

The Creative's Guide to  
**Pricing Strategies**



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# Introduction

There are many options and strategies when it comes to pricing your services and billing your clients. In this quick guide we'll be covering a bit of both: *pricing* being how much you charge for your services, and *billing* being how you collect payments for those services. The goal is for you to pick a pricing and billing strategy that *best* complements the services *you* provide. Ready? Let's dive in!

# Pricing

When it comes to pricing your services, there are no hard and fast rules to guide your decisions, which is why the subject of pricing is such a controversial topic in most service-based industries. For example, two different web design agencies might be miles apart in what they charge for essentially the same result.

But the lack of rules also presents an opportunity—a flexibility to position your business in a way that generates the revenue you need to meet your financial goals. You have the freedom to carve out your own quiver of clients who are thrilled to pay your prices in exchange for the dependability

and outstanding results you provide. Ultimately, you don't need *every* potential client to agree with your pricing. Only enough of the ones who appreciate the value you deliver.

The following are some common strategies you can use for pricing your services. Each one has its own unique benefits. Which one(s) you choose will be based on a blend of what you're comfortable with combined with what makes the most sense for the specific services you offer.

## Cost-Based Pricing

Cost-based pricing is arguably the most popular pricing method for service-based businesses. In simplest terms, you're pricing your services based on *time* and *materials*. You determine an hourly rate for your services; you combine the cost of any hours required with any additional expenses incurred; and then you charge accordingly.

## The Good

Business owners gravitate towards cost-based pricing because of its predictability and simplicity, both for you and your client. From *your* perspective, you know you're earning a predictable amount of revenue for every hour you work. From your *client's* perspective, they can easily see where their money is going based on the hours and expenses required. There's a one-to-one relationship between the actual work performed and the amount charged.

Cost-based pricing can also act as a buffer when projects unexpectedly grow beyond their original scope. When a client requests extra work, the time involved will be compensated for, because the client is being charged by the hour. There's a sense of comfort and control to that aspect of hourly billing that many businesses find appealing.

## The Bad

But there are some downsides to be aware of with cost-based pricing, the biggest one being your income is directly tied to

*time*. You typically won't make more money than the time it takes to produce the work. And you're *only* making money when the "timer is running."

If you're accustomed to hourly billing, this might not seem like an obvious downside. After all, you can always raise your hourly rate to increase your revenue. But when you tie your services to time, you're essentially "training" your clients to focus on the clock rather than focusing on your expertise. In other words, the *benefits* you provide your client are usually worth far more than the *time* it takes to produce those benefits. But with cost-based pricing, you won't be compensated accordingly, and it's more difficult for your clients to make the connection between you and the benefit. As a result you could be giving up a much greater upside than cost-based pricing allows.

## **Fixed vs. Actual Hours**

If you do decide to take a cost-based approach, you'll also

need to determine if your prices will be based on a predicted *fixed* estimate or based on the *actual* number of hours worked.

A *fixed* estimate is typically an upfront, flat fee that (hopefully) covers all of the time and materials predicted for the project. Clients usually appreciate a fixed price, because they know ahead of time what they'll be paying. The downside of a fixed approach is you lose that “scope creep” buffer mentioned earlier. If the project ends up taking more work than your fixed estimate allows, you're left in an uncomfortable situation.

In contrast, pricing based on the *actual* number of hours worked might be more uncomfortable for the client, but provides many of the inherent benefits of cost-based pricing we mentioned above. Essentially the exact, total price of the project remains unknown until the work is finished and the hours are tallied.

**Tip:** Even if you don't charge your clients by the hour, you'll benefit from having your team track any time spent



on your clients' projects. Having a record of tracked time is extremely valuable when scheduling new projects and trying to predict costs. [Harpoon's](#) time-tracking system makes it easy for your team to track their time, whether or not you charge by the hour.

## Value-Based Pricing

Value-based pricing is the opposite of cost-based pricing in almost every way, including countering the pros and cons of cost-based pricing with its own. In simplest terms, value-based pricing is charging based on the *value* your service is providing the client, not necessarily on the time and materials involved.

To illustrate the contrast, let's take a sample project being priced by a web design studio. The project is a site redesign. After meeting with the client and detailing out the requirements, the studio is able to closely estimate how many hours will be involved in the redesign. Based on that time estimate, they price the project at \$50,000.

But what if the studio instead took a value-based approach? In the client meeting, in addition to documenting the project's technical requirements, the studio also focused on learning more about the business problems this redesign will be addressing for the client. Based on that information the studio includes some ideas in the redesign that have the potential of increasing the client's revenue by \$1.5 million. That being the case, the *value* of the redesign is worth far more than the \$50,000 of estimated time. And you'd have no argument from the client if that price was doubled, tripled, or even more. It'd be well worth the investment.

