

How to Make Money When Selling Your Time

A perspective on consulting in today's profit and cost
conscious consulting market

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Business and Numbers

- A business is what?
- A product?
- A market?
- Sales?
- Overheads?
- Systems?

A BUSINESS IS NUMBERS
THE NUMBERS *HAVE* TO WORK

What are “The Numbers”?

Different for different businesses...

- Hospital = satisfied patients per year
- Knitting Club = great functions per year
- NASA = successful missions
- Business = **PROFIT = Income left over
after taking away the
expenses**

Business and Profits

Profit determines good business from
poor

Poor Business

- Division of a Large Oil and Gas Company
- High Income, High expenses
- Annual Income AUD8.35B
- Annual Expenses AUD8.31B
- AUD40 Million profit or 0.5% RoR
- Equity AUD871M, RoE 4.6%

Hamburgers Anyone?



- McDonalds 2007 Income: US\$22.8 billion
- Profit USD5.18B / 22.7% EBIT
- Business with most customer service staff Under 21

So, Consulting and Business?

How do consultants make money?

Two ways, by:

- **Selling time – Commodity Consulting**

Trading Time for Money

- **Selling results – Value Consulting**

Taking part of the profit or a piece of the pie – equity positions, profit sharing etc

Commodity Consulting – Trading Hours for Money

- GOOD Commodity Consulting Profit

*Income from selling hours must be greater than the cost of
getting those hours*

- That means....

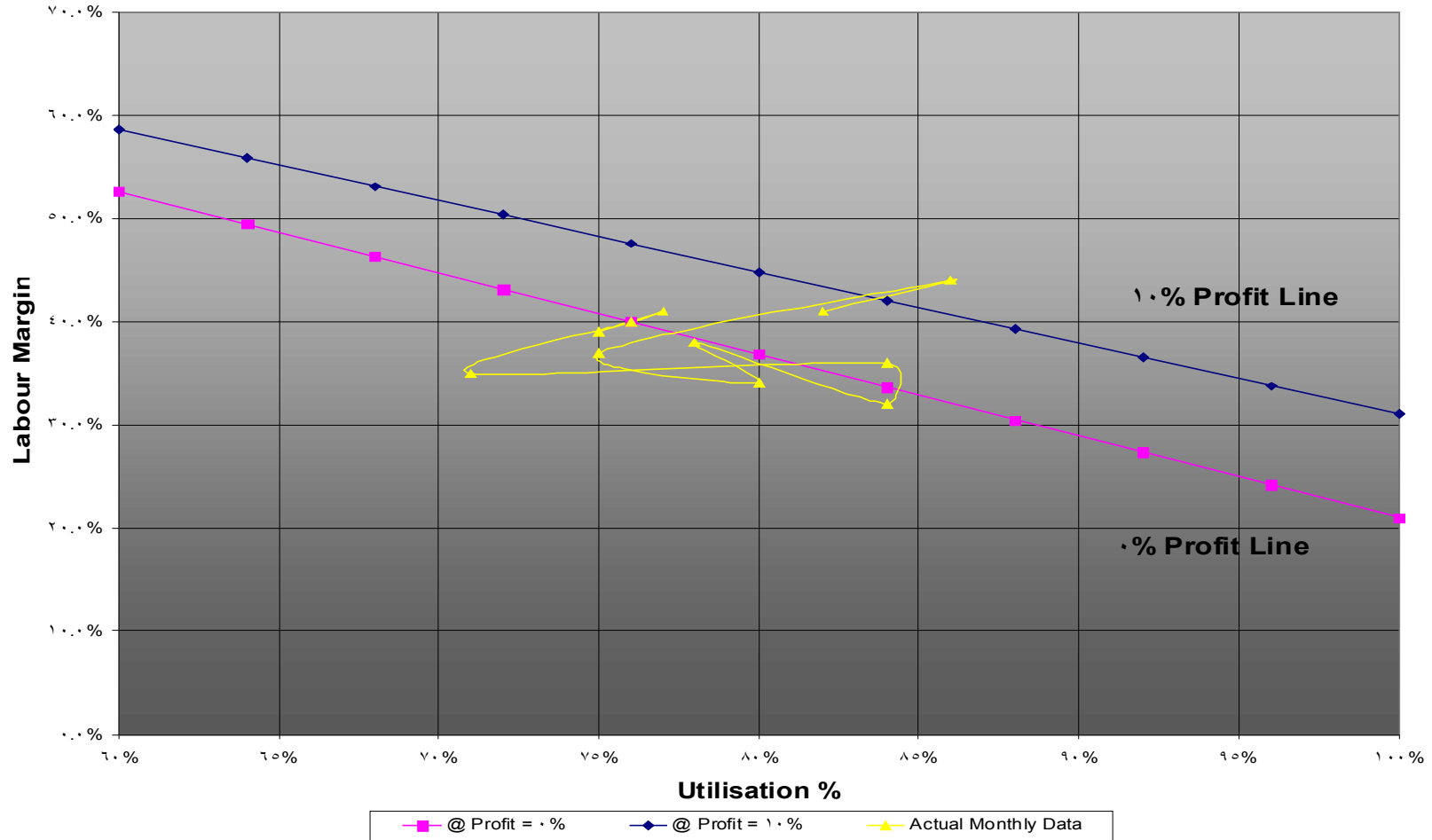
$$PROFIT = SELL RATE \times SOLD HOURS - HIRE RATE \times \\ TOTAL HOURS - OVER HEADS$$

