

## **The High Cost of High Billability**

**by John P. Bachner\***

High billability is not nearly as valuable as you may think.

ASFE's case histories show unequivocally that project risk is inversely proportional to project size; i.e., the smaller the project, the more likely something will go wrong. Case histories also show that you can lower the potential for problems remarkably through effective contract formation; i.e., initiating the engagement via a face-to-face meeting with the client representative. But effective contract formation seldom occurs when the project is small: "We have a fee of \$3,500. We're looking for a profit of \$350. How can we invest an hour jawboning with the client?"

How can you not? Owners (direct and indirect clients) are responsible for more than six of every ten claims filed against design and environmental professionals. How much is preventing one claim worth? Considering the value of time lost to litigation, the nonreimbursed cash outlays, and the opportunity cost – i.e., the value of projects not obtained because people were involved in litigation rather than proposal development – \$100,000 would be deemed low by many "in the know."

Suppose you made an all-out effort to enhance relationships with owners by spending at least one nonbillable hour every week meeting with them, for purposes of contract formation in particular and relationship-building in general. The effort would cost 50 nonbillable hours per year; 2,000 nonbillable hours over a 40-year career. While boosting relationships would not prevent errors or omissions, the time invested investment would easily prevent at least one lawsuit per career, because of the communication/better understanding achieved at the outset of a project, and/or because of the relationship established (friends don't want to sue friends). By lowering your career-long expenses by \$100,000, you would increase your career-long profit by the same amount. Assuming you work at a 10% net profit, \$100,000 in additional profit would be the net derived from a

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\$1,000,000 project. As such, your 2,000-hour, 40-year investment would yield a benefit worth \$500 per hour.

In reality, your 50-hour-a-year investment would prevent more than one lawsuit and it would do more than just prevent claims. You'd also open the door to more referrals, especially if you also included contractors' representatives on your "call list." How much is a referral worth? If you spend \$2,000 worth of time developing a proposal for a project you have a 25% chance of winning, each such winning proposal would cost you \$8,000. If you obtained a referral, you would spend, say, \$500 for the proposal and have a 100% chance of winning, saving you \$7,500 per winning proposal. If you obtained one such referral every two years, you'd save \$150,000 over 40 years; the equivalent of the profit to be earned on fees of \$1,500,000. Add that to the \$1,000,000 saved thanks to loss prevention and you realize that your hour-per-week investment could be netting you \$1,250 per hour! Am I exaggerating? Not at all. But let's say I am. So cut the rate in half, to just \$625 an hour. Still too high? How about \$312? Hey: Even \$156 wouldn't be bad!

My Uncle Moe used to run a jewelry store. I can remember being there and seeing an array of tie bars and cuff links with the letters YCDBBSAOYA on them. "What do these letters stand for?" I asked. "Something every good businessman knows," Moe responded. "You can't do business by sitting around on your a--."

Billability *is* important. Just don't make it more important than it really is.

*\*John Philip Bachner is the executive vice president of ASFE/THE BEST PEOPLE ON EARTH. CGEA is an ASFE Regional Organization. As a result, all CGEA members are Regional Organization Affiliates of ASFE, and are entitled to a variety of benefits. These benefits include a special ASFE newsletter issued six times each year, special pricing on a variety of ASFE materials, and ASFE member pricing on programs, such as ASFE's continuing education courses and seminars, some of which are designed to enhance one's writing skills. For details, click to [www.asfe.org](http://www.asfe.org).*

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