with a wimp. Client individuals who are unsure of their authority or otherwise indecisive are a prescription for delay. When the boss is away or unavailable, decision making will grind to a halt. Watch for them in organizations of all sizes.

THINGS YOU CAN DO

However it might ultimately affect them, clients are seldom

as sensitive to the importance of keeping to a schedule as are suppliers. Compounding this is the belief that there's usually enough flexibility that missing a date or two won't be a problem.

Avoiding project delays is mostly up to you.

Temper your optimism. Good intentions often backfire. You don't do yourself or clients a favor by acquiescing to unrealistic requests or preparing optimistic schedules. Some activities will take longer than projected. And what can go wrong often will.

Suggested remedy: To compensate for the optimism factor inherent in nearly all planning, add 10% to 20% to a project's schedule. Better to meet or beat a longer schedule than end up having to explain why a more optimistic one couldn't be met.

Put a time limit. Schedules and estimates are written based on conditions extant at the time and under current circumstances. They should never be open ended.

Suggested remedy: Be sure every proposal states that its pricing and scheduling are only good for a limited time. Typically, this is 30 days prior to beginning a project. Any delays beyond this could require a new estimate and schedule.

Help them visualize. The interrelationship between activities and the cascading effect of delays can be difficult to appreciate from a written schedule alone. This is especially so for large, complex projects extending over long periods.

Suggested remedy: Include a visualization of the schedule in the proposal. This can be prepared easily using one of several project management or scheduling software programs. See the inset in the first column.

Emphasize the consequences. Every schedule presentation needs to include a frank discussion of how flexible or tight it is, what dates are cost- or delivery-critical, and what the effect of not meeting them will be. Most of us do this, but often without the seriousness it deserves.

Suggested remedy: Be very specific. For instance: “If this date is not met, it is unlikely that we will be able to make the press date we’ve arranged. Missing it could cost you an additional several thousand dollars.”

Don’t be afraid to take charge. Sometimes, especially when dealing with wimpy clients, making decisions for them is the only way to move things forward. Taking action will have less risk than doing nothing.

Suggested remedy: Make some assumptions and proceed. Later, tell the client it was necessary to keep the project on track and save them money. They may disagree, but it is seldom a relationship killer. You will have gotten their attention and resolved issues that would otherwise have dragged on.

Overbook your time. Additional work in a firm’s pipeline provides flexibility in switching between projects when a schedule falls through. Yet firms are often afraid that overbooking could cause internal bottlenecks and delays.

Suggested remedy: Accepting 25% to 50% more work than a firm can normally accommodate seldom causes problems. If all clients should keep to their schedules, the crunch can be accommodated by overtime or putting on temporary staff. Or should clients miss their schedules, there’s work from others to make up for it.

Bill out stalled work. Clients should be aware that any project for which there has been no recent activity will be closed. Work to date will be

archived for the future, but reopening the project will necessitate new pricing.

Suggested remedy: Insert a clause in your proposals that inactive projects will be closed and billed out (or the deposit retained). Inactivity can be selectively defined, but would normally be after 30 days for smaller projects and 45 days for major ones from larger ones.

THREE POSSIBLE OPTIONS

With all good intentions and preparations, some missed schedule dates and project delays are

Being proactive in trying to avoid project delays can benefit both you and the client.

inevitable. Most, fortunately, can be accommodated without any extraordinary effort by shifting and rearranging workflow.

Some client-caused delays, though, directly affect a project’s cost and delivery. When this is the case, clients should be presented as soon as possible with three choices.

1) Higher costs, later delivery. The project can continue, but it will be necessary to reestimate and reschedule it. If the client agrees, there will be no disruption.

2) Reducing the scope. When delays have caused major time and money problems, an alternative might be to scale the project back. If the client agrees to something less ambitious, it might still be possible to meet the original budget and timetable.

3) Closing it out. Assuming the project isn’t crucial, this could be the best solution. It will be closed, and the client will be invoiced for all work done to date and given everything produced should they decide to reopen the project sometime in the future.

THE NUCLEAR OPTION

A few clients are incorrigible. Their habitual lateness invariably causes problems. They come to expect that suppliers will do whatever it takes to make up for their inattention, procrastination, and lateness. This, often because suppliers are paper tigers, too worried about loss of business to push back.

