

# Do The Math!



## Fixed Costs That Aren't So Fixed

By Jay Goltz

In business school, they teach you that there are two kinds of expenses in business: fixed and variable. In the real world of business, you often find that those fixed costs aren't always so fixed. And when you're doing large framing jobs, it becomes very important to know which is which.

With variable costs, if you frame one more picture, the cost goes up. If you do one less picture, the costs go down. Most variable costs are obvious. All of the materials that go into a frame job have variable costs. Fixed costs are less obvious. In fact, I could make an argument that ultimately no fixed costs are actually fixed. The more framing you do, the more that fixed costs can and will go up.

In small doses, many fixed costs are fixed. For example, if you frame three more pictures a week, your rent is not going to go up. The same for your insurance. Or your manager salaries. If you frame 500 more pictures a week, however, your fixed costs may go up. You will need more space, you'll need an assistant manager, and your insurance will go up.

This is a big trap people get themselves into when pricing out a larger than usual framing job. If large jobs aren't occasional and your business is designed around doing large frame jobs, your cost history gets established. But when you're costing out a job that's noticeably larger than you normally do, you don't necessarily recognize the true costs associated with it. You certainly will recognize moulding, glass, mats, and labor. But there are other costs that you might not have considered.

For instance, let's say you are asked to quote on a 2,000-piece frame job. This is going to trigger some other expenses you might not have thought to allocate, like overtime. A more subtle expense will be blade sharpening for your double miter saw. It might seem insignificant—and to some degree it is—but if you are working on a very small margin, it is an expense that may be worth considering.

To illustrate, a set of good carbide-tipped saw blades can cost about \$300. If you want to have a good cut, you will probably have to change them every 200 frames or so. Obviously, this will vary depending on size, hardness of the moulding, and quality of cut you expect. According to Ken Frank of Ultramitre, some of his

customers get as many as 1,000 cuts from a set of blades before sharpening—but their quality expectations are different than mine (I think he was politely trying to tell me I'm a picky jerk!). You can only get about 10 to 12 sharpenings out of a set of blades, with each sharpening costing \$30. But there's another hidden cost. How long does it take to change the blades? Let's say 10 minutes. If an hour of time costs \$18 (with benefits, breaks, etc.), changing the blades takes \$3 in time.

### Let's do the math:

labor	\$ 3	
blade sharpening	\$30	
amortized cost of the blades	\$25	
total	\$58	
Divided by 200 frames =		29¢ per frame

On a \$30 frame job, that's 1 percent. I would not call that insignificant!

There are other, less obvious "fixed costs" that become unfixed when you are doing a large frame job. Your saw will need more maintenance, your garbage pick-up will need to be increased, and shop supply expenses will go up. The point is, know your costs.

There's another point, too. There are costs you don't know about. Like that extra guy you hired to help out with the big job who got hurt. Or that when your shop went to cut the material they mis-set the gauge, and you ended up with a bunch of material a quarter of an inch short. Oh, you think, "I'll just be careful." Right!

The bottom line is that when you do large jobs, even the smallest variation can make a large difference from your plan. It doesn't take a lot of miscalculations to blow a small profit margin. Really understanding your variable and your fixed costs is the key to making money (or not) on large jobs. ■

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