DETERMINE YOUR RATE & EARN YOUR WORTH

A Guide For Freelancers and Small Business Owners

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FreshBooks cloud accounting

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Introduction

If there's one thing most service-based small business owners have in common, it's the angst associated with determining their rate. Per hour, per project, per service, per package... determining the price is a proposition that's equal parts art and science.

But the success—even survival—of your business, hinges on this decision.

The bottom line? Quote too high and you lose an opportunity. Too low and you rob yourself of well-deserved income and the means to keep doing what you love.

In this book, we'll show you:

- All the things you need to consider when determining your price
- How and when to raise your rates
- Pricing by value, not time
- Finally, we'll share some best practices for getting paid pronto

"What's your rate?" may never be easy to answer, but it can definitely be informed.

Let's get started!

Three Truths of Rate-Setting:

1. There's no "right" answer.
2. No two business owners will have exactly the same rate.
3. The rate you charge today should be different than the one you charged five years ago and five years from now.

What to Consider When Setting Your Rate

CHAPTER 1

“ It’s the eternal struggle of the freelance worker: How do you price your work in a way that’s fair to both you and the client? Nothing less than your career success and personal happiness hinges on this question...

Daniel H. Pink, best-selling author of “To Sell is Human: The Surprising Truth About What Motivates Us”

Factors to Consider When Setting Rates

Personal Expenses

Do you have financial commitments, such as car payments, a mortgage or student loans that must be met every month? Non-negotiable personal expenses must be part of your rate-setting rationale.

Market Rates

In many industries, there is a distinct price threshold the market will bear. As a writer, you may be worth $500/hour, but if the clients you serve can't (or won't) pay that much, your business will not survive. Learn the limits for your market.

There are many factors that go into selecting the price of your services. Some are within your control; some stretch beyond it. They should all be carefully weighed before you land on the right rate for you—right now.

Cost of Doing Business

How much overhead does your business have? Some businesses require regular investments in things like equipment, supplies, transportation, services and subscriptions. It's important that your rate can cover these expenses—and then some—so you can be profitable. Here's a calculator to help you figure out your cost of doing business.

Desired Income Level

Dreaming of an adventurous vacation? Have visions of a new home or car? Using the "cost-plus" accounting method, you can determine exactly how much you need to make per hour to get you the annual income you need to reach your goals. Use this calculator to find your desired income level.

Your Skills and Experience

A business owner fresh out of school with little to no experience should have a different price than someone who's been at it for 5, 10 or 15+ years. If you're experienced and qualified in ways your competition is not, your rates should reflect that.

Clients You Serve

In general, the bigger the company, the bigger the budget and the more complex the work. If you want higher rates, consider serving larger customers.

Continue Reading →

Factors to Consider When Setting Rates

Complexity of Your Work

It's important to understand how involved specific projects are to price them right. Track your time to get a realistic snapshot. Services that take more time should cost more.

Seasonality

It's important to consider your "off" season when choosing your rate. Your prices may go up when you're in demand. Snow removal and landscaping services may even build in a premium for jobs that require a quick turnaround. (Look for ways to mitigate uneven cash flow with a seasonal business.)

Competition

When faced with two people with almost identical skills and experience, most clients will choose the one who costs the least. Know what your closest competitors are charging to ensure you're not wildly out of range. (We'll get to how you can differentiate yourself beyond price in Chapter 3: Why You Should Charge By Value, Not Time.)

Pros & Cons of Different Pricing Structures

	BY THE HOUR	BY THE PROJECT	BY THE SERVICE	BY THE PRODUCT
PROS	You get paid (ideally at your preferred rate) for every minute of billable work you do.	You and your client know exactly what the project is worth from the outset and you can price for the value of the project, not the time it takes.	You get paid for your expertise, not your time, i.e. a plumber may fix a leaky pipe in 10 minutes, but the service call is $75.	You can put a price on the value of each product, not the time you spend creating it.
CONS	The more efficiently you work, the less you get paid. Plus, the rate might not reflect what your work is actually worth in the market. Furthermore, not every working hour is a billable hour.	Your profit goes down if the client requires multiple revisions, meetings, phone calls and emails to consult about the project. A contract that outlines exactly what the project entails will help reduce scope creep.	Unforeseen complications can suck the profit right out of the job.	You may be required to spend more time than anticipated, driving the profit down.