The Equation

- Profit = Income Less Expenses
- Profit = Sell Rate x Sold Hours – Hire Rate x Total Hours – Over Heads
- Labour Margin % = (Sell Rate - Hire Rate) / Sell Rate
- Utilisation = Sold Hours / Hire Hours
- **Labour Margin % = 1 - Utilisation * (1 - % Over Heads - % Profit)**

The Result – A “Galaxy Chart”

Sample Data Performance Analysis

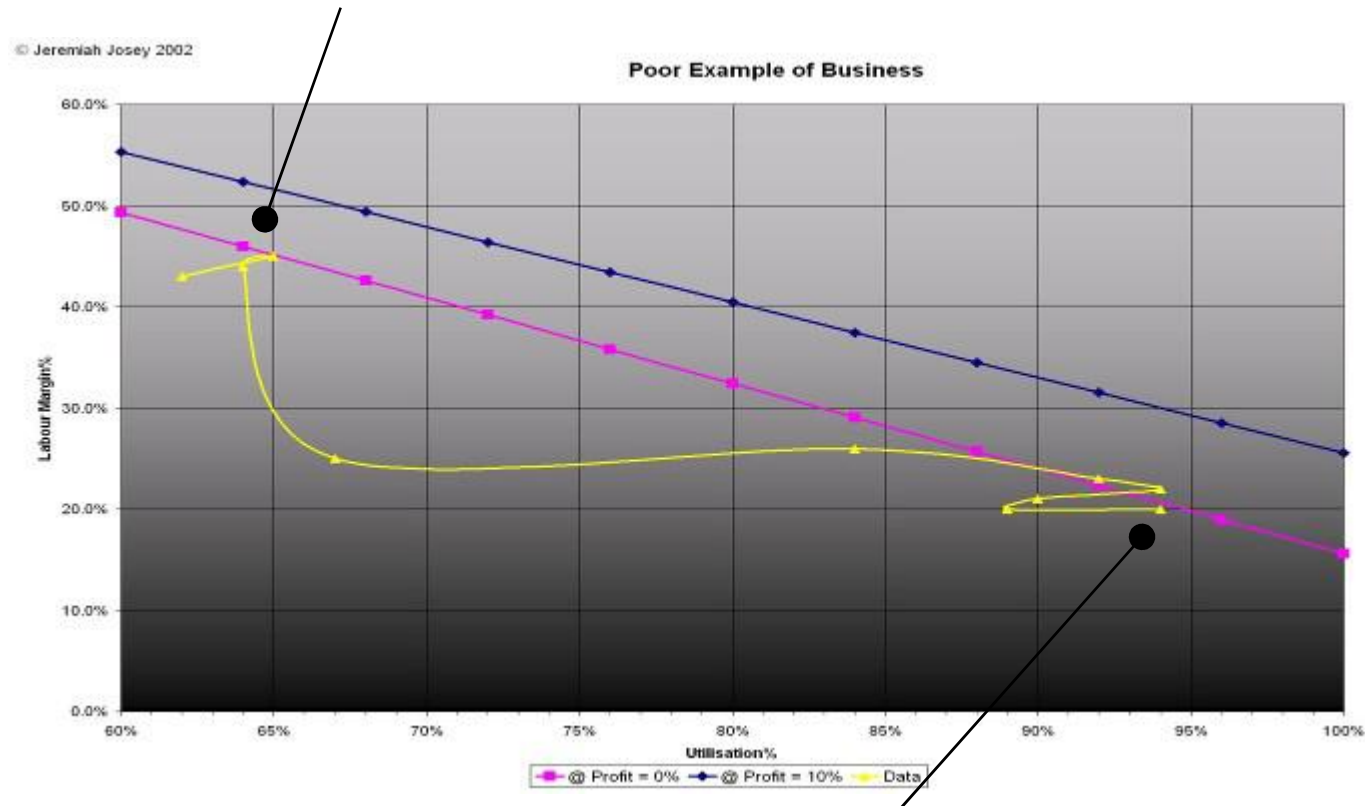


Interpreting the Result

- Above Pink Line = GOOD
- Below Pink Line = BAD
- Provides a VERY QUICK business indicator

Examples – Poor Business

A business with a poor handle on what is important..
High rates but not much work – losing money

