IIM Guide to Interim Management fees and day rates

July 2019 (3rd edition)

Institute of Interim Management

Accelerating Interim Success

Introduction

However capable the interim manager, their effort means little if the conversation about their fee is poorly or weakly handled.

To give yourself the best chance of maintaining a profitable micro-business, understanding your value, understanding the market and understanding the field of negotiation, gives you the strongest chance of achieving a sensible day-rate for your work.

A conversation lasting a few minutes can have a significant impact on your fee for an assignment lasting (hopefully) many months. It would be such a shame to be ill-prepared for it, or to regret a poorly negotiated rate after the event.

This article pulls together strategies on fee assessment and negotiation, but there is clearly more than one view of the best approach. Some people will be firmer than others in their negotiating approach, so please adapt these approaches to suit your style.

Ad van der Rest CIIM

"Price is what you pay, value is what you get."

Contents

Day Rates – what are you charging for?

An interim manager typically charges a fee, 'a day rate' for services that will address the needs of their clients. Delivering outcomes that will either bring that client a range of benefits, achieved objectives, cost savings or risks migrated.

Whatever the interim manager does, they will usually bring to the table that special brand of expertise that will get the job done, for as long as required, in line with the 'Interim Management Value Proposition', which positions the interim manager as delivering:

- **Return On Investment** – delivery of a solution that gives real benefit to the client
- **Speed** – being quickly available and able to make an impact quickly
- **Expertise** – being well qualified with a wealth of skills and knowledge
- **Objectivity** – outside of company politics with a business focused perspective
- **Accountability** – being instrumental in an assignment's successful delivery
- **Effectiveness** – with the authority and credibility to effect significant change or add value
- **Commitment** – a professional interim approach to deliver then exit in a good way

So with all this 'good stuff' on offer, why do some companies wish to 'convert' the cost of a 'permanent' employee, when 'calculating' an appropriate day-rate? In truth there is not a direct fee-relationship between professional interim managers and employees. They are not the same because the two incur costs and add value in very different ways.

The starting point for an interim manager should be the value, saving or contribution that will be achieved on assignment. When a plumber turns up at your door they will charge a fee, typically based on adding, changing or removing something, or for dealing with leaks and emergencies. An interim manager does much the same (philosophically), though typically plumbers are not quizzed on the doorstep about how much the pro-rata salary of a permanently employed plumber might be!

Interim management rates

The interim management fee range from top to bottom, including significant regional and functional variations, runs from about £500 up to £2,000 per day.

The average day-rate is just under £800. Around £850 in the private sector and around £650 in the public sector (2019 survey data), fluctuating over time.

Establishing your day rate (What am I worth?)

Assessing an interim manager's 'worth', let alone your own 'worth', is not an exact science.

But before you enter into any kind of negotiation, you should decide what you believe your value to be, so that you know exactly what you are negotiating about (your own value) and what the best outcome would be.

Your fee should be related to what you are taking responsibility for (i.e. the results), the amount of responsibility (or fallout if it all goes wrong), and the unique mix of skills, ability and experience you bring which is needed for the assignment.

If you are so fortunate that your services have an immediate financial return or saving, then charging on the basis of the benefit achieved makes perfect sense. In these cases it may be worth considering fees based on project success with 'upsides' and 'penalties' built in.

A collar and cap arrangement can be used whereby there is a minimum fee based on a daily rate, (the collar) to which a percentage or additional lump sum is added based on achievement of results This would normally be limited to a maximum (The cap).

There may also be 'fixed fee' arrangements in some circumstances but not without risk to the interim. A 'fixed fee' would be a strong indicator from an IR35 perspective that the service is being offered as a business solution and may slightly assist an IR35 determination.

But pricing a piece of work in advance is fraught with dangers as predicting the amount of work and time required to solve complex business issues is equivalent to predicting the length of a piece of string. Unless a fixed-price project is straight-forward and entirely within the control of interim, charging by day-rate is usually the most transparent way to proceed.

A traditional fee calculation method is the '1%' rule. This is the notion that an interim manager should charge 1% of their 'equivalent' base salary i.e. £80,000 equivalent salary = £800 day rate. Whether this can be achieved in practice is another matter.

