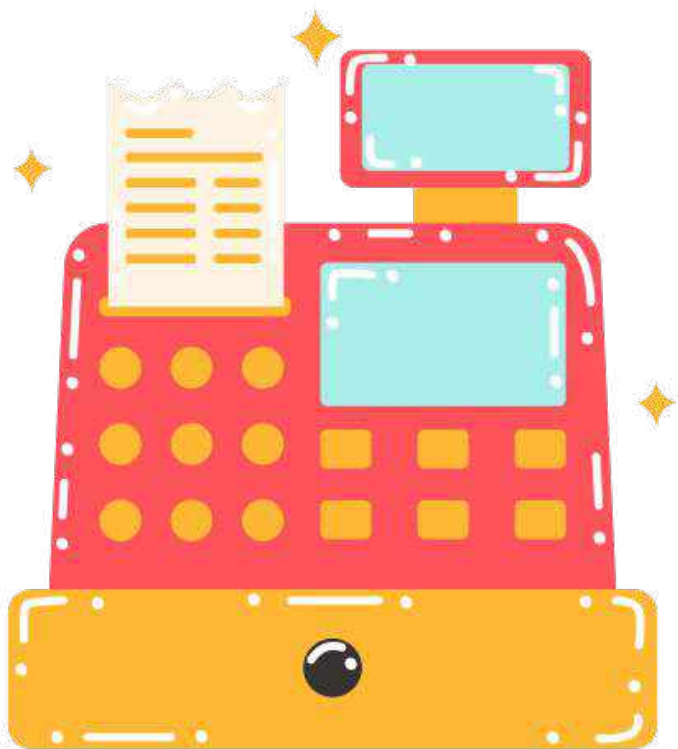


HOW MUCH SHOULD I CHARGE?

A guide to setting your consulting fees like a seasoned pro!



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Introduction

How much should I charge?

350 US dollars per day as an entry-level consultant. How did I get this figure?

I joined Deloitte as an analyst after working in corporate HR for six years. I had zero consulting skills. So that was the firm's charge-out rate for my level, not my salary.

Deloitte can negotiate fees in their favour.

As an independent consultant, your rates will be different from theirs.

So how do you come up with your fees?

In the following chapters, we'll answer that question by discussing:

- your consulting skill level;
- the consulting roles;
- your survival budget;
- three pricing strategies for you;
- and finally, plan your project budget in 3 simple steps.

By the end of this book, you should have a starting point for developing your consulting rate.

Now, let's begin.

YOUR CONSULTING EXPERTISE

You gain stronger consulting skills the more consulting projects you work on.

