SUCCESSFUL INDEPENDENT CONSULTING

RELATIONSHIPS THAT FOCUS ON MUTUAL BENEFIT

Author of the Modern Management Made Easy Series

JOHANNA ROTHMAN

Successful Independent Consulting

Relationships That Focus on Mutual Benefit

Johanna Rothman

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Practical ink

7. Set Reasonable Fees

Many consultants worry that their fees are too high. However, successful independent consultants worry that their fees are too low and do not reflect the value of the work.

However, both the too-high fee and too-low fee can prevent consulting success. So, first, let's start by considering the value of money. For me, money offers freedom.

7.1 Money Creates Freedom

I don't use money to "keep score" against my fellow consultants. I don't know their fees, and I don't care.

Money offers me the freedom to plan for the present and the future.

When consultants make enough money, they can choose:

- Which engagements to take. With enough money, consultants can avoid challenging clients or boring engagements to pay the mortgage.
- When and which learning opportunities to take.
- When and how many vacations to take.

Money is a tool. I am worth—at least—what I charge for fees. I use money as a tool to create a better life, not just for me but for my family, too.

Avoid setting your fees too low or too high. If your fee is too low, you can't make enough money. If your fees are too high, you might have fewer clients. (That extra in-office time might be what you want.) Instead, learn to value your time and what that time is worth to the client.

Let's start with how you think about the value of your time.

7.2 What's Your Time Worth to You?

Successful independent consultants cannot work every day of every week of every year. Start thinking about how much work you want in a given year.

When I started my business, I wanted two weeks of actual vacation and two weeks of school holidays. In addition, I set aside two weeks to invest in my learning, for a total of six weeks off.

Of the 52 weeks in a year, I was now down to 46 possible weeks of work.

Could I fill those 46 weeks with client work? No, because that's not the kind of practice I wanted. I knew I would work for clients fewer than 46 weeks a year. How much fewer? I conducted informational interviews with local consultants about how they ran their companies.

At that time, Geoff Day, the owner of The Consulting Exchange, helped local companies find consultants. While his firm wasn't right for me, he asked this valuable question:

> "What products will you create so you don't have to always exchange time for money?"

Given my work, I knew I needed to invest time in creating my intellectual property in various forms: talks, workshops, articles, books, and more. That would help me create consistent content marketing that would attract potential clients. How much time did I need to spend on intellectual property development each week?

I had no idea. So I reviewed what my different kinds of work weeks looked like:

- Client-only weeks, where I expect to work with a client all week. Even with my preparation, I knew I would not market myself during those weeks.
- A mix of coaching or consulting sessions with clients. I still have time for content marketing those weeks.
- Conference-only weeks still require most of my time, but I can use both content (presentations) and active marketing (networking) during those weeks.
- Vacation weeks, when I don't work.
- Learning weeks, where I take workshops or learn specific areas to increase my value to my clients.
- In-office weeks mean I spend the entire week creating intellectual property and using content marketing to attract clients.

You might not choose to participate in conferences. However, every successful consultant I know takes both vacation and learning time. No one can work all the time and be effective for clients.

Even when I took interim management contract work at the start of my consulting business, I kept a day a week for my marketing. That day allowed me to continue to attract potential clients. Too many consultants fall into the trap of working full-time for one client and letting their marketing slide. But content marketing attracts clients, so successful consultants create continual marketing activities.

This thinking helped me decide how many "weeks" of work I could do in a year. I assumed I could have clients pay me an average of 20 hours for those 46 weeks a year—which translates to 21 weeks a year. So I chose to use the 21 weeks as the middle of a range of work.

Now, based on working between 18-24 weeks a year, what did I want to charge? That was my weekly starting point. What mix of products and services would get me to that amount of money? That's how I set my initial "daily" rate. (I still didn't charge by the hour, but that rate helped me think about how to create project-based rates.)

You might think differently about your time. However, I don't know of a successful consultant who creates a sustainable revenue stream without thinking about their time and what their time is worth. Your time creates the "floor," the least amount of money you will charge for a proposal. Add the client benefits to that floor.

If you see consultants busy all the time and barely making ends meet, their fees are too low.

Consider how you think about the value of your experience and time so you can set reasonable fees and explain your worth to your clients.

Let's discuss how you might set your fees.

7.3 Set Your Fee

I know of three ways to value your time for your clients:

- Hourly rate or time and materials.
- Project-based rates.
- Value-based fees

I don't recommend hourly rates. However, your clients might think of hourly rates first.

7.3.1 Hourly Rates

Companies are familiar with hourly rates. That's how they pay employees and contractors—by the hour. That pay-for-time thinking often colors how companies think about what they pay consultants.

Worse, the large consulting firms charge by the hour. These consulting firms do not charge by the project or by value—they charge their clients for time.