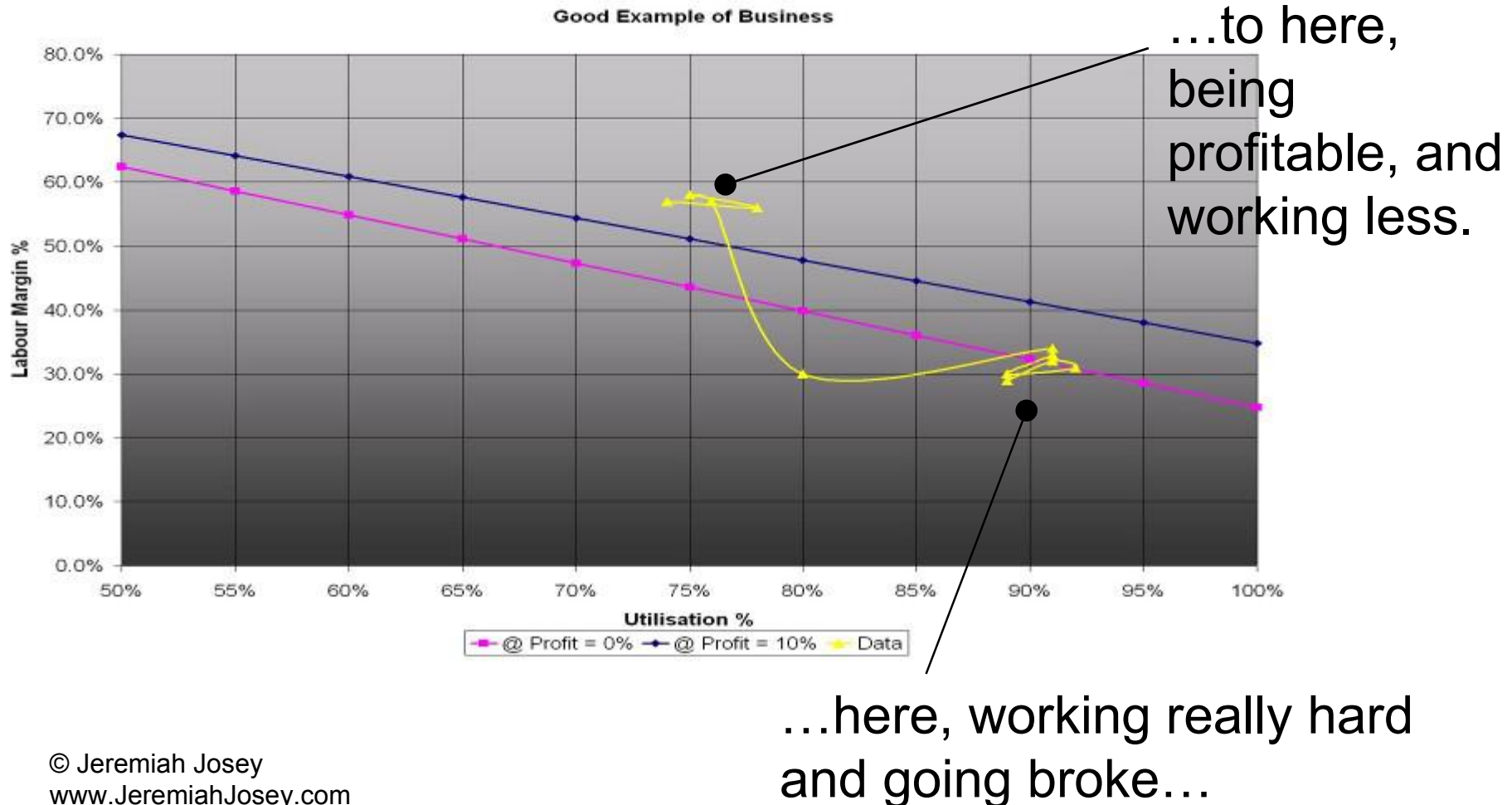


Lower the rates to get more work, but still losing money

Examples – Good Business

Knowing your business means you can make decisions to take you from...

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In Practical Terms

- Sell Rate if Hire rate is USD 125 per hour?
- Utilisation of Staff is averaging 85%
- Office Over Heads are averaging 20% of revenue
- Required Profit for the business is 10%

The Equation

- **Utilisation: 85%; Overheads: 20%; Target Profit: 10%**

