Ron Baker, Founder
VeraSage Institute
@ronaldbaker

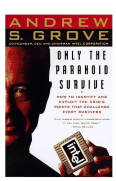
Value Pricing as a Business Model

What is a Business Model?

How your firm creates value for customers, and how you capture that value.

"Disruptive threats come inherently not from new technology but from new business models."

Andy Grove, Founder, Intel



The Firm of the Past

Revenue = People Hours X Efficiency X Hourly Rate

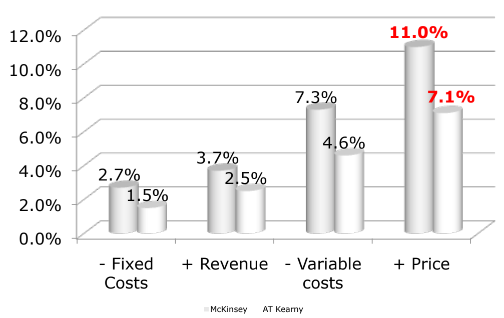
We sell time

The Firm of the Future

Profit = Intellectual Capital X Effectiveness X Value Price

Our customers buy intellectual capital

A 1% increase change in, yields



1% Increase Price = Increase Operating Profits

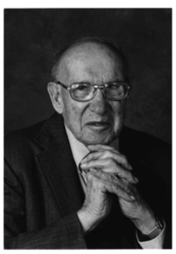
$$\frac{\text{1\% of revenue}}{\text{Current profit}} = \text{1\%Windfall}$$

Warren Buffet

"The single most important decision in evaluating a business is pricing power. If you've got the power to raise prices without losing business to a competitor, you've got a very good business. And if you have to have a prayer session before raising the price by 10 percent, then you've got a terrible business."

What are you really selling?

What are your customers really buying?



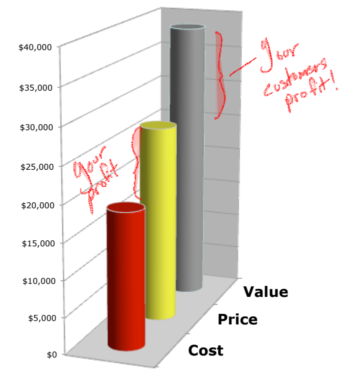
“The customer never buys a product. By definition the customer buys the satisfaction of a want. He buys value.” - Peter Drucker

Charles Revson, Founder, Revlon

“When it leaves the factory, it’s lipstick. But when it crosses the counter in the department store, it’s hope.”


MICHELIN. BECAUSE
SO MUCH IS RIDING
ON YOUR TIRES.

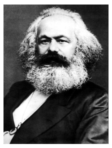

The default purpose
of marketing is not to
increase sales.
It’s to increase profits.



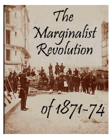
The First Law of Pricing: All Value is Subjective

Confusing Cause and Effect

A Tale of Two Theories



The Labor Theory of Value



The Subjective Theory of Value
(Carl Menger, William Stanley Jevons, and Leon Walras)

$$\frac{\text{Salaries + Overhead + DNI}}{\text{Expected Hours}} = \text{Hourly Rate}$$

Precise, but precisely wrong

Cost-Plus Pricing

Service → Cost → Price → Value → Customer

Customer → Value → Price → Cost → Service

Value-Based Pricing

Eight Steps to Implementing Value Pricing

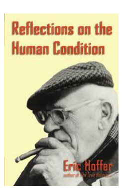
Implementing Value Pricing

Eight Steps at a Glance

1. Conversation with Customer
2. Pricing the customer, not the services (CVO/Value Council)
3. Developing and pricing options
4. Effectively present options to customer
5. **Option selected codified into an FPA**
6. **Proper Project Management**
7. **Scope creep, utilize Change Orders**
8. **Conduct Pricing After Action Review**

“Language was invented to ask questions. Answer may be given by grunts and gestures, but questions must be spoken. Humanness came of age when man asked the first question. Social stagnation results not from a lack of answers but from the absence of the impulse to ask questions.”

Eric Hoffer, Longshoreman Philosopher



Implementing Value Pricing

1. Conversation with customer

Implementing Value Pricing

1. Conversation with customer

Listen > Talk

Opening: "Mr. Customer, we will only undertake this engagement if we can agree, to our mutual satisfaction, that the value we are creating is greater than the price we are charging you. Is that acceptable?"

34 Sources of Client Value

Increase	Reduce	Improve	Create
Revenue	Cost	Productivity	Strategy
Profit	Time/Effort	Process	System
Growth	Complaints	Service	Process
Market Share	Risk	Information	Business
Retention	Turnover	Morale	Product
ROA or ROI	Conflict	Image	Service
Efficiency	Paperwork	Reputation	Brand
Cash Flow		Skills	
Visibility		Quality	
		Loyalty	

Spiritual Value

- Specialist expertise/knowledge
- Unique social capital
- Brand/reputation
- Unique result—creativity & innovation
- Reducing risk (Guarantee)
- Pleasant experience (MOTs)
- Make the Customer "look good"
- Relationship
- Knowledge elicitation
- What else?