There are many ways to charge a client for your services. Each has distinct advantages and disadvantages.

Discounts: Yea or Nay?

Many clients will try to negotiate the best deal they can. There are two ways of looking at whether it's a good idea to offer discounts.

Yes, Offer Discounts Under Certain Conditions

Clients who are looking to hire you for high-volume and/or long-term projects may deserve a bit of a break in your hourly rates.

Simply sliding your rate from $125/hour to $100/hour may make all the difference in getting the job. And that extra $25/hour might not be missed too much if you're logging 20 hours a week.

Another condition is if you're working with non-profit organizations. The reduced rate can be considered volunteer work and may even be eligible for a tax break.

No, Under-Charging is Bad For Business

It's tempting to take that assignment at a low, low rate when you're not busy with other projects or you need a quick infusion of cash.

But when you spend all your time toiling in the minor leagues, you're gaining a very specific type of (low-value) experience and you won't enjoy referrals to better clients.

Some would argue that your time would be better spent pursuing higher-value clients, even if it means taking a business loan to make ends meet.

4 Calculators to Try

CHAPTER 2

Wouldn't it be nice if there was a simple tool that could calculate your rate for you? Well actually, there are many.

In this chapter, we present some of these approaches to rate-setting. Some are basic math. Others have more complex variables and you'll need to put on your thinking cap.

Crunching the math and trying out different ways to calculate your rate is a great exercise in coming to terms with what feels right for you. (Remember that part art, part science thing we talked about earlier?)

But, here at FreshBooks, we don't endorse any of these approaches on their own. We think you should be pricing your work based on its value (see Chapter 3).

Nevertheless, between all of the approaches in this chapter and the value-based approach outlined in Chapter 3, you should be able to land on a strong sense of what you should charge in order to:

1. Value your work appropriately
2. Achieve your personal and financial goals

CALCULATOR #1

How Many Billable Hours Do You Really Have?

Before you even get started thinking about your hourly rate, you need to get crisp on exactly how many billable hours you work.

If you're making a switch from traditional employment to self-employment, this may be a new way of thinking... After all, when you're paid a salary, you get paid the same no matter what work you do. You could be in a meeting, catching up on paperwork, or delivering on a project and your salary is the same.

However, when you work for yourself, your client is paying you for the billable work you do. But you typically don't earn money for the time you spend doing things like:

- Administration
- Accounting
- Social media
- Website updates
- People management
- Etc.

So, it's important to calculate out of your work week (say, 40 hours) how much time you spend on billable versus non-billable work. This is the jumping off point for understanding what you should charge for that billable work.

Let's Look at an Example!

Wendy is a freelance designer. She knows well that not every working hour is a billable hour. She has a huge Instagram following that expects her to update constantly! And while this work sometimes yields new business, she's not making money off that time.

Wendy's also an avid traveller and wants to give herself a generous vacation allowance. To make that happen, Wendy needs to be careful about finding a balance between her billable and non-billable work. The good news is the math is pretty straightforward!

Put yourself in Wendy's shoes. First, list all the tasks you do and break them down between billable and non-billable. Here's Wendy's list:

NON-BILLABLE	
Administration (organizing her work)	2 hours/week
Social media activities	5 hours/week
Prospecting for new clients	4 hours/week
Accounting (invoicing, tracking who's paid, etc.)	2 hours/week
TOTAL	13 hours/week on non-billable work

Presto! You might think you now have your billable versus non-billable hours clear. But wait! There's still a little math to do.

There are 52 weeks in every year, 7 days in every week, 24 hours in every day. But, most of us don't work every minute of every day—and don't want to! You need to think about how much you actually work. This means subtracting:

- Vacation days
- Any allowance for sick days
- And public holidays you'll want off

You'll also want to consider:

- Whether you want to work weekends
- How long you want your work day to be (Perhaps you're a strict 9–5er, or actually only want to work part-time)

Wendy is content to work a traditional 8-hour day. But she also wants a very generous 6-week vacation allowance, 10 days (2 weeks) for sick days and there are also 10 stat holidays (another 2 weeks).

