

Focus on Fees: Best Practices in Alternative Billing Models



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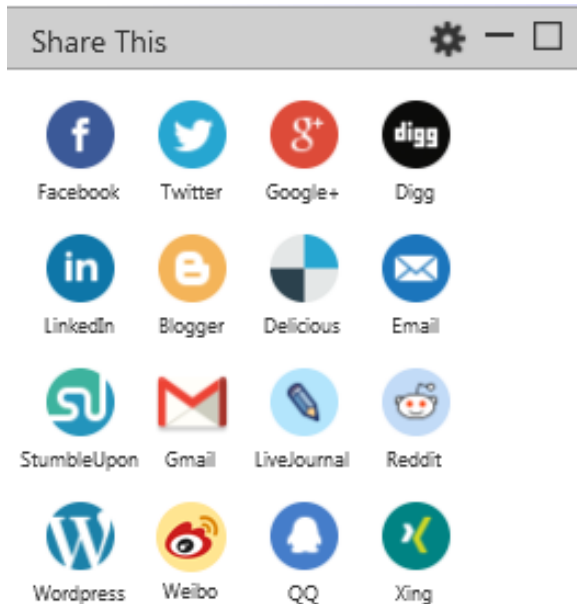
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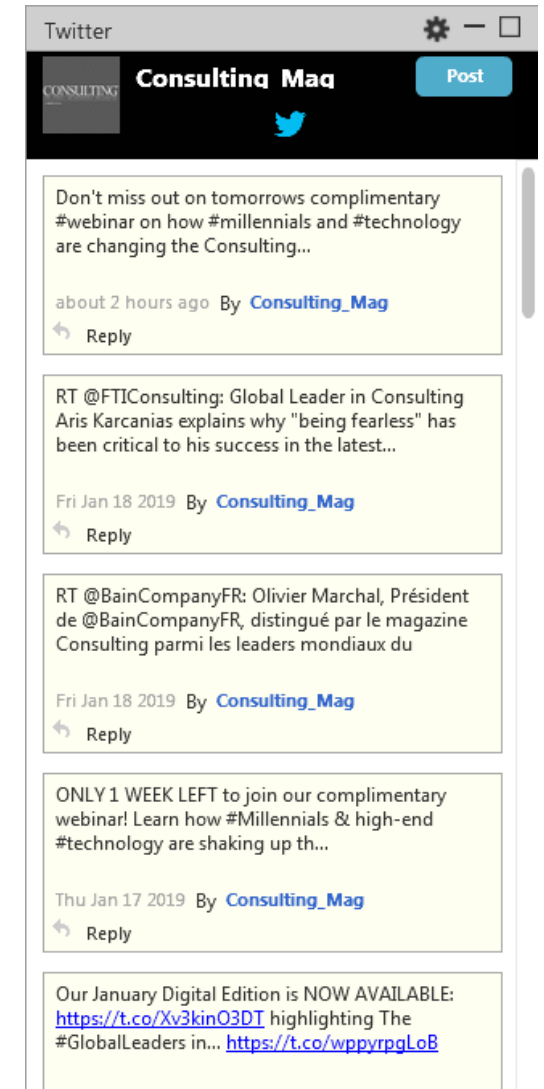
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Before We Begin



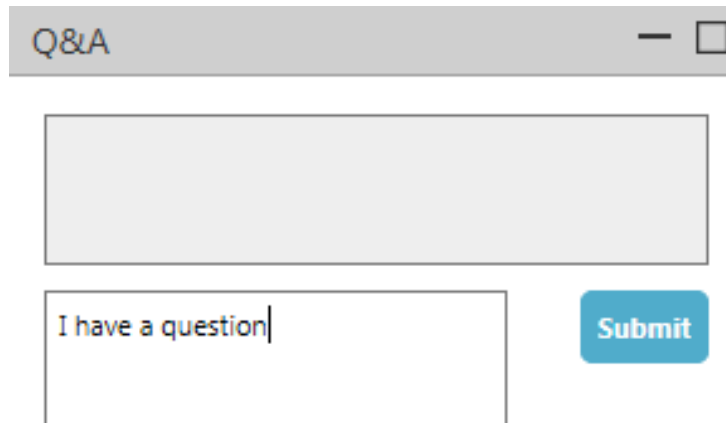
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Before We Begin

Ask questions through the
Q&A widget

A screenshot of a Q&A widget. It features a grey header bar with the text "Q&A" on the left and a minus sign followed by a square icon on the right. Below the header is a large, empty rectangular box for questions. At the bottom, there is a text input field containing the placeholder text "I have a question" and a blue "Submit" button to its right.

Q&A

I have a question

Submit

Questions will be answered
during the Q&A segment

FAQs

- If you cannot hear the session currently, please check the following:
 - Google Chrome and IE are the two best browsers to use
 - Ensure that cookies are enabled for this site
 - Make sure FLASH is allowed
 - If using Chrome, click on “enable ADOBE FLASH PLAYER” (see below)
- Recorded On-Demand session will be available starting tomorrow, 4/26.



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Today's Speakers



Joseph Kornik
Publisher and
Editor-in-Chief
Consulting
magazine



David A. Fields
Founder
Ascendant Consulting



Tom Rodenhauser
General Manager, ALM
Intelligence
*Managing Director, Advisory
Services*



Jill Novosel
Director, Client Delivery and Assurance
West Monroe Partners



Brian Siefkes
Sr. Industry Marketing Manager
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Fee Structures & Best Practices

