

Value Based Fees Series
“Fixed Fees For Happier Clients”
A case study with Kristi Dinner, Allied ASID



Gail: Welcome everyone we're glad to have you with us today, this is Gail Doby with Design Success University. I'm so delighted to have a friend of mine today Kristi Dinner with company KB, here in Denver.

Kristi has been a designer for a long time and I'll let you tell you a little about her background, but one of the things I love about Kristi is that she's so willing to give back to our community and to share her advice and expertise, which is a strong suit for her.

I'm greatly appreciative that she's here to share her ideas with you today, because she's been doing design for a long time.

For those of us that have struggled with how we charge and how we keep our clients happy, I think you've been through all that so you can share those experiences with us.

Kristi: It's on-going. A little bit is testing what works and if it works great and if not than you have to be open to saying okay, let's try another way to see if that works better.

Gail: Well you're right of course testing is a big part of it.

Kristi: This is an entirely new experience that we're all going through right now and some people have been through it before in the 80s, while for others it's the first time going through this type of recession.

Gail: Kristi, let's start at the beginning so everyone knows your background and understands how varied it is as well as how much you have to offer them in terms of information. Why don't you tell us how you started your firm and in interior design itself?

Kristi: I started my firm 15 years ago in 94'. I got into design through design school in New York in the mid 80s, attending the New York School of Interior Design. I did the two-year AAS degree, because I'd just completed a Bachelor of Arts in English and then went back to design school.

I will say this, having the Bachelor's to start with and having that background of just being able to communicate better and write have added to what I now use as a business owner.

I know this will probably come up later as we start talking about degrees and different ways people can get their education, but that was my background. Then, when I finished I moved to Los Angeles and worked for a design firm that did mostly

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retail design. Through this outlet we worked for Neiman Marcus and Gumps of San Francisco as well as other high end retail boutiques.

We always did a little bit of residential for people that were somehow affiliated with the stores and soon after I started doing smaller projects on my own on the side.

In the late 80s as the market tanked in California, our company went out of business, which I know people are experiencing similar things right now, but that made it a bad time because of real estate and everything in LA at that time.

I then found myself out of a job and tried to figure out what to do next, but I'd always had an interest in film both television and feature films, set design in particular, so I decided as long as I was already out of work I would see what that entailed.

So I spent three years working in the art department for both film and television doing set design/decorating. Then overnight I woke up and said to myself, this isn't a very good life and decided to move back to Colorado to start my own business.

That was the very end of 93' when I made this decision and it was like an overnight decision based on lifestyle, I just felt I wasn't going to get anywhere by continuing to do what I was doing. I wasn't making that much money and it was difficult 18-20 hour days every day working in film.

So as I said, beginning of February 94' I started my own business in Colorado and I've never looked back. It's been a steady climb up, but that's how I got started in this business.

Gail: When you started the business, which we could have an entire call on with just what you knew before you started your own business, did you have any background or know about how to start a firm or how to run your business?

Kristi: No, I really didn't. It was very much trial by fire. The one thing was that I had worked for this other firm for five years before going into film, so I knew a little about how they ran a business although we did mostly commercial, which proved to have big differences.

It was a little like I said trial by fire and what happened when I came out was that I had one client project that brought me back here and from there, when I started it was working out of my house very small. However, I would say by the end of the first year I was up and running, never looking back.

Gail: I understand and you certainly learn so much more about running your firm after you jump in and start doing it.

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Kristi: The one thing I would caution, which I say a lot when I’m talking to students is, you never want to make this leap if you can help it, right out of school. I understand right now there are lots of designers just graduating and getting out of school, but there aren’t any jobs out there.

For some people that may be, let’s just start up because it’s not like there are all these available jobs, so tailor what I say a little to everybody’s particular situation. In a perfect world you never want to get out of school and start with your own firm and not have a safety net.

Working for somebody else really gives you that safety net of; you can learn what it’s about from being mentored by somebody else and really understand the business without all that responsibility, because the responsibility is on the employer.

Gail: Right and there is so much responsibility. We have a variety of people on the call, some of whom have been in the business for a while and others that are fairly new to it, so we have all stretches of experience levels.

It is difficult and I think even now it’s becoming more difficult, because you have to be able to be flexible and you can’t do things the way you used to do them.

Kristi: That’s correct.

Gail: Whether it’s marketing, the way you bill or the way you run your business, it has to be a whole different world, which we’ll talk about shortly.

You said you did commercial quite a bit when you were in California…?

Kristi: Yes, that was primarily what our firm did, was high end retail design.

Gail: How much commercial are you doing now versus residential?

Kristi: Last year we actually did a fair amount; we had several commercial projects. Typically, it’s very rare because we do primarily residential, but if there’s a connection from a residential client that’s how the commercial gets started for me.

We had a good residential client who decided to open a store, so we did the design for that. Another residential client, her business was working for a foundation, so we ended up doing a conference room for them. Then I also did a showroom at the Denver Design Center through one of my connections there.

So, we had three commercial jobs going last year and that was a lot for us. Typically, we may have one a year and these three all basically coincided at the same time,

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which was unusual. It's sort of what comes up and it's a lot through the connections we already have.

Gail: A lot of business is networking and I think it's going to change also during the next few years as people start looking for designers first online and then they'll contact you, even if they've heard of you through someone else, because they'll want to check out your portfolio as well.

Kristi: We actually added on our website a commercial tab, because now we had projects to show whereas before, if people knew us through another way then that would be how we would get those projects, but it wasn't a big focus for us and until then we didn't have anything to show.

That has been a nice way that the business has evolved for me.

Gail: Let's talk a little about how you're getting clients and how that's changing today from the way it's been in the past.

Kristi: It's changed considerably in the last six months. I think right now what we're hearing and finding to be true for us is that the best client is your existing or previous clients, so we're finding a bit of our marketing is more about going back marketing to those types of clients saying, are there any other projects you've been interested in doing.

As always, word of mouth is the best marketing tool, much better than any advertising. It's always being recommended from a friend that they'll send a friend or relative to you because they've had a good experience, so that's always the best marketing but now, not just who they're going to refer but actually going back to them that they might want other projects.

Gail: Are you finding that there's a particular way you can go about doing that that works well?

Kristi: I think there are a couple different things. Staying in touch with past clients through a number of means; one may be doing a newsletter or sending out some emails of things that are happening.

Many designers have started blogging. I haven't gotten there yet. We've talked about it for a long time but haven't gotten it going because it's a lot of daily upkeep.

I think whatever mode of communication is your comfort level whether it's picking up the phone which is somewhat tedious or just something you can do in a mass way like sending out postcards to old clients or sending a newsletter via mail or email using Facebook...these kinds of things where you can reach out to your old clients is a nice way.

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If there are things going on in your business and your life that you can tell people about that's a nice way to get in contact and for us we just had our 15 year anniversary a few months ago, which gives us an opportunity to let people know that has happened and what we're excited about.

When I might be on a certain trip, because I travel a lot for my own personal enjoyment, but that ends up getting tied to work situations and then I can send an email saying...I'm about to go to Spain so it'll be nice to be able to show things from that trip and say I saw this and thought of you. It might relate to what you were talking about with the project you might want to do.

So, if you can tie something to a particular person or a group of people.

Gail: Sure and even if you keep up with things like the business journal in your city, you can find a lot of articles about a lot of your clients, especially the ones who are CEOs or are up in the business world. If you just send those articles and send things like that to let them know you're thinking about them...even if you see something about their kids that have done well in some event it's good to send a note.

Kristi: Absolutely and to be able to reach out, which is something that we're conscious of doing with our current clients. If we know somebody has had an operation, they were sick or their child was sick; something that's happened in their family, it's being able to reach out on a personal level to let them know there's more between you than just the business arrangement.

I think in design it becomes a personal type of relationship and we say that all the time, which is why I say in reaching back to past clients, when we interview a new client the first thing we say is we're very serious about taking on new people and knowing if it'll be a good fit because we look at these relationships for the long haul.

