CRACK THE PRICING CODE

Implement Value Based Pricing and Generate Fortunes

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Chapter Four
Step One
COMMIT

"What does success look like?"

This is THE question, no matter your endeavor. You must know what success looks like to you before you can begin to achieve it.

What is right for one company may not be right for another.

But you must have an answer! The answer is the impetus for STEP 1 COMMIT.

Clients have answered this question in a variety of ways over the years. And over the years the answers have changed. As they achieved one success, they set their sights on another one.

Here are some answers:

Success looks like stable cash flow no matter what time of year it is. (CPA)

Success looks like getting paid for our value not our time. (Interior designer)

Success looks like not worrying about what the competition charges. (Educator; PR firm)

Success looks like creativity and innovation that clients love. (Specialty consultant; architect; executive coaches)

And others:

- More free time for family (everyone!)
- Fewer new clients needed (professional services)
- Long-term clients. (CPAs)
- Money and time for philanthropy. (Many)
- Higher value of my company, my most significant asset. (Most owners)

The next question is "What do you have to have in order to achieve that success?"

You can't pull success out of thin air or by the snap of your fingers. You need to nail down what it takes to achieve that success.

Among the answers are various assets: people, money, technology, intellectual property, and systems. These are tangible and the firm's owner can recruit them or acquire them from external sources.

Before any of these end up doing any good, however, is the single most important internal asset: **owner mindset.**

Without the right owner mindset, the assets you acquire will not get you to the success you've described.

Mindset is a combination of the owner's vision, mission, and core beliefs, plus determination, persistence, and leadership skills.

Step 1 COMMIT starts with the Owner's mindset. Once the owner's mindset is clear, he or she acts to inculcate the same throughout the company.

How to Establish Owner Mindset

Leadership is not a position or a title. It is beliefs, actions, and examples.

Implementation of Value Based Pricing requires beliefs, actions, and examples from the company leader—whether owner, founder, partner, or executive—every day.

Core Beliefs

You cannot commit to nothingness.

You have to have to core beliefs and principles in order to commit.

Value Based Pricing is based on these core beliefs and principles:

- **Ethics**. Value Based Pricing is the only pricing method that avoids ethical conflicts between client needs and provider needs.

- **Value**. There is only value in outcomes. There is no intrinsic value to time.
- **Innovation and creativity**. These are unlimited and the sources of value.
- **Value Based Pricing is Client-Centered Pricing**.
- **There should be no limits on firm growth.**

Ethics

You believe Value Based Pricing the **only ethical way** to do business. Period, no exceptions, or holding back. If anyone challenges you about the ethics or why ethics is your core belief, you're ready to talk about that.

Ethics requires that you deliver your work to your clients as soon as possible commensurate with quality. When you're billing by the hour, speed is not your friend.

When time is of the essence for the client, Value Based Pricing allows you to get paid for timeliness, rather then feeling cheated because you worked less time and billed fewer hours.

When a client needs heavy support to maintain momentum you know that an agreement built on Value Based Pricing provides that.

What is Business Ethics?

Business ethics refers to the standards for morally right and wrong conduct in business. Law partially defines the conduct, but "legal" and "ethical" aren't necessarily the same. Business ethics enhances the law by outlining acceptable behaviors beyond the legal system.

In the context of a firm's pricing model, hourly billing is legal, but it is not ethical.

Why are business ethics important?

Privately owned companies establish business ethics to promote integrity among their employees and gain trust from key stakeholders, such as clients and customers. Ethics helps bankers, lenders and various partners have confidence in the company over the long term. A company's reputation is protected in an environment of increased stakeholder awareness of behavior and accountability issues.

For instance, if a company engages in unethical practices, such as questionable billing practices, it could lead to a significant loss of customers, erosion of trust, less competitive hires, and owner wealth reduction.

Business ethics is an essential skill.

Almost every privately owned company has a business ethics program of some kind. They post their mission, vision and values which include honesty, integrity, and other trustworthy characteristics. Owners and hiring managers tell me they hire for high integrity and honesty.