## The Good

With value-based pricing, you're aligning the amount you charge with the impact your services have on your client's business. In many situations, this provides a much greater potential upside to your earnings. Because your fees are tied to *value* and not *time*, your amount of profit isn't limited by an hourly rate. And this helps your clients focus on your

*expertise* instead of focusing on the clock, positioning you as an *investment* for their business rather than just a time-based commodity.

Value-based pricing rewards you for your skills, expertise, and expediency. For example, it might require a new web designer 20 hours to design and code a project for a client. But as the designer gains more experience they can complete the same project in 10 hours, or half the time. If the designer is charging by the hour they're actually being "punished" for their experience and increased efficiency. Yes, they could always increase their hourly rate to compensate for their increased efficiency. But a value-based approach dodges the issue altogether, as the client is charged what the work is worth to their business, regardless of the time involved. Increased experience and efficiency then becomes a reward for the designer, as the faster they work doesn't mean less income, but instead more time left over to take on more projects to make even more money.

## The Bad

Despite all its benefits, value-based pricing has its challenges. It requires a deeper understanding of your client's business and the problems they're asking you to solve. This might mean the need for in-depth research, multiple meetings and interviews, and more complex proposals. In the eyes of your client, you'll need to position your business as a strategic partner instead of a labor-based commodity. In other words, the amount of *upfront* work required to discover and propose the *value* of a project goes far beyond simply gathering the necessary technical requirements.

Because most value-based projects are priced up front, you must also be careful that the determined value of the project meets or exceeds the actual amount of work involved. Otherwise you'll be losing money on the project. This can happen if you've misinterpreted the technical requirements for the project or if the client requests unpredicted features in the midst of the project.

## A Mix of Both

Because of these potential “gotchas” many businesses use a blend of cost-based *and* value-based pricing from project to project. Some businesses might opt for a value-based approach only when the determined value is far enough beyond the predicted amount of work that it’s very unlikely to lose money on the project. Cost-based pricing might then be reserved for the tighter, more unpredictable projects.

You can also use a blended approach within the *same* project. For example, you might give your client a project estimate based on value, but state that a cost-based fee will kick in for any work required due to the documented scope of the project changing.

## Retainers

A retainer is when you offer to reserve your services for a client for set “blocks” of time. For example, a client could purchase a retainer on a *weekly* or *monthly* basis. Retainers

make the most sense when the services you're providing aren't tied to a specific project timeline, but instead are more generic in nature.

Let's use the example of a startup who needs a variety of design services handled for their growing company. Each month, new design tasks and challenges arise and the startup is having a tough time keeping up with it all. This is an opportunity to offer your design services on a monthly retainer basis. At the beginning of each month the startup pays your business a set retainer fee in exchange for reserving your services for the month ahead.

Retainers can be either cost-based *or* value-based. Cost-based retainers are the most common. This is when the retainer is based on a maximum number of hours provided during the block of retainer time. For example, for a monthly retainer you might agree with your client to provide 50 hours of work during that month for a set retainer price. With this approach, you're still exchanging your time for money, but you're simplifying things by selling your time in larger "blocks."

But with a value-based retainer, instead of promising a maximum number of hours, you might instead set some specific goals at the beginning of each month that you'll accomplish for your client. These goals aren't based on a maximum number of hours, but instead on the *value* these goals will provide your client. For example, improving the conversion rate of a signup page could be a solid value-based goal.

## **The Good**

Predictability makes retainers a great option for both you and your clients. The cost is predictable. The block of time you'll be available is predictable. From your perspective, a retainer makes scheduling easy. For example, if your business's monthly revenue goal is \$15,000 and you offer a \$5,000 monthly retainer to your clients, you know ahead of time that booking an average of 3 retainers per month will allow you to hit your goal.

Clients also love the comfort of knowing you're there for

them during the retainer block. One of the biggest hassles a client has is finding open availability with their service-based partner when something comes up. This is why many businesses will pay for a retainer *even* if they don't plan on using your services. The retainer acts as sort of an insurance policy. Should a need arise, the cost of the retainer is worth knowing you'll be there for them. Of course, providing actual work during the term of the retainer is ideal, but this illustrates one of the real pain points a retainer solves for a client.

Retainers also simplify the proposal process. Instead of needing to craft a custom, project-specific proposal (which would include pricing and timeline), a retainer can be fairly standard and handled with the same, simple contract across all of your clients. This can cut out a massive amount of work depending on how many proposals you've typically produced in the past.



