Implementing Value Pricing Checklist

Words: Use customer, price, invoice, and team, not client, fee, bill, and staff.

Business Model: How your firm creates value for customers and how you monetize that value.

Wealth: Resides in the intellectual capital of a company.

Anti-Intellectual Capital: Rigid adherence to old methods.

Efficaciousness: Ability to produce a desired effect.

Profits: Derive from risk.

Stop Old Things: For a firm to be innovative it must stop doing old things.

Purpose of Business: To create a customer and to create wealth for that customer.

Professional: A technician who cares.

Avoid Competition: War destroys, commerce builds.

Diamond Effect: Rare, desired, and impossible to duplicate. Doesn’t have to have utility to be valuable and profitable.

Value: Is in the eye of the beholder.

Gossen’s Law: The market price is determined by what the last unit of a product is worth to people.

Napster v. ITunes: Napster revolutionized the music business, iTunes profited from the revolution of the music business.

Customer Benefit: Don’t tell me how good you make it, tell me how good it makes me when I use it. (Leo Burnett). Customers by good feelings and solutions to their problems.

Expectations: The best firms are constantly questioning their customers expectations. You need to know the expectations with every involvement. When a customer pays you to solve one problem, you need to solve two for them.

Purchasing: People buy emotionally and justify intellectually.

Threshold: There is an upper and lower price threshold in every customer. Map the ranges and figure out how to discriminate so you can fall in everyone’s range.

Cost of Others: People will have different pricing thresholds depending on whether they are paying or using someone else’s money and whether the purchase is for them or someone else.

Atarimae Hinshitsu: Quality is taken for granted. Number one complaint is not quality but rather lousy service.

Transformation Business: A company that helps customers achieve more and greater.

Crowbar: A man buying a crowbar to open a treasure chest will pay well above market value for the crowbar.

Skim Pricing: Setting price above value to establish a higher perceived value.

Penetration Pricing: Setting price below the value to establish a larger customer base.

Neutral Pricing: Setting price at value.

Ideas v Execution: Apple charges $400 for a phone, $50 goes towards making the phone and $350 towards research, design, and profit.

Testing New Ideas: You should know how much of your firms human capital is dedicated to testing new ideas vs. executing old ones.

Price Customer: Price the customer, not the product or service.

Price Sensitivity: Substitute effect, value effect, switching cost, comparison effect, quality effect, expenditure effect, end-benefit effect, shared cost, effect, fairness, inventory.

No Commodity: There is no such thing as a commodity, everything can be differentiated.

Little Touch Management: Finding special but not expensive ways to take care of clients.

Advertising: A tax for having an unremarkable product.

Equality: He who seeks equality should go find a cemetery.

Customer Grading: Grading customers with A, B, C…

Firing Customers: Don’t let bad customers get in the way of good customers. Also known as forced churn.

Peer Review: Using anonymous cards to grade customers, employees, etc.

Customer Segments: Splitting customers into first class (5 to 8% in planes), business class (15 to 24%), full fare (30 to 50%), coach (15 to 35%) and discount (10 to 20%). Don’t misallocate resources to lower value customers.

You are Your Customer: You are as good or bad as your customer list.

Confidence: If you do not think you are worth your pricing, your customers never will.

Customer Pricing: Firm says this is what it will cost us, what would you like to pay. If the customer is unfair then they decline to do further work.

Change Order: You should define the customer requirements in your scope and if the customer does not meet them there is a change order.

TIP Clause: In the event that we are able to satisfy you needs in a timely and professional maker, you have agreed to review the situation and decide whether, in the sole discretion of XYZ, some additional payment to ABC is appropriate in view of your overall satisfaction with services rendered by ABC.

Tragedy of Commons: If everyone owns something than no one does and no one will care for it.

Chief Value Officer Advice: Don’t be a wimpy pricer, a lot of times you have to say no, people are scared of change, customer owns the shop, no one is in control, decisions are our most important resource, focus on others and you will become important, one wrong doesn’t overcome another, lay a foundation. (Brendon Harrex)

Price: Language in which a company strategically communicates value to a customer.

