

How to Increase Your Profits...

By Raising Your Fees!

By Ted Garrison

The simple answer to how to increase your profits is to raise your fees!

You might think I'm trying to be smart! However, it's a legitimate answer. Companies say they can't raise their fees because of their competition. Wrong! Does your competitor set your fees or do you? If you are letting the competition set your fee you are doomed because there are too many poor business people out there. When Donald Trump placed Trump Towers on the market his sales forced nearly panicked, since Trump Towers was the highest priced condominium in New York City. Trump laughed because he wanted to be positioned as the most expensive because that said his property was the best! It didn't hurt sales as they sold out the build almost immediately. High priced architect and engineers do the same thing - they position themselves as the best!

"If you are letting the competition set your fee you are doomed..."

At a recent presentation, someone suggested that the current rapid rise in steel prices might be the best thing that has happened to the construction industry in years. I was shocked. However, he further explained a lot of contractors haven't raised their unit prices in years and, as a result, their profit margins have been eroded. But now, they must raise their prices. In recent years, many design firms have been reluctant to increase their fees despite the constant wage and insurance increases. They need to raise their fees, too!

A major reason people are afraid to raise their fees is because they are

competing on price, instead of value. Peter Senge, author of *The Fifth Discipline*, said that, "Our organizations work the way they work, ultimately because of how we think and how we

"How can we add greater value?"

interact." Therefore, if we want things to change, we need to change the way we think. Instead of thinking how can we do it cheaper, cheaper, cheaper... the question must be, "How can we add greater value?" That doesn't mean we ignore costs - unnecessary costs whether paid by you or the client are not good. But only focusing on cost reduction is not the way to grow a business. This is especially true in construction where we deliver complex design services that are one of a kind and impossible to really price shop as a commodity.

Mitchell-Ross Architects illustrates this concept. They specialize in firehouses. One obstacle they had to overcome is the highly competitive fee for this type of work. However, by becoming an expert on firehouses they have reduced their labor time, so they make a profit on projects where other architects would

struggle with the fee. But the real breakthrough came when they offered to provide an "added service". They position themselves as firehouse experts and offered a separate service: developing the program and getting the initial schematic design through the approval process. This service usually falls under the standard fee for architectural drawing, but seriously erodes the design firm's fee before getting out schematics. However, by positioning themselves, they focused on adding value and speeding up the process... all at an additional fee.

"...the clients who care about value and price."

The reality is 17% of clients only care about value - they simply want the best. Another 27% only cares about price, so why should you worry about them - they don't worry about you. They are never loyal to you - they are only loyal to your price. My recommendation is to send these people to your competitors - maybe you can get a referral fee. Any referral fee might be a larger profit than you will make off doing the actual job.

The remaining 56% of clients are the ones we need to focus on, because they are the clients who care about value and price. They buy based upon price when they can't differentiate the value between the two designers. I often ask architects and engineers to tell me what makes them different from the design firm across town. Usually, they can't answer the question, which is a problem. If the design firms can't differentiate themselves from each other - how do they expect the clients to differentiate them? Thus, the client resorts to the lowest differentiator - price.

What's The Purpose of a Business?

One of my favorite questions in seminars is: "What's the purpose of a business?" Someone always responds - "make money!" I thank the person,





construction costs. But construction costs represent only about 10% of the total lifetime cost of a building. Therefore, the general contractors and architect's fees represent only about 1% of the total lifetime cost of a building. When they do this, often the remaining 99% in costs goes wild. Therefore, designers need to communicate the concept it's more important to select the **"right contractor and design team"** than to select the cheapest.

Designers must educate clients to focus on the idea that the right team can create significant savings in the area of the other 99% of the project's cost.

The second important issue in delivering greater value is to understand what the customer really needs. This only occurs when there is an open dialogue with them. Just like the firehouse example: when services are provided that the client places a high value on, it's often possible to increase profit margins while at the same time serving the customer better.

Designers can add substantial value to the construction process, but they must create an open dialogue with their

clients in order to better understand the client's needs. Satisfying the client's special needs is the easiest way to avoid competing on price.

"...understand what the customer really needs."

The other aspect is to position your self as an expert. This requires specialization. Face it; it is a lot easier for the client to believe you can deliver that special value when you are **"the expert"**. You need to become the Mitchell-Ross of your niche, because nobody really believes the generalist will deliver the best job. When you stop competing on price you can simply raise your fees. I hope you enjoy your new profits!■

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because that is the answer I was seeking, but it's the absolute wrong answer. Why? The answer is simple: if you are worried about making money, you tend to make short-term decisions. When you make short-term decisions you focus on your company, not the client. If no one is worried about your clients, how many clients will you have? You're right... none! If you have no clients, you will not make any profit. Therefore, it's not that you don't want to make money, after all that is our personal reason for being in business, but our business focus can't be on making money. The company must focus on getting and keeping clients.

When a client says your fee is too high, what are they really saying? They are telling you that you are not delivering enough value to justify your fee. Look, you make that analysis everyday of your life when you go to the store. You decide if you would rather have the money or the item. Depending on your perceived value of the item – you make a purchase decision. Your clients are no different.

Dialogue is the Answer

There are two areas where greater dialogue is needed. First, you must do a better job of educating your clients about the value you deliver. You must get them to shift from the amount of the design fee to the quality of the work product. The client must understand that cutting design fees is a mistake because it results in higher construction costs. The reality is that the general contractor's fee and the architect's fee represents about 10% of

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