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Part 1: Pricing Portrait & Wedding Photography

This month, Professional Photographer presents the first part of this series, a look at some underlying pricing considerations for portrait and wedding photographers.

Of all the many services-for-hire, photography is one of the most difficult to price. The complex nature of the service being rendered makes it a challenge to determine how much to charge for most types of portrait or candid photography.

Most businesses provide a service, sell a product and/or manufacture goods. Photographers, however, provide a service, sell a product, and usually they supervise the “manufacture” of the product. This makes the management aspect of a photography business infinitely more complicated than other businesses and adds complexity to the task of pricing photographic goods and services.

The task of pricing photography is greatly simplified when you understand the relationship between what it costs to do business and how much to charge in order to be profitable.

Business Functions that Affect Pricing

The profession of portrait and wedding photography comprises four essential business functions: marketing and merchandising; client consultation/education; product sales and service; and product manufacture. Each function has a reciprocal effect on the studio’s pricing structure, which in turn has a profound impact on the photographer’s ability to manage the business.

Too many novice photographers set

their prices according to a competitor’s price list. This can be a fatal management mistake, not simply because a competitor may have set his prices too high or too low, but because these prices most likely do not reflect the new photographer’s cost of doing business or his place in the market. No two businesses are alike, and it is the differences among them that affect pricing.

Factors that Affect Pricing

Among the factors that affect pricing portrait and wedding photography are the quality of the photography, the perceived value of the work, the cost of doing business, and the amount of business that can be transacted by a given staff.

In general, photographers pay entirely too much attention to what their competition is doing and not enough to improving their own products and services and promoting their businesses. Competition *can* affect your success in reaching a targeted market when a rival business delivers a credible product at a much lower price. Tough competition, however, never justifies dropping your prices below the cost of doing business. Instead, develop strategies to make the public perceive that your products and services are superior to, and a better value than, the competition’s.

The Cost of Doing Business

The quality of your work and its perceived value are qualitative attributes, and are somewhat subjective. The *quantitative* attributes of doing business—the amount of business you can handle and the business expenses you

will incur—are the most important indicators in setting prices.

Photographic expenses fall into three categories: Capital Expenses, Cost of Sales, and General Expenses.

Cost of Sales and *General Expenses* are day-to-day expenses. *Capital Expenses*, like equipment, furnishings, business buildings, and vehicles, are “expensed” over time through depreciation. General Expenses are often referred to as “overhead” or “indirect expenses.”

Cost of Sales is sometimes called “cost of goods,” “cost of goods sold,” or “direct expenses.” A good way to differentiate between Cost of Sales and General Expenses is to remember that you incur Cost of Sales expenses by creating a product only when you have a customer to serve, but General Expenses are ongoing—they exist whether or not you have any customers. For example, a wedding photographer doesn’t have to buy film in January if she has no weddings in January, but she still has to pay the electric bill for the studio.

Determining Cost of Sales

Whether you are a part-time wedding photographer or a full-time studio owner, accurate financial record keeping is essential. Financially successful photographers do not run their businesses by seat-of-the-pants accounting. They know where their money comes from and where it goes. Pricing is directly related to accurate record keeping and affects both money coming in (income) and money going out (expenses).

You begin the process of pricing your

work by identifying the Cost of Sales for each item you intend to price, from wedding packages to individual photographs.

In portrait and wedding photography, Cost of Sales is made up of the goods and services that are required to create the products you sell. Some of these are easy to identify and account for, such as film, film processing and proofing, albums, frames, and presentation mounts. Others, such as proof albums that you might reuse several times before discarding, are harder to account for because you must arrive at a figure that reflects their useful life.

Other Cost of Sales that are easily overlooked include packaging materials for your proofs and finished pictures, retouching costs, mounting materials, and finishing sprays. Retouching costs are particularly easy to miss when an employee serves as both office worker and retoucher. In this case, you must assign a per-job retouching cost when calculating prices.

