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PRICING & BILLING RATES UP OR DOWN?

WORKING WITH NEW CONTACTS

WHEN HELPING CLIENTS CAN COST

AND REAL-WORLD BUSINESS ADVICE

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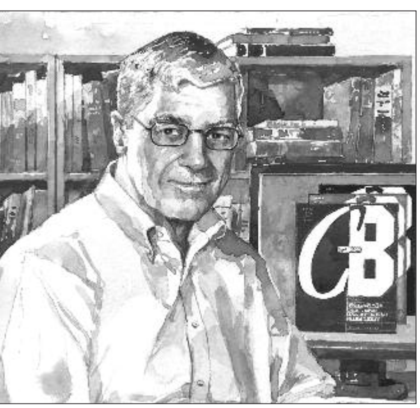
CHANGES IN PRICING, NEW RELATIONSHIPS & LIMITS ON HELPING CLIENTS

Pricing may not be the most important thing in business success, but there's no denying it's existential. Charge too much and you won't have any clients; charge too little and you won't be able to stay ahead of your costs.

So the million-dollar question always is: what's the right number? That's where things start to get complicated. Every project and client being different, we won't attempt to tell you when it comes to a specific piece or program.

What we can tell you, though, is whether the average pricing among businesses of your size is higher or lower than previously, based on reported revenue changes. Also, what their average billing rate is.

That's what you'll find in the first article in this issue. It reports on CB's Pricing and Billing Rate Survey of December 2015. It's the latest of those going back several decades, which gives it some context.



Candor among peers on the subject of pricing is not exactly common, so the report should help you get a better fix of how well you're doing relative to others as you begin 2016.

Survey weariness is a personal concern of mine. The high rate of response on this one helped reassure me, as did an unreported question where 92% responded that they found CB's helpful.

Getting back to the subject of what's important to your business, individual relationships can be even more so than pricing. Everything is easier when you connect with someone who likes you, and whom you like as well.

Unfortunately, special relationships are a blessing that's becoming less common. Client staffing has never been more volatile, particularly among fast-growing, profitable clients.

Avoiding the disruption and potential business loss that nearly always happens when special relationships end is the subject of this issue's second article, beginning on page 5.

While you can't affect client changes, you can prepare for when it happens, which will be sooner or later. It involves making your contributions more widely known beforehand, recognizing the need by individuals taking on new responsibilities to do things their own way, and finding ways to adapt your procedures to make them more comfortable and productive.

In short, to assure your new contact, and her or his boss, that continuing to work with you will minimize the learning curve, as well as avoid any need to look elsewhere to make their mark on their new position.

The third article in this issue, beginning on page 8, is about handling one of those awkward situations that sometimes come up. To wit: responding to a client's request to help them take away some of what you do, and the income associated with it. Here too this is something most of us encounter sooner or later.

Six common situations are described, along with tactful responses.

As always, leavening this issue are three pages of varied advice provided to subscribers. If you haven't taken advantage of this free service (well, actually it's included in your subscription price), remember it next time you have a business situation you'd like someone else's input on. Use this link: www.creativebusiness.com/advice.lasso.

Best wishes for an enjoyable and profitable 2016.

Cam Foote

To rate the content of this issue use this link: https://survey.zohopublic.com/zs/CxiHRo.

Creative Business

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REVENUE TRENDING:

Pricing and billing rates: up, down, or little change?

Unless you're new to the business or returning from an extended sabbatical, you're no doubt aware that the last eight years haven't been "what they used to be"—conditions that existed before the recession that began in 2008.

Early that year, clients' budgets started to decline and new business to dry up. The years immediately following were marked by a need to cut back and lower prices, with some firms having to throw in the towel.

By the fall of 2011 business was off substantially. A CB survey conducted that summer, and published in our September/October 2011 issue, showed prices to be down by an average of 25%, when compared to a survey we'd conducted in 2007. Since 2011, business conditions have improved, most notably through new opportunities in digital media.

Nonetheless, a CB survey in March 2015 showed that while 38% of respondents considered business to be better than when they started out, 44% said it was worse. (For 18% it was "about the same.")

The current state of pricing, however, hasn't been queried for five years. Is it improving, and if so how rapidly? Or have prices become stable?

To find out, last month (December 2015) we conducted a survey of the pricing trend and representative billing rates. Principals of approximately 3,000 established single- and multi-person North American firms were contacted. The results reported here are from the roughly 250 (8%) of principals of all size firms who responded.

PUTTING SURVEY RESULTS IN CONTEXT

Before looking at our survey findings, it will help to review the role pricing plays in the scheme of things, as well as the major factors affecting it.

Pricing's significance. As we've all experienced, pricing often plays a crucial role in landing or losing business. It's certainly a factor in prosperity as well. But it's also not the only thing, or often even the most important thing. Fortunately, creative firms don't operate in a Walmart vs. Amazon environment, even though it may occasionally feel that way.

Many factors other than pricing are important to long-term success.

Business size. Generally speaking, larger firms are favored by larger clients, which are less sensitive to pricing and have budgets less likely to be severly impacted by economic conditions.

Not all size firms are affected equally, making comparisons most valid between those that are similar.

Business location. Although it has less effect than generally thought, pricing in major markets could be 10% higher than national averages; in smaller markets 10% to 15% lower. Because prices and salaries are closely related, a rough idea of market differences can be seen by comparing employee salaries.

Comparing local salaries to those in selected other markets, such as reported by www.designsalaries.com and other sources, can also indicate pricing differences.

Prospects' awareness. The more they know about a firm's talent, experience, resources, and so forth the less sensitive they'll be about what it charges. Awareness is, of course, related to size and activity, but it can also be created through regular and consistent marketing contact.

Firms with aggressive marketing programs will be able to charge more than others of their size.

Expense reduction. When pricing is lower and income goes down, so, of course, should expenses. Not as well appreciated is that it's never a one-for-one tradeoff. It is even possible to end up better off when expenses can be reduced substantially.

One dollar saved in expenses typically makes up for several dollars of lost income.

Circumstances. Some businesses thrive when things are bad; some fail when things are good. Some locations, industries, and specialities are upward trending, some downward.

Good fortune in business is a combination of being in the right place, and how well you adapt to the conditions you face.

Pricing is up overall, but average take-home has not reached pre-2008 levels

PRICES AND INFLATION

A report on pricing would be incomplete if it didn't also take into account the effect of business *costs*. Many of these are specific to a firm and can't be generalized. But a significant one—the effect of inflation on costs—can be.