Your proposed fee gains credibility by virtue of your track record, gravitas, depth of experience and expertise. Logically, you could justify all sorts of day-rates to yourself, but that justification has to be credible in the marketplace. Clients have to believe (and then find) that you are worth the fee.

Throughout negotiations it is important not to lose sight of your value, even if you end up adjusting your expectations to accommodate the market.

Understanding market conditions
(What will the client pay?)

Before entering into any fee discussion, it is important to remind yourself of your value and set the best credible price that you can go to market with for your services.

Let's work with a simple example that an interim is doing work 'equivalent' to that of a £100,000 annual salary employee. The example is just for pricing, *these modes of work are not equivalent.* Using the '1% rule' that gives you a target day rate of £1,000 in this example. Bear in mind, your reputation as an interim relies upon referral and recommendation, so whatever work you do, you'll want to add value (or savings) over and above the day rate you charge.

So, the £1,000 is a credible rate that you feel you are worth and that makes you feel good about delivering your service. It's the rate you will confidently ask for. You may also wish to have a rate that will work for you if a little haggling is necessary. Let's say in this example that such a rate is £850.

You may even have, let's call it a 'desperation rate' that you'll accept to work, if you have had a longer assignment gap or basically need to eat. But don't sell yourself short. The danger of accepting such a low rate is that it will effectively lock in the loss at the lower rate, may make you resentful of the client or assignment, or may mean that you are treated as a more junior person than your expertise merits. The brutal truth is that if you can't justify and sell your day rate to Clients above about 0.7% of 'equivalent' salary, then you are probably losing money, benefits or sanity. Sub-optimal rates will kill your cash-flow and ultimately kill your business.

As an interim manager you take many risks, those risks deserve an appropriate reward. Don't start discounting your services in your own mind, even before you approach a client conversation. So *before* you even speak to a Client, you must be clear about the fee rates that you are prepared to entertain and keep these fee ranges clearly in your mind:

Example (all figures exclude VAT):

Conceivable worth	£1,200 per day	(1.2%)	- behave like this
Highest credible	£1,000 per day	(1%)	– ask for this
Fallback figure	£850 per day	(0.85%)	– target to get this
Desperation figure	£700 per day	(0.7% or less)	– desperation rate

If you are just starting out as an interim manager, you may find you can only attract work with softer fees, but take care. Corporation Tax and demands for other taxes will soon impact your business. Lower rates should only be acceptable short-term while you build your experience, track record and a portfolio of people willing to recommend you.

Once you have that track record, it's amazing what power and confidence this preparation gives you - and it shows when negotiating with your clients, which we will come onto later.

Negotiation

When haggling with a client or intermediary, there are other things you can give on other than the price.

Your fallback may not simply be your 'minimum rate', it may be a combination of factors. For example, rather than reducing your rate, you could work 4 or 4.5 days (still charging the same rate), still satisfy the client, and have some space to allocate to a second revenue stream. You could consider a lower starting fee with some up-side on project completion, or an increased rate after a specific time-frame, so long as make absolutely sure that you have the criteria very clear and written down in the arrangement.

There are other 'non-fee' factors that may be beneficial to you in terms of seniority, responsibility, length & location of assignment. Decide what trade-off might work for you. In truth the assignment may be so interesting, or valuable for building up your track record that softening your rates would be a sensible thing to do. Consider what 'levers' you have that have high value for the client, such as your immediate availability, your expertise, specific sector or client knowledge and so on.

Finally, before you haggle, decide what combination of rate and terms below which you won't go. If your rate is unprofitable, you are 'paying the client' to work for them. Remember, offering 'panic discounts' makes the situation worse. You may end up locked into an assignment with sub-optimal revenue, no profit and possibly even incremental losses.

In such a circumstance, where there truly is no profitable common ground, and you 'should' decline. You could even gain some credit for helping the Client find a person more in line with their budget. If that fails to work for them, they may be back.

