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Pricing Your Consulting Services

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31 July 2014

Agenda

1. Introduction
2. ?
3. ?
4. ?

Scope of this research

- Here, we suppose the consultant is an individual or a small consulting firm.
- Moreover, we suppose either the consultant has been successful in convincing a client to listen to him, or the client himself has called the consultant in order to solve his company problem.
- As a result, we concentrate on the ways which the consultant should follow to profitably price his consulting services.

Introduction

- Price is always a hot topic for consultants (Biech, 2003, p. 4).
- It will be easiest for you if you break your sales call into three parts: what you will do to prepare *before the meeting*; what you will do *during the meeting*; and what you will do to *follow up the meeting* (Biech, 2003, p. 166).
- The American Marketing Association (2004) offers the following formal definition (Kotler & Keller, 2009, p. 5): *Marketing is an organizational function and a set of processes for creating, communicating, and delivering value to customers and for managing customer relationships in ways that benefit the organization and its stake holders.*
- Kotler and Keller (2009) see marketing management as *the art and science of choosing target markets and getting, keeping, and growing customers through creating, delivering, and communicating superior customer value.* (Kotler &

Introduction

- **Companies address needs by putting forth a *__value proposition__*, a set of benefits they offer to customers to satisfy their needs. The intangible value proposition is made physical by an *offering*, which can be a combination of products, services, information, and experiences (Kotler & Keller, 2009, p. 13).**
- **The offering will be successful if it delivers value and satisfaction to the target buyer. The buyer chooses between different offerings on the basis of which is perceived to deliver the most value. *__Value__* reflects the perceived tangible and intangible *__benefits and costs to customers__*. Value can be seen as primarily a *combination of quality, service, and price (qsp)*, called the "customer value triad." Value increases with quality and service and decreases with price, although other factors can also play an important role (Kotler &**

Introduction

- **Value is a central marketing concept. Marketing can be seen as the *identification, creation, communication, delivery, and monitoring of customer value*. (Kotler & Keller, 2009, p. 14)**

Introduction

- The Value Delivering process consists of three parts. The first phase, ***choosing the value***, represents the "homework" marketing must do before any product exists. The marketing staff must segment the market, select the appropriate market target, and develop the offering's value positioning. The formula "segmentation, targeting, positioning (STP)" is the essence of strategic marketing. Once the business unit has chosen the value, the second phase is ***providing the value***. Marketing must determine specific product features, prices, and distribution. The task in the third phase is ***communicating the value*** by utilizing the sales force, sales promotion, advertising, and other communication tools to announce and promote the product. Each of these value phases has cost implications. (Kotler & Keller, 2009, p. 34)

Conceptual Framework

	Before Negotiation	During Negotiation	After Negotiation
Creating Value			
Sharing Value (Communicate ?)			
Capturing Value			
Sustaining Value			

Pro	
Co	
Cl Cap	
Sus	

Internal	External

Negotiating Your Offer

- **You and the potential client share compatible and incompatible interests (Biswas & Twitchell, 1999, p. 156):**
  - A compatible interest creates a certain amount of mutual values. For instance, you want to work for the client in order to generate not only *income* but also *valuable experience*. Likewise, the client want you to work for it in order to generate more profit (less cost and/or more revenue).
  - Price of your consulting service is the most common example of an incompatible interest. The client would rather to pay a lower price, but you request a higher one.

	Before Negotiation	During Negotiation	After Negotiation
Proposing Value			
Communicating Value			
Claiming and Capturing Value			
Sustaining Value			

Negotiating Your Offer

- Before negotiation, capture all the information that might be pertinent to services you could offer the client (Biech, 2003, p. 145). Try to gather as much as information as you can about how client tends to negotiate, and with that information plan your approach (Biswas & Twitchell, 1999, p. 168).
- Before going to the negotiation meeting, be sure you know at least the following: meeting purpose, who will attend, how long the meeting will last, and exactly where it will be —office, conference room, or wherever (Biech, 2003, p. 166). Furthermore, you should find out both the extend to which the client will negotiate, and on which terms the client is most willing to negotiate (Biswas & Twitchell, 1999, p. 162).

	Before Negotiation	During Negotiation	After Negotiation
Proposing Value			
Communicating Value			
Claiming and Capturing Value			
Sustaining Value			

Negotiating Your Offer

- **If the client is a publicly traded organization, you should be able to obtain its annual report. You probably will not find all that you need from the client's website. Therefore, you will continue your research at other websites, the business magazines, periodicals, business newsletters, newspapers, manufacturer and business directories, and any other available resources. (Biech, 2003, pp. 145-146).**

	Before Negotiation	During Negotiation	After Negotiation
Proposing Value			
Communicating Value			
Claiming and Capturing Value			
Sustaining Value			

Negotiating Your Offer

- **When your clients purchase your consulting, they are buying a promise of satisfaction thus it will be useful to think about giving the client a money-back guarantee (Biech, 2003, p. 4). It is also helpful to prepare a plan for such a money-back guarantee program before negotiation.**
-

	Before Negotiation	During Negotiation	After Negotiation
Proposing Value			
Communicating Value			
Claiming and Capturing Value			
Sustaining Value			

Negotiating Your Offer

- **Your initial meeting is critical for the rest of your relationship. You may come prepared with a PowerPoint presentation, a precisely worded presentation. You also should both review the notes that you wrote during the research, and identify a list of questions that you will ask to gather the required information, as well as prepare yourself for questions that the client may ask (Biech, 2003, pp. 166-169).**

	Before Negotiation	During Negotiation	After Negotiation
Proposing Value			
Communicating Value			
Claiming and Capturing Value			
Sustaining Value			

Negotiating Your Offer

- **You also should carefully consider your Best Alternative to a Negotiated Agreement (BATNA).**
  - Your BATNA is defined as an offer you have from a different firm; the client’s BATNA is the next most attractive consultant who they have identified (Biswas & Twitchell, 1999, p. 158).
- **You should do everything you can to secure the best alternatives for you owing to the fact that your BATNA will determine your negotiation leverage (Biswas & Twitchell, 1999, p. 159). That is, to be able to claim more value for yourself during the negotiation, you should get as many offers as possible.**

	Before Negotiation	During Negotiation	After Negotiation
Proposing Value			
Communicating Value			
Claiming and Capturing Value			
Sustaining Value			

Negotiating Your Offer

- The attractiveness of the alternatives available to you is a function of the your skills, abilities, knowledge, experience, and contacts (Biswas & Twitchell, 1999, p. 159). This suggests that the consulting projects, especially early in your career, which provide you with valuable opportunities to develop yourself are of the great long-term value, in that they will allow you to obtain future attractive alternatives (Biswas & Twitchell, 1999, p. 159).
- For instance, if you have one project which provides a lower revenue but a better developmental opportunity, and the other project which provides a higher revenue but a less opportunity for development, there is much to be said for taking the former project (Biswas & Twitchell, 1999, p. 159). It is like a kind of investment which you depreciate over the entire length of your career.

	Before Negotiation	During Negotiation	After Negotiation
Proposing Value			
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Sustaining Value			

Negotiating Your Offer

- **The most important step at the end of a meeting is to ensure that you have a next step. Next steps might be a meeting scheduled in the near future, information you will send to the client, some research you may do, or dozens of other things. Before you leave and after you thank the client for the meeting, briefly reiterate what you have agreed will happen next. It might sound like this: "Thanks for taking the time to help me better understand your situation. I look forward to meeting you next week, and you can expect that article in the mail in a day or two." (Biech, 2003, p. 177).**

	Before Negotiation	During Negotiation	After Negotiation
Proposing Value			
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Claiming and Capturing Value			
Sustaining Value			

Negotiating Your Offer

- **Show that you can add value early in the relationship. Ask the questions from the list you brought with you. Allow your potential client to answer them completely. As your client speaks, *take notes*—lots of them. If you are asked to write a *proposal following this meeting*, you have just been given the words to use. It's almost like being *given the right answers* before the test! In addition, you will impress your clients with the importance you are putting on their words. (Biech, 2003, p. 171)**
- **If you think you have enough information to submit a proposal, you will usually tell the client when they can expect the proposal (usually within a day or two). If you have not identified a specific proposal, it is better to talk about your pricing structure. (Biech, 2003, p. 175)**

	Before Negotiation	During Negotiation	After Negotiation
Proposing Value		✱	
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Claiming and Capturing Value			
Sustaining Value			

Negotiating Your Offer

- **Clients have a difficult time understanding why we charge high fees; it's even more difficult when they must have faith in the outcome (Biech, 2003, p. 4). Therefore, it is useful to use your money-back guarantee program prepared before negotiation.**
- **Why not give them a 100 percent money-back guarantee (Biech, 2003, p. 4). If you are nervous about doing that, think about how your client may feel. If you don't believe in yourself, who will? (Biech, 2003, p. 4)**

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Negotiating Your Offer

- Remember to *use the individuals' names* when you meet them. A *firm handshake and a solid greeting* will start you on the right foot. Besides, forget the brochures and the business card and focus only on your client (Biech, 2003, p. 170).
- Make a personal connection with each individual. If more than three people attend the meeting, I subtly make a seating chart with their names on my notes. This gives me an accurate reference without worrying about remembering everyone's names throughout the meeting. (Biech, 2003, p. 170)
- Exude self-confidence without arrogance. Your firm handshake, appropriate attire, and high-quality materials will *project a professional image* when you arrive (Biech, 2003, p. 170).

	Before Negotiation	During Negotiation	After Negotiation
Proposing Value			
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Negotiating Your Offer

- You will continue to *project self-confidence with your body language*: good eye contact, a pleasant demeanor, and confident posture. The client will most likely ask you about your past experience. If you provide examples and relate similar situations rather than use a string of superlatives, your expertise will shine through (Biech, 2003, p. 170).
- You should *be a good listener* and *spend twice as much time listening as talking* (Biech, 2003, p. 170).
- Ask pertinent, thought-provoking questions. Use the list of prepared questions based on what you know about the situation (Biech, 2003, p. 170). Learn as much as you can about your client's business and its problems (Biech, 2003, p. 171)

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Negotiating Your Offer

- **The real display of your professionalism will occur when you demonstrate a genuine interest in the client. You will begin by determining your client's communication style, that is, whether the client is more task-oriented or people-oriented and whether the client is more take-charge or easygoing. Knowing these dimensions of your client's style will help you to get into your client's comfort zone. (Biech, 2003, p. 171)**

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Negotiating Your Offer

- The most successful salespeople believe that an *objection* is simply the way clients identify their needs. An objection is a request to provide more information about why a client should buy from you. If a client says, “Your price is too high,” it may simply be a desire to get full value for the project. Your responses might be “So you need information that ensures that you will receive maximum value for the price. Is that correct?” (Biech, 2003, p. 172) The client’s objection is really just a way to inform you about an objective that must be met (Biech, 2003, p. 173).
- As they wrap up a meeting, many consultants like to provide a “leave behind,” some written material that the client will most likely keep. It could be your business card, your brochure or an article you’ve written in order to provide something to remind the client that you were there. (Biech, 2003, p. 177).

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Proposing Value			
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During Negotiation / Claiming and Capturing Value

Negotiating Your Offer

- Use the *value-added selling concept*. It means that you do whatever you can to help build your client's businesses as well; that is to say, "*be a resource* and helpful, not a salesperson" (Biech, 2003, pp. 164-165). When clients need assistance, they will frequently call a (sales) person whom they *trust* the most; they call someone they believe will have an answer (Biech, 2003, p. 164).
- To be successful in conducting value-added selling, you primarily require *excellent listening and questioning skills*. Moreover, you will need to be *articulate about the services* you provide and how you can add value for the client. You also need to know how to respond to objections, close the sale, *build trust and relationships* (Biech, 2003, p. 165).

