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Essential Strategies for Effective Consultants: What About the Money?

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Objectives

• List four possible methods of setting consulting rates
• Determine how to structure fees for travel and other expenses
• Describe three easy ways to invoice, and
• Identify two steps to make sure you collect the money owed
Audience poll

How many years have you been in the consulting business?

A. Just thinking about consulting in the future
B. One year or less
C. Two to five years
D. Over five years
How much money do I need to start a consulting business?

The amount of money will vary depending on the type of business.

In addition to the cost of office equipment, experts suggest $10,000 to $20,000 for each of the first two years and $10,000 in the third year.

These funds are intended to pay for marketing and operating expenses during the time that income is limited.
Revenue Mix

The Concept of Billable Time
Number of hours billed vs. the number worked. This is the basis of a financially viable consulting firm.
Revenue Mix (continued)

Calculating Billable Hours

Divide the number of hours billed by the number of hours worked. This number will usually vary depending on the total workload of the individual.

For example: if you work 40 hours and 20 of those hours are billable, then you are 50% billable.
Administration and Marketing

Some portion of your work week will be devoted to these areas. Efficiencies in these areas can improve the bottom line.
## Projecting Income in the First Three Years – Solo Consultant

<table>
<thead>
<tr>
<th></th>
<th>Available Hours</th>
<th>Marketing Hours</th>
<th>Admin Hours</th>
<th>Billable Hours</th>
<th>Total Income</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1st six months</strong></td>
<td>968</td>
<td>726</td>
<td>242</td>
<td>-0-</td>
<td>-0-</td>
</tr>
<tr>
<td><strong>1st Year</strong></td>
<td>968</td>
<td>726</td>
<td>146</td>
<td>96</td>
<td>$19,200</td>
</tr>
<tr>
<td><strong>3rd six months</strong></td>
<td>968</td>
<td>484</td>
<td>242</td>
<td>242</td>
<td>$48,400</td>
</tr>
<tr>
<td><strong>2nd Year</strong></td>
<td>968</td>
<td>630</td>
<td>193</td>
<td>145</td>
<td>$29,000</td>
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<tr>
<td><strong>5th six months</strong></td>
<td>968</td>
<td>388</td>
<td>96</td>
<td>484</td>
<td>$96,800</td>
</tr>
<tr>
<td><strong>3rd Year</strong></td>
<td>968</td>
<td>340</td>
<td>96</td>
<td>532</td>
<td>$106,400</td>
</tr>
</tbody>
</table>

*Adapted from: Tuller, 1999*
Pricing for Consulting

“There is no other profession I know of where the practitioner is paid to learn, increasing his or her value, providing larger fees to learn still more on the next assignment.”

Alan Weiss, Ph.D.
Pricing Method #1

Multiplier

The salary plus benefits times a fixed number (usually 3 or 4).
The Multiplier

Example:

• If your salary and benefits add up to $50 per hour, then with a multiplier of 3.5, your rates would be $175 per hour or $600 per day.

• This method is common for engineering consultants.
Pricing Strategy (continued)

Pricing Method #2

Overhead Rate
The salary plus benefits plus the overhead rate (such as 50% or 75%) plus profit. This is often used for government contracts. Be sure to include non-billable hours in either the salary or the overhead rate.
Pricing for Government Contracts (Overhead Rate)\(^1\)

**Direct Labor:** 10 days @ $300/day $3,000.00

**Overhead:** 0.50 X 3,000 1,500.00

**Other Direct Costs:**

- Printing 350.00
- Travel 700.00
- Express Charges 100.00

**Total ODC** 1,150.00

**Total Costs** $5,650.00

**Profit:** 15% 847.50

**Total Price** $6,497.50

Pricing Strategy (continued)

Pricing Method #3

Competitive Fee Schedule

Take a survey of competitors’ rates and base your rates on their rates. Be sure to consider your target market.
Pricing Strategy (continued)

Pricing Method #4

Value Pricing

Fees which compensate the consultant for the “value” delivered to the client.

