A FIELD GUIDE TO
Freelancer Finances

UNIVERSAL EDITION

- ☑ Get paid faster
- ☑ Learn to price
- ☑ Relax about tax
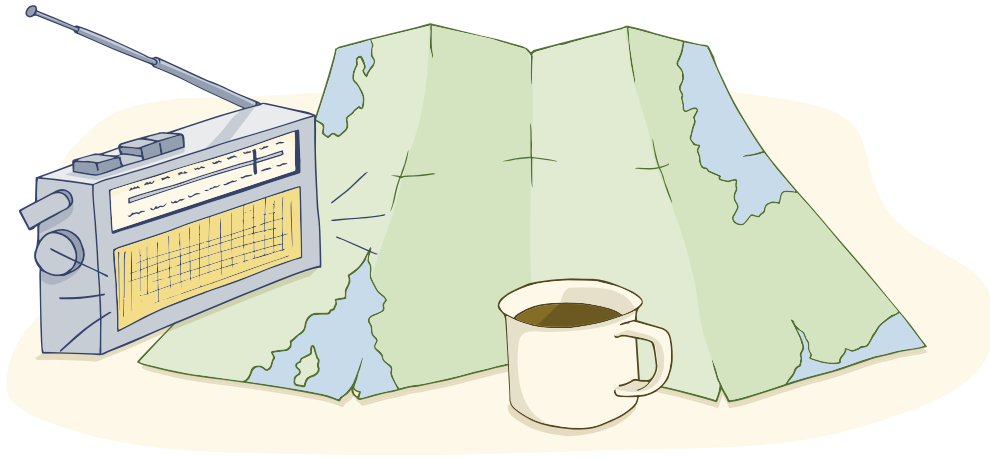
PRACTICAL FINANCE TIPS FOR FREELANCERS BY
DESIGNERS, DEVELOPERS AND FREEAGENT

freeAgent

Table of contents

Welcome

Working as a freelancer means that along with doing the work you love, you also need to explore unfamiliar territory, like balancing the books and dealing with tax. When I started out as a freelancer, I found myself fighting with complicated spreadsheets and confusing tax returns - it was easily the worst part of working for myself. I thought there had to be a better way, so my co-founders Olly, Roan and I set out to build FreeAgent, software that helps you manage your business finances and tax.

Here at FreeAgent, we want to help freelancers take control of their business finances. Making great software is key to that, but we like to help in other ways too - that's why we wrote this guide.

In this guide you'll find practical tips and advice for managing your finances, reference guides and real life stories from other freelancers about what they've learned from their own journeys.

Safe travels!

Ed Molyneux
CEO and co-founder, FreeAgent

A word from the editor

Welcome to the universal edition of *A Field Guide to Freelancer Finances*!

FreeAgent was started in the UK but we have happy customers all over the world, and we've made this edition of the Field Guide for web designers and developers operating outside of the UK.

Many of our examples are still from the UK, and we'd love to continue updating this edition with voices from all around the world - if you want to add your own field report to the book or are interested in authoring a chapter, drop me an email at fieldguide@freeagent.com. I'd love to hear from you!

Happy reading!

Danae Shell
Editor, *A Field Guide to Freelancer Finances*

About the authors

Anna Debenham

Anna is a freelance front-end developer living and working in London. She works with a range of clients to help build front-end prototypes, style guides and websites. In 2013, Anna was awarded net magazine's Young Developer of the Year.

Daniel Howells

Daniel is a web designer and developer who specialises in both websites and applications. Daniel is the founder of siteInspire, one of the largest and most well-respected showcases of web design and a directory of agencies and freelancers.

Emily Coltman, FCA

A graduate of the University of Cambridge, FreeAgent's chief accountant Emily has been working with small businesses since the year 2000 and is passionate about helping their owners lose their fear of "the numbers" and the taxman. She is the author of three ebooks, "Refreshingly Simple Finance for Small Business", "Micro Multinationals", and "Very Awkward Tax".

Matt Perkins

Matt has worked with many small business owners and freelancers at Business Link in London as an adviser and for PayPal UK, where he planned and oversaw the implementation of their UK SME engagement strategy.

