How to price your projects.

Pricing your projects correctly is critical to the success of your business. Learn about the pricing models commonly used by agencies and consultancies.

HARVEST

Introduction

Hey, we get it. You want to focus on producing stellar creative work, not on invoices, revenue streams, and change orders. But, learning how to price your projects is critical to the long-term success of your business. In fact, if you don't get pricing right you might not be able to stay in business at all.

Getting pricing right isn't just about figuring out how much to charge. (Though, that's pretty important too). First, you have to choose the pricing model you're going to use. This will determine how much you get paid and for what exactly. Not sure which model is right for you? We've got you covered!

We'll walk you through the different models, tell you a bit about the different scenarios in which they make the most sense, and cover the pros and cons of each option. That way, you'll have all the info you need to pick a model that works both for your business and your clients. We'll also cover how time tracking is essential to knowing your costs and determining your price, regardless of the model you choose.

Let's get into it!

Hourly

By far the most common form of pricing, the hourly model is used by everyone from individual freelancers to agencies. It's sometimes referred to as the time and materials model. Basically, you get paid for the number of hours you work on the project as well as any expenses you incur, such as travel. It's a model law firms and accounting firms use all the time.

There are a few ways to calculate your hourly rate. In the helpful book *The Business Side of Creativity: The Complete Guide to*

Running a Small Graphics Design or Communications Business, Cameron Foote proposes this formula:

"The best way to establish an hourly fee is to first calculate actual business costs (labor + overhead) and make it the basis for determining the minimum hourly rate that must be charged if a business is to be viable. Then, knowing this figure, what is actually billed per hour should be the minimum, plus an additional profit margin, plus (or minus) any modifications required by the competitive environment."

In short: Total up your operating cost (salary + overhead) and add a market-driven profit margin before breaking it down to the hour.

When you charge hourly, the need for time tracking is obvious: you need to know exactly how many hours to bill your client for!

The pros

You get paid for all your work. As long as you calculate your hourly rate correctly (and track your time accurately), you're guaranteed to get paid for all of your work. Awesome!

The cons

Clients don't love it. Clients don't like surprises, especially when it comes to budgets. Using hourly pricing leaves the door open to unexpected costs for your clients. As your business grows, you might have a hard time using hourly pricing because larger clients tend to have fixed budgets. Hourly pricing works best if you're a small shop or independent consultant with good discipline and you work with clients that have more flexibility in their budgets.

How time tracking fits in

When you charge hourly, the need for time tracking is obvious: you need to know exactly how many hours to bill your client for! Make sure that you (and your team) are doing a good job keeping track of how long you've worked, so you get paid for all of the time you put into a project. In this case, accuracy is essential.

And if you're charging clients by the hour, they'll probably want to make sure they aren't being cheated. They might ask to see a detailed breakdown of your time, especially if they aren't thrilled with the project's progress. You'll be prepared for these kinds of conversations with reports created from your timesheets.

Fixed-fee: charging for your time

Fixed-fee is another common method of pricing. In some ways, it's also the most complicated, which is why many agencies have a love-hate relationship with this method.

Fixed-fee pricing charges clients a fixed amount for a specific set of services, like redesigning their website or building an app. To come up with a price, you'll need to estimate the time and resources needed to complete the task, multiplying the number of hours you think the project will take by the rates of the individuals working on it.

Let's say you've just landed a design project. You first need to map out all of the team members you'll need, like a creative director, an art director, a junior designer, and an account executive. Then, multiply the hours they will each spend on the project by their individual rates (how much you pay them per hour).

Agencies often take it to a more strategic level from there, with changes to this base price. They might give a discount to crucial new business they want to win. Or, they'll add a higher multiplier if they know the client is difficult and will go through several rounds of feedback.

The pros

Clients love this model. Multinational corporations and startups have one thing in common: they all have budgets. Knowing the exact cost of a project is helpful for clients, so agencies that provide a fixed price up front are in a good position to win that business.

Your cash flow will be predictable. You'll be able to predict revenue pretty accurately, which helps you plan for the rest of the year. Just make sure you're asking for payment at regular intervals clearly stated in your contract.

The cons

Fixed-fee engagements almost always favor the client. In other words: you could lose money. You have to estimate the time it will take to complete a project before you've even begun. You bear the cost if it takes longer than you estimated. If the client requests multiple revisions, you might also burn through lots of hours you didn't plan for when setting your fee. If not managed carefully, these projects can cost more than they bring in.

Time tracking gives you a record of exactly how long past projects took and who worked on them.

Be sure to write an airtight project scope with clear guidelines for change orders and revisions. If the client wants to go in a different direction or makes additional requests, you'll either have to eat the extra costs internally or have an uncomfortable conversation with the client for the good of the project.

How time tracking fits in

You might think you don't need to track time while you work on fixed-fee projects, but that would be a big mistake. Time tracking is essential to getting fixed-fee pricing right.

