

getting
Higher **F**ees
in an ultra-competitive market

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02/08/17 • 2:00 – 2:45 pm



Agenda

- Introduction
- What's Going on in the A/E Marketplace
- Higher Fees vs. Staying Busy
- Getting Paid What You're Worth (or more)
- Implementing this Seminar

How to Get the Most Out of this Presentation

- DO

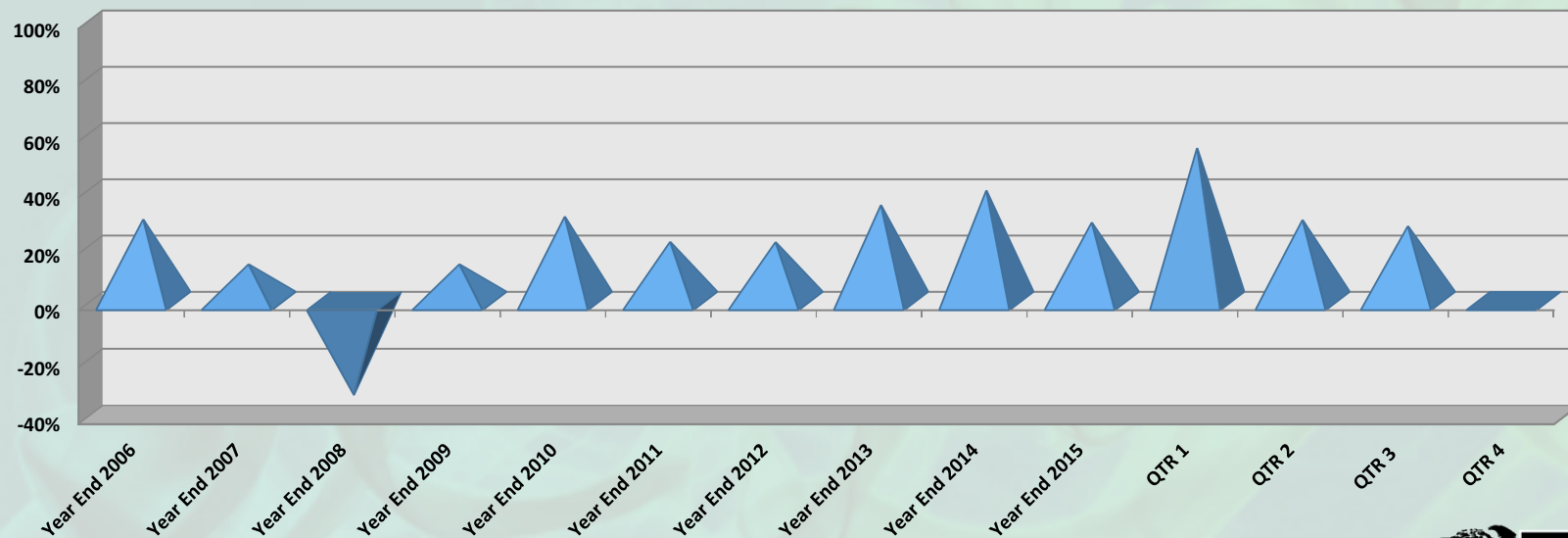
1. Disagree – it will be really boring if everyone agrees with everything for the whole 2 hours
2. Share your experiences
3. Ask questions and request clarifications
4. Speak up so everyone can hear your questions and comments

