Chapter 17

The Price Is Right

You may not get what you paid for, but you will pay for what you get.

—Maya Angelou[1]

The unsigned painting of a frowning, middle-aged peasant woman languished in a Tokyo auction house. The staff felt the painting was charming, but run-of-the-mill and not particularly valuable. They set its price at $83.

Before the auction began, the auction house owner asked a group of experts to take a closer look. Surprisingly, the experts determined that the portrait was actually a rare, unsigned painting by Vincent van Gogh, completed in 1884. At auction, it sold for $550,000.

■ THE COST OF A BAD PRICING DECISION

By insisting on a thorough assessment of the painting's value, that auction house owner narrowly averted a costly pricing mistake. For consultants, bad pricing decisions are just as costly—they can lead to unprofitable projects, damage your chances for long-term success, or even put you out of business. Like the Tokyo auction house owner, check every aspect of your project to assess its worth before you set your fees.

It's surprisingly easy to end up with an unprofitable project. Some consultants are blinded by the allure of large fees, high-profile jobs, or clients with fascinating projects. So they willingly accept pricing terms that can strap them for cash or force them to work for low profit margins.

Projects with low margins can be treacherous. They lock you into relationships that lead nowhere and drain your resources. Many pricing decisions that initially looked great turn sour as projects unfold, restricting consultants' financial flexibility.

THREE DILEMMAS OF PRICING SERVICES

➤ Dilemma 1: Whatever You Quote, They Want It for Less

The buying and selling of consulting services isn't like other shopping experiences—it's more like shopping in a bazaar than in a supermarket or department store. After all, you pay for groceries before you consume them and they have set prices; but neither of these conditions is true for consulting services.

Guerrillas are right at home in the consulting bazaar, where pricing is a process of give-and-take to reach agreement with clients on the worth, or value, of the consultant's services. But all too often, clients are not comfortable haggling over fees, and they can't connect their perception of value with the hefty price of most consulting services.

Interpretations of value vary greatly from person to person and time to time. Like the differing takes on the worth of that Van Gogh painting, it's likely that you and your clients will begin with divergent perspectives on the right price for your services.

Instead of focusing on the monetary or other benefits they stand to gain from consulting work, clients tend to evaluate price by scrutinizing how many hours consultants put into projects.

One client objected to a proposal to improve sales force productivity that included 10 consultants, billed at a substantial hourly rate, for 12 weeks. By focusing on the number of hours and the hourly rate, the client was ready to cancel the project as too pricey. Once the client and consultant worked together to calculate the estimated value of the project outcome, the proposed fees were found to be less than 2 percent of the conservatively estimated benefit the client would achieve.

Whatever pricing approach you ultimately choose for a project, your first objective is to help clients get a realistic understanding of a project's benefits and what those benefits are worth. Then the consultant's fees can be assessed in the context of that value.

Even when clients factor in the value of benefits, most will still push for the best possible deal. For decades, consultants have trained clients to expect negotiable prices, so anticipate some pushback on price. No matter how compelling the cost benefit, clients will always want to pay less.

➤ Dilemma 2: You Can Never Know Everything

When clients and consultants evaluate price, both are influenced by gaps in their respective information. Both sides have unresolved risk, making it difficult to evaluate proposed fees. Clients know that it's impossible to judge the true quality of consulting work until projects have been completed, so they try to mitigate the risk of imperfect information. Clients usually insist that:

- ➤ Price be fixed and predictable before the project begins.
- ➤ Terms of payment will stretch out until the project is completed.
- ➤ They get to interview and select the consulting team members.
- ➤ The client is the final arbiter of what defines project completion.

Conversely, consultants know that even after the most detailed, up-front discovery process and analysis, surprises can cause their profits to evaporate. Therefore, pricing must take into consideration whether project success is achievable in the client's environment.

Consultants must assess whether the client's team can pull off the job and the client's organization is prepared to accept the changes the project will bring. More important, consultants must be sure that the project scope and schedule are not so aggressive that they overrun fees. Consultants must account for these risks in determining price. To protect themselves, consultants should look for pricing strategies that provide:

- ➤ A variable and flexible pricing structure
- ➤ Some payment up front
- ➤ A fixed, achievable schedule
- ➤ Commitment to additional fees if extraordinary circumstances arise

Even when there's a track record of past performance, what the client and consultant don't know about their risks creates a fundamental conflict between them, which can result in lengthy fee negotiations. What's called for is open, frank discussion of the risks on both sides that will lead to price agreement and allow the project to be launched.