## The Bad

As mentioned above, retainers seem to work best when the nature of the work is less project-based and more generic in nature. This is because project-based work tends to have its own timeline and costs that may or may not fit naturally within a retainer's block(s) of time and pricing.

With retainers, you also run the risk of being unintentionally overworked by your clients. This can happen if the terms of the retainer aren't clear and the client's expectations regarding the amount of work you'll provide don't line up with your own. So whether based on hours or goals, make sure you clearly set the expectations of the retainer for your client so that everyone is happy.

**Tip:** Try offering a discount as an incentive for clients who commit to multiple retainer blocks at a time. For example, committing to three monthly retainer blocks is less expensive per month than committing to a single month. This provides added predictability when scheduling your expected revenue.

# Productized Services

A productized service is a service (or set of services) packaged as a product with defined benefits, pricing, and boundaries. This “product” is usually aimed at solving one specific problem for your clients, and hopefully it’s a problem common to enough clients to make the product easy to sell over and over again.

For example, Betty runs a web design studio. When redesigning websites for clients, her studio will typically perform a visual assessment of the client’s existing home page and put together a list of changes and improvements her studio recommends before moving forward with the redesign. Betty decides to turn this assessment service into a separate *product* that her studio can offer to anyone. This productized service will have a fixed price and a defined list of deliverables the client can expect to receive, which includes a neatly packaged assessment report.

Another example is Bob, a freelance copywriter. He’s typically hired to write blog posts for various companies. But

instead of being hired on a per-blog-post basis, Bob decides to package his services into a content marketing *product*. For a fixed price he offers his clients a package of four blog posts, an email newsletter, and two hours of general copywriting services. Bob has determined that this defined list of deliverables is common to what his typical clients need each month to execute their content marketing strategies.

## **The Good**

There are some great benefits of productized services for both you and your clients. Because a productized service is the same set of repeatable actions and deliverables for each client, you can eliminate all the custom and complicated proposals and contracts that are involved with typical consulting services. The same proposal and contract can work for every client, because every client is receiving the same thing.

Productized services also allow you to build repeatable systems into your business. Have you ever felt like each

new project you take on with a client is like starting all over again, with a different mix of actions required? Not so with a productized service. Each time you sell the product, you'll be performing the same set of actions. This also means you can continue to streamline and improve that set of actions, ultimately saving you time and money.

Clients love productized services, because the price is predictable and they know ahead of time exactly what they're going to receive for that price. And this is good for you too, because it cuts out some of the sales cycle involved with typical consulting services. This is the price. This is the product. Take it or leave it.

## **The Bad**

A productized service's greatest strength is also its greatest weakness, in that one size doesn't always fit all. There will still be plenty of projects that require a custom approach outside the bounds of what a productized service can provide. But that doesn't mean you have to take on those projects. If your

productized services have enough demand in the market, you can certainly support your entire business by offering productized services alone. Or do what some businesses have done and offer a mix of both traditional custom services alongside your productized service offerings. As always, experiment to discover what works best for you.

# Billing

We've covered some common strategies for *pricing* your services. Now let's discuss *billing* your clients for those services. In the least common denominator, you'll be sending your client an invoice and receiving a payment in return. But most business owners know the process isn't always that simple. Clients don't always pay on time and sometimes don't pay at all. Let's cover a few billing strategies that can help make invoicing a joyful, stress-free process for both you and your clients.

# Deposits

A deposit is a required, upfront payment from your client before you begin work on the project. In many ways, a deposit is a token of good faith and trust between you and your client. It ensures that you have the working capital necessary to cover the initial materials and labor the project requires.

Have you ever started a project only to have the client “disappear” shortly after? You’re left with hours of unpaid work and materials and stuck trying to get payment from a client that’s no longer responding. A deposit is like insurance for these types of situations, providing you with upfront cash to cover your initial costs.

A deposit can also be a source of motivation for both you and your client. From the client’s perspective, a deposit is an investment in the project, which tends to keep a client interested and engaged with your process from the outset. For you, their investment can be motivation starting on day one to deliver the absolute best results.

In practice collecting a deposit is simply a matter of

sending the client a separate invoice for the amount of the deposit before the project begins. It's best to keep the deposit on its own separate invoice, so it can have its own due date. You can stipulate in the project proposal or contract that work doesn't begin until the deposit invoice is paid.