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Negotiating Your Offer

- **Some clients are uncomfortable talking about money. I generally take the lead by saying, "You are probably wondering how much a project like this will cost" (Biech, 2003, p. 174).**
- **Many clients think that consulting fees are ridiculously expensive, so you need to be prepared to explain your fees (Biech, 2003, p. 174). It is usually better to spend more time *explaining the value of the benefits to the client*. Firms that have studied this subject find that the benefits are about 10:1. In other words, the firm receives about $300,000 worth of tangible value for every $30,000 invested in a consultant. (Biech, 2003, p. 175)**
- **Very Important: *Don't quote your price before you are ready*—and specially while in the potential client's office. When pushed you can say, "Let me go back to my office and put a proposal together that will outline a work plan and cost. It will be on your desk tomorrow." Then do it. (Biech, 2003, p. 175)**

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Negotiating Your Offer

- **During negotiation, when seeking to claim value, you must make choice between more aggressive, higher risk, higher potential gain moves which more likely will end in no agreement, and the less aggressive lower risk, lower gain moves (Biswas & Twitchell, 1999, p. 162).**
- **Consultant's and the client's BATNAs in term of dollar value define the *settlement range* of negotiation.**
- **Two rule of thumb are helpful in thinking about an opening offer in response to the client's opening offer during negotiation (Biswas & Twitchell, 1999, p. 161):**
  - First, negotiations typically settle at the mid-point between the two opening offers.
  - Second, you should make an opening offer which you are 90% to 95% certain that it is higher than the client's maximum willingness to pay.

Negotiating Your Offer

- Besides claiming a portion of the value pie for oneself, it is often possible to increase the overall size of the pie by *integrating the tow parties' interest* in creative ways (Biswas & Twitchell, 1999, p. 163).
- If you and the client attach opposing weights to different issues, you can use *logrolling strategy* to enlarge the pie. In logrolling strategy, each party concedes on their issue of lesser importance to gain on their issue of greater importance (Biswas & Twitchell, 1999, p. 166).
- While planning before negotiation is extremely helpful, you must also be ready to change your plan as new information comes to light during negotiation (Biswas & Twitchell, 1999, p. 168).

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Negotiating Your Offer

- During your conversation you can begin to build a partnership with the client by offering suggestions based on your experience or something you've read. You could recommend a book or article, or even reference a contact who has had a similar experience. Be sure to ask questions for clarity and to acknowledge the person for what is working well or for trying something different. (Biech, 2003, pp. 171-172)

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Proposing Value			
Communicating Value			
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Sustaining Value			

Negotiating Your Offer

- **Get in the habit of following up every meeting with a written note thanking prospects for their time. Even if you will submit a proposal, dash off a quick note to maintain the momentum of a positive meeting (Biech, 2003, p. 178).**
- **Track more of the detail: what your client said, what you sent them, and when they have asked you to call again. Enter the information from your meeting on the client contact log. (Biech, 2003, p. 179)**

Negotiating Your Offer

- **Proposal?**

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Negotiating Your Offer

- **You will most likely follow up with this prospective client, whether your call ends on a let's-do-business note or a never-no-way note. You *should follow up* because a *no today is not necessarily a no tomorrow* (Biech, 2003, p. 176).**
- **An important aspect of value-added selling is *availability*. You need to keep yourself in front of your clients and prospective clients regularly. You need to be helpful and thoughtful if you want your clients to view you as a resource (Biech, 2003, p. 165). For example, you will be seen as a resource when you send your clients pertinent articles or information about upcoming trade shows or whatever you do to keep them in the know. You are adding value to your clients when you take advantage of opportunities to *exceed their expectations*—being available and being of value (Biech, 2003, p. 165).**

References

1. **Biech, E. (2003).** ***Marketing Your Consulting Services.*** **USA: John Wiley & Sons, Inc. Published by Pfeiffer.**
2. **Biswas, S., & Twitchell, D. (1999).** ***Management Consulting: A guide to the industry.*** **USA: John Wiley & Sons, Inc.**
3. **Kotler, P., & Keller, K. L. (2009).** ***Marketing Management*** **(13 ed.). New Delhi: Prentice Hall of India.**

Thank You !

	Before Negotiation	During Negotiation	After Negotiation
Proposing Value			
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Claiming and Capturing Value			
Sustaining Value			

Two Approaches

- There are really two issues:
- (1) how much money you need
- (2) how much a client is willing to pay you.

	Before Negotiation	During Negotiation	After Negotiation
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Sustaining Value			

Your Expences

- **The first way is to calculate in detail your salary, taxes, benefits, and business expenses for one year.**
- **A second way, the “3× Rule” (pronounced “three times rule”), will provide a quick estimate of your requirements. For example, consultants with a salary of \$50,000 are expected to bill at least \$150,000 each year.**

	Before Negotiation	During Negotiation	After Negotiation
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Sustaining Value			

Total Required

Exhibit 3.1. Calculating What You Require.

Your Salary for One Year			______
Your Benefits			
Health insurance	______		
Life insurance	______		
Disability insurance	______		
Retirement	______		
		Total Benefits	______
Taxes			
Self-employment	______		
Social Security and Medicare	______		
State income tax	______		
City tax	______		
Personal property tax	______		
		Total Taxes	______
Business Expenses			
Accounting, banking, and legal fees	______		
Advertising and marketing	______		
Automobile expenses	______		
Books and resources	______		
Clerical support	______		
Copying	______		
Donations	______		
Dues and subscriptions	______		
Entertainment	______		
Equipment leases	______		
Interest and loan repayments	______		
Liability insurance	______		
Licenses	______		
Lodging (nonbillable)	______		
Materials (nonbillable)	______		
Meals	______		
Office supplies	______		
Postage	______		
Professional development	______		
Rent	______		
Repairs and maintenance	______		
Telephone	______		
Travel (nonbillable)	______		
Utilities	______		
		Total Business Expenses	______
		Total Required	______

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HOW MUCH SHOULD YOU CHARGE?

- **Determine Typical Charges**
  - I’ve worked with consultants who have charged as little as $200 per day and as much as $55,000 for a one-hour speech! So what’s realistic?
  - *Training magazine published its 2006 Annual Salary Survey in the November* 2006 issue. The overall average for consulting was just over $100,000 per year.

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Client's Characteristics

- **Determine type of client:**
  - Usually, the larger the company, the larger the discretionary funds available.
  - Location of both the client and the consultant will also affect the fee charged. Ranges are different in different areas. It is natural to expect that consultants in large cities, such as New York, Boston, or Los Angeles, will charge more than consultants in smaller towns.

	Before Negotiation	During Negotiation	After Negotiation
Proposing Value			
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Consultant's Characteristic

- What **expertise** do you have?
- Is it unique or commonplace?
- **How much** experience do you have? With what kind of clients?
- Do you work **internationally**? Nationally? Statewide? Locally?
- How **well known** are you? What perceived value do you add due to your stature in the business, the books you've written, or your university affiliations?

	Before Negotiation	During Negotiation	After Negotiation
Proposing Value			
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Cost and Market View

- **You can determine a fee in one of two ways.**
  - You can start with the requirements you compiled and plan toward that end, To use this method, return to your calculations to obtain the amount that you need for living and business expenses for one year.
  - or you can approach the problem from the standpoint of what the market will bear. that is, how much you believe your targeted clients will pay for your services.

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Proposing Value			
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Characteristics

Exhibit 3.4. How Much Will Clients Pay?

Place an X in either the left or right column next to the item that most accurately describes you and your potential clients.

My Consulting

____ Expertise in high demand	____ Minimal demand for expertise
____ More than 20 years in the the industry	____ Less than 10 years in industry
____ High name recognition	____ Little name recognition
____ Rare area of specialty	____ Specialty readily available
____ Published work is well known	____ No published work

My Clients

____ High-paying industry	____ Low-paying industry
____ For-profit organizations	____ Nonprofit or government
____ Large organizations	____ Small organizations
____ Large city	____ Small city
____ Coast locations	____ Midwest
____ High use of consultants	____ Minimal use of consultants

Total ________ ________

	Before Negotiation	During Negotiation	After Negotiation
Proposing Value			
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Market View

- **If you decide to follow what the market will bear, you will want to explore some other issues to help you determine your fee. Ask yourself these questions:**
  - What's your specialty? How common is your expertise? What is unique about your experience?
  - What industry are you targeting? What constitutes a typical consulting fee for companies in this industry? Where is your market? What is the range of fees organizations pay in this market? Who else offers similar services? What do they charge?

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Pricing Strategy

- Experience shows that **most new consultants** select the **lower** price. They feel that if they price low, they will find **more contracts** to "get started."
- However, pricing services too low is the **biggest mistake** that new consultants make. **Choose the high end of the range**—for several reasons.

	Before Negotiation	During Negotiation	After Negotiation
Proposing Value			
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- **First, the higher price means that you will need to accept fewer contracts. This allows you to manage your time better, giving you the flexibility to deal with all those unforeseeable things that crop up when starting a business. It also allows you to spend more time with your clients; you can give them better service rather than worry about your next contract. Charge a price that allows you to do the job with superior quality.**

	Before Negotiation	During Negotiation	After Negotiation
Proposing Value	✷		
Communicating Value			
Claiming and Capturing Value			
Sustaining Value			

- Second, your consulting rate sends a message. True or not, a higher price often is equated with higher quality. A low price may send a message that you are not worthy of important projects. A low bid may help you acquire some early projects, but may also be a reason that clients are uncomfortable hiring you again—especially if the project was not large enough for you and the client to develop a solid relationship. Achieving the reputation of being the cheapest consultant in town means only that you are "the cheapest consultant in town"!

	Before Negotiation	During Negotiation	After Negotiation
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- **Third, if you offer what clients need, they will most likely pay the price you request without questioning it. It will be much easier to start high than to increase your rates at a later time.**

	Before Negotiation	During Negotiation	After Negotiation
Proposing Value	✸		
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Claiming and Capturing Value			
Sustaining Value			

Pricing Strategies

Daily Rate

- Training, organization development, or management development consultants typically charge by the day. That day may be six to twelve hours long depending on the task at hand.
- Remember that a billable day is a billable day; once it's gone, it is lost forever

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Pricing Strategies

- **Hourly Rate**
  - Consulting fees charged by the hour are standard in some industries, such as computer programming, executive coaching, and engineering. In this case, you will provide a range of hours (minimum and maximum) you expect the job to require.
  - Travel time is not generally billed in any of the other pricing structures; it is charged in the hourly rate structure.

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Pricing Strategies

- Both a daily rate and an hourly rate require the client to assume the risk for the total cost of the project. Thus these pricing structures are more typically used for training or tasks that have clearly defined time parameters and outcomes. In less defined situations, a daily or hourly rate penalizes the clients if the consultant is slow, and penalizes consultants if they are efficient!

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Pricing Strategies

- **Fixed-Price Projects**
- **The client and the consultant identify and agree on specific results that mark the completion of a project. some consultants resist this method of pricing, due to the risk involved if the price is too low**

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Pricing Strategies

- **First The client's employees can call at any time for assistance.**
- **Second, the method is performance- and results-oriented. We are paid for what we accomplish.**
- **Third, this method is the best match for a custom design.**
- **Fourth, this method is better for larger contracts. Several large contracts are easier to manage than dozens of little ones.**

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Pricing Strategies

- **First, estimate how much time you expect the project to require. Here you assume the risk of the total cost of the project. Ethically, you cannot charge more than the original quoted price—even if you lose**

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Pricing Strategies

- **Per Person**
  - Charging by the number of participants who attend a session is another way to look at pricing. It is typically used by trainers offering public seminars. Government agencies may want you to use this type of fee structure because it more closely matches their budgeting structure. If you do choose this method, consider an up-front agreement that you will be paid for a minimum number of participants.

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Proposing Value			
Communicating Value			
Claiming and Capturing Value			
Sustaining Value			

Pricing Strategies

Retainers

- Retainers were very popular in the 1960s and 1970s and are making a comeback today. A retainer establishes a set fee that the consultant receives on a regular basis, generally monthly. A retainer typically covers a span of twelve months. The client is assured that the consultant is available on an as-needed basis. The client and consultant determine an approximate amount of time that will be required monthly. The advantage to the consultant is a regular income; the drawback is that the consultant must plan around the needs of the client.

	Before Negotiation	During Negotiation	After Negotiation
Proposing Value			
Communicating Value			
Claiming and Capturing Value			
Sustaining Value			

Pricing Strategies

- **Conditional Fee**
  - Some organizations pay a fixed price to a consultant on the completion of a clearly defined task. This method may be used by search firms in executive recruiting, where the conditional fee is paid only after the recruiting consultant provides the organization with four qualified candidates for a specific position.