The inflation rate in the United States as this is written is a little less than 2% annually. (It might be more or less in some locations and countries.)

All else being equal, if this rate continues it means a firm billing $100 today would have to bill $102 in January 2017 to stay financially even.

Of significance here is that the cumulative inflation for the five years covered by the survey was 5.7%. This means that an invoice of $100 in 2011 would have had to be $105.75 during 2015 to provide equal purchasing power. For the actual effect during this period, see "Prices" on page 4.

BILLING RATES

Their significance in the survey is not only their obvious impact on revenue, but also because billing rates provide a better indicator of the effect on profitability.

As labor-intensive businesses, the only way for creative firms to track profitability with any certainty is to relate the time required to complete an activity to the hourly cost of providing it. Anything else—what clients can afford, what competitors are charging, and so forth—will be hit or miss.

This equation—hourly rate x labor hours—need not necessarily determine project pricing to the client. But it does indicate what should be charged every hour if the work is to be profitable.

When conditions warrant, or there's a value or usage component to consider, the price can be increased knowing that profit will increase proportionately. Conversely, a price can be lowered, as might be desired for a promotional or portfolio opportunity, knowing just how much doing so will cost.

Billing rates also provide a justifiable basis for pricing unanticipated changes or additional services. And they are the only way to bill open-ended or "meter-running" projects.

Assumed versus actual rates. Prices charged clients (invoiced) are often less than what should have been charged using the firm's billing rate. Work hours go unbilled because of lax timekeeping, a desire to please a client, or a need to stick to an estimate despite time overages.

Whatever the cause, the result is that a firm's *actual or realized* billing rate often turn out to be substantially lower than what's assumed. Survey respondents were asked to report only realized billing rates (invoiced $ divided by work hours).

Single versus multiple billing rates. To keep things simple, the survey did not consider multiple billing rates. They are still common only among larger firms with a wide range of salaries and expenses.

SURVEY QUESTIONS

Respondents were asked three questions, two on prices (fees) compared to five and one year ago, and one on their current realized or actual hourly billing rate.

While survey responses were from creative firms of all types, the majority define their businesses as graphic design or web design.

Responses were in six categories to compensate for the effect of size: 38% reported annual gross revenue of $100k or less; 28% $100k to $250k; 14% $250k to $500k; 10% $500k to $1m; 6% $1m to $2.5m; 4% more than $2.5m.

FIRMS WITH REVENUE OF $100k OR LESS

These firms are nearly always single-person, home-based businesses, and often not the most important source of household income. Clients are most likely budget-focused small businesses.

Prices compared to 2011.

Up more than 10%	26%
Up less than 10%	5%
About the same	46%
Down less than 10%	10%
Down more than 10%	8%
Not in business	5%

Prices compared to 2014.

Up more than 10%	20%
Up less than 10%	8%
About the same	52%
Down less than 10%	8%
Down more than 10%	9%
Not in business	3%

Average billing rates.

	2011	**2015**
<$100	67%	65%
$100	18%	20%
$125+	15%	9%
$150	*	6%
$175	*	**
$200	*	**
$225	*	**
$250>	*	**

+Rates of $125 or more were not differentiated in 2011.

FIRMS WITH REVENUE OF $100k TO $250k

Small firms with this level of income typically have become established businesses, and have the expenses that accompany it. Higher billing rates point to the need to cover higher costs.

Prices compared to 2011.

Up more than 10%	44%
Up less than 10%	19%
About the same	24%
Down less than 10%	8%
Down more than 10%	5%
Not in business	**

Prices compared to 2014.

Up more than 10%	20%
Up less than 10%	19%
About the same	51%
Down less than 10%	3%
Down more than 10%	7%
Not in business	**

Average billing rates.

	2011	**2015**
<$100	45%	16%
$100	35%	25%
$125+	20%	36%
$150	*	23%
$175	*	**
$200	*	**
$225	*	**
$250>	*	**

Rates of $125 or more were not differentiated in 2011.

FIRMS WITH REVENUE OF $250k TO $500K

Firms of this size are typically two to five persons. With increasing size not only comes increasing overhead costs, but also a greater need to cover capital expenses.

Prices compared to 2011.

Up more than 10%	40%
Up less than 10%	13%
About the same	20%
Down less than 10%	6%
Down more than 10%	13%
Not in business	8%

Prices compared to 2014.

Up more than 10%	7%
Up less than 10%	20%
About the same	53%
Down less than 10%	6%
Down more than 10%	13%
Not in business	1%

Average billing rates.

	2011	**2015**
<$100	20%	15%
$100	35%	45%
$125+	45%	23%
$150	*	14%
$175	*	3%
$200	*	**
$225	*	**
$250>	*	**

+Rates of $125 or more were not differentiated in 2011.

FIRMS WITH REVENUE OF $500k To $1.5m

Firms big enough to have professional salespersons can mount a more consistent marketing effort. In turn this attracts larger, better-budgeted clients and permits higher billing rates. Clients are also less inclined to quibble over pricing when it appears to be carefully prepared.

Prices compared to 2011.

Up more than 10%	41%
Up less than 10%	9%
About the same	41%
Down less than 10%	9%
Down more than 10%	**
Not in business	**

Prices compared to 2014.

Up more than 10%	33%
Up less than 10%	9%
About the same	50%
Down less than 10%	8%
Down more than 10%	**
Not in business	**

Average billing rates.

	2011	**2015**
<$100	10%	**
$100	30%	28%
$125+	60%	50%
$150	*	18%
$175	*	4%
$200	*	**
$225	*	**
$250>	*	**

+Rates of $125 or more were not differentiated in 2011.

FIRMS WITH REVENUE OF $1.5m to $2.5m

As firms get bigger, expenses rise, often disproportionately to workplace volume. This necessi-

10%† average price increase in the last year, 25%† over the last five years

*2011 survey did not offer this choice.
**Too few responses for an accurate representation.
†All increases minus all decreases with "About the same" responses not counted.

tates adopting more efficient estimating and production procedures, and increasing billing rates. Fortunately, the more complex projects from larger clients usually make higher pricing possible.

Prices compared to 2011.

Up more than 10%	20%
Up less than 10%	23%
About the same	20%
Down less than 10%	37%
Down more than 10%	**
Not in business	**

Prices compared to 2014.

