Main Strategies for Setting Fees

1. Double/triple your hourly wage as basis for consulting fees

To set fees, some consultants simply take the hourly wage (plus benefits) that they would earn when working for someone else and then double or triple it. If you're doing this, you'll probably find that tripling your hourly wage is the best move. Some consultants choose a triple rate because of what they call the rule of thirds — one third goes to your real wage, one third to expenses, and one third to administration, low utilization and bad debt.

($60,000 salary + $15,000 benefits) / (48 weeks * 40 hours) =

= $75,000 / 1920 = $39.06

= 78.12, rounded up to $80 per hour

Or $39.06 x 3 = $117.18, rounded to $120 per hour.

Of course, this assumes you use an hourly rate for your consulting services. Many people work out an hourly rate, but actually charge by the half-day, day, project or another arrangement.

2. Setting a daily rate for consulting (per diem rate for consulting)

To set a daily rate, simply multiply the hours you work in a day by the hourly rate from the above example.

8 hours * $80 hourly rate = $640 per day

3. Setting Consultant Fees by the Project

Some consultants set their rates by the project. They estimate the number of hours they expect to spend on a project, then multiply by their hourly rate.

However, some consultants set their project fees using the value the client derives from the consultant's advice. There's an old joke about physicist Niels Bohr that illustrate this principle.

A company's machine breaks down. The company's owner, an old school chum of Niels Bohr, calls in the physicist for help in fixing it.

Bohr examines the machine. He draws an X on the side and says, "Hit it right here with a hammer."

The company's mechanic hits the machine with a hammer. It springs into action. The company's owner thanks Niels Bohr profusely and sends him on his way.

A few days later, the owner receives an invoice from Bohr for $10,000. Shocked, the owner phones Bohr!

"Niels! What's this $10,000 invoice? You were only here for 10 minutes! Send me a detailed invoice."

Bohr agrees to send the invoice. A few days later, the company's owner opens a new invoice.

INVOICE	
Drawing X on the side of your machine	$ 1
Knowing where to put the X	$ 9,999
Total	$10,000

4. Setting consulting fees based on performance

Some clients offer consultants a share of future revenue, profits or commissions, pushing the consultant to a pay for performance model. Others offer the client a commission. Still others offer pay based on the results of the consultant's work. Consulting fees based on performance pose several risks. For example, the company's performance in other areas may affect the area in which you you are measured. It may take months or more to see the results of the work, meaning that the consultant will not see any revenue for a long period, effectively giving the company an interest-free loan. The company may not cooperate with you in implementing your full recommendations, compromising your ability to reach the potential you projected. Moreover, you may have a hard time checking to see whether the client has manipulated results. Can you be sure that your results are being reported accurately? Most importantly, you shift the focus from high quality planning to short-term gains. If you essentially become a partner by sharing in the client's risk, you lose your objectivity. At the very least, seek a base rate plus performance pay or share of ownership. Sticking to contingency and performance-based fees opens a can of worms.

5. Setting consultant fees strategically using real-life data

This strategy involves several steps:

Setting a consulting fee based on working days

In this calculation, you base your charges on working days per year.

52 weeks in a year

Allow six weeks for vacation, stat holidays and sick time.

= 46 weeks

46 weeks x 40 hours = 1840 hours a year

Determining your billable hours as part of your consulting rate

As noted above, you have 1840 working hours available each year. However, what percent of your time will be spent on work that brings in money, as opposed to work that helps you find clients but for which you aren't actually paid?

100% possible hours

- 20% spent on administration, running errands, paperwork, etc

- 20% spent on marketing, networking events, website management, etc

- 10% spent on other non-billable work

50% spent actually working for pay

1840 hours x 50% utiliization rate = 920 billable hours

Considering bad debt rate as part of your consulting fee

Despite your best intentions, not all your clients will pay you. Some will take weeks or months to pay, but a small percentage will never pay the bill. So consider this in setting your fees.

Collection rate: 97%

920 hours x 95% = 874 hours

Rate of Pay as Basis for Consulting Fees

How much would you earn if you were paid a salary at a company?

$60,000 base salary + $15,000 in benefits = $75,000 salary

Salary / Billable Hours = Hourly Consulting Fee

$75,000 salary / 874 billable hours = $85.81

Overhead rates for consultants

If you've got the kind of consulting business that entails pure profit, you might not have to worry about overhead. But most consultants need to allow for:

- rent or mortgage interest
- utilities
- maintenance and upkeep
- property taxes
- Internet
- telephone
- cell phone
- office gadgets
- Internet connection
- laptop or desktop computer
- printer
- shipping and postage
- printer toner/ink
- home office supplies
- paper

- stationery
- business cards
- accounting (if you don't do your own)
- legal services (in some cases)
- office furniture — desk, armoire, chair, shelves, bookcase, filing cabinet, lighting, etc.
- business licenses and permits
- insurance — health, life, disability, liability, etc
- car — insurance, maintenance, gas, lease
- advertising and marketing
- subscriptions
- professional associations
- meals and entertainment for professional purposes
- continuing education
- professional meetings, conferences and tradeshows
- cleaning supplies and cleaning services
- other

Divide the total cost of your overhead by your billable hours:

$5,000 overhead / 874 hours = $5.72

$5.72 overhead + $85.81 fee = $91.53 fee

Profit margin and consulting fees

As a consultant, you're taking a risk and running a business. So it's reasonable to expect a profit margin on your fees. Consultants usually mark up their fees by 10% to 33%.

$91.53 + 25% mark up = $114.41

Since consultants tend to round to the nearest $5, our example results in $115 per hour rate.

6. Charging what everyone else charges for consulting

This last tip may seem silly, but sometimes it really does make sense to charge what everyone else charges for consulting. It comes down to what the market will bear and what your competitors are doing. If you fall in line by charging the same as everyone else, you're signalling that you're a worthy (qualified) consultant who plays fairly. You're also making sure you get the base line rate for consulting in your market.

Final thoughts about setting fees

No matter what way you set your consulting fees, be sure to use a consulting contract and agreement for consulting services.

Coming up with your consulting fee for the first time may seem daunting. However, once you've found a strategy in which you really believe, you'll be good to go. You may want to revisit your decision from time to time, taking into account your experience, client feedback and even your competitors' activities.