Pricing Perfection 🏷️

Introduction 👋🏼

Effective pricing is a critical skill for any AI Automation Agency (AAA) owner. It's not just about setting numbers – it's about understanding the **value you provide**, the market you serve, and the journey your agency will take as it grows and evolves.

More than that, your pricing strategy shapes how your business **operates** day-to-day and can be the key to designing the lifestyle you desire. Choosing the right pricing model is crucial, as it affects everything from your daily operations to your long-term business sustainability.

Overview 👁️

In this video, we'll explore:

- **Pricing Basics:** Understanding the fundamentals of pricing AI development services.
- **Common Pricing Scenarios:** How to price at different stages in your journey.
- **Niching & Pricing:** How specialization affects your pricing strategy and vice versa.
- **Retainers:** How and when to use retainers in your pricing strategy.
- **Core AAA Pricing Models:** Upfront vs upfront + retainer etc
- **Advanced Pricing:** The journey from cost-based to value-based pricing.

By mastering these concepts, you'll be equipped to make informed pricing decisions that maximize your profitability while delivering value to your clients and ensure that your strategy adapts as your agency grows.

Pricing Basics 🔤

Aside from fully productized S3 AAAs, the vast majority of AI Automation Agencies are in the AI development **services** game. As S3 agencies are the 'endgame' for the model and not your typical starting point, most of this video is focused on strategies for pricing services as General, S1 and S2 agencies.

Services Explained 🤝

In a business context, a service is work performed to meet a client's specific needs. For example, a lawyer providing legal advice or a consultant offering business strategy are both services.

> ***Service:*** *The action of helping or doing work for someone.*

Key Characteristics 🔑

- Customized to client needs
- Often billed by time (hourly or daily rates)
- May have variable costs depending on the complexity of the work
- Usually can't be resold or transferred

As a AAA, your service might be custom development of an AI solution for a client's unique business problem or an implementation of a particular kind of system you build for your clients.

Pricing Services Typically Involves…

- Estimating the time and resources required
- Setting an hourly or daily rate
- Providing quotes based on estimated # of hours of work
- Potentially adjusting prices for complex projects or using ranges

Example: AI Development Services Pricing in Action 🏃

Let's walk through a typical pricing scenario for an AI Automation Agency:

1. **Client Explains Their Needs** The client, a mid-sized e-commerce company, requests an AI-powered product recommendation system to boost their sales.

2. **Consult with Developer** You discuss the project with your lead developer, who estimates:
   - 40 hours for initial development
   - 10 hours for integration with the client's existing systems
   - 10 hours for testing and refinement

3. **Calculate Costs** Your developer's hourly rate is $50/hour. Total developer cost: 60 hours × $50/hour = $3,000 Note: Software licenses will be paid directly by the client, so we don't include them in our costs.

4. **Apply Markup** You decide on a 200% markup to cover overheads and profit. Marked up price: $3,000 × 3 = $9,000

5. **Present Proposal** You create a proposal for the client:
    - **Project:** AI-Powered Product Recommendation System
    - **Deliverables:** Fully integrated system, documentation, and basic training
    - **Timeline:** 4 weeks
    - **Price & Terms:** $9,000
        - 50% due upfront
        - 50% due upon completion
    - **Additional costs (paid directly by client):**
        - Required software licenses (estimated at $500)

💡 ***Pro Tip****: Always be clear about what costs are included in your price and what additional expenses the client might incur. This transparency helps build trust and prevents misunderstandings later in the project.*

This shows a simple and common example of how a AAA can price their services based on estimated development time, with a markup to ensure profitability. In this case, **you** would be acting as the project manager, allowing you to keep the price lower for the client while maintaining your profit margin.

Pricing Terms ⚖️

An important aspect of pricing your services is when and how you get paid.

- **50% Upfront, 50% on Completion:** The client pays you 50% of the total quoted amount upon signing the contract to kick things off and the remainder is paid upon delivery of what is specified in the contract. Good for projects under $30,000 or so.

- **Milestone Based:** For larger projects, milestones should be used to split the project into chunks. Each milestone has a set of deliverables and a portion of the total quote is allocated to its completion. Charge for the first milestone upfront, then at the end of each month bill the client for any completed and approved milestones. E.g. in March you only got 1 of 2 projected milestones completed so you charge $8,500 at the end of the month for the one you completed.

- **Paid in Full:** For smaller projects (e.g. < $3,000) with short timelines you can get away with taking the full payment upfront.

- **Paid on Completion:** Can be used when starting out and you don't have the track record to convince a client to hand over cash upfront. This offers no risk to the client, e.g. I'll build you this chatbot, it costs $500 but you only pay me if you're happy with the result.

AAA Contract Templates 📄

We've paid thousands of dollars to get **bulletproof** contract templates for your AAA projects. Access them here: https://hub.aaaaccelerator.com/c/resources/

Pricing as a Beginner: The Hard Truth 👣

When starting out, many ask, "How should I price my AI solution?" This question reveals a common misconception about the value you can provide as a beginner.

The Value Formula 💸

Your value to clients can be expressed as:

Value = Skills + Experience

Skills: Technical abilities you've learned, like building chatbots in Voiceflow or automating processes with Make.com. These can be developed through self-study and practice, enabling you to build AI solutions. Skills form the foundation of your ability to deliver projects.

Experience: Practical wisdom gained from real-world implementations. It's where you encounter "golden nuggets" of knowledge that can only be learned through actual project delivery. This might include anticipating common pitfalls, effectively managing client expectations, or recognizing patterns in user behavior that inform better AI design.

