



How to keep projects profitable

Introduction

Why does project management exist? In no small part, it's because people are notoriously inept at estimating how long things will take. That's all thanks to the planning fallacy—a cognitive bias that makes us think we can complete tasks in less time or for less money than reality. Project management helps correct for this bias by attempting to foresee as many potential problems as possible and making plans to mitigate them. As this project management guide will demonstrate, the more pre-work you can do early on in the planning phase, the fewer surprises can derail your hard work later.

Per the Dunning-Kruger effect, those who've never done something before are guaranteed to underestimate its scope and difficulty. When it comes to executing projects successfully, there's nothing more valuable than experience. For instance, the first few times web agency Juicyorange tried to integrate a particularly finicky piece of technology into their clients' websites, they drastically under-quoted them. "We would say, 'Yeah, we know how to do that. It's got an API and we're good at that stuff. We can get it done,'" says founder Mark Robohm. "And then we absolutely hemorrhaged time with it."

You mitigate these kinds of problems with planning, experience, and data. That's the benefit of project management—it accounts for human fallibility.

Ready to learn more? Let's dive into the project management guide.

What is project management?

Project management is the act of guiding a time-bound project to its intended end.

In order to define project management, we first need to understand what a project

is. Projects are temporary and time-bound initiatives. These are different from operations, which is ongoing. Projects are a set of tasks designed to achieve a specific, one-time goal. Project management is the act of guiding a time-bound project to its intended end—whether that’s an ad campaign, a rebrand, an architectural schematic, or another project entirely.

While different kinds of projects vary enormously, many of the same success principles apply—as we’ll show you in this project management guide. These key steps to successful execution are what we’ll focus on in the next section.

5 project management steps for successful execution

When it comes to planning, pricing, and executing your project, here’s everything you need to know to stay on track and remain profitable. Follow these key project management steps to deliver your project with ease.

1. Scoping and estimating your project

The first step to making sure your project stays on track is defining your intended project scope. Project scope is “all the work required, and only the work required, to complete the project successfully,” according to the [PMBOK Guide](#). Clearly defining your project scope can help you make more accurate [project estimates](#)—making your project more profitable. Here’s what you need to keep in mind.

A. Go slow to go fast

When you rush, you miss things. That’s why it’s so important to take enough time at the outset of your project to really understand the problem you’re trying to solve and plan out your solution. The better you know what you’re trying to accomplish, the less likely you are to be blown off course (or accrue unexpected costs) later.

B. Write a project scope statement

One tool you can use to help define your project scope is a project scope statement—a one-page document that defines the criteria of your project, such as your purpose, goals, and boundaries.

C. Track your time to make better estimates

In order to generate the most accurate estimates, you need to know how long similar projects took to complete and how much they cost you. That's where time tracking comes in. As you log your hours, you build up an archive of past projects. Then, when you're scoping out new work, you can verify your assumptions against real data.

D. Decide who will be involved

Once you have a sense of how long your project will take based on your scope statement and archived time tracking data, it's time to start assigning roles. Ideally, you should have a system for measuring your team's capacity over the next few months, which should show you who is free to take on new work. (If you don't yet, may we recommend [Harvest Forecast?](#))

E. Define your project timeline

Once you know who will be working on the project, you can set deadlines based on their availability. Match up the number of hours required from each role with the availability of people in that role—this should give you a pretty accurate picture of when you'll be able to complete each stage of the project. (But always be sure to add a bit of wiggle room in case of unforeseen circumstances.)

2. Pricing your project

Now that you've created your project scope and have a pretty good estimate of how long it'll take, it's time to figure out how much to charge. That depends a lot on which [pricing model](#) you choose. But which is best for your needs? Let's take a look.

A. Hourly

Pricing your projects on an hourly basis (sometimes called the "time and materials model") is relatively simple to do. All you need to do is track your time using a tool like Harvest, multiply your hours by your hourly rate, and invoice your client.

This can be a great option for smaller agencies or freelancers because it guarantees you get paid for all the work that you do. The downside is that clients may not like it—they may be working with a fixed budget or prefer to have more

predictable costs.

