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Time As a Job Cost - How to Best Put a Value to Time

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For most agencies in the creative industry time is the main generator of fees and revenue. Although a number of companies also have some income from buying and recharging third party costs and in particular start-up companies might utilise freelancers* for their work, in the majority of firms staff time creates the biggest value on a project.

When implementing job costing systems and running training courses at management level the issue of how to best value time often comes up in discussions.

The value of time can at the most basic level be calculated twofold:
- the cost of staff time to the company
- the fee value of time used for client billing

In addition to that more levels are thinkable:
- a super profit fee value of time where for certain clients a mark-up is applied to the average fee value for client billing
- the fee value of time in foreign currency for overseas client billing

This article will concentrate on the first two as the most commonly used values.

Whilst the fee value of time is easily specified as it is a value made up by the company, it is not as straightforward to find the cost value of time. A semi standard seems to be to triple the salary cost of a person in order to allow for employers contributions as well as an overhead apportionment for office space, equipment and maintenance. Having calculated this annual cost of a person you then divide it by working days in a year and finally by the normal hours you expect your staff to work on a day in order to get to an hourly cost.

Despite all the detailed underlying calculations this cost rate per hour will still not be an exact value but only an approximation as factors not included in the calculation might impact on it. The main factor on that is unpaid overtime. Staff is supposed to record all time against jobs. This includes time outside their normal time that they require to complete a job. For the business it is important to record this time as every hour spent on a job should add to its billing value. However every hour in excess to the standard hours will then also add a cost value to the job and the business, even though there is no extra cost generated if overtime is unpaid. Some firms solve this problem by setting up their timesheet system to reset the cost value to zero if a number of hours is exceeded. Although this will then make the overall cost of time for the business more real, it will not have a benefit on the job costing side as the extra time after office hours could have been spent on any project. This system would therefore artificially increase the profitability off every last job of the day.

As a result of all those implications many agencies completely ignore the cost value of time and treat the billing value of time as the main job costing value. For them the billing value is the only accurate value as the firm specifies it. It is also the break-even value of a job. Any time spent exceeding the budget and not billable will mean a loss to the enterprise.
From a project costing point of view this appears to be the preferable solution for them.

*Bendel, V. (2008, June 1). "How to Account For Freelancers in the Creative Industry" published on this website.

© 2008 Volker Bendel - Volker Bendel is manager of the training department of Agency Software Worldwide, the producers of the "Paprika/Rebus" job costing software (http://www.paprika-software.com) - (http://www.rebus-software.com) Originally from a legal background, he has several years experience in planning and implementing Job Costing and Accounting Software Systems in the Creative Industry. He has also delivered training courses in the UK, Europe, Dubai, the US, China and Australia. Prior to that he worked as a senior business consultant in Hong Kong and as a department manager of a design department in Hong Kong.

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