Up more than 10%	21%
Up less than 10%	19%
About the same	42%
Down less than 10%	18%
Down more than 10%	**
Not in business	**

Average billing rates.

	2011	2015
<$100	8%	**
$100	20%	10%
$125+	72%	40%
$150	*	18%
$175	*	22%
$200	*	10%
$225	*	**
$250>	*	**

+Rates of $125 or more were not differentiated in 2011.

$125/$150 rates most common, those under $100 of questionable profitability

FIRMS WITH REVENUE OF MORE THAN $2.5m

Up to a point, size clearly has an impact on a firm's average rates. A large firm can charge more because projects are more complex, and clients are better heeled. But when income exceeds a couple million $, it typically has little effect. Of particular note here is the percent of firms billing $175 and $200.

Prices compared to 2011.

Up more than 10%	41%
Up less than 10%	19%
About the same	27%
Down less than 10%	6%
Down more than 10%	7%
Not in business	**

Prices compared to 2014.

Up more than 10%	10%
Up less than 10%	14%
About the same	66%
Down less than 10%	**
Down more than 10%	10%
Not in business	**

Average billing rates.

	2011	2015
<$100	5%	**
$100	15%	6%
$125+	80%	17%
$150	*	34%
$175	*	33%
$200	*	10%
$225	*	**
$250>	*	**

+Rates of $125 or more were not differentiated in 2011.

SURVEY INTERPRETATION

Earlier CB surveys indicate that the recession that began in late 2007 bottomed-out for creative firms in 2011. Business has been increasing ever since.

Prices. As covered previously (see "Prices and Inflation" on page 2), getting ahead financially, or at least not falling behind, requires prices to increase at the rate of inflation or higher. From 2014 to 2015, this would mean an increase of at least 2%; from 2011 to 2015 of at least 5.7%. (Actually, the increase needed is in revenue, but for our purposes pricing is the same.)

Although the survey data is not detailed enough to provide specific numbers, the averages for firms of most sizes exceeded inflation from 2011 to 2015. Even when a firm's pricing turned out to be no more than 10% higher, it would have beaten inflation by nearly 4%.

For instance, among $100k/$250k firms close to 63% (44% and a portion of 19%) beat inflation. This, compared to a total of 37% not keeping up with it. Numbers are similar for firms of other sizes. The major exception is firms with revenue of less than $100k, where the average increase in prices from 2011 to 2015 (31% higher and 64% the same or lower) indicates a substantial net loss against inflation. (Example: a firm's 2015 pricing that was 12% lower than in 2011 would have been 17.5% worse off.)

From 2014 to 2015, fewer firms of all sizes have been getting ahead by pricing increases that outpace the current inflation rate of 2%. But price adjustments often lag before catching up with costs.

Although not conclusive, the survey and anecdotal evidence indicates that while pricing is up overall, the average take-away has not yet reached pre-2008 levels.

Billing rates. On average, only firms with revenue of $100k or less haven't raised rates since 2011, although under $100 wasn't broken down. Indeed, the slight increase shown in revenue probably indicates more effort at the same prices.

Whatever the cause, it's increasingly difficult for even home based, single-person firms to build sustainable businesses billing less than $100 an hour, CB's recommended minimum. Firms that get by charging less typically do so by avoiding normal business expenses that are necessary for long-term stability.

Firms of all other sizes averaged increased billing rates *and* prices since 2011. This combination, amounting to more money for less effort, is also shorthand for more profit, the true measure of prosperity. (Profit wasn't surveyed because there's no single measure for small, privately held firms.) **CB**

*2011 survey did not offer this choice.
**Too few responses for an accurate representation.

REBOOTING A RELATIONSHIP:

Long-time client. New contact. Can you keep the business?

Good relationships create good work. On the highest level, it's the way two organizations partner-up to produce innovative, effective results. On the everyday level, it often comes down to two individuals—how well you or yours work with one of theirs.

Put yourself in this situation: A long-time client contact announces she'll be leaving the company. After comments about how much she's enjoyed working with you, she promises to brief her replacement. But she also comments that, after meeting with him, she believes he will "probably want to do things a little differently."

What's next? Well, what you shouldn't do is trust to luck. So what should you do to keep the business?

NOTHING'S PERMANENT

Working with good client personnel makes it easy to forget that the relationships you enjoy are at best only temporary. Sooner or later they come to an end as times change and individuals move on. It's something to expect, and prepare for.

Having to deal regularly with new contact persons is more the norm than the exception these days. It's especially so in young, fast-growing organizations, the type with money to spend. Just when you feel you've learned to work with (or trained) someone, she or he moves on, necessitating starting all over.

The risk of losing some or all of a client's business is particularly problematic when a high percentage of your income is tied to it, as is often the case when a strong personal relationship has built up over the years.

UNDERSTANDING THE NEW CONTACT'S PERSPECTIVE

In any selling situation, and this surely qualifies, it helps to know where your prospect is coming from.

As anxious as you might be about future relations with the new person, he is at least as anxious about taking over his new responsibilities. A great deal—peer respect, raises, and promotions—is riding on his performance. The pressure can be especially stressful when he is also replacing an individual who is well liked, and has performed well—the proverbial tough act to follow.

If he's smart, he'll recognize that it's crucial to quickly establish that he's "his own man," decisive and in control. Among other things, this will probably mean making changes; not only to fit his own style and plans, but to demonstrate decisiveness to his new boss as well.

He'll also recognize that the longer he waits to make any changes, the less decisive he'll appear, and the more difficult they'll be. Anyone moving into a new job has a couple months' honeymoon period when things will be easier to accomplish than later.

And because he's in an unfamiliar situation, he'll probably prefer to work with as many trusted individuals from the past as possible, his "team."

None of this is reassuring to current suppliers like you, but it is reality nonetheless. To ignore it will only hamper efforts to work around it.

Fortunately, there are two other realities as well. One is the probable constraint on making quick or unilateral changes, particularly in large organizations. Even more important is that individuals moving into a new job can often use some help. This is especially true should they be unfamiliar with the processes and techniques necessary to effectively purchase creative services.

YOUR STRATEGY

It should be helping "the new person" get acclimated any way possible. It also means convincing him that you're capable and willing to work his way, whatever that might require.

Be genuine and don't cross the line into obsequiousness when offering help. And be careful not to get drawn into criticizing former procedures, or work. If pressed, dodge the subject by saying something like, "Well, this isn't what I would have preferred. But there were many considerations I'm not aware of. So I don't think it would be fair for me to comment."