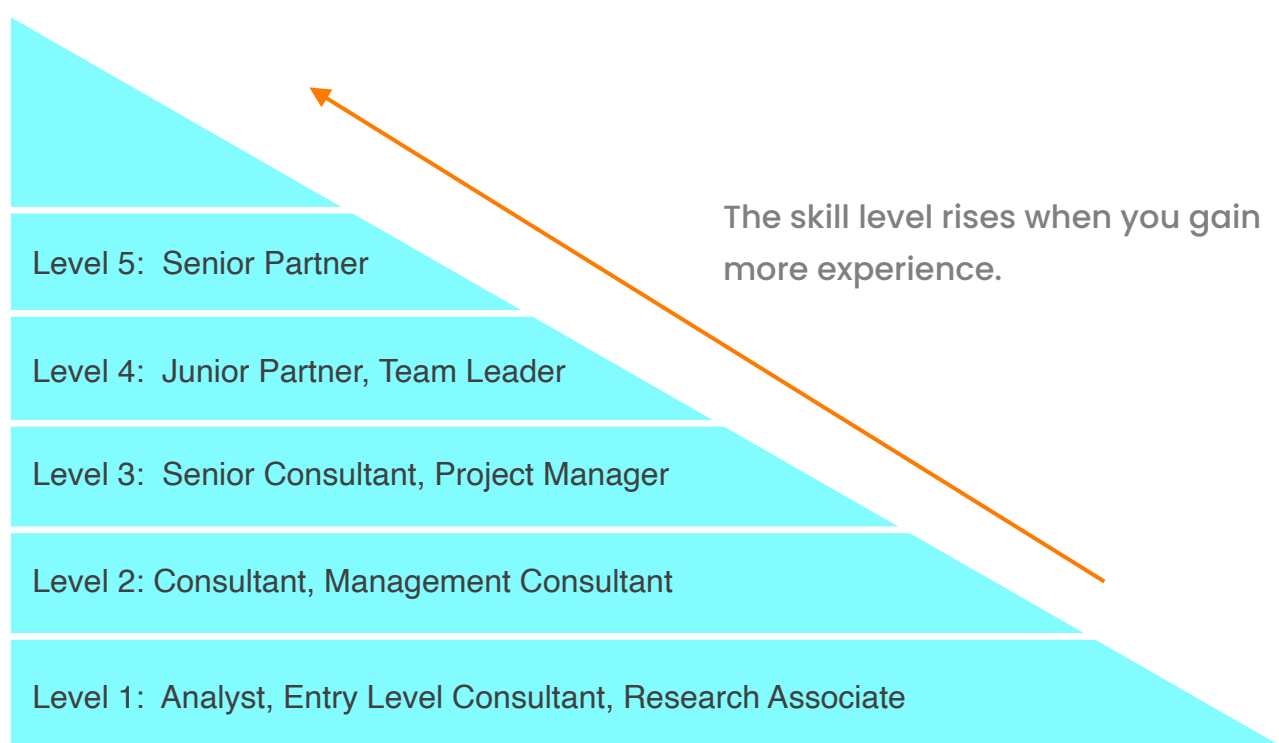
Your technical expertise aside, you need to build consulting skills that will help you complete a client project successfully.

I joined Deloitte knowing Human Resources, not consulting.

Therefore, I was tasked with learning the basics of the consulting process through my work and training. It took around 12 months to rise to the level of a consultant.

A client does not only rely on your technical expertise. They expect you to know how to handle the project like a consultant. Building these skills will improve your chances of charging more for the next project.

Below is a breakdown of the different consulting skill levels



THE CONSULTING SKILL LEVELS

First level

The first level is the analyst.

Also referred to as junior consultant, trainee, research associate, and entry-level consultant. You might choose to work with a more experienced consultant on projects.

You should learn the basics of consulting in 6 - 12 months. Try to complete as many projects as possible to level up your skills.

Second level

It's the operating consultant, management consultant or the consultant.

Here, you are the front-line professional. At this level, you do most of the consulting work on the client's project.

As the consultant, you need one of the three, a:

- field of competence,
- management function, or
- special technique.

You take on different projects in varying situations that you can do solo or as a team member. This level takes 3-5 years of experience before moving to the next level.

Third level

It is for the supervising consultant, senior consultant, team leader project manager and senior associate.

The consultants at this level lead the project team.

You require expertise in general management and several functional areas. You also supervise the operating consultants.

Fourth level

As a junior partner, you are the principal, manager or survey consultant.

At this level, you carry out marketing and management functions, spending most of your time on promotional work.

You visit clients, do management surveys, and plan and negotiate for new projects.

Fifth level

This is the final level for the top executive.

You are the senior partner, director, partner, managing partner, vice president, or president.

The responsibilities include strategy and policy direction. You scale, market to high-level clients, and take charge of complex assignments.

Your level will be determined by your consulting experience. That means the more projects you do the higher your level goes.

Below we've collected and converted [the monthly income of consultants](#) as a starting point to how much you can charge.

Level one - Analyst: \$35/per day

Level two - Consultant: \$91/per day

Level three - Senior consultant: \$158/per day

Level four - Manager: \$222/per day

Level five - Partner: \$1,200/per day

Next, we find out the consulting role you would take on for a project.

THE CONSULTING ROLES

We have three consulting roles.

Coined from the book 'Flawless Consulting', these are:

- The expert consultant
- Pair of hands consultant
- Collaborative consultant

The Expert Consultant

You are the expert consultant when your client abdicates control to you. A good example is the strategy consultant.

