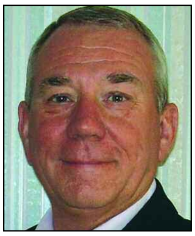
Protect your current

Despite small signs that the recession is coming to an end, many firms agree that protecting fee levels in 2010 will remain a particularly tough activity. But how can firms go about this while clients are being forced to look hard at their costs?



By John Timperley and David Webb

During the last 18 months many firms have experienced tremendous pressure to reduce fees and this has invariably led to cost-cutting and downsizing. Many partners believe it will be difficult to return to the fee levels of the past, as clients have now come to expect services at discounted rates. So what can firms do to protect fee levels in 2010? What should they do if clients demand further cuts? And what should marketing and business development professionals advise fee-earners to do when the 'price' issue comes up.

There is no doubt that the current market conditions will continue to drive clients to look hard at their costs. As a result many firms will continue to face clients that try to negotiate fees down, query the detail of invoices, take an age to pay or demand payment holidays, tender the work on an assignment by assignment basis, and involve their own or external procurement specialists to secure better value for money. To protect the relationship for the long-term and at the same time protect their own revenue streams, we see firms responding in three key ways.

These are:

- Exploring alternative 'commercial' fee structures
- Making sure fee-earners are equipped with the information and skills to negotiate fees robustly
- Keeping even closer to clients to demonstrate the firm's value to each individual or organisation, so price isn't the major determining factor in their choice of adviser.

Let's take a closer look at these three strategies and the approaches that stem from them.

Exploring alternative fee approaches

The current environment has been a fantastic catalyst for fresh thinking on fees by professional firms. Fresh thinking hasn't just meant fee reduction, which has naturally been prevalent. There have also been some innovative fee structuring techniques used. These have given clients more of a sense that their advisers are acting in a commercial way (and not just concentrating on the billable hour). Such structures have included charging fixed, capped and contingent fees in given situations, together with sharing the client's pain on abort fees and bonuses if projects hit agreed success benchmarks. We've also seen some firms offer pre-financial year end/budget management discussions with clients and others switching to monthly billing to help clients' cash flows.

As one of our colleagues, David McWhir, points out, "recognising that a client may have a need, but not the budget, can be a key element in retaining or even enhancing your relationship with them. Many business people say they fear severe cost cutting will restrict them from moving quickly and effectively when the upturn does come".

So consider if your firm could help a client put in place strategies or processes that will come into force once the economic tide really turns. Can clients be allowed to defer some or all of the payment until your fee-earners' advice "kicks in"? Your firm might find it's even possible to charge a premium in response to deferring that solution or advice. Many clients are more confident about paying invoices when the upturn occurs, but are still extremely focused on managing cash flow at present.

Supporting your client contacts

Creating alternative fee structures invariably requires an open and honest conversation with clients about their attitude to risk and reward. It's then a case of being creative to provide a solution that fits the client's need and works well for the firm too – it has to be seen as a win:win for both parties to be successful. Such an approach requires an ability to focus, not just on the immediate short-term transaction, but also on the longer-term relationship.

The decision to reduce fees is a difficult one that needs to be made with an eye on tomorrow as well as today. The more commercial fee options and ideas you can devise to help your clients to afford your advice, the greater your chance of being paid (and retained). Finding innovative ways to structure fees that still leave the adviser with a profit (usually) for all their work and advisory input, but at the same time recognising that they and the client are 'in it together' has therefore become a real area of focus for firms. Such fee structures are helping to 'build the bond' of strong advisory relationships in these challenging times and perhaps, even when things get better, they will make old charging mechanisms a thing of the past.

fee-levels

But real care is needed here. Structuring an alternative and commercial fee requires careful financial modelling before proposing (and agreeing) an approach with the client. The starting point has got to be that whatever fee structure is proposed, there is an acceptable level of profit in it for the firm. Without such financial discipline this is just guesswork that can cost the firm considerable sums and end up with them taking risk without any reward … in other words doing the work for nothing.

Making sure fee-earners are skilled to negotiate fees robustly

Another strategy that firms are pursuing to protect current fee levels is to get slicker on fee negotiation training.

Being asked to enter into such negotiations shouldn't mean that firms automatically start slashing their prices. As one partner we talked to recently commented, "it's not really a matter of what fee structure you propose, it's how you negotiate it and the end result you come out with that makes the difference between making a good profit, a realistic return or none at all." In fact a number of professional services firms are proving that there is real value in preparing partners to negotiate in an area they are not used to – their own fees. They are managing fee negotiations to a successful conclusion – where both the client and they feel satisfied. From our work with these firms, and also those whose fee earners struggle to negotiate fees, here are eight tips. They are designed for fee-earners who are faced with a client who is objecting to their fees:

- **Understand where you add value to the client.** If you are going to try to convince the client that they should accept your fee, you need to understand which of their current needs you are satisfying. What real benefits does your work or expertise bring to the client and what is that worth? Value for money is very difficult to create without an understanding of the client's needs. So, be clear on the key drivers behind this client's current requirement. The client will ultimately be the judge of whether your firm offers value for money and you are worth paying a premium for. Can you justify the value you bring to this situation? You need to.

- **Consider how you are a better bet than your competitors.** In the current climate clients are shopping around. This means it is important to familiarise yourself with competitors' offers. Consider how your firm offers greater value and communicate this to the client. The more your differences relate to the client's situation, and how you can deal with it better, the quicker they will grasp the value behind the fees you are proposing.