Fee Structures

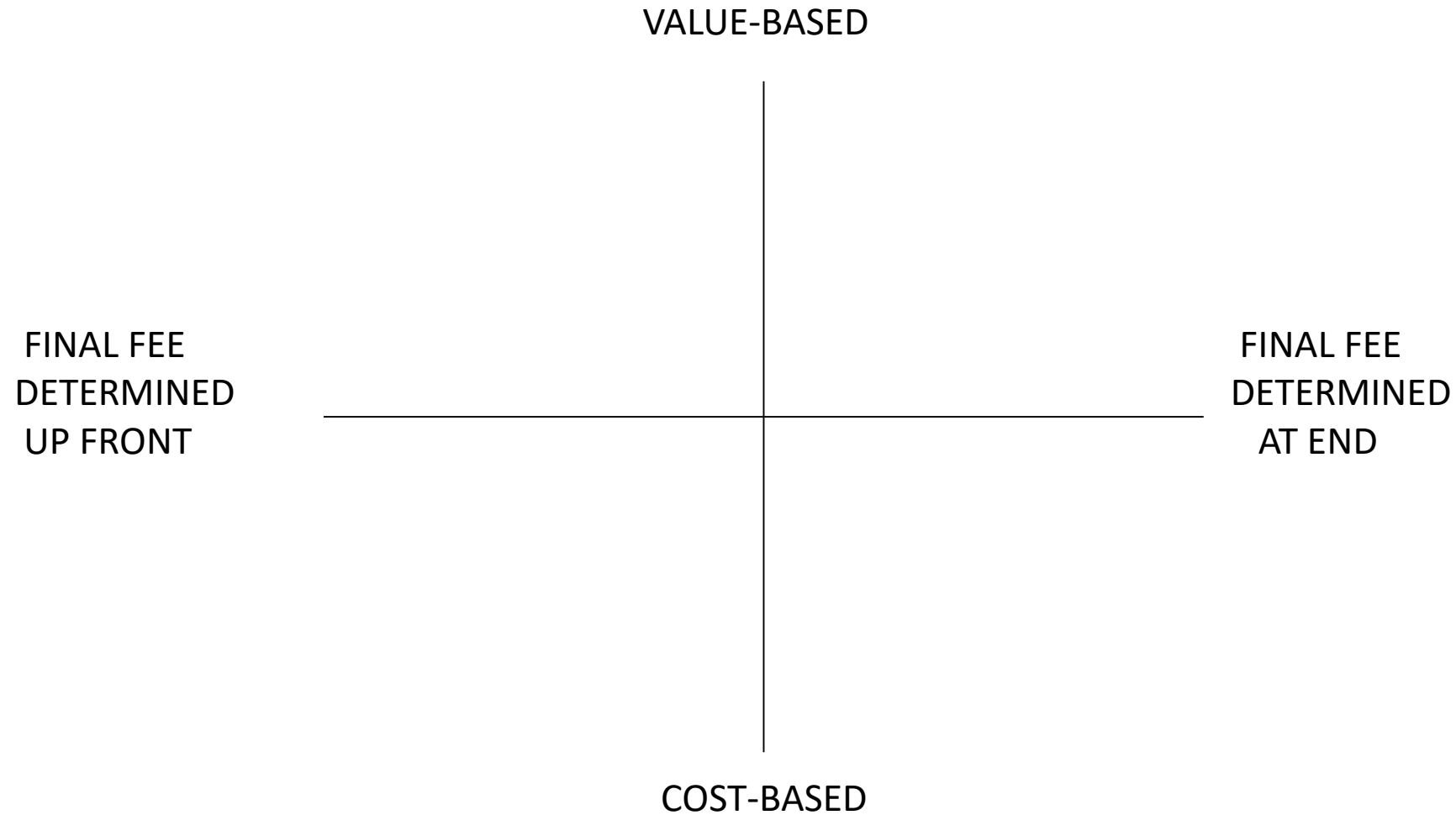
Fee Structures

VALUE-BASED

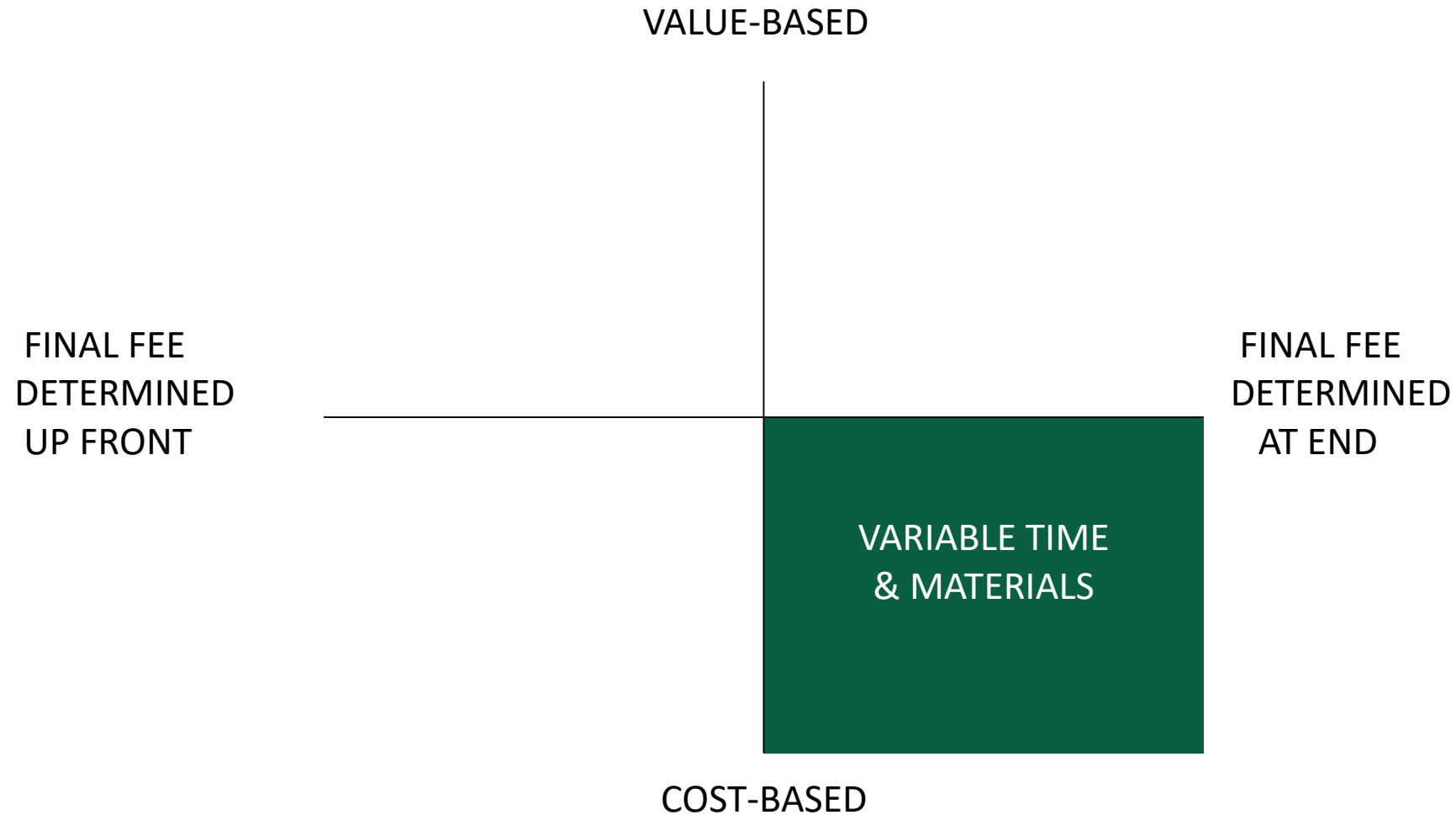


COST-BASED

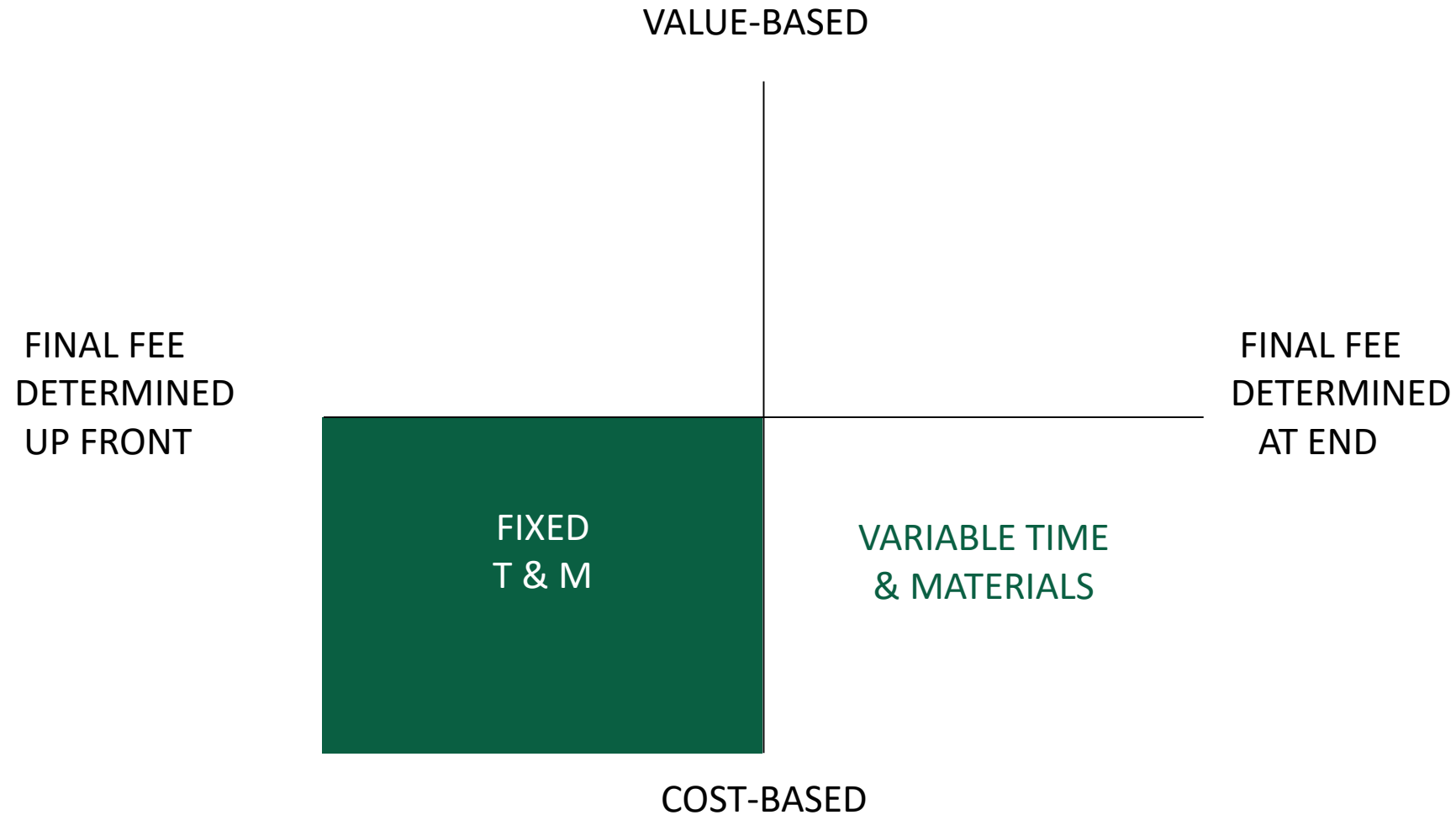
