

Qcommission Sample Plans

Consulting Industry

Introduction

Companies and organizations hire consultants to strategize solutions to business, organizational, or industry-specific problems. The value in hiring a consultant is a fresh perspective, objectivity, and/or a specific Knowledge base or expertise. Demand for consulting services is closely tied to the health of the US economy. The Consulting industry is also known as the Professional Services business.

There are about 100,000 consulting firms in the US with an estimated total annual revenue of \$125 Billion. A few firms (such as Accenture, IBM Global Services, McKinsey, Deloitte) earn revenues above a billion dollars. About ninety firms have revenue of over one hundred million and 1,200 companies have revenues between \$10 to \$100 million. Annual revenue per consultant at specialized firms can be vary between \$150,000 to \$500,000, but normally averages about \$125,000. On average, a consulting firm has fewer than ten employees and annual revenue less than \$1 million. Approximately $\frac{3}{4}$ of consulting firms have just one or two consultants. Companies with multiple locations often have revenue of approximately \$10 million per office. This may be an optimal consulting firm size. The ratio of professionals to administrative staff may be 2:1 in a small firm, 9:1 in a large one. (Source: First Research)

Services

The Consulting Industry can be divided into the following areas:

- *Management Consulting*: Focus is on how a company or organization works to achieve its stated goals. This can include working on strategy, operations, and information technology.
- *Strategy Consulting*: Focus is on identifying the direction, goals, and growth of a company or organization within a specific industry.
- *Information Technology (IT) Consulting*: Focus is on using technology to help an organization become more efficient and achieve its goals.
- *Industry Specific Consulting*: Focus is on a specific industry and can include strategy, management, IT, scientific or technical consulting.

Consulting services are typically provided based on the following billing methods.

- *Flat Fee service*: A particular service is provided to the customer on a flat fee basis.
- *Time and Materials*: Service is provided to customers on an hourly basis and any material costs are billed in addition. Different hourly rates may apply to different consultants.
- *Annual Contract*: The consulting company may enter into an annual contract with the customer with a fixed or variable billing amount by month.
- *Deliverable based service*: Consulting firm may get into a defined deliverable based billing agreement with the customer. Billings are done based on the completion of deliverables.

Staff

The following staff is typically paid commissions/incentives in this business

- Account Managers
- Project Managers
- Consultants
- Partners

Account Managers have customer facing responsibilities. Account Managers can also be known as Partners in certain classes of firms. (Partners may have additional profit sharing incentives). They engage and bring in new customers; they canvass the customer for open projects and consulting positions. They typically are responsible for pitching projects to the customer and closing the sale. They work with the customer to place specific candidates. They may also participate in the actual project and bill for their time. They also help monitor and manage their teams' performance.

Consultants are people actually placed in roles at customer sites. They have specific skills that are valuable to the customer and for which customer is willing to pay the consulting firm. They typically have to report their working hours to their firm. Project Managers are responsible for specific projects engaged with specific customers. Consultants typically are organized under Project Managers.

Transactions

The staff is normally paid for the following kinds of transactions

- Invoices
 - Consulting Revenue
 - Gross Profit
- Time sheets
 - Billable Hours

Sales Commission and Incentives

Incentives can take the following and other forms.

- Account Managers/Partners get commissions on all billing revenues brought in due to their effort.
- Account Managers/Partners can also get commissions on gross margin after deducting loaded labor costs for consultants
- Consultants can get bonuses based on number of Billable hours
- Consultants can also get commissions on gross margin after deducting loaded labor costs.

There could be a couple of complicated situations. Some companies may not allow payments until certain events are satisfied. For example, commissions and incentives may not be payable until payment is received from customers or a particular event such as 'implementation' is complete.