$$\% \text{ LABOUR MARGIN} = 1 - \% \text{ UTILISATION} * (1 - \% \text{ OVERHEADS} - \% \text{ PROFIT})$$

➡ **Required Labour Margin is 40.5%**

- **Since Labour Margin = (Sell – Hire) / Sell and Hire = USD 125 per hour,**
- **The required Sell Rate = USD 210 per hour**

In The Final Analysis

From the chart there are three variables to monitor:

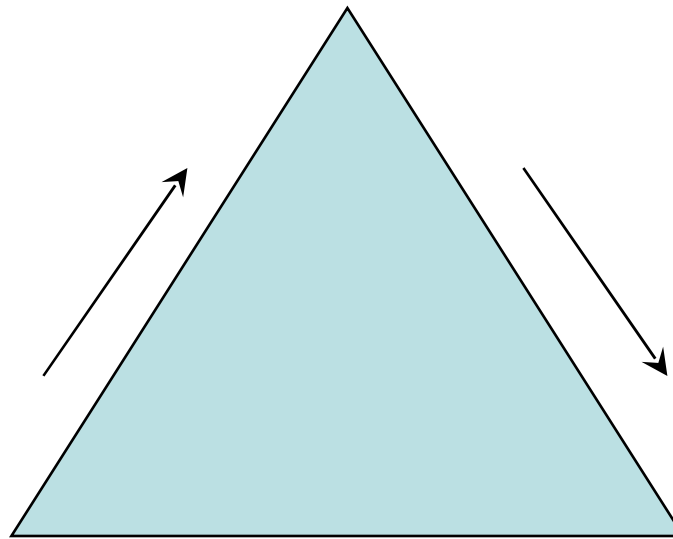
- **Labour Margin** – how well you hire vs how well you sell
- **Utilisation** – how hard you are working
- **Overheads** – how much it costs to hire and sell and provide the tea, coffee and biscuits

