

EFFECTIVE BUSINESS PLANNING
SERIES:
HOW TO SET
YOUR CONSULTING FEES

Joseph A. Auer, Jr.
JAuer Consulting Enterprises

HOW TO SET YOUR CONSULTING FEES

JAuer Consulting Enterprises

- Today, we will
 - Look at the elements of cost in a business and how to incorporate them in setting your fees
 - Investigate how your fees need to address both your costs and your financial goals.
 - Look at how to address the competitiveness of consulting fees against direct employee costs, as this issue frequently affects the consultant's ability to land a contract.
 - Become acquainted with the national IEEE bi-annual consultants salary survey as an additional tool to assess the reasonableness and effectiveness of a candidate fee structure.
 - Use these perspectives to discuss possible options for adjusting the candidate fee structure to its "final" form and its incorporation into your job quoting efforts, the financial planning section of your business plan, and your enterprise.

- A Starter Primer Follows:

HOW TO SET YOUR CONSULTING FEES

JAuer Consulting Enterprises

- Elements of Cost:
 - Direct Costs
 - Labor: Wages, salaries, overtime premiums
 - Material: The dollar value of invoices you receive from suppliers providing items that are directly incorporated into your deliverables
 - Other Direct Costs (ODC): Defined costs other than labor or material that your cost accounting system has allocated as direct (e.g.: travel expenses)

HOW TO SET YOUR CONSULTING FEES

JAuer Consulting Enterprises

■ Elements of Cost:

• Indirect Costs

- Fringe: Company paid costs contributing to the well-being of its labor force (e.g.: paid holidays, paid vacation, paid absence, insurance premium contributions, retirement contributions)
- Overhead: Supporting business costs that are not directly identifiable and allocable to the specific project, but allocate across 2 or more projects (e.g.: consumable supplies, project management, procurement)

HOW TO SET YOUR CONSULTING FEES

JAuer Consulting Enterprises

■ Elements of Cost:

• Indirect Costs

- Material Handling: Costs associated with receiving, inspecting, transporting and placing received material into inventory for subsequent project use
- General and Administrative: Costs associated with running the entire enterprise irrespective of number and degree of projects on hand (e.g.: Corporate or GM staff; Marketing, Human Resources, IT)

HOW TO SET YOUR CONSULTING FEES

JAuer Consulting Enterprises

- Tools to track Costs
 - Checkbook ledger
 - Budgeting spreadsheet
 - Finance / Accounting application
 - E.g.: Quicken, Quick Books
 - Company accounting / reporting system

HOW TO SET YOUR CONSULTING FEES

JAuer Consulting Enterprises

DESIRED FEE STRUCTURE		07/20/09					
BASE RATE	#PERIODS=	0	\$42.50	\$88,400.00			
FEE TOPIC	# OF DAYS / YEAR	# OF HOURS / YEAR	\$ VALUE	SUBTOTAL HOURS	SUBTOTAL\$ VALUE	% OF DIRECT LABOR \$	
FRINGE BENEFITS							
Vacation (4 weeks)	20	160	\$6,800.00				
Sick/Personal (1 week)	5	40	\$1,700.00				
Holidays (12)	12	96	\$4,080.00				
Insurance (Med+Dntl @ \$1.0K/mo), (Prof Liability + Other @ \$1.5K/mo)			\$30,000.00				
Retirement at SEP-IRA max of 25% of "direct" gross			\$22,100.00				
TOTAL FRINGE BENEFITS				296	\$64,680.00	126.35%	
OVERHEAD							
Schedule Maintenance = 1.5 hour/day	225	338	\$14,343.75				
Job/Client Search = 6 hours/week	45	270	\$11,475.00				
Finance / Account Maint = 4 hours/week	45	180	\$7,650.00				
TOTAL OVERHEAD				788	\$33,468.75	65.38%	
DIRECT LABOR							
BASED ON 52 WEEKS * 5 DAYS/WK WITH 10% OT LESS FRINGE & OVERHEAD HOURS)		1,205	\$51,191.25				
DIRECT HOURS PER WEEK=	23						
TOTAL DIRECT LABOR				1,205	\$51,191.25	100.00%	
SUM OF ALL				2,288	\$149,340.00	291.73%	
FEE					\$123.99		