This means she's actually working 46 weeks (not the full 52). So, in summary, Wendy's working:

- 8 hours a day
- 5 days a week
- 46 weeks a year

That's 1,840 hours a year!

Now that she has that number she can start to divide it between billable and non-billable work.

Go back to that original list of your billable versus non-billable tasks and think about how you'll divide up the hours you've got. You might want to approach this like keeping a food diary; track time for a week to see where your time is going!

So now Wendy knows she spends 13 hours a week on non-billable work. Which means, 27 hours a week on billable work. That's a remarkably different number than assuming every working hour (40 hours a week, 52 weeks a year) is billable! And why is this important? Because when you're billing by the hour, you only get paid for those billable hours.

So, say Wendy is making $100 an hour, it's not $100 by 40 (hours a week) she'll make, it's $100 by 27 (billable hours a week). **A HUGE DIFFERENCE.** And that's why it's so important to understand your billable hours *before* you even start to think about your rate.

So, now we're ready to move on to actual rate calculators!

CALCULATOR #2

Desired Income Level / Annum

One very simple way to think about how much you should bill is to think about how much money you want to make. For those who are used to thinking in terms of a traditional salary, this will feel very natural.

Let's look at another small business owner!

Megan has just quit her full-time job as a content marketer to go freelance. With many lucrative clients and contacts in her back pocket, Megan hopes to make a 6 figure salary as a solopreneur!

In order to make that goal a reality Megan needs to grasp two things:

1. How many billable hours she works
2. What rate she needs to charge clients in order to reach her income goals

Like Wendy, Megan spends time on social media and administration etc. But she's a little more cut-throat than Wendy: Megan understands that the more time she spends doing non-billable work, the less she'll make. So she's found tools and technology to keep those tasks to 2 hours per day. This gives her a whopping 6 hours every day for which she's billing clients (that's 30 hours a week).

Megan is also stingier with her vacation allowance—keeping it to a mere 2 weeks per year. For Megan, it's all about making $100,000+ But she keeps a 10-day allowance for sick days just to be safe.

HER BACK-OF-NAPKIN MATH LOOKS LIKE THIS!

With this information, Megan now knows that if she's going to reach her income goals she has to do two things:

1. She has to work 6 billable hours every day
2. She has to bill at least $70 for every one of those hours

It's important to note that this calculator doesn't take into account the market you're in, what your competitors are charging etc. It's purely focused on desired income level. Once Megan has this rate, she has an important baseline for understanding her rate as it relates to her financial goals.

But if you want to dig deeper into the nuance of cost of living etc. the next calculator takes things a step further.

CALCULATOR #3

Covering Your Living Costs

When you think about it, desired income is a relatively simplistic way of thinking about your rate. After all who doesn't want to make, say, six figures every year. But that may or may not mean that you actually need to make that much.

What you do need to do is cover your living costs. And those are hugely personal; varying from one person to another, and one location to another.

The costs of living in, say, New York City are very different than the costs of living in Calgary, Canada. (Pro-tip: You'll find numerous online calculators to help you look at cost of living by city, province and even country.)

One thing is clear: Wherever you live, you need to pay for your cost of living, i.e. rent/mortgage, utilities, transport, food and entertainment, etc.

Time for an example!

Jesse is an illustrator who has been living a fast-paced life in New York for a decade. But now his parents are aging and he's thinking about moving home to Calgary in Canada.

Jesse's lucky: He'll keep pretty much the same clients when he moves (in a digital age, location isn't as important as it once was) so for him, this move could mean a lot more money in his pocket.

	NYC	CALGARY	
Housing (rent / mortgage)	$3,179	$934	LOWER IN CALGARY
Utilities	$134	$140	HIGHER UTILITIES IN CALGARY
Transport (car, gas, transit)	$131	$80	MONTHLY TRANSIT PASS
Food & entertainment	$684	$500	LOWER IN CALGARY
Misc. shopping	$500	$500	
Travel	$400	$400	
Health care	$307	$0	FREE HEALTH CARE IN CANADA
Other applicable expenses			
Monthly retirement savings	$1,000	$1,000	
Monthly Cost of Living	$6,335	$3,554	

Let's look at how his current costs compare to what he expects to pay when he moves to Calgary!

