



Your CODB and You

Understanding the Importance of Your Cost of Doing Business

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CODB is the usual abbreviation for Cost Of Doing Business (though occasionally you'll see it as "CDB") and it is a very important number for every businessperson to know. That definitely includes photographers. It's vital to know because if you are not earning at least your CODB each day you are shooting for a client, you are losing money. Knowing your CODB will give you the power to control your business choices and run your business, well, like a business.

In this article we'll walk through the basics of figuring out your CODB and how to apply it to your business planning and decisions.

What goes into your CODB and how do you figure it?

Yes, you are going to have to do math. Sorry, but that's part of the price of being in business. But it's not hard math. You can do it.

First off, you need to add up all your business costs. I find this easiest to do by adding up your costs for one year, so that's what we'll do here. If you haven't been in business yet (or for long), you'll have to do some guessing, but you can often get the information you need either from other photographers or from sources available online.

Business costs include every cost you do not bill directly to your clients. The list can include things like studio rent, payments on photo-related equipment, payments on office-related equipment, postage, repairs, business insurance, car payments (if owned by the business), utilities for the studio, marketing and promotion costs, supplies (paper, software, etc.), health insurance, legal fees, non-reimbursed meals, accounting fees, licenses and business taxes, subscriptions, membership dues, non-reimbursed travel costs, professional development (books, classes, seminars, etc.), domain registration, and ISP.

Two of the most important figures you need to include are often left off by people calculating their CODB: your annual salary and retirement plan contributions. In fact, there are even some online calculators which do not include these figures. I think that's very dangerous and highly encourage including these numbers in your calculations.

Salary is often left out because photographers think "I get whatever is left over after paying for everything." While technically true (especially for the sole proprietor), that's not the right way to look at it for your business. You should pay yourself a regular salary and reinvest the other money into the business. That reinvestment may mean starting a savings account so that you can purchase new equipment or buy a studio down the road a bit. At the very least, it will be cash available to the business in case of emergency, and that's always a good idea.

So set yourself a salary and stick to it. Make it on the low-side, but still liveable money. You can always give yourself a raise if your business goes well, or maybe a bonus. Living frugally is good for you anyway.

Retirement plan contributions are extremely important and so often forgotten until you hit "un certain age," as the French say. While you may love photography, at some point, you will want to retire. Wouldn't you rather do that with a nice, comfy nest egg? Start early if you can, start now if it's not early.

Considering the precarious state of Social Security in the USA, it just makes good sense to do your own savings for retirement. The more you put away now, the better off you'll be when you decide to stop working. So set yourself an annual goal and stick to it. And include it in your CODB.

Retirement Savings--Is It Worth It Now?

Need convincing that putting money away for retirement now is a good idea? Here's some math. Imagine you are 25, planning on retiring at age 60 and assume that you'll live until you're 80 (which is probably low--people are living much longer now). If you put a \$5000 a year in tax-sheltered funds where you earn 5% per year, after retirement at age 60 you'll have \$34,254.41 a year to live off of (after tax, and assuming 3% annual inflation). If you're now 35 that number drops to \$16,385.63; 45 and it's only \$6,604.07 (in future dollars).

You'd have to put in more than \$25,000 a year starting at age 45 to get the same income at age 60 as \$5000 a year put away starting at age 25.

Ouch.

[Note: For the fully anal-retentive, there are all sorts of permutations on these figures. These assume regular deposits, a regular yield, certain tax situations which may change tomorrow, etc. Take a breath, the general concepts work even if the precise math may vary slightly.]

What not to include

There are some things that people, especially newbies, want to include in their CODB but that don't belong there. Items that are personal should not figure into your CODB. Your apartment rent or personal mortgage are not part of your CODB (unless you work out of your home and then there are all sorts to tax rules to follow and then you can only include the cost of the space you devote only to your business as part of your CODB). Neither are your home utilities, groceries, entertainment, etc. things you can include. All those figures are part of your personal budget and the only way they are at all connected with your CODB is in figuring your salary. You need to pay yourself enough to live on and your salary IS a part of your CODB.

Getting back to the actual CODB math

So, you add up all of the business-related costs you have. It will be a large number--probably larger than you would ever have guessed. Next, divide that total by the number of days you expect to shoot for income. Now, that is a bit of a guess, but if you've been in business a while, you should have an idea of how many days a year you "work"--billable days, that is. For newbies, assume 75 or so, tops. Most photographers "work" (that is, shoot for money) 100 or less days a year. If you're just starting out, it will be less (probably more like 50, but let's be optimistic and say 75). The resulting figure is your CODB.

Here's an example:

studio rent	\$12000
photo equipment	\$5000
computer equipment	\$2000
office equipment	\$300
postage	\$1000
repairs	\$500
studio utilities	\$3000
phones	\$600
accounting/legal	\$600
licenses/biz taxes	\$300
health insurance	\$4500
professional development	\$500
domain/ISP	\$480
non-reimb. meals	\$500
car payments	\$2400
gas/service	\$1500
car insurance	\$1140
marketing	\$7500
non-reimbursed travel	\$100
salary	\$50000
retirement	\$5000
unreimbursed film/processing	\$1000
Total	\$99,920
Paid Working Days	75
CODB per working day	\$1332.27

None of the figures in this example are particularly high or unusual, in fact, several may be low for the average photographer. Regardless, they do add up, don't they? The resulting CODB for this photographer is \$1332 (rounded).

