

Value Pricing

Are you charging the right amount?

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Principal

Value Pricing – Are you charging the right amount?

- Contemporary pricing practices amongst the professions
- Knowing how much to charge
- Understanding your value
- How to increase your price-setting discretion
- Aligning pricing goals with clients

No lever has a greater impact on profit

Revenue	\$1.0m
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Impact of a 10% change in price on profit	\$100k
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A 10% price increase can be achieved through:

- Higher rates
- Higher estimates/fixed fees
- Reduced discounts
- Capturing variations, or
- A 2-3% increase in a number of these.

Capturing value

To enjoy on-going success organisations must:

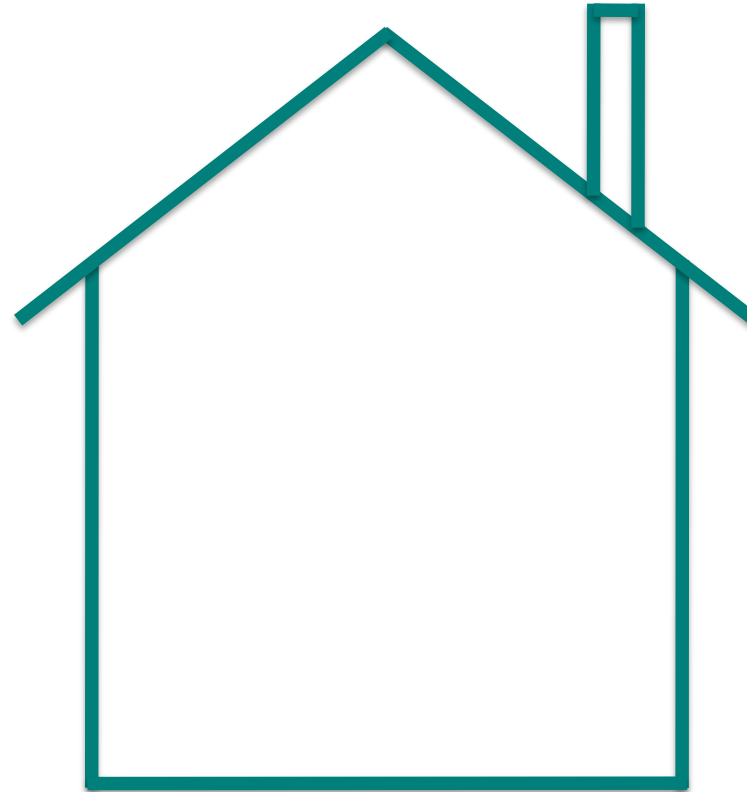
- Create value for clients, and
- Capture a fair share of the value created.

“Most companies focus only on the first”

