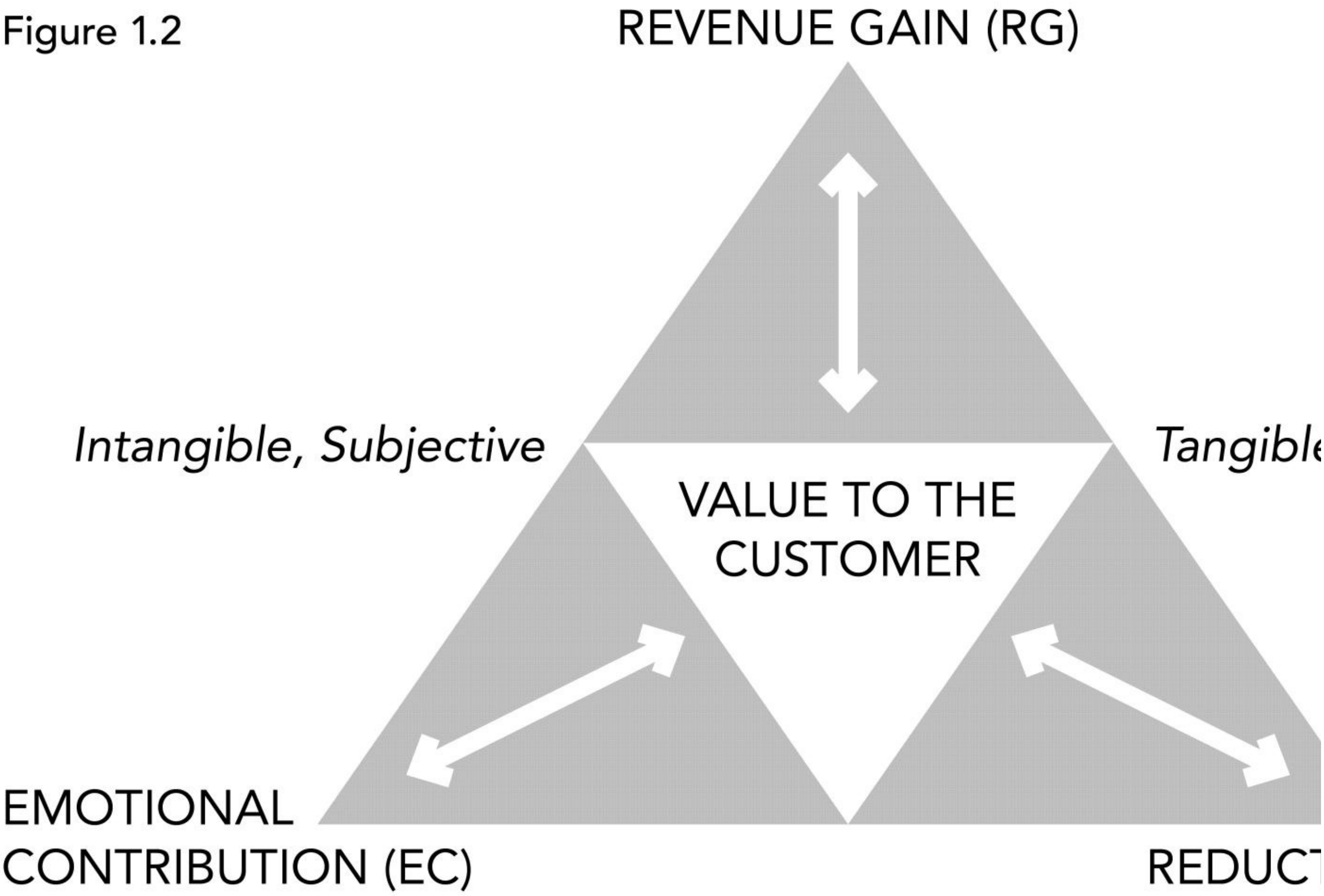
Figure 1.1

The Value Triad

Figure 1.2



Source: *Value-Based Pricing: Drive Sales and Boost Your Bottom Line by Creating, Com and Capturing Customer Value*

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Advance Praise for *Pricing Creativity*

"As Blair wrote in the 'Acknowledgments,' we've never met, but I feel like we've had a long conversation from reading *Pricing Creativity*. Blair has distilled the essence of value pricing in this superlative work, full of excellent advice: From having the value conversation, how to handle risk, all the way to centralizing your pricing and replacing timesheets with more meaningful measures. This is another nail in the coffin of hourly billing — an idea from the day before yesterday that needs to die — from one of the industry's major thinkers."
Ronald J. Baker, Radio Host, *The Soul of Enterprise: Business in the Knowledge Economy*; author of *Implementing Value Pricing: A Radical Business Model for Professional Firms*, and *Pricing on Purpose: Creating and Capturing Value*

"For every firm faced with the margin pressures created by marketers' current obsession with cost cutting, embracing the principles and practices in this book is by far the most effective step they can take toward regaining and maintaining a healthy bottom line. Supported by lots of real-world examples, Blair shows how firms can apply the same creativity they employ solving their client's marketing problems to getting paid for the value they create instead of the hours they work."
Tim Williams, CEO, Ignition Consulting Group; author of *Take a Stand for Your Brand: Building a Great Agency Brand from the Inside Out*, and *Positioning for Professionals: How Professional Knowledge Firms Can Differentiate Their Way to Success*

"What makes this book remarkable to me are three things. First, it is written to a specific audience of creatives. If that's you, you will see yourself. Second, it's written by that field's leading sales training authority. Third, it's readily applicable to specific instances. The hard work of building a bridge between theory and practice has already been done, and you'll find the principles immediately applicable."
David C. Baker, consultant; author of *The Business of Expertise: How Entrepreneurial Experts Convert Insight to Impact + Wealth*, and *Financial Management of a Marketing Firm*

"I spent over seven years researching, experimenting and implementing value pricing in my firm. I wish I had *Pricing Creativity* back then. It's the only value pricing book I've read that provides a clear explanation of both the theory and the practical application. It should be on the shelf of every designer and design firm."
Jon Lax, Design Director, Facebook; founder of Teehan + Lax

"You had me at the 'Table of Contents.' *Pricing Creativity* is a no-nonsense, bulletproof, mind opening follow up to the game-changing book *The Win Without Pitching Manifesto*."
Chris Do, founder, Blind and The Futur

"*Pricing Creativity* is a timely, invaluable read for an industry desperately in need of pricing reform."
Gerry Preece, partner, External View Consulting; former Procter & Gamble Global Director of Marketing and Media Procurement; author of *Buying Less for Less: How to avoid the Marketing Procurement dilemma*

"If you want to secure the successful future of your creative business, read *Pricing Creativity* from cover to cover and then act on Blair's extraordinary advice; it's always invaluable."
Shan Preddy, partner, PREDDY&CO; author of *How to Run a Successful Design Business*, and *How to Market Design Consultancy Services*

"Blair has given us a treasure map to unlocking a better future by helping us understand the value of what we create, as well as why we struggle to see it."
Carl Smith, founder, Bureau of Digital

"By the end of the first section I had highlighted so many brilliant insights that I gave up and just read the damn thing. Make space on your desk because you're never going to put this book away."
Jonathan Stark, author of *Hourly Billing is Nuts: Essays on The Insanity of Trading Time for Money*

"The timeless issues of how to price and sell a design project are Blair Enns' domain. He's spent a career coaching hundreds of creative firms on how they can improve their finances. Now, thankfully, he's put that coaching into a book. And it's excellent."
David Airey, designer; author of *Logo Design Love: A Guide to Designing Iconic Brand Identities*, and *Work for Money, Design for Love: Answers to the Most Frequently Asked Questions About Starting and Running a Successful Design Business*

"Anyone managing clients or business in the creative profession needs to read this book. Understanding the commercial value you add, and how to do value-based pricing, will be the key to unlocking your future growth and profit potential."
Andrew Hoyne, founder and CEO, Hoyne; author of *The Place Economy*

"What's the value of this book? Somewhere between the retail price and a few million dollars. It depends on you, and whether you have the discipline and courage to put Blair's concepts into action. You can read the book, apply the ideas, and win — or you can spend the rest of your life working nights and weekends and chasing profits. Which are you going to choose?"
Dave Gray, founder, XPLANE; author of *Gamestorming: A Playbook for Innovators, Rulebreakers, and Changemakers*, and *Liminal Thinking: Create the Change You Want by Changing the Way You Think*

"Blair's advice on pricing and positioning was invaluable while we were growing MetaLab from a tiny studio to a global brand. I wish this book had existed when I was getting started."
Andrew Wilkinson, founder, MetaLab

"This isn't a book. It's the solution to one of the most vexing problems facing experts from any field — how to price their expertise."
Carl Richards, founder, The Behavior Gap; creator of *The New York Times* Sketch Guy Column

"Creative agency owners looking to escape the tyranny of hourly billing will find the myths of value pricing unlocked, and a clear roadmap for financial success."
Andy Budd, CEO, Clearleft; founder, UX London

"I can no longer count how many times I have recommended *The Win Without Pitching Manifesto*. Here we go again. *Pricing Creativity* is a superbly written book, bursting with value for the reader and will doubtless become the bible for leaders of creative business."
David Meikle, consultant; author of *How to Buy a Gorilla: Getting the Right Muscle Behind Your Advertising Efforts*

"Comprehensive, intellectually rigorous, readable and full of both insight and actionable steps, *Pricing Creativity* is essential reading for anyone involved in agency pricing, selling or negotiation. It summarises the best current thinking on agency commerciality before putting forward practical steps to implement a more value-based approach to business."
Tom Lewis, Finance Director, Institute of Practitioners in Advertising (UK)

"If you are in the business of creativity you need to read this book. I can't stop thinking about all the money I've left on the table."
Douglas Davis, author of *Creative Strategy and the Business of Design*

"I wish I had this book a decade ago. With brilliant insights and practical advice about how to price creative value to your clients, this is an urgent, important and timely book destined to become the new standard."
Kevin Finn, founder, TheSumOf, Open Manifesto and DESIGNerd

"I started reading *Pricing Creativity* on a cross-country flight, and by the end of it we had an entirely new pricing strategy that we began using at our very next sales meeting. These principles will have more impact on the money you get out of your firm than anything else you do over the course of your career."
Mark O'Brien, CEO, Newfangled; author of *A Website that Works: How Marketing Agencies Can Create Business Generating Sites*

"Here's the thing about Blair Enns: he doesn't give you a subtle nudge and then hope that you get pointed in the right direction. Enns shakes you out of the 'we've always done it that way' trance and then slaps some sense into you. *Pricing Creativity* hones in on the fundamental pain-points we all wrestle with and then step-by-step provides that healing remedy. Every industry needs a disruptor. Blair is ours."
Spike Jones, VP, Spredfast; coauthor of *Brains On Fire: Igniting Powerful, Sustainable Word of Mouth Movements*

"Pricing may be a science, but it is an art too. And flawed, fearful humans perform this work. *Pricing Creativity* rightly captures the human side deeply involved in the art of pricing, with challenges, encouragement, and the tools and rules we all need to finally capture what we are worth."
Jason Blumer, founder, Blumer CPAs and Thriveal Network

"Blair Enns is a master at pricing, selling and negotiating design services. Read this book and get acquainted with his teachings and incredible insight."
François Caspar, design entrepreneur; head of the French Designer's Alliance (AFD)

"*Pricing Creativity* paves a clear path for creatives to earn higher fees and increase their income through effective structures in working with clients, and by focusing on value instead of effort."
Michael Zipursky, CEO of ConsultingSuccess.com; author of *The Elite Consulting Mind*

TABLE OF CONTENTS

Acknowledgments

Th e gratitude one feels at the end of a book project, especially a long, at-times-painful one like this, is immense. In place of sobbing, hugging, and prostrating myself, as I might if we were all assembled in the same room together, I offer these measured words. They mask a moved, spent husk of a writer.

Thank you, first of all, to everyone on the Win Without Pitching team. You all had a hand in this, Colette, Shannyn, Sarah, Alicia, David, Tim, and Janet — but only the good stuff. The bottlenecks, missed deadlines, neglected relationships, and tears were all mine. I love what we do and love that we get to do it together. Thank you, also, to our clients in the Win Without Pitching program, at times unwitting guinea pigs who validated the good ideas and invalidated the lesser ones.

Thanks to Brian, Vance, and the team at Aespire for working with us on another book design project. I know that I am The Client From Hell, but I appreciate that you never make me feel like it.

Colette Enns, my partner in business and life, served as chief editor and project manager. Without her, things just do not get done, this book being yet one more example. The key to success, I have learned, is to marry Colette. Forgive me for keeping that one close. The estimable Bryn Mooth also shared in editing duties. Thank you to both.

Two Bakers are frequently mentioned throughout the book, although probably not enough. David C. Baker is my long-time friend, collaborator, competitor, publisher, and podcast co-host who has influenced me for 15 years now. I believe David has improved the lives of creative business owners around the world more than any other person. Ronald J. Baker (no relation to David) I have yet to meet in person, but his work on value-based pricing for the professions served as the beginning of my pricing education. I cite many authors of many pricing books in these pages, but make no mistake: nobody has taught me more about this subject than Ron Baker. I hope that comes through in the writing. Thank you, David and Ron.

Tim Williams knows far more about pricing for creative firms than I ever will and yet he graciously supported this book project, encouraging me throughout the journey. Thank you to a model gentleman.

There are many others whose contributions were invaluable, and, though they are robbed of specific mentions here, they too are on the list of helpful, generous souls for whom I am deeply grateful. Thank you.

Preface

About a decade ago, when I was working as a new business development co nsultant to creative firms, I found myself in Toronto working with a well-known user experience design firm. In a moment I recall vividly, I was staring at an example of the firm's written proposals — something I did with every engagement. This one was different. Where I usually found a multipage "deck" filled with all kinds of promotional copy, team bios, client "background," free diagnosis, underinformed strategic recommendations (are you sensing my cynicism yet?), with an overrationalized price broken out line-by-line on the last pages, this time I was holding in my hands one page with three columns and, at the bottom, three prices: $250k, $400k, and $600k.

"This is the whole proposal," I asked? It was. "What did the client say when you gave it to them?" My client strained to recall the event. "Uh … they said, 'We'd like option number two but with a few things from option three,' so we agreed on $475k."

"And they didn't ask you how you came up with these round numbers," I queried. "No," came the reply. "They never do." I needed to know, "Where did you learn to do this?" "From Tim Williams," said my client.

Tim is one of the most accomplished and respected consultants serving the creative professions. I stole some of his techniques that day and began implementing them with other clients without fully understanding them, other than seeing that they aligned with some of my own rough views on pricing ("You'll never get rich selling hours" and "You never justify price" being two of them).

It wasn't until a few years later, though, that I realized how little I actually knew about pricing. By then, I had transitioned my business, Win Without Pitching, from a new business development consultancy to a training company. This time I was on the phone with a new client, an advertising agency president who was enrolling in our program. I knew him only a little from a seminar he attended years earlier and a few emails we had traded since. I also knew that he was an avid reader of my blog and that he had purchased annual subscriptions to our webcasts. But I knew little of his business or of his success. He felt compelled to share.

"We've made a lot of money from your advice over the years," he volunteered.

"That's great I replied," and I meant it. But he needed to be sure I understood.

"No, we've made *a lot* of money from your advice."

"Oh?" I casually intoned. I gathered there was more to be said. He went on to list a handful of multimillion-dollar, multiyear engagements he had closed by derailing standard procurement processes imposed by the pharma companies that were his clients. As I did the math, I was overcome by many feelings simultaneously.

First, I was happy for him, as anyone would be. Second, I was proud to have had an impact on someone's success even if he was graciously underweighting his hard work and courageous decisions that transformed my advice into dollars. My last thought though — and I'm a little embarrassed to admit this — was to estimate how little money he had paid for that advice (less than $3k at that point) and to think, "That's not fair!"

I knew, of course, that there was nothing unfair about this exchange of money for advice. Others had paid me many times more and not received the same economic return. Was that unfair to them? This incident, however, was the final provocation for me. For some time, I had been questioning my own ideas of value and the notion of fairness in pricing. In that moment I resolved to learn what I did not know. I ordered a few books and thought I would have pricing figured out in a few weeks. After all, it's not that big a topic. Ron Baker proved me wrong.

Ronald J. Baker is Tim Williams' pricing mentor and the author of a few books on pricing. I began with his first, *Pricing on Purpose — Creating and Capturing Value*. I was leery. At first it looked like a dry textbook, but it read to me like a suspense novel. By the end of the first chapter ("Why Is Movie Theatre Popcorn So Expensive?") I was riveted. (I'm not going to tell you why movie theatre popcorn is so expensive other than to say it's not what you think!)

Clearly, the field of pricing theory was as broad, deep, and fascinating as the fields of judgment and decision-making and all of human behavior. I saw the task before me as even more sizable than I had previously, but I now relished the challenge. I dove in and read most of the literature on pricing, as well as most of the major popular works on behavioral economics published in the last decade. I also found myself rekindling a bit of an old university-age interest in microeconomics, and finally, in my quest to try to properly understand time and money, I read some strange works that I won't embarrass myself by mentioning here. Let's just say that we all understand time and money until we are asked to explain them. I have concluded that I understand neither and I have yet to encounter someone who understands both.

At the point where I finally felt like I knew the topic of pricing, a friend who also serves creative firms suggested I write a book. I dismissed the idea out of hand, saying, "There are many good books on pricing. The world doesn't need another one."

"Perhaps," he said, "but your clients aren't going to read those books." His retort stuck with me for about a year until I finally decided he was right.

Most pricing books are heavy on theory — many written by academics, as is often the way at first. I know from personal experience, however, and through my clients, that the theories of pricing — as valid and elegant as they are — often run into the obstacles of human failings on both the buyer and seller side of the relationship.

Value-based pricing, with its sophisticated segmentation strategies and yield-management models, has transformed industries like travel and hospitality where the services are productized and purchased online without the interaction of a consultant or salesperson. It has so far failed to transform the creative professions, however, where theory and modeling require translation into practical advice that must then be perfected through one's own trial and error; where art, in all its messiness, triumphs over science and precision. For this reason, you cannot talk about pricing creativity without also talking about selling and negotiating, and this combined perspective is the one I hope to bring to our topic.

As I neared completion of my writing, I again surveyed the canon of pricing literature and saw that there truly is a place for this book: one that is underpinned by the best pricing theory, distilled into principles, rules, tips, and tools specifically for the creative professional; one that is interesting and enjoyable enough, I hope, to be read from cover to cover, yet practical enough to become an oft-referenced and indispensable guide (another hope) to pricing one's way to new levels of financial success.

I remain in awe of my clients — creators who must create the way others must breathe, and who have taken the big leap and made their passion their enterprise. I know many find the business part of owning and running a creative firm to be difficult, in particular, asking to be paid what their work is worth — what *they* are worth. I've tried to write the book that allows these talented people to see how much value they create in the world, and then guides them to more easily claim their right rewards. I think I have succeeded, but you will have to let me know.

Blair Enns
Kaslo

CHAPTER 2

CHAPTER 3

Introduction: What Price for a Logo?

In which we discuss the subjectivity of value, the notion of fairnes s, the double thank-you moment, and the question of whether it’s possible to charge too much.

“What do you charge for a logo?”

Designers get this question all the time. Those in other professions who also sell ideas, advice, and other creations of the mind face similar pricing challenges: Do I charge based on time? Market value? What about this value-based pricing that everyone talks about but few fully explain? How does one determine the value of a logo?[1]

These simple questions of what or how to charge are not easily answered, and yet the answers may be the largest determinants of the financial success of any creative practice. By arriving at better answers, any creative professional or firm can go from surviving to succeeding or from succeeding to thriving.

I have known many talented creative entrepreneurs who spent decades running their firms only to net out lifetime earnings that they would have obtained if they’d simply gotten a job. Yet they worked many times harder than any employee, took on significant amounts of risk and stress, and gave up untold weekends, vacations, and family time, all for which they effectively earned no compensation beyond the wages they paid themselves. Others, meanwhile, earn millions in profit over their careers. Some earn tens of millions, and a rare few even more.

What’s most interesting to me, someone who has advised these firms for more than 15 years, is that the profit of the firm and the lifetime compensation of the principal have little to do with what some might see as the quality of the creative, and even less to do with the time logged by the owner. If anything, I see an inverse relationship between the principal’s effort, as measured by time, and the money she earns. The financial fortunes of firms and their owners, however, can all change quickly, and surprisingly easily, by searching for better answers to questions like, “How should one price a logo?”

So, how much *does* a logo cost?

A Study of Contrasts: Nike and Pepsi

In 1971, Nike CEO Phil Knight paid design student Carolyn Davidson $35 (about $200 today) to create the mark that is now immediately identified around the world as the Nike swoosh. Logos, therefore, cost $200, at least some of the time.

“Cost-plus pricing
financial mediocri

Thomas T. Nagle a

The Strategy and Tactics of
Profitable Decision Making

In 2008, PepsiCo reportedly paid design firm Arnell five thousand times more ($1 million) to redesign its iconic Pepsi logo. Logos, therefore, cost $1 million, at least some of the time.

Even this broad range of $200 to $1 million does not capture the price range paid for logos. You almost certainly know somebody who has paid less than $200 for a logo, and most identity designers know of stories of companies paying multiple millions. Sticking with these well-known examples, however, we will work from the premise that “a logo costs between $200 and $1 million, *depending on variables and circumstances*.”

Ah, good old variables and circumstances. Anytime I ask an audience of designers the price of a logo, the answers almost always begin with, “That depends …” There’s less agreement, however, on the variables and circumstances upon which the price depends — a price that might be multiples of what one competitor would command, yet a fraction of what another might. We agree then that the price of a logo changes based on certain situation-specific circumstances, but we don’t readily agree on (or at least we haven't thought deeply about) what those circumstances are.

As I mentioned, one of the variables that does not significantly contribute to the difference between a $200 logo and a $1 million logo is the quality of the design. We would not get a clear consensus that the Pepsi logo is *better* than the Nike logo. Certainly, nobody would argue that it is 5,000 times better.

Similarly, the price difference between the two logos is at best only tenuously connected to the amount of time or effort it took the designers to create them. I would venture that the total actual design time on each project wasn't meaningfully different. If the price difference was rooted in time, surely Pepsi could have found designers just as good who were willing to work much more quickly, thereby saving hundreds of thousands of dollars.

There's a hint of a basis for the price difference in the fact that the startup Nike, in 1971, and the multibillion-dollar brand Pepsi, in 2008, were companies of dramatically different sizes at different points in their growth trajectory, but that only hints at the price disparity. There are numerous examples of clients choosing to pay one good design firm multiples of what another good design firm had proposed for essentially the same outcome: a nice new logo. Of course Pepsi could have found a firm, hundreds of firms probably, that would have done the work for less. After reading this book, however, you might also conclude that the design firm, Arnell, left significant money on the table when it priced the Pepsi logo redesign at only $1 million.

A primary reason for the $999,800 price difference in this case is risk, which we'll explore more fully later in this book. It's not just logos where the prices for seemingly similar creative outputs vary wildly, and it's not just risk that serves as the basis for these variations. We see similarly dramatic price differences across all other types of creations of the mind. Most creative outputs routinely get sold for dramatically different prices — again, depending on the variables and conditions. What are those variables and conditions, beyond just risk, if they are not aesthetic quality and the ubiquitous measure of effort that is time?

That's what we're going to explore in this book and what you will learn to exploit in your own pricing practices after reading and following the guidance herein.

Value and Fairness Are Subjective

It would be a mistake to say that Pepsi overpaid for its logo and Nike underpaid for the swoosh. It's likely that both designers charged what they thought were fair prices, and it's equally likely that both clients felt they got good value. Somewhere in alternate universes the prices paid were significantly different and yet the assessments of value and feelings of fairness probably didn't change. Such is the subjectivity of both value and fairness. This subjectivity is at the heart of many of the huge differences in the prices of the intangibles that we are calling "creations of the mind." To be able to price on the high end of this range, you must first fully embrace this idea that value is entirely personal.

Value is broadly and simply defined as the measure of regard or importance we place on something. Today it's widely understood that we each value different things to different degrees for different reasons and at different times, but we didn't always have this perspective on value.

The Labor and Subjective Theories of Value

For about 100 years between the late 18th and 19th centuries, the dominant understanding of value was Adam Smith's labor theory of value. Smith, who is credited with birthing the field of economics via the publication of his magnum opus *An Inquiry into the Nature and Causes of the Wealth of Nations* in 1776, said that the real value of any good was the measure of the average number of labor hours it took to produce it. Smith's theory survived for a century, but only tenuously because it could never explain profits or losses.

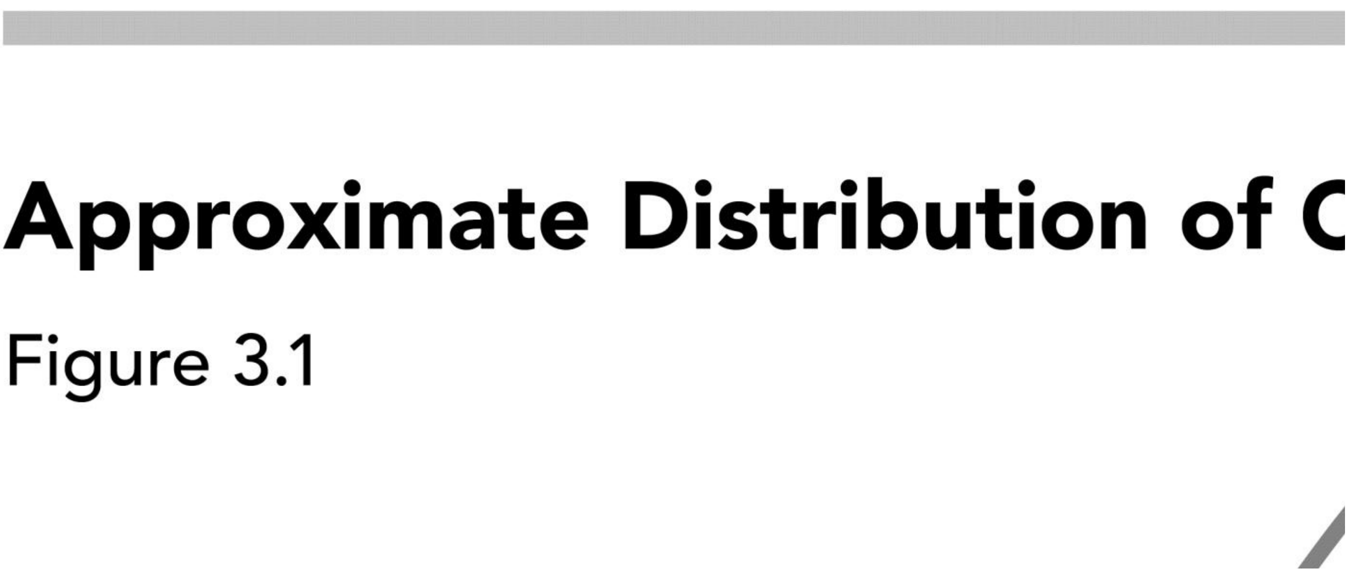
Karl Marx had no problem with such explanations. He latched onto the labor theory of value as the basis for his own exploitation theory of capitalism in which he claimed that profits were essentially value stolen from the worker. To this day, some pricing strategists like to provoke professional firms that bill by the hour by declaring them practicing Marxists.