Companies are devoting more resources to business ethics, in part because technology and digital communication have made it easier to identify and publicize ethical missteps in any corner of a company.

They understand the link between business ethics and business success.

Business ethics shapes employee behavior.

My clients and many others tell me that they see that their employees are more likely to apply ethical reasoning when their company clearly demonstrates why business ethics is important. The vast majority of privately owned firms tell me that employees who experience a strong ethics culture say they're prepared to handle ethical issues. Companies that live business ethics day in and day out motivate their employees to perform their roles with integrity.

> One conversation sticks in my mind. I was speaking with a CPA about Value Based Pricing compared to hourly billing. He assured me that he turns off his time tracking software whenever he takes a coffee or bio break. I said that honesty—meticulously tracking time on each job—is not enough. The client needs their benefits as soon as possible commensurate with quality. Tracking every minute does nothing to ensure that. It took him awhile and then he nodded his head in understanding. That was the moment when the ethical mindset took root and his journey to Value Based Pricing began.

Business ethics benefits the bottom line.

My clients have seen that business ethics improves profitability. The ethics-based, client-centered Value Based Pricing model contributes more and steady profits. As clients receive the value delivered to them, they want more of it, becoming long-term clients with increasing feelings of customer satisfaction. It is said that over half of U.S. consumers said they no longer buy from companies they perceive as unethical. On the flip side, consumers will express support for ethical companies on social media. Business ethics cultivates trust, which strengthens branding and sales.

A well-implemented ethics program also reduce losses. If your company practices questionable ethics, it may be the subject of criticism and low ratings on social media. That leads to fewer retained clients and increases the expenses of new-client recruitment and onboarding of buyers who will make lower value, lower profit purchases.

How is your firm enshrining ethics in its DNA?

Ethics flows from the top. The more employees see and hear ethical behavior and conversation from leadership, the more they adopt the same, and the greater the company's success.

Value: There is Only Value in Outcomes

Every minute is 60 seconds long; not one of those seconds has more intrinsic value than another. Firms that rely on hourly billing have to contrive a dollar value for each minute.

- Perhaps they start with comparisons to similar providers. But why would you want to let another company influence this critical decision for your firm?
- Maybe they add up all their costs, apply a profit percentage, divide by days and hours, and assign that dollar number to each hour. This has no meaning to the client.

- Perhaps they look at the range of knowledge and expertise in their providers, rank them according to seniority or another factor, and assign a range of hourly rates.
- Perhaps they desire to be known as 'exclusive' and they set hourly rates in the stratosphere, so they appear worthy of that status.

I am simply not convinced that there is any meaningful way to assign a dollar value to time.

Disguises Don't Eliminate the Ethics Problem

If a firm professes to live by business ethics, but still wants to charge hourly rates, they'll often resort to pricing models that disguise the hourly rates.

They know that hourly billing is causing them all kinds of pain, so they look for alternatives and often settle on one or more of these:

- Firm Fixed Price
- Cost-plus
- Retainers
- Packages of sessions, meetings, or calls
- The Therapy model

These are all time-based models in disguise.

They all represent the belief that time is money. They just disguise the fact that time (hours) is a major component of the fee.

Firm fixed Price offers a price to the buyer that covers a specific range of inputs and materials where there are materials. The provider calculates the inputs for the FFP on hourly rates!

Cost Plus is intended to cover all costs to the provider. The "plus" is a predetermined profit factor. Here again, the costs include the hourly billing rate for the professionals involved in the project.

Retainers are lump sums paid by the buyer in advance of the work. The money is held by the provider and as services are provided, the retainer balance is reduced. The retainer is reduced by the hours worked: the hourly rate.

Packages of sessions, meetings, or calls. The sessions, meetings, or calls are measured by time. Whatever the cost per session, meeting, or call, that is the effective hourly rate of the service. This model still relies on time spent by the provider to determine the fee to the buyer.

The Therapy model is an ongoing advisory relationship where the provider charges $X per session that lasts Y minutes. This is clearly time based, even if it is not articulated that way.

