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Introduction

In determining an appropriate commercial model, there are some key considerations to bear in mind, many of which will come to life during the 'Needs Definition' phase. Remember that the commercial model adopted supports the specific outcomes identified, and consequently must drive the right behaviours both within the Client and Supplier organisations.

Commercial Principles

It is definitely not a case of 'one size fits all' when it comes to commercial models. It is typical for the commercial fee types offered to vary according to the type of consulting services, the nature and business objectives of the project, the level of perceived risk and other specific circumstances.

Consultancy services can vary significantly based on the Client's need – from the provision of 'off the shelf' products or software, to high numbers of personnel, to highly specialised and targeted services and advice. If asking a Supplier to provide a type of services which are not their usual niche or where there is no existing relationship and knowledge of the Client business, there is every possibility that the Client may end up paying more for the privilege or receive a lower standard of output. Managing this successfully requires clarity regarding understanding of the market and then having an open engagement and discussion with Suppliers early on to aid appropriate shortlisting and supplier selection.

Your requirements and the market in which you are operating will impact the commercials. The uniqueness of the services being procured, scarcity of resources, the levels of supply and demand and the perceived market value of the services will all be influential. The delivery of leading edge services may also be of strategic importance to the Supplier and may impact their desire to deliver the work and hence impact the price. It is not unreasonable for the Supplier to make a market-competitive commercial return on the services. Neither is it unreasonable for the Client to wish to get the best value for its money. This brings a natural and healthy tension to the buying process.

As a general principle, the commercial arrangement which is put in place between the Supplier and the Client should ultimately be beneficial and appropriate for both parties.

What are the different Commercial Models?

The selection of an appropriate commercial model will be informed by a Client's business needs assessment. For example, if you have a competitive procurement, for evaluation purposes you may need to define a consistent pricing model for each Supplier to follow; whereas procurement through a single tender may invite more innovative pricing models. It will of course vary according to the Client's service requirements, the circumstances for a particular project and levels of perceived risk for both parties. When a Client conducts its business needs assessment, it will also need to consider if it requires a more flexible and open pricing model, a specific and fixed pricing model or more innovative pricing.

Here are a range of key commercial models and fee arrangements that may be used for consultancy services along with the pros and cons of using them.

1. Time and materials – *the conventional approach, providing flexibility*

In a Time & Materials (T&M) model the Supplier charges based on the actual time it takes to deliver the services based on an agreed rate. A rate per hour or day is usually agreed for each grade of the Supplier for the relevant services. Rates are either agreed prior to each engagement or increasingly commonly as part of an agreed rate card contracted in a framework agreement discussion.

When to consider it:

➢ T&M is generally used for simplicity for smaller or discrete pieces of work, or when deployment of resources is urgently required or it is not possible to accurately estimate the scope or duration of work (and consequently costs) with reasonable confidence. It therefore allows for flexibility to respond to change or when the scope is unclear.

Advantages:

✓ Gives the Client complete visibility of actual rates.

✓ Enables a flexible and simple agreement to be set-up, understood and delivered against – both for the Supplier and the Client.

✓ Enables Client to track at any point in time the actual spend.

✓ An estimate should be obtained with a T&M proposal. This gives the buyer some level of confidence around the expected price.

Limitations:

❖ There is less certainty as to spend.

❖ The Client has to monitor progress and target completion dates so there are no unexpected surprises when the invoice arrives.

❖ T&M many not incentivise the parties to lock down scope.

2. Capped time and materials – *the risk averse, providing certainty*

This model works on the same basis as T&M with the exception that there is a cap on the Supplier's fees to deliver the agreed scope of services.

When to consider it:

- ➢ Given budgets are not limitless; T&M models with a cap are commonplace where the Supplier will accept this position. Where you need certainty that a certain price point will not be exceeded, but still require some (albeit a reduced) level flexibility in terms of scope, this is an effective model to use. Supplier 's in such circumstances will expect scope to be defined in detail or they will make clear that what is delivered will be constrained by the cap – clearly in terms of providing certainty, the former is preferable to the latter.
- ➢ The Client will need to be clear about the scope and outcome expected to ensure that they are delivered within the agreed cap.