- Don't

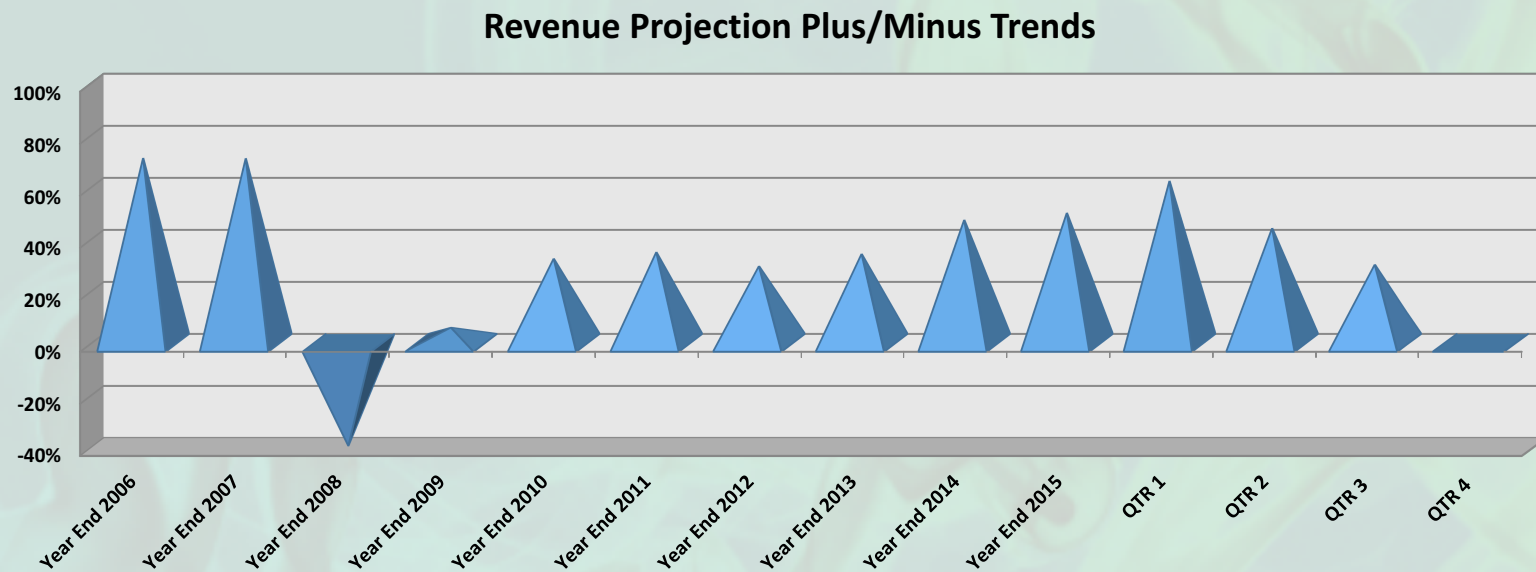
1. Try to come up with an extreme example just to prove that an idea won't work – no idea works in every situation
2. Assume everything is relevant to your situation
3. Try to prioritize the ideas in your Seminar Implementation Plan
– We'll do that tomorrow

