



The Lagom Finance Guide to Setting Your Rate

THE ULTIMATE GUIDE TO EVERYTHING
YOU NEED TO KNOW ABOUT SETTING YOUR RATE

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INTRODUCTION





Introduction

TO SETTING YOUR RATES

So you're self employed. You've registered as a sole trader or as director of your limited company. So now what? Well, the good news is that you can start trading immediately, however, it's not always easy to know how to value your work.

You may already know that, as a freelancer, client negotiation skills are essential and that sometimes, setting your rates too low can result in you working unpaid overtime. In this guide, you'll find advice on how to set your rates, negotiate effectively and understand the value of your experience and services in a competitive market. Let's get started.

Becki

FOUNDER AND DIRECTOR, LAGOM FINANCE

SETTING YOUR RATES 101

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UNDERSTAND YOUR WORTH

Being fully informed about what to charge is the culmination of four learnings – the first is understanding what your services and labour are worth within the market you intend to trade in.

Always start by researching and studying the market rate for your services and your industry. Use what competitors are charging by the hour, day and for projects and fixed retainers as a guideline. Your starting point for your hourly, daily, weekly, monthly, quarterly and annual salary should be close to what other businesses are charging for similar services.

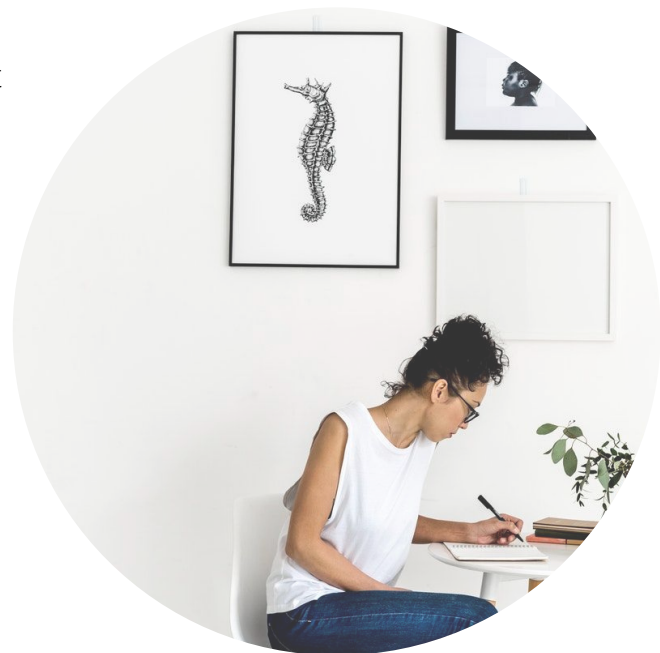


CHARGE WHAT YOU'RE WORTH

The second learning is charging the right amount. You'll have a target net and gross salary in your mind but this should take your business outgoings and other expenses, like travel, into account. It should also factor in how many hours you spend working each day.

You'll need to cross reference what you've learnt about your competitor's rates with your target salary and your outgoings. The total you reach should be making you a profit, not a loss. Being new to this scene should never mean you're working for free or losing money.

If you can offer a service and do a job well, fulfil your client's brief and retain your client's confidence, that's a billable service and you should be charging industry standard rates and making a profit.