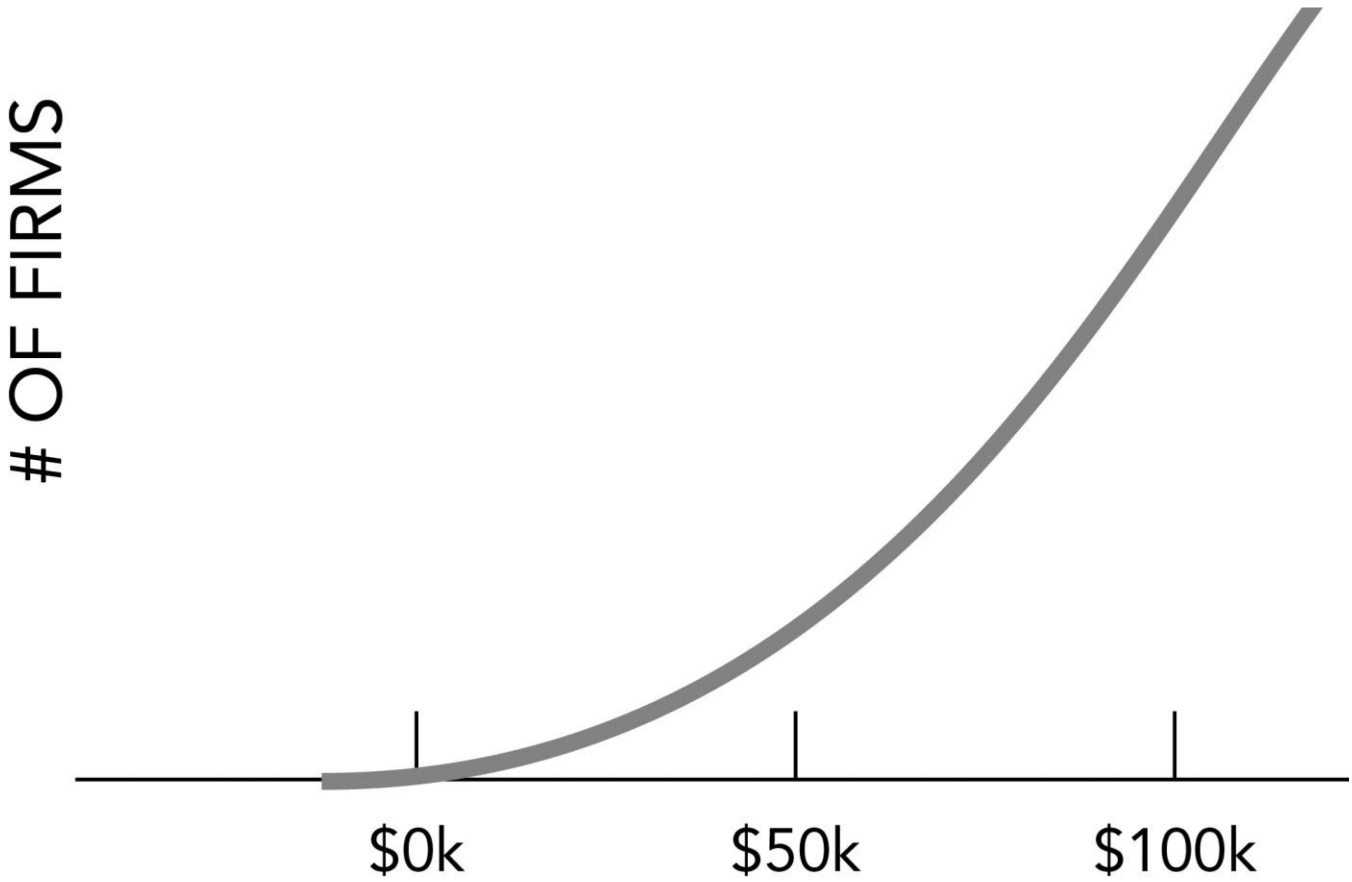
The labor theory of value was put out to pasture in the 1870s, when at least three different economists independently arrived at the subjective theory of value, which states that value isn't inherent in the thing being valued, but is a subjective construct of the person making the valuation. Today the subjectivity theory reigns: It is broadly accepted that value, like beauty, is entirely in the eye of the beholder.

I struggled through hours of contemplation on this subject before I finally succumbed and accepted as truth this idea that we all value things differently, even in a business-to-business (B2B) transaction. You might think that all parties on the buying side of such a transaction would have the same standard of value against which to measure a proposed purchase, but the subjective theory of value states that they will all value a transaction or proposal for a transaction differently, even though they're working to agreed-upon corporate goals.

The obvious math for determining the value the client might receive is expected outcome (which can usually be measured in the economic terms of cost reductions and revenue gains) divided by price. Surely, everyone on the client team can agree to measure value this way, leaving no room for the subjectivity one might expect in a consumer purchase, right? Wrong.

In their book *Value-Based Pricing: Drive Sales and Boost Your Bottom Line by Creating, Communicating, and Capturing Customer Value*, authors Harry Macdivitt and Mike Wilkinson offer their value triad as a device to help understand the subjective and personal nature of value, even in a B2B sale. The triad breaks all value down into three categories: the two aforementioned economic categories of cost reductions and revenue gains, and the third, noneconomic category that Macdivitt and Wilkinson call "emotional contributions to value." Emotional contributions to value include things like prestige, risk avoidance, simplicity, peace of mind, self-esteem, and even personal gain.





To better understand this category of more murky, noneconomic forms of value, imagine a scenario where you are selling a creative solution to a three-person decision-making team charged with achieving a 10% increase in sales. The value of your solution can be calculated by the projected revenue gains divided by your price. Granted, projecting possible gains is complex in and of itself, so let’s set that aside for the sake of this discussion and assume that all three of the client team members judge your ability to meet the stated revenue goals as identical to that of your competition. In such an example, without valuing the emotional contributions, the lowest price bidder would always win.

But imagine now that one of the decision makers has her job on the line. Or imagine that she is busy with her focus on a new initiative the company is about to launch and this demand from above for a revenue bump is an unwelcome distraction. What value would she place on a partner whose solution she felt would require less of her own time?

Or consider that you’re up against a famous competitor — one that has just won a prestigious award and is currently getting lots of attention. Might someone on the decision-making team value the personal prestige from working with such a firm? What premium might he pay for such prestige, regardless of how he rationalizes it to himself or his colleagues?

In situations where you are seen to have many direct and undifferentiated competitors, and the buyers are trained procurement professionals, these small differences may yield little in the way of a sales advantage or price premium. When it comes to creations of the mind, however, an apples-to-apples comparison is rarely possible. There are innumerable ways in which one provider is different from another, and many of these differences speak to perhaps the most powerful of all emotional contributions to value: risk mitigation.

When Pepsico’s marketing leaders paid $1 million for the Pepsi logo redesign, they certainly weren’t thinking about the number of hours it would take the design firm. They were thinking of the potential revenue gains — but more of their focus, I would wager, was on the potential cost in lost revenue, market share, market capitalization, and perhaps even their own lost career prospects if things went poorly and sales declined as a result of the redesign.

The people at Pepsico had good reason to fear such consequences. Shortly after they redesigned the iconic Pepsi logo, they also hired the same design firm to redesign the Tropicana Pure Premium orange juice identity and packaging. The Tropicana redesign triggered an immediate drop in sales of more than 20%, which by many reports cost the company $30 million in lost revenue in the two months before the old packaging was restored and the disaster corrected. An equivalent decline in Pepsi sales would have cost the company hundreds of millions of dollars.

In such a context, did Pepsi overpay for the $1 million logo? You could just as easily argue that the company underpaid. In such an engagement only a fool would count hours, trying to tie the compensation of the design firm to its labor. The $1m fee was largely about risk — a massive emotional contribution to value.

Financial risk easily translates to economic value once the event plays out and fears are either allayed or confirmed. Before the dice are thrown, however, the risk is emotional. There's also performance risk, the risk of doing nothing and being disrupted by competitors, the risk to one's own career, and opportunity costs — all are forms of risk that buyers will seek to mitigate through the choices they make and the prices they pay.

I find it helpful to think of risk mitigation and the other forms of emotional contributions to value as magnifiers of economic value instead of additives to it. Their impact on the prices paid for the outputs of a creative mind can be significant. Because of this magnifying effect of emotional contributions to value, like risk, all value is indeed subjective, even in a B2B sale with easily quantifiable economics.

Fairness is Equally Subjective

Fairness is a concern I hear about often from neophyte pricers when I talk to them about the possibility of charging much more for what they do. If you're charging X dollars for Y type of work and I propose to you that with certain clients in certain situations you might command 1.5X or maybe even 5X, your reaction might be that those prices aren't fair. This begs the question: Should you be pursuing as much money as you can get from your clients or should you be driven by the idea of a *fair* price? Many economists would say that any price paid is by definition a fair price, otherwise the buyer wouldn't pay it. They're wrong.

Reed Holden, author of *Pricing with Confidence: 10 Ways to Stop Leaving Money on the Table* and other books on pricing, says it best: "It's not the price you charge, it's how people *feel* about the price they have to pay."

Clients need to feel the price is fair, and this concept of fairness is even more personal and subjective than the concept of value because, as we've already discussed, two thirds of the types of value in a business transaction are economic and easily quantifiable, whereas fairness is nothing but a feeling. Fairness is simply the purchaser's feeling that the transaction and price paid were positive enough that they would gladly do it again.

Imagine a scenario where you feel the price charged by your firm is unfairly high, yet the client simultaneously feels it is fair. To lower the price of your own accord would be to impose your personal valuation of the client's side of the exchange onto your client. It's not just a refusal to acknowledge the subjectivity of value, but a Marxist assumption that you can be the arbiter of someone else's value. You cannot. Get over it.

Of course, those feelings of fairness aren't present in every transaction, meaning that people pay unfair prices all the time. What they don't do, however, is return to make the same purchase again, if they can help it. Feelings of fairness are certain to be absent in the person handing over a briefcase of cash to a kidnapper in exchange for the return of a bound and gagged loved one. Would the purchaser do the transaction again? A million times yes, but it's a transaction cloaked in fear, resentment, and anger. Any price wouldn't be seen as fair.

While ransom, extortion, and protection money are all at the extreme ends of unfair prices paid, there are lots of more routine transactions that are seen as less than fair. Uber's surge pricing during busy periods is entirely logical, rational, and, economists would argue, *fair*. It's an effective way to increase supply at times of high demand and to simultaneously shift some demand to a time when there is more supply, but this market logic doesn't stop some people from feeling like they're being taken advantage of. Even Uber notes that a surge price of 2.0 times its standard rate is seen as more unfair than a higher surge price of 2.1 times the base rate. Uber's customers seem to be saying that "charging me more is unfair, but charging me *even* more is less unfair." 2.1X feels more fair than 2X, for whatever reason. Again, fairness is not about logic, it's about a feeling.

You might quote a significant premium to a client who needs something sooner than you can comfortably deliver it, and you might think the price fair, but the client might resent you even as he pays it. Like Uber, your problem is less in the price paid than it is in the communication. That's the good news: Better communicators can charge more and keep their clients coming back. In fact, a good rule of thumb is that every price increase must be accompanied by communication. That's one reason why the skills of pricing and selling are inextricably linked.

Is There Such a Thing as Charging Too Much?

It would be ridiculous to run your business without some basic benchmarks and ratios, but you don't want to be limited by such numbers, either. In any creative practice, whether you're tracking time or not, there are profit margin targets. Firms that track and sell time generally see firm-wide earnings of 15% to 20% as a respectable target and 30% as a more ambitious, enticing goal but one that is still *fair*.

While these benchmarks can be helpful, they can also serve to limit your profit potential by clustering your own ideas of fairness around them. You might see anything less than 10% margin on a job as unfair to you and more than 40% as unfair to the client. Of course, both ideas are ridiculous. The most profitable engagement I can recall from my consulting days was one where I priced a small engagement to the desired result, quoting $3,500. The client paid and I had the result in 20 minutes. The client was thrilled to get his outcome sooner than anticipated and I was thrilled to finish the engagement so quickly. Neither of us felt that an engagement that translated to an hourly rate of more than $10,000 was unfair. He thanked me, I thanked him, and we both meant it.

The Weird Double Thank-You

Your pricing goal is to create as much value for your client as you can, communicate it to the client, and then capture as much of that value for yourself while still creating that double thank-you — the moment when you conclude the transaction and each party offers a genuine thank-you to the other.

As television journalist John Stossel says, "There's a wealth of economics wisdom in the weird double thank-you moment." My client and I each meant our thank-you. That's the high-water mark you need to get to if you want to maximize your revenue over the long term — clients who pay you more and keep coming back.

It's clear to me that most of the fairness objections I hear to price increases are rooted not in fairness but in history. You used to charge X for Y type work. After a while you considered raising your prices. You likely labored over the idea for some time before you finally, nervously, took the plunge and hiked your rates. Perhaps to 1.2X. In the beginning, you were nervous about such an increase but that gave way after some marketplace acceptance, and then you started to believe you were worth 1.2X. That became the new standard and it stayed this way until, eventually, the pattern repeated itself again.

I'm simply going to show you how to break this pattern and, through numerous techniques, make bigger jumps more often. If it feels like your new prices are unfair to your client, don't worry, you'll get over it, just as you got over your smaller, less frequent price increases.

Transcending Your Own Mental Models

There is much irony in the fact that the prices of these creations of the mind can vary so widely, for such different reasons, and yet the people who trade in them often feel restricted in what they are able to charge. It's hard to imagine anything less commodified than an original idea or some great advice, and yet many purveyors of both are adamant that they are in low-margin, highly commodified professions with little opportunity to raise their prices.

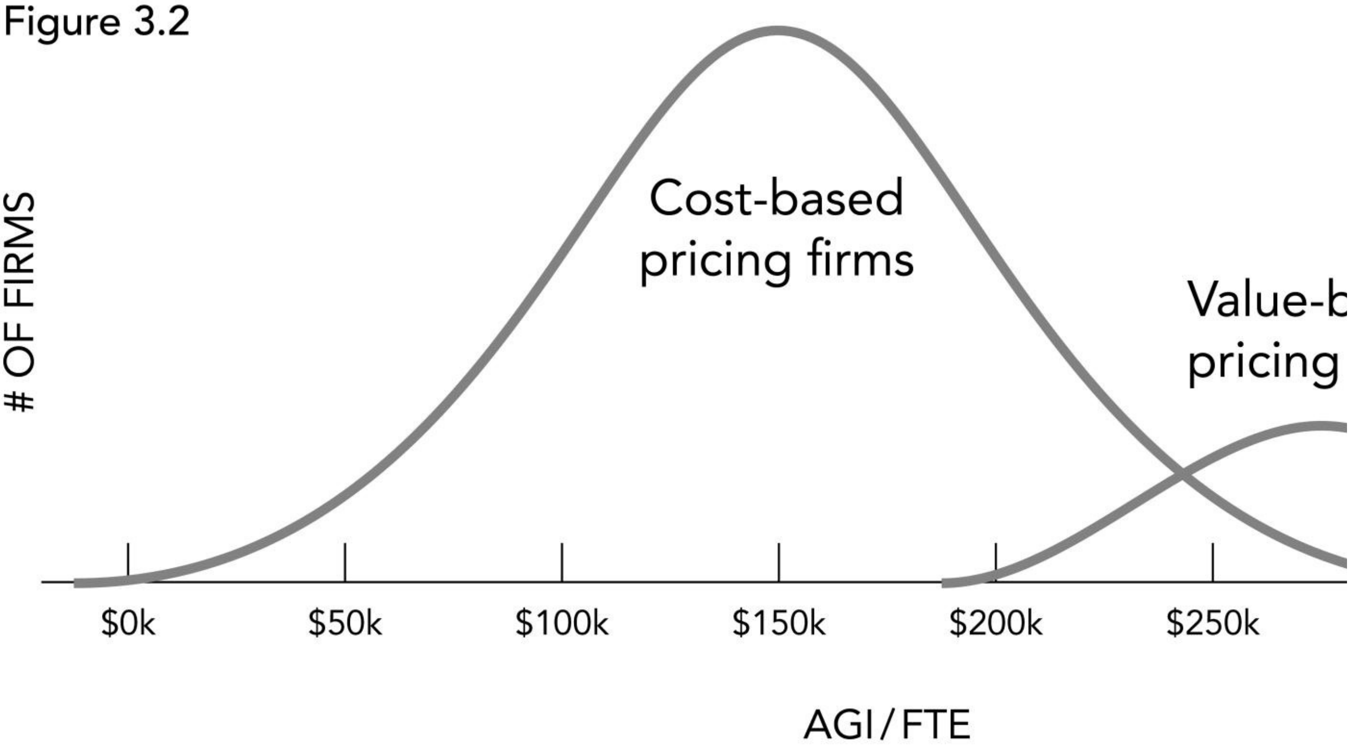
In reality, they are trapped not by market forces but by pricing conventions and other restrictions in their own minds.

My goal for you in this book is to transcend those conventions and to reprogram your own sense of the value you deliver to your clients so that you become much wealthier in the months and years ahead. I expect that many creative professionals, or firms of professionals, following the advice in this book, will increase their profit by 50% within the first year. A few less will double their profit and some will have it go up by even higher multiples. These may sound like bold claims, but the math bears them out. In most firms, it takes a price increase of only 10% to add 50% more profit to the bottom line.[2] A 10% price increase can be easily obtained, or it can be impossible, depending on how it's attempted. If you went to all your clients today and instituted a 10% price increase across the board, some of them might pay and others might be affronted at the rise and go off in search of a new firm.

The easiest way to make big changes to how much you charge is to first change *how* you charge. That is what we will tackle in this book. We will first change the way you think about value and pricing by laying down some key principles in this first section. The principles are followed by the rules of *Pricing Creativity* — six practices that you want to master and adhere to when pricing all of your engagements. After the rules you will find a lengthy list of tips for use in specific situations. Finally, in this workbook edition, you will find some tools to help you price your engagements, craft your proposals, and get your new higher prices.

Approximate Distribution of Creative Firms by AGI/ and Pricing Model

Figure 3.2



These graphs are presented to convey what I think I see in the market, not something t or have attempted to properly measure. I have shared these numbers with other advis and they agree there appears to be two distributions of performance, whether one me preference of AGI/FTE.

Price Like a Marketer

In which we ask whether your offering is commodified, and we examine producer- and marketer-centric views of business where the ideas of innovation and efficiencies are at odds with each other.

Are there pressures on your pricing that force you into a range that is narrow and low?

Some of those pressures come from your clients via the budgets they historically allocate, their previous experience with you, and their negotiating skills. Some arise from the market through the prices your competitors charge and those that your clients might pay someone else for similar work or anticipated outcomes. And some, as we've already discussed, are internal — your own notions of fairness and value as well as your assumptions, often incorrect, on the forces affecting your buyer-client.

When enough of these forces seem to constrict your pricing to a narrow and undesirable range, you might find yourself thinking of your profession as commodified and your creative offering as a commodity. As I've already written, however, it's hard to imagine anything that's less of a commodity than a great idea or a piece of transformative advice. Still, it's possible to understand the abstract ideas of commodities and how they couldn't possibly apply to creativity — and yet still feel the brute forces of commodification.

Understanding Commodities

All commodities, such as the common examples of hard commodities of minerals extracted from the ground and soft commodities of agricultural production like wheat and pork bellies, have in common the notion of fungibility, which essentially means substitutability. A purchaser of a commodity buys numerous units without a care for who the producer is because the fungible nature of the commodity allows for a seamless swapping out of one producer's identical product for another's. (The moment the buyer cares who the seller or manufacturer is, incidentally, is the moment a brand is born.) Commodities, therefore, are widely and readily available from numerous producers, are undifferentiated from each other, and thus unable to support any kind of price premium. The market sets the price, and the producer decides whether to sell at that price or to wait. He has no ability to set price or to even negotiate.

Producer or Marketer: Which Are You?

To get to the issue of how real are the forces of commodification affecting you, consider there are two main functions in business: making things and selling things; therefore, the two main perspectives on business are production and marketing.

Producers, in broad terms, focus on their strength (production) and struggle with or abdicate altogether the need to create a new market or meet the evolving needs of an existing dynamic market. Marketers, in the same broad terms, excel at seeing or anticipating demand in the marketplace and innovating products, services, and experiences to meet or drive such demand, but they tend to struggle with production, sometimes outsourcing it altogether.

Commodity producers, at the producer extreme of the producer-marketer spectrum, *want* their products to be fungible because it provides them with access to an existing, large, and readily accessible market. No marketing and little selling is required. Commodity producers have no say whatsoever in the price they can fetch in that market but the market will usually take whatever they produce, allowing them to focus on their strength — production.

Because of their perceived or real inability to set or affect price, a producer's path to profit is through scale and cost reduction. Thus producers always tend toward the pursuit of efficiencies. Marketers, on the other hand, through innovating new offerings, have greater ability to set or negotiate price and therefore are able to command the margins necessary to fund the costs of innovation, like R&D and expensive creative talent.

Broadly speaking, producers pursue efficiencies while marketers pursue innovation.

Commodity producers *cannot* innovate for customer value because as soon as they develop an innovative product outside of the fungible pool, they then have to go in search of a new market, complete with new distribution, relationships, infrastructure, and skills — all of the things they have forgone in order to focus on production efficiencies.

And now we arrive at a fundamental issue of pricing creativity: You can have a culture of efficiency or one of customer innovation (value creation) but not both. You have to decide: Are you going to be a producer focused on efficiencies, or are you going to be a marketer focused on value creation?

If the answer is the former, then, while there will always be a large market for your offerings, you will constantly battle the forces of commodification in an efficiencies arms race of scale and cost reduction, with no ability to impact the price you can command. Effectively, you resign yourself to the role of price taker, getting paid what the market determines you are worth.

If you choose a culture of innovation, you will be a price maker with the ability to command high margins. Your tradeoff is an arms race of creativity, innovation, and marketing, and accompanying higher levels of risk and messiness. As you trade the illusion of certainty and control for an opportunity to make significantly more money, you'll have to let go of some things you've measured for years in the pursuit of efficiencies. Not everyone has the same comfort level for such a trade.

What Does Your Culture Say?

Are these two things — efficiencies and customer innovation — really mutually exclusive? You might believe that you, the individual, are capable of pursuing both. And you might find that you can have different people or teams of people in your firm pursuing each. You will find, however, that in your corporate culture, only one will survive. When it comes to culture, one viewpoint will ultimately dominate the other because culture is "a set of shared assumptions that guide what happens in organizations by defining appropriate behavior for various situations." [3]

The culture of your firm is either going to be focused on maximizing efficiencies or on maximizing customer value (innovating for the market). These two objectives cannot exist in harmony because innovation is hugely inefficient. It takes time, and the freedom to think that time permits. It also takes no small amount of failure. Marketplace innovation is obtained only through falsifiable experiments of creativity tested in the market. Many, indeed most, of those experiments fail and such failure needs to be allowed in an innovation business. But as we know, allowing for more time and failure is the antithesis of efficiency.

Finding Your Point on the Spectrum

Of course, like many either/or questions that seem to demand a binary response, the real answer is something else. You likely exist somewhere on this producer-marketer spectrum, rather than at either of the extremes. The culture of your firm has emerged through many variables to expect a certain amount of efficiency and a certain amount of innovation. As you try to increase one you will find that you cannot help but diminish the other. You will find that as you pursue greater efficiencies, which in a creative firm is almost always through improved utilization (effectively billing more of the total hours available, also known as billable efficiency), you will take less risk, innovate less quickly and less often, and therefore, have less power over the prices you are able to command.

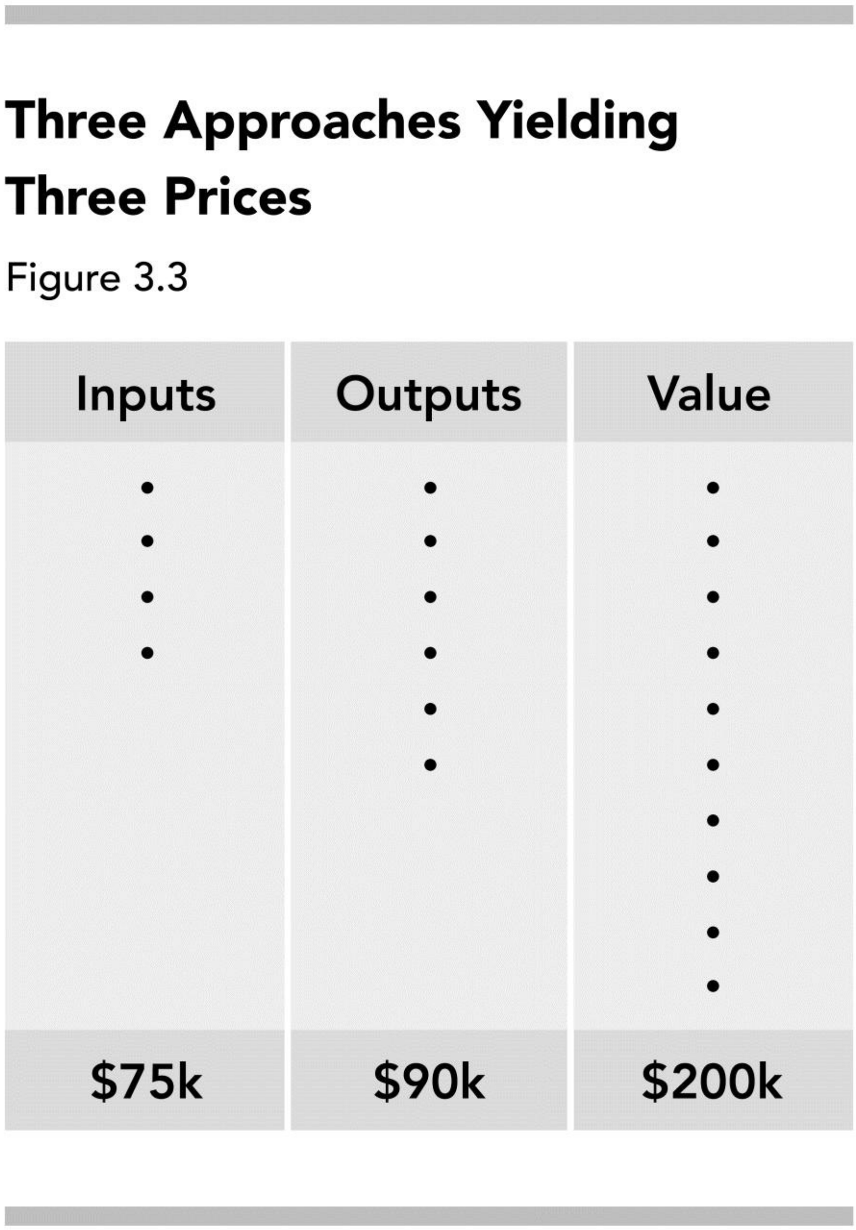
Efficiencies and Time Tracking

If you choose to focus on efficiencies you will continue to track time. In his book *Financial Management of a Marketing Firm*, David C. Baker suggests you keep utilization at 60% and payroll expenses under 45% (of AGI) to realize a profit margin of 20%.[4]

The ratio of "60/45/20" is simple but powerful. I have seen it, and ratios like it, transform the financial performances of many firms. At the same time, however, these ratios are limiting. To get to the next level of profit you can't focus on efficient utilization.

Remember, utilization is a measure of the hours billed as a percentage of the hours available to bill. The pursuit of utilization requires you to live by the timesheet, which is either the ultimate efficiency measure or the ultimate innovation killer, depending on your perspective. There exists a Pandora's box of arguments for and against tracking time, and we will open that box and grapple with its contents throughout these pages. For now, I would like you to simply recognize that these ratios are powerful tools to enable certain thresholds of success — but beyond those thresholds they become limiting as they force the culture of the firm toward the pursuit of efficiencies at the expense of customer innovation, value creation, and the higher margins available down this path.