Most Firms Report More Proposal Opportunities

Proposal Opportunities Plus/Minus Trends

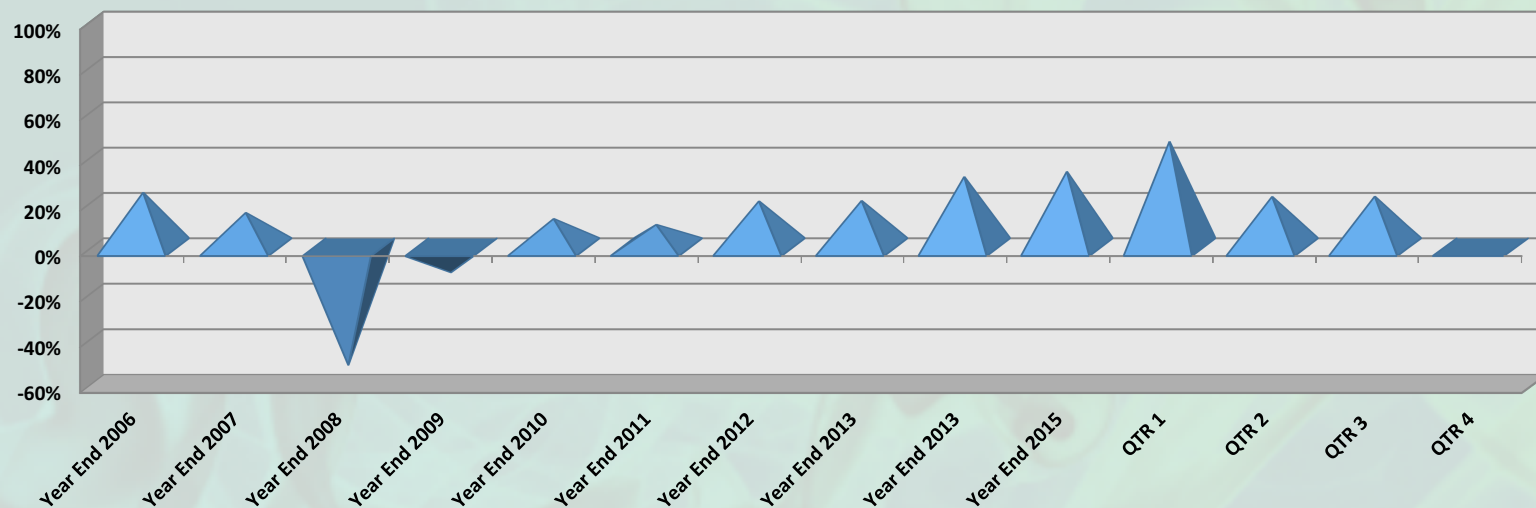


Which Leads to Stronger Revenue Projections



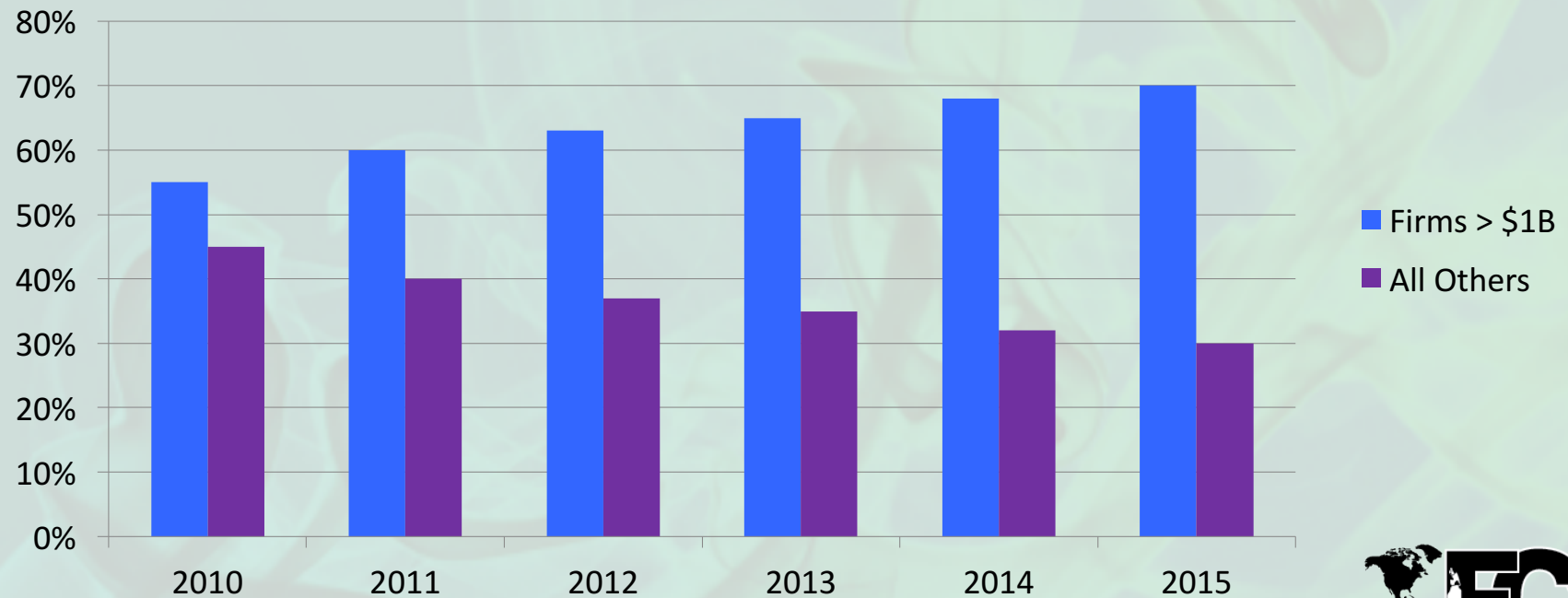
But Actual Backlog has not Recovered (as much)

Backlog Comparisons Plus/Minus Trends



So What's Going On???

