

Mistakes Made In Fee Setting

By Scott Simmonds, CMC

The conversation was just heating up. At the ACE August monthly meeting my table had just gotten into a discussion on fee setting and it was time for the program to start. I was left with a big can of gasoline and no fire to throw it on!

Let me throw it here.

If you are charging by the hour, your clients are unhappy, your fees raise ethical issues, and, worst of all you are limiting your own income.

Lost Client Satisfaction

Your clients fear the unknown. Hourly fees means your clients will not know the cost of your work until you are finished. Set a fixed fee and the client knows, without a doubt, what their costs are. There are no surprises.

Further, an hourly fee forces your client to make an economic decision with every call made or email sent. When your client grabs the phone to call you, she makes the mental calculation of your hourly rate times the 20 minutes the call will take. Is this problem worth it? The result may be a call not made. The result is always a reduction in the value your client gets from you.

Ethical Confusion

A time based fee puts your interest in conflict with your client's interest.

It is always in your client's interest for problems to be solved quickly. Working by the hour means you make more money when you solve problems slowly. Why try to build a relationship when the economics put you at disparate objectives with your client?

Limiting Your Income

A time based system means there are only three ways you can increase your income: charge more per unit, work more hours, or lie about the time you spend. Clients frown on the first and third. Who really wants to work more hours?

Base Your Fees on Value – Not Units of Time

Fees should be recognition of your value. Set your fees based on the value you provide, not the time you spend.

No buyer of any professional service ever wakes up in the morning and says, "I think I'll hire a

consultant today to work for seven hours.” All across America business leaders wake up saying, “I wish I could find someone to help me with my problems.”

Solving problems has value to your prospective client. Charge a fee based on the value your clients receive. The more value you provide, the more your clients will value you and the more rewards you gain.

Objectives, Measures, and Value

The consultant's consultant, Alan Weiss, has an exceptional book, *Value Based Fees*. (www.summitconsulting.com or Amazon.com) Buy it. Read it. Re-read it. The comments above are largely his thinking stolen by me (with permission).

Alan takes you through the lunacy of time-based fees and goes into the heart of why your income should be based on potential value and outcomes. He shows how to establish value and why you should avoid time based fees.

The book covers the three parts of fee setting:

Objectives - What is the objective of the project? What outcome are you trying to achieve?

Measures - How will you know you have achieved that objective? What quantitative measure will indicate success? How will you know it when you see it?

Values - What is the value received from a successful project? What is the financial impact? What is the increase in sales, the reduction in expenses, or the improvement in quality?

Objective, measures, and value; the key components of setting the value based fee.

The proposal flows from those three pillars. The fee is simply a fraction of the value generated. It's a set payment that provides a ten to one return, for example.

If your work generates a \$250,000 savings to the client, why shouldn't your fee be \$25,000 instead of some limited price per hour?

Class dismissed.

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