*“When value capture goes unexamined,
money is usually left on the table”*

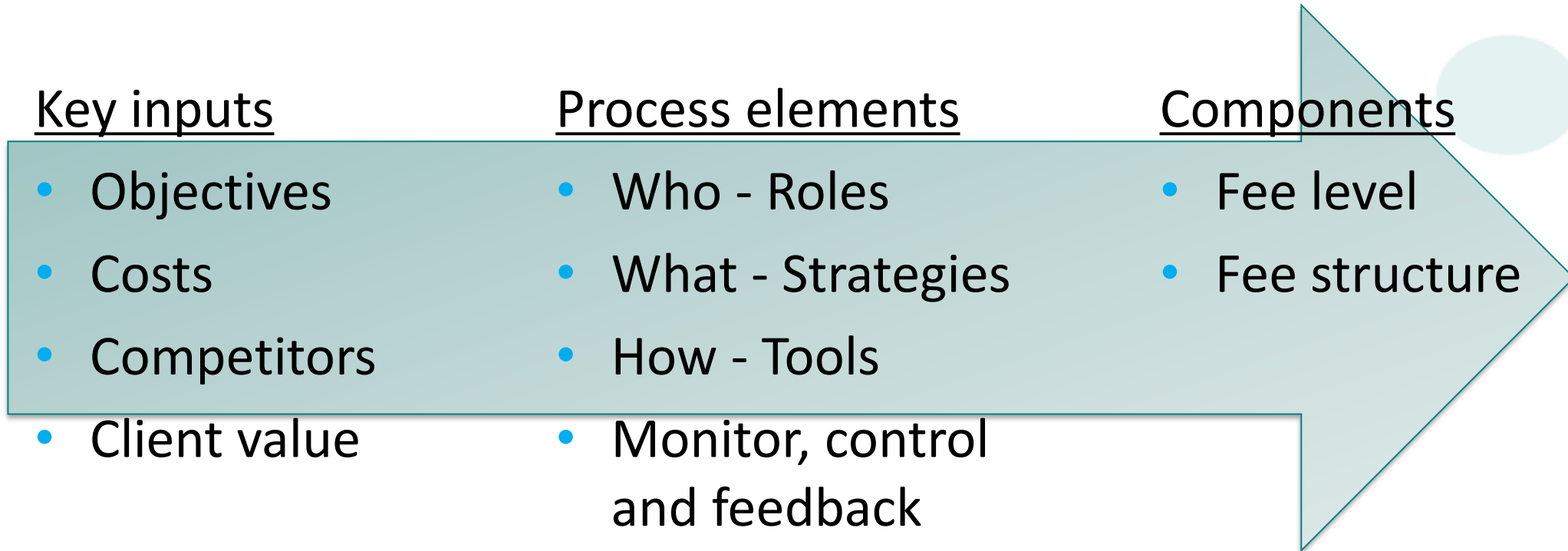
Methods of setting a price

- Value-based
- Market-based
- Cost-plus



What do we mean by pricing?

Pricing is the process of determining what a firm will receive in exchange for its services



The right price

*What are the characteristics
of the right price?*

The ideal price

Fair to the client

- They choose you
- They willingly pay
- They believe they obtained value
- They are loyal and willing to refer

Fair to the firm

- Profitable
- Meets your objectives
- Captures a fair share of the value created
- Appropriate rationing of our time

Key implications

1. It's the clients role to fight for a price that is fair to them
 - We shouldn't begrudge clients playing this role
 - When clients push back on our pricing it doesn't necessarily mean our pricing is flawed
2. It's our role to fight for a price that is fair to us
 - Not in a way that damages relationships – Ideally in a manner that strengthens relationships with clients
 - If you are my business partner, I want to know you are fighting for what's fair to us
3. It's also our role to influence the client's perception that the price is fair
 - We can be passive, or we can actively influence the clients perception

Frame of reference

What are clients comparing your price to?

- Direct competitors
- Competitors in a different market position
- What you charged them yesterday
- The cost of doing it themselves
- The client's perception of your costs
- The benefit to them
 - Estimates you provide
 - Discount off rack rates
 - Discount from original quote
- Options you create

Focus on and sell value

- If we understand the value we add to a client we can communicate this value
- If we can communicate the value we add to a client we can confidently justify our fee

*If we are not competing on superior value,
our only means of competing is price*

Demonstrate value

*We will be seen as an expense to be minimised
or an investment to be optimised*

Understanding your value

There are three distinct ways of thinking about the value you create for clients:

- How are you helping the organisation?
- How are you helping the key individuals?
- What makes your offer superior to competitors?

What's important to the organisation?