We're not unlike a contractor or architect where they come in, do the job and then go away. If we do our job right we never truly go away. We might be dormant for a while in that relationship, but we never really go away and hopefully they'll come back and want to do more decorating or they'll re-design their current place, a new place or even have a second home.

If we've done our jobs well that's much more of an important client than any new client would be. What's happening today is proving that.

Gail: I think you have to obviously market, you can't ever take it for granted especially in a time like now where you have to be proactive and think about other ways to make a personal connection with clients.

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In fact, I haven't been doing much design lately because I've been working on this business, but I actually ended up having lunch with one of my clients that we've worked with for 11 or 12 years. It was more of a catching up with what are the kids doing, what she's doing and what are their activities or plans.

It was great for me, because I do my best to keep in touch with my old clients to keep that personal relationship open.

Kristi: It's important and I think catching up with people is also about being involved in your community. That's one of the marketing things that I look at whether it's a chance to re-connect with old clients or a chance to meet potential new clients; but being able to do things in the community from volunteering or attending various events.

One, it connects you to your community, but those kinds of networking things they give you dual purposes because it gives you a chance to give back, to meet people and just have a finger on the pulse of what's going on in your own community, which oftentimes can bring new or past connections that ultimately lead to work.

Gail: Absolutely.

A couple weeks ago as I was reading I came across an article in Colorado Business Magazine that was talking about your business and many of the things we're talking about right now. Also in there it talked about the way you changed your strategy for billing and I think this is a huge issue that we should address as an industry.

This is something where ASID did a survey some time ago that was actually something like 70% of all clients would prefer a fixed fee billing system.

Kristi: That's interesting.

Gail: Yes, very high statistic. I don't know what year that was actually done, but as I've thought about this and my own practice I know that many clients I've worked with are very high end so they were willing to pay by the hour because we never knew when their project would be complete, many were on-going.

However, these days it's not that way people want to know what to expect.

Kristi: They do. Right now if people are still going forward and doing projects whether they're design projects that involves remodel or new construction or, whether it's a simple decorating project they bring up very different issues for how fixed fee billing work.

We've found that fixed fees work well for some of the architectural projects and remodels, which to me is the most ideal situation for a couple reasons.

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One is because the timeframe of those projects isn't nearly as long as new construction.

Therefore, it's anywhere from a four to six week project to, possibly a three month project. If it's a really big remodel it could even be six to nine month project, but typically they run three to six months.

Because of the nature of the size of the project, whether it's remodeling a kitchen or a kitchen and a few baths or doing an addition, we can evaluate very easily the timeframe that it'll take.

And, because you have a contractor involved that's setting the schedule, whose going to be cracking the whip about the dates of when things are happening and when they need decisions, products and all of that, it makes it easier to keep a client in line of making decisions in a timely manner because they know it'll cost more money if they don't stick to the timeframe.

So, it allows us to put together a very realistic timeframe and budget and then we can assess our hours. A big part of our business has been from the beginning, doing a lot of kitchen, bath remodels as well as additions. So it's something where I can look up past projects and evaluate what kind of time we can put in.

I know there are a lot of people that speak to the design trade about billing and their method is to take the hours you think and many will say that times three, but that's not realistic, at least in the Denver market and it may be different on the coast, but in Denver nobody is going to pay that.

Nobody is going to take that you're estimating it'll take 50 hours so you'll times 3 for 150 hours and then try to get that fee. I don't believe that's very realistic. I think you have to pad it a little to protect yourself and if you're billing from past projects you want to know that you've covered yourself, because the idea is not to lose money.

You also have to be fairly realistic or the clients will smell a rat and they won't do it. Although, I think it's okay to add a little bit because it is saying we appreciate that you don't want to go hourly and you want to have it locked in, but we also have to protect ourselves a little bit and know that we're covered because if you don't know the client and don't know how well they'll make a decision you have to take that into account.

If it's a client you've worked with before and you know how well they are at decision making that certainly helps.

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Then when it gets into the decorating side it's much more complicated to do a fixed fee, because there isn't the same time pressures where a contractor is saying, we need to stick to this time schedule or it's going to cost you additional money.

If it's people picking out furniture, window covering and things like that they're not necessarily under a timeframe, so it can drag on making it more difficult to stick to that. Then you have to put in other controls that help you make your fixed fee work.

For example, you could do a contract that says this contract is good for three or six month, whatever you agree to with the client that you intend this project to take and you set your fee and then you set your parameters of the timeframe.

Gail: Walk me through that if you will and give us an example of how you would go about figuring out a fixed fee for a project.

Kristi: I base it on past projects. I look at similar sized projects and then take into account the kind of things we'll be doing and for me, the only way I know how to do it is by looking at other similar projects. I'm very fortunate, and Gail as you know, we've got a wonderful network of a dozen or so designers in Denver which isn't typical for every city, but we look to each others as peers and are able to talk about things going on in our businesses.

There are a few of us in particular that, when we run up at this situation and we'll have in mind a number that makes sense to us, we'll pick up the phone and call one of these other designers and say this is the project...I won't always say what I'm thinking but will let them tell me.

Nine out of ten times we're right on the same page as the number we were already thinking about and it gives me a comfort that a peer of mine would come in the same way.

Not everybody has that opportunity to have somebody they can bounce things off of, but I know for me I feel very fortunate to have a few of those designers that I can communicate with and ask questions to.

Gail: Of course that was your idea to have this network of people, which was very smart because it then gives you that mastermind group to be able to have somebody who can give you their informed opinion, because it really is one of those things where there is no perfect way of going about this.

Kristi: There's certainly not, there's not a science to this and unlike other professions where there is a set standard of how people charge, we don't have it. I think in a way it's good and bad, but it is difficult.

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Think about it from where the clients are sitting and from their point of view. How do they know if they're being taken for a ride or if this is really a legitimate price we're offering? They really have to put forth a lot of trust in our professionalism and I think we suffer as a profession in that area that there's been too many people in our area that haven't been trustworthy.

Therefore, there's a lot of reason that the end user, the perfect client that they may not always be so trusting and there's a lot of people who have never used a professional before, so they are coming into it blind. I think the more we can do to give them that sense of trust the better.

I think in doing these fixed fees, what I'm finding is that it really does help that sense of trust because it takes that whole element out of the process that we're doing all the fun stuff, we're giving them great design and helping them by educating them and doing all the selections.

Some of it is tough stuff and there'll always be some problems, but to me the biggest problem is always the money issue. At the end of the month when that time bill goes out and they're looking at it, questioning every little thing it's frustrating not only for them, but for us as well because it takes a lot of time.

I found by taking that out of the situation and they've already done a fixed fee that it puts the onus on us as the designer to be efficient with our time, whereas if they're seeing the monthly bill with every quarter hour how do they know that we've been as efficient as we can?

We can say all we want, that we're efficient, we've been doing this a long time, we know our sources and we promise we're really efficient but how do they really know that when, if they've done a fixed fee it's on us to not lose money because we've already been paid up front so we don't want to spend more time than what we've been paid for and if we're lucky we can save a little time, although I find that hard.

Gail: It never happens.

Kristi: I've never quite gotten that one but I think it takes that whole element that they're not questioning that bill.

I will say this, in the early days I used to do time bills and when we do time by the hour we charge to the quarter hour like a lawyer or accountant would and we would send a monthly statement that would show what we did every day with all the details.

Some people liked knowing what we did all the time and other people it would just make them crazy, because they understood we had to charge for certain things, but it

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still made them upset. Then we started changing that system and went to where we would just send a monthly statement that would say we spent 35 hours on your behalf and this is what we did for the month; in a paragraph.

That way they wouldn't see the minutia of every day and for a lot of people that really helped. Then there were others who said, I need to know what you did for those 35 hours because I don't understand this, so we would have to go back and show those clients the details, which they knew we had because we needed those for a couple reasons.

We'd have to have it-

- One of people questioned it
- Two for our own sake to know, if when we do these fixed fees if we're doing a good job of coming up with the fee.

The only way to do that is to evaluate the past, so you still have to track your details.