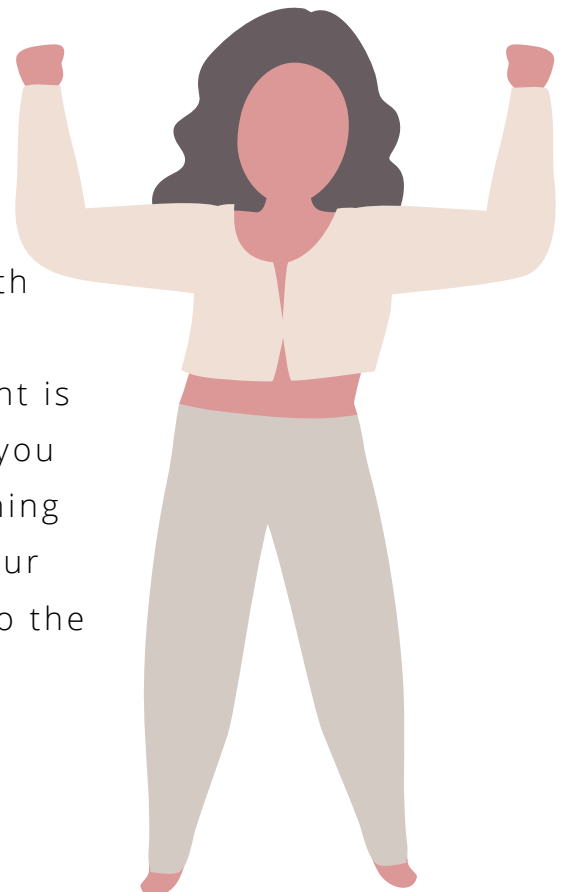
BE DIPLOMATIC

Diplomacy is your third important learning. We'll discuss this more later but more generally, learning the art of negotiation is essential to ensuring you're setting the correct rates.

Diplomacy helps when having difficult conversations with clients, for example, knowing how to pitch high or low when it benefits you, how to argue your worth and make your case like a professional and how to reach a mutually beneficial agreement with your clients.

BE CONFIDENT

The final tenet of learning how to set your rates effectively is confidence. Believing in your own worth and pitching your fees with confidence is essential. Diplomacy will come in handy but if a potential client is trying to drive your costs down to the point where you won't be making a profit, be confident when explaining this. You are running a business, be confident in your entitlement to earn and to develop your company to the best of your ability.



HOW TO SET YOUR RATES

EXPENSES

If you've researched average market rates and considered how much you'd like to be earning to survive and profit, you'll need to also take your expenses into account. Costs you might need to consider are as follows...

- ✓ Rent and mortgage payments
- ✓ Car payments and travel cards
- ✓ Home and car insurance
- ✓ Bills for groceries, gas and electric
- ✓ Child care and pet care
- ✓ Pension and retirement savings
- ✓ Tax and personal savings
- ✓ Subscription services
- ✓ Disposable income for entertainment

Then consider your business costs...

- ✓ Web hosting and maintenance
- ✓ Accounting fees and software
- ✓ Marketing budget and software
- ✓ Equipment such as tech, office supplies and approved work safety tools such as aprons, masks and gloves
- ✓ Educational resources such as workshops



BILLABLE HOURS

So you have your target salary and it takes all your personal and business expenses into account. Next you'll need to calculate how much time you actually spend working and what your billable hours will be. This will help when establishing the ideal hourly, daily and weekly rate and will also help when setting fixed project rates and retainers.

There are 2,080 working hours in a calendar year. So, to calculate your hourly rate, you need to figure out how many of those hours you'll actually be working for throughout the year. This will be an estimate and if you work exclusively on a project basis this might be more of a challenge but try to consider your year and how much you hope and expect to be working.

Ensure that you also factor in your holidays, National holidays and allow for some sick days and mental health days – when you work for yourself you are solely responsible for making sure you take this essential time for your health and budget for it too.

Once you have your estimated number of days, multiply that number by 8 – assuming you plan to work 8 hour days. Multiply by 4 if you plan to work half days etc. – to get the total number of working hours per day. Then subtract that number from 2,080.

The next step is to subtract the amount of time you'll spend working on non-billable projects, like admin work. It's estimated that 25% of your time will be spent on these projects, so you need to multiply your total billable hours by .75%.



CHARGE
YOUR
WORTH

HOURLY RATES

To calculate your hourly rate you'll need to divide your target annual salary (after taking expenses into account) by your approximate total of billable hours. Then you'll be able to calculate the cost of project work more efficiently. Consider how many hours, days and weeks it will take you to complete your project, costs for resources and anything else you may need, and quote a fixed price.



Not only does this help you ensure you don't sell yourself short when quoting a project but it also helps the project seem like a better investment to your client.

Clients often don't realise they're paying you for your process and professional expertise as well as the time spent on the final product that will be delivered to them, a fixed rate will cover this time and energy and if needed, you can break this down for your client to explain the total investment.

CHARGING PER WORD

If you write for a living it's likely that clients will ask you for a 'per word' rate. Before you can calculate your per word rate, you need to know the average number of words you can type in an hour. The next time you sit down to write, set a timer for 60 minutes and tally up your word count. Then divide your existing hourly rate by the number of words you've written.

However, bear your processes and professional expertise in mind here. You may need extra time for research and you may work slower on certain days, every project is different, so it's important to take the realistic time that you'll need into consideration when charging per word.