Experience creates significant value for clients by:

- Reducing project risks and potential failures
- Speeding up development and implementation time
- Ensuring the AI solution aligns closely with business needs

Importantly, experience is specific, not general. You become more valuable as an AI voice agent specialist by delivering voice agent systems, not from text-based agent builds. This is why niching down is preferable.

As a beginner, you likely have:

- Limited skills (still learning the tools)
- Little to no experience (haven't completed real projects)

Therefore, your initial value is low. **This is natural.**

The Learning Phase 📕

When starting your agency, you are in the **learning** phase of your journey where your goal is to get your value up as fast as possible so you can start charging premium prices for your services.

In your early stages:

1. Focus on building skills through self-study and practice
2. Gain experience by working on real projects (even if unpaid)
3. Collect case studies and testimonials to demonstrate your growing value

Pricing Strategy for Beginners:

1. Start with **free** or very **low-cost** projects
2. Gradually increase prices as your skills and experience grow
3. Be transparent with clients about your level of expertise

Remember: Initially, the experience you gain is more valuable than the money you earn. Your pricing should reflect your current value, not your aspirations.

The 4 Types of AAA Owners: Revisited 👥

In the last video you were introduced to the 4 Types of AAA Owners:

1. The Airhead
2. The Surface Level Operator
3. The Tinkerer
4. The AI Solution Wizard

By now, you should have chosen your target level of technical proficiency. Let's explore how each type can build value and approach pricing initially:

- **The Airhead ☁️:** This path is not an option, pick a different one!

- **The Surface Level Operator 🏝️:** Start by completing Solution Sorcery to understand the tools at a high level. Then, hire a developer or find a technical partner from our community. For your first projects, either absorb the costs yourself or charge clients at cost, clearly communicating your learning stage. Your value is initially low, so avoid marking up prices until you've gained more experience in your specific project type.

- **The Tinkerer ⚒️:** Begin with Solution Sorcery to build your skills. Then, deliver some free projects yourself to gain real-world experience. As you complete more projects, gradually increase your rates to reflect your growing skills and experience. When ready, hire a developer to take on more complex projects, combining your experience with their skills.

- **The AI Solution Wizard 🧙‍♂️:** Complete Solution Sorcery then start delivering some free or low-cost projects to gain specific experience in your chosen niche. Use these initial projects to build a strong portfolio and reputation. Then, move on to paid projects, gradually increasing your rates. Eventually, hire a developer to expand your capacity, allowing you to focus on high-level solutions and business growth.

Personal vs. Organizational Value 🏢

Initially, most AAA owners' value is based solely on their **personal** skills and experience. As you grow and hire team members, your agency's value becomes the sum of all team members' skills and experiences.

For example, when a Tinkerer hires a skilled developer, the agency can now offer more complex solutions and potentially charge higher rates. This **collective value** is what you'll eventually be selling to clients, rather than just your individual capabilities.

Common Pricing Scenarios 💰

Depending on the age and stage of your agency you will require slightly different pricing models. This is largely based on your team's compensation structure. Here's a breakdown of the most common ones:

1. No Developer 🐺

If you're just starting out and are doing your first couple of projects yourself, you have no costs. Because of this, you have two options:

- Work for free
- Set an hourly rate for your time and bill based on estimated hours for the project

As explained above, The Tinkerer and The AI Solution Wizard routes are preferable as only they have the skills to actually do some of these initial deliveries themselves without incurring the cost of a developer.

2. One Developer, Fixed Wage 🤓

Hiring your first developer is a key checkpoint for any AAA. Pricing your services at this stage doesn't need to be complicated, either get your developer on your discovery calls so they can properly scope it and make an accurate estimation OR send them a recording of the call (not ideal) and ask for an estimate of hours to deliver based on it.

Multiply the total # of hours by their hourly wage, e.g. $50p/h (for a good one) and then multiply that total cost by at least 2-3x. For example:

- Estimated Hours: 40
- Developer Wage: $50
- **Estimated Cost: $2,000**
- Markup: 200% (3x)
- Price: $6,000
- Terms: 50% upfront, 50% on completion
- **Profit: $4,000**

3. One Developer, Revenue Share 💸

Another common option when getting started is to work with a developer as a quasi-partner in your agency where you bring the leads and handle sales and client communication and a freelance developer works with you to deliver the project, while taking a cut of the total revenue.

For example:

- Developer Revenue Share: 35%
- Price: $6,000
- Terms: 50% upfront, 50% on completion
- Developer Earnings: $2,100
- **Your Profit: $3,900**

This kind of setup can be used to attract higher quality talent who require better compensation structures that give them a share of the value created, not a fixed wage. You can also have a roster of developers on rev share ready to go at any one time.

4. Multiple Developers, Wages & Salaries 🧑‍🤝‍🧑

Pricing services with a larger team gets a lot more complex. There are a number of ways to approach this but at Morningside we've typically used the following approach:

1. Identify which developers and project managers will be working on the project
2. Get an estimate on development hours
3. Average the hourly rates of all involved (for salaried staff calculate off # of hours in contract)
4. Calculate total estimated costs
5. Multiply by your current markup, e.g 5x

This is not an exact science and trying to be too granular is a waste of time. By this stage you should have a solid track record and can price your services at a premium so continually play around with your markup (test higher price points) and negotiate down if you get rejected.

Niching & Pricing 💘

Your level of niching has a significant impact on your pricing over time. This is because as we're in the software business, any prior work for clients can be filed away as **templates** or at least **components** to be reused in future work, reducing development timelines and therefore cost of delivering a typical project within your niche.

