

Value Based Fees Series

“How to Determine Your Value Based Fees”

A case study with Kathy Alexander, Allied ASID



Gail: Hello and welcome, to this Value Based Fees Case Study with Kathy Alexander, this is Gail Doby with Design Success University, your interior design business success mentor.

Kathy started Alexander Interiors, LLC 20 years ago. She has a B.S. in Interior Design. Kathy is specialized in high-end residential interior design with an emphasis on custom homes, renovations and home theatres.

Her first project was a new home in which Kathy charged a flat fee of \$5,000, which for somebody who's brand new and starting a business, that's a pretty gutsy move. Over the years, her Alexander Interiors firm has gone on to charge much higher fees, while designing the interiors of award-winning multi-million dollar homes. Her goal is to exceed her clients' expectations with beautiful and creative designs, while providing excellent service.

From what I know about Kathy, I can definitely tell you that I believe that is the case. So, welcome to the call Kathy, and thank you for sharing your experience with our colleagues.

Kathy: Thank you, Gail, I'm happy to be here.

Gail: I'm really excited to share this story. You and I talked in a coaching session and that led me back to thinking that I should interview you about your experience with doing fixed fees because that's so important for us as interior designers, to start thinking about that and bringing that into our practices because that's what clients really want.

So let's go back and start with your story and what brought you into interior design 20 years ago. I think it's all interesting to hear the back-story.

Kathy: A long time ago, I was a secretary for many years and I knew I did not want to be doing that for the rest of my life. So I made a wish list of the different fields that I thought I would be interested in and they were all creative fields.

- Fashion design,
- Interior design next,
- Fine arts, and lastly
- Psychology

When I was high school student, my parents had built a new home and they hired an interior designer to help them with their living room. I saw first-hand the process that their designer went through and found the results were just amazing,

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how you can take a blank room and make it look spectacular. I was very impressed by this.

After I analyzed my list, the pragmatist in me felt like I could probably make a good living in interior design, so I enrolled in school to get my degree.

Gail: Let me ask you a question.

- **When you were watching this interior designer so many years ago was it something that just clicked with you then and you thought that was something you'd be interested in or was it later after you reflected back on it?**

Kathy: Actually, it had a very big impact on me. Everyone in my family – all my sisters and I are very creative people. When we saw this blank room go from nothing to spectacular, I was very impressed by that. Anything having to do with art or fashion – my mom had been a fashion model back in the '40s – and I've always been impressed with and always gravitated towards that area.

Gail: That's fascinating. Well, something else that you mentioned in here and obviously, you knew that you needed to go get an interior design degree, which is always a good idea for everybody in this field.

Kathy: Definitely.

Gail: Then you jumped out there, and your very first project was a flat fee.

- **How and why did you decide to start with that?**

Kathy: It was out of ignorance, probably. I had been working at Ethan Allen for two and a half years while I was in school. I had outsold everyone from the beginning. Where a customer would come in, one of the other salespeople would maybe sell them a sofa or chair, I was selling them rooms full of furniture because I scheduling house calls.

I was completely burned out after working 80 hours a week during that two and half year period. I was concerned about how I was going to keep this level up. At the time, my husband was a management consultant and I was approached by a colleague of his to decorate their second home located on the West Coast, which was the beginning of Alexander Interiors.

It was a big advantage being married to a management consultant. With his knowledge of business, he was able to help me with my first project. I knew I'd be bumbling through, not only the process of how to run my own business, but also

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everything connected with finding vendors in California and finding ones who would be willing to go to the Palm Springs area.

I wanted to be fair to our friends, so I quoted them a low fee and I allowed them to buy everything wholesale.

Gail: **So you didn’t put a markup on it?**

Kathy: No, no markup. I looked at this whole thing as a learning process for me, and I was grateful for the opportunity. The home turned out beautiful and our friends were thrilled.

Gail: Actually, when you think about it, \$5,000, 20 years ago was a fair bit of money for a project. If were to figure out what that would be worth today, it would probably be more like at least \$20,000.

Kathy: Or more.

Gail: Or more, right.

Kathy: This was a 3-bedroom home. It had been a model, so I didn’t have to come up with paint colors. It was strictly doing the furniture – the arrangements, the windows, the accessories. Things like that.

Gail: Okay, that’s interesting to hear. To me, that’s a fairly healthy budget for starting with a flat fee for a 3-bedroom house, so good for you. Tell me about this.

➤ **How did you figure your fee for this project?**

Kathy: Like I said, I didn’t know what to do. I had been working retail, so this was all brand new to me. I just pulled a figure out of the air.

Gail: Okay. That’s a great answer because sometimes that’s probably as good as anything for some people if they’re just starting out and trying to figure out how to charge for something.

