

Setting your fee structure by Tom Lambert

FEES

Establish your fees professionally:

- ✓ Decide on your value as if you were a salaried employee, regularly check what it costs to employ somebody of your ability and do not sell yourself short. (If you are not at least among the very best at what you do what the hell are you doing offering consultancy services? You have to be more than an expert to be a great consultant. You must be a master. If you are a master of your craft you deserve a master's earning power.) Divide that salary cost by the number of working (not billing) days in the year. That is the basis of your charge because you need to be making your salary every day that you are working whether you are billing or not. (365 days less 104 days for weekends and 8 days of public holidays = 253 days in which you need to earn your salary working or not – annual holidays are paid – you may wish to exclude public holidays on the grounds that they are paid holidays in most jobs. So if your salary expectations are £100,000 the salary content of your fee must bring in £395 every working day whether you are billing your time or not.)
- ✓ Add your best estimate of your overheads including all of the "perks", (e.g. health insurance), that someone of your standing would enjoy in employment and don't forget your salary on days when you will not be billing direct to clients. If you plan to be billing ten days each month then your salary for the remaining ten working days is an overhead of your business. Multiply your monthly outgoings by 12 and divide the result by the number of days that you expect to bill clients. (See above)
- ✓ Add a suitable profit margin to enable you to invest in the growth of your business. Average profit in the UK and USA is around 25%.
- ✓ Finally add, if appropriate, a premium that reflects your level of fame or exceptional ability. (It is because of the combination of fame and unique ability that Faith Popcorn demands, and gets, \$70,000 a day or Tom Peters his per diem rate of around £60,000 (\$90,000) when I last checked with clients that had used his services. Those to whom I spoke thought he was worth every penny.) But don't play the optimistic fool. There is little point, for example, in thinking that you are as good as Tom Peters any day if the world of business has never heard of you. That said, my old mentor, Howard Shenson when asked by consultants how they might attract more business used to ask; "Have you tried doubling your fees?" He wasn't joking. We are in a business in which perception is important because the services that we sell are intangible and if a client believes that they are buying the best they are more likely to work to make your intervention work. Delighted clients mean that your reputation will soar and your earning capacity soars in unison – but only if you market effectively.
- ✓ Work out how many days you can reasonably expect to bill in a year and divide the total sum above by that figure and that is the minimum daily rate that makes sense for you regardless, for the moment, of what the market will bear.
- ✓ Only after you understand what you are really worth do you need to check the market to ensure that it will pay the level of fee that you expect. (For a very detailed explanation of how to set fees you may wish to look at *High Income Consulting*.)
- ✓ If, (although you shouldn't), you discover that the world of business is not prepared to pay your fee, you need to assess the situation carefully.
 - Have you over-estimated your worth?
 - Can you increase your perceived value by building a measure of fame?
 - Is consultancy really the best way for you to achieve the standard of living that you want?
 - Are you simply not a good enough salesperson to win enough business at the right price? Should you cease to be a one-person band and attach your specialist skills to some high earners where fees are not the issue?
 - Are you targeting the wrong market – seeking corporate levels of earnings from SME clients? (SME's generally want to pay low fees yet they perceive even low fees as "a lot of money". Their expectations are often unreasonably high as a result. Giving exceptional value is one thing. Trying to achieve the impossible is quite another. I have met too many consultants working for peanuts and still not getting paid because small clients demand at least the moon before parting with any cash.)
 - Could clients "club together" to afford your services between them? (This is a viable option for the small client. Not only do they get excellent service for a modest cost, they also have the value of networking among themselves, and the consultant benefits from peer pressure that keeps the "never satisfied" in line.)

Understand your value

Always be prepared set your fees on the value of services provided rather than just time expended. Do not under-estimate your salary value. You must also take into account the speed at which you are able to get results. In my early days as a consultant I thought that delivering exceptional results faster than competition was simply

added value. It took me time to realise that I was halving my income because I charged the same modest rate as my very much slower competitors who were charging for many more days to do similar work – less well.

