

Economic Thinking for Translators

This article is especially meant for those of you who tend not to think in economic terms. The concepts covered are intuitive, and can be applied without actually resorting to the use of equations, but with the idea that “economic” thinking may help get you closer to your optimal work environment (work load, work content, and income), we construct a simple model of the key variables in the translator's income equation. The grasp-or-perish concepts are *billable rate* (the value of your time when you are translating), *work rate* (the value of your time when you are working, including time spent on marketing, billing, and other non-translation activities), *gross income*, *net income*, and *net productivity*.

Billable rate

We will take a building block approach to modeling your productivity, starting with the equation for billable rate. Like an attorney, a translator spends time directly attributable to a client and also spends time on peripheral activities. Unlike an attorney, who bills by the hour and thus sets her billable rate in advance, most translators bill by the word, and do not know their billable rate for any particular job until after the job is done.

The equation for billable rate (BR) is:

$$(1) BR = HO \times R,$$

where HO is total hourly output in words and R is the average per-word rate. These are the two most important variables affecting your productivity: the **speed** at which you can produce a finished, deliverable translation, expressed in words per hour, and the **price** you get for the words you produce, expressed in cents per word. Note that the wrong way to think of productivity is in words per hour – productivity is properly expressed in monetary terms.

An important psychological advantage of having thought this through is that with a rough final billable rate that incorporates editing time already in mind, you know you are also being paid for editing. Conversely, you could also think of yourself as earning your initial-draft billable rate when translating but earning nothing by editing (the final number is the same), but psychologically the editing will not be as pleasant if you think of it as unpaid work. That said, if you are a fast translator but a slow editor (or poor editor or hate-to-edit editor), you may be a good candidate for outsourcing your editing work. If you pay your editor by the word, just subtract that amount from your word rate to get the rate you should plug into the BR equation. Here is what the editing outsourcing decision may look like:

If your BR with self-editing is 500 words hourly \times \$0.15 = \$75, and your speed without editing is 650 words per hour, then if you can find a quality editor for \$0.15 – $(\$75 \div 650) = \$0.15 - \$0.115 = \0.035 , you should do it, particularly if you prefer translating to self-editing or if you can improve the quality of your translation (and possibly your word rate) by using an editor. Here is the logic behind the above calculation: To earn that same \$75 in an hour now that you are not self-editing (and consequently producing 650 words an hour versus your old 500), you only need to net a rate of \$0.115 per word (i.e., 650 words at \$0.115 per word earns you the same \$75 for that hour). Since you are still charging the client \$0.15, you have \$0.035 to play with. For every cent that you think you

could increase your word rate as a result of your more polished, edited documents, you can raise what you pay the editor by up to that amount without loss.

Your billable rate is the nexus of your earnings power, although any *time* that you invest in raising it will be offset to some extent by the downward impact on your gross income (from taking time away from translation) and any *money* that you invest (=spend) in raising it (such as on speech recognition software, CAT tools, or a productivity enhancing office chair) will have a downward impact on your net income. This means that such investments can be justified economically (ignoring any lifestyle impacts) only if the resulting increase in billable rate is greater than these downward impacts.

Work rate

To more fully account for the cost of your time we must expand our equation to represent work rate, which is your gross income divided by all the hours that you spend working, not only translating but also marketing your services, attending seminars, sending out invoices, communicating with clients, reinstalling software, shopping for hard drives, staying current in your field through reading, and posting long-winded comments to translator mailing lists. Work rate can be thought of as your effective hourly gross wage in dollars. More time spent on non-translation activities instead of translation lowers your work rate, UNLESS those other activities raise your billable rate enough to offset their costs. The equation for work rate is:

$$(2) WR = BR \times BS,$$

where BR is billable rate, and BS is billable share. BS is billable hours (BH) as a fraction of total hours worked (BH + nonbillable hours (NBH)). The following is the equation for billable share, and is quite intuitive – spending less time translating and more time on other (non-billable) activities is, all other things being equal, of course going to lower your income.

$$(3) BS = BH \div (BH + NBH)$$

Billable share would be expected to be higher for someone working exclusively for agencies and/or a few loyal clients, and lower for translators working for direct clients and/or for numerous fickle clients. You could actively increase your billable share by outsourcing such tasks as bookkeeping and marketing (by using an agency) or by getting more efficient at performing those tasks yourself. Plugging equations (2) and (3) into (1), we get our extended work rate equation:

$$(4) WR = HO \times R \times BH \div (BH + NBH)$$

From here, it is easy to find gross income, which is your gross hourly wage (WR) multiplied by total hours worked (BH + NBH), which also happens to be the same as your billable rate multiplied by billable hours:

$$(5) GI = WR \times (BH + NBH) = BR \times BH$$

Let us now apply our not-yet complete model to Celeste, a fictitious French translator who logs 1500 working hours a year (counting her time spent at ATA conferences, even the schmoozing -- the French prefer not to overwork themselves), with a 2/3 billable share, which means she spends 1000 of those hours actually translating (1000 billable hours). Celeste conveniently lives in Dubai, where there is no income tax, allowing us to

ignore tax effects. Celeste has an average word rate of \$0.15 and averages 400 words an hour out the door (counting editing and polishing her own work).

Here are Celeste's numbers for work rate:

$$WR = 400/\text{hr} \times \$0.15 \times 2/3 = \$40/\text{hr}$$

Celeste has needs, however, and she has decided that \$40/hr (\$60,000 annual income) just is not enough. What can she do? Working more hours is out of the question (remember, Celeste is French). One option is to boost her hourly output using various mental techniques and software tools. A 25% boost in speed to 500 words hourly would raise her BR to \$75 and her WR to \$50. She could also try to add more clients at the higher end of her rate range and weed out the bottom feeders. A boost of \$0.03 in her average word rate to \$0.18 would mean a WR of \$48. Those approaches raise her billable rate. To raise her billable share, she could try to work more efficiently, say by hiring a bookkeeper.

Assuming that Celeste was spending 50 hours per year on bookkeeping, that she could outsource 40 of those hours (it still takes time to gather information for the bookkeeper), and that the bookkeeper could get the job done in only 30 hours at a price of \$30/hr, she will pay out \$900 and free up 40 hours of her own time to translate at her billable rate of \$60. Looked at directly, she has paid \$900 to buy time to earn \$2400, a no brainer if there ever was one. Note that it is the billable rate, rather than work rate, that should be used to determine the value of your time when deciding how to spend that time. This is what economists refer to as thinking on the margin.

To include such costs in our model, we will need to extend it a bit more to reflect the concept of *net income*, which is gross income (work hours x work rate) minus business expenses.

$$(6) NI = WH \times WR - X$$

Where NI is net income, WH is total working hours, WR is work rate (effective gross hourly wage), and X is business expenses. Use this formula to make sure your expenditures on productivity tools and on other services pay for themselves

Net Productivity

Finally, we look at your *net productivity* (net work rate), which is simply your net income divided by working hours. This number is equivalent to the hourly wage of an employee, and is the number you should use as a baseline when considering taking a job in-house:

$$(9) NP = NI \div WH$$

The difference between net productivity and work rate is that the former also factors in business expenses. A huge psychological benefit of knowing net productivity is that you now know the rate at which you are effectively being paid for doing non-translation work activity. Knowing that you are being paid for it makes it that much more fun to enjoy quaffing some cold ones at the ATA conference, and much less painful to reinstall your whole operating system! There are times to think marginally, and times to think in averages, since too much thinking on the margin may drive you insane. There is a reason they call economics the dismal science.

You now have a working model to help you apply economic thinking to your translation business. Good luck!