

CRACK THE PRICING CODE

Implement Value Based Pricing
and Generate Fortunes



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Chapter One

Bottom Line Up Front

Why Value Based Pricing Matters

How your company charges for its professional and business services **affects every nook and cranny of your company**: revenue, profit, costs, growth, employees, competitive position in the market, longevity, ability to deal with rapid changes, and owner wealth.

Value Based Pricing continuously improves the three fundamentals that contribute to enterprise (company) value:

- Rate of revenue growth,
- Rate of earnings growth
- Level of perceived risk

Let's pause for moment. Why should you care about company value today or next week? Owners tend to think they don't have

to worry about enterprise value for years. As we all know, life happens, and the best laid long-term plans could be preempted by the unexpected. Working to increase company value always benefits the company. Value Based Pricing ensures that value is continuously increasing.

The rampant failure of services companies to generate fortunes is due to the belief that time is money rather than believing that *money represents compensation for value delivered.*

Objections!

There are always objections to Value Based Pricing and we need to address them up front because then you'll be free to absorb the 5 Steps to implementing Value Based Pricing. I've heard these objections for more than a dozen years and I am ready!

Top 10 Objections to Value Based Pricing

1. No one in our industry does it that way.
2. Clients will object or be suspicious.
3. We're doing okay. We've been charging by hour since the company was founded.
4. Our work is too complex for Value Based Pricing.
5. We're litigators/designers/consultants, we can't use Value Based Pricing.
6. We don't know the value to clients.
7. We'll get killed by scope creep.
8. We'll undercharge and lose money.
9. Our accounting and invoicing systems aren't set up for Value Based Pricing.

10. We can't keep track of our work/productivity/efficiency.

I respect and welcome objections. They are signs of interest. Each objection is an opportunity to welcome another person into the circle of professional and business services companies who implement Value Based Pricing and generate fortunes.

You will not read here anything about “overcoming” objections. We don't overcome, we reduce, remove, or mitigate objections. To do this successfully means believing that objections are the starting point for new or deeper conversations.

External Pressure

1. No one in our industry does it that way.
2. Clients will object or be suspicious.

These objections reflect past experience. Let's agree that these statements have been true and are true in the current moment.

We address these objections by finding out more. The “industry” is likely vast and varied, so you could ask for more details. Not to interrogate the other person but out of curiosity. Maybe there's one or two well-known practitioners and they espouse hourly billing, so it seems that “everyone does that” and no one does Value Based Pricing. You must ask, “What will it take to make Value Based Pricing the way everyone does things?”

While I know that clients can be suspicious of changes and unfamiliar approaches, you don't have to stick to hourly billing because of that. It's your obligation as the owner and visionary

to address client suspicions. We'll cover many details of how to do that in Step 4 TRAIN. For now, just remember you have the power to reduce or ameliorate that suspicion.

Comfort in the Status Quo

3. We're doing okay. We've been charging by hour since the company was founded.

80% of company owners I worked with during my proprietary research told me some variation of "We've been doing okay with hourly billing." I asked them to tell me more. And we explored what they're not doing or getting or having. What's missing from your life as the owner? Why is "okay" good enough?

These owners begin to imagine what doing well or doing great--what I call "generating fortunes" -- will mean to them.

Many owners choose to use some of their newfound fortune for community leadership and philanthropy. Owners are generous people with great big hearts. They want to contribute. Value Based Pricing makes that possible in bigger ways.

Many owners choose to use their newfound fortune to start another company or partner with someone for a new venture. Creatives have creativity in their DNA and being stuck with doing "okay" is so frustrating. Doing well allows them to create even more.

Many owners revel in the freedom to spend more time with family. Sometimes it's with young children. Many times, if an

owner's been in business for decades, the kids are grown, and the owner can join his or her adult children in their ventures.

When you're no longer willing to settle for doing "okay" what will you do instead?

Strategy, Operations, and Financial Functions Objections

4. Our work is too complex for Value Based Pricing.
5. We're litigators/designers/consultants (i.e., scope of work is unknowable), we can't use Value Based Pricing

"Complex work" is exactly why you should implement Value Based Pricing. You're the expert at complexity! The value you're delivering to the client is your ability to do complex work and deliver the outcome and value they need and want.