Whatever your pricing plans and strategies – write them down. The logic, concessions and fallbacks will be much easier to defend or dismiss laid out before you on paper. This allows you to plan your flexibility, with yourself, before you embark on the negotiation discussion. Think of it as getting your 'Ducks in a row'. You remain in charge of your final decision. There is nothing to be gained by discounting away your value before you start negotiating.

Possible trades & concessions

- Agree to work 4 or 4.5 days but keep the day-rate up.
- Agree to limit your services to match a lesser rate – then charge for 'extras'
- Agree to exchange a day-rate drop for a completion 'upside'.
- Agree willingness to feature (subject to success) as a reference 'case study'.
- Agree to work from home / closer location some days.
- Agree a strong Interim 'title' or testimonial

The rule of thumb in any negotiation is **IF** I agree to that, **THEN** I will be seeking this.

Trade something for something. Maintain a list of 'something's' that have value to you, but may be presented as a fair trade to an end client.

Finally, as you approach the negotiation, you have not agreed until you have agreed. There may be attempts by the other party to 'lock down' your rate before all the facts of the assignment are known. Avoid 'unconditional' offers. Set out your expectations and keep your cool.

Advertised rates

You might think that a posted advert for a role specifying a fee of £xxx, or a fee range of £xxx to £yyy simplifies negation. It remains important to fix your mind on the notion that just because the lowest stated figure is £xxx, that does **not** mean that you should be automatically assumed to have accepted the lowest point in the range.

If you debate the numbers too early, you may be 'ruled out' versus less expensive candidates, so if possible defer this conversation until **after** you have pitched to the end client.

Once you are getting 'buying signals', then have that discussion, ideally face-to-face.

The 'cold phone call' negotiation

A service provider or client calls you. You pre-amble about a possible role and after a while, out comes the dreaded question: "What is your daily rate?"

Few things impacts the outcome of a negotiation so much as this initial conversation.

The wording you use matters, practise it. If you are well-prepared, a confident and credible quoted price sends the message that you know your value and operate in a business-like manner. Using the example above, a response could be:

"I achieve £800-£1,000 per day for my services, subject to the nature of the assignment, time-scale and location." (note the term 'achieved' which is super to use if you can justify it – it signals that *others* have deemed you worthy of this value).

Now unless the service provider or client wishes to haggle on the phone ahead of any more detailed face-to-face discussion, a situation best avoided, this is now the time to shut-up about fees and seek to move the discussion to a face-to-face setting.

You may find the intermediary or client then responds with an 'ultimatum' reply, such as "We would only see people on a maximum £600 per day". This is what your 'fallback' is for. It stops you being caught in the moment and going 'ok then'. Once you are at the 'bottom of the hill' in a negotiation, it is almost impossible to climb it again.

You might retort. "I'm delighted to meet to explain my value. Perhaps we can discuss the scope and pricing of the work face-to-face?".

Or, "it's difficult to discuss pricing without knowing more about each other, can we discuss the potential assignment and my possible fit, face-to-face?" and so on…

If it is simply not practicable for you to meet, ask for more information: "Can you give me more information about the assignment/Company by e-mail, so I can do some research, then we can speak again about pricing ahead of moving forward?..."

If you simply 'give in' on a phone call, for an assignment you do not fully understand, you may have very quickly locked yourself in at a sub-optimal rate for a challenging piece of work.

If you can hold back the price negotiation to a point where you understand the brief more thoroughly (and they understand your value), then the successful end of a negotiation is likely to fall between your and the service provider/client's fair assessment of your value.

All the work done so far in terms of preparing for and making a confident opening bid, give you a firm footing ahead of exploring the assignment requirements further.

Once a price has been set you will be unlikely to want to talk about reducing it and the client is not likely to want to discuss increasing it.

Demonstrating value

It might sound like an obvious thing to say, but the quality of each encounter you now have with the service provider / client will support the assessment of your value.

This reinforcement will range from your expressed expertise, the quality of your pitch documents, even the quality of your branding, website, CV, personal presentation and business card. It's all part of supporting the notion that you are worth what you say you are worth.

