

# Value Based Fees Series

## *“Value Based Fees”*

### *The Nuts & Bolts Session*

*Gail Doby, ASID*



Would you like to make more money and have less stress in your interior design business? Then listen carefully to this session about Value-Based Fees. This is Gail Doby with Design Success University, and I am delighted to be here with you today to share information that you can use to consider whether you want to use Value-Based Fees in your business.

Why are we offering this class? I had my own challenges with charging hourly for with a mark-up. I occasionally had clients that didn't pay their final bill. I had clients that negotiated bills. I cut bills because I felt that the time bills were too high and I took money out of my own pocket. I lost jobs because my billable rate was so high.

One of the most notable examples was when I lost a job to a prospect that bought a spec house that I designed inside and out and even ran the interiors crews for the builder. The house sold for \$4.85 million, and when I met with the buyer and told them I billed at \$200 per hour, they turned white and the conversation ended very quickly. It was frustrating because I knew that house completely, and knew how to make it fabulous. I happen to be extremely experienced and I'm efficient, so the client didn't understand that and I lost the job.

It took me 23 years of doing the same thing and expecting a different result, and then a year and a half of really looking for a solution to this problem for myself before I could help you. You know that Einstein said that was the definition of insanity...doing the same thing and expecting a different result...

After a lot of research, I found the solution outside of our industry, and today, I'll share the process and teach you how you can transform your business and your relationships with your clients. It is a big mindset shift, and I will talk about that today.

A few years ago, ASID did a survey with consumers, and over 70% said they would prefer a fixed fee basis for working with designers. How many designers really offer fees in this way? I don't know the exact answer to this question, but significantly less than 70%. What I do know is that based on our Fee & Salary Survey, we found no consistency to how designers charge.

I can't tell you specifically what and how you should charge because your business is unique, you are unique and each client or prospect is unique. At the end of this 1 ½ hour session, though, you'll have the tools and processes you can use to decide for if this is an approach you want to use and if so, you'll have the framework to create your plan.

At the end of this session, I'll take your answer as many questions as I can. If I don't have the answer, I'll research it further and get back to you. As with all of our classes, this session is being recorded and transcribed. You'll receive both the recording and the transcript within the next few weeks.

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So, the first question I have for you is, if clients want fixed fees, then why aren't we giving them what they want? "The secret of success is: find out what people want and help them get it!" - Harry Browne, salesman extraordinaire

What's wrong with hourly fees? Let's talk about your prospect's and client's psychology. What are their fears and what is in the back of their minds when they hire a designer?

1. There's an immediate conflict because the client wants the least amount of fees which means that the result can be compromised.
2. It actually reduces your potential fees.
3. Your client will have doubt about the honesty of your bills – they will wonder if you're padding the time.
4. You could end up not getting paid for all of your time if the client feels they are being overcharged.
5. They hate surprises – especially financial ones in today's economy.
6. In their minds, hourly billing can be endless. How do they know how much time it will take to do something, and why should they pay for every minute of your time when what they want is a result? What if you're not efficient? Is it fair for them to pay for time? What if you take 10 hours to find one fabric?
7. How can they tell the difference between your work and someone else's if you're charging different hourly rates? Wouldn't it be better to hire the lower priced designer?
8. What if they don't get the design they want and you're billing them for time that doesn't produce what they want? Is it fair for them to pay for that?
9. You're making money based on how many hours you bill and how much product you sell, so isn't your incentive to bill them as much as possible and sell the most expensive products?
10. Your clients or prospects sometimes feel they can do things for themselves and save money rather than pay your rates – even the wealthiest ones. What happens when they do this? You lose control of the project and the ultimate result.

I'm not bringing up these questions to say you are dishonest or unethical, I'm sharing what the clients could be thinking when they're talking with you about their project.

### **What's going on in your mind?**

You may be concerned about moving to a Value-Based Fee system because you're worried that you don't know how to do it properly. This is about progress and not perfection.

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You’ll find that it will take some time to think through this process and adapt it to your business. If your business is relatively new, it may be extremely difficult to decide how to approach this, so use this information as your template for creating your strategy after you have more experience.

