

# Value Based Fee System Pricing Strategies



## Traditional Pricing Structures and Variations

1. Hourly plus mark-up – one rate for all work
  - a. \$50 - \$250 is a typical rate range depending in your market and experience
  - b. Mark-up of 10 – 250% (higher end is retail store) - a minimum of 25 - 35% is fairly typical
2. Variable hourly plus mark-up – rates dependent on the type of service provided
  - a. Design
  - b. Meetings
  - c. Drafting
  - d. Rendering
  - e. Meetings with Clients
  - f. Jobsite Meetings
  - g. Shopping
  - h. Administration
  - i. Expediting
  - j. Travel
  - k. Same mark-up structure
3. Hourly portal-to-portal – one rate from the time you leave your studio until the time you return
4. Variable hourly plus mark-up – rates different depending on employee's level of experience
5. Hourly (one of the above) and a discount from suggested retail – typically 5 – 20% discount or at retail cost if the item does not receive a discount
6. Retail – no hourly or traditional mark-up – this puts you at the level of a retail store designer and does not differentiate your services
7. Design only and no mark-up or discount from retail – services still hourly with one of the variations, but no mark-up on products
8. Purchasing – can be done for a flat fee and/or a percentage – some firms also bill for time
9. Additional fees for reimbursables – anything from cost to cost +25%

### Option 1

Square footage price based on your experience with projects and the going rate for projects similar to the one you are proposing. Range of \$4.00 - \$25.00 per square foot.

### Option 2

Calculate the entire scope of the project including:

- Each furniture piece
- Each accessory

- Drawings
- Renderings
- Expenses
- Time for each type of work
  - Design
  - Meetings
  - Telephone calls
  - Expediting
  - Administration
  - Emails
  - Job site meetings
  - Internal meetings
  - Meetings with clients
  - Shopping
- Profit
- Extra for unexpected

### **Option 3**

Percentage of overall budget. Some designers figure a percentage of the overall budget at 10 – 30%. For example, the entire budget is \$100,000 – your design fee could be \$10,000 - \$30,000 of that total budget. I found that the time for my staff was around 20 – 25% of the overall project.

### **Option 4**

By room. Some firms in the larger cities use a by room calculation, and this can range from \$1,500 – tens of thousands of dollars. Vicente Wolf’s projects are extremely expensive and he actually calculates his on a mark-up percentage. He carefully controls the process and time so he can maximize his profits. This doesn’t work for everyone.

### **Purchasing**

You can do purchasing for your client, and if so, you want to make sure your proposal includes enough profit to make the time invested worthwhile if you are not adding a mark-up.

Make sure your contract protects you in case of liability, lost or damaged items, etc. and explain that this is excluded from your services and liability.

You do have options to offer goods at your wholesale or net cost. You could offer a fee for access to your wholesale costs plus the freight, delivery, inspection, administration, expediting and delivery coordination.

I found with my projects that expediting, proposals and pricing could easily be 60 – 80% of the time budget for a project. Don’t undercut your Value Based Fee by not covering these expenses.

If you do purchasing, here are some best practices I strongly recommend:

- 100% deposit for all product purchases including sales tax, freight and delivery

- Include a clause at the bottom of your proposal that states “upon receipt of signed proposal and payment in full, this order is non-cancellable.” Consult with your attorney, but in Colorado, this becomes a secondary contract
- Add a flat percentage (I used 18 ½% for freight and second day air fees for fabrics and trims) because I liked to speed up the process by two weeks with second day air for CFAs and second day air to deliver the fabric to the workroom or manufacturer. Same with furniture and accessories. If the product was extremely expensive, I would lower the percentage, but with the cost of freight these days, I’d keep it fairly close to that percentage

If you allow your client to purchase for themselves, always discuss this up front before contract and discuss the pros and cons of having your firm handle this part of the process for them.

