

How Consultants Determine What to Charge

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This is probably the most common dilemma facing consultants, both new and experienced. This summary covers the basics. Please share with me your questions, observations, and other perspectives; it can be a work-in-progress. You can reach me at Laura@LauraRoberts.com.

The first step is to **determine a fair rate** for your work. One easy guideline is to take the hourly rate you'd earn at a comparable full time job and multiply it by 2 and by 3. These numbers are a good starting point: your rate should be someplace between the two. Why?

As a self-employed person, you have expenses you didn't have when you were employed by someone else. First off, you'll pay another 7.65% of what you earn for FICA (you and your employer used to each pay 7.65%), plus you have expenses of insurance (health, disability, business), non-billable time (vacations, holidays, sick leave), professional development (conferences, dues, publications) and office overhead (computer, telephone, desk, office supplies). The magnitude of these expenses vary with your practice: exhibit designers need more expensive equipment and liability insurance than collections managers. Second, you need to account for your availability. No one can be booked 40 hours a week and still be responsive to client needs. Think about a medical specialist who makes you wait four months for an appointment. If you were that busy, how many clients would you lose? Realistically, you can probably bill no more than an average of 30 hours a week.

Once you've got that range, you need to determine where you are in the range. Are you very senior and experienced or just starting out? Is your skill in high demand? Are your competitors at the high or low end? Freelance exhibition researchers may be competing with university-based academics who don't need to cover other expenses and can work for a relatively low rate. Other consultants may be competing with large firms that have lots of lower-priced, junior staff, bringing their rates down. You can ask friends and colleagues, including people who hire consultants, to determine what might be competitive and fair.

One colleague relates that she was frustrated by the lack of capacity and readiness for change among her smaller clients so she deliberately upped her hourly rate to communicate that she was senior and experienced and therefore an appropriate option for larger, more sophisticated clients. Of course, there was also a downside. With a more rarified client base, she found she was traveling more frequently and further from home.

Once you have a rate, you need to **estimate the cost of a job**, which is actually harder. At first, you will probably underestimate how long work will take. You won't be as efficient as you set up systems and learn how to manage your time. The best way to develop accurate estimates is to keep careful records of your work. But when you're just starting, you need to break down your work into the tasks involved and estimate some reliable multipliers. How long does it take to record all the information on an object and enter it in a database? How long does it take you to prepare for and then write the summary of a meeting? Conduct a telephone interview? Write a brochure or a label? Revise it? These numbers are the building blocks of your project budget.

Sometimes, the circumstances governing the contract will set an upper limit on the costs, such as the size of the grant or the granting agency's policies. If that's the case, you first need to determine if you can do the work requested for the amount allocated. If not, you can pass on the opportunity, figure out how to work more cheaply or efficiently, or try to limit the scope of work. Of course, if

others are willing to do all the work for the amount available, your more limited proposal won't be very attractive. But maybe no one can do the work for the budgeted figure.

Once you have the job, you need to **determine how you'll be paid**. There are three basic choices: time and materials, fixed fee, or retainer. **Time and materials** seems clear: you are paid for the time you work and reimbursed for all other costs. But you need to negotiate and specify how your time is recorded and billed. For example, some professions bill by the 10th of an hour for all time, including phone calls. Others have a 30 minute minimum. Some consultants have different standards for telephone consultation, work in the office, and on-site meetings. For clients close to my office, for example, I have no minimum on face to face meetings, but for those further away, I write into the agreement that time for on-site meetings will be billed at 1 or 2 or 4 hours minimum. Often, these contracts include a **not-to-exceed** dollar figure to limit the client's exposure. Materials may be billed at cost or "grossed up" 10% or 15% to cover your overhead in producing the materials. For a **fixed fee** contract, you determine the scope of work and agree on a fee that will cover the work. These are attractive to clients who are on a tight budget but require mutual trust that you will actually work the hours projected in the scope of work. In truth, most consultants work far more hours than projected but many clients don't believe that. **Retainers** are best for long term relationships that are relatively stable but not completely predictable. Consultants agree to be available for a specified number of hours or days a month at a given rate and are, in turn, guaranteed that payment. Unused time may be carried over into future months. Excess time is billed at the same rate although here too there may be a not-to-exceed limit. How is this different from being a part time employee? It is often murky and therefore you should be careful to understand the IRS regulations on independent contractors v. employees.