So we move from the minutia to the paragraph and now, when we do the fixed fees it's all on us to say one, we've either done a good contract and covered ourselves, we haven't lost money and we've been efficient. And that's what the end user wants us to have to work for it and for it to be efficient which is harder on us than charging by the hour.

But, if the tables were turned and we were the end user, wouldn't we want and expect that?

Gail: Absolutely.

Kristi: I think that's a lot of what you have to look at as the designer coming up with these fees. Put yourself in their shoes and feel how they feel.

When you turn around and you employ another trade whether it's a landscaper or you've got to bring a contractor in to do something in to do something in your own house, whatever it is and you understand what it's like to be in that position...because we've all been on both sides of it...that's what helps you come up with these fees.

It's coming from that empathetic place and putting yourself in the position of how that particular client and knowing what you know about them, how will they feel about this?

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Gail: How do you get to this? Let’s talk about the very beginning and you’re dealing with a brand new client. You’re talking about their project and you know it’ll be a remodel, how do you have that conversation with them about how you are going to charge for them?

Kristi: What we’ve been doing lately is we’ll start with our standard old contract, which talks about how we bill hourly. Then it also talks about how, which is in the contract, when the situation is fitting that we will also propose a fixed fee if they prefer, so we put it out front that we have different ways of how we’ll charge.

We want to tailor and custom fit this contract to what makes the most sense for them, their needs and their projects, so we start out the conversation that way and then we try to ask a lot of questions. We try to give them a couple different questionnaires because the bottom line is, to figure out the proper fee structure you have to understand how these people think and how they are as decision makers.

That’s how you can lose your shirt, because if they’re bad decision makers and you don’t know that going in and you haven’t compensated for that properly then you can lose your shirt.

Gail: What are some of the questions you would ask to determine how they are at making decisions?

Kristi: If it’s a single person that’s fine because you know you’re dealing with one person whose the decision maker, but if it’s a couple you want to know...you can do this verbally but sometimes it’s nice to have in a written out questionnaire...that both partners, you want to understand from them if they have to write it down that it’s nice because they’ve both had input.

You want to find out is, if one of them is a decision maker, are both decision makers or is just one a decision maker and the other is responsible for the finances? Who will pay the bills? Basically, you want to know who makes the decisions and who pays the bills, because it may or may not be the same person.

Those are important things to know and then you want to find out, do they have a timeframe in mind? Do they have any special events coming up, because if they have some event coming up that you’re working towards it can help you keep things on track and make decisions go smoother.

At the same time, if it’s too soon and you don’t know that up front then you might want to charge more money to being rushed through a process, because you’ll have to ignore other clients to be able to meet their timely demands, if that’s the case.

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Therefore, you want to ask a lot of questions about that. Then, if you can delve a little into trying to understand their personality and there are many personality tests that you can look into, but finding out what people’s personalities are helps you a little in understanding whether or not they’re being truthful when they tell you how they make decisions.

You also want to find out from some of these questions how they deal with problems.

In our business, we know it’s 10% creative and 90% problem-solving, so much of what we do and not that great creative design doesn’t come out of problem-solving because sometimes the best ideas come from having to solve a problem.

However, you want to know, because you could have the nicest, sweetest most wonderful client in the world until something goes wrong and then you have Dr. Jekyll and Mr. Hyde sometimes on your plate.

So, if you can ask questions up front to find out how they deal with problems and stress and I think you also need to establish up front that you have usually set expectations of each other of what you expect for them as a client which will be very different from what I might say I expect and what you Gail might say and what all of you listening on the call might say.

We’re all a little different about what’s important to us and what we expect from our clients. We also want them to know what they can expect from us and that’s a little bit of what you talk about referring to how you run your business as well as what they can expect from you on a professional level.

Creatively they’re going to see your portfolio, so that’s a little of what they’ll see but they need to understand how you solve problems and how you run your business so you can know if this is going to feel okay and if you’re really on the same page.

When I’m in the initial interview I always say to clients that I think there are a lot of good designers here and a lot of not so good designers here, but what they need to think about is whether or not they feel a connection. Do they feel like this is going to be the beginning of a good relationship, because design is very personal?

It’s different if you’re a commercial designer and you’re not getting into their personal space, but when you’re doing residential and you are in their personal space then you have to learn their habits. You are going to need to know. If you’re doing things in their bedroom which side of the bed which one sleeps on and what are their habits.

If you’re doing nightstands do they leave things out? Do they put things away? In the bathroom do they need separate sinks? All these questions and things that you ask

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tells you a lot about how they operate as a couple, how they are at decision making and how they respond to all these questions?

It's giving you design information which is great, but it's really giving you insight to them and all of these things, the sooner you know them will help you determine a fee.

Gail: I think that's true and the trust factor of, the more you ask questions about them to get them engaged and talking, they feel more trust because they know you're getting to know and understand them better as people.

Kristi: Exactly.

Gail: So I think the deeper you can go with those questions the better, as long as they don't feel like you're grilling them.

Kristi: Right and that's why sometimes I think having a written out questionnaire that you can either leave with them or send them ahead of time gives them time to think it through as well as giving them time as a couple or single, whatever the case may be, that they can reflect on this and go through these things.

It brings up a lot of things they might not have thought about but that are helpful to them and to you as the designer.

Gail: Do you give this to them before or after the contract?

Kristi: After the contract.

Gail: Some people I know have things to help people get started ahead of time so they can think about it because I think too that many people are uncomfortable in talking about fees and how much things cost. Quite frankly, a lot of people are nervous talking to a designer in the first place, because they don't want to be criticized for their poor taste.

Kristi: I think that's true.

Gail: Therefore, there is a certain element of that, but then they also don't want to share what they're willing to spend because they're afraid you'll spend it all.

Kristi: That's a good point and it's a tough conversation. I think it goes back to what I touched on earlier in saying there's a lot of misgiving and mistrust of our profession in that, if they tell us they want to spend \$20,000 that we'll want to turn around and spend \$30,000.

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So, they don't want to be honest with us how much they have to spend and if you can't establish that sense of trust in the beginning then you'll have big problems. I think you need to try to get them to be specific.

I was just at a seminar yesterday where a designer was talking about a problem she had with a client who was saying they wanted to do a high end kitchen, but they never discussed what that meant to each of them. In fact, it meant very different things to the designer than it did to the client.

We all know that's true, when you have a client starting out, what they might think...when you talk in generalities of low end, mid range and high end...and it doesn't have any numbers attached then it doesn't mean anything.

Therefore, when I have that first money conversation about budget I try to get them to be more specific and say it's not in anybody's interest to not be honest about this, because we can't do a good job for you if we don't know and if you say you have \$20,000 to spend and you don't have a penny more, I need to understand that so I know.

However, if you're hedging your bet to see what I come up with then we're wasting time, particularly if you start doing these fixed fees where they tell you one thing and you start showing them products and it's not in the range where they want it to be whether it's low or high, you've got to go back and re-shop all that and you haven't figured in the time to do that.

Gail: Exactly. That can really kill you, so it's critical to have that conversation to make sure you get that out on the table.

I think the other part that's difficult about this is that most clients, unless they've done some remodels or have experience decorating a house then they don't know what that budget needs to be anyway.

Kristi: Right.

Gail: So having that conversation where you're talking about with the low end, mid range and high end, where would you feel most comfortable, I think that helps them have a sense of where they need to go with this.

Give us some other pros and cons of doing this as a fixed fee basis. I know for sure there's the time issue where you may end up having your time eaten up and you're not making profit.

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Kristi: It's tough. We have a project that we're nearing the end of now where we did a fixed fee with a six month contract, so they're not out of contract and on hourly. It was a combination of some remodeling and decorating.

To be honest, we didn't enter into a great contract. It came at a time in the fall when we really needed the work and we're all sort of in the situation now where all the rules go out the window if you need what you need. If you need the work and you're willing to lose a little money then nobody will say you shouldn't do it.

If it's a matter of keeping your doors open and getting the work than you do what you have to do sometimes. In good times it's a lot easier to say, I would never enter into that kind of deal, but right now we're all entering into deals that aren't so great because we have different reasons.