➤ Dilemma 3: What's the Question?

Consumers buy in a certain fashion, whether it's a major appliance, a vehicle, or home furnishings. They gather information about the product from the Web, magazines, print and television ads, and their friends. Then they comparison shop: They compare prices, options, features, colors, availability, delivery schedules, installation charges, warranty, and vendor and manufacturers' track records.

Then the analysis begins. Consumers ask, "Can I afford it?" "Are there less expensive, comparable alternatives?" "Can I get the model I really want for less money elsewhere?"

If buyers of consulting services could ask essentially the same questions, their task would be far less complex. But consulting services are customized for each project, so it's tough to use the same rules as for buying a dishwasher or a television.

Another complication is that, despite a client's effort to specify project needs, each consultant will respond with a different proposal, approach, and price. It's not unusual to hear a client say that one firm's proposed price is twice as high as a competing firm's bid.

Sorting out differences in price and options can be time consuming and unpleasant for clients. Consultants can simplify matters by describing, in quantifiable terms, a realistic estimate of the project benefits. With that information, clients have a solid basis for comparing your price with your worth.

The secret to winning projects is not having the lowest price, but the highest perceived value. Spend as much time calculating a realistic contribution to client value as you do figuring out your fee, and make sure the client understands both. You'll make your client's decision process simpler and tip the scales in your favor. So the right question is not "How much does it cost?" but "How much is it worth to the client?"

■ GUERRILLA PRICING

Guerrilla pricing is about understanding the client and the project, but it's also about flexibility and creativity. Your approach to pricing must be as varied as the clients you serve. To avoid lengthy fee negotiations, make sure your fees reflect four criteria:

1. Agreed-on value for fees
2. Profitability for your practice
3. Simplicity of understanding
4. Fairness to both the consultant and the client

The first step in determining the price of a project is to reach agreement with the client on value for fees. If you propose to help a client reduce indirect expenses by 2 percent, then you must quantify that cost reduction and provide a way to measure it.

Some consultants argue that it's too difficult to quantify the value of a consulting project in advance. But those who take the time to nail down that value will find less price resistance, especially if the value-to-fee ratio is high.

Every project has potential measurable benefits. Of course, some values are easier to measure than others. Here is a simplified example: If a client wants to increase annual net sales by 3 percent, multiply current net sales by 3 percent to figure out the monetary gain the client will receive.

To orient clients in the discussion of what your services are worth, consider the possible drivers of consulting value listed in Table 17.1.

➤ What Is It Worth?

Once you have articulated project benefits, figure out, in conjunction with clients, what the proposed changes are worth. Reducing employee turnover by 20 percent might reduce recruiting, hiring, and training costs by that same percentage. The higher cost of employee benefits for longer-term workers might offset that gain by a small

Table 17.1 Drivers of Consulting Value

Consultants Can Help Clients . . .			
Increase	**Reduce**	**Improve**	**Create**
Revenue	Costs	Productivity	Strategy
Profit	Time/effort	Business process	System
Growth/market share	Complaints	Service	Process
Shareholder value	Risk	Information	Business
Employee retention	Turnover	Morale	Product
Return on assets/investment	Conflict	Image/reputation	Service
Efficiency	Paperwork	Skills	Brand
Visibility		Quality	
		Customer loyalty	

percentage, but the client will still realize a net gain. Find out what that would be.

If you help clients improve the quality of their products, that should result in fewer complaints and returns and a lower cost of stocking merchandise. If you improve morale among a client's staff, managers could spend less time in meetings and more time running the business. What is it worth to have motivated workers instead of absences and poor work habits due to low morale?

Quantify all benefits that are relevant to a project and confirm those numbers with the client. That information provides the crucial context in which clients can assess your fees.

➤ Project Profitability

The heart of guerrilla pricing decisions is project profitability—the profit you must earn on a project to stay in business. Begin with an estimate of your costs for completing the project so that you can understand your financial commitment. If you don't have a true picture of your costs, you can easily end up losing money on a project.

Assess the salaries, benefits, and overhead expenses you'll incur. Include an estimate for other expenses, such as travel, interest on working capital loans, preparation time, and other business development expenses associated with the project. You don't need a fancy financial model to calculate these costs, but don't price a project without isolating these numbers. Without them, you're flying blind.

According to one consultant, "It's like the meterless cab rides I took in New Jersey. Unless I pressed the driver for the cost ahead of time, I never knew what the ride would cost until I got there."