Implementing Value Pricing

2. Pricing the customer, not the services

Role of the Value Council

1. Ensuring that the firm prices on purpose.
2. Constructing and experimenting with various value-based compensation agreements.
3. Assuring continuous learning and teaching the importance of pricing for value.
4. Dealing with price objections from customers.

Implementing Value Pricing

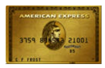
2. Form a Value Council and appoint a CVO

Role of the Value Council (continued)

5. Keeping the firm focused on tracking customer results instead of firm inputs.
6. Establishing customer selection/deselection criteria.
7. Conducting "after action reviews" at the end of major projects.
8. Providing education throughout firm

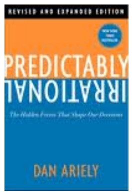
Implementing Value Pricing

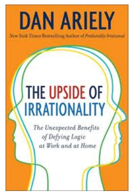
3. Developing and Pricing Options



The Second Law of Pricing: All Prices are Contextual

Behavioral Economics





1 Yr Sub	Price	Mkt Share	
Web only	$59	16%	
Print only	$125	0%	
Print & Web	$125	84%	

42.8%

1 Yr Sub	Price	Mkt Share	
Web only	$59	68%	
Print & Web	$125	32%	

Anchoring

Framing

Implementing Value Pricing

3. Developing and Pricing Options

The Six Ts of Options

1. Turnaround Time
2. Terms
3. Talent
4. Technology
5. Tailoring
6. Transference

- Hours x Rate
- Fixed price
- Change orders
- Service guarantee
- Price guarantee
- Payment terms
- Unlimited Access

Value Price Premiums

Implementing Value Pricing

4. Effectively present options to customer

Presenting your pricing

1. Present your most expensive option first; this is your "anchor price."
2. After stating your price(s), shut up.
3. Use the word "price" instead of "fee."
4. Use the word "agreement" instead of "contract."
5. Use the word "fair," as in "Is this a fair price to you?"
6. Remember to negotiate value, not price.
7. Place a timeline on proposals; no price should last forever.
8. Finite number of price objections—shouldn't we have answers?

Implementing Value Pricing

5. Fixed Price Agreement (FPA)

Elements of an effective FPA

Memorializes the meeting of the minds

Specifies scope of work

Includes deadlines, delivery dates, and other milestones

Details customer's responsibilities for providing information

Includes payment terms

Establishes parameters for Change Orders

Bundles Unlimited Access

Includes service guarantee and price guarantee

Implementing Value Pricing

6. Proper Project Management

Effective PM

Scope of work

Who performs work

Resources needed

Capacity planning—forward looking, not backwards

Customer responsibilities and commitments

Deadlines—duration, not time spent

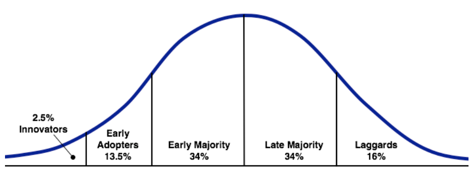
Implementing Value Pricing

7. Change Orders

Firms that Value Price

- Have a clear purpose, strategy, and position
- Have made pricing a core competency
- Have excellent project management skills
- Understand they sell intellectual capital, not time
- Only work with customers who value them
- Routinely fire low-value customers
- Maintain minimum prices
- Don't treat all customers equally
- Have appointed a value council and/or a CVO
- Have replaced timesheets with Key Predictive Indicators, PM, AARs

If you just copy, you will always be behind.



At least 84% of us are copying, not innovating.

Don’t solve problems;
pursue opportunities.

Peter Drucker

www.journalofaccountancy.com

June, 2009
Pricing on Purpose: How to Implement Value Pricing in Your Firm

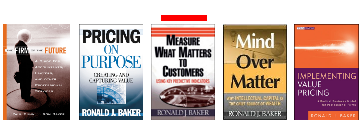
November, 2008
The Firm of the Future

April, 2010
Project Management for Accountants, by Ed Kless

Simon Sinek, www.TED.com

Thank You!

VeraSage website/blog
www.verasage.com



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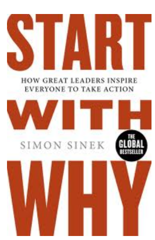
Implementing Value Pricing

8. Conduct a Pricing "After-Action Review"

After-Action Review Questions

- How could we have enhanced our customer's perception of value?
- What were the business results and performance against key metrics?
- Did we have the right team on this assignment?
- How high were the costs to serve?
- Did we stay within time and budget parameters?
- Could we have captured more value through higher price?
- If we were doing this type of assignment again how would we do it?
- What are the implications for the way we design and deliver our services?
- What could we do better next time?



Simon Sinek, *Start with Why*
www.ted.com