As an expert, you:

- work on a day rate;
- have autonomy over the direction of the project;
- are expected to deliver on the strength of your authority over the problem;
- work alone with the client's support.

In Kenya, most independent consultants take on this role.

The Pair of Hands Consultant

This role is passive and transactional. Therefore, control is with your client. Your job is to defer to their judgment and wishes. You agree to support the process of implementing a project.

The upsides are decision-making is quick, as is implementation. You know what to do, and do it to avoid project conflict.

As a result:

- your fees are almost always day or per hour rate, which can include performance bonuses;
- you become a contractor with a bit more flexibility;
- you work on long-term projects;
- you might support a specific process like marketing or project branding.

The downside is, you:

- assume the client understands their situation and the solution. When the client is wrong, the mistakes may impact your credibility and reputation;
- under-utilize your problem-solving skills, which in turn affects your value;
- can cause the client to spend more time and money to correct a slipup.

The Collaborative Consultant

The client works hand in hand with you in the project. Responsibility for the project is not up to you or the client. It is both of you.

Together, you design the data collection tools, collect the data, analyze the data, and generate possible solutions. Later, the client [takes responsibility for deciding the solution](#) they should execute.

Because you lack control or a full view of the project:

- you charge a lower rate;
- though your client still expects a high-performance-based solution;
- you might need to recruit other consultants if part of the work is not in your expert range.

Determining your role in the project may not be up to your skillset but rather on the client and the project's needs.

Knowing the role you will take in the project can help you come up with a plan to negotiate your rates.

In the next chapter, we will look at your survival budget.

YOUR SURVIVAL BUDGET

Years back, an associate of mine gave up on independent consulting after one project.

He'd hit the jackpot with his first client, the government.

He signed the contract, rented an office, bought furniture and set up his firm with the initial deposit after their proposal was approved.

But that was the only payment he got. Despite finishing his part on time, no other payment came through.

Months later, facing an overwhelming mountain of increasing bills, he closed shop and returned to employment.

In consulting, you need a survival budget.

Because sometimes, it could take months or even years to get that second or third payment. Even if you finish the project on time.

Look into your financials to make informed decisions and allocate your resources to the services your potential client wants.

There are two ways you can forecast finances through:

- Profit and Loss, and
- Cash Flow.

So let's do some math.

The Profit and Loss Forecast

Its purpose is to calculate the profitability of selling your consulting services over a given period.

It's an essential part of your survival plan because it shows you what you need to stay afloat.

If you use an automated accounting system like Quickbooks, it can generate a P&L forecast once you enter your monthly sales and expense estimates.

If you don't have access to an accounting system, below we've put a step-by-step process for coming up with your own Profit and Loss Forecast.

Step 1: Estimate your sales

How much will you earn in the next 6 - 12 months? This should be an estimate if you've just started consulting. Do your market research to find out. Take into note any fluctuations and any other known variables that can affect your sales.

Step 2: Estimate your operational costs

These are the operating costs that enable you to deliver your services to clients. They can go up or down depending on your sales for that month. Your operational costs can include supplies, promotional materials and sometimes labour if you depend on hiring contractors to get the project done.

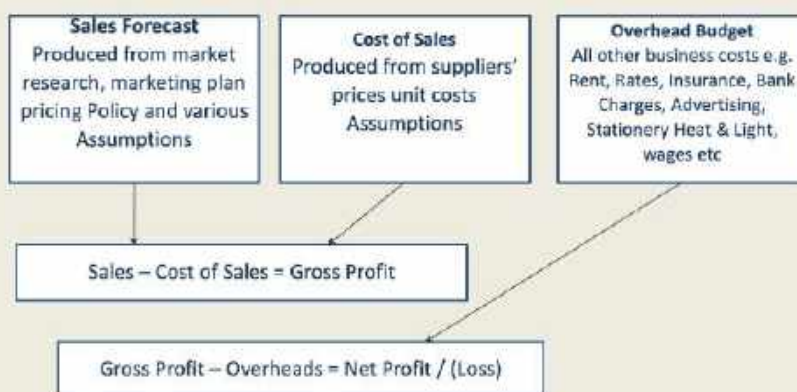
Step 3: Estimate your gross profit

You get this by subtracting the operational costs from your estimated monthly earnings. Any overheads you incur will be included in the expenses. That's the next step.