There is, of course, risk in pushing back. But less than most firms believe. Good clients don’t respect firms they can push around. (When a firm constantly jump through hoops, it

gets the same respect as a trained seal.)

The best cure for habitually late clients is often shock treatment—experiencing the consequences of lateness, and the true value of a supplier who has previously pulled their irons from the fire. At some point in a late project inform them that because of delays it is now no longer possible to meet the delivery date.

If this means foregoing future business, so be it. The client was not worth keeping anyway. More likely, you’ll be surprised at how missing a delivery will focus their attention on schedule dates in the future.

If this seems too drastic, say that there might still be a possibility if you could move another client’s work around. But you will have to check with them first.

Let them worry for a bit. Then call back and say that your other client was very generous and allowed their work to be rescheduled so the errant client’s job could still be completed on time.

STOCK MARKUPS... CREDITS... PIECE OF THE ACTION?... PHOTOGRAPHY + DESIGN?... E&O INSURANCE... SPEC PRICING... LAYOFFS... FEEDBACK... & ARCHIVING FILES

Advice

Creative Business—March/April 2008

I recently read your article on markups, and I have a question. It relates to low-cost stock images.

I have an image I'm getting from (source). I'm not sure if you are familiar with this service, but you can purchase licenses for some high-resolution images from them for about \$10.

How should it be marked up? Should I mark it up so the price of the image is in line with what is paid on average for stock imagery? That can be upwards of \$300.

If I mark up by 30% to 50% I would get at most \$15. Any advice would be great.

M. B., St. Charles, MO

This is a judgment call, depending on how good the client is, how

much research you put into finding the photo (time=money) and how much they know about how stock photo prices have fallen.

Certainly, a \$15 markup is inappropriate.

We would probably charge a couple hundred (low market rate). If the client needs justification, say that although the photo was less than fifty dollars, you put a couple hours into research finding exactly the right one.

My firm produced a great looking web site for a law firm client. Now, I notice that the freelance designer we used has posted it as a sample of her work on her web site. There's no mention of us at all!

What's the protocol for handling a situation like this?

D. T., Tonawanda, NY

First, make sure your law firm client has no problem with showing the work. Then, call her and say that you expect her to provide a caption stating that the project was done in collaboration with your firm.

To take sole credit like this is both misleading and a way to anger clients like you. She is

probably just naive, so calling her to task will also be doing her a favor. Assuming, that is, she expects to continue to get work from yours and similar firms.

In recent salary/performance reviews two of our senior employees brought up the following:

One, who had brought in some projects a few years ago through a consultant she had previously worked with, asked to be additionally compensated since the work with this consultant has continued to increase. We paid her a finder's fee back then, but not since.

Another, who works on a very large account, sees the big numbers on the proposals and feels he deserves a piece of the action.

Both receive market rate salaries, three weeks vacation, and quarterly bonuses based on our profits, which we haven't missed in several years.

I'm thinking their requests are out of line, but perhaps not. Your thoughts?

D. H., Tulsa, OK

Generally, we are not in favor of giving a cut to employees who bring in work. It is in their self-interest to help employers succeed because it protects their jobs. Giving a cut also encourages employees to think of clients as "theirs," diverts attention away from performing their normal functions, and distorts a firm's salary structure.

In addition, both these employees are getting a bonus based on your firm's success.

Finally, the real issue is not sales or billings anyway—it is account profitability, which you should not share with employees.

All this said, we do think it is occasionally appropriate to provide a private recognition for extra effort. But we would keep it informal (not a % cut), and usually less than a thousand dollars. In other words, a personal, not official, thank you.

There seems to be a trend toward designers shooting their own photography. They also market themselves as offering both services, and showing both portfolios on a single website.

All *Creative Business* subscriptions include free business advice. Anytime you want another opinion, send an e-mail to: mail@creativebusiness.com. Or if you prefer, you can call us weekdays from 9 to 3 Eastern Time at 1-617-451-0041. We attempt to answer all e-mails within a day and return all calls as soon as possible.

I have thought about this for my business since I can do both very well. But I am concerned about whether this could be a conflict with certain customers. What do you think?

D. M., Euclid, OH

We also see a trend for designers to shoot their own photography, and it often makes sense to us. One way to provide more value to a client is to reduce photography costs. Hiring a single person (photographer/art director) is cheaper than hiring two.