Advantages:

- ✓ Most of the advantages lie with the Client in this situation as it does not allow the Supplier to price in a risk or contingency for overrun but enables the Client to take the upside of a under-run; if the services are delivered using fewer man days than estimated, the price goes down, but the Supplier will end up picking up the tab over a certain point – provided the scope of work does not change.

Limitations:

- ❖ Capped T&M pricing presents the Supplier with similar risks to fixed fee engagement (i.e. unrecoverable overruns), without the potential upside from delivering more quickly.
- ❖ As such, Suppliers are more likely to insist on a stricter change control process to ensure that they are able to recover fees for any additional work which was not originally planned. This can sometimes restrict the flexibility of the relationship and increase levels of bureaucracy.
- ❖ The Client carries some of the risk if the work has not been sufficiently well scoped and finds the outcome delivered is different to what it expected.

3. Fixed fee – *knowing where you stand*

In a fixed fee model, a quote is provided for the specified scope of work and deliverables, and once agreed, this price does not vary with actual fees incurred by the Supplier. Changes to price will be as a result of change requests to cover movements in scope or failure of assumptions, and with a fixed price model it becomes especially important that this change request process is very clearly defined in the contractual terms of the engagement. In a fixed fee model, it is not unusual for payment to be tied to milestones whereby the Supplier's fees are only triggered upon reaching certain pre-agreed milestones throughout the course of the delivery. This incentivises speed of delivery and ensures services are delivered to a pre-agreed standard.

When to consider it:

- A fixed fee approach is appropriate for well-defined engagements with achievable goals, where both parties are clear on what has to be delivered and their respective responsibilities. The Supplier will only consider delivering services on a fixed price basis where it can establish with reasonable certainty the resource profile and time required to deliver the services and typically where the Client environment is known.
- The Supplier is unlikely to accept this fee model where they have little ability to control delivery of the elements for which they are responsible.

Advantages:

- ✓ As a Client, it removes the need to track or audit the hours worked by the Supplier.
- ✓ There is certainty.
- ✓ It shifts the over-run risk, assuming that scope does not move to the Supplier.

Limitations:

- There is a significant risk for the Suppliers in delivering to a fixed price contract (especially on larger engagements) and that risk is likely to be reflected in the price.
- As with capped T&M, a fixed fee model requires a strict change control process to be in operation. It also requires good governance so that discussions on impact on price due to changes as well as other external factors such as Client and Client's third party Supplier environment is regularly reviewed.
- The contracts for fixed price engagements can take longer to agree on account of the need for the parties to acknowledge and accept agreed parameters bounding the scope of each party's activities.
- The Client needs total clarity around the scope and outcomes expected.
- The Supplier would expect much greater autonomy as to how the project is resourced.

4. Risk and reward – *get creative to drive value and share the risk!*

The three models discussed above are quite commonplace. In more recent years, risk and reward models are becoming popular. This is because as the competitive landscape for Suppliers evolves, the size and project complexity increases, consequently the focus of the commercial contract shifts towards linking payment to value delivery. Therefore having a Supplier with some "skin in the game" helps the Client share its risk and helps the Supplier create a potential upside.

When carefully applied to the right engagements, risk and reward pricing offers significant opportunity to strengthen Client/Supplier relationships and deliver against shared goals. With the Supplier's fees linked directly to the Client's objectives or strategic imperatives the Client knows that both parties will be pulling in the same direction.

Pricing can either have a "risk" element, i.e. some of the Supplier's fees are at risk against successful delivery, or have a "reward" element, i.e. the Supplier recovers higher fees based on successful delivery, or a combination of both.