Fee Structures



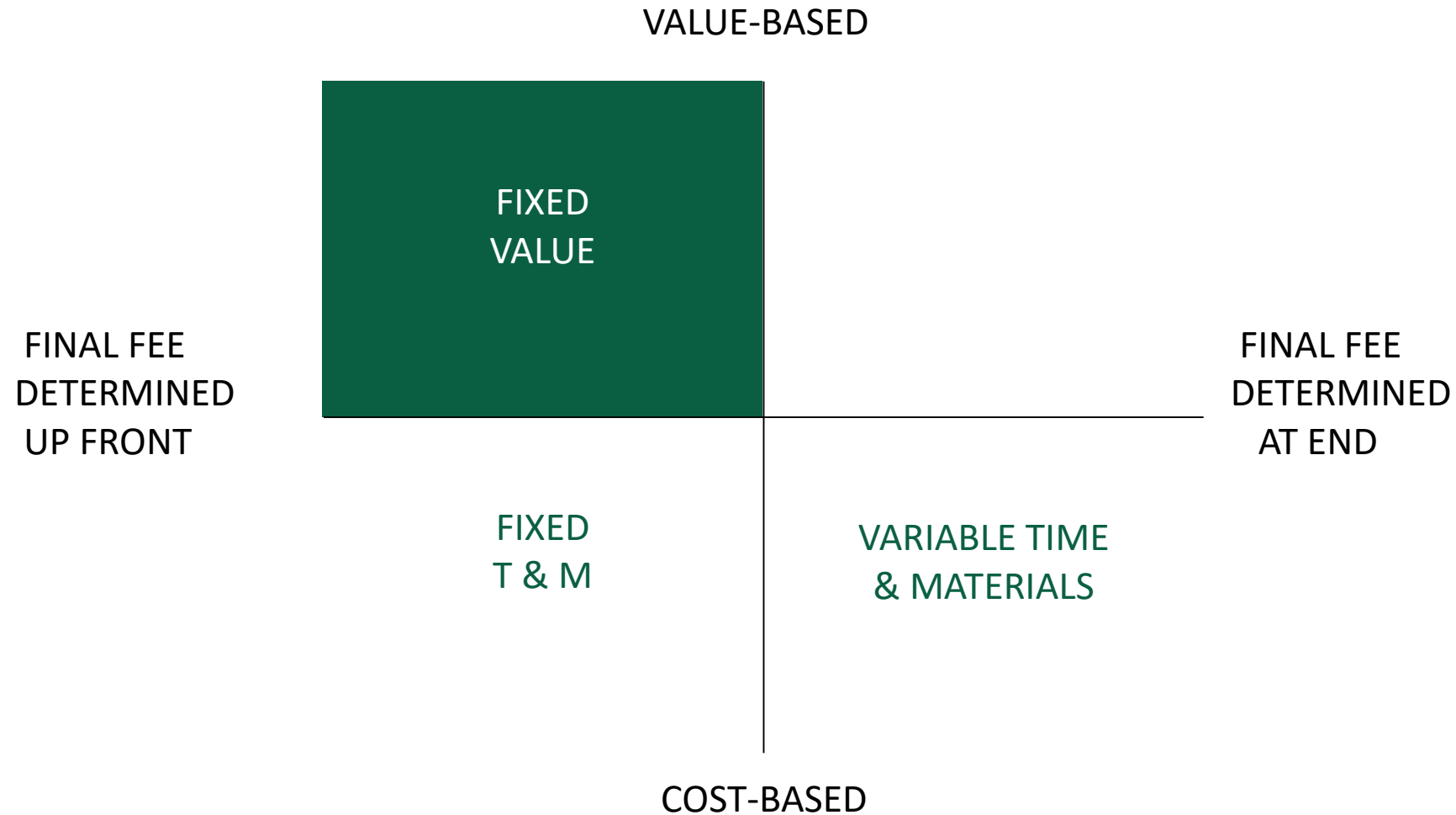
Fee Structures



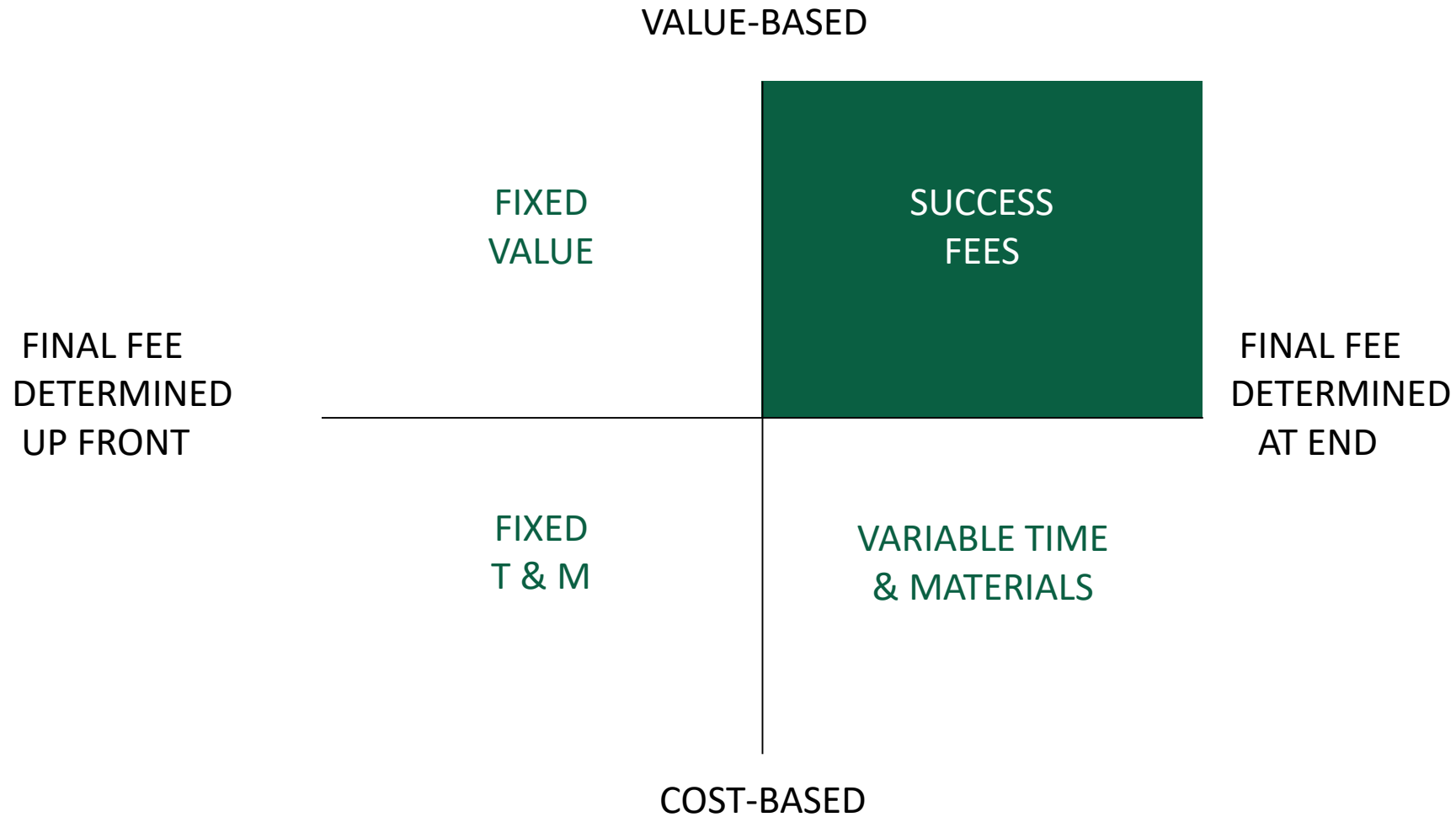
Fee Structures



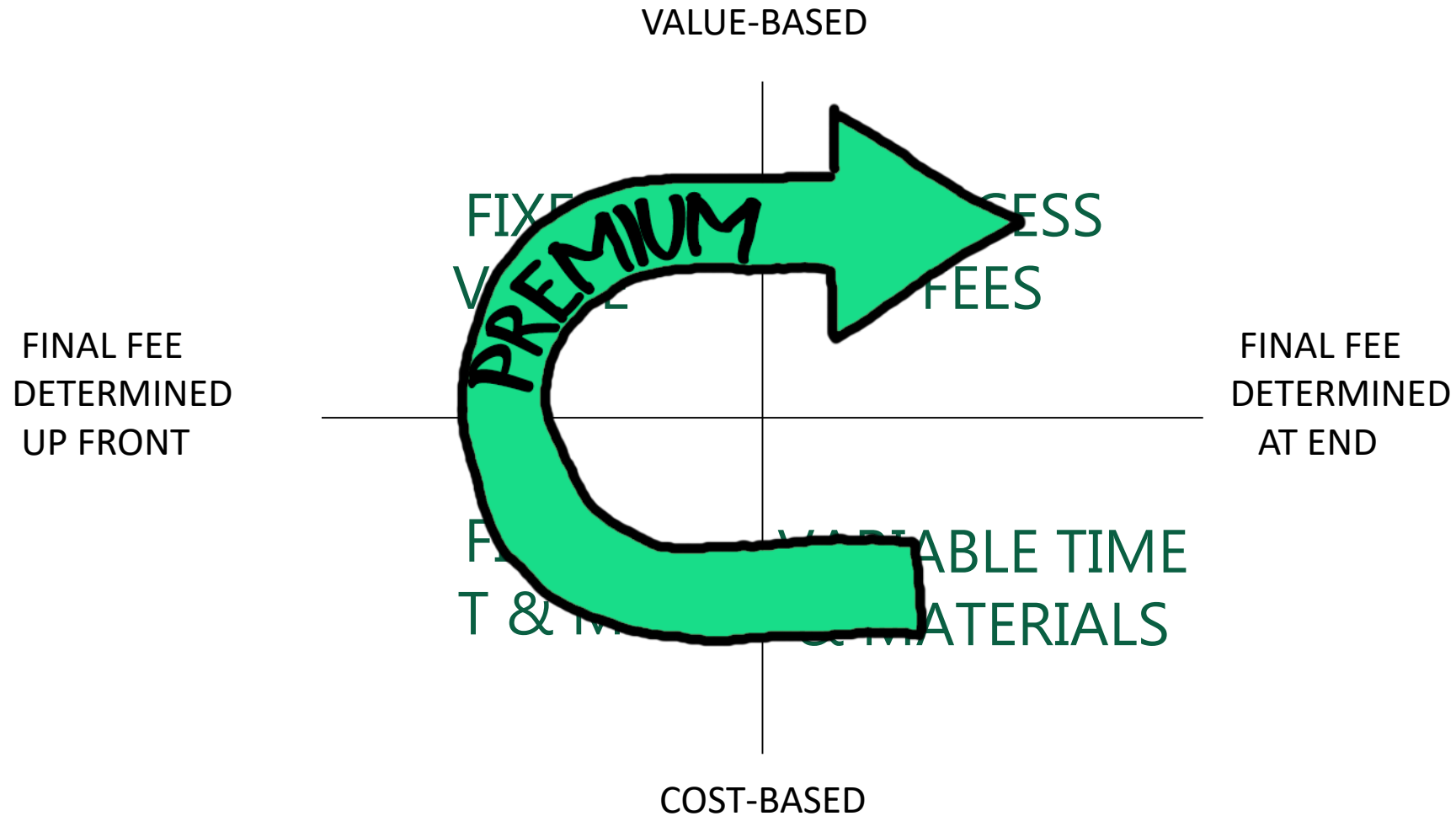
