How to set your rates as a freelancer

New freelancers usually hit upon this stumbling block early in their careers and the ambiguity of valuing your own abilities can be exceptionally daunting. While it might *seem* like freelance prices are pulled out of thin air, most professional freelancers employ a method for developing their numbers and you should do the same.

There are several different methods that freelancers use to price their work, but this article covers 4 common strategies, along with their strengths and weaknesses. More skilled and experienced freelancers often use personal intuition and their wealth of knowledge to develop personalized methods for establishing prices.

METHOD 1: SALARY-BASED PRICING

The most basic method that's only acceptable for **part-time**, newer freelancers is to simply take the baseline salary you would expect to be paid as a full-time corporate professional and divide it by the number of hours you would expect to work in a year (a 40-hour workweek tallies to about 2,080 hours a year *without benefits*).

This method falls short for full-time freelancers because it won't cover any of the expenses that your employer currently pays for, but it involves very little calculating, planning, or investment. It's very unlikely that using this method, you'll be able to afford any anticipated expenses, and you'll need a supplementary income.

Nonetheless, this method can be helpful if you're just experimenting with freelancing or want to test your abilities and your market.

METHOD 2: COMPARATIVE PRICING

A more reliable method that freelancers just starting out use to set their prices is simply benchmarking themselves against their peers. Most freelancers have online profiles or websites where they have publicly listed baseline rates.

If you're just starting to freelance, especially if it's just part-time, it's perfectly fine to use someone else's prices to get started with your first projects.

If you employ this method, remember that you should compare yourself to other freelancers who have approximately the same skillset and work ethos. Freelancer prices are often very specific to their abilities and work style because clients care about a variety of factors like timelines, interpersonal skills, geographical location and of course, the final quality of your deliverables.

Comparative pricing takes more effort and research than pricing based off an estimated salary, but your prices are much more likely to be realistic and relevant.

The downside is that these numbers are not unique to you, and they don't directly address the kind of lifestyle you have or your cost-of-living.

METHOD 3: NEED-BASED HOURLY PRICING

This is eventually the method that most full-time professional freelancers use to evaluate their prices, because it accounts for the shortcomings of comparative pricing.

Freelancing is very similar to running your own business in that you are now responsible for all your expenses – that includes both your personal expenses *and your business costs*.

As an employee, your employer covers the costs of your work, meaning they pay for utilities, business expenses, fringe benefits, and so on. As a freelancer, those are now your liabilities. You need to include these expenses in your prices, or you'll be paying for them out of your own pocket.

It's also important that your rates are high enough to cover your cost-of-living expenses. A freelancer working out of Singapore or Hong Kong, for example, *needs* to establish different baseline prices compared to someone working out of Middletown, Nowheresville.

Let's dive into the nitty-gritty of establishing your prices. It's time to do some math but don't worry, it's only arithmetic.

STEP 1: CALCULATE YOUR NECESSARY EXPENSES

We'll begin by establishing your yearly expenses. You should use any records you have from previous years so that you have real numbers to work with.

If you need to track any recurring expenses, you can use a simple template like this one.

These expenses include:

- Rent or mortgage

- Utilities

- Health insurance

- Retirement plan

- Business-related expenses like software, equipment, or subcontractors

- Family-related expenses

Let's work with an example. Let's say your final tally sums up to $1,000 yearly. (Don't you wish that were true?)

STEP 2: SET UP A BUFFER

Account for expenses that are associated with your personal lifestyle, so you have some flexibility with your prices and you're not just working to make ends meet.

Your numbers are only for personal use and your clients shouldn't really have access to how you've built your prices, so don't worry about including items that seem frivolous – remember that freelancing is supposed to be liberating.

This buffer is also meant to protect you in case your costs are higher than expected, *and* this is the portion of your budget that gives you the flexibility to adjust your prices downwards as incentive for prospective clients.

All your guaranteed costs must already have been accounted for and *should not be included in your buffer*.