Instead of defaulting to this objection, use your expertise to write a correct scope of work and offer it to the client for a fee commensurate with the value of the outcome to the client. Learn to speak confidently about outcomes, not inputs. The client is focused on the outcome they need or want, not the complexity of the work.

Imagine being the client and hearing "it's complex work, we'll have to figure it out as we go." Would you trust that the expert can do it?

On the other hand, imagine saying to a client "It's complex and we're going to achieve the outcome you need and want." You have ensured that client is yours for the long term.

A variant on the “complex work” objection is the one that says “the scope of our work is unknowable” therefore we can’t implement Value Based Pricing. That’s what I hear from litigators, from many consultants, and various designers who don’t know what kind of space they’ll be asked to design.

I used to accept that litigation could justify the use of hourly billing—until I got to talking with litigators in depth. By and large, they believe that they can’t use Value Based Pricing because there’s a lot of downtime and unknowns on the other side. How long will the opposing lawyer take to respond, provide documents, file filings, etc.? What additional information, documents and other material will they require of me?

The more they spoke, the more they made the case for Value Based Pricing. For example, if they charge by hour, they wouldn’t charge for waiting time, so there’s no risk there.

They know from experience (they’re experts!) what is typical or customary in terms of producing materials or responding to requests from the other side. They know this in great detail. Implementing Value Based Pricing would require a period of study and analysis of similar past cases, which I will explain in detail in Step 2 PREPARE. Once it’s done, you have the data you need to confidently implement Value Based Pricing, a fee commensurate with the value to the client. Note that value is not necessarily winning. It is bringing the uncertainty or the conflict to a definitive outcome when there was only uncertainty before.

If you use this objection, ask if it really a cover for objection number 8, the fear that you’ll undercharge.

Objections that Reflect Insecurity

6. We don't know the value to clients.
7. We'll get killed by scope creep.
8. We'll undercharge and lose money.

The next 3 objections on our Top Ten can be mitigated because they represent conditions that are completely under your firm's control once you're committed to Value Based Pricing. We cover this in depth in Step 2 PREPARE.

“We don't know the value.” We advise companies how to do a detailed analysis of the past 12 months of work to determine value delivered and an appropriate fee. As with any new initiative, the value determination will get better with practice and the accumulation of new data. By the time the next 12 months have passed, you'll have even better information on value delivered and the commensurate fee. But you'll never get there if you don't start.

“We'll get killed by scope creep.” Designing a client engagement that provides value to the client within clear and meaningful boundaries, while bringing in a fair fee to your company, can be learned well in fairly short order. Some of the analysis you do to determine the value will help write strong statements of work. Getting really good at conversations with the client—the discovery conversations—will clarify needs, wants and expectations. These all go into the art of writing an engagement document and pricing it for a fee commensurate with the value.

“We'll undercharge and lose money.” This objection reflects another aspect of concern in addition to the previous two. Owners are concerned that they'll underprice because they're afraid one

fixed, value based fee sounds too big to clients. In order for it to be more palatable and not scary, they'll keep the fee lower than they would otherwise. During my research I had many opportunities to coach owners and their teams to speak about how Value Based Pricing serves clients far better than hourly billing. This is part of Step 4 TRAIN. Once they had these conversations, the fear of underpricing--or the shock of the full fee—was significantly mitigated. The key to success is to implement Value Based Pricing in a systematic way, over time, and with different client groups. Everyone one of these objections becomes smaller as the company gains experience and success.

Internal Systems

9. Our accounting and invoicing systems aren't set up for Value Based Pricing.
10. We can't keep track of our work/productivity/efficiency.

If you've been charging by the hour for years, your system is set up for that pricing model. You simply cannot let a tech system dictate the company pricing model. It will take some reworking to set up your system for Value Based Pricing; make sure you get it done as soon as you commit to Value Based Pricing.

One of the keys to successfully implementing Value Based Pricing is invoicing upon acceptance of the project by the client. Whether directed by your CFO, CPA or IT department, system changes need to be made so invoicing can occur instantly.

In many instances the client will be invoiced the whole project fee, with payment due upon receipt of the invoice. In other cases,

the engagement includes a provision that the value based fee is payable in installments. Invoicing systems must be set up to automatically invoice at least 5 days in advance of the payment due date. These system changes are part of Step 3 ESTABLISH.

