

INSIGHT BRIEF · PROFESSIONAL SERVICES

# Fixed Fee vs. Time and Materials: Margin Visibility by Engagement Type

The two billing models fail in opposite ways: T&M leaks at the invoice, fixed fee leaks in delivery. A brief on instrumenting each one so margin is visible while it can still be saved.

Neither billing model is safer. They are differently dangerous. Time and materials leaks at the invoice, one discounted or unbilled hour at a time. Fixed fee leaks in delivery, silently, until the budget is gone and the work is not.

The firms that run both models well do not have a favourite. They have instruments for each.

## How T&M leaks

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- Hours worked but never entered, the quietest write-off there is
- Rate erosion: discounts and legacy rates that survive every review
- Non-billable creep: internal meetings coded to the client, then written off
- Slow invoicing that turns collectible hours into disputed ones

## How fixed fee leaks

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- Scope creep absorbed without a change conversation
- Optimistic percent complete that defers the bad news
- Budget burn invisible between monthly reviews
- The last 10% of delivery consuming 30% of the hours

## Instrumenting each model

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T&M needs invoice-side controls: timesheet completeness enforced weekly, rate cards with a real override approval, and realization reported per project so quiet discounting has a name.

Fixed fee needs delivery-side controls: budget burn vs. percent complete tracked weekly, a scope-change protocol as routine as a contractor's change order, and estimated-to-complete owned by delivery, not finance.

## Choose per engagement

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Well-understood, repeatable work suits fixed fee: your actuals database makes the estimate an underwriting decision. Ambiguous, discovery-heavy work suits T&M or a hybrid with a scoped discovery phase.

The firms in trouble are the ones that pick a model by habit and price every engagement with the same reflex. The engagement type should decide, and your project accounting should be able to run both side by side.



### **Questions about any of this?**

Summit Business Systems has been implementing ERP for Ontario businesses since 1991. We are an Acumatica Gold-Certified Partner based in Barrie, working with construction, field service, distribution, and professional services companies across the province. If you want a second opinion on anything in this insight brief, we give straight answers.

[summitbusiness.com/contact](https://summitbusiness.com/contact) · [info@summitbusiness.com](mailto:info@summitbusiness.com) · 1-877-840-6890