With a fixed-fee project, you know exactly how much money you're bringing in, but how do you know how much each project costs you? Unless you can figure out what your costs are, you have no idea if you're making money or losing money on that project.

That's where time tracking comes in. It's important for each person who works on the project to track their time. That way, you can multiply the number of hours worked by how much you're paying them per hour (their cost rate). If this number is larger than your fee, then you're losing money.

Also, when estimating how long a project will take (and how much you'll charge), you don't want to pull a number out of thin air. Time tracking gives you a record of exactly how long past projects took and who worked on them. This data helps you avoid underestimating how much work a project will take and leaving yourself in the red!

Retainer: an ongoing relationship

Historically, the retainer model has been the most coveted client relationship in the agency world. A retainer works when the client has a continuous stream of work throughout the year and wants to establish an ongoing relationship with an agency or freelancer. The client pays an agreed upon amount (the retainer) at regular intervals in return for a set of services from the agency.

The pros

Your income is predictable. You can predict your revenue months in advance with retainer accounts. Retainers usually grow out of positive client relationships and close collaborations, so the risk of losing a retainer is smaller. Having retainer accounts also means you don't have to work as hard continually bidding for new business.

Client relationships are better. Both your team and the client tend to be more satisfied when using a retainer model. Your team can provide deliverables with greater reach and continually improve on existing work. And when unscoped changes are requested, there are usually enough resources baked into the retainer to take care of it.

You can charge clients less. In a retainer relationship, you really get to know your client and their brand. This can actually result in a discount for clients because you've shaved off some of the upfront meet-and-greet time. You also don't need to get up to speed on how they work and what they're looking for.

The cons

You're on the hook. When you become an official, long-term partner of a brand, you're responsible for more of their results. If things don't go well or it takes a long time to see results, the relationship could get rocky.

You'll need to keep an eye on the statement of work. A long-term relationship can cause your team or the client to forget the original scope of work. Make sure you're delivering on what you originally promised. You also don't want the client to gradually ask for things that don't fit within the terms of the relationship. If they do, you may need to adjust the contract.

Getting too comfortable can get boring. Working with the same client for months or years can get draining. Before your team burns out or gets complacent, consider rotating team members. Think of it as passing the baton in a marathon. You always want people with institutional knowledge of a project or brand, but fresh faces can lead to new ideas and ways of thinking.

How time tracking fits in

Similar to fixed-fee pricing, time tracking is essential for figuring out if you're making money or losing money on your retainer contract. If your costs are consistently higher than your monthly fee, you know that you need to readjust the terms of the agreement.

Time tracking is essential for figuring out if you're making money or losing money on your retainer contract.

In addition to giving you info about your costs, time tracking also creates a record of all the different tasks you've worked on. With a long retainer relationship, your client might start to take your contributions for granted. Time tracking helps you demonstrate exactly how much work you're doing for them.

And if your client starts to ask for more work over time, you can use time tracking data to show them how much work you're already doing and help negotiate an increase in the retainer.

Iteration: pricing per sprint

Iteration pricing is an emerging form of pricing. It's a spin-off of the retainer model, which requires clients and creatives to work closely together throughout the project to set clear goals and build products. Right now, development shops are the most comfortable with using this method since it allows both clients and developers extreme flexibility.

Basically, your client buys your bandwidth for a set period of time. During that time you commit to completing an iteration of a larger project. For custom development projects, which can change often throughout the course of a project, this is a more agile model for work. Clients don't generally see hourly breakdowns of the work (even if a firm is keeping track internally), but they are guaranteed a delivery.

For a development firm, an iteration project might kick off with a rough estimate of how many “iterations” it will take to work through different features or applications. An iteration is often a one or two week period in which developers work to build out and deliver a new release of the product with a focused set of features. The product is re-evaluated and adapted at the end of each iteration to match new discoveries and accommodate any shifts in business strategy.

With a conversation at the beginning of the project, clients and creatives can come to an understanding about the overall project’s budget range. Developers won’t sign on to build more than is possible in an iteration, and clients can end the relationship at any given time.

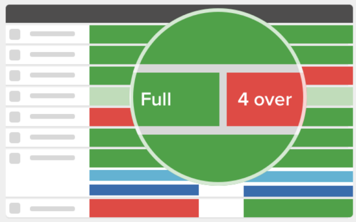
The pros

It’s easy to change things up. Working in short iterations allows both clients and agencies to stay nimble. With custom software development, it’s difficult to understand all of the possible use cases and content requirements up front. So if a certain feature will take too long and cost too much, you can chat with your client about how it won’t be included in that delivery. Things shift around often on a project, whether that’s budget, strategy, or both. Working in shorter periods of time means you aren’t locked into anything.

The cons

The relationship isn’t long-term. While you may agree upon a certain prepaid number of iterations at the beginning of a project, a client can end the relationship at any time. You might never get to the full intended scope of the build. That's revenue your agency can't count on and potentially has to make up for with other work.

