

Using Consultants Effectively

How to effectively use and derive best value

By Jim Everett and Jane Dixon – Think180™ (formerly Endeavour Business Learning)

Most businesses use consulting services at some stage in their lifecycles. This article begins to look at the process of working with consultants, and how best to use their expertise, time and availability to create the desired results.

Consultants vs. Contractors

First, let us differentiate between consultants and contractors. Generally speaking:

- **Contractors** are engaged to perform predetermined tasks for which they have specific expertise, such as HTML programming or instructional design. They typically execute defined tasks and require close supervision, whether working on a team or individually.
- **Consultants** are engaged to perform feasibility studies; research, define and recommend solutions; develop action plans for problems; or make active ongoing team and management contributions. They typically work closely with their client to shape the project they are working on, influence the project's direction based on findings, and deliver results designed to meet their client's objectives.

Since contractors are more like employees than consultants, most clients easily make the transition to working with and managing contractors. Some additional knowledge, understanding and techniques are needed to work most effectively with consultants.

Working with Consultants

Use these seven questions and the related thoughts to help establish how you want to work with a consultant, and set your expectations appropriately:

1. What do you want to achieve?

- *If you're not sure where to begin or who to look to for implementing a project, a consultant can be effective in assisting in the development of a strategy or approach before the project is implemented. This is often referred to as a "Phase 0" project.*
- *It is common for consultants on a long or broad project to be asked to perform tasks outside the original brief. "While you're here, can you . . .". Boundaries need to be set by you and the consultant.*

2. How will you assess the project's success?

- *Success needs to be defined in objective terms so all that are involved know how they and the project are being measured.*
- *Sometimes success is a movable target based on discoveries found during the project. If a project's success is redefined during the project, be sure to re-assess your consultant and team members for appropriateness to the "new" definition of success.*

3. What value and cost do you attach to this project?

- *Highly specialized consultants can be expensive. Recognize their value and support them in the performance of their specialized work so that they can deliver their best.*
- *Asking for a reduced rate on a consultant's services sends a message that you see their value as less. Seek other ways the consultant can add value.*

4. **What role is the consultant fulfilling?**

- *There are times when you need a consultant who will challenge your ideas and question you, and there are times you need to clone yourself with a person who thinks just like you. The trick is to know which is best to use when.*
- *When a consultant is handling project logistics, don't try to cut minor costs on materials if it risks using additional, expensive consultant time to fix service issues with "bargain" suppliers.*

5. **How much support, assistance and direction will you provide this consultant?**

- *Some people take the approach that the consultant is being paid to do the job and the client should not provide any support or assistance for the consultant to perform the work. An approach that delivers greater value is for you to do all you can to bring the consultant up to speed, to direct them to the sources of information and resources they will need, and to work with them to remove any obstacles to their effectiveness.*

6. **How will the project and consultant integrate with your work, department or team, and company?**

- *If the consultant will be working exclusively for you, then the chemistry and synergy that you experience is critical to the selection and engagement of this consultant.*
- *If the consultant will be working with other members of the team or will be presenting to a committee or management as part of their charter, then their image and credibility are key factors in the selection of this consultant.*

7. **How will you and the project benefit from using a consultant?**

- *Consultants who work directly with you get to see you at work as others don't. Invite their comments on how you work; listen and learn from their observations.*
- *The value of ongoing consulting relationships is that their understanding and knowledge of your organization enable greater returns for their consulting time.*

Understanding Employee and Consultant Costs

When you evaluate using a consultant versus an employee on a project, look at the true cost of an employee to ensure a fair comparison. Employee cost calculations should include benefits (up to 25% on top of salary and bonuses), and costs for equipment, facilities and administrative support. Also, reduce employee's time available to work by the time taken for vacation, sick leave, travel, company functions, training, etc. (usually around 30%). The result is the time left to work on your project.

Based on our experience, we created a detailed spreadsheet (see next page) that assists in determining comparable costs between employees and consultants. From this analysis we have developed a quick way to estimate the hourly cost of an independent contractor or consultant:

<i>1. Begin with the annual salary of a similar role or level of expertise in your company</i>	<u>Example</u> \$ 75,000
<i>2. Drop the last 3 zeroes</i>	\$ 75
<i>3. Multiply by 2 (or double the resulting number)</i>	\$150

Exception: When a consultant works onsite for an extended period of time, the hourly rate equivalent is naturally reduced since the company provides the facilities, equipment and some administrative support.

The following spreadsheet reflects a conservative estimate of the typical cost of an employee versus a consultant with a comparable level of expertise and capability:

 \$75,000 Per Year Employee		
Cost to Company:		Cost
• Salary		\$ 75,000
• Recruitment & induction costs	\$15K over 2 yrs	7,500
• Bonuses and profit sharing	10% of salary	7,500
• Benefits (taxes, insurance & 401K)	25% of salary	18,750
• Facilities & technology	5% of salary	3,750
• Supplies & software	2K per person	2,000
• Cellular phone reimbursement	\$100 per month	1,200
• Administrative support	10% of \$40K	4,000
• Training seminars & certifications	3K per person	3,000
• Food, amenities & cafeteria subsidy	\$4 per day	1,000
Total Cost Per Year		\$ 123,700
<i>Total Cost Percentage of Base Salary</i>		<i>165%</i>
		Hours
Hours Available to Company:		2,080
Less:		
• Vacation	2 wks/yr	80
• Holidays	10 days/yr	80
• Sick leave	5 days/yr	40
• Other - funeral, family, jury duty, etc.	2 days/yr	16
• Training & professional development	5 days/yr	40
• Staff meetings	1 hr per week	50
• Performance reviews	1 day per yr	8
• Corporate presentations	2 days per yr	16
• Company moving (offices, etc.)	1 day per yr	8
• Corporate event (picnic, party, etc.)	1 day per yr	8
• Trade shows	1 day per yr	8
• Low productive time in days	10 days per yr	80
• Breaks & social time	3 hrs per week	150
• Reading & learning software time	5 hrs per week	250
• Troubleshooting & administration	3 hrs per week	150
		984
Total Hours Available for Work		1,096
Effective Hourly Rate of a \$75,000 Employee		\$ 113
Comparable Level Consultant		
Profit Margin		30% \$ 34
Hourly Rate of a Comparable Consultant		\$ 147
<i>Note: This conservative calculation does not include relocation, layoff package or severance costs.</i>		

Summary

Consultants can bring tremendous value and expertise to an organization when selected, utilized and managed effectively. The key is determining what value you want to derive from using a consultant, then finding the right one to deliver that value.

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Think180™ (formerly Endeavour Business Learning) is based in Los Angeles and focuses on enhancing effective and productive client-vendor relations. We work with companies, large and small, on both sides of the equation – those who are using vendors, consultants and contractors, and those who want to enhance the services they provide to clients. Think180 provides workshops and consulting on “Managing External Resources” and “Creating Effective Partnerships”.

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