Maybe I should re-phrase that. Maybe it’s not as good as anything, it’s better if you have some sense of what it’s going to take you to do a project, but you have to start somewhere.

Kathy: I didn’t really know any interior designers. Some of the people working at Ethan Allen were actually interior designers with a degree, but they didn’t have the experience of working on their own business or working for anybody else. It was pretty much a sales job, but I learned a lot along the way.

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Gail: **What did you learn from that?**

Kathy: You’re exposed to so many personalities. I learned how to work with a variety of people. I saw first-hand how couples interact with each other, which was very educational.

I had gotten some suggestions from some of the other people working there. There was one designer in particular who was in her late 70s at the time, I would prepare a floor plan, I’d show it to her and then she’d critique it. I learned a lot from her actually, and I was very grateful for that experience.

Also, juggling multiple projects at a time and noticing how other people sell. Like I said, I didn’t really find myself to be a great salesperson, but because I willing to put myself out there and offer house calls, it just was a natural thing. Going on many house calls, when I had my own business, I was completely comfortable meeting with clients and that was valuable.

Gail: That’s great. Tell me a little bit more too, about when you started charging a fixed fee for this project.

➤ **What did you learn from that experience of actually charging a fixed fee?**

Kathy: I felt, in retrospect, that I had seriously underbid the project. Because I was working from one coast to the other, I had to take a couple trips out to the home. I took one trip initially to see the home, take all the measurements, measure the windows so I could prepare the floor plans and window design, plus interview the clients.

The second trip was for accessorizing the home and things like that, so each trip ate up several days. Then, in addition to all of that, I was setting up my business and that had to be done very quickly. I had the challenge of long-distance design, which meant FedEx packages back and forth with hours of consultation with the clients on the telephone.

It had its unique disadvantages being new to all of this, but I learned a lot along the way. I also learned that when you’re first starting out, don’t be afraid to say to the vendors let’s say, I’m a new business. This is new to me. Can you walk me through the process? People will respect you for that.

Gail: In terms of the fixed fee itself...

➤ **Do you feel that was a good way of doing business with a client?**

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- Do you feel that maybe the attitude of the client was different because you were on a fixed fee basis with them?

Kathy: Yes, but keep in mind these were friends of ours, too and when you're on a fixed fee, I think things are a lot more relaxed. Nobody is worried about the clock ticking away and spending every hour with you. I didn't mind spending extra time with them because it was helping me in my business; it was helping me in my craft.

When you're working on a fixed fee, you have this more relaxed atmosphere, where I'm not worried about the time. Fast-forward to other projects, the client doesn't want to be spending all day with me they usually have busy lifestyles, and they're interested in getting on with things, especially if you're working on a large project, like a custom home. There's just so much to go over.

So, we try to make our meetings as efficient as possible. I've got to say in all the years I've been doing this I never felt like a client was taking advantage of my time.

Gail: My next question then would be...

- **Do you think that was because of your way of running a project and the fact that they had trust in you and could just rely on you?**

Kathy: Absolutely. Before each meeting, I would have a schedule of what I wanted to accomplish at the meeting. I'd let them know ahead of time, okay, the builder needs this and this, and that's what we need to concentrate on this time.

I would drive the clients toward a certain topic and we would focus on that until it was done. There were large projects where the builder would tell me, Kathy, if it weren't for you, we'd still be dealing with a hole in the ground. So that was a very efficient way of doing things.

Gail: So, it's a very important part of explaining to the client that you're actually making their life easier because you're coaching them through that whole process of making decisions so that they're getting them done on time for the builder, which actually keeps their construction costs down.

Kathy: That's right. It kept construction costs down and also most people moved into their home on time, when expected. If there was a delay, it was usually weather or the fault of the builder.

Whenever I'm working on a custom home, in particular, new construction or renovation, I always focus on that particular project because I don't want to be blamed for delaying anything.

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Gail: That’s important because that’s actually one of the three reasons designers typically get sued is either, they’ve gone over budget, they’ve gone over time or they’ve done something that they do not have knowledge to do appropriately.

You’re very smart to be conscious of that.

Kathy: That’s interesting because I’ve never been sued in 20 years. That would be very daunting.

Gail: Definitely, and it does happen, much more so these days than it’s ever been. All right, let’s talk a little bit about some of the other concepts.

➤ **Do you ever use an hourly rate for any of your projects?**

Kathy: I actually do quite often, as a matter of fact. The homes are important to people who live here. I’m lucky in the fact that the average Joe will hire an interior designer because their home is important.

It’s not uncommon for people to have limited funds. In that case, I encourage people to do one room at a time. I have a lot of long-term clients where I’ve been working with them maybe 10 or 15 years, and we work at their own pace. So, in instances like that, I will keep working on an hourly basis for those people, but I’m slowly moving into wanting to be working on a fixed fee all the time; I prefer it.