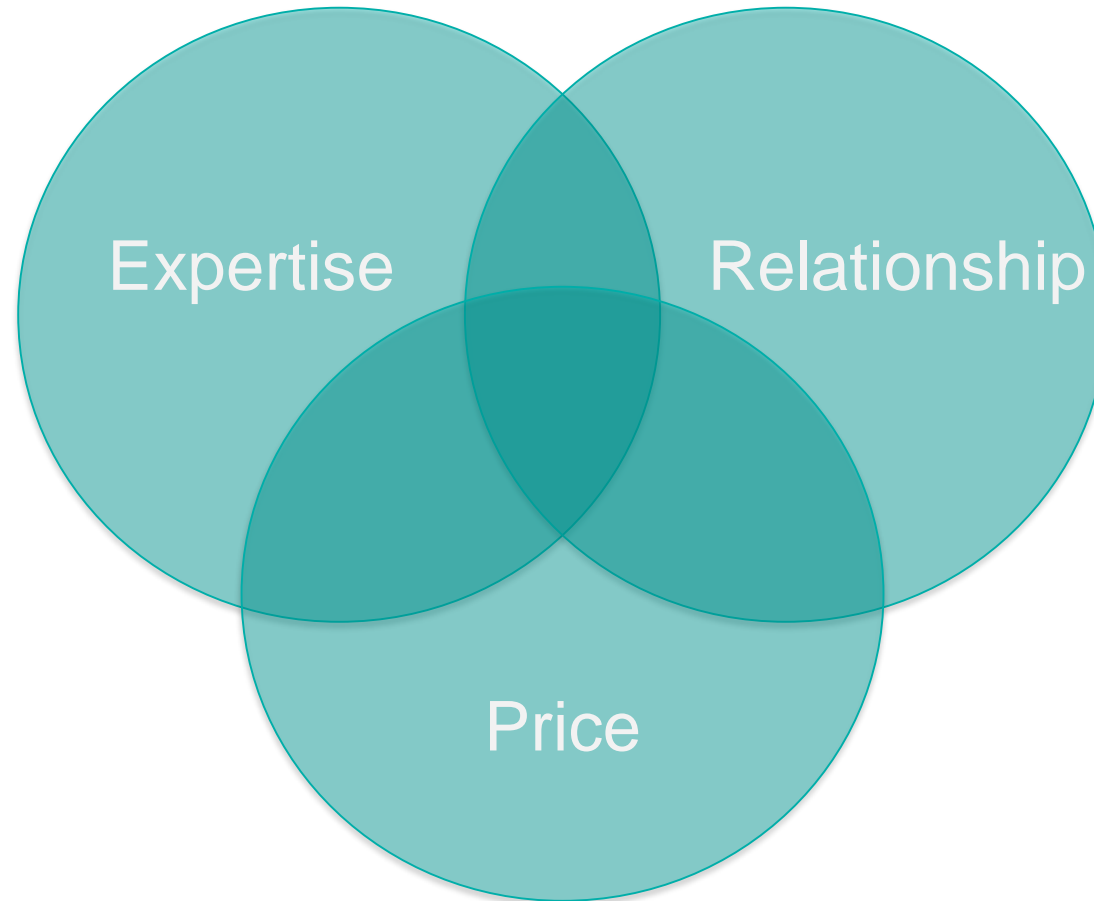
What's important to the key individuals?

- What are their objectives?
- What are their challenges?
- How do you make them look good?
- How do you make their life easier?
- What role do they want to play and how would they like to work together?