Let’s talk about some of your fears, because that will determine if or when you’ll use Value-Based Fees:

1. What if the client is indecisive and it takes a long time for them to make a decision? If I do a fixed fee and they take my time, will I end up losing money?
2. How do I figure out a fee that is fair and makes enough money for me and I don’t scare them away?
3. What happens when the client adds onto the project?
4. I don’t know how long it will take me to do what is required, so how do I price a project for profit?
5. What if the client keeps adding things to the original scope of work? How do I handle that?
6. I’m overwhelmed and don’t know where to start.
7. This concept is confusing and scary...I’m worried I’ll lose money or even worse, not get clients because my fees are too high.

The biggest point of friction for the client is the fear of the unknown such as excessive bills and inefficiency. What they want is a result...that’s what they value. From your point of view, you’re not sure how to make enough money using fixed fees to make it worth your while. What if they are difficult to deal with? I can guarantee they will be exceptionally difficult to deal with if you have a conflict over your bills.

I’ll say from the outset that fees and how to structure them is one of the most complicated and frustrating parts of our business. I would bet that most of you agree with that. The result we offer is an art form, and the process is a business.

When we suggested that this class was for practitioners with at least 2 years experience, the reason is that you have to know how long things take and you need some experience working with the different personality styles of your clients.

Learning to set fixed fees that truly work for your individual business will take some time. I hope you didn’t come to this class thinking that you’d have the perfect answer immediately. It’s like any skill, it takes learning, thinking, testing, tweaking and polishing. Just think how long it took you to get good at the skill of design.

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Let's start with your mindset and knowledge it will take for you to be successful with the transition to a fixed fee billing practice.

1. You need confidence in your ability to provide a design service that truly satisfies your clients. You need complete faith in yourself that you provide a valuable service for which you should be fairly compensated. It will take practice to develop the system for yourself, and you literally need to rehearse, how you will present it to your prospects and clients.
2. You need to know who your ideal clients are. You need to know exactly who you want to serve. Your ideal client profile includes the demographics and their psychographics (mindset, values, etc.). We won't spend time on this today, but you do need to create a comprehensive profile. Since the recession has affected every one of us including our clients, you really need to spend time re-evaluating who should be your target and who can afford to pay for your services.
3. It's important to re-think how you approach your business. What often happens is that we try to get our clients to do business the way we want them to do business with us. We're thinking about our bottom line and not necessarily what's right for the client. What's wrong with that? We're focused on us instead of them and we're not giving them what they want and how they want it. Today's consumers have so many options and they are so much more educated than ever before. They have choices, and if we are not willing to serve them the way they want to be served, they have options that don't include hiring us.
4. It's important to understand that the more efficient we are, the better we can serve our clients. We need systems and processes to manage the business of design so we can be profitable and provide the best possible service to our clients. We have to know the best solution to get from A to B while achieving the masterful and artistic result our clients want.
5. We have to know how long things take and have a process and system for everything within our businesses. If we continuously reinvent the wheel, you won't achieve maximum efficiency and profitability. If you have a particular niche within the business, the narrower the focus, the more easily you'll be able to achieve the mastery level which takes at least 10,000 hours. I know this is something that many of you will resist because it either seems like too much work, it's overwhelming, you don't know where to start or this isn't your "thing." You're more right-brained and artistic, not left-brained and organized. You may not like what I'm going to say, but if you aren't organized and systematic, you're taking money out of your own pocket and you'll be destined to struggling with money. The sooner you invest the time in getting

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systematized, the sooner you'll be free of the parts of your business that aren't fun. The successful people in life are the ones that are willing to invest the time and the effort to do the things that others won't do. Which one are you?

6. We have to be realistic about what the economy has done to our industry. If you've been doing new construction or commercial design, that market is not good right now and won't be any time in the near future. You have to re-orient your business to the type of work that is available in your particular market, and you have to re-target your practice to serve the people that can afford to pay you. If you're unwilling to change what you've done in the past...well...I can only say that you may have to choose another line of work. If you feel insecure about working with a more affluent clientele, either you have to overcome your insecurity, or again, you may not be able to stay in business.
7. What we have to offer today is different than ever before. Standing out from your competition involves a supreme service-oriented mentality. When you differentiate yourself based on your level of service and define and describe that service in such a way that your client wants it, that is when you will win clients easily.
8. Leadership – you must lead your prospects and clients with quiet confidence and authority. They are looking to you for expertise. However, don't mistake this with being dictatorial or having an attitude of superiority. People want to do business with people they know, like and trust.
9. Trust – this is huge. If your prospects and clients don't trust you, it will take longer to get them to make decisions, and you'll have less referrals. A great book I recommend is *The Speed of Trust* with Stephen M.R. Covey. You want to be in a position of being the trusted advisor, and this will take you to a different level in your business. If you lack confidence in yourself or feel uncomfortable with affluent clients, your prospects and clients will sense it and their trust in you will be shaky. It's like a dog chasing its tail, your business won't grow to the level you'd like if you lack confidence in yourself and you feel insecure.
10. Listening skills – this starts with having the right set of questions to ask and then listening, feeding back to ensure understanding and then responding with the appropriate answer. We all think we're good listeners, and yet, we can improve with practice. The better your questions and the better you listen, the more successful you will be.