Gail: It’s a lot easier in some ways. I think you probably sense there’s a difference in that relationship with the client too, when you’re on a fixed fee versus an hourly.

Kathy: Yes, I feel like I’m treated more as a professional rather than an hourly worker. I think that’s a big thing in people’s minds.

Gail: Because what happens is – and I know this happens a lot– people will look at the hourly rate and I know this for myself because I billed at a very high hourly rate when I was doing the majority of my design work. I would lose jobs sometimes and people would make that decision because my hourly rate was so high.

Because, they knew it would take a certain amount of time to do the project or they had a guess so that was scary to them and they thought well gosh, I could go hire someone else for \$150 an hour, so I don’t need to hire Gail for her rate.

I think it affects people a lot, and you can lose a job very easily on that, whereas the other way where you’ve got a fixed fee, you’re giving them a result for a certain price.

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Kathy: Yes, that’s true. It saves the clients and me time and money. I hate doing billing. I will keep track of my time generally, but when I’m working on an hourly rate, I have to keep very important records.

Gail: Sure.

Kathy: So, it ends up that every Sunday, I’m doing billing of some sort and I really dislike doing that. With a fixed fee, you don’t have to. A fixed fee eliminates all that. I like being paid for what I’m worth and the value that I bring to the job, not the hours that I put into it.

Some of my existing clients with larger budgets or prospective clients that I meet through custom builders are more receptive to a fixed fee. They’re used to working with larger numbers, so when I give them my fee, they’re not going to be as surprised as someone who’s not used to working with those kind of numbers.

Gail: Typically, you’re working with people who’ve probably worked with an interior designer before, haven’t they.

Kathy: Frequently that’s true, not always though. If I get an introduction through a custom builder, that gives me enormous credibility. The builder knows my level of creativity and the dedication that I bring to a project, so they sing praises to their clients. So, when I come in, in a situation like that, these clients have already paid for their architect, they’re used to writing big checks, they’re not so put off by hearing a big fee from a designer. It’s a great way to get business.

Gail: Absolutely. It’s always good to have an endorsement by someone who really believes in you, knows how you work and knows that you’re going to get the result that they need.

Let’s talk a little about the differences that you’ve experienced with your clients’ attitudes when you’ve done fixed fee versus hourly.

➤ **Can you give us some examples of how things have been different?**

Kathy: One thing, like I had said before, being more relaxed during meetings and not being so conscious of spending too much time with me, I have had situations where, even with wealthy people, the wife will say to me midway through the project, my husband’s getting upset with all these bills you keep sending him.

So, I’m thinking what am I supposed to do about that, we’re in the middle of the project I can’t work for nothing. A fixed fee eliminates all those concerns. There’s a psychological thing going on when you’re working midway through the project.

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People are feeling like they're being nickel and dimed to death, so it's a real advantage of working with a fixed fee. You're not so concerned.

Gail: **Do you also charge extra for your reimbursable types of expenses?**

Kathy: Some of them. I usually get the blueprints from the architect or from the builder. There has never been a situation where I had to spend for blueprints myself. Usually things that I have reimbursed are more like travel on an airplane or things connected with doing long-distance design that, of course, would be reimbursed.

Things connected with sales of products, where you have shipping and freight charges, those are really the only things that I asked to be reimbursed for.

Gail: That makes sense because it goes back to what you said about the nickel and diming. You want to be really careful of that because the clients are so sensitive to that. It's the little things that matter. They add up and they really do change the relationship.

Kathy: One of the things that puts people off that I charge for is travel time. I work in the Washington Metropolitan area and traffic is really a bear. I don't charge for the time I'm actually on the road, but I do a portal-to-portal type charge. It usually isn't the full amount of time under normal conditions, but I do charge for travel time. So, while it may put people off, I don't hear about that very often.

Gail: I have to agree with you. I switched to that probably 10 years ago on the portal-to-portal and it was so much better. Rather than people saying, oh my gosh, we got charged for the time. It just totally took that away.

Kathy: Yes.

Gail: I just came up with a standard length of time that it would take me to go to and from. That was always what I tacked on to our meeting time.

Kathy: When I work with a fixed fee, I build that into the fee.

Gail: We'll talk about the fees in just a minute. I want to go back first, and let's really start at the beginning of the process, and even with the very first phone call that you have with a prospect.

➤ **What are some of the questions that you ask to qualify that client?**

Kathy: I ask them how they had heard about me. I want to know what source to thank, if there was a referral from somebody directly or what part of my marketing is working.

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I ask them to tell me a little about the project.

- ✓ I want to know what kind of help they’re looking for.
- ✓ Is this a renovation, a new home, a custom home or straight decorating?
- ✓ I want to know where the project is located, just so I can have a sense of the distances I need to drive.