When to consider it:

- Simply put risk and reward pricing is the linkage of fees to engagement or business performance outcomes. However, due to the range of different types of models which could be used it is difficult to state when risk and reward should and should not be used without putting the different types in context.
- Models vary in their complexity and the extent to which value is linked to reward in order to incentivise delivery against agreed targets and shared goals.
- The table below groups risk and reward models into 3 categories of increasing complexity and value-focus. Each of the below models can be used alone or in combination with other commercial models discussed:

Increasing complexity and value-focus

Model	Description
Contingent fees	A fixed percentage of the Supplier's fees are held back and only paid when certain simple outcomes or criteria are met, or deliverables produced to an agreed standard. Often the timing of the payment of the fees may also vary.
Outcome-based payment	The Supplier's fees are paid in proportion to the success to which they deliver against one or more outcomes. This can often be based on a range of measures in an attempt to drive a balanced scorecard. The measures normally relate to a set of performance outcomes, rather than deliverables, for example improved process efficiency or quality. If set up correctly this model is excellent in driving a focus on value delivery but can be onerous to administer.
Economic outcome-based billing	Economic outcome-based billing is similar to the outcome-based payment model above, but fees are linked on a sliding scale based on an agreed financial or economic outcome measure which improves as a direct or indirect result of the Supplier's services. These models can be structured with a base fee estimated on a T&M basis to allow the Supplier to recover at least some fees, with the outcome-based fees rising in line with the economic measure at an agreed rate.

Tops tips for success with innovative pricing arrangements:

1. Make reward criteria objective and capable of accurate measurement. The development of criteria requires mutual input from both parties and a mature and trusted relationship between the parties. It is key that the Supplier and Client both agree a baseline against which criteria are being measured so that progress from the end point to the start point is understood.

2. Be crystal clear on what the payment mechanisms are:
   a. Ensure the payment mechanism is detailed extensively in the signed contract – not just in a proposal document. Use worked examples to demonstrate how payment would be due in different scenarios.
   b. Be clear on when, how and by whom outcomes or measures will be reported and ensure definitions are mutually agreed. Make sure the Management Information you have in place is sufficient and will stand up to challenge. For economic outcome-based billing, where clients publish annual accounts, metrics quoted here are often a good starting point. Be very clear on what triggers payment.
   c. Consider agreeing a clause which allows the mechanism to revert back to T&M at an agreed rate should there be mutual agreement that the risk and reward model is no longer appropriate.
   d. Think carefully about how other stakeholders may impact the mechanism or wish to influence it, e.g. subcontractors, or leaders of other related projects or initiatives.
   e. If you cannot agree on a performance metric which drives strategic value, is not strongly linked to the Supplier's services, and can be accurately reported on, then do not proceed! The Supplier will be unlikely to accept metrics that relate to elements of the project over which it cannot exercise control.

3. Try not to make a risk and reward model overly complex. A significant level of resource may be required to administer more complex mechanisms. For example, the use of a balanced scorecard in an outcome-based payment model can require full time resources to monitor this for larger engagements.

4. Discuss the potential of building in the ability to change the reward criteria throughout the delivery of lengthy programmes, provided they can be mutually agreed in advance. This can work well in a project likely to be exposed to change over the course of delivery. A new measure can be mutually agreed at regular checkpoints throughout delivery to ensure targets remain relevant and do not drive incorrect behaviours.

5. Where incentive fees are not set at a fixed value or percentage (i.e. they are in proportion to the level of success delivered), it can be a good idea to put a cap on the fees paid.

6. Likewise, it can be a good idea to set a base fee in any type of risk and reward engagement, so that the Supplier can recover at least a minimum level of cost. This comes back to the namesake "risk and reward" by ensuring that there is an appropriate balance of risk and reward for both parties to make the deal viable.

7. The Client should have budget available and signed off for the very maximum of potential fees due to the Supplier – regardless of how unlikely it is that they will reach this level!

8. Where cash flow is an issue, think about flexing the *timing* of payments. A sophisticated Supplier will factor in the time value of money, however, this is another level to pull in the negotiation process where budgets or cash flow are a restraint. For example, incentive payments can be aligned to benefit realisation thereby delaying payment and also ensuring the Supplier is focused on the likelihood of delivering benefits rather than just identifying them.

5. Premium pricing – *you get what you pay for*

Where the Supplier can truly differentiate themselves from the rest of the market place in terms of the capability they can deliver or the level of value they can bring to clients, the Supplier may be reluctant to apply a rate card. This may be driven by supply and demand where demand for certain resources is very high and supply in the market place (or even within the Supplier) is scarce or indeed by the Supplier's eminence or reputation in a certain market. Premium Pricing can be applied to people, work streams, types of services or whole engagements and can be applied to any commercial model.