Let's spend some time on what your clients really value. Why do they come to you in the first place? Typically it is one or more of these reasons:

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1. Lack of time
2. Lack of knowledge
3. Lack of tools and resources
4. Desire for a result that they know they can't achieve on their own – they just don't have the skills
5. They don't know where to start and how to achieve the results

What are they willing to pay for? Someone that can save them time and money by helping them avoid expensive mistakes, and a result that improves their lifestyle, their self-image, their quest to be surrounded by beauty and function, how their friends, family, co-workers and peers perceive them – perhaps it is a perception of refined taste and fitting in with their socio-economic class. They don't want to be perceived as tasteless and lacking. If you are dealing with the affluent, they also have a fear of losing their money and status.

Commercial clients are less likely to be influenced by fears and insecurities. You're dealing with less emotional decision-makers, yet there are different complexities to deal with like committee decisions, bureaucracies and radically impacted budgets due to the economy.

What is important is defining the perceived value your prospects are willing to pay for that justifies your fees. And, you have to be sure that both you and your prospect are acting on good faith and with an ethical and positive intent. You need to know this before you engage in a project that could cost you valuable time and money.

Here's what you want to avoid from the outset:

1. It's important to understand the perceived value your client is willing to pay for. This is the basis for your fee. If you're not basing your fee on the value that they want, then you will lose.
2. If you are unable to clearly define what your prospect values, and you base your compensation on commodities such as time or products, you'll also be negotiating your fees and fighting an uphill battle of convincing your prospect that your fee is reasonable.
3. You absolutely must be sure that the person or people that are making the decision about the financial investment are present from the outset, and that you are getting their buy-in on the perceived value. This relationship is critical. If the person making the ultimate decision on the financial investment is not present, do not proceed. Why? If the person who is in front of you says they can make the commitment for someone else, the real investor is not necessarily ethically bound to follow through. I've had this

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- happen to me and I don't want this to happen to you. They can delay or refuse to pay you or say that they don't agree with what was decided. You lose when this happens.
4. Your self-esteem is critical to the success of the Value Based Fee approach. Your confidence and leadership will lead to higher fees and happier clients. Your contribution to their end result is what must be defined from the very beginning, and you must reach agreement on each party's role in the project.

I learned that it worked better for me to meet the client in my studio for the first conversation. I rarely went to their homes or offices first because the temptation was there for the client to start asking for design advice before determining if we really wanted to work together for a longer project.

If the prospect just wanted a few hours of advice and I didn't mind offering that service, I just explained that my fee was x\$s for a certain period of time. If they were OK with this, I explained that I would be happy to provide this service and collect payment at the time of our meeting. They would have no further obligation, and they would have specific suggestions they could use. I usually found that these projects did not go further because the clients only wanted limited advice. It's important to determine whether you are willing to provide this type of service.

Controlling the first conversation is critical, and it is best to script it from the very first phone conversation to the meeting in your studio. I did make exceptions and meet with prospects in their home if it was from a specific referral source that was only recommending me. Why? Because the prospect was already pre-sold on me and my services.

Here is the process (you can adapt this for yourself) I recommend when talking to prospects – I like to ask a few questions over the phone first. Once you have this scripted, you can train your staff to screen the prospects, too.