Paddy Donnelly

Paddy is an Irish illustrator and designer currently living in Belgium. He creates apps for kids with Wee Taps and has worked with clients such as dConstruct, Foursquare and Mobile Vikings.

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Paul is a user experience consultant, author and speaker. He helps not-for-profits such as the European Commission, UCAS and Doctors Without Borders adapt to the digital world. He refocuses them on user experience and engaging with a new digitally-savvy audience.
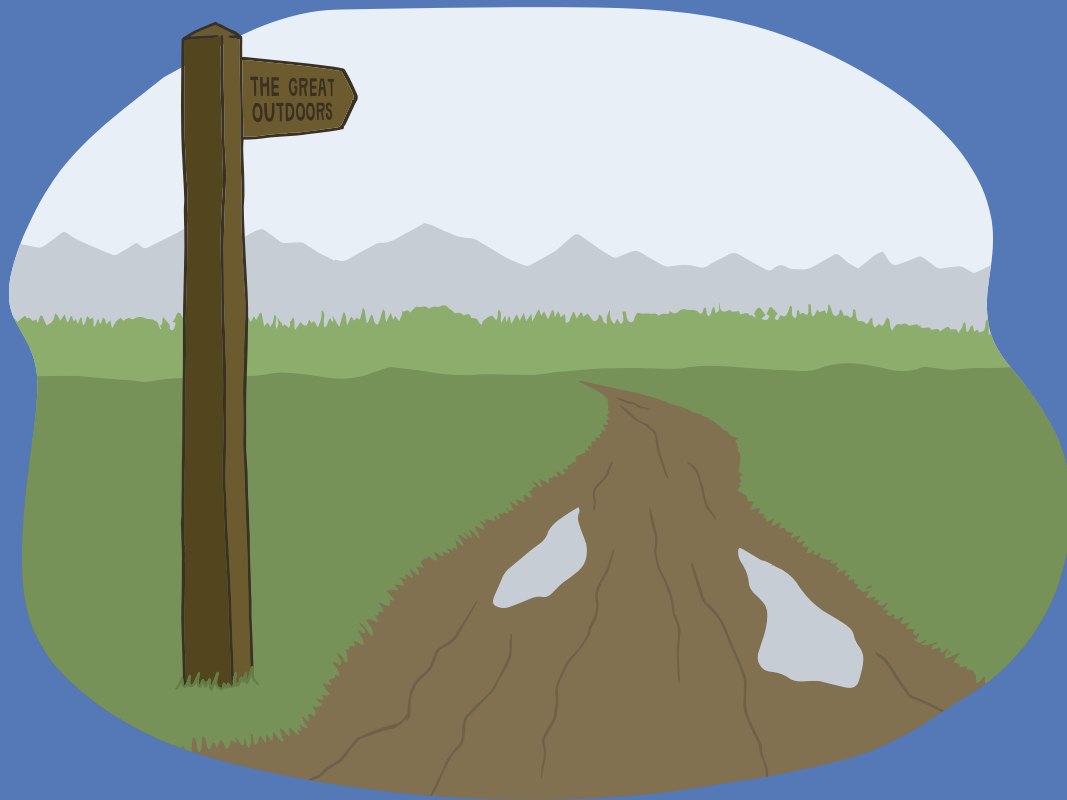
Setting off

Pricing your work might feel as daunting as setting off into the wild - you've heard plenty of stories about how others do it, but you're not sure how it's really going to work for you.

