

Pricing Your Service as an Independent Consultant

Adapted from Consulting for Success

Consider this calculation for a one-person consulting firm in the first year of operation:

1. Working with a desired \$60,000 gross income yearly and the following assumptions:

- ✓ there are 2,080 hours available for consulting (40 hours x 52 weeks)
- ✓ no other expenses are considered at this point

Fee calculation: The basic hourly rate is \$28.85 (\$60,000 divided by 2,080 billable hours)

2. Other factors to be considered in the calculation:

- ✓ four weeks vacation per year, including holidays (4 x 40 = 160 hours)
- ✓ assume 22 days per year for office admin, such as billing (8 x 22 = 176 hours)
- ✓ the billable hours are therefore reduced to 2,080 - 160 - 176 = 1,824

Fee calculation: The hourly rate must increase to \$32.39 (\$60,000 divided by 1,824 billable hours) **to reach the desired \$60,000.**

3. If the business is to grow, the consultant will need to spend time on marketing:

25% of the available hours are devoted to business development (25% x 1,824 = 456 hours). This, again, limits the consulting time available to 1,824 - 456 = 1,368 billable hours.

Fee calculation: The hourly rate increases again, to \$43.86 (\$60,000 divided by 1,368 hours)

4. Insurance and pension expenses:

Health insurance:	\$ 2,400
life insurance:	2,000
disability insurance:	1,500
FICA:	5,500
liability insurance:	500
car insurance:	500
Total	\$12,400 per year

For the consultant to receive net income of \$60,000, his gross income must be \$60,000 + \$12,400 = \$72,400.

Fee calculation: The hourly billing rate increases to \$59.92 (\$72,400 divided by 1,368 hours)

5. All other business expenses and overhead per year:

Supplies:	\$ 500
Entertainment:	500
Printing of cards, stationery, etc.:	1,500
Rent (\$600):	7,200
Utilities:	1,000
Dues to professional associations:	1,200
Travel to professional meetings:	1,000
Training:	500
Telephone equipment and service:	1,500
Postage:	500
Office equipment - copier, fax, computer:	8,000
Car repairs and gas:	2,500
Parking:	200
Accountant:	500
<u>Legal fees:</u>	<u>500</u>

Total yearly business and overhead: \$29,100

Fee calculation: The hourly billing rate must increase to \$74.39 ($\$72,400 + \$29,000 = \$101,500$, divided by 1,363 hours)

Rarely is a consultant able to sell or work every available billable hour, in this case 1,368. This is due to scheduling complexity - you aren't available when the client needs you, or you are available when clients do not need you. Or all the billable time may be sold. Unsold hours are known as downtime. It can be used for something else, especially marketing. But unfortunately it is not billable time.

A realistic allowance for downtime is 25% of billable hours. $1,368 \times 75\% = 1,026$ billable hours. The yearly billable hours are now down from the original 2,030 to 1,026 - a 50% reduction! This translates to 128 days of billable work, if your orientation is to days rather than hours.

Final fee calculation: The hourly rate becomes \$99.00 (\$101,500 divided by 1,026 billable hours). A \$792 daily rate ($\99×8 hours) is required to achieve the financial goal of \$60,000 gross income yearly.

NOW YOU TRY IT

Calculate your own fees. It will give you the ability to answer the question, "What should I charge for my fees?" Better yet, it will give you the ability to explain to prospective clients why you charge such outrageous fees! Quite the contrary. As you can see from the example above, consultants - experts in their field really don't charge that much when you consider their expenses and the income a consultant merits.