Fee Structures



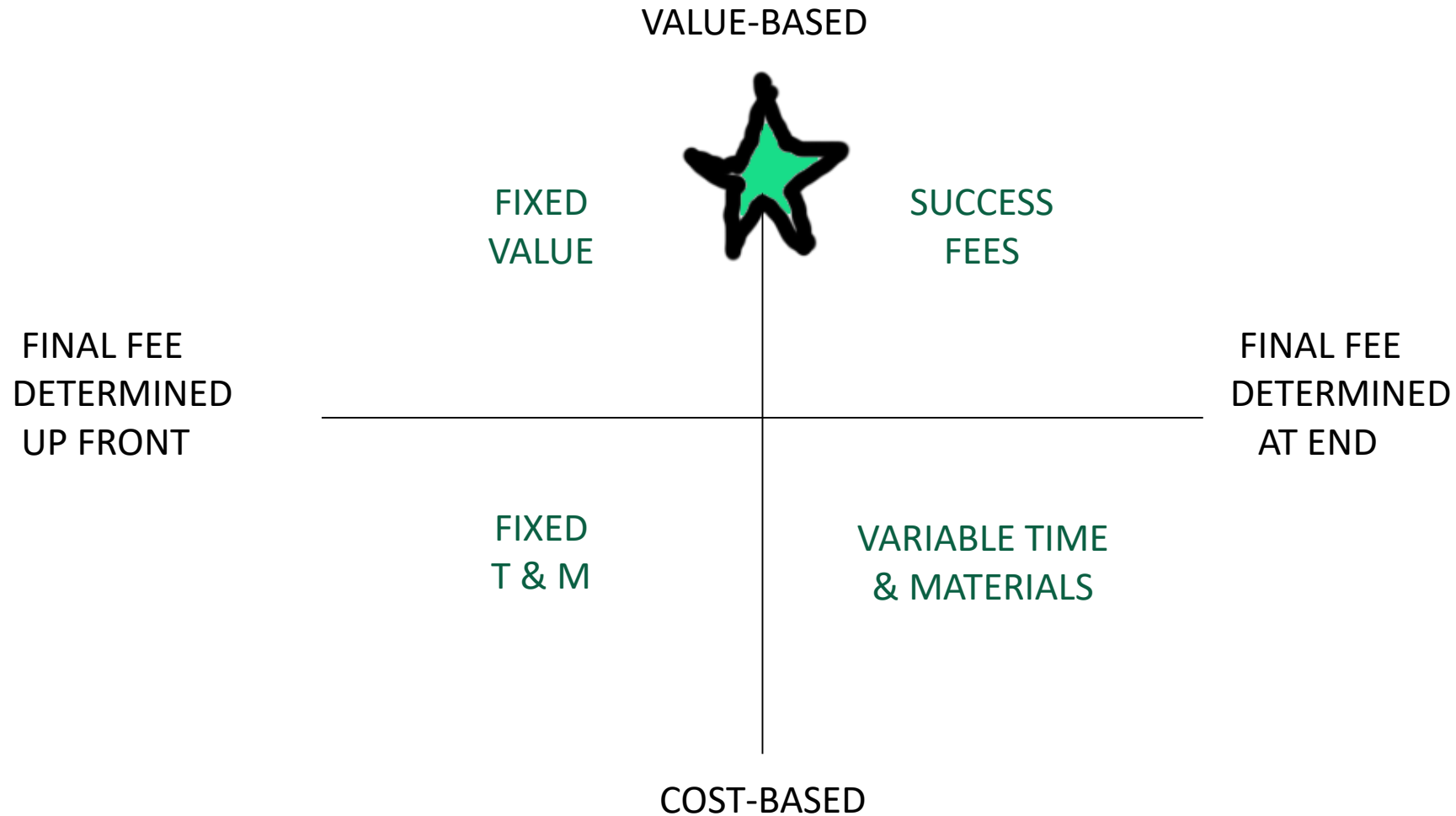
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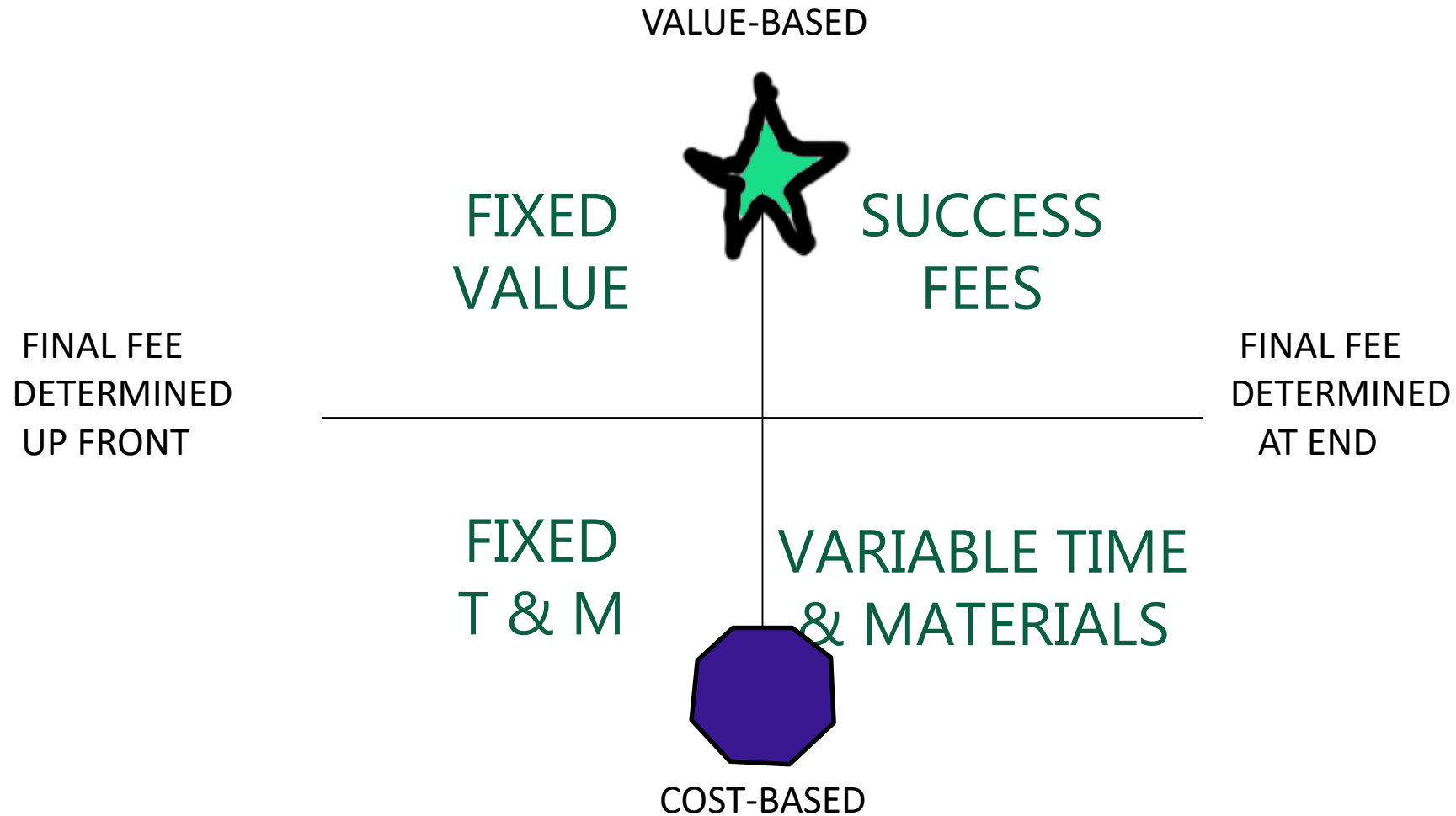
Fee Structures