HOW TO SET YOUR CONSULTING FEES

JAuer Consulting Enterprises

DESIRED FEE STRUCTURE		07/20/09					
FEE TOPIC	# OF DAYS / YEAR	# OF HOURS / YEAR	\$ VALUE	HOURS	SUBTOTAL VALUE	SUBTOTAL\$	% OF DIRECT LABOR \$
BASE RATE			\$42.50		\$88,400.00		
	#PERIODS=	0					
FRINGE BENEFITS							
Vacation (4 weeks)	20	160	\$6,800.00				
Sick/Personal (1 week)	5	40	\$1,700.00				
Holidays (12)	12	96	\$4,080.00				
Insurance (Med+Dntl @ \$1.0K/mo), (Prof Liability + Other @ \$1.5K/mo)			\$30,000.00				
Retirement at SEP-IRA max of 25% of "direct" gross			\$22,100.00				
TOTAL FRINGE BENEFITS				296	\$64,680.00		126.35%
OVERHEAD							
Schedule Maintenance = 1.5 hour/day	225	338	\$14,343.75				
Job/Client Search = 6 hours/week	45	270	\$11,475.00				
Finance / Account Maint = 4 hours/week	45	180	\$7,650.00				
TOTAL OVERHEAD				788	\$33,468.75		65.38%
DIRECT LABOR							
BASED ON 52 WEEKS * 5 DAYS/WK WITH 10% OT LESS FRINGE & OVERHEAD HOURS)							
DIRECT HOURS PER WEEK=	23	1,205	\$51,191.25				
TOTAL DIRECT LABOR				1,205	\$51,191.25		100.00%
SUM OF ALL				2,288	\$149,340.00		291.73%
FEE						\$123.99	

HOW TO SET YOUR CONSULTING FEES

JAuer Consulting Enterprises

DESIRED FEE STRUCTURE		07/20/09					
BASE RATE	#PERIODS=	0	\$42.50	\$88,400.00			
FEE TOPIC	# OF DAYS / YEAR	# OF HOURS / YEAR	\$ VALUE	SUBTOTAL HOURS	SUBTOTAL\$ VALUE	% OF DIRECT LABOR \$	
FRINGE BENEFITS							
Vacation (4 weeks)	20	160	\$6,800.00				
Sick/Personal (1 week)	5	40	\$1,700.00				
Holidays (12)	12	96	\$4,080.00				
Insurance (Med+Dntl @ \$1.0K/mo), (Prof Liability + Other @ \$1.5K/mo)			\$30,000.00				
Retirement at SEP-IRA max of 25% of "direct" gross			\$22,100.00				
TOTAL FRINGE BENEFITS				296	\$64,680.00	126.35%	
OVERHEAD							
Schedule Maintenance = 1.5 hour/day	225	338	\$14,343.75				
Job/Client Search = 6 hours/week	45	270	\$11,475.00				
Finance / Account Maint = 4 hours/week	45	180	\$7,650.00				
TOTAL OVERHEAD				788	\$33,468.75	65.38%	
DIRECT LABOR							
BASED ON 52 WEEKS * 5 DAYS/WK WITH 10% OT LESS FRINGE & OVERHEAD HOURS)		1,205	\$51,191.25				
DIRECT HOURS PER WEEK=	23						
TOTAL DIRECT LABOR				1,205	\$51,191.25	100.00%	
SUM OF ALL				2,288	\$149,340.00	291.73%	
FEE					\$123.99		

HOW TO SET YOUR CONSULTING FEES

JAuer Consulting Enterprises

DESIRED FEE STRUCTURE		07/20/09					
BASE RATE	#PERIODS=	0	\$42.50	\$88,400.00			
FEE TOPIC	# OF DAYS / YEAR	# OF HOURS / YEAR	\$ VALUE	SUBTOTAL HOURS	SUBTOTAL\$ VALUE	% OF DIRECT LABOR \$	
FRINGE BENEFITS							
Vacation (4 weeks)	20	160	\$6,800.00				
Sick/Personal (1 week)	5	40	\$1,700.00				
Holidays (12)	12	96	\$4,080.00				
Insurance (Med+Dntl @ \$1.0K/mo), (Prof Liability + Other @ \$1.5K/mo)			\$30,000.00				
Retirement at SEP-IRA max of 25% of "direct" gross			\$22,100.00				
TOTAL FRINGE BENEFITS				296	\$64,680.00	126.35%	
OVERHEAD							
Schedule Maintenance = 1.5 hour/day	225	338	\$14,343.75				
Job/Client Search = 6 hours/week	45	270	\$11,475.00				
Finance / Account Maint = 4 hours/week	45	180	\$7,650.00				
TOTAL OVERHEAD				788	\$33,468.75	65.38%	
DIRECT LABOR							
BASED ON 52 WEEKS * 5 DAYS/WK WITH 10% OT LESS FRINGE & OVERHEAD HOURS)		1,205	\$51,191.25				
DIRECT HOURS PER WEEK=	23						
TOTAL DIRECT LABOR				1,205	\$51,191.25	100.00%	
SUM OF ALL				2,288	\$149,340.00	291.73%	
FEE					\$123.99		