Criticism or opinions are risky because you don't know him well enough yet to know where his tastes, interests, and loyalties lie. Moreover, it's doubtful any comments would be effective in winning him over anyway. If it turns out he's really unhappy with what he is inheriting, it's unlikely he would want to keep existing suppliers anyway.

YOUR ACTION PLAN

Don't wait until your new contact gets established to win him over. By then he'll probably have contacted others he's worked with previously, probably to your exclusion.

Check him out. As soon as you know the name of the new individual, search LinkedIn.com to find out more about his background. Personal "profiles" provide insight into what might be expected, as well as any mutual connections and experiences that could be helpful.

Making contact. Once an announcement has been made, send a message: "Congratulations on joining…. I'm looking forward to meeting and working with you." If you can't send it through LinkedIn, ask your current contact for the client e-mail address he'll be using.

As self-serving as sending a message obviously is, it will make a positive impression, and ensure that you'll be remembered. Chances are, you'll be one of the few suppliers who will think to do it. (A handwritten note, sent by mail, could have an even greater impact.)

Getting acquainted. Ask your current contact to set up an introduction meeting as soon as he's settled in and before she leaves. The purpose is to help bring him up to speed on any ongoing projects, and to make future project move smoothly. Also, when appropriate, to provide a little insight on how to get the best, and least costly, work out of organizations like yours.

Where a lot of business hangs in the balance, see whether the meeting can be over breakfast at a nearby hotel. Breakfast is preferable to lunch because it has the advantage of being away from the office, is easier to fit in to busy schedules, and is probably more suitable to the situation. A breakfast meeting in a first class business hotel also makes a strong statement about professionalism, and sophistication as well.

Another alternative is to have the get-acquainted meeting in your own office. Be sensitive, however, that this could appear to be overreaching. (See "The Presentation" below.)

Wherever the get-acquainted meeting is held, don't use it to try to sell. This isn't the time. It will only conflict with its real purpose—establishing a rapport. Answer questions as they come up, but defer most discussion of your firm's capabilities to a future meeting—one which you will later schedule to show the full depth and breadth of your firm's capabilities.

The key to keeping the business is helping them adapt to their new job

Saying goodbye. Shortly before or after your current contact leaves, ask her out for goodbye lunch. Express again your disappointment that you'll no longer be working together, and, when suitable, your congratulations on having moved up the ladder.

Keep things social, the only business discussion being about the new exciting opportunity she's leaving for. Even if she's moving to what could be a potential new client, don't pitch her for new business. If there's a potential, and she likes you, it will happen by itself.

Also, don't show any concern about working with the new person. Should the subject come up, downplay it. Leave her with the impression that your business is strong enough to weather occasional disruptions.

THE PRESENTATION

Now step back and give your new client contact a chance to settle in. Continue with business as usual. Work on any ongoing projects or new ones that come along.

After several weeks, call to see about setting up a meeting to introduce all your firm's capabilities, discuss its procedures, and show what's been accomplished for other clients. If your facilities are impressive, see whether the meeting can be held there.

Similar to a referral pitch. Give the same type of presentation you'd give to a new referral prospect. That is, one that acknowledges that you come recommended, but where a prospect is unfamiliar with much of your work and experience. Also, where concerns of compatibility may be of equal interest.

Highly adaptable. Given what your new contact will most likely be looking for, the underlying theme running through the presentation should be this: consummate professionalism with the talent, experience, and desire to produce whatever he wants.

Addressing concerns. It's better to address any issues the new contact might have about your work now, rather than have them go unanswered and produce a stealth effect on any future work.

If he should see something he doesn't like, reassure him that it was done to please the client. (Excepting, of course, your own promotional material.)

This approach doesn't mean that you don't have your own opinions on what clients should do. Indeed, say that they are always stated, often quite forcefully, in the development process. But at the end of the day, you do what your clients desire, and you do it willingly.

To further enhance this point, try to relate one or two situations where there was lively back and forth exchanges between you and a client, and the work benefitted from it.

No favoritism. As important as personal chemistry might have been in the past, it's crucial to imply that it was supplementary to, and not the primary reason for, your previous relationship. That is, that the quality of your work and service is what drove the relationship.

If not convinced, he will almost surely be tougher on pricing, or wish to renegotiate agreements in the future. Ending possible "sweetheart arrangements" (being tougher on suppliers) can be a good career move, and a way to justify opening the door to others (more competition). The more he is different and aggressive than his predecessor, the more he will be inclined in this direction. Make it difficult by preempting the very thought.

No learning curve. If the new guy is trying to get up to speed, he'll be reluctant to deal with bringing in a new supplier. Your firm, having the benefit of insider knowledge, can be more productive, much faster. This often leads directly to lower prices. Even when it doesn't, it leads to greater value, better results for whatever money is spent.

Still more important to most individuals is internal time saving. When beginning a new project you won't have to ask as many questions, and you'll know where to go to get the right answers. This translates to fewer meetings, and a better chance of "getting it right the first time."

Your background allows as much or little involvement as desired, a considerable advantage to anyone wrestling with bringing the many demands of a new position under control.

What you can see is not all you can get. Finally, address any desires your new contact has about doing something different. While you are proud of what you've done for the organization in the past, these efforts were, as they should be, guided by the preferences of his predecessor.

Should he want to try something different, you're very capable of providing a variety of different strategic and creative approaches, as evidenced by the variety of work you've done for other clients, shown in your portfolio.

You recognize that "everyone rides a horse differently," and are willing, indeed excited, about the possibility of exploring new directions. Variety is, after all, a creative aphrodisiac.

If suitable, indicate that you are also open to assigning a different team to the account to help stimulate new thinking.

In closing, make sure this is clear: there's no need to hire someone else if he's looking for different strategies and creative approaches. You can provide them without also jeopardizing the many benefits that come from maintaining continuity.

By leaving the business with you, the learning curve will be minimized

FACING REALITY

You've done your best to minimize the effects of someone new replacing a valued contact. Whatever happens now is in the hands of fate.

Recognizing chemistry. Despite your presentation pitch about the importance of experience, when it comes right down to it many business relationships are based primarily on personal chemistry. And just as there is good chemistry, there can be bad.

The new contact may be perfectly rational and pleasant to someone else, but have a personality and style that's poles opposite yours. When such is the case, the answer to maintaining the client relationship might be as simple as finding someone else to handle the business internally. If that's not possible, it's best to walk away with no hard feelings.

