How to Find Your Value Based Prices

Excerpted from Crack the Pricing Code: Implement Value Based Pricing and Generate Fortunes

"How do we actually *calculate* our value-based prices?"

That's the first question people ask when they contemplate replacing their time-based pricing model with the Value Based Pricing model.

Here's the shortest possible excerpt from Chapter 5 PREPARE to help you answer the question for yourself.

This excerpt is a quick read with exercises you can do right now to find your firm's fee-to-value ratio.

Susan Trivers, Pricing Consultant Advising Knowledge Firms to Get Paid for Their ***WORTH***

www.Susantrivers.com

 susan@susantrivers.com

There are 4 discrete steps to PREPARE for Value Based Pricing:

I. Articulate value delivered.

II. Study the past twelve months

III. Sort your lists

IV. Establish fee-to-value relationships

susan@susantrivers.com

01

I. Articulate value delivered.

Make a list of quantitative and qualitative value your firm delivers to its clients. Use words such as increase, decrease, speed, access, and others that clients appreciate. Keep each phrase to fewer than 5 words.

1)

2)

3)

4)

5)

6)

7)

8)

9)

 susan@susantrivers.com

02

II. **Study the past twelve months**

List the firm's client projects for the past 12 months.

Next to each project name write down these three facts:

1. The value delivered to the client. Use the phrases you articulated in Step I.
2. The actual fee (dollars) you earned upon delivery of that value.
3. The period of performance (start and end dates).

Client name: Value delivered _____________: Fee $_______; Period of performance ___________

 susan@susantrivers.com

III. Sort Your Lists

Sort the project list in two different lists. One lists ranks projects by period of performance from short to long. The other list ranks projects by hourly rate or fee paid from high to low.

Each example will be in both lists.

What do you see?

Look for these occurrences:

- Which types of projects are at the top of each list, and which are at the bottom?
- Are any at or near the top of one list and the bottom of the other list?
- Do you see certain kinds of projects falling in the same place on each list?
- Do certain clients fall in the same place on each list?

Make note of any patterns and any anomalies that you see.

Look for the following:

- High fee/short period of performance
- High fee/long period of performance
- Low fee/long period of performance
- Low fee/ long period of performance

You may find that high fees are paired with long periods of performance. This is typical of time-based pricing models.

With a successful implementation of Value Based Pricing, you should see high fees paired with high value delivered, and that *period of performance is not a determining factor in the fee*.

 susan@susantrivers.com

IV. Establish Fee-to-Value Relationships

Fee-to-value ratios

A ratio requires two numbers and right now you only have one number, the Fee ($).

We're going to step through the process of creating the second number, the Value.

Create the number that represents value delivered.

- Re-organize the projects on your list in order of the **value delivered**. Which of these values you delivered made the biggest difference to the client?
- Assign the number 100 to the highest specific value delivered. Each smaller or less valuable value delivered will be assigned a smaller number. I recommend reducing the numbers by 5 to make variations easier to see and understand. Thus:

  Value ❶ 100

  Value ❷ 95

  Value ❸ 90

  Value ❹ 85

  Value ❺ 80

And so on.

 susan@susantrivers.com

04

Now you have the two numbers you need for a ratio.

- ➢ Re-arrange the list after you assigned the value number to each. The outcome with a 100 should be first, a 95 next, and so on.

The list below is excerpted from the full PREPARE chapter to illustrate this exercise.

Notice the project with the highest rating of 100 did not earn the highest fee. As described in the full chapter, *Project A was deemed by the client to have “changed the life of the firm and its clients.”* High value indeed!

Project A $152/hr:100

Project B $375/hr:85

Project C $285/hr:95

Project D $255/hr:90

Project E $950 FFP:80

 susan@susantrivers.com

04

My experience tells me that lists like this indicate that a firm priced their hours without regard to value delivered.

- Maybe they chose seniority, or some credentials related to the provider personally.
- Maybe the rate is intended to cover all the firm's costs. That's not relevant to the client.
- Maybe the firm priced just a bit more or a bit less that their competitors.
- Maybe the current rate represents an annual escalation that is only related to the calendar. Not to any value or quality.
- Maybe the fee is just picked out of thin air!

Your firm and your clients deserve the highest value you can deliver for a fee or price commensurate to that value. A well-reasoned value based fee will make clients feel they have more than received their money's worth, and your firm will know you're being correctly compensated for that high value.

 susan@susantrivers.com

It's Your Turn

You and your team can step through this process in an hour or two. Is that too much time for an exercise that will change your life and the fortunes of your firm?

If you're serious about Value Based Pricing and have a few questions about how to find your fee-to-value ratio, I will answer your questions. Send a DM to me to get a time and date on my calendar.

www.susantrivers.com

susan@susantrivers.co