This is both entirely **ethical and legal**. For a client to get exclusivity over what you built for them, they need to request it specifically (if you're using contracts we provide) and in these cases you have the right to charge many times more for the same solution.

Exclusivity clauses are often too vague and can get you into all sorts of trouble. Avoid.

Decreasing Costs 📉

As you build up your catalog of past projects that can be reused **entirely** or **chopped up** for parts, your costs to deliver similar projects will decrease. This materializes through lower estimates on hours to develop a given project as your team spends less time on:

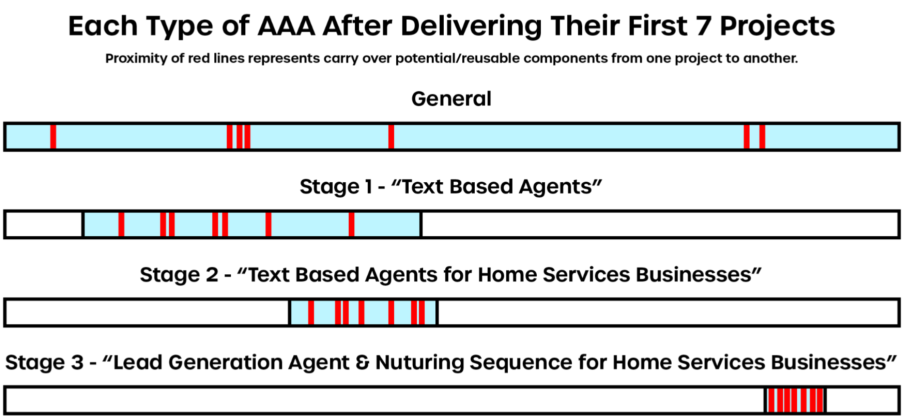
1. Understanding the client's needs and the end goal in mind (can be painful)
2. Researching and planning the best approach
3. Building the 'thing'

Not only do the raw components of projects compound over time, the **experience** of your team with a given type of project does also, meaning **faster** and faster delivery times with lower rates of errors.

This is a godsend to a AAA owner as you'll quickly learn how problematic first time, fully custom projects can be which is yet another reason to aim to niche down over time.

Riches in the Niches 🤑

In the diagram below you can see how over time – depending on your level of niching down – your successful deliveries can be either spread out (different from each other) or densely packed (highly similar) within the market you serve.



As AAAs deliver projects (represented by each red line) within the scope of services they deliver (blue bar) which fits within the entire market for AI solutions (outline). The proximity of one line to another represents their **similarity** in the form of reusable components.

Any new client can fall anywhere within the blue box, your pricing will largely be determined by its proximity (similarity) to others you've delivered.

More similar = less man hours to deliver = potential for lower pricing or higher margins.

With Great Power… 🦸

Once you have built up some steam and are beginning to see the compounding benefits of delivering similar projects over and over, you'll have an important decision to make:

Do I pass these savings on to the client?

Let's use an example to illustrate this.

Scenario: Selling AI-powered Chatbots for eCommerce 🛒

AAA-A: Maintains High Prices

- Initial cost to develop a chatbot: $10,000
- Price charged to clients: $20,000
- As they gain experience and reusable components, their cost drops to **$5,000**
- They **continue** to charge $20,000, increasing their profit margin

AAA-B: Lowers Prices

- Initial cost to develop a chatbot: $10,000
- Price charged to clients: $20,000
- As they gain experience and reusable components, their cost drops to **$5,000**
- They **lower** their price to $10,000, passing on the savings to clients

Let's analyze the effects over a 3-month period:

AAA-A (High Price):

- Completes 5 projects
- Revenue: 5 × $20,000 = $100,000
- Costs: 5 × $5,000 = **$25,000**
- **Profit: $75,000**

AAA-B (Lower Price):

- Completes 10 projects (easier to close deals due to competitive pricing)
- Revenue: 10 × $10,000 = $100,000
- Costs: 10 × $5,000 = **$50,000**
- **Profit: $50,000**

The Best Move ♟️

The best approach depends on several factors:

1. **Lead Flow:** If an agency has a strong lead flow (perhaps due to an effective content marketing strategy or strong reputation), they might be able to maintain higher prices without sacrificing volume. In this case, AAA-A's approach could be more profitable.

2. **Competition:** In a market with easily comparable competitors, AAA-B's approach of lowering prices might be necessary to stay competitive and win more projects. However, this can be a short-sighted strategy which results in a downward spiral as they have less money to invest in product improvements and marketing.

3. **Long-term Strategy:** AAA-B's approach might lead to faster market penetration and more client relationships, which could be valuable for future upsells or product development. Whereas AAA-A's increased margins allow for further investment in the product.

4. **Brand Positioning:** AAA-A's higher prices might position them as a premium service provider, which could be beneficial for attracting higher-value clients in the future.

5. **Operational Capacity:** AAA-B's approach requires the ability to handle more projects simultaneously, which might require a larger team or more efficient processes.

The Ideal Scenario 🧠

The most advantageous position is to have consistent lead flow, strong differentiation (hard to compare your offer to others) and systemized delivery processes, allowing an agency to maintain higher prices while still closing and delivering a high volume of deals. This often comes from:

1. Building a strong brand and reputation in the industry
2. Developing unique methodologies or proprietary tools
3. Creating robust delivery SOPs
4. Publishing case studies and thought leadership content
5. Offering additional value beyond just the chatbot (e.g., strategy consulting, ongoing optimization)

Retainers 🗓️

Another part of AAA pricing strategy is the use of retainers, however they are **often overvalued** by newbies to the space and play a much smaller role than you'd think.

