

Costing and pricing consulting services

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The right price

Running an effective and efficient business requires that both you and your clients must be convinced that the price of the service and the financial terms of the contract are correct.

A precise definition of services for which your clients can be charged is essential to costing and pricing your consulting service.

The prevailing practice is to charge clients directly for all services provided under a specific client contract, with the exception of services seen as marketing tools, for example, management services, etc. However, the market is likely to be distorted in situations where universities are state-controlled nationally or regionally. Governments expect services at little or no cost arguing that they are already paying for the university and cannot pay for services separately. Institutions in small states are well aware of this context and have to make judgements on what is possible on a case by case basis. Institutions which have set up companies are in a much stronger position to determine market rates with government.

Varying fees

Your fee structure is generally governed by the market-place, you should, therefore, consider adopting a range of fee rates. The minimum rate could be fixed by break-even point analysis and an estimate of your market value in sectors where market rates for consultancy are low. The maximum rate could be fixed by reference to the top market rate for your skills. Consultants sometimes charge less for long assignments where the work is guaranteed.

Fees charged by competitors

You should find out how your competitors calculate fees, what pricing policy they follow and what clients think about their fees. It is equally useful to find out about the fees charged by other colleagues in the profession who are not competitors.

Fees for different market segments

Different segments of your market may require different fees. Some consultants

charge small, non-profit making organisations a lower fee than big multi-national or national business operators.

Promotional fees

Reduced fees are sometimes used in launching a new type of service in order to stimulate potential client interest. Fees can be increased to the normal rate at the end of the promotional campaign.

Subsidised fees

Educational institutions may be required to charge lower fees to some of their clients. This may be possible because of government subsidy whose purpose is to promote consulting and make it available to clients who would otherwise be discouraged by higher fees.

Fees determined by clients

Some government or other agencies may have established maximum levels and are unable to go beyond these.

Congruency of fees to your image

The level of fees charged and fee-setting technique used are both elements of your professional image. Thus, a consultant who positions him/herself as a high-level adviser to managers facing important strategic decisions would charge more than his/her colleague involved in routine operations.

Principal fee-setting methods

There are several methods of fee-setting which reflect differences between jobs and the various views on appropriate ways of remunerating professional services. The prevailing practice is to charge clients in one of the following four ways.

Fee per unit of time

This is the most generally preferred method. You charge a fee for the time spent working with your client.

Flat fee (lump sum)

In this case you are paid for completing a precisely defined project or job. This has several advantages for your client who knows exactly how much the whole job will cost him/her. You must make sure that the job does not cost your client more. This form of fee setting is not to be used if completion of the job depends more on your client than on your consultancy staff.

Fee contingent on results

The so-called 'contingency fees' are paid when specific results are achieved and the size of the fee depends on the size of the results achieved. In theory, this could be the ideal way of remunerating consultants. You are not paid for writing reports but for bottom-line results. In practice, there are problems with such a method:

- You may be tempted to focus on short-term measures producing immediate savings.
- It is often difficult to measure the real results; your client's and your assessment of the results may be different.
- Sometimes the projected results may not be achieved through the fault of your client and you can do nothing about it.

Retainer fee

In this case your fees are calculated on the basis of the number of days worked in a given period. A retainer thus ensures a steady income and it is therefore usual to apply a reduced daily rate.

Other considerations

Daily or hourly rate?

It is quite common to quote a daily rate, although there may be situations (for example, when you are giving intermittent services or advice or regularly working long hours) where an hourly rate is more appropriate. If you assume a seven-hour working day, excluding lunch, your hourly rate is one-seventh of your daily rate. You may want to round this up to take account of lack of continuity.

A daily rate suggests that if you were working full-time for your client, you would not charge extra if you worked longer than your normal hours. On a daily rate, you would be expected to work client hours. In fact, you might find yourself working late with your client's executives. You should take this into account when setting your daily rate and charge accordingly. Even when visiting your client for a day's work away from your base, you would be expected to travel (mainly) in your own time and to arrive at your client's office or factory not much later than his/her normal starting time.

Travelling time

You should always state in your contract that you will charge for travelling time during the assignment. This is quite reasonable if the job involves travelling away from your base.

Expenses

Your contract should state that expenses necessarily incurred during the assignment will be charged at cost. These can include travelling, over-night accommodation, subsistence, long-distance telephone calls, printing, duplicating, computing, the preparation of manuals and training material and large-scale typing.

For travel expenses (fares or mileage) you should charge what your client would expect to allow for his/her equivalent executives.

Your client may request an estimate of your expenses in advance. If possible, avoid giving too firm an estimate. Circumstances might arise in which extra expenses are necessarily incurred and you want to be able to recover them. Your client may also ask for evidence that your expenses have been incurred; you should, therefore, keep a full record and save receipts.

Estimating time

One of the most critical, but also most tricky, jobs you have to do is to estimate the time required to complete the assignment. This is necessary for the preparation of a total cost estimate.

Time estimates should be prepared analytically; that is, the time taken for each activity in each stage of the assignment should be calculated, and the parts added up to produce the total time. An estimate produced in this way provides a good base for monitoring the progress of the assignment. You should regularly compare the actual times with the budget, so that you can take action as necessary to catch up with lost time.

It is advisable to add 10 per cent or so to your first estimate as a contingency, more if you are on unfamiliar ground.

Analytical estimating along the lines described above is the best technique but there will always be plenty of scope for variations. One of the factors you may need to take into account is how much your client will do for him/herself.