Percentage of Total
Revenues Paid to A/E Firms



Death of the Mid-Sized Firm??



Not if YOU Don't Let it Happen

1. Competition from Mega-firms is pushing the industry into two sectors:
 - Huge firms that are “local” everywhere
 - Small firms with “concrete” local connections
2. But what about the Mid-Sized firm that travels well?
 - Can you become a “collection of niches”?

What are your alternatives in today's market?

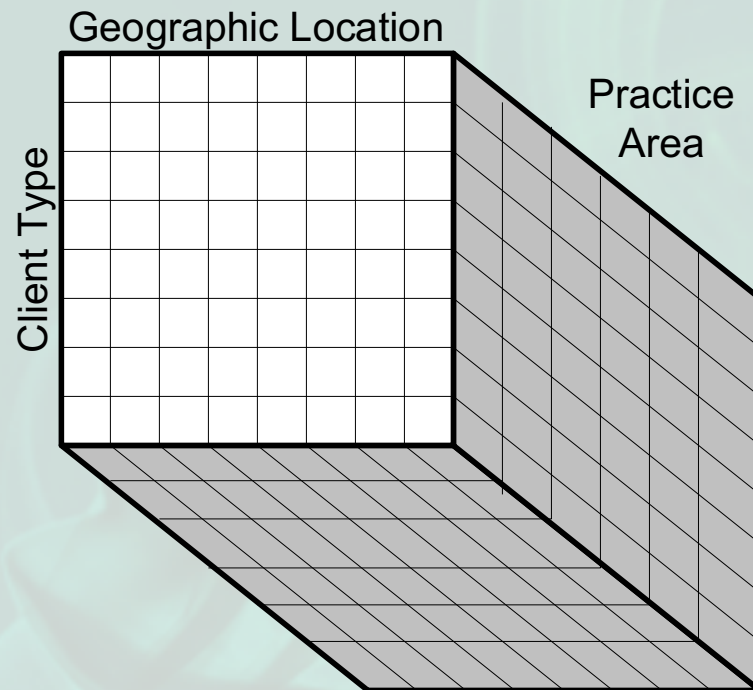
Focus and Rigor

1. Thoroughness and rigor are the foundation of sales success.
2. There must be a rigorous process for *every* aspect of the BD program.



If you chase two rabbits, you won't catch either one.

What is a “Market”?



Geographic Location

- Chicago
- Georgia
- Latin America

Client Type

- Health Care
- Municipal
- Developers

Practice Area

- Civil Engineering
- Land Use Planning
- Architectural Design

The Design Firm Business Model

The Old Model

1. Sell more work
2. Hire more people
3. Bill more hours (high utilization)

Metric: Head Count

The New Model

1. Find out what your clients really want
2. Add more value
3. Leverage your hours (high multiplier)

Metric: Revenue/Profit Per Employee

Different Ways to Be Successful

Parameter	Firm A	Firm B	Firm C
A. Gross Revenue	\$10,000	\$10,000	\$10,000
B. Reimbursables (ODCs)	\$1,000	\$1,000	\$1,000
C. Net Revenue (A - B)	\$9,000	\$9,000	\$9,000
D. Total Payroll	\$4,500	\$4,500	\$4,500
E. Direct Labor	\$3,000	\$2,000	\$4,000
F. DL Multiplier (E/C)	3.0	4.5	2.25
G. Chargeability (E/D)	66.7%	44.4%	88.9%
H. Revenue Factor (F x G)	2.0	2.0	2.0
I. Net Payroll Multiplier (C/D)	2.0	2.0	2.0

The Elephant Trainer Model



1. It's the trainer's job to feed the elephant
(it's easy when the elephant is small)
2. What happens to the elephant if the trainer does a good job of feeding it?
3. What happens to the elephant's appetite as it grows?

