

EDITORS' NOTE Paul Goodman, MBA, PFCI, and Derrick Myers, CPA, CFP, PFCI, love a good financial management challenge, however big or small. Send your questions to [fmeditor@safnow.org](mailto:fmeditor@safnow.org), and we'll challenge the experts to tackle them in an upcoming article.



# PROFITABLE EVENTS START WITH PEOPLE

**Are you charging appropriately for event labor? Follow this formula to find out.**

BY PAUL GOODMAN, MBA, PFCI



SHUTTERSTOCK/INSPIRING

**A**n interesting thing happened during the COVID-19 crisis. Not surprisingly, most florists lost their wedding and event business. However, profitability went up for many florists. How? It seems reasonable that with large sales lost, profitability would go down. But the reality is that weddings and events apparently were not as profitable for many florists as the regular arrangement business that replaced them. Why? Florists are not charging appropriately for non-design labor.

## First, What Does It Cost?

Before you can determine what to charge, you need to know how much labor is costing you. There are several items you need to remember in addition to the basic hourly wage rate.

Add it up :

### Required taxes:

Social Security	6.2%
Medicaid	1.45%
Unemployment/Workers Comp	5%

### Optional benefits:

Paid Days Off*	0% to 8%
Health Insurance**	0% to 8%
Retirement Plan***	0% to 3%

**TOTAL 12.65% to 31.65%**

\*This 8% includes paid vacation at 10 days per year, five sick days and five holidays. Add 2% per five holidays. Add 2% per five paid days.

\*\*This 8% assumes you are paying \$200/month for a premium on a person making \$15/hour.

\*\*\*This 3% assumes you are matching an employee's contribution to a Simple IRA.

Of course, most retail florists will not offer all of these benefits. At a minimum, though, you will have payroll taxes, unemployment and workers compensation insurance, which will add at least 12.65% to your payroll cost.

Add up the expenses that apply to your shop. The final number will probably be higher than you thought. And your cost is not all that should be calculated into your labor rate.

## Consider Everything

Charging your customer only what the employee costs you in wages and benefits is not enough. What about overhead, not to mention a profit margin?

One of the largest overhead expenses related to employees is the cost of paying employees when they are not productive.

Very few people are productive all the time — coffee/refreshment breaks, bathroom breaks and social interaction are just a few of the distractions in an employee's day. Most firms that bill for professional time by the hour, such as attorneys or accountants, usually figure they can only bill out about 75% of a person's time, or about six hours a day.

Here's an example: Start with a designer making \$15.00 per hour. Assume taxes and minimum benefits will total 20%, which will add \$3.00 for a total of \$18.00. That means that employee will cost you \$144.00 for an eight-hour day ( $18.00 \times 8 = 144.00$ ).

Since you can probably only bill out six of the eight hours, you will need to charge \$24.00 per hour just to break even.

## Don't Forget Your Profit

Make sure you charge enough to cover the rest of your overhead and make a profit as well. It is not unreasonable to charge double your actual wage cost. In the example, that would be \$36.00 to double the actual hourly cost. You would need to charge \$48.00 per hour to receive enough in six hours to cover eight hours of cost for this employee. You can easily see how an automobile dealership comes up with \$50.00 to \$75.00 per hour — or more — for a service technician's time.

Of course, all your employees don't earn the same wage, so you will either have to calculate a separate rate for each employee or strike an average. It is generally a better business practice to take the time to establish an individual rate for each employee. That way, the customer will be paying for the actual talent being used — more for the experienced designer, less for the assistant. Since doing individual calculations requires a lot of math, and you probably have a lot of other things to do, use the table above to make the calculations easier.

The table has three columns. The first one is the percentage of taxes and

## LABOR RATE MULTIPLIERS

Calculate the cost of your payroll taxes and employee benefits as a percentage of your wage rates. Select either the column to charge for eight hours per day or six hours per day. Use the multiplier in the column you selected that is to the right of your percentage of taxes and benefits. Multiply each hourly wage by the multiplier to get what you need to charge per hour for that employee's labor.

Percent Taxes & Benefits	Charging 8 Hours Per Day*	Charging 6 Hours Per Day*
10%	2.20	2.93
15%	2.30	3.07
20%	2.40	3.20
25%	2.50	3.33
30%	2.60	3.47
35%	2.70	3.60
40%	2.80	3.73
45%	2.90	3.87
50%	3.00	4.00

(\*The eight hour per day column assumes your employees are productive all the time. The six hour per day column assumes you need to cover their eight-hour cost while only billing for six hours.)

benefits you offer in your shop. There's no shortcut for that one — you'll just have to take the time to add it up. The next two columns give you a number you can use to multiply your employee's wage rate. The resulting number is the hourly fee you need to charge for that employee.

The difference between the two columns is that the first column assumes your employee is productive all eight hours in a given day. In other words, use this column to get your multiplier when you only want to charge for the actual hours worked on the job. You're not trying to get a little extra to cover for downtime. The third column assumes you want to charge enough to cover for downtime of two hours out of eight. It's the "full-blown" rate.

## Hourly or Fixed Charges?

Some customers are uncomfortable being charged by the hour. They want to know up front what the total cost will be, and they want a fixed charge for the extra setup labor.

In this case, estimate how long you think it will take and how many employees will be needed. Suppose you are going

to use one \$45.00 per hour employee and another one who is only \$30.00 per hour. That's a total of \$75.00 per hour.

If you estimate the setup will take two hours, you could quote a fixed fee of \$150.00 for the setup. Of course, if it took longer, you'd eat the additional cost. On the other hand, if your employees are efficient and speedy, you will make more than what you would have made charging by the hour.

## All the Time Adds Up

Remember, you are paying your designers from the time they leave to set up the wedding until they return to the shop. There's also preparation time before they leave. Make sure you calculate that extra time into your total time calculation.

If you charge appropriately for non-design labor, you will see your wedding and event profitability go up — and that's the goal. 🌸

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