A Guide to
Making Passive
Income
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Passive income is earning that happens even when you aren't working on it. Some examples of passive income that we'll be discussing include selling photography, flash or illustrations as stock, providing a subscription service such as hosting, taking donations for a software download, and so on.

Streams of passive income can take a bit of work to get started, some even take a little work to maintain, however they are well worth it. Having a steady source of income is particularly useful for a freelancer as it helps mitigate risk and balance out some of the ups and downs of freelancing. Besides who doesn't want a source of income that keeps generating with or without your input!

In this guide we'll discuss a few different sources of passive income that are particularly suited to freelancers. I hope that the guide helps you on your way to freelancing freedom.

Some General Pointers

First, a few pointers:

Dollars and cents add up

Many sources of the passive income we'll be discussing work in small increments. Where you might be used to hundreds or thousands for a project, selling a cheap stock photo might net you only a handful of cents each time. However if you slowly build up these streams of cents and dollars, you will find in time that you build into a healthy side income or who knows, even a full income.

Be in it for the long haul

Building passive income is something that takes time. If it didn't, everyone would do it. So keep this in mind, and don't expect to be retiring within days, weeks or even months.

Be clear that this is about making money

Remember you are doing this to make money, if you are taking donations be straight forward and just ask, if you are selling stock photos don't be ashamed to pander to the masses, if you are blogging be ready to write deliberately common denominator articles. I'm not saying you need to sell out completely, but you don't want to be coy either.

The more you put in, the more you'll get out

Almost all the sources of income we'll be discussing can be and in fact are full-time jobs for some people. So it's worth bearing in mind that if you really take these things on, your passive income can conceivably become all you need.

Chapter 1 Selling Stock

Selling stock files is something most commonly associated with photography, however these days it's possible to sell flash, illustrations, audio, video, fonts, websites and 3d. Thanks to microstock sites, it has also become incredibly accessible as well.

What is stock?

A stock file is a ready made file usually sold out of a library that the buyer can browse through. A buyer would use a stock file instead of commissioning a specific piece of work. So for example a designer who doesn't have the time or budget for a photoshoot might buy a stock photo that approximates what they needed.

What's the difference between Royalty Free and Rights Managed?

Royalty free stock means a buyer pays once for the item and is free to reuse it as often as they wish without further compensation. Rights Managed on the other hand means they pay for every specific usage.

What rights will I be giving away?

When you sell stock files you are consenting to their use in a variety of situations, not all of which you might be pleased about. Although with a Rights Managed stock file you may have more control, with Royalty-Free the only parameters are set by the library itself and are usually things like not being able to resell the item, not being able to reuse it more than a maximum number of times and so on.

If you are concerned about where an item might be used, don't sell it as stock. For example if you have a photo of your baby daughter that's really precious and you don't want to wake up one day and find she's become the poster girl for a nappy ad, then don't sell it. You never know what a file might be used for.

What's Microstock?

Until recently stock files usually priced in the hundreds of dollars, however these days sites like iStockPhoto.com sell files for as little as one dollar. Both microstock and regular stock have a place and generally serve two different markets.
Microstock usually sells in much higher quantities and is much easier to get into, whereas higher priced stock tends to be more lucrative per item and a lot more exclusive. In this article we'll be mostly discussing microstock as it's the most accessible and the one I know more about.

If you do choose to sell stock, it's fairly easy to join most microstock sites – most often all you'll have to do is fill in a form or do a quiz to become a seller. Sometimes you may need to submit a few samples, but as long as you know what you're doing you should have no trouble being accepted.

Does stock damage the industry?

It is important to mention that some feel that stock is potentially damaging to creative industries by de-valuing their work. This is far too complex an issue to get into here, but it is worth reading up on the pros and cons of stock and making a decision on your own before launching into selling stock.

How much do you make?

The amount you can make depends a lot on the library you sell through. You will receive a percentage of each sale and this can vary from as little as 10% up to 95%. Additionally the pricing of the file and most importantly the number of times it sells are critical factors in how much you can make.