Going over his head. What about appealing to the new person's boss if you end up losing the business, or he makes your life miserable? Particularly if you know the boss and she likes you.

Sometimes it might help, but more often it won't. It will just look like "sour grapes." Bear in mind that you are an outsider, and that supervisors must support their employees unless there's overwhelming evidence of malfeasance. The new person might also have other qualities that make him hard to overrule or reprimand. He could, for instance, be actually carrying out orders, acting as a corporate "hatchet man," or be the president's favorite nephew.

Only when you get summarily fired, or a new contact becomes the client from hell, should you ever consider going over their head. If you do, be careful to restrict all comments to the negative impact on the organization. Avoid any emotion. Stick to the facts.

Even so, recognize that there might be a one in four chance of getting things back to where they once were. Otherwise, about all you can hope for is someone inside the organization ultimately recognizing the problem and making a change.

Benefit from the experience. Sometimes, particularly when too much of your business is in the hands of one individual, losing it could well be a blessing in disguise. Even if you manage to keep the business, the close call should act as a wake up signal.

CB

What to say when helping a client will hurt your business

"Could you help us take away some of your livelihood?" You'll never get a request phrased quite like that from a client, of course. But some requests you could get would amount to the same thing.

Requests that aren't in the best interests of your business can come in several forms. Whatever form they take, however, the result will be the same: less or no future work from what had been a good source. How to tactfully respond? Can the business be saved?

IS THEIR BUSINESS REALLY WORTH SAVING?

The potential loss of any business always hurts—sometimes as much for personal as financial reasons. But whether to try to save it should be nothing less than a rational business decision. Some clients and projects are worth more than others, and the difference isn't always measured in workload or income.

So when questionable situations arise, first ask yourself a few questions. How profitable has their work been? How easy have they been to deal with? Does their business provide a path to additional opportunities? Are there portfolio-building, promotional, or positioning benefits? Does the work provide needed experience?

A positive response to any of the above usually suggests making a reasonable rescue effort. On the other hand, trying to save business just to prevent losing it—the ego motivation—is foolhardy. Further, whether a client's decision is actually in their best interests should be immaterial—except, that is, when it's also in yours.

Our suggestions for addressing six of the most common situations follow.

SITUATION #1: MOVING WORK IN-HOUSE

Occasionally, a client wants to take over work that you've been handling. Often it's due to a need for faster response, confidentiality, or having greater control. It's a rational response to their priorities, if not to yours.

Sometimes a more common reason, though, is a misguided notion of saving some money. It's misguided because in many organizations it costs as much to handle creative projects internally as externally. What usually makes it appear less expensive is simply bookkeeping—that is, the way expenses are recorded.

Whatever the reason, moving work internally usually does mean giving up outside objectivity, the higher level of creativity that comes from having addressed a greater variety of challenges, and the benefits of being separated from internal politics and scheduling.

The bottom line, in other words, is that the cost/benefit tradeoff is probably not worth it. The article referenced in the footnote on page 9, provides additional detail to the following.

"We certainly understand your need to cut costs. Our experience, however, is that when costs are realistically allocated there are few savings. In fact, in several situations we've found that our work actually turned out to be less expensive. Yet the other tradeoffs are substantial. Let me explain what I mean.…"

SITUATION #2: TRAINING YOUR REPLACEMENT

In this situation, a client plans to hire someone new, or assign an employee, to do some or all of what you've been doing.

Don't try to talk them out of it in either case. It always appears self-servicing, and is probably fruitless anyway. Cooperate. Mentoring could well lead to even more work eventually, especially with fast-growing firms.

Ask about the background and capabilities of the individual who will be your replacement. Then prepare an estimate of what will be necessary to bring her or him up to speed—the training time required, and the possibility of purchasing new software and equipment. Also decide which files you are willing to turn over, and which you "will not be able to." (Also, see "Situation #6.)

Set a minimum for onsite training (days or fractions), and for follow-up telephone consultation (hours). Be realistic, and don't worry about affordability. That's their problem, not yours.

"I'll be happy to. My fee would be $0,000 daily for (number) days, the minimum I believe necessary. After that, I'll be available to help out as needed. The minimum for onsite follow-up is a half day or $000; for telephone consultation it is one hour or $000."

SITUATION #3: HELPING A COMPETITOR

Does a client really need your innovative and expensive skills for less demanding work, such as redos and minor modifications? Some don't think so, and will ask for your materials to give to another firm for future follow-on or similar work.

Since the purpose is minimizing future costs, comment that any savings would probably be small. Given your familiarity with how the work was designed and produced, having others make changes could end up costing more, especially if you had to be called in to fix any resulting problems.

When changes are significant, there's also the risk of introducing discordant elements affecting some of the quality the client had paid for. For these reasons, you've adopted a policy of not releasing your proprietary production materials.

"Because our reputation is based on the quality of what we've produced for our clients, we insist on continuing involvement in projects we've initiated. This ensures that you'll continue to benefit from our quality control procedures. Equally important, our familiarity with all phases of the project's conception and implementation often makes any changes or future modification more cost-effective."

Should this response fall short, see Situation #6 about giving up computer files.

SITUATION #4: REVEALING YOUR SOURCES

Subcontracting for services you don't have in-house—printers, hosting, certain talents, etc.—can be a substantial source of income. It also maintains control over what you're ultimately responsible for.

Keeping clients unaware of your sources isn't always possible, or even advisable. Many, particularly smaller ones, are happy trusting and not knowing. Others, though, want to know, sometimes to check prices to see your markup, other times to buy direct, sometimes just out of curiosity.

Who your suppliers are is your business; you don't have to share unless you want to. But if you do decide not to, there's a more nuanced response than, "I can't tell you."

The diplomatic approach is to explain that over the years you have built up a stable of suppliers you can call upon as the specific needs of each project require. It is one of the very reasons you can now offer outstanding quality and service at remarkably low prices. In other words, it's unique and proprietary, your competitive edge.

"I'm sorry. I really wish I could tell you, but that's something I'm not at liberty to divulge. My sources are proprietary, my 'stock in trade'. Over the years I've built up a stable of sources that has become my competitive edge. It's one of the reasons that today I can offer quality, service, and price others can't match."