I live in Virginia, and some of the projects are in Maryland or even Delaware. Traffic in my area is severe, so I need to know how many hours I’m going to be spending on the road.

- ✓ I want to know what their goals are.
- ✓ Is there a particular event or an end date they’re working towards?
- ✓ If I have to turn around the project very quickly, that’s important to know.
- ✓ I ask if they’re going to be interviewing other designers.

If so, do they know how many designers they’re going to be interviewing? There have been times when I ask that question and they’ll say oh, maybe five or six. I’m thinking how can you possibly keep track of all these people who you’ve interviewed? That’s a red flag to me because it lends me to think that they’re just trying to pick our brains and maybe do everything themselves.

- ✓ Also, I ask if they’ve ever worked with an interior designer before.

If so, why don’t they continue working with that designer? There are valid reasons why people don’t continue with a designer. Maybe they moved out of the area. Maybe it just wasn’t the best fit but if you see someone jumping from designer to designer – more than two, let’s say – there could be serious compatibility issues going on.

Gail: I agree. In fact, I tend to run the other way if I find that they have definitely over one for me, it’s no dice.

Kathy: Over one, that’s interesting. Every area is different. I live in a very transient area, so that makes a difference.

Gail: Are there other questions you would like to add to that? I think those are all really good ones.

- **Do you ask them any qualifying questions that might lead you to whether it’s going to be a value-based fee versus an hourly rate?**

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Kathy: Not so much on the first phone call, usually I will schedule an appointment and I'll try to qualify them when I'm at their place.

Gail: So, you wait to really go through that qualification process until you're in person?

Kathy: Yes, that's how I've been doing it.

Gail: Next question.

➤ **What happens during that second interview?**

- What are some of the questions?
- What happens during that conversation?

Kathy: I try to find out as much as I can about the clients. You don't want to be too pushy, but sometimes if you look around their space, you can see evidence of some of their personal interests. You might see a photo of a guy on a golf course or something personal like that.

- ✓ I always ask them what their goals are with their design project.
- ✓ What kind of help that they felt like they needed from a designer.
- ✓ I ask them about any existing furniture that will be included in the space.
- ✓ I ask if there's a budget and if they intend to have everything at once.

If there is sufficient budget, then I will inquire if they might be interested in a project fee. I tell them, generally, how I work that I could either offer a project fee and all purchases would be at my wholesale price or charge an hourly fee with a markup on the furniture and any purchases.

If they're looking to buy a substantial amount of furniture then a project fee may be very appealing to them. They have to have a serious budget and not everyone's willing to share that with you, especially on the first interview.

During that time, I also show them my portfolio and sketches. I try to get them excited about the process. I notice that if I show sketches of design concepts and then show them the finished product, they're always excited about that. They're thinking okay, they can see how one leads to the other, and if she can do it for those people, she could probably do it for us too so I try to get them excited about that.

Gail: **Is there a point where you kind of get to that well okay, I think that you really should go more of a fixed fee basis versus the hourly rate?**

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Kathy: I kind of leave the ball in their court to think about and analyze it. If they have questions, I’m happy to answer the questions at that time. Oftentimes, they’re interviewing three designers, so I’ll talk to them for as long as they’re willing to talk to me, but sometimes I just don’t have the time to cover everything.

After the appointment, I send them a letter thanking them for their time, set forth my qualifications with reasons why they should hire me and then I ask them to hire me. I think it’s always important to ask for the job.

Gail: Absolutely.

Kathy: A lot of people forget to do that, though.

Gail: Right.

Kathy: It seems so obvious, but I’ve heard of that.

Gail: It does happen, and I think some people are uncomfortable because they don’t want to be pushy. The reality is the client wants to know that you want to do the job with them because they can feel kind of intimidated by designers. It’s important for them to know that you have an interest in helping them with their project.

I want to go back and ask you another question about the fees.

➤ **In the second meeting, did you talk about your hourly rate or maybe what a range of fees might be for a project like theirs?**

Kathy: They’re always curious about the fees and if they ask me my hourly rate, I will tell them. If they ask me how much a flat fee would be, well it’s impossible to tell them. I need a lot more information.

Gail: **So basically, you just tell them that that would be part of your process of figuring out the fee?**

Kathy: Yes. If I see that they’re very interested in a flat or value-based fee, I will ask them a lot of questions. I try to get very specific on what the scope of the project is and exactly what they need help with – what they expect the interior designer to help them with.

So, I will either get a set of blueprints from them if they’re available. If they’re not available, I’ll just walk room-to-room for the areas that they want help with. I’ll mentally do a furniture layout and make a list of all the furniture that I think will be needed in that room.