In this section, you'll find some practical advice to help you evaluate your approach to pricing.
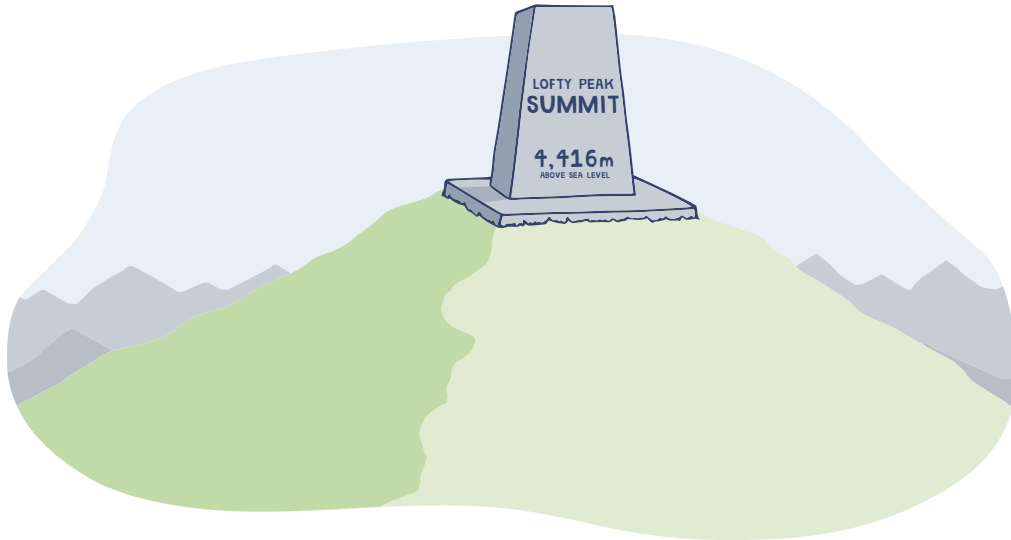
Using the break-even point to price

Anna Debenham

We all love the freedom that being freelance gives us. But at the end of the day we also all need to make money. Being the best designer or developer in the world sadly won't help you if you can't make enough money to survive, which is why the figure called the "break-even point" is so important for freelancers.

Your break-even point is the point at which your business is making enough revenue to cover all your costs (without net loss or gain) and anything you make on top of this is lovely, lovely profit. You'll be able to send out quotes confident that you're ensuring your own financial security and building up your business - the key to future success! To get the ball rolling, you need to work out the costs associated with your business over a year.

Step 1: Add up all your costs
These might be fixed costs (a cost that stays the same regardless of how many sales your business makes, or how active it is), for example:

- Rent/mortgage
- Subscriptions
- Web hosting for your own site
- Insurance

or they might be variable costs (changes with how many sales your business makes, or how active it is), for example:

- Postage costs
- Taxi fares
- Web hosting for customer sites
- Electricity

Also look at your personal outgoings – how much do you need to take in each month to pay all your bills? Don't forget to include anything that will change as a result of being freelance such as childcare costs, travel and any extra equipment like your own computer and software.

Step 2: Plan your capacity for billable days

How many days do you think you'll be working every year? Your true capacity is probably lower than you think. Out of 365 days in a typical year there are 261 working days (Monday to Friday) - but of course you're not going to be spending 261 days working solidly.

Take into account public holidays and the number of days you want to take as holidays. As a freelancer you can have a lot of flexibility around taking time off, but not working means not earning money, so you need to consider all of this when figuring out your rate.

Also think about the days you need to set aside for maintaining and developing your business. Invoicing, preparing accounts and tax all take time, as do finding and chasing leads for new work, project management and correspondence. Tools like FreeAgent can massively help with this, but don't forget that in larger businesses this is a role in itself, so when you work for yourself you need to factor in (and schedule) enough time towards this.

You can also allocate time towards your own learning and personal development. This includes conference attendance, and time spent reading and studying. If you don't invest time in improving yourself then it will be much harder to stand out from - or even keep up with - the competition.

So, let's say we subtract the following from your potential 261 working days per year:

Maintaining and developing business: 10% (26 days)
Learning and personal development: 5% (13 days)
Holidays and time off: 10% (26 days)

Sickness and unforeseen circumstances: 5% (13 days)

= 183 available days to work per year

That means that, in this example, you are not able to charge for nearly half of the 365 days 'available' in the year.

Step 3: Calculate your break-even point

To calculate the break-even point on what you charge, divide the sum of your yearly outgoings by your yearly billable days.