There is a danger that it could damage relationships with photographers you might want to work with in the future, but it is probably minimal.

The major appeal of offering both will be to clients with smaller jobs. So we would be cautious about making too much about it on your web site or in promotional material unless that is your focus.

Your major emphasis should still be on your design business. You don't want to turn off clients who believe that a photographer is required for their highly-demanding (in their estimation) project, or who have a project large enough that it would be required.

In other words, we would position it as an extra-benefit talent that can save the client money in certain situations. But for large projects, or those where specific expertise or extensive travel is required, you have a stable of photographic pro-

fessionals whom you work with regularly.

I made a claim with my business insurance company for a printing error that was my fault and resulted in me paying for a reprint.

The insurance company denied the claim. I was a bit frustrated about their denial because when I originally insured my business with them, it was clear I needed coverage for this very thing. Fortunately, it was for a small amount, but I don't want to get stuck again.

It is apparent I need to review my policy and understand the terminology better. If you can help me on what to ask for that would help tremendously.

K. K., Bellaire, TX

Your agent was negligent. As you belatedly discovered, you need special insurance—Errors & Omissions or E&O—for this coverage.

E&O insurance protects against liabilities arising from routine mistakes, such as the cost of reprinting a brochure because of your error. It can also cover consequential damages, which can be a potentially greater liability.

More extensive coverage can also be obtained through “professional practices liability” (PPL) insurance, a creative firm's (or individual's) version of malpractice insurance.

E&O insurance typically starts around \$1,700

annually for a firm with three to five employees; PPL insurance starts at around \$2,500. “One shot” coverage is also a possibility for a client requiring that a firm have it.

This pricing puts coverage out of the reach of most creative firms, although the only way to be sure is to describe your risks and get a quote.

Without coverage, firms must rely on the protections afforded by insisting on client approvals (sign offs) on proofs, and contractual disclaimers. In addition, owners of firms structured as corporations and LLCs are sheltered from personal liability. Any damages are limited to the value of the firm's assets.

We have been given a small package design assignment. The client has stated that the job is a trial, and that if we do well we will get a crack at one or more of their brands in the future.

To further sell them on our capabilities, we decided on our own to do some spec work.

We've put together half a dozen polished variations on a concept for one of their major brands we know will be restaged soon.

Our concern is that they may like what they see and, since the work is already done, will want to purchase it for a fraction of what we would normally charge. Your suggestions on how to handle this would be appreciated.

R. L., Colorado Springs, CO

First, recognized that the perception of value is strongly influenced by how difficult a process appears. The longer and tougher it seems, the more clients are willing to pay.

To minimize making your spec work look too easy, we suggest you show only one full-size, developed concept. For the other five, show only front panels, and do it in storyboard or less than full size form.

This should both demonstrate your ability to conceptualize the needs of the brand as well as your ability to execute details. Even

CREATIVE BUSINESS MANAGEMENT BENCHMARK

SEVERAL DOLLARS IN NEW INCOME IS NEEDED TO OFFSET \$1 IN UNBILLED TIME & EXPENSES.

Whatever the reason, not billing clients for work done or expenses incurred is a significant financial drain. How much so is difficult to generalize because it depends on each firm's profitability. But here's an example: Let's say your profit is 20% of income. (For the purpose here we'll consider “profit” to be a combination of principals' salaries and benefits, shareholder distributions, and any retained earnings.) To replace every \$1 not billed, you'll need to take in \$5 worth of new business. Moral: bill for every billable hour, and don't let billable expenses slip through the cracks.

more important, this leaves much of the development work to still be executed.

If the client likes what they see, don't hesitate to ask for your normal fees for everything. Just because work is done on speculation doesn't mean it is any less valuable.

If you need a common example, think of developers building houses on speculation. They wouldn't discount them just because they didn't have buyers already lined up and waiting.

We need some feedback on managing client perceptions after laying off two people because of lack of work. Both were involved with clients who might be asking about them in the future. What should we say? We'd rather not admit to layoffs.

C. T., Camden, NJ

We agree that it is probably best to avoid full disclosure. But we also believe you shouldn't lie about what happened. We suggest you inform your staff to respond to inquiries this way:

When a caller asks for one of the laid-off staff, simply say "She (he) is no longer with the company. (New name) is now handling her responsibilities. Would you like to speak with her?"