Take a pride in your fees

John Fenton used to write that it is important that the salesperson take a pride in their price. You should always be comfortable justifying your fees if the client challenges them. The justly famed response that John gives as an example:

Client – That's a lot of money. Branston and Breakdown only charge £x a day.

Consultant – B and B are a fine firm. They know exactly what their services are worth just as I know mine. My fees appear higher because only I am able to give you.....

Remember that your high fee level is justified in the client's eyes not by your services, but by what your services deliver to them.

Invest in your abilities

Assume the risk and profit opportunity by expressing your fees as a fixed price to solve the problem rather than an open-ended daily rate. You will attract more business (because the client can assess the value more easily), and if you are successful you will be more profitable. Remember, however, that you are carrying all the risk and therefore are entitled to the benefits of your effectiveness, so work fast and work effectively and charge for solving problems or exploiting opportunities rather than by the day. Some years ago I spent two days working with a client on a plan to double sales revenues. By the end of the year, using my ideas combined with their own, they had come very close to trebling both revenues and profits. They made hundreds of millions and I made £5,000 (\$7,500). How should I have charged?

Don't "fly a kite"

Never cut your fees to win business. It gives the impression that you are "flying a kite" and invites clients to see how far they can beat you down. Your product is intangible. The client has to trust you. If you appear to "fly a kite" over fees then you are not to be trusted. If you don't know your worth then no businessperson has any grounds on which to hire you.

Medical research shows that the patient gets better more quickly and completely only when they trust their doctor. Your clients are your patients.

Expenses

Where possible protect your cash flow by having travel expense, hotels etc. billed direct to the client. They often have a deal with local hotels where they enjoy a corporate discount. So it is an added advantage for them to pick up your tab. Never put drinks, cigarettes or other sundries on a bill that will be picked up by a client. At best you will look like a cheapskate. At worst you will look like a fraud. If you charge adequate fees you can afford to pay for your own drinks. If you don't – that's your problem not the client's.

Some clients prefer that you "lose" expenses in a daily allowance that is added to your per diem charge.

As long as you are properly reimbursed it matters little how, but make absolutely sure that you are properly reimbursed. It is not unknown for clients to suddenly find reasons to add considerably to your travel schedule or other costs if you are trying to cover your expenses out of an agreed allowance. I still believe that the best way is to either have expenses billed directly or to account for them properly.

Make sure the little things are in your overheads

Avoid billing pennies for small items like telephone calls and the odd photocopy or postage stamp. Clients can be irritated by what they see as a penny-pinching avarice. Add these to your overheads and thus into your per diem rate.

First meeting

Some clients expect to be charged for the first meeting. If you propose to charge make this clear from the outset. Give value for money and use the opportunity to clarify your terms and conditions. If you don't propose to charge tell the client that exploratory meetings are free, but problem solving costs money. Howard Shenson used to say something along the lines of; "This is an exploratory discussion for which I would not dream of billing you. But please understand that if it moves from exploration to problem solving the meter starts running." That way the client didn't worry about whether he or she should expect a bill. What is more Howard could build brownie points by offering the odd word of specific advice or information, grinning and saying, "I guess that has to be a freebie. I forgot to start the meter."

Make your proposal user friendly in the right way

If the client cannot afford your total costs, look with them for those parts of the assignment that they could do themselves. You will find more often than not that they suddenly find some "flexibility" in the budget if they really have been sold on using you, and you will usually do the complete job on your terms. I always use a flow chart as part of any proposal and take the client through it step-by-step if they balk at the cost. "This is what I we agree is necessary. Could you design the psychometrics? Have you people that could administer them? Have you trained psychologists on your staff who could interpret the results?....." That's when the client realises clearly what they are getting for a relatively small outlay and the budget is mysteriously increased.