These can take a number of different forms:

1. **Maintenance 🔧:** Unless the client is technically capable, they'll often want you to stick around after the project is delivered in case any issues arise. This is the most basic form of retainer and in most cases cannot be priced that high, e.g. $300-500p/m. These can easily become a pain in the ass but they are also an effective way to keep the door open with a client for future upsells. However, this benefit only really applies if you are a niched provider and expect to have future products or services to sell within your niche.

2. **Maintenance & Improvement 📈:** Some AI systems have the potential to be optimized over time to further improve their performance.

   For example, you can set up tracking for whenever a chatbot is unable to answer a customer's question from its knowledge base and offer a monthly service that will analyze these gaps and help to fill them in, resulting in a greater percentage of questions being answered. Similarly, AI voice systems can be optimized over time to increase their conversion rates by split testing different prompts.

   These kinds of improvements can be more closely tied to a tangible ROI for the business and involve more effort + expertise on your end and therefore can be priced higher, e.g. $1,000p/m. Improvement can also include the rollout of new features as you develop them, e.g. when you create a new transcript analysis feature for your chatbot system all clients on the M&I package get it setup as part of their plan.

3. **Subscriptions 🔑:** Some agencies choose to build systems that they retain the 'keys' to. For example, you can build a chatbot system that is built on Voiceflow and is deployed on your client's site yet remains on your own Voiceflow account, rather than transferring ownership to them when it's ready to go live. In this case, you can bill your clients a monthly subscription (e.g. $997) similar to a SaaS for usage of your system.

4. **Usage Fees 💸:** Another option for securing some kind of ongoing income from a client is to charge them based on their usage of the system. Since use of LLMs and AI applications is primarily billed on usage (e.g. $15 per million tokens), billing clients based on their usage and adding a markup which acts as your margin can be lucrative for larger clients. Some clients like this style as they're only paying for the use/value they get out of the system, others get scared of the variable costs.

   This style of billing is most often used with subscription based offers as explained above where the client is using a system you own and instead of a flat retainer p/m, however it can also be used when setting something up on the clients end.

5. **Performance Based 🎯:** Some offers such as appointment setters are ideal for performance based retainers where you are paid per result, e.g. $40 per appointment.

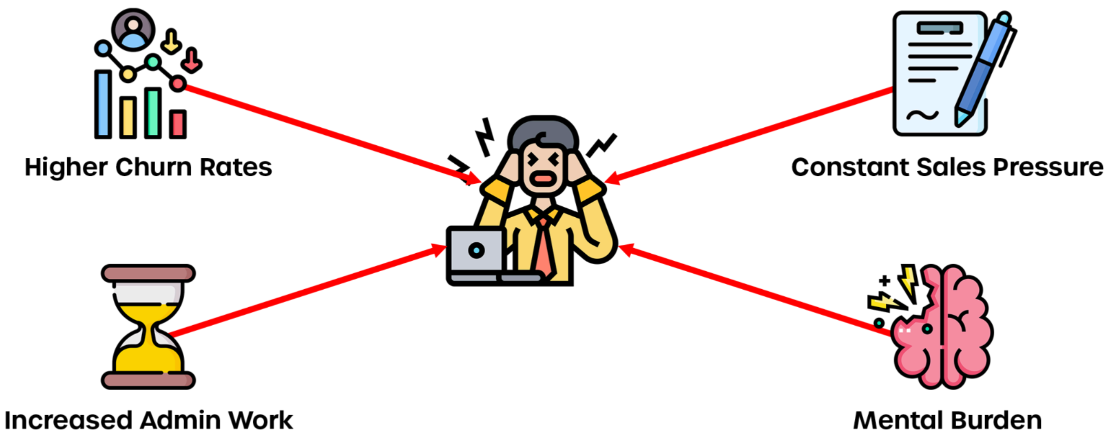
SMMA Mind Virus 🦠

The SMMA model and its primarily retainer based pricing strategy has dominated the online business space for the past decade which has led many starting out in the game to obsess over getting "5 clients paying me $2,000p/m".

While that sounds great, it really isn't that straightforward and retainers often act as **golden handcuffs** for agency owners where they are entirely at the mercy of their clients, especially the larger ones. In order to have **any leverage** you need to have bulletproof client acquisition systems (which few have) so you have other options.

Downsides of Retainer Models:

- **Higher Churn Rates:** Clients may question the value of ongoing payments
- **Constant Sales Pressure:** Need to consistently sign new clients to replace churn
- **Increased Admin Work:** Managing many small retainers can be time-consuming
- **Mental Burden:** Constant worry about retaining clients and justifying monthly fees



SMMAs need to be retainer based as their service is ongoing and requires constant attention. There is no 'set and forget' marketing strategy that an agency could offer.

Fortunately, we are in the software business which **does** allow for this kind of set and forget delivery.

The fact that we can waltz in, build out a system (mainly from templated prior work) and walk away with $15,000 a far superior model to being on the retainer hamster wheel trying to appease clients who have 50 direct competitors of yours in their inbox at any one time.