Another tricky Cost of Sales expense is the salary paid to the photographer. Generally, the salaries of full-time employees are considered as part of business overhead, and these wages and benefits are accounted for under General Expenses. However, the wages paid to contract laborers you hire occasionally for specific jobs, such as photographing weddings, are accounted for as a Cost of Sales expense under the heading "contract labor."

A contract laborer is a non-salaried worker for whom you do not pay employment taxes. The contract laborer is required to submit an invoice for his or her services, and the business owner must report the income he pays to this individual on relevant governmental documents (your accountant can give you this information). However, a contract laborer who works only for you can be deemed an employee in a government audit, and you could be forced to pay back taxes and penalties on the laborer's wages.

Some business owners, particularly



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those who plan to supervise photographers rather than shoot assignments, will establish a job cost for sessions they photograph themselves. Then they pay themselves for two separate functions: as the photographer and as the owner/manager. This clearly shows the studio owner how much it would cost to replace himself with an employee and how much he can expect to receive as the owner/manager when he does. Accounting for the owner's compensation is complicated, but at least in the early stages of a business, it is generally preferable to view owner's compensation strictly as a General Expense item.

Here are some typical Cost of Sales categories and items in a portrait/wedding photography business:

- Film, black-and-white and color.
- Contract labor or hourly rates based on the kind of photography you are pricing (which usually comes into play with wedding photography).
- Lab costs: film processing, printing proofs, making finished prints (be sure to include chemical and paper costs for all items produced in-house).
- Shipping charges for proofs and finished pictures.
- Retouching/print finishing,

including artwork charges and supplies, print spraying charges or supplies, mounting charges or supplies (if an employee will do these tasks, a per-job charge must be established).

- Accessories such as frames, albums, proof folios/presentation mounts, photographic merchandise, and packaging materials.

Why Cost of Sales is Important

The obvious reason why accurate accounting of Cost of Sales is so important is that you have to know what your costs are in order to charge enough to make a profit. Yet some novice photographers, because of their enthusiasm for making pictures, actually charge *less* for their finished work than they spend for the raw materials. This happens because it is easy to overlook charges such as retouching or shipping and handling. More than a few photographers have forgotten to list film as an expense!

Once you know how much it costs to make your various products, it is a relatively simple matter of mathematical mechanics to determine how much to charge in order to be profitable. These mechanics are the subject of "Pricing Wedding/Portrait Photography: Part II." ■

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Part II: Pricing Portrait & Wedding Photography

In last month's installment, you learned how to identify the various costs that go into manufacturing your photographic products, the first step in the pricing process. Now we can move on to understanding the mechanics and mathematics of pricing products according to photographic industry standards.

Let's assume that you have calculated the total of the various costs that go into one of your products. How do you decide how much to charge?

You cannot answer this question until you know how much profit you intend to make, as well as your General Expenses costs, those everyday costs of running a business that must be paid—even if you don't have any customers—such as your salary, your employees' salaries, studio/office overhead, various administrative costs, and depreciation. In order to price for profit, you must understand the relationship between Cost of Sales, General Expenses, and Profit, which is expressed below in percentages:

Total Sales	100%
- Cost of Sales	40%
= Gross Profit	60%
- Gen. Expenses	50%
= Net Profit	10%

This relationship means that for every dollar (expressed as 100 percent) received from the customer, not more than 40 cents (40 percent) of that dollar

should be spent to make the product. In determining that the maximum allowable Cost of Sales is 40 percent of Total Sales, you establish a discipline that affects not only your pricing, but also the rest of your business structure. When you subtract the 40 percent Cost of Sales from your Total Sales, the resulting Gross Profit is 60 percent. Gross Profit is the amount remaining after your product is produced. If, as the figures above suggest, you are successful in limiting your General Expenses to 50 cents for every dollar received (50 percent of Total Sales), then you will realize a Net Profit of 10 cents (10 percent) for every dollar received.

These ratios help to pinpoint troublesome areas in your business. Should you experience a drop in profits that is not related to a decline in sales, you can determine where the problem lies by looking at your Cost of Sales and General Expenses percentages to see if either is out of line in relation to your desired ratio.

