

JUSTIFYING AN ENGAGEMENT FEE

Recently a recruiter who had just asked his new client to pay an “engagement fee” contacted me. The client’s response was:

“What’s the matter? Do you have a cash flow problem?”

The recruiter was caught off guard by the client’s question and was not certain how to respond so he bought some time and called me. As this is not an isolated situation for those who request up-front money, it does present an opportunity to examine the possible responses.

First of all it is important to clarify the definition of “*engagement fee*”. In its purest sense, an “*engagement fee*” is a predetermined amount of the agreed upon fee that is paid to the recruiter up-front, prior to commencing the search. Although there is no standard amount for an “*engagement fee*”, it should be reflective of the commitment that is necessary to lock in the client to an exclusive working relationship. Generally speaking engagement fees range from 20% to 33% of the agreed upon fee, and once paid, are nonrefundable. The remainder of the fee is contingent on the successful completion of the search.

Unlike a pure retainer relationship, where the fee is usually paid in three installments predicated on the progress of the search, an “*engagement fee*” is a compromise between pure contingency and retainer. Its primary purpose is to create an atmosphere of mutual commitment between the recruiter and the client.

Remember

There is one thing worse than conducting a search on a poorly qualified order and that is conducting a search on a poorly qualified order where you have been paid an engagement fee.

When you ask for up-front money you are placing your credibility on the line. You must perform. Therefore, make certain that the search meets the necessary qualifying criteria (see “*Eight Is Enough*”). In and by itself an “*engagement fee*” will not remedy the shortcomings of a poorly qualified order.

As I explained to the recruiter, there was probably one or a combination of reasons why his client asked the question about “cash flow”.

1. The client was trying to be a “wise guy” just to see how you handle the question.
2. The client was sincere and wanted to know whether or not you have a “cash flow problem”.
3. The client was not ready to commit to an exclusive relationship on this search because he was not convinced you could produce the desired results.
4. The client didn’t have the authority to pay an “*engagement fee*” and believed he could not get approval.
5. The client didn’t understand the purpose of an “*engagement fee*” and needed to be educated regarding the benefits of this type of relationship.



Therefore, the recruiter's first objective was to find out which of the reasons applied to his situation. This, as I explained could be accomplished through the use of a transitional questioning technique. Examples include:

"It's interesting that you should ask. Based on your hesitation, I was just about to ask you the same question." (Wait for a response)

Or

"On the contrary. Cash flow has nothing to do with it. It's a question of mutual commitment."

Or

"Your question surprises me. With your prior openings, have you ever worked with a professional recruiter?"

Or, after gaining an initial response:

"Considering the importance of this position, why do you have an unwillingness to commit to this type of arrangement?"

Or

"Do you have the authority to approve the payment of an engagement fee?"

The possibilities and combinations for your response to the "cash flow" question are only limited by your creativity. The objective is to reframe the discussion in order to address the real hesitation the client has regarding the paying of an "engagement fee".

In many instances (as it was in this case) the client doesn't understand the benefit of committing to an exclusive relationship and paying an "engagement fee".

Remember

The cost of your service to the client remains the same whether or not they pay an engagement fee. The only difference is the manner in which the fee is paid.

The client either has confidence in your ability to deliver results or they do not. Trying to sell the concept of an "engagement fee" to someone who doesn't believe you can handle the search is a waste of everyone's time. So, if this is the client's concern, you need to address it. In most instances, this will require a repositioning of yourself, your service, and most importantly your processes.

If the client doesn't understand the justification for paying an "engagement fee", then you need to guide them through the process of establishing an organizational "value" for the position. If the "value" is significant, the priority should more than justify an exclusive relationship based on the payment of an "engagement fee".

It is most important to stress that the “*engagement fee*” represents a mutual commitment. Your commitment to the client is reflected in the amount of time, energy and resources you are prepared to expend on their behalf. Their commitment to you is reflected in the exclusive relationship that is created by the payment of an “*engagement fee*”.

Bottom line, an “*engagement fee*” is a formal declaration of your mutual commitment. Therefore, make certain the proper circumstances are present before you ask for one. Be mindful that in asking for an “*engagement fee*” you are basically saying to your client that you believe it is in their best interest to work with you on that basis. If they refuse to do so and you choose to take the search on contingency, you are basically saying that you are willing to work with them under an arrangement that is not in their best interest. At this point, if you have any credibility remaining, it will quickly evaporate creating a situation where there is little likelihood for a successful outcome.

Priorities, reality and timing are all important factors to consider when deciding whether or not to ask for an “*engagement fee*”. However, when the circumstances clearly require a strong, mutual commitment between you and your client, accept nothing less.



*Terry Petra is available for one-on-one coaching, consulting and group training through “**Petra On Call**”, a cost effective approach to receiving the full benefit of his expertise. For details on Terry’s products and services, including “**Business Appraisals**”, visit his web site at: www.tpetra.com. As always, if you have questions or comments about this article or wish to receive Terry’s input on any other topic related to this business, your calls and e-mails are most welcome. Terry can be reached at (651) 738-8561 or e-mail him at Terry@tpetra.com.*