There is no convincing moral argument for or against tracking time (although I have seen attempts at it). There are only incentives and tradeoffs. My goal here is to point out the tradeoffs so you can make the right assessment of the place your business should occupy along this spectrum of producer/price taker on one end and marketer/price maker on the other. The decision is entirely yours — and like many topics in this book the right decision for you really comes down to your appetite for risk.

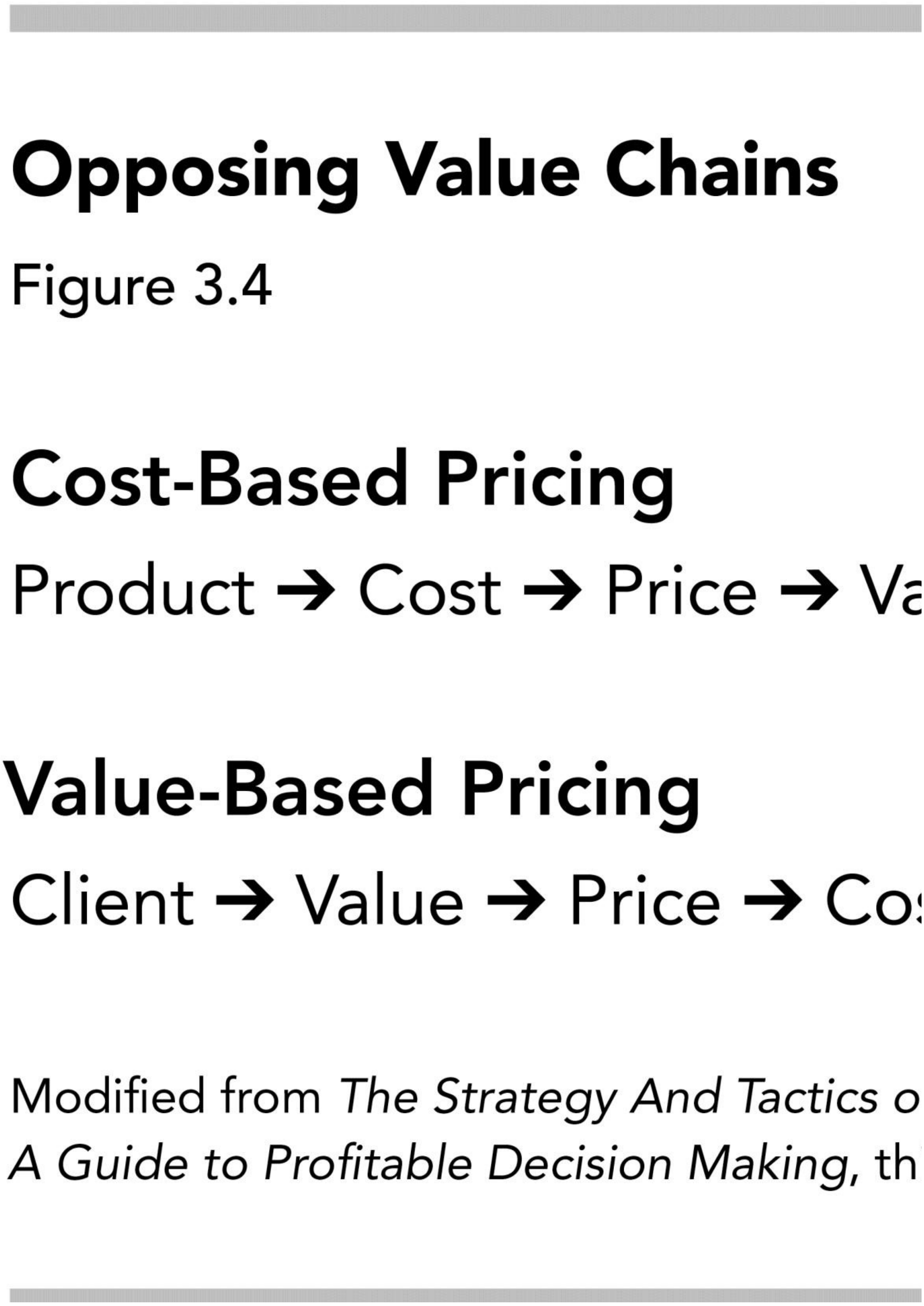


Inputs, Outputs, or Value: What Are You Selling?

In which we explore the differences between selling inputs, outputs, and value, and tackle some of the myths and misunderstandings of value-based pricing.

If there was only one number that I could know about your firm in order to make several discernments about its financial health, i ncluding your pricing strategy, I would want to know your AGI/FTE, where AGI is adjusted gross income and FTE is your full-time equivalent employee headcount.[5]

As of this writing in 2017, the threshold of respectability for this number among U.S. creative firms is $160k, according to author and consultant David C. Baker, while the average across independent creative firms is somewhat less than that. I've asked hundreds of firms for this AGI/FTE number over the years and the range of responses is as wide as you might imagine, from around $70k on the low end to $425k on the high end. I'm sure there are many *lifestyle* or freelance businesses that do less than $70k, and I also know creative solopreneurs with no support staff who earn closer to $1m, so the range is at least an order of magnitude. However, most firms' AGI/FTE number tends to cluster in a more narrow range, with the median at or just below $150k. Figure 3.1 shows a generalization of this distribution.



My experience tells me, however, that the real distribution is more nuanced than the above generalization. A firm that occupies the space in the band above $160k, say up to about $200k, is typically an efficient firm arriving at this envious range by maximizing the resources at its disposal, which usually means billing a high percentage of its available hours. Without having fully quantified this, I can tell you anecdotally that just above the $200k mark there appears to be a gap few firms occupy, seeming to suggest that some sort of theoretical maximum has been reached around the $200k mark. After a small gap, however, I see more firms in the $250k to $300k range, going as high as $425k and beyond.

CHAPTER 4

Which Price Would You Rather Present?

Figure 4.1

I'm suggesting that I see two groups of firms with their own distributions. My experience says those in the large group of firms are the ones chasing efficiencies (poorly on the left and successfully on the right), selling inputs and deliverables. The firms in the $250k-and-up cluster almost always value price their engagements. This last group is composed of the few firms that have transcended the efficiency benchmarks discussed in the previous chapter.

After calculating one firm's AGI/FTE at $275k I said to the managing partner, "Tell me about how you price." He replied that they used to sell time, "but one of our corporate values is we never lie, and one of my partners is adamant that timesheets are lies, so we eliminated them. From there we had to figure out how to value price."

Three Ways to Price; Three Things to Sell

In a creative firm, there are three main ways to price your engagements. You can set price based on inputs, such as time and materials. You can set price based on deliverables or outputs, such as logos, websites, or campaigns. And you can set price based on the value you create for your clients, with revenue gains and cost reductions being the most obvious examples. These three categories of inputs, outputs, and value represent the three main pricing approaches, each of which can lead to significantly different prices.

Let's look at a sample engagement and the ways it might be priced based on these three approaches, with the accompanying implications of what the firm is selling and the client is buying.

1. Pricing Inputs: Time and Materials

A user experience (UX) design firm is approached by a restaurant chain for a quote to build a new application for their customer loyalty program. The first thing the pricers in the firm do is estimate how long it will take them to complete the project. They arrive at an estimate of 300 to 400 person hours. They then multiply those hours by the predetermined hourly rates assigned to each staff (usually a function of their salary), or perhaps they apply a *blended* rate, which is a sort of average rate of the billable people in the firm. This particular firm is using a blended rate of $200/hr, which gives them an estimated range of $60k to $80k to build the app. They decide to take the middle of that range, $70k, then add in any outside costs that would be passed on to the client, such as $5k for user testing through a third party. The firm then puts forward an estimate to the client for $75k.

The contractual understanding is that this is just an estimate and the firm will track its time and flow-through costs, reporting and invoicing on them each month until project completion. If the firm delivers in under 350 hours then the price will be lower, and over 350 hours the price will be higher. Similarly, the price goes up or down based on the actual user-testing costs.

In this example, the firm is selling the inputs of time and materials. The client is taking the risk that the final price might be greater than the estimate, while holding out hope that it will be less.

2. Pricing Outputs: Deliverables and Price Certainty

Imagine now that the client looks at the above estimate and decides that there’s too much risk. Custom application development has a high degree of uncertainty, and the client is worried that the design firm may have underbid the job to win the engagement. He also sees no incentives for the firm to bring the job in on estimate. What the client wants in this situation is *price certainty*. So he pushes back on the time and material pricing approach.

The firm counters by saying, “Instead of estimating the job at 350 hours ($70k in fees) plus $5k in outside costs, we’ll assume the higher end of the range we used in our internal estimate, plus a little bit of a buffer just in case, and we will quote you a total, fixed price of $90k.” While the price to the client is higher, the risk now shifts to the design firm. If the estimates are too optimistic or do not account for an unforeseen impediment, then it risks losing money on the job. The risk is countered, however, by the ability to earn even more money than if the price was based on the inputs of time and materials, as long as the estimate was accurate and the team works efficiently.

In this example, the firm is selling the deliverable of a completed software application, complete with the attendant price certainty. The price was still arrived at through calculations of inputs, like our first example, but it was padded to reflect the fact that the firm is taking more risk in the relationship. The $15k premium the client would be paying over the first price is for the elimination of pricing surprises — the aforementioned price certainty.

3. Pricing Value: The Client’s Desired Future State

Now imagine that when the firm’s pricers are working on their estimate, the salesperson reveals that the client’s VP of marketing shared that she thought a good customer loyalty app would lead to an $8m increase in sales across the chain, at an annual profit of about $1m. The room falls silent. Finally someone says, “If we’re helping to create a million dollars in extra profit — *per year* — then surely our compensation should at least be in the six figures.”

Everyone agrees. They put together a higher-priced proposal, which the salesperson delivers to the client by saying, “We are completely committed to creating the best possible app for your customers, one that rewards them for repeated purchases in a fun and easy-to-use manner, and that also delivers to you $1 million a year in increased profit. Our fee is a mere one-fifth of the anticipated profit in the first year: $200k.”

We will come back to the many and nuanced variables of value-based pricing that I have just glossed over or ignored completely — there is so much yet to cover — but let’s take a minute and look at what the firm is selling here. It is selling the client’s desired future state: happy, loyal customers spending more money, generating more profit. The firm is tying its price not to the inputs of time and materials, nor to the deliverables of the app, but to the value that app will create for the client’s customers and for the client’s bottom line. *That* is value-based pricing.

Three Approaches Yielding Three Prices

Our three examples of how a customer loyalty app might be priced have led to three different prices:

1. For the inputs of time and materials the firm arrived at a price of $75k (with the firm’s profit certainty built in)
2. For the deliverable of a completed app and price certainty for the client, the firm arrived at a price of $90k (with greater potential for both profit and loss than example 1)
3. For the value of happy, loyal customers and $1m per year of increased profit, the firm has priced the engagement at $200k

Segment

1. First class
2. Business class
3. Full fare coach
4. Coach
5. Discount/Priceline.cc

While considering these three different ways to price the same engagement, with three significantly different prices, recall the distribution of creative firms' AGI/FTE ratios, in particular the gap between the most efficient firms and the value pricers. There is only so much profit to be had by selling inputs, only so many gains to be had through the pursuit of efficiencies. The real money is in pricing and selling *value*, not inputs or deliverables, both of which are known as cost-based or cost-plus pricing methods.

Beyond increasing revenue in the short term, selling value changes a firm's focus from efficiencies — which in a creative firm is almost always pursued through working faster, longer, or paying people less — to customer value and innovation. The pursuit of efficiencies may grant higher-than-average profits in the short term but it also keeps the highest levels of profits out of reach. In the long term, the pursuit of efficiencies impairs the firm's ability to compete, because it is the most efficient firms that are ripest for disruption. Their focus is always primarily on their own production and not on the changing needs of their clients or their clients' customers. Efficient firms do not allow for a culture of waste, which is required when trying to predict and create the future.

As Thomas Nagle and Reed Holden put it in their seminal book *The Strategy and Tactics of Pricing: A Guide to Profitable Decision Making*, "Cost-plus pricing is, historically, the most common pricing procedure because it carries with it an aura of financial prudence … In theory, it is a simple guide to profitability; in practice, it is a guide to financial mediocrity."

Nagle and Holden point out the polar opposite perspectives on business that value-based pricers have from their cost-based counterparts (Figure 3.4). It's the perfect illustration of our discussion on the difference between producers and marketers.

Cost-based producers start with the product (in our example, an app), figure out their costs (hours x rates, with profit assumptions built in), which gives them a price in a formula they hope will deliver some value to the client.

Value-based marketers come at the engagement from exactly the opposite approach. They start with the client's challenge (customer loyalty) and the value they might create for the client (happy, loyal customers and $1m/yr in profit). From there, they decide what the price might be ($200k). Then they decide what their maximum costs should be (say, $200k x .6) and *only then* do they start to think about the product. It's a complete reversal in perspective; far more logical and completely customer-centric.

Segment

1. First class
2. Business class
3. Full fare coach
4. Coach
5. Discount/Priceline

Again, I am not aware of any convincing moral argument for value-based pricing, but all the business arguments stack up in favor of it. All but one, that is.

The Dearth of Value-Based Pricing in Creative Firms

Be honest — did you cringe just a little as you tried on the conversation the salesperson had in delivering the $200k price? Did you imagine a dozen reasons why you could never have that conversation, or reasons why it might go wrong if you did? You're not alone.

I once led a day-long sales training workshop for a group of 30 professional service firm owners. At the same conference the previous year, the workshop had been on value-based pricing, led by a consultant I hold in high regard. I polled the room. "How many of you feel you have good knowledge of the principles of value-based pricing?" Everyone in the room raised their hand. Then I asked how many of them felt they were truly implementing value-based pricing in their firms. Twenty-nine hands went down and only one remained. This response was not a surprise to me, and I did not see it as reflecting poorly on the consultant.

The truth is that value-based pricing is easy in theory but can be difficult in practice. That is the one business reason against value-based pricing and why so few creative firms attempt it: *It's harder.*

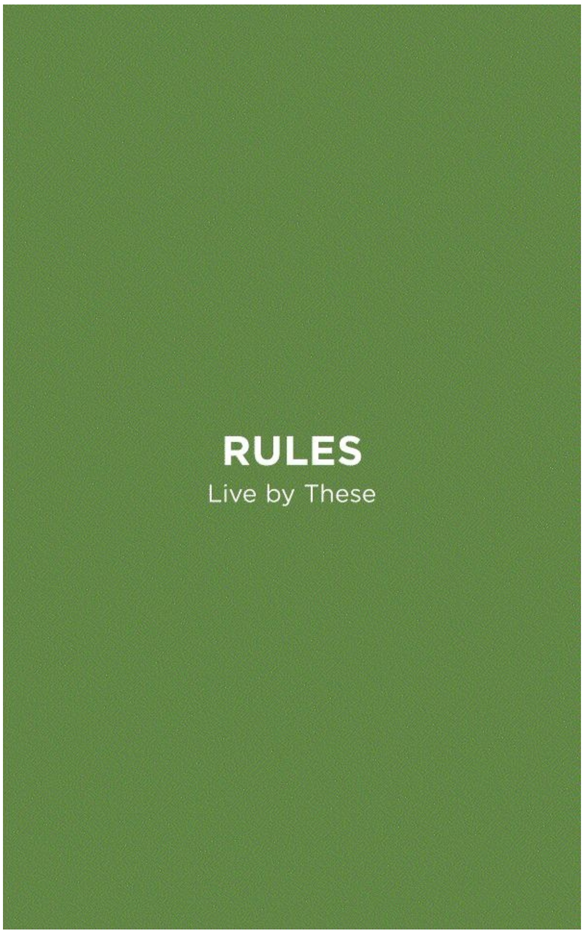
The math is harder. The sales conversations are harder. The cost accounting is harder. Managing projects and people become harder. At least these are the arguments, and while they're not entirely correct they are not without some validity.

Value conversations require some practice before one gets good at them. Value-based pricing is also dependent on getting access to senior decision makers who are charged with creating future value, navigating away from the middle managers whose remit doesn't extend too far beyond managing budgets. This requires sales skills that are difficult to master without training or practice. Getting access to such decision makers implies that the engagement is of strategic importance or high value to the client, meaning that the more tactical engagements are far less conducive to value-based pricing. Some engagements will allow for the strategic components to be value-priced while the more commodified tactical components will be subjected to more competitive pricing pressures.

There are so many variables to value-based pricing success — what you are selling, whom you are selling to, the availability of alternative firms in the eyes of the client, the client's time pressure, the skill and self-esteem of the salesperson, and on and on and on — that it's no surprise that few firms pull it off.

But it really shouldn't be this way. As I will show you, most of the difficulties of value-based pricing are not as they appear, and the few true difficulties simply require a little know-how and practice. And it's worth it. Boy, is it worth it.

Certain situations are indeed conducive to selling inputs or deliverables instead of value, and we will cover those situations, but the default of your firm should be to focus on the client and the value they are looking to create. All of your decisions around what you might do, what you would charge, and the costs you might incur should flow from that focus on the value the client seeks, that desired future state brought about by hiring a firm like yours.



The Many Ways in Which You Deliver Value

In which we learn from the sophisticated pricing models of other industries to understand and catalogue many of the ways you might create and bundle value for your clients.

Most firms deliver value in many ways but consider only a few of them when calculating the prices they charge. Taking stock of the many different ways in which you create value for your clients, therefore, is a valuable exercise. These forms of value creation become the basic building blocks fro m which you will craft your proposals.

Learning From the Best: Airlines

How much does it cost to fly from New York to Los Angeles?

The question is similar to the one about the price of a logo, isn't it? The answer begins with, "That depends …" and prices range considerably based on all manner of variables.

At this writing in 2017, booking 60 days out on just one airline, with flights from JFK to LAX, there were 53 different prices shown for the first 50 flights listed. Of those 50 flights, 11 were nonstop, with nine price options ranging from $229 to $2,642. The next 39 one-stop flights showed 39 new (different) prices within that range. If I wanted to fly the next day, prices rose as high as $3,480. If I could wait 120 days, the lowest fare dropped to $184.

So, flying from New York to Los Angeles (in 2017) costs anywhere between $184 and $3,480, depending on the variables, with some customers paying almost *20 times* what others pay. I would be surprised if you were surprised by these numbers. You might be surprised by the next one, however. When you consider all the price changes on all the seats on all the flights flown by U.S.-based airlines in a day, there are more than 5 million price changes. Every day.

It's widely understood that the price you paid for your airline seat is likely to be different than the price the person in the neighboring seat paid — and you're both okay with it. Why? You both bought the same thing — transportation from New York to Los Angeles — right? Not exactly. Both you and your neighbor intuitively understand that some of what you bought was the core service of transportation, but you also purchased other forms of value that the airline delivered in different ways.

How Airlines Deliver Value

Let's list some of the forms of value you purchased, or chose not to purchase, all of which impacted the price you paid:

- Transportation — from New York to Los Angeles
- Quick and easy transportation via a nonstop flight
- When you *bought* the seat, specifically:
  - The certainty of having a seat and knowing the price, 60 or even 120 days in advance, allowing you to plan and budget around your purchase
  - Or, conversely, reserved capacity (via the price mechanism) that allowed you to purchase and fly at the last minute
- When you *fly:*
  - The early morning flight allows you to get to Los Angeles in time for the big meeting, saving you a hotel night
  - Or the later flight lets you first attend the big meeting in New York
- Additional leg room in first class or premium economy, or via an exit row seat
- Your preferred aisle or window seat
- The right to board early, ensuring you have room in the overhead bin for your carry-on luggage
- Food and beverages
- Access to the lounge
- Checked baggage
- Loyalty points
- The status, prestige, comfort, or even luxury of flying up front
- A seat in which you can sleep, so that you are productive upon your arrival in Los Angeles
- Or a seat in which you can work, perhaps allowing you to generate enough revenue on the flight to pay for the upgrade to first class

Many of the variables above and more were factored into the price of your seat. (I joke that the serving staff are more attractive in first class and that some price buyers at the back would gladly give up oxygen for a lower price, willingly holding their breath for the duration of the flight. The second one is a stretch, the first one I suspect is true.)

Each item is a potential form of value to you that you might purchase at a price, or forgo to bring your price down. In this way, every purchase is a tradeoff specific to what is valuable to you, with your fellow passengers making similar tradeoffs, arriving at something they too are happy with. Each of you pay a different price and are largely comfortable with the idea that few, if any, of your 400 copassengers paid the same price for their ticket.

How Creative Firms Deliver Value

I'll wager that you've already come to some conclusions about your own business. Just like airline passengers, your clients value different things and are willing to pay a lot for some forms of value, while happily forgoing others that they do not find as valuable. It's also likely that you've realized you overvalue your core service of transportation (or advertising or design, etc.) and maybe you see that you've been assuming that everyone should pay roughly the same for that service.

Now let's apply the same thinking to a design firm, listing the different ways it delivers value to its clients:

- Design (of a marketing or communications tool, campaign, product, or service)
- Design quality or creativity
- Prestige via the reputation of the firm
- Speed or turnaround time
- Reserved capacity
- Research of various kinds
- Prototyping
- Testing
- Account and project management
- Reporting: written reports, status calls, or face-to-face meetings
- Involvement of, and access to, senior personnel in the firm
- Emergency access (evenings and weekends)
- Presentations to the client's employees, management, or board
- Knowledge transfer: training programs, workshops, videos, manuals, etc.
- Oversight of the client's in-house team through creative direction or consulting
- Standards guides

- Access to the firm’s supplier network
- Price certainty through fixed price
- Financial terms
- Guarantees

As you can see, there are a lot of different value drivers going into your services and your prices. Surely you can think of even more ways that you deliver value.

You will draw on each of these forms of value creation, including the many that I missed, when you start to put together prices and proposals for clients deeper into the pages of this book, but the key points should be clear now:

1. You deliver value in many different forms beyond your core offering
2. Different clients value these forms differently

Segmenting and Bundling

While the airline’s many different forms of value are factored into the price you pay for your ticket, you are not allowed to pick and choose each from an à la carte menu. Because of the size of their customer base, airlines must break down, or “segment,” their market into distinct, cohesive groups and then package up, or “bundle,” the forms of value that are most important to those groups. A design practice with a much smaller client base does not require such segmentation — it effectively segments its market client by client. (Some form of segmentation does make sense, which I’ll discuss shortly.)

The practice of bundling different value drivers together, however, does apply. It’s not in the interests of either type of business to allow their clients to pick and choose their desired forms of value from a menu. To do so would introduce too much choice for the client, but more important, by allowing the client to break a complex service down into parts and then purchase only the parts she wants, the pricer enables easy direct comparisons, putting downward pressure on prices. You want to keep your value drivers bundled and not make them available à la carte.

To illustrate how vital it is to resist unbundling and à la carte pricing, consider your mobile phone bill. As a customer, you *wish* your provider would allow unbundling, but it would be the death of them if they did. It’s hard to imagine a more commodified industry than mobile telephony, but the mobile networks routinely rack up industry-wide profits in the billions of dollars based largely on the principle of bundling different forms of value together *and then always changing them*. The mantra in the mobile business when it comes to your monthly bill is “make it easy to understand and difficult to compare.” Go ahead and look at how your plan compares to what your provider’s competitors offer. It’s difficult to do because no mobile network will bundle value in the same way as their competitors. To further keep the comparisons difficult, they all change their plans frequently!

Avoid Pricing Formulas

Here is a scenario I have put to hundreds of creative professionals: You are charged with presenting a $50k proposal to a client. Would you rather present a price of $50,000 or a price of $49,785?

Most people state that they would rather present the slightly cheaper price. The problem with the cheaper price, however, is it implies a formula. A principle I have observed for years is that *whenever your price implies a formula, you effectively invite the client to try to use that formula to make the price lower.*

In any expertise-based business, the formula is usually *rates x hours* and the client retort is either, “How much an hour!?” or “It’s not going to take you *that* long!” Those who would prefer to present the more formulaic price sometimes argue that they worry the client will say of the round number, “It looks like you just made that number up.” What he really means is, “I don’t see the formula, therefore I cannot use it to make the price cheaper.”

I can prove that the round price of $50,000 is easier to defend in a negotiation by jumping into role play and replying as the seller. One reply is to simply say, “That’s what we charge companies like yours for work like this.” There’s no justification that can be attacked, other than, “What do you mean ‘companies like ours?’ Are you saying that if we were smaller, you would charge us less?”

How would you reply to that question? (The right answer will be revealed in the next chapter on the first rule of pricing creativity.)

Maintain Your Price Integrity

Unbundling, line-item pricing, and prices that imply formulas all have the same effect of working against you, putting unnecessary pressure on your prices. In a creative firm, any price for work of a strategic nature should end in three zeros. (Sometimes, the less strategic implementation work must be sold in units of input [hours] or output [deliverables]. In such situations, prices might have to be broken down into base units of hundreds of dollars rather than thousands. More on this later.)

Capacity (Yield) Management

I mentioned that businesses of scale, like airlines, employ customer segmentation strategies then bundle and price to those segments — an unnecessary technique for a customized services firm.[6] While airlines are scalable, they do have capacity limitations in the size of their fleets and routes. They can always add more of each, but not easily or infinitely. Like hotels and railroads, airlines therefore segment and price in a way that maximizes their finite capacity in an approach that’s known as yield management, with airline yield being revenue per passenger mile.

Your business differs from an airline in that yours is not scaled or productized, but you do work under similar capacity constraints and your pricing strategy should reflect that.

The Capacity Constraints of a Creative Firm

You might be wondering what capacity constraints exist in your firm. The answer is that your ability to manage unique client relationships is limited to about a dozen. This is true for all customized services creative firms, regardless of size.[7]

I do not know why the magic number of client relationships seems to be around 12, but in every firm where I have peeked under the hood it is clear that the Pareto Principle applies: The bulk of revenue and profit comes from a disproportionately small percentage of clients. There is always one to three large, tier 1 clients, then a dropoff followed by four to 10 tier 2 clients, below which are the clients that we derisively call gnats or ankle-biters. A healthy exercise is to find the line on your client list — it’s usually somewhere between numbers eight and 12 — where it’s obvious that if all the clients below the line went away and you adjusted your expenses accordingly, your firm would be more profitable and you would sleep better.

Not enough firm principals recognize this natural constraint. Too many of them pursue and accept too many clients as a nonstrategic form of revenue creation. But each client past the 10 to 12 threshold stresses the firm’s ability to go deep into client problems and provide meaningful value. If I had the power to impose this constraint on you, making it a law of nature or jurisprudence that you could never exceed 10 clients at any one time, I would do it, and your success — by whatever metric you choose — would almost certainly increase.

World-renowned CEO-investor Warren Buffett has a similar perspective on the power of imposing limits to force more thoughtful decision making: “*I could improve your ultimate financial welfare by giving you a ticket with only 20 slots in it so that you had 20 punches — representing all the investments that you got to make in a lifetime. And once you’d punched through the card, you couldn’t make any more investments at all ... Under those rules, you’d really think carefully about what you did and you’d* *be forced to load up on what you'd really thought about. So you'd do so much better."*

Think for a minute about how you would respond if you had to live by my limit of no more than 10 clients at any one time. For starters, once you hit your maximum capacity, adding a new client would require you to let a client go. Therefore, any new client you chose to bring on would be better than at least one current client — the one you let go.

In this way, your new business focus moves from relentless client acquisition to client portfolio management or churn management. You would become more diligent in the sale, more discerning about who you pursued. You would begin to have conversations, early in the sale, about the amount of revenue you expect your new clients to spend with you. One of the tenets of my Win Without Pitching approach to sales is *anything that forces you to say what you are thinking is a good thing*.

