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Margin Defense: Ideas Worth Considering for 2027

Clients are trying to buy the same work for less by wrapping the ask in "efficiency" or "AI savings," but most member firms aren't realizing savings from AI - it's a cost center (tools, tokens, training). These are some considerations; you'll use your own judgment on what fits each client relationship.

1. Pricing & Rate Strategy

- Push 2027 rate increases now, framed around keeping pace with inflation.
- Customize the rationale per client (what the team delivered, how staffing costs rose) rather than sending a blanket notice.
- Open negotiations at your highest price - it's easier to negotiate down from a strong baseline than up from a weak one.
- If the budget stays flat, tie any incremental work to new rates rather than absorbing it into the existing scope.
- Where you can, shift toward value- or deliverables-based pricing. It caps scope creep by defining the deliverable upfront and removes the need to track and reconcile hours.
- Reconsider the retainer as a financing mechanism rather than a default: build a full project/AOR scope of work, then divide it into monthly payments across the engagement.

2. AI & Technology Cost Recovery

- Charge a tech/tools fee (current benchmark ~3–4% of monthly revenue; some firms are getting 5–8%) or bake it into the rate card - either can work, but don't absorb it.
- Hold the tech fee as additive rather than letting it get funded by shrinking the retainer ("just take it out of the $35K").
- Frame AI as a cost center (platforms, tokens, governance, training), not a source of client-facing savings.
- Sell AI as speed-to-action and sharper judgment rather than "efficiency" - efficiency is the word that invites a client to ask for a matching budget cut.
- Hold the line on AI-related discounts at renewal; efficiency gains should convert to margin rather than get negotiated away.
- Forecast token costs explicitly so spend doesn't erode margin invisibly.

3. Contracts & Payment Terms

- Aim for 30–45 day payment terms - beyond that, you're effectively financing the client.
- Negotiate payment terms separately from scope/fees; bundling lets procurement extract concessions on both at once.
- If extended terms are unavoidable, get something back: a larger upfront retainer, quarterly pre-billing, a multi-year commitment, or an early-payment discount.
- Cap pricing/team holds at 30 days post-proposal - beyond that, ask for a signed LOI or partial retainer.

4. Procurement Process Defense

- Decline reverse auctions layered onto a strategic RFP; compete on strategy or price, not both.
- Push back on cost-plus/built-up hourly models in favor of value- or scope-based pricing.
- Ask for a budget range before committing to a full proposal.
- Ask for a disclosed evaluation framework before investing in a full RFP.

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- If pricing negotiation only surfaces after the strategic pitch, treat commercial terms as their own separate conversation.

5. Scope & Retainer Management

- Treat the retainer as scope tied to defined deliverables, not a bucket that quietly absorbs “add, add, add.”
- When a client adds scope, ask for something to come out - don’t let retainers accumulate work for free.
- Build senior time into scopes deliberately where judgment or risk is highest, and hold that line when there’s pressure to push it to junior staff.
- On new business specifically, deliverables- or outcomes-based pricing is worth implementing, since it caps scope creep from day one.

6. Staffing & Utilization Discipline

- Run individual client profitability regularly to catch problem areas early.
- Check salaries, bill rates, and utilization targets against the new PRC Workforce Economics Study (report coming soon) to make sure none are out of range.
- Track actual utilization monthly; high utilization can mask over-servicing that’s eating away at your margin.
- Tie any salary band increase to a bill rate increase.
- Make sure work is staffed at the right level, not over-seniored, not over-juniored.

7. Value Narrative Discipline (what to say to clients)

- Avoid pitching AI as “do more with less;” position it as freeing capacity for higher-value work instead.
- Open pricing conversations with outcomes (decisions, judgment, reputation, risk) before any mention of tools or cost.
- When a client asks, “Shouldn't AI lower your rates?” - a simple answer is, “You’re paying for judgment, not time saved.”
- Lead pricing defenses with reputation’s financial value (pricing power, faster crisis recovery, lower talent cost) rather than justifying individual line items.