Example: How Jenny works out her break-even point daily rate

Jenny is a freelance web designer who wants to know the amount of money she would need to charge per day to cover her costs.

Total of her outgoings per year (including household expenses): €25,000

Total of her projected billable days per year (taking into weekends/holidays/ possible sick days, etc): 183

So Jenny divides her outgoings by her billable days:

*€25,000/183 = €137 per day break-even point*

Jenny now knows that she'll need to be charging her clients at least €137 a day to cover her costs.

Remember, your break-even point really is your bare minimum. Charging this amount doesn't leave any room to build up a cash buffer or to expand as a business, and doesn't take into account external factors like market conditions. It's crucial you bear this number in mind when you quote for work as you want to ensure that you're being paid a healthy amount over this so that your business is profitable and resilient.

Making a profit is key to a healthy business and knowing your break-even point will really help you to eliminate guesswork when it comes to quoting for work – make sure you know what you're worth!

Anna Debenham is a freelance front-end developer living and working in London. She works with a range of clients to help build front-end prototypes, style guides and websites. In 2013, she was awarded net magazine's Young Developer of the Year.
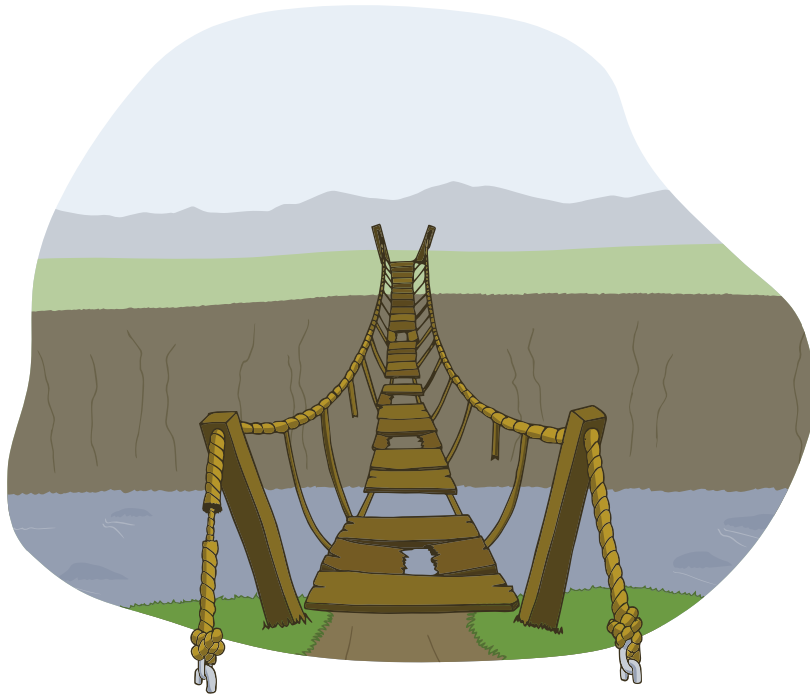
How I take the uncertainty out of fixed-price projects

Daniel Howells

Spend enough time with freelancers and you're likely to hear warnings against charging one total cost for a job. Fixed-price project proposals can be easier to 'sell' and bring less risk to the client, but the freelancer can fear ending up working for free for weeks (or months) because of all sorts of variables and unknowns. Yet despite this, after almost a decade of freelancing, the majority of projects I undertake are still quoted on a fixed-price basis.

Why do I do this? I quote a fixed price because I've been obsessively tracking my project time for as long as I can remember, and it's taught me a lot about how I work, how long things really take, and how to produce a bang-on estimate that ensures I'm being paid fairly for my time.

Seeing the value of time tracking
Early in my career I worked at a variety of client-services companies. Without fail, every Friday at 5pm somebody would appear from nowhere and sheepishly remind us to

complete our timesheets. The request was always greeted with protestations, since trying to remember what we'd done that week and wrangling their archaic time-tracking app into submission was never a more exciting prospect than being in the pub for Friday night drinks.