Think before you quote

The old car salesmen claim that it is not good policy to quote a neatly rounded figure as your fixed price fee. Their experience leads them to believe that £30,000 say, is best received by the client when rounded up: £31,627 is seen as precise and accurate costing with all the fat trimmed. This raises an interesting point. When we trained car salespeople many years ago we used to point out that whereas any pair of new cars were likely to be alike as the proverbial peas in a pod, a used car is unique because of its unique usage and maintenance. When you offer your services you are offering something unique because of your background, experience, skills and

knowledge. It is worth bearing that in mind when setting your fees. (I am aware that some used cars are, unfortunately “sheds”! So, I fear are some “consultants”.)

- A “shed” is trade slang for a car that is ripe for the dump.

Don't be tempted to do the hard bit for free

Charge for all services, particularly diagnosis or need analysis. Clients may try to persuade the unwary that it is in their interest to do the diagnosis for free to get a fat contract thereafter. Diagnosis is usually the part that requires the maximum skill, do that for free and the client can usually manage the rest himself. Einstein used to say, “Any damned fool can give you answers. It takes a genius to think of the right questions.” My new book *Key Management Questions*, a sister for my *Key Management Solutions* provides readers with the killer questions that I ask in most business situations.

Prices are forever - so charge what you are worth - always

Resist all blandishments to “do this at a cut price to show what you can do, and charge your full fee for future work”. Not only may there not be future work, but even if there is the client will expect their “usual discount”. When I train, accredit and work with consultants one of the key reasons that they have for parting with between £10,000 and £21,000 for training and accreditation is the opportunity that working with us gives them to raise their fees to become real high income consultants. For details you can contact me tom@tom-lambert.org

Be fair as well as thrifty

Don't price products like services. If your work for one client produces products that you can sell to many others, it is unacceptable greed to charge your development costs anew every time that you use them with a new client. You do, however, need to make absolutely clear in your contract that you own the intellectual rights to the results of your labours. Never leave ownership to chance, particularly when working with a major corporate that may have a legal department with nothing to do other than find ways to get their hands on what is rightfully, but not legally, yours alone. I have heard of trainers in particular who, expecting a major training contract, have produced a superb training guide and materials only to have the client decide that they can save money by handing it over to their sometimes less than effective training department as soon as the pilot has proved the value.

Review your fee structure regularly

Do not leave it too long in an inflationary economy to raise fees. Too big a jump in costs could kill your business. Better to raise fees a little somewhat more often than is absolutely necessary for existing clients and go in to new clients with a proper fee structure from day one. In the USA some government departments want a breakdown of fees. I find that showing Salary, Overhead and Profit, (as long as the profit is modest and “tasteful” – and part of it has been transferred to the overhead) satisfies them. (See above.)

Raise fees tomorrow to win business today

When you have to increase your fees to existing clients use it as a marketing ploy. Advise existing clients early and offer the old fee rate for new jobs started within a given time of your announcement. You may be surprised how often a programme can be brought forward and given to you if the price appears to be right and available for only a short time.

There's nothing like regular income

Ask for retainers where it is obvious that the client has long term need of your services. There are two types of retainer. Make sure that you understand which is which. The difference is crucial. If the client wants your services regularly on a specific day each month that you can rely on and put into your diary you should charge either your normal daily rate, or for a valued client, your daily rate discounted to reflect the regularity of the income and the reduction in your sales and marketing costs. (If you offer such a discount be sure that your client understands why and doesn't expect a low price on all future business.) Some clients, however, want you to pencil into your diary a reserve date or dates on which they may call on your services. What we call an Availability retainer. Here you may do no work for the client on the specified dates and you deprive yourself of any ability to sell them to another client. You charge 50% of your daily rate for being available even if you do no work. If you do client work on any day that has been reserved you charge the 50% for being available plus your full normal daily rate; that is 150% of your daily rate in all. The additional 50% is compensation for having to sit “with your thumb up your bum and your brain in neutral” waiting to see if you will be needed. You should also make it clear to the client that they can switch to a standard retainer at any time that suits them where you are guaranteed gainful employment. This is increasingly important, as more and more unbusinesslike amateurs are buying consultancy. They ask you to fill your diary with dates that you now cannot sell and then you don't hear another word from them. Make sure that your Terms and Conditions spell out the availability retainer and understand that if a client or potential client accepts your terms a contract exists.