1. Start by thanking them for calling you. How did you hear about me/us? (If it is a referral from a client or other preferred referral source, your job is much easier.)
2. Find common ground first. I like to find out the basic project scope and a little about them personally without being too nosy. If you're a seasoned designer, you probably already have questions you always use.
3. Have you worked with a designer before?
  - a. Yes – Is there a particular reason you aren't working with that same designer now? (red flag if they complain about one or more designers – I usually ask a few more questions and then politely decline further conversation)
  - b. No – Would you mind if I ask you a few questions? It will help us both understand if we're a good fit to work together.

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4. Are you interviewing other designers?
5. Are there particular reasons you are considering hiring a designer?
6. Have you considered doing the project yourself?
7. How will you know when you’ve found the right designer to work with you?
8. Would it make sense to you to decide if we’re a good fit before we meet at your home?  
I don’t charge for the initial conversation when we meet at my studio. By the end of that conversation, we’ll both know without a doubt that we’ll enjoy working together. What would be convenient for you? Give them some alternative dates.
9. Explain that both spouses (or all financial decision-makers) need to be present, and that you’ll call to confirm prior to the meeting. If for some reason the decision makers aren’t able to make the meeting at the time of confirmation, you will reschedule the appointment.
10. Send a confirming note and repeat that the decision makers must be present, and then explain what will happen during the first meeting. I recommend sending a complete package of information about you, your process, what makes you different, and questions they should ask and things they should think about before your meeting.

Next, confirm your meeting and even the morning of the meeting, you can confirm that the decision makers will be present. Reschedule if this isn’t the case. Be firm. You’ll waste your time if the key decision-makers are not there.

Now it’s time to talk about your second conversation. After the normal small-talk, here are the recommended questions you should ask (rehearse, rehearse, rehearse – memorize):

1. Assuming we find that we’re a good match, what do you want your home (project) to say about you (your company)?
2. Why are you interested in working with me/my firm?
3. What will be the biggest difference between what your home/project when it is complete?
4. Why are you interested in doing this project at this time?
5. What if you don’t do anything?
6. Why aren’t you doing this project yourself?
7. Have you tried doing a project like this for yourself in the past?
8. What was the result of that?
9. How involved do you want to be in the process?
10. Are there other people that you’ll involve in the decisions? Family or friends?
11. Who else is will be involved in this project? (architect, GC, etc.)
12. How will you decide whether this project was successful or not?

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13. What will be the difference for your reputation, image, standing or stature? (this tells you about the ego involvement and what outside influences are affecting the decision)
14. What three things would indicate your home/project achieved what you wanted?
15. What does this mean to you personally?
16. What other outcomes would make you happy or satisfy you?
17. What will you be proudest of when we complete your project?
18. What if you aren't satisfied when the project is complete?
19. What is your expectation of perfection on a scale of 1 – 10?
20. How easy is it for you to make decisions on a scale of 1 – 10, and what criteria will you use?
21. What happens when you disagree with your spouse or other decision-makers on a recommendation?
22. What is your typical process for resolving these differences?
23. What is most important to you – the budget or the result? What I find is that some clients prefer to develop a complete plan based on their tastes and preferences, and that if it is more than they planned to invest at the outset that we can either value-engineer or we can do the project in phases. Which do you prefer?
24. Do you have a sense of what you are willing to invest in your project right now? I find that most clients have set aside funds for their projects, and if you don't have a feel for what a project like this might require, I'd be happy to give you a range.
25. Is there a particular deadline or event that is coming up that I should know about?
26. How important are these factors in selecting a design firm (1 – 10)?
  - a. Responsiveness
  - b. Referral source
  - c. Speed of completion
  - d. Your participation
  - e. Cost
  - f. Confidentiality
  - g. Time saving
  - h. Result
  - i. Process
  - j. Precision
  - k. Relationship with us and our team
  - l. Experience managing a project like this
  - m. Project management skills
  - n. References
  - o. Safety – insurance, vetted team

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- p. Expertise working on a project like yours
  - q. Products and design solutions that are exclusive to your project
27. Are you thinking of doing some or all of your own purchasing?
28. Are you interested in purchasing at retail, or are you interested in customizing your interior?
29. Do you have your own contractor or subcontractors?
30. We can work with you in any number of ways – here are some of the options and when I come back with a proposal, I will base our fees on the value to you of the services we can provide to you. What level of service do you think you’d be interested in?:
- a. Scope of work and conceptual design
  - b. Master plan
  - c. Shopping and specifications
  - d. Budgeting
  - e. Project management
  - f. Team selection
  - g. Purchasing
  - h. Expediting
  - i. Turn-key projects

Notice that at no time before this did we discuss actual fees or the process. Also, as you move through these questions, you’ll start getting a feel for their expectations. If they are unreasonable you must be strong and say so.

