

3 Tips On Deciding How Much To Pay Yourself

Katie Morell

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As an entrepreneur, you may start off with an idea and have the drive to work long hours for years to achieve your business goals, but none of you want to work forever...or for free.

So what should you pay yourself? (Check out this chart on [small business CEO pay](#).)

"This is extremely difficult to determine; its one of the harder parts of the job," says Mike Mann, a serial entrepreneur based in Dewey Beach, Delaware.

Here are a few tips to help you determine your perfect salary.

Understand your numbers

According to Cathy Iconis, CPA with Iconis Group, an outsourced accounting firm in Atlanta, owners must understand a business' cash flow landscape. She recommends using accounting programs such as QuickBooks Online to help streamline the process. Other accounting programs include Wave Accounting and FreshBooks.

"Make sure you can easily go into your system and run a profit and loss statement; you need to know the profit you make each month," she says.

Make a budget and re-invest

Iconis suggests writing out all of your regular expenses (rent, utilities, etc.) and then projecting what you will make in the future. This will help you calculate how much you can re-invest and how much you can pay yourself, she says.

Re-investing can be tricky. Jeff Huckaby, CEO of rackAID, an IT services company in Jacksonville, Florida, recommends looking at your personal and business goals. "There isn't a magic formula; you just have to set up a model to understand the goals for your business," he says.

Budgeting your own salary and re-investing requires balance and discipline on the part of the business owner. Iconis recommends growing sustainably. “If you were selling \$100 of product and making \$20 of profit after expenses and payroll, you want to make sure you will be doing the same when selling \$500—some companies grow and lose profit because they add new expenses and can’t support their current structure—which then affects a business owners’ pay,” she says.

Know your value and ‘true wage’

According to Huckaby, it is easy to undervalue your own labor in favor of growing your business. This is counter-intuitive. “You may think your business is making money, but in reality, if you had to pay someone else for the work you are doing, you would see that your business isn’t doing so well,” he says. How do you know how much you should be making?

Mann suggests looking at industry standards and inquiring on competitive salaries for your region.

Huckaby recommends calculating your ‘true wage’ (what your work is worth) by pricing out each of your job duties. Are you spending two hours a week on accounting tasks? Price out how much it would cost to pay an accountant for that time. Are you spending 30 minutes a week cleaning your office? Price out what it may cost to outsource that function.

This will give you a good idea of how much you should be making...and what you should be outsourcing so you can make more. “The ‘true wage’ method will allow you to pay yourself a market salary and give you a better financial picture of your business,” Huckaby says.

About Katie Morell

Katie Morell is a writer and editor based in Chicago. Over the past 10 years, Morell has covered topics ranging from business and politics to travel and social justice. She is a member of the American Society of Journalists and Authors (www.asja.org), and a graduate of Michigan State University's School of Journalism.