So we entered into a fixed fee contract that was a combination of remodeling and decorating and it was in two phases. The first phase of the remodel is done and completed and we're just now in the middle of the second phase.

We would have been in great shape for the remodel part, because as I said that part comes easy to me to figure out. We've now been doing it enough that we're getting good at not making any extra money, but not losing money, and yet honing in on that time.

The decorating part is where it's difficult. You can think you know somebody and then in this case they kept revisiting until we're in the hole for this contract, because they didn't make decisions very quickly, so we kept having to re-shop and re-look and now I think they've spent more money than they wanted to.

They may not end up ordering as much and we entered into this contract because we were counting on the fact that they'd order (x) amount and we'd make it up there. I knew going in I was willing to lose a little bit on the time figuring I'd make it up on the other end.

On the other end you can't count on, because when you get to that end you still don't know what's going to happen, there's no guarantee they're going to buy what they're going to buy. At the same time, I needed the job when we took it so it was okay, so if you can be okay with the reasons that you entered into it than its okay.

Gail: When you're sitting down, I know you said you compare to your old projects and some people may not have enough history or even know how to evaluate what they've done on past projects and maybe they don't have a time billing system that tracks what it takes.

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For instance, they may not break it down into conceptual design or design development, some of the phases typical to for our business.

Kristi: If you don't have the past then you just have to make it up. We've done both. What I'll first do before going to the past is to sit down and say this is all the things they want us to do and whether its architecture or decorating, either way you have a menu of all the things they want to do.

Therefore, you have however many line items and it's not just me, it's not just me, I have staff so we'll sit down together so whether it's that you have other people to play this off of, because it's better to have more opinions, but if it's just you then go through it and take each line item.

Think in your mind how long it will take you to do this. If it's furniture, how long will it take me to shop for these items? Then figure, if I'm drawing floor plans how long will it take me to do that? How long is it going to take me to select fabrics; put hours to each of those line items.

Five hours, three hours, four hours, ten hours whatever, so make line items for all those things and make sure you're accounting for time when you're going to meet with a client and present all these things.

Then, if you're starting out the first time and don't have a track record, make sure you put in time for changes. What if the client doesn't like everything so you have to go back? You want to make sure you're not too close. What I like to do is do line items for everything, total up hours and then round up a little.

I'll never do the times three as, I think it's Lloyd Princeton who is the one who suggests that, but that for us I know that would never work. We'll just add a few hours as cushion to cover ourselves and then I'll go back and look at past projects and do a comparison and say what I was thinking, is that right?

I always like to start before going back to the project of starting fresh with this project and saying, what do I think it's going to take me, because you have to break it down piece by piece.

I think a lot of things in life are that way where, if you look at the big picture it's overwhelming, but if you break it up in little pieces and understand what each component is about then that's a good way to build back and get your total number.

Gail: That's especially important when you have a firm and you have other people working for you, because as you start developing that history and past, each of your employees will be working on a different way.

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They may be more efficient than somebody else that’s working in your firm, so you have to get a sense of all those pieces and parts to run an efficient business, especially if you have employees.

Kristi: Exactly.

Gail: So when you’re doing these fixed fees you’re actually doing it based on different billing rights as well?

Kristi: Yes, because we do have two different rates. We have what’s on the design end, what I call the front side and then I have the back side, which is all the procurement, administrative, all the paperwork end and that’s at a lower rate.

Therefore, we’ll figure up the hours of both sides of the equation and then put a dollar number to each of those and come up with our fee.

Gail: Then if you’re doing procurement for them, are you also doing a markup for those products?

Kristi: Yes. If its construction whether it’s remodeling or new billed then the items that are being procured will be less because maybe it’s typically we’ll purchase the decorative lighting but we don’t really purchase that much regarding plumbing, tile or cabinets.

I will often do a specification fee and we usually do a 10% specification fee on the items that we select, we specify but we don’t purchase. We’ve also started doing flat fees for those as well because again people are feeling nickel and dimed if we go off the net invoice and do 10% on the plumbing or 10% on the tile.

It’s better to evaluate what we think they’re going to spend and up front say I think you’re going to spend \$25,000, the specification fee is \$2500 and the fee for this project is \$20,000 and do it that way. Then there’ll be the decorative lighting that we’ll be purchasing and that’s how we normally purchase.

Gail: That helps a lot, because it helps to understand structure of this and when you’re actually doing a scope of work for somebody, I assume you’re already under contract before you create the scope of work...

Kristi: We’re not always, because oftentimes if they want this fixed fee than we have to come up with the scope of work to be able to do the fixed fee. We can’t do a fixed fee based on guesswork, so you have to come up with that.

So sometimes, depending on how a client comes to us, we’ll offer people to come in the office to meet with us to do a free consultation, reviewing our portfolio, the website and understanding how we work, getting to know each other a little bit.

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At that point, it may make sense to give them the questionnaire before we're actually under contract. Sometimes people want us to come right to their home, job site or whatever it is and do an initial consultation and we're still not under contract but we'll charge for that initial consultation if we're coming to them and giving design ideas.

Gail: I've always done that as well.

Kristi: That's a separate fee which is a great thing, because that way you don't feel abused. As a designer you feel like you've been paid for your time whether they hire you or not, but you still have to one way or another, meet with these people and whether you're willing to do it for free or charge for it you need to understand their scope of work.

You also need to know what's going into this project or there's no way you can properly put together a scope of work and fixed fee.

If you're going to do hourly it's no big deal because you just start in, but if you're going to do a fixed fee you have to understand every aspect of what the project entails or there's a potential to really lose a lot of money on the fixed fee because you didn't do your homework.

Gail: Right. Also, an important element here is to remember if you have a couple you have to make sure about this whole situation of where the money is being paid out of and who is responsible for that and if they're both making decisions on this.

I've had people before where they've said my husband isn't available. If he has the checkbook and control then he has to be part of that.

Kristi: Absolutely and I will tell you, we were up for a project recently, which was a very large project with potential of it being a big ticket project. We ended up not being able to go forward in negotiating with them because they wanted it too one-sided in their favor.

It was way too risky, even though they were dangling a golden carrot, it was tough to stay this isn't a good fit, but they wanted too much control and it was clear there's no way we wouldn't have lost a lot of money.

That's the thing when you're doing these fixed fees that's fine that they want to hold you to the fire of the fixed fee, but you have to have gates and parameters whether it won't exceed (x) amount of time that this is your start date, your completion date and if you go beyond that then it'll go to hourly.

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There may be certain exclusions that you put, like if you’ve ordered furniture and it’s a long lead time and comes in after you’re out of contract then you’re smarter to say those things will be excluded and you’ll still follow through with those things. But, in terms of new things, that needs to go to an hourly place.

Gail: I agree with you. In the scope of work what I’ve found difficult with clients in fact, in some very interesting experiences, where you start with a particular scope of work and everyone’s in agreement about it and then suddenly you get that, while you’re at it let’s do this.

That’s not in that scope of work, how do you handle that?

Kristi: You have in this document that you create a list of everything that’s in the scope of work. You have to state in there that anything that goes beyond that will go to an hourly rate.

Gail: How do your clients react when it goes into the hourly rate?

Kristi: It’s not great. It’s tough. You have to just be very clear about what’s in your scope of work and if you’re clear about what’s in that scope of work and they know that anything that goes beyond that is going to go to an hourly.

It’s always tough and they can be annoyed, but I think as they say we thought about we want to add (x) to do some outdoor furniture or redo the patio, something that’s completely not in this scope. You want to say right away that’s great I would love to help you with this, but I just want to remind you that’s not in our initial scope, so that’ll be a separate thing.

Tell them it’ll be hourly or we’ll set a separate fee for it and if it’s a big thing that’s being added maybe instead of going hourly you say we’re just going to add (x) amount and again then add another fixed amount to it.

Gail: But you need to get onto that very quickly and make sure that’s expressed by you.

It’s happened to me before where I’ve gotten into a job and we’re working under such tight timeframes and I have so many projects going on that we just keep working, than all of a sudden we realize that we’ve gone beyond that.

That really causes problems, so you have to stop and address it as it comes up and not wait, because that’s when they’re going to say I didn’t agree to that.