SITUATION #5: HANDLING PART, BUT NOT ALL

Client input is always crucial, but for budget or ego reasons occasionally they want to incorporate something already extant, like their own photos. Or to use what they've already begun, like a bungled attempt at copywriting.

Whatever the reason or project, a diplomatic response is called for. It's that the more control you have over all of a project's components, the higher the quality and value that the client will receive.

It's usually more efficient for you create something from scratch than to try to accommodate what you've been given, and create around it. Client contributions are also expensive to them because they take time away from the contributor's primary responsibilities. And, however good the contribution is, if clashes with the overall look and feel of the piece, its effectiveness will be comprised.

"We appreciate everything you can provide, and will certainly use it as input in developing your project. In the past, we have found that it is better not to try and incorporate anything we didn't originate or source. It usually costs less for us to start from scratch. Doing so also ensures the integrity and effectiveness of what we produce for our clients."

SITUATION #5 GIVING UP COMPUTER FILES

In most cases, your files are your property, and you do not have to give them up. You should, however, also cover ownership in every proposal. Nonetheless, sometimes it makes good business sense to provide files. Helping out a good client is a small investment that can pay big dividends.

For not-so-good clients or those you'll never work for again, there are two other responses. Each recognizes the fact that clients usually consider the files theirs, so to just refuse could bring on an expensive legal challenge. (For more, see the article referenced in the footnote below.)

"*Unfortunately, our production files incorporate our unique and propriety procedures and information, which are vital to our continuing success. So as much as I'd like to help out, I'm afraid I can't make them available."*

Or:

"*We will be happy to. It will, however, involve getting together all the related files (from our archives), stripping out our propriety information, then copying everything. This is labor intensive and will probably run about $0,000. If this is okay, we can deliver them by…."*

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From CB's Archive

The articles, "Comparing In-House Pricing," and "Copyright and File Ownership" are available as instant downloads from www.creativebusiness.com/CB248J.lasso until March 5, 2016. After, request from circ@creativebusiness.com.

Advice

PUNISHING SUPPLIERS ... GOING DIRECT ... EXCLUSIVITY ... RETAINERS ... CORP. MANDATES ... THEME OK ? ... TAX DEDUCTION? ... HOLIDAY SWAG

What's your opinion on protocol for switching sales reps within suppliers? I've worked with many. Some I like, some I don't. Some are helpful, some give me the run around.

Is it aboveboard to ask for a new sales rep if I don't really like how the current one is working out? Most of these suppliers are not huge, and I want to use their products in the future. My fear is burnt bridges on one side, and a pain in the butt experience on the other. Thoughts?

You may have to live with things as they are, or change suppliers.

You mention that the suppliers are not large, which means they might only have one or two reps. Even if they have several, changing accounts around internally could be a nuisance, and they might not think your (small amount of?) business is worth the effort.

A customer request for a change would also be something of a black eye to a rep's performance, so you might want to consider whether the "punishment" would be worthy of the offense.

If you do decide to ask for a change, always phrase it in a way that makes the problem yours, not theirs. Never diss someone unless the circumstances truly warrant it. You never know whether a bad comment, even one well justified, will come back to haunt you.

The best response in any situation like this, however, is simply to move your business to a competitor when possible. If asked why, say that you were more impressed by the new supplier's customer service, and let it go at that.

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We have a client we've worked with for almost 7 years who has rebranded recently and now wants to reprint some older pieces we designed by adding the new logo internally. They wanted our approval to go directly to the printer we have used for their work.

We still do ongoing work for this client so don't want to compromise our relationship. The printer has come to us with concerns prior to giving them costs.

Where do you sit on the ethics of taking a commission from the printer without informing the client? Kosher or not? Any standards of conduct?

First, it was good that the printer asked, not all would.

We would take a small commission, privately. As long as it didn't exceed a small percentage of the estimate, but no more than a couple thousand dollars or so, it could easily be defended as a "loyalty reward" that came out of the printer's profit. Just make sure the printer is onboard.

While this is not exactly aboveboard, it is within the bounds of our ethical compass. Anything more runs the risk of appearing to milk a relationship—collecting a commission that raises the client's costs for doing nothing—should they ever find out.

We would resist any temptation to cash in. It's a judgment call, but taking a substantial commission could jeopardize a good relationship if discovered. What you make in the long run will probably more than exceed what you could lose in the short run by taking advantage of the situation.

We're a web design firm specializing in sites for financial advisors. We've been asked to quote on a site, but they want 3-year exclusivity for much of our state. We wouldn't be able to do a site for any other financial advisors within this area, which includes a major metropolitan market.

What do you think we should charge as a premium for a request like this? 50% more? Our sites average around $25,000.

As we're sure you suspect, this is uncharted territory. We have no personal experience (and doubt others do, either) for exclusivity that's not tied to future work, such as an agency agreement.

Assuming it's a standard work-for-hire contract, the reason it doesn't come up is that the client owns the exclusive rights (copyright) to the site's look and feel anyway. So all they would be buying is the chance that another site you design might be somewhat similar, although not enough to warrant legal action.

In any event, this is background for your information only, and needn't be discussed.

As we see it, the only reasonable price would depend on how much potential business you think you might lose in this area over the three years. Compare the potential income to the premium you would collect. In doing so, also consider that the premium will be pure profit, while the income from the potential projects also includes costs. Price accordingly.

If you do decide to go the exclusivity route, make sure that your agreement clearly specifies what is, and is not, a "financial advisor."

I'd like to use CB's retainer agreement, but it's written to apply to all of a client's work. What if I want to make it for only a certain block of work?

I've been asked to price an open-ended project which seems right for a monthly retainer. But I still want to bill them separately for any other work. Is this okay? Do you have another form for this?

We see no reason why CB's retainer agreement wouldn't be okay with a few modifications.

In the agreement's opening paragraph, we would be more specific by adding words similar to those underlined below:

"This will constitute an agreement between (client) and (your firm) for <u>developing social media campaigns</u> for the period (date) to (date)."

We would also add a second paragraph as follows:

"This agreement does not affect the pricing or scheduling of unrelated projects."

And we would stick in "*for this project*" where appropriate throughout the retainer's text.

Do you have any past articles about vendor agreements? I was just handed one by the new corporate machine that acquired three of my long-time clients.

Among other things, the legalese states that I will assign all rights to the intellectual property to them, that I must receive written permission to show the work I do for them (web, portfolio, new business presentations, etc.), and that it covers all future and past work.