About Service Providers

About a third of Interim assignments are sourced via Service Providers (Recruiters) who take a 'cut' known as a 'margin' from the sum paid to client. The remainder goes to the Interim. For example, a Service Provider taking a 20% margin of a £1,200 day rate to the client, pays £960 to the Interim, keeping £240 (20%) themselves.

Work with the best Service Providers in your sector/function that you can. (The IIM publishes an Industry-wide list of Service Providers that 'feature' in Interim Management.
https://www.iim.org.uk/providers

With the Service Provider as your 'agent' fee discussions will be with that Service Provider and not usually with the end client. You also have the possibility of building a relationship with the Service Provider over time, unlike a Client who would normally be 'new' at the point of the assignment conversation.

Service Provider margins will typically be 20-25%. They may be less in certain circumstances; 15% is not untypical where the client has negotiated fixed margins. At the other extreme, margins may be quite a bit more.

There is no harm in asking the Service Provider what their margin is. The chances of the invoice from the Service Provider to the client falling under 'sight' of the Interim Manager are pretty high. Better this is transparent at the outset. Decent Service Providers will treat Interim managers well, as a source of revenue. In return it falls to Interim Managers to communicate openly with Service Providers.

Your strategy when discussing fees with a Service Provider should be no different to when you are discussing fees with a client. Understand your value, understand the market, prepare your fallback position. What will often help this process is that the Service Provider should better understand your value and can help to relate that value to the client.

As Service Providers will or should help to sell your services, there should not be such a wild difference between the fees an Interim can achieve directly, as opposed to via a Service Provider.

And if you achieve a decent rate, and you and the client are happy, there is no need to 'fixate' about the Service Provider margin. Keep in mind that the Service Provider will be looking to use you again if things work out well with the client.

Occasionally, the service providers will ask you to state your day rate to the client first and then will add that their margin is x%. In such a case they will want you to do the negotiating, but the fee split is open for all to see. The client may of course choose to negotiate with the provider as well on their fee.

Help the client understand your value

We have explained that interim management and 'permanent employment' are not the same. However, because the interim model is not universally understood, it is hard to talk about interim management without making some kind of comparison to 'permanent employees'.

If a price conversation shows that the client or recruiter (excluding Interim Service Providers) may not know what the deal is, take a moment to revisit the Interim Value Proposition:

You might also help them, if appropriate, to understand all the 'hidden costs' of an employee that are factored into your rate, and that they get additional 'Interim' benefits on top.

The following page explains the fee rationale to employers and is also available as a one-page employer explanation:

How should a client price an interim manager?

When businesses look for an interim manager, they sometimes mistakenly value the 'interim day-rate' based on the pro-rata cost of an 'equivalent' permanent. An interim manager is not an 'agency temp'.

The actual cost of employees

This worked example shows why: On top of an (example) £100,000 base salary, add company NI, benefits costs and variable employment costs. Then, factor in all the holidays, bank holidays, sick days, jury service, training days, burst boilers and compassionate leave days that you pay for. The following figures are approximate, but give a good sense of what your employees actually cost you:

Employee base pay (example)	**£**	**100,000**	**100%**
Company national insurance (limits apply. Rounded)	**£**	**10,000**	**10%**
Car allowance	**£**	**8,000**	**8%**
Medical, life insurance and other benefits	**£**	**4,000**	**4%**
Employers' pension contributions (often higher or 'final salary')	**£**	**8,000**	**8%**
Bonus and other incentives (can be much higher)	**£**	**15,000**	**15%**
Employee absence (52 days not worked, *but paid for*)	**£**	**20,000**	**20%**
Total costs to the business for 208 days worked:	**£**	**165,000**	**165%**
Total cost to the business for each employee working day:	**£**	**793**	**0.8%**

Employers offering 'pro-rata' employee base-pay rate to an interim manager are offering a rate around a third less than the 'equivalent' employee's package. That significantly reduces the likelihood that a genuine professional interim manager or executive will express interest in your assignment.

A good rule of thumb is that an interim manager will charge around 1% of an 'equivalent' salary per day. That allows them to match what an employee would be paid and cover their own business costs.