Improving

Labour Margin

Focus is best when it is applied to one thing at a time

Spend time on one of these items each week and then move to the next

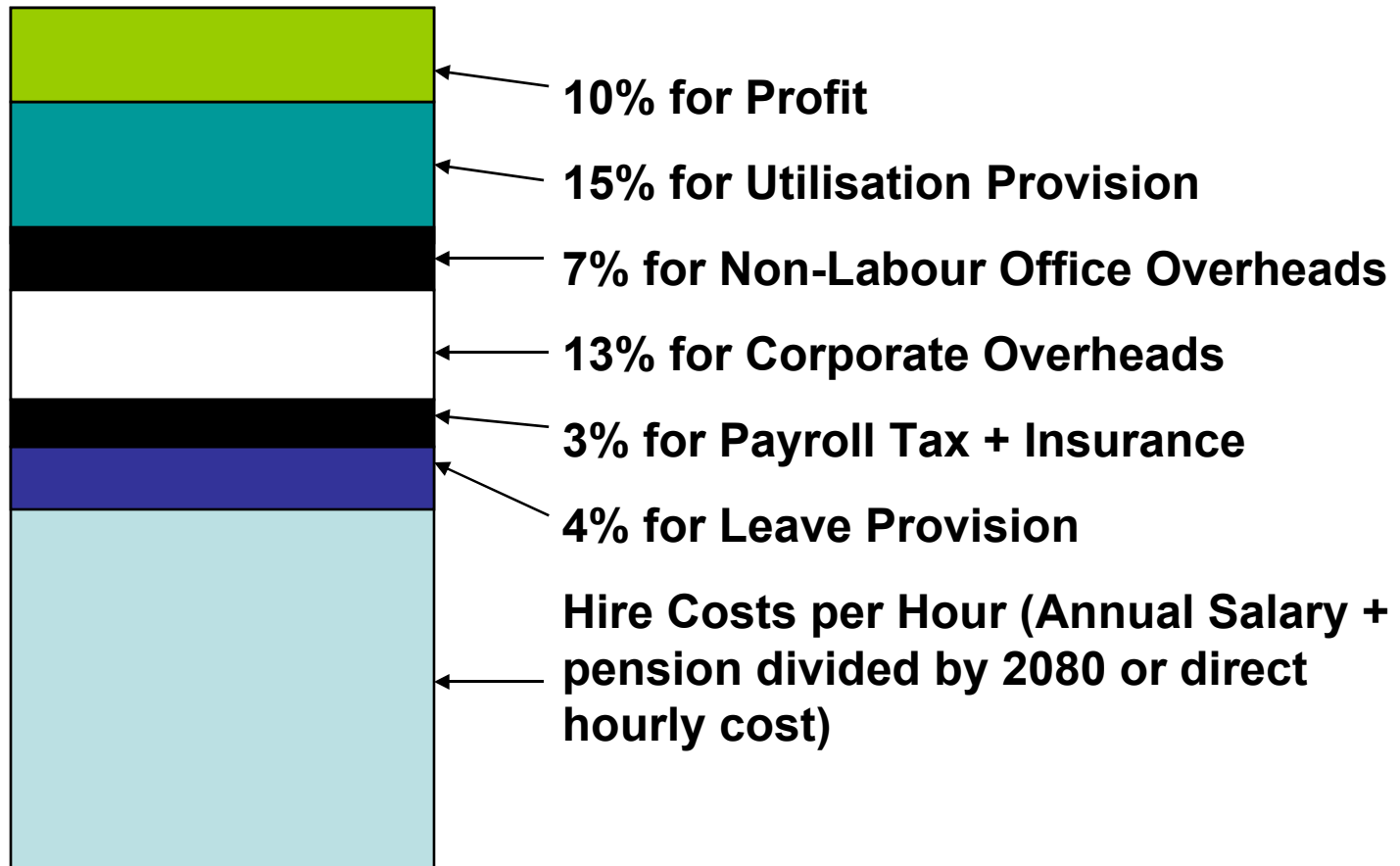


Overheads

Utilisation

Each stage on the cycle calls on different skills and tools

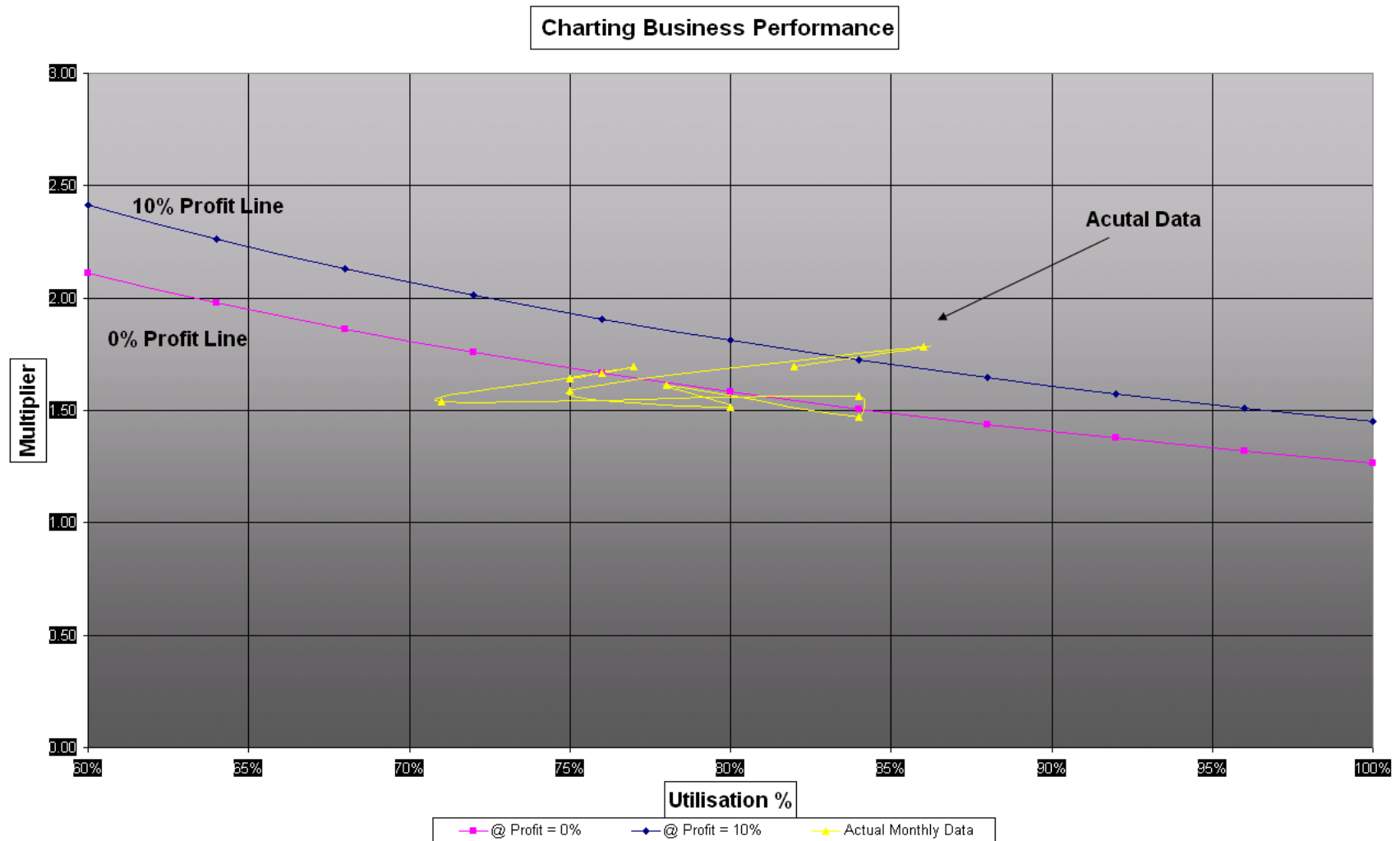
Typical Components of a Sell Rate



Another Way - The “Multiplier”

- Many consultancies use “multiplier” magic
 - A single number is used to multiply the hire rate to obtain the sell rate. Once created, the basis for the calculation is lost or hidden, or at most difficult to reproduce
- Multiplier and %Labour Margin are related: combination of the same three critical elements: Multiplier = $1 / (\% \text{ UTILISATION} * (1 - \% \text{ OVERHEADS} - \% \text{ PROFIT}))$
- Using Multiplier still need to consider all 3

“Galaxy Chart” Using Multiplier



Benefits of Using Galaxy Charts

- A Picture tells 1,000 words – use the galaxy chart to ask questions
- Doesn't rely on too much understanding of staff or managers – business management skill level can be lower for senior staff (usually promoted lower managers or “technical performers” – not business savvy)
- Very simple metrics to measure, monitor and focus upon
- Using a multiplier alone often hides problems

Discussion Time

- How would this add value?
- How much time would be saved in monthly reporting?
- How much quicker would proposals be?