

How to calculate hourly rates

“Money is like gasoline during a road trip. You don’t want to run out of gas on your trip, but you’re not doing a tour of gas stations.” - Tim O’Reilly

If you have never worked as a contractor (consultant, temp), it can be really tough to answer the question “How much money do you want to make.” How you choose to answer this might just change your life ... for the better or worse. I know it sounds dramatic, but it’s true. I have watched far too many people just sit back and take whatever is offered to them, then wake up a year or two (or ten!) later and realize that they have been grossly underpaid. Don’t let that happen to you! It might make your stomach turn to think about it, but you need to protect yourself and figure out what you’re worth ... and then go ask for it. I promise: if you follow my recommendations, you will come back and thank me later.

There are 3 ways to get paid as a contractor / consultant

1. SALARIED EMPLOYEE (some firms hire full-time, salaried employees as consultants and offer limited benefits. You need to understand that even if they say they will pay you for "bench" time in between projects, in this economy few firms will pay you off assignment longer than a few weeks. They will lay you off if they cannot place you quickly.
2. W2 HOURLY EMPLOYEE (sometimes with healthcare benefits. Always with them acting as your employer, and withholding taxes and paying employer taxes)
3. 1099 (INDEPENDENT CONTRACTOR). This is called "corp - to - corp" and means that you will need to set yourself up as an LLC or S-Corp ... start your own business. In this situation, you will be responsible for paying all your own taxes and running your business like a business. This really can be a GREAT way to make a nice living, but you need professional advice when you are starting out. It is critical (and expected) that you mark up more if you are a 1099. Customary markup is in the 40-100% range ONCE YOU BUILD A REPUTATION OF EXCELLENCE. Right out of the gate, on your fist contract, that is tough to get ... but it can be done sometimes.

You can’t always get what you want (or what you’re worth!)

Reality: Some companies pay way more than others for contractors, and some pay under market. It varies from company to company, from hiring manager to hiring manager, and quite frankly according to how badly they need your skills (when they are desperate, they are willing to pay more). NOTE: Short-term contracts usually pay more than long-term contracts. Employers know that short-term contracts are a higher risk to individuals, so they usually sweeten the pot and offer more money per hour to get someone to take a short-term contract.

A quick way to calculate hourly rate from a salary

1. Figure out how much money you make on an annual basis (salary)
2. Divide that annual salary by 2000 hours (50 weeks of work x 40 hours per week).
3. ADD 30% MINIMUM to account for your other benefits. You usually need 30% - 50% on top of an hourly rate to BREAK EVEN.

A more accurate way to calculate comparable hourly rate

1. Figure out what you make on an annual basis
2. Add up all the value of all your other benefits and attach a monetary value to them. For example ... 2 weeks vacation? That's 80 hours at your hourly rate. 401K match? If you used it, that's cash you will no longer be getting, etc.
3. Calculate the difference between what you real take-home hourly rate was at previous job, and compare to the rate you are being offered.

EXAMPLE: John made \$50,000 last year plus health insurance, life insurance, disability insurance and a 401K match. Base pay of \$50K is equal to \$25 per hour. He needs to add a MINIMUM of 30% (which is \$7.50) to get \$32.50 per hour. He checked the market rates and found that he could be paid anything from \$27 per hour to \$39.00 per hour with his skills and experience. A lateral move for him would be \$32.50, but that does not give him any financial cushion. Given the market and his experience, I suggest he start by asking for \$39 per hour ... and consider anything down to \$35.00 per hour.

Before you go on your first meeting / interview ...

1. Do market research to FIGURE OUT WHAT YOU ARE WORTH.
2. KNOW WHAT YOUR PERSONAL BOTTOM LINE IS (the lowest you will take) BEFORE you go on your first interview with them. This is very important. Otherwise, in the heat of the moment, you might cave and regret it later. I have watched WAY too many people do that. Heck, I did it myself in the beginning!

***** IF YOU NEED A JOB RIGHT NOW, YOU MIGHT HAVE TO SETTLE FOR LESS MONEY. AND THAT'S OKAY.** Cash is king! When we need a job, we need a job. Every day of unemployment means you are essentially losing money. Seriously.

How to ask for a higher rate

If they are offering you below-market wages, you should ask for more money per hour. This might sound brutal to you, but it is a business decision for them and for you. Think about buying a car or buying a house. Both sides want a good deal, but do not want to disappoint the other side so badly that the deal falls apart.

1. Tell them you're excited about the job. "Thanks very much for the offer. I am really excited about this opportunity and can't wait to get started.
2. Tell them you've reviewed the offer and everything looks good ... except for one thing: "I have reviewed the offer, and everything looks good except for one thing: the rate. I used to make \$_____ per hour (OR ... "I've been talking with other people, and doing market research and other companies are paying \$_____ to \$_____ for this kind of work). Will you consider raising that rate to \$_____?"
3. Stop talking. LISTEN. Let them talk! If there is an uncomfortable silence, WAIT! They will eventually say something. Let them respond before you dare to backtrack or say anything like "Never mind."

What to do if they won't raise the rate

That depends on you. What is your bottom line? How badly do you need and want the project? Only you can make that final decision about what you are prepared to accept.

Know this: Rates vary from company to company

In other words, you might get \$120.00 per hour from one company, and \$175.00 per hour from another company ... for similar work. The 12 Factors affecting your pay also affect contractor rates. So, if you take less than you want for one project, you can quickly make it up on your next project.

Good luck! I know it's scary ... but not nearly as scary as you think it is. It never is.