I have no intention of signing this and could potentially lose a lot of business. I want to be clear on what to look for, and how best to respond without jeopardizing my existing client relationships.

Nothing we can send, but here are some thoughts that might help:

Agreements like this are drawn up to make life easy for corporate lawyers. When everything is covered in the same way throughout the corporation, there's less chance of any future challenges.

Basically, clients (as buyers) have the right to contractually bind a seller to anything that's not illegal. The one possible exception we see here is for past work. We doubt that's enforceable, but you'd need legal advice to be sure. If you haven't previously signed anything, you should be okay unless you do.

Because you are dealing with a "one fits all" agreement, you should ask your client contacts if it's possible to make exceptions. It helps that you are a small business and woman owned. Large corporations don't like to be seen as taking advantage of their position, particularly if they are buying up community-focused businesses.

You would have to be specific, though, for your contacts to make a case. If you have very good relationships that might be terminated to their disadvantage (and the small business community's loss) it might be possible for them to plead for a dispensation or two.

We doubt that corporate would back down from the work-for-hire part, though. On the other hand, not permitting you to show your work without written permission is a little over the top.

The case here is that it is essential given the nature of the creative industry to be able to show others what you have done previously.

Finally, don't sign anything you aren't comfortable with. Be particularly alert about anything that indemnifies them—that is, makes you legally liable for anything you've worked on.

Six months ago we got a call from a previous client asking if

A BUSINESS MANAGEMENT GUIDELINE

AIM FOR PROFITABILITY OF 15% AFTER EXPENSES AND DRAWING A REASONABLE SALARY

Profit for a small, privately-held firm is what remains after all expenses have been paid and the principals have paid themselves a salary equivalent to what could be earned working for someone else. Principals' salaries should be paid regularly; any profit should be paid out separately as distributions, or left in the firm ("C" corporations). Although no amount of profit is too much, a creative services firm with a profit of 15% of gross margin* (sometimes called AGI) would be doing very well.

*Income left after outside costs of goods that are resold (primarily media and hosting purchases for clients) are subtracted. It typically consists of hourly fees and markup income.

we'd be interested in doing only the wrap for a holiday catalog we used to produce. They said they were unhappy with the wrap they were planning on, but were all set on the inside templates.

Because we thought maybe we could talk them into letting us handle everything again, we threw in a couple spreads on spec. They liked what we did on the wrap, thanked and paid us, but said that they had already decided on the inside.

Long story short, we just saw the finished catalog and the inside was pretty much our spec layout. I suspect they sent it to their current designer and told him to copy it.

I can't ever remember being so blatantly ripped off. I'll be writing a letter to the owner, but wanted to get your input first.

It's obvious that this wasn't a mistake, so we would immediately seek compensation for using your copyrighted material (the spec layout) without your permission.

Start with a phone call (not a letter) to the company president. Say he probably didn't know (even though he probably did) that the other designer copied your copyrighted work, a violation of federal law. Ask for whatever you feel is fair compensation for this unauthorized use.

If he balks, which he probably will, turn things over to an attorney who should threaten his firm and the other designer with litigation in the absence of fair compensation.

Unfortunately, the reality is that copyright violation is always difficult to prove. In this case it's probably impossible unless you have time-stamped copies or other proof that your spec work preceded their design.

It may get you something, but even if it doesn't it will be worthwhile to see them sweat a bit, particularly the other designer.

We're preparing the themeing and all the materials for a client's national sales meeting this spring. What we want to do plays off a recent cover of a well-known business magazine.

Do you think doing this would be a copyright infringement? We don't want to appear clueless and propose it if the lawyers are just going to shoot it down anyway.

We won't hazard a guess, because it would be just that. But we don't think you should summarily abandon a good idea, either.

Even if your theme would otherwise be a violation, as long as it's in good taste and not disparaging, the magazine should be happy to go along. It is, after all, publicity to their market.

We would ask your client contact to arrange a meeting for you to show concepts to the corporate lawyers. Ask if they would contact the magazine to get permission. Taking this approach will demonstrate that you are the opposite of clueless about such issues, and could green-light your concept as well.

I have a computer my graphic needs have outgrown, but would be quite functional for normal office functions. I would like to donate it to a worthy charity. If I do, can I claim a tax deduction, even though it was totally depreciated?

We suspect you can guess the answer. Business equipment that's been totally depreciated is considered to have no value. Since you are only allowed to deduct the "fair market value" of any donation, and the value of this item is, by definition, zero, zero can be deducted.

As a consolation, given the relatively low market value of used computers, even if not depreciated at all it would have been worth only, at most, several hundred dollars as a tax deduction. So you really haven't missed that much.

We suggest you go ahead and donate the computer anyway. What you lose in a tax deduction you will surely gain in the appreciation of the charity. And it will be one less thing in your office to keep dusting.

We produce promotional materials that feature new ideas and products for one of our clients. Every holiday season several of their suppliers send gifts to the homes of our creative staff. Holiday swag is something of a custom in this business, and I think they also believe it will help their products get better treatment.

I don't want to reduce the perks of working here (some of the stuff is pretty nice), but I'm afraid it's gotten out of control when I hear comments comparing gifts.

First, anything of value that an employee receives as a result of doing his or her job belongs to the company. Second, any such items should be sent to the company's address, not to an employee's home.

We suggest you begin by asking employees receiving gifts this year to reply with a thank you note to the sender asking that any future contact be at the company's address.

We would then introduce a new policy that all holiday gifts will be collected unopened, despite who they were addressed to. We would then set a time, such as a holiday party, when they can be opened and distributed based some type of bidding or lottery. Or remain unopened and then auctioned off in some type of bidding process.

Distributing the gifts this way treats all employees equally, modifies but doesn't end the receiving of perks, and can make for additional fun at a holiday party.

