

How to set your Rate

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How to determine your
optimal consulting rate

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In this pdf, I talk about hourly rates and effective rates, and the differences are important, so here's a quick breakdown:

- **Hourly rate:** What you charge the client on your invoices.
- **Effective rate:** Your revenue divided by your time. For example, if you earn \$1,000 for working 10 hours, your effective hourly rate is \$100/hour).

Now, what if you could charge a client \$1,000 and get the work done in 4 hours? Well, your effective rate just jumped 250% to \$250/hour. My guess is there's no way you could switch from charging \$100/hour one month to \$250/hour the next

month to your clients. But you can if you focus on your effective rate.

Though there are lots of ways to figure out and test your hourly rate, **by far the best pricing strategy is to peg your price to the value the client gets.**

This pricing strategy alone has consistently boosted my effective hourly rate by 70% - 600% so that I can effectively charge \$300 - \$1,000+ per hour.

No, those are *not* typos.

And yes, those effective rates are what I *typically and consistently* earn for non-hourly (i.e., fixed-price) projects.

And, yes, I do have competitors. With this strategy though, I consistently win out over my competitors because while

they're focused on lowering their prices, I'm focused on maximizing value to the client. And maximizing value will win nearly every time, unless you're dealing with budget bottom-feeding clients (whom you can refer to your competitors).

So, how do you calculate your prices this way? Read "The experiment that boosted by rate 70%"--that's the other pdf you now have access to.

For hourly pricing and related tips & tricks, read on below.

Options for setting your rate

When you become a consultant, one of your first tasks is going to be figuring out your rate. There are a bunch of ways to do this:

1. What the market will bear—i.e., what other similar consultants are charging.
2. 3x your current salary pro-rated to your annual work hours (usually 2080 hours/year, though you won't bill that many hours). For example, if your current salary at your day job is \$50,000, your currently hourly rate is \$24 ($\$50,000 \text{ per year} / 2080 \text{ hours per year} = \24 per hour); multiplied by 3 gets you to a consulting rate of \$72/hour.
3. Complicated formulas that use your target salary, benefits & expenses/overhead estimates, taxes, profit percentages, work days per year, billable hours per day, bad debt estimates, etc. These make my head hurt, and—I think—are a waste of time, since you'll probably arrive at roughly the same number as in #2 above, and the formula in #2 takes you about 10 seconds. You just saved yourself a headache and 4 hours of wasted time.
4. By project estimation—keep in mind that estimates are tricky when you're starting out, and even experienced consultants often get burned by underestimating or overestimating.
5. By using a daily, weekly, or monthly consulting rate.
6. By commission / performance: this can be tricky to estimate, and involves risk for the consultant--especially if you're unfamiliar with and/or don't have access to data to measure your performance.
7. A retainer: i.e., the client pays you a flat monthly fee, and you do work for them. Some months you work a little, while other months you work more.
8. Based on the value you provide, which moves beyond limiting you to an hourly rate. This can be tricky, and involves some finesse, but has **the best potential for earning you the highest effective rate**, and is generally what I recommend. For example, if you know you can save your client \$X, then it can be reasonable to charge them $\$X * 10\%$. **This pricing strategy is how I**

commonly earn effective hourly consulting rates between \$300 – \$1,000+ (remember: your effective hourly rate is the revenue you earn divided by the number of hours you work). Now, clients typically won't want to pay \$300 – \$1,000+ per hour, but you can earn that if you base your price on the value the client receives. This is why I don't recommend charging hourly.

In nearly all cases though, you'll still need to have an hourly rate from which to base any estimate, retainer, commission, etc.

Besides, I'd bet you'll be hard pressed to find a client who is NOT familiar with a consultant charging an hourly rate; some clients will want you to charge a

flat, per-project rate, which, again, will require you to estimate the project cost based on your hourly rate. **If you decide to cap a project at a fixed price, please PLEASE do yourself a favor, and read the Final Word Of Caution as the end of this ebook.**

The counter-intuitive way to set your rate

OK, we've talked about hourly rates a lot. Like I've mentioned, the best way to set your rates though does NOT actually have anything to do with your time.

I know, it's hard to get out of the charge-by-the-hour mindset.

But once you've earned \$1,000 for an hour of your time, you'll

never want to go back to charging hourly.

I've done it, and so have my students.

The key to doing this is to price your services based on the value the client receives. Remember: the value to the client has NOTHING to do with how much time you invest. The value is based on what the client cares about: increasing revenue, increasing efficiency, lowering costs, etc. Those are often the key drivers of value; focus on them, and it's far easier to command premium effective rates.

So how do I figure out how much to charge already?!

Yes, pricing based on value is far better than charging hours. But my hunch is that you still want to charge hourly--at least when you start out.

For hourly rates, I prefer a simple method that doesn't involve too much time and hand-wringing, with some twists for leveraging your time. And like I already pointed out, the hourly model will be the basis for most of the other billing models as well (project-based, retainer, daily rate, etc.).

When you become a consultant, here are some ways to figure

out what your consulting rate should be:

- Look at similar skill sets for workers who are in your country on a site like [ODesk](#)—and promptly **ignore them**, since there will likely be gobs of people charging a fraction of what you'll be able to charge.
- If you work at a company which does consulting (as I did), find out what you're being billed out at, and then set your rate to something similar. This is what I did, and I still monitor what that software vendor's consulting rates are, so that mine are similar, but a bit lower. Like I said earlier though, for new clients & projects, my preference is to **set** **fixed project prices based on the value the client will receive**, since this pricing strategy lets me charge effective hourly rates between \$300 - \$1,000+.
- Find job postings for similar positions/jobs in your geographic area, and look at the salaries. A site like [Glassdoor](#) could give you some useful salary info. You'll want to at least double (or triple or quadruple) the pro-rated hourly salary rate to arrive at an hourly consulting rate. You may also want to set your rate higher (by 15-25%) to cover your overhead costs.
- If you already know consultants in your area of expertise, politely ask how much they charge. I also did this when I was

thinking of starting a consulting business.