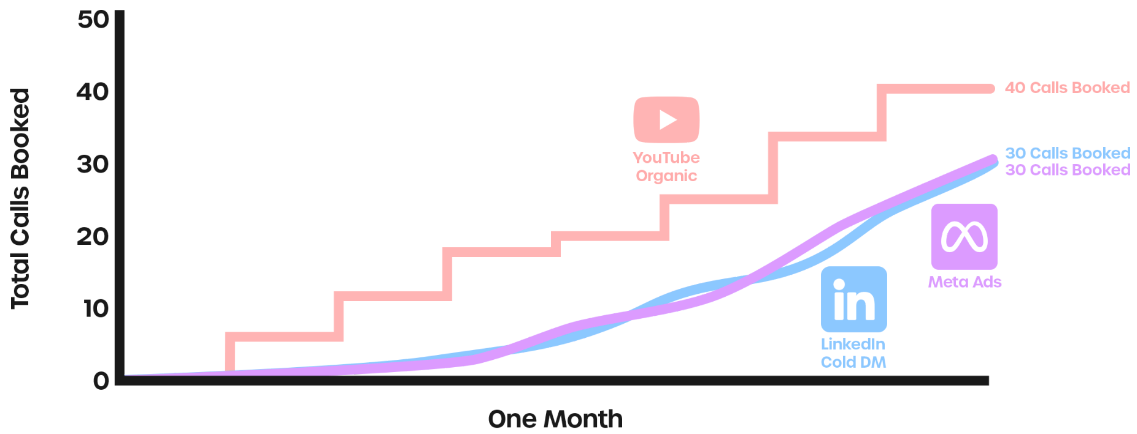
Furthermore, early stage AAAs often struggle to provide solutions that offer enough value to justify any **sizable** retainers in the realm of what marketing agencies offer ($2000-$5000p/m) which can only be reached in the later stages of niching down. The nature of what we provide just isn't aligned with the big retainer-only pricing model in the way SMMA and marketing services are.

I say all this because many people, particularly those coming from a 9 to 5 (hate that term) are so **obsessed** with retainer income and 'stability' that they **actively** seek out an **inferior** business model for themselves.

The Stability Myth 👎🏽

What many are seeking with retainers is ‘stability’ and believe doing one off projects cannot provide what they’re looking for. This is false and purely comes down to the variety and effectiveness of your lead generation methods:

- **GOAL:** $50,000 Revenue
- **NEED:** 5x $10,000 deals
- **SOURCES:**
  - **YouTube Organic**
    - 2x videos per week = 5 qualified calls per video = **40 calls p/m**
  - **LinkedIn Cold DM**
    - 15 accepted CRs per day = 15 DMs sent = 1 call booked p/d = **30 calls p/m**
  - **Meta Ads**
    - $50 spent p/d = 1 AI Audit booked = **30 calls p/m**
- **RESULTS:**
  - 100 calls booked
  - 90% show rate
  - 10% qualified exploration signed @ $1,000 = $10,000
  - 4% close rate @ $10,000 = $40,000
  - Total Revenue = **$50,000**



As you can see, it’s purely a case of setting up the right systems and enough variety that you’re not dependent on one source. Not only are you pulling in at least $30,000 in profit each month, but you don’t have the threat of churn hanging over your head at all times.

Wen Retainer 🤷🏻‍♂️

The question remains… *when should you lock in a retainer?*

From my own experience with Morningside AI, **a forced retainer is never a good retainer.**

Trying to scrape together enough value to engineer a retainer for a client usually ends poorly. Either they'll be unsatisfied with the value and churn immediately, or you'll be on the hook for a ton of stuff you don't want to be doing. This situation is amplified if the client is difficult to work with.

Essentially, retainers should come **naturally** from successful deliveries with clients you actually want to keep working with (*unless* you're building a productized offering that is retainer optimized). The client will typically ask for a maintenance package, and you can pitch them on a pricier and more worthwhile maintenance and improvement offer (depending on the solution).

Here are some guidelines to consider when evaluating retainers:

- **Make it Worth Your While 💰:** Do the math on how much it will cost you. Make sure you're well in the green even in the worst case scenario. Nothing worse than knowing you're working while in the red with a PITA client.

- **Keep Contracts Month to Month 📅:** Avoid long-term contracts that can lock you into unfavorable terms. If an opportunity comes up and you need all your devs, you don't want to have your hands tied for months.

- **Only with Your Favorite Clients 🤝:** Retainers should be reserved for clients you genuinely enjoy working with and who value your services.

- **Understand the Tradeoffs ⚖️:** Weigh the potential benefits of a retainer against the opportunity cost of focusing on new client acquisition. Having even a fraction of your mental capacity spent on retainer rubbish can have an enormous impact on your long term success.

Summary 📝

Retainers can be part of your AAA pricing strategy, but they're often overvalued by beginners. While they can provide steady income, retainers come with potential downsides. For AAAs, one-off projects often offer a more flexible and profitable model, especially early on. As you specialize, retainers may become more viable.

Key Takeaways 🔑

1. Retainers come in various forms: maintenance, improvement, subscriptions, usage fees, and performance-based.
2. Be cautious of over relying on retainers - they're not always the best model for AAAs.
3. Focus on diverse lead generation for stability rather than depending on retainers.
4. Introduce retainers selectively, primarily with favorite clients and for high-value services.
5. Always calculate the true cost and value of a retainer before committing.

Core Pricing Models for AAAs 🧾

Your pricing model should align with the type of AI solution you're providing. Let's explore the three primary models with relevant examples:

Upfront Only (Build and Bounce) 🏃🏽

Best for: One-time implementations, backend automations, or solutions that don't require ongoing management.

Example: A client wants an AI-powered data analysis tool to automate their monthly reporting process.

Scenario:

- You scope the project and estimate 80 hours of development time.
- Your rate is $150/hour.
- Total price: $12,000 (50% upfront, 50% on completion)
- Once delivered, you provide documentation and basic training, then move on.

Why it works here: The solution is self-contained and can run independently after implementation. The client's team can manage it moving forward.

Upfront + Retainer 🤝

Best for: Solutions that benefit from ongoing optimization, like chatbots or content generation systems.

Example: An e-commerce client needs an AI chatbot for customer service.

