

The background of the slide features four vertical glass test tubes. The first tube on the left contains clear water. The second tube contains water and several green leaves. The third tube contains a dark, woody stem. The fourth tube on the right contains a bundle of green, needle-like leaves. A solid brown horizontal band is overlaid across the middle of the image, containing the title and author information.

# TESTING PRICING MODELS

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# The value in evaluation

This booklet *isn't* about what one should charge. What you should, want, or need to charge to make your editorial business sustainable may be different from what I should, want, or need to charge to make my business sustainable.

Rather, I'm focusing on how even experienced editorial freelancers should regularly evaluate what they are charging and how they are determining the price for a job, and whether they should introduce new pricing models that could increase their income.

We're in the world of testing.



# Your business health

If you don't know the following:

- what you need to earn each fiscal year (required earnings)
- what you are earning each fiscal year
- how many hours you are working to achieve this income

you can't evaluate whether your business is profitable or unprofitable, nor whether it is in financial growth, stagnation, or decline.

And if you can't evaluate the health of your editorial business, you won't be able to evaluate the impact of introducing new pricing models, new services, new working-week regimes ... new anything, in fact!



# Tracking the data

Data tracking doesn't have to be complicated. I use an Excel spreadsheet to track my work schedule and earnings. Each line in my annual spreadsheet tells me the name of the client, the client type, the title of the project, the word count, the price charged, the time taken to complete the job, the dates for arrival and completion, an invoice number, the number of words per proofread per hour, and £ per hour earned. At the end of the year, I can see at a glance:

- my total earnings
- my average billable hourly rate
- my average billable rate per 1,000 words

I like to record previous years' totals on my current spreadsheet so that I can make quick annual comparisons. In this way, I have a macro view of my business. I can also look at micro issues including, but not limited to, whether particular types of work are proving more lucrative than others. I can see what's working well and what's working less well. That tells me how I might want to focus future marketing activities in order to expand the amount of work I do in the most profitable sectors.



# Recording quotation requests

You might also like to all requests for a quotation, so you know how much work you turn down, refer, make an offer on, and whether those offers convert into bookings or are rejected by the client. That data you might consider worth collecting could include:

- the type of client (e.g., student, agency, author, publisher)
- the date the request was received
- the type of work (e.g., thesis, book, report)
- your response (offer, referral, decline)

The data that you need to collect and evaluate will not necessarily be the same as the data that I need to collect and evaluate. One thing's for sure, though – the more data you collect, the more insightful your conclusions will be.



# Testing different pricing models

Even experienced editorial freelancers can fall into the trap of not testing different ways of pricing. When I set up my business, most of my work was for publishers. In the main, the publisher offered an hourly rate and a budgeted number of hours in which they expected the work to be completed. I would accept, negotiate, or decline.

I became used to thinking in terms of hourly rates, and this model was the one I used to build a price when I was quoting for other client types, even when I was in control of setting a price.

There's nothing wrong with this type of model. However, it's not the only option; and even if it is the most profitable way of working for person X, it may not be the most profitable way of working for you.

Furthermore, different models may yield better returns depending on client type or editorial service. What is certain is that unless you test different pricing models, you won't know one works best for you.



# Looking at the macro

My data tracking, reviewing, and testing decisions are particular to my business. I'm a sentence-level editor who now specializes in working on book-length projects for independent authors of crime, mystery, thrillers and suspense. But that hasn't always been the case. Some years ago I still had a broader range of client types.

After several insightful discussions with a trusted colleague/friend who used a different pricing model to my hourly rate one, I decided to take another look at my data.

First, I looked at my macro-level totals. These told me that my business was growing year on year. That's all well and good, but what about the micro data?



# Digging down to the detail

By looking at the micro data, I was able to see which client types were giving me the best value for money for every hour I worked for them. At this point I was charging by the hour.

My data told me the following:

- I earned less on average from publishers than from independent authors, students, and businesses.
- 3 publishers were outliers and were competitive with my other client types.
- Many publishers were offering uncompetitive (for me) rates, though they were low-risk: long-term customers who paid on time, offered regular work, and were enjoyable to work with.
- I was turning down a lot of work from indie authors and students because there was no room in my schedule. Some of those slots were being taken up by the less-competitive but long-term, low-risk, much-loved publishers!