Right now, Jesse needs to make $6,335 to cover the costs of living in expensive Manhattan. But even he is surprised to see how much lower the cost of living is going to be in Calgary. $3,554 seems like a lot less pressure!

But Jesse knows he still has to account for tax. It's his "after tax" income that will cover these costs. And one big mistake freelancers like him make is forgetting to put aside money for tax. Say the tax rate is about 10%—Jesse will have to add 10% more to these totals to make sure he makes enough to cover his costs and his tax bill.

Now that he has his ballpark monthly number, he can work out how that breaks into an hourly rate.

So Jesse can charge his Calgary clients a lot less to cover his costs. BUT! (and this is the advantage of finding clients in places where the cost of living is more expensive) he'll make a lot more money keeping his New York clients paying him the rate that covers his Manhattan costs once he moves.

Maybe you're not thinking of moving, but you should still capture all your costs of living to determine if you're charging a rate that will help you cover them.

The advantage of this calculator is that it's highly customizable to how you live as an individual. One person might have more expensive transport costs because they taxi everywhere, whereas Jesse in our example was taking transit.

This exercise can also alert you to where your hard-earned money is going and how you could re-allocate it.

But while it's great at capturing what you need to cover your costs today, it doesn't necessarily help you plan where you're hoping to get to… and that's where the next calculator will provide a range that's focused on protecting you now, but growing you for the future.

CALCULATOR #4

Minimum & Maximum

It's one thing calculating your ideal rate—and we definitely think you should shoot for that. But with any freelance work, there are highs and lows. So it's good to have a rock solid understanding of what you need to make, bare bones.

This calculator pulls a lot of the work done in the previous one, but forces you to really look at what a more pared down versus a more ideal/aspirational existence might look like. When you're quoting clients and considering what work to say "yes" or "no" to, it's important to safeguard your minimum income threshold.

Basically this is the same calculator as the previous one, with a minimum and maximum stated.

Here's the example:

Alex today rents a modest 2-bedroom apartment, he mostly takes transit (though he's recently started taking more cabs). And he knows that he could spend less on groceries, but he really likes shopping at the expensive Farmer's Market near him.

For his minimum, he's going to think about what he needs to survive (adios taxis, buh-bye Farmer's Market). But he knows he's not going to really be happy living that way. So when it comes to his "goal" income, he lets all those things back in. He also adds higher rent (maybe he hopes to move to a nicer place), as well as travel and luxury purchases his minimum budget doesn't permit.

Of course, the goal here is to make your goal income (no-brainer!) But what this exercise helps you see is what you absolutely need to make to survive. And it helps you extrapolate the absolute lowest rate you can charge a client and still stay afloat.

We're never recommending that you just cover these minimums, but it should be like a little engine light that comes on when your rate begins to hover in that area.

In Conclusion

You can see how each of these approaches has its own value (and curiosity factor). It's always interesting to do your own back-of-napkin math and see what the results spit out for you and your business.

However, you can probably also see that they're all missing something. They don't, for example, take into account your level of expertise, what your competitors are charging, the going rate for your field of work in your location.

But the most glaring thing of all that they omit is the VALUE of your work. After all, it's one thing to think about dollars and cents in your pocket. But what you do is special. And you're uniquely qualified to do it. That's why your clients want to work with you.

The next chapter explores this wholly different perspective on setting your rate: Understanding the value of the service you provide to your client.

An Alternative Approach:

Why You Should Charge by Value, Not Time

CHAPTER 3

According to Breaking the Time Barrier, by FreshBooks Co-Founder and CEO Mike McDerment and co-author Donald Cowper, when you rhyme off your hourly rate or enter into a flat-rate negotiation without first identifying the value your work will bring to the client, you're putting yourself at a serious disadvantage.

Charging by the hour or the project is not a profitable (or even fair) way for experienced small business owners to price their work. Think about the countless hours of experience, education and skill development, not to mention the unquantifiable talent, that goes into what you do. How do you distill all of that into a reasonable hourly rate? You don't.

> "Instead of considering how long a project will take you, think about the ultimate value it brings to your client.

