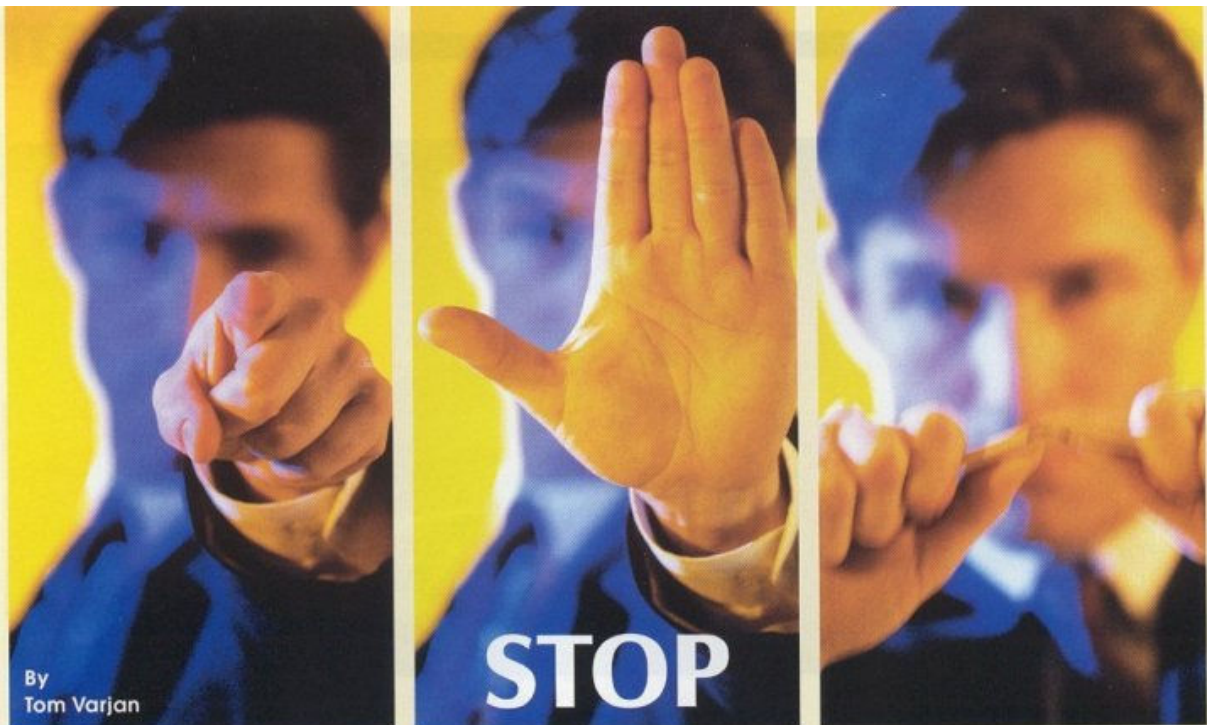


# Stop Time-Based Fee For Service Professionals

By Tom "Bald Dog" Varjan



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## TIME-BASED FEE-FOR-SERVICE PROFESSIONALS

Time is not money—at least not when it comes to setting fees for your professional services

**P**rofessional service businesses are dominated by the time-based fee-setting method. However, this approach to getting paid for services is seriously flawed. The average service professional in Canada bills out 1,140 hours per year, but creating this billable time requires 50-60 hour of work each week. Now multiply 1,140 by your hourly rate, and what results is the absolute maximum you can earn. This can increase somewhat over the years, but not significantly.

Some service professionals are charging what they deem flat fees—a sort of lumped hourly rates, which is the sum of the estimated working hours multiplied by their hourly rates. If you charge “piece-meal” hourly rates or “lumped” hourly rates, you are doing a great disservice to several people, including yourself, your clients and your family.

The following results are from a recent survey conducted by a professional consultant, focusing on the consulting profession:

- Working on time-based fees results in 87 per cent lower profits than working on fixed-fees.

- When profits and salary were added together, the time-based fee group had 95 per cent lower profits and salary than their fixed-fee colleagues.

- For those using time-based fees, profits were 32 per cent lower, and profits and salaries 36 per cent lower than those using both time-based and fixed fees. And these fixed fees are estimated on the amount of work to be performed. That is, you are higher paid than with time-based fees, but you are still being compensated as an outsourced labourer for the manual labour you perform.

Here are some of the unethical (to clients) and financially limiting and emotionally degrading (to yourself) aspects of time-based per diem fees:

- Per diem fees inflict an artificial upper limit on your earning potential.

- Per diem fees make your income subject to “going” or “competitive” rates. You will be compared to others and judged on price.

- As a per diem-paid vendor, your clients are supervising you with a whip and a stopwatch. You work for clients in master/slave relationships.

- Per diem fees do not require your clients to fully commit to the project’s successful completion because they know they can end it anytime and kick you out.