Most Design Firms Give Away High-Value Services

Percent of Firms Charging For Premium Services
(from a recent PSMJ survey of 43 firms)

Premium Services	%
Achievement of Key Project Design Goals	5
Project Warranties	5
Project Financing	21
Meeting Project Schedule	21
Conceptual-phase Services	28
Taking on Project Risks	34
Changes or Add-services	35
Design of Upscale Facilities	36
Shared Cost Savings	42

Your Value Proposition



$$\text{Value} = \text{Benefits} - [\text{Direct Costs} + \text{Indirect Costs}]$$



Three Ways to Position Your Services

Position	Strategy	Examples
Low price, high reliability	Internal production efficiency	Southwest Airlines, Toyota
High value	Brand caché	Rolex, Mercedes
Top-notch service	Personal service	Nordstrom

Offering "one stop shopping" is **not** a success strategy!

Success Strategies

Niche Markets

1. Stay two steps ahead of your competitors
2. Maintain high margins
3. Don't skimp on overhead investments
4. Keep an eye on entrance barriers
5. Prepare for the day when your niche becomes a commodity

Commodity Markets

1. Be the low cost producer (\$ per unit of product)
2. Mass production vs. custom design (Henry Ford)
3. Rigorously control project budgets
4. Subcontract a niche service
5. Blow them away with truly superior service

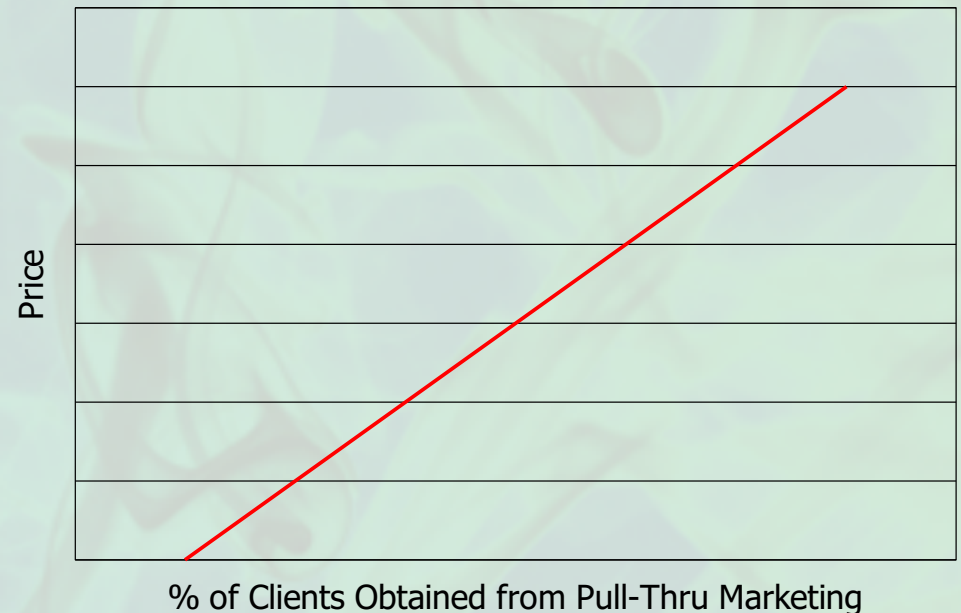
Push-Thru vs. Pull-Through Marketing



1. Cold calling
2. Tracking project announcements (e.g., Fed Biz Ops)
3. Submitting qualifications statements
4. Responding to competitive requests for proposals



1. Making presentations at conferences
2. Sending clients useful information
3. Client outings – w/o talking about business



Strategies for Firms that are Both Niche and Commodity

Your Clients' Strategy

1. Buy your niche services at commodity prices
2. Shop around for the best price on your commodity services

Some Strategic Options

1. Separate pricing structure for niche vs. commodity
2. Bundle niche with commodity
3. Price the same services differently to different clients