Step 4: Calculate your net profit

This is the gross profit minus the expenses. So any money left over from your gross profits minus overhead costs and other monthly fixed costs. These can be your rent, employee salaries (incl. tax and benefits), utilities, advertising, accounting, insurance, and telephone for example.

Preparing the P&L Forecast



Example of a simple P&L Forecast

Sales Turnover	Ksh 250,000
Less Project Operating Costs	Ksh 88,200
Gross Profit	Ksh 161,800
Less Expenses (Fixed Costs)	Ksh 45,790
Net Profit / (Loss)	Ksh 116,010

Gross Profit Margin

This is the difference between the cost of providing your service vs your actual sale price. This process helps you to know how profitable your services are.

You get your GPM by dividing the average estimated monthly gross profit by estimated monthly sales.

Gross Profit Margin Calculation:

$$\frac{\text{Gross Profit}}{\text{Sales}} \times 100 = X\%$$

From the example above we can calculate the GPM as:

$$\frac{161,800}{250,000} \times 100 = 64.72\%$$

Now let's move to the Cash Flow.

Cash Flow Forecast

Businesses go bust because they run out of cash to pay their expenses. Just like the example of my friend.

A cash flow forecast helps to estimate the Cash required to run your consulting business.

It's a document that shows when **money in** is anticipated and **money out** will be made.

First, you need to make a few assumptions.

- When will our clients (debtors) pay us?
- When will we pay our suppliers (creditors)?
- What are the 'timed' expenses? Like rent, utilities, telephone including other operational costs incurred in the month
- All other money coming in and going out (loan repayments, VAT, capital)

Example of a simple Cash Flow:

	June (KES)	July (KES)	August (KES)
Cash Carried Forward (C/F)		570,000	702,000
Cash from Operations			
Cash Sales	500,000	350,000	125,000
Subtotal (Cash from Operations)	500,000	350,000	125,000
New investment received	250,000	0	0
Current borrowing	0	0	50,500
Subtotal Cash Received	750,000	920,000	877,500
Expenditures from Operations			
Cash spending	75,000	130,000	250,000
Utilities paid	25,000	32,000	32,000
Subtotal spent on operations	100,000	162,000	282,000
Additional Cash Spending			
Sales tax, VAT	80,000	56,000	20,000
Repayment on borrowing	0	0	23,500
Liabilities repayment	0	0	0
Subtotal Cash Spent	80,000	56,000	43,500
Cash Balance	570,000	702,000	552,000

**Note: There are far more cash expenses you might incur in consulting including income and insurance.*

Use the P&L and Cash Flow forecast to make informed financial decisions. The records will also prevent you from dipping into the cash balance too often for personal reasons.

You can include an 'income' to cover the basics to live on each month. This way you'll have some balance to continue operating your consulting services.

To follow up, let's look at three different pricing strategies.

THE PRICING STRATEGY

Pricing your service is tricky.

You have to balance price for the years of technical skills with the consulting skills you're developing. You can't give a one-price-fits-all.

Before you come up with a pricing strategy you need to consider three things: [market options, your offer and your value](#).

Market Options

In mature markets the competition is heavy. Growth is at its peak so there's little room to manoeuvre when setting your price. That's why it's more realistic to increase your rates bit by bit.

In emerging or developing markets there is less competition. There's room for innovation and growth. So your rates can increase by creating new opportunities for the client to grow.

Offer

Your offer is the value you'll give to the intended client. In a market filled with sameness, you need to find a way to differentiate yourself to stand out. This can be your advantage over others when you negotiate with a client.

Value

Simply, it's the benefit your intended client will receive from your consulting service. Value is determined by the client. Higher value means better rates.

Keep these in mind as we look at the pricing strategies.

Penetration Pricing

You set your pricing to Penetrate the Market.

You offer an initial low price to secure your client list. Once you have a foothold in the market, incrementally raise your price.