Scenario:

- Initial build price: $10,000
- You deliver the chatbot and **train** the client's team.
- During the handoff, you mention that many clients benefit from ongoing optimization.
- The client expresses interest, so you offer a monthly retainer of $1,000 for updates, maintenance, and performance optimization.

Why it works here: The chatbot's effectiveness can improve over time with data analysis and updates. The retainer ensures continued value for the client and steady income for you.

Retainer Only 📈

Best for: Fully managed AI services that you run on your infrastructure.

Example: You've developed an AI-powered lead generation system that uses automated calling and qualification.

Scenario:

- You offer this as a service to real estate agencies.
- Monthly fee: $2,500 for up to 1000 qualified leads.
- The entire system runs on your infrastructure, requiring no setup on the client's end.

Why it works here: The client pays for results (qualified leads) rather than the technology itself. This model works because you maintain full control over the system and can serve multiple clients with the same infrastructure.

Advanced Pricing ⚗️

While not something you need to be worried about for at least the next 6-12 months – by which point you will have niched down and ideally found a valuable solution or set of solutions to focus on – in this section we will briefly touch on how to use **value-based pricing** to make more compelling offers and scale more aggressively.

This can only be done with clearly defined products, let's start by getting clear on what a product actually is and how it differs from a service.

Products Explained 💎

> ***Product:*** *An article or substance that is manufactured or refined for sale.*

A product is a standardized item or solution created once and sold repeatedly. For instance, a software application or a physical gadget are products.

Key Characteristics 🔑

- Standardized and replicable
- Usually sold at a fixed price
- Costs decrease with scale
- Can be resold or transferred

For a AAA, a product might be a pre-built AI chatbot that can be created and deployed in a few clicks for multiple clients. Software products (and info products) like these are special in that they essentially have **zero cost of replication**. To make another kids toy, a company needs to pay for materials, labor etc. This low cost of replication is what makes software so highly leveraged.

Pricing Products Typically Involves…

- Determining the cost of production
- Setting a fixed price that ensures profitability at expected sales volumes
- Potentially offering tiered pricing for different feature sets
- May include one-time setup fees and recurring subscription costs

The main difference in pricing is that <u>services are often priced based on time and effort</u>, while <u>products are priced based on perceived or real value</u>, with less direct correlation to the time spent creating each individual unit sold.

This is <u>**key**</u>.

Read that again: *"Less direct correlation to the time spent creating each individual unit sold."*

This is what's known as 'leverage'.

Value Based Pricing 🏺

Such a disconnection of time spent and value created is what allows us to move away from charging for our services based on the hours spent towards a **value-based** pricing model.

> **Value-Based Pricing**: *A method of pricing where the price of a product or service is set primarily based on the perceived or estimated value to the customer, rather than on the cost of production or delivery.*

Key Characteristics 🔑

1. **Customer-centric:** It focuses on the benefit to the customer, not your costs.
2. **Outcome-oriented:** Prices reflect the results or improvements the customer can expect.
3. **Differentiation:** It allows you to price based on your unique value proposition, not market averages.
4. **Flexible:** Prices can vary between customers based on their specific value gained.

In practice, value-based pricing involves:

1. Understanding your customer's business and pain points deeply.
2. Quantifying the impact of your solution (e.g., time saved, revenue increased, costs reduced).
3. Setting a price that **captures a fair portion of this value** while ensuring the customer sees clear ROI.

For AAAs, this might mean:

- Pricing an AI chatbot based on projected customer service cost savings.
- Charging for an AI-driven inventory system based on expected reduction in stockouts and overstocking.

As Warren Buffett aptly puts it: *"Price is what you pay, value is what you get."*

The beauty of value-based pricing is that as you refine your offerings and delivery process, your costs may decrease, but you can maintain or even increase your prices if the value to the customer remains high. This is the essence of **scalable, profitable growth** in the AI solutions space.

Example: Value Based Pricing in Action 🛒

Product: AI-Powered Customer Service Chatbot for E-commerce Stores
Target Client: Mid-sized online retailer struggling with customer service costs and response times

Step 1: Identify Current Costs 💰

- Customer service team: 2 full-time representatives
- Cost per representative: $2,500/month
- Total monthly cost: **$5,000**

Step 2: Estimate Solution Impact 📈

- Chatbot handles **80%** of queries
- Only 20% require human intervention

Step 3: Calculate Value Created 💎

a) Direct Cost Savings:

- New staffing: 1 part-time rep at $1,000/month
- Monthly savings: $5,000 - $1,000 = **$4,000**

b) Indirect Benefits:

- 24/7 availability
- Faster response times (minutes vs hours)
- Consistent customer experience

Step 4: Determine Price Point 💲

- Monthly value created: $4,000
- Aim for 2.5:1 value-to-price ratio
- Target monthly price: $4,000 / 2.5 = **$1,600**

Pricing Structure:

- Setup fee: $2,000 (one-time)
- Monthly fee: $1,600

Client ROI:

- First month cost: $3,600 ($2,000 + $1,600)
- First month savings: $4,000
- Net benefit from first month: $400
- **Ongoing monthly benefit: $2,400 ($4,000 - $1,600)**

This pricing ensures the client sees immediate ROI while you capture a fair portion of the value created. The clear financial benefit makes this offer a "no-brainer" for the client, as they start **saving money** from the **very first month**.

Importance of Data Collection 📊

From the very beginning of your AAA journey, it's crucial to prioritize data collection from your clients. This practice might feel **awkward** initially, especially when you're just starting out, but it's an **essential** step towards refining your offerings, strengthening your pitches and ultimately implementing value-based pricing.