You may want to add some questions to this list, and if you have some great qualifying questions, please do so (and share them with me so I can share them with our listeners, too.)

At the end of the conversation, you’ll let them know that you will have a proposal ready for them in 2 or 3 days at the most and that you’ll want to meet with them in person to review it with them. If you get any sense that the prospect is not a good fit, it is best to end the conversation at this time.

If the client is too easy, watch out. There may be some unexpressed issues that may cause major conflicts. You’re looking to work with your client, not work in a vacuum because there will be problems. There are responsibilities on both sides of the relationship.

This is critical to remember – this is an emotional process that is rationalized once, and only if, you make the emotional connection.

If your fees are a point of conflict or surprise, you didn’t ask enough questions, and you didn’t reach buy-in from the prospect.

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Your client has roles and responsibilities in the relationship and that includes being honest about their goals, their commitment, and their expectations. You expect them to participate however you jointly define their role and you expect to be paid based on your agreement.

Let’s go back to the areas of mutual agreement that you must reach before your proposal:

1. What is of value to your prospect - it must be what you’re willing to provide.
2. Your relationship must be based on open and honest communication and trust. You must be able to disagree in a productive and constructive way and that must be mutual. If they have any concerns, they must bring them up openly and honestly, and be OK with you doing the same thing.
3. By the end of this first meeting, a conceptual agreement about what the project will be based on should be clear:
  - a. The expected outcome
  - b. What a successful project means to them – (no dust story, products not left on site, job site cleanliness, process, etc.) Share stories to illustrate the different levels of service you can provide. Most clients don’t understand how much time it takes to solve problems on the jobsite. Share your personal experiences and then they’ll get a better idea of whether they will be interested in managing a project themselves, or whether they’d rather have you provide the service.
  - c. How the prospect will be better off as a result of what you bring to the project

Your success depends not just on the process from the time you get a call from a prospect, it begins long before you meet. Positioning yourself as a professional through your brand, image and identity begins with you being authentic, confident, clear and defined through everything you do, say and present to your prospects. If you want to command high fees for your services, your perceived image must support your fees.

Your brand, quality, reputation, client list, media attention, credibility and expertise will pre-sell you and your services. Just think of the celebrity designers – media attention and books pre-sell their expertise. It doesn’t guarantee trouble-free projects, but it does shortcut the sales cycle.

Review all of your marketing and positioning materials including your website, blog, telephone message and collaterals to ensure that you talk about how “we” work together, your

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joint responsibilities, your focus on the outcomes and how you resolve problems and challenges that are inevitable.

If your brand image is strong and well-defined, your fees will be appropriately appreciated and paid.

“No one cares, really, about how good you are. They care about how good they are going to be when you’re done with them.” Alan Weiss

### **Preparing Your Proposal**

When you go back to your studio to prepare the proposal, you will create three options based on different levels of service. Two will be within their budget, and one will offer a level of service beyond what they thought you might present and it should be loaded with value. Perhaps it is more of a concierge-level of service and includes complete design implementation followed by a private party for their friends, family and co-workers. You get the idea...think of a WOW result. Depending on your clientele, you will be able to create the service offerings that fit their desires.

Each level offers more complete services and it allows them to choose. Do not negotiate the fees at the different levels. If they balk at the price and want to negotiate, you ask what services they want to delete. Do not offer the same level of services for less money. That’s why you’re offering options.

When you are creating your proposal, don’t associate the fees directly with the levels of services, put those further into the document under a Terms & Conditions section. It’s important for them to decide on what services they value and prefer before they see the fees.

If a client wants the Premium level at the Level 2 price, then say, “that’s fine, then we’ll do Level 2.” Don’t negotiate! The prices should be a minimum of 20% different from each other.

Your value is based on your unique skills, credibility, experience, expected results, and the level of service that you are offering. If you use the Value-based approach, it is much more difficult for your to compare you to others based on a mark-up and/or hourly fee.

It is helpful to start with a smaller project so your client has the experience of working with you, and when you do start with a smaller project, be thinking about the long-term relationship and not that you are trying to make all of your profit at the beginning of the relationship.