HOW TO SET YOUR CONSULTING FEES

JAuer Consulting Enterprises

MINIMUM FEE STRUCTURE		07/20/09					
BASE RATE				\$42.50	\$88,400.00		
FEE TOPIC	# OF DAYS / YEAR	# OF HOURS / YEAR	\$ VALUE	SUBTOTAL HOURS	SUBTOTAL VALUE	% OF DIRECT LABOR \$	
FRINGE BENEFITS							
Vacation (2 weeks)	10	80	\$3,400.00				
Sick/Personal (1 week)	5	40	\$1,700.00				
Holidays (12)	12	96	\$4,080.00				
Insurance (Med+Dntl @ \$1.0.K/mo), (Prof Liability + Other @ \$1.0K/mo)			\$24,000.00				
Retirement at 36% of SEP-IRA max of 25% of "direct" gross			\$7,956.00				
TOTAL FRINGE BENEFITS				216	\$41,136.00	69.03%	
OVERHEAD							
Schedule Maintenance = 1.5 hour/day	235	353	\$14,981.25				
Job/Client Search = 4 hours/week	47	188	\$7,990.00				
Finance / Account Maint = 2.75 hours/week	47	129	\$5,493.13				
TOTAL OVERHEAD				670	\$28,464.38	47.76%	
DIRECT LABOR							
BASED ON 52 WEEKS * 5 DAYS/WK WITH 10% OT LESS FRINGE & OVERHEAD HOURS)		1,402	\$59,595.63				
DIRECT HOURS PER WEEK=	27						
TOTAL DIRECT LABOR				1,402	\$59,595.63	100.00%	
SUM OF ALL				2,288	\$129,196.00	216.79%	
FEE					\$92.13		

HOW TO SET YOUR CONSULTING FEES

JAuer Consulting Enterprises

RETAINER FEE STRUCTURE		07/20/09					
BASE RATE = 150% of STD BASE RATE		#PERIODS=	10	\$66.75	\$138,840.00		
FEE TOPIC	# OF DAYS / YEAR	# OF HOURS / YEAR	\$ VALUE	SUBTOTAL HOURS	SUBTOTAL\$ VALUE	% OF DIRECT LABOR \$	
FRINGE BENEFITS							
Vacation (4 weeks)	20	160	\$10,680.00				
Sick/Personal (1 week)	5	40	\$2,670.00				
Holidays (12)	12	96	\$6,408.00				
Insurance (Med+Dntl @ \$1.0K/mo), (Prof Liability + Other @ \$1.5K/mo)			\$30,000.00				
Retirement at SEP-IRA max of 25% of gross			\$34,710.00				
TOTAL FRINGE BENEFITS				296	\$84,468.00	105.06%	
OVERHEAD							
Schedule Maintenance = 1.5 hour/day	225	338	\$22,528.13				
Job/Client Search = 6 hours/week	45	270	\$18,022.50				
Finance / Account Maint = 4 hours/week	45	180	\$12,015.00				
TOTAL OVERHEAD				788	\$52,565.63	65.38%	
DIRECT LABOR							
BASED ON 52 WEEKS * 5 DAYS/WK WITH 10% OT LESS FRINGE & OVERHEAD HOURS)							
		1,205	\$80,400.38				
DIRECT HOURS PER WEEK=							
TOTAL DIRECT LABOR		23		1,205	\$80,400.38	100.00%	
SUM OF ALL				2,288	\$217,434.00	270.44%	
FEE					\$180.52		