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I make note of the number of windows and the type of flooring, so I'll know if they'll want rugs or carpets of any kind. I ask if there's any serious design work like designing a library, if there's a home theatre and they want that designed or if there are just a number of built-ins that will need to be designed. I make an assessment of the time and energy required to do the design for that.

The assessment would be- how long is it going to take me to come up with the designs? How long will it take me to draft it and do the elevations? All of that, that's going to be a serious figure in the value-based fee.

Then, I make a list of all the furniture and furnishings. If there's what I would see as something being a feature wall in a room, maybe they need a large piece of art or maybe they'd be receptive to a mural.

Also, I send all the drawings to the drapery workroom for a guesstimate, just a general idea, a range of how much the draperies could cost. I assign a price range from medium to high, just for the clients' knowledge, because they always ask, how much money is it going to cost for the furniture and furnishings?

Once I have a total of all the estimates for the furnishings, then I go through my list and estimate how much time it will take to find everything.

- ✓ How many trips to the design center it will take.
- ✓ How many trips it will take with the client's for the initial interview.
- ✓ How many trips for presenting furniture layouts, furniture and fabrics.
- ✓ How many meetings at the job site.
- ✓ How many meetings selecting paint colors, which is multi-step process.

There always things that come up in the field that you can't anticipate if it's new construction, so I throw in additional time for that. It's major time coming up with the design fee.

I explain a lot of that to the clients when I'm meeting with them – exactly what I'll do– so they know that there's a lot of thought that comes into the whole process.

I have to also estimate how much time it's going to take to manage the project from beginning to end. That includes:

- Preparing the paperwork for orders
- Placing orders
- Ordering cuttings
- Follow-up after the orders are placed
- Dealing with vendors
- Dealing with the receiver

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- Correspondence

There’s a tremendous amount of correspondence, whether it’s emails, letters or faxes going between the clients, the vendors, the receivers and myself. That harkens back to my secretary days where I document everything to make everybody knows and everyone’s on the same page about decisions that are being made.

If it’s a large custom home, it can actually take me a couple of days to go through this entire process.

Gail: Sure.

➤ **Do you have a checklist that you use to do this?**

Kathy: Yes, I do. Like I said it’s very time-consuming, I put a lot of thought into it. I start with an appropriate design fee, like I said if I’m designing a theatre, a library or something serious like that.

1. Then, I add up all my time for design drafting, consultation, meetings with the clients and selections and multiply that by my hourly design fee.
2. Then, I add up all the estimated time for follow-up and travel and multiply it by my follow-up rate.
3. Then, I add up all the time it takes to prepare contracts and multiply that by the administrative rate.

I explain that to the clients. Everything is added together. I round it up and come up with a number. Then, I analyze the number to see if it makes sense in relation to the size of the project.

It ends up being a gut feel. I might adjust the number a little bit one way or another. If I think there may be some sort of problem working with the clients, as far as personality – I don’t mean anything major because if I get bad feeling about a client, I will not work with them.

Gail: I have a contractor friend who calls that the...

Kathy: ‘The irritation factor’

Gail: That’s a nice way of putting it.

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Kathy: Well, we’ve all had clients like that, and you learn over time that if someone is a problem, you’re better off cutting them loose ahead of time before it builds up to a bigger problem.

Gail: You’re right, because it takes your energy away from your good clients.

Kathy: It does and you lose sleep over it, too.

Gail: You do. I have stressed so many times about these clients and nine times out of ten, they will find a way to negotiate your fees on the invoices, meaning that they either won’t pay it or they’ll cut the fee, even though you’ve totally agreed on everything.

There are some people that are just difficult. They just are. I agree that you have to avoid them.

Kathy: I actually had a case where I met with a young couple, and I just had a bad feeling about them. I don’t know if it was because they were coming across a little aggressive, but after I had the initial meeting with them, I thought no, I’m not going to do my follow-up letter to them because I really do not want to work with them.

Fast forward several years, I get a call from a designer and she said I’ve been working with this couple. I know you interviewed with them because they dropped your name. Why they would do that, I have no idea but she said they’re in the process of suing me and they’re suing all the contractors that have been working with them.

Gail: Oh my goodness.

Kathy: She asked if I would come and testify in court for her. I had no idea what I would say. I had bad vibes about these people, so I decided not to work with them.

Gail: It’s just not worth it in the end.

Kathy: No, it’s not.

Gail: Unfortunately, I think you could find that at the very alter affluent level, you can find some really difficult people.

Kathy: It’s been my experience so far that I’ve not run into that, but knock on wood.

Gail: Lucky you, I can’t say the same. Anyway, basically, what you’re telling me is that, after you’ve had this long interview – the second interview – with this client, you take a lot of time to figure out all your fees. You really base it mostly on time.

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Kathy: And design. The design part is key, but I have to have something to pin a number on as far as the amount of time it's going to take for everything else.