STEP 3: ACCOUNT FOR BILLABLE HOURS

Freelancers don't get paid for every hour they work. Unfortunately, that's part of the expense of running your own business.

Time spent working on your taxes, preparing invoices, communicating with clients and so on is time dedicated to your business, but you can't charge your clients for that.

Billable hours are the actual hours you spend on producing deliverables and it is a **legal and ethical standard** that you only charge your clients for those hours that you spend on their specific project. All the prep work you do to get to the point where you can do your work is your responsibility and your liability.

That means that you'll have to raise your prices for billable hours to make up for the difference.

The most common practice is to use an estimate to split the hours you spend working into billable and non-billable hours – many freelancers use a 60/40 split. That means 60% of the hours you dedicate to work are billable to your client and 40% are not.

Another common split is 75/25 if you don't expect much administrative work on your part.

As you get more practical experience, you can adjust this ratio so that your estimates are more reflective of reality. The more you can automate your administrative work, the higher your billable hour ratio and the greater your profit.

As an example, if you intend to work 1,000 hours a year and estimate that you need an annual income of $1,000, the calculations are as follows for a 60/40 split:

1,000 hours × 60% billable ratio = 1,000 × 0.60 = 600 billable hours yearly

$1,000 estimated annual income ÷ 600 billable hours = <u>$1.67 per hour</u>

Of course, this is a drastically low estimate, but you can see that the calculations are relatively simple to perform.

METHOD 4: NEED-BASED FIXED PRICING

This is extremely similar to hourly billing, except that you should instead estimate your costs using two measures:

1. The number of projects you intend to complete
2. The complexity of the projects you take on

Most **experienced** professional freelancers eventually resort to fixed pricing schemes because they have an intricate understanding of how efficiently they work.

Using fixed pricing assures you earn the revenue you expect from a project instead of being penalized for working quickly. It also alleviates the stress of accounting for billable hours.

Unfortunately, setting fixed prices can be a more difficult process if you're just starting out as a freelancer. You'll have to include new elements as part of your process, including deadlines, opportunities for feedback and edits, and negotiating your price if the project doesn't meet your expectations can be tough.

Fixed prices are most reliable for experienced freelancers who would typically charge very high rates if they billed their clients per hour.

There's no way for us to tell you how to set your own fixed prices, but if you're trying to estimate the price for a project, you should consider these factors at a minimum:

- How much time will this project take you overall?
    - While you're working on the project, will you have time for other work or is this going to occupy you fulltime until it's completed?
- How difficult or complex is this project?
    - Will you need special software or equipment?
- What is your timeline?
    - How much time will you need before you finish your first draft?
    - How much time will you need to make edits?
    - Is this a rush job?
- What is your client's budget?
- How is your relationship with *this client*?

o   If its someone easy to work with or someone you've built trust with over time, you might want your rates to reflect that relationship.

ADDITIONAL FACTORS THAT AFFECT PRICING

Successful freelancers adjust their prices regularly. It's important that your rates are reflective of the value that you bring to the table, which means that your rates should probably rise every year in tandem with your accumulated experience and skillsets.

Other factors that might (eventually) affect your prices include, **but are not limited to**

1.   Your educational background

2.   Project complexity

3.   Geographic location

4.   Interpersonal skills

5.   Access to different platforms or toolsets

6.   Work history and experience

Depending on the type of work you'll be performing, you'll likely encounter more elements that tweak your prices. You'll also come across new methods for evaluating your prices like value-based pricing, where extremely skilled freelancers don't assess project value by cost, they assess it by how much they think it's worth to their client.

Setting your prices can be a daunting experience when you first start out, and many freelancers seek out communities where they can share insights with their peers and establish methods for pricing their work together.

Most clients who proposition you will expect to negotiate down their costs, so be bold with your prices and confident in your abilities!

*This list is not exhaustive to earn a sustainable living income and becoming a successful Independent Doer. It should be seen as a guideline to help you to get your journey as an Independent Doer started. The Doerscircle Terms & Conditions applies when using these guidelines.