Introduction (00:03):
Welcome to the Same Side Selling podcast, dedicated to modern sales and marketing, innovation and leadership. Here's your host, Ian Altman.

Ian Altman (00:15):
Hey, it's Ian Altman. In this episode, I want to talk about time and materials billing versus fixed price billing. Over the last dozen years, I've had the pleasure of working with many companies who sell services to their clients. Most of them have historically priced their services by the hour. I want to suggest why that might not be a great idea for you or your clients, and I realized this notion of shifting away from time and materials pricing might make you a little uncomfortable. When you sell services by the hour, you're agreeing to get paid for your effort. What you're saying to your client or prospect is, I'm going to try and I expect you to pay me for each fraction of an hour. I spend trying. With few exceptions, your client isn't thinking, man, I have this serious problem that's worth investing money to fix.

Ian Altman (01:06):
I hope I can find someone who will give me a specified number of hours to try and address that problem. It just doesn't happen. Rather, what they're thinking is, I have this problem and I wonder if someone can solve it and if so, it's probably worth X dollars to know that it's no longer my concern. When you give an hourly rate, what percent of the time do you hear from your client or prospect, Hey, um, how long do you think it will take? I'm guessing close to 100% of the time. Because what they're trying to determine is, Hey, how much is this actually gonna cost so I can evaluate whether or not it's worth it to try and solve it. The fastest way to be seen as a commodity is to sell your time by the hour. Why would I pay more for your effort or your try than someone else's?

Ian Altman (01:55):
And you might be thinking, well, we have more experience. We have more expertise. Well, if that's the case, then how come you don't know how long it will take? Well, that's a fair question, especially when you have adversaries. For example, litigation attorneys can't really control the opposing party, the judge, the jury, or a myriad of conditions. Software developers might have unforeseen conditions. And if you're doing systems integration, you might have several unknowns. So how do you shift to value based pricing instead of just charging by the hour? You could probably give a range of conditions that would change the client's investment level. If you run into specific objective snags, you could break the project into phases. For example, the overall project might be 800,000 to 1.2 million. Phase one you offer at a fixed fee at $65,000 and you spell out here's what we'll accomplish and here are the risks or changes that could cause that to be as high as 80,000 but we're saying at 65,000 unless these three conditions happen. As part of that, then you'll provide a fixed fee for phase two.

Ian Altman (02:58):

Currently, you might have that estimated between 180,000 and 250,000 but by the end of phase one you'll have a specific number that you can give for phase two. This way each step has constraints and a fixed fee. When you charge by the hour, you're having your client assume all the risk. When you charge a fixed fee, you are assuming the risk and your client is often willing to pay a premium for you taking on that risk. Just be sure to carefully identify those areas of risk that could change the scope of the project. I'd also build in enough of a buffer so that your client doesn't perceive that you're nickel and diming them to death. Wouldn't it be nice if during the project something else came up and you said, you know what? We can take that as part of the project. Don't worry about it. All of a sudden you build a ton of goodwill.

Ian Altman (03:44):
Here's the other part. You don't have to give a fixed fee that assumes your best case scenario. Rather, your fixed fees should have a buffer for unknowns, a premium for risk, and a little wiggle room on top of that. Let's say your competition told the client the project would be $1,200 per day for the project that they figured it would take 20 days. So if you do the math, that's an assumption of $24,000. Your fixed fee might be proposed at 30 or even 35,000. You're offering certainty of results, not just effort. This does mean that you need to have confidence in your ability to deliver. Oh, and never, and I mean never, ever provide an agreement to perform time and materials not to exceed. That's when you would say to the client or prospect, that would be $150 an hour, that same $1,200 a day, not to exceed $24,000.

Ian Altman (04:36):
The problem with that is that you assume all the risk with none of the upside. If you deliver faster than 20 days of effort, then you'll, you only get to bill for those days. If it takes you longer then you're losing money, if you'd consider not to exceed, then propose it as a fixed fee. I hear from people all the time saying, why do we commoditize, we're getting beat up on price and the reality is that we are our own worst enemies. Instead, what you want to do is think about, okay, how can I bundle my services in a way that I can offer them on a fixed monthly fee on a fixed project based fee? So that way my client is paying for results, not just resources, because if all they're doing is hiring resources, then price becomes a pretty important factor. And if they're getting results, let's face it, if you don't get the results you need, it doesn't matter what you're buying, it's not a good deal. And if you get the results, you can easily determine what the value is.

Ian Altman (05:36):
Remember, this show gets its direction from you, the listener. If there's a topic I should cover, a guest you'd like me to have on the program, just drop me a note to ian@ianaltman.com. Have an amazing week. Add value and grow revenue in a way everybody can embrace, especially your customer. Bye now.