In many cases, consultants choose not to pass all project costs along to the client. For example, only a few firms will even try to charge a client for creating a proposal. Whether you recoup them or not, you need to understand all project costs. Then, the next step is to decide the profit margin—the amount of profit—you need for the project, which will vary from firm to firm and client to client.

You can use many formulas to determine profit margin. And you may find that the same formula is not suitable for every project. The point is that a clear understanding of your costs gives you the flexibility to customize pricing to meet the client's needs while ensuring project profitability for you.

➤ It Costs How Much?

Creativity and flexibility are critical in pricing. Of the numerous pricing alternatives available, choose one that best fits the competitive

GUERRILLA INTELLIGENCE: INTANGIBLE BENEFITS

As you calculate your fees and forecast profit, remember to include the intangible benefits you receive from projects. In the consulting business, not all profit is purely financial.

While working on projects, you increase the knowledge base of your firm and its consultants. You build new skills and forge new relationships, which can lead to future work. You also generate materials for future marketing, such as references and case studies. These benefits are elements of profit that you should consider when calculating your project fees.

situation. If clients say they will only accept fixed-fee proposals, obviously you have to work within those parameters. But that doesn't mean you can't be creative and offer options.

In presenting fees, make it clear and easy for clients to understand how you arrived at your fees. Some consultants build elaborate spreadsheets to calculate their fees, which can cause clients to focus on the accuracy and detail of the spreadsheet instead of the fees. Remember, the client will likely be sharing your proposal with others who may not have the benefit of hearing your presentation directly. So make the pricing method clear.

■ SO MANY PRICES

Clients usually say they don't buy consulting services on price. They'd be foolhardy to choose the lowest price consultant to handle work they consider important—or so the reasoning goes. Nevertheless, when one competitor discounts price, clients often use that leverage to drive all prices lower, creating a price war.

While you may be constrained by what clients want, many pricing options are available. Understand how they work so that you can offer creative combinations. Here's a quick rundown on the most common pricing strategies.

➤ Hourly Rate (Time and Materials)

Fee for service is a standard pricing format used by most service providers, including consultants, lawyers, accountants, and plumbers. It's simply a specified dollar amount for each hour, day, or week you put in on the job. For decades, service providers have trained clients to think that the "hourly rate" is the gold standard of pricing. It is easy to understand and gives clients a simple way to compare rates between competitors. It isn't usually too long after clients see hourly rates, however, before they pressure consultants for discounts.

Clients will also quickly see an advantage for them to cap or limit the total hours that providers can charge for projects. With such limitations, clients must preapprove any work that exceeds the hourly ceiling. With hourly caps, project fees are fixed and clients get some price security. But if the project schedule slips because of an unforeseen event or because the client fails to complete a task on time, consultants can find themselves working for free and losing money.

How to Use Hourly Rates

Hourly pricing limits consultants' opportunities to share in the benefits they're helping to produce for clients, so some consultants try to avoid this strategy. However, many clients demand hourly rate agreements, so they are difficult to avoid. The following guidelines are useful when using this approach:

- ➤ Establish an hourly or daily rate that will ensure project profitability.
- ➤ Avoid caps on hours per day or per project.
- ➤ Provide an hourly or daily rate for each consultant level (for example, partner, senior manager, manager, and consultant). Don't quote a composite rate for all consultants on the project because any change in the consultant mix will impact the project's profit.
- ➤ Confirm that rates apply only to this project and that other projects can be billed at different rates.
- ➤ Establish a firm time frame for rates to remain in effect; if a project extends beyond your fiscal year, include any planned rate increases for your practice.

GUERRILLA INTELLIGENCE: THE DOWNSIDE OF FEE CAPS

The biggest drawback to fee caps is that they take the client's focus off the primary objective: achieving the project results. Clients who continually monitor consultants' hours would be better served by focusing on how well the consultants are progressing toward achieving project goals.

➤ Plan how to respond if the client pressures you to discount hourly rates. Be prepared to offer a different consulting team or reduced scope that would fit a lower rate.

➤ Understand how much profit you need for each level of consultants assigned to the project. Know in your own mind the lowest possible rate that you could accept before you would walk away from the project.

➤ Ask for an additional incentive payment if the project results are met or exceeded.

Though not ideal, with proper planning, hourly or daily pricing can lead to acceptable profit margins, especially for larger consulting assignments. Consultants who work alone on projects, however, should be wary of this kind of pricing.