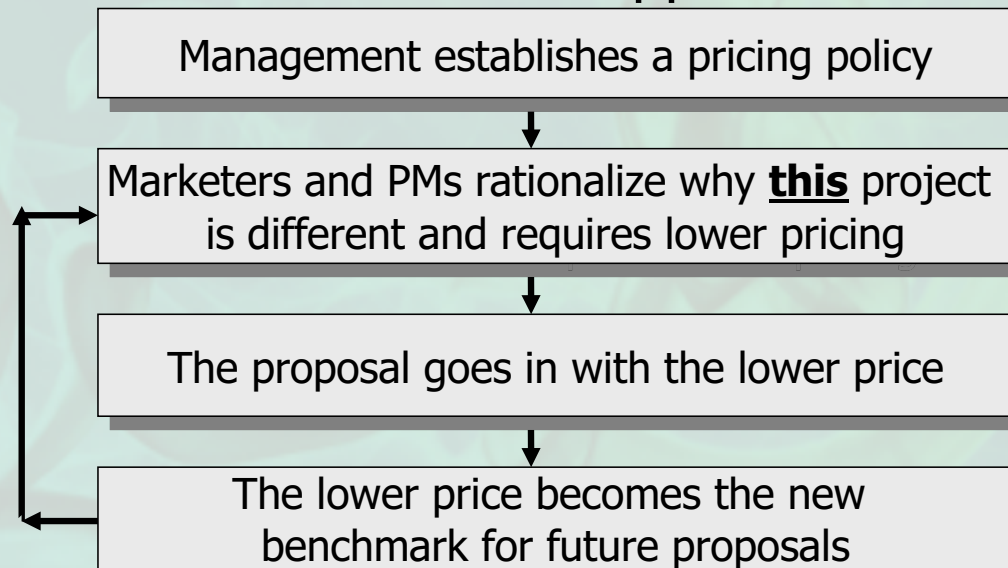
Examples of Price Optimization

What They Did	The Results
1. Canadian firm raised its prices for all engineering services by 15% across the board.	Lost 15% of their workload. Profits doubled.
2. Utah firm raised its multiplier on groundwater location services from 3.0 to 5.0.	Proposal hit rate decreased from 90% to 45%. Profits tripled.
3. Texas firm sent a new compensation schedule to state DOT, raising top rate from \$75/hour to \$125/hour.	Client issued a contract amendment without even being asked!
4. Acoustics consulting firm raised its target from 3.3 to 5.0.	Growth slowed; profits soared.