Kristi: That’s right, because the worst thing you can do is do the work and then say oh by the way here’s the bill, that wasn’t part of the contract. They’re going to be furious, so it’s all in how you handle it and if you address it up front immediately and say we would

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love to do this, it'll make sense and will be wonderful but this is not part of our contract.

You also have to evaluate it, because if whatever it is that's not in your contract involves a lot of purchasing then you may say it's to my benefit to waive that additional time that it'll take you to do it, because you're going to make money.

I would still let them know, because whenever you're giving something free to a client they're never going to appreciate it if they don't know you gave it to them. They may know that it's out of contract, but think they're pulling one over on you because you haven't brought it up.

It's better to put it on the table and say this isn't part of it, but we're happy to add this and do it. This way they know they've gotten a deal.

Gail: I think you also have to be a little sensitive to the clients, because when they're spending a lot of money with you, tens of thousands or even hundreds of thousands of dollars you need to give them a little more value than what you charge them for.

There's a fine line obviously, because you have to make sure you're making money and profit, but I always made sure to include those non-billable times on my time bill so they knew that we were doing something on their behalf that we weren't charging them for.

Kristi: It's really important and in a fixed fee obviously that doesn't come up, but that fixed fee then turns into hourly or just in hourly, we always want to give them a little something because they always feel nickel and dimed.

Gail: Sure.

Kristi: That's one way to help alleviate that that they're getting value and that we're invested in them.

Gail: Yes and it is a long-term relationship in most cases and can go on. Then they come back.

You and I have both been in the business for a long time, so we have lots of clients that come back to us time and time again, so you want to make sure that you've established a good trustworthy relationship with them and they don't worry that you're going to treat them unfairly or bill for something to nickel and dime them, because that is an issue.

In fact, one of the people that's written in with a question was talking about whether you charge for phone calls and emails if you're doing hourly.

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Kristi: We do, but we’ll combine a lot of it. It depends on how much time you’re putting in. When we do hourly we do charge to the quarter hour and we’ll track the phone calls. If we did one quick phone call I’ll probably show it and put it at no charge.

If we did three to five calls in a group than we’ll combine them and see how much time we really spent, but that’s the thing that annoys clients more than anything and that is where they’ll get upset, because they feel as though that was taking advantage of them.

The phone calls do end up at the lower rate, but it’s tricky because we know as the professionals how much time that can take, all those emails and some clients who prefer emailing, that’s great but that can take even more time.

So it has to be mutually fair that we’re not being taken advantage of, but we’re also not jacking up the bill by doing that, so I think that’s somewhere where it’s good to show it and if you can do some of that at no charge for people it makes them feel good.

Combine some of those and don’t take advantage of the client.

Gail: Sure. It’s hard and again, from the first conversation that you have as you’re going into contract or even when you’re first meeting the client, you need to explain that there are issues that could come up, which can cause stress in the relationship.

These are the things they’re thinking in the back of their minds.

Kristi: Yes.

Gail: If you can deal with this and talk about it ahead of time then you’ll be in much better shape then you can say, do you remember at the beginning we talked about this kind of thing that tends to come up and this is part of how we work?

Kristi: Absolutely and I think it gets back to setting mutual expectations, that they understand where you’re coming from and you understand where they’re coming from and sometimes as you get to know a client you see what their hot buttons are and what really upsets them.

If you know that a way you’re billing something that you’re doing that’s upsetting to them and it’s getting in the way of a good project and in the way of the client relationship then you need to figure out another way. Figure out how can you not lose money, but incorporate that another way.

That way it’s not such a hot button for you both.

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Gail: Right, because it’s going to be a hot button. The money just always is that’s just the way it is.

Kristi: I think in this economic time more than ever.

Gail: For sure. Kristi, you’ve definitely covered a lot of the issues on this. What are some other things you would suggest to people that they think about as they’re working toward possibly doing more fixed fees?

Kristi: I think that it’s a scary proposition to start if you’ve never done it and as you start doing them and learn what’s working and what isn’t. I know for me I wouldn’t say no to a client who wanted to do one for decorating, but I’m much more leery.

I’m obviously much more comfortable doing it on the architectural construction side, but the more you do the better you get at understanding what kind of fees you need to do, so you need to just dive in and keep doing it.

I think too that realizing things always take longer than we think they’re going to, so as you’re going through your list and assigning hours to each of these line items in the scope, really think about how long it takes you. If you know there’s distance involved in getting to some of the places you need to in order to accomplish this; we all think it takes just 10 minutes to get somewhere, but it doesn’t.

It takes us 30 or 45, so think hard about how much time you realistically will be putting into something and don’t be afraid to ask for your reality. Should you be really padding it? No.

But, you should be trying to get an actual assessment of your time, being honest with yourself of what it takes you to do something, whether it’s as a designer doing it yourself or as we talked about if you have a staff and you’re thinking about how everybody works and how long it’s going to take to do things.

It’s difficult and I think if you can pick up the phone and run it by somebody else as I said, that helps too to know if someone else thinks that you’re in the right zone or not.

Gail: Sure. Tracking is important and if all of you listening haven’t been tracking your time you really must do it, because it’s essential for you to get a sense of not just the time you’re spending on projects, but the other time you’re spending just operating your business.

I think we all don’t realize sometimes how much time we spend doing things that may not be helping us achieve a little more efficiency in our jobs, so we can all work on that.

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Let me ask you another question and then we’ll begin talking about the questions from the group. You were talking about how you charge your fee up front do you get 100% of your fee up front if you’re doing a fixed contract?

Kristi: It depends on the length of time. For most of the fixed fees they’re not seriously long-term timeframes. I have one right now that is, but most of them are a three or six month, even a nine month. If it’s three or six month we’ll ask for it up front and typically if we were doing hourly we’d ask for a retainer, which would be based on what we think the highest monthly billing might be.

So on average we might say we’d do a \$5,000 retainer and if it’s a small job then we would even go so far as doing a \$2,500 retainer, but it’s usually around \$5,000. With a fixed fee you’re not asking for a retainer because you’re doing a flat fee and then we ask for that up front.

You also have to be smart about it. If you’re doing a fixed fee on a decorating project and you’re going to be ordering a large amount of furnishing you may need to do a retainer as well, because you may need protection for yourself.

So you have to know the situation and be smart about it. Always air on the side of being more protective than less when it comes to this. I have a project that’s a new build right now that we did a fixed fee on that’s 18 to 24 month project, so we spread out the payments, but I did so where they’ll all be received within the first nine months so we will have collected the fee.

That’s a big fear because we’ll be on the project much longer than the fee will be, so it’s on us to look to take that money and divide it by the amount of months that we think the project will be and to look each month and not bill more than what we think that month was at allotment, so we don’t run out of fee.

Gail: Exactly. The other part of that too, and I’m sure you have the issues where you have to be out on the job site. I always spend a lot of time on the job site. Is that included in your fixed fee or do you do that by the hour?

Kristi: I’ve included it in the fixed fee, but I think, like in this new build I tried to have that as a separate thing because I knew it would get me into trouble, but the client wouldn’t go for it.

Then at that point you have to decide as the designer, you’re going to take on this project do I take a chance? I know I’m going to lose some money but I’m going to get all the furniture stuff later, do I take a chance or insist I won’t work on the project if I don’t get that?

We all have to make those decisions based on what’s on our plate.

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Gail: Sure. It’s so difficult because there’s no perfect science to this for sure.

Kristi: There’s not and it’s hard. We’re constantly evaluating what’s working and what’s not. I wish I could say we’ve got it down, but it’s an evolution.

Gail: We’ve got some great questions here that we should probably just dive into.

➤ **Wanda asks; are you finding fixed fees heading towards bidding on projects?**

She recently had a meeting with a new client who let her know after the fact that they were actually interviewing different designers to compare costs. She states, I left the meeting with the indication that I would be the designer for the project. Fortunately, in a follow-up call to ask a question this slipped from the client.