But how much of a payment should you require with a deposit? If it's a smaller project with a fixed price, you might require as much as 50% up front. Or if it's a larger project, a 10% deposit might be plenty to cover the initial phase of work. Some businesses even make a 100% deposit as an available option, rewarding the client with a 10% discount on the project.

If you're charging by the hour, then a percentage-based deposit might not work, because the total cost of the project is unknown. In that case, decide on a fixed dollar amount for your deposit that will at least cover the initial phase of work for the project.

Requiring an upfront deposit means you'll also need a plan for collecting the *remaining* amount due for the project, which brings us to our next topic: milestones.



# Milestones

A common way of making sure you're not stuck with a large, unpaid invoice at the end of a project is by billing in *milestones*. This means your client agrees at the start of the project to make payments at set intervals (milestones) throughout the duration of the project. These milestones can be based on time or based on significant stages of progress during the project.

For example, with time-based milestones, you might have your client agree to make a payment each week while the project is being worked on. These types of milestones work well when the project is being priced by the hour. Each week of the project is a milestone. And for each milestone, you bill for the hours incurred for the preceding week.

Or you can base your milestones on significant stages of progress. For example, with a website redesign you might require a milestone payment for the *wireframe* phase of the project, another payment for the *design* phase, and another payment for the *development* phase.

For each milestone, you can send your client a separate invoice for that milestone's required amount due. Here's an example of what a typical milestone payment schedule might look like for a \$50,000 fixed price website redesign project:

**Deposit:** \$5,000

**Milestone 1 - Wireframing:** \$10,000

**Milestone 2 - Design:** \$17,500

**Milestone 3 - Development:** \$17,500

That's a simplistic example, but it illustrates how a project can be funded from one milestone to the next, thus eliminating the risk of large amounts of work going unpaid until the end of the project.

And it's up to you to decide whether to invoice for each milestone *before* the milestone begins or on the backside of each milestone after the work is completed. That might depend on your risk tolerance combined with how the project is being priced (i.e. fixed vs. hourly). But a good rule of thumb to follow as much as possible is, *don't perform the work unless the work is paid for*. Being a debt collector isn't fun.

**Tip:** If your project includes a final deliverable to your client, make sure you've been paid in full *before* handing off the final deliverable. Make this expectation clear for your client at the start of the project via the project proposal and/or contract.

## Online Payments

Allowing your clients to pay their invoices online is all about *speed* and *convenience*. The two go hand in hand, as the more convenient it is to issue a payment, the faster a client will typically do so. Speed is important to *you*, because the quicker a client sends a payment the sooner you can put that money to work for you and your business.

Waiting too long on a payment is also a classic cause of messing up a project's timeline and missing an agreed upon deadline. Consider what we discussed about payment milestones in the last section. What would happen if a client drags their feet sending a milestone payment or two? The project would be knocked off of its timeline, thus pushing

back the deadline, resulting in the project creeping into the time reserved for your next project. It becomes a mess. But the ability to accept online payments removes friction that can be associated with mailing a check, thus eliminating all those, “the check is in the mail,” excuses some clients love to use.

Some service-based businesses oppose accepting online payments because of the fees involved with credit card payments. For example, a fee for a single credit card transaction is typically around 3%. So if your invoice is for \$5,000 you’re looking at a cost of about \$150 to handle the transaction. Over time, those fees can certainly add up. But for many, the fee overhead is a small price to pay for the speed and convenience of online payments. It’s simply the cost of doing business, a hidden cost that can be baked into the overall price of your projects. Not to mention, many clients will see your ability to accept online payments as an actual service and benefit to *them*, as cutting a check and mailing it can be a hassle.

**Harpoon** allows you to accept online payments from your clients via their credit or debit cards. When a client pays your invoice online the payment is automatically recorded for you and included in your overall financial metrics within your Harpoon account. And if you don't like the fees involved with accepting online payments for larger invoices, no problem. In Harpoon you can turn online payments on or off on a per invoice basis. That way you can choose to accept online payments for smaller invoices if you'd like, but turn the option off for larger invoices and request payments by check.

## Payment Terms

Your payment terms refer to the length of time you require an invoice to be paid in full from the time the invoice is issued. For example, when an invoice with payment terms of 10 days is issued on January 1st, that invoice will have a "paid in full" due date of January 10th.

So the first point to make here is that *every* invoice you

send should have clear payment terms. The due date should be easy to see on the invoice, leaving your client no doubt as to *when* they're responsible to have the full payment in your hands.