When to consider it:

➢ In those cases where you are limited in terms of alternatives and where compromise on the quality of deliverables is not an option.

➢ Where you are prepared to pay more for a superior team. For example you may wish to pay for a more senior-loaded team in order to get the services delivered in the time and to the standards you require.

Advantages:

✓ Premium prices are often associated with higher quality in the market place, which means you can expect a quality, differentiated product which could be leveraged over your competitors.

Limitations:

❖ Simply put, the cost is higher for the Client.

❖ Suppliers will have different grade definitions, so Clients need to be careful that they are paying more for better experience and skills, rather than just a title.

6. Volume discounts – *hey big spender!*

Unlike the pricing mechanisms discussed above, volume discounts are only relevant in the context of framework agreements which can then be applied to multiple engagements. Clients may see it as a way of incentivising them to place more business with the Supplier; Suppliers may see it as a loyalty discount to recognise the volume of work.

Volume discounts work on the principle that the more a Client spends with a Supplier, the more it is rewarded with either a discount on future services or a rebate on work done to date, usually at a tiered rate. This is like a loyalty discount. It can be a useful tool for both parties provided that there is give and take. If the Client has driven a hard discussion on the rates in order to introduce an additional layer of commercial pressure through volume discounting, this may result in Supplier's choosing to work elsewhere.

An example of a simple volume discount pricing structure is shown below:

Cumulative Annual Spend*	Discount on agreed rate card thereafter
£0 - £x,000,000	0
£x,000,001 - £y,000,000	a%
£y,000,001 - £z,000,000	a + b%
£z,000,000 +	a + b + c%

** The value normally resets once every year or two*

The percentage discount or the total monetary amount obtained can then be used:

(i) up-front to discount each future engagement above certain cumulative spend levels, or

(ii) as an end-of-year "cash back" option or

(iii) as a rebate for the next year's activities.

When to consider it:

- When you are keen to procure a large volume of services, especially when the provider has a proven track record and you are confident the provider can add value to your organisation in the coming years.

- From an administrative point of view, volume discounts can be very difficult to track, especially when the buyer is a large multi-national where services are being procured and delivered across different geographical areas. For this reason it is essential to clarify in the framework agreement exactly which business units, locations and consulting service types are subject to the discount. It is also important that there is governance which must be followed that explicitly states which parties at the Client and Supplier organisation must be informed in order for spend qualifying for the volume discount to be included in the total.

  Note that depending on the Client's or Supplier's organisational structure it may not be feasible or viable to have volume discounts based on global revenues. A local arrangement may better reflect the reality of the relationships and arrangements.

- It is normally expected that VAT and expenses are not included in the volume calculation, but make sure this is explicit in the agreement.

Advantages:

- ✓ Further price discounts from Suppliers.
- ✓ Gives the impression to Supplier's that you are keen to do significant volumes of business and results in potentially significant business relationships that are mutually attractive on account of the depth of knowledge and business experience that the Supplier can develop with the Client and the commercial advantage that the Client gets.
- ✓ Gives the Supplier the opportunity to increase the scale of business they receive.

Limitations:

- ❖ Can be complex to administer for large, multi-national buyers where the discount applies across multiple jurisdictions.
- ❖ Unexpected deals often catch both parties out unless the deal has been thought through thoroughly, e.g. secondments, work in progress or early termination, exchange rate fluctuation
- ❖ May tie the Client (or at least incentivise Client) to use one particular service provider rather than driving the discussion on who is the best fit.

If in doubt about which commercial model to use, engage with the Supplier and ask them to provide some options and highlight the risks and advantages associated with each approach. A good Consultancy will be able to advise on a commercial arrangement which is beneficial for both parties – after all it is in their interest to build a healthy on-going relationship.

Related commercial terms

There are other commercial nuances which are worth being aware of, regardless of the commercial model which you put in place.