If I’d spent all the time required to put together a proposal and then found out my information would be used for a price point that would have been frustrating. I decided this wouldn’t be a good fit as the client was not forthcoming as to the meeting and intent. She says North Carolina has always been an interesting market, because there’s still a lot of the discount mentality due to the proximity to High Point.

That somewhat relates to design services.

Kristi: I think what she’s saying we’ll absolutely start seeing a lot. It’s frustrating and I think unfortunately everybody is in this mentality right now where they, based on their own personal experience and what they see from everybody around them, that times are tough, everyone is desperate for work so I’ll play that to my advantage.

I think it’s terrible that this client wasn’t up front about it, because it’s sneaky and I applaud her for saying this isn’t a good fit, because if she’s not being honest with me now than she’s not going to be honest with me later. To be able to recognize and assess that client so quickly I applaud that.

Unfortunately, I think too that we’ll see a lot more of that. I’m seeing it now with a client where we’re working on specifying tile right now and they want the contractor to go try to negotiate from one tile place to another and it’s frustrating because it makes it hard for us.

We have these great relationships set up with our vendors and we want them to do the best job they can for us, yet we’re also responsible for the client’s bottom line so you can understand they want that, but if they’re doing it on product then they’re also doing it with our services.

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Think about in each of our own lives, are we doing it? When we're going out and doing something are we evaluating and comparing prices between services or products. Its one thing if you're being up front about it and I think in this economic time yes we'll see much more of it, so you may want to ask questions up front when you're in the initial interview.

Don't expect everyone is going to be up front and forthcoming to you, but go ahead and ask them, are you interviewing other designers. You want to know; if you're putting a ton of time in to put a proposal together is it worth your time to do it?

Gail: It's important to do that certainly, and you also want to find out what their buying criteria is. What is it that is the most important thing to them about working with an interior designer? If they haven't worked with a designer they often don't have that criteria figured out.

I don't know about you, but I've had situations where I've spoken with people that might have interviewed several people or in past projects they've used other people and once they get past two or three other designers they've worked with I want to know why, because that's usually a red flag to me.

Kristi: It is. There are always two sides to every story Gail. We all know that and the truth is somewhere in the middle, but if a client has gone through three designers chances are they're never going to be happy. It's a personality where nothing is going to make them happy and you want to know those things.

It is one of the things in our questionnaire that we ask whether they've worked with a designer before and sometimes they have and they've moved to another city, which is easy enough. Sometimes it just wasn't a good fit, which goes back to what I said before that I think that connection, when you're interviewing a client they're interviewing you but you're interviewing them just as much.

You need to understand, is this going to be a good fit because it's a long time relationship. If they've worked with a number of designers previously then you want to get an understanding of why it didn't work. It may be completely legit that it wasn't the right fit and it's still a good potential client, but maybe not.

Gail: I would say that 90% of the time I've found there's a problem and I would stay away from those projects. Usually I find that there's something they're exceedingly particular, very controlling or they weren't good about sharing what they felt or thought and as I would get into conversations with people, in many cases, my gut would say no.

I would walk away from those. I never felt bad about it, even if I really needed the business at certain times, I just didn't want to get there because it takes too much of

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your mental energy to deal with difficult clients, so you have to be strong about it, even if it's a time when you need that business.

Kristi: I agree.

Gail: It costs you more in the end.

Kristi: That's too much brain damage.

Gail: Yes. We've been doing this a long time so we know because we've been down this path.

Here is another question. Wanda has another question.

- **What system do you use for tracking your time, especially if you are using assistance, also if you're not sitting down with a clock while you're on the phone or responding to emails?**

In other words, administrative fees I think are more difficult to track over creative time.

Kristi: It is. You have to be so diligent. We use Studio it for everything we do from proposals to purchase orders and time billing, everything gets entered into that. Then what we do is we have handwritten timesheets that we all keep every day and what I find helps me is that I'll try before that day that timesheet to go ahead and write in my set appointments of that day.

That way it's already in there and I find if you...I would say everyone in the office at the current time is good about filling them out as they go throughout the day...I'm probably the worst.

Gail: It's always that way isn't it?

Kristi: I know if I don't do it at the end of the day then I'll do it at night and I know if I wait and don't do it that same day then I've missed a lot of potential billing that should have been included, because I won't remember the phone calls and emails. I find if I've started my timesheet whether it's written or people do it in other devices it doesn't matter.

If you can write your appointments down first so those times are blocked and then right after the appointment if the time wasn't what you thought, if it was less or more, change it right then.

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We keep our timesheets, if people are doing stuff in the office and they're at their desks they're on their desk and if they're finishing a phone call or email they jot it down. I'm on the go a lot which is why it's a little harder for me to do it as I go, but I try to reconstruct my day at the end of each day.

Sometimes too what I'll do is take a list of all the clients, I'll have it in front of me and even if it's somebody that didn't have an appointment it's easy to forget that you had a phone call with them or correspondence, so looking at that list you can see what you did with each person you've dealt with.

Gail: I'll share a little tip as well and this is something I do in my office. I have a nice notebook, something I keep with me at my desk all the time and I write down every phone call, the details of that call at that time and even before the day starts, if I know I need to make calls I'll write down the person's name and their phone number.

Kristi: Yes.

Gail: That way I already have that on there, so I can go back and look at my notebook since I keep those notes every day and it's easy to reconstruct what I did.

Kristi: It does help. I think the void comes from...I don't know about you but I end up having a lot of phone calls in my car...I'm on Bluetooth or speaker phone in the car, so I'll have a lot of phone calls where you can't write. Those are the ones that are harder to track and they're easy to slip through the cracks.

I do the same thing you do Gail, when I get my timesheet ready the day before and I add in my appointments I'll have a list at the top of phone calls that I need to do that day, that way at the end of the day as I'm looking through I know whether or not I did that phone call.

Then if I didn't do that phone call I know I know I still have to do it, but it does help and for me, the more things I have written down the better.

Gail: One other tip too, there are some nice little handheld digital recorders you can get where, if you're in your car you could pick it up, press the button and simply record that conversation or note.

They're not expensive. You can find them for less than \$100 and it'll definitely pay for itself. If you don't record everything it's only hurting you both in terms of being able to estimate your jobs if you're going to do a fixed fee and also to understand what it takes to get a project done.

Or, if you're billing by the hour you might be missing some valuable money out of your pocket, so it's important to be diligent about this.

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- **The next question is from Linda who asks, what percentage are you charging for an up charge on orders if you’re also charging hourly?**

I think that varies.

Kristi: Typically, for purchasing we work on a 25% margin, but I’m doing a little job right now for an old client who doesn’t have a lot of money to spend and the last time we did things I lost because we were purchasing carpet and she went and found it cheaper herself, because she could find it without my margin.

This time up front I said to her, I don’t care where it ends up getting purchased I’m charging you 10% regardless of whether you purchase it or I purchase it. I’ll help you find it if necessary, but it’ll still be 10%.

I had to negotiate that up front because I knew last time I lost out on anything with the carpet and I knew that could happen again, so I figured it was better to get something than have the possibility of getting nothing.

You have to look at each situation for its own sake, but typically we do a 25% margin.

Gail: Margin is different than markup so I want to bring that up for everyone. For instance, if you wanted a 33% margin that means you mark up your product 50% and I know that number off the top of my head.

Kristi: A 25% margin is a 33% markup.

Gail: Perfect. That helps everybody understand. It’s important to be working on margins versus markup, because we don’t make the same dollars if we do a margin versus a markup. You make more if you make it by margin.

Kristi: Correct and it’s harder to explain to the client, I always trip up a little bit. It’s hard to explain, but it is how most of our industry works, so I always preface it by saying that. That’s how most of our vendors work and that we work off of a profit margin.

Then have your little cheat sheet if you need it.

Gail: Exactly.

Always a good idea and that’s actually something I’ve been promising to do is a blog post about markup versus margin, which I will do.

Kristi: That’s a good one to, because you know what it’s confusing.

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Gail: Yes it is and luckily I had a finance degree and that’s something we had drilled in our heads. I’ll be happy to share that with everybody, but it’s very important that you have enough of a margin so you can operate your business and one other thing is that you need to have a number in there for overhead.