Convincing clients of your value over skills might not work in this approach because you are new to that field or lack consulting experience. Be open to negotiating your services to fit the client's budget.

Use this strategy when you are new to the market or are in a competitive market.

Value Pricing

This approach will depend on whether the client believes they will benefit from your service.

You need to make clear the benefits your client will receive from working with you.

To do this find ways to differentiate your:

- solutions from your competitors;
- skills from other consultants;
- niche to find your clients.

Big firms do this through:

- a lucrative working relationship through their networks;
- more hands-on support in managing the projects;
- innovation with their solutions through extensive research.

Use this strategy if you can deliver a value-led approach to your potential client.

Premium Pricing

When you have an offer none of your competitors can give try this strategy.

Leverage any of your technical skills or special certifications that are in high demand, even if you lack experience in consulting.

But remember, you must be able to provide evidence of your authority and past success of your performance.

Your pricing strategy will change as you grow, and change your services and your market. You need to review it whenever these changes arise.

Next, we move on to setting your consulting fees in the next chapter.

SET YOUR CONSULTING FEES

You can charge your consulting fees by:

- **an hourly** rate;
- **a daily** rate;
- per **project** fees;
- or a monthly **retainer**.

Let's examine each of these.

Hourly Rate

The hourly rate is often used by seasoned consultants.

They're better experienced in estimating how long the project will take. Charging hourly for a new consultant can backfire if you lack project management experience.

Often projects can and do run over the agreed timeline. And you'll end up working extra hours without any compensation for that time.

So how do you come up with an hourly rate?

One way to set your fees is by calculating the hourly wage plus benefits that you would earn when employed. Then double or triple it.

If you choose this approach, tripling your hourly wage is your best move.

Thanks to the rule of thirds, where:

- one third goes to your fee;
- one-third to expenses and;
- one-third to administration, low utilization and bad debt.

The math is easy.

For example:

Let's say you make 60,000 US dollars a year plus benefits, and four weeks of paid leave in your professional job.

$$(\$60,000 \text{ salary} + \$15,000 \text{ benefits}) / (48 \text{ weeks} * 40 \text{ hours}) = \$75,000 / 1920 = \$39.06$$

If you triple this, your consulting fee should be about \$120 an hour. (Or $\$39.06 \times 3 = \117.18 , rounded to \$120 per hour.)

Round up to the nearest \$5 or \$10 multiple because a \$78/hr or \$117 fee looks odd.

Day rate

To set a daily rate, multiply the hours you work in a day by your hourly rate.

7 hours times \$120 hourly rate = \$840 per day.

Project Rate

For the project rate, you estimate the hours you expect to spend, then multiply by the hourly rate.

Some consultants set the price on the value the client derives from their advice.

An old joke about physicist Niels Bohr illustrates this principle. A company machine breaks down, and the company owner, an old-school friend of Niels Bohr, calls in the physicist to fix it.

Bohr examines the machine. He draws an X on the side and says, "Hit it right here with a hammer."

The company mechanic hits the machine with a hammer. It springs into action. The company owner thanks Niels and sends him on his way.

A few days later, the owner received an invoice from Bohr for \$10,000. Shocked, the owner phones Bohr,

“Niels! What’s this \$10,000 invoice? You were only here for 10 minutes! Send me a detailed invoice.”

Bohr agrees, and a few days later the company owner opens a new invoice.

INVOICE

Drawing X on the side of your machine \$1

Knowing where to put the X \$9,999

Total \$10,000

Monthly Retainer

You can charge a monthly retainer to your client. It is one of the best ways to charge for projects.

You get paid every month for the length of your contract.

There is a flat fee for the contracted services. But you can also charge for extra work or overtime not stipulated in the contract.

For example, I took on a project to develop an HR system for a startup. The client needed a human resources person to come in once weekly.

We agreed on the contract terms and charged them a retainer at the end of the month.

The retainer fee was only for the weekly support, nothing else. Training or additional work days would incur a separate fee.

When invoicing for the retainer, you need to calculate your time spent working on the project.

Use timesheets to show this for each month.

In the next chapter, we briefly go through some of the features in your project budget.