	Before Negotiation	During Negotiation	After Negotiation
Proposing Value			
Communicating Value			
Claiming and Capturing Value			
Sustaining Value			

Pricing Strategies

Percentage Fee

- Percentage fees are used when the financial outcome of the project is easily and clearly measurable. The consultant agrees to a percentage of the financial success of the project. This method works well for sales or marketing consultants. The client and the consultant agree that a percentage of the financial gain or savings will be paid to the consultant. A drawback for the consultant is that the results may not be measurable until some time after the project has been completed.

	Before Negotiation	During Negotiation	After Negotiation
Proposing Value			
Communicating Value			
Claiming and Capturing Value			
Sustaining Value			

Proposals or Sales Meetings

- We do not charge for writing proposals. We see it as a cost of doing business. If we initiate a sales call, we do not charge for the time or expenses. Nor do we charge if the client requests a visit and it is local (within a two-hour drive). However, if the client initiates a sales call that will require an overnight stay or airfare, we do request payment of out-of-pocket expenses.

	Before Negotiation	During Negotiation	After Negotiation
Proposing Value			
Communicating Value			
Claiming and Capturing Value			
Sustaining Value			

Ethics

- **Determine a Consistent Pricing Structure**
- **Three situations in which you might charge different prices follow:**
  - 1. *The work is different*
  - 2. *The organizations are different.*
  - 3. *The time period is different*

	Before Negotiation	During Negotiation	After Negotiation
Proposing Value			
Communicating Value			
Claiming and Capturing Value			
Sustaining Value			

Ethics

- **Save Bargains for Department Stores**
  - Although we all love a sale, consulting is not a post seasonal business. It is unethical for you to lower your rates simply because clients do not have adequate funds in their budgets to cover the amount you first quoted
  - The only way that you can lower the price of an original quote is to eliminate some of the services, so that there is a true trade-off for the services you offer

	Before Negotiation	During Negotiation	After Negotiation
Proposing Value			
Communicating Value			
Claiming and Capturing Value			
Sustaining Value			

Ethics

- **Charge Higher Rates for a Specific Project**
  - Why would you raise your rates? I can think of at least two reasons:
    - the client wants the task completed in a ridiculously short amount of time,
    - or the client insists on using you for a project that you dislike. In either case, you are most likely justified in quoting an increased fee

	Before Negotiation	During Negotiation	After Negotiation
Proposing Value			
Communicating Value			
Claiming and Capturing Value			
Sustaining Value			

Negotiation

- Sometimes during that first discussion, you may see potential complications with the project, This may make it difficult to price the project on the spot. In this case, you can say, “I’m not sure of the price at this time. Let me go back to my office and put a proposal together that will outline a work plan and the cost. I will have the proposal on your desk tomorrow.” This buys you time to plan the project and to price it appropriately. Don’t allow yourself to be forced into providing a “rough estimate.”An exact figure the next day is better for both you and the client.

	Before Negotiation	During Negotiation	After Negotiation
Proposing Value			★
Communicating Value			
Claiming and Capturing Value			
Sustaining Value			

VALUE OF A GUARANTEE

- **you might consider offering a 100 percent satisfaction guarantee. If the client is not satisfied with your work, you will return the full amount. Sound risky? It shouldn’t. If you don’t believe in yourself, who will? If you don’t believe in your ability to meet and exceed clients’ needs, perhaps you are considering the wrong profession. You should not be practicing on clients. You should know your abilities and be able to guarantee the job.**

	Before Negotiation	During Negotiation	After Negotiation
Proposing Value			
Communicating Value			
Claiming and Capturing Value			
Sustaining Value			

VALUE OF A GUARANTEE

- First, it makes it easier for the clients to say yes to you. They have nothing to lose. Either you accomplish the task that needs to be done or it doesn't cost them a thing.
- Second, it tells the client that you are confident and competent at what you do

5 The economics of pricing in services

- **For a normal good or service, there would be less people willing to pay a higher price.**
- **Downward sloping demand function.**
- **First ,buyer is a *price taker***
- **Second, the relationship between price and quantity assumes that all other factors are constant.**
- ***Consumer surplus.***

Consumer Surplus

- To economists, consumer surplus is a measure of welfare in a society and the objective is often to engineer a system whereby welfare is at the highest level
- In contrast, a pricing strategist aims to extract all consumers' surpluses, if possible, to maximise revenue. Firms constantly endeavour to do that – through differentiation and price discrimination.

Price Elasticity

- *Availability of substitutes*
- *The degree of necessity*
- *Habitual services*
- *Proportion of the income spent on the service*
- *Time span in the purchase/consumption of the service*
- *Price points*
- *Short-term price changes*

Weaknesses in the demand function

- often leads the tendency to overrate the importance of price as a principle determinant of quantity.
- Social influence on price
- advertising and increasing distribution and promotional activities
- competitors' activities, new entrants to the market or the availability of substitutes and activities of channel members

The role of supply and capacity

- • **Total revenue (TR) is the price of the service multiplied by the quantity sold.**
- • **Average revenue (AR) is the total revenue divided by the quantity sold, i.e. price.**
- • **Marginal revenue (MR) is the increase to the total revenue by selling one extra unit of the service.**

Seven capacity strategies

- 1 Capacity for customer development.
- 2 Capacity for bundling
- 3 Capacity for employee endowment.
- 4 Capacity for exchanging
- 5 Capacity for pledging
- 6 Capacity for entry deterrence.
- 7 Capacity for differentiation

Price discrimination

- *1 First-degree price discrimination : Dutch Auction*
- *2 Second-degree price discrimination: NLP, QD*
- *3 Third-degree price discrimination: different prices for different segment ,locations , countries,..*

- **Advanced selling, demand and price discrimination**
-

Dynamic pricing

- ***Demand-based dynamic pricing***
  - dynamic pricing is a pricing strategy whereby prices change over time, across buyers or across the different bundles of products/Services. There are three such types of dynamic in use today.

Demand-based dynamic pricing

- ***Dynamic posted pricing is the take-it-or-leave-it pricing***
  - *through e-coupons*
- ***Auction***
- ***Bundle pricing***
- ***Capacity-based dynamic pricing***

6 The revenue management of services

- **Introduction to revenue management**
- ***The advanced demand exchange system***
- ***De-marketing and pricing***
- **The evolution and scope of revenue management**
  - ***Definition of revenue management***
  - ***How revenue management has evolved***
  - ***The expanding scope of revenue management***

Revenue management and advanced demand behaviour

- ***Revenue management and demand distribution***
- ***The deterministic aspect of advanced demand***
- ***Re-selling capacity***

Revenue management practices and tools

- *Overbooking and cancellations/no-shows*
- *Demand forecasting*
- Competition and revenue management
- Fairness and revenue management
  - *Role of information*
  - *Use of rate fences*
  - *Reasonable restrictions*
  - *Framing of the price differential*
  - *Fencing condition*

7 Strategic pricing and revenue management

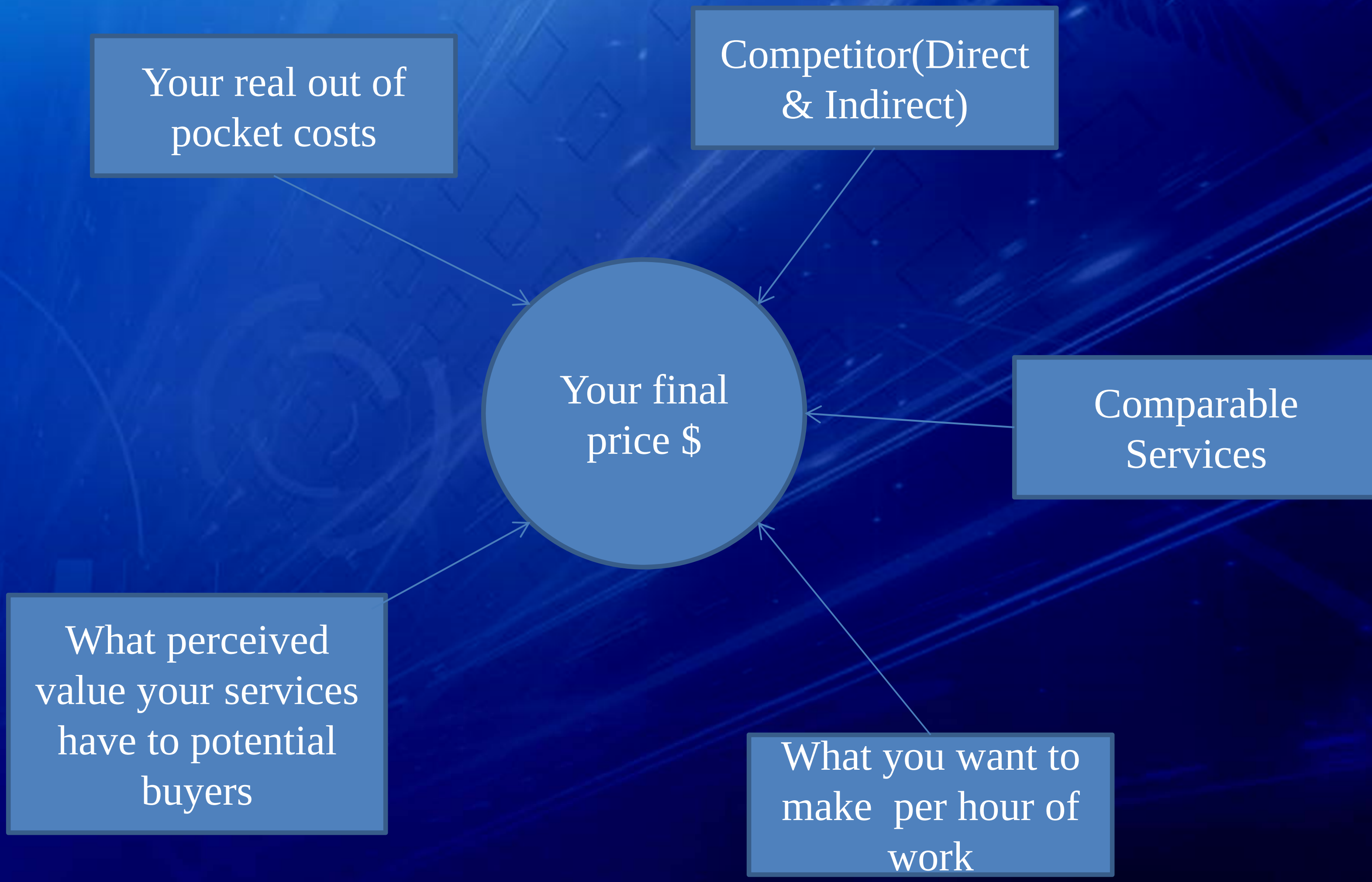
- **Four more strategies for higher revenue**

Consulting Services Pricing

Some general comments for on pricing consulting services

- **Take multiple approach to determine pricing**
  - Bottom up in which one **analyzes their costs** and desired income (**profit**)
  - market down pricing in which one analyzes what the **market seems to be paying** for comparable services
  - Value side (unusual services): mean both **psychic value and financial value**.
- **Depending on the market segments to be targeted:**
  - one must also take into consideration what prospects can **afford to pay**

General Structure for Consulting services pricing



	Before Negotiation	During Negotiation	After Negotiation
Proposing Value			
Communicating Value			
Claiming and Capturing Value			
Sustaining Value			

Some general guidelines

- **Always avoid quoting an hourly/daily rate if you possibly can. Quote by the project.**
- **Remember—project tasks almost always take longer than you estimate.**
- **If you must quote a rate, then make it high—and be consistent!**
  - Or say: "My rates vary from $2,500 to $3,500 per day depending on the nature of the engagement."
- **Try to avoid obvious discounting of rate**
  - discount by **estimating less time** than you know it will take. (Pryor, 2001)

	Before Negotiation	During Negotiation	After Negotiation
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Some general guidelines-2

- **Take control of pricing by adjusting your time estimates for off-site client work.**
- **be very attentive to managing expectations:**
  - write a very precise proposal with detailed deliverables
- **Once you have quoted a project cost, count hours only for your own info, and give it your "all"**
  - but be sure you **learn** for next time

	Before Negotiation	During Negotiation	After Negotiation
Proposing Value			
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Sustaining Value			

