

Opportunity Cost

What is opportunity cost and how does it affect your business?

Think of the things that you do well and are paid for. How much revenue would those things bring to your business in the same period of time that it would take you to do a task that can be delegated or contracted out.

For example:

Data entry is time consuming for you to do but is a necessary part of your business. You are not especially fast on the keyboard so it takes you longer than someone who is doing this kind of work on a regular basis. Entries take you ten hours to complete. Your time is billed out at \$50.00 an hour, so technically you could have earned \$500.00 in the same period of time. Contractors who hire out to do this type of work can get the same amount of work done in six hours – they charge \$20.00 per hour for a total of \$120.00.

Your lost income:	\$500.00
Contracted price:	<u>\$120.00</u>
Opportunity cost	\$380.00

It's true that you can still do the work if you work longer hours and it won't cost you any money, but it will still cost you. You can use this time for marketing your business and increasing your circle of contacts and clients if you don't want to have time to rest. Eventually lack of rest is going to catch up with you and some virus may find you a very susceptible host. Three days lost work time at 50.00/hour \$1200.00. How much money did you really save?

Another way to look at this is to calculate the amount of time it takes you to bill out small items to a client. It takes you approximately one hour to go through your telephone log and add the amounts to the invoices. Your time valued at \$50.00 has now been used to bill out \$15.00 of telephone charges. You can expense the entire amount from your income tax so why cost yourself \$35.00 to bill your clients?

Working smarter with resources that are available to you will balance out your business and improve your lifestyle.