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For Consultants to Nonprofits - Pricing Your Services
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Most new consultants and freelancers don't realize how much it costs to run a business. Even if you are moonlighting, there are costs over and above what most people think of as a base salary. Without an employer covering these costs, you have to be sure to charge enough to cover not only your base salary, but also fringe benefits, insurance coverage, paid time off, taxes (!), retirement benefits (distinct from other fringe benefits like Social Security and Medicare), office supplies and equipment, professional development, marketing, professional services, etc. You'll be paying "both halves" (the employee's share and the employer's share) of Medicare and Social Security taxes. You also need to charge enough to cover all the time you will be working, but not being paid. Examples of this "unproductive" time include looking for clients, negotiating agreements, dealing with vendors and suppliers, and generally handling the administrative work that comes with running a business.

An additional word or two about taxes. Be prepared to pay estimated income taxes to the IRS on a quarterly basis as well as potentially remitting sales taxes to your state on a regular basis. This means not assuming that money in the bank is yours to spend. Just because a client pays you doesn't mean you have money. In some states, not all nonprofits are automatically exempt from paying sales tax, so as a consultant to nonprofits, you may need to remember to collect and remit sales taxes. Sad facts, but necessary ones to remember, especially in your first year of practice. It's never too soon to talk to a CPA and a banker about setting your practice's financial house on a firm foundation. The CPA can help set systems in place, and a banker can assist with lines of credit and other services to help you manage cash flow.

One rule of thumb for calculating an hourly fee is to take the hourly base salary for an equivalent position or equivalent work and multiply it by three. For example, if a staff person makes \$50,000 a year performing a function, that translates to approximately \$25 per hour. For a freelancer or consultant to have an equivalent standard of living, he or she would need to charge \$75 per hour. Like all rules of thumb, this one needs to be interpreted with some flexibility. Two key variables would include whether you are working out of your home or need to rent office space, and whether you are paying your own health insurance or are covered under someone else's policy.

There are at least three ways to price your services: 1) based on your costs (time, materials, etc.); 2) competitive with the marketplace; and 3) so-called "value-based fees," where consultants price their services based on the benefit to the client.

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If you are looking at the marketplace and attempting to be competitive, be sure you have identified the competition correctly. Value varies widely, based on several factors. Factors that may increase your value include experience specific to a client or a client's situation, the urgency of the client's need and your ability to respond quickly and completely; your ability to provide a comprehensive solution, your capacity to provide effective counsel - and counseling - to clients in crisis, etc.

Value-based fees are the basis of a lucrative and rewarding consulting practice that most consultants never reach. Alan Weiss is widely regarded as the source of wisdom and practice on value-based consulting. Changing the consultant-client conversation from one of "What does it cost?" to "What is it worth?" not only opens the potential for higher consultant fees, it also transforms the relationship to one focusing on outcomes and impacts rather than processes and costs. It "invests" the client much more fully in consulting engagements. As a result of a value-based approach, the client often comes to realize the project is much more consequential to the success of their organization than they realized. The value-based approach reinforces the role of the consultant as (much more valuable) value-adding counsel rather than contract labor.

A note on writing grant applications

If you're preparing to consult on grant application preparation (incorrectly referred to as "grant writing"), it's important to note that the fundraising professional societies (e.g., AFP, GPA) see percentage-based or contingency fee-based work as outside their codes of ethics and standards of professional practice. The many reasons for this position is a good topic for another discussion.

The most common pricing strategies for grant application preparation are hourly/daily fees or a flat fee arrangement. When our firm did this work, we always used a flat-fee model. It allowed both the client and us to focus on the work and not on the clock. As long as the agreed-upon scope of work didn't change, our fee was set. We never had a dispute with a client over the use of this method, even in the rare cases when we needed to amend a contract to allow for additional work and fees. In fact, in our experience, it was far more common for the client to initiate a conversation to amend an agreement than it was for us to request an amendment.

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