Some general Guidelines-3

- **There are times when you can, and should do, "Value Billing" (premium rates). Examples:**
  - Where you are providing **great info** in one or two days.
  - Where the client gets **fantastic financial return.**

	Before Negotiation	During Negotiation	After Negotiation
Proposing Value			
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You are worth more than you charge

- **Setting fees for consulting services: Mysterious gamble**
- **Good pricing practice should:**
  - **Not so aggressive** that you lose the work
  - **Not so conservative** that you leave cash on the table
- **Two sides of good practice:**
  - **Fair** for client
  - **Worthy of the contribution** you make to the **client success**

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Different aspects of consulting project

- **When they call you again: your contribution is valued**
- **It is not matter of amount of effort:**
  - If intervention in meetings are routine: you may doubt about whether you are entitled, but it is not the matter!
- **Consider all costs including hidden costs the firm invested in you (fly, hotel, extra travel cost)**
- **How much hard work, How interested yourself in discussion does not matter:**
  - How **effective** you are in **keeping the group focused** on getting to the **end objective**
  - Compensation is for **value provided** and **value received**, **regardless** of how little **time** or **effort** it took. **(SHAYS, 2009)**

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Current practice

- **Firms have trained the client field:**
  - to expect fees to be billed on the basis of **effort and not value**
- **The rate per hour mistake:**
  - Rate per hour variable is not one of three required variable
- **Two different views:**
  - **Consultant** view: the higher my **rate**, the more **valuable** clients would think I am
  - **Client** view: The higher the **rate**, the more **costly** the consultant is
- **Result of two different views:**
  - **Discussions** about having **lower-cost consultants** take a **larger share** of the work from **the higher-rate-per-hour** consultants **(SHAYS, 2009)**

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Important notice

Never give your client an hourly or per diem rate—even if you only have a one-day assignment

- **That turns your service into a commodity.**
- **Clients are investing in you for the value they perceive you provide them, not for your time.**
- **If you quote a fee based on time,:**
  - you **change** their **focus** away from the **value** they seek **to the cost** they will have to pay.
- **Although hourly rates play a role in your *costs, they should not show up in your pricing*.**

	Before Negotiation	During Negotiation	After Negotiation
Proposing Value			
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Sustaining Value			

"You completely undermine the expertise you've spent years building, and you limit the profit you can justifiably earn."

Michael McLaughlin

excellent *62 Tips for Consulting Success*

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Pitfall of hourly rates

- **Hourly or daily rates give the client a basis for negotiating reductions in your fee.**
- **Clients make comparisons, whether consciously or not.**
  - What **value** does the consultant provide a **day** that worth all my **weekly salary**?
  - Client probably thinks she is just **as smart as** consultant—she most likely is—so **why** should consultant **cost** her so much?

	Before Negotiation	During Negotiation	After Negotiation
Proposing Value			
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Result of hourly rate pricing

- **You can talk about your knowledge, experience, and proprietary processes(Your advantages)**
  - But **advantages don't justify higher fees**
- **Your client may still try to find a reason to get you to discount your rate:**
  - **reduce** the number of **hours**,
  - or **change** your **staffing plan** in order to reduce the fee
- **You become a line-item expense with a negative impact on budget,**
  - **not an investment** with a **positive impact on return**
- **You may also become conscious of this and <u>find yourself</u> keeping busy**
  - just **to appear productive** in the client's view **(SHAYS, 2009)**

	Before Negotiation	During Negotiation	After Negotiation
Proposing Value			
Communicating Value	✸		
Claiming and Capturing Value			
Sustaining Value			

Other pitfalls of hourly rate pricing

- **Consultants are not always the best estimators of how much time it takes to accomplish a given project.**
- **There are so many unknown project variables that require more time that, at the end of the assignment, the hourly rate doesn't always mean much anyway.**
- **In most firms, the consultants "eat" the extra hours, dropping their realization to 80% of the hourly rates or even lower.**
  - It is the **same as discounting** their rates. **(SHAYS, 2009)**

	Before Negotiation	During Negotiation	After Negotiation
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Sustaining Value			

Problem with one variable pricing on time

- **focus more on building up billable time than on billable projects.**
- **If you think you only have time to sell, you sell time;**
  - The **more time** you can include in a **proposal**, the **better**.
- **You may not need all those hours, but if you don't use them you can't bill for them.**
- **Hours are perishable.**
- **Consultants can't sell yesterday's unsold hours, so they rush to fill their time sheets with billable hours,**
  - perhaps even **resorting to charging clients** for **travel** time or **other gray areas**

	Before Negotiation	During Negotiation	After Negotiation
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Solution: Price based on Value

- Instead of quoting a fee based on hours and rates, quote your fee on the value of the total assignment.
- Instead of justifying your fee to clients on the basis of what you do, justify it on the basis of the benefits they will realize.
- By quoting a fee based on the total project benefits, you are justified in taking that full fee even if you achieve the expected result or benefits in less time than you estimated. That's the good news.
- The bad news is that you are also obligated to put in additional time and energy if required to meet the objectives.

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Three fee setting variables

- Client perceived value **(SHAYS, 2009)**
  - Will most often cause your fee to rise
  - This perceived value has nothing to do with how much effort or time is required
  - It has everything to do with how much better off the client will be as a result of your participation
  - The point where the fee you propose covers your costs, including salaries, and it rises to reflect the value the client places on achieving his objectives

	Before Negotiation	During Negotiation	After Negotiation
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Three fee setting variables

- **Market perceived value (SHAYS, 2009)**
  - Generally draws down the fee
  - It is the reality of the market reflected by **competition** or other **options** the client has for dealing with her issue.
  - begins at the highest point of CLIENT PERCEIVED VALUE and drops to a competitive price
  - It reflects the consultant’s margin over the basic costs of his practice.

	Before Negotiation	During Negotiation	After Negotiation
Proposing Value			
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Three fee setting variables

- **Consultant perceived value (SHAYS, 2009)**
  - If this leg of the triangle slopes down, then there is a positive margin, and the steeper the downward slope, the higher the margin.
  - If it slopes upward to the starting point, the fee is below the consultant’s costs.
- **The mental concept of these three variable is important for reaching the optimum fee that is profitable both to you and to the client**

	Before Negotiation	During Negotiation	After Negotiation
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Preliminary phase wastes

- **Before commencing the project: (SHAYS, 2009)**
  - Without the professional guidance of a facilitator who already knew the client's culture and environment, the one-day conference would most likely have meant a waste of considerable costs
  - The unproductive day would have resulted in an even larger opportunity loss by delaying the launch of a new product.

	Before Negotiation	During Negotiation	After Negotiation
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Priorities

- **Before any fee is mentioned, it is important to help clients focus first on what is at risk by doing nothing**
- **Then to focus on the value of success**
- **Some clients know merely that they want something done**
  - but they **haven't quantified the value** of the outcome.
- **They see some pain and want it to stop, or they see a golden opportunity and they don't want to miss it.**
- **You can help them quantify the value of that desire. That leads to your worth. (SHAYS, 2009)**

Value vs. Worth Terminology

- Value is the economic, social, and psychic benefit the client seeks from having the consultant do the work.
- Worth is the dollar amount the client should be willing to pay to obtain that value. It is normally a fraction of the value. . (SHAYS, 2009)

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Proposing Value			
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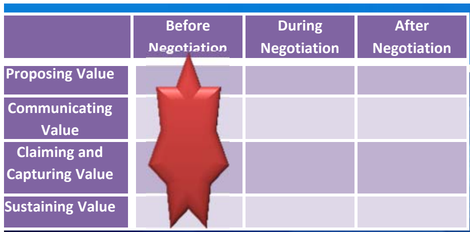
Primary Question

- **Before you discuss your involvement, you can ask clients what they expect would be the benefits of success**
  - **why** this issue is **important** to them or the company
- **Their answers will give you a basis for getting them to recognize the full value of your participation. . (SHAYS, 2009)**



Required information at first step

- **Relation between company's goal and the problem**
- **Time criticality**
  - The more urgent the issue, the more valuable your timely response will be to the client
- **Downside of not accomplishing goal**
- **Other stakeholders**
- **Stakeholders benefits**
- **What is the outcome:**
  - reduce turnover, increase retention, minimize the need for training, or improve productivity (SHAYS, 2009)

	Before Negotiation	During Negotiation	After Negotiation
Proposing Value			
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The right time to ask question

- **Be aware that it is important to have this conversation *before* you have proposed an approach or a solution.**
- **Discussing solutions diverts thinking from the pain of not doing the work to the pain of having to pay for it.**
- **After you and the client have reached a value on the work to be done, only then is it time to explore the different ways you can help her achieve her firm's objectives. (SHAYS, 2009)**

	Before Negotiation	During Negotiation	After Negotiation
Proposing Value			
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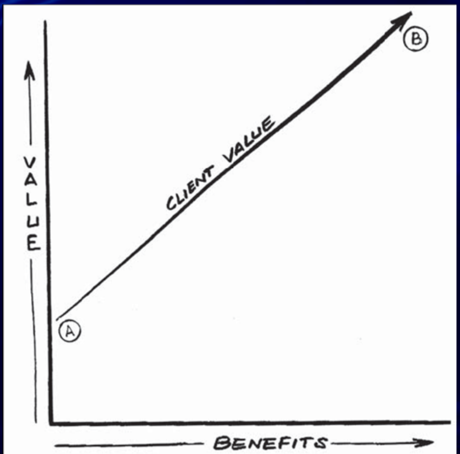
Sustaining Value			

Collaborative approach

- **It is found better to take a collaborative approach with the client instead of trying to sell a solution. (SHAYS, 2009)**
  - First, it removes you from a position of committing to an approach that may not be what the client wants.
  - Second, it invites the client to help structure the assignment with you.
  - Third, this interaction tends to bring the client onboard and to get used to working with you.



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How to raise client perceived value (SHAYS, 2009)

- **Always focus on the benefits, not the features, and certainly not the advantages.**
- **Consultants and salespeople are often too enamored of the advantages they have over their competition, but the client is less impressed.**
- **Three likely remark with different focus:**
  - You will have a design that will track shipments by parcel. **(Feature)**
  - Our methodology has been proven to be successful in over 100 applications of this type. **(Advantage)**
  - You will always know where each parcel is at any given moment. **(Value)**

	Before Negotiation	During Negotiation	After Negotiation
Proposing Value			
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Product vs. Benefit

- Products are not benefits. They are different.
- The benefit is what each product enables the client to accomplish.
- One way to stay focused on benefits is to focus on the client, not on your firm.
- What you will do on the engagement (your approach) is more important to the client than your advantage over your competitors.
- What you will produce is more important than how you produce it.
- What value the client will derive from what you produce is more important than the product.
- All four—advantages, approach, product, benefits—are important, but benefits raise the fee. (SHAYS, 2009)

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Benefit talks

- **Remove the word deliverables from your vocabulary.**
  - It puts the **focus** back on **physical** products.
- **As in real estate the three most important keywords are location, location, location, so in setting consulting fees the three most important keywords are benefits, benefits, benefits.**
- **Be careful not to be pressured into quoting a fee until you and the client agree what is to be done and what benefits will accrue. (SHAYS, 2009)**

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Market perceived value

- **Generally market perceived value will draw down the fee. (Reality of competition)**
- **The client may believe she can get along without you, particularly if you have been too instructive in the proposal discussions explaining how the problem can be solved.**
  - **Another reason** to focus on **benefits** and **not** on the **details** of your approach (SHAYS, 2009)

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Other possibilities

- **feel the investment is too great and decide to put off the project to a future time.**
- **proposals from other firms**
- **You can't always know what options you are up against,**
  - though you should inquire during the initial meeting what avenues the client is exploring to solve the problem
- **Solution: Ask for amount of budget, with collaboration try to drop part of project:**
  - Let's see if we can structure something that makes economic sense (SHAYS, 2009)

	Before Negotiation	During Negotiation	After Negotiation
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Sustaining Value			

Your feeling is the only source

- **quote the right fee for the work that we eventually agree must be done**
  - Don’t quote exact amount of budget to client’s stated limit, and not offer discount to fit the budget
- **Unless you know your client’s options, you will have to depend on your own gut feeling to guess**
  - how much **market pressure** is placed on the CLIENT PERCEIVED VALUE variable. (SHAYS, 2009)

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How to reduce impact of market-perceived value

- **Get a client instead of an assignment**
  - With an assignment, you are **here today** and **gone tomorrow**.
  - With a client, you develop a standing **relationship of trust**, and trust has a way of **insulating** you from competition.
- **The client is not seeking one more person to have a relationship with. (SHAYS, 2009)**

	Before Negotiation	During Negotiation	After Negotiation
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Relationship building elements-1

- **Adapted from Tim Sanders' intriguing book, *The Likeability Factor* (SHAYS, 2009):**
- **Friendliness**
  - People want to do business with those whom they think they would like and who are supportive and nonthreatening (Genuinely liking, real)
- **Relevance**
  - **Match** between what **consultant** brings(education, experience, and expertise)
  - and **client interest** (the environment and needs of the company and, in particular, the individual client)

	Before Negotiation	During Negotiation	After Negotiation
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Sustaining Value			

Relationship building elements-2

- **Adapted from Tim Sanders' intriguing book, *The Likeability Factor* (SHAYS, 2009):**
- **Empathy**
  - The empathetic consultant is:
    - more interested in **the success of the client** than in her **own immediate well-being**.
    - She **listens more** than she **talks**.
- **Realness**
  - It is where trust is earned once you have **demonstrated** your **integrity**, **reliability**, and **value**.