# The pricing-model test

I decided to test the per-1,000-words pricing structure for indie authors, students, and businesses. I created a formula in an Excel spreadsheet that uses an array. The array is useful because it takes a large number and breaks it into blocks of units that can be priced differently.

So, for example, one could set up an array formula such that the following prices might be generated for, say, proofreading (examples for demonstration only):

- Initial 2,000 words: £18 per 1,000 words
- Next 3,000 words: £14 per 1,000 words
- Next 5,000 words; £10 per 1,000 words
- Next 20,000 words; £7.50 per 1,000 words
- Next 10,000 words; £7 per 1,000 words
- Next 10,000 words; £6 per 1,000 words
- Next 10,000 words; £5 per 1,000 words
- Next 20,000 words; £4 per 1,000 words



Thus:

- 100K-word novel = £658. Average rate per 1,000 words = £6.50
- 40K-word novella = £348. Average rate per 1,000 words = £8.70
- 10K-word business report = £128. Average rate per 1,000 words = £12.80
- 2K-word children's book = £36. Average rate per 1,000 words = £18

Remember, these numbers are just for demonstration. I'm not suggesting anyone should charge (or not charge) these fees. You could build different arrays for different client types or different services. These would reflect the different demands of the work.

What's relevant here is that the array formula allows you to **build economies of scale into a pricing structure.**



# My test results

I introduced the test pricing model in August 2015. One year later, my average earnings per hour were 40% higher. That increase is a piece of macro information that's pleasing to note, but the micro data are worth discussing, too. My post-test evaluation of the data told me the following:

- When I charged indie authors, students, and businesses on an hourly basis, I earned less on average than when I set the fee on a per 1,000 words basis.
- When I set my fees on a per 1,000 words basis, I earned more per hour from businesses than from students and indie authors.
- The business projects tended to be much shorter in length. Therefore, the total earnings per project were higher when I worked with indie authors and students.
- All of the businesses wanted a fast turnaround, which incurred a premium rate (hence the higher per-hour earnings mentioned above) because of the out-of-hours nature of the work.



# The post-test evidence-based choices

Evaluating the data helped me to work out where I might have been guilty of basing my pricing structure on untested assumptions, and where there could be room for improvement. Testing, and evaluating the results of that test, enabled me to make evidence-based decisions about client focus and marketing. Personally, I prefer to have fewer short turnaround projects on my books, and a greater number of longer, but profitable, projects.

The test results led me to make the following decisions:

- I whittled down my publishers to those few whose rates are competitive with my other clients. That meant saying goodbye to some long-term clients whom I had very much enjoyed working with.
- I now focus my promotion solely on the independent-author market.
- I now favour a price per-1,000-words model over a per-hour model.
- Fast-turnaround work for businesses on a per 1,000 words basis is very lucrative but rarely fits comfortably into my schedule because of the large amount of book projects I'm am commissioned to work on. I prefer not to work out of hours so I've increased my out-of-hours premium levies (from double to triple) to reflect this position.



# Fine-tuning

If I'd not recorded and evaluated my data, I wouldn't have been able to evaluate the then current state of my business and identify opportunities for potential growth.

Following on from that, I'd not have been able to take actions (e.g., the pricing-model test) that would affect the future state of my business.

In my case, it's not just the change in pricing model that impacted on the increase in my average billable hourly rate. Looking at the micro elements of my work schedule and accounting information helped me to fine-tune my existing client base.



# Making choices for growth

Owning an editorial business means you have **choice** – choice about what to charge and how to charge, and choice about what to accept, negotiate on, or decline. What works for your colleagues may be less fruitful for you. Some pricing models may work better for particular client types. And different types of editorial service may favour different fee structures.

When it comes to pricing, **what you know** is as important as **what you charge**. If you're basing your fee structure on untested assumptions, you might not be getting the best out of your editorial business.

I recommend that we all regularly look at our work schedules and accounts in detail, evaluating the data at micro and macro levels.

We should ask ourselves whether there's room for improvement and consider testing new models (pricing, of course, isn't the only thing we can test).

In this way, we can make **evidence-based** decisions about how to charge, where to target our marketing, and which clients to say goodbye to and which to retain.