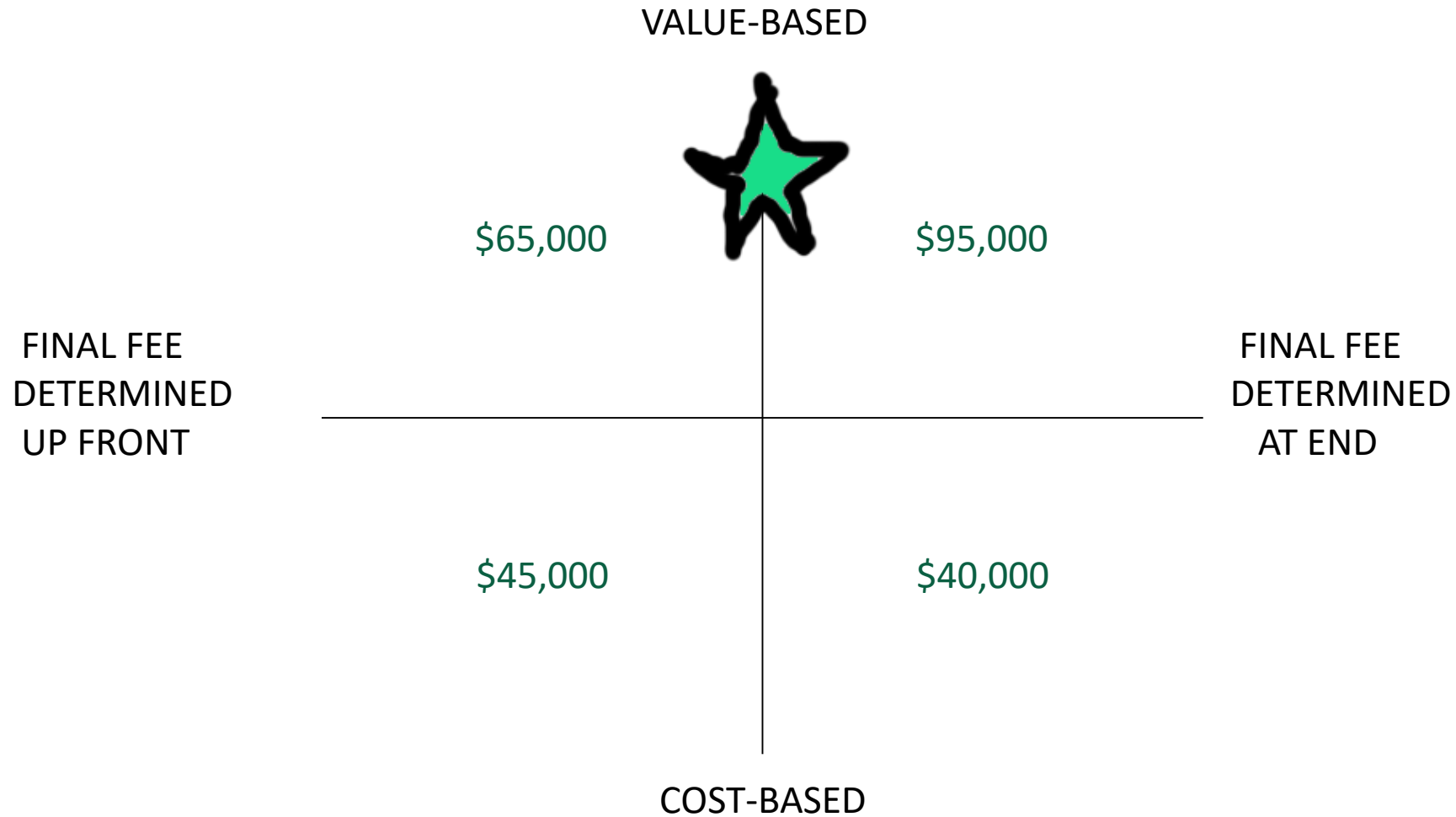
Fee Structures



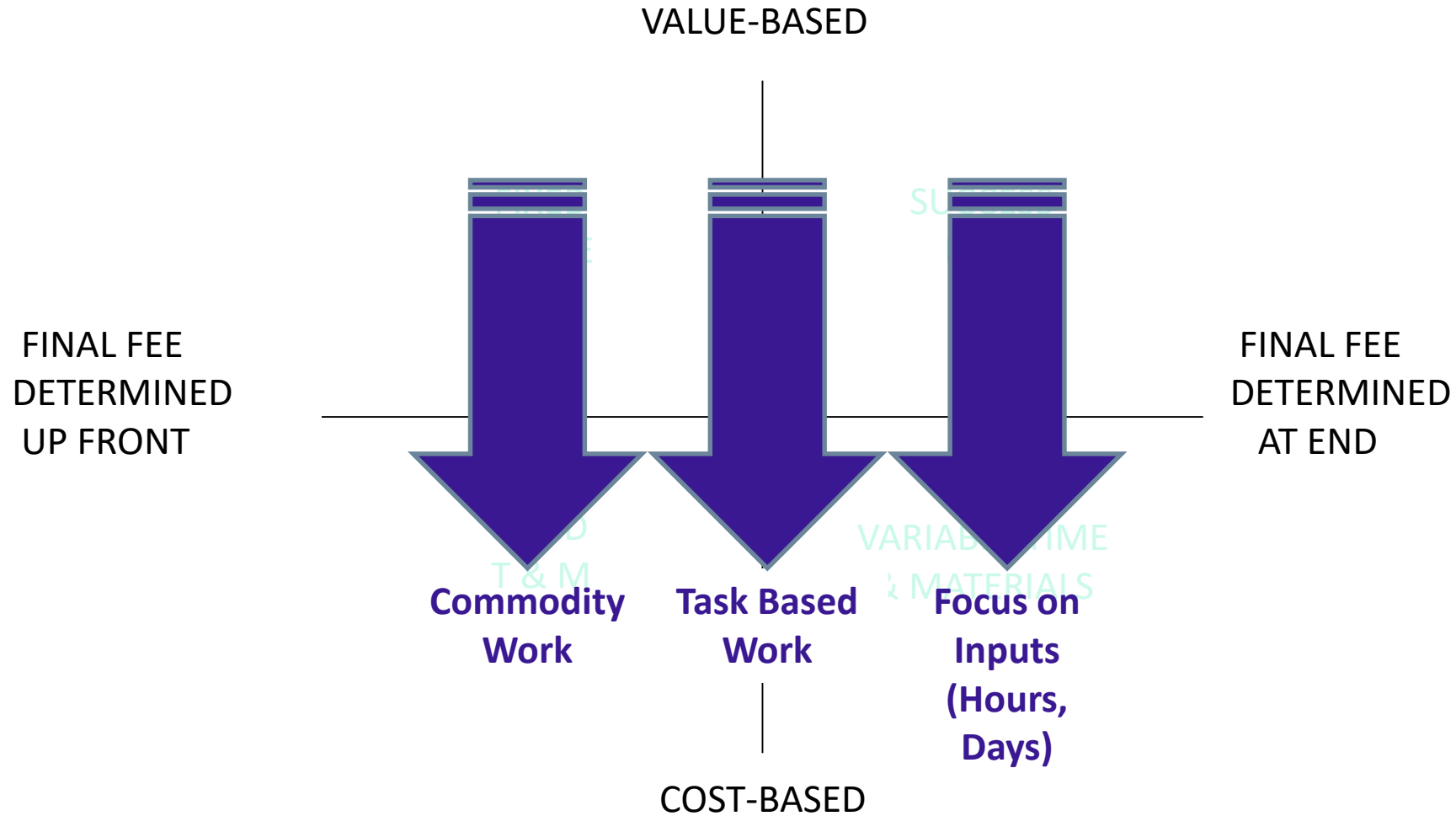
Fee Structures



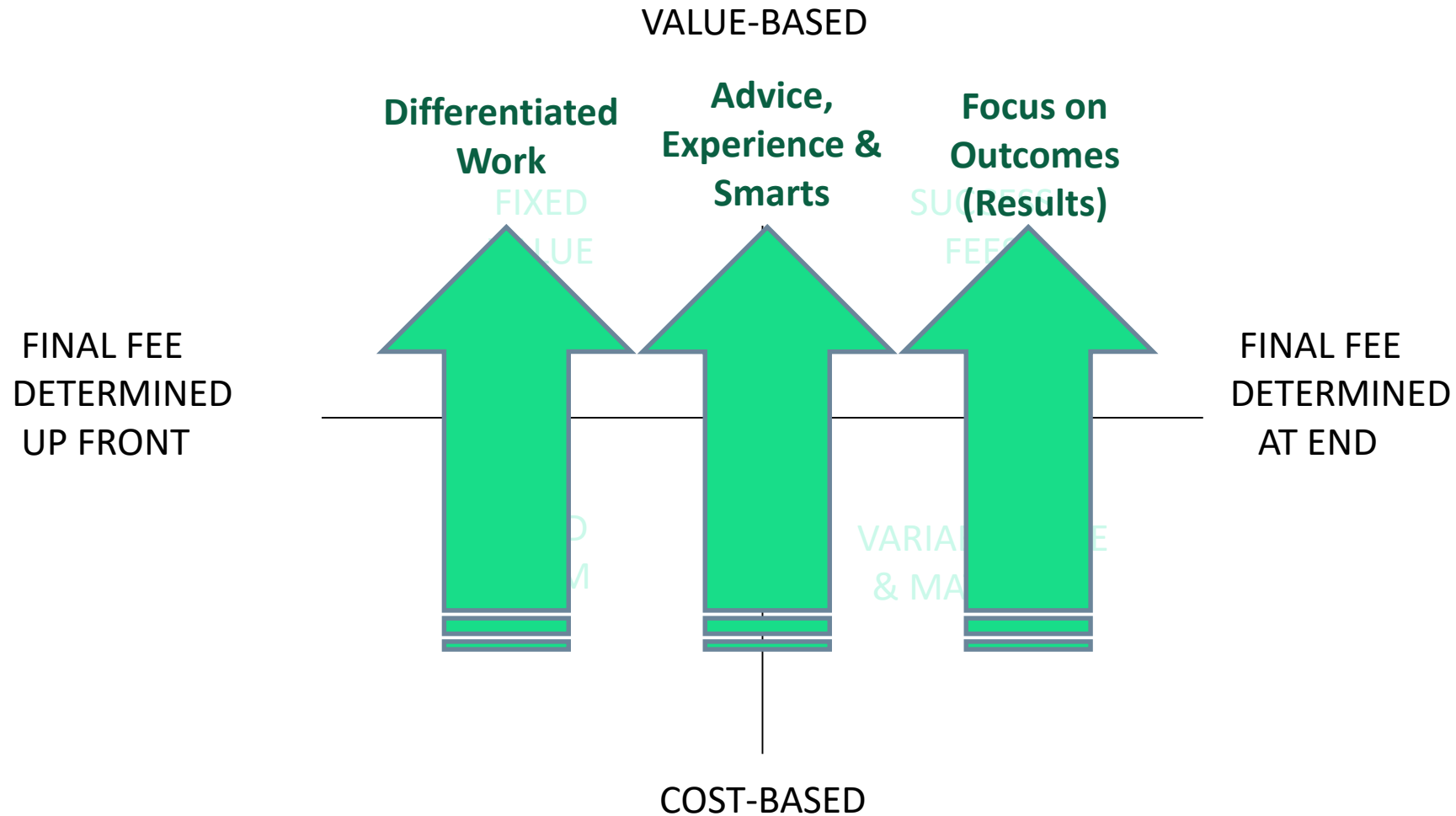
Fee Structures - Example



Pressure to Bill T&M



Leverage to Bill on Value



For Ongoing Advice (vs. Projects) Use Stipends

- Ongoing
 - Open-ended
 - Advice-based
 - Not you working to create outputs
- Regular, periodic payments (stipends)

Selling Value-Based Fee Structures

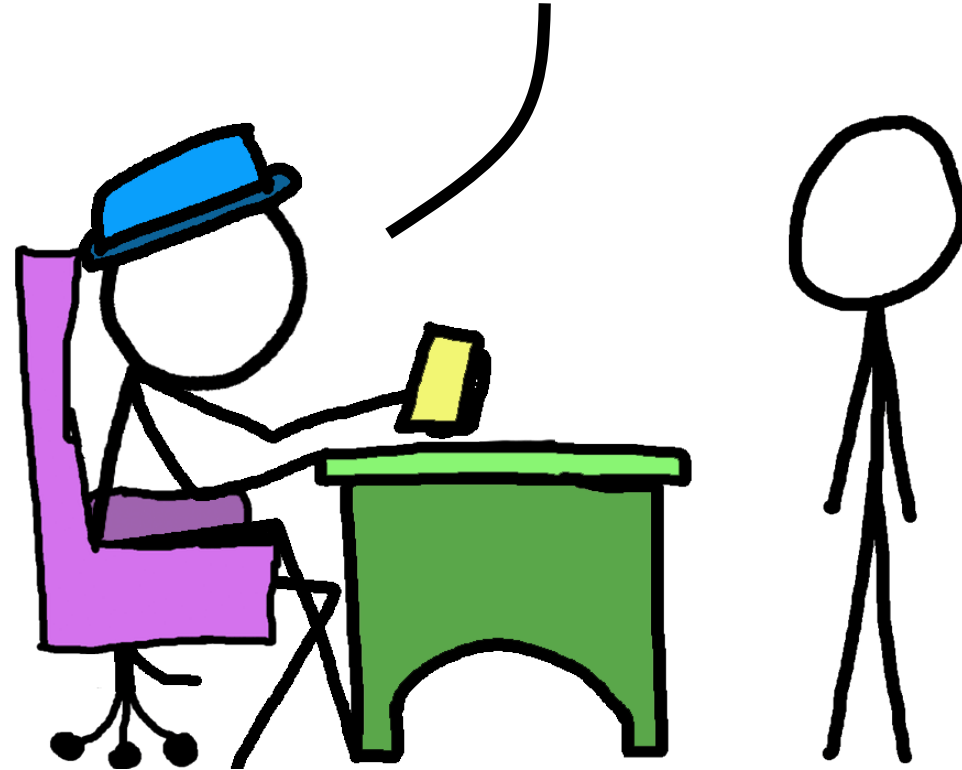
- Client's considerations
 - Value (2-3 year horizon)
 - Contribution to value
 - Budget
 - Alternatives
 - External and Internal

Selling Value-Based Fee Structures

- Your considerations:
 - Minimum acceptable project size
 - Rough guess on time requirements
 - Other, non-consulting parts of the sale