A single practitioner doesn't have the financial leverage of a larger consulting team. With a team, overhead and profit can be spread out among the consultants. To make a reasonable profit, a consultant working alone on an hourly basis might have to charge the client a noncompetitive rate or bill for many more hours.

Even though many consultants would prefer not to use fee-for-service pricing, don't count on it going away anytime soon. We trained clients to think this way, and it will take some time to change their perspective.

➤ Fixed Fees

You've probably heard it said that you can tell how housepainters are being paid by watching them work. If they're going slowly and deliberately, they're being getting paid by the hour. If they're painting fast and furiously, they're getting a fixed fee for the job.

Guerrilla Tactic: Should You Discount Your Rate?

Discounting hourly or daily rates is a slippery slope. Some consultants believe that quoting a low rate initially will help sell the work and that, at a later date, they can raise their rates. Don't be so sure. Unless you've done something truly remarkable, you'll find clients stubbornly resistant to raising rates as quickly as you'd like, if ever. If clients press for lower rates because they want projects to cost less, suggest reductions in the scope of projects to bring the overall costs down.

Guerrilla Tactic: Put Price to Rest

Once pricing is decided for a project and the contract signed, it's best for all concerned if the issue of price can be put aside and not revisited. Your goal should be to agree with the client on a price that will not need to be renegotiated down the line. Your relationship with the client can't develop if you are in a continuing tug-of-war about money.

Under a fixed-fee arrangement, the client pays the consultant a set price for a project. Often, a fixed fee is calculated by multiplying the consultant's hourly or daily rate by the length of time the client expects the project to last, but other formulas are also used. The critical point is that the fee amount is fixed no matter what happens or how long the project takes.

Clients love fixed-fee projects. Their costs are predictable, and the financial risks are shifted to the consultant. If a project schedule is delayed or the objectives change in the middle of the project, the consultant may have to perform more work than originally budgeted, at the fixed price. Most clients will recognize the need to renegotiate fees in this situation, but they have also been known to refuse to pay more.

The most effective way to use fixed-fee pricing is for small, discrete projects or for short phases of large projects for trusted clients. You can't eliminate the impact of unforeseen risk, but limiting the scope of a fixed-fee project will reduce your exposure. Make sure fixed-fee agreements include precisely defined objectives and measures of success that are agreeable to both the consultant and client.

It's also essential to define the role of the client's team in meeting the project schedule. In one case, a client's team members were pulled off a fixed-fee project after the first two weeks because the client needed them to analyze a potential company acquisition. The assignment of the new client team slowed the project down so much that it took several weeks longer to complete the work. The consultant and the client ended up in heated argument about the additional costs that the consultant incurred shuffling the team and orienting the new team members.

➤ Contingency Pricing

Consultants have torn a page from the personal injury lawyers' handbook by adopting contingency pricing methods. Under these

Guerrilla Tactic: Risk Premium

Add a risk premium to fixed-fee projects because it is easy to run into problems. When you're receiving a fixed fee, clients can enlarge scope unintentionally or create delays. Manage the scope of the project tightly. Work collaboratively with the client to reach an unambiguous understanding of scope, and set up a process in advance to discuss changes that might occur. If a problem arises, address it immediately.

In fixed-fee projects, ask for a substantial payment before the project begins. It's not uncommon to request 50 percent of the fee at the outset, 25 percent at the halfway point, and 25 percent on completion.

arrangements, a consultant's fee is based on achieving an agreed-on project result. Usually, the consultant receives a specified percentage of the gain resulting from the project.

Contingent fees seem to work well for revenue enhancement, cost reduction, litigation support, and other projects where a monetary impact can be measured with relative ease. Contingent pricing is simple to understand and administer as long as the measurement standards have been specified.

But if the measures of success are not crystal clear, it's easy to get into arguments with clients over this pricing approach. Suppose a client wants you to reduce costs by renegotiating telecommunications equipment leases, and you propose that your fee be 30 percent of the cost reduction achieved. That's a clear measure of success. Measuring precise project results can be both difficult and costly, so be careful to define the measures before the work begins.

Watch out though—contingency pricing can leave the consultant with nothing at all. What if, for some reason, you can't renegotiate those equipment leases to the agreed-on level? You've worked for free and probably alienated the client for failing to perform.