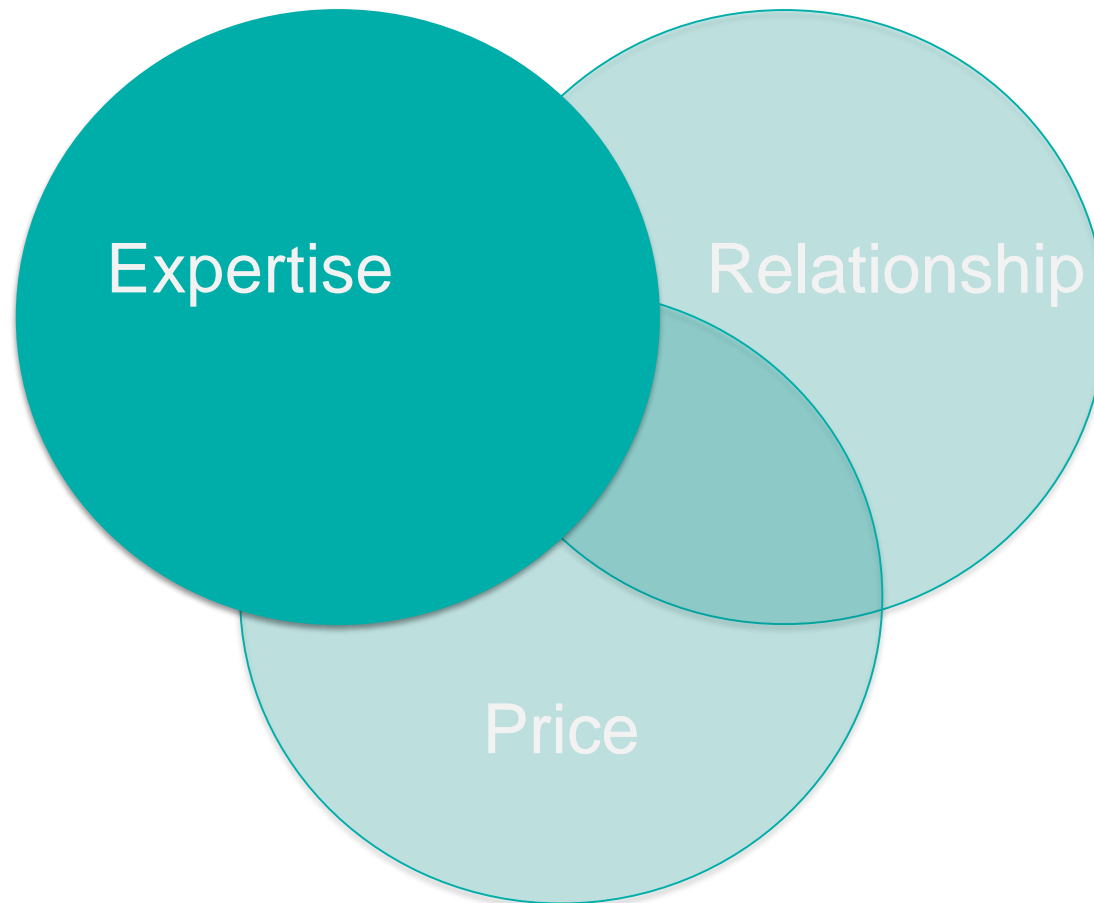
What makes your offer superior?

- The nature of professional services means that no two offers are identical – They are not commodities
- The challenge is to identify the aspects of your offer that make it superior to others
- This may include reputation, expertise, experience, knowledge of the client, relationship with the client and service attitude
- Key questions to address include:
 - What would your best clients miss if you stopped serving them?
 - Why should a rational client choose your firm?
 - How do you justify your rates?