Should the caller want to know why she isn't there, the response should be: "We recently realigned many of our functions in order to serve our clients even more efficiently. (Name)

left to pursue other opportunities and (new name) took over her functions."

Handle any inquiry about how to get in touch with individuals on a case-by-case basis, depending on the caller. Safest response is: "I'm sorry, but I'm afraid this is personal information I'm not at liberty to divulge."

Your piece on client feedback (September/October 2007) didn't cover what you should do when a client stops using you.

I used to get a lot of ad work (I'm a copywriter) from one agency creative director, but I haven't gotten any work from him now in several months.

I'm wondering if I should call and ask why. Or would that maybe come across the wrong way?

G. C., Wellesley, MA

We don't think it is appropriate in most situations to ask *directly* why clients haven't been sending you work. It is a private matter that has the potential of embarrassing them, and making you look needy or dependent.

We do, however, think it is appropriate when there is an occasion, such as at a social gathering, to ask casually. For instance: "I've noticed that I haven't seen as many orders from you recently as in the past. Are things just slower now, or is there something about my past work that I should know about?"

One of our clients is a division of a large corporation which has a national agency of record. The division is not required to use the agency, but has worked with them on developing a branding campaign. We were to do the supporting collateral for it.

Now the client has asked us to take the agency's conceptual ad direction and execute it as well. They say they like the agency's concept, but prefer working with us on everything. "Do what you want to make it better," they said.

We appreciate their vote of confidence and are excited about the challenge, but are a bit uneasy. We wouldn't want a client to take our concepts elsewhere for execution.

We'd actually prefer to start from scratch, but this isn't what they want. Any advice on handling this?

C. P., Alexandria, VA

It depends on what you mean by "concept." Many national organizations, especially franchisors, have concepts developed by their national agencies, which are then modified and executed locally by local franchisee requirements.

Examples are auto dealers, and fast food outlets. It is an accepted way of doing business, so if this is what they're asking for, we don't see that it would rustle any feathers.

If this is not the case, the other agency might get miffed, but they still

don't have any recourse. As long as you are doing work at the client's behest, their beef is with them, not you.

If you feel that you might offend influential people in the industry (as would be the case with another local agency), we would let them know what you are doing as a courtesy, and that it was specifically requested by the client. Otherwise, we'd just go ahead.

The concept may have been developed by someone else, but it belongs to the client, and it is their call on how to utilize it.

What legal obligation do we have to archive our electronic files? And should we notify clients before erasing them so that they have the opportunity to either pay for us to continue to store them, or take them to store themselves?

L. W., Bedford Hills, NY

There is no legal obligation that we know of to retain electronic production files. There is, though, for financial records—up to seven years in some cases. (Check with your accountant for specifics.)

Given the low cost of storage media today, we see no reason not to keep files indefinitely, even though there's no guarantee that the media will be accessible in the future.

We would not provide production files to any but the most important clients.

Forms (free)

- Appointment letter
- Assignment questionnaire
- Client survey
- Creative review checklist
- Emergency planning form
- Employee performance evaluation
- Employee productivity record
- Employee salary adjustment
- Estimating worksheet
- Illustration questionnaire
- Job application
- Job offer letter
- Marketing plan worksheet
- Mission statement
- Model release
- Non-compete and non-disclosure agreements
- Press release
- Project budget
- Proofing authorization
- Referral letter
- SWOT analysis form
- Time sheet
- Trend tracking
- Value proposition worksheet
- Work-for-hire agreement

Rationales (free)

- How we work
- Measuring the true cost of creativity
- 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 (charge)

- A better way to structure your firm?
- A legal primer: what you should know
- Business planning: the exasperating made simple
- Buying in and selling out of creative companies
- Cashing out considerations
- Choosing and registering your company's name
- Costs and benefits of self employment
- Creative burnout. Are you a candidate?

- Eight case studies: what do they say to your business?
- Employee bonuses: what makes sense?
- Evaluations & raises: doing them the right way
- Expand with virtual or contract employees?
- Growing through merger or acquisition
- Hiring your first employee
- How much is your business really worth?
- How well matched are you and the business?
- Job descriptions (includes templates)
- Legal problem? How about arbitration/mediation?
- Location and digs, how important?
- Moving to a new office or studio
- Non-compete/non-disclosure agreements
- Overtime and work breaks: what are required?
- Protecting from the unexpected (insurance)
- Profitability. How does yours stack up?
- Size. What's right for a creative company?