HOW TO SET YOUR CONSULTING FEES

JAuer Consulting Enterprises

Rate Comparison: Employee vs. Consultant		07/20/09			
Employee BASE RATE (\$88K/Yr = \$42.50/hr)				\$42.50	\$88,400.00
FEE TOPIC	# OF WEEKS / YEAR	# OF HOURS / WEEK	\$ VALUE	SUBTOTAL HOURS	SUBTOTAL\$ VALUE
EMPLOYEE FACTORS					
BASE "HOURLY" WAGE			\$42.50		
FRINGE BENEFITS					
Vacation (3 weeks)	3	40		120	
Sick/Personal (1 week)	1	40		40	
Holidays (10)	2	40		80	
Employer Insurance Contribution					
Employer 401K contribution (4%)					
TOTAL FRINGE BENEFITS (ESTIMATED %)	6	44%	\$18.70	240	
BURDENED HOURLY WAGE			\$61.20		
TOTAL EQUIVALENT PAYOUT	52	40		2,080	\$127,296.00
TOTAL " AVAILABLE WORKING" HOURS				1,840	
TOTAL ADMIN/"DOWN" TIME (10 HR/WK)	46	10		460	
TOTAL "DIRECT CHARGE" WORKING HOURS ACTUALLY PROVIDED				1,380	
TOTAL EQUIVALENT PAYOUT PER ACTUAL WORKING HOUR			\$92.24		
CONSULTANT FACTORS					
RATE			\$92.13		
TOTAL "WEEKDAY" HOURS/YEAR	52	40		2,080	
LESS: Vacation (3 weeks)	3	40		120	
LESS: Sick / Personal (1 week)	1	40		40	
LESS: Holidays (10 days = 2 weeks)	2	40		80	
TOTAL " AVAILABLE WORKING" HOURS	46			1,840	
LESS: Admin/Non-Req'd Hours (10/wk)	46	10		460	
TOTAL "DIRECT CHARGE" WORKING HOURS				1,380	
TOTAL PAYOUT FOR ESTIMATED WORKING HOURS					\$127,139.40

HOW TO SET YOUR CONSULTING FEES

JAuer Consulting Enterprises

<u>SAMPLE FCCOM COMPUTATION</u>	<u>BASE</u>	<u>RATE</u>	<u>UNIT DOLLARS</u>
MATERIAL HANDLING	0.00	0.00025	\$0.00
ENGINEERING	127,296.00	0.00667	\$849.06
MANUFACTURING	0.00	0.01250	\$0.00
G & A	280,051.20	0.00030	\$84.02
TOTAL UNIT FCCOM			\$933.08

<u>2009 Sample Overhead Rates Applied</u>	<u>RATE</u>
MATERIAL HANDLING	35.00%
ENGINEERING	120.00%
MANUFACTURING (NOT APPLICABLE)	0.00%
ASSOCIATED BENEFITS	44.00%
G & A	30.00%

HOW TO SET YOUR CONSULTING FEES

JAuer Consulting Enterprises

BURDENED COST ANALYSIS

GOVERNMENT CONTRACT PRICING PROPOSAL

CUSTOMER: Your Customer

DATE: 07/20/2009

DESCRIPTION: COMPARISON OF FULL TIME EMPLOYEE
VS CONSULTANT COSTS (BID AND PROPOSAL) PROJECT MGR POSITION

COST PROPOSAL ANALYSIS

EMPLOYEE BID & PROPOSAL

	<u>TOTAL AMOUNT</u>
CONSULTANT FEES (AS MATERIAL)(\$/HR * # PD HRS)	0.00
DIRECT MATERIAL	0.00
ALLOWANCE FOR MATERIAL ESCALATION (x% for Y yrs)	0.00
MATERIAL HANDLING	0.00
ENGINEERING LABOR (LBR Rate * # PD HRs)	88400.00
ENGINEERING LABOR-ASSOCIATED BENEFITS	38896.00
MANUFACTURING LABOR (NOT APPLICABLE)	0.00
MANUFACTURING LABOR-ASSOCIATED BENEFITS (N/A)	0.00
ENGINEERING OVERHEAD	152755.20
MANUFACTURING OVERHEAD (NOT APPLICABLE)	0.00
ODC	0.00
COST OF SALES	<u>280051.20</u>
GENERAL AND ADMINISTRATIVE	84015.36
TOTAL COST	<u>364066.56</u>
PROFIT	36406.66
FACILITIES CAPITAL COST OF MONEY	933.08
TOTAL PRICE	\$401,406.2957

HOW TO SET YOUR CONSULTING FEES

JAuer Consulting Enterprises

BURDENED COST ANALYSIS

GOVERNMENT CONTRACT PRICING PROPOSAL

CUSTOMER: Your Customer

DATE: 07/20/2009

DESCRIPTION: COMPARISON OF FULL TIME EMPLOYEE
VS CONSUL VS CONSULTANT COSTS (BID AND PROPOSAL)

