

CRACK THE PRICING CODE

Implement Value Based Pricing
and Generate Fortunes



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Chapter Two

The Bold and Confident Case for Value Based Pricing

Did you grow up dreaming that you'd be consumed by relentlessly pursuing the sale of billable hours?

Are you struggling to price your knowledge and expertise in a way that makes sense to you and your clients?

Do clients and prospects threaten to take their business elsewhere for a better price?

You don't have to live like this.

Crack the Pricing Code: Implement Value Based Pricing and Generate Fortunes helps professional and business services firm owners spend every day doing what they really dreamed about--helping

their clients—and frees them for innovation and creativity, leisure and family time, philanthropy, or business expansion.

I've put to rest, in Chapter One, the top 10 objections to Value Based Pricing. If you find yourself thinking “but...” while reading this chapter, revisit Chapter One. It's called the Bottom Line Up Front for a reason: you must put the objections to rest before you can willingly and eagerly embrace Value Based Pricing. The objections either have no basis in reality or can be eliminated or mitigated to practically nothing.

The Definition of Value Based Pricing

This book is based on the following definition of Value Based Pricing:

Value Based Pricing is when professional and business services firm charge fees that are commensurate with the value delivered to the client.

Value Based Pricing is not quoted to buyers in terms of time, except for a period of performance (start and end date.) The provider includes unlimited access by the client during normal business hours. The scope is well defined and agreed to by all parties. Should other needs arise, new Value Based Pricing engagements are created.

When you and your employees are not relentlessly pursuing billable hours, and when you're not consumed by cash flow problems, and when you nurture client relationships that lead to creating more value, your clients reap extraordinary benefits.

This Chapter elaborates on the benefits to clients of Value Based Pricing. The next Chapter explores the benefits to your firm.

Benefits to Clients

1. Completely ethical. The client benefits from speed and efficiency and the provider gets paid commensurate with the outcome delivered.
2. Clear and valuable outcome defined in advance.
3. Clear and specific scope of work.
4. One price or fee agreed upon at the outset.
5. Client interests are fully represented.
6. Unlimited access to the provider timely and with no meter running.
7. Outcome delivered efficiently, commensurate with the quality of the work.
8. All project risk is borne by the provider.
9. Expanding and diversifying offerings to help clients climb to the top, achieve their bigger goals.

Ethics and Company Values

1. Completely ethical. The client benefits from speed and efficiency and the provider gets paid commensurate with the outcome delivered.

Does your firm proclaim a set of Values? Maybe they're posted on your website, included in your marketing, and passed along via employee training. You state to the world that your company lives by its values.

Corporate behavior experts say that company values have an across-the-board impact on the company. When done well, every employee from the CEO and throughout the organization knows the values and incorporates them into their decision-making.

That's the point, to ensure that all decisions are aligned with company values. Values are expected to flow through marketing, employee engagement, sales, customer service, and product or services development. In other words, company values are like the air we breathe. Everywhere, impacting everything.

And yet...far too often firms choose hourly billing as their pricing model.

Hourly billing, not values, becomes built into everything they do, from strategy to tactics, hiring, marketing and sales, and customer service. If their clients need some service, such as a question answered or a document sent, there's going to be a cost to the client.

Value Based Pricing is the pricing model that allows the firm to live its values through and through.

Close to 85 percent of professional services firms have 'integrity' as one of their company values.

What does integrity mean?

A person or firm with integrity demonstrates sound moral and **ethical principles** and does the right thing, no matter who's watching. Integrity is the foundation on which coworkers build

relationships and trust, and it is one of the fundamental values that employers seek in the employees that they hire.

I will add that integrity is the foundation upon which long-term client relationships are built and solidified. If clients don't think you serve them with integrity, they'll sever the relationship.

What could be less ethical, or in conflict with integrity, than hourly billing?

The client's interests are best served by receiving the outcome as soon as possible commensurate with quality, while the firm's interest is in taking as long as possible to deliver the outcome, thereby increasing its revenue.

A law firm recognized the ethics of Value Based Pricing and phased it in over about 8 months. As attorneys were getting more comfortable talking with clients about how they serve them, one attorney had a pivotal realization: she was about to embark on a case that required a lot of research. As she spoke to the client, she was able to say, "I will ensure that your case covers all relevant past decisions." She realized that previously she would have hesitated to say that because the client would understand that the clock would be ticking and would ask if that was necessary. During this conversation, the client was excited hearing that his lawyer would do everything needed to win his case for one value based fee, which he knew and accepted in advance.

Expectations defined

2. Clear and valuable outcome defined in advance.

Value Based Pricing turns the provider's thinking and conversation from inputs to outcomes and the value of those outcomes to the client. Clients understand value to them and embrace it. Remember, no one calls an expert and says, "I want to buy this input." They call and say, "I have a problem and I need a solution that's of value to me."