Key Points 🔑

1. **Baseline Metrics:** As part of your onboarding process (e.g questionnaire), aim to collect relevant baseline metrics (can be approx.) from your clients. This could include:
    - Current costs (e.g., labor, software)
    - Time spent on specific tasks
    - Error rates
    - Customer satisfaction scores
    - Sales conversion rates

2. **Post-Implementation Data:** After deploying your AI solution, continue to track these metrics to measure the impact. After an appropriate time period, capture your 'after' snapshot.

3. **ROI Calculation:** Use the before-and-after data to calculate the return on investment (ROI) for your clients. This helps in:
    - Justifying your pricing
    - Demonstrating the value of your services
    - Building case studies for future marketing

4. **Refining Your Offerings:** Analyze the data across multiple clients to identify which solutions provide the most value. This insight can guide your decisions on niching down.

5. **Value-Based Pricing:** With concrete data on the value you're providing, you can confidently move towards value-based pricing models.

Pro Tips 💡

1. Create a simple onboarding questionnaire or form to collect initial data. Frame it as a way to ensure you're delivering maximum value to the client. Most clients will appreciate your thorough approach.

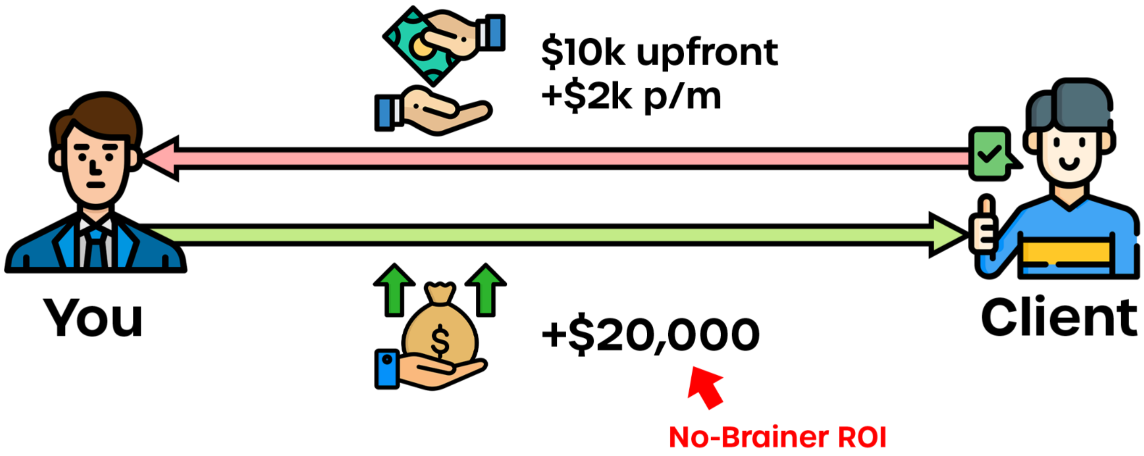
2. The data you collect also allows you to determine which businesses you can help the most. You can incorporate this into your qualification criteria, e.g. before taking a discovery call you ask them for key data points in the Calendly form. If they aren't a good fit, you don't take the call!

Remember, the data you collect in your early days will be invaluable as you scale your agency. It's the foundation for making informed decisions about your services, pricing, and overall business strategy.

Don't shy away from asking for this information – it's a mark of professionalism and commitment to delivering measurable results.

The Key to Limitless Scale 🚀

Reaching true value based pricing is the promised land for AAA owners. Being able to say *"my system will make your business $20,000 more per month, you can buy it and have it running in 3 days for $10,000 upfront + $2,000 per month".*



At Morningside AI we are constantly collecting this kind of data to back up our AI solutions for education and coaching businesses, and you all should be aiming to get here too.

This kind of equation where you're **selling them a $100 bill for $20** is exactly what Hormozi did with Gym Launch and scaled from **$0 to $50 Million in 20 months**. They were able to charge $30,000 for what was essentially a course and some marketing resources because buyers knew they'd make that back and more easily.

I am so excited to see how many of you can put in the hard yards of starting off general and working your way through project after project and eventually find your lane and crush it with some kind of product that you can scale.

The business world is waiting for you to find these opportunities for AI enhancement. There's only one way to get there, and that's through putting in the work with your AAA.

A Typical AAA Pricing Journey ⛰️

To tie everything together that we've covered in this module, let's follow the journey of Alex, a new AAA owner. While every path is unique, Alex's story illustrates a common progression in pricing and specialization, following the AAA Roadmap and the Core Four strategy.

Week 1: Finding His Starting Point 🚩

Alex, a recent college graduate with a degree in business administration and a passion for technology, decides to start an AI Automation Agency. After completing the *"Finding Your Unfair Advantage"* worksheet, he realizes he doesn't have a strong niche to start with. However, given his technical inclination and desire to be hands-on, Alex decides to pursue the Tinkerer path as an AAA owner.

Niche: "Undecided"
AAA Owner Type: Tinkerer

Since he has no obvious niche options, Alex decides to delay his niching decision and see what opportunities appear from warm outreach and LinkedIn engagement.

Month 1-2: The Core Four 🔢

Alex dives into the Core Four as outlined in the AAA Roadmap:

1. **Solution Sorcery**: He completes this module, gaining hands-on experience with various AI tools and platforms.
2. **Warm Outreach**: Alex starts consistently reaching out to his network, including former classmates and part-time job contacts.
3. **Inbound Platform**: He chooses LinkedIn as his primary platform for content creation and personal branding.
4. **Niching**: Alex remains open to various industries and solution types, documenting his learnings along the way.