- In a per diem engagement, the client may drag you into “strategic corner-cutting” to finish the project in fewer hours in order to save money on you, but it can also jeopardize your reputation.

- If you charge per diem fees, you are undermining your income potential and your integrity in the eye of your target market. If your value to your clients is just a matter of how many hours you spend performing manual labour, then your service is perceived as a mere commodity and you eventually compete on price alone.

### HOW TO AVOID PRICE COMPARISON

Stop thinking about your fees as an entitlement for performing tasks, expending time and producing deliver-

## The best way to avoid worrying about your fees...

ables. This perspective is focused on yourself, leaving the client out in the cold. However, your clients' focus on what they want and need, and instead of deliverables and activities, they are seeking value. They want to see some improvement in their own condition and that of their organization. So, to avoid the limitation caused by time-based and going rates, you have to determine the value of your contribution as clients perceive it.

The best way to avoid worrying about your fees is to ignore them altogether. In my *21st Century Consultant Home Study Program*, I explain how to create personalized repeatable processes to establish the value of their contribution. You never have to talk about fees, and whenever clients deviate from value and start talking about fees and costs, steer them back to this conversation: "I will give you several investment (your service is never a cost or a price) options later, but for now let us establish the value you expect to receive and the impact it would make on your organization."

Your clients hire you to add more value, quicker and with more certainty. The following is a step-by-step process for establishing the value of your contribution:

### **IDENTIFYING A TRUE ECONOMIC BUYER**

This step establishes whether or not you talk to the right person. Far too many professionals waste far too much time meeting people who cannot make decisions and end up in situations like "send me a proposal and I'll show it to my boss."

### **ASKING ABOUT OUTCOME-BASED OBJECTIVES**

This section establishes the strategies of the project, that is, what exactly to achieve as a result of the project, and outlines the specific business outcomes. Unless the client can make a commitment required to achieve these outcomes, there is no point in investing in change. Note that you cannot achieve anything for clients – they must want it more than you do.

### **ASKING ABOUT PROGRESS METRICS**

These are the progress indicators as specific percentage or dollar values. This is an objective way of defining whether or not the intervention is achieving the desired results and what you have to do with it. Establish both quantitative, qualitative (benefits) and personal (wins) improvement. Every objective must have effective indicators.

### **ASKING QUESTIONS TO ESTABLISH VALUE**

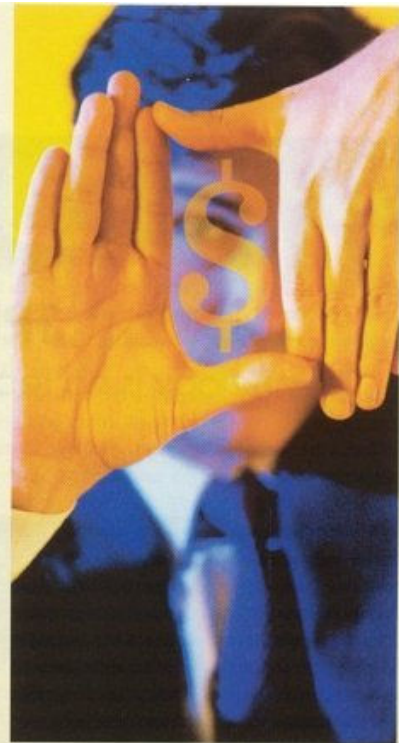
This section establishes the exact expected value your intervention brings to the table. Every single piece of improvement can be translated into money. That establishes the magnitude of the issue you are addressing. If you are hired to address a 30 per cent customer annual attrition problem in among 1,000 customers with a \$10,000 customer lifetime value, then, you are addressing a \$3 million per year (plus other components) financial loss. Is it worth fixing this problem? Without this section, you have no monetary basis of comparison for your fees.

### **ASKING QUESTIONS TO CREATE PERSONAL WINS**

We must distinguish between results for the company and personal wins for the buyer. Without personal wins, your benefits are useless. With addressing personal wins you can more effectively differentiate yourself from the competition and create real (emotional) buy-in from the client.

### **ASKING QUESTIONS TO ESTABLISH THE CLIENT'S READINESS**

Clients' organizations may be ready for the project, but the actual clients may not be. Make sure that the client is willing to make a commitment to putting in time, people and money to realize the expected outcomes. Without this section, the whole project can turn into a horror story. Your client is impressed by you and your solution, but for various reasons, he or she is not ready to move forward. Find out why.



...is to ignore them altogether

Changing from time-based fees to value-based is not easy. It is mainly a question of mindset, and you have to change the way you think about everything you do in your business. You took considerable risk in starting your own business – a risk that entitles you to have the rewards as well. You deserve to work less than the equivalent of a full-time job and paid many times more than you were as an employee. You have taken the risk, so you are entitled to the rewards. **B S W**