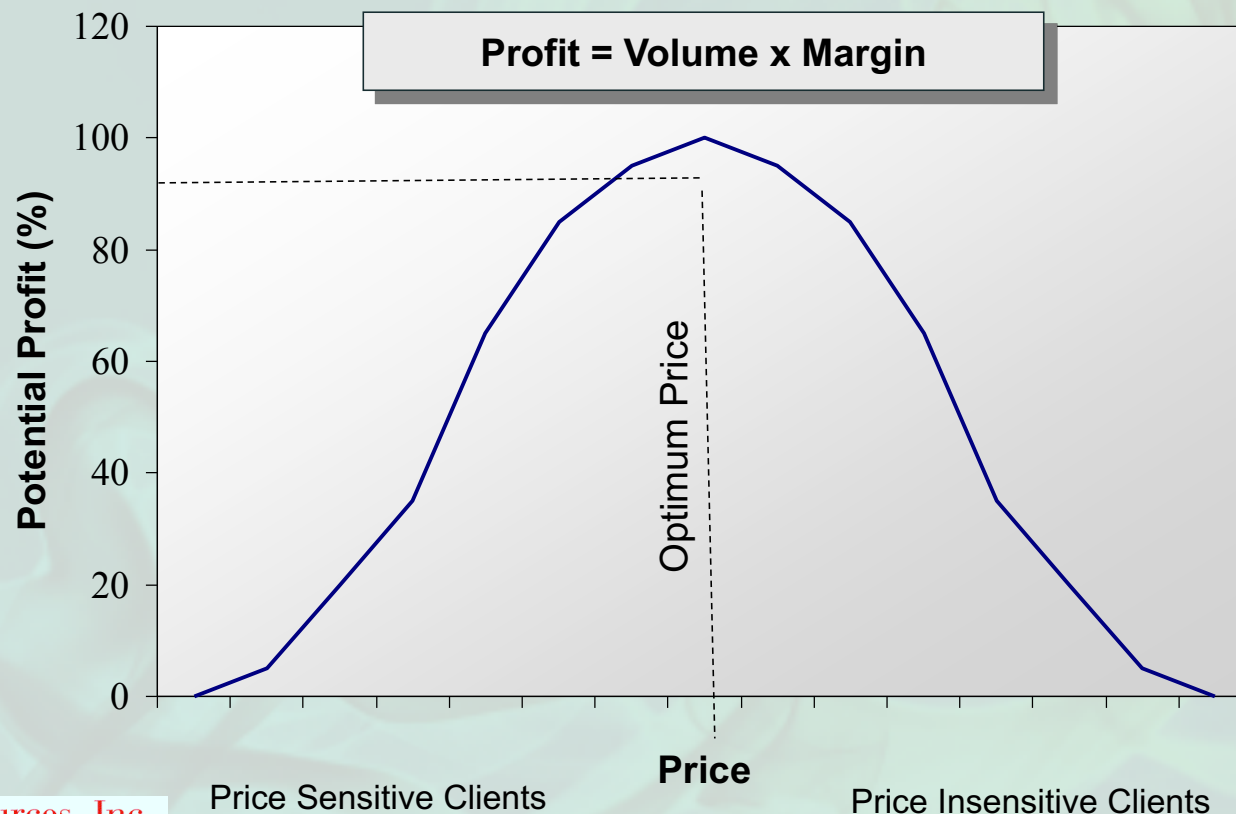
The “Race to the Bottom”

95% of A/E/C Firms Have No Formal Price Review Before Sending Proposals to Clients (from a recent PSMJ survey)

Here's what happens:



Pricing to Optimize Profits



What is Your Optimum Long Term Price?

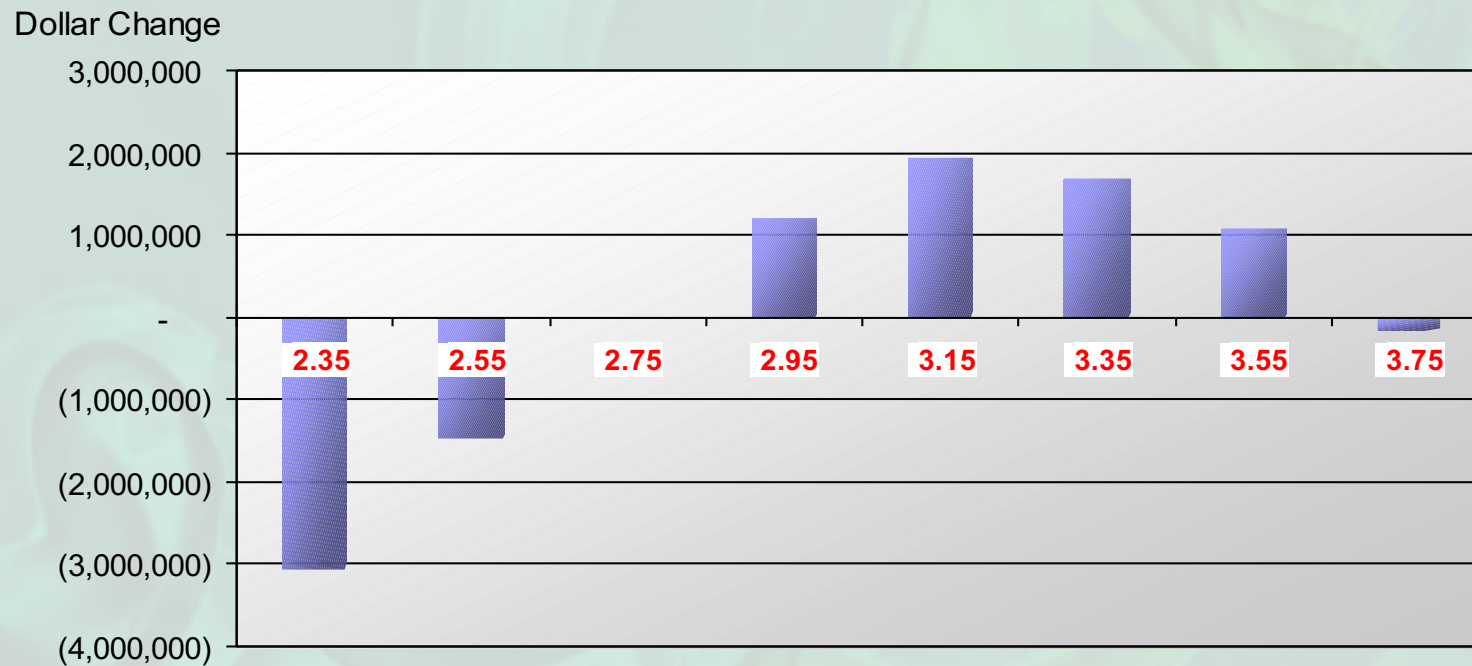
- A. Current target multiplier =
- B. Target net revenue
- C. Annual DL target = B/A
- D. Overhead rate
- E. Set multiplier interval for col F