If you use a product like Studio Webware to operate your business (highly recommended), you can do the purchase order preparation and have the client handle the purchasing from that point. What clients don’t understand is what it really takes to manage a project and make it happen. It is your job to fully explain what can happen so they decide whether they would prefer that you manage the risk and the time required. They are clueless about what it really takes to do this work.

I do not allow clients to purchase their own window treatments. Period. The mistakes are too expensive and there are too many adjustments and problems that accompany window treatments. I suggest that you keep this out of the original proposal unless this is a client who prefers a turn-key result.

### **Expenses**

Rather than bill separately for reimbursables like long distance or other small expenses, I recommend adding a small percentage to your project for those. They tend to be minimal, so don’t get crazy. 2 – 5% should cover you in most cases.

If your client is out of state or out of town, travel expenses or time should be included in your contract, or should be handled on a per diem (daily or trip basis).

### **Rules of Thumb**

Since my first degree was finance, I always tracked and analyzed the metrics (measurements of my business). How much time did I or my staff spend doing certain types of tasks.

If a client does not have any idea how much things cost, you must educate them. If they want to know what the fees should be, discuss ranges.

I used a rule of 10 – 30% of the cost of a home to do a major renovation or redecorating project depending on how many items we were re-using of the client’s own furnishings, art and accessories. It could be as much as 100% of the cost of the home for a project with a wealthy client who wanted what they wanted.

You should openly discuss their expectations so you don’t have ugly surprises.

Always budget your time for every phase of a project and monitor it with time billing even if you aren't billing for it. Studio Webware has that function. As a firm owner, you should also track the time it takes you to do marketing and advertising as well as manage and do administration. Set budgets for your time and estimates and see how you actually perform against those budgets. If you don't do this, you will never be able to run a highly profitable business.

If you have clients that are indecisive – add a premium to your services. Limit the re-selections for each item, and anything else that you can manage.

If you have difficult clients, add a premium to your services. After years of dealing with clients, I chose to weed those PITAs out of my business. They didn't fit my profile. Life is too short.

Add 20% to your budget for the unexpected...it will come up and don't offer this back to the client. The more you can manage your time and the time your clients require, the more you will make and the less you will work. Set limits.

I set a two hour limit for all meetings and shopping trips with clients. They were often overwhelmed, and I was done, too.

### **Outsourcing**

I've used this for years with accounting services. There are firms that do purchase order management, CAD, administration, shopping, etc. If you have a small firm, it is a great idea to outsource even project tasks, but do have a budget for these services since many are done on an hourly basis. You can add these expenses to your project with a mark-up even if it is lumped into your flat fee. You have to account for the paperwork and payments to your outsourcers, and that costs you money.

### **While You're At It**

Always discuss this with the client up front and explain that you will create a separate proposal for other services. Your reasoning? You did not include that in the scope of work, and to keep the project on time, you will have to add that as a separate addendum to the contract.

I often find that I and my designer friends are their own worst enemies with not managing their time, money, and budgets. I hope these guidelines are helpful for you. You do have to find what works for you, and that is an art, yet this is a business that delivers artistic services. The sooner you can truly manage your business by simplifying, systematizing and understanding what it takes to do it, the better you will be financially and you will have much lower stress levels.

Being proactive instead of reactive is vital. If you let the client keep adding to a project, it delays the project and ends up putting you in an adversarial position with your subcontractors and contractor, and you lose control of your time. Your time is your most important asset, and letting others control it means you are a slave.

Finally, I hope you see now why Value Based Fees are the key to being a trusted advisor with your clients and the best solution for running an effective business.

However, if you engage in a relationship with the wrong client on this basis, you can lose your shirt. If you're not good at uncovering the potential PITAs, tread carefully. Many clients are on their best behavior in the initial meeting. Assume that and ask the difficult questions. If they try to negotiate your contract or the fees, do not take the client. If you feel queasy from the beginning, trust your gut instincts. A difficult client from the beginning is often a nightmare client at the end, and they can put you out of business or cause severe stress.