Contingency pricing calls for precautionary measures. To motivate the client to achieve target results and to help your short-term cash flow, ask for a partial up-front, good faith payment against the ultimate fee, and suggest progress payments if the project stays on course. Avoid waiting until the end of the project to receive your fee.

To reduce risk further, ask for an escape clause that kicks in if unforeseen external events make achieving the project results impossible.

Include in that escape clause a provision that you will be paid some portion of your fee for work you perform to the point when the unforeseen events occur.

Consider using contingency pricing in a limited way with trusted clients. If you are sure you can deliver the projected benefits to the client and are willing to take a set percentage of the benefits as your fee, contingency pricing might be your best bet.

➤ "Success" Fees

A variation on contingency pricing is to tie fees to an all-out guarantee: The consultant does not get paid if the client does not deem the project a success. As clients have become more skeptical of the value that consultants provide, they want to base payment on the success achieved. The sentiment seems to be that if consultants are as good as they claim, they should be willing to put their fees on the line.

Under some formulas, only part of a consultant's fees is tied to success, and the rest is paid through a more standard pricing method. Another possibility is that consultants can agree to allow clients to hold back partial fees. For example, if a project calls for $500,000 in fees, the consultant might bill the client for $450,000 and let the client decide whether to pay the final $50,000.

Some clients want to fund projects from the eventual project benefits. Consultants have been known to bankroll projects provided the clients pay the deferred fees later when increased revenue or savings are realized from projects. Such "self-funding" projects allow clients to hire consultants without increasing their budgets.

Clients appreciate the flexibility of consultants who are willing to put their fees at risk, and that may help you win more projects. But to offset the added risk in such contracts, consultants should always ask for bonuses that are to be paid if they exceed expectations.

Contingency pricing is currently used on a limited number of consulting engagements. As clients become more sophisticated in the pricing of consulting services, that percentage may increase.

➤ Value-Based Pricing: The Consultant's Dream

Value-based billing is getting press these days because it represents a path away from the hourly rate model that is so prevalent in the consulting industry. In a value-based fee arrangement, the consultant's fees are tied to the value the project generates.

You share in the benefits but, unlike contingent price arrangements, your fees are not limited to a one-time percentage of the results.

For example, if you were to undertake a project to reduce annual corporate overhead expenses, you could be paid a part of those savings, regardless of how large they might become. So, if you negotiated a 15-to-1 value ratio and the client saved $1,500,000 in corporate overhead, your fee would be $100,000. If those savings reached, say $6,000,000, your fee would be $400,000.

Though clients haven't fully embraced the concept, value-based pricing can provide substantially higher fees for consultants because the higher the value received, the higher the fee. If the project to reduce corporate overhead was priced using either an hourly billing rate or a fixed fee, the consultant's fee would likely be substantially lower than when calculated on a value-based billing strategy.

Pegging fees to value helps clients to see consultants' fees in the context of the benefits they receive from their projects. When the consultants' fees are placed in the larger context of value, larger fees seem more reasonable.

Value-based pricing has been slow to gain acceptance in the consulting business because of difficulties in agreeing on estimates of value and finding methods to measure it. Clients are also unsure how much value they are willing to share with consultants. Some clients feel that the effort required for an equitable value-based pricing program is not worth it, especially since legions of consultants are willing to provide easier to manage, fee-for-service pricing.

How to Use Value-Based Pricing

The rewards for consultants using the value-based approach can be substantial, but the financial risks can also be great. Many events can conspire to create an unhappy ending, ranging from executive turnover to unforeseen business or economic conditions. They can affect the value of a project, and as a result, the consultant's fee.

Guerrilla Intelligence: Value-Based Pricing

Value pricing can be hard for clients to grasp because it's unlike other pricing methods they use in business or their personal lives. If value-based pricing was applied to health care, a doctor treating a patient for a broken leg would be paid more if the patient fully recovered, and less if the patient ended up with a slight limp. To complicate matters, before treatment, the doctor and patient would have to agree on a payment scale linked to how well the patient ended up being able to walk.

Use this approach only when you're certain that you can successfully complete the project and that it will provide profits greater than other pricing methods. To protect against undue financial risks, only agree to value-based fees for existing clients with whom you have a strong track record and relationship. You must know the organization and culture, including where the bones are buried, and that you can operate effectively in the client's environment. Unless you are confident about these factors, building in the necessary definitions, measures, and controls can become complicated.

Most consulting project teams are a combination of consultants and the clients' personnel, and the teams that actually perform the work drive project outcomes. So, insist on control over the team, its composition, member selection, and their assignments. Teams must have the skills to get the job done. If a client decides to change one or two team members, it can spell trouble.

