

# Preparing a fee quotation for the client

Remember that an estimate is the non-binding and approximate judgement of an amount, whereas a quotation is a statement of the price for which within agreed conditions, work will be undertaken. In developing a quotation for a client there are three major cost component groups:

- *fees*
- *rechargeable*
- *disbursements.*

The fee element of a project will normally be calculated on the basis of a fixed fee, hourly or **daily rates**, or on the basis of a retainer.

A quotation for a clearly defined and specific assignment will normally be calculated on the basis of a fixed fee.

## ***Fixed fees***

Fixed fees are now the rule rather than the exception. Commercially aware buyers of design want to know before they commit themselves exactly how much each stage of each project will cost; they want all risk of uncertainty to be borne by the design consultancy. The calculation of a fixed fee is theoretically straightforward, but the final quotation to the client will need to be tempered by a number of commercial considerations, such as workload the consultancy's keenness to undertake the project and/or to work for that particular client, and how prestigious the involvement will be.

Commercial reasons for altering a fee calculation must be a matter of judgement by the individual consultancy; but should always be given careful consideration. Do not confuse pricing and costing, and always calculate:

- *what the work will cost you to do*
- *what the fixed fee for that work should be.*

If offering a lower quote the consultancy must establish the difference between the new price and the full price, and relate the quotation to the cost of the time that will be taken to generate those fees.

## ***Hourly and daily rates***

In the past, clients accepted hourly or daily rate fees because the time element of the designer's work was regarded as being difficult, or impossible to calculate. Nowadays most clients wish to know, in advance the total cost for which they are making themselves responsible, and are becoming increasingly insistent that all work is done on a fixed fee basis. This means that the risk attached to forecasting how long the work will take is borne

totally by the designer, and this must be taken into the account when the fee quotation is being prepared.

An hourly rate may still be an acceptable fee basis to a client for experimental work, or for work carried out within an established designer/client relationship.

## ***Charging for extra work***

Hourly rates may also be relevant where additional design work results from changes to the client brief. Any additional work should certainly be charged for, either on an additional fixed fee basis, if it is possible to calculate the additional time needed for the implementation of the changes, or at an agreed hourly rate. Clients tend to underestimate the amount of additional work that results from their making changes to the brief, and often suggest the cost should be met from the profit margin as their budget is already fully committed. If changes are agreed and confirmed in writing, as discussed earlier much misunderstanding in this area can be avoided.

## ***Retainers***

A retainer fee will normally only be acceptable to clients if they want regular input on design matters, or if the consultancy is undertaking work of a repetitive nature (eg a company producing a quarterly house magazine for a large organization). In this situation try to negotiate a retainer fee covering the repetitive part of the design input, and agree an additional fixed fee for each issue to cover the non-repetitive work.

## ***Royalties***

Clients sometimes ask for work to be carried out on a royalty basis, particularly in product design. This can be a lucrative arrangement, but requires caution, as the prospective client can be over-optimistic on sales estimates. If tempted, consider a split deal, with lower fixed fees, and a royalty formula for the balance.

## ***Exclusivity***

The client may wish to achieve exclusivity on some aspect of a consultancy's practice. A consultancy entering any form of exclusivity arrangement must charge a rate which is not only commercially viable for the work involved, but also compensates for other work which must be turned away. The agreement must also be reviewed at regular, and pre-determined intervals.

## ***Current charging practice***

On the premise that the most valuable items the design sector has to sell are original conceptual thought and design solutions. The current charging structure is largely the wrong way round. Unless the job is top-loaded (ie the majority of the fee charged in the early stages) conceptual thought and the design solutions will be provided at a subsidized price, while the more mechanical work of development and production are charged out at a much more economic rate.

## **Rejection fees**

Designers must always negotiate a formula for rejection fees before starting to work for a client, so that if the project is terminated a satisfactory level of payment will be made to cover the conceptual and early stage work. If work is rejected, both sides will need to refer to the brief and the project agreement, in order to establish a fair level of compensation for the work done, taking into account whether the failure derived from execution or taste.

## **Pre-payment of fees**

From each and every client the design consultancy should ask for a substantial percentage of the fee income for each stage to be paid when that stage is authorized.

A number of consultancies from a variety of disciplines now ask for 50 per cent, but this figure should be regarded as being negotiable. The fees quoted in any offer should cover the time which will be spent by the consultancy on design. Items such as illustrations, photography and production, should be included as a separate charge.

## **Sale of rechargeable**

It is important that the prospective client understands in advance that these rechargeables will be billed separately from, and in addition to, the fees quoted. The client will probably want a fixed quotation for rechargeables before giving the go ahead for the project, and the designer should include a prudent contingency in this price. If it is not possible to calculate and quote a price, agree with the client what items will be invoiced as rechargeables, and try to provide likely maximum and minimum figures as guidelines.

## **Disbursements**

Expenses which are incurred specifically on a client's behalf, such as project travel and subsistence should be treated in the same way as rechargeables, and billed to the client with whatever mark-up the consultancy applies. Items to be classed as disbursements should be agreed with the client before the start of the project, and the quotation should include an estimate for these.

To avoid unnecessary calculations a number of consultancies quote this element as a percentage of total fee income for the work. The percentage to be applied is calculated from a statistically valid sample of recent invoices. A charge for disbursements at 5 per cent of fee income is not uncommon.

## **Acting as the agent of the client**

Some consultancies prefer the client to be legally responsible for bought-in services, such as production, with their only involvement being as agents. This type of arrangement can enable a company to handle production runs of a size it could not manage without the backing of a substantial client, and minimizes the consultancy's exposure to default.