Remember, when figuring your CODB is that you do not include anything you bill to a client. This is where most folks make errors. In the example above, you'll note that the last item is "unreimbursed film/processing." This photographer shoots film sometimes and some of that film shooting is for self-assignments. The only film/processing she includes in her CODB calculations is that film/processing she uses herself, not any that she bills to her clients for their projects.

Anything that is billed to the client is paid for by the client (plus a mark-up, which we'll get to shortly here and handle in detail in a later article). Thus, those materials are not part of your cost of doing business. Meals on shoots that you bill back to the client? Don't include. Meals when you take a client out to lunch just to schmooze? Part of your CODB.

For the really anal-retentive

The method I've shown of determining CODB is a bit rough, but it is perfectly acceptable for most folks. However, there will be some readers who will point out some of the "inaccuracies," so let me go ahead and take care of two of the more glaring "omissions" myself.

1) The number of working days is at best a guess. True, sort of. It's an educated guess. The more years you work, the better a guess it'll be. To be safe, underestimate the number of days you'll be shooting. That way if you work more, you'll end up with more money in the bank.

2) This method doesn't take into account other parts of a photographer's business revenue. Also true. There are two main areas of income not included in this method: stock sales and mark-up income.

Over time a photographer may build up some level of stock sales. That income is, essentially, passive and isn't included in these figures. If you want to be more accurate, you can subtract your anticipated stock sale income from the total, before you divide it by the Paid Working Days number. In our example above, if the photographer earns about \$10,000 a year in stock sales, that would reduce her total CODB for the year to \$89,920 and her daily CODB to \$1198.93.

Mark-up income is the money earned on the mark up on production costs you bill to your client. For example, if you buy a prop for \$25 you might bill your client 25 + 20% or \$30 for that prop. That \$5 difference is mark-up income.

If you're good about tracking your mark-up income, you can make a fairly educated guess on how much you may earn from it each year. If so, you can again lower your total CODB by that amount before dividing by the number of Paid Working Days to get your daily CODB. Obviously, photographers with less experience will either have to take a wild guess or just leave this out of their CODB. I think leaving it out is the better way to go because, again, without it you'll end up with a higher CODB and that will mean that you'll end up making more money than you really needed after all.

I've got my CODB, now what?

The importance of knowing your CODB is that it gives you power to make the best decisions for your business. You'll know when a deal is a bad deal for you, and when it's one that will be good for your business.

Using the example CODB above, let's say our imaginary photographer "Annie" gets a call from a magazine to shoot a celebrity portrait. The photo editor says "we'll pay you \$1000 plus expenses." Should Annie take the project as offered?

Well, ignoring the fine points about space-rates (which we'll go into in some other article) Annie can see that she can't accept this project. Annie's CODB is \$1332. If she takes a project for \$1000, she is losing \$332 for that day. It would be in Annie's best business interests not to accept that project and instead to spend that day on her marketing or doing something else.

Okay, you are now thinking "but isn't \$1000 better than nothing?" Not in business. Remember, Annie figured that she would only shoot 75 days a year. She has plenty of non-shooting days figured into her numbers. Not shooting that project just makes that day one of her non-shooting days. She cannot shoot on one of her calculated 75 days for less than her CODB or she will not earn enough money to stay in business.

There is so much else that a photographer has to do to be in business than shooting for clients--paperwork, testing, study, repairs, and lots of marketing just to name a few. A day not shooting is NOT a day wasted (unless you do nothing). Annie would be better off taking that day she would have lost money shooting on and giving herself a self-assignment to see how that new lens she bought last week works, or going to the new exhibition at the local museum for creative inspiration, or taking a potential client out for lunch.

But there is an even better alternative for Annie. Knowing her CODB gives Annie the power to tell the photo editor that she can't possibly take the project for that rate. She can tell the PE that she'd lose money on the shoot. Then she could say "But I can do it for \$1400 plus production costs." If the PE wants her for the project (and that is probably the case, because the PE bothered to call) there's a good chance that they can make the deal work.

CODB is NOT your "dayrate."

There are a few words that photographers really need to eliminate from their vocabularies. Words like "bid" ("bid" has a negative, "cheapest" connotation, so estimate a project, don't bid on one), "expenses" (use the term "production charges" to your clients instead), and, most importantly, "dayrate."

A photographer should never bill based on a dayrate. Clients will try to use that term, but you must never fall into that pit. Time is not the factor which one should use to figure a project's cost--usage is. It doesn't matter if it takes you 2 hours to shoot the project --if it is being used (for example) nationally, then it is a very valuable image!

So, if you're doing editorial work you should bill based on the size your image runs in a publication ("space rate") and how big the circulation of that publication is, plus your creative fee, with a total minimum at or higher than your CODB. If you're doing advertising work, base your usage fee on the media buy (also with a total creative/usage fee minimum at or higher than your CODB).

Your CODB thus simply functions as an internal company minimum so you know how much you have to make on a "working" day. It is not how much you should actually bill for a day's "work."

Lastly, when you figure your CODB you may find that yours is much higher than you knew. Lots of photographers are shocked when they figure their numbers for the first time. If you feel your CODB is unreasonable (say, over \$1500 and your salary is only \$35K), then you might need to look at areas to cut back on. Maybe you don't need that Lexus SUV after all.

Knowledge is power and knowing the numbers that make your business work gives you all sorts of power in controlling your business. Be like Annie--know your CODB and use it wisely.