Rate card structure

For any T&M-based arrangement, it is typical for a Supplier to offer services to you at a rate which varies per resource grade/experience. Be sure to set out and understand what is expected at each grade with clear grade definitions, detailing for example the number of years' experience, levels of expertise in key areas, and if any relevant qualifications are expected.

Overleaf is an example of how different grading's could be defined. Note there is no single agreed definition in the marketplace but if you have nothing in place to begin with this is as good any place to start.

Professional Staff Level	Description of Level	Day to Day duties
Partner	Recognised expert in the subject matter, >12 years business experience at least 7 of which in a leading function, provides guidance and overall direction, oversees multiple client teams and ensures high quality and consistent services; has a share in the company and its financial risks	The partner's responsibilities in relation to the overall client relationship include: 1. Coordinates the integration of Consultant's services to the client. 2. Provides high quality delivery of all services. 3. Provides a critical sounding board for the client. 4. Understands the range of services to be delivered to the client. 5. Determines the composition and required knowledge, skills, and experience of the client service team with the assistance of the engagement partner. 6. Develops a client service plan and keeping the engagement partner and other appropriate Consultant personnel apprised of the overall performance. 7. Provides communication channels for the client service team. 8. Evaluates client satisfaction with services delivered and acting on issues arising from such evaluations. 9. Assists in the development of additional work for Consultant. 10. Manages the overall fees charged to the client. 11. Acts as Consultant's principal point of contact with the client.
Principal Consultant / Director	Recognised expert in the subject matter, >10 years business experience, manages multiple client teams, reviews and manages day to day activities. Provides guidance and overall direction; set to become a full partner of the company within the next 1-3 years	This position manages a variety of complex engagements or projects, consistently adhering to professional practice standards and independence requirements. The senior manager provides leadership to and manages a team of professionals, achieves specific revenue and accountancy income objectives, and delivers designated engagement realisation. Typical principal duties include: 1. Manages a full portfolio of clients and projects and uses a wide knowledge and skill base to carry out a variety of project types. 2. Manages engagements or projects with strict cost control and delivers expected engagement realisation, revenue, and accountancy income objectives. 3. Maintains expected utilisation level for self and staff members as appropriate. 4. Manages engagement and project billings and collections. 5. Advises client senior manager teams. 6. Develops sustainability in the market place through specific practice focus. 7. Manages risk and risk/reward equation. 8. Reviews audit working papers to ensure they meet all professional requirements. 9. Recruits new team members and conducts performance management for current team members. 10. Delegates work to team members.
Senior Manager / Senior Consultant	Recognised expert in the subject matter, >8 years business experience, manages multiple client teams, reviews and manages day to day activities. Provides guidance and overall direction	This position manages engagements or projects, consistently adhering to professional practice standards and independence requirements. He or she manages and provides leadership to teams of staff level professionals, achieves specific revenue and accountancy income objectives, and delivers designated engagement realisation. Typical principal duties include: 1. Manages engagements or projects with strict cost control and delivers designated engagement realisation. 2. Maintains expected utilisation level for self and staff members as appropriate. 3. Manages engagement and project billings and collections. 4. Manages a full portfolio and uses a wide knowledge and skill base to carry out a variety of project types. 5. Develops sustainability in the market place through specific practice focus. 6. Manages risk and risk/reward equation. 7. Reviews audit working papers to ensure they meet all professional requirements. 8. Recruits new team members and conducts performance management for current team members. 9. Delegates work to staff.
Manager / Consultant	Expert in the subject matter, >6 years business experience, manages multiple client teams, reviews and manages day to day activities. Provides guidance and overall direction	1. Manages overall engagements of varying sizes and scope and may handle engagements for clients with multiple subsidiaries or divisions. 2. Performs a significant amount of audit field work below the management level. 3. Takes some responsibility for overall engagement planning and job administration. 4. Plans and monitors the engagement budget and assists managers in billings and collections. 5. Provides guidance and instruction and monitors the progress of the engagement team. 6. Informs management of engagement progress and client relationship issues needing attention. 7. Maintains expected utilisation for self and subordinate staff. 8. Identifies and suggests solutions to all key audit and reporting issues. 9. Assists in preparing fee proposal and bringing to conclusion the fee agreement with clients. 10. Manages defined elements of engagements of increasing complexity. 11. Assists management group members in carrying out special engagements. 12. Actively seeks out work from managers and senior managers.
Junior Consultant	>3 Years' Experience, holds a University Degree and holds a professional accountancy qualification or equivalent. Responsible for day-to day activities on a client site	1. Manages their own work stream rather than the engagements 2. Performs work below the consultant level. 3. Takes some responsibility for overall engagement planning and job administration. 4. Supports in planning and monitoring the engagement budget. 5. Assists in reviews of client's systems of accounting, internal controls and consolidated accounts. 6. Informs Senior Associate/management of progress/significant development on assigned engagements.
Analyst / Graduate	<3 Years' Experience, holds a University Degree and is studying for a professional accountancy qualification or equivalent. Responsible for day-to day activities on a client site	1. Analyses, adjusts, and prepares various financial schedules, exhibits, and summaries as required. 2. Manages portions of engagements or is in charge of small field engagements. 3. Plans, organises, coordinates, and controls all assurance assignments allocated to him/her. 4. Identifies accounting and audit issues and appropriately documents the issues and their conclusions, Consulting with appropriate firm members as necessary. 5. Assists in reviews of client's systems of accounting, internal controls and consolidated accounts. 6. Informs Senior Associate/management of progress/significant development on assigned engagements.

