MANAGEMENT CONSULTING SERVICES
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TOP-DOWN / BOTTOM-UP PROJECT FEE BUDGETING

Budgeting, scheduling and coordinating are ways in which Project Managers plan for the most effective utilization of their resources: people, time, technology and money. The importance of budgeting depends to a certain degree on the type of contract used for the project. For contract with a fixed, lump sum or guaranteed maximum fee, preparing a fee budget is critical, since the compensation is limited to a maximum amount and fee overruns are generally not recoverable.
Fee budgeting might be less important for those projects being done on an hourly basis without a maximum. Not many of us see these types of contracts anymore. Regardless, I believe the design professional still has a responsibility to provide their client with some idea of what might be a projected fee. As the scope expands, the fee projected will also be expanded. Most clients will have some expectation of what they expect to pay for your services, even with an open-ended hourly fee.

The following are two (2) ways to develop a Project Fee Budget:

1. Top-Down Fee Budgeting:
   This process is most applicable for public sector projects that have a fixed fee set by the client (e.g.: government agencies). Since the fee is already established, your concern is to determine if the requested scope of services is feasible for this given fee. The best way to do this is to evaluate each component of the fee. Most importantly, this would entail determining each task to be done in each phase of the work and then estimating (hopefully using some previously completed, similar project) the number of hours to complete each task/phase at an average hourly rate for the staff to be assigned to the project. This process will provide a break-even (B-E) cost for the services requested. Your calculated B-E cost may exceed the fee established by the client. If so, it would be necessary to negotiate for a reduced scope of services (or a higher fee) to allow for some level of profitability. If this negotiation is unsuccessful, the decision to go, or not go, becomes one of risk/loss assessment. This method does not provide much opportunity for including 'value-added' compensation.

2. Bottom-Up Fee Budgeting:
   This process is the reverse of the Top-Down process. This is the most common approach, which allows you to determine the fee for a defined, specific scope of services. Again, as with the Top-Down approach, the most important part of the process is determining each task to be done in each phase of the work and then estimating the number of hours to complete each task/phase at an average hourly rate for the staff to be assigned to the project. Once all of the component B-E costs have been calculated, a 'value-added' percentage of profit can be included to establish the fee to be negotiated.

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An essential tool in calculating the fee for these two methods is knowledge of each assigned staff member's 'break-even' cost for their hourly billing rate. This will allow you to establish an appropriate 'value-added' profit percentage

Using these approaches to defining scope and fee will not guarantee a profit will be realized at the end of the project. They will however provide a 'road map' to earning that profit. If the fee analysis calculations are reasonably accurate and the client agrees to the scope and fee, the chances of completing the work and making a profit are better than if these fee/scope setting approaches were not used.

The goal is to create a win-win negotiation. However, with these methods you can maintain control of the negotiation process. Sometimes, to 'win' the negotiation you may have to say "no thanks" to a client. Your knowledge of what the project will cost the firm to deliver (the total B-E cost) will give you the upper-hand in any negotiation. You have the opportunity to 'choose' a lower profit margin, negotiate the fee upward, negotiate the basic scope of services, or just decline to accept the offer. Regardless, you get to make the business decision that you deem best for the firm; and then you live with the outcome…good or bad.

Good luck!