Responding to Fee Pressures

By David H. Maister

Many professional firms are living in a world of ever-increasing fee pressure from clients. What is the appropriate response to deal with this?

Among the many things that can be done, big and small, the first and most obvious is to achieve a reputation for being worth more than your competition.

This is done through the excellence of your work (and service) for current clients. It's worthless for *you* to try and claim that you are worth more, but if you can get some existing clients to say it publicly, then prospective new clients can be influenced. Hence, you should strive to get strong endorsements as part of your marketing effort.

Second, you can improve the quality of your attempts to get hired. Most fee resistance is based on skepticism about the value that will be received, but there are many opportunities to be persuasive on value if you can find ways to *demonstrate,* not just assert, your capabilities.

For example, if during the courting process you look for ways to be substantively useful to the person you are trying to attract (sharing ideas; performing some free initial analysis; or providing education, insights, and facts into what your prospect's competitors are doing), then you will be more convincing on value. The challenge is to find ways to *prove*, before the project even starts, that you are worth what you charge.

Third, be sure you understand what your client is trying to buy. A great deal of fee resistance comes from the fact that the consulting firm is trying to sell, for example, the "thorough" or "permanent fix" version of the project, while the client is trying to buy the "quick impact" or "lowest up-front cost" version.

In the selling process, you should strip your "core work plan" down to its bare bones, and then present the client with options for "add-ons" that are available—with a clear cost expounded for each. The client can then pick and choose. If the client wants extra analysis, he or she is the one to add to the budget. If the client wants more frequent communication and consultation, it's their decision.

Going through this process with the client (long before the final presentation) ensures that the client understands how the total fee was arrived at and that you are not including work activities that the client does not value.

Fourth, you can use your budgeting and reporting procedures to overcome fee resistance. The person inside the corporation who hires you will be responsible for the budget, and if you can give that person solid proof that they will retain control over your activities, they will be less nervous about the total cost. Showing the client your methods of "phase-by-phase" budgeting, cost tracking and reporting will move the client's attention away from the aggregate number and give them the comfort of knowing that there will be no waste in the project.

An even better idea is to guarantee that no activity will be performed by you without prior discussion with and approval by the client, thereby giving the client the needed control.

A related topic is to examine your productivity. Clients I have interviewed (around the world) tell me that one of the major reasons they are exerting fee pressure is that they are not convinced that the firms they hire are very efficient, and that they see little or no evidence that the firm is concerned about saving the client money. And they are right.

Professional firms traditionally do not spend much time and effort looking for ways to improve the productivity of their own efforts. As I have long argued, most firms have many senior professionals who are spending time doing things that could be done via less costly resources, through some training, organization and (perhaps) technology. When there was little fee pressure, this relative inefficiency did not matter very much.

In a world of increasing fee pressure, any consulting firm that can outperform its competitors in reducing the cost of doing a project will have a clear competitive advantage, whether or not it passes all the savings onto the client. Accordingly, a top priority is to study carefully how you do your projects and look for ways (including staffing, training, method-ologies, tools, etc.) to lower your project costs.

Because of concerns over productivity (and the need for budgetary control) many clients are interested in "fixed-fee" pricing. I expect that more and more work will be done on a fixed-fee basis. However, it is clear that in a fixed-fee world the firm must be vigorous in ensuring that the terms and conditions of the contract state very precisely what is and what is not included in the job.

Another response that is gaining popularity in this fee-sensitive world is performance-based pricing. This comes in two forms: either the professional's fee is tied to the accomplishment of a specific result (how much cost is saved for the client, how much revenues will increase, etc.) or the fee is tied to the client's satisfaction.

In the latter case, the deal looks like this: The firm bills during the project at, say, 75 percent of its normal billing rate. At the end of the project the client determines its satisfaction with what was accomplished, and the client decides what "balloon payment" to make. If the client is disappointed, the end payment is zero; if the client is delighted, the end payment brings the consultant up to 100 percent of its normal fees (or possibly more). Note that it is the sole discretion of the client to determine the performance and the "bonus."

This form of pricing is less radical than it looks. In effect, it is nothing more than saying, "If you're not satisfied, don't pay," which is good business practice in any case for a professional firm (see my book, *True Professionalism,* 1997).

When there is a traditional fee impasse, either the consulting firm must cut the fee to get the job or the client must accept the consultant's desired fee based on an act of faith that the firm is worth it. Performance-based pricing allows the firm to say, "We'll bet on ourselves that we can deliver what we promise. We don't ask you to believe this uncritically up front, but can we agree that if we *do* deliver value, you'll reward us?"

Increasingly, clients are accepting such deals.

Finally, are there circumstances when you *should* cut your fees? Yes, but it's the opposite of when most firms do.

Most of the fee pressure occurs on low-end, familiar, "asset-milking" work, and this is where most consulting firms are "caving in" and giving discounts. This is strange.

If this is asset-milking work (not building-your-balance-sheet work) why would you want to exacerbate the problem by also hurting your income statement through lower fees?

You *should* be willing to cut your fees (that is, make an investment) if this particular piece of business will move you forward strategically (for example, if the work is at the frontier and you'll learn new things that you can sell to other clients later on, or if the work will help you to break into a new industry that you have been targeting).

In other words, you should be most willing to trim fees (if necessary) for high-end, asset-building work. Anything else, in my view, is foolish.

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