It is a good idea to talk to other stock contributors on forums and websites to get an idea for how much they are making. The sky is the limit however and certainly there are plenty of people out there who make stock as a living.

Why is stock great for freelancers?

Selling stock is a great income source for freelancers because it's something you can fit in between jobs. Additionally you will often have left overs from jobs that you can sell on. For example flash developers will often be able to extract parts of jobs they've done for clients and repackage them for sale as stock flash. Similarly a photographer might be able to get a few extra photos in while on location for a job, and provided they have the necessary rights they can then sell them on after the job.

Additionally building a stock portfolio is something you can work on over time, so that over a period of months or years you build a library of work that is constantly selling because of its size, and hence provides you with a very steady source of income.

Tips for Selling Stock

Here are some tips for people interested in selling stock:

Put yourself into your buyer's shoes

Consider who your main target market is and what they need the stock items for. For example if you are a photographer, you may find that your photos art being used by web designers. You might then find ways to help them represent ubiquitous pages like FAQs, News or Contact visually. Or you might consider that corporate shots sell very well online because they fit most websites, so if you can supply generic business-y images they'll sell well.

If you aren't sure what buyers want, then ask! Go to forums, contact friends of yours, and ask them what are some common needs that arise.

Use best seller lists

Many stock sites have a best sellers list, go through them regularly to examine what buyers are interested in. Identifying buying patterns is an excellent way to find the most lucrative avenues. Remember pandering to the masses is OK!

Build sets

Stock works great in sets of items. For example if you have a set of business illustrations that share a style or technique, these are more valuable than a single stand alone illustration as they appeal to not just buyers interested in one illustration, but also to buyers looking for a series. Sets are particularly useful for websites where the many pages of the site may require different illustrations or photographs, but branding requires them to match.

Watch buying trends

Like anything stock sells in trends. Trends can be seasonal such as 'Christmas' or 'Summer', stylistic such as 'Traced Vector Illustrations' or 'Iconic' or to do with some other factor such as the resurgence in the web.

Try to notice trends before they become big and get your files ready in time. Because many buyers sort files by downloads or rating, having a file that's been there from early on tends to be much more profitable.

Identify niches

This works both in that you should identify what niches have yet to be tapped AND what niches are already saturated. Look for areas that no-one else is really serving or where the files that do exist are heavily purchased. Avoid very common niches unless they appear to have an endless market (e.g. no matter how many business photos are out there, they still seem to sell.)

Choose your keywords carefully

Most stock sites use a keyword system to find files on their site. They will generally be up to you to choose and key in, and are an art in themselves. It is worth taking the time to get keywords right, as otherwise no one will be able to find your product. Find similar files that are popular and use their keywords as a guide. Try to cover as many as you can think of without simply keyword spamming. You should also always double-check your spelling.

Read the submission documentation THOROUGHLY

There is no better way to waste time and effort than to start producing files without first reading submission criteria. For example photographers should keep in mind that any photograph taken of a person or place will need either a signed model release or property release respectively. Some sites require a photocopy of the model's drivers license as well. Photos can generally be downloaded and used by anyone, so would-be models need to be willing to have their photos used for almost anything. For illustrations, Flash and videos there may be file type requirements, and settings that need to be adhered to.

Different stock sites have different conditions so make sure you read carefully before you start uploading your files.

Conceptualize

For photography and illustration try to find ways to represent concepts in your stock. This can be hard, but if you represent the right concept in an iconic way you can produce a very popular file.

