

What an Hourly Rate Doesn't Tell You

ERP consulting fees vary greatly and that can be very confusing to clients. This article will clarify why hourly rates differ so much and what you can learn from it. Let's start with a short story.

Have you heard of the guy who is called in to fix the assembly line that's just gone down? He walks to the assembly line, turns a screw a quarter turn to the right and the assembly line springs back to life. He writes up an invoice for \$30,000, and the owner of the company says "You charged me \$30,000 to turn a screw?!" "No," he says, "I charged you for knowing which screw to turn."

There are a number of different ways you could interpret this story.

Naturally, some people would be shocked to receive an invoice for \$30,000 just to turn a screw, but what is the value of fixing the assembly line so quickly? Maybe \$30,000 is not that much if the cost of downtime is \$3 million per day and the consultant can fix the problem in an hour.

Another way to look at the story is to ask how many people can fix this problem in a timely manner. This is basically the law of supply and

demand. If you're trying to solve a particularly complex problem, there may be only a handful of people who can do it efficiently. Their higher level of expertise and scarcity would justify a higher rate.

Now imagine that you had received three proposals from firms A, B and C, for respectively \$10,000/hour, \$20,000/hour and \$30,000/hour. At first glance, the proposal from firm A looks great! But what if it takes five hours for firm A to find out which screw to turn and only one hour for firm C? The lowest hourly rate is not necessarily the cheapest option.

Determine what you are really buying

In his book *True Professionalism*, David Maister categorizes professional practices using two key dimensions: the degree of customization necessary to solve a client's problem, and the degree of client contact that client requires in the delivery of the service. These dimensions define four kinds of professional practice: the pharmacist, the nurse, the brain surgeon, and the psychotherapist.¹

When you have a common headache and simply need aspirin, you don't need a brain surgeon. You just want aspirin, and you don't mind getting the generic brand.

However, if over-the-counter medicine is not effective, you may decide to talk to a nurse. Some nurses are more caring than others, but their work consists mostly in following well-established procedures.

At this point, if you still haven't found a way to cure your headache, you're likely to be referred to either a

psychotherapist or a brain surgeon. Would you really base your decision just on price?

So, before you start comparing hourly rates, ask yourself: What kind of service do I really need?

Price comparisons make sense when you're buying commodities, but ERP initiatives rarely fall into this category. Good ERP consultants, like brain surgeons, are paid for their experience, innovation, creativity and frontier technical skills, which, by the way, need to be maintained through ongoing training.

If you're not buying a commodity, then are you buying good execution (the nurse) or expertise (the brain surgeon)? The more complex the project, the more expertise you need. And the more unique this expertise, the more valuable it is, thus the higher rate.

The ultimate goal of consulting engagements

Price is an important consideration in every selection process, but there is another key factor you need to take into account when you are evaluating ERP consulting firms: trust.

While trust is something that has to be earned, there are certain attributes that make some ERP consultants more trustworthy than others.

Expertise is definitely a requirement. Truth be told, there will always be someone offering to do the job for a lower fee. Like politicians, consultants sometimes tell you what you want to hear. But if you really want to evaluate the expertise of a specific firm, you need to talk to their clients to determine if the consultants can walk the talk.

But we would also argue that when you're shopping for a consulting firm, you are very much buying a partnership. As a result, you really need to check compatibility. Take it as a promising sign when you share the same values and feel the people you are talking to are approachable and likeable. ERP consulting engagements can easily span over 12 or 18 months or more, and should the unexpected happen, you want to make sure it can be resolved amicably. So, you also need to put a price on the relationship.

At the end of the day, the firm you select should work with you in a way you would value and that you would not usually find among other partners.

¹ Maister, D. 2000. *True Professionalism: The Courage to Care About Your People, Your Clients, and Your Career*, Free Press.

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