Eliminate some financial risk by asking for a good-faith payment at the beginning of the project and by setting checkpoints to measure progress against goals. You should also request interim payments. Don't wait for a big bang finish at the end of the project to collect your fee.

Include a rip-cord provision in the project agreement. If conditions emerge—such as executive turnover, client team changes, or unforeseen external circumstances—agree on terms for ending the project and on the amount the client will pay you.

➤ Retainers

Two types of retainers exist: prepaid service and unlimited access agreements. Prepaid service agreements are standard in the legal profession. For a set amount paid in advance, a lawyer's clients are entitled to a specified number of hours of legal advice. Most of these retainers are simply prepaid, hourly rate arrangements. As soon as the client has exhausted the allotted number of hours, the retainer must be renewed.

An unlimited access agreement, which is more common in consulting, gives a client access to a consultant for a fixed period for a fixed fee. Such retainers assure clients that they will have access to their consultants of choice for advice, coaching, and counseling for a fixed monthly or annual fee. Generally, retainers are used for advisory services instead of for completing specific projects.

The value of a retainer to the client is in being able to access the consultant's knowledge and experience, not the consultant's ability to complete projects. A retainer agreement usually limits the number of people in the client's organization who can use the consultant's services. Often, only one client representative has a retainer agreement with the consultant.

Retainers are advantageous to consultants because they provide a known flow of income for a specific period. Top consultants usually have several retainer relationships in their practices.

How to Use Retainers

Retainer agreements work best with trusted clients who need advice on high-priority topics. Try to limit the term of the agreement to 60 to 90 days and include frequent checkpoints to measure success. The retainer agreement should identify who in the client organization has access to the consultant and for what purposes. It should also include a provision to create renewal periods and provide separation between advisory work and project work. If the retained consultant is asked to complete a project, the fee for that work is not deducted from the retainer, but is submitted in a separate proposal.

➤ Equity-Based Pricing

In some circumstances, consultants elect to be paid for their service in the form of stock ownership or options for stock in the client's company instead of cash payment. Some clients, mainly start-ups, may prefer equity payments because they want to preserve their cash. Although consultants can do well if the equity they receive appreciates, the risk of business failure is so high that most consultants prefer to receive some cash along with equity.

How to Use Equity Pricing

Ask for payment in both cash and equity and charge a premium for your services to cover the downside risk. Proceed cautiously with equity pricing, particularly with start-ups. One firm substituted fees for equity in an established Russian truck manufacturer. The potential payout for the consultant was several times the value of hourly rates. But the company went belly-up after several months and the client had no way to pay the consultant except with partially completed truck engines.

Examine the company as if you were a potential investor: Analyze the company's business plan, financial situation, and management before you agree to equity-based pricing.

➤ Composite Pricing

Pricing services is a creative endeavor that works best as a joint effort with your clients. Any of the preceding pricing approaches can be used alone or in combination with one or more of the others. Frequently, a creative combination can be the turning point that helps you win a project.

Composite arrangements can take as many forms as you can imagine. Perhaps you would charge a fixed fee for the first phase of a project with a performance-based bonus if your work exceeded expectations. Building on that success, you might propose value-based pricing for the second phase. For the right client, you could combine fee-for-service fees with an equity arrangement. Some consultants barter their services for clients' products; others help their clients build their businesses by promoting the clients' products. The possibilities for composite pricing strategies are endless. The only real constraint is the creativity of consultants and clients in devising pricing schemes that meet the needs of all concerned.

■ THE SPIRIT OF FAIR PLAY

The pricing of consulting services ultimately comes down to an exchange of money for value provided. But establishing a common vision of value is often tough, given client skepticism about consultants and the high fees most consultants charge.

Clients need consultants, but find it increasingly difficult to evaluate their fees. And because a firm's brand name is no longer so important, it's harder than ever for them to price consulting services. So it's easy to understand why the subject of fees can be difficult for clients and consultants alike.

Emphasize the spirit of fair play by setting fees that strike a balance between the client's perception of value and your need to make a reasonable profit. Strive to reduce risk for both sides and bring predictability to the process. Just because you think you can get higher fees from a client, don't necessarily demand them. Seek the rewards of a long-term relationship instead of a short-term gain. Communicate openly when projects are going well and when problems arise. Always aim to bring projects to completion without any fee surprises.