Be aware that if a grade structure is proposed which does not fully align to Supplier's internal structure, there is the potential that as the Client you will pay the same price for two resources which are not equally matched – which could be disadvantageous to you as a buyer. If the rate card is intended to be used in a competitive scenario where multiple Suppliers are proposing their rate cards, it will be key for the Client to be able to compare on a like for like basis.

Also be clear in contracts about what happens when a resource of the Supplier working for you is promoted during their tenure on a live engagement. Will the additional cost be passed on or absorbed by the Supplier? What is most reasonable in the context of Client's approach to changes of personnel? In these cases the Supplier will look to pass on their additional cost, which may be justifiable if they are delivering to a higher standard – but be clear to agree this principle in advance of the project commencing.

Another commercial aspect to agree is the approach to annual rate increases. These rate increases may be by reference to an annual discussion or a more objective pre-determined criterion such as inflation or a suitable index. Often consultancy services cover a breadth of markets and skills and therefore there is a degree of complexity as to the appropriate measure for reviewing and uplifting rates. Also, a consideration will be the treatment of rates and any associated uplifts for projects that span a longer period of time. It is key to be clear in the contract whether these can be passed on to the Client or not.

Typically the areas highlighted above are the subject of extensive negotiations and there are a number of commercial levers that will impact the discussion in the terms and conditions also such as payment periods, the treatment of expenses, ownership of intellectual property, the treatment of liability, the extent of other compliance requirements such as reporting and policy compliance. It is clear that from the Client's perspective there will be a desire to secure what is perceived to be the "best value" but, on the other hand, it is reasonable for the Supplier not to suffer death by a thousand commercial cuts and hence a meaningful discussion in the round by aligning interests and focusing on those areas that are key for the particular circumstances of a project is more likely to foster a good working relationship and hence position a project for success.

Overtime

In true T&M commercial arrangements which are operating on an hourly rather than daily rate, the Supplier would be expected to charge any overtime they work. However, it is not uncommon for an 8 hour cap to be agreed for each working day, and for a working day to be defined by reference to this number of hours per day during Monday to Friday (excluding bank holidays). In a project that may span multiple jurisdictions, or a project that requires greater support (e.g. maintenance and hosting agreements), these timings may shift. There will be a commercial impact on the Supplier to make its resources available and so again, in the interests of driving the best deal, the Client should carefully assess its needs realistically beforehand.

Where it is agreed that overtime can be billed, any such time is often capped to a limited number of hours to prevent excessive hours being worked and billed.

In any case, if excessive overtime hours are being worked by the consultant team, this may be an indicator of other issues on the project in terms of scope management, challenges in relation to dependencies or indeed that work has not been resourced appropriately in line with the scope of services.