Any 'savings' on engaging a 'cheap interim' may be swallowed up delays and recovery costs if the assignment proceeds poorly or if the 'cheap interim' leaves you in the lurch. You get what you pay for.

The actual value of professional interim managers and executives

Engage in a fee discussion on the basis of the **added value** that interim managers offer through:

- **Return On Investment** – delivery of a solution that gives real benefit to the client
- **Speed** – being quickly available and able to make an impact quickly
- **Expertise** – being sensibly over-qualified with a wealth of skills and knowledge
- **Objectivity** – outside of company politics with a business focused perspective
- **Accountability** – being instrumental in an assignment's successful delivery
- **Effectiveness** – with the authority and credibility to effect significant change or add value
- **Commitment** – a professional interim approach to deliver then exit in a good way

For *real* added value, engage a proper interim manager.

Gatekeepers

You may run into other client intermediaries who wish to debate (or set) cost ahead of a business conversation. This may be HR, Procurement or others.

As an 'product to purchase', or 'person to hire', interim managers sit uneasily half-way between Procurement and HR with variable levels of knowledge held by these parties about interim management, from poor to great.

As with any other intermediary, you can only engage fully when you have all the facts at your disposal, so ask intelligent questions that will enable you have a meaningful conversation.

So as neither 'fish nor fowl' it falls to the professional interim manager to 'help' the 'gatekeeper', in cases where there is not such a full understanding of the interim management value proposition, in order to be let through the gate, to be allowed to deal with the end client. Once you have satisfied the gatekeeper, the real negotiation can start. It is unusual for the end client not to be able to overrule gatekeepers on matters of fees, once value is justified and accepted.

Preparing for the 'face-to-face' meeting

We have explained that interim management and 'permanent employment' are not the same.

Before you meet to 'chat', 'have a meeting', or more formally 'pitch', you have already:

- Understood your own value, expertise, availability
- Understood the market, and other in the running
- Prepared your target, fallback and scoped your trades and concessions

Next, find out about the other parties in the negotiation, who are they? Check them out on LinkedIn, on Google or on their company website.

Does your network include anyone from that company who can share some 'public domain' information about how things are?

The main reason for doing all this is to try to assess what the other party wants from this deal. You are looking for both hard and soft information, facts and figures as well as information about personalities, culture, strategy, working style, authority, internal company politics etc. If you are handling a 'crisis' assignment, this may help you better understand the depth of the crisis!

Be ready to sell the benefits of your proposition. Consider what negotiating style you will adopt. Clearly it won't be confrontational, but it should be 'confident' and 'expert' and 'collaborative'.

If any of your points are difficult to understand verbally, you can prepare brief written notes and illustrations that underpin your value proposition.

The ‘face-to-face’ meeting

Arriving to your meeting, looking professional, well prepared, with the confident air of an expert with business relevant solutions in hand, you are already well down your ‘success checklist’. Price reflects perceived value. Do everything you can to reflect that value.

Try not to worry about ‘other candidates’. You can’t ‘second guess’ those other people’s expertise or rates, so don’t. The client will want to buy the best solution at the right price.

When the price discussion arrives, your behaviour during that exchange will be key in how successfully your negotiation will play out.

- State your fee expectations confidently, clearly and logically.
- Follow the plan you prepared beforehand.
- Avoid jargon.
- Don’t keep talking or ‘over-justify’ your price. Once stated, shut up!

What happens next may be that the other person writes down what you have said and the discussion moves on. This doesn’t mean the ‘deal is done’, but it’s a good thing to happen and implies some level of provisional consent which you can work to ‘lock in’ later.

The other possible outcome is that the other person falls off their chair, spills their coffee, drops their pen, or makes pained sucking noises (or any combination of the above).

These behaviours are not an excuse for immediately lowering your price, remain as ‘Sphinx-like’ as you can and wait for the other person to say something. Write some worthy comments in your note-book to fill the silence if you have to.

If they then push back on price (known in the trade as an ‘objection’) take that as a ‘good sign’. If they are not interested in you, they would have little need to debate the price further with you ahead of a ‘Dear John’ e-mail.