PLAN YOUR PROJECT BUDGET

The financial statement you send to the client should include:

- clear steps on how you invoice,
- the percentage of your deposit and the division for the rest of your fees,
- all direct costs.

Here is an example of a budget:

Contract Pricing Proposal Form		Name of Proposed Project:	Page: 1 of 1
Consultant: ABC		*Development and Commercialization of XYZ	
Location (where work is to be performed): (same)		Total Project Cost:	189,617.00
Cost Element		Total Cost to Project	
		(% sharing):	
1. Direct Materials			
a. Purchased Parts			25,000.00
b. Other			0.00
Total Direct Materials			25,000.00
2. Materials Overhead		Rate: 10%	2,500.00
3. Direct Labor		Hours Rate/hr	
Senior Consultant		312 56	17,472.00
Consultant		30 29	870.00
Senior Analyst		104 36	3,744.00
Analyst		78 32	2,496.00
Support Staff		0 36	0.00
Total Direct Labor			24,582.00
4. Associate Consultants		Hours Rate/hr	
Contract (TBD)			64,000.00
Consultant - Prof. Hopkins		104 130	13,520.00
Consultant - Mech. Eng.		40 100	4,000.00
Total Associate Consultants			81,520.00
5. G&A Expense		Rate % 40%	
(General & Administrative)		Base (3-9)	20,000.00
6. Total Estimated Project Cost			189,617.00
This proposal reflects our best estimates as of this date, in accordance with the instructions to proposers.			
Typed Name and Title:		Signature:	Date:

Invoicing your Clients

Be clear about how you invoice to your clients. If you are not sure how to do it, you can use milestones.

Here's how:

Have the initial amount paid at the beginning of the project. We call it the mobilisation fee. It allows the project to kick off.

The next milestone is after submitting your first report. You can include your invoice with the report.

While the final amount is at the end of the project, submit the invoice with the final recommendation report.

Make sure to have a percentage of the total amount for each milestone.

You can divide the financial milestones into 2, 4, or even 5. It depends on you.

My recommendation is 40%, 40%, 20%.

40% of the total amount as the deposit for starting the project. 40% at submission of the draft reports and 20% with the final report.

New clients might not be keen on that payment structure. They can insist you lower the first milestone amount.

In that case, you can do 30%, 40%, and 30% payment of the total amount.

You can also do a 50% 50% payment, but it is a bit risky. Because getting that final 50% is very hard.

Try to have the final amount as the lowest percentage of your fee.

Get your deposit before you start on the project

A deposit means the client is committed to working with you on the project.

A deposit also helps you:

- to mobilise your resources for the project,
- have funds for unexpected delays and timeline extensions,
- get some payment if the client cuts you off midway after you start the project.

A non-refundable deposit is a necessity because the client will have to rethink their decision to pull out.

Direct Costs

There are direct costs attached to the project. You may be required to travel to certain parts of the country, print out materials or perform some activity not directly related to consulting.

The amount you spend should be different from your consulting fee. If not, you can burn out your pay for unaccounted expenses.

The client can organise accommodation and transport if the project is out of town.

In 2020, I travelled to Kakuma for a project. The client and I agreed that they would organise all transport, accommodation, and necessities like food and health emergencies.

They only needed to pay the consulting fees. The client paid for direct expenses to the suppliers.

They even paid for the COVID tests. All my team had to do was report to the recommended medical facilities for the tests.

Be sure to include:

- Sufficient information to show how you intend to use the money
- A list of all key personnel by name and hours dedicated to the project as direct labour
- Justify special equipment tooling, test equipment and materials
- Justify travel and other additional costs and how they relate to the needs of the project.

Most Request for Proposals (RFP) give an outline of what they expect from your proposed budget.

That's it!

Even if you've just started consulting, remember:

- your consulting skill level;
- your role in the project;
- your survival budget;
- the best pricing strategy for you;
- how to set your rates;
- and finally, your project budget.

With these tips, you can plan your rates for your next project. We wish you the best.

If you wish to send us feedback on this guide or have any suggestions on a topic click on this link to let us know. : [Let's Chat](#)

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