What clients want



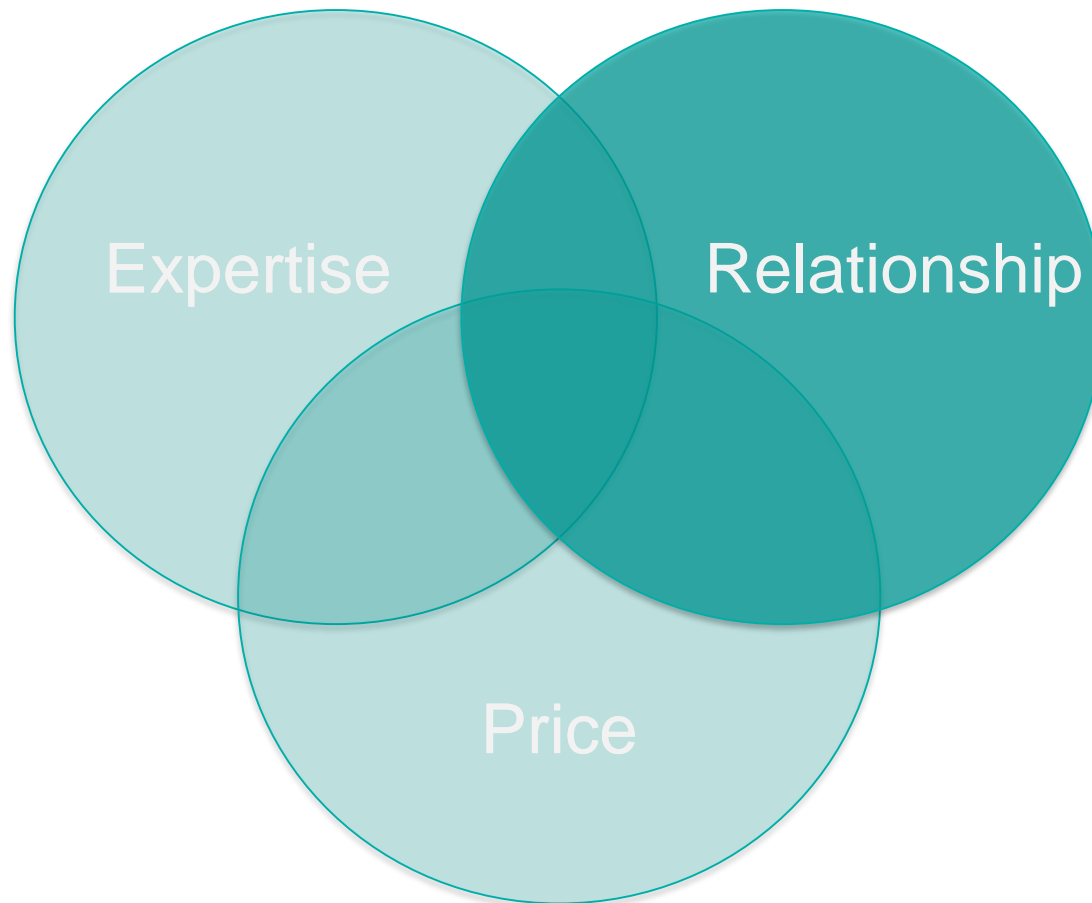
What clients want



Expertise focused

- Who's best placed to assist with this matter?
- *"Nearest the pin"*
- Demonstrate a track record of success on similar matters