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If you are working with a client that is currently on an hourly basis, you can convert them. Here’s a conversation you can have with currently hourly billing clients that you want to transition to a Value-Based Fee formula once you’re comfortable with your ability to set fees:

“I know you’d like to have more of my help with your project, and I know you are sensitive to running up your time bill. Since it is hard for both of us to estimate how long things will take, what if we stop the time billing so we can both invest the time that is required? I’ve started new client relationships with a value-based fee and I feel that it is only fair to offer that to you as well since you’re one of my best clients. Could we discuss this on my next visit with you? I know you haven’t been happy with the continuous billing, so what I’d like to do is offer a way that will work for both of us.”

### **Pricing Strategies**

This is where the “art” of creating a proposal comes into play. It is best to start with smaller projects first to get some experience with how to price for profit.

For example, if you are designing a powder room, you know what you need to select for the project, and it’s easy to manage the scope and time for a project such as this. This is where it helps to have pre-set processes, specification templates and pre-set proposal forms and letters of agreement.

Your proposal might include these options:

Design Only – Design only with specifications, drawings, elevations – below their budget

Design, construction documents and project coordination and management – (Level 1 +) assistance with crew selection, purchasing, expediting and job observation (speak with your attorney since your state may have specific laws about the languaging of this service to avoid the liability of being a general contractor) – (Pricing strategy is 20% higher and still within their budget)

Concierge-level service (name your service) – (Level 1, 2 + pricing strategy within their budget and at least 20% higher than Design-only) – includes cleaning daily, accessorizing, art

Do not include the pricing in this section of your proposal. You’ll also want to include the language about the results and value they described during their conversation with you.

Each designer has their own preferences for purchasing. Here are some options to consider:

- Outsource purchasing to someone else – for instance, Gibson Design Management can work with you to provide this function for a certain percentage.

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- Offer purchasing as an entirely separate function. Some designers charge a mark-up, some a discount from retail, some pass their cost directly to the client, and if so, you might want to consider a fee for access to your designer costs. Studio Webware, the new web-based version of design business management software will offer the option of doing the pricing and proposal development for the client and then turning it over to the client to do the purchasing themselves. Only you can decide how you want to handle this. Some designers prefer to make a profit from product sales. I’ve done it a number of ways including shopping with the client at retail or approving their selections without any mark-up. With the Internet, the options are numerous for purchasing similar looking products, so if you are focusing your efforts on selling products, you’re setting yourself up to be a commodity provider, and when your client finds a similar product for less money, you’ll lose trust. They must understand that you are providing a service of convenience and access to custom products that are only available to the trade. You’ll have much happier clients if you give them the option of purchasing some products on their own. I’ve even taken catalogs to clients and recommended what they should buy. You are then removed from the liability issues, and quite frankly, the mark-ups aren’t always enough to make it worth the hassle in my personal opinion. One area where I always maintained purchasing was window treatments because, again in my personal opinion, there are too many things that can go wrong in custom design.
- Let the client take your documentation and do their own purchasing.
- Offer shopping or review of selections as a separate service.
- Be aware that more and more designers are offering fixed fee services and they are offering payment by PayPal on their websites. Check out your competition.
- Also, Ava Living and Decorati offer services from their sites. If you haven’t checked out what they are doing, you will want to do that. Decorati offers purchasing services for clients at retail, so your client can go directly to them if they don’t like how you handle your pricing for products. You can also purchase through Decorati. No matter how you’ve worked in the past, you do need to keep up with the changes that are happening in our industry and be prepared to discuss the pros and cons with your clients.
- Here are some things I did to simplify my billing and manage my cash flow:
  - 100% pre-payment for all purchases and the client signs off on all proposals and drawings or specifications. The proposal states at the bottom: this order is non-cancellable upon your signed approval and pre-payment of the purchase. This becomes a secondary contract with the client.
  - Fixed percentage for freight, receiving, inspection, delivery. These days, if you have been tracking these expenses, you’ll be able to establish a percentage for

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your purchases. I always added into the freight costs for fabrics and trims to second day air CFAs and once approved, the shipping to the factory or workroom. This expedites the project and cuts the lead time by at least a week or two. The percentage for fabrics and trims that we used was 18 ½% although the range is 10 – 20% depending on the firm. Furniture is typically more since there are so many extra costs like fuel surcharges, insurance, etc. It’s a good idea to confirm with your vendor what the insurance coverage is for products by the shipper – you may want to carry Marine Insurance in case of loss or theft. (I had a \$5,000 chair disappear 13 years ago!)