However, charging for time creates a problematic dynamic and can undermine the relationship you built with the client. The consultant wants more hours to make more money. The client wants fewer hours to spend less money.

But hourly fees ignore the idea of the client paying for outcomes, which will improve the client's work. When everyone's talking about hours, no one's talking about results—the value you offer.

In the past, I offered hourly-based coaching for people as an experiment to try me out. Then, if they liked me, we could create a coaching project with outcomes.

I advise against any charging by the hour—for anything. Instead, consider project-based or product-based fees.

7.3.2 Project-Based Fee

Consider calling each engagement a project in your proposals. Then, each project has specific start and end dates based on this client's desired outcomes. That allows you to create projects that work for the client and you.

For example, here's how to create a project for a custom workshop. Even though you already know the outcomes the client wants, you might want to iterate on the syllabus with the client.

You can then create a proposal that says, "A customized workshop project, consisting of:

- Up to three calls in advance with you to clarify the customization and learning objectives.
- Three workshop days.

- Remote debrief three business days after the project ends. We'll book the debrief when we book the workshop.

Now the client knows they're not just paying you for the three days of the workshop. You offer much more value.

Even if you've delivered this workshop before, every customization takes time. Instead of trying to estimate, I right-size the project pieces. For example, I chunk each part of the syllabus into 60-90 minute chunks. I have a good idea of how long it takes me to generate that content.

You can do the same.

This way, you don't need to charge the client for the preparation. However, you can build your preparation time into the value the client will receive. Clients who want customization expect to pay a little more.

Now, you know the workshop duration, the number of chunks in the syllabus, and the value your customizations offer the client.

But the real benefit of packaging an engagement as a project lies in any "extra" work I realize I need. During a recent assessment, I asked to speak with two other people—who offered new and different data. When I work as an executive coach or trusted advisor, I can offer another call after the client encounters a particularly challenging situation.

Because I use projects, I don't add extra fees if I realize I need more scope to deliver the outcomes. I can create fair project-based fees when I clarify the boundaries and client outcomes in the discovery call.

Clients don't pay you for your time—they pay you for outcomes. For example, I don't bill for preparation time, coordinating with various people in the organization, or travel time. If you worry about time sinks with the client, specify the client's and your responsibilities in the proposal.

Should you charge for travel? For too long, I carefully tracked my actual travel expenses. I no longer do. I add a reasonable amount for travel into my overall fee. If my client says they need my actual expenses, I include an administration fee, so it's worth it for me to track my actual costs.

As a guideline, if your travel fees dwarf your engagement fees, your fees are too low.

Clients do not choose consultants based on their travel expenses.

The best kind of fees for both the client and the consultant are value-based fees.

7.3.3 Value-Based Fees

You have another choice: value-based fees.

Pioneered initially by Alan Weiss in *Million Dollar Consulting: The Professional's Guide to Growing a Practice* WEI16, consultants create value-based fees when they decide on the value of the consulting to the *client* and quote a fee that's a percentage of that client value.

I discussed tangible and intangible benefits in Start with This Proposal Template.

Weiss says there are three pieces of value-based fee calculation:

1. Tangible value on an annual basis. To that, add
2. Intangible value times the emotional impact. To that, add
3. Peripheral value from the benefits that help the client avoid future problems, such as layoffs or renegotiating contracts. While these problems appear to be about money, they often involve morale.

All three of these benefits, added together, create value for the client.

Let’s imagine the difference between a project-based fee and a value-based fee for a workshop.

The client, Jim, explained they thought they missed at least three million dollars in potential revenue because of late projects. These late projects had at least two causes: how the projects worked and how senior leadership made decisions. In the discovery call, Jim admitted that he worried they also missed another million in recurring service revenue.

Jim estimated the tangible benefits on an annual basis: four million dollars.

Next, the intangible benefits.

On the discovery call, Jim worried that, as a leadership team, they would “never” figure out how to make better decisions. If they couldn’t learn what and how to do this work, this role was not worth his time. He didn’t want to leave, but he couldn’t stay.

That meant that the ineffectiveness of the six-person leadership team hurt the organization and tempted Jim to consider leaving. The entire leadership team was at risk. The value of intangible benefits includes the leadership team salaries plus the cost of hiring a new manager to replace Jim.

While you can search online for “typical” leadership salaries, consider using a conservative estimate. Here, I’m using an average annual salary of $200,000. The cost to replace a manager ranges from one to three times that manager’s salary. So a conservative estimate to replace an entire senior leadership team would be six (people) times the $200,000, $1.2 Million.

Finally, the peripheral benefits.

Jim realized that the organization’s “randomness” didn’t just cost them time and money as per the tangible benefits. The company was losing its most valuable technical people. The most recent three people who’d quit each said, “I can’t work in a place where management can’t decide which work is most important.”