We suggest that your Cost of Sales should not exceed 40 percent of your Total Sales—for every dollar you take in, it shouldn't cost more than 40 cents to manufacture your product. This is a *maximum* guideline. Industry experience shows that when Cost of Sales rises above 40 percent, only a business with exceptionally low General Expenses can survive. Studios with higher building overhead or salaries, for example, must operate at a lower Cost of Sales percentage in order to accommodate the high General Expenses without

jeopardizing Profit. Most financially successful photographers, in fact, suggest that 30 percent is a more realistic Cost of Sales guideline.

As you become accustomed to monitoring your Cost of Sales percentage, you will learn, as the figures below reveal, that when you lower Cost of Sales to 35 percent (*Figure B*) from the original 40 percent relationship (*Figure A*), with all the
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Figure A
40% Cost of Sales • 50% General Expenses

Total Sales	100%
- Cost of Sales	40%
= Gross Profit	60%
- General Expenses	50%
= Net Profit	10%

Figure B
35% Cost of Sales • 50% General Expenses

Total Sales	100%
- Cost of Sales	35%
= Gross Profit	65%
- General Expenses	50%
= Net Profit	15%

Figure C
30% Cost of Sales • 60% General Expenses

Total Sales	100%
- Cost of Sales	30%
= Gross Profit	70%
- General Expenses	60%
= Net Profit	10%

(continued from page 16)
other factors being equal, Net Profit increases by 5 percent. If you lower your Cost of Sales to 30 percent of Total Sales, you can increase your General Expenses to 60 percent of Total Sales without changing the Net Profit of 10 percent (Figure C).

Monitoring Cost of Sales

Monitoring your Cost of Sales percentage is one of the most important keys to business success, because it allows you to bring discipline to the manufacturing function of your business. If you observe a trend toward a higher Cost of Sales over a period of months, then you are alerted to the need to lower your manufacturing cost ratio. Otherwise, you jeopardize your "bottom line" or Net Profit. There are only three methods of lowering your Cost of Sales ratio:

- Find less costly ways of producing the product.
- Use smaller amounts of goods (such as film) to produce the product.
- Raise the price of the product.

The Mechanics of Pricing

Setting prices, then, begins with the mechanical exercise of determining all of the goods and services that go into each product. (Remember that you do not include salaries of studio employees who are on your full-time or part-time payroll; only the costs of contract laborers are included when setting prices.) The next step is to multiply those costs by a mark-up factor that assures your prices will achieve the Cost of Sales (COS) you require, given the amount of your General Expenses and desired Profit. The factor itself is determined by dividing the Cost of Sales percentage into 100. For example:

To arrive at the mark-up factor for a

COS of 40%, divide 40 into 100. The result is a COS factor of 2.5.

To arrive at the mark-up factor for a COS of 35%, divide 35 into 100. The result is a COS factor of 2.9.

To arrive at the mark-up factor for a COS of 30%, divide 30 into 100. The result is a COS factor of 3.3.

Thus, if production of an item takes \$100 worth of materials, its price would be:

At a 40% Cost of Sales: Multiply \$100 by 2.5. The price would be \$250.

At a 35% Cost of Sales: Multiply \$100 by 2.9. The price would be \$290.

At a 30% Cost of Sales: Multiply \$100 by 3.3. The price would be \$330.

In Part III of this series, we will price a typical wedding package through manual calculations as well as through the use of time-saving computer software. ■

Ann K. Monteith, PPA Certified, M.Photog.Cr., and husband James R. Monteith, PPA Certified, M.Photog.Cr., are the owners of Monteith's Countryhouse Studios, in Annville, Pennsylvania. This article is an edited excerpt from her book, *The Professional Photographer's Management Handbook* (Marathon Press: 800-228-0629). Monteith is a member of the Professional Photographers of America Board of Directors and chairman of the Board's Business Initiative Committee. The well-known industry educator is director of Ann Monteith's Guerrilla Management Workshops (details: 800.842.2349; www.monteithworkshop.com).