- When you’re figuring a fixed fee, you aren’t necessarily tying this to your estimated hours although it is critically important to determine how much time it will take you and your staff to provide the services because that is non-recoverable. Even if you are working on a fixed fee basis, track hours. Limit your time to meet with client and control their access to you so you’re not running ragged. If you think the client will be difficult and waste your time, you have to add time into your proposal to cover that.
- Some designers estimate how many months a project will take and include their overhead into the calculation. For instance, the design may take one month, and X number of hours, drawings X hours, documentation X hours. Always add extra time into your estimate. If you’re doing construction, you have a good idea of how long a typical project takes. Sometimes the biggest offender on time over-runs is us. We need to manage our time and also the expectations of the client.
- If your clients want you to be doing all of the work and all of the meetings with them, your fees should be higher. Discuss this before your proposal.
- Some designers use a cost per square foot to estimate their projects. I remember one project in particular that was 12,010 square feet for a spec home. It took our team approximately 2,400 hours because we did interior and exterior detailed construction drawings, helped select and manage crews, etc. Our fees were \$166,000. The range varies from \$4 – 25 per square foot. Working directly with a builder is much different than working with the client. Every square inch of this project was custom. I designed the glass and iron porch cover, I designed pre-cast pieces, the millwork with many custom pieces, custom mosaics, etc.
- The smaller the job, the higher the fee per square foot.
- Since my projects were mostly high-end, many clients decided to purchase their own accessories because they wanted to personalize their space and save the fees for this. I didn’t mind either way. You do need to decide about this prior to your proposal, though.

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**Letter of agreement**

- This comes after the proposal, and if you have a contract that reflects the options within it, you can complete it in the proposal meeting. I think it is best to do this at that time.
- You can base a retainer partly on how much access the client has to you. Explain how quickly you can respond. For instance, if you respond within 24 hours to calls or emails. I always trained my clients to work with my staff because it was more efficient for them.
- If your client prefers interactions with only you, it is entirely up to you, but this is very limiting.
- Establish boundaries of access – times to reach you, telephone numbers, personal email, cell phone, weekends, evenings, etc.
- Request access to client(s)...specific and personal.
- Payment schedule - 50% at the beginning, 50% at 45 days or 50/25/25 beginning/45 days/90 days.
- Payment in advance for specific time frame – it is best not to tie your fees to the completion of the project. Funny how those final bills can either take forever to get paid or you might find yourself in a negotiation about whether they are willing to pay the bill if at all.
- Explain expenses that are extra.
- Subcontracts are extra.
- Renewal procedure (end of 2<sup>nd</sup> month in 3-month retainer) if it is a monthly billing project.
- Change orders – explain how this works, or explain that scope changes will be done under a separate project. I always discussed the “while you’re at it” clause and discussed what typically happens as they start working on one room that they may want to add to the project. It’s important for the client to understand that this will actually cost more and take longer to make changes throughout the project. Learn to manage expectations early.
- Cite time frame for acceptance of proposal.
- You can offer a discount if the fee is paid in full at the time of the contract commencement - 10%.
- Phased project – can give professional courtesy for next phase.
- After reviewing the agreement, “It is X\$ and with your approval and retainer, we can proceed.”

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- If the client does not want to move forward, “I’ve enjoyed meeting with you, but I don’t think I can undertake your project given what you are offering. Let’s stay in touch.”