	Before Negotiation	During Negotiation	After Negotiation
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Example (SHAYS, 2009):

- The next day I found I sincerely liked the client-manager, and we had a good visit (*friendliness*). *During our* conversation he commented that I must have worked in some aspect of underwater cables because of my apparent understanding of the history and technology (*relevance*). I admitted that the previous night I had quickly read a schoolbook on underwater cables (*empathy*). *He laid out* the problem, and my firm responded with a proposal later that week.

	Before Negotiation	During Negotiation	After Negotiation
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How to decrease market perceived value impact

- **If you can earn a relationship through consistent reliability, good value, being easy to work with, and empathy,**
  - then you will find that MARKET PERCEIVED VALUE has less of an impact on fee. (SHAYS, 2009)

	Before Negotiation	During Negotiation	After Negotiation
Proposing Value			
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More protection from market perceived value

- **Leveraging a relationship requires sharing the pain *and* the gain**
- **Tunnel vision of consultant prevents him from catching the pain signal of client**
  - Thus will **lose the opportunity** to be of real help
  - Since consultants are called in after the client firm has **already determined** its **need** and **decided** how it should be served
- **It is better to be a trusted advisor than just another consultant looking for an assignment. (SHAYS, 2009)**

	Before Negotiation	During Negotiation	After Negotiation
Proposing Value			
Communicating Value			
Claiming and Capturing Value			
Sustaining Value			

Sharing pains

- **Consultants who are overly focused on their own agenda will be clueless,**
- **and they may as well invite the competition to their client lunches**
  - because, in the long run, clients will **give** the work to the ones who **share their pain**
- **Clients are not looking for a relationship. They want a partner. (SHAYS, 2009)**

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Client prefer consultant who (SHAYS, 2009)

- **shares an empathy with them**
- **more interested in the client's needs than in his own immediate needs**
- **Instead of waiting for "the call," he is there beforehand**
  - when the client begins to feel pain but hasn't yet understood that something can be done about it.
  - It's an opportunity to convert an **unclear need** to a clear need
    - to make an implicit need explicit.
- **Being a trusted advisor**
  - sets you apart from the competition
  - gives you an edge in proposing and pricing your services
    - It is a relationship niche.

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Variation of market perceived value

- **MARKET PERCEIVED VALUE rises:**
  - when the consultant has a narrow ***niche***
  - *And* falls if you are perceived as a generalist.
- **If you are one of a kind**
  - the law of supply and demand says you can charge your full value
- **Finally, the larger the company, the more discretionary funds it has**
  - and the less it is influenced by MARKET PERCEIVED VALUE.
  - An entrepreneur or a lower-level manager with a limited budget is more susceptible to sticker shock . (SHAYS, 2009)

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Consultant perceived value

- **The CONSULTANT PERCEIVED VALUE is your go/not go decision**
  - Does the fee worth your involvement
- **Always use as a baseline:**
  - the **amount of effort**—including time away from other clients
  - and **opportunities**—and energy that you will expend *if you have no interference.*
- **Is the client easy to work with, or will you suffer multiple meaningless meetings with big egos?**
- **If you think it is the latter, better to include a contingency for long-suffering. (SHAYS, 2009)**

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Two reasons make an assignment worthwhile

- **Two reasons make an assignment worthwhile:**
  - Either it’s good money for your knowledge, experience, ability, and effort
  - or the fee may bring you some value other than the revenue (SHAYS, 2009)

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Take advantage of professional independence consulting

- **If the fee is too low and you determine you don't want to work at that fee, then you have nothing to lose by quoting a fee you will accept.**
- **The worst the client can say is no, but you may be surprised with a yes.**
- **You may even be called later to bid on another project, and now the client knows what he will be paying.**
- **You might be willing to take an assignment at a lower fee because it gets your nose under a tent you want to be in.**
  - new industry or functional area, experience in an unexplored area, more work with the affiliate or other affiliates, or to build credibility in the market (SHAYS, 2009)

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Other better ways of discounting

- **Giving more than you promised is always good.**
- **Your fee will not be perceived as discounted**
  - because the extra effort comes after you started the work
- **Doing at loss is only justifiable in two situations:**
  - In case of **experience promotion**
  - There is reasonably expectation a long stream of work from that same client, which would make the lower fee **profitable to you over time** (SHAYS, 2009)

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Avoid lowering fee

- **Whatever you do, avoid lowering a fee with an existing client.**
- **Instead:**
  - ask the client to suggest one element of the work that you can **remove** from your proposal.
- **It may be:**
  - that the client gives a little by taking out a small piece of the work,
  - and you give a lot by cutting more of the fee than the withdrawn piece warrants,
  - but this negotiation does not brand you as discounting your fees. (SHAYS, 2009)

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Other substitute of discounting (SHAYS, 2009)

- **Other ways to assuage client sticker shock are:**
  - to **split** the assignment into smaller phases,
  - to defer some aspect of the work,
  - or to bring in some of the **client's employees** to work under your guidance
- **Exception: one type of assignment in which a price reduction can make sense is:**
  - when you and the client agree to **work together** to develop a **leading-edge solution** to a particular **problem**.
  - the **experience** you gain working for clients becomes **part of your repertoire**, your **intellectual knowledge**

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How to determine your base rate (SHAYS, 2009)

- **Although experience you gain working for clients becomes part of your repertoire, your intellectual knowledge**
- **In consulting, the major product element are:**
  - your salary.
  - investment in continuing education (more important)
- **Include in your salary:**
  - your personal expenses like healthcare, taxes, and your retirement.
- **Add to that annual salary the amount you need for:**
  - professional development,
  - the office, support services, marketing,
  - and business insurance.

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Other related matter to consider for base rate (SHAYS, 2009)

- **It is highly unlikely you will be billable for those 225 days.**
  - weekends (104 days), holidays (11 days), while on vacation (15 weekdays), or when you are sick (10 days)
- **You've got some marketing to do. This will take up 20-30% of your workdays**
  - Most successful consultants spend the equivalent of one day each week marketing and maintaining their client relationships.
  - having to start all over again from scratch when the work is gone
- **It is far better to work four days a week and do marketing on the fifth in order to keep the pipeline filled.**
- **After 20% of your remaining time is taken away for marketing, you have only 180 days left for client work.**
  - If you can handle the "administrivia," the invoicing, and the training after hours or on the weekend

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Other related matters to consider for base rate-2 (SHAYS, 2009)

- **Let's say you would be willing to work with clients 75% of the available time.**
- **That would be 135 days in a 365-day year, or an average of 11 days a month**
- **If the total base amount you need to survive for the year is $200,000:**
  - any assignment that earns you less than $1,500 a day would not meet your base requirement. (Your own cost only)
  - assuming $140,000 was your base salary—before the $60,000 for overhead, training, and support was added—
- **When you bring other consultants on your assignments, you obviously need to include their costs in the equation:**
  - If they are employees, use the 2.75x rule or the 3x rule

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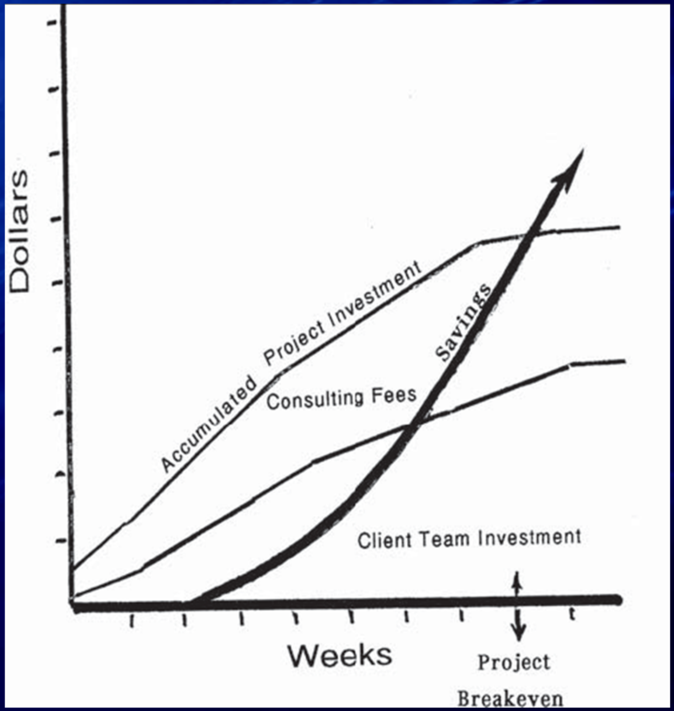
Quoting the fee (SHAYS, 2009)

- Be clear in your own mind that you are not a cost to the client but an investment she is making on a return she expects you to deliver.
- Job is convince the client that the job has good pay back
- Example of operation improvement process:



	Before Negotiation	During Negotiation	After Negotiation
Proposing Value			
Communicating Value			
Claiming and Capturing Value		★	
Sustaining Value			

Not consultant but the assignment! (SHAYS, 2009)

- **Always position the fee as an investment in the assignment, not an investment in the individual consultant.**
  - When you relate the **investment to the individual**, the fee seems like a **lot of money** for one or two persons.
- **Another way to put your fee in perspective is to relate it to the cost of not going ahead. (Against what the client is loosing)**

	Before Negotiation	During Negotiation	After Negotiation
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Client's characteristics (SHAYS, 2009)

- **Determining what percentage of the client value you will use to set your worth or fee will be based on:**
  - the size and location of the client
  - and on her previous use of consultants.
- **The greater history a client has with consultants, the less her sticker shock.**
- **In no case setting fee less than 10% of the client perceived value is recommended**
- **If you have a range:**
  - The client knows, and experience has shown, that consultants invariably overrun their low-range work plan and will bill up to the maximum amount.
  - Just quote fixed fee of the upper limit and be done with it

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Sustaining Value			

When to quote? (SHAYS, 2009)

- **Don’t quote a fee until you know who the decision maker is and why she wants this work to be done.**
- **Good rule of thumb:**
  - Never waste your time on a request for proposal (RFP):
  - Unless you **know who** the decision maker is and **why** he wants the work to be done

	Before Negotiation	During Negotiation	After Negotiation
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Billing for the expenses (SHAYS, 2009)

- Some professions charge clients for miscellaneous expenses like telephone, copying, and secretarial time. Don’t do that.
- Don’t charge for local travel or parking, and certainly don’t charge for “windshield time” such as driving to a client site, especially since you don’t want to charge for the commodity of time.
- Your fees should be able to absorb these miscellaneous expenses.
- You can bill for reimbursement of direct out-of-pocket costs such as:
  - travel, hotel, and reasonable meal expenses out of the local area when these are not included in the fee

	Before Negotiation	During Negotiation	After Negotiation
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Billing the expenses-2 (SHAYS, 2009)

- **Don't mark up those expenses, you are not reseller of hotel and airline services**
  - When you ask for reimbursement, be ready to **provide** the same level of **backup documentation** that the client would ask of its own **employees**.
  - Or consider **estimating** your out-of-pocket costs, **add them to the fee for services**, and tell the client there will be no additional charge for expenses

	Before Negotiation	During Negotiation	After Negotiation
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Sustaining Value			

Preliminary surveys

- **Before a consultant can give a quote for a major project, it is often useful—if not necessary—**
  - to conduct a **brief survey** of the **situation.**
- **Purpose of survey:**
  - to enable you to come up with a saleable proposal, then you are not giving away value
- **Don’t call this a free survey, as that implies you are giving the client something of value for free:**
  - In the first place, the survey is not producing anything of value to the client at this point.
  - In the second place, you don’t want to set a precedent of doing free work. (SHAYS, 2009)

	Before Negotiation	During Negotiation	After Negotiation
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When billing the survey is rational

- **If the purpose of the survey is:**
  - to provide the client with preliminary recommendations to justify a subsequent project (whether or not you will be retained to manage it),
  - then the survey should be billable
- **You should set a fee commensurate with the value you will deliver.**
- **You should not "discount" this fee**
  - because—again—you don't want to set a precedent of being a discounter.
- **If preliminary survey contains "road map" be ready to accept the risk of:**
  - report over to other consultant to do it with lower fee
  - Client's taking your findings and performing the work themselves,
- **Otherwise, it is better to detail the what and not all the how**
  - speak primarily to the net benefits (SHAYS, 2009)

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Claiming and Capturing Value			
Sustaining Value			

Ways to get paid-1

- **Advance Retainer (SHAYS, 2009) :**
  - Some consultants ask for a **portion** of their fees in **advance**.
  - This is particularly useful when the client appears to be in some **financial difficulty**.
  - It is **difficult to repossess** your consulting advice once the client has received it.
  - If you ask for some initial payment, do **not call** it an **advance payment** or **up-front payment**.
  - It is a prepayment to retain you. Call it a **retainer**.

