

## **Setting Consulting Rates**

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Years ago the AusIMM published guidelines on consulting rates for its members. Today the Australian Competition and Consumer Commission would quickly take an interest in such anti-competitive guidance. Consulting rates should be set so that a fair profit is achieved after all costs have been paid, though there is no limit placed on consulting rates and any consultant is entitled to charge whatever the market will bear.

In practice it is necessary to know the direct cost of the consultant, the on-costs of employment and the number of hours that are likely to be charged out in each year. For example, a city-based consulting firm might have on-costs of 60% and thus a consultant on a \$200,000 salary would have a cost of \$320,000 per year. For a profit margin of 15% the consultant would need to earn fees of \$368,000. If the consultant could charge out 1500 hours per year then a consulting rate of \$245 per hour is required.

On-costs include payroll tax, workers compensation insurance, other insurances, office rent, office expenses and so on. In the above example, a consultant working from home might have on-costs of only 25% and might work for the salary without any added profit margin. The cost would be \$250,000 and a satisfactory hourly rate would be \$167 per hour. However, if the sole consultant could charge out only 1000 hours per year rather than 1500 then she would need to charge \$250 per hour.

### **Consulting in the Mining Industry**

In practice it is difficult to charge out more than about 1300 hours per year on a sustainable basis while attending to marketing and professional development. The number of hours that can be charged vary with the seniority of the consultant and also the way that hours are recorded and charged.

In the business world there are two approaches to billing a consultant's time to clients. Method One is to charge a high hourly rate, and then meticulously record the actual time spent, generally in blocks of 15 minutes. No charge is made for lunch and coffee break time, or for time spent other than directly on advancing the client's interests. Extra charges are made for photocopying and phone calls. Medical, legal and accounting firms use this method.

Method Two is to charge a more modest hourly rate, but then bill out most or all of a 40-hour working week to clients. Time is usually recorded as hours in blocks that add up to an eight-hour day, or more if longer days are worked. Engineering, mining and geological consultants generally use this method.

The reason for the differences is rooted in the nature of the clients. Legal, medical and accounting firms deal with the general public, who often wish to scrutinise and challenge the recorded time (and disbursements). The other types of consulting firms deal with corporate clients who are not

interested in the fine detail of how time is spent. This has resulted in differentiation of the hourly rates between the legal and accounting (and specialist medical) areas and the rest.

As a result, legal and accounting firms may have hourly rates that are double (or more) the rates that a mining consultant would charge for someone on a given salary. The mining industry is generally unwilling to pay such high hourly rates. Mining consultants therefore have to bill out most or all of their working week, to bring in consulting income that is sufficient to support their salaries and overhead costs. A good guideline for deciding what is chargeable is to consider whether, if you were an employee of the client, your activity would be acceptable within the normal working day for which you would be paid for eight (or more) hours. If it would not, then you should exclude that time from your daily billings.

If you work on multiple projects within the day, then you must use judgement as to how to allocate the eight-hour day between clients.

### **Payment is for results, not time.**

Learning to be a consultant involves learning how to manage time and charge for results. No client wants to pay for your time. All clients are willing to pay for results. All clients want value for money.

A consultant must learn to manage both billable and non-billable time. What you do with your billable time may determine your immediate income, but how you manage your non-billable time determines your future. Non-billable time may be used to develop client relationships, improve your skills, train others or develop systems or software that make you more efficient and valuable to the client. Where they make you more efficient than competitors, some of these activities can legitimately be billed later to clients.

In other words, when completing a timesheet, each consultant should be concerned about

- the quality and usefulness of what is provided to the client
- providing fair value and maintaining the client's trust
- the profitability of the work done
- the sustainability for the consultant of the pace of work undertaken

### **The Basic Principle**

Always under-promise and over-deliver. The report or outcome should clearly address all the issues in the scope, should be delivered early or on time, and should cost less than the client expected. Provided you do these things, how you record and bill hours is irrelevant.

If you have provided a well-reasoned basis for an estimate of \$50,000 and had it accepted, then the challenge is to deliver a superb, early report for \$45,000. The client will be very happy.

If you are not delivering value or are going to run over budget, then there should be a very strict recording of hours. If you are in the happy situation described above then you may be less concerned that you have spent some of the time unproductively.

## **Quoting Hourly or Daily Rates**

If you know how to manage your time properly it doesn't matter whether you quote hourly or daily. Either way, you should end up billing somewhat less time than you had estimated while minimising your personal workload. Remember you are not selling hours, you are selling results.

If you are not good at time management, daily billing is safer. Hourly rates are usually based on the utilisation a professional might achieve in any professional office or mine office on the primary task. An eight- (or ten-) hour day includes coffee and lunch breaks and some interruptions from colleagues, and time to fill in your timesheet!

## **Managing the hours in a Project**

If you are submitting a proposal for a job that you will manage, you have much greater flexibility in planning and charging for your own time. But technical staff at every level should negotiate hard for enough time to do the job properly, and then try to do better.

The study manager should care about is the quality of the work and its timeliness. Provided a good contribution is received from each team member when it is due, and the job is charged for fewer hours than in the budget, there is no need to micro-manage. Some of the most successful consultants can consistently bill 12 or 14 hours a day for lengthy periods and the clients love them. They deliver results that justify billing those hours, and both they and the clients know it.

On the other hand, a consultant should not do work at a high charge-out rate that could have been done by a less senior employee. That would not be fair to the client. Team members will willingly deliver what you require if they:

- understand thoroughly what is expected of them
- understand how their task fits into the overall project
- are kept informed about anything they need to know to do their job properly
- receive good coaching to help improve performance
- receive prompt feedback on their work, good or bad
- feel part of a well-functioning team

## **Hourly Rates for Subcontractors**

Using subcontractors is a commercial engagement. There is no obligation to reduce or minimise the "mark-up" on a subcontractor. What a consultant pays his suppliers (subcontractors) is a matter for the consultant alone. What the client pays for is what the team delivers, a matter between the primary consultant and the client.

The mark up on a subcontractor should be substantial, if possible more than 20%, as the primary consultant has costs including premises, administration costs, marketing costs and so on which are spread across all input costs, not just employee salaries. The ability to mark up subcontractor's rates is limited by the comparison of the rates charged for the consultant's own personnel and the rates the subcontractor charges to the world at large, as well as general industry rates for the services.