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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.*

# Revenue Mix *(continued)*

## 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

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

*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.”*

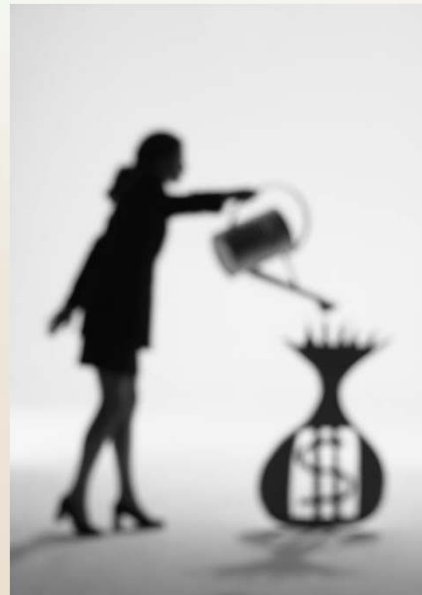
*Alan Weiss, Ph.D.*

# Pricing Strategy

## 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)<sup>1</sup>***

<b>Direct Labor:</b> 10 days @ \$300/day	<b>\$3,000.00</b>
<b>Overhead:</b> 0.50 X 3,000	<b>1,500.00</b>
<b>Other Direct Costs:</b>	
Printing	<b>350.00</b>
Travel	<b>700.00</b>
Express Charges	<b>100.00</b>
<b>Total ODC</b>	<b><u>1,150.00</u></b>
<b>Total Costs</b>	<b>\$5,650.00</b>
<b>Profit: 15%</b>	<b><u>847.50</u></b>
<b>Total Price</b>	<b>\$6,497.50</b>

<sup>1</sup>by Herman Holtz & David Zahn (2004) How to Succeed as an Independent Consultant, p. 227.

# 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. 3<sup>rd</sup> 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**

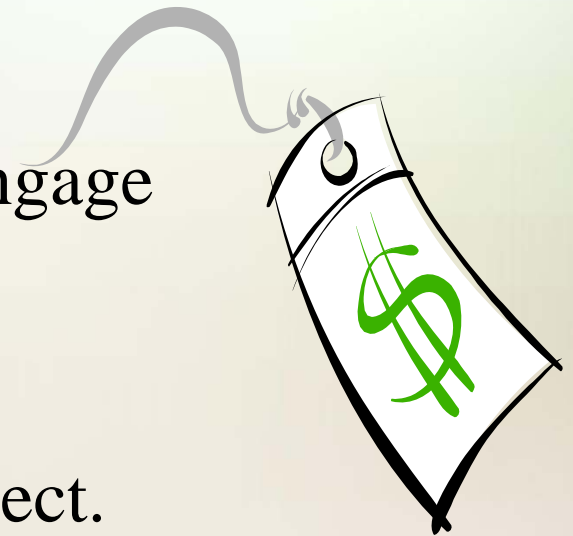
Set fee for each hour or day of work.

## **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.



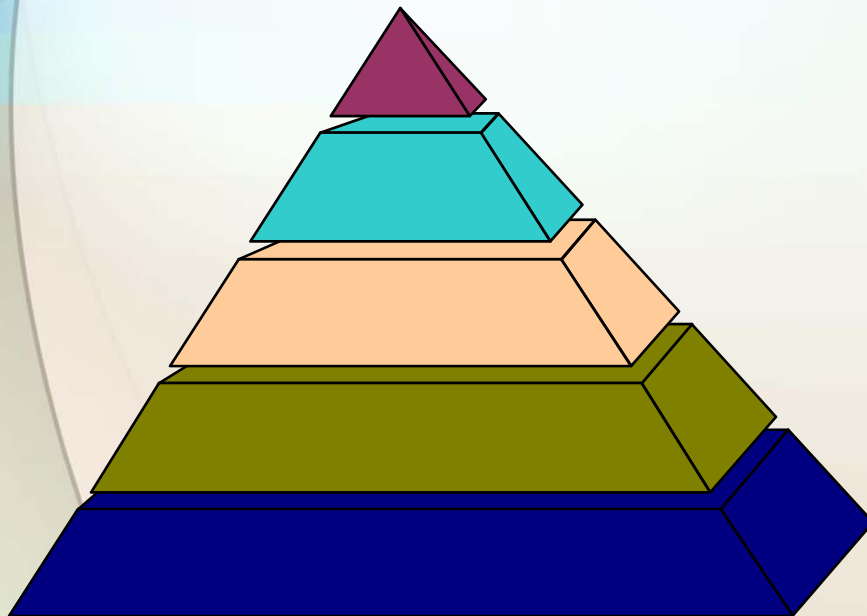
# Pricing Strategy *(continued)*

Services Targeted to the

High,

Middle,

or Low



End of the Market

# Pricing Strategy *(continued)*

## 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.

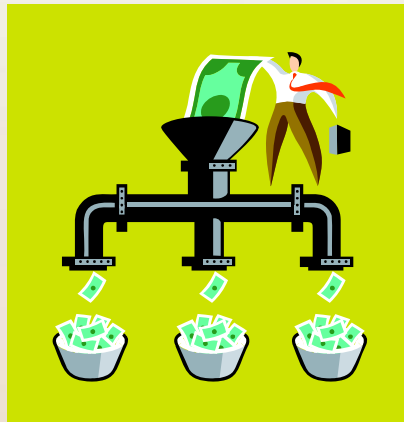


## Staff vs. Principal of Firm

# 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**

<b><u>Service</u></b>	<b><u>Rate/Hour</u></b>
<b>Professional Consultation</b>	
Principal/Senior Consultant	<b>\$ 250</b>
Consultant	<b>\$ 200</b>
<b>Delivery of depositions, responses to subpoenas or expert testimony</b>	<b>\$375</b>
<b>Administrative Time</b>	<b>\$75</b>
<b>Professional Instruction</b>	<b>\$3,500/day</b>

# 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

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# Questions?

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