Commissions are usually based on the following numbers:

<u>Pay Rate</u> -	This is the hourly rate paid to a consultant used by the company. This is typically the same rate for a consultant for an extended period of time.
<u>Loaded Labor Cost</u> –	This is the hourly cost that is added to the Pay Rate to determine the total cost of a resource to the company. This rate may be the same for all consultants or for classes of consultants.
<u>Bill Rate</u> -	This is the rate that a customer is charged for a specific consultant. This can be different by consultant. The same consultant can also be provided at different bill rates to different customers.
<u>Revenue</u> -	Bill Rate x Number of Hours
<u>Gross Profit</u> -	Revenue – (Pay Rate + Loaded Labor Cost) for a set number of hours, usually a month's worth.
<u>Gross Margin %</u> -	Gross Profit / Revenue

Plans

These plans demonstrate various features of the QCommission product used in the Consulting Industry. These plans are not intended to be comprehensive; they demonstrate the suitability of QCommission for similar plans.

Consultant Plan

Consultants are resources placed on customer projects who deliver the contracted service to the customer. This plan is applicable to consultants placed on customer projects. Consultants are typically paid a salary if they are employees or a standard hourly rate if they are external staff. In addition commissions maybe provided based on specific performance.

This example plan is for consultants. This plan demonstrates crediting of revenue and billable hours. It also demonstrates crediting by consultant.

Consultant Revenue Commission

This incentive is paid every month. Consultants get this commission for any hourly billing for their services. Consultants do not have control over the Gross Margin of their engagement but they can influence the number of hours and revenue brought in by them.

Consultant is typically paid a small commission on the amount of revenue brought in by them. The purpose of this incentive is to motivate the consultant to increase the revenue brought in by them. This maybe done by the consultant convincing the customer of the value they provide and allow for increase of the bill rate.

E.g. The Consultant earns a commission of 3% on his/her Revenue.

Billed Hours Incentive

This incentive is paid every month. This incentive motivates the consultant to maintain a high number of billable hours every month.

E.g. If the consultant bills more than 150 hours in a month, the consultant receives \$500 in bonus for that month.

Project Manager Plan

Project managers are consultants responsible for the management and successful execution of customer projects. They lead the team of consultants assigned to a particular customer and/or project. The project manager hours are also billable. Project managers will tend to be incented on the overall success of their projects. Project managers get credit for the specific projects they are associated with.

Project managers tend to have influence over number of hours billed to the customer, total revenue collected, success of the project and customer satisfaction.

This plan is applicable to project managers. This plan demonstrates crediting by customer projects. It also demonstrates holding back customer commissions for a future event.

Project Revenue Commission

This incentive is paid every month. Project Managers get credit for all the revenue generated by their specific projects only.

The purpose of this incentive is to motivate the project manager to increase the revenue brought in by them. This may be done by having the project team bill more revenues, adding additional team members or negotiating higher rates for consultants.

E.g. The Project Manager earns a commission of 2% on the project revenue.

Project Success Commission

An additional commission is calculated but paid out only when the implementation has been successfully completed. The commission administrator will release the holdbacks at the appropriate time.

E.g. The Project Manager earns a commission of 1% on the project revenue on successful completion.

Account Manager Plan

Account Managers tend to be responsible for the overall customer relationship and generation of new and renewal business. They have a high degree of influence on the revenue and gross margin of the deal since they are the ones determining the rates to bill the customer for the consultants.

This plan is applicable to Account Managers. The plan demonstrates use of quotas. This plan also demonstrates payments by various thresholds and multiple calculations per invoice. Crediting is done by customer.

Consultant Gross Profit Commission

This incentive is paid every month. The Account manager is set Gross Profit quotas on a monthly basis and payments are based on achievement against the monthly quota. Account Manager gets credit for any specific named customers.

Each consultant has a loaded labor rate (Pay Rate) as well as a bill rate for the particular project (Bill Rate). The gross margin on the revenue from the Consultant's hourly billings is calculated by subtracting Pay Rate from the Bill Rate.

E.g. Gross Profit Monthly Quota is \$100,000

Monthly gross profit is compared to monthly quota and based on the tier it falls into, the appropriate commission rate is used for the calculation.

Monthly Gross Profit Attainment	Commission %
0 - 80%	8%
81% to 100%	9%
101% to 150%	12%
151% and above	15%

Management/Partner Plan

This plan is applicable to Management/Partners of the company. This plan demonstrates Partner overrides.

Monthly Revenue Override

This incentive is paid every month. Management gets an override of 4% on all Revenue