The issue was that these numbers never had any *meaning* to me. For the most part they were plucked out of thin air, and never taught me anything about how I worked or how I could improve. But the moment I transitioned into my freelance life, there was a difference: the numbers were relevant. The 30 minutes doing one thing for one client and two hours doing something else for a different client suddenly made sense, and revealed that I was either managing one project very well, or another one very poorly.

How I track my time

When I started freelancing, I broke my time down into a detailed list of tasks:

- Proposals and initial meetings
- Creative research
- Functional requirements and documentation
- Wireframing
- Design
- Front-end development
- Back-end development
- Amendments and maintenance

A detailed list, I know, and probably verging on the obsessive. However, this level of detail was enough to give me visibility as to what I was actually doing on a project.

To measure my time, I simply used the stopwatch on my phone and logged it in an invoicing app after I finished each task. When I completed a project, I could see exactly how and where my time was spent, and this showed if I went either under or over my fixed-price proposal.

My working day is typically seven hours, give or take half an hour. On an ideal day, the sum of time I've dedicated to project work should land somewhere around that mark. If by the end of the day I've logged only a measly three hours, clearly I've wasted far too much time on Twitter or Reddit. The next day I'd hope to make up this discrepancy, but thankfully the cold hard numbers encourage me to be disciplined enough to only slip a few times a month. If I went over the hours I'd proposed, well, that meant my next proposal for a similar project needed to be adjusted accordingly.

What I've learned

With all this gathered data to hand, what did I learn?

My design time varies much more than development time. Working in both design

and development, tracking my time made me realise that there can be huge variances between different types of tasks even though two projects might be similar. Because design is so subjective, I found that I would spend a lot more time to-ing and fro-ing with the client on design changes, whereas development is more objective and usually doesn't normally overrun.

I could use my historical time information to more accurately build contingency time into my proposals. Fixed-price project work is usually criticised because the only way you can be certain of not losing money is by padding the proposed cost out with extra hours, days, or weeks just to make sure. That is indeed often the case but adding in a contingency of time isn't deceitful, it's just good planning; remember that a benefit of the fixed-priced project is that the client only has to deal with one number, and if it works within their budget, its composition is moot.

Having archived project records right there to refer to makes it considerably easier to quote and plan for contingencies. My projects are typically consistent in nature; normally the design and development of a website. There are variables, of course, but for every new project I'm always going to have a past project that's similar in nature. Using that as a base, I'm able to cost up my proposals far more accurately than pulling figures from thin air.

I'm getting faster over time. My timing data also revealed some interesting trends. I'm neither a formally trained designer or developer, but I have noticed that over the years the time I take to design a site, or develop responsive templates, has decreased, either because our tools are getting better or because (I'd hope) I'm learning and becoming more proficient. That's perhaps predictable, but seeing the information in front of you is very motivating and rewarding.

Refining the time tracking process

Translating the results of your time tracking into accurate fixed-price quotes might seem daunting at first but take it from me – it does get easier. After nearly a decade of evaluating my time and refining my quotes, I'm able to estimate my fixed-price projects with almost dead-on accuracy, and you'll easily become more proficient the more you do it. In fact, I've only recently had two projects go over estimate, both were for reasons outside my own control and they've taught me to look out for the same potential situations in the future.

This year, I've simplified my time tracking to just three categories:

- Design
- Development: both front-end and back-end, combined into one category
- Project management: including everything from proposals and meetings, to general organisation

I still give my clients a detailed breakdown of the project at the estimate stage, but after

years of tracking my time, I've been able to refine the level of detail that I need for my own records.

My tips for fixed-price pricing

If you're considering quoting for a fixed-price project, here are some tips that can help.

Give a detailed estimate: I've found that the more detail you can give at the estimate stage for a fixed-price project, the better - it helps set expectations early on about exactly what the client is paying for. Make sure you've captured in writing everything you've discussed about the project, every template that needs to be designed, every functional feature that needs to be included. You can be certain that new additions to this list will appear during the process, so you need a single source of truth about what you agreed to do for a given cost. Everything else should be scoped and costed in addition, and the client should understand that.