COST PROPOSAL ANALYSIS -
CONSULTANT BID & PROPOSAL

	<u>TOTAL AMOUNT</u>
CONSULTANT FEES (AS MATERIAL)(\$/HR * # PD HRS)	127139.40
DIRECT MATERIAL	0.00
ALLOWANCE FOR MATERIAL ESCALATION (x% for Y yrs)	0.00
MATERIAL HANDLING	44498.79
ENGINEERING LABOR (LBR Rate * # PD HRs)	0.00
ENGINEERING LABOR-ASSOCIATED BENEFITS	0.00
MANUFACTURING LABOR (NOT APPLICABLE)	0.00
MANUFACTURING LABOR-ASSOCIATED BENEFITS (N/A)	0.00
ENGINEERING OVERHEAD	0.00
MANUFACTURING OVERHEAD (NOT APPLICABLE)	0.00
ODC	0.00
COST OF SALES	171638.19
GENERAL AND ADMINISTRATIVE	51491.46
TOTAL COST	223129.65
PROFIT	22312.96
FACILITIES CAPITAL COST OF MONEY	83.28
TOTAL PRICE	\$245,525.8880

HOW TO SET YOUR CONSULTING FEES

JAuer Consulting Enterprises

Fee Setting Reference

- What do other IEEE consultants in similar fields charge? How do consultants decide on a fee that is competitive and fair?
- To answer these questions the AICN conducts bi-annual national fee surveys of their members.
- Latest survey was published in 2007 with 2006 data
- Surveys must now be ordered (\$19.95 non-IEEE members, \$9.95 IEEE members) from the IEEE-USA web site
 - <http://www.ieeeusa.org/business/>
- Prior surveys were conducted in 1998 & 2002 and 2004.

HOW TO SET YOUR CONSULTING FEES

JAuer Consulting Enterprises

- The results profile typical self-employed & independent consultants, including their education, experience, business practices & specialty.
- Key data are presented, including a typical consultant's median earnings and hourly fee.
- 2004 Survey: More than 900 responses were received; for various reasons, 756 were used in their survey profile

HOW TO SET YOUR CONSULTING FEES

JAuer Consulting Enterprises

- If your fees are not competitive with the marketplace and commensurate with your experience, your immediate options are to:
 - Reduce your fringe benefits
 - Reduce / manage the costs of your overhead expenses
 - Acquire enough business to work more direct hours (equivalent to employee overtime)
 - Reduce your expectations of your "salary" (direct labor)
 - Each of these options carries an associated risk, which must be carefully weighed

HOW TO SET YOUR CONSULTING FEES

JAuer Consulting Enterprises

- What are our industry realities?
 - Consulting industry tends to be based on lifestyle entrepreneur with a cash cow business
 - Relatively slow, sustainable growth
 - Limited if any capital appreciation
 - Smaller liabilities than other venture formats
 - Therefore, application for substantial up-front financing for rapid projected growth goes against the industry pattern

HOW TO SET YOUR CONSULTING FEES

JAuer Consulting Enterprises

- You will be earning your money and setting your lifestyle based on
 - The success of your marketing to acquire new business
 - The quality and timeliness of the tasks you perform for your clients, setting your worth in their eyes
 - Your resulting ability to acquire follow-on business from existing clients (= your best source of business)
 - Your ability to set competitive fees based on managing and controlling your costs, expenses and risk
 - The amount of time, energy and dedication you are willing to devote to the venture

HOW TO SET YOUR CONSULTING FEES

JAuer Consulting Enterprises

- We have completed our Business Planning discussion on Setting your Consulting Fees. We have
 - Looked at the elements of cost in a business and how to incorporate them in setting your fees
 - Investigated how your fees need to address both your costs and your financial goals.
 - Looked at how to assess the reasonableness and effectiveness of a candidate fee structure from various perspectives, including the national IEEE bi-annual salary survey.
 - Looked at how to address the competitiveness of consulting fees against direct employee costs, as this issue frequently affects the consultant's ability to land a contract.
 - Used these perspectives to discuss possible options for adjusting the candidate fee structure to its "final" form and its incorporation into the financial planning section of your business plan, and your enterprise.

EFFECTIVE BUSINESS PLANNING PART II: HOW TO SET YOUR CONSULTING FEES

JAuer Consulting Enterprises

- This presentation will be available in .pdf form within 2 weeks at

<http://ewh.ieee.org/r4/chicago/cn>