Mike McDerment, FreshBooks Co-Founder and CEO

How to Pivot to Thinking in Terms of Value

Designing a logo, taking wedding photographs, preparing a PR campaign or developing a new web application may take you a few hours, but the value of your service to your customer is worth far more than the time associated with completing it.

4 Examples of Value Thinking

Wedding Photographs

Memories of a once-in-a-lifetime event that can be enjoyed by generations.

Value: Priceless!

Business Logo

Brand recognition that can be used in countless ways and seen by a limitless number of potential customers.

Value: Depending on the size and lifespan of the business, could be above $100,000.

PR Campaign

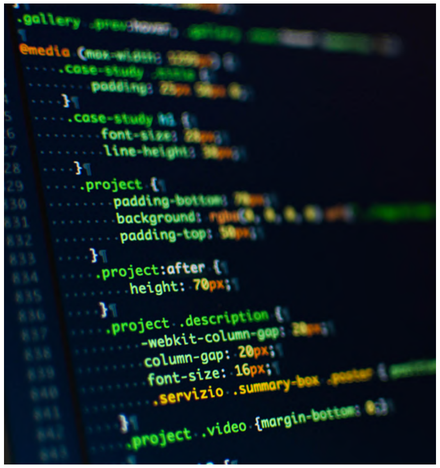
Marketing that can bring in multiple clients and/or change the perception of the business to its ideal client.

Value: $100,000+

Web Application

Efficiency in doing business, saving your client valuable time and making it easier to do business with their customers.

Value: $100,000+



Value Pricing, Explained

Value pricing is all about selling a solution, not the time it takes to complete a service.

Instead of thinking about how long a project will take, as outlined by the client, take a step back and see if you can present them with a solution that has a bigger impact while achieving the same business objective.

You're technically doing what they asked for, but you could offer a service that elevates their business in a way they hadn't considered. It wouldn't take you much more time than going through the motions, but it would have a huge impact on your client—and your profitability.

5 Steps to Value Pricing

1. Understand the Problem

In order to come up with a price based on value, you need to understand the problem your potential client is experiencing. Ask them:

- What problem do you want to solve?
- What are the pain points for you and your customers?
- What are your short-term objectives relating to this problem?
- What are your long-term goals relating to this problem?
- What would success look like? How will you measure it?

2. Nail Down the Numbers

In the initial conversation, it's helpful to get the client to express what they're trying to achieve in a dollar figure, such as revenue or cost savings.

This helps you and your customer understand the true value of your services.

3. Pause for Effect!

Don't give a quote on the spot! Some clients will want you to share a ballpark cost within the first conversation. Resist, if you can.

You want to take the time to consider all the angles of their problem and develop a solution that may extend beyond their simple ask.

You may provide a proposal that is more valuable than what they had originally conceived.

4. Create a Proposal That Focuses on Value

Using a professional proposal template, be clear about the value your solution offers.

You may do a before/after comparison demonstrating the problems they're currently experiencing and what it will be like when you've created your solution.

Be as descriptive and clear as possible. Don't make price the main attraction. Case studies and testimonials from similar projects add a nice touch and minimize their feeling of risk.

5. Provide Pricing Tiers

What do clients want more than great-quality work? Choice.

Maybe they love your solution but simply don't have the budget to do everything you recommend.

Instead of walking away from an opportunity, give that client options.

Position your work as an investment, not an expense.

“ When you look inward and push yourself to come up with ways to serve your clients, you end up redefining what you do and expanding your services.

Mike McDerment
FreshBooks Co-Founder and CEO
in “Breaking the Time Barrier”

How to Effectively Communicate Your Rate

CHAPTER 4

For a small business owner, there's nothing better than being on the receiving end of a phone call or email from a fresh, new prospect inquiring about your services. Tread carefully during your first interaction with a potential client. You want to weed out a bad fit and maximize your profit potential.

Beware: If a potential client's first question is about money, they're likely shopping around for the cheapest price, which means they're not looking for a high-quality professional with whom they can begin a meaningful project. And if they do select you as the "lucky" winner, they'll probably try to cut corners all the way to the finish line.