Imagine now what would happen to your current client relationships if you had this limit imposed on you. Surely you would spend more time and energy trying to find ways to create more value for clients. Innovation would become a priority as you sought ways to maximize your revenue from your smaller client pool.

Can you see, too, how the culture of your firm would improve? The client that treated your people worst would move to the bottom of the list, ready to be replaced by the first better client to come along.

The constraint from such a limit would not impact your ability to grow — but it would impact how you do it. The way to double a $1m creative firm to $2m is not by doubling the client base from 10 clients to 20. The proper way to grow is by increasing the amount of money clients spend with you, in this case going from an average engagement size of $100k to $200k. You do this one new client at a time, as you more proactively manage a healthy client churn.

The key point here is, like the airlines, you do have real but less discernible limits on your capacity. You would do well to recognize those capacity limits as hard lines and to price your expertise in a manner that reflects true limited capacity.

Managing Your Capacity Like an Airline

Exploring what this might look like takes us back to the examples provided by the airlines and to our friend Ronald J. Baker who, in his book *Implementing Value Pricing: A Radical Business Model for Professional Firms*, also makes the case for viewing the capacity of the firm the way an airline would view the capacity of a plane.

"When United Airlines places a Boeing 777 in service, it adds a certain capacity to its fleet. However, it goes one step further, by dividing up that marginal capacity into five segments."

Baker then lists the segments with his suggestions for capacity allocations for a professional firm:

"The most common pricing m
among professional firms, al
underpricing, is pricing the s
not the customer." Ronald J.

Implementing Value Pricing: A Radical Busi
for Professional Firms

When we apply Baker's percentage to my imposed limit of 10 clients we get:

Customized Versus Productized Service Firms

Figure 5.1

Customized Services Firms	Productized Services Firms
8 to 12 clients	Dozens to hundreds of clients
Value-based pricing	Cost-based pricing
High margins	Low margins
Consultative sale	Transactional sale
Culture of innovation	Culture of efficiency
Scale through client size	Scale through client volume
Team selling	Team of salespeople
Exit via employee purchase	Exit via external sale or wind-c

In truth, I think each of the client numbers for segments 1 through 4 could be higher by one or two numbers, with Discount/Priceline "seats" sold only when you have excess capacity. (More on that later in the book.) I also recognize that there is some flexibility in this guideline of 12 ongoing clients, which I've lowered here to 10. The objective of segmenting your finite capacity this way is not to fill the plane. The objective, according to Baker, "is to maximize the profit over a given time period. If that can be done at 60% capacity, so much the better, as the excess capacity can be invested elsewhere."

There are so many different ways that you create, and could create, value for your clients. Not all clients want or are willing to pay for all that value. That's okay, as long as your Priceline clients aren't flying first class and your first class clients are paying first class fares.

SaaS Company Pricing

Figure 5.2

Basic	Pro	Enterprise
	MOST POPULAR OPTION	
An entry tool for those new to Inbound marketing	An integrated solution for professional marketers	An advanced platform for marketing teams
$200/month	**$800**/month	**$2,400**/month
billed annually	billed annually	billed annually
Required Onboarding $600	**Required Onboarding $3,000**	**Required Onboarding $5,000**
100 Contacts	**1,000 Contacts**	**10,000 Contacts**
+ $100/mo per 1k extra	+ $50/mo per 1k extra	+ $10/mo per 1k extra
		Have over 500k Contacts?
CONTACT SALES	CONTACT SALES	CONTACT SALES

Hubspot, Good

	Starter Package	Professional Package	Premier Package
	$2,500	**$6,000**	**$8,000**
	Monthly retainer (minimum 6-month commitment)	Monthly retainer (minimum 6-month commitment)	Monthly retainer (minimum 6-month commitment)
Integrated Marketing Strategy	✔	✔	✔
Quarterly Inbound Marketing Campaigns	1	2	4
Monthly Blog Articles	2	5	10
Social Media Community Manager	✔	✔	✔
Monthly ROI Reporting Meeting	✔	✔	✔
Monthly Email Marketing	✔	✔	✔

Hubspot Partner Firm, Bad

CHAPTER 6

Rule #1: Price the Client, Not the Job

In which we resolve to never fall into the trap of responding to "What do you charge for X?" without fully considering the client's context; we discuss the pros and cons of publishing pricing on your website; and we examine the difference between customized and productized service firms.

As the subjective theory of value implies, you cannot understand your value without first understanding the client. To be precise, there is nothing that you do that is inherently valuable *until* you consider the client. Just as a tree falling in the forest cannot create a sound if no eardrum is present to convert the sudden increase in air pressure into the cognitive perception tha t is noise, neither can anything that you do be considered to have value in the marketplace until a client perceives it as valuable. And we all perceive value differently, based on innumerable variables. Leveraging that dramatic difference in value that exists from person to person is a key principle of value-based pricing — one that goes by the unfortunate name of “price discrimination.”

The Majesty of Price Discrimination

Price discrimination essentially says that some people are willing to pay more and therefore they should. While the name has negative connotations, it is the principle in force behind such socially desirable actions as discounts for seniors, lower priced student/teacher editions of software, and cheaper pharmaceuticals for some poorer African nations.

> **“Waiter, bring me a bottle of second least expensive wine**
>
> Homer Simpson

Price discrimination speaks to why you would charge different amounts to different clients for essentially the same work. For example, most of us would agree that a design firm shouldn’t charge John Doe’s Chevrolet dealership the same price for a logo that they would charge the Chevrolet division of General Motors, because the difference in value of that logo to those different organizations would be orders of magnitude.

The common mistake in rationalizing the difference, however, is to defer to inputs: “Yes, the design time is roughly the same,” I can hear the designer argue, “but significantly more meeting and presentation time is involved.” While that may be true, it’s rarely true enough to account for how much more General Motors would be willing to pay. The proper justification is simply that the logo is more valuable to General Motors because their business is many multiples larger than John Doe’s. The potential revenue gains from the work are higher, as are the many forms of risk. The price, therefore, should be higher, too.

Hermann Simon, the retired chairman of global pricing consultancy Simon-Kucher and author of *Power Pricing: How Managing Price Transforms the Bottom Line*, refers to price discrimination as simply “willingness to pay.” Simon tells the story of shopping for a camera. In ringing up his purchase, the clerk cheerfully informed Simon that his camera was on sale, marked down to significantly less than the price on the tag. Expecting a delighted customer, the clerk was horrified when she got an angry tirade from Simon on how he had been willing to pay full price and it was her job to let him!

It’s hard to imagine any of us reacting the way Simon did in such a situation (it might be different for us if we, too, had PhDs in pricing theory) but it’s likely we’ve all acted, or at least thought, similarly when the price discrimination shoe was on the other foot, meaning when the product or service in question was priced for someone who valued it at a much higher price than our own willingness to pay.

Price discrimination goes both ways. A job or service you perform for one client might be valued by that client significantly above your costs, making immense profits possible. But that same job or service, using the same inputs, might be valued at far less than your costs by another client — even a good, otherwise profitable client. That is part of the messiness of value-based pricing — the trade of certainty (“It took us X long so the price is Y dollars”), or perhaps just measurement masking as certainty, in exchange for more freeform decision making around issues like, should you lower your price on a high-cost, low-value job for an otherwise good and profitable client? There’s no certain math around that question, or at least the math takes in far more variables over a longer timeframe as you compute their probable lifetime value and their contributions to profit so far.

Always Price the Client

No, the easy thing to do is to charge everybody the same price for the same thing, but there is no greater mistake in value-based pricing. Some people are willing to pay more and your job is to let them. The way to do that is to always price the client, not the job or service. In a customized services firm where every engagement is unique, the value created is *always* different, even if the output (logo, app, campaign, etc.) appears similar from client to client.

Avoid the Trap

Let us resolve, therefore, that we will never be caught in the trap of answering the question, “What do you charge for X?” without the context, “We need to price X *for that client*.”

A principle of price negotiation is that the sooner in the sale you offer a price, the lower it is likely to be. Understanding the client’s context, and therefore your potential for value creation, takes time. If you find yourself offering prices early, you’re almost certainly short-circuiting the patient information-gathering that needs to happen in order to price based on value. (We will discuss a framework for how to have these conversations and gather the necessary information later in the book.) For now, here at Rule #1, simply resolve to hold yourself and your teammates accountable on this point of always pricing the client and not the job. Failure to do so is the surest sign that your value-based pricing approach has gone off the rails and you have reverted to cost-based pricing.

Should You Publish Prices on Your Website?

One might assume that any creative firm that publishes prices on their website is in violation of Rule #1 of Pricing Creativity, and probably a few more of the rules still to come! In recent years, I have noted a trend among marketing firms toward publishing prices. Most of the time it is, indeed, a mistake, but it’s helpful to look at why the trend exists and to explore the exceptions where publishing pricing guidance might be beneficial.

There are right and wrong motivations for publishing pricing and then right and wrong methods for executing when the proper motivation is there. Let’s explore motivations and methods, beginning with what I hope is the obvious wrong motivation.

Wrong Motivation: Demonstrating Affordability

A firm that publishes low prices on its website is not only committing the sin of defaulting to cost-based pricing, violating our rule of always pricing the client — but even worse than that, it is attempting to compete based on price, thereby sending negative messages to the marketplace about quality, confidence, and sophistication. Selling on low price can be a viable strategy for a fully productized business that has a production advantage or economies of scale that allow it to sell more cheaply than its competition. (More on these different types of businesses below.) These firms don’t mind dragging prices down and squeezing out less-efficient competitors as a means of gaining market share in a strategy that’s known as penetration pricing. It’s not likely that you’re in such a business — and therefore you should not be employing the tactics of a quick and dramatic race to the bottom of the market where only those producers with scale and other production advantages can survive.

Right Motivation: Demonstrating Exclusivity

The opposite approach of publishing higher-than-market prices as a form of positioning is a more valid one. Among other things, pricing is positioning. Let’s be clear, however: Where Logos-R-Us might price logos at $499, a firm trying to position itself as upscale isn’t going to price logos at $50,000. That would violate Rule #1: Pricing the Client. Instead, they would communicate in more general terms about the size of budgets they work with. (More on that below.)

Right Motivation: Advance Client Qualification

Some firms do a great job of inbound lead generation but end up attracting a high volume of price buyers or other budget-challenged prospects. In such firms it can make sense to publish pricing guidance as a means of keeping the gnats at bay. In these situations, putting pricing guidance on or just ahead of your contact form is a good way to help vet such clients and ensure that anyone who does reach out has at least some idea of how much it will cost to work with you.

Methods of Communicating Price

Now let’s look at the right methods of offering pricing guidance on your website for those situations where the motivations are proper. You’ll notice that both methods offered below are ways of communicating *pricing guidance* and not actual prices. This guidance is meant to give prospects some context of how much you expect clients to spend with you. Whatever number or range you offer, your goal in doing so is not to price the job or even the client, but to *limit your clients to those that can afford to spend a certain amount with you*. The truth is some clients will be too small for you. You should decide in advance what that size threshold is. You may also decide that some clients are too big for you. Whether you choose to publish a pricing threshold or a range on your website is a matter of your motivation, discussed above. The only proper methods for a customized services firm to do so are by offering guidance — and not actual prices.

Right Method: Minimum Level of Engagement

I’m a fan of using a minimum level of engagement (MLOE) in the sales conversation. It can sometimes make sense to publish such minimums on the website. “Our minimum level of engagement is $100,000 in fees over the course of 12 months.” Another way to frame the pricing guidance is not your expectation of annual spend but by the project. “Projects typically start at $25,000.”

There’s some simple math to help you arrive at your MLOE, that threshold at which it makes sense to take on a new client. It’s around 10% of the firm’s total fee income target (AGI) for the year. The reason it’s 10%, give or take, comes from the capacity management principle I mentioned in the previous chapter. If yours is a $1m firm, for example, then your MLOE should be somewhere around $100k. ($1m/10 = $100k). For a $10m firm, the MLOE would be $1m. Ten is a reasonable average for the starting point of calculating your MLOE. Then adjust upward or downward from there depending on your growth plans, comfort level in turning prospects away on price before having a conversation with them, and other factors specific to your situation.

Right Method: Ranges or Examples

Ranges and examples are the best forms of publishing pricing guidance, saving the more rigid MLOE for the sales conversation where you can imbue some flexibility and use it as a negotiating lever. Ranges and examples provide guidance but still leave the door open to opportunities just below the minimum level, or to large projects that don’t meet your minimum but might make sense to take on because of temporary excess capacity or other reasons.

An example of your language might be, “A typical project ranges from $100k to $300k and our clients typically spend between $500k and $2m over the course of a year.”

In short, it’s wrong to publish specific prices on your website, but not necessarily wrong to publish pricing guidance, particularly when you find yourself overwhelmed with numerous inquiries from prospects that are too small, or if you want to claim some prestige from your higher prices. While this advice touches on how not to publish pricing on your website (by offering specific prices for specific services) this very mistake is the trend I have been seeing, and it’s worth exploring because it points to an even bigger error of judgment that is often being made in tandem.

Another Trap — Productizing and Pricing Tiers of Services

I have now, in passing, made reference to customized services firms and productized services firms. Before we better define these two distinct business types and their implications, do you know what type yours is?

Most creative firms — a bucket in which I include advertising agencies, all the design-based businesses (web, graphic, product, UX, motion, interior, service, experience, landscape, etc.), PR and social media firms, architects, and many forms of marketing and application development firms — are customized services businesses. In a customized service business, every client is a blank slate of possibilities for whom you might do many things, involving many tools and skills, to an endless spectrum of possible outcomes.

In such a firm, you are required to accurately scope the client’s challenge, uncover her desired future state and the value you might create for her, and then put together a bespoke solution that creates as much value for the client as possible, while allowing you to capture a *fair* share of the excess value for your firm. Consultative selling and active listening are required. The sales cycle tends to be longer and the sale serves as the sample of the expertise and professionalism that the client will ultimately be buying.

Customized services businesses need to limit their client bases, as we discussed earlier, because they do not scale by adding more clients. They scale by managing client churn — by replacing smaller outgoing clients with larger incoming clients. The way a customized services firm grows from $1m to $10m is not by going from 10 clients to 100 but by going from an average client size of $100k to $1m. They accomplish this by continually raising their minimum level of engagement.

The customized nature of the firm's client engagements allows it to focus on innovation, which we've also been calling value creation, and hence, to price based on value. If you can only have 10 clients then you want those 10 client relationships to be as impactful and profitable as possible.

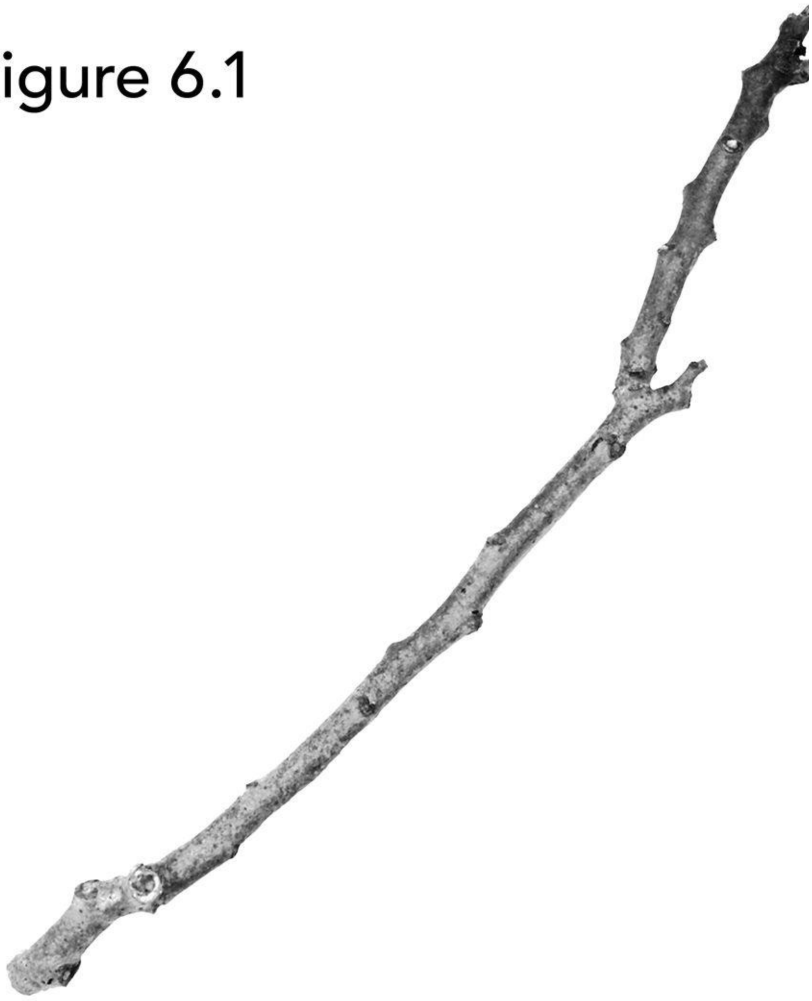
These conditions should describe the vast majority of creative firms. But increasingly, they do not.

Productized services firms are no less viable, valuable, or noble than customized services firms. They're just different, with different characteristics in how they are staffed and managed, in how their services are priced and sold, and in how the business scales.

Productized services firms are infinitely scalable in theory. They are systems-oriented businesses that seek to standardize their offerings in order to make everything repeatable, in pursuit of being able to sell and deliver quickly to numerous clients. Productized services firms need to keep their service options finite so they can efficiently deliver the same service and quality level to a potentially infinite audience. The sale is smaller and simpler, and therefore more transactional in nature, than it is for a customized services firm. This requires a different type of higher-drive salesperson, preferably one with experience selling products, and it often merits an environment of multiple salespeople competing against each other.

Perhaps the key benefit of a productized services firm, according to John Warrillow, author of *Built To Sell: Creating a Business That Can Thrive Without You*, is that a productized services firm is far easier for the principal to exit. The uncertainty discount on projected future revenue is less than that of a customized firm where the magic of the business is more tied up in its key people, the principal chief among them. The higher degree of uncertainty in the sale of a customized services firm is reflected in both a lower price and more onerous terms, which usually includes a lengthy earnout for the principal. Like the title of Warrillow's book says, productized businesses are *built* to sell, with the owners often having an eye on the exit, whereas customized firms are more about reaping the rewards along the interesting journey, with the odds of a lucrative exit low. Owners of customized services firms are usually left with the options of selling to employees over time or winding down the business upon retirement, but they should have made their money before then.

Figure 6.1

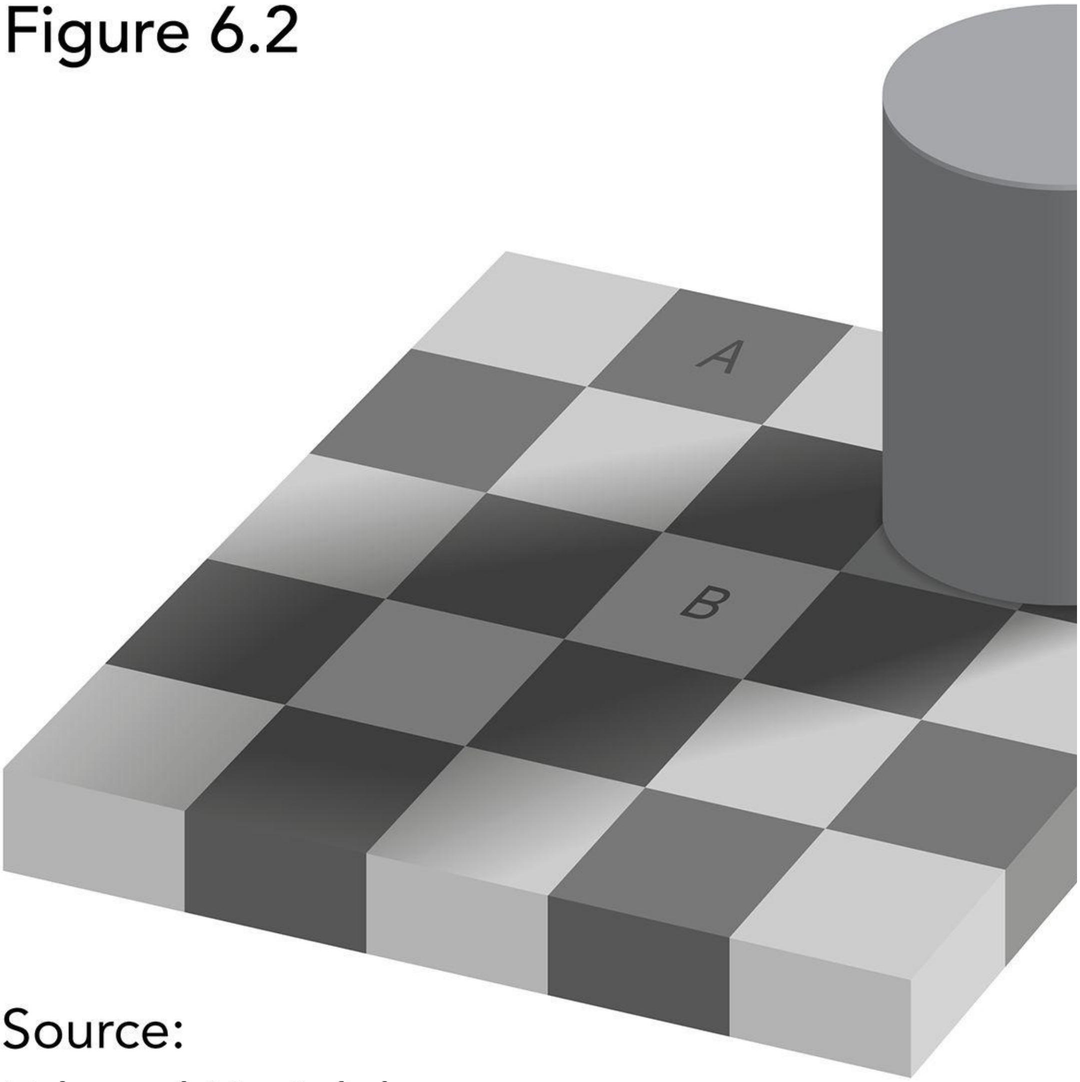


Productized Firms Can Publish Prices, Customized Firms Should Not

Now that we’ve painted a picture of two different types of creative firms, one customized in its services and the other productized, let’s come back to our subject of the wrong method of publishing pricing. It is perfectly appropriate for a productized services firm to bundle up their offerings into packages, tier and price those packages, and display it all on their website. Software as a Service (SaaS) companies do this well. So do airlines and hotels, perhaps the two most pricing-savvy industries on the planet.

It is the height of folly, however, for a customized services firm to do this — a gross violation of our Rule #1 to always price the client and not the job or the service — but it’s becoming common in a few circles of digital marketing firms. The reason is clear: These firms that have one foot in consultative, customized services and one foot in technology take many of their cues from the marketing automation or customer relationship management (CRM) SaaS companies whose products and productized services they implement and sometimes resell. They haven’t stopped to consider that theirs is a customized services firm and in most cases should remain so, reserving the ability to customize their offerings to the client and positively leverage price discrimination.

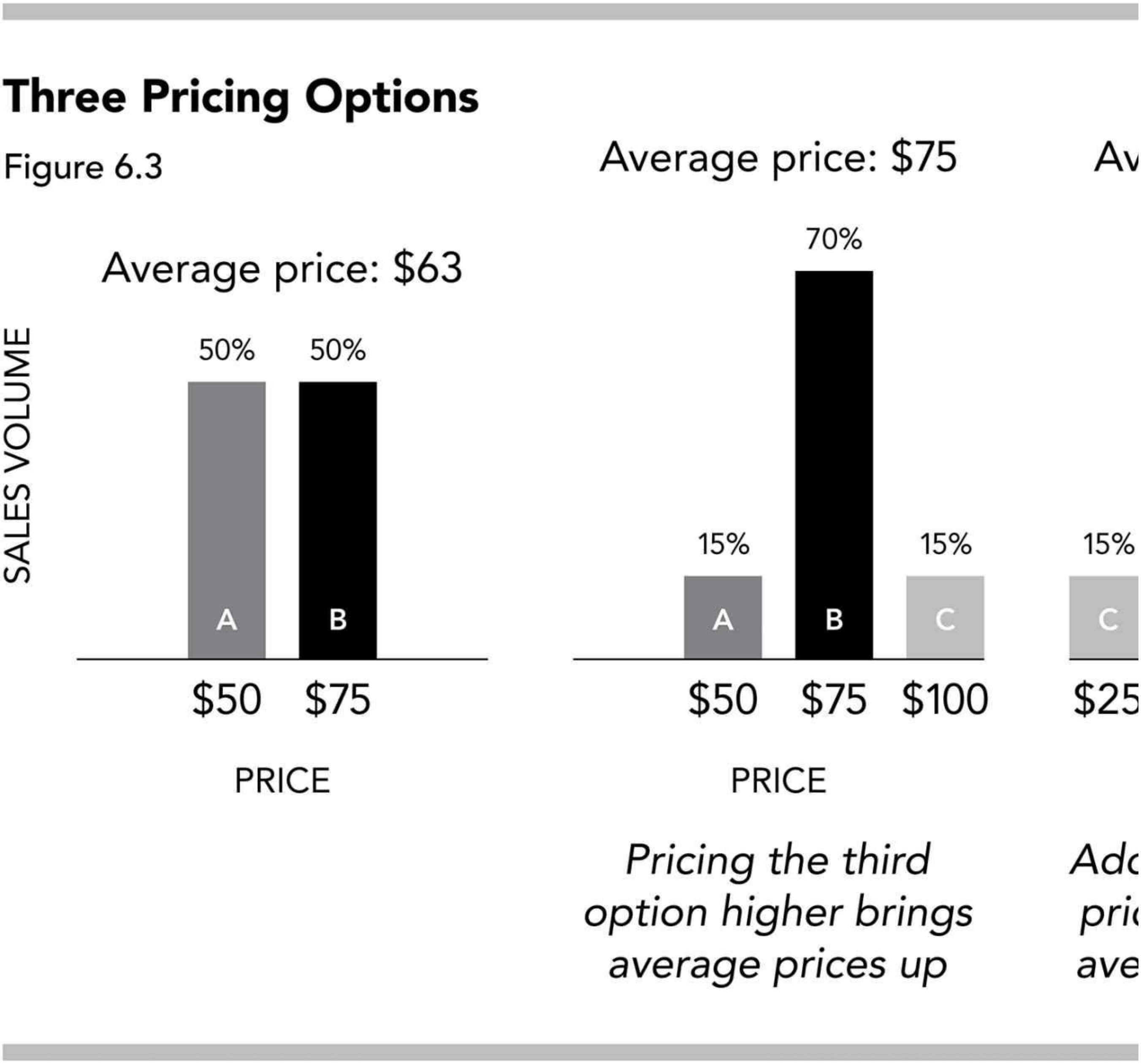
Figure 6.2



Source:
Edward H. Adelson

There is a lot to be learned about pricing from SaaS companies. On marketing software company Hubspot’s pricing page, to pick one example, there are all kinds of pricing and choice architecture techniques that customized services firms can learn from. Options, bundles, anchors, and social proof are all there in their glory (and we will explore all these techniques and more), but because they are pursuing infinite scale, these SaaS businesses have to segment their audience and then arrive at standardized prices to match those segments. Like Hubspot, you want to use all these techniques, but you must start at the beginning *with each client*, assembling the options that make sense *for them* at the prices that make sense *for them*, based on the unique value that you will help to create *for them*.

Now ask yourself: Have you unwittingly been productizing your services, moving to this mushy middle where there is nothing but rapid commodification to be found? If so, it’s time to take stock and decide to embrace one model or the other. Nothing but confusion and margin erosion are waiting for you in the middle.