Numbers: Give the illusion of presenting more truth and precision than they are capable of doing. Numbers, studies, and reports should be used to start a discussion and guide strategy. They should not be followed blindly.

Hard v Soft Data: Hard data is numbers and facts, soft data is gossip, hearsay, and intuition. Sometimes what counts can’t be counted and what can be counted doesn’t count.

Innovation revenue: Income from products that didn’t exist X years ago.

Valued Employee: A person’s worth to an organization can be measured by the amount of supervision they require.

Knowledge Worker: Worker who directs their attention to the most valuable things to do.

Pride: Is a more effective motivator of talent than money.

High Satisfaction Day: Day that convinces you why you do what you do.

Tacit v. Explicit Knowledge: Tacit knowledge is like describing how to ride a bike. It is rich with detail and experience. Explicit knowledge is can be easily described or stored on a medium. Tacit knowledge can become explicit via database, paper, report, manual, video, picture, etc.

Three Types of Intellectual Capital: Human, structural, and social. Structural capital is the only one that is owned by the firm. This is why infrastructure is so important. Human and social knowledge must be gained from people.

Institution: Compressed Expertise

Structural Capital/Infrastructure: Organizational structure, policies, intellectual property rights, documented systems, management contracts, employee development and education, proprietary systems, customer lists, contracts.

Knowledge Management Software/Knowledge Bank: Not a system but a culture of knowledge inputs (adding knowledge) and outputs (accessing knowledge).

Evaluation: Evaluation of the experience is more important than the experience. What was supposed to happen, what happened (ground truth), what were the positive and negative factors, what have we learned, how can we do better, who needs to know these lessons, who will implement these lessons.

Pre-Action: What our the intended results, what challenges can we anticipate, what have we or others learned from similar situations, what will make us successful this time.

Eight Steps for Value Pricing: Have a conversation with the customer, price the customer, develop pricing options, present options to customer, customer selection, project management, change orders, project evaluations.

Listening: Customer should talk twice as much as the salesperson. Talkers dominate the conversation but listeners control it.

Economic Buyer: Person who makes the decisions.

Starting Point: Mr. Customer, we will only undertake or charge for the engagement if we can provide value that is three times our price. Is that acceptable?

Cardinal v Ordinal Ranking: Cardinal ranking has a value that can be added, subtracted, etc. An ordinal vale is a position on a list (ex fifth).

Good Pricing: Clients screened, understanding customer values, price leverage, knowledge of cost to serve, mutual gain, slow process of pricing, ignore competitors, differentiation, negotiation.

Mutual Gain v. Equal Gain: both parties must profit but it does not have to be in equal proportion.

Price Buyers: Looking for the lowest price, should be offered the stripped down version of your service.

Value Buyers: Study alternatives and features well before choosing best value. Don’t always by the cheapest. Can be persuaded with loyalty programs.

Convenience Buyers: Willing to pay higher price for exactly what they want exactly when they want it.

Relationship Buyers: Place high value on brand, quality, and relationships.

Price Sensitivity Factors: Substitutes, value, switching costs, comparison, price-quality, pass through expense, fairness.

Price Options: Offer an array of options to maximize customer value.

Buyer Identification Pricing: Pricing by seniors, children, students, nonprofits, coupons.

Purchase Location Pricing: Pricing by location, having different offices, etc.

Time of Purchase Pricing: Pricing by time of purchase, time of product, or turnaround time for delivery.

Purchase Quantity Pricing: Quantity discounts.

Two Part / Tie In Pricing: Two separate charges for one product or experience (ex razor and blade, door charge and drink charge).

Product Design Pricing: Offering different versions of a product of service.

Product Bundling: Bundling two products to raise sale but discounting individual products.

Pricing Guarantees: Don’t forget to include the cost of any guarantees or warrantees you attach to your product/service.

Shut Up: The best salesmen know exactly the right time to shut up when making a pitch. Don’t talk yourself out of a sale.

Scope Document Elements: Scope statement, objectives, constraints, structure, roles, team, assumptions, deliverables, change control, future projects list, approval.

Creep: Do not let team members change scope without correct approvals.

Inflection Point: A time in the life of a business in which its fundamentals are about to change.