Instead of blindly quoting your hourly rate or service prices, schedule a free phone consultation and ask them questions like:

- Why are you looking to hire a writer/designer/landscaper/other?
- What are the details of the project/job/support you need?
- Why is this work/project/job important to you/your company?
- What timelines do you have in mind?
- What is your overall budget?

Asking the prospect to walk you through the work gives you a more accurate picture of the kind of project it is, so you can offer an informed cost estimate.

It also helps clarify the importance of the job in their mind—and why they need to hire a valuable professional instead of doing it themselves.

“ When it comes to flowers, most potential clients want/hope for more than their actual budget can accomplish. Understanding this, my first goal is to communicate the *value* that I deliver with my products and services. Even if clients cannot get all the bells and whistles they originally wanted, what I will deliver for their budget will be high value.

Kei Muto
Owner
Quill & Oak

Best Practices for Communicating Your Rate

Be Confident

Once you've determined your price, commit to it. State your rate with assuredness, knowing you deserve every penny.

Be Professional

Forget hand-written estimates or hastily-written emails with a cost breakdown. Put together a professional cost estimate with your logo, date and a clearly-outlined project outline.

Be Consistent

It's okay to customize cost estimates for different projects, but take care to ensure your prices for time, services and products don't vary too much between projects and clients. Inconsistent rates are a hassle to keep track of and if a client gets wind of it, their trust be eroded.

Avoid Pre-Negotiating

You might be tempted to add a note like, "I'm willing to be flexible" or "This cost estimate is negotiable based on client budget." Don't give them a reason to second guess your quote. If it's beyond their budget, they'll let you know and you can negotiate then, if necessary.

Avoid Price Breakdowns

If the project requires multiple services or products, avoid pricing them separately unless the client has specifically asked for that. Offering one price for a whole package is easier to digest and communicates overall value. It also keeps clients from nitpicking the prices of individual services.

Communicate the Value

When outlining the project components, include the value of each, i.e. transform website copy for better scannable and vibrancy; create better brand recognition with new logo, etc.

Continue Reading →

Best Practices for Communicating Your Rate

Share Examples of Past Work

If you're putting together a proposal with your cost estimate, it's helpful to include samples of similar work so clients can get a good visual of the kind of quality they'll receive.

Offer a Payment Plan

If a large project has a hefty price tag, offer to break it up into milestone payments. This is more manageable for clients and ensures you get paid as you go.

When to Raise Your Rate

CHAPTER 5

Have you been charging the same rate since you began your business? Whether it's been two years or 10 since your last raise, you're probably overdue.

Many small business owners live in perpetual fear of losing their valued customers. They often feel lucky that people pay for their services and wouldn't dream of asking them for more. Or, they've had a run of lousy customers who aren't willing to pay a reasonable price for professional work and they believe they don't deserve more.

It's human nature to underestimate the time, expertise and value of doing work we don't know how to do ourselves. If you know you're worth more than what you're charging, it's time to find better clients.

Still not sure? Raising your rates can be a game changer for many small businesses. In fact, if you raise your rates by even a modest 10% and keep all your current expenses the same, you can significantly increase your profit. Do the math.

6 Signs You Can Safely Raise Your Rate

Your Competition Charges More Than You Do

Do a spot check on your closest competitors. If they're charging more (or the same) as you are, the market can withstand your increase.

You're in Demand

If you're booking weeks or months in advance, you know you're great at what you do. There's a good chance your clients would be willing to pay slightly more than they do for the privilege of continuing to work with you.

You've Gained More Experience, Skills and Education

Have you taken on more complex projects since the last time you raised your rates? Are you specializing in a type of service not everyone offers? Have you updated your skills, achieved industry certifications or taken professional education? If the value you bring to a job increases, so should your rates.

You're Serving Clients with Bigger Budgets

Have you transitioned to working with larger, higher-value clients? Bigger companies want to work with professionals who are as prestigious as they are. And they often don't trust someone who charges less than they deserve.

Your Costs Have Gone Up

Are you paying more for equipment, supplies and utilities? Your business needs to keep up with inflation the same way your suppliers have.

Your Clients Take You for Granted

People will value you only as much as you value yourself. If your services are seen as a cheap commodity, you're probably not getting the respect you deserve. Raise your rates to reflect your expertise and your value will go up.