But how long should your payment terms be? The shorter the better. You want your terms to be short enough to generate urgency on the part of the client, but gracious enough to give your client a reasonable amount of time to process the payment without getting hit with an overdue notice. This could be as short as 10 days or as long as 20 days. But payment terms longer than 20 days might make it too easy for your invoice to get “lost” in the shuffle of your client’s everyday business activities. And on top of that, if a client is late to pay an invoice with long payment terms, you could be looking at a month or more of waiting for payment, turning you into a loan service (interest free no less).

[Harpoon](#) makes it easy to set default payment terms for all your invoices. Based on your payment terms Harpoon will automatically calculate a due date for each invoice and highlights that date at the top of each invoice so your clients

can't miss it. And because not every client and invoice is the same, Harpoon allows you to override your default payment terms on a per invoice basis as needed.

It's also helpful (and kind) to include a simple "thank you" directly on your invoices. Adding "Thanks for your business!" in the notes section of your invoices can go a long way in communicating professionalism and adding a personal touch.

And when you do receive a payment from your client, it never hurts to let them know you appreciate it. A simple thank you email can bring positive closure to a great project, strengthening your relationship. Harpoon will automatically send these emails for you using a custom message you provide. Easy!

## Overdue Invoices

It's the last thing any business owner wants to be burdened with. You send your client an invoice; the due date comes; the due date goes; no payment is received. Now you're stuck

wasting time you don't have trying to figure out how to collect payment. Overdue invoices can happen with even the best clients. There are actions you can take to resolve these situations, but let's first cover a few ways to avoid overdue invoices in the first place.

## **Avoiding Overdue Invoices**

**Require upfront payments:** Remember our earlier topic on deposits? Requiring payment up front is a simple solution to overdue invoices. Make it a policy to always be paid in advance before any work is performed, and you'll lessen the blow of an overdue invoice.

**Payment milestones and terms:** Setting clear expectations for your clients up front regarding payment milestones, payment terms, and invoice due dates can also eliminate some of the common excuses clients come up with regarding overdue invoices, thus increasing the likelihood of timely payments. Clients can't claim ignorance if your terms have been clear from the beginning of the project.



**Withholding deliverables:** If your project has a deliverable, it's a good idea to withhold that deliverable until you receive final payment. It might sound like you're holding the project hostage, and in a way you are, but rightfully so. Just make it clear in the project's proposal or contract that final deliverables will be handed off upon final payment. No final payment, no final results.

## Handling Overdue Invoices

But even with the above safeguards, you'll probably find yourself dealing with an overdue invoice every once and a while. What then?

**Email reminders:** One tactic for collecting on an overdue invoice is to kindly follow up via email. On (or the day after) an invoice's due date, send an email reminder to your client including a link to the invoice for easy access. [Harpoon](#) will automate this process for you, using a custom message you provide. When an invoice becomes overdue, Harpoon will automatically send out three email reminders

spread apart by 10 days. This takes some of the burden off of your shoulders. Consider Harpoon your own virtual accounts receivable department.

**Phone calls:** If email reminders don't work you'll want to pick up the phone and give your client a call. You can be kind and give them the benefit of the doubt, but don't be a pushover. This is money they owe you and have agreed to pay. Be understanding in tone, but firm in what you expect. Get your client to provide a date you can expect to receive the payment, which also gives you a date for your next phone call if the payment never arrives.

**Third-party services:** If you're really desperate, you might consider hiring a third party service to help collect your overdue payments. There are companies who provide debt collection as a productized service, some with fees reasonable enough for even freelancers with smaller overdue invoices. But be careful in selecting a service, as not all of them are created equal, and some are just downright shady. It's always best to find someone you trust who has used and can recommend one of these services.

**Fire the client:** Granted, firing a client isn't a solution to an overdue invoice, but if late payments become a habit, it's in your best interest to avoid future projects with that client. Wouldn't you expect a client to fire you if you had a habit of always missing your project deadlines? A habit of late payments shows a lack of respect, and respect is necessary for a strong and healthy business relationship. Without it you'll never be able to provide your best work.

**Tip:** Wondering if a client has even viewed your invoice yet? [Harpoon](#) will notify you via email and via an invoice's history exactly when a client has viewed your invoice. Handy to know when following up on an overdue invoice!

# Conclusion

Wow! There sure is a lot to consider when it comes to your business's pricing and billing strategies. Take some time to document the services your business excels at. Pair those services with an appropriate pricing strategy. Would your clients be best served by a retainer model? Or is it best to package some of your offerings into productized services? And when it's time to send out your invoices, keep in mind what we've covered regarding deposits, milestones, payment terms, etc. Invoicing truly can be a joyful, stress-free process for both you and your clients! Much success to you, and happy pricing!

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