The questions about tracking productivity and efficiency come up often because companies used to hourly billing have generated this data.

Stop and think why this is. With hourly billing, the firm has a perishable inventory of hours and it needs to know if that inventory is being productive, i.e., being sold for the hourly price. If the inventory is not sold, it is unproductive, and steps are taken to sell more hours. There is no consideration of the value delivered, only for the hours sold.

Hourly billing encourages dis-efficiency, taking longer to deliver the inputs promised, all the while billing for the hours it takes. When revenue and profit are generated by hourly billing, efficiency reduces the firm's revenue and profit.

Value Based Pricing is the essence of efficiency and productivity. The firm delivers the desired outcome to the client in as short a time as possible commensurate with the value. When revenue and profit are generated by Value Based Pricing every measure of productivity and efficiency rises.

What is omitted in the objections about efficiency and productivity is the matter of ethics.

Ethics is the beating heart of Value Based Pricing. We will examine this in depth in Chapter 2.

TWO Powerful Outcomes of Value Based Pricing

There are 5 STEPS to implementing Value Based Pricing for professional and business services firms. They require effort and resources. It can take 6-12months to complete them.

So why bother?

Business Outcomes: More profit (business fortune), increased revenue, maintained or decreased workload, lower stress, freeing the imagination to continually create new value.

Personal Outcomes: More of what you want personally including more time and energy for family, friends, leisure, philanthropy, creativity, innovation, to follow new interests, improve health, travel, build your personal fortune.

If you don't want these outcomes, that's up to you.

If you do want these outcomes, the time is now to Crack the Pricing Code and Implement Value Based Pricing.

Chapter 2 explores the pros and cons of Value Based Pricing from the firm's perspective and from the client's perspective. You'll find it fascinating.

The following 5 Chapters explain the 5 STEPS and include plenty of actionable tactics for your professional or business services firm.

Fortunes Depend on You

There is no magic wand or silver bullet that will help you increase enterprise value. There is commitment to doing the work. I hope you'll read on and choose a few tactics to start doing today.

I live by the motto of the great Mark LeBlanc: "No change, no change."

CRACK THE PRICING CODE

Implement Value Based Pricing for Services and Generate Fortunes



 — COMMIT — Step One	— PREPARE — Step Two	— ESTABLISH — Step Three	— TRAIN — Step Four	— GROW — Step Five
<p>Shift Your Mentality</p> <p>Value based pricing means revenue (fee) is paid to us for our knowledge, expertise, speed, and quality that have value to the client. As value increases, fees increase. There is no intrinsic dollar value to time.</p>	<p>Articulate Value</p> <p>Articulate in writing three quantitative and three qualitative outcomes you deliver to clients. Examples: reduce number of low-profit engagements; eliminate unsold hours; prioritize innovative value; deliver quality outcomes at speed commensurate with the work.</p>	<p>Refashion internal policies and practices</p> <p>Refashion internal company policies and procedures to support VBP: marketing, sales, terms and conditions and accounting/invoicing systems. Marketing and sales must use the language of outcomes and value; terms and conditions must require payment upon acceptance; and invoicing must be instant to get payment in advance.</p>	<p>Role Play</p> <p>Role play client conversations about value based pricing until everyone exudes confidence that VBP is beneficial for every client. Everyone should be fluent with the quantitative and qualitative outcomes.</p>	<p>Sustain and Expand</p> <p>Sustain: Establish a process for providing subsequent VBP engagements or contracts when new needs arise to avoid scope creep.</p> <p>Expand: Establish a product/services development team to continually create new higher-value offerings for higher fees.</p>
<p>Inculcate</p> <p>Inculcate the practice and benefits of value-based pricing in every single person in the company. If doubts linger the whole company will suffer.</p>	<p>Study past 12 months</p> <p>What outcomes were delivered at what price? This study will inform the outcomes and scope of VBP engagements. The more complex, the higher the value, the higher the fee.</p>		<p>Client objections</p> <p>Prepare for the biggest client objection: 'How do we know we're getting our money's worth?' Focus on the outcome the client will receive. Replace a list of inputs with the outcomes. Emphasize knowledge, expertise and quality provided at appropriate speed.</p>	<p>Reduce low value clients</p> <p>Reduce the number of clients who only want low value.</p>