- **This tactic is one of my favorites**, since it gives you a direct way to find out what other consultants in your niche charge, their pricing structure, and how they pitch themselves. All this is a goldmine for you to use as you build your own consulting business. Here it is: Since you're now an employer, interview prospective job hunters/consultants who have your skill set, and find out what their rate is, their pricing structure, how they invoice, etc. Then, you can set your rate in the same ballpark. While you're at it calling other consultants, you can find out more about their niches and who they've worked for to see what the

more profitable niches are in your area of expertise.

You don't have to get an exact rate, but at least be in the ballpark. Clients will be willing to pay more for expertise, and will want to keep you for your knowledge of their organization and your relationships you've built with them after you've done work for them. After you've started consulting and/or get additional rate info, you can change your rate as needed—it doesn't have to be set in stone.

How I raised my rate over 100%

Over the years, I've experimented with my rate:

- I raise my hourly rate by ~10% at the beginning of each year for existing

clients. I send an e-mail to my clients thanking them for their business, and notifying them that as of X date, my standard rate will be \$Y. In several years of doing this with dozens of clients, not one has complained or asked to remain at a lower rate. And no one has asked if I have a discounted rate.

- For new clients, you can bump up your rate by a larger percentage to test your price ceiling. For example, I charge new clients about ~20% more than existing clients. But you can test it out. If you find that clients are OK with your current rate of, say \$80/hour, for your next new client, tell them your rate is \$125/hour. See how they respond. Once you get some

resistance, you've probably hit the ceiling for your rate. Again, experiment to see what works.

You can charge more within a niche

If you can specialize, you'll be better off. You'll have:

- less competition,
- will be able to charge a premium for your expertise,
- will have an easier time being noticed as an expert in your niche, and
- potential clients will have an easier time finding you.

Determining your niche is beyond the scope of this book but I've talked about it quite a bit on StartMyConsultingBusiness.com.

Aim for “good enough”

Don't spend a ton of time on this—or any—task. Aim for good enough, and adjust as you go. My current standard rate is about 100% higher than when I was first became a consultant, and I've seen no falloff in business. On the contrary: as I've become better known in my niche, I've gotten *more* work with *less* marketing efforts. And best of all, **the higher rate means I can make more by working less.**

The biggest mistake consultants make when setting their pricing

Too many consultants set their rate, then get wishy-washy when discussing their rate with clients. Sometimes this wishy-washiness is obvious, like agreeing to a lower rate if your client asks you for a discount.

More often though, the problem is more subtle--for instance, when you tell your client your rate, but you come across as meek, uncertain, subordinate, or weak.

Be matter-of-fact when discussing your rate.

Someone once advised me that when asking for a raise, **say the number you want, and "don't blink."** The same applies to telling your clients your rate. You may want to practice discussing your rate with a friend or spouse. Practicing beforehand makes it easier when you need to have the discussion with a real client.

Say the number, and stop. Put a period at the end of the sentence. Let it sit for at least 2 or 3 seconds.

When you're firm about your pricing, you'll actually attract BETTER clients. The high-maintenance prospects will see the cost as too high--whereas good clients will view you as an investment in creating their future success.

A few other tips & tricks

- Make sure to use a contract so that you don't end up working a bunch of non-billable hours, and can bill for scope changes to projects. Your contract language should also state that the client will be billed for any scoping hours.
- If you decide to charge hourly, make sure your clients know that any pricing quote is really just an estimate, and that they'll be billed for actual hours worked.
- Speaking of estimates, make sure to pad your estimates. No, I'm not saying you should bill for time that you don't

actually work. **First**, I bet that your estimates will likely be on the low side.

Second, you want to deliver the project UNDER-budget, since clients are happy to pay less than they originally expected.

And **third**, you'll typically run into unforeseen issues which take time to address, and you'll want to be able to bill for that time; adding a line item to your estimate for, say, an additional 10-20% for a catch-all like "project management, functionality testing, data proofing, etc." can allow you to bill for all your time and still come in under budget.

- **Don't negotiate your rate.** You might start out at a lower rate than what the market will bear, but you can increase it as you

go along. I raise my fees annually, and haven't had any clients balk at the increase—after all, they do the same thing with their clients, and charge much more than me.

- Don't fall into the trap of charging too little—you'll work more to make the same revenue, and it's difficult to raise your rate more than say, 10% per year. Besides, clients expect to pay a premium for expertise.

A final word of caution

Sometimes, a client may ask you to cap the cost of a project. That's not necessarily bad, but it can be problematic for a couple reasons:

- Capping a project's cost relies on you accurately estimating the cost of a project. This is not easy--even for experienced consultants. Every consultant who's capped a project cost probably has a horror story about how the project ended up going way over budget (me too)--which means your hourly rate takes a big pay cut.
- Sometimes--not always--clients who ask for a capped project cost--especially when the prevailing practice in the niche is to bill hourly for the hours used--may signal that the client is high-maintenance. I've had this happen, and it leads to other problems, such as scope creep (i.e., the project expanding while the cost is capped),

and/or difficulty getting paid in a timely manner. Identifying and avoiding problem clients early means less stress and a greater likelihood of succeeding as a consultant.