B. Fixed-fee

Like its name implies, a fixed-fee project is one in which you charge a flat rate per project, instead of charging by the hour.

Coming up with a price is a little more complex than simply billing hourly. You'll need to estimate the time and resources needed to complete the task, multiplying the number of hours you think the project will take by the rates of the individuals working on it. In order to remain profitable, it's best to track your hours and examine your projects in retrospect. *Where did you lose money? Where did you make money?* If you consistently lose money on a certain type of project, it may be time to update your pricing.

C. Retainer

A retainer works when the client has a continuous stream of work throughout the year and wants to establish a steady relationship with an agency or freelancer. Your client pays you an agreed amount in regular intervals (ex. monthly, quarterly, etc.) in exchange for ongoing work.

This can be the ideal situation for many agencies in that it allows you to develop a long-term relationship with a client and provides you with a steady stream of predictable income. However, it's important to remember to keep a close eye on your statement of work to make sure you deliver everything that you promise and your client's requests don't go out of the scope of your original agreement.

D. Iteration

Iteration is based on pricing per sprint—it's an emerging model that's most common in development agencies. Like a retainer, it allows a client to purchase your bandwidth for a set amount of time. However, unlike a retainer, it's a more flexible model: Developers work in 1-2 week-long "iterations" or sprints, and the client can end the relationship at any time.

This model is more in tune with agile development (which can change a lot over the course of a project), but also a lot less predictable. Agencies that opt for this pricing model need to be flexible in their budgeting and capacity planning in case a project is cut short or goes on longer than anticipated.

3. Managing your time in a project

Time management is one of the most important project management success factors. Time is not an unlimited resource. Managing it during the course of a project is about knowing how to use what you are given. By getting good at project time management, you can unlock extra time in your day, deepen your focus, and get more done—all in the same hours. These four key strategies can help.

A. Create a workback schedule

Beginning with your project delivery date, work backward. What are the key milestones you'll need to hit? What stakeholders will need to sign off on each phase? What dependencies are there? Create a schedule in reverse order to hit all those milestones.

B. Keep a project time tracking log

Project time tracking, or tracking how long each activity within the project takes, can give you insight into the project's health. It's a way to see how you're progressing in relation to your goals and ensure you remain profitable. Using a tool like [Harvest](#) to log your hours can help you stay on track.

C. Prioritize work/life balance

Good project time management clears the way for better work/life balance by giving teams more time to plan and spend less time scrambling to catch up. If you use project time tracking software, managers can even monitor when employees are "overheating" and need to take a break.

D. Continuously improve your project time management

After each project, conduct a retrospective. In that retrospective, ask, what went well? What unexpected challenges arose? How did your estimates stack up with reality? Make this part of your process, so you collect it even if you feel rushed to begin the next project. It's only in measuring how you use your time that you can know how to improve.

4. Practicing your project management skills

Everyone manages projects. Even if it isn't officially in your job title, chances are, you'll have to take on the responsibilities of project manager at some point in your career. And if you can develop the [key skills of a project manager today](#), you're setting yourself up for future career success—no matter what your specific ambitions are. Here are seven key project management skills you should work on honing.

A. Communication

Effective project managers ensure clear communication actually happens. It sounds simple, and yet can be infinitely challenging. As the project manager, you act as the central control, channeling and organizing the hard work of the members of your team. You need to be open and accessible, so your team members feel comfortable sharing their ideas with you.

B. Leadership

As the project manager, you're the leader—whether or not you're officially anyone's manager. Part of being a good leader is coaching. You don't have to have all the answers, but if you know how to deconstruct a problem and prompt your team to find solutions, you can still be a big help. Seek to understand the obstacles in people's way and either remove them, or support them in clearing the hurdles.

C. Planning

One of the most important [project management skills](#) is the ability to anticipate possible obstacles and bake flexibility into your plan. You need to plan and scope future work in as much detail as possible. Setting project milestones (and a workback schedule to get there) helps your team align clearly on what needs to happen. As the project manager, it's up to you to make sure everyone stays on track.