Rule #2: Offer Options

In which we resolve to never again put a proposal in front of a client that does not contain options.

One of the biggest pricing mistakes that creative professionals make is to put a proposal in front of the client that contains only one option. In such a take-it-or-leave-it proposition there are only two outcomes, 50% of which are positive and 50% of which are negative.

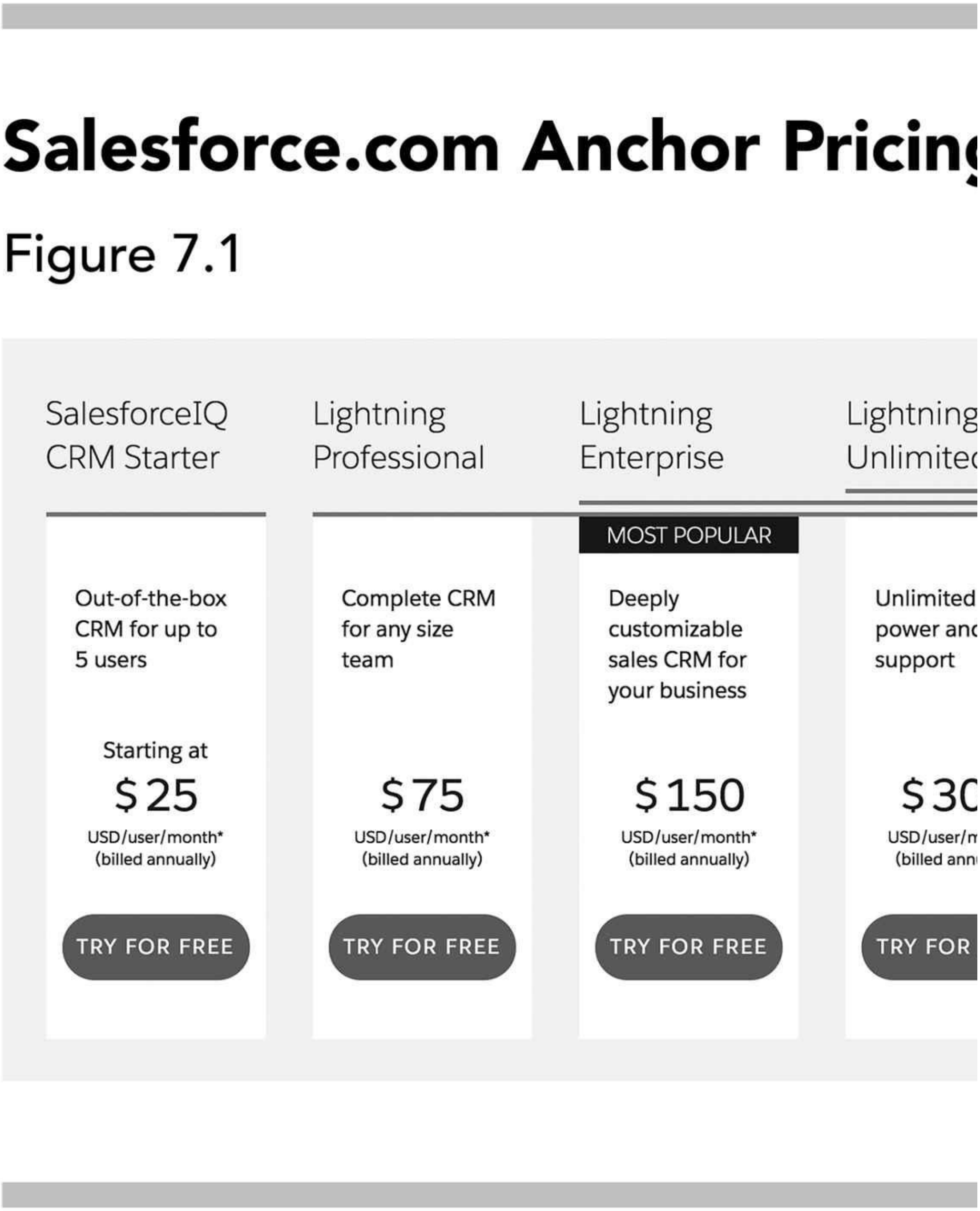
If you resolve from hereon to always put three options in your proposals, you will increase the percentage of positive outcomes by half. That increase in odds, however, is not the main reason you should adhere to this rule of always offering options. There is something far more powerful going on here.

CHAPTER 7

Pre senting options changes the question you are asking the client from, “Does this proposal represent good value?” to a better question, “Which of these proposals is the best value?” The brain is wired to answer the second question. In fact, it is incapable of answering the first question without first answering the second. Allow me to demonstrate.

Look at the photo of the stick (Figure 6.1) below and try to determine the length of the actual stick (not the photo). How long is it?

I’ve put this image in front of hundreds of people and asked them to guess its length. I get responses from 2 inches to over 8 feet, but most people get the point of the exercise and answer, “It’s impossible to tell.” It’s impossible to discern the length of the stick because there is no context.



This exercise reveals a hidden-in-plain-sight truth: *Human beings cannot subjectively perceive absolute values*. You can only know the length of anything objectively by measuring it against something for which you do know the length, like a ruler or a running shoe or Saturn. To know its value you must make a comparison; there is no other way to know it.

This truth is so universal that it applies to all values, including weight, size, luminescence (brightness), temperature, and more. By removing the comparisons I can leave you uncertain about something's value. By *controlling* the comparisons I can make you think light is heavy, black is white, and expensive is cheap.

The power of controlling the comparisons — and thus of Rule #2 of Pricing Creativity — was brought home to me while lying in bed, casually reading William Poundstone's *Priceless: The Myth of Fair Value (and How to Take Advantage of It)*. Poundstone shares the following image (Figure 6.2), created by MIT cognitive scientist Edward H. Adelson.

How to Price All Your Opti

Figure 7.2

Client's Budget	Desired Option	A
• • • •	• • • • • •	
$	$$	

“The gray color of square A is identical to the color of square B,” Poundstone wrote. Wait, what? But it’s not, I thought. Clearly it’s not. I sprang out of bed and, taking Poundstone’s advice on how to prove his assertion, I grabbed a sheet of paper, ripped it into strips and covered every square but the two lettered ones. Sure enough, on covering the last of the other squares there was almost a “click” in my brain and it was clear that these two squares were indeed the same color. Try it yourself.

By controlling the comparison through the device of the column’s shadow, Poundstone and Adelson got me, and I suspect you, to see that black is white (or at least dark is light). It was in this moment that both the full subjectivity of value and the power of controlling the context were revealed to me. Clients need context — scale — to make decisions around economic value.

Let us resolve, therefore, that we will never put a proposal in front of a client that does not contain options. *Ever.*

The client does not know if your $5,000 proposal is worth $5,000 until he makes some comparisons. So to what does he compare your proposal? He compares it to proposals from your competitors. He compares it to things for which he has previously paid you in the same price range. He compares it to the other things he could buy instead for that $5,000 (known as opportunity cost). The possible comparisons are endless.

Your job as a pricer and salesperson is not just to enable such comparisons but to *control* them. If you do not provide the context for the client to objectively measure value then you require him to go elsewhere — in his mind or even physically. I’m sure you’ll agree that it’s difficult to maintain momentum late in the sale when you *require* the client to leave in order to arrive at a decision.

Value vs. Comparative Value

In a value-priced engagement, like our example of the $200k fee to build the customer loyalty app that would deliver happy restaurant customers and $1m of new profit every year, you are pricing to the value you expect to deliver to the client. In this case a $200k investment to get a return of $1m per year. That equation is in itself a comparison (spend $200k to make $1m) but there remains the issue of comparative value. What else might $200k buy? A five-to-one return in the first year sounds like good value, but is there a cheaper option that might offer the same return? Is there better value to be had?

As the Adelson diagram shows, when you put a proposal of $200k or any price in front of a client, the client’s brain is not wired to answer the question, “Is this worth $200k?” So even value-priced engagements must contain options.

Perhaps the most retold story of the power of options in all of pricing literature is the one of Williams-Sonoma serendipitously doubling sales of its poor-selling $279 breadmakers simply by introducing a more expensive $429 model. Few of the $429 models were ever sold — but the $279 models began to fly off the shelves as customers finally had something against which to make a comparison, back in the days when home breadmaking machines were still uncommon.

Three Options Are Better Than Two

There’s a concept known as extremeness aversion that says when customers are faced with options and uncertainty, they will shy away from the extremes of the highest and lowest prices. This principle has been demonstrated in numerous studies. If you repeatedly offer two options to your clients, one priced at $1,000 and one at $1,250, clients will on average choose them X% and Y% of the time. But if you add a third option higher than $1,250, say $1,500, everything shifts to the right, with more people choosing the $1,250 option as they seek to avoid the extremes.[8] If you were to instead present the third option as the cheapest one, say $750, the number of people who choose the $1,250 option will decline, as would your average sale price.

CHAPTER 8

When providing options, therefore, always aim for three. Make no mistake, two is better than one but three is better still than two, especially when the third option is highest, which we will explore more deeply in the next rule. Four options appears to work just as well, but beyond that you risk a backlash from what’s known as the paradox of choice, a compelling but still scientifically contentious argument that anxiety increases with choice. We’ve all eaten in restaurants where the menu had too many choices, making it more difficult than it should be to find just the right meal.

Decoys

It’s not necessary for all the options presented to be desirable to the client. As the number of variables affecting the purchase decision increase, people tend to simplify their decision making by moving away from undesirable or less desirable options toward others that are only more desirable *by comparison* (thus tending to support the principle of paradox of choice). Just as you can make large items look small by placing even larger items next to them, so too can you make undesirable options look desirable by placing even less desirable items next to them.

Just the act of being able to choose causes us to like what we have chosen more. As Rory Sutherland, Vice-Chairman of advertising agency Ogilvy & Mather, put it in The Wiki Man column he writes for *The Spectator*, “It is simply harder to like something when you haven’t chosen it. This is why people who will happily pay £200 for a pair of shoes resent paying their electricity bill.”

In pricing, these items placed and priced at the range of options designed to nudge people toward the center are known as decoys. They are not there to be sold, but simply to provide reference points for the buyer, steering them toward the seller’s preferred option.

For Good or Evil?

Clearly, the choices we present to people and the manner in which we present them can have profound effects on the choices they make. Some people see some of the above techniques as manipulative, while others conduct research, publish papers, and build consulting practices on them under the more magnanimous label of “choice architecture.”

When you present a choice to someone, you are already framing (architecting) that choice in numerous ways that ultimately influence the choice they make, whether you recognize your biases and influence or not. To do so more consciously makes complete sense. In a way it seems more honest, but I don’t expect everyone to agree.

Since 2010, the British government has had its own behavioral insights team (privatized into a joint venture in 2014, with the government retaining an ownership share) that uses choice architecture and other tools of behavioral economics to find solutions to social challenges such as getting more people to pay their taxes and fines, increasing charitable giving, and reducing the error rate of medical prescriptions. Sutherland himself is the founder of Ogilvy’s own behavioral insights team, Ogilvy Change, which applies similar thinking, grounded in behavioral economics and evolutionary psychology, to solve social and commercial problems through soft means that might otherwise be solved through unnecessary infrastructure development.

People will ultimately choose what is best for them, as they see it. It’s naive to think that, as the one putting at least one of the choices forward, you can let the choice stand on its own merit without you influencing the decision. That’s just not possible, so why not lean into it and learn to do it well?

Differentiating the Options

If we take what we’ve learned from our principles and first two rules, for each proposal you put forward to the client you will assemble options and prices specific to that client and the value that you might create for them. There are many ways to assemble these options, and it’s important to note that the idea of options is not necessarily tied to value pricing. You could put forward options of time and materials, of outputs, of value, or a combination of the three. There are many instances where it might make sense to offer one of each, which we will explore more fully in chapter 17, “Sell Risk Reduction.”

CHAPTER 9

Rule #3: Anchor High

In which we resolve to always anchor with a high-priced option, above where we expect the client to purchase.

Anchoring is one of the most powerful techniques of effective pricing. You are subjected to it all the time, and if you're not using it in your own pricing you're almost certainly selling fewer higher-priced solutions, leaving serious money on the table. Pricing Creativity Rule #3 is to anchor high in all of your multioption proposals.

Anchors in Action

During a ski trip to Whistler a few years ago, I found myself meandering through the village, killing time, when I encountered my first Prada store. I ambled in to see what all the fuss was about.

The first item I encountered was a prominently displayed, simple black t-shirt. "That would look nice on my wife," I thought. I flipped over the price tag and something happened in my brain. I couldn't compute what the tag said. It must be $50.00. My furrowed brow said that was wrong. I realized I was looking at my first $500 t-shirt.

I'm not in Prada's target market. If I gave my wife a Prada t-shirt (and didn't disclose the price, which would kill her) she would wear it while gardening. I escaped with my money, stunned by the experience.

What I didn't realize at the time was that it's not the job of the $500 price tag to sell $500 t-shirts. It's the job of the $500 price tag to sell $275 t-shirts by making them look like good value in comparison.

Every luxury retailer in the world knows this and places anchors in prominent positions in their stores. Astute restaurateurs do this, too. Menu design consultants know that most diners' first glance is to the top right-hand corner of the menu. Here they strategically place a price anchor, even subtly drawing attention to it with a border, illustration, or other flourish. Right next to or below the anchor they place their less expensive but most profitable items.

Software as a Service (SaaS) companies are masters at this. Look at the pricing options for Salesforce.com's sales cloud solutions, below.

"The value conversation is wh
value-pricing theory goes to

Lightning Unlimited edition is Salesforce's version of the $500 t-shirt. It's not there to sell Lightning Unlimited editions, but to sell Lightning Enterprise editions by using $300/month to make $150/month look favorable. Salesforce does not disclose the breakdown of what percentages of customers buy what products, but sources tell me that less than 1% of its customers choose the anchor, Lightning Unlimited.

It's easy to tell which edition Salesforce wants you to buy. It uses the "nudge" or "choice architecture" technique of leveraging a cognitive bias known as social proof: telling you that Lightning Enterprise is the most popular option. It's designed to trigger your fear of missing out: You think, "If everybody is choosing Lightning Enterprise, there must be a reason for it." (Dreamforce, the company's annual user and developer conference, used to have an entire track revealingly named "Stuck in Professional.")

The Science of Anchoring

Daniel Kahneman and Amos Tversky are the psychologists who pioneered studies in anchoring in the early 1970s with their now-famous United Nations experiment. In it, each participant was asked to spin a wheel marked with the numbers 1 to 100. The wheel was rigged to stop only at 10 or 65. Once the participant had written down the number on which the wheel had stopped (10 or 65) he was asked, "Is the percentage of African nations among UN members larger or smaller than the number you just wrote?" After the participant answered the question, he was asked to guess the actual percentage of African nations in the UN.

The average answer among the group that was subjected to the low anchor (10) was 25%. The group exposed to the high anchor (65) averaged 45%. Amazingly, this study showed that the anchor required little relevance to the question! (Although others have proven that the more relevant the connection, the more powerful the anchor.)

I repeated this experiment in a seminar where I asked all the participants, via advance survey, to guess the average blended hourly rate of the firms represented in the room. Half the participants were first subjected to an anchor question: "Do you think the average blended hourly rate will be higher or lower than $500?"

Everybody knows this is a high rate and chooses the obvious answer, that the average rate in the room will be lower than $500. But by being "primed" with this anchor question, the participants in this group start thinking about the more expensive firms they know, *and they adjust their estimates accordingly*. The anchored group's estimate of the average blended hourly rate was 38% higher than the control group's.

This mental shortcut or "heuristic" that is called *the anchoring effect* is sometimes known by the more complete phrase of *anchoring and adjusting*. Kahneman and Tversky showed that people use two systems of thinking. Via what they call System 1, people first make a quick, reactive assessment of a situation based on a small amount of early information. (The act of planting this first piece of information, as one does in a price anchor, is itself a form of another heuristic known as *the priming effect*.) They then engage the more deliberate, analytical, System 2 form of thinking to adjust their initial assessment away from the initial anchor.

Kahneman's and Tversky's research (and that of others after them) showed, however, that the adjustments rarely compensate for the initial anchor. People start from the anchor, knowing it's "wrong" — but that's okay, they think, because they'll just reason themselves away from it in the "right" direction. Their reasoning tends to stop, however, at the near edge of their range of uncertainty of what the "right" answer is.

In a nutshell, you prime the thought process around the value of the proposal by beginning with a high number, and you let the client adjust from there, knowing that few people ever adjust fully.

The Client Is Powerless

Anchoring is so powerful that it works even when you know it's being done to you. There's an erroneous saying in price negotiating that I've been guilty of repeating many times: *He who speaks first loses*. The thinking was always that you're better off letting your client put a price on the table that you can respond to, rather than vice versa. Kahneman's and Tversky's work proves this idea is exactly wrong. You're better off setting a high anchor that skews the entire negotiation your way, than you are letting the client set a low anchor. The anchor serves as the mental reference point throughout the negotiation.

There are only a few known ways that you can negate an anchor. If you and I are negotiating and I anchor high, one proven method is to get me to throw out my anchor and start over with a new number: "$50,000 is a ridiculous price, Blair. You're going to have to sharpen your pencil and try again." Simply countering lower doesn't have the same effect.

Another way to increase your adjustment away from my anchor is to condition yourself to shake your head "no" when you hear it. Another is to train yourself to focus on the costs *to me* of failing to arrive at a deal. As time goes by, more studies find subtle ways to combat the anchoring effect, but the bottom line is that leading with your most expensive anchor option should almost always have some positive effect — and averaged out over many clients and proposals it is guaranteed to have a significant effect on the revenue you earn.

Many studies have shown that the higher the anchor, the higher the average final price. Litigators, masters at anchoring, have learned that the more they ask for in their civil suits, the more they are likely to get. The correlation isn't linear, but it does form a somewhat predictable power curve. Studies of mock juries have proven this and shown that there doesn't seem to be any backlash or penalty for asking for astronomical sums.

You're Already Anchoring

Most creative professionals are already innately familiar with the concept of anchoring even if they're not using it in their pricing. Have you ever presented multiple creative concepts to a client and deliberately thrown in one that was far more radical than you thought the client would accept? The radical idea was your anchor, which you included in order to make the idea that you really wanted to sell seem less radical.

Now do the same with your pricing.

The common mistake in anchoring with both creative ideas and pricing is to share the anchor option last. While doing so still leverages the extremeness avoidance effect of people's desire to move to middle options away from the extremes, true anchoring relies on priming — delivering that first piece of information from which the client begins to make adjustments. When pitching radical ideas or multiple options of a proposal, therefore, prime with the most radical or most expensive first.

Anchoring in Conversations

You can begin anchoring well before you get to discussing the actual price with your clients by referencing what others have paid you. In our Win Without Pitching training program, we teach creative professionals to close business using highly specialized case studies, always leading with the most expensive case study. For a client with a budget of $20k, for example, it might make sense to begin with a $100k case study, allowing the firm to show the depth and breadth of its work while leveraging a high anchor. By comparison, a second case study at the $50k investment level will look reasonable, and a $30k option might look like a bargain. Go big and let the anchor do its work.

The Rules of Pricing Creativity so Far

Let's recap our first three rules:

- **Rule #1** states that you will put together specific solutions and prices for each client, based on the value you expect to deliver.
- **Rule #2** states that you will always offer clients three or four options in those solutions and prices.
- **Rule #3** states that you will always anchor high with your most expensive option, understanding that the role of the anchor is not to be bought but to anchor the price discussion in the client's mind to that higher price, thereby making the next-highest-priced option seem more palatable.

A Simple Way to Arrive at Your Anchor Price

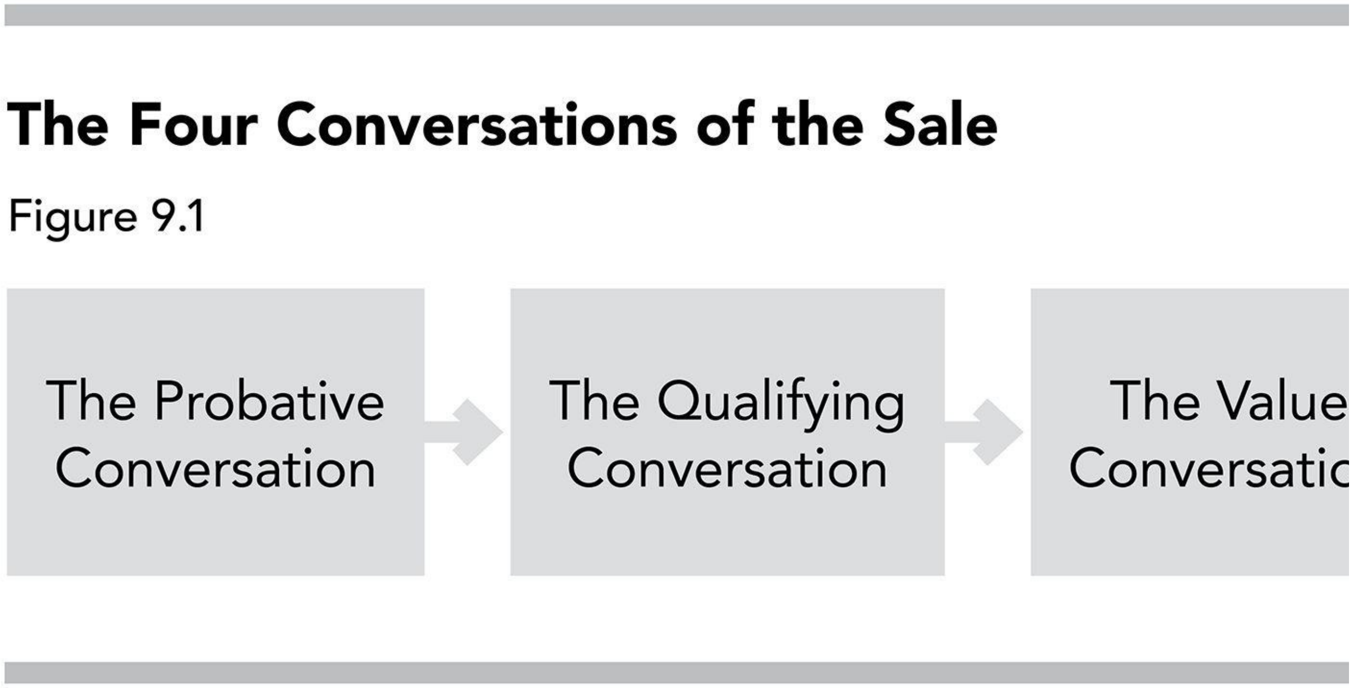
There are many ways to arrive at your anchor price, and we will cover a few later on, but one way is to simply ask the question of yourself, "What would we charge, and do, on this assignment if the client had unlimited resources?" Think about the greatest value you might add and think about fair compensation to you that would be paid by a client with unlimited resources who wasn't shy about spending money to make money.

It's important to do this exercise as a hypothetical one, especially if you know the client to be frugal, because the goal of the exercise is to untether from your own limiting expectations and biases about what you think the client will spend. They're not likely to buy your anchor anyway, so it doesn't matter!

Think beyond them, think big. What would you charge to this hypothetical client with unlimited resources? That price is your anchor. Now include it in your proposal and let it do its work.

Pricing the Other Options

The issue of how to price all your options is an ongoing topic that we will peel like an onion in subsequent chapters, but a good rule of thumb to start from is that option one should be somewhere within the client's budget or expectation.



Option two is the high-margin option you really want to sell, so it's priced above option one, perhaps within the client's budget range but perhaps not. Option three is there to make option two look good. There is no requirement for all of your options to be in your client's stated budget range. As we've discussed, the science shows there's no boomerang effect from pricing the anchor too high.

There are differing schools of thought on laying out the options low-to-high or high-to-low, moving from left to right. I favor what I see as the more natural low-to-high progression with the cheapest, option one, on the left. *When reviewing the options with the client, however, be sure to begin with the anchor.* Similarly, in the earliest pricing conversations you want to begin with the high range. I will show you a favorite technique of mine to do this seamlessly in the upcoming chapter, "Master the Value Conversation."

Measuring the Outcomes

When the client chooses option one, you should be largely satisfied but tinged with the slightest regret at the opportunity lost. You should be happy when they choose option two, which is almost always the goal. And you should be over-the-moon ecstatic on those rare occasions when the client chooses your anchor, option three. While the anchor's primary job is not to be purchased, it *will* get purchased from time to time, and when it does, celebrate accordingly.

If your anchor is getting purchased frequently (20% of the time or more), it's possible you are pricing both your anchors and second options too low. If the client is always choosing option one, then there's too big a gap in price or value between your first and second options.

Prices Before Solutions

We've spent this chapter talking about anchor prices and beginning to think about how you might price your other options, and we still haven't really talked about what you would *do* for those prices, or what's *in* those options. (That's coming.) Let me assure you that this is the correct order for effective pricing.

Recall the difference between cost-based pricers and value-based pricers, where the cost-based folks start with the product in mind, then move to cost, then price, then value, and finally the customer; whereas value-based pricing requires you to reverse that chain. After uncovering the value that you might create for the client (this happens in the value conversation which we will explore shortly), price is the next thing you'll determine. Once you have three or four price options, *then* you work back to calculate the maximum expense it makes sense for you to allocate to each option, and from there you figure out your solutions, or the "product."

If arriving at prices before solutions feels counterintuitive, it's merely a hangover from your cost-based pricing days. Trust me, the awkwardness will pass once we have completed the realignment of your neural pathways.

What the Value Conversation Sounds Like

Figure 9.3

Step 1: Commit the client to their desired future state

"If I heard you correctly, you want to …"

"Is that correct?"

"Did I miss anything?"

"Is there anything we should be adding to this?"

Step 2: Agree on the metrics of success

"For each of these objectives, what's the metric we will use to determine that it's been achieved?"

"What does success look like?"

Step 3: Agree on the value of success

"What's the value of meeting this metric?"

Step 4: Offer pricing guidance

"If we had a solution that guaranteed $Z in value created, would you see $Y as fair compensation for us?"

"Is there another budget target for which you would like us to assemble an option?"

"We'll come back with options in that range. Let's set up the meeting details now."

Rule #4: Say a Price Before You Show a Price

In which we resolve to always offer pricing guidance orally before communicating it in writing.

As we get deeper into the pages of this book, the lines separating pricing theory from the real world practices of selling and negotiating start to blur and overlap, beginning right here. So far, I have only alluded to the idea of offering pricing guidance to the client in conversation before putting forward a proposal, but it's so vital a point that we must set it down as an inviolable rule, our Pricing Creativity Rule #4: *Always say a price orally before showing it in writing.* From the client's point of view, this means you want her to always *hear* a price before she *sees* it.

Early Objections Are Your Friends

This vital rule comes to us not from the world of pricing theory but from the world of selling — specifically the subject of dealing with objections. By forcing yourself to state a price before you show it, you are committi ng to talking about money before you retreat to write a proposal. By offering pricing guidance in the forms we've already discussed in the previous chapter, you allow the client to become conditioned to the investment you will ask her to make and you create the opportunity to discuss any price objections that may exist.

The key principle of handling objections, of price or any other kind, is that *early objections are your friends and late objections are your enemies*. As it also is with investing and hiring, bad news early is far less expensive than bad news late. If the client cannot afford what you propose, it would be beneficial to learn this before you incur the time and hard costs associated with traveling to the client to present a proposal that has no chance of being bought. If the client's ideas of what this would cost are unrealistic, you will want to correct those ideas before you put forward a proposal for them to consider. You will find that you have more courage to walk away from poor fits early in the sale than you do late, as sunk cost bias inevitably takes hold, making it more difficult for you to do the right thing as you become more invested in the sale.

Another way to state this rule is *always overcome any price objection before you present a proposal*.

