

The New Fee Pressure is Free Pressure

By Andrew Sobel

What can be worse than competing against someone who offers to do the same work at 20% lower fees? That's easy: Competing against a firm that offers to do the same work for free.

Free articles. Free assessments. Free podcasts and videos. Free coaching sessions. Free projects, even. Everything seems to be free these days. One of my clients said to me last week, "It's hard to compete when your competitor is giving a quarter million dollars of work away for free just to build the relationship." The fact is, the near-zero marginal cost of providing digital content, and of delivering services in a fixed-capacity services firm, creates momentum to give things away if the provider thinks it will win fee-paying business in the future.

How do you make sense of this? How do you deal with competitors who are giving away the store? And what should your own strategy be?

There are three main types of "free" that you now see in the marketplace. First, there's giving away free intellectual property such as articles, podcasts, videos (streaming or hard copy), online assessments, and so on. Most everyone does this, and it makes sense as a way of building trust in your ability to provide value. The question is, "If everyone is giving it away, will a strategy to charge for it work?" The answer is yes—if clients perceive that it's valuable enough to pay for. Some websites, for example—including the Wall Street Journal Online Edition—give the first layer of content away for free (some articles, some podcasts) but you have to pay to get access to deeper levels (archived content, full-length articles, etc.). In professional services, my theory is that the higher your fees, the more digital content (IP) you will be willing to give away. An example of this is my friend Marshall Goldsmith, who is one of the top CEO coaches in the world and a bestselling author. Marshall gives away an enormous amount of content on his various websites, and commensurate with his global brand, charges coaching fees at the very top of the market.

The second type of "free" comprises free samples—a free keynote speech or workshop, a free coaching session, or a free assessment that may take several or more days of time. Here's where things get a little dicey. Investing significant time up-front to get to know a potential client and thoroughly understand their issues—assuming you stand to develop a meaningful project with them—can be a great way to demonstrate value and commitment and therefore earn trust. Saying "We'd like to do a free workshop for you," however, can set off alarm bells and is something that must be very carefully positioned in order to be effective. Here's why: As a client, I may be thinking "If it's 'free' then what benefit are you getting that I don't know about?" Transparency builds trust, but saying it's free suddenly clouds the situation. So be careful to explain exactly what you're doing. The client may also be thinking, "If you're so successful, why are you giving your time away for free?" Clients aren't stupid.

The third type of "free" is when firms give away a major piece of work. This can be a very strategic move or it can be a sign of total desperation that backfires. For example: One of my clients is expanding their strategic consulting services, and looks for opportunities to showcase this capability to clients who don't necessarily think of them as a player in this field. One of their clients grew dissatisfied with a large strategy consulting firm they were using, and they went in and offered to do a major piece of strategic analysis—for free. They attached conditions, however: The client would commit resources to the effort, they would have access to the CEO, and they would get to report their findings to the company's executive committee. It turned out to be a major success that helped reposition my client in the marketplace and grow their relationship with this company. In another case, a firm won a major, multi-year assignment with a large telecommunications company. The chairman of a competitor who lost the bid called up the CEO of the telco the day after the other firm had been chosen, and told him "We will put together the best team from around the world to do this

work for you. And we'll do phase 1, which represents \$2 million in fees, for free." The CEO told him they were too late, and that his mind had been made up already.

Another client of mine has a strategic program that entails giving away one or two major projects a year to potential clients they would like to work for. They are very, very selective about how they implement this. They carefully position it as being done directly with the CEO and it is always focused on an issue of great importance to the company. They do it in a very calculated way and fund it as a firm-level initiative. It has resulted in some major, long-term relationships. You can give away work from strength—if and only if it's positioned properly and the circumstances are right—and you can do it from weakness, which may just make you look desperate and even pathetic.

Here are some strategies you should follow in dealing with "free pressure" and deciding what your own policies are:

Refocus on the basics of your brand and your value to clients. When these are strong, it's easier to resist or ignore "free pressure." Learn to add value rapidly in your conversations with prospective clients. In the first 45 minutes with an executive, you should be challenging their thinking, forcing them to be crystal-clear about their objectives, and seeding the discussion with examples of best practices and innovative approaches to their issue. That's your free sample, right there. Know when to draw the line between investment in building the relationship and giving away the store. At a certain point you have to have the courage (and common sense!) to say to the prospective client, "I feel that we're now moving into a value-added, advisory relationship and it's the appropriate time, in my experience, to formalize this and tell you how much it's going to cost." Focus your up-front investments in face time and building trust—not churning out long PowerPoint decks filled with methodology. The former creates emotional connections and wins business, whereas clients barely read the latter. Confront the "free" issue head-on with your client if a competitor is trying to undercut you: "We've continued to be busy throughout this downturn because our clients feel they get a huge ROI on our work. I am aware that there are some firms out there giving away work, and I can only guess that they are doing this because they aren't busy and their business is not strong."

If you do decide to give away a "free sample," set out the right conditions—e.g., senior management access—and agree them with the client. "Free pressure" will never completely go away, but there are many things you can do to bulletproof yourself against it—and also to use it to your advantage.