	Before Negotiation	During Negotiation	After Negotiation
Proposing Value			
Communicating Value			
Claiming and Capturing Value			
Sustaining Value			

Ways to get paid-2

- **Recurring Retainer (SHAYS, 2009):**
  - Another type of retainer is an agreement to pay the consultant a set fee on a **regular basis**
    - **without an invoice**, usually monthly, the same way one would pay office **rent**.
  - The consultant agrees to **be on call during** the month for advice and support,
    - within certain parameters and time **constraints**
  - He is paid each month **whether or not** he is called upon to serve the client
  - The consultant may find he is **putting in more effort in some months**, and **less** in others.
  - If the fee is based on the value of the service, the number of days or hours involved are not counted.

	Before Negotiation	During Negotiation	After Negotiation
Proposing Value			
Communicating Value			
Claiming and Capturing Value			
Sustaining Value			

Ways to get paid-3

- **Contingency Fees (SHAYS, 2009)**
  - which consultants base their fees on:
    - accomplishing specific business metrics, goals, or savings
- **Although professional associations of management consultants frown on this practice it is growing**
  - because many clients want to pay only for what they get
- **Most contingency pricing is not supported by consulting organizations**
  - as a matter of professional ethics.

	Before Negotiation	During Negotiation	After Negotiation
Proposing Value			
Communicating Value			
Claiming and Capturing Value			
Sustaining Value			

Problems in Contingency Method

- **It is possible to appear to achieve stated results at the end of an engagement**
  - through **aggressive actions** that backfire on the client months later with **unexpected negative impact**.
  - counter this danger is to withhold the contingency payment for 6 to 12 months or years (ensure sustainability)
- **A lot can happen during those months over which the consultant has little to no control**
- **Even real results can go in the tank if the client doesn't manage the new process (SHAYS, 2009)**

	Before Negotiation	During Negotiation	After Negotiation
Proposing Value			
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Sustaining Value			

Thinking through time- Story

- **One time :client wanted to discount an unpaid invoice**
  - because he felt I had not delivered all the value my firm had represented.
- **One approach: tell the client to pay only what he thought the work was worth.**
  - Since not believing consultants should offer bargain-basement prices for shoddy work,
  - Telling the client there would be no fee at all and that consultant would absorb the expenses herself.
- **Until six months later the same client reported the discovery that half the people in consultant's seminar had been using what she had taught them, and they wanted her to conduct another class.**
- **Hit: immediately sending them the previous invoice, complete with expenses, and taught the second seminar.**
- **Consultant would be paid for both! (SHAYS, 2009)**

	Before Negotiation	During Negotiation	After Negotiation
Proposing Value			
Communicating Value			
Claiming and Capturing Value			
Sustaining Value			

Ways to get paid-5

- **Success Fees (SHAYS, 2009)**
  - On some assignments, in contrast, the metrics are easily obtained and accepted.
- **the consultant receives a bonus based on a previously agreed-to percentage of improvement**
  - such as a rise in EBITDA (earnings before interest, taxes on income, depreciation, and amortization),
  - among numerous other financial measurements that might be used
- **The fee could be entirely based on success:**
  - no improvement, no fee. More often, the fee is a combination of a base consulting fee plus a bonus based on success
- **This method spreads the risk of the assignment between the client and the consultant.**
- **If you lower your base fee to assume some risk,**
  - however, the rewards of success should be commensurate with the risk

	Before Negotiation	During Negotiation	After Negotiation
Proposing Value			
Communicating Value			
Claiming and Capturing Value			
Sustaining Value			

Ways to get paid-6

- **Progress bill (SHAYS, 2009) :**
  - For long-term assignments, sending a progress invoice every 30 or 60 days may be needed
  - Consistency in billing cycle is important
  - A schedule that the client comes to expect and that makes it easy for you to track for payment should be presented
  - Billing on time is not recommended
  - Sending invoice based on a **percentage** of the **total** elapsed time of the **estimated project** length is appropriate
  - Each invoice should be for the same amount, unless a larger or balloon payment is scheduled at the end of the assignment.

	Before Negotiation	During Negotiation	After Negotiation
Proposing Value			
Communicating Value			
Claiming and Capturing Value			
Sustaining Value			

How to get paid (SHAYS, 2001)

- **If you would like to get the check, you need to send an invoice.**
- **Many consultants don't invoice when they should! (BIG mistake)**
  - Sometimes it is because they think they are too busy.
  - Sometimes it is because they are reluctant to talk money with the client.
- **Money is not dirty, and asking to be paid for services agreed to and rendered is not unprofessional.**

	Before Negotiation	During Negotiation	After Negotiation
Proposing Value			
Communicating Value			
Claiming and Capturing Value			
Sustaining Value			

Every interaction is marketing

- **Every interaction with the client is marketing. That includes invoicing.**
- **Your invoice and timely billing should tell client:**
  - you are a person in business who is acting professionally
  - and expecting them to respond in a businesslike manner as well
- **Your invoices should look professional:**
  - your business stationery, addressed correctly, with a brief description of what the invoice is for, and the amount.
- **Find out if the firm pays on a predetermined cycle, and make sure your invoices get out in time to hit the cycle right**
- **Find out who to send the invoice to, or whether you need to send a copy directly to accounting (SHAYS, 2009) .**

	Before Negotiation	During Negotiation	After Negotiation
Proposing Value			
Communicating Value			
Claiming and Capturing Value			
Sustaining Value			

Be professional in invoicing

- be professional about when you send out your invoices. Get them out early.
- Don’t put them off for when you think you will have more time.
- Progress bill on time or right after you have completed the progress benchmark.
- When you complete an assignment, send a thank you note with a final invoice within six days (SHAYS, 2009)

	Before Negotiation	During Negotiation	After Negotiation
Proposing Value			
Communicating Value			
Claiming and Capturing Value			✱
Sustaining Value			

Reasons for professional invoicing

- **When you are on top of your invoicing, it tells the client that:**
  - you are on top of your business
  - that you expect to be treated as a professional
- **If a client is invoiced immediately after delivering the final report,**
  - the client has the report in one hand and the invoice in the other, and the report **balances** the invoice
- **If a client is invoiced much later:**
  - the report may be a distant memory
  - the invoice weighs more heavily on the client.
  - As a result, the invoice may be delayed in reaching accounting (SHAYS, 2009).

	Before Negotiation	During Negotiation	After Negotiation
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Desperate reality about invoices (SHAYS, 2009)

- **Most often, the invoice has been held up somewhere and needs to be tracked down.**
- **Sometimes it has been lost and a duplicate must be sent.**
- **If so, send it priority or even express mail and mark it "Duplicate."**
- **outstanding invoices have a half-life:**
  - The longer you wait to get paid the harder it will be to track down payment.
- **Staying on top of your business includes:**
  - staying on top of your outstanding invoices.

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How to rise your fees

- **Raising your fees with existing clients can be done over a period of time.**
- **Tell them that you are raising your fees for new clients**
  - but that you will **keep** the current fee level for the next six or nine months.
- **Then, when you do raise their fees, it comes as a natural and expected evolution in your relationship with them (SHAYS, 2009).**

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Concerns when you rise your fees (SHAYS, 2009)

- **Higher fees mean that:**
  - You can afford to work for fewer clients, spending more time cultivating those relationships and doing superior work for them.
  - You can devote more time to continuing education and pass the quality of your training on to your clients.
- **When you raise your fees:**
  - Raise the level of customer service at the same time.
  - Be more attentive to the client,
  - Deliver even more benefits,
  - Be more responsive,
  - Beat deadlines,
  - And never exceed budget.

	Before Negotiation	During Negotiation	After Negotiation
Proposing Value			
Communicating Value			
Claiming and Capturing Value			
Sustaining Value			

Get rid of useless clients (SHAYS, 2009)

- **The clients you associate with will determine:**
  - whether you **stagnate** or **grow**
- **You may also raise your fees for clients who:**
  - take up too much of your time and energy for the value they give you.
- **unless you can free yourself of clients that are pulling you down:**
  - you will not have the resource time to recruit clients that will lift you up
- **Some consultants make it a practice:**
  - each year of weeding out 10-15% of their **unprofitable clients**.

	Before Negotiation	During Negotiation	After Negotiation
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Concerns when firing (SHAYS, 2009)

- **When you “fire” a client, recommend another consultant who would be happy to take over:**
  - It avoids alienating the client
  - Other consultant will return the favor in future
- **Another way to fire annoying or unprofitable clients is:**
  - to quote higher fees than they are used to paying,
  - on the basis that your other work at these higher rates prevents you from continuing to charge the lower fees
  - make sure the fee is high enough for it to be worth the aggravation. (it may make you even more desirable)

	Before Negotiation	During Negotiation	After Negotiation
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The ethics of professional billing (SHAYS, 2009)

- **Agree on fees and payment terms upon starting**
- **Fees should be commensurate with the services delivered and the responsibility**
- **not charge fees that may your objectivity**
- **not accept a contingency fee based on short-term results:**
  - could result in longer term negative side effects
- **Charging on the basis of time and material:**
  - In case assignment completed for less: reduce the cost
  - In case of fixed fee: doesn't apply
- **In case of expanded scope without prior agreement:**
  - Do not charge in excess of maximum fee quoted

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Full Disclosure (SHAYS, 2009)

- **Unless full disclosure, do not accept a fee from both your client and a third party for the same client recommendation,**
- **Do not disclose:**
  - business relationships you have established with other consultants
  - any marketing, administrative, or contract management arrangements between you and your team members

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A Lasting Impression (SHAYS, 2009)

- **client tends to remember the last event or transaction connected with a consulting assignment**
- **you don't want:**
  - your compensation to be the last thing a client remembers about your work
- **You want:**
  - the client to think about how it was to work with you and the benefits she received as a result
- **Later, after four to six weeks:**
  - call the client and ask how the implementation or operation of your recommendations is progressing
- **If the client tells you it is going well:**
  - that will be the last thing she remembers.
- **If the activity is not going well:**
  - you had better pay her a visit to suggest how to put it back on track.
  - And that is the last thing she will remember about your work.

