



Project-Based Billing Stresses Value of a Consultant's Services

By Lin Gensing-Pophal, SPHR, *March 2008*

One of the areas of concern for HR consultants is not only how much to charge for their services but which method of billing to use when calculating the fee. While there are no easy answers, there are some general principles that can provide consultants with guidance, particularly those new to the field.

Some HR consultants bill hourly, others by the job, which is known as “project-based billing.” Consultants who opt for project-based billing seem passionate about their choice because that type of billing can reduce the focus a client might have on the amount of time required to do a project and reinforce the importance of outcomes with the client.

Abhay Padgaonkar, management consultant and president of Innovative Solutions Consulting, says some professional service providers insist on clinging to the outdated billing method of charging for their time, which some say ignores the value to the client's business the consultant has created. The “charging for their time” billing model is outdated because it alienates clients in at least four ways, he said. These are:

- Surprise. Clients do not know what the monthly invoice will contain so they are always surprised.
- Inhibited communication. Because the meter is always running for consultants who use this billing model, communication becomes inhibited between consultant and client.
- Conflict of interest. Billing by the hour can create a conflict of interest because finishing a project early generates less revenue for a consultant, who might be tempted to stretch out a project.
- Disconnect. Hourly billing can disconnect the value a consultant's services provided because billing based on time puts the focus on the consultant's activities rather than the results—or outcomes—produced by those activities.

Lanny Goodman, president of Management Technologies in Albuquerque, N.M., says basing fees on an overall project cost makes sense because it provides a variety of services to organizations ranging from strategic planning to employee training and orientation to personality profiling. The issue of billing has been approached in a number of different ways, but the consultancy has preferred to examine the overall scope of work, which is the basis for determining a project price, he says. Once a project price is established, payment is sought over a series of monthly billings, based on the overall timeframe for the project. The monthly billing—of the agreed price—provides the consultant with a predictable cash flow and it maintains contact with clients, he says. “I want my clients to always feel comfortable reaching for the phone if something comes up that I can help with,” he adds.

Billing by the hour raises a number of issues for HR consultants and their clients, the most obvious of which is the length of time it is taking for the consultant “to get the job done.” The definition of “too long” is subjective, but hourly billing offers the potential for creating an adversarial interaction between the consultant and the client. It is true that hourly billing provides an incentive for a consultant to work slowly and inefficiently to make more money. Of course, the vast majority of HR consultants would not fall prey to this potential, yet the issue looms for those who bill by the hour. Therefore, hourly charges require a high level of trust between a consultant and client, a level that is difficult to achieve, particularly at the beginning of a consulting relationship.

In addition, hourly billing can put experienced and efficient HR consultants at a disadvantage because the value provided a client is not related to the amount of time it takes to create or implement a solution, but it is related to the amount of expertise and experience that the consultant has built up over the years. Efficient HR consultants draw on their expertise and experience to develop sound and effective solutions, which is where a consultant adds value.

This is clearly a conundrum, but it is a problem that can be solved by using project-based billing to inform clients, up front, what to expect. The downside for an HR consultant is that there is the potential that a project fee might under-compensate a consultant for the work.

The term “project-based billing” can be confusing for consultants, particularly those new to the field. Therefore, when a consultant does calculate the cost of a project, it is likely to be based on some form of hourly fee consideration, says Donna Flagg, president of The Krysalis Group LLC in New York. “I think the most important thing to remember is that even when you set a fixed price on a project, in some way it has to be based on a factor of time,” she says. Basing a fee on an estimate of how long it takes to complete a job can work well, but “only if you are very good about knowing how much time you need to spend on any given project,” she says. Otherwise, there can be problems with project-based billing, she says.

Among the problems is the possibility of underestimating the amount of time to complete a project, Flagg says. HR consultants, therefore, should be generous when calculating the time estimates required to complete a project and base the project fee accordingly, she says. In addition, many consultants include language in their agreements or contracts indicating that, should the scope of the work change during the project, the fee would need to be recalculated based on this new information.

Ultimately, each HR consultant will address the issue of how much, as well as which to use, when charging for work performed. As consultants make that decision, they should know that there are colleagues who believe project-based billing makes good sense most of the time.

Lin Gensing-Pophal, SPHR, is a Wisconsin-based business journalist with HR consulting experience in employee communication, training and management issues. She is the author of [Human Resource Essentials: Your Guide to Starting and Running the HR Function](#) (SHRM, 2002).