Those Who Don't Talk About Money Don't Make It

The requirement is for the salesperson (who might be different than the pricer) to commit to speaking to the client about price before any proposal writing begins. The challenge is that some people — even some seasoned sales professionals — find money conversations difficult. They therefore put the discussion off until the last possible moment, often when a proposal is being presented, or they avoid the direct conversation altogether by communicating pricing via email.

In Win Without Pitching, we have what's known as The Win Without Pitching Rule of Money: *Those who do not talk about it do not make it.* It's a polite reminder that if we want to be a commercial success we need to get over our discomfort or even fear of talking about money. We must strive to talk about it early and often, to become comfortable with it, learning to imbue the large numbers with no more emotion than we would the small. Some of us have a lot of baggage to let go of first.

The Myth of Cultural Biases Against Talking Money

Russ Roberts, in his book *How Adam Smith Can Change Your Life*, points out that in the father of economics' almost-forgotten first book *The Theory of Moral Sentiments*, Smith identified how we find happiness in the harmonizing of small joys and profound sorrows of others. Smith noticed that we see small sorrows as whines of petty grievances that do not endear us to the whiner. Conversely, the large joys of others, including such financial joys as a pay raise or buying a new house, bring out envy and jealousy even in the best of us. Roberts adroitly quotes Gore Vidal on this: "Every time a friend of mine succeeds, a small part of me dies."

We find the small joys of others contagious, but the large joys annoying, try as we might to deny or mask this latter truth. That is why in every culture I have encountered, the convention is to steer clear of discussions of money in a personal setting. Nobody wants to hear your petty money troubles, nor do they want to hear of your great financial successes!

While this convention seems ubiquitous, it's tied to an equally common mistake in the creative professions (and, I suspect, further afield). In every culture in which I have guided people on selling and pricing, at least one person has insisted that he could not have a direct money conversation: "Our culture is different. We consider it impolite to talk about money."

The common mistake is to assume the convention around personal finance discussions applies to commercial conversations. It does not. In fact, the corollary of the personal finance discussion convention is that *avoiding money discussions is considered a sign of poor business acumen*. Our professional troubles with money begin here, when we confuse these two conventions. I accept that in some cultures it is agreed that the topic of money will come a little later in the conversation, but etiquette is too often the stated reason for what is really a discomfort in discussing what needs to be discussed when it makes the most sense to discuss it.

Not Talking About Money Is the Root of Stress

I've mentioned that some people find money conversations stressful, but that's not exactly accurate. Stress is caused by the things you don't do (and for some, by the things out of their control). Money conversations are stressful when you're not having them.

Steven Pressfield's pivotal statement in *The War of Art: Break Through the Blocks and Win Your Inner Creative Battles*, his classic treatise on writing, easily applies to money conversations. "It's not the writing that's hard," says Pressfield. "What's hard is sitting down to write." *Beginning* is hard. The stress arises when we do not begin. We look ahead into the future and see a bad outcome, so we put the conversation off, allowing the stress to build. If you want to remove the stress of money conversations and earn more money as a direct result then practice having money conversations early and often.

The convention in the creative professions is we don't have the money conversation at all — we defer it to *The Proposal*, the lengthy, written document into which we dump promotional information about us, including team bios, and photos, free diagnostic assessments and strategic recommendations, and finally, on the last page, we put a price. How many of us have been tormented by years of having clients flip to the last page of our lengthy proposal just when we're gearing up to defer the money conversation another 30 to 60 minutes via our presentation?

The solution to this age-old dilemma is simple. It is our Rule #4: *Tell the client what the price is going to be before you write the proposal!*

Applies to Current Clients, Too

I know firms that claim to live by Rule #4 but do not apply it to longer-standing client relationships — in which the firm's behavior can get lax sometimes. I encourage you to be vigilant about this rule and apply it equally to all clients. Talking about money early is a muscle that needs to be developed and maintained through exercise.

If your client calls up with a simple request for a rote job and you are required to provide a written estimate or statement of work, before you lob the document over via email, pick up the phone and say to the client, "Your estimate is almost ready. I want to let you know it's coming in at $7,500." A voicemail, or even a text message, while neither are ideal, both are better than having the client read the price on the estimate, statement of work (SOW), or proposal for the first time. If leaving a message or text, be sure to include an invitation to discuss. If there's an objection, you want to hear it.

Budget Discussions Change as You Move up the Decision-Maker Ladder

Bear in mind that you will hear objections and encounter budget limitations lower in the organization that do not exist higher up. Executives have the ability to get money and expand budgets if they see doing so as sound investments in the future, so don't confuse the need to discuss money early with the idea that every budget or objection you hear is insurmountable. Even the objection, "We can't afford that!" is not insurmountable. Most of us have purchased things we "couldn't afford" before. Some of us do it all the time! (We'll explore some tips on how to deal with this objection in chapter 20, "Alternatives to Cutting Price.") Once you get in front of the executive sponsor, you can put options on the table that are far beyond what their underlings think the company will spend. The following is just one variation of a conversation that's been relayed to me many times over the years:

Agency principal to client: "Our fees for this would be $70k."

Client VP of marketing: "We don't have $70k for this."

Client CEO, correcting his VP: "We have as much as we need to do this properly."

In the next chapter we will discuss a helpful framework for having these money conversations in advance of developing the proposal.

CHAPTER 10

Rule #5: Master the Value Conversation

In which we endeavor to practice and ultimately master the key to value-based pricing success: the value conversation.

It's a great theory, to set prices based on the value created for the client rather than on the inputs of your time and materials or even the outputs of deliverables. If it were easy, however, many in the creative professions would be doing it, and that is far from the case. Think of the 29 out of 30 professional firm owners I described earlier who, one year later, were not able to translate a day of teaching into ongoing practices.

"The proposal is the words th
come out of your mouth."

The theory breaks down, as theories of business and life do, in the application, and the application climaxes in what's known as the value conversation. If there's one clear remit for me the author, it's to get you to commit to practicing and getting better at this conversation. You will make progress by understanding the principles laid out in this book, by mastering the previous rules in this section, and by employing the tips that follow — but the biggest progress and greatest financial rewards will come from mastering the value conversation. I contend that this is one of the most valuable and lucrative skills in all of business.

Alan Weiss, in his book *Value-Based Fees: How to Charge — and Get — What You're Worth: A Guide for Serious Consultants*, aptly subtitled his chapter on the value conversation, "If you only read one chapter …" I agree with Weiss that it is that important. You can easily absorb many of the other rules, principles, and tips presented in this book just by reading them, but mastering the value conversation is an issue of tacit knowledge that can only be learned by doing. Little or no doing means little or no learning, and certainly no mastery.

As you will see, the framework for the value conversation is simple, so the biggest barrier keeping you from value-based pricing success is your own comfort level with the subject matter. Consider the topic of talking to your kids about sex. Recall (or imagine, if you haven't had the experience) the first conversation. The material is easy enough, and if the child is young enough, the only baggage making the conversation difficult is yours. Now imagine the ease with which a middle school guidance counselor or biology teacher has that same conversation on the 50th occasion. Today you might be that neophyte parent, but in a dozen attempts or so you're going to be pretty confident with the material and therefore effective in the conversation. Well before 50 conversations from now you will be a master.

Just Four Conversations

Let's put the value conversation into the larger context of the conversational arc of the sale.

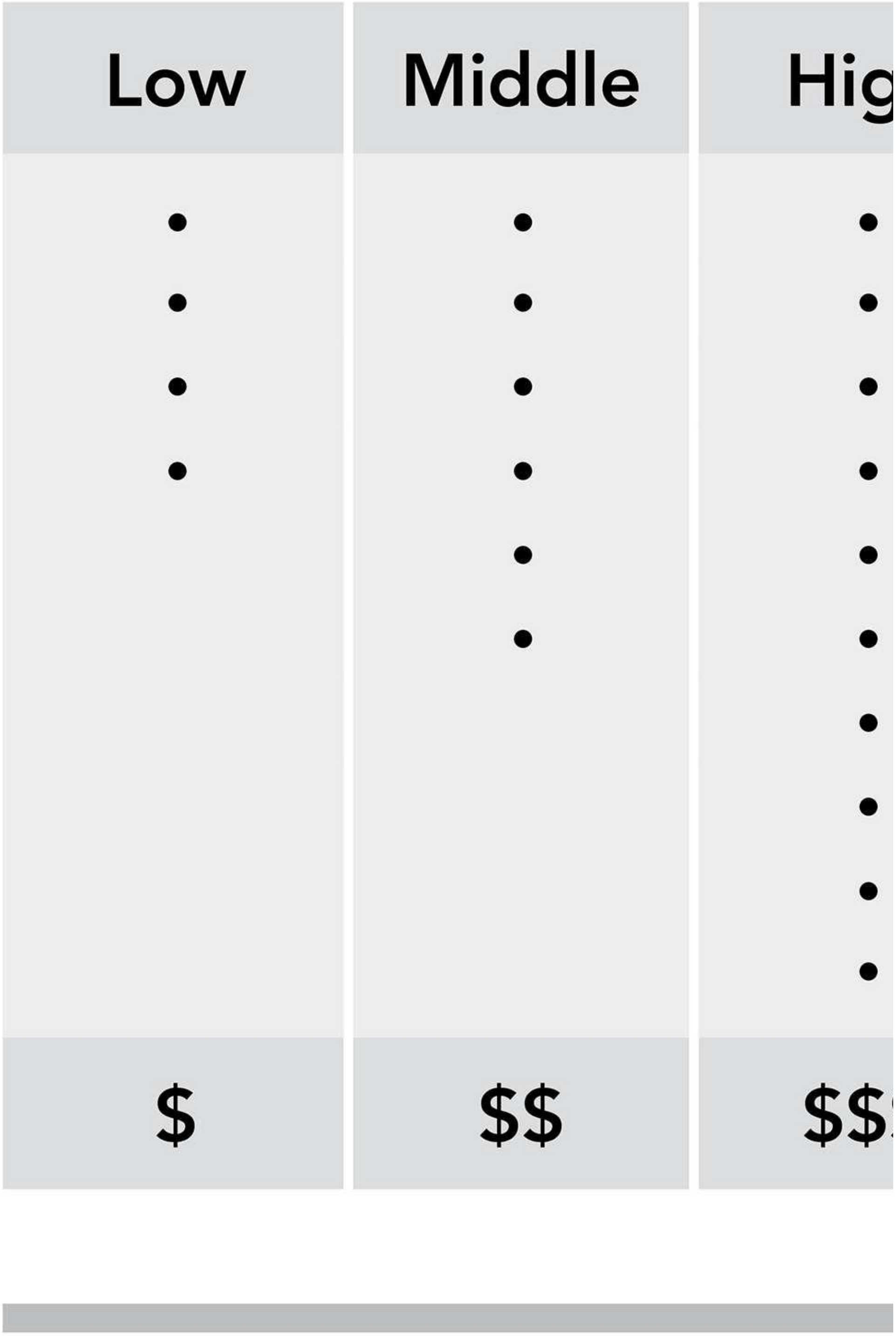
William Shakespeare's *Hamlet* is the longest of his 37 plays, running at around 4,000 lines and taking close to four hours to perform. Actors in the lead role, however, are taught to break it down into "just seven soliloquies." Similarly, in Win Without Pitching, we teach participants to view the arc of the sale as "just four conversations." Each conversation has its own objective and framework. The conversations are rarely as discrete as how we present them — one often blends into the next — but the idea of an arc of four conversations is a powerful tool for understanding where you are in the sale, what your objective should be, and the framework you should be using to navigate to your objective. I'll explain the objective of each conversation here then offer a framework for the one that is our focus — the value conversation.

The four conversations of the sale are the probative conversation, the qualifying conversation, the value conversation, and the closing conversation.

Lay Out Options from

Lay Out Options from Low to High

Figure 10.1



1. The Probative Conversation

Objective: To prove your expertise to the client and move, in his mind, from the position of vendor to that of expert practitioner.

By proving your expertise to the client early in the sale, you remove many difficulties from the sale itself and you set yourself up for being able to deliver your best work in the engagement. It's possible to secure or "close" the engagement without ever attaining this expert position, but it makes for a difficult sale. If you are hired, you will continue to operate from the vendor position throughout the engagement, thereby impairing your ability to do your best work and have the greatest impact.

Ideally, the probative conversation happens without you present, through your agents of thought leadership and referrals. In this way, the first human-to-human conversation (the qualifying conversation, below) begins with you already commanding the high ground in the relationship. You'll notice that maintaining the probative conversation's objective of being seen as the expert practitioner is the secondary objective in each of the subsequent conversations in the sale.

2. The Qualifying Conversation

Objective: To vet the lead to see if an opportunity exists, and determine the next steps, while maintaining the practitioner position.

The qualifying conversation is seen as the prototypical sales conversation in which you assess the fit of both the client and the possible project then map out what to do next. A minimum of two humans is required for this conversation, one on each side of the table. You collect the basic information around the client's desired future state (often expressed as need), timeframe, authority and budget, and then determine if there exists an opportunity suitable enough to take the next step. If the right variables are in place, then that next step might be to proceed to the value conversation. A value-conversation-worthy opportunity exists when the client sees that she has a need that matches your expertise and she has intent to take action on that need.

The qualifying conversation has to happen person-to-person, either in person or over the phone. It should not be mediated through email or other written medium. In situations where the opportunity is uncovered through an outbound phone call, then that first conversation is usually a qualifying conversation.

3. The Value Conversation

Objective: To determine the value you might create for the client, and the share you might command, while maintaining the practitioner position.

Here you put the principles of value-based pricing to work, quantifying the objectives and success metrics of a potential engagement, the opportunity for value creation within that engagement, and the range of remuneration you might command for your services. (I'll share the framework shortly.)

4. The Closing Conversation

Objective: To seamlessly transition from the sale to the engagement, while maintaining the practitioner position.

The closing conversation is where you seal the deal and sign a new client. When the three previous conversations go well, the transition from sale to engagement — from prospect to client — is seamless. At its best, the closing conversation is you simply facilitating the client in selecting the best option. At its worst, it's set up as a presentation in which you try to convince the client to hire you. Difficulties in the closing conversation almost always have their genesis in earlier conversations.

That's it. Four conversations with four objectives, each conversation with its own framework for navigating to the objective.

Setting up the Value Conversation

Before we get into the framework for conducting the value conversation, there are three conditions that you want in place to make for an easy, natural value conversation. They are:

1. You are seen by the client as an expert practitioner and not a vendor (the objective of the probative conversation and the secondary objective of the qualifying conversation that bridges the probative and value conversations)
2. You have uncovered the client's desired future state (accomplished in the qualifying conversation)
3. You are dealing with senior decision makers responsible for future value (ideally, uncovered in the qualifying conversation and brought to the table for the valu conversation)

Let's examine all three conditions.

1. The Client Sees You as the Expert

A proper value conversation should be, at worst, a discussion among equals; at best, it's the expert practitioner politely but firmly leading the client toward a solution that all in the room believe few others are capable of delivering. In a consultative sale of customized services, pricing success cannot be uncoupled from sales success. How you behave in the sale and how you are perceived by the client both have a significant impact on what we might call your negotiating status — your right to be in the room having the big-kid conversation.

Vendors get talked down to, pushed around on price, and they have terms dictated to them simply because they lack power in the relationship, either because the engagement is rote or tactical in nature or because they are seen to have numerous direct competitors, thereby transferring all the power to the buying side of the table. If you are not seen as the expert, then you have a significant strike against you in your attempt to have a productive value conversation.

In Win Without Pitching, we teach our students to look for what we call The Flip, beginning in the probative conversation. The Flip is that moment when you move from vendor to expert in the mind of the client. The clues that The Flip has happened are subtle but obvious: a sideways glance from one client to another, the moment when the client quits talking and picks up her pen to make notes on the wisdom you are dispensing, the change in facial expression that says, "Why don't I let you take the lead," openly demurring to you on process, "What do we do next?"

The sooner The Flip happens, the easier the sale. If it hasn't happened before the value conversation, then it almost certainly has to happen during the value conversation itself for the conversation to have a fruitful outcome; otherwise, you'll find yourself sharpening your pencil for a written proposal of rates and dates.

2. You've Uncovered the Client's Desired Future State

The second condition that will greatly improve the quality of your value conversation is to have uncovered the client's desired future state, ideally in advance of the value conversation, or, at the very least, at the beginning of the value conversation.

There's a school of thought in sales that says when endeavoring to uncover the client's need (in the qualifying conversation) the initial response to your need questions will yield only symptoms of, or a self-prescribed solution to, a more fundamental underlying business need. It is your job to uncover that underlying need. As an example, a client might begin by saying, "We need a new website." You respond by asking why they need a new website. "Because direct sales are down," the client replies. "Why are direct sales down?" you counter. And in this manner of continuing to ask why (sometimes known as The Five Why's approach) you peel the onion of client need from the initial stated tactical need, eventually getting to the core business need at the center. It's a ridiculous approach. I used to teach this method until it occurred to me that if you have to ask five why's then your opening question is a poor one.

Remembering that we're still in the qualifying conversation that precedes the value conversation, try this approach instead. As early in the conversation as you can, take the client into their desired future state and have them describe it to you, using the following question.

"It's three years from today and you and I are having coffee. You are really happy with the progress you've made over these past three years. What's happened to make you so happy?"

This little gem might be the most powerful question in sales. Dan Sullivan, the founder of Strategic Coach, the renowned coaching program for successful entrepreneurs, has written a small book about this question, called *The Dan Sullivan Question*. The question itself is referred to as "the R-factor question" (for Relationship) or "the three-year question." It's also called "the want question" because some of its secret power is in skipping the onion-peeling approach of asking five whys and gets right to the heart of what the client wants. As Sullivan points out, *it is only through achieving wants, and not needs, that people become happy.*

If we recall the subjective theory of value that says all value is subjective and therefore personal, it's easy to see that the wants of the individual client — *the human* — trump the needs of the organization. This question will uncover all of the needs that must get checked off as well, but it will yield so much more than that, giving you a crystal-clear understanding of what it is you need to do to win the engagement.

Your competitors, meanwhile, will continue to peel the onion of need, and thus shape the sale to meet the client's corporate objectives. You will know more than your competitors what is driving the client and the forms of value that are most important to him personally. If you imagine selling as a contest between you and your competitors then, this question is like bringing a gun to a knife fight. If The Flip hasn't happened before you ask the three-year question, it's almost certain to happen by the time the client is finished answering. Be sure to take good notes on the client's response, and ask clarifying and probing follow-up questions where appropriate. It's a cathartic question to respond to so the answers can go on for a long time.

Modify this question at your peril. There is more wisdom than I have explained here in the way it is framed. You will be able to discern it by studying the question.

Where your competitors' focus in the value conversation will be on their solutions to the client's corporate need, yours must remain resolutely fixed on the client's desired future state. This means eschewing your own solutions entirely. That's right — no reference to, or thinking about, solutions in the value conversation. That's paramount.

3. You're Dealing with Senior Decision Makers

The third condition most likely to contribute to a smooth and productive value conversation is the presence of senior client-side decision makers at the table. It's rather fruitless to attempt a value conversation with someone who takes no responsibility for value creation. If you are an entrepreneur or just entrepreneurial in nature, you might assume that everyone in the client organization is on the lookout for future value, but those who've spent time in middle management in corporate America (and elsewhere) know this is far from true.

A friend once explained to me that employees tend to focus on the past: "I remember the last time someone tried something new and it blew up." Managers focus on the present: "I've got to get this project in on time and on budget." Only executives are charged with creating future value: "We need to stay relevant, to keep reinventing ourselves." The higher up in the organization you are dealing, therefore, the easier the value conversation is to have and the easier it is to expand the scope and budget to create even more value than the client might initially be seeking.

Magic or Logic: The Nature of the Engagement

Sometimes senior people are not at the value conversation table simply because the engagement doesn't merit their involvement.

In 2005, marketing supply chain professional Charles Kirchner coined a term that has come to signify the two core but divergent components of a creative firm's offering: magic and logic. Creative marketing provides the "magic," according to Kirchner, and operational marketing provides the "logic." The former he characterized as driven "by the participation of a small number of high-caliber people," with their approach "ad hoc and not very data driven." Success in the latter, Kirchner declared, was "achieved through factory-style replicable processes, single-minded focus on efficiency and the elimination of waste." He may as well have been discussing our competing goals of innovation and efficiencies that describe value-based marketers and cost-based producers. This bifurcation of the marketing function means that engagements short of marketing "magic" are seen as more commodified, and are therefore less likely to see senior decision makers at the table. They tend only to arrive for the magic, or the engagements that promise massive cost reductions.

The Four-Step Value Conversation Framework

Let's now outline the value conversation and discuss a framework for proceeding. Remember that the objective of the value conversation is to *uncover the value you might create for the client, and the share you might command, while maintaining the practitioner position.*

You are in the room (or on the phone or web meeting) and you've done the best you can to create the three conditions covered above. Now let's navigate through the conversation. There are four steps:

Let's dive into each step.

Step 1: Commit the Client to Their Desired Future State

You are selling and pricing nothing less than the desired future state of the client. It is incumbent upon you, therefore, to verify that you properly and fully understand what that desired future state is. This should be easy — you've already uncovered the client's desired future state in the previous qualifying conversation. If you have failed to do so by this point then do it now by asking the three-year question:

"It's three years from today and you and I are having coffee. You are really happy with the progress you've made over these past three years. What's happened to make you so happy?"

Once you've asked the three-year question and uncovered the wants and needs — personal and corporate — that comprise the client's desired future state, the first of four steps in the value conversation is to simply commit the client to this desired future state by recapping what you heard in the earlier conversation.

"What I heard you say is, you want to reposition the brand to be more upscale, competing in the premium segment, eventually moving to the leading premium brand. You want to drive record revenue from this repositioning. You want to minimize the hand-holding required of the firm you work with, allowing you to focus on your other strategic priorities as soon as possible. You want the firm to be proactive in bringing innovation and growth opportunities to you beyond the scope of the initial brief. You want some help telling the new brand story internally before the relaunch. And finally, you want to be able to prove a positive return on investment to the organization's CFO as early into the project as possible, making it easier to properly fund future budget years."

Now wrap all of this up by simply asking, "Is that correct?" Then, just to be sure, ask, "Did I miss anything?"

Congratulations, you have committed the client to their desired future state. The better you do at the three-year question, the greater the number of personal wants (some even beyond the scope of the brief) that you will uncover and commit the client to here.

In this first of four steps in the value conversation you are simply looking to communicate that you have been listening and:

- You understand the wants and needs of the client,
- You have not missed anything important, and
- This is all about the client and *not you*.

You will have to use some discretion here about repeating everything you heard back to the client. For example, your initial three-year question to one decision maker may have yielded some highly personal forms of value around the career advancement hopes she has riding on this project. It wouldn't make sense to repeat that in front of her colleagues. Use your judgment.

Step 2: Determine the Metrics of Success

Now that you have confirmed the client's desired future state and committed her to the details, step two is to agree on what success looks like. The goal is to commit the client to the measurements that will be used to determine that this desired future state has been reached and that the desired value has indeed been created.

"Let's talk about how we will know when we have achieved these things. I'd like to break it down into measurable goals. How will we know when the brand has moved in the mind of customers from sub-premium to premium?"

Once you have a quantified answer, move your way down your list of objectives — wants and needs — that comprise the client's desired future state. "Regarding record revenue, what would the specific revenue goal be?"

Once you have a satisfactory answer, move on to the next item on your list. "Let's talk about the objective of you being freed up to focus on other priorities soon after we get going. I'd really like to be able to measure this to know how we're doing and to constantly seek to improve performance. Can you think of some meaningful benchmarks that would prove or disprove our success in freeing you up to concentrate on other areas?" Or, "Can you set a goal for the maximum percentage of your time that you would like this project to require?"

When done properly, this second step should feel to the client like you are a partner in the objectives, focused on success, and keen to be able to measure and prove that success. Most client-side marketers are also keen to set and hit metrics in order to prove to their colleagues the value of what they do. Too often, the “magic” components of marketing lack such metrics. Senior-level decision makers, in particular, appreciate this step of quantifying success.

Step 3: Agree on the Value of Success

So far in the value conversation you have committed the client to her desired future state, identifying the wants and needs in detail. You have determined the metrics of success, identifying the measurements that will be used to prove that the desired future state has been reached. Now, here in Step 3, you translate success — reaching the metrics identified in Step 2 — into value. What is all of this worth to the client and her organization?

The simplest question you can pose to the client here is, “What is the value of this (achieving the metric)?” The simple framework is to begin at the top of your list of metrics and apply the question to each one.

Let’s say that in response to your question “What is the value of moving from a sub-premium to a premium brand?” the client responds that profit margin would increase by 7 points, moving from 11% to 18%. Regarding record revenue, suppose she set a goal of a 25% increase in sales, from $20m to $25m. Here you can do the math for her. “So, increasing margins on existing sales would mean $1.4m in additional profit, and adding another $5m in sales at 18% margin is another $900k for a total of $2.3m a year in increased profit, correct?” Revenue as a measure of value is a good starting point, but wherever possible you want to distill it to the bottom-line success of profit. It won’t always be possible.

For as many of the objectives that you committed the client to in Step 1, and set targets for in Step 2, try to quantify a measure of economic value, if possible. Some of the forms of value might seem on the surface to be noneconomic, such as our example of the client’s desire to have the new firm operate with little day-to-day involvement from her, allowing her to focus on other priorities. They are still forms of value nonetheless and should be quantified if possible.

It might be possible to translate freeing up the client’s time into economic benefits of revenue gains or cost reductions, depending on the nature and value of the other priorities on which she wants to focus, and while the textbook guidance would be to pursue such translation, my experience in coaching others in this area is that it is possible to push too hard to translate noneconomic forms of value into economic. This can sometimes alienate the client with what can feel like a mercenary pursuit of trying to price things that transcend money, such as emotions. There is no clear line to be aware of; rather, it is a matter of skill. My advice is to be aware of your comfort level in translating the noneconomic forms of value into economic forms and strive to push just a little beyond it, especially in your early conversations. This will help to ensure you grow with each value conversation while avoiding the debilitating early gaffes that can cause people to abandon the value conversation and value-based pricing altogether.

The more important piece of advice I can offer on mastering the value conversation is simply seek to get better with every conversation. You are developing a skill, building tacit knowledge one learning experience at a time. There may be some failures, but that’s where the saying “fail forward” applies. Most people abandon value-based pricing because they stop after a failure or two. Decide now that you will keep going through these learning opportunities and success will be yours.

Summing It All Up

Before proceeding to Step 4, you might summarize for the client the value she is hoping to create through an engagement with a firm like yours. Based on the client’s own numbers, the easily quantified value of moving the brand upscale and increasing sales adds up to $2.3m a year in increased profit. That’s the easy math and you could offer pricing guidance on that number, but you also uncovered some harder-to-quantify value creation opportunities through the client’s objectives of being freed up to fast-track other product launches, launching other new products initiated by your firm, and your aiding the success of the brand relaunch through internal launch programs. While the potential for these other forms of value may be in the millions, the murkiness of it all might cause you to default to some simple math and round the $2.3m value creation number up to what you simply call $3m+.

It bears repeating that you’re employing a mix of science (or at least math) and art here, feeling your way through the valuation, objectively at first, measuring precisely what can and should be measured precisely, and more subjectively for the murkier areas. You might call the equation “math plus subjective judgment” or “math intuitively discounted for uncertainty.”

Step 4: Offer Pricing Guidance

In the simplest terms, to offer pricing guidance is merely to communicate to the client that you will come back with a proposal consisting of different ways you can help (different options), ranging in price from $X to $Y. This fourth step is missing from most of the prevailing guidance on navigating the value conversation, but in my experience it’s vital in those sales where the value and closing conversations are separated from each other in time — when you must retreat to formulate your proposal and then re-engage to present it.