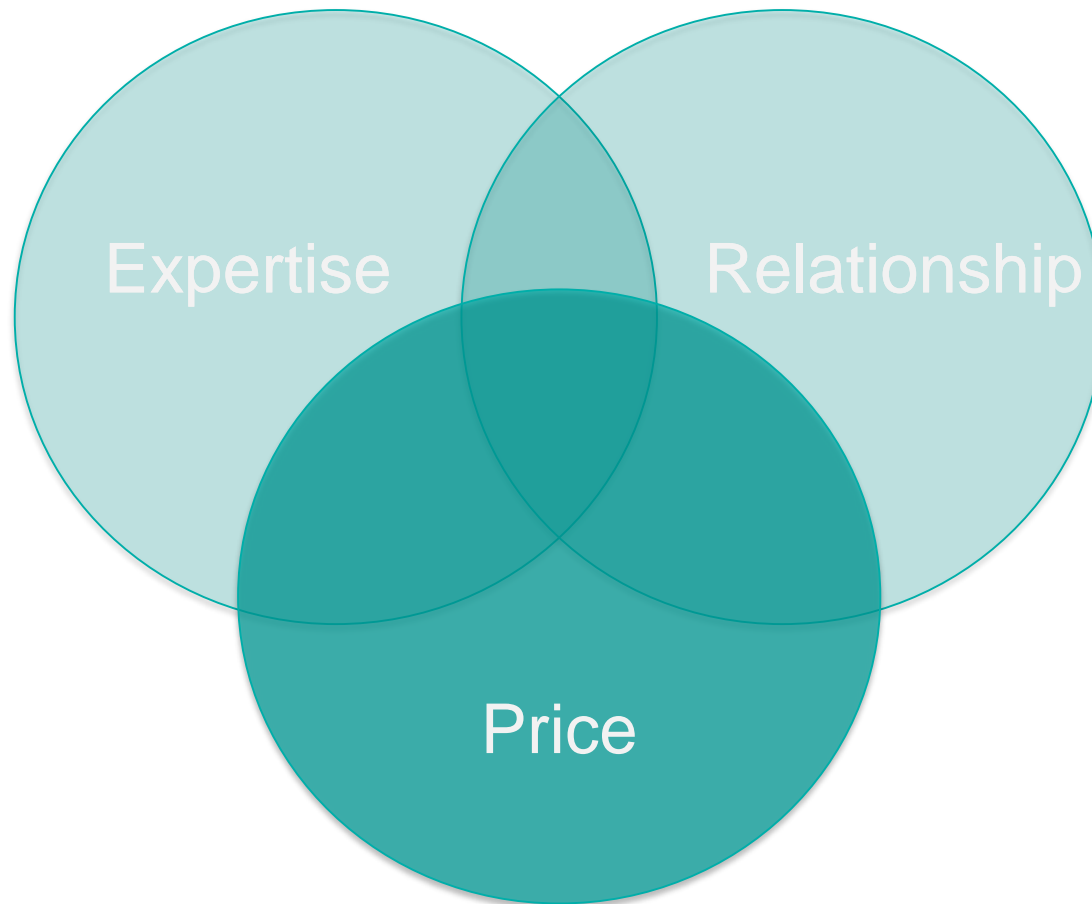
What clients want



Relationship focused

- Understand the client and a track record of looking after them
- *“I’ll give you the job, provided you have the capability and the price is in the ballpark”*