Value is the degree of improvement to the client represented by the achievement of the objectives. These may be quantitative (10% reduction in worker’s compensation costs) or qualitative (there will be much less stress for me).

• Adapted from: Weiss, Alan. 2009 Getting started in consulting. 3rd Ed.
Audience Poll

For those of you in consulting, which of the four methods did you use to establish your rates?

A. Multiplier rate
B. Overhead rate
C. Competitive fee schedule
D. Value pricing
Pricing Strategy (continued)

Hourly vs. Daily Rate
Set fee for each hour or day of work.

Retainer
A monthly or yearly fee paid to engage the services of a professional.

Fee for Service
Set fee by project or phase of project.
Pricing Strategy (continued)

Services Targeted to the
High,
Middle,
or Low
End of the Market
Differences in Geographic Areas

More competition may reduce rates, salary levels in the area may also affect the typical rates.
Pricing Strategy (continued)

Differences in Education, Certification and Experience

Advanced degrees, or greater than 15 years of experience, may increase rates.

Staff vs. Principal of Firm
Pricing Strategy (continued)

Services that are Loss Leaders
Some services may be priced as free or reduced cost to introduce new services or to encourage potential clients to try a variety of services.
Pricing Strategy (continued)

Developing a Fee Schedule
Address types of service categories and the hourly, daily, task or project rate.

Re-evaluation of an Existing Fee Schedule
Should be done annually or when services or conditions change.
Sample
Rate Schedule I
Effective January 2011

<table>
<thead>
<tr>
<th>Service</th>
<th>Rate/ Hour</th>
</tr>
</thead>
<tbody>
<tr>
<td>Professional Consultation</td>
<td></td>
</tr>
<tr>
<td>Principal/Senior Consultant</td>
<td>$250</td>
</tr>
<tr>
<td>Consultant</td>
<td>$200</td>
</tr>
<tr>
<td>Delivery of depositions, responses to subpoenas or expert testimony</td>
<td>$375</td>
</tr>
<tr>
<td>Administrative Time</td>
<td>$75</td>
</tr>
<tr>
<td>Professional Instruction</td>
<td>$3,500/day</td>
</tr>
</tbody>
</table>
Terms

• Include your terms on the rate schedule.
  • For example, NET 14 means you expect to be paid in 14 days. Most clients will assume this means business days. Make sure it is clear.
  • If you require a portion of the fee before the work starts, state that percentage.
  • If you are going to bill weekly or monthly or at the end of the project, make sure that is clear either on the rate schedule or in the proposal.
• Address how travel will be handled too.
Billing travel and expenses

• Travel time is often billed at one-half of the billable rate (assuming you are not able to do other client work during that time).

• Travel expenses are most commonly passed along to the client. In some cases a pass thru cost may be added to the charges (usually not more than 10%).

• Expenses should be negotiated up front and the range of charges should be clear to the client to avoid dispute later on.
Easy invoicing

• Clearly state each work element to be completed in the proposal upfront and the cost for each.
• Keep a time sheet (electronically or on paper) so you know what is completed and when.
• Use a readily available software program such as QuickBooks and format your custom invoice the way you wish.
• Then, copy each work element from the proposal, add the date and fill in the cost.
• Send the invoice by e-mail or snail mail as the client wishes.
Collecting what is owed

• The first step in being paid on time is to clearly state your terms. For example, NET 10 or 14 or 30 days.
• Make sure that the client is aware of any additional charges due to a change in scope.
• Having a system for follow up is critical. This may be an e-mail reminder on day 10 or a follow up invoice on day 30. It just needs to be consistent.
• For repeat clients, get to know the accounts payable contact. This will make it easier to follow up when invoices are misplaced.
Summary

The following topics were discussed:

- Four possible methods of setting consulting rates
- How to structure fees for travel and other expenses
- Easy ways to invoice, and
- Steps to make sure you collect the money owed
Bibliography


Questions?

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