Where's the Client?

Do you notice that in all these cases there's no mention of the value delivered to the client? The whole focus of these fee approaches is the provider's time.

Innovation and creativity are unlimited

Innovation and creativity are abundant, unlimited, and never expire, unlike hours.

If you assume the typical American work week of 40 hours, think this through:

> 40 hours times your average or typical hourly rate creates a ceiling for revenue. You have a maximum inventory of 40 hours per provider per week. You can't go beyond that. (If you object based on the possibility of working more than 40 hours per week, you need to re-read Chapter 1 Bottom Line Up Front.)
>
> Selling your time consumes 3 hours. Inventory is down to 37. Admin consumes another hour. Inventory is down to 36. Unsold hours reduce billable hours by 3 more. Client cancellations reduce sold hours by another 3.
>
> Your theoretical inventory of 40 hours per week is now reduced to an actual 30 hours. That's a 25% reduction in inventory and revenue.
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> Costs have not changed; therefore, profit is reduced by 33%.

The Value Based Alternative

Imagine that a client has goals to reach, and they've hired your firm to help them. The goals can be quantitative, qualitative or a combination (most likely.) You and your team tap into your extensive repository of knowledge and expertise, create a plan, and support or complete implementation that helps the client reach the goal.

What has value in this scenario? The time it took to create and implement the plan, or the tangible outcome as defined by the client?

The tangible outcome as defined by the client.

What matters, and what you should get paid for, is that your work leads to life-changing results.

> I mentioned to an attorney, the founder of a business law firm, that I work with professionals, including lawyers, to phase in Value Based Pricing. He groaned and said he wished he could do that. I asked if he'd let me show him how they could.
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> We met a few times. At each meeting we studied a recent case. After the third meeting he understood how he could in fact adopt Value Based Pricing for almost all his legal work.
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> Six months later he forwarded a client note that expressed appreciation for how the Value Based fee reduced her anxiety during an incredibly stressful time. He said this was one of the most meaningful letters he had gotten in his decades long career. He not only helped her with her legal issue, but the process also changed her life.

Value Based Pricing is Client Centered Pricing

The client is front and center in the Value Based Pricing model. Specifically, a value based fee promises that the firm will deliver specific value to the client or buyer, no matter how long it takes. (Materials costs, if any, are included as well.)

Replace the fear that you're going to lose money with the expectation that your firm will generate revenue commensurate to the value your knowledge and expertise delivers to the client. Toss deliverables and embrace value delivered—they are two different things.

Client relationships will get stronger, profits will increase, higher value projects will become the norm, and you'll never again need to charge based on time.

- When the meter is running, as it does with hourly billing, clients are wired to focus on inputs and getting the deliverables rather than on quality and value. After all, the longer you work, the higher the fee. Hourly billing does not connote value, only how much time is spent.
- Value Based Pricing helps you work with the client to articulate their most desirable outcomes. One of the best practices of Value Based Pricing is offering three levels of value, each with a fee commensurate with the value. The client chooses. We dive into this in the PREPARE Step.

A bookkeeping services company Owner pushed back against me when I asked her to consider Value Based Pricing. She said the work is "too complex" for Value Based Pricing. I commented that it's her job as an expert to understand the complexity that lies ahead and price for it up front.

The more we talked the more it became clear that she is always worried about losing money. The firm has met its revenue goals but not its profit goals. This was an indicator to me that she was missing the client-centered approach. She only focused on her firm's inputs, not on the client's valuable outcomes.

She agreed to test this with a client project coming up. She would apply Value Based Pricing to it, do the work as usual, and see if her profit improved.

It did. Why? Because when the owner worked with the client to develop the engagement, she focused on the client's outcome, not on the firm's inputs. She said that they'd do whatever it took to get there and emphasized that the firm built the complexity into the Value Based fee. There would be no suprises for either party. The client was delighted to be assured of the outcome, know the final cost in advance, and not have to worry about a meter running. The profit was built into the Value Based fee.