Offering pricing guidance at the end of the value conversation in this fourth step serves a few purposes:

1. It foreshadows the prices of the options you will present in the following closing conversation, ensuring you don’t surprise the client in that conversation
2. It primes the client to focus on value creation and return on investment, taking the focus off of expense
3. It allows you to collect information on the client’s willingness to pay, so you can address any price objections head on and then craft your options with this knowledge

Arriving at Your Price Range

Bearing in mind that we’re still feeling our way through a range of price options and not yet putting forward specific options with prices attached, recall our Anchor High rule from chapter 7. We want to make sure that the first bit of pricing information the client hears from us is the high end of our range. So instead of offering a range of $X to $Y, we’re really taking a guess at $Y as a discussion point and then working out where the client would like $X to be. Think of it as you contributing the high end of the range ($Y) to the conversation and the client contributing the low end ($X).

To help determine where $Y, the high end of your range, might be, consider that any price you offer to the client should meet the following two criteria:

1. The client should see in your price a fair return on investment, whatever “fair” means to her
2. The price should reflect any uncertainty in your ability to help the client achieve her desired future state

Determining the Client’s Idea of Fair ROI

So what is a fair return on investment? Or, flipping the question around, what is fair compensation for helping the client achieve $3m a year in increased profit? Of course, the answer will differ from client to client because, as we’ve already discussed, fairness is entirely subjective. But is there a benchmark we might start from?

Some large consulting firms famously value-price cost-savings engagements like strategic sourcing initiatives by calculating projected annual savings and charging half of the first year’s savings. The equivalent in our example would mean charging $1.5m. In *Value-Based Fees*, Alan Weiss suggests starting with 20% of the value to be created, showing an ROI of five-to-one, and adjusting from there. By that number, our price would be $600k.

An effective way of figuring out the client’s view of a fair ROI is to eliminate any uncertainty by asking the client what she would pay if you could guarantee success. I call this technique *anchoring against guaranteed value*. It might sound like, “If I could guarantee that we accomplished all of this, what would you see as fair compensation for us?”

A better version that leaves nothing to chance and truly employs the priming principle inherent in anchoring is to offer a number. “If I could guarantee we accomplished all of this and generated at least $3m a year in new profit, would you see one third of that first year’s profit as fair compensation for us?” With this question you are anchoring high against what you suspect might be the client’s theoretical maximum. There are a few ways that the answer to this question can play out.

A Low-Ball Response

Let’s say the client responds with what you see as a low price, in an effort to negotiate. “I think fairer compensation would be around 10%, or $300,000,” she says.

A tactful reply is to turn her response around. “So if I offered you a $1m investment opportunity that was guaranteed to yield $3m a year for multiple years you would turn it down?”

This reply is likely to uncover the real objection, your willingness to guarantee results.

Are You Willing to Guarantee Results?

The client might reply to your question with, “Sure, I would take that offer, but only if it was an iron-clad guarantee. Are you telling me that you are willing to guarantee that we will make $3m a year and that you won’t get paid if we do not?”

A response like this is a good step. It's desirable. You can work with this. You're simply having a conversation about theoretical limits, asking the client what she would pay for a guaranteed outcome if all uncertainty were removed. When you go back and craft your proposal you are free to consider a price that includes such a guarantee (contingency pricing favored by many litigators is one example of such a guarantee), but you're also under no obligation to provide such an option. The best response to the client's query about your willingness to guarantee value at this point is to not close the door on it but to be clear that the exercise is a hypothetical one. "I'm not sure yet. I'm open to it, but I really just wanted to get a sense of your idea of a fair ROI."

Now Allow for Uncertainty

Recall that the client is paying for her desired future state, discounted for uncertainty. She wants a fair ROI and you've determined that she's willing to pay $1m for a guarantee of her desired future state, but she also wants any price paid to reflect the uncertainty of the outcome. You've arrived at a price unbound by uncertainty, but the reality is that unless you offer a contingency payment option, all your options will contain varying degrees of uncertainty — and the greater the uncertainty, the lower the price must be. (We'll explore this more fully in chapter 17, "Sell Risk Reduction.")

There are many contributions to uncertainty, including things that might or might not happen in the client organization, in your organization, in the market (the minds of the customer or the actions of competitors), or in the broader economic or legislative environment. By far the greatest uncertainty for which any price must be discounted, however, is what's known as performance risk: the uncertainty of your ability to help the client reach the objectives and realize the value you've quantified.

Put another way, the question is, *can you really do this?* One of the many factors behind a client's desire for a low price is a high degree of uncertainty of outcome. Imagine the client said, "Hypothetical guarantees and million-dollar budgets aside, I've budgeted $100k for this project." She is effectively saying, "I'd be willing to pay $1m for guaranteed results, but I'm making a rudimentary assessment of the uncertainty here and I'm more comfortable paying $100k." Imagine you came up with a highly-reassuring-but-not-fully-guaranteed-solution at $850k and you blew it, creating very little value. Surely the client would lose her job. She might also lose her job if she cheaped out and underbought at $50k, achieving the same poor performance. $850k is a safe but expensive bet. $50k is a risky but inexpensive bet.

It's important that you view the $100k the client is saying she has budgeted as her contribution of $X — the low price in the range. You might be disheartened by such a low number but you shouldn't be. You can work with this. Your objective in this fourth step of the value conversation is to offer pricing guidance in the form of a range of $X to $Y. You've contributed $Y to the conversation, uncovering that at the top end the client would pay $1m. She's contributed $X at the low end, saying she'd really like to pay $100k. Job done. Any price on that spectrum must appropriately reflect the level of uncertainty in the outcome, with a lower uncertainty of outcome costing the client more.

Your job now is to wrap up the value conversation so you can retreat and begin to think about solutions. *Solutions!* You've come all this way through the value conversation and not once have you talked about or even thought about what you would do for $100k, or for $1m, or for any price in between. Congratulations — that's how it should work! Remember our value chain from earlier? Client → Value → Price → Cost → Solutions. Unlike the vast majority of creative firms, you're properly working your way through this chain in the right direction.

Concluding the Value Conversation

Okay, wrap it up. "The next step is for my team and I to look at all these variables, get a sense of the different ways we can help you achieve your objectives and help you to create this $3m in value. We will develop some options then come back and present them to you. On the high end, it will be about $1m *if* we are able to come up with a guaranteed solution, but of course we'll have some other options below that, including telling you what we can do for $100k."

The Value Conversation Framew

Figure 9.2

Step 1: Commit the client to their de

Step 2: Agree on the metrics of succ

Step 3: Agree on the value of succes

Step 4: Offer pricing guidance

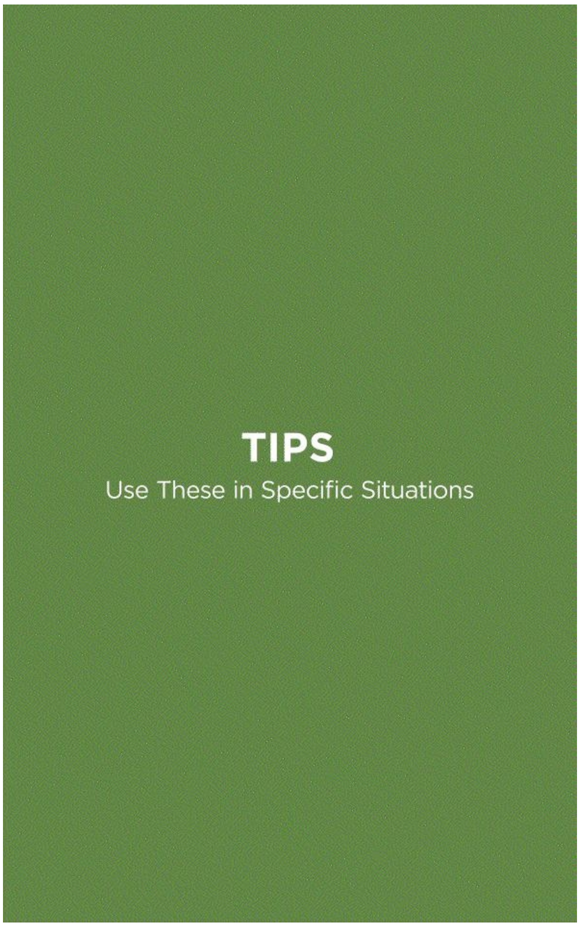
Final To-Dos

Let me share two final points of sales process before you leave the value conversation:

1. Always set up the closing conversation before concluding the value conversation. Open your calendar app and find a time that works for everyone.
2. It’s not a closing conversation if you do not have all the necessary decision makers involved in that conversation. In setting up the closing meeting, recap who needs to attend and make sure the date works for everyone.

Congratulations, you have successfully navigated your first value conversation. You’ve used the Four-Step Value Conversation framework. You’ve employed the rules of anchoring high and of saying a price before you show it. And you’ve committed to sharing options in your proposal.

Most of what follows in this book addresses the different ways you might craft your proposal and navigate the closing conversation.



Rule #6: Limit Unpaid Proposals to One Page

In which we retreat to craft the proposal that will be presented in the closing conversation, in line with the preceding principles and rules.

After skillfully conducting the value conversation, it's time to retreat to craft the proposal that will be presented in the closing conversation. You've probably discerned that your one-page proposal should consist of three options, conveyed in columns, with prices at the bottom. Before we get there, however, let's examine the qualifier in this, our last rule of pricing creativity: *unpaid* proposals.

CHAPTER 11

Aren't all proposals unpaid, you might ask? No, they're not.

Paid and Unpaid Proposals

Some proposals you will craft without any charge to the client and some you should be paid to craft. The issue separating the two is the amount of discovery work required to scope the engagement.

Unpaid proposals are those you can formulate with little to no discovery work beyond that which has already been done in the course of properly conducting the sale. Such proposals are typically used when the solutions are obvious to you, the salesperson, and the pricer, and your costs required to obtain them are easily quantified. Clarity of solutions and costs usually stems from the engagement being a rote one with little variability from client to client or from your deep knowledge of the client, perhaps through an existing ongoing relationship. These unpaid proposals are the one-page variety with three columns and prices ranging from low to high.

Paid proposals are those that require discovery work beyond the qualifying and value conversations conducted in the sale in order to properly scope and price. You should be paid to write any proposal for which you must do discovery work — such as audits, interviews, and most other forms of primary and secondary research — to properly scope and price your options. The more complex or customized the engagement, the more it makes sense for you to break up the sale and engagement this way.

Get Paid to Write the Proposal Via a Diagnostic

The way you charge a client to write a proposal is by selling a diagnostic — a branded, formalized discovery process that you put forward as the paid first step in a phased engagement, one that allows you to properly understand the client's situation so that you can more knowingly craft a proposal for solutions to their challenges or opportunities. The more you charge for your engagements, the more likely it is that you are beginning your engagements with such a formalized diagnostic.

The outcomes of your diagnostic are findings and recommendations. "Here's what we found about your situation, Madame Client, and here's what we think you should do about it." Accompanying your recommendations is your one-page proposal with three options. Technically speaking, even paid proposals are one page in length but unlike their unpaid brethren they are preceded by a report, of sorts,[9] that covers your diagnostic findings and recommendations.

In situations where it makes sense to sell a diagnostic as a first phase, you would typically do so at the end of the value conversation immediately after the fourth step of offering pricing guidance. After offering a broad range of between $X and $Y, you would explain that the way to narrow that range and arrive at exactly the right solution is to take a small first step by paying you to further explore the client's situation.

Sometimes it makes sense to propose a diagnostic even earlier in the sale, at the end of a qualifying conversation. For example, where the client readily admits to having a challenge or opportunity she's interested in addressing but doesn't fully understand (e.g., "We're losing share to a new, but inferior, brand and we have no idea why."), or the solution to which is unclear (e.g., "We're not sure whether to focus on the customer with a new campaign, or our employees through contests and incentives."), or for other reasons that justify taking the engagement one step at a time. Regardless of when you propose the diagnostic, the rest of the arc of the sale will have to be followed in order to get to a successful pricing outcome.

Do *not* apply Rule #2: Offer Options when presenting or proposing diagnostics. If a diagnostic is an appropriate first step, then propose the right one for the client. (Many firms operate from one standardized diagnostic that they adapt only slightly from client to client.) Communicate at the time of your proposal that when you share the diagnostic findings and recommendations, you will also share a range of options and prices for you to help the client implement those recommendations.

If you've proposed a diagnostic first step early in the sale — at the end of the qualifying conversation — then you will still have to conduct a proper value conversation, but that will happen in the diagnostic phase of the engagement as you begin to better understand the client's situation.

Finally, any presentation of diagnostic findings and recommendations must be treated as a closing meeting, with all decision makers present and a one-page proposal of options the crux of the meeting.

The Contents of the One Page

You already know, at a high level, what goes into the one-page document: three (or four) options with prices. (I'll share ideas on how to arrive at those options and prices in the *Tips* section that follows this chapter.) As you're working through those tips, bear in mind the value chain that moves from price first, *then* your cost and, finally, solutions. From your prices, you can determine what costs make sense for you to incur, and that will give you enough information to start thinking about solutions. Ending, rather than leading, with solutions is not the norm for anyone accustomed to cost-based pricing. You'll get used to it.

Letting Go of the Lengthy Written Proposal

Another legacy of poor pricing and selling practices is mistaking proposals for tools of persuasion, or sometimes for contracts. Either error leads you to create time-consuming and soul-crushing written documents. In the simplest terms, the proposal is the words that come out of your mouth. "There are three ways we can help, at three different price points. Let me explain them." The oral proposal is supported by one written page, which is merely a prop.

CHAPTER 12

Before I discovered the power of options, I was adamant that any unpaid proposal simple enough to not require paid discovery work needed *no* written support. The proposal was indeed the words that came out of your mouth. But presenting three or four options requires additional communication that merits written support — *support that should rarely exceed one page.*

I remember working into the evening on a written proposal in my advertising agency career. My boss came by to check on progress and offer some strategic counsel. "Fatten it up," he said, weighing the document's insufficient heft without even turning the cover. I have reviewed proposals from more than 100 creative firms, and almost all of them make the same mistakes I was taught to make, such as including:

- Background on the firm such as history, awards, famous clients from the firm's past, employee biographies, and photos
- Sales copy — reasons why the client should select the firm

- Free diagnostic findings and/or strategic recommendations
- Terms and conditions and a place for signatures

And the final ignominy is to turn the written monstrosity into a PowerPoint deck and subject the client to a drawn-out presentation. Ridiculous. All of it.[10]

What’s required is one page with three columns as visual support for your conversation. That’s it. The sales pitch dressed up as a document is merely a crutch designed to do what you should do but would rather not: *ask*. “Here are three ways we can help. Which one makes the most sense for you? Option two? Great. I’ll get a contract to you later today.” The contract contains the terms and conditions and the place to sign. Neither document requires a sales pitch or a photo of the office dog.

Setting up a Productive Closing Conversation

When setting up the closing conversation at the end of the value conversation, be sure to resist the client’s request, “Just send over the proposal and I’ll get back to you.” Reply firmly that, as a matter of policy, you don’t send unattended proposals out into the world.

I often joke that your proposals should be treated like young children in this way. It’s easy to justify this policy when you’re not overinvesting in the written document. The proposal is effectively the words that will come out of your mouth in the closing conversation and the document is the shorthand visual support for that conversation. You might explain, “Our written proposals are pretty short. They’re just a summary of the options that we’ll explain in that conversation. I wouldn’t want you or anyone else looking at the document without having the context of that conversation.” You can see, I’m sure, that the more detail you put into your written proposal, the more it can stand alone without a conversation and, therefore, the less power you have in the sale.

At some point, the client will need more written detail about the engagement option they’ve selected, including terms and conditions, but those will be handled via the contract, which comes only once the client has chosen an option and you and he have reached an agreement in principle. The order is:

1. Options with prices, delivered in conversation, supported by one written page
2. An agreement in principle on which option and price the client will choose and when you will get started
3. A contract to cover off all remaining and relevant details, and any back-and-forth required to work out some of the finer details
4. A signed contract and an issued check or purchase order

This order is simple, logical, inarguable even, but it’s rarely followed. Somewhere along the line we messed it up, finding a way to imbue a simple process with unnecessary cost and complexity. Watching someone learn to sell without all the frivolous decks and needless presentations is one of the most rewarding things I do. It’s like watching a cinematic hero awaken from an evil spell or a friend come out of a coma.

Don’t Close, Facilitate

When you arrive at the closing conversation, whether it’s in person or via phone or web meeting, your job is simply to facilitate the client’s decision-making process. Don’t convince, just facilitate. Restate why you’re there — the desired future state, the metrics, the value — and then walk through the options from high to low, explaining as best you can the tradeoffs inherent in each option. Then ask. “It sounds like there’s consensus around option three; is that right? Great. We can get started as soon as we get the paperwork and deposit taken care of. Shall we write up the contract?”

Moving From Rules to Tips

The principles and rules that you’ve read so far should be viewed as foundational lessons for pricing your creativity. Think hard before you violate the principles or break or bend the rules. In the Tips section that follows, I’ll offer different ways you might arrive at your prices and options, and then explore some methods to help you take your pricing acumen to the next level.

Three Pricing Options

Figure 12.1

Option One	Option Two	Option Three
■ 60 hours design time ■ 1 x 2hr project briefing meeting with a project manager and designer ■ 1 x 1hr midway check-in call ■ Terms: 100% payment in advance	■ Completed design (e.g., identity, website, etc.) ■ Dedicated project manager ■ Dedicated designer ■ Terms: 50% in advance and 50% upon delivery	■ Completed design (e.g., identity, website, etc.) ■ Dedicated project manager ■ Dedicated senior designer ■ Weekly reporting ■ Open access to principal ■ Presentation by principal to board upon completion ■ Terms: equal thirds in advance, after 30 days, and upon delivery
$10k	**$18k**	**$30k**

CHAPTER 13

Crafting High-Priced Options

In which we explore the different ways that you might arrive at your proposal’s high-priced, anchor option.

We've explored the need to anchor high in Rule #3: Anchor High. In the same chapter, we reviewed an effective way to anchor in the value conversation by anchoring against guaranteed value. Such an exercise is a theoretical one designed to uncover the maximum that your client might pay if all performance uncertainty were removed. It's a helpful technique for offering pricing guidance in the fourth step of the value conversation, but you would only include such an option as your third column anchor if you were, in fact, willing to guarantee results. In this chapter, we'll look at when and how you might do that and then explore some other ways to arrive at your highest-priced option.

Contingencies and Performance Pay

An independent consultant friend of mine once sent me an email outlining an interesting exchange between him and someone to whom he had been introduced by a client. His client's acquaintance had a business challenge that he could not realize, and it was leaving him frustrated. The client suggested his friend speak to my friend, the consultant, who was full of good ideas.

My friend did, indeed, come up with a novel solution to this person's challenge, and he laid it out in an email to him. He explained in his note to me, "I had just written the last line, 'Good luck with this, let me know how it goes,' when I decided to erase the line and replace it with, 'My fee for this idea and for helping you implement it is $600,000.'" Upon reading those words, I immediately called my friend. "What was his reply?" I needed to know. My friend chuckled at how engrossed I was. "He couldn't s ay yes fast enough," was his answer. Next, I wanted to know how he arrived at his $600k fee. He explained that the challeng e that was frustrating his new client was one of raising $2.5m for an artistic but commercial venture. He had suggested to his client a novel fundraising idea that would raise $3.1m if it worked, and proposed to keep the excess value created. The client agreed that was fair.

This isn't a story of easy money; the entire fee was positioned as a contingency fee, with my friend taking all the risk, and implementing the idea to fruition took years of part-time work and many trips abroad (with expenses covered by the client). The project grew in scope over that time, increasing both the funds to be raised and the consultant's commission, but in the end, he succeeded and got his payday. In this case, the gamble was worth it.

Excepting litigators, many of whom are masters at getting rich through contingency fees, most scenarios that I'm aware of where the seller takes all the risk in exchange for a large all-or-nothing payoff end up with the seller getting nothing. That's why most creative firms eschew contingency pricing. Still, the exceptions include some fantastic stories of great payoffs and many more of spurned opportunities that would have made the firm's owner rich in one fell swoop had she accepted the client's offer.

I know of a few firms that make performance pay a cornerstone of their value proposition, pricing all of their engagements with some sort of guarantee tied to results. I'm not a fan of such a rigid model. I think you're better offer applying Rule #1: Price the Client, considering all the appropriate pricing options for each client's unique situation. If that means you put a performance-pay option (where you get paid, at least in part, based on results) in front of every client, that's your prerogative. But consider Ron Baker's idea of segmenting your capacity as an airline would segment a new plane into so many seats for first class, business class, premium economy, economy, and Priceline buyers. In your business, unlike an airline, many of your higher-priced engagements require you to take a higher level of risk. At first thought, you might be keen to run the equivalent of an all-first-class airline, but how well would you sleep if all your clients were paying based on results?

Balancing Your Client Compensation Portfolio

Ron Baker's airplane metaphor is a great one, but he offers an even better one to explain the related risk-management considerations. Think of your investment portfolio, he says. You likely have a mix of high-risk, high-reward and low-risk, low-reward investments, and some in between, but the overall average, if your financial advisor is doing her job properly, reflects your personal risk profile. The highs and lows balance right where they should, in a place that's comfortable for you, allowing you to make money and sleep well at night.

Baker's advice is to view your client roster like you do your investment portfolio, with some high-risk, high-reward engagements balanced out by some low-risk, low-reward ones, averaging out in a place that allows you to make money without compromising your ability to rest easy at night. If your portfolio becomes overly weighted in one direction, rebalance it through the options you put forward in your next few proposals.

My friend who has had one contingency-priced engagement payoff, has other similarly priced engagements on the go that he hopes to steer to comparably lucrative paydays. To maintain some balance, however, he mixes in more conventionally priced, risk-free engagements. I favor the idea of having one ultra-high-risk, ultra-high-reward client at any given time, but that reflects my own appetite for risk. You have to decide what's right for you.

In most firms in most scenarios, a fully guaranteed option is not likely to make it to the proposal, although there's little reason to dismiss the idea out of hand. The fully guaranteed price is simply the high anchor in the value conversation. Whatever price you arrive at will have to factor in the uncertainty discount.

If Money Were No Object

In chapter 6, "Rule #2: Offer Options," I explained a simple way to arrive at your highest-priced option: Ask yourself, "What would we do, and charge, a client for whom money was no object?" Thinking of the engagement in front of you, but letting go of any ideas you have about what this client can or cannot afford, what service or value would you offer and what would you charge for that if he said, "We will do whatever you recommend and pay whatever you require."

To fully consider the value you might include in this option, go back to our principle chapter 4, "The Many Ways In Which You Deliver Value," and look at the many different ways a design firm might deliver value beyond its core service of design. Now put that question to yourself: In addition to your core offering, what are the many different ways that you might deliver value? Sift through your answers to determine which of them belong in your if-price-was-no-object option.

Whatever your answer to this question of, "What would we do, and charge, if money were no object?" it's a great anchor option. When you present your proposal, beginning with this priciest option, you can easily explain, "We began thinking about solutions with a hypothetical exercise of what we would do if you were not budget constrained. Indulge us for a minute while we share what we came up with. It might inspire some ideas."

Even if you've priced this concierge-level offering at $60k (four times the client's budget), it's okay. Let the anchor do its job and let some of the forms of value included in this option sit with the client while you walk through the lower-priced options. Those clients focused on expense will gravitate to the cheapest option, but others in the room might want to talk about adding some of the forms of value included in the more expensive options. This often leads to questions like, "Can we have option two but with these two items from option three?" In most cases, with respectful, collaborative clients, these are great questions that serve as a starting point for healthy negotiating. In some situations, which we'll cover in the next chapter, you'll want to hold firm on the options as you've laid them out.

Factoring the Uncertainty Discount Back In

Beyond anchoring against guaranteed value at the end of the value conversation and not dismissing guaranteed options out of hand, arriving at your highest-priced option is really a matter of asking, "What would we do, and charge, the client if money were no object?" Once you have the answer to that question, go back to the guaranteed value anchor you used in the value conversation and, as best you can, factor the uncertainty discount back in. If the client agreed that fair compensation for success was $1m, what value do you think she would place on your concierge-level, when-money-is-no-object option? The answer isn't necessarily the final price that goes at the bottom of your third column, but it is the next step in arriving at it.

CHAPTER 14

Framing Low-Priced Options

In which we explore the different methods of setting your lowest-priced option, including the occasions and ways in which it may be beneficial to sell time.

So far, we have focused on selling value instead of the inputs of time and materials. Now it's time to revisit the notion of selling time as a means of helping us arrive at the lowest-priced option in our proposal. In many of my examples so far, I have talked grandly about anchor options in the hundreds of thousands of dollars or more, in scenarios where the client is hoping or even budgeting to spend far less. In the last chapter, for example, I suggested an anchor price of $60k in a scenario where the client had budgeted $15k. You might ask how the same firm can offer the same client such differently priced options?

CHAPTER 15

While you should react favorably when a client selects *any* of your options, you want to structure them in a way that guides clients to the middle one. The anchor-priced option, as we've discussed, is not there to be purchased, but to make the second option more affordable in comparison. Sometimes the client *will* purchase your anchor — and those times are cause for celebration. But the client's selection of the lowest-priced option should be favorable to you as well. Sure, you're earning less money, but, if framed properly, you're also using fewer resources and taking less risk. To understand why it might make sense to sell time for this lowest-priced option, and how you might package and present that to the client, let's first look at the idea of buyer types.

Price Buyers and Value Buyers

You can take all of your possible clients and put them into two main categories: those who wish to buy on price and routinely choose the lowest-priced option, and those who wish to buy on value and do at least some rudimentary math on t he return they're likely to get on their investment. Generally speaking, price buyers see themselves as spending on an expense and value buyers see themselves as investing in an opportunity.

It's possible to further segment those categories into others, such as relationship buyers and convenience buyers, but we'll keep it simple with the distinction that some clients want the lowest price and others want the best value. There is one third category that we do need to consider, however. It's what Reed Holden, author of *Pricing With Confidence: 10 Ways to Stop Leaving Money on the Table*, calls poker-player buyers.

Enter the Poker Player

Poker players are value buyers posing as price buyers. They negotiate hard, acting as though the low price is everything to them, but in the end, they choose what they see as the best value. In short, they bluff — and amateur pricers/salespeople fold by cutting price.

The cheaper price buyer is easy to spot within the sale. The Flip never happens with a price buyer. You are always seen as a vendor and never granted the high ground of the expert. Further, the value conversation is an exercise in frustration because the client sees your questions on desired future state, metrics, and value as a waste of time.

The poker-player buyer, conversely, tends to be better-behaved in the sale. While he might deliberately drop clues around price sensitivity, he will engage in the discussion of desired future state and metrics of success. He may begin to ramp up the faux price sensitivity when the discussion turns to value and pricing guidance, however, leading you to think he's buying solely on price when he's really just bluffing, prepared to purchase value but still get the best price he can negotiate.

In discussing poker players, I always recall one UX firm principal who, after I had proposed a small consulting engagement to one of his partners, immediately gave the strongest price-buyer signals, saying he was surprised at the exorbitant cost of one day onsite. I retreated, saying that I knew it was a lot of money, and that I knew of other consultants who charge far less and perhaps he should hire one of them instead. He then promptly outed himself as a poker player with an honest explanation that I appreciated, "No, I know this will be worth it. I didn't mean to be rude; it's just a principle of mine that I never pay the first price offered without trying to negotiate." That's the modus operandi of a poker player: I want the best value, but as a rule, I always negotiate.