Think the unthinkable; inflation is not dead

When you have retainers or long-term contracts build in a cost of living clause so that your income retains its value. (Even with low inflation rates at present money today is worth more than money tomorrow – ask any accountant about “present cash value” if you doubt me.)

Up front about up front

Ask for up front payments. You will be surprised how ready some clients are to fund the early stages of your work if they value your services. I have found that major corporates would only shell out a limited amount of cash up front, but they provided a serviced office with full secretarial support to make up the difference as well as providing referrals and references from day one. I usually say; “You realise that the costs of any intervention tend

to be heavier in the early stages."....Howard Shenson used to say; "I did make it clear I hope that I never start work until 30% of the full fee is lodged in my bank." Take your pick.

Terms and conditions

If you are to charge high fees you should deliver more than you promise; so here by way of a small extra is my fee structure as given to clients. One last note: It is right and acceptable sometimes to charge a client more than your established rate in special circumstances. In the States I have charged lawyers twice my daily rate when training them to be "high income consultants". Less than \$10,000 a day and they would have decided that I could not be worth listening to, and I would have failed to win their business!

Tom Lambert Terms and Conditions

Consultancy and Training

Daily Rate Consultancy and Conducting Training – Principal	£3000 (\$5000)
Daily Rate Consultancy and Training – Associate	£2000 (\$3000)
Daily Rate On Site Research – Principal	£3000 (\$5000)
Daily Rate On Site Research – Associate	£2000 (\$3000)
Desk Research and Training Design	£200 (\$300) per hour

Conference Key Notes of any duration, (up to a full day), by the principal are charged at the Consultancy or Training Daily Rate. Tom Lambert attends for the full duration of conferences to ensure the relevance of his contribution.

Mentoring services and research are charged at the appropriate daily rate.

In accordance with the consultancy contract the client may provide administrative and clerical services. If outsourced on the client's behalf, they are charged at actual plus 20% service charge

Retainers

Time retainers (where all dates are pre-booked) are charged at 75% of the appropriate daily rate.

Availability retainers are charged at 50% of the appropriate daily rate to cover loss of business during periods of availability plus the full daily rate for any work done. (i.e. Where time is not specified and days may not be used the charge against days when work is carried out is £4500 (\$6750) and for days which are reserved but not used by the client £1500 (\$2250)

Travel

Road travel is charged on a per mile basis at current Automobile Association (Club) rates.

Rail travel is first class to all destinations.

Air travel is Business Class for overseas flights and is Coach Class for internal flights or European continental flights of less than 90 minutes.

Travel in excess of 2 hours is charged at half the appropriate daily rate.

Subsistence

Light refreshments and meals while travelling or while away from the office on client business are charged to the client at actual cost.

Accommodation whilst on assignment is the responsibility of the client and should be reserved by the client on the behalf of the consultant.

Any disbursements of cash made on behalf of the client are invoiced at cost plus 10% and are subject to immediate payment.

Payment Terms

30% of the total value of the contract is due on signing. Thereafter fees and expenses are invoiced every seven days for the duration of the contract. Payment terms are seven days net and the date by which checks (cheques) should be cleared are specified on each invoice. All invoices are subject to the addition of value added tax or sales tax as required by law.

Failure to make payments in accordance with an agreed schedule can lead to delays in completing the contract.

Tom Lambert - 07944 206128

www.tom-lambert.org

www.tom-lambert.com

www.consultantsconsultant.com

Author of: "High Income Consulting", "The Power of Influence", "Key Management Tools"

"The Big Book of E-Commerce Answers", "Key Management Solutions", "E-Market Dominance", "Making Change Pay", "High Value Consulting", "Key Management Questions" (September 2002), and "21st Century Consulting"