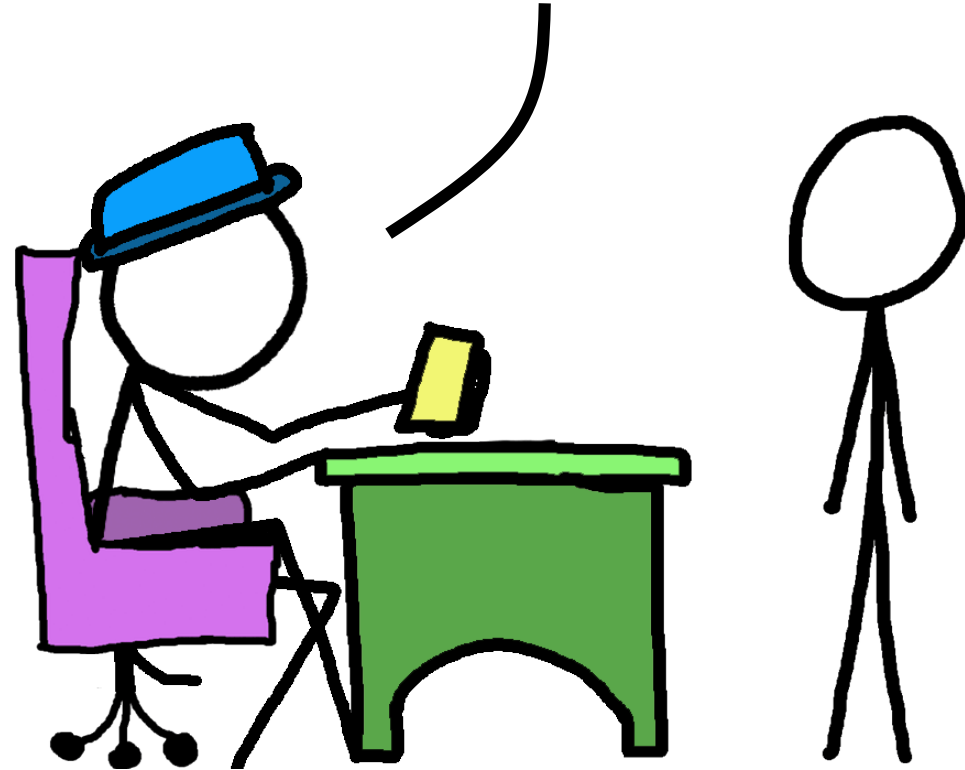
Common Objections

NO ONE ELSE DOES IT THAT WAY



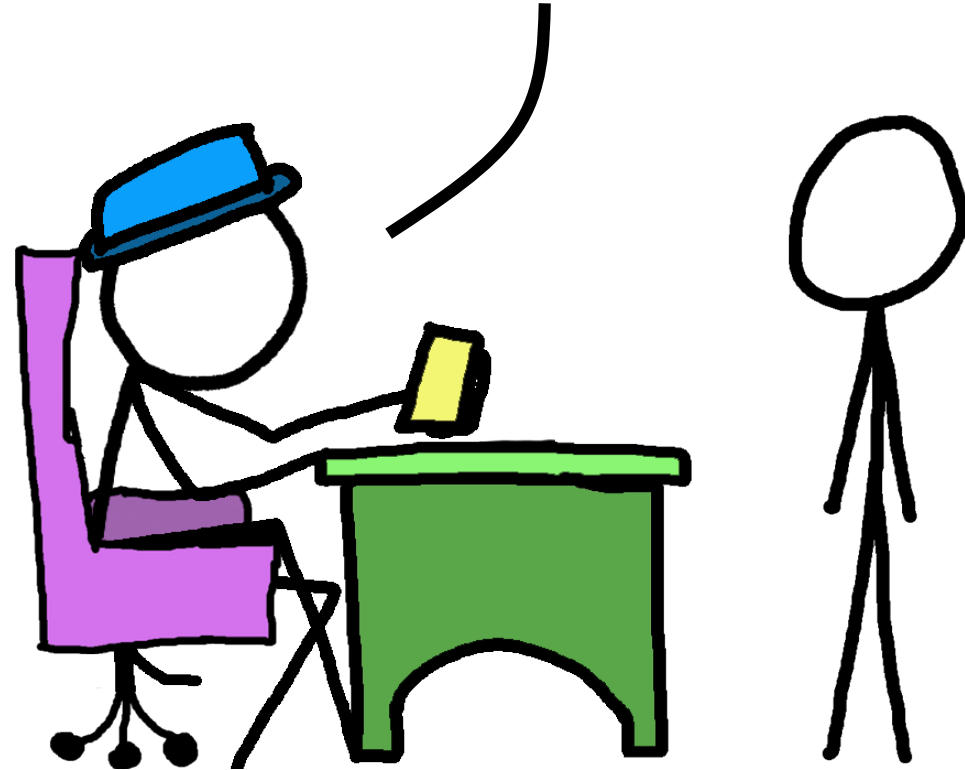
Common Objections

WE COULD OVERPAY



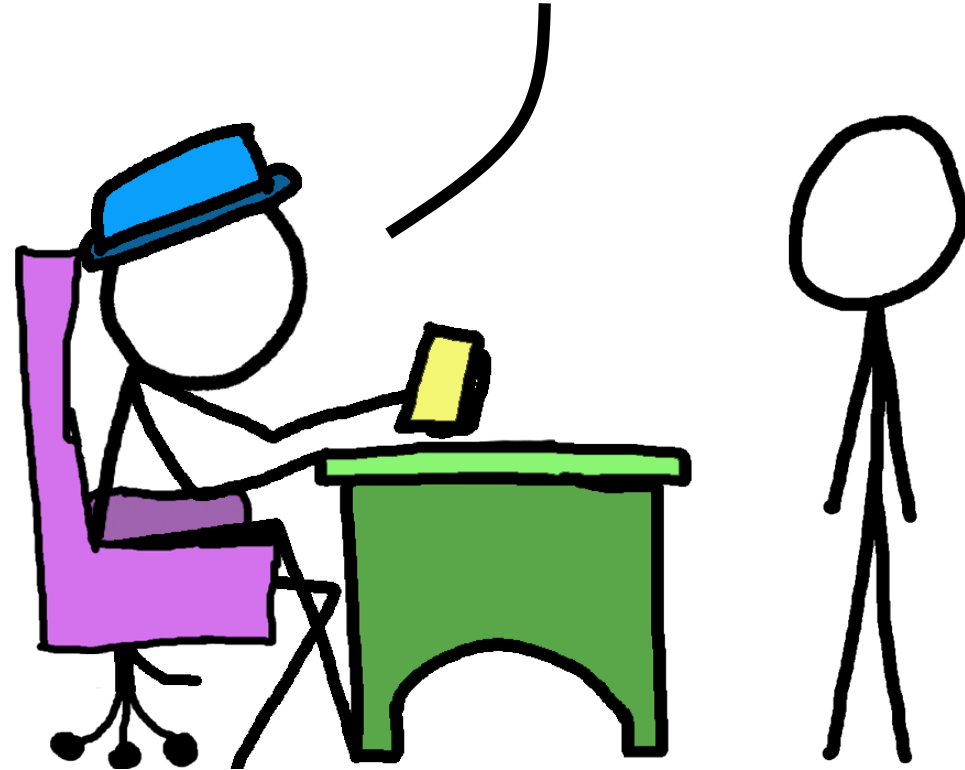
Common Objections

WE'RE NOT SET UP TO BUY THAT WAY



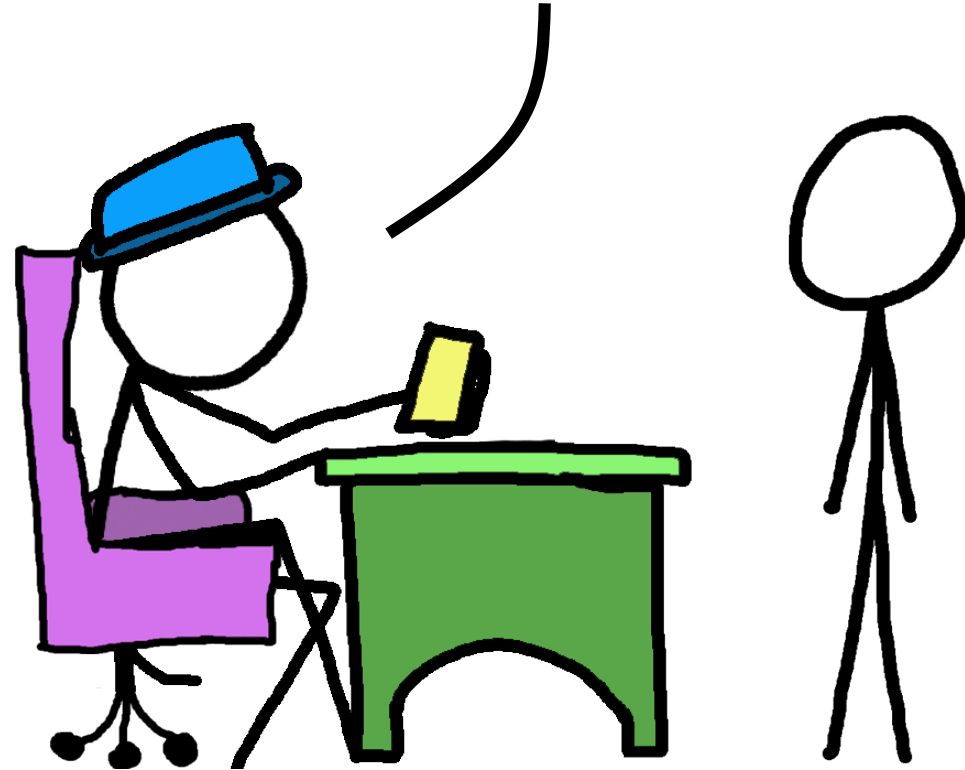
Common Objections

OKAY, BUT CAN WE SEE YOUR RATES?