Show discounts on your invoice: Occasionally I offer a discount for projects that look particularly interesting or challenging. If I discount a project, I always issue an invoice for the full amount that I would normally charge, then apply the discount agreed on the invoice. It serves as a reminder to the client that I'm doing them a favour and it certainly helps rein in any scope-creep.

Be honest when tracking time: When you're freelancing there's nobody breathing down your neck anymore, and you needn't fudge the numbers just to make sure the timesheet is submitted on time. It's for your benefit that you're tracking the time, so find a method that lets you accurately track tasks and stick with it for as long as you can to get an honest view of where you spend your time.

Track your personal projects: Like a lot of people, I have a few side-projects that I do for my own personal needs. I track time on these too, since I often get new business off the back of them. Knowing how long it took to create a website that had no proposal or commissioning client means I can create a similar proposal in the future more accurately.


Daniel Howells is a web designer and developer who specialises in both websites and applications. Daniel is the founder of siteInspire, one of the largest and most well-respected showcases of web design and a directory of agencies and freelancers.

FreeAgent

Want to become a master of time?

Take the guesswork out of billing like Daniel with FreeAgent's online accounting software for freelancers.
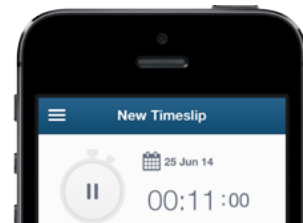
FreeAgent makes it easy to track all the time spent on projects, so you'll have an accurate record of just how much work was involved and will know what you should charge.

Try FreeAgent for free
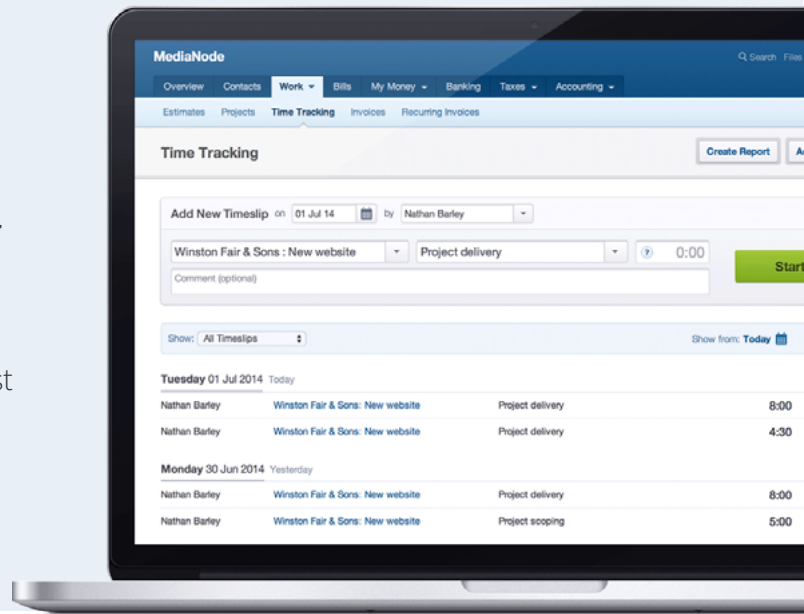
Never lose a minute again

Enter timeslips or use the built-in stopwatch to accurately record every last minute of your time as you work, so you'll always be on the ball.

Turn time into money

When a project is finished, you can simply import your unbilled timeslips into an invoice and send it to the client in a jiffy.

Flexible timesheet reporting

It's easy to generate reports so you can see how your time is being spent across different projects - you can even email them to your clients to give them visibility of progress.

Always up to date

Seamlessly switch between mobile, tablet and desktop - if you're out and about just record your time on your mobile device, and switch to your desktop to finish the job. Everything stays in sync.

"Thank you for making my time tracking, invoicing and accounting so easy, from one happy customer :)!"
Jason Coombes, @databasejase

Try FreeAgent for free

My biggest pricing mistake

Field report: UK freelance designers and developers

Getting your prices right as a freelancer is often a case of trial and error and it's easy to make a few mistakes as you find your bearings. To help you avoid some of the most common pitfalls, here's a few words of warning from experienced freelancer designers and developers as they reflect on the pricing mistakes they've made in the past.