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Part III: Pricing Portrait & Wedding Photography

In the first installment of this three-part series, you learned how to identify the various costs that go into manufacturing your photographic products. In Part II, we reviewed the mechanics of pricing a portrait. Now we'll look at pricing a typical wedding package both the old-fashioned way and with time-saving computer software.

Pricing an Economy Wedding Package:

The elements:

- Six hours coverage
- One bridal album with 24 8x10-inch prints
- Two parent albums, each with 20 4x5-inch prints

In this exercise, we'll price each of these three elements separately, then combine them to arrive at the cost of the Economy Wedding Package. There's a practical reason for pricing the elements separately: You can easily add products

to the price or price different packages. For example, you might wish to offer 50 images in the bridal albums instead of 24, with the same six hours of coverage.

Costs for each element:

Six hours of coverage includes

Processing & proofing 10 rolls of color print film @ \$6.50/roll	...\$65.00
Proof shipping	.....\$2.00
Proof book (@ \$50, but used 3 times)*	.....\$16.50
Proof book shipping	.....\$2.00
Six hours contract labor @ \$25/hour	.....\$150.00
10 rolls of color print film @ \$3.50	.....\$35.00
Total	\$270.50

* *Divide the cost of the proof book—or any reusable element—by the number of times you expect to use it before it wears out and is discarded.*

24-Page 8x10-inch Bridal Album

8x10 album cover	.....\$50.00
8x10 album cover imprint	.....\$5.00
Studio imprint	.....\$2.00
8x10 album inserts, 12 @ \$3 ea.	...\$36.00
8x10 album mats, 24 @ \$1 ea.	...\$24.00
Album shipping	.....\$5.00
8x10 deluxe color candid prints, 24 @ \$4.10 per print	.....\$98.40
Print order shipping charge	.....\$2.00
Total	\$222.40

20-Page 4x5 Parent Album

4x5 album cover	.....\$40.00
4x5 album cover imprint	.....\$3.00
Studio imprint	.....\$2.00
4x5 album inserts, 10 @ \$2 ea.	...\$20.00
4x5 album mats 20 @ \$0.50 ea.	...\$10.00
Album shipping	.....\$5.00
4x5 deluxe color candid prints, 20 @ \$1 per print	.....\$20.00
Print order shipping charge	.....\$2.00
Total	\$102.00

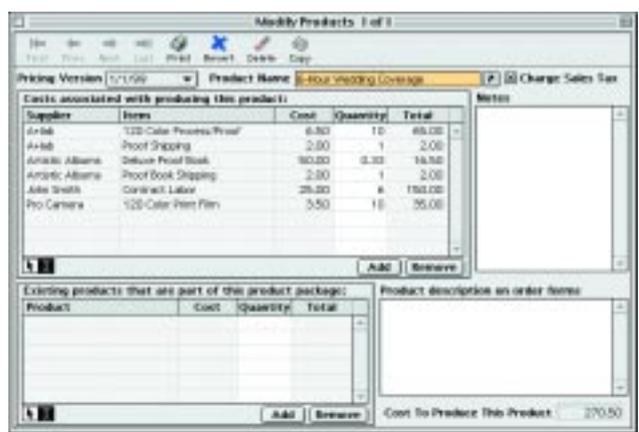


Figure 1

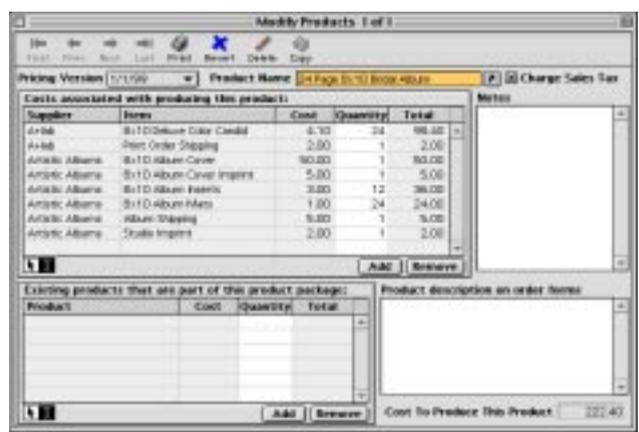


Figure 2

For the Economy Wedding Package, add:
 Six-hour coverage\$270.50
 24-Page 8x10 Bridal Album\$222.40
 20-Page, 4x5 Parent Albums,
 2 @ \$102 ea.....\$204.00