Month 3-4: First Projects and Experience Building 🧱

While Alex's content on LinkedIn is still picking up speed, a few of the warm connections he reached out to express interest in his services. Following the Tinkerer strategy, Alex takes on these first projects for **free**, focusing on building his experience and portfolio rather than worrying about pricing:

Project 1: Simple chatbot for a local bakery
Project 2: AI-powered content suggestion tool for a blogger friend

He meticulously documents each project, sharing the process and results on his LinkedIn profile.

Month 5: First Paid Project and Hiring 💸

One of Alex's LinkedIn connections, impressed by his free projects he'd been posting about, approaches him for a larger project - an AI voice system for their real estate agency. Recognizing the complexity of the project, Alex decides it's time to hire his first developer.

For this first paid gig, Alex uses a basic cost-plus pricing model:

- Developer cost: $50/hour
- Estimated hours: 40
- Markup: 2x
- Total price: (40 * $50) * 2 = **$4,000**

Month 6-7: Exploring Opportunities 🧭

Alex and his developer continue to work on various projects that are now coming in from LinkedIn and referrals, but the AI voice system for real estate agencies they built has been consistently producing great results for their client. He decides to explore this opportunity **further**, reaching out to other real estate agencies in his network.

Over the next few months, Alex delivers a sequence of similar AI voice agent projects for real estate agencies, gradually increasing his prices as he gains experience and efficiency:

- **Project 2:** $5,000
- **Project 3:** $6,500
- **Project 4**: $8,000

Month 8: Niching Down (Transition to S2) 🎯

After validating that the AI voice agent for real estate has significant potential, Alex decides to niche down. He officially transitions to an S2 agency, focusing specifically on AI voice agents for real estate agencies, updating his website and social media profiles to match.

Month 9-10: Scaling and Value-Based Pricing 🤑

As Alex scales his newly niched agency, he collects **more data** on the value his AI voice agents create for real estate agencies. He discovers that on average, his solution:

- Increases successful lead capture by 30%
- Reduces time spent on initial client inquiries by 50%
- Improves overall conversion rates by 20%

With this data, Alex transitions to a value-based pricing model:

- **Setup fee:** $10,000
- **Monthly fee:** $2,000

This pricing ensures clients see a clear ROI, while Alex captures a fair portion of the value created.

Month 11 and Beyond: Optimization and Growth 📈

Alex continues to refine his AI voice agent product, streamlining the delivery process to increase profit margins further. He develops a standardized onboarding process and creates additional features tailored to real estate agencies' needs.

His LinkedIn content now focuses entirely on AI applications in real estate, further establishing his authority in this niche. As his reputation grows, Alex starts receiving inbound leads from larger real estate firms, allowing him to increase his prices further.

Key Takeaways 🔑

Alex's journey demonstrates a common progression for a Tinkerer-type AAA owner:

1. Start by building **skills** and delivering free projects
2. Use basic **cost-plus pricing** for initial paid projects
3. **Explore** various opportunities through warm connections and content creation
4. Identify a **promising niche** based on project success and market demand
5. **Transition** to a niched agency model (S2 in this case)
6. Collect **data** to shift to value-based pricing
7. Continuously **optimize** offerings and delivery processes

A key part in Alex's success was his ability to remain **undecided on his niche** while he explored the projects that came to him through his warm connections. Only when the opportunity was identified and the data was there did he **officially** make the switch.

Remember, while Alex's story is typical, your journey may differ based on your skills, opportunities, and market conditions. Always consult with your **success manager** and our **coaches** as you evolve your pricing strategy and build your personal brand.

Summary 📝

Pricing strategy is one of the most important aspects of your AAA's success. However, pricing is something beginners often get caught up **obsessing** about, misunderstanding the difference between a 'learning' and 'earning' phase…

In this video we have explained how your pricing strategy should **start off** and **evolve over time**, and how it impacts both your profitability and the day-to-day operations and 'rhythm' of the business, e.g. retainer only AAAs vs upfront only AAAs. By implementing the right pricing model, you can design the **lifestyle** you desire while ensuring your AAA's success.

Topics Covered 📕

- **Understanding Pricing Basics** 🔤: We've covered the fundamentals of pricing AI development services, from cost-plus models to value-based pricing, providing you with a solid foundation for setting competitive rates.

- **Pricing Models** 💰: We explored various pricing structures including upfront-only, upfront + retainer, and retainer-only models, helping you choose the right approach for different project types and client needs.

- **Niching Impact** 🎯: The video detailed how specialization affects your pricing strategy, demonstrating how niching down can lead to increased efficiency and higher profit margins over time.

- **Pricing Journey** 🛣️: We traced the evolution from cost-based to value-based pricing, illustrating how your pricing strategy should adapt as your skills, experience, and agency grow.

- **Advanced Strategies** 🚀: This video provided insights into advanced pricing techniques for scaling your AAA, including data-driven value-based pricing and productized service models.

Key Takeaways 🔑

- Begin with **free or low-cost projects** to build experience, then progress to **cost-plus pricing** as you develop skills and credibility.
- Align your pricing strategy with your chosen **AAA owner type** (Surface Level Operator, Tinkerer, AI Solution Wizard).
- **Evolve your pricing approach** as you progress through the **niching spectrum** (General to S3) to reflect your increasing value and efficiency.
- Use **retainers carefully**, focusing on one-off projects until you've established strong client relationships and repeatable value.
- Consistently **collect data** on the impact of your solutions to support the transition to value-based pricing and refine your offerings.
- Aim to shift from **time-based** to **value-based pricing** as you scale and specialize, allowing you to capture a fair portion of the value you create for clients.