How to Set Your Rates as a Freelancer - 5 Things to Consider

A portion of society says that starting a freelance business is a bad career choice, and could have adverse effects on one's finances. Well, that's their opinion, and they do have a point. Doing freelance work as a primary means of livelihood has its risk. But that doesn't mean you can't make a [steady income](#) out of it. By setting your rates right, you can [earn more money](#) in freelancing despite the contradicting things some people say about it.

As a matter of fact, the freelance economy is growing based on multiple studies that we've found. So, if you plan to [become a freelancer,](#) we'll show you five things you must consider in setting your freelance rates.

Set Your Goal

The first thing you need to do is set your income goals. Think about how much money you want to earn on a monthly or yearly basis. Once you've done that, you can generate simple ideas or formulas to help you set your freelance [quotation](#) prices.

For example, if you want to earn $60,000 annually, you should try to make your monthly income $5,000. To make $5,000 monthly, you have to gain $1,250 per week, at least. Assuming that you finish four projects per day (not including weekends), you might need to charge around $62.50 per project. Plus, if you have the extra time on your [schedule](#), you can get more work [contracts](#) from referrals to increase income.

In starting a business, even a small goal such as freelancing, we tend to imagine how great our financial status will be in time. If you do that, it's a sign that you're serious about being a freelancer, and not just making it a hobby or a side hustle.

Calculate Your Expenses

Calculating your expenses is a necessary step in setting your rates. If you want to earn a profit, your income should exceed the amount of [budget](#) you've spent on buying your resources, materials, and tools for your [productivity](#). It's a basic principle that every online business person should know.

Here are the expenses that you need to cover and include in your calculation:

- Utilities
- Rent
- Internet bills
- Application software subscriptions
- Marketing expenses for the promotion of your service
- Office supplies
- Equipment
- Raw materials
- Travel costs
- Insurance

There could be other expenses that we haven't mentioned that you need. Make sure to include them on your [checklist](#) as well. When you're done calculating your total expenses, you have to mark up your rates at a certain percentage. If you don't do so, the revenue you'll earn from your projects will just be a breakeven instead of a profit. Basically, you won't make anything; the money you spent on your expenses just came back to you, and that's not a good way to run a freelance business.

Estimate Your Market Value

Aside from using social media strategies and networking, many freelancers are keen on marketing themselves to trusted clients and boosting their online reputation using their market value. Market value refers to your skill and experience level and the level of demand for your freelance services. The higher they are, the higher your market value.

Estimating your market value is an essential formula in setting your freelancing rates. It can serve as a guide, whether you're charging your clients too low or too high. Your rates should always be on par with your market value. You can increase your prices in time when you gain more experience, enhance your skills, and when the demand for your services goes up.

You can estimate your market value by assessing your current competency and tracking other freelancers on [freelance websites](#).

Decide Between Hourly or Project-Based Pricing

There are two methods on how most freelancers price their services: hourly and project-based. There's no rule which of the two ways you have to adopt. You just have to choose one that you think will earn you more income. Regardless, whichever of them you'll select, they have pros and cons.

Hourly

If you want to get paid by the hour, this is the approach that'll suit you. According to a report by Glassdoor, $20 per hour is the ideal rate for new freelancers. You can increase it in a few years as you gain experience, just like what we've mentioned earlier about market value. Glassdoor's report aligns well enough with Payoneer's analysis saying that the average freelancer has a $21 hourly rate, working 36 hours a week. That culminates to a $39,000 yearly pretax income.

Advantages:

- You can earn more on projects with large scopes that take days to finish.
- Calculating your income will be much easier.
- You won't have to hunt for gigs too much.

Disadvantages:

- Small projects that take fewer hours to finish will earn you less money.
- There's a risk of your work being undervalued. For instance, your hourly rate is $25, and you work on a project that takes six hours to finish, and that project can generate a $20,000 profit for your client. Sounds a bit unfair, right?

Project-Based

As its name implies, you earn based on how many projects you finish. The amount of time you spent doing one project will not matter. As long as you complete projects before the deadline, your clients will be happy to pay you. In this approach, your rate will depend on a project's scope. The larger the scope, the higher your rate should be.

Advantages:

- You can earn more money if you obtain big projects consistently.
- Your clients will not exceed the budget.

Disadvantages:

- Scope creeps could happen that might undervalue your work.
- You might misjudge the scope of the project in the first place, causing you to earn less than you should've.

Remember that one of the [benefits of freelancer jobs](#) is that you can have full control in setting your rates. Just make sure to charge your clients a reasonable and equitable price.

Consider Value-Based Pricing

Value-based pricing is another freelance pricing method that isn't as popular as hourly and project-based. Not that many people have heard of it yet, but it's slowly becoming one of the useful tips for freelance workers.

Value-based pricing means charging your clients based on how much they will profit from the project. We'll give you a scenario to help you understand. Let's assume you're a web developer, and you received an email from a fast-food restaurant chain containing a proposal. They ask you to build a website for them to boost the popularity of their brand. You accept the offer, you develop the site, you present it to them, then they launched it. After a week, their sales increased thanks to the website you designed. Afterward, they'll pay you not by how many hours you worked and how big the project's scope is, but based on how much they gained from the project. Because the value of your work proved to be beneficial for their revenue, they'll pay you a significant amount.

As you can see, there's no risk of your work being undervalued in this method of pricing. It is always going to be a win-win situation between you and your clients.

Setting your rates is, indeed, quite a challenge, but it's not really that complicated. It's a matter of deciding what's best for your freelance business and your finances. By doing things smart and fair, your freelance career will reach its peak over time.