Gail: So, when you're doing that too, let me ask you this.

- **Do you separate your design fee from all the other parts so that they see that itemized?**

Kathy: No, I will give them one flat value-based fee and that includes everything; everything within the scope of the project.

Gail: **When you present this to your client, how do you do that?**

Kathy: I actually sit down with them and go through my entire process, as I just explained. I schedule an appointment to meet with the necessary parties. I get my list and notes out and I walk them through the process. I think this is very educational for them, in that it shows them that I put a lot of thought into to and also the amount of work involved.

Most people have no idea what we do or how we go about doing it. You order a sofa, and it shows up, but there's a lot that goes on in between the ordering and the showing up. I think it's important that they see the amount of work that goes into this, that I just didn't pull a number out of the air.

I don't let them see all the details, but I will pull out the list of furniture and things like that so they can see how long the list is. People are always curious how much the furniture and furnishings are going to cost. And, although I can't give them a spot-on number, I do give them a range from medium to high. That's always helpful to them, so they know how to plan.

I explain to them that they will buy everything wholesale. Anything purchased through me is at my wholesale price, plus sales tax. I let them know that I'll also include any floor samples that I come across at the design center that are substantially marked down.

I had a client who was looking for armoire for her bedroom and I came across a floor sample that was in perfect condition. It was \$12,000. They were selling it for \$2,000. So, any time you can save money for a client that endears them to you and they remember that.

I also explain that I have a lot of private-label vendors for my upholstery. These are vendors who are not represented in showrooms, so I can get very good quality and about half the price than if I would have bought it at the design center and they like that too.

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I’ll actually show them pictures of furniture that I think they may like just a couple pictures. The last interview I went on they needed a couple dining room pieces, so I just pulled out of a catalog a couple of these nice dining room pieces that I was pretty certain they would like; and they did. I showed them the retail price then I showed them the wholesale price and the amount of savings involved in that.

So, after I go over the contract with them, I give them a list of references, so they can call some of the other people that I’ve worked with. I give them the list of advantages of working this way, such as:

- They’ll know what their investment is up front.
- It’s a set fee.

Because it is a set fee, I can offer alternative directions midway through if I feel like maybe we should do this or maybe we should do that, without any more cost to them.

- They’ll get great project management.
- They’ll know where the project is going – when it will get there.
- There are no markups- everything is at my wholesale price.
- They’ll get additional savings on purchases.
- Because they’re paying wholesale, the sales tax is on the wholesale price, not the retail price so they save money that way.
- They’ll also have my network of contacts in the industry.

That’s where I get floor samples at reduced prices or my entire team of contractors that I use for every facet of design, whether it’s artists, painters or carpenters.

- I have the clients pay the contractor directly with no markup from me.

It’s a very proactive approach to the project. If I know that a showroom is having a sale that would be pertinent to the clients and if I know the client is out of town, I’ll make arrangements for the client to come in the next day after the sale has ended.

So, you use your contacts in a beneficial way for the clients and this all has value.

Gail: It does. I think what’s really interesting about this is it shows that you’re on their side, so you’re not benefiting necessarily, from every minute that you’re charging or a markup on the product, that you’re actually there as their advisor and you’re directing them to things that are the best choice for them, maybe the best cost-effective choice, too.

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Kathy: That’s right. The right interior designer can save you a lot of time and money. People don’t realize that, but if you’re paying a little more for a seasoned designer, you’re going to get a lot better result than someone just starting out.

I had an interesting compliment from the owner of my drapery workroom. He said, Kathy, you’re one of the few designers who are not jamming furniture into their rooms. I said what are you talking about? He said, well you know how business is these days and designers are loading up the room with so many accessory items and so much more furniture than the room can really handle, in order to make the additional price on the furniture. I said, at the expense of the design itself? He said yeah, you’d be really surprised at what people are doing these days, so that eliminates all that.

Gail: It puts you back in that position of being someone they can trust and count on to give them a reliable answer that isn’t going to affect your bottom line profit, because you’ve already made your profit by charging them a fixed fee.

Kathy: That’s right.

Gail: That puts you in a whole different light with people.

➤ **What are some of the questions or the issues that come up as part of that initial presentation of the proposal to the client?**

- What are some of the things they might ask you?

Kathy: After hearing the fee, sometimes they are surprised. I should say most of the times they are surprised, but I’ve already walked them through all of that.

Sometimes they’ll ask if they must do everything at once. In that case, you can break the project up into sections or maybe just focus on a certain area. If it’s a home that they’re living in and they’re re-doing things, maybe focus on the key areas that they spend the most time in and then move on from there.

I always encourage people to finish an area so you can see that you have a sense of accomplishment, rather than doing a little bit all over the house. You feel scattered and you don’t see the accomplishment.