Economy Wedding Package Costs \$696.90

To calculate the price at a 30 percent Cost of Sales mark-up, multiply \$696.90 by a factor of 3.3:

$$\$696.90 \times 3.3 = \$2,323.00$$

(The 3.3 figure, as applied by SuccessWare software, represents a calculation of three-and-one-third to an extensive decimal factor, thus a higher total than your own calculation might yield.)

What's critical here is going through these mechanics for each of your products, being certain to include the costs of each element. The resulting figures are the minimum price you can charge to make the sale profitable. In the exercise above, to achieve a profitable sale at 30 percent times Cost of Sales, you must charge at least \$2,323 for the Economy Wedding Package. (Generally, you will round off the total to arrive at \$2,350.) If you believe a higher price will still be competitive, raise it accordingly.

It can be tedious keeping track of the various costs in creating each of your photographic products, and then calculating your prices using the correct Cost of Sales mark-up factor, and there's plenty of room for error. Automating

the task with a computer lessens both the monotony of the process and the opportunity for error. SuccessWare studio management software is the only management package that includes pricing software as part of its fully integrated applications. It is available for both Macintosh and Windows platforms (800-593-3767; www.successware.net).

In Figures 1 through 4, note that the costs in each component in the Economy Wedding Package and the Package itself are automatically calculated by the software (see lower right field). Each cost was obtained by simply clicking on the relevant cost from the menu of costs that have already been entered and stored. In Figure 5, the four products have been added by a simple mouse click to the Weddings product line, which already contains a 16x20-inch canvas portrait. The figures in the "Cost of Sales Price" column were automatically calculated with a 30 percent Cost of Sales

mark-up. Note also that the figures in the "Price" column are entered by hand to reflect the price that you will actually charge the client, with the resulting COS percentage posted in the right column.

Given the ease of entry and the automation software offers, photographers no longer have an excuse for not pricing their products for profit, a building block of financial success. ■

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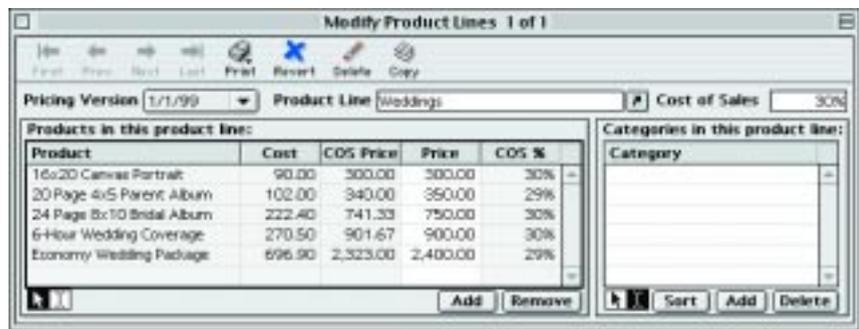


Figure 5



Figure 3

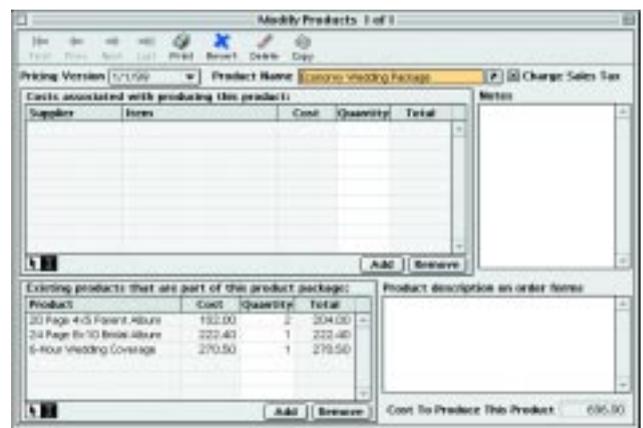


Figure 4