

Reframing the Value of Design and Fees

Lisa Henry, CEO
Greenway Group

Change is redefining the design professions and many firms are responding by adding innovative services to their scope and experimenting with alternate fee strategies which are commensurate with value delivered.

Responding to diverse client's needs, a broader range of differentiated services are being added to existing design practices without a total firm reinvention. In addition to basic services, such as drawings, specifications, and project administration, more firms are providing additional high value to clients through in-depth programming including activity analysis, strategy services, financial/building modelling and diagnostics, productivity evaluations, sustainability expertise, brand development and integration, research, and more.

These are not commoditized services (like space planning and CD's). These are services that generate solutions that can enhance the quality of a client's enterprise and well-being and deserve to be differentiated and priced in those terms: value and benefits delivered.

What are the 'metrics of value' for your clients? A wide range of valuation metrics can be attributed to design and can contribute to client's enterprises. Among them include:

- better communications
- improved competitiveness
- enhanced recruitment and retention
- lower turnover
- reduced absenteeism
- improved image and brand awareness
- higher sales
- decreased risk
- added customer satisfaction
- operational effectiveness
- learning, productivity
- improved health and well-being

Any single or combination of these metrics may have importance to a particular client. Some metrics of value exist in financial terms and some exist in non-financial forms (such as meeting requirements of legislation and industry standards, improving community relations, security of intellectual property, training, leadership succession and expertise, etc.). Think about these metrics some or all of which are

potentially critically important to clients and you can link most all of them to the design of the building or interior space.

Innovative firms are using a value-based fee model to launch a project's more strategic developmental and consultative work and bill the production oriented work using a familiar hourly fee model.

APPROACHES TO FEES

Metrics can be used as the basis of negotiating a value-based fee or other fee structure. Instead of defaulting to the familiarity of selling hours, firms are learning and using the language of *value*. The familiar hourly fee used by many firms is often based on staff experience and organizational hierarchy. The 'value' a firm provides is equated with the number of hours clients are willing to buy. This is an economic business model developed over 30 years ago and is more and more disconnected from the needs of today's knowledge based economy. At its core is the tenet: "Design is time based business and we sell hours." The value proposition implied in this tenet can be summed up as "we will deliver professional services that are paid by the hour to provide solutions to a client's problems." This model permeates the business of design and shapes the thinking and behavior of practitioners and managers.

Innovative firms are using a value-based fee model to launch a project's more strategic developmental and consultative work and bill the production oriented work using a familiar hourly fee model.

Clients expect more service for less money and this applies pressure to essentially reduce fees for increased scope. Looked at through another lens, maybe they are just averse to spending more when they don't understand what they are really paying for. That is why asking the question "What are you trying to accomplish with this project and what is it worth to get it right?" is so important. It will lead to the all-important conversation about the value the client places on the design service and how the firm will frame their services in terms the client defines, using their own quantitative value metrics. Is the speed of project delivery their key value? Is it leveraging their investment in the design of their real estate to achieve a particular business result? Is it budget control, or a signature iconic design?

Helping clients to understand exactly what it will take to meet those valued goals will demystify the process. It is useful to unpack fees on a phase by phase basis and define the tasks required to get results. In addition, putting parameters around the number of hours and options as well as the total length of the contract time the fees cover will offer clients a clear real life picture of the scope. Without fail, educate clients on their role in the decision-making process to link them directly to the cost and schedule.

REDESIGNING FEES

The business and professional relationship with a client has to make sense for both sides meaning that it has to deliver value to both. If value can't be quantified to a client or if a service is not differentiated from other firms then, de facto, it is a commodity transaction. If the project need can be addressed by several firms,

it will go to the lower cost provider. In order to make work profitable, firms that operate in this realm can only concentrate on reducing their operations costs rather than negotiating higher fees because value in this case lies in efficiency.

A shift in thinking can help a firm view fees in a different light. Newer pricing strategies generally move away from selling expertise by the hour and set fees in relation to the benefit derived to clients from the firm's efforts. Firms shift billing rates for higher value services to higher levels, establish fixed fees or establish pricing structures comparable with consultants in those areas (strategic planning for facilities, real estate, infrastructure, process facilitation, etc.).

Billing rates for strategic services can be up to 100% more than fees for basic design services.

A fixed fee can be structured and negotiated for entire projects or portions of the project. The key to a fixed fee structure is defining meaningful benefits that will accrue to the client based on the firm's expertise not on the basis of the tasks the firm will perform or its costs.

For even the most traditional scope of services (design, drawings, project administration) a value-based pricing approach can be used. Value can be expressed in terms such as getting the project done sooner, creating a space that has measurably lower operational costs and/or lower carbon footprint, etc.

The big lesson is to bring the same creative mindset to the operation of the firm and fee structure as one would a design problem.

Another version of a value-based and innovative fee structure being used by some design firms and in many design build contracts, is the outcome based fee. This fee approach applies a measure of performance risk to compensation.

Examples of outcomes which are taken on by design firms include: specific percentage increases in retail sales, improvements in office or housing leasing rates, or project completion within a specified time frame. The opportunity for reward goes hand in hand with accountability. Of note, this method of billing is used by some commercial real estate project management firms with great success.

Evolving Client Relationships The relationship with clients will shift when the fee negotiations are re-framed around the value delivered to a client's enterprise and well-being. Pricing for these services can justly depart the commodity-like realm of per sq. foot cost or the basis of an hour's worth of time.

The big lesson is bringing the same creative mindset to the operation of the firm and fee structure as one would a design problem. Revenue is the lifeblood of the organizations, and fees deserve to be designed accordingly.

The big lesson is to bring the same creative mindset to the operation of the firm and fee structure as one would a design problem.

The design firm that provides value-based service and innovative fee strategies demonstrate a differentiated vision and the ability to actively reframe their business and client relationships.

Lisa Henry is CEO of Greenway Group

Greenway Group

Foresight for the Business of Design

719.634.4770
www.greenway.us