COLLECTING PAYMENT

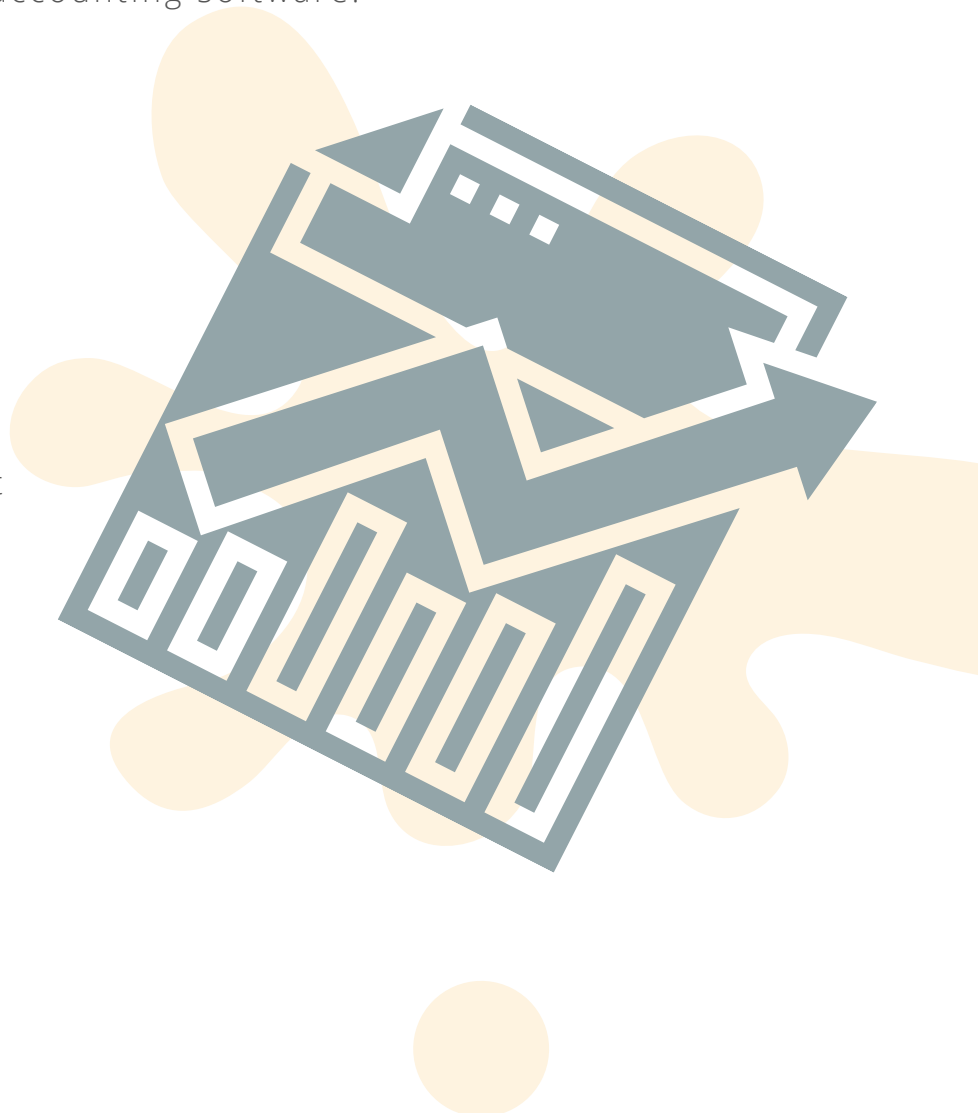


COLLECTING PAYMENT

You might be absolutely bossing running your own business, but setting rates effectively falls down if you aren't invoicing and collecting payment efficiently. Invoicing in a timely manner is essential, as is setting clear terms and checking in with your clients about their pay run dates. Be sure to invoice ahead of time to ensure timely payment and keep things running smoothly.

If you know you'll struggle with timely collection or don't enjoy the process of directly asking your clients for payment – although this is something you should try to become more confident with – you can automate your collection process and send invoices and reminders to clients. Get in touch if you need further advice on how to do this with accounting software.