Some outcomes are quantitative, others are qualitative, and some engagements produce both. These are examples from our clients:

- A lawsuit may result in a monetary outcome as well as peace of mind and the ability to move on with life.
- Accounting services may result in the best possible tax position as well as opening up growth opportunities for the owner because tax anxiety is no longer weighing on him or her.
- Designers have myriad ways to describe outcomes.
- Exterior design makes the building inviting to clients, improves property value and increases preventive maintenance, which alleviates unexpected big repairs in the future.
- Interior designers can speak about lifestyle, comfort, amenities, property values and risk mitigation.
- Visual arts designers' work improve brand recognition, makes presentations and digital copy appealing, effectively transmits the company's message, etc.
- Educators and trainers can talk about the improving the quality of work, strengthening interpersonal

relationships; organizational effectiveness; culture building, and many others.

- The specialist consultant says, “our compliance work opens the door to your money.”

No matter your specific work, there are valuable outcomes from it. First, learn to ask what the client wants, needs, and desires. Then speak about delivering that value to them, and Value Based Pricing will become your most effective marketing approach ever.

3. Clear and specific scope of work.

Value Based Pricing requires that both the client and the provider agree on the scope. I don't mean a list of all the inputs. The scope describes outcomes, and the boundaries needed to achieve them. In the engagement agreement, you'll want to clearly state the areas of interest that are included, and perhaps a few tangential ones that are excluded.

The client relies on you to define the scope by outcomes and value, not inputs.

The corporate training company struggled in two different ways with pricing. 1) When they charged for the number of participants, their corporate clients tended to reduce the number invited to attend. 2) When they charged for time, their clients tended to ask for shorter programs.

We worked with the partners to study the outcomes of their programs for their typical clients. (Step 2 PREPARE). They had measurement tools and were able to document

meaningful changes in the areas the client companies were seeking. We studied how different numbers of participants and different lengths of time impacted the outcomes. It turned out that the best outcomes were achieved with more participants (up to a point) and the length of a program was less of a factor.

As they phased in Value Based Pricing, they shared their findings with clients. They learned to write clear and specific scopes of work related to the outcomes desired. They dropped the detailed list of inputs, such as pre-work, post-session reviews, and number of workbooks or other artifacts. They said that all participants had access to them before and after the program between certain dates.

Clients embraced these changes. If there were ever questions about their programs, they could review the scope, and resolve any concerns. The company increased its revenue and profit over the following year, while mitigating the old objections.

You can also use the conversation about scope to plant the idea that there are other outcomes they may want, and that each of them can be delivered via a separate engagement and Value Based Pricing agreement.

Writing a clear scope helps you go deep in the current work and avoid chasing shiny objects. It also sets the stage for other work, maintaining a client's satisfaction and your firm's ongoing relationship with the client.

4. One price or fee agreed upon at the outset.

Certainty cements relationships. Value Based Pricing is that cement. The client has the certainty of the outcome and the cost. The firm has the certainty that it will be compensated for the value provided, without regard to time. Both parties have certainty the bill will be paid in advance or by pre-determined installments.

Client Interests Above All

5. Client interests are fully represented.

Since Value Based Pricing eliminates the ethical conflict of hourly billing, clients are assured that their interests are fully represented and prioritized. The firm says, “We will deliver this outcome to you at a certain time.” The firm may include some benchmarks along the way to demonstrate progress towards the outcome. Decisions and choices are always made in the best interests of the client because that is the essence of Value Based Pricing.

Compare this to hourly billing, where the best interests of the professional or business services provider firm are paramount. The pressure to sell billable hours is unrelenting, causing the firm act on its own behalf before it acts on the client’s behalf. No firm that charges by the hour actually addresses this, which allows them to sweep it under the rug. But clients know.

The bookkeeping services company clung to their resistance to Value Based Pricing because they believed their work was

“too complex.” They worried that one task would open up a can of worms and lead to other tasks or requirements they couldn’t anticipate. Hourly billing allowed them to charge for every step along the way. Clients would never know the total cost until the work was finished.

They agreed to do STEP 2 PREPARE, to explore the possibility of Value Based Pricing. We dove deeply into several of their most complex client projects from the previous twelve months. We started with the original problem or task and followed the trail as that task uncovered other issues that need resolution.

This study illuminated this FACT: they know, with 95% certainty, which tasks typically open up cans of worms and lead to additional tasks. They know the volume of additional work and the period of performance. They could definitely implement Value Based Pricing.

The client interest is fully represented. Clients know and accept the value that will be delivered to them. They know the fee at the outset and can pay in installments if the work takes longer than one month. They are assured that if something unexpected comes up, it will be handled without delay.