"When you start out, one of the hardest things to do is price your products – but don't price yourself too cheap! Not only will you be working for next to nothing but it can also make potential clients think the product is cheap and not good quality."

Julie London, Designer

"My biggest pricing mistakes were fixed pricing and failing to review and communicate. I've always felt that developers tend to use fixed pricing – where we estimate up front, give a price and stick to it. Whereas most designers I knew would give a price per hour, so if the project went out of scope, they would get paid.
"With fixed pricing, I should have always been reviewing to ensure the project is on track and on budget, but it's too easy (for me) to let this slip and then end up paying myself. In the past, I've been paid the original fixed fee for a project that doubled in time."

Remy Sharp, Developer and founder of Left Logic

"I once agreed to do a project at a token fee for an allegedly cash-strapped charitable cause I really cared about. The joke was on me. Every conceivable exploitation of my time and labour followed. I later worked out that I had done the job for a fraction of the minimum wage. Lesson learned: no matter how allegedly cash-strapped your cause is, make them pay you what you're worth."

Heather Burns,
Digital law specialist and web designer

"I write cross-platform apps and made a mistake with one of my first projects where I wasn't clear on the amount of work required for each platform. Typically I'd expect to achieve 90% code share between iOS and Android – but in this case it was a fixed price for both – the client ended up abandoning Android and as a result felt they owed me half. Because I wasn't clear I lost a good amount of money – now I'm VERY clear."

Jason Kneen, App developer

"There is no worse feeling than having to continue on a project when you are making a loss. Hourly pricing is vital in my cost management."

Aaron Wheeler, Developer

"My biggest pricing mistake is allowing myself to be haggled down in price. You start the project with a sense of resentment which is no way to begin."

Steve Folland, Video creator

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"In my first few jobs I was charging next to nothing as I just wanted the business. I agreed a fee for the full job with a client, but it worked out to be less than half of the minimum wage."

Andrew McSparran,
Graphic and website designer

"I've made a fair few mistakes in the past, biggest one has to be giving a fixed cost for a WordPress build which took ten times longer to build than estimated. As it was on a fixed-cost project, my hands were tied. I'm not one for giving up and bailing on a project mid-way through so I saw it to the end and chalked it up to experience. Moral of the story? Avoid fixed costs."

Anthony Killeen, Front-end developer

"I made a mistake in giving a quote without a full understanding of my client's background, budget and expectations. In my case the quote was too low and my client was quite disappointed as he thought I wouldn't work hard enough on his project. I missed a really good opportunity."

Barbara Marcantonio, UX/UI designer

"My biggest pricing mistake has been to underestimate the effort needed to add a new WordPress plugin to an existing WordPress website that already had many custom plugins and commercial plugins. The custom plugins had not been developed very well and they conflicted with my new plugin. I had committed to making the delivery so I had to debug the custom plugins as well as trying to make my own plugin more robust."

Clive Verrall, Developer

"Losing hours after a project is done is a mistake. Everyone wants to be nice to existing clients in the hope of repeat business, but six months later when a subordinate asks for a small change or update, it might only take you ten minutes, but you get sucked into a few hours of back and forth than you can never bill for."

Brian Suda, Developer

"I once had a client ask me prices on the phone and I panicked and made up both a day rate and an hourly rate. After I got off the phone I realised my 'day rate' equalled only three hours based on my 'hourly rate'. Unsurprisingly, I'm still waiting for them to call back."

Michael William Lester, Designer and illustrator

"Earlier in my career not having the confidence to ask for the value I provide. Not many people like talking about money, but a good designer makes their client more profitable. What you ask of your client is a fraction of what you make them.
"It's even more important to get pricing right when you're a freelancer so you can pay yourself for administration, and when things are more quiet."

Zach Inglis, Developer and designer

"We'd love to hear freelancer experiences from all over the world. Email us at fieldguide@ freeagent.com and let us know your biggest pricing mistake for a chance to appear in the ebook."

Danae Shell,
Editor, *A Field Guide to Freelancer Finances*

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