12 strategies +1
for increasing your fees

1. Stop trading your time for dollars
2. Apply the three pricing variables framework
3. Ask the client her perception of the value of success
4. Ask the client about the cost of failure to act
5. Focus on benefits, not features or products
6. Go get a client, not an assignment
7. Share the pain and share the gain
8. Understand the client is investing in the project, not buying it
9. Relate your fee to the breakeven point
10. Never be seen as a discounter
11. Deliver benefits not deliverables
12. Fire high maintenance unprofitable clients

+1 Invoice early and frequently

Service pricing research state

- **Despite the interest shown by the various disciplines:**
  - research progress has been slow, particularly in the area of service pricing.
- **Given the apparent lack of ownership (being interdisciplinary) towards the subject matter:**
  - service pricing research in general has not proceeded as swiftly as it should.
- **Although there appear to be numerous literatures on the policies and strategies of the pricing of goods there is a serious lack of literature in the policies and strategies of services pricing.**

Service characteristics (IHIP)

- a service may operate within a tangibility spectrum according to what tangible or intangible elements add value to the buyer
- the production and the consumption of a service are inseparable.
- Largely because of the highly personalized nature of certain services, many have assumed that heterogeneity is another characteristic of services
- services have been considered perishable,

Intangibility influence on price

- **Due to that risk, the buyer would only be willing to pay a lower price for a service**
- **The intangibility could increase the buyers' perception of risk in purchase.**
- **Since the risk of purchase is generally higher, risk-averse buyers could:**
  - seek *greater assurance from the firm and are generally willing to pay a higher* price for that assurance.
- **Consequently:**
  - brand promises and reputation that serve as relevant assurances become central in the marketing of services,
  - and service firms promising quality services are often able to obtain higher prices.

Complexity of service pricing

- **Bank of England's quarterly report states:**
  - some of the new service industries may have special economic properties that do not fit well with the assumptions of conventional economic models. For example, telephony and computer software production have **high initial costs** but **very low marginal costs**. As a result, pricing strategies may be more complex, and component services are sometimes embedded in **customized packages** that can obscure the price actually paid or the services actually bought.

Individual buyer

- **When discussing the individual buyer, two issues are relevant:**
  - Buyer's choice: need to understand what motivates a buyer to purchase at a given price
  - buyer's *willingness to pay: the maximum amount an individual is willing to pay for a product*

Buyer choice

- **Buyer's choice is not merely determined by price**
- **Buyers are also affected by past choices**
  - Loyal vs. variety seeking
- **What we do know is that a buyer's inclination to purchase increases:**
  - if there is a larger **gap** between their **willingness** to pay, and the **costs** buyer have to bear to obtain the product
    - such costs include **monetary** and **non-monetary** costs.
- **This gap is commonly known as *consumer surplus and the rational buyer behaves in such a way that will:***
  - ***maximise*** his or her surplus
- **having a price that is lower than a buyer's willingness to pay is necessary, but not sufficient for the buyer to choose to purchase.**

Value (Demand side view)

- Porter: value is buyers' willingness to pay
- Zeithaml: that customer value is customers' judgment about products
- Monroe: customer value came from acquisition and transaction.
- Dodds *et al.: customer* value could be defined as a trade-off between the benefits <u>received from</u>, and the sacrifice made for the product
- Woodruff : customer perceived value came from the attributes and the performance of the product

Value (Demand side view)

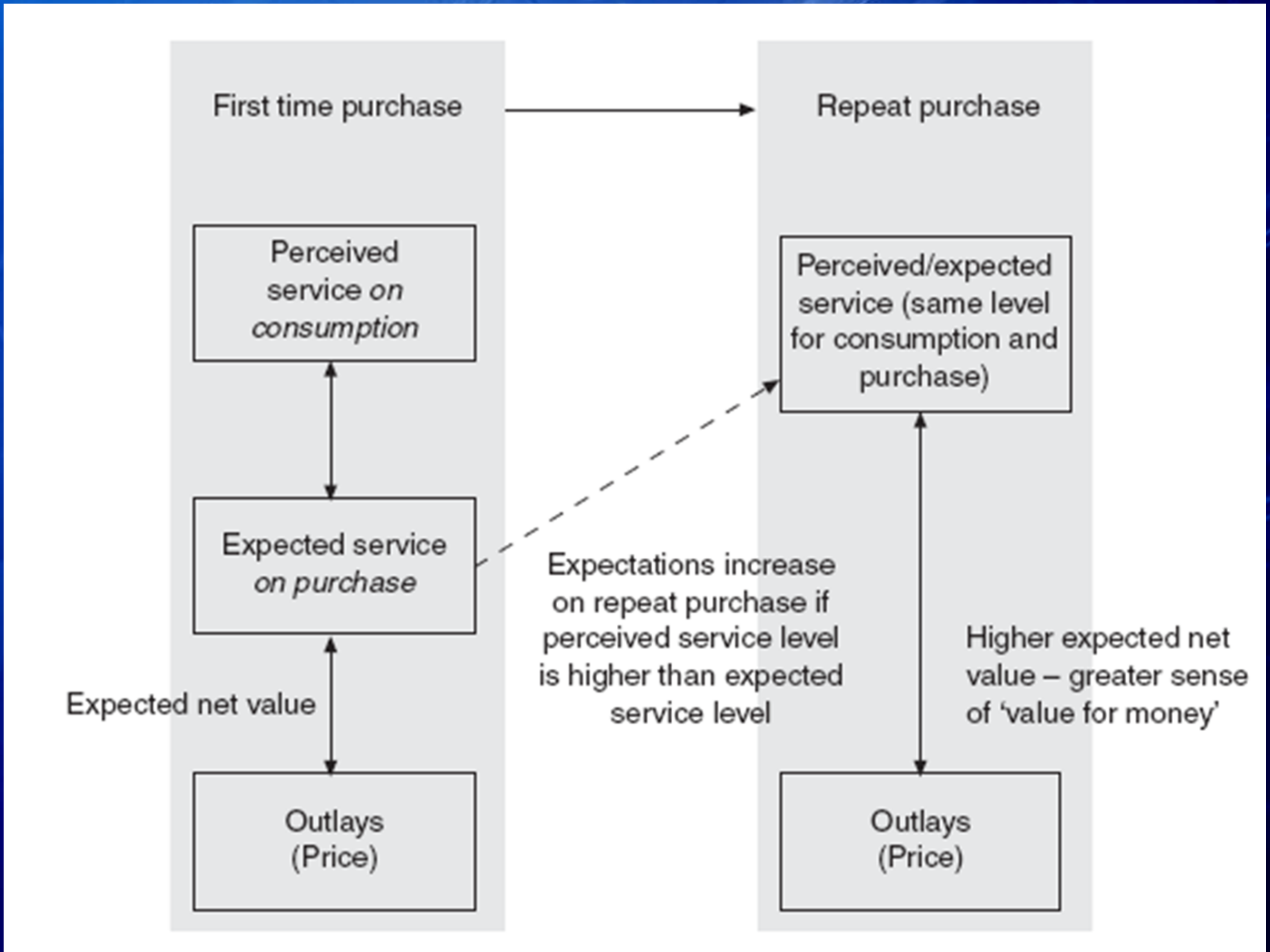
- **Bettman *et al.:* customer-perceived value came from the experience perceived by the customer in using the good or service**
- **DeSarbo *et al.: customer* value is the trade-off between customer-perceived quality and customer perceived price**
- **Other researchers: personal difference might lead to the variation in value perception.**
- **some researchers: customer-perceived value is constituted by benefits**
  - **BUT** more researchers tend to agree that customer value could be defined by the **benefits and costs** that the customer **experiences** in consuming the product.

Key definition of value, satisfaction and quality

Key definitions	*Description*
Perceived net value (PNV)	The buyer's perception of the net gains of a good or service based on all relevant benefits and outlays *upon consumption*
Expected net value (ENV)	The buyer's *expectation* of the net gains of a product or service based on all relevant benefits and sacrifices *upon purchase*
Perceived quality	How well the service level delivered matches buyer expectations. Delivering quality service means conforming to buyer expectations on a consistent basis.
Satisfaction	*A post-choice evaluation* of a good or service based on the total consumption experience over time

- **purchasing and price are concerned with ENV rather than PNV, although PNV will influence ENV for repeated purchases**

Changing expectation after consumption



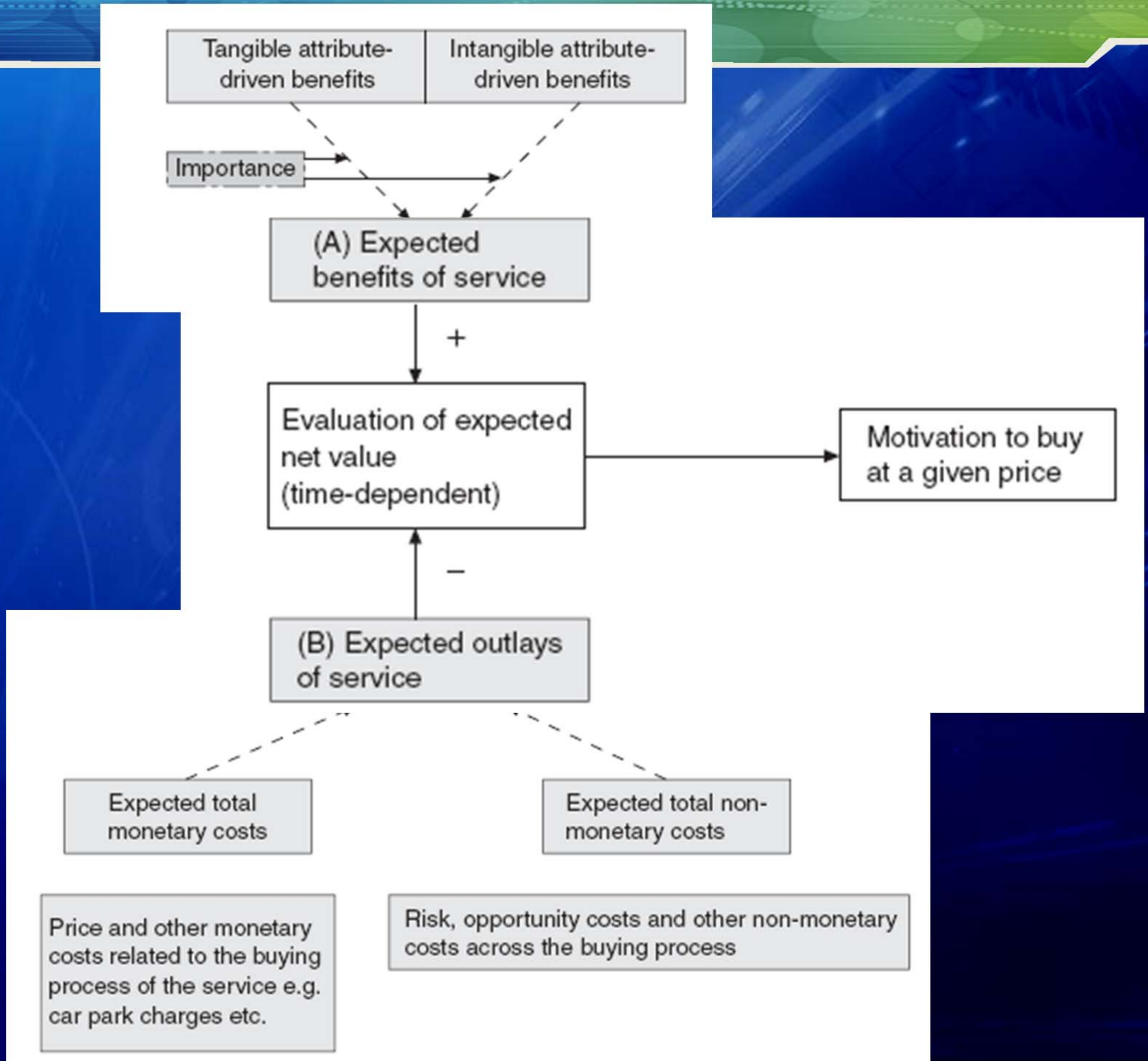
ENV vs. Gross Value=benefit

- **The higher the ENV, the higher the probability of the buyer buying the service:**
  - The higher the ENV, the higher the ‘value for money’
- **Net value is important because of the role of competition**
  - **competition** changes a buyer’s expectation of net value
- **If a competitor’s product provides the same benefit but requires a lower outlay,**
  - the buyer’s expectation of the net value provided by the competitor will increase (searching for superior value)
  - the firm may lose out to the competitor.