There are arguments against acting as agent for the client:

- *the consultancy will only be paid a handling charge which is likely to be substantially less than the income from the sale of equivalent work as rechargeables*

- *although the contract will be between the supplier and the client both of these parties will still use the consultancy as the intermediary, which can be responsibility without control or reward.*

The best commercial practice is normally for design consultancies to buy the production and then sell it on to the client, although there are likely to be exceptional instances, for virtually all design consultancies, when it makes more sense to act as the agent for the client.

Agreeing terms of business is one thing. Getting paid for what has been done may well be another.

## ***Credit checks on prospective clients***

A consultancy considering undertaking work for a new client should take basic precautions by asking for trade and bank references. It is also worthwhile asking a credit agency for a credit report on the client company, and if possible, talking to other companies who have worked with that client. Many of the country's largest companies are amongst the slowest payers, and these informal enquiries can reveal this information more effectively than trade, bank or credit agency references.

Market conditions and the (custom and practice' associated with each sector of the design industry will determine what percentage of the fee income may be apportioned to each stage of the project.

## ***Pro-forma invoices***

If dealing with a new and unknown client whose references and trading record seem to be at all 'iffy', raise a pro-forma invoice for a substantial first-stage payment and insist on this being paid before starting work on the project.

# ***Putting the proposal to the client***

At this stage, the consultancy is now in a position to pull together all of the component costs which will go to make up a quotation for a stage or for the whole project, and to put the detailed proposal into a written form for presentation to the client. A proposal letter or document must cover all that needs to be said in an accurate and precise manner, without becoming unduly wordy.

As the proposal is the offer, and therefore one of the three events that have to take place before a contract comes into existence, it is essential to get it right. If there is a dispute between the consultancy and the client at a later date, this document will be of critical importance.

## ***Calculating the price***

Before sitting down to write the proposal, it will be necessary to pull together and collate all of the following 'raw' calculations which contribute to calculating the fee and cost quotation:

- *in-house design time at standard charge-out rates*
- *selling price of labour rechargeables, including any freelances required (fees + company's standard mark-up)*
- *selling price of material rechargeables (purchase price + company's mark-up)*
- *selling price of production (cost based on written quotations from supplier + company's mark-up)*
- *selling price of disbursements (actual or estimated cost + company's mark-up).*

*Once this stage has been achieved, it is necessary to consider the actual price to be quoted to the client, adjusted in the light of its actual value in current commercial terms. Perceived value is an important commercial consideration; there may well be instances where the proposed calculated costs, plus margins, produce a price which is below market value for the real service which is being offered. In such cases, consideration should be given to adjusting the price, perhaps by increasing the rates charged to design time to reflect the contribution of creative and innovative thought on the eventual commercial impact of the project.*

# *Writing the Proposal*

A sample structure for a proposal document could be as follows:

## *1 Title page*

Give basic reference information about the document: the name of the project; the name of the client; the name of the design consultancy submitting the proposal; the name of the person who prepared the document; the date it was written.

## *2 Introduction*

This is a short summary of the aims, objectives and background to the project – a short form digest of the brief. It can set the tone for the proposal, by confirming the consultancy's understanding of and attitude towards the project.

## *3 The brief*

If possible, it is a good idea to include a complete version of the agreed brief in a proposal document. The proposal is related to the brief, so it helps to have it there for reference and clarity. However, sometimes the brief will not have been fully developed at the time of preparing a proposal; if this is the case, say so, and explain how the brief would be worked up and agreed in a future working relationship.

## *4 The approach and method of working*

This section explains to the client how the work would be tackled. It may include types of work to be undertaken, and will explain the nature and esteem of the work which the consultancy is offering to carry out, and it forms an important part of the legal offer, becoming part of the contractual agreement if the work goes ahead. Do not assume that the client understands the different stages of the design process, and the terminology involved; spell it out very clearly, and then make sure that the recipient understands what is being said. If possible this section should also include an outline timescale on the project; it may not be possible to quote actual dates, but give an indication in terms of weeks from the start date. Also include how long the offer will remain open at the fees stated.

## *5 The team*

It is a good idea to set out both the types and levels of people to be involved in the project - so that the client can see who will be doing what - and also to include details on the senior members of the team and how their previous experience relates to the work required. This also constitutes part of the offer, and people must not be included if they *will* not be available to work on the project in the role described.

## *6 Design fees*

As explained earlier, this may be a fixed fee, hourly rates within a budget, or a percentage of a contract. The proposal should set out the fees to be charged for each stage of the project, and explain on what basis they are charged, together with details of what is included/excluded. It is also sensible to include the hourly or daily rate to be applied for any additional work required for agreed changes to the client brief.

## *7 Rechargeables/disbursements/production costs*

The proposal should include details of items to be charged separately under each category, together with either quotations or maximum/minimum cost guidelines.

#### *8 Reference to general terms of business*

In order to arrive at a watertight legal offer, the proposal must either include or make direct reference to the consultancy's general terms of business. Check that in this way necessary additional elements such as rejection fees and arranging for invoicing and payment are included in the proposal.

#### *9 Confirmation of acceptance*

It is necessary to ask for written confirmation of the client's acceptance of the proposal (offer, acceptance, consideration); this is often done by including a second copy of the document to be signed and returned to signify agreement.

The purpose behind reaching agreement on terms of business is to avoid confusion and to make certain that consultancy and client, or consultancy and supplier, are singing from the same hymn sheet. Don't leave things to chance. Ensure that all of the items on the checklist (see above) have been covered before putting the arrangements into writing and starting to work with the client. This route clears the way for spending time together productively and profitably, instead of trying to put out an endless succession of bushfires.