Create contracts that are co-signed by clients and dated to ensure a client cannot negotiate your fee after the agreement for payment in return for services rendered has been set. If you've set a fixed project fee and the client has signed a contract that states you'll be collecting a percentage of the total fee monthly, you'll be able to collect this and your client will not be able to contest this – unless of course, you're unable to deliver the work promised.





A FINAL NOTE ON
WORTH

Know
YOUR
Worth

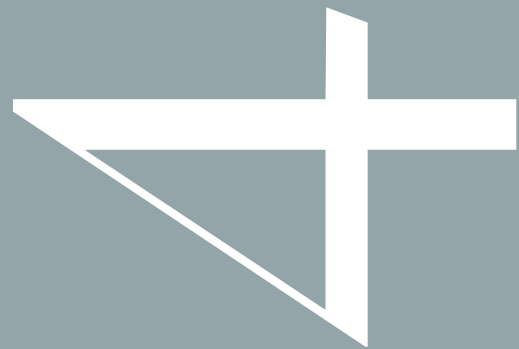
The text is surrounded by decorative elements: several white four-pointed stars and small white circles, as well as a few small orange circles.

A FINAL NOTE ON WORTH

Contending with established companies for the same contracts and clients can be daunting but my advice to you is not to let this affect your confidence. We all start somewhere and your competition and those you admire had a starting line too.

Comparison can be the thief of joy so when you're setting your rates, do look to others in your industry for a guide on what to charge, but remember not to look to them too much for validation of your worth and ability as a business owner. You are not them and they are not you – you are unique businesses that shine in your own way, and that is one of the main things your clients will value.





FAQ's



FAQ'S

I SET A FIXED RATE BUT WORKED MORE HOURS THAN MY CONTRACT WITH THE CLIENT STATED. CAN I CLAIM FOR THESE?

It's always best to speak to your client as soon as possible if you feel you may not be able to deliver a project to completion on time. By giving your client as much notice as possible, and explaining that you may have misquoted for your time, you will be far more likely to successfully negotiate a new fixed fee.

Waiting until after the project is complete and billing for additional hours is not always the best way to collect payment without prior communication with your client.

If you are charging by the hour or by the day, be transparent with your client about the likelihood of additional hours or days needed as early as possible.

A COMPETITOR HAS MORE EXPERIENCE AND A MORE IMPRESSIVE PORTFOLIO THAN I DO BUT I BELIEVE MY WORK IS OF A HIGHER STANDARD. CAN I CHARGE THE SAME RATE AS HER DESPITE NOT HAVING AS MANY YEARS OF EXPERIENCE?

However, bear your processes and professional expertise in mind here. You may need extra time for research and you may work slower on certain days, every project is different, so it's important to take the realistic time that you'll need into consideration when charging per word.

A CLIENT REALLY WANTS TO WORK WITH ME BUT THEIR BUDGET IS HALF OF WHAT I WOULD USUALLY CHARGE AND THEY WON'T NEGOTIATE. SHOULD I TAKE THE CONTRACT?

Be frank about your worth. Even if you really need the work, it's important to be clear about what the client is paying for – it's not just your time, it's your experience, your knowledge and your expertise. If a client is able to pay half of your rate, negotiate and offer half the hours. Be forthright, it will pay off in the long run.

MY COMPETITOR HAS INCREASED HER RATES, SHOULD I ALSO INCREASE MINE?

You could let your work speak for itself but you do risk being overlooked due to years of experience and her impressive portfolio. This is a good opportunity to price your services competitively. Don't undersell yourself, but offer your potential client a discount that they may find is more in step with their budget than what your competitor is offering. Really push the quality of your work and show the client what you can do alongside your more affordable rate.

You may find they'll be far more willing to offer you the chance to impress them than pay a higher rate for a safe bet. Building connections in the beginning is important and if you can wow and then retain these clients, negotiation is always an option after you've completed your first contract.

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CONCLUSION





CONCLUSION

Setting your rates appropriately has a domino effect across your entire business, your personal life and your ability to lead your business to the best of your ability. It's a big deal but not something that has to be stressful or challenging. It may take a while to find the sweet spot, to factor in every new business expense or balance your working hours. It may also take a while to perfect the art of diplomacy, confidence and find clients willing to part with the first sum you pitch. But you know your worth and now, you have everything you need to know. If you have any other questions about setting your rates, how to establish your expenses and needs or anything else about running a business as a self-employed person, get in touch.

Becki



www.instagram.com/lagomfinance



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