D. Problem-solving

The hard truth is, no matter how well you plan, things will inevitably go wrong. Even the most adept project manager cannot avoid it. That's why the ability to solve problems on the fly is a crucial project management skill. If you can

seamlessly adjust to new factors, then you can keep your project on the rails.

E. Time management

To deliver high-quality work on schedule, you need to [manage your time](#). It can help to measure progress against project milestones and course-correct where necessary. You can use a tool like [Harvest](#) to measure the hours you've used vs. the amount of budget left.

F. Prioritization

Without prioritization, "scope creep" can sneak in. That is, a project seemingly gets bigger and more convoluted every day. Prioritization can get derailed when clients or stakeholders don't understand what they're asking for and demand too much, too quickly. The more work you do up front to clarify your vision, the easier it is to prevent and manage scope creep.

G. Delegation

Delegation can be one of the [hardest](#) project management skills to master. But the ability to relinquish control and let others own tasks is essential. When you cultivate this skill, you'll free yourself up to work on the highest priority items, and the ones that you, as a project manager, are uniquely positioned to do.

5. Project billing and invoicing: how to stay on budget and get paid

No matter what industry you're coming from, [project cost management](#) can be a huge challenge. How do you stay on budget and ensure you remain profitable? It all comes down to making more realistic estimates, keeping a close eye on your project burn, and ensuring your clients and stakeholders understand the value of your work.

A. Use time tracking to make more accurate project estimates

Using project time management software like [Harvest](#), you can get your whole team to start logging their project hours—gradually building an archive of past projects. Collecting this data enables you to learn from your past experiences to make more accurate [project cost estimates](#), leading to better overall project cost

management.

B. Monitor your project costs on an ongoing basis

To manage your costs, it's important to understand how much of your project budget you've used up and how much you have left. Logging your time can help with tracking your budget. If you see a project start to veer off-budget, take the opportunity to course-correct.

C. Establish boundaries around the types of projects you'll take on

Another important component of project cost management is knowing when to say no. Certain types of projects may simply not be profitable for your business, or you may need to reconsider [how you price them](#) to make them profitable. For instance, if you typically charge a flat rate, you may want to change that to an hourly rate for projects where you know you may struggle to stay under budget.

D. Prevent your invoices from getting questioned

If a client pushes back on an invoice, it can result in frustrating back-and-forth, lost trust, and plain old financial losses. Putting a detailed cost breakdown on your invoices can make it clear exactly what your customers are paying for. Using a tool like Harvest, you can generate [detailed invoices](#) that show your clients exactly how much time was spent on each task.

E. Show your value

If you're doing a client a favor or offering them a significant discount, they probably won't notice—unless you draw their attention to it. Use your invoicing to highlight the true cost of your work, then show how much you've discounted it. Making your value visible in your invoicing allows you to set expectations with your client around what your work is worth, while maintaining good relationships.

F. Make conscious trade-offs

There's a flip side to effective project cost management. Sometimes you will need to lose out on some money in order to maintain good relationships with your customers or stay competitive. That's okay. Just be thoughtful about where you decide to take these calculated losses in the context of your overall business health.



Time and money

As we've demonstrated in this project management guide, managing projects successfully is about using your limited resources well. To execute your project effectively, you need to carefully plan and estimate it, price it accurately, manage your time, and keep a careful eye on your project budget—which you accomplish by practicing and honing your project management skills.

Though it may be human nature to underestimate a project's time and costs, with planning, data, and experience, you can create realistic project plans that enable you to deliver, every time.

Try implementing the tips and strategies we've covered in this article, or check out the rest of the series:

[The Keys to Successful Project Scope Management](#)

[Project Cost Estimation: Managing Costs & Timelines](#)

[Project Pricing: Which Pricing Model to Choose?](#)

[How to Master Project Time Management](#)

[7 Key Project Management Skills for Smoother Projects](#)

[Bang for Your Buck: The Ultimate Guide to Project Cost Management](#)



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