**What to do when...**

- The project is not going well, be willing to walk away and return the pro-rated retainer.
- If you are asked too early about fees:
  - “You’ve been very curious about my fees. Is there a budget you want to stay within so I can formulate my proposal accordingly?”
  - “I don’t know what the fees will be because I don’t know what you want to accomplish or even if I’m the right designer for you. Can we spend some time talking about your project first, and then I’ll be in a better position to answer that question.”
  - “It wouldn’t be fair to you to even try to answer that yet. Since we’ve just met and both of us need to explore a few things first. Let’s set that aside until I can provide a thoughtful proposal which won’t take long if I can ask you a few questions now.”
  - “Actually, it would be unethical for me to give you a response without knowing whether I have the competency to respond to those needs. Let’s explore those areas and then we can talk about value and the investment at the appropriate time.”
  - “The range will be between X and Y. Really, I don’t know what it will be until we explore what is involved and see whether a relationship makes sense for either one of us. If it does, I’m sure we will a mutually beneficial way to work together.”
  - “What’s your budget? (Doesn’t know/won’t say) Of course you can’t say, neither can I. We both need to learn more if we’re going to have a responsible a cost-effective solution. So, let’s begin by what you’re trying to accomplish.”
  - When the client wants to add to the scope, say “I can do that for you and I’ll send a new proposal.”
  - Never do pro bono for anyone except a non-profit.
  - Higher fees are perceived as higher value to clients and prospects.
  - One option to ensure future business is to give a rebate against future phases if not all work is done at one time and you want to ensure a steady stream of business.
  - You can also offer ideas for future projects during the current project.

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Just remember, knowledge workers are paid at the beginning, especially since the majority of work is done at the beginning. You are not a bank!!!

### **Red flags**

- Test early for client’s willingness to invest
  - “You’ve been very kind and I’m in a position to offer a proposal with investment options for you. Since there are options, is there a budget you’d like me to stay within?”
  - “We’ve made great progress in discussing what you value, and I don’t want to waste your time or mine as we go forward. Is there a budget or even a rough amount in your mind that represents the limit of your investment in this project?”
  - “We’re ready to move to a proposal, but before we do, my experience has shown that it’s important to understand any constraints on our approach. What is the budget you’ve allocated now that we’ve reached this level of agreement?”
  - Ask after conceptual agreement and before actual proposal
  - If they’re not willing to disclose their budget, there is a trust issue:
    - “I’ve come to respect you and I don’t want to waste your time. My judgment at this point is that the investment range is going to be between X and Y depending on how much certainty you’re seeking. Is that within the range you were expecting?” If not, depart as friends.
    - “Our expectation is that the project investment would be between X and Y. If that’s realistic, we can work within that and I’ll get the proposal to you tomorrow (or ASAP).”
    - If it is unrealistic, then say, “I don’t think we can do it for that amount. We’re probably thinking about \$X at the low end and \$Y at the upper end. Do you want to discuss this further? If not, we’ll part as friends.”
- If they haven’t used a designer before, it will cost you time and effort to educate them
- They want a detailed line item budget (usually goes along with accountants and financial people and often results in defending costs and fees vs. value)
- Puts you on the defensive
- Rushes you to start a project before getting a signed contract and deposit

### **Objections and how to handle them**

- Resistance without explanation – usually because there is a lack of trust

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- Credentials – the higher your visibility and perceived expertise, the higher your fees can be
  - Name
  - Brand
  - Reputation
  - Visibility (media coverage and books)
  - Expertise
- How they heard about you doesn't build your credibility – cold call vs. enthusiastic referral
- Image doesn't fit the offer
- Lack of experience and maturity in presenting with confidence
- Lack of appropriate vocabulary
- Materials and promotional literature or portfolio doesn't meet their expectation
- Client wants to do it themselves
  - Could be the same reasons or they client doesn't have the budget or feel comfortable with you
- Client wants to think about it
  - You haven't answered all of their concerns – it's time to seek clarification about the reason why they aren't moving forward
    - Budget
    - Time
    - Trust
    - Didn't answer their specific needs
  - Concerned about disruptions
  - The price doesn't seem appropriate for the service
- Client doesn't have the budget – you probably missed understanding what they wanted in the beginning – **if you're talking about fees vs. values, you've lost control**
  - Do the project in phases

We've talked about the why of Value-Based Fees, how to pre-qualify your client, how to qualify and establish the prospect's values during the first meeting, different ways you can structure your fees, what could go wrong, how to discuss fees and how to deflect questions about fees until you're at a point of agreement on the value you bring, what should be included in your contract and what objections you may encounter.

I know you will have many questions as you work through your process for your firm. This will take time, thought and practice to come up with your own plan. Your practice is unique

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and it isn't possible to give one standard for creating this fee structure that will work for everyone.

I hope this series gave you the process, steps and framework you were expecting to get in this session.

Thank you for being a part of this series and for investing in your continued and future success. I'll take questions now.