INCULCATE – Bring Everyone on Board

"How can we get our associates to embrace Value Based Pricing? Everyone is so used to living by the demands of their time sheets." Professional and business services firms' owners and founders ask me this question all the time.

Too many professional and business services firms struggle with Value Based Pricing: they fear losing money; they struggle with how to set value based fees for individual clients; and they don't know how to make it clear to their clients that Value Based Pricing benefits the client.

You know the signs of resistance: delays, thinking this client or that client isn't really the right one. "Well, I just want to continue on hourly basis for a few more weeks," and so on. Time passes, the implementation gets farther and farther away.

The firm leader has to commit from the deepest part of their mind and heart. He or she must believe Value Based Pricing is the ONLY way to work. Anything else fails the ethics test and causes underperforming profits.

Habits are hard to break, and their impact goes deep. Value Based Pricing goes deep too, and it takes a concerted effort to phase out the old practices and beliefs and make Value Based Pricing the default. There is no switch to flip. It's a process that requires 'doing' every day.

Promote Buy-In

Value Based Pricing success requires your most skillful leadership traits and tactics. This starts with setting the expectation that eventually everyone will **buy in** to the change, even as you go step-by-step to adopt Value Based Pricing.

What is Buy-In?

Within companies, buy-in is acceptance of and willingness to actively support and participate in something, such as a proposed new plan or policy.

Note that a unanimous vote in favor is not required. Buy-in is an agreement to do something, even though not everyone voted in favor.

It's the Owner's or Leader's responsibility to lead the buy-in effort for Value Based Pricing. Buy-in precedes action or implementation. Even if you're eager to get started, you must take the time to establish buy-in.

To successfully adopt Value Based Pricing, the Owner/leader must make clear that buy-in, not consensus, is expected.

Why? What's wrong with consensus?

Consensus, as practiced by most leaders, means unanimity. And too often, to achieve unanimity, the group is forced to accept the least progressive, most watered down, approach. The most resistant person controls the outcome or decision. This is no way to grow a company and it in no way puts value and the client front and center.

The success of Value Based Pricing requires that everyone, no matter what their role in the firm, adopt the mindset of ethics and value embodied in the model. They buy-in and act accordingly.

Steps to Buy-In

I. The Owner or leader begins with confirming their own mindset and affirming their commitment to Value Based Pricing. He or she has fully internalized the core beliefs.

II. Think of spreading buy-in as a marketing campaign within the company.

Take the time to understand where employees are. Are they fully immersed in timesheets, efficiency, and a sense of productivity related to the number of hours billed? Those who are not connected to hourly rates—they may get paid by the hour, but they aren't billed out to clients by hour—have likely been measured by some KPIs or other benchmarks.

Throughout the company you'll find people have internalized that time is money and that idea has to be dislodged.

III. Ethics has to be elevated to something that happens every day, in real life. It's not a slogan or theory any longer.

IV. Start talking about value delivered. Outcomes delivered to clients that change their lives in some way. That's the measure: how does what we did with the client change their lives in some way?

Gather people together to exchange stories. Encourage them to ask clients directly and share replies. It's critical that no manager or supervisor criticizes the time this takes, or they'll never get their staff to do it.

The Owner or leader needs to share the story of how their own mindset changed. It is a journey for everyone in a time-obsessed culture. I spent ten years traveling that path!

When leaders tell their stories, they make it possible for their employees to start the journey, rather than feeling stuck.

V. KPIs related to time have to be suspended or halted. This phase lasts a month or so and the firm will survive the process of “de-measurement.”

VI. It’s really useful to have casual conversations around ethics. Not intended to suggest anyone is less than ethical but to bring to light how typical time-based beliefs run the risk of being unethical.

You’ll read many more details in the PREPARE, ESTABLISH AND TRAIN Steps about how to fully integrate Value Based Pricing.

For now, remember that when the leader speaks about ethics and value, and listens to everyone share their own stories, their fears and their hopes, the transformation is beginning.

Value Based Pricing requires building blocks, starting with Commit, Mindset and Inculcate.