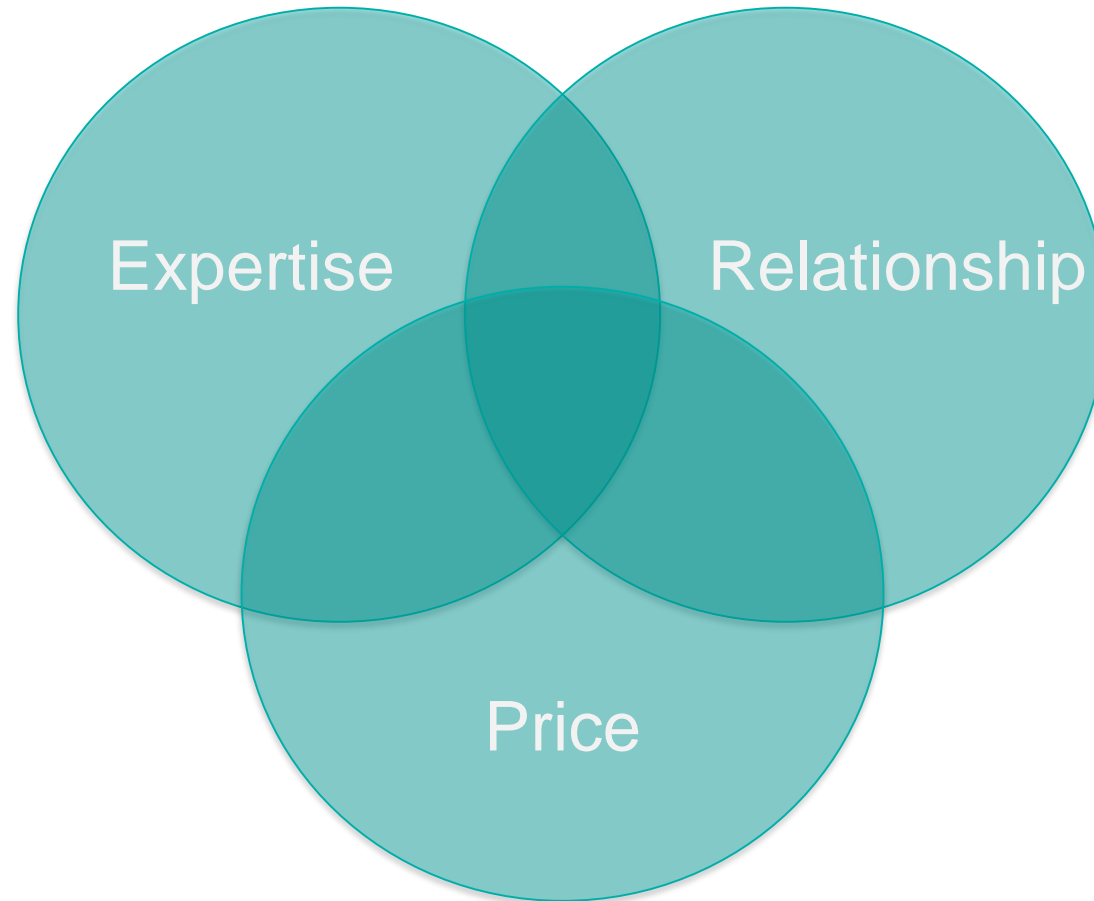
What clients want



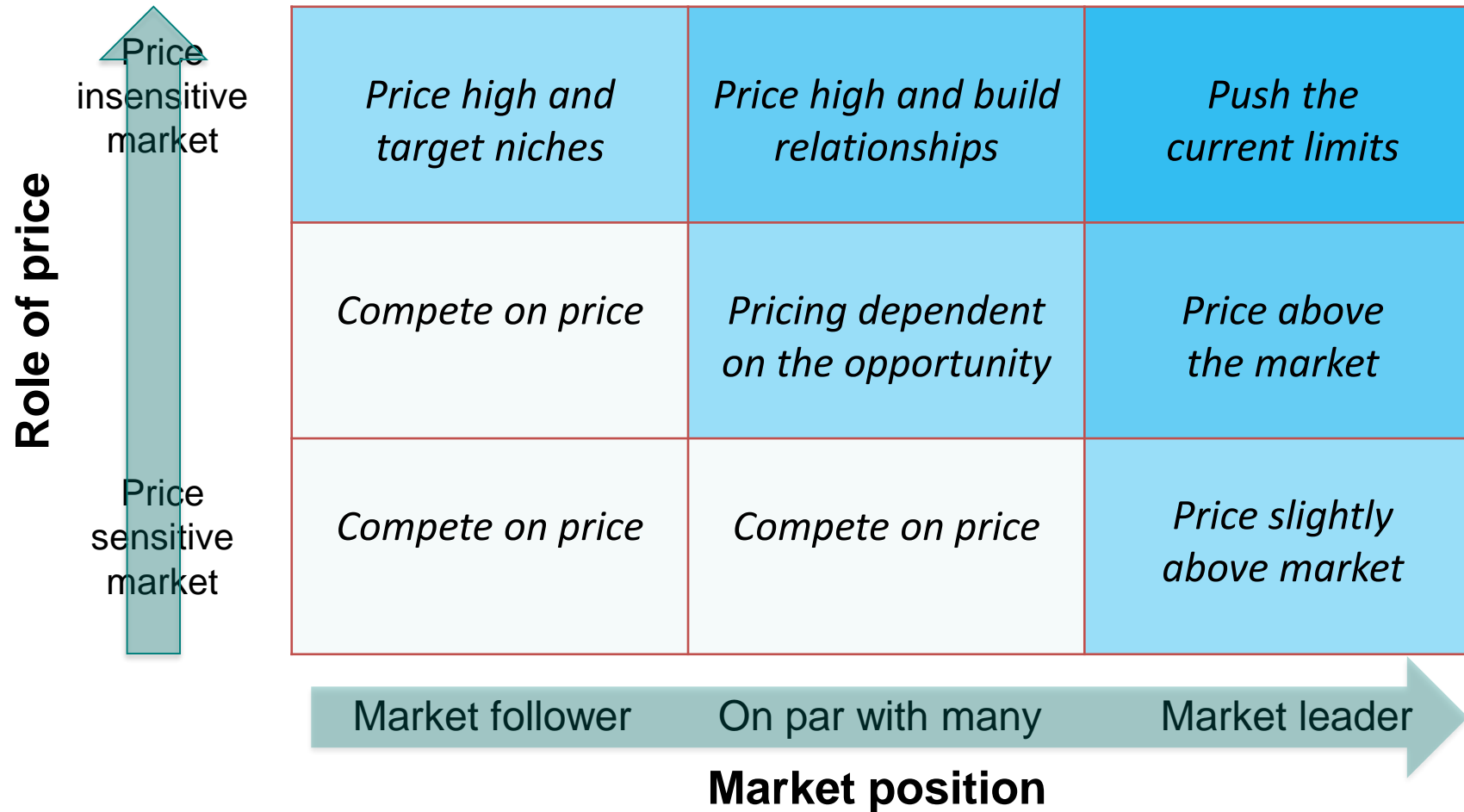
Price focused

- Who's cheapest, capable of doing the job?
- *"You're all capable – I don't need more friends – who's cheapest!"*

What clients want



Improve your price-setting discretion



Align with the client's goals

Clients want:

- Certainty and predictability
- To avoid surprises
- Transparency and a fair price
- To contain costs
- A price that is appropriate given what's at stake
- A range of choices rather than a single price being imposed on them

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