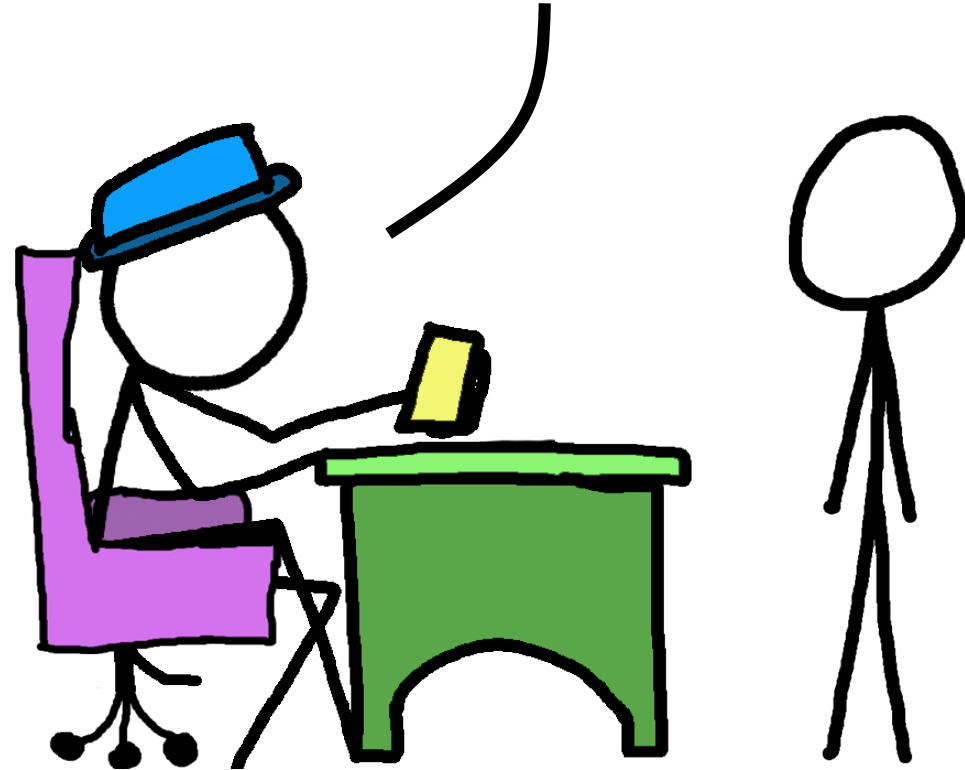
Common Objections

WHAT IF IT TAKES MUCH LESS TIME THAN YOU THINK?



Common Objections

THIS IS JUST A WAY FOR YOU TO MAKE MORE MONEY



Converting Existing Clients

- Prioritize
- Judge downsides
- Give them the opportunity
- New offerings = new opportunities
 - You must create new value basis

Success Fees – Keys to Success

- Use hybrid fee structure – no more than 50% at risk
- Agree up front on how exogenous factors will be handled
 - If you can't get a bead on this, don't do success fees
- Responsibilities on both sides
- Valid, leading indicators
 - Lagging indicators involve more exogenous noise and delay payment (which increases cost on both sides)
 - Use metrics that are clear and indisputable.
- Set up performance hurdles rather than a linear scale
 - The best hurdles are action standards

THANK YOU!





Joseph Kornik
Publisher and
Editor-in-Chief
*Consulting
magazine*

Q&A with Tom Rodenhauser



Tom Rodenhauser
General Manager, ALM
Intelligence
*Managing Director, Advisory
Services*

Alternative Billing Arrangements





80% of our engagements are fixed fee; however, West Monroe continues to increase our use of alternative billing structures

Approach	Brief Description
Success Fee	Additional fee collected if stated conditions are met
Contingency Fee	Fees calculated based on potential revenues/savings
Rebate/Credit	Rebate or credit applied to future work based on fees incurred

**It is also common to combine one or more of the above approaches
For example, combining a success fee with a rebate/credit.**



Success fee example: additional fee collected if stated conditions are met

SCENARIO:

Healthcare client requested WMP to lead response to RFP for a multi-million dollar contract

Contract	Success Fee #1	Success Fee #2
Complete RFP Response \$ Contract priced at cost	Complete RFP response by defined due date \$ Additional fees resulting in ~20% margin increase	Client being awarded the work \$ Additional fees resulting in ~40% margin increase

Outcome: WMP completed the work successfully and on time and obtained the first success fee. However, the client did not win the RFP and therefore WMP did not collect success fee #2

Success fee: additional fee collected if stated conditions are met



PROS

- ◆ Mutual incentive for success
- ◆ Increased visibility



CONS

- ◆ Risk that revenues/savings not realized
- ◆ Delayed payment



WHEN TO USE

- ◆ Clear success measure
- ◆ Client able & willing to meet their roles/requirements



BEST PRACTICES

- ◆ Identify specific criteria
- ◆ Include assumptions if conditions prevent success



KEY CLIENT DRIVERS

- ◆ Low risk
- ◆ Fees paid only increase when value realized



Contingency fee example: fees calculated based on potential revenues/savings

SCENARIO:

WMP created a 'robot' to perform financial operational transactional tasks currently being performed by the client's employees.

Contract

- ◆ Proposal included estimated savings
- ◆ KPI dashboard to report results

\$ At completion of implementation, client only to pay WMP expenses

Contingency Fees

- ◆ WMP receives 10% of client savings per transaction completed for first 2 years post-implementation

\$ Target margin based on low estimate of savings

Alternative: Propose to decrease WMP's percentage if client increases the number of 'robots' created.

Contingency fee: fees calculated based on potential revenues/savings



PROS

- ◆ Potential for significant financial gain
- ◆ Value-based consulting



CONS

- ◆ Risk that revenues/savings not realized
- ◆ Process/tool needs to be maintained and supported



WHEN TO USE

- ◆ Ability to estimate potential revenues/savings
- ◆ Ability to quantify results and baseline



BEST PRACTICES

- ◆ Plan for support and maintenance
- ◆ Identify and quantify potential barriers and account for them in pricing



KEY CLIENT DRIVERS

- ◆ Low risk
- ◆ Fees paid only increase when value realized



Rebate/credit example: rebate or credit applied to future work based on fees incurred

SCENARIO:

Energy and utility client receives service fee credits based on total aggregated fees.

Contract

- ◆ Rebate schedule included in master service agreement
- ◆ Credit percentage increases with total fees
- ◆ Rate card also included

Rebate/Credit

- ◆ Credits expire the end of the following calendar year
- ◆ Applies to new contracts only



Yearly client planning includes planning for credits

2018: WMP has averaged credits of approximately \$300k that were applied to over \$8M of future work

Rebate/credit: rebate or credit applied to future work based on fees incurred



PROS

- ◆ Incentivizes client to leverage WMP for additional services
- ◆ Easier negotiations



CONS

- ◆ Tracking and planning of credits must be included to avoid negative financial impacts to the firm for 'free' work.



WHEN TO USE

- ◆ Clients with larger volume of work



BEST PRACTICES

- ◆ Do not cut the client a check
- ◆ Analyze and report on credits quarterly to reduce administrative efforts



KEY CLIENT DRIVERS

- ◆ Low risk
- ◆ Ability to recognize savings and additional discount
- ◆ Increase ease of negotiations and contracting process

Considerations to leveraging alternative billings structures

Prior to talking to your client

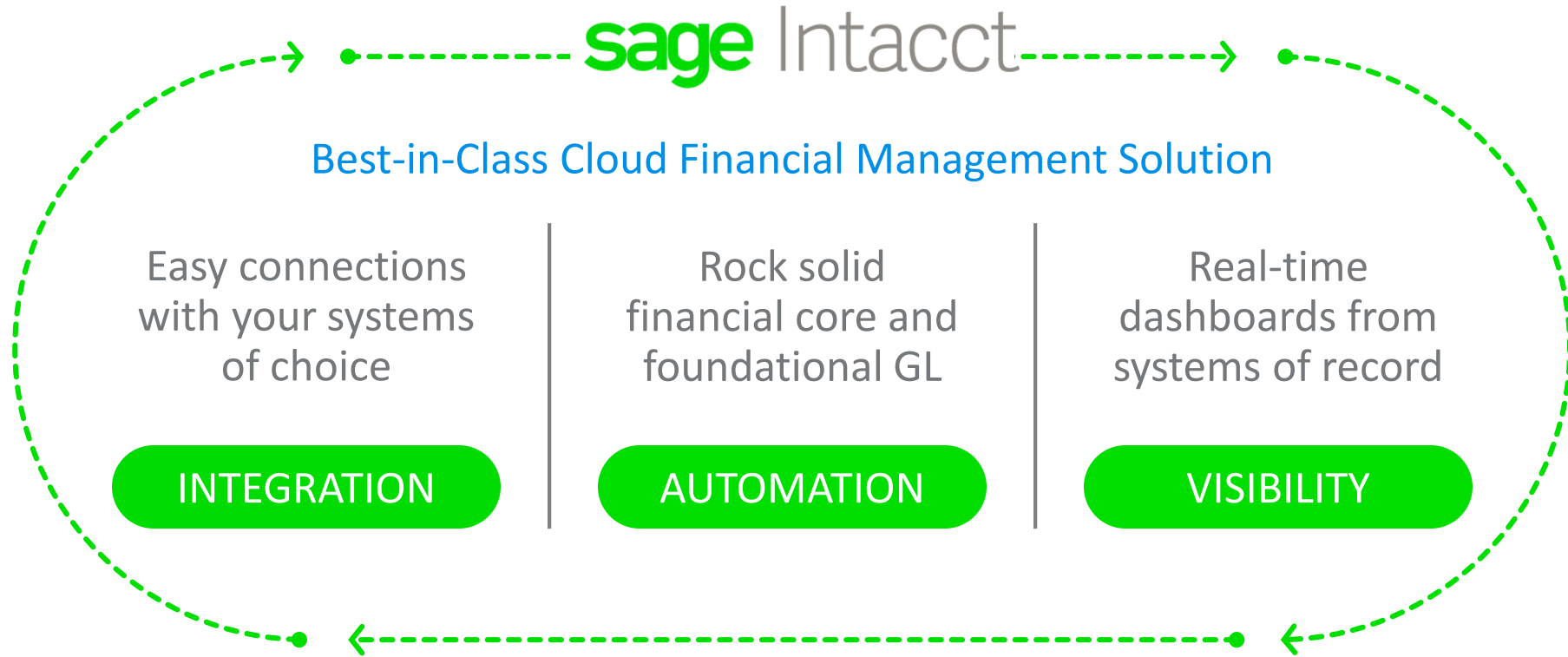
- ◆ What is the value to the client?
- ◆ Is this a new client, existing client, key account...?
- ◆ Have we done this work before?
- ◆ Is this a competitive bid?
- ◆ What is our ability to influence success?



Talking to your client

- ◆ Do they have budget considerations or limitations?
- ◆ Have they used alternative billing structures in the past?
- ◆ What is the value they are receiving from the proposed work?
- ◆ What risks does the client perceive?