Sometimes I’ll break it up into different sections, like:

- Conceptual design and color coordination
- Furniture and fabric selection
- Purchasing and project management

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It’s always important to have a plan that’s key, that’s number one.

Sometimes they’ll ask what happens if they want to buy something retail. I explain that I don’t have a problem with that, but I do hope that they would show it to me before they actually do the purchase just to make sure that it’s going to fit in the space properly and work with the overall scheme.

They’ll ask if I can recommend contractors, and they want to know how that works. Like I said, I will recommend contractors and I’ll explain that the deal would be between them and the contractor. So, I try to recommend more than one that they interview and then they can choose.

I also explain that I’m not going to babysit the contractor. If they’re working in your space, then they need to make those kinds of arrangements on their own. I never take a cut from the contractor that I recommend. I keep that totally separate.

Gail: It also removes you from that liability issue of being involved or acting like a general contractor to the general contractor.

Kathy: That’s right. I like to avoid that at all costs and keep an arm’s length distance. I do like them to work with people that I recommend because any of the contractors that I’m working with – I’ve been in the field for 20 years, so I know the good ones, and I know the bad ones.

Anyone who wants to work with any of my clients, I explain to them that they must follow certain rules. It’s just rules of being professional. Show up on time. Do a good job. Clean up after yourselves. Be polite to the clients. It sounds so simple, but sometimes you have to say those things to new people that are not used to working with you.

Gail: Absolutely, I agree with you all the way. Truly, the people that you recommend are also an extension of who you are as a brand. So that becomes very important for you to vet those people carefully and tell them how to work with your clients.

Kathy: Definitely.

Gail: **How do you feel about the fixed fee – the value-based fee process?**

Kathy: I like it. I prefer working with a fixed fee. I feel like I’m being paid for my creativity, my knowledge and my experience, not the amount of hours I’m working. That’s very important to me.

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I also want to be compensated for the risks that I take as a businesswoman. When you're charging hourly, you can only make a certain amount of money. I mentioned how I hate keeping track of every minute of my time and doing the billing and that eliminates all that. I like it a lot.

Gail: Here's a question I think a lot of people are going to have, too. We haven't really talked about what your typically fees are – and if you care to share, you certainly can –

➤ **What are some of the keys to getting the kind of fees that you ask?**

Kathy: I think number one is developing a relationship with the clients. If you can make that connection with them, that is very key.

That includes the same list as I said for the contractors:

- Be professional.
- Be punctual.
- Be careful about your appearance, dress professionally.

We do work in an image industry, whether you like it or not, you will be judged by your appearance. It's okay to be a little trendy in your appearance, but I would not overdo it and I would not be too casual.

- Be careful with your portfolio.

I think it's critical to have a portfolio. I've heard of designers who are working without one. Honestly, I don't know you get work without a portfolio showing what you've done. It really needs to have professional photographs and presented in a very good way.

I've been with contractors who will get out a dirty envelope with loose photographs and start sorting through the photographs to find the picture that they're looking for to show it to me. It just doesn't give a very professional presentation.

- ✓ It's important to return all communications with your clients ASAP, if at all possible within the same day.
- ✓ You really need to stay on top of the business part, not just do the design part.
- ✓ Emphasize the benefits and the results.
- ✓ Does your design reflect the clients' taste?
- ✓ Does the design match their lifestyle?

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- ✓ Is the design functional?

It’s humorous when I see pictures in magazines of French doors and they’re laden down with layers of window treatments, there’s no way you can get in or out of that door so it has to be functional, that’s important.

- Is your design uplifting?

I had a situation where I was hired for a project. It was a small custom home built on an island. When I was hired, the home had just been framed. So, without the clients being around I took a drive out there just to scope out what I was going to be working on. When I was standing inside the house, in front of each picture window, I could see outside that there was a footer right in the middle of each window. I’m thinking, what’s going on here?

The roof was jutting out over each picture window and the architect had designed for a column to be in the middle of each window. When you have water views, you don’t want to obstruct these windows. So, I met with the clients and I said do you know that you have a column right in the middle, dead center, of every big window in your home? They had no idea.

I was hired soon enough so they could actually meet with the architect, he could make a modification to his design, and they could have clear views looking out their windows. That’s what I mean by uplifting design, the value that you bring to the process and lastly,

- Demand the fee.

Get them excited about the benefits you create and the end result of living in a beautiful, functional home.

I knew a realtor who had a catch phrase– Ask and you may receive; don’t ask, and you won’t receive.

Gail: Exactly.

Kathy: It sounds simple, but it’s something to think about.

Gail: Absolutely. I think those are all good pieces of advice. Let’s get into a little nitty-gritty here.

➤ **How do you bill your client?**

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- If you're on a fixed fee, how much do you charge up front, or how do you charge throughout the project?