You've got to be careful about resourcing. You can run into serious resourcing challenges if your client suddenly requests one extra, unexpected iteration. Make sure you save some capacity, so you can accommodate projects that require more iterations than you anticipate.



How time tracking fits in

It can be tricky to figure out how much to charge for each iteration, since no two iterations involve exactly the same work. That's why time tracking is important—it provides the historical data you need to come up with a price for a wide variety of different services.

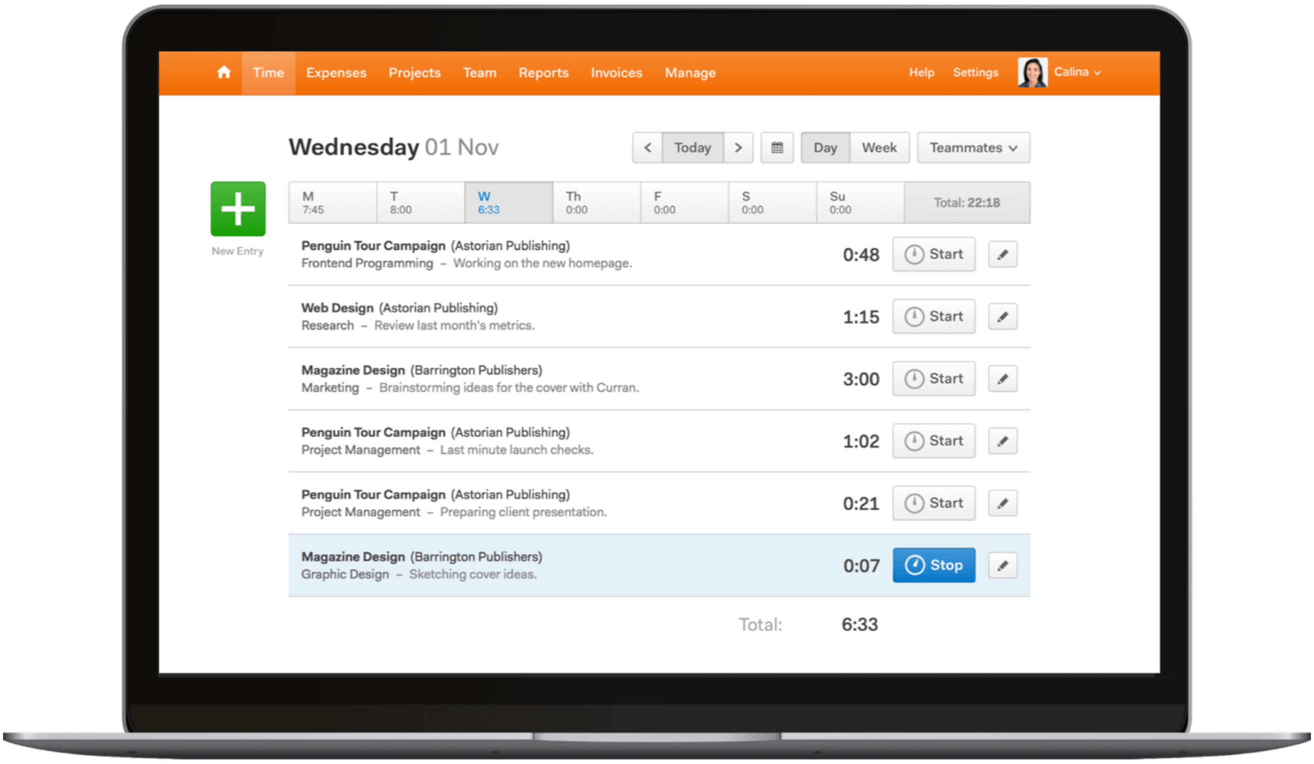
One benefit of iteration pricing is that you can tell very quickly, after just a week or two, if you're making money. If you take a look at your timesheet data and see you lost money on a sprint, you can quickly adjust so that future iterations are priced more appropriately. Without time tracking, you could end up going through several iterations before you realize your pricing is off.

Conclusion

Pricing is one of the most complex parts of running a business—the info in this guide is just scraping the surface. But, we hope it's given you new avenues to explore as you figure out what works best for your team and your clients.

While you're considering these options, keep in mind that time tracking is key to staying profitable no matter what pricing model you use. You might not bill by the hour, but having a clear sense of how much projects cost is essential to setting prices that allow your business to thrive.

For all of your time tracking needs check out Harvest, which makes time tracking a breeze for you and your team (if we do say so ourselves!). Plus, it turns all of your timesheet data into visual reports that let you know what your team has been working on and how much your projects are costing you. The more time you track, the more information you'll have at your fingertips the next time you go to create an estimate. Try it free for 30 days.



Team-approved time tracking.

Getting your team to track time shouldn't be a battle. Harvest makes it easy, so you get the insight you need without driving them crazy.

Track time

Flexible time tracking options that work for your workflow.

Get info about your business

Intuitive reports that shed light on your team and projects.

Invoice clients and get paid online

Easy online invoices that help you get paid faster.