Taxes

Tax might not be everyone's favourite subject, but there are some key things to look out for so that you can seek advice from experts within your organisation.

VAT is normally applied to consulting services and payable by the Client. The quote you receive is likely to be exclusive of VAT, but ask the Supplier to be explicit if they have not been already. According to your industry, VAT might only be partially recoverable, which affects budgets available.

When services are being procured from overseas, Withholding Tax (WHT) is sometimes applicable whereby Suppliers cannot be paid in full and a percentage of the invoice is withheld subject to the taxation rules in the procuring jurisdiction. Although the onus may be on the Supplier to recover the withheld fees, it is worth ensuring that both parties understand this in advance so that expectations are appropriately managed. Again VAT treatment needs to be considered at invoicing stage as VAT may not get invoiced for cross-border services and may need to be 'reverse/self-charged' by Finance or Tax as an additional step.

Also, long-term assignments (usually over 2 years) for the same Supplier personnel in the same location that is not the 'home' location of such Supplier personnel, might attract additional tax liability on such personnel's expenses on account of their long term assignment to the same Client.

Payment

Payment periods

Each contract should specify when payment is due following the acceptance of deliverables and issue of an invoice. Suppliers and Clients will probably both have standard positions for payment periods and these may vary by industry. The standard positions may be negotiable in certain circumstances and need to be considered in light of the overall project timetable and commercial model. This is very much a provision that would be negotiated in the round looking at the other aspects of the contract including the rate card being proposed. There is a cost for a Supplier to excessively delay payment which they would then seek to address through their pricing. The question of timing of invoices is also relevant as invoicing can potentially be in advance or arrears. The suitability of this too will be determined by the project, e.g. where there are significant upfront mobilisation costs or acquisition of assets in order to set up a project for a Client, advance payment may be appropriate.

Offsetting

Offsetting essentially permits a party (usually the Client although in some circumstances, where there is a reciprocal relationship between the Client and the Supplier i.e. there are circumstances in which each purchases services or products from the other) to deduct monies owed by one party from monies due to the other party. The main point to note here that this is complex and administratively burdensome in most circumstances as budget holders and entities may differ.

Tracking how the offsetting is applied is likely to be tricky and can taint relationships through creating issues on multiple projects, perhaps where there are simply matters that need to be worked through on one project. As a general point, the Client should consider how important an offsetting provision is going to be and whether it is a right that it would seek to enforce as Suppliers will typically resist a clause of this nature in relation to Consulting services.

Expenses

The debate in relation to expenses typically centres on whether Supplier or Client policies should be used. Typically the Supplier policies will be fairly regimented and detailed given the likelihood of a mobile workforce; however, they may not be in line with expectation at the Client's organisation. It is also worth noting that in certain circumstances the Client may have more buying power and hence have secured a better deal on certain expenses or operates in an industry that gives it access to such better deals. In these circumstances, the parties simply need to work out what is likely to work best.

Facts to inform this conversation include:

- the fact that Supplier personnel may be on the road and living in hotels for substantial periods and it is in the Client's interest to ensure they can work and travel as effectively as possible, and it is in the Supplier's interests to ensure that its personnel are treated fairly and appropriately and that it has a reputation for such treatment so as to be able to attract and retain the best talent. The Supplier owes a duty to its personnel in this regard.

- On large engagements where the Client and Supplier teams are working closely and travelling together it can become awkward if one group is operating on more favourable terms than the other, and this does nothing to encourage a teaming relationship.

Another commercial aspect relates to the capping of expenses. Clients may seem to obtain some security as to the level of expenses that a Supplier will accrue in order to assist the Client to manage a budget. In this instance, the Supplier may be willing to provide indicative costing of expenses, perhaps as a percentage of the overall project fees, along with a mechanism to require notification if those levels are exceeded. Other ways of tackling this could be to introduce a threshold above which individual expenses are to be preapproved. In any event, it is key to bear in mind that from the Supplier's perspective these are incidental costs necessary to deliver a project and there is no desire or intent for a Supplier to make a profit on expenses, and from a Client's perspective certainty and transparency of costs supports the management of the overall budget.