“ A wise mentor told me, ‘If your rate doesn’t feel too high to you, it’s not high enough.’ The more I grow into my business, the more I think that’s good advice. I’m telling my clients how much they ought to value my services if they end up hiring me. Just as importantly, I’m also telling them how much work like mine is worth, no matter who’s doing it.

Neil Chudgar
Communications Consultant
NeilChudgar.com

How to Raise Your Rates Like a Boss

Start with New Clients

A good way to test your new price is to quote new prospects. If you find there's a lot of hesitation, you may have gone too far and can pull back a little. If they accept your quote without question, you'll know you've found the sweet spot.

Lead with the Value, Not the Price

Briefly outline the increased quality of the service you provide before communicating your increase. Clients are willing to pay more if they feel they're getting more value.

Give Advance Notice

Choose a date for the rate increase and let your clients know one to three months in advance so they can prepare.

Make it Modest and More Frequent

Most clients won't flinch at a modest increase, but an increase of 10% or more may be a deal breaker. It's better to raise incrementally every year or two.

Time to Get Paid: Best Practices

CHAPTER 6

Now that you've done all the hard work to calculate, set and communicate your rate, it's finally time to get paid.

Bear in mind, getting money in the bank doesn't happen as if by magic. We've all crossed paths with the notorious late-paying client—or the ghost client: The one who conveniently disappears each time an invoice is due.

To cut the chances of dealing with unpaid invoices and unreliable clients, there are a number of steps you can take to set yourself up with a flawless accounts receivable system.

What's more, you can create a process that not only gets you paid, but makes it happen even faster.

Best Practices for Getting Paid

Invoice Promptly

When you've completed a job, give it a couple of days for the client to digest the work you've done, follow up to ensure they're satisfied (if you think that's necessary), then send your invoice. It's as simple as that.

Invoice Regularly

Do you have ongoing project work that requires regular invoicing? Be professional and consistent by selecting a day to invoice every month (usually the first or the last day of the month). Even better, invoice bi-weekly (e.g. 15th and 30th).

Automate Late Payment Reminders

There are few things more frustrating than clients who don't pay on time. Avoid that scene altogether by including automatic payment reminders on every invoice.

Most accounting software (like FreshBooks!) offers the option to set up automated late payment reminders that will be sent to late-paying clients on your behalf at predetermined intervals.

Charge Late Fees

Another way to ensure your cash flow isn't interrupted by tardy clients is to include late fees on overdue invoices. Late fees are usually levied as a percentage (i.e. 1–10% on only the number of days the invoice is late, not the whole amount).

FreshBooks' research shows that when clients see an interest rate on an invoice, it gives them an incentive to pay on time.

Require Deposits and Milestone Payments

Big projects can take up a lot of a small business owner's time, preventing them from taking on many other clients. If you're committing a larger portion of your billable hours to one big project, make sure you're getting paid regularly for it.

Protect yourself and your business by requiring a deposit at the outset, particularly if:

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Best Practices for Getting Paid

- You need to invest in equipment or supplies to complete the work
- It's a big job that will monopolize a lot of your time, i.e. you won't be able to take on many other projects while you're working on it

It's perfectly reasonable to require a 50% deposit up front.

Another way to minimize the risk of non-payment and keep a steadier cash flow is to charge instalment payments for larger projects. You may require payment at pre-determined dates or project milestones along the path to completion.

Get Paid Online

Want to get paid faster and make payment more convenient for your customers? Accept online payments, such as credit cards and Apple Pay. According to a FreshBooks' study, small business owners who accept online payments get paid twice as fast.

Conclusion

Like most aspects of running a small business, setting your rate is a not a set-it-and-forget-it task. It's important to regularly reconsider the value of your services and the prices you charge.

Re-evaluate the market in which you operate, your clients, your competition, your cost of doing business and the way you're evolving as a service provider.

Like most accounting functions, rate-setting can easily fall to the bottom of your priorities. Don't let this happen!

Choose a date to put your mind to this every year. (The anniversary of your business is an auspicious time!)

Walk yourself through your price considerations and decide whether it's reasonable to raise your rates. You may choose to revisit the topic in six months or wait till next year. Either way, you're making it part of business planning.

After all, if you don't consider the value of your services, who will?