

CollaboraTeS Toolbox

Collaborative Technical Services

Figuring Out What to Charge for a Service (How Much Does it Cost?)

Before two institutions can determine the price of performing a service, they must estimate the cost of doing the tasks involved. Knowing what it costs to do a task can be useful for planning purposes and for deciding what to charge the library needing the work. Costs are often very specific to individual institutions. There is also an array of costing models. Choose the one that best suits the situation.

Since the single largest item in most library budgets is the cost of paying the employees, a very easy method of estimating the cost of doing something is:

$$\text{employee wages} / \text{time} = \text{cost}$$

The cost of the employee wages is divided by the time it takes to do the task. The latter can be determined through time-study. This model works well when it is reasonable to estimate how long it will take to do something. Tasks of different types, or tasks done by different types of staff, can be added together.

A truer cost for employee contributions includes the cost of employee benefits:

$$(\text{employee wages} + \text{benefits}) / \text{time} = \text{cost}$$

Benefit costs can include: social security, disability, unemployment, FICA, life insurance, medical insurance, tuition or retirement. Check to see if the institution has already determined standard values for benefit costs.

Or, calculate how much an employee makes by the hour or minute and then multiply that by the time needed to perform the task:

$$((\text{Cost per year for wages \& benefits}) / 2,080) / 60 = \text{Cost per minute for work}$$

$$\text{Cost per minute} \times \text{the number of minutes to do the task} = \text{cost}$$

This calculation is based on working 52 weeks per year using a 40 hour work week (2,080 hours per year). Dividing this number by 60 provides the cost per minute. Of course no one would actually work every bit of this schedule, but this calculation can provide a simple estimate.

Models exist for calculating how many hours employees routinely work. Check to see if the institution has defined figures they use for this purpose.

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Or, base the cost estimate on the percentage of time an employee spends doing the task being measured. This provides the annual cost:

$$(\text{employee salary} + \text{benefits}) \times \text{percentage of their time spent doing the task} = \text{annual cost}$$

However, this estimation does not provide information on a task-by-task basis unless information is included on how many times the task is performed:

$$((\text{employee salary} + \text{benefits}) \times \text{percentage of time}) / \text{number of times done} = \text{cost}$$

Supplies that are used to perform tasks can be costed on a task-by-task basis and included in the calculation:

$$((\text{employee wages} + \text{benefits}) / \text{time}) + \text{cost of supplies} = \text{total cost}$$

The cost of all sorts of supplies can be derived by dividing the cost for the supply by the number of items in the supply.

Overhead and indirect costs can be included in the cost calculation when it makes sense. These are costs that are not directly related to a specific activity. A traditional accounting method to determine these costs is to allocate indirect costs based on the percentage of labor costs. For example, if 60 percent of the salaries are directly associated with the activity under study, then 60 percent of the indirect costs would be assigned to the total cost. This provides a truer cost of performing tasks, but it is also more complex to calculate.

Overhead and indirect costs can include the cost of:

- Automation hardware and software
- Training, policy development, documentation
- Supervision, administration, clerical support
- Postage, shipping and routing services
- Finance, bookkeeping
- Utilities, telephones, insurance
- Security, custodial services
- Space or rent



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