Some Sites Where You Can Sell Stock

There are plenty of great sites around for selling stock files, here are a few:

FlashDen
URL: http://www.flashden.net
Useful for: Selling flash, audio, video, pixel fonts

ShutterStock
URL: http://www.shutterstock.com
Useful for: Selling photos

Dreamstime
URL: http://www.dreamstime.com
Useful for: Selling photos

RevoStock
URL: http://www.revostock.com
Useful for: Selling footage, media and after effects

TurboSquid
URL: http://turbosquid.com
Useful for: Selling 3d models and textures

iStockPhoto
URL: http://www.istockphoto.com
Useful for: Selling photos

VectorStock
URL: http://vectorstock.com
Useful for: Selling vector illustrations

Scoopt
URL: http://scoopt.com
Useful for: Selling press photos

Chapter 2 Making Products

Because the majority of freelancers are in the business of creation, it is often very possible to put your craft to use and to create something you can sell or even give away for donations. Whether it's a book you've written, software you've coded or art you've created, the web provides the perfect vehicle for distributing your work.

What kinds of things can you make?

Most freelancers know what they would like to make, the task is more about finding time to do it and finding ways to sell it. Here are some things that freelancers can produce:

Books – Obviously suited to writers, books can nonetheless be written by any type of freelancer on a subject pertinent to them. A web designer could write a book on CSS, a photographer could put together a coffee table photography book, and a writer a book on whatever they're passionate about.

Plugins and tools – The market for useful tools and widgets is insatiable. Whether it's a plugin for Wordpress, a tool to convert files or some widget that people can embed on their websites, developers in particular are perfectly positioned to make things that make people's lives easier.

Software – From Open Source to Web Apps to Full-blown programs, software can be extremely monetizable. The catch of course is the amount of effort can also be overpowering. Building software is not for the faint of heart, but if you tackle problems that aren't enormous and find an issue you are passionate about solving, then selling software can provide a lucrative income.

Art – Photographers, illustrators and even designers can produce art to sell through one of the many web print sites.

Merchandise and apparel – Thanks to sites like CafePress, making T-shirts, mugs, calendars and the like has never been easier. Whether you are a copy writer who comes up with killer one-liners for Tshirts or an illustrator/designer who creates catchy designs, merchandise and apparel can be both fun and profitable.

There are of course plenty of other things you can make and sell, from figurines to stickers, icons to music. Think over everything you are capable of making and find something that there is a market for.

Donationware

Although selling is the most obvious way to make money out of your craft, giving something away and asking for donations is also a perfectly legitimate idea. The great thing about donations is that your work can spread much faster and though you may not make as much per person, you will probably hit more people.

And thanks to the magic of PayPal, asking for donations is a matter of cutting and pasting some HTML to channel those dollars into your account.

Using a third party or not

There are many websites around that exist to help you sell your goods and choose whether to use them or not can be critical. On the one hand a third-party website will inevitably take a percentage of your profits, but on the other, a third-party site can provide the exposure you need to get your work out there.

Generally the choice boils down to your own savvy-ness when it comes to marketing your wares. If you are capable of bringing traffic and buyers, then go it alone. If you need hand-holding, or even just to get your work launched, then try a third-party site.

Tips for Selling

Here are some tips for selling:

Solve a problem

Your chances of selling something are much higher if you are solving someone's problem. For example if you write software to do something people are itching to do, you'll naturally have a hit on your hands. Write software to something only you and two other people are interested in and it better be a labour of love.

Look for the right price point

Pricing your work can be hard and there are numerous considerations including:

> **Competition.** You may price lower to undercut a competing product.

> **Value.** Sometimes pricing higher gives a product more value in the buyer's eyes (think Porsche or Rolex).

> **Margins.** Think about how much you need to make for your effort to be worthwhile.

Release early, release often

While this is particularly true in software, you can apply this philosophy in any craft. If you save up everything into one big product or release, you may find you've got it wrong, your competition has already been there and done that or people just aren't interested. Get smaller products out there faster and test the waters. If you're writing a book, try writing a guide first before compiling your epic masterpiece. If you are making a plugin, try solving a small problem before tackling a killer one. And of course if you are making software, don't wait until you have perfected the ultimate program, get something out there for users to buy, use and test.