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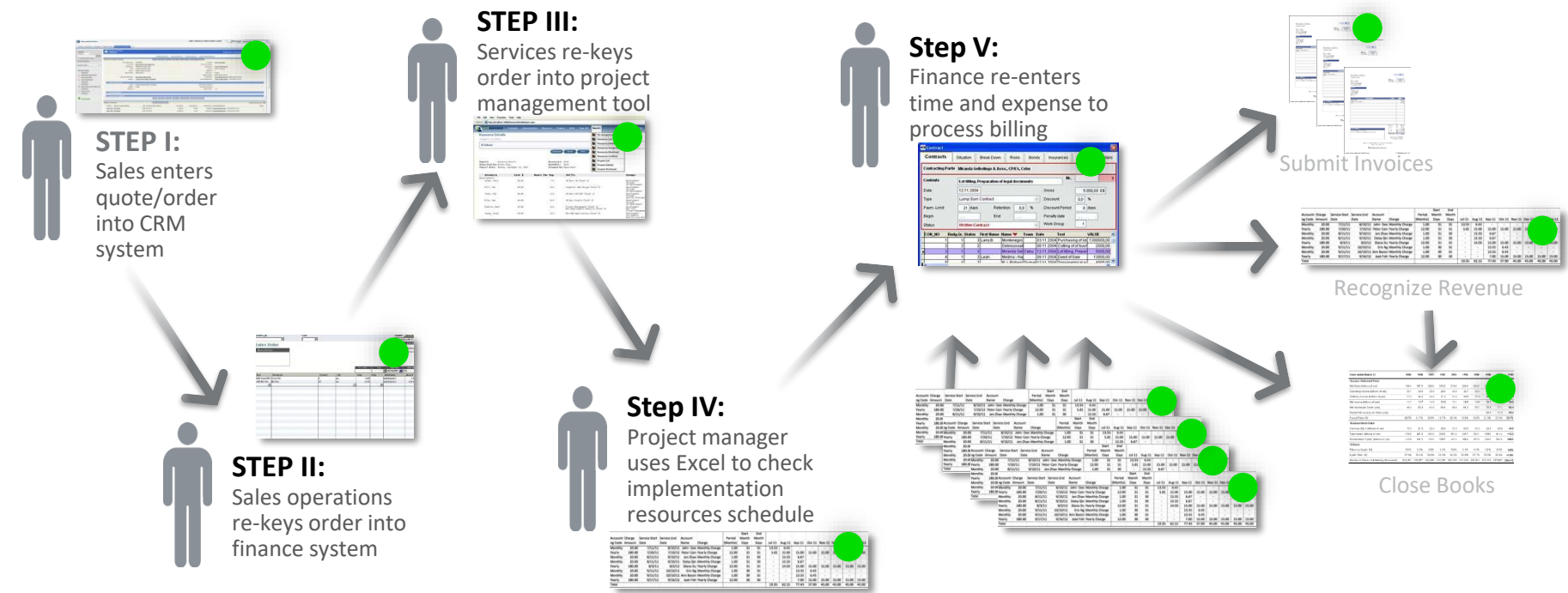


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Status Quo- Bid to Bill Lifecycle

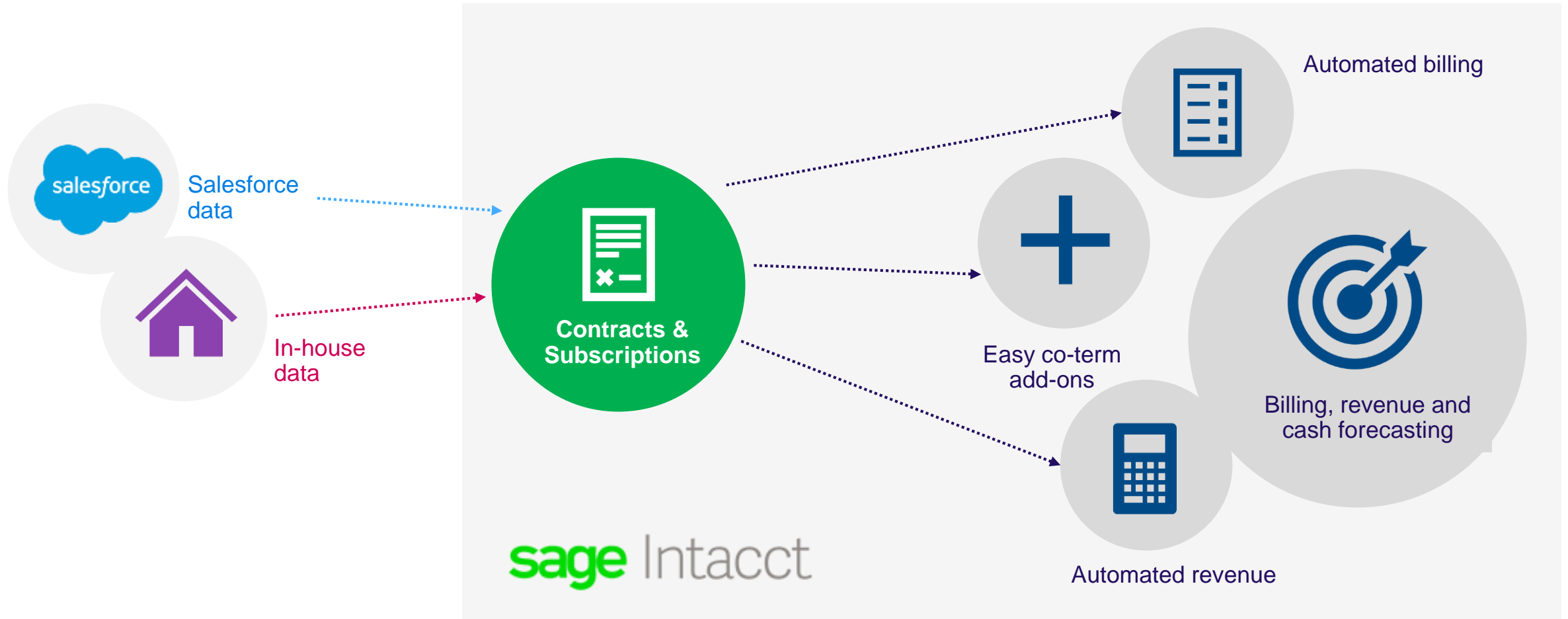


More Customers ✕ More Projects ✕ More Resources ✕ More Locations

Increased Cost Lack Visibility Lack Control Lower Profitability

Automate the Contracts-to-Cash Process

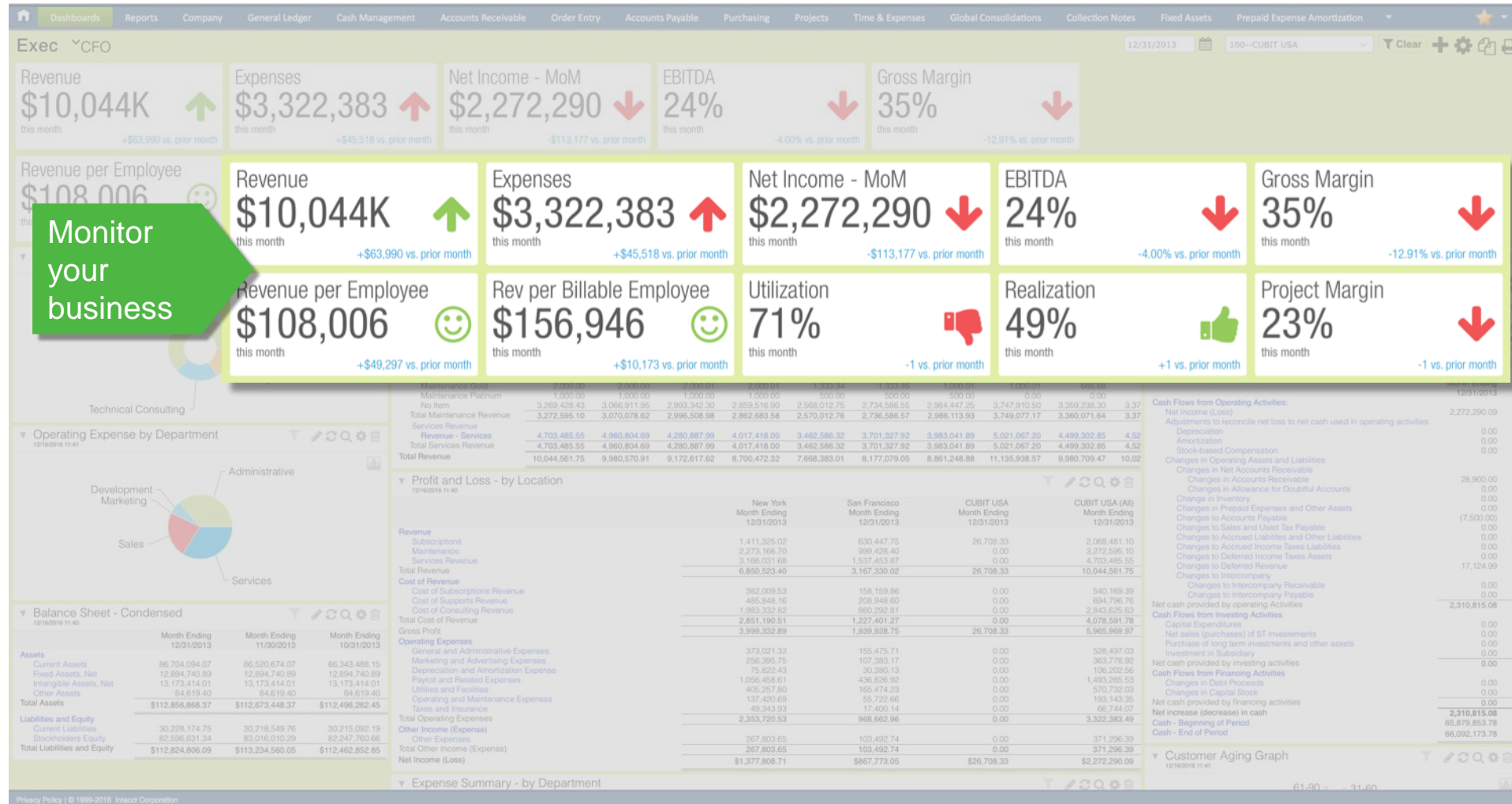
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Handle scale and complexity
with sophisticated revenue lifecycle management, forecasting and metrics

CFO Dashboard

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Questions? Ask now!



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THANK YOU FOR ATTENDING—

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