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## **Responding to Fee Pressure**

By David H. Maister

Widely acknowledged as a leading authority on the management of professional service firms, David Maister has taught and written extensively on the subject. His books include *Managing the Professional Service Firm*, *True Professionalism*, *The Trusted Advisor*, *Practice What You Preach* and *First Among Equals*. He holds degrees from the University of Birmingham, the London School of Economics and the Harvard Business School. He has taught at the University of British Columbia and at Harvard.

In this article, Maister provides practical advice for consultants facing fee pressure from clients.

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

**There are many things that can be done, big and small.** 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 to try and claim *yourself* 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 work on getting strong endorsements as part of your marketing effort.

**Second, you can improve the quality of your selling efforts.** Most fee resistance is based on skepticism about the value that will be received, and 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 selling process you look for ways to be substantively useful to the prospect (sharing ideas, performing some free initial analysis, providing education, insight and facts about what your prospect's competitors are doing), then you will be more convincing on value. The challenge is to find ways that *prove*, before the project starts, that you are worth what you charge.

**Third, you can 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 the "thorough" or "permanent-fix" version of the project, while the client is trying to buy the "quick-impact" or "least-up-front cost" version. In the selling process, you should strip your "core work plan" down to its bare bones, and then give the client options as to the "add-ons" that are available—with a clear cost 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 his or her decision. Going through this process with the client (long before the final presentation) makes sure that the client understands how the total fee was arrived at, and ensures that you do not include 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 number. 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 him or her the comfort that there will be no waste in the project. An even better idea is to guarantee that you will perform no activity 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 concern in the firm 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 spending time doing things that, with some training, organization and (perhaps) technology could be done by less costly resources. When there was little fee pressure, this relative inefficiency did not matter too 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 of the savings on to the client. Accordingly, a top priority is to study carefully how you do your projects and look for ways (including staffing, training, methodologies, 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 more and more work to 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 in contract are very precise about what is included in the job and what is not.

**Another response to a fee-sensitive world that is gaining increasing popularity 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 saved for the client, how much revenues 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% 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% 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 anyway for a professional firm (see my book *True Professionalism*). 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 and perform 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 that 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 is on the low-end, familiar, "asset-milking" work, and this is where most consulting firms are "caving in" and giving discounts. This is strange. If the work is asset-milking (i.e., not building your balance sheet), why would you want to accentuate the problem by also hurting your income statement through lower fees? You *should* be willing to cut your fees (i.e., make an investment) if this particular piece of business will move you forward strategically. It makes sense, for example, if the work is at the frontier, and you'll learn new things that you can sell to other clients later, or if it helps you break through to a new industry that you have been targeting. In other words, you should be most willing to trim fees (if necessary) for your high-end, asset-building work. Anything else is, in my view, foolish.

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Find out more about David Maister, his books, seminars and consulting services at <http://www.davidmaister.com>.