Kathy: That's actually the easy part because I offer a 10% discount if they pay the entire fee in full, up front. So far, every one of my clients has accepted the flat fee and has taken the discount.

Gail: Love it.

Kathy: Yes, it's great for the cash flow.

Gail: Absolutely.

Kathy: They pay everything up front and by that time, I've already established a level of connection and trust with the client. Then, by the time, I get to the fee part they want that 10% savings,

Gail: Sure. They also know you're going to bill at a wholesale cost and you've already shown how you're going to save them money in the end, that's great.

Kathy: Yes, despite the high fee.

Gail: Exactly.

➤ **What happens when the client changes the scope of work? How do you handle that?**

Kathy: That's real easy, when the scope changes, so must the fee. I'm very adamant about that. If something is added after the project has started, then I just say, well, there will be an additional price for that additional work. I'll figure out what that would be and they can decide whether they wish to move forward with it or not.

Honestly, I've not had that happen.

Gail: So you've really done a good job on the scope where you're in control of that?

Kathy: Yes so far. I'm not going to say that it's not going to happen in the future, but I haven't had people do that.

Now, I did have one time, during the interview where I was presenting everything to the client and when she read what my fee was, her eyes kind of glazed over. She said I am very shocked. So, I started going over again all that was involved with a custom home. She said I needed to get that fee down and I said then we'll have to take something out.

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Gail: Good for you.

Kathy: She said remove the basement. So, I actually did the whole main part of the house and fast-forward 10 years; then I did her basement.

Gail: Well, she already had that confidence in you, too. So, why would they want to go work with someone else after they’ve had the experience with you?

Kathy: That’s how she felt about it, and that’s a real compliment to me when someone picks up the phone, and they call you and say I’ve got another project for you and that’s where I get a lot of my business.

Gail: That’s the perfect way to get that.

- **Knowing what you know now, what are some of the most important things that our listeners need to know when they’re using a value based fee system for the first time?**

Kathy: I would say the main points are:

1. You must believe in yourself and your work
2. That first sale is to yourself.

Think about the value you provide. If you can’t articulate that value, how can the client ever understand it, that’s something you can practice over and over again, maybe stand in front of a mirror and say, this is a fair price. I’m worth it. I’ll work hard for the client, and they’ll be happy.

3. Don’t under-price your service.

Do your homework. The price is a lot more elastic than you think it is, meaning you can probably charge more than you think you might be comfortable paying, but you don’t know what the client’s situation is. Find out what you can.

4. Never work without a contract, ever.
5. Don’t accept more work beyond the defined scope without charging for it.

It’s real easy for someone to just try to slip something through. Oh, while you’re at it, will you just do this will you just do that? Don’t do that.

6. Highlight the results and benefits to the clients.

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Help the client visualize the finished project. What is the project going to look like? How will it be used? How will the space feel to you? That’s something I learned at Ethan Allen, we used to call it Romancing the Sale.

7. Be willing to walk away from a project that just won’t work financially.

That’s very important. If you’re getting bad vibes up front, you’re better off walking away. A difficult client can make things very uncomfortable for everybody. Lastly,

8. Never stop selling.

From the moment you get a lead until the last picture is hung you must be constantly selling and reselling the project.

Gail: I agree with that wholeheartedly.

In fact, I had an instructor in design school. He made the comment- you absolutely must go through thing at the very end. He was one of these really flamboyant. He was. He said, you have to appreciate the project with them and say isn’t this is just absolutely beautiful.

You know what the clients eat it up because they do want that confirmation that they’ve made the right choice. By the time you get down to the end of the project, they’ve developed that confidence in you and they see that it’s beautiful, but they want to hear that you think it is too.

Kathy: It’s funny. I’ll walk into a place that I hadn’t been in for months, maybe even a year, and I’ll call the clients and say, oh, I’d like to stop by with a photographer to take some photos, if that’s okay. They’ll say sure, we’d love you to do that. So, I’ll walk in and say I just love this space it makes me feel so good. Then, they’ll join in and say how much they like it too.

It isn’t false or put on, but it makes me feel good when I come back a year or so later and I really like the way everything looks. This is a very gratifying profession.

Gail: It can be, for sure. I think those are really great points. I guess I’ll end with this last question.

➤ **Is there anything I’ve forgotten to ask you?**

Kathy: I think we covered everything I can think of, Gail. It’s been a real pleasure talking to you and sharing what I know with your listeners.

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Gail: It always helps to hear from someone else who’s been in the field, who’s had the experience, and who has done this over the years because that’s really how we all learn. It’s best to model someone who is doing it very effectively.

I thank you for your time today. Kathy, it’s been a treat.

Kathy: Thanks very much, Gail. The treat is mine.

Gail: All right, well have a great day.

Kathy: Thanks you too.