That’s something a lot of people don’t do. If you know your overhead is a certain percentage than you need to have a little of that figured into your project cost. I just want to share that with you.

Kristi: I think that’s a good point. We try to focus more on our time being what would go most to the overhead, because it’s something I feel we can control a little better. You can’t control what people are going to purchase. In a perfect world I like to look at the time billing as what’s going to pay the overhead and the purchasing as what the icing on the cake is.

Gail: Sure and that’s a great way of looking at it.

Kristi: It doesn’t always work, but it’s a little easier thing to say. We need to bill (x) amount of hours a month to meet our overhead and break even. Then our purchasing is our profit.

Like I said it doesn’t always work, but I think it’s an easier thing to try and focus on, because as you’re doing your fixed fees you know this is what I need to break even, so these are the fees I need to look at figuring out how to get. The other part is that we don’t have any control over what people are purchasing.

Gail: Right and so many of them are shopping on their own these days. They’re getting on the Internet and shopping, so I think your idea of including some idea of a specification fee is a great idea.

Kristi: Sometimes you can get it and sometimes you can’t. Sometimes the way the builders are running a project it’s harder to get a specification fee. Sometimes that’s determined by who comes into the project when, who starts and who’s brought on, because who starts usually has more control.

Somebody will be getting that profit, so ideally you want it to be you as the designer, but sometimes it depends on if you get brought on later and everybody else has their contracts in play already, the architect and the builder, likely you’re not going to be able to come in and get more fees.

That’s a little different and the other thing I wanted to bring up, in this economic time, when people are negotiating harder than ever for our fees I think one of the advantages of doing a fixed fee is that it allows you to be competitive without blatantly lowering your fee.

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Therefore, if you're up against a designer, like I charge \$150 an hour, if I'm up against a designer who's charging \$125 an hour, I don't want to lower my fee because I think it looks tacky.

When the economic times go back up are we all going to raise our fees again? You have to be a little careful that we're not fluctuating our fees at the drop of the wind, so I think by doing a fixed fee it allows you in a sense to drop your fee and be more competitive without dropping your fee.

Gail: Exactly. I think that's such an important thing and here's the other thing I think is important about doing a fixed fee. If you do this than you lock that client in for that period of time and they know they're getting a particular result, a value. They have a sense of this is what I'm getting for the money I'm spending.

It actually changes your whole dynamic with a client and it's very important if you can get to this level to do that. I know for some people, if they're doing new construction design they might do something like a dollar per square foot.

I know when I was doing one of my biggest projects for a 12,000 sq. ft. house that when I was done with that project I went back and looked at what my hours were for that so I could figure out what I could charge per hour or per foot for a project.

That's really a helpful tool when you're trying to figure out your fixed fees, but I think they're great and I think you're right, these days you need to be thinking very seriously about a fixed fee.

The next question is from Tamara in Fairfax who says her clients are getting very picky and touchy about her reasonable charges to work on their designs.

➤ **How can I come up with a set fee for the job when unforeseen problems, always arise that cost you more time than you estimated?**

I think we touched on that already, but again that'll be a difficult one to answer.

Kristi: If I understand the question correctly, if problems arise, if I'm charging hourly I can't charge for the time that I'm fixing a problem anyway. So whether I'm on a fixed fee or hourly, if it's a problem I have to eat that time. In that case, I'm not sure I understand the question correctly.

Gail: I think it's related to problem-solving on a job site, I want to go back to a point you just made. I think it's a good one and I've always worked this way. If there is a problem because of something I've specified or an issue such as, product failure or something like that, then I don't charge for the time to fix that problem.

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Kristi: You can't. If you're problem-solving on a job site that isn't something you created. For example, most remodels, when you're doing new construction you know a little more about what you're dealing with than you do when you're remodeling. Once you unearth remodeling you don't know what's behind those walls and you do encounter problems that you didn't anticipate. So, on a remodel project you should make that a line item, when you're coming up with your fixed fee. Put in (x) amount of hours for dealing with those types of things or the other thing you can do is to have a contingency.

Contractors, when they do their fees they almost always have a contingency amount of money or amount of something that they have for those unknowns, so you could do the same thing.

You could say here's my fixed fee and I'm going to put a contingency in that would be either a fixed amount of whatever you come up with or say we'll go hourly if we encounter unexpected things because of the nature of the remodel that we didn't expect.

I have no way to know that, so I would like to do that hourly, but if you don't want that hourly then I'm going to increase the fixed amount to such and such. Again, you're being honest with your client and being on the same page of expectations that on a remodel chances are there will be unexpected things.

Gail: Always!

Kristi: Therefore, you have to account for it because as the designer you shouldn't be losing money because of things like that. Those are problems you can't anticipate, but you do have to anticipate that they're going to happen, so you have to account for it one way or another.

So, either bill it in or be up front with them and say I need to have a contingency in case there are things we encounter that we're not expecting; I can do it one of two ways. I can either do it hourly or I can increase the fixed fee to (x).

Gail: I think also that you need to be aware of a few other things. If you're fairly new to construction I've always put in a certain amount of hours that I'm going to go out to the job site and I go out at least once a week.

Kristi: And you should figure that in, that even if your team doesn't have a weekly meeting that you should be checking on the progress once a week. Again, figure longer than you think, because if it's just you and you're sneaking in there you may be there 15 to 30 minutes, but what happens if you encounter the electrician and he stops you to talk with questions.

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You weren't anticipating that so you do want to build that in as well.

Gail: Another thing I do is to include a percentage or hours in at the very beginning because for me I like to go over the entire project with the key people like the contractor, electrician, the plumber and tile setter. Those are the three people I always meet with as we begin the project and review the drawings and specifications.

Kristi: That should be line items for meetings and you can specify the kind of meetings, but again the more you call out in your specific of what it is and you can put real hours to it...if you're just guessing on...well I better put some more time in the beginning it would be better to give them line items in my opinion.

Gail: Right. It's hard and again we're not saying this will be an easy task and it'll never be the same for every project because each one is different.

- **Ceil has a question, when quoting a job with a fixed fee does that include purchases of home furnishings, window treatments, etc. or just hourly fees?**
- **Also, how much do you require up front when doing a fixed fee, percentage of total, billed in monthly increments?**

I think we answered part of those, but to go back over that briefly.

Kristi: It would include all the time you're spending to do the purchasing whether it's creating purchase orders, placing the orders, expediting, installation or delivery all of those things. They need to be included. All your time to do all those things needs to be included in your fixed fee.

The markup or margin, however you work, I do that separate. The one job I told you all about earlier that was a big job and we ended up walking away because we couldn't negotiate properly and they wanted one lump sum that would include everything; our time and our profit on furnishings.

So, we came up with a floor plan, made assumptions about the different pieces that would be purchased and we made assumptions with them about what we thought for the level of this place should be spent.

Then we came up with a total dollar figure for both our time as well as the profit. They didn't like that big number but there was no way I was going into this project losing money where I'm only going to get paid for my time and not be able to make money.

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They wanted to be able to purchase everything at our cost, I said that’s fine you can do that but the design fee then needs to include what would have been our profit plus our time; because you can’t make enough on the time you’d spend on a year long project if you’re doing all that.

Gail: There’s no way, so I agree with you 100%. Again, going back over when you require an upfront fee, you said for short jobs of three to six months that you’d do that up front and expect 100%. Then for longer projects it might be paid over a period of time.

Kristi: Right. Then what we might do is say 50% up front. You want to try to get as much up front as you can, so you don’t want to do monthly increments. You want to get at least one-third to 50% up front and then you can break the rest into a couple more payments.

Gail: Great. We’ve had so many questions; there are a couple more and I’ll try to end in about three minutes because I know you have a lot on your schedule today.

Kristi: Thank you.

Gail: I so much appreciate this because this is such critical information for designers and right now it’s helpful because it’s a different game than it was, even last year.

Kristi: It is. In some ways I feel as though we’ve gone backwards. I feel like I’m more at a place where I started in terms of how business is, but in other ways now the experience of these 15 years is what keeps the doors open and keeps me moving forward.