- **Stop negotiating with yourself.** We often come across professionals who work hard on a proposal for a client, but often then look at the fee and say 'they'll never pay that – they already think we are expensive'. In doing so, they rarely negotiate an optimal outcome, as they do not believe in their offer and fee. They have effectively started negotiating with themselves before they have even talked to the client. Many clients are currently asking themselves 'Why should I pay that much?' You should be prepared and have sufficient powerful compelling arguments to tackle this question.

- **Preparing in the taxi does not work.** Just as pitching and proposal writing takes time to prepare, so do fee negotiations. How long do you typically spend on this type of preparation? Some professionals tell us 'it depends on the length of the taxi ride to the client's office'. This really doesn't give them a fair chance. If you are facing an important negotiation with an important client, then spend time preparing. Practise with colleagues – work out the objections and questions the client is likely to pose and consider what answers you will have for these. Focus on the opening of the meeting and how you are going to manage the discussion so you get, and keep, control.

- **Know what you want and what you can give.** The best negotiators consider also what aspects of their offer they are prepared to lose, or reduce, and those where they definitely want to stay firm. If you reduce your price by 10%, without a similar change in your offer, your firm's profits will be hit in the long run. Discounting in this way also sends the wrong signals about what you are prepared to work for and that will be difficult to sustain in the future. So find things that are worth 10p to you but worth £1 to the client, so to speak. Create a situation where they feel they win as much as you do. To achieve this you need to have plenty of variables in your offer to trade and therefore do not have to concentrate too much on cash (and its reduction). Be prepared to say 'we can't move on the fees, but what we can do is…' – and have plenty of alternatives up your sleeve. Splitting the difference purely over money often leads to both sides feeling they have lost in a fee negotiation.

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- **Two ears. Two eyes. One mouth.** The saying goes … 'When your eyes and ears are open you are probably learning about others. When your mouth is open they are probably learning about you'. Consider this when you are trying to find a strong common ground from which the negotiation can go forward. Avoid giving too much away too early and be clear to understand what success looks like for your client. Good negotiators establish the key issues for the client. They then check how important those issues are for each of the stakeholders involved in the decision. This requires careful questioning and listening. However, it adds significant value to the negotiation by putting offers on the table that 'tick all the boxes' and are difficult for the client to refuse.

- **Make them work.** If you are going to make concessions make sure the client works for them – or changes their requirements and expectations in some way – eg. how much of the work you will do, and work that will be completed by the client's team. In this way the price of your proposal won't be undermined and reductions will be justified by changes made on the client's side.

- **Be firm and friendly.** When coaching professionals how to negotiate, many tell us 'but I mustn't upset my clients'. None of us, quite rightly, wants to jeopardise our relationships with clients but our fear of 'rocking the boat' often prevents successful outcomes being negotiated for both the client and our firm. You therefore need to learn how to be firm on the key issues but also respectful and warm to the other side. This is a personal skill area and training and practice can help you articulate your arguments and hold your ground. Your aim here should be to justify your position, not defend your fees and, more importantly, believe in this position.

Fee negotiations are an increasingly challenging part of today's winning business process and need care and skill in handling. The more fee-earners understand the key components that will drive the client's final decision, the greater their chance of securing an outcome which is attractive to both the client and themselves. Encourage fee-earners to practise how they will articulate the value they'll bring. And before they meet with the client, it's wise to be very clear in their mind, where they can move on their offer and where they can't. Remember there may be factors, other than fees, which your firm can offer to bring about a win:win for both sides.

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Keeping even closer to clients and demonstrating your value

Keeping close to clients isn't about calling from time to time to find out how they are (secretly hoping that an opportunity will suddenly reveal itself and give you the chance to cross-sell). Instead, it's about being more strategic to demonstrate your understanding of them and delivering tangible added value that makes your firm indispensible (and so the price issue isn't such a determining factor in them retaining you).

A number of successful initiatives have been set up by firms to do just this. These are more proactive measures and very valuable to the client. Initially the aim of them has been to instigate a dialogue with the client, one that's valuable to both parties. Here are some tactics that have been used:

- Creating valuable (really valuable) pieces of intelligence, insight and thought leadership that, when followed up, create a platform for a focused conversation with a client on the matter addressed in the resource
- Introducing clients to other contacts, clients and colleagues whose expertise touches exactly on an issue they're facing
- Offering to share resources and access to systems, intelligence and tools that the firm possesses
- Arranging secondments or running 'think tanks' which bring some of the firm's senior people together with the clients' for a workshop or brainstorm
- Creating networking events for clients so they can explore business opportunities within the firm's network of contacts

Key to these activities is often an assessment of which client relationships would benefit from this approach (not all will) or are at risk, and the implementation of a plan which gives the client really valuable input from the firm.

Summary

Despite small signs that the recession is coming to an end, many firms agree that protecting fee levels in 2010 will remain a particularly tough activity. Over the last 18 months, we've seen a palpable difference between those firms that have grasped the innovative fee 'nettle' and embraced it, compared to those who are clinging on to old ways of charging and outdated views on client service levels. This is either because they are uncomfortable with anything that smacks of potentially losing revenues, or because they have a lack of ideas. Either way some firms are becoming regarded by clients as dinosaurs because of:

- their lack of commercialism in fee structuring,
- a lack of tangible added value in their approach,
- perceived poor client relationship management approaches, and
- poor negotiation skills,

when they are compared directly with others. And we all know what happened to the dinosaurs.

Date for your diary

Hear more from David at this year's PM Forum conference, taking place on Wednesday 22 September in London.

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