Build a blog or brand around the product

Whatever you are selling, you will surely benefit from marketing and promotion work. These days a great way to do this is to build a blog around your product. If you are an artist, start a blog where you talk about your work, teach others some of your techniques and link up to other artists. When it comes time to selling your own work, you'll find you already have a customer base.

Don't be shy about asking for donations

If you are going after donations, don't be shy about asking. Make it clear that you've put time and effort in and you're asking people to put in what value they feel they've gotten. If you try to be coy, people will assume you don't really want or need it.

Some Sites Where You Can Sell Products

There are plenty out there, but here are some sites where you can peddle your wares:

Lulu
URL: http://www.lulu.com
Useful for: Self publishing

RedBubble
URL: http://www.redbubble.com
Useful for: Selling prints

Etsy
URL: http://www.etsy.com
Useful for: Selling crafty stuff

DeviantArt
URL: http://www.deviantart.com
Useful for: Selling prints

PayPal
URL: http://paypal.com
Useful for: Taking money online

Zazzle
URL: http://www.zazzle.com
Useful for: Selling products

CafePress
URL: http://cafepress.com
Useful for: Selling products

Revver
URL: http://one.revver.com/
Useful for: Revver adds adverts to videos you make

Chapter 3 Selling Subscription Services

Selling subscription services is something that most applies to those freelancers who work in web design or development. Typical subscription services include hosting, domain names, SEO services and CMS systems. Essentially any service which you pay on a subscription you would mark up and rebill on a subscription basis to a client. If you work on this aspect of your business you can develop a large set of recurring subscription payments, often without any further cost to you. This will then provide a tidy amount of money each month, often for doing very little.

What about support?

One potential drawback to selling subscription services is that they often require support services. For example if you provide hosting services to your clients they will often call up for help setting up their email or asking about things like spam and so on. Additionally if the service goes down – and this is particularly relevant to web hosting – you can experience a lot of stress and waste a lot of time in support. Therefore it is important to factor this in when you mark up the price, make sure you have enough to cover potential support AND provide your recurring revenues.

What other drawbacks are there?

Another potential drawback with selling subscription services is the question of what happens if you decide to close down. This might not seem important now, but make sure to consider what you would do if you suddenly decided to go back into the workforce or left the country.

One possible solution to this problem is to stay in touch with other freelancers or small agencies involved in the same sort of thing. For example if you sell web hosting services to your clients and decide to close down you could move all your clients to another freelancer's server and increase their income.

Some Tips for Selling Subscription Services

Here are some tips for selling subscription services:

Mark up high

Don't feel guilty about marking up your prices significantly. If hosting costs you $10 a month, it's not unreasonable to sell it on at $30 a month, even though that is effectively triple the cost price. Remember if cost is a huge concern your client is free to cut you out and go straight to the source - you can even mention this to them!

Marking up high means that if things ever go wrong and you need to provide support services, you'll still have it all covered.

Bill yearly

It is unlikely that as a freelancer you have the necessary infrastructure to keep billing all your different clients on a month-month basis, so it helps to instead bill them in yearly doses.

Stay on top of billing periods

A little organisation can go along way in making sure you bill everyone on time. Set up a system of reminders either in your favourite calendar application or directly in your accounting software (products such as MYOB can be setup this way.)

Look for low maintenance products

Self service is ideal for selling subscription services. To use hosting as an example, it is best if the client can create and service their own email addresses, check their stats and perform other maintenance tasks without calling you. Look for products that provide this functionality.

Find services you can rebrand

It doesn't look great for you if your client realises that you have marked up everything to the hilt, so it's always best to find services where you can rebrand the console with a logo or theme, thus avoiding any awkwardness.