Gail: Yes and you’ll help a lot of people keep their doors open through the information you’ve provided on this call.

Karen asks the next question, she would like a couple examples of questions you would ask the clients to determine their decision making skills; what are some of the questions you would ask?

Kristi: One of the things you should ask is...

How are you at making decisions?

If there’s a problem and something goes wrong, are you somebody that takes things in stride?

Does it keep you up all night?

Do you email in the middle of the night?

You want to find out how they’re going to react.

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You want to know if they’re someone that’ll leave you a message on your office phone in the middle of the night or send you an email. It’s not trying to be mean at all, you just want to fact find and say things come up, so I’ll best know how to work with you to resolve situations as quickly and efficiently as possible I want to get an understanding.

When problems happen how do you react?
Do you pick up the phone or send an email?

That’s a good thing to know right away.

Are they somebody that’s better writing things out, do they want a phone call or to be face-to-face?

I think it’s good to ask people how they would best resolve a problem with you. Do they want to be face-to-face or have a phone call? I feel like email is a great tool for a lot of things, but never to solve a problem. Its’ great to get information and for them to send you an email regarding what they want or have decided on in some instances, so do a proposal.

This is what we were thinking, it’s the middle of the night and I didn’t want to leave a message on the phone, but these are thoughts I had on what you showed me yesterday, but you don’t want that email coming that says I’m upset because of (x).

People hide behind emails that way, so you want it up front that if a problem comes up how you’ll handle it with each other. Ideally, if you can do things on the phone or in person to speak you’ll solve problems much more efficiently and kinder than people hiding behind email where they might be meaner where they would be otherwise.

I also think emails can be misconstrued. You get a weird tone that you don’t always know, because people are sometimes being quick or being bolder than they would normally be in person.

Gail: You’re right. It’s so important to be able to handle that, to address those issues quickly and immediately. I think it’s better in person if you can do that.

Kristi: Sometimes even the phone will do it and I know that I’ll see sometimes when problems arise in the office and somebody else will try to handle it. They’ll do a good job and it’s not that I would fault anything they’re doing, but sometimes just a difference of my picking up the phone and having the call with the client makes them back down immediately and it’s over.

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They simply want to hear from me that’s all. So I think that’s another thing, with problems you don’t want to delegate that. Sometimes a problem simply has to do with an expediting sector so my person that does that it’s in her realm to deal with and nine out of ten times it’ll get dealt with and it’s fine.

However, if the clients upset than I have to step in and be the one to have that phone call. I would never handle it by email. So I think to answer the question, if you just talk to each other about how to handle those situations its better.

Gail: That’s great advice and I would highly agree with it. If you do those things you’ll have a much better client relationship.

Kristi: Maybe you could give examples to your clients so they understand, because that could make them nervous when you start talking about this.

If you say for example, if we ordered tile and it was shipped to your house, there was a mix up and it’s the wrong color, we know it’ll be upsetting but we want to assure you that we do everything as quickly as possible to correct any problems whether it’s a problem we created, the manufacturer created or what have you; we’ll work as quickly as possible to rectify the situation.

I just wanted to talk to you about some of the things that can happen, because things do. Things can be broken or be shipped incorrectly, that’s part of business and that may be something, depending on whether your client flips out really easily that you don’t want things shipped to them that they’ll see.

You want to see it first or that it ships to them with the agreement that you’ll go to the job site and open it to check it out. You want to understand how they deal with things so you know how to rectify the situation. Should things be shipped to a receiver whether its tile or plumbing so you can see it first or go to the plumber or tile guy and not directly to the client?

That way these other people can be checking and making sure there’s no problem.

It’s just like when we have furniture shipped, we would never ship it to a client it would always go to a receiver because we all know if there’s ever a problem and the client knows it they’ll never look at the piece the same way. Therefore, we always want to rectify the situation as quickly as possible so they don’t have to ever know there was a problem.

If there’s a huge problem then obviously they’d have to know about it, but it would then get shipped back.

Gail: Yes. We always inspected every piece of furniture that came in at the receivers.

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Kristi: Absolutely. Don't rely on the fact that the receivers do inspect, because they're never as careful as you would be. Then it will go to the client and then there will be problems that get missed, which makes the client furious.

Gail: Yes, it's definitely worth the extra little bit of time.

One last question, someone is traveling more for client projects over 100 miles or more, how do you deal with travel?

Kristi: If it's travel that we're driving to we charge a lower hourly rate for our drive time.

We do that whether we're going to a client that's 30 minutes away or an hour away, we'll do a lower hourly rate. I think our regular hourly rate is \$150 and we'll do \$100 hourly rate for drive time.

If you're doing a fixed fee and you know you'll have this drive time then you need to do one of two things. You need to either include it and then I would again specify just like you would specify the beginning and end of a contract of a fixed fee. You can also say this fixed fee includes three visits and any additional visits will be charged at the hourly rate. The drive time will be (x) and the design time at the residence will be (y).

That way you're not being taken advantage of. If you have a job that's an hour to an hour and a half away that's pretty significant, so you want to set the number of visits that you anticipate and then charge separately for additional ones.

If you're flying then you again need to cover your costs, so your fixed fee needs to say that will not include reimbursable travel costs.

Gail: That way those may be a per diem or costs plus. You should have a little markup in there so you can cover your accounting time as well.

Kristi: Right. This goes back to being diligent with setting the proper scope of your project and letting the client know everything that's included in the fixed fee. Anything you know you'll deal with but you don't want included whether it's extra visits or job site visits you need to have it spelled out that those aren't included, but separate so you can talk about that up front.

Gail: I'll add a little to this with the twists that I do a bit differently. I actually changed my time billing to portal to portal. It's just so much easier so you're not nickel and diming people. That way you can say here's my billable rate from my door to yours or wherever you're traveling for them on their behalf.

Kristi: We do that too except for those long distance ones because I don't think that's fair.

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If you're driving an hour to an hour and a half as I said before to get there; to me anything up to 30 – 45 minutes I'm okay doing portal to portal, but I think beyond that in knowing your client, to me it feels a little unfair to charge that full hourly rate.

Gail: I did that for me because most of my work was in the city of Denver so I was within 10 or 15 minutes.

Kristi: I'm with you there and I think that should definitely be portal to portal.

Gail: That takes away that nitpicky I'm just charging you for every five minutes.

Kristi: Right.

Gail: It's perception.

Kristi: That brings up a good point. Earlier when I said you have to know if there's a particular client there are certain things that pushes their buttons or upsets them then you have to figure out a different way not to lose money so you're still getting that compensation, but you're doing it in a way that's not raising a red flag.

What you just said is exactly that, by going portal to portal that alleviates that nitpicky of the drive time fee, when it's the in town people and they don't question it.

Gail: It makes a huge difference and one final little detail I'll share that I've practiced for nearly 10 years. I actually got 100% payment up front for products and I do that for many reasons.

One of which is, if they're a custom product I don't want to be holding the bag or waiting for them to pay the second part of the payment and the way I've explained that to my clients is I've said to them, it actually reduces your paperwork in half, which can be annoying, so I'll take care of all the payments. We'll take care of the bill paying and it makes the projects more cost effective for you in the end.

Another detail is that I always have a flat fee, which is higher for shipping fabrics and trim. In fact, I raised that to 18% of any product cost because we always second day air our products and we do that for both the CFA's and the product itself because it gets the materials there faster and the furniture shipped more quickly.

That makes for happier clients and it makes life easier.

Those are a couple things I do that may be helpful. I do a flat fee charging for freight and delivery. You have to check to see what you need to charge in your marketplace, but for me that simplified everything that way I could bill 100% up front.

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Kristi: That’s a good idea.

Gail: It made a big difference in my cash flow. I started doing that after hearing another top designer talk about that years ago and I said that’s brilliant and since then I’ve never changed or deviated from that.

Those are the last things I’d like to share. Thank you so much Kristi this has been incredible. I know this will help so many people and you’ve been very generous with your time.

Kristi: You’re welcome and thank you everyone for listening.

Gail: Everyone have a great day and we’ll talk to you soon.