2.75	x DL
19,800,000	/year
7,200,000	/year
162%	as a % of DL
0.20	

DL Multiplier (F)	% Change in Workload Hours (G)	Reduced DL Cost (\$/year) H = CxG	Net Revenue (\$/year) I = Fx(C-H)	Reduced OH (\$/year) J = DxH	Change in Profit (\$/year) K = H+I+J-B
2.35	25%	(1,800,000)	21,150,000	(2,916,000)	(3,366,000)
2.55	10%	(720,000)	20,196,000	(1,166,400)	(1,490,400)
2.75	0%	-	19,800,000	-	-
2.95	-15%	1,080,000	18,054,000	1,749,600	1,083,600
3.15	-25%	1,800,000	17,010,000	2,916,000	1,926,000
3.35	-35%	2,520,000	15,678,000	4,082,400	2,480,400
3.55	-50%	3,600,000	12,780,000	5,832,000	2,412,000
3.75	-75%	5,400,000	6,750,000	8,748,000	1,098,000

This Firm Should Raise Its Prices

Change in Profit



Multiplier Template

Limitations of the Multiplier Model

1. It's a statistical model based on having many data points
2. Clients must give you pricing authority (not always the case in some government agencies)
3. Each market should have a separate pricing structure
4. The pricing curve shifts with economic conditions
 - Moves right in good times
 - Moves left in bad times
5. The model assumes a constant overhead rate

How to Increase Your Prices (and get away with it)

1. Designate a "Chief Pricing Officer" who sets pricing targets and approves exceptions
2. Benchmark your pricing and terms vs. similar firms
3. Develop a 3- to 5-year strategic pricing plan, then test higher prices
4. Give all salary increases at the same time and issue new billing rates immediately thereafter
5. Issue special billing rates for high-value services
6. Raise rates for T&M contracts more than for lump sum contracts
7. Offer to forego rate increases for existing clients in exchange for up-front payment
8. Quote a fixed cost for minor reimbursables (~ \$5 to 10/hour)
9. Recognize that you must lose some jobs on price in order to maximize profits

Implementing This Seminar



*“Even the most grandiose
strategies must eventually
degenerate into work.”*

- Peter Drucker

The Critical Question

What are YOU gonna do about all of this tomorrow?



Focus and Rigor

Remember This Guy !!!



Stop Chasing Every Rabbit That Shows Up On Your Radar.

thank  ou

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