Finally, you have to set up a **payment schedule**. Some clients will only pay at the conclusion of the contract, which can be an unreasonable hardship if the project is long or if you will incur high expenses. Generally, if it's an hourly contract, time and materials are billed monthly, as are retainers. For a fixed fee, a percentage is paid up front, a percentage at the end, and the rest in a series of interim payments, tied to deliverables or other points on the schedule.

Frequently asked questions

- *Should I bill for travel time?* This is an individual decision. If much of your work is far from home and billing for travel time would make you uncompetitive, you may just have to absorb the cost of unproductive time. Some people bill one-half their normal rate. Others only bill if the traveling takes place during otherwise-billable hours. Or don't bill if they were able to work while traveling.
- *People ask me to work pro bono; what should I do?* Of course potential clients will ask! One consultant I know has two rates: free or full price. Others will do some pro bono work up front, to help the client get funding for example, with the understanding that paid work will follow. Like any charitable contribution, consider how and when you want to donate your time.
- *What about discounting my rate?* If you want to do it for a special client or must to get a job you really want, you certainly can cut your fees. But rather than talking about "discounting," phrase it as some pro bono work or a contribution. I now give clients a bill with the full rate spelled out, less my donated time. And I try to be clear that I want this recognized as a contribution to the organization, although few actually remember when the annual report is

written. (There's no tax break for donated time; it just makes me feel better and might generate some good will. Or it might encourage others to ask for a similar donation!)

- *What about cutting my fee for someplace that's giving me lots of work?* I definitely believe in reducing my hourly fee for a large, long term contract. It means I have a reliable source of revenue and can spend less time juggling multiple small projects.
- *Are there other times to cut my fee?* One colleague taught me the watchwords: fame, fortune or fun. A contract has to provide at least one of the three. So if there's no fame or fun, make sure there's fortune! If there is fame or fun – if the contract will help you build your reputation or be really exciting – you might consider reducing your fee if necessary. But no one says a job can't provide all three!
- *Are there regional differences?* I don't think so, certainly not throughout most of New England. Like salaries, consulting fees vary more with the operating budget of the client than where they are. So yes, in smaller towns and smaller institutions in northern New England rates will be lower, but no lower than in the small museums of southern New England.
- *I've developed some good systems which mean I work efficiently; do I pass along the savings to the client?* You shouldn't be penalized because you're an efficient worker, but you may find that you are bidding for fewer hours of work. That should make you more competitive but also reduce your income. To avoid that, offer options to expand the contract in ways that are valuable to the client. Can you take digital pictures of all the items you inventory? Or train the client to use the database template you've developed? Or increase the pages of the newsletter from 8 to 12?
- *I work slowly (and carefully); how do I account for that?* If you are so slow that your bids would be uncompetitive, you probably need to either lower your hourly rate or mentally allocate more time than you bid. Both have potential downsides. You don't want to come off as the cut-rate option, particularly with clients used to paying higher fees. Since we have few indicators of quality in the work we do, our going rate is, for better or worse, one indicator of our worth. But if you mentally tell yourself, "I'm proposing this will take 40 hours, but I know it will take 50," the client may have unrealistic expectations of turn-around time or how quickly the project will be completed. You might try a mix of the two: "this estimate is for 40 hours at \$X, but I suspect it will actually take more like 50. I don't expect you to pay for my obsessive perfectionism, but it may mean the project takes a bit longer, which is reflected in the projected completion date. I'm sure you'll appreciate the difference in the final product." Without "obsessive perfectionism," of course.
- *I think I'm charging too little; how do I raise my rates?* Unless it's in your contract or letter of agreement, you can't change your rate in the middle of a project. For new projects with an old or continuing client, you can ease the transition, telling them what your new rates are, but that you'll honor your old rate with them for a fixed time period, between 3 and 6 months. If I've submitted a proposal to a potential client within the last 3 months, I'd honor the rate in the proposal; longer than that, I'd just say that rates are now higher.
- *How do I find out how much the client has to spend?* The easiest way is to ask: "do you have a budget for this project?" Or "can you give me a ballpark sense of what you were planning to spend?" If neither of those works, you can be more aggressive: "from the RFP, this seems like it might be a \$X project, does that seem out of line to you?" I have had potential clients respond, "actually, we were thinking more like 2X!" and I have to be ready with how I'd

magically grow the engagement. If there's no RFP, and I'm talking to a potential client in an exploratory conversation, I throw out numbers and wait for a reaction. "Well, I could do a one day retreat, which generally runs around \$X, right up through a full plan, which can run from \$Y to \$Z; what's your budget like?" If the answer is less than \$X, I suggest other resources for getting the work done.