CB

CB SUBSCRIBERS' BEST PRACTICES ARCHIVE

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Business Forms Business Forms
- Agency letter of agreement
- Appointment letter
- Cease & desist letter
- Client backgrounder
- Client review letter
- Client survey form/survey letter
- Creative review letter
- Creative brief questionnaires
- Creative review checklist
- Emergency planning form
- Employee performance evaluation
- Employee profitability record
- Employee evaluation & salary adjustment
- Estimating worksheet
- Illustration questionnaire
- Intern welcome letter
- Job application
- Job description
- Job description (intern)
- Job offer letter
- Marketing plan worksheet & template
- Mission statement
- Model release
- Naming proposal
- New hire welcome letter
- Non-compete agreement
- Non-disclosure agreement
- Peer review form
- Project budget form
- Proofing authorization
- Referral letter
- Retainer agreement
- Solicitation letter to in-house group
- Subcontracting letter & agreement
- SWOT analysis form
- Time sheet
- Trend calculation form
- Value proposition worksheet
- Warranty voiding agreement
- Web survey form
- Work-for-hire agreement
- Workstation exercises

Business rationales
- How we work
- Measuring the true cost of creativity
- Professional standards of practice
- Professional copy/design/illus rationales
- Should I have a minimum fee?
- Ten keys to client loyalty
- Ten presentation tips
- Why we don't do spec work

Management articles
- A better way to structure your firm?
- A legal primer: what you should know
- Arbitration and mediation?
- Business planning
- Choosing and registering company names
- Costs and benefits of self employment
- Creative burnout. Are you a candidate?
- Developing employee policies & procedures
- Employee bonuses: what makes sense?
- Evaluations & raises: doing them right
- Expand with virtual or contract employees?
- Growing through merger or acquisition
- Hiring your first employee
- How much should you be making?
- How well matched to business are you?
- Insurance: protection from the unexpected
- Job descriptions (includes templates)
- Keeping an eye on cash flow
- Location and digs, how important?
- Losing naivete & guarding against fraud
- Moving to a new office or studio
- Non-competes. How important?
- Overtime and breaks: what's required?
- Profitability. How does yours stack up?
- Scheduling. Avoiding costly miscues
- Size. What's right for a creative company?
- Teaming, partners & subcontracting
- Working alongside a significant other

Marketing articles
- A creative person's short course in marketing
- A perspective on marketing in a recession
- Awards: how important to business?
- Client loyalty. Procedures for enhancing
- Cold calling. Overcoming your reluctance
- Communications audits.
- Competing in the Inter(tra)net market
- Conflict of interest. What is and what isn't
- Coping with incompetent clients
- Creative briefs: what, when, and how
- Dealing with opinionated clients
- Don't overlook naming when branding
- Exorcising the fear of rejection
- Graphic standards. Providing to clients
- Handling a client's creative suggestions
- Helping clients set a literature budget
- How to hire a creative supplier
- Improving your presentation closing ratio
- Making the concept presentation
- Making the portfolio presentation
- Making the process presentation
- Overcoming those presentation jitters
- Preparing simple marketing plans for clients
- Presentation hostility. Overcoming
- Pro bono work: when does it make sense?
- Promoting your business. What works best
- Proofs & sign off standards
- Prospecting and mining for clients
- Referrals what is wrong and right about them
- Resigning projects and clients with dignity
- Responding to the ROI question
- Sales & marketing: when, who, and how much?
- Samples & testimonials: guidelines for using
- Selling your ideas without selling your soul
- Selling your own products, a practical primer
- Should you or should you not sell printing?
- Specialization. The arguments for and against
- Strategies for a "graying" business
- Strategies for working indirectly
- Tactics for facing increased competition
- Talent reps. What you need to know to find one
- Understanding and pricing not-for-profits
- What is it that makes a firm an "agency?"
- When is a concept original, derivative, or a copy?

Pricing articles
- Billing rates. Is one or several best?
- Change orders: a practical solution?
- Charge for a second concept?
- Comparing a client's in-house prices to yours
- REFERENCED IN THIS ISSUE Conducting a billable efficiency check
- Contract, letter of agreement, or proposal?
- Copyright and file ownership
- REFERENCED IN THIS ISSUE Dealing with RFQs and multi-bid projects
- Determining a client's budget
- Five problem-pricing alternatives
- Handling up-front pricing inquiries
- Hourly billing rates. What's the range?
- How many concepts and changes are included?
- How much do you want us to spend? (budgeting)
- Job cancelled: how much to charge?
- Markups—why, when, where, and how much
- Pricing logos, marks, and identities (branding)
- Progress payments rationale
- Raising prices without raising a flap
- Reconsidering and readjusting pricing
- Retainers & replying to discount requests
- Understanding client payment procedures
- Value-based pricing. Is it possible?

Booklets
- Fifty business standards
- Personnel policy standards
- Pricing and billing standards
- Sales and sales staffing standards
- Valuation and sale standards

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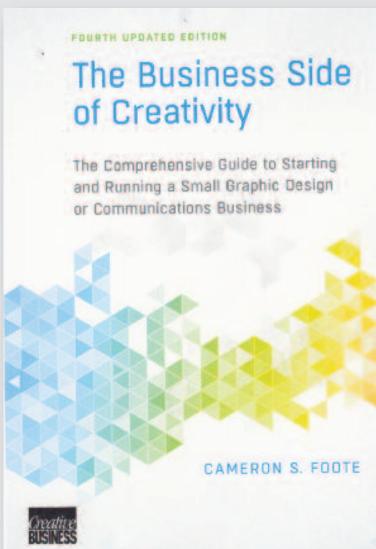

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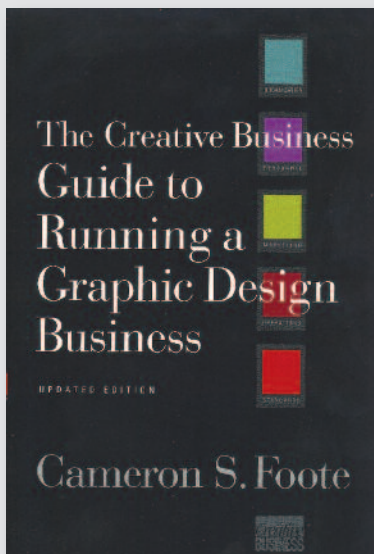

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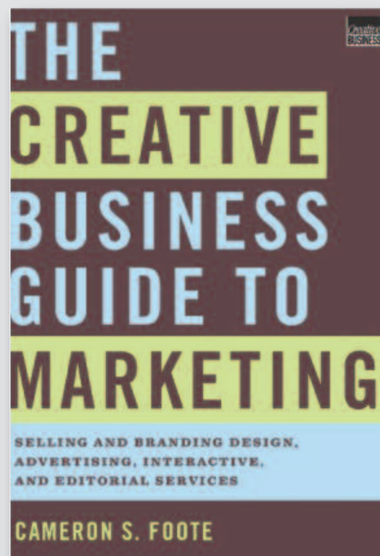
Marketing Insight



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