Value Based Pricing ensures there’s no doubt in a professional business relationship that the provider is working in the best interests of the client.

6. Unlimited access to the provider timely and with no meter running.

Do you want your clients to pause a finger over your phone number and think “Hmm, I wonder what this call will cost me?” That’s the mentality that hourly billing creates. Time and money over matter and importance. But hourly billing causes so many other costs: delays, re-work, low customer satisfaction scores, limited referrals, low margins.

Before phasing in Value Based Pricing, a landscape designer charged by the hour. Every time the owner or manager of a commercial property wanted to ask a question, the lead designer on the project turned on the clock. Each month’s invoice included the charges for these calls. Pretty soon clients stopped calling. The less often they called, the more unanswered questions there were and the longer the project took. Costs often rose to mitigate problems that had been left unaddressed.

The company owner commissioned a customer satisfaction survey of clients from the past 2 years. He was shocked at the extent of the dissatisfaction. The number one complaint? Charging for every phone call!

Once the company adopted Value Based Pricing and emphasized that the lead designer was always available for calls--short or long, basic or complex--calls increased. At the same time, projects were completed more quickly, there was nearly no re-work, and customer satisfaction scores rose dramatically.

Within one year the firm enjoyed double the number of referrals, and regularly gained compliments for their responsiveness to clients, all while increasing revenue by 50%.

Value Based Pricing and unlimited access pays off in big ways.

7. Outcome delivered efficiently, commensurate with the quality of the work.

I define efficiency as delivering the high quality outcomes without wasting time, materials, or energy. It is not simply the one dimension of time. It may be that an experiment or trial and error ends up contributing to the value delivered, even though it isn't as quick. The client isn't paying for only speed, they are paying for speed combined with quality and value.

That's a big difference, and one which clients understand and embrace when you talk about it with them. (Step 4 TRAIN).

When you're free to work efficiently, your mind opens to new possibilities and innovations. The more you can create value that contributes to the promised outcome, the better you're serving your clients.

On the other hand, there are times when creative and innovative work requires patience, trial and error, repetition, testing or slowing down. You're free to do all of these with Value Based Pricing—because the client is paying for the outcome, not your time.

8. All project risk is borne by the provider.

This is obviously a great boon to clients. They no longer have to bear the risk, as with hourly billing, of all the project risk: poor or incomplete plans, terrible implementation, missed deadlines, change requests by the client, logistics failures, and so on.

The firm that bears all project risk understands how that contributes to value. The riskier the project, the greater is the value to the client when that value is delivered. The smart, experienced professional or business services firm takes all of these risks into account in their Value Based Pricing process and is compensated for them.

A large portion of the value delivered to clients is the value of completeness and correctness; of quality and timeliness; of high-performing team members. All of these reduce project risk and deliver value to the client for a fee commensurate with the risk, quality, and complexity inherent in the project.

Asking the client to bear the risk, which is the case with hourly billing, is a huge turnoff. It gets clients' radar on high alert. What are we missing? How will they cheat or scam us? How do we know that they're working for us for during each minute they charge? Could they be working faster? Do we really need all these people?

Value Based Pricing considers everything, including risks, and gives the client peace of mind that your firm will deliver the outcome no matter what.

Clients Grow with Your Support

9. Expanding and diversifying offerings to help clients climb to the top and achieve their bigger goals.

In every instance where a professional or business services firm phased in Value Based Pricing and phased out hourly billing, they also improved their best value offerings, innovated, and created new, higher value offerings, and eliminated those with low value.

I use the word ‘offerings’ as an umbrella for all the various *outcomes* a firm delivers that require knowledge and expertise.

Knowing that they’ll be compensated for the value of their work, and relieved of the relentless pressure to sell billable hours, services firms begin to ask questions that lead to new and expansive offerings.

In Phase One of the transition to Value Based pricing, the CPA firm bundled several different valuable outcomes into packages. There were three levels to give clients a choice. Each package carried an annual Value Based fee, payable in monthly installments, which were automatically debited from a bank account or charged to a credit card. The cash started flowing regularly into the CPA’s account.

After only two months, the firm’s founder observed that he was using energy once devoted to cash flow to build and deepen client relationships, which invariably led him to see new opportunities to deliver more or different value to those clients. The more creative he became, the more clients wanted his help and the more they were willing to pay.

Clients are Eager for Benefits

Your professional or business services firm can absolutely deliver these benefits to its clients and use these benefits as marketing and relationship building tools with prospects.

Chapter Three looks deeply at the benefits to your firm. We know that if benefits are one-sided, you won't implement Value Based Pricing. Beyond that, the chapters about Step 2 PREPARE and Step 4 TRAIN teach you how to leverage these benefits internally as well as with clients.