FLAT RATE vs. HOURLY

Trying to decide whether you should bill a project by the hour or with a flat rate is a tough decision. On one hand, billing hourly gives you flexibility if the project takes longer than expected. On the other, you know exactly how much you'll make in revenue for a flat-rate project.

To help you decide, we've compiled the pros and cons of each method, along with a table to see which method works best for your business. If you have questions or want feedback on your pricing, come to one of our business owner coworking sessions to ask for help.

Hourly + Materials

When you bill hourly, you and the client agree on a number of hours for a given project, and any materials are charged in addition to that rate.

PROS

You're billing based on how much time you spend physically on the job, so you can do the math easier at the end of the job. If a job takes longer than expected, you can still get paid for that time. (Assuming you've talked to the client about that - see our Client Communication Course for tips and tricks on how to have those conversations)

CONS

If you do a job quicker than expected, you get paid less, and clients might have a different opinion than you regarding what a billable hour is. For example, are you charging for the time you spend eating lunch or taking a water break?

Flat Rate + Materials

When you bill at a flat rate, you and the client agree on a price and scope for a given project, and any materials are charged in addition to that rate.

PROS

If you do a job more quickly, you get paid more than you might if you were charging hourly, you also have more wiggle room for supply or material cost changes

CONS

If a job takes longer than expected, it cuts into your profit margin.

Flat Rate Including Materials

When you bill at a flat rate and include materials, you and the client agree on a price, scope, and deliverables for a given project.

PROS

You know exactly what you'll make at the end of the job, and you don't have to think about as many taxes.

CONS

If a job takes longer than expected or if materials are more expensive, it can impact your profit margin, or even eliminate it entirely.

Using the table below, pick a recent job that you've done and fill out your expenses. Make sure you know all of the associated costs for that job, including materials, payroll, and any other expenses such as administrative time or delivery fees.

Total Materials Cost	
Total Labor Costs	
Other Expenses	
Total Overall Expense	

Now, let's look at what your current profit was for that job. Your revenue is the amount you charged for the invoice, not including any taxes.

Revenue	
Minus Total Expenses	
Gross Profit	

Next, let's compare how that profit would change if you charged differently.

Hourly Rate + Materials

	Amount Paid	**Amount Charged**	**Profit** *(Amount Charged Minus Amount Paid)*
Billable Hours			
Materials			
Non-Billable Hours			
Other Expenses			
Total			

Flat Rate + Materials

	Amount Paid	Amount Charged
Flat Rate Charged		
Billable Hours		
Non-Billable Hours		
Other Expenses		
Materials		
Total		
Profit *(Total Amount Charged - Total Amount Paid)*		

Flat Rate

	Amount Paid	Amount Charged
Flat Rate Charged		
Billable Hours		
Non-Billable Hours		
Other Expenses		
Materials		
Total		
Profit *(Total Amount Charged - Total Amount Paid)*		