Title:
How Do You Set Consulting Fees?

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Summary:
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The ways of billing clients are numerous. There are hourly rates, by-the-job fixed rates, contingency or performance arrangements, flat fee plus expenses, daily fee plus expenses, and many other methods of charging for your consulting services. Which one is best?

Let us consider some ...

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Article Body:
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Let us consider some ways of billing for your time.

1. Hourly or Daily Rate

Many consultants charge by the hour or day. To establish an hourly or daily rate, they try to calculate the number of billable hours in a year. Many hours will be spent marketing and in administrative and other functions, so this time is not chargeable to the client. As well, vacation time, holidays, sick days, and so on, can not be directly billed to the client.

Consultants, like other businesses, must charge enough to cover their overhead expenses and also earn a profit. If a consultant wants to earn twenty-five dollars per hour of working time, he (or she) might have to charge one hundred dollars per hour to the client. This assumes one half billable hours and fifty percent overhead and profit.

Your hourly or daily rate may be limited by what your competition charges, especially if you have not positioned yourself as different from them.

2. Fixed or Flat Rate

Some consultants charge by the job or a flat rate. For example, a tax consultant might charge three hundred dollars to prepare a tax return for you and your spouse, including an unaudited income statement for your business from information supplied by you. If the consultant takes only one hour to do this, he grosses three hundred dollars per hour. If, though, the tax consultant miscalculates the time required, he could take twenty hours to complete the job and make only fifteen dollars per hour.

Of course, consultants can also make a profit on the labour of their employees or subcontractors.

Many consultants claim to make more on a flat rate than on a hourly basis. Advantages include being able to give a quote to the client up front and less disputes on price (as the total bill was agreed upon in advance).

To protect yourself on flat rate assignments, always limit the scope of your engagement to something that you can calculate easily.

For example, if you are asked to give a quote for setting up a website for a business, you might break this project into smaller assignments.

First, you could give a quote for preliminary research and recommendations. Estimate the time required to meet with the client, learn about his business and goals, develop strategies and a budget, and prepare recommendations on how to proceed. Then, give the client a quote (perhaps in the form of a one page letter agreement or proposal). Upon acceptance of the offer by the client in writing, you may proceed with this phase of the project.

Some consultants collect one-half of their fee up front and half upon assignment completion for each phase of the consulting project.

If the client doesn`t like your recommendations, at least you get paid for the work you did. Perhaps you can charge him to prepare alternative suggestions.

If your website project was not broken into smaller steps or assignments, you could find that you spent way more time on the project than anticipated.

Also, you might not find out until you present your bill for the whole project that your client won`t pay, either because he is not satisfied with the results or because he is unable or unwilling to pay.

Breaking down a project into smaller assignments helps you estimate more accurately and limits your financial exposure.

3. Contingency or Performance Arrangements

Sometimes clients will ask you to become their partner. If you do, you are no longer an objective consultant.

What if your client asks you to do management consulting for twenty-five percent of the net profits? Will there even be any profit by the time he writes off his car, home office, entertainment, travel, wages to self and family members, and other expenses?

On the other hand, if you are a marketing consultant that is absolutely certain that you can increase a client`s sales, you may feel confident charging a fee based on the increased sales volume of the client. Are you sure your client will co-operate with you in the attaining of this goal?

Some consultants charge a flat rate plus a percentage of ownership or profits for their services.

Fees based on contingency or performance arrangements are risky. Most consultants are better off charging a fair price for their services and leaving the risk of the client`s business to the client.

4. Value Based Fees

Sometimes consultants can justify fees based on their value to the client. For example, if you save a client one million dollars in taxes, your fee may be higher than normal to reflect the value of the services rendered.

You might pay an accountant or lawyer a fee of fifteen hundred dollars based on time for certain tax related services. What would you be willing to pay to legally save an extra million dollars in taxes? Ten thousand dollars, one hundred thousand dollars, or more?

Can you apply this information to your own consulting practice? Is there some particularly valuable service that you can render that would justify premium rates?

However and whatever you charge, be sure that your fee is a good value for your client and also compensates you fairly.