Adapted from ‘Professional Investigations: Individual Locates, Backgrounds and Assets & Liabilities’ by Dean A. Beers, CLI, CCDI and Karen S. Beers, BSW, CCDI

CALCULATING YOUR FEES AND ACTUAL COSTS

The costs of being in business as a private investigator consists of essentially two things – direct (records, etc.) and indirect (overhead, etc.) expenses. Over the years I have heard many methods of calculating how to charge for services. I found that these often do not account for all costs, especially indirect costs; nor do they account for experience, background, skills, knowledge, reputation and other non-cost factors. One of the most damaging theories of rate structures to our profession is the “I’m retired, so what I charge doesn’t matter” or the large company that subcontracts out at a rate that is not sustainable, but is a volume profit for them. Your costs, as well as education, training and experience in consideration with your market should be the foundation of determining what your hourly or per-service fees are. If your market is $80 per hour, do not charge $40 because you are retired. Work smarter, not harder. Would you rather bill ten hours for $800 or $400 – either way, you are working ten hours to supplement your retirement. The same consideration for subcontracting – would you rather accept $30 or $60 (assuming you will provide a professional discount of your normal rate)? Courtesy professional discounts are acceptable and should still be a sustainable fee for the investigator.

Direct costs are those attributed specifically to the case, and are usually itemized on the invoice. These may include: toll calls, records, gas and other expenses. Generally these are straight forward, but profits are still lost here without good expense tracking. Some these may be lumped into indirect costs (e.g. toll calls if you have a flat fee long distance service).

Some indirect costs are those related to the case, but not specifically. These are likely not part of the “overhead” either. Because of this type of thinking, or lack of good planning, this is the largest contributor to profit loss (retailers call unaccounted losses ‘shrink’). These types of costs may include: monthly vendor fees or minimums, time fees for online services, long distance not easily tracked, lost billable time, etc. As a rule of thumb, for every 10% lost in unbilled expenses, you will need to gain 12% in revenue. The same is true for discounts, but a discount is a choice you make to attract business (as is a referral fee). Not accounting for direct and indirect costs is negligent.

Rates and methods of billing vary from agency to agency, as well as service types. This is especially true when considering specialties, case types, experience and locale. Overhead and case expenses are other factors in determining an accurate hourly or flat rate for services. In order to adequately recover all costs, pay expenses and still turn a profit, we must calculate all of our fees accurately. This goes beyond “doubling” the costs of records; or adding annual overhead to a base fee and dividing that by 2000 hours (40 hours per week x 50 weeks per year) to determine your hourly fee; both common methods of fee calculating. Although case expenses are typically added to the hourly billing, a lot of expenses are not accurately accounted for in the case, and other expenses of the agency are not defrayed on a case by case basis.

Determining your final hourly rate is a process:

- The first thing to tackle is the hourly rate needed only to operate. To do so add up the entire overhead of the agency, only those items necessary to operate without a caseload. These would include: rent, utilities, advertising, phone, etc.
- Next calculate the operating costs directly associated with casework, but not a specific case (indirect expenses). These would include: vendor monthly fees, unaccounted long distance, agency insurance, etc.
- Finally, calculate your value. This is not arbitrary. Your skills, reputation, background and knowledge are valuable and should be included in the fees you set. Your message is that your

clients will get what they pay for…and you must deliver on your message and promise.
- Learn the average hourly rate is for your area and determine your position on the scale of experience, reputation and other factors.

Once you have established your agency's overhead, expenses and value, simply determine what rate you feel is beneficial to your agency and client. An average of 1/3 will be for taxes, 1/3 for overhead and expenses, and 1/3 profit. The lower the hourly rate, the lower the overall profit – remember, overhead remains unchanged and expenses and taxes are based on the billable income.

Next is to realize the Rule of 20/80. Simply stated, the rule of 20/80 is that 20% of your clients will produce 80% of your income. Conversely, 80% of your clients are costing you productive time (and related income) because they are providing only 20% of your income. The same theory holds true for expenses, and particularly vendors. About 80% of your vendor expenses are likely wasteful because only 20% of your vendors produce 80% of your positive results. Good investigative and business skills will fine tune all of this. Productivity equals profits.

This may seem a little much, but there is a lot of revenue lost to arbitrarily picking your fees, not accounting for all expenses and costs and basically just plain giving it away. Once you have figured all the aspects of what it costs to operate your agency and all of its services, you can begin to charge appropriately for time, knowledge, skills, reputation and value of the services you provide. You will never see an investigator charge too much – you will see plenty not charge enough.

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