DO YOUR FEES ADEQUATELY REFLECT PROJECT SCOPE AND RISK?

You’re bidding on an exciting new project and asked to pull together the fee proposal (dread). Too high a fee and your proposal may be rejected. Too low a fee and the proposal might not reflect certain realities (and so, might be rejected anyway – even in a competitive environment). If only pricing out a project were as simple as applying a universally accepted formula.

Although an Einstein-worthy architectural equation for fees continues to elude the best of us, perhaps we can share some ideas on how to integrate more risk-thinking into your fees structure.

SCIENCE + ART + RISK = FEES

Pricing a project is part science, part art, and part risk assessment. These three factors are ever-present and in constant flux. They are also hard to price independent of one another, and often, risk is completely overlooked.

THE SCIENCE PART IS MATH UNTO ITSELF.

These are the basic calculations that reflect the practicalities of running the project: the internal or external resources and consultants to support the project to a successful conclusion, the related labour or material costs, the profit margin as well as the share of the general business / administration overhead that the project represents. In the business world, these are often represented as “hard costs,” but there is fluctuation inherent in these as well, and in accordance with supply and demand.

THE ART PART REFLECTS YOUR CREATIVITY AND THE FIRM’S EXPERTISE.

It’s the intrinsic value of your firm’s *collective* knowledge, design skill and professional acumen. For example, your ability to manage all the relationships and personalities that come with the project. Your problem-solving skills. Your learned experience of similar, previous projects.

Thinking honestly about what you and your firm bring to the table – the potential project benefits and outcomes (for you as well as your client) – is a valuable exercise to engage in at the start of each project. It provides an opportunity to assess new learning and experience that has been absorbed since the last project, providing a potential new starting point from which to inform the fees. Just as important, is the go/no-go decision: do your qualifications and interests mesh at all with the client and the project?

THE RISK PART CONSIDERS THE POTENTIAL RISKS TO THE PROJECT.

Every project is different so the degree of risk (known and unknown) will be different as well. The possibilities of delays, substitutions, scope change, labour or skills shortage, design flaws, use of client-authored contracts, project financing falling through, municipal or community stakeholder challenges, working with a new sub-consultant, etc., are just a few risks that are ever-present, but these and others will ebb and flow based on market, regulatory and business-environment conditions as well.

Embedding risk-thinking within the fees calculation helps gauge if there is sufficient professional liability insurance coverage in place in the event of a claim (or claims) related to that project. Would you need more coverage than your annual limits? Would your firm have sufficient funds to pay out of-pocket if it came to that? What would be the effect of taking on a higher deductible? Above all, it’s important to avoid accepting unfair or uninsurable risk being transferred onto you by your client, while at the same time, making sure that your sub-consultants assume their own fair share of the risk. It’s also an opportunity to re-read the professional liability policy to confirm coverage or limits for a particular risk and to speak with Pro-Demnity directly.

Professional liability insurance coverage is but one facet of a multi-pronged risk solution. Single-project insurance is sometimes a viable consideration for those one-off projects, as is increased limits, particularly if what used to be one-off projects have evolved into business as usual.

It can be empowering to think through risks when structuring fees because you can do something about those risks from the get-go, and price accordingly. You can, for example, actively remove known risks, mitigate existing risks, monitor the presence of risks and manage risks as they come up (and they will). When your scientific and artful pricing formula brings calculated risks into its equation, your fees may prove to be far more inclusive and representative of *your* value and offering.