Definition of Attribute and benefit

- **Attributes are features of a good or service**
  - **Tangible** attributes are features that are objective and can be precisely valued or measured
  - Attributes can also be **intangible**: not measurable and subjective.
- **Buyers buy benefits and not attributes.**
  - It is what the attributes **do for them** that matters, not the attributes in themselves

Relation between attribute, benefit, value



Core benefit, actual and augmented product

- **The core benefit is the fundamental reason for the purchase**
- **Augmented product is created to offer additional consumer services and benefits**
- **The question about the core benefit, should not be answered by the firm but by the buyer**
  - Because by doing so, they may limit their market segments
- **Firms have to constantly evaluate the attribute-benefit links and their segmentation strategies**

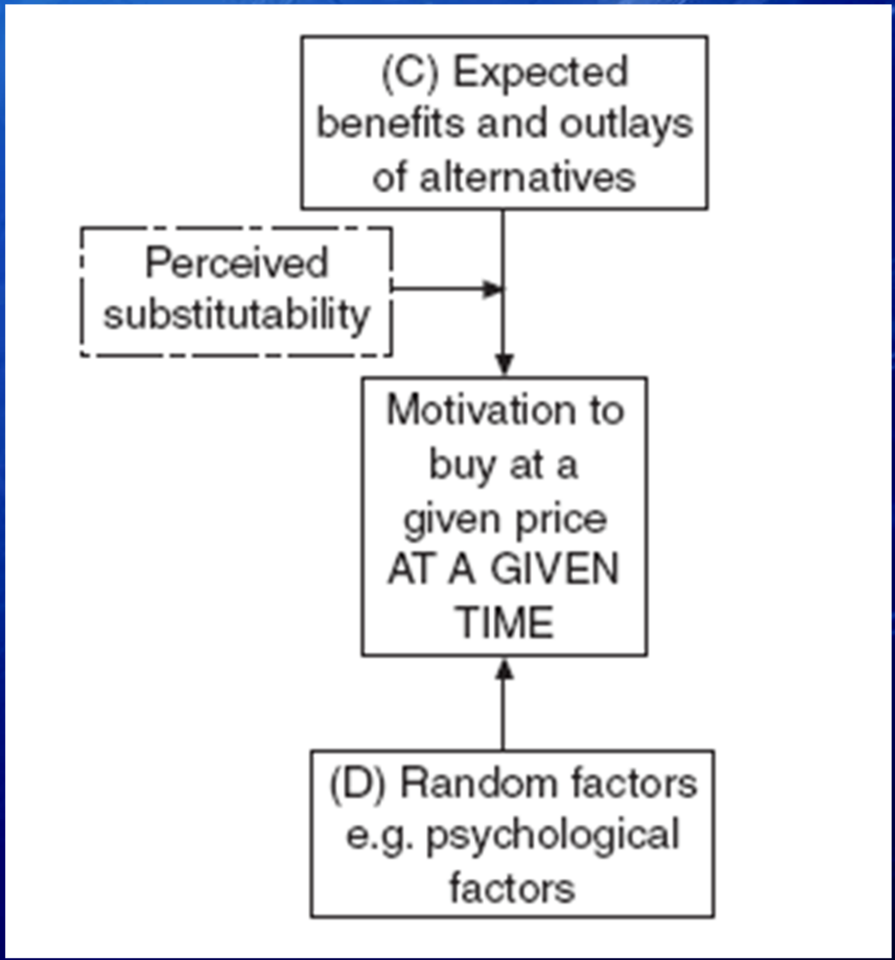
Intangible attribute driven benefi

- **Services with credence attributes are often technical in nature and if they are not observed by the buyer, buyers could be wondering if the work was really done properly.**
- **For firms deciding if they wish to improve on quality and value of a product, adding experience and credence attributes to a product is often a double-edged sword.**
  - On one hand, firms have **difficulty convincing** buyers before the purchase that the product *will deliver the promise made by these attributes – even if they do* fulfill it
  - On the other hand, firms can make promises of quality delivery – even if **they *don't totally fulfill***
    - since buyers won't be able to tell if this is the case, before they buy

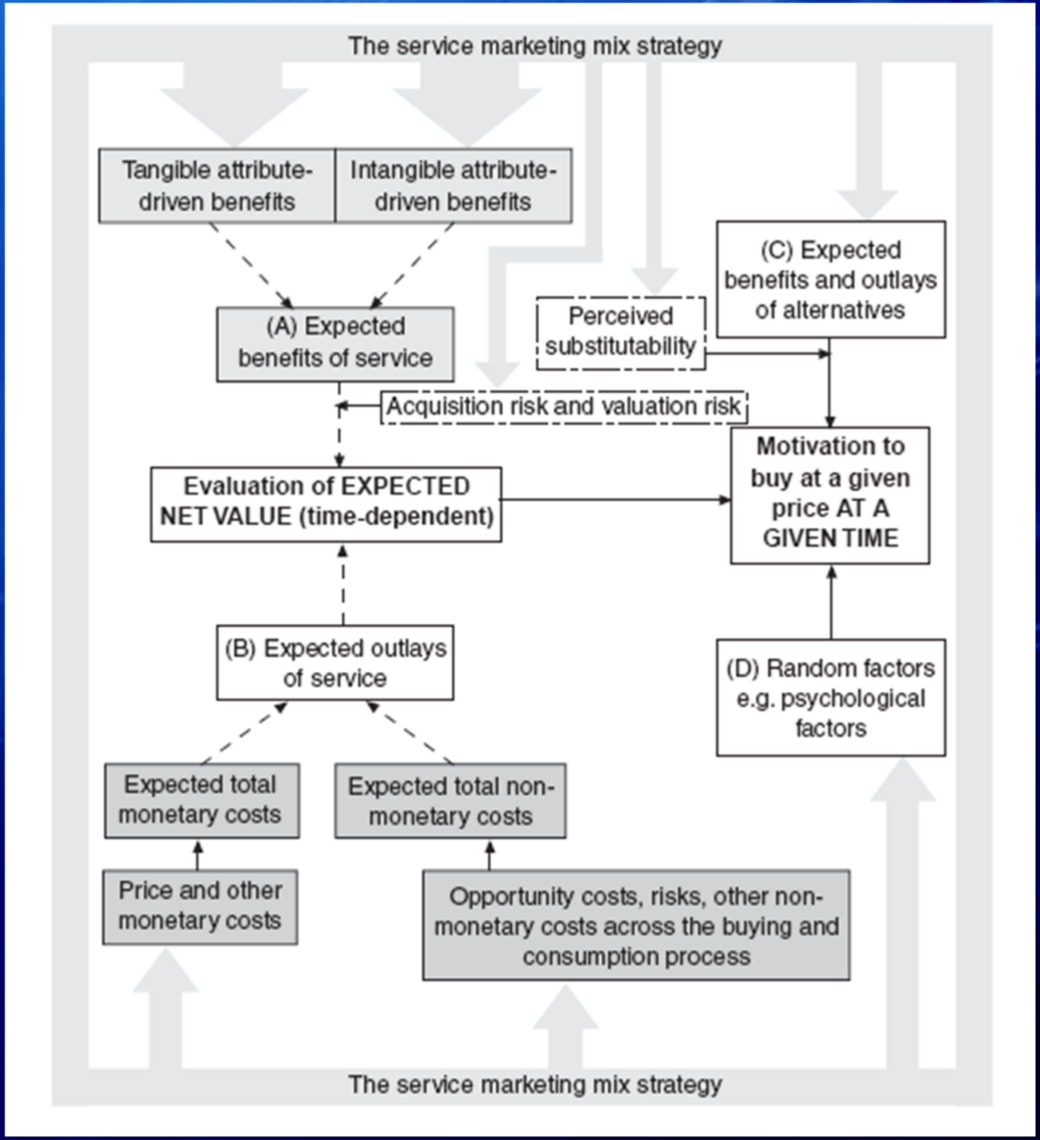
Common risk associated to the consumption of service

- Functional – unsatisfactory performance outcomes, e.g. dropped calls on mobile phones.
- Financial – monetary loss, unexpected extra costs, e.g. paying extra for check-in baggage (for some low cost airlines).
- Temporal – wasted time, delays lead to problems, e.g. queuing.
- Physical – personal injury, damage to possessions, e.g. garage, gym.
- Psychological – fears and negative emotions, e.g. roller coaster rides. (Cultural in case of consulting)
- Social – how others may think and react, e.g. wine tasting clubs.
- Sensory – unwanted impacts to any of the five senses, e.g. rock concerts.

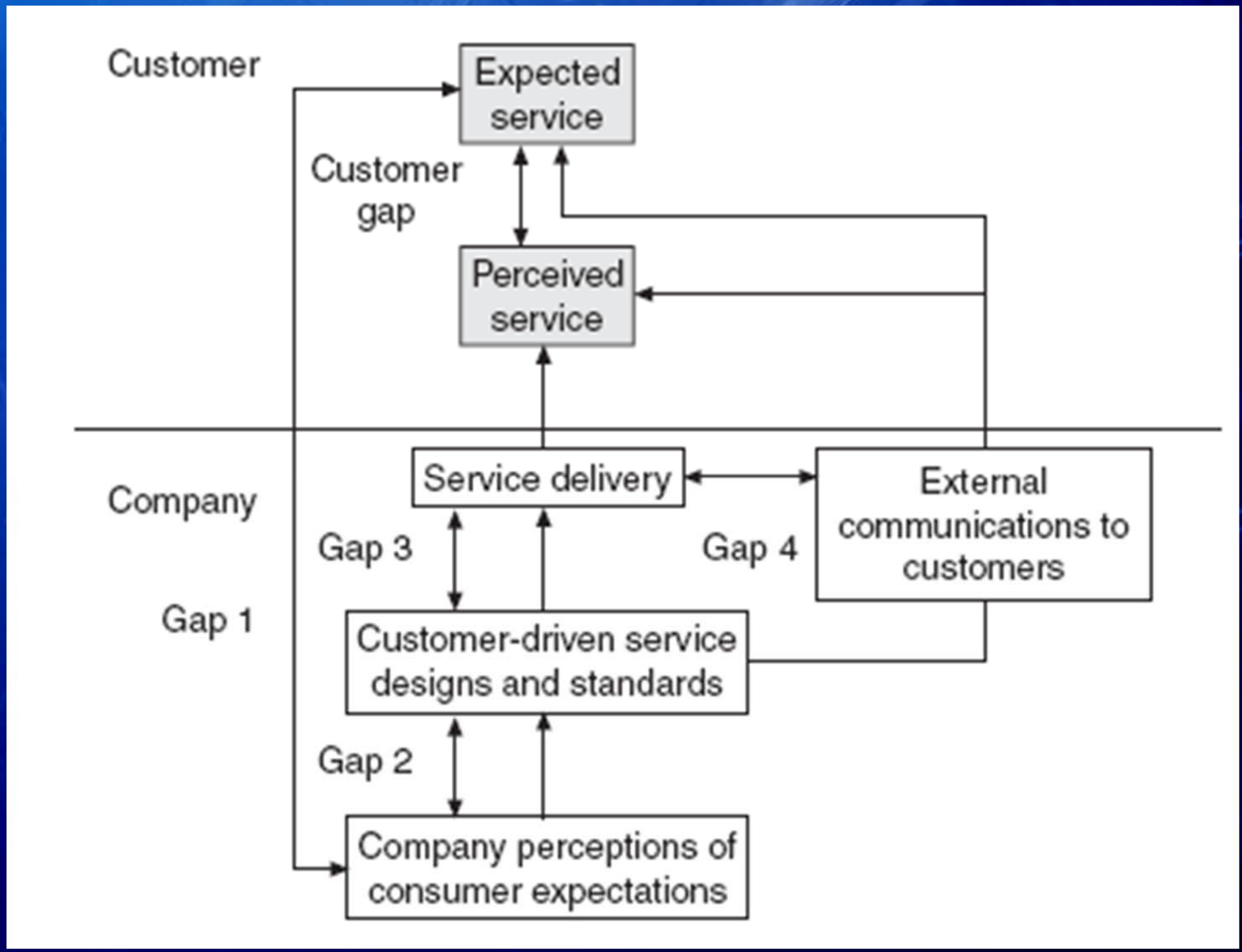
Motivation to buy



Full ENV framework



Gap model of service quality



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