Use questions to understand or clarify why they are saying what they are saying. Be ready to offer up further explanation to support your value proposition.

So not: ‘That BMW is expensive’, ‘ok you can have it half price’
Instead: ‘That BMW is expensive’, ‘let me explain what you get for the money’

Listen out for and politely challenge misunderstandings or inconsistencies in the logic or validity of the other person’s points. You are the ‘subject matter expert’ after all.

You could help put the price in context; It’s similar or only slightly more than the actual cost of employing someone, or put the cost in context against their hourly spend on lawyers and accountants, or put it into context against a still higher Consultancy cost.

Put constructively, you could explore with the client, the costs to the business of **not** solving the problem, but that is a tack that requires judgement and sensitivity.

If you truly have explained your proposition and the price objection still remains, you may then explore other ideas to bring you together, as you have prepared ahead of time.
Don't give something for nothing. **If** you make concessions, get something **in return**, whether it is more or less tangible. As we discussed earlier, these concessions may include:

- Agree to work 4 or 4.5 days but keep the day-rate up.
- Agree to limit your services to match a lesser rate – then charge for 'extras'
- Agree to exchange a day-rate drop for a completion 'upside'.
- Agree willingness to feature (subject to success) as a reference 'case study'.
- Agree to work from home / closer location some days.
- Agree a strong Interim 'title' or testimonial

Don't undersell your value as an Interim. Be innovative. Sell your services intelligently and passionately. If the 'benefits' are correctly sold, the client business will be happy and willing to pay your fee and consider they have received decent value at the end of the assignment.

Closing the deal

The 'deal close' may fall within a face-to-face meeting, or it may only be a conditional close, pending a decision against other unseen candidates; It may even fall to a post-meeting telephone conversation, to negotiate the close.

Regardless of the setting, when agreement is reached, document it, including any trades and concessions of value to you. There is a strong psychological value to a handshake even in this contractually focused age.

Then move swiftly into 'adding value' following up with solution focused proposal documents, project briefs, etc.

Conclusions

All of this positioning and negotiating may seem like a lot of wasted effort. I beg to differ.

Knowing your value, being able to articulate that value and having the skills to negotiate a reasonable fee gives you a better chance of making an assignment you **do** secure 'count'.

The learnable skill of fee negotiation could increase your fee by 10-20% without prejudicing an assignment nearly secured. That margin makes a real difference.

A Sales Interim would be criticised for not making a strong case for their fee. Why are other functions considered to be 'fair game' or an 'easy target'?

Best success with your day rates and fee negotiations.

Acknowledgements

This article was compiled by Ad van der Rest, triggered by two discussion thread on the LinkedIn group: Interim Management IIM, “Fee rate vs. Salary” posted by Roger Emmens and “Day-rates and day-rate negotiations” posted by Ad van der Rest. All of this, some 8 years ago now (2010/11).

These fee discussions ‘raged’ over the best part of 2 months, via 90+ discussion comments. Thanks are offered to the comment posters and further contributors who added to this endeavour. They are:

Bryce Barrett, Viv Blake, John Bowen, Stuart Copeland, Tony Evans, Angela Franks, Matt Jefferson, Nick Lake, Ian Lawson, Sara Livesey, Martin Lloyd-Penny, Diane McWade, Andy Montgomery, Matthew Needham, John Niland, Les Ormonde, Yvonne Payne, Eamonn Phillipson, David Philpott, Tom Pickering, Graham Rae, David Randall, Andy Rothery, Barry Ryan, Katrina Shepherd, Tim Spriddell, Mark Stacey, Alison Stevens, Andrew Turner and George Williams

The article has received a significant refresh in July 2019 so that it is ‘up-to-date’.

The Institute of Interim Management (IIM) is a fully independent professional Institute incorporated as a not-for-profit organisation. The Institute is run by a team of seasoned interim managers and is committed to supporting interim managers and working collaboratively with other sectors of the interim management community and business.

One of its aims is to share clear ‘no-nonsense’ information about interim management with the interim management and the wider client communities.

https://www.iim.org.uk

http://www.linkedin.com/groups?gid=2339933