# Hourly versus Fixed Fee

Hourly billing is the most common billing model for attorneys, accountants, consultants, web designers, and other professionals who sell time. In the hourly billing vs fixed fee debate, the hourly model pays the provider for each hour worked at a set rate. That rate usually depends on skill, seniority, and reputation. Law firms often compare hourly vs flat fee billing when they choose among attorney billing models.

## Advantages of Hourly Billing

The advantages most often cited for billing hourly versus a fixed fee are:

- Clarity — Hourly bills clearly show the dates and times of service.
- Conformity — Lawyers cannot add a markup to pass-through costs such as court reporters, expert witnesses, and travel costs. Hourly billing helps them follow these rules.
- Simplicity — Talent is hard to measure. Time is easy to measure. Recent time entries give a clear record of the work done. They also serve as proof and help the provider and client stay in sync.
- Standard — A December 2012 National Law Journal survey said hourly billing is the norm in many service businesses, including legal practices. In cases that need court approval of fees, some courts only accept hourly billing.
- Bias — Personal judgment is not required, or at least is cut down, by hourly billing.
- Cost certainty — The main complaint about hourly billing is not knowing the total cost in advance. This can be handled by giving an estimate of hours at the start of the job and sharing updates when things change. Clients then know each month what the bill will be, so they can plan for it.
- Tracking — There are 1,440 minutes in each day. Hourly billing makes each minute easier to track and bill. Billing software can use time blocks and the set hourly rate to create invoices.

- Change — In most fixed fee cases, change cannot be forecast with good accuracy, notes Jeremy Holmes in a guide to hourly billing for University of Iowa College of Law students.

## Advantages of Fixed Fee Billing

On the other hand, the advantages of fixed fee billing over hourly billing are:

- Efficiency — Fixed fee billing pushes the professional to work more efficiently and spend fewer hours, says Richard Reed, a well-known authority on the topic in Beyond the Billable Hour.
- Productivity — Clients are billed the same fixed fee no matter how productive the service provider is.
- No padding — Fixed fee billing removes the push to bill for needless time and services. This includes extra research or discovery. The extra hours may bring less value to the client.
- Underpaid — The lawyer may not be fairly paid in high-value or high-risk matters, or for highly successful results, when pay is only by the hour.

## Conclusion

On the client side, flat fee billing removes billing surprises and lets the customer know the total cost from the start. But while fixed fee billing may push the provider to manage time better, it does not stop a provider from bidding high and then delivering fewer hours of work.

From the provider's view, pay by the hour is often the fairest choice. Such a payment structure is less risky because all the hours worked are billable and the chance of underbidding a project with a fixed fee is removed entirely. The hourly billing method is also popular because it is the norm for many services and it gives the simplest path for records and tracking.

In the end, there is no single right answer. Fixed fee billing carries more risk for both the client and the provider. In many cases, the provider bears the risk because they must deal with the unknowns.

To lower risk and possible loss or gain, hourly billing often wins for both clients and service providers. The points above show why it remains the most common billing method used by professional service providers.

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## Q&A

**Q:** What is the main difference between hourly billing and fixed fee billing?

**A:** Hourly billing charges clients based on the time spent multiplied by a set hourly rate, while fixed fee billing sets one total price for the work no matter how many hours the provider spends.

**Q:** Why does the article describe hourly billing as less risky for service providers?

**A:** Hourly billing is less risky for service providers because all time worked can be billed to the client. This lowers the chance of underbidding a project and doing more work than expected without extra pay.

**Q:** What is the biggest client-side advantage of fixed fee billing?

**A:** Cost certainty. Fixed fee billing lets the client know the total cost from the start and avoid billing surprises.

**Q:** How can professionals address the concern that hourly billing does not provide a total cost upfront?

**A:** The article suggests giving an estimate of hours at the start of the job and sharing updates as the work continues. This helps clients plan their budgets and reduces uncertainty.

**Q:** Why does the article ultimately favor hourly billing?

**A:** The article favors hourly billing because it is widely used, easier to document, more trackable, and usually lowers risk for both clients and service providers when compared with fixed fee billing.