Websites That Help You Sell Subscription Services

Here are some useful websites for selling subscription services:

HostGator
URL: http://www.hostgator.com
Useful for: Hosting

BlueHost
URL: http://www.bluehost.com/
Useful for: Hosting

Light CMS
URL: http://www.speaklight.com/
Useful for: CMS

Chapter 4 Web Business

Creating a web business is a bit of a generic idea and could conceivably cover everything from Google on down. For our purposes however, we are talking about creating a website that brings in traffic and for which you can place advertising or affiliate promotions on. Building a small web business is of course most suited to freelancers working in web design and development, but really just about anyone can start a blog or build a small website these days. There is also always the option of trading your services with a web designing freelancer to have a site built for you.

One important point to make about web business is that it can be both harder than you expect and easier than you think. This sounds like a contradiction, so let me explain. There are a lot of people around who will tell you all about how you can make hundreds or thousands just by doing … generally speaking these people are full of hot air. Building a solid web business takes time and sustained effort, and you will need to provide value to your visitors. On the other hand, the web is filled with stories of ordinary people who have slowly built up very profitable blogs and websites which provide a steady income with very little maintenance.

The great thing about a web business is that it is a very exciting medium and you can easily get wholly consumed and ditch your freelancing altogether (which is what happened to me!)

Blogs
Blogs are the posterchild of little web businesses and you'll find loads of sites around telling you about how to make money with blogs. There is such a wealth of information around that I won't repeat it all, try visiting sites like http://www.problogger.net and http://www.johnchow.com to learn about how you can make money with blogging.

One thing I will say is that you should choose what topic you blog about very carefully and spend your time focusing on writing interesting material, not making money. If you bring traffic and readership, money will follow, not the other way around.

Content sites
Building a content site means creating say a site full of MySpace templates, writing Photoshop tutorials or building a site which contains some other sort of content that people are interested in. The trick with content sites is both having something people are interested in and bringing in the traffic. Researching search engine optimization (SEO) is pretty important here as well as looking into what sort of sites make money.

It can be good to browse through Sitepoint's Marketplace to see what sorts of sites people build and what sorts of revenue they generate. Be wary of purchasing established sites however unless you know what you are doing as it can be a bit of minefield in terms of accuracy of listings and payment fraud. Building your own site tends to be a better way to go, and you can always sell it off later on through a site like Sitepoint.

Applications

For the really savvy freelancer, you may be interested in building a complete web application. Many web brands you may have heard of started out this way. One particularly famous example is 37Signals who started out as a web design agency and built a series of web apps on the side such as the well known and well loved Basecamp.

Web apps can sell subscriptions or run advertising, however make sure you research who else is out there doing the same thing as the last few years have seen an explosion in small web applications and the proliferation of choice can lead to low customer take-up of new products and services.

Tips for Web Business

Here are some tips for starting a web business:

Research

It pays to research very thoroughly before you dive in. Learn all about your chosen product type and read up on blogs and forums about how others make their money. A bit of research can go a long way as there are often some very obvious hurdles and pitfalls that newbies fall into.

Focus on your users

If you can make something popular, whether it's a blog, content site or web application, the money will follow. So focus on great content or a great application, something that your users love and worry about the money after its popular.

Start small and learn the ropes

If you're new to business on the web don't try to do and learn everything at once. Start with something small – say a semi-regularly updated blog or a very light web application – and then build from there. Starting with a small test run will help you learn a lot and will allow you to make any mistakes without too much effort or cost.

Give it time

Like plants, web businesses take time. They take time to build traffic, to build search rankings, to build a userbase and most importantly to build up revenue. If you expect to build a side income overnight you will be disappointed.

Websites For Web Business

Here are some useful websites for effective web business:

Amazon
URL: http://www.amazon.com/associates
Useful for: Earning Commissions

Text-Link-Ads
URL: http://www.text-link-ads.com
Useful for: Selling Advertising

Shopping.com
URL: https://partners.shopping.com/app
Useful for: Adding Shopping Widgets

Google Adsense
URL: https://www.google.com/adsense/
Useful for: Selling Advertising

Well, that's it from us. From the FreelanceSwitch team, we wish you good luck making passive income!