Marketing articles (charge)

- A creative person's short course in marketing
- Awards: how important to business?
- Client loyalty. Procedures for enhancing
- Cold calling. Overcoming your reluctance
- 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
- Dealing with unwanted client contributions
- Doing a communications audit for clients
- Exorcising the fear of rejection
- Guidelines for using samples and testimonials
- Graphic standards. Providing to clients
- Handling a naming assignment
- Helping clients set a literature budget
- Improving your presentation closing ratio
- Making the concept presentation
- Making the portfolio presentation
- Making the process presentation
- 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?
- Specializing. Is it better to?
- Strategies for a "graying" business
- Strategies for working indirectly (freelancing for others)
- Tactics for facing increased competition
- Talent reps. What you need to know to find one
- Understanding and pricing not-for-profit projects
- What is it that makes a creative firm an "agency?"
- When is a concept original, derivative, or a copy?

Pricing articles (charge)

- 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, estimate, letter of agreement, or proposal?
- Determining a client's budget
- Five problem-pricing alternatives
- Handling up-front pricing inquiries
- How much would you charge? (pricing examples)
- How to answer, "I'd like the computer files."
- Job cancelled: how much to charge?
- Pricing logos, marks, and corporate identities
- Progress payments rationale
- Raising prices without raising a flap
- Reconsidering and readjusting pricing
- Retainers. The where, when, and how of working on
- Understanding client payment procedures
- Value pricing. Is it possible?

Booklets (charge)

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

Five + years of back issues (charge)

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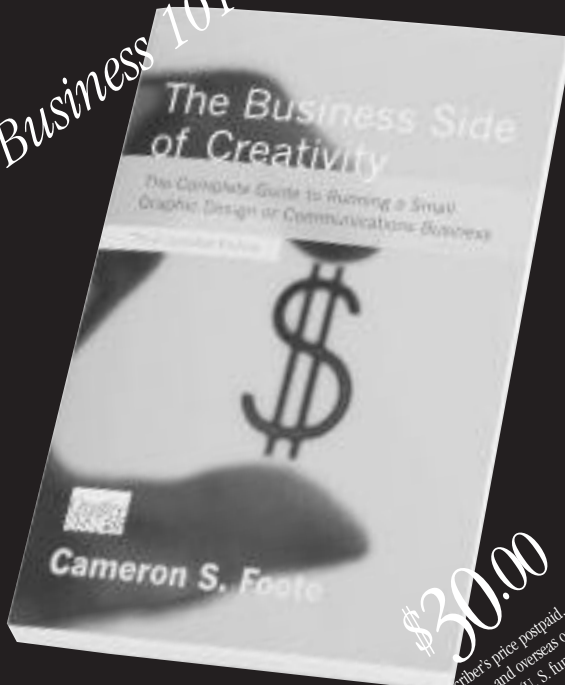
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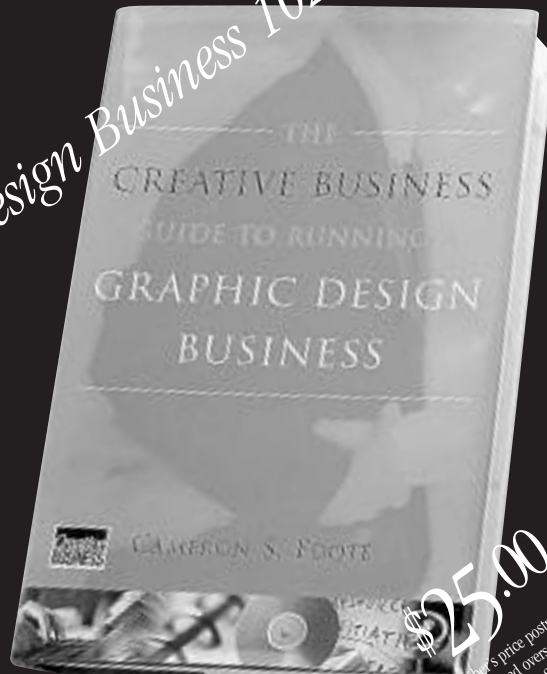
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