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Advantages and drawbacks to hourly fees and flat rates

Oct 16, 2002 | Lisa Gill | [E-Mail](#)

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While there's no right or wrong method when it comes to billing clients for your time and expertise, an improperly applied flat fee or hourly rate can have you earning just enough to cover your expenses instead of padding your bank account for the lean months. I asked several experienced consultants for their perspectives on billing. While you're deciding how to bill a client, keep their advice in mind.

Consider the project

Conventional wisdom has it that a detailed project with a definite beginning and ending deserves a set, flat price, while an ongoing, open-ended job is a better fit for an hourly rate.

This rule holds true for [Marian Briones](#), a Web developer in Fremont, CA. Depending on the type of project she's bidding for, she uses both flat fees and hourly rates in charging her small business clients.

"I usually use a flat fee in Web development because that's the way my customers have already approached it," says Briones. But for maintenance to company sites or databases, Briones prefers an hourly rate, since most of her clients require minor monthly updates that she bills in 15-minute increments.

How a consultant bills is also a reflection of what they're selling, according to David Petrie, president of [David Petrie Associates](#), a business consulting firm in Ontario, Canada.

"I believe that flat-rate billing is a charge for what I know and the results I can deliver," Petrie said. "Hourly billing is a charge for the amount of time I work."

Determining what the client needs from you—your time or your expertise—can guide you to the most appropriate type of billing, says Petrie.

Hourly payments are most profitable

From a consultant's standpoint, work paid by the hour may be the most desirable. Such a payment structure is less risky because all the hours a consultant works for a client are billable, according to [Bob Sullivan](#), an author and small business consultant in Great Falls, W.V.

"The objective is to make sure you're not involved in a project where you're not going to make a dime," says Sullivan. "It happens frequently when you fix price something because the consultant is anxious for the work."

Briones says that hourly payments for her projects would be ideal since they would ensure against bids placed too low on a project and guarantee that she's paid for the time it takes to make all changes and additions to jobs. But because clients often budget a specific amount for the project and require a total, finite price on the job, Briones says she usually sticks with a flat-rate bid.

Flat fee = few billing surprises

The benefit of a flat fee is that it eliminates any billing surprises for the client, according to Marya Triandafellos, president of [MET Design](#), a Web development firm in New York City.

Triandafellos' company has bid flat fees since the firm started in 1984. After working with clients such as IBM, Merrill Lynch, and Time, Inc., it's been her experience that many well-established clients prefer to know the bottom line of what the project will cost.

Flat fees are also a draw to companies because they encourage the consultant to work efficiently, Petrie says. Paying a consultant by the hour, on the other hand, can "reward" the consultant for taking longer to complete the assignment—or at least give that appearance, says Petrie.

The client is also able to get the project's budget on target, which allows the company to put other aspects of the project in motion, such as establishing a budget for its marketing and Web initiative without running into unexpected last-minute expenses, notes Triandafellos.

By working within a client's bidding expectations, consultants have a greater chance of securing the project, as well as showing that they're flexible and amenable to a company's needs.

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Consider "change fees" for flat rate

While clients may prefer a flat-rate bid for their project, consultants need to protect their time and resources from additions, changes, and substitutions to projects. Clearly defining what deliverables are expected of a consultant to the client, as well as adding provisions that elements beyond the agreement will be billed hourly or bid separately, is critical, says Sullivan.

For example, a recent project Triandafellos' company completed required the design firm to deliver a number of templates that far exceeded what was called for in the contract. But because the agreement between MET Design and the client was clear in stating what deliverables were covered in the flat-rate fee, the design firm was able to charge extra for each template.

"The client was fine with that because they realized [the templates] were new information for us," notes Triandafellos.

A similar agreement with a client also saved Briones in a recent project in which the client decided halfway through the development that a major additional database was needed. Because it wasn't covered in the original agreement, Briones was able to give the client a separate quote for the database, which the client accepted.

"You have to watch your back and keep them in check," says Briones.

Use experience as your guide

Consultants always try to win the client's favor, but underbidding a project is a consultant's worst nightmare. To avoid this, Triandafellos keeps a detailed log of hours worked by her employees and subcontractors vs. the flat rate paid by the client, as well as what missteps the company took in its bidding. She then uses the log to identify areas in which the company underbid the project, and then applies that to the next similar bid.

Briones has taken this concept a step further and created an online application that she and potential clients use to calculate rough estimates of what her Web project will cost. As the previous international Webmaster for Excite.com, Briones says she has a solid grasp on how long certain functions will take her, which usually makes her flat fee project bids right on target.

Even for less experienced consultants, keeping detailed records of how long areas of a project take and noting any roadblocks or errors encountered in the process can go a long way toward making accurate bids for the next project.

For Sullivan, underbid jobs are a double whammy: "You don't want a job like that because as soon as you get it, you're losing money. Now you're working for nothing, and you're missing out on other jobs."

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