Time vs. Value

Which One Do You Get Paid for?

By Tom "Bald Dog" Varjan

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Time vs Value

Take a moment to think about the advantages of offering value-based fees.

It's something business folk know to be true: People do business with professionals they trust. Time-based fees destroy trust. Completing the equation is no big challenge.

But let's think about it more. Most service professionals still use time-based fees. Their doing so works both against clients and themselves. Professionals try to maximize prices, whereas their clients try to maximize the value they receive. Soon both sides end up arguing over number of hours and items of deliverables. Value received goes down the drain, and the relationship becomes one of an outsourced labourer performing certain tasks at a certain price.

Time-based fees work to limit effectiveness and creativity. Clients are anxious to get their problems solved in the shortest possible time, but your incentive is to drag out the time frame to get paid more. The time basis for fees also encourages extra tasks, regardless of whether or not those tasks improve the client's condition. Often this engagement is not real consulting but "outsourced labour" done for, to or at clients, but not *with* clients.

The lose-lose aspects of time-based fees

There is an incentive here to work ineffectively—after all, the more time professionals take to solve problems the more they earn. In fact, many firms reward their people for the highest number of billable hours. This forced emphasis on time destroys the quality of client service. The focus is on more and more, not better and better.

Professional service firms put a limit on their earning potential; there are only so many people and they can work only a maximum 24 hours per day. Clients know how professionals can attempt to maximize their fees—and that can undermine trust.

In this model clients actually give an open cheque to professionals who send the full invoice at the end of the gig. This approach has the unwelcome high level of "shock factor" for clients. Since the main chunk of the payment takes place after the engagement, clients are not as committed as these clients who make upfront investment in their projects.

The alternative—value-based fees

The best way of charging for professional services is basing your fees on perceived value your clients receive. Message for clients: "You get what you pay for." With this arrangement clients can put value on your contribution, based on what they want to achieve.

Additionally, this arrangement is an investment in clients' futures with a clearly defined return: The more clients put in the more they get out, so clients decide what they want to get out and invest accordingly. The problem is that only an amazingly few clients have the courage to invest in their own businesses.

They have nice cars, lovely houses, etc., but when you say: "I can help you to eliminate the $1,000 per day production loss in your manufacturing process. It will take about a week and your investment will be $100,000," responses differ. Smart people calculate that this problem costs them $365,000 per year, and find the investment fair. Most people will gasp: "You're crazy. You want me to pay you $100,000 for only one week of work?"

Parting words

An old style of doing business—"I am a professional and this is my price"—is long gone. Still, smart clients want to hear about value they receive, not merely tasks you perform. In spite of your degrees and experiences you are worth exactly nothing until and unless you can articulate the value clients receive from you. Performing tasks is a mere commodity, is traded like sacks of potatoes and fetches pretty much the same price. Clients have grown sick and tired of paying for tasks, reports and analyses that have no value for them. However, sharp clients are willing to invest in their own futures—if you can help them to get there.