You will have to decide if you want to do business with price buyers at all. You may choose not to. I'll suggest, though, that most firms should be open to doing business with price buyers under the right circumstances — specifically when:

1. You have excess capacity of junior-level resources, and
2. You structure the low-priced option in a way that strips out all other forms of value, thereby keeping the job profitable and eliminating the annoyance factor that can come from working with price-buyer clients.

A Time for Cost-Based Pricing and Selling Time

One way you accomplish point two above is to sell a block of time. Selling excess capacity to price buyers this way — in blocks of time, with all other forms of value like terms and project management stripped out — is a great use of cost-based pricing. It's imperative in all your low-priced options that you communicate to the client what she doesn't get, by showing more expensive options that include those forms of value, such as terms, access to senior people, and reporting, to name just a few.

You would use the same approach with a poker player — someone who seeks greater value but negotiates hard. The only difference is your expectation. A price buyer will choose the lowest-priced option, so make sure that option remains profitable and annoyance-free. A poker-player buyer will gravitate to the middle because she wants the forms of value available at the higher levels, which most price buyers are willing to forgo. If you structure your proposal this way, with a price-buyer option on the low end, a poker-player option in the middle, and an anchor on the high end, it won't matter that you haven't fully discerned the buyer type.

Something for Everyone: Price Buyer, Poker Player, Value Buyer

Let's look at an example of how you might structure such a proposal with an option for both the price buyer and the poker player. Let's assume that in the sale the client kept insisting that her budget was $10k, a figure you suspected wouldn't allow you to offer a solution of any certainty, and you weren't able to discern whether or not she was bluffing. Here's how you might put together your three options:

CHAPTER 16

Even if you fully suspect the client of being a price buyer likely to choose the low-priced option, how you structure the other options remains vitally important. They communicate what the client is giving up when she chooses the lowest price. In the above example, a price buyer gives up all terms, meaning she must pay 100% in advance. She also gives up the price certainty that is available in the other two options, where it's clear that you will work until the project is completed and delivered, untethered from time. In the lowest-priced option, she's buying a block of hours. When the hours are maxed out, the engagement is over. When you sell time in this manner, make sure that you don't let the client buy hours à la carte. If the job remains unfinished at the end of the paid-for hours, you might allow the client to buy another block of hours, but *you get to decide the size of that block*. You might decide, for example, that $10k is the minimum block you will sell. So if, after the engagement, this client would like to buy another $5k of hours, you might agree, depending on whatever variables you deem relevant, or you might explain that when buying time the minimum block is $10k. The variables are limitless, and the decisions are yours. The lesson here is every price contains a tradeoff, and you have the freedom to assemble those prices and tradeoffs as you see fit.

Many value-based pricing advocates — Ron Baker included — advise that you should never sell time. I think that selling time in blocks this way, with other value stripped out, can be a great way to sell excess capacity to price buyers (at times when it makes sense to do so), and to play poker with poker players, communicating to them the value they have to give up to get the price they are asking for.

In our example, the price-buyer client also gets limited access to anybody beyond the initial briefing and midway check-in. By comparing the lowest-priced option to the others, she can also infer that the work will go to whatever junior designer has capacity at the time, there is no reporting mechanism beyond the initial briefing and midway check-in, and there is no access to senior people in the firm.

On the other hand, while a poker-player buyer might feign a desire for the lowest price, she is likely to look at the benefits she has to give up to get that low price and instead choose the middle option.

There is no universal way to structure your options and prices — every situation is different. In this example, where you’re not sure if you’re dealing with a price buyer or a poker player, you have created an option for each. Remembering always to price the client, you craft the middle option to suit the desires of this particular poker-player client. A similar situation of uncertainty about whether the client is buying on price or bluffing, but with another client who values different things, would likely yield a different middle option featuring forms of value you deem to be desirable to her.

Every Client is Different

The low price in your proposal usually (though not always) comes from the client via the guidance you receive in the qualifying and/or value conversations of the sale. Sometimes that number will be highly optimistic or even downright unrealistic, but with many value buyers, it will be neither. Not every situation calls for a low-priced option based on time, but it’s a great approach when dealing with a price buyer, poker player, or even a value buyer with unrealistic expectations about the required level of investment.

CHAPTER 17

Make the Margin in the Middle

In which we explore the various ways you might craft your proposal’s high-margin middle options.

There are innumerable ways that you can slice and dice your three options in a proposal. In the preceding two chapters, I offered some advice on how you might craft and price your high-priced anchor option and your low-priced option. I'll say again, though, that most of the time you will structure your options to nudge the client to the middle one. The middle is a place most people find comfortable: safe from the extremes of spending too much on one end or risking too much in trying to save money on the other end. Your middle options, therefore, should be high-margin ones. They should get selected roughly twice as often as the other two combined. In this chapter, we'll look at a few of my favorite ways to craft high-margin middle options.

The Home Depot® Option[11]

Back when I was still teaching classes in our training program, a client of ours mentioned to me that he had recently used a technique I had shared in class to close on a three-day workshop that he and his partner would deliver together. The cost of the project would take six person-days to deliver and a couple more to prepare. The outcome the client was buying was some creative concepts for experiential marketing plans, developed in concert with the client's in-house team in the workshop. Before I continue, let me ask you how much you could charge a typical client for two people delivering a workshop over three days? When you have your answer to the question, let's proceed.

In 2015, this small marketing firm asked for and received $175k USD to deliver said workshop. That's just under $30k per person per day onsite, or about $3,650 per person per hour. The technique that my client used was what I call The Home Depot option.

The Home Depot is the largest home improvement retailer in the United States. Its slogan is, "You can do it. We can help." Your Home Depot option delivers the same proposition. It's used as a middle option when the low-priced one is a diagnostic[12] ("We'll tell you what needs to be done"), and the high-priced one is a full-blown implementation of sorts ("We'll do it all"). In between those two extremes is the Home Depot promise of, "You can do it. We can help."

The Home Depot option is particularly effective with clients that have in-house departments or relationships with low-cost providers of the more rote, tactical implementation work. These clients don't quite trust their own people or cheaper providers with the high-value, high-margin strategic work or the high-level conceptual work, or sometimes even the first execution of those concepts. But once the engagement requirement shifts from brains to hands, they want to use these other resources to keep costs down.

I've seen many firms frustrated by such clients over the years, but they needn't be. The frustration arises from having no compensation model beyond selling engagements of full-blown implementation where the strategic work is typically discounted and the tactical work overpriced. When you price each part of the engagement appropriately, you'll be okay with breaking up the engagement this way. Again, clients with in-house departments typically buy the higher-value, higher-margin work and keep the busy work in-house. In such a context, the low-priced option is often some form of that high-value strategic or creative concept work, and it's usually packaged up as a diagnostic, with the deliverables of findings and recommendations that sometimes include creative concepts. This work may be low-priced relative to the other options, but since it's strategic, it should always be high-margin.

The anchor price in this scenario is an engagement of full-blown implementation with the firm proposing to do all the execution work in addition to the findings, recommendations, and creative concepts. When you know the client is not likely to select this option because of the high price and pressure to use other, cheaper resources, consider making the implementation price *even higher*, thereby setting the middle option up to look even better.

My client's implementation option was priced around $5m (much of that would have been eaten up by contractors he would have had to hire to scale up for such a job and by the production costs inherent in experiential marketing work). The client found the $175k price to be cheap compared to the anchor. It almost certainly allowed him to manage the project at a total cost lower than the $5m my client quoted. And from the firm's perspective, most of the $175k was profit. It was win-win — a true double thank-you moment.

The Many Ways You Can Help

Let's look at some different forms of help that you might bundle up into high-margin middle options. All can be used to build on an option-one diagnostic, but they can build on any other low-priced option, too, and they might also find their way into your third-column option.

Knowledge Transfer

The transfer, from your firm to the client team, of the knowledge of what to do or how to do it, takes place in many engagements, but the firm is rarely properly compensated for such value. In the example above, the marketing firm could have developed concepts and delivered them to the client (via option one), but the client paid more to have their team involved in the process. The collaboration likely improved the outcome, but the in-house people also got to spend three days with the outside experts, learning some of their craft. What is the value to the client of such an experience?

Knowledge transfer can happen through training your client's people via formal programs that you create, or by having them shadow you, or by inserting them into the engagement you've been hired to do. Embrace those clients who are willing to pay you more now so that they don't have to hire you in the future. You never know what the future will bring, and as long as you're properly compensated, why fight it?

How many different ways can you think of to transfer your knowledge and skill to your client's people? How, and how much, might you charge for that? Also consider how a client might access an additional training budget, perhaps from HR, to fund the incremental cost of knowledge transfer.

Oversight/Quality Control

Another form of help you can offer your clients who choose to do the implementation themselves is quality control. This can come in many forms of oversight, where someone on your team supervises the client's team. An underused version of this is creative direction. A client willing to buy recommendations and creative concepts from you for in-house implementation is almost certainly going to risk stumbling in that execution and may pay a premium to have his team's work overseen or approved by your creative director. Account planning and project management oversight might also be appropriate.

You don't have to guess at these options, either. As you're assembling them, reach out to the client and ask if they would find it valuable for you to include a specific form of oversight in one of your options.

Access to Principals/Consulting

Recall from our three-column proposal in the previous chapter that open access to principals was included in the third anchor option. Anytime you want to restrict a client from access to key individuals in the firm, simply include that access in a higher-priced option as a means of showing that it is not available at the lower-priced ones.

Do you and your clients just assume that they get open access to the big brains of your firm? Neither should. That's a valuable offering that should be priced appropriately.

Late in my consulting career, when I had finally learned something about pricing and started offering options, I asked myself what it was worth, to me, for my clients to have open access to me — the right to call or email with questions and an expectation that I would respond. I decided the answer was a minimum of $5k per month, so I started including open access in some of the options in my proposals. When the client didn't take it, I was happy not to have another open-loop relationship occupying my attention. When the client did take it, I was equally happy to have the revenue. That's a sign that I priced the engagement fairly *to me*, which is no insignificant detail on value forms that have a high personal demand on the principal of the firm.

Open access to the firm principal is essentially consulting, but I prefer the term "open access" in a proposal, as it communicates that the onus is on the client to initiate the conversation. Many of these conversations can lead to further engagements.

Public relations firms would do well to offer such open access to principals at a premium.

Standards

Better brand identity firms often command a significant premium for developing brand standards guides. Wayfinding, UX, and other disciplines have their own standards guides as well. Some of these types of firms will not take an engagement on unless the standards are included, but these firms might find they're able to earn more if they unbundle standards and include them in the middle- or high-priced options.

For a client that values standards documentation but is underfunded, you might have to strip out standards to get to your lowest-priced option and then include it in the middle- and higher-priced ones.

Any creative firm that does not offer some sort of standards from time to time is missing a powerful form of value creation and revenue. What types of standards might your clients value and pay for?

Reporting

Finally, for those options that do include implementation (and for many firms, the majority of proposals will have implementation options in all three columns), reporting on that implementation, in all its forms, is a highly valued vehicle of confidence or certainty. Don’t assume that all clients want, deserve, or are willing to pay for the same level or type of reporting. Some will value daily check-in calls, some might prefer weekly meetings, and some want monthly written reports. Think carefully about the forms of reporting that you can add to your middle- and high-priced options and leave out of the lower-priced options to steer clients toward the middle.

Sliding Scale of Risk

Figure 17.1

Do Retainers Right

In which we explore the pros and cons of retainer relationships and look at how to structure them correctly.

Many see the monthly retainer as the nirvana of compensation agreements. While there are obvious benefits to them, I think we don't give enough weight to their downside. There are pros and cons to retainers (and we will explore both) and there are right ways and wrongs ways to structure them. With some exceptions, an all-retainer model actually impairs rather than enhances your ability to simultaneously deliver your best value to the client and make the most money.

Three Benefits of Retainers

With declining importance, here are the top three benefits of a retainer relationship:

Predictable Revenue

We could stop right here, with predictability of revenue, because for most business owners and managers, this is enough. Knowing how much a client will pay per month over the next few months is the benefit most principals are chasing when pursuing a retainer relationship. It's nice to smooth out the highs and lows of your income. Even clients benefit in this way, as it gives them the same visibility into future expenses. When revenue is down, margins are tight, or the economic or legislative environment is uncertain, a new retainer relationship can calm unsteady nerves, even when the scope and other terms of the agreement may be less than ideal.

Improved Resource Allocation

A monthly financial commitment from the client allows you to comfortably allocate resources out into the future. You know what your revenue is going to be, so you can easily assign personnel and make other overhead decisions on areas like office space and technology spend. You can also scale up and down more easily by having better visibility into when you'll need to add people or let the m go.

Improved Relationships

The benefits of your improved resource allocation should also accrue to the client in the consistency of personnel on your side, which in turn should allow you to craft better, deeper relationships with the client.

Three Ways Retainers Fail

Like the upsides to retainers, there are more than three downsides but these three are the big ones, starting with the biggest:

One Party is Usually Unhappy

Retainers give both parties price certainty. Usually, price certainty is something desirable to the client for which they are willing to pay a premium. In exchange for that premium, you take the delivery risk. If the job exceeds your cost, you have no recourse — you simply have to get it done and accept that you mispriced and lost money. In a retainer relationship, the client thinks they're buying price certainty, *but you don't really take on the same risk*, throwing the equation out of balance.

If it looks like you're going to lose money in a month or quarter, you simply slow down or stop working altogether. You know this. The client knows this. Even when it's not happening (and it happens a lot), the client suspects that it is. It's not a great dynamic, especially if it was a mistake to take the client's budget and divide it by 12 to begin with. What immediately follows is that you divide the work by 12 as well, even if the nature of that work is front-loaded, responsive to marketplace happenings, or in other ways best off being delivered in fits and starts.

Look at almost any retainer relationship that is at least six months old, and you will find that one party feels taken advantage of by the other. Either you feel like this is a lousy account because you're overserving it, or the client feels like she is getting poor value because you're underserving her. It's pretty rare that you find that both parties are happy together, at the same time, for an extended period of time. How many double thank-you moments happen in the ninth month of a 12-month retainer, I wonder?

Retainers Tend to Be Cost-Based

Lawyers invented retainers. A law firm is "retained" if a client has given it some money ahead of any use for it. When the client requires some legal work, the law firm begins working, and bills against the advance payment, the "retainer." When the retainer runs low, the client is required to top it up. That's what it means to have a professional on retainer. When a client's competitor or other antagonist wants to sue the client, and they try to hire the client's law firm to assist, they are told, "I'm sorry, but we are retained by XYZ firm and cannot take this engagement." In this way, retainers are a form of advance payment that secures a spot on the professional's client roster.

This original use of retainers has become less popular. At some point in the decline of the original use, the term started to be applied to more standard monthly contracts of fixed amounts. That's where we are today — retainers are fixed-fee agreements that usually last for 12 months. In both the original use of the term and today's more popular version, a retainer is almost always cost-based. It doesn't have to be, but that's often the case. Even if you value price an engagement and offer terms of 12 identical payments, you will start to manage toward efficiencies the further the engagement progresses. You won't be able to help yourself. As soon as the client's need in any period exceeds your cost, someone in the firm will expect resources to be withheld. With the exceptions listed below, I've seen very few high-margin, value-priced engagements delivered through a retainer. The model seems to drive firms to time-and-materials thinking.

Retainers Push the Firm to Productized Services

In addition to pushing firms toward cost-based pricing, retainers also tend to push some to unhealthy productization. As I mentioned in chapter 5, "Rule #1: Price the Client," most creative firms are, and should remain, customized services businesses. Recall that a customized services firm has a small number of clients, each with a unique engagement and compensation agreement, and has a culture of innovation. A productized services firm, on the other hand, pursues scale through selling a finite number of fixed solutions to a much larger customer base. Because the product does not differ from customer to customer in a productized business, the price cannot, either. A culture of efficiencies reigns along with its twin, cost-based pricing.

Retainers hold out a promise of easy scale, by packaging up what one or two clients are buying and trying to sell it to others, violating Rule #1 of Pricing Creativity. There's no guarantee that you'll start to slide towards productization, but if you have more than a couple of retainer clients now, I'll bet you can already see the trend. "We've got two clients paying $10k per month for roughly the same thing … why don't we create a package and put it on our website?"

It's a mistake to blindly offer a set solution, at a set price, to other clients once you have created it for one firm. Sometimes firms just forget to sit down with each client and say, "Tell me where it hurts. What is it that you want? What are you trying to accomplish here?" You need to listen to the client in the sale and then go back and package a solution that's specific to that client. I see a clear pattern of retainer-focused firms losing sight of the need to sell in such a personal, customized, and consultative manner.

Two Proper Uses of Retainers

The two best uses of retainers are 1) to sell strategic guidance (which you might think of as high-level consulting and describe in your proposal as open access) and 2) to sell implementation capacity.

Retainers for Strategic Guidance

As we discussed in the previous chapter ("Make the Margin in the Middle"), those clients who want your strategic guidance on an ongoing basis should pay for it. A monthly retainer for such "open access" is a good add-on option for your higher-priced engagements. Alan Weiss recommends offering a significant discount, in the range of 10+%, for clients who want to pay for 12 months of access in advance. In addition to getting the cash up front, you eliminate 11 times in the year when the client will be prompted to assess the value of the engagement, asking, “What have you done for me lately?”

Retainers for Implementation Capacity

Just as there is a viable strategic-level retainer, there’s a retainer at the more tactical end. Clients with large but sporadic tactical needs may want to ensure that you keep capacity available for them. That’s part of the reason for Agency of Record (AOR) engagements, which are nowhere near as popular as they once were. If a client values this capacity, figure out what it’s worth to both of you to set some aside — whatever that means to you.

The Wrong Way to Structure a Retainer

The wrong way to structure a retainer is to simply take the client’s annual budget and divide by 12. I once had a partner of a PR firm boast of turning down a $50k engagement because their minimum retainer amount was $10k per month. I was dumbstruck. “How long would it take you to deliver what the client wanted,” I asked? “Two or three months” was his answer. He refused $50k worth of highly profitable work because his habit was to take the client’s budget and divide by 12, even when some clients might pay three or four months’ worth of retainer for an assignment that would take a month or two. There are other reasons someone might want to turn down such an engagement, but a potentially profitable opportunity shouldn’t be dismissed out of hand because it cannot be squeezed into a preferred compensation structure. I’m proud of anyone who says no to a bad deal, but a no like this is just intellectually lazy.

I know that some clients do budget for creative, marketing, and particularly public relations services this way, by dividing an annual budget by 12. In these cases, if you have to do it, you have to do it.

Again, retainers aren’t inherently wrong, but it’s probably wrong for most firms to relentlessly pursue retainers at the expense of all other compensation schemes. Before you propose one, just ask yourself a few questions: Are you overvaluing revenue certainty above all other factors? Is this the right thing for both parties? Are you defaulting to a retainer because it’s easier to sell?

CHAPTER 18

Lease Instead of Sell

In which we consider how we challenge our own assumptions around our choices in pricing models and examine an alternative method that might be preferable to the client.

In the previous chapter I tried to dissuade you from taking the client’s annual budget and dividing it into 12 equal monthly payments. Now I’d like to make the case for doing just that. The “retainer-for-everyone!” model isn’t the only one that firms get unnecessarily locked into. Another model that needs questioning from time to time is a sale (purchase), when a client would rather lease or license.

Think of how you buy software now versus how you bought software 10 years ago. Almost all software is now hosted and paid for on a per-seat-per-month (or -year) basis. This licensing model upended the one-time-purchase model years ago, and yet, the majority of firms that sell website design or application development still try to sell when their clients would prefer to lease. Websites are software. Apps are software. Your clients use other software — lots of it — and for most of it they pay monthly. It used to be that a website was something that was purchased new and then, over three or four years, it slid inexorably into obsolescence before it was disposed of, and the cycle repeated.

Today, almost all software platforms see steady updates that keep their client base paying monthly and maintain the incentive for the developer to keep improving the product. It’s a better way to buy software. It’s a better way to deliver software. It’s a better client experience. And it’s more profitable for the firm.

A design firm principal once lamented that her price-sensitive client would not pay $50k for a new website. I asked if she thought he would pay $3k a month. She said she thought he would. She structured a multitier proposal with different forms of value in each option, and the client signed on for $3/month for 36 months. A client who would not pay $50k ended up paying $108k.

Of course, in any situation like this where the majority of costs are front-loaded, you either charge for at least some of the upfront development work or ensure that your well-crafted contract states that the development work is essentially a financed amount that is due no matter what the client later decides. You might argue that this is more of a finance model than a lease. I won’t argue too hard against it, but the lar ger point is: Don’t get locked into your pricing models. There are so many different ways a client might hire you. Consider as many as you can.

To what other forms of creativity might you apply this lease/license model? What about identity design? “Hah!” you scoff.

A French designer friend once remarked to me offhandedly, “I’m almost able to retire on my royalties.” I asked, “What do you mean, ‘royalties’? You design identities (logos) and posters.” He said, “Yes, but in some of those engagements I retained the intellectual property rights and licensed them back to my clients.” I was astonished. “You’ve licensed logos to clients?” “Logos,” he said, “websites, all kinds of things.” In perpetuity. In certain situations with certain clients he would offer a lower-priced option for the initial design work, retain the intellectual property rights, and the client would pay for usage.

At first glance, this might seem radical. (It did to me!) But isn’t this, after all, the standard model for photographers? Looking beyond the creative professions we see many examples of products that once were purchased by businesses and now are leased. Floor coverings, plants, artwork, and window coverings. Many restaurants now lease table linens and plateware. Since the 1980s, most jet engine service packages have been sold on a basis known across the industry as “Power by the Hour.” Instead of asking operators to pay for repairs as needed, engine manufacturers, starting with Viper in the 1960s, followed by Rolls Royce in the 1980s, and GE and Pratt & Whitney after that, charged operators a fixed fee for every hour the plane was in the air. That fee covered the servicing and replacement parts, allowing operators to fix maintenance costs to flying time. Turning a variable cost into a fixed cost is a form of price certainty — something, as we’ve already discussed, for which many clients are willing to pay a premium.

I’m not suggesting you should lease everything rather than sell it, merely that we all get locked into our models, thinking there is only one way, or a small number of ways, to do something. I’ve seen plenty of great business ideas and potentially lucrative engagements crushed when someone tried to force them into the wrong pricing model. Approach this topic with that great asset of yours — creativity. Remember: *How* you price is the key to increasing your price.

CHAPTER 19

Sprints, Points, Tips, Pay What You Like, and More Alternative Pricing Models

In which we explore a variety of alternative pricing models not yet discussed.

We haven’t exhausted all the ways a creative firm might charge for its ideas and advice, and we won’t here, but there are a few other alternative methods worth discussing. Some are worth considering, some worth dismissing, and some with equal upsides and downsides.

Pay What You Like

The best airport shoeshine in North America is at Executive Shine in Denver International Airport. When I’m connecting through Denver, I make sure to have on the shoes most in need of a shine. I sometimes change shoes after they’ve shined the ones I’m wearing and then have them shine the second pair, too. There’s often a small line of waiting customers, even when they have six chairs going. Why? What makes Executive Shine so good that I wait to have them shine my shoes and constantly rave about them to others? It’s all in the way they charge. At Executive Shine, you pay what you think the shine is worth.

The topic of paying what you want for an airport shoeshine could keep a dinner party conversation going for hours. It touches on most principles in this book and many more. Why do some pay others to shine their shoes when they could do it themselves? Why would someone pay $15 or $20 (what I typically pay) when they could probably get a shine elsewhere for $5 or $6? How is the quality of the shine, and the customer’s satisfaction, tied to this pricing model?

The answer to that last question is obvious. Knowing that the customer will pay based on the quality of his overall experience, the team at Executive Shine delivers. They deliver a high-quality shine that makes a mockery of the idea that I should, or even could, do this myself, along with an engaging customer experience — nothing over the top, just happy, outgoing people willing to converse with their happy clients. These people are motivated, and it shows. They also appear to gross somewhere around $80 per hour. One older man told me recently, as he carefully restored some faithful old leather friends I had long neglected, that he put his three kids through college shining shoes. He was a carefree man who appeared to love his work, and the effect was contagious. Contrast that with some others who shine shoes for a living: The job is done, the transaction made, a little money changes hands, and both parties go their own way, each quickly forgetting about the other.

This is a book on the practical applications of pricing strategies in a creative firm, and I’ve steered clear of many of the more esoteric economic theories underpinning a lot of these rules and tips, but if you’ll permit me this one digression, I’ll confess my sense of awe over what’s known as the “signaling power” of prices. Most of us noneconomists cannot begin to comprehend how much information is wrapped up in a price and how that price needs to find an equilibrium between buyer and seller for an economy to function. Economist, author, and *EconTalk* podcast host Russ Roberts has created a short animated film on the wonder of this complex and powerful mechanism that we all take for granted. Search YouTube for *It’s a Wonderful Loaf.*

So, is there room for the pay-what-you-like model in a creative firm? It sounds risky in a business where just two clients refusing to pay might threaten the health or even existence of the firm, but there may be room for modified versions, such as satisfaction guarantees or tip clauses.

Satisfaction Guarantees

We’ve discussed a contingency payment, which is a pricing model built on a performance guarantee, but satisfaction guarantees are different. They offer the client more discretion in determining what constitutes performance or results. Satisfaction guarantees are additional layers of client protection that can be added to many other types of pricing models. Retired author, consultant, and Harvard Business School professor David Maister wrote about the unconditional satisfaction guarantee he offered to his consulting clients. Before every engagement and on every invoice, Maister reminded his clients that if they were not completely satisfied, they were free to pay what they thought the work was worth.

While a satisfaction guarantee like Maister’s offers the client almost complete discretion to pay what she feels is appropriate, it is set against a tacit understanding between both parties of what the price will be unless the client chooses to invoke the guarantee. It’s not pay-what-you-like, but it offers the client a level of protection against risk that is almost certainly worth a price premium.

Tip Clauses

A tip clause might be considered the opposite of a performance guarantee. While there’s no safety net for the client, it does invite her to pay more if she feels it’s appropriate. It’s not as absurd as it might first sound.

In *Implementing Value Pricing*, Ron Baker advocates an approach similar to Maister’s, suggesting that when the client selects his preferred option and agrees to your price, you might propose to him that, “In the event that we were able to satisfy your needs in a timely and professional manner, you have agreed to review the situation and decide whether … some additional payment … is appropriate in view of your overall satisfaction with the services rendered.”

Of course, any client is free to pay more than the invoice at any time (and what creative firm would say no?), but, alas, they never do, do they? And they never will, *unless you plant the seed at the time of the agreement*. So says professor Robert Cialdini, author of *Influence: The Psychology of Persuasion* and other books on psychology and marketing. Cialdini has studied the practice of reciprocity — the delayed exchange of gifts — in many corporate, social, and political settings, and he asserts that if you don’t extend the invitation to reciprocate, or in this case, the invitation to tip for exemplary performance, *at the beginning of the exchange*, then the opportunity is all but lost. The idea of reciprocity applies here because you are suggesting to the client that there might be a gift, of sorts, for her at the end of the engagement in the form of results beyond what she expected and paid for. If you don’t plant the seed of an invitation to reciprocate now, there will be no sense of obligation, as small as it might be, and no trigger, in her deepest moment of gratitude, that a tip would be an appropriate and well-received gesture of that gratitude.

Like Executive Shine’s pay-what-you-like model, there’s more signaling going on about your own confidence when you provide the option for the client to pay less. The significant caveat, however, is the quality of the client and the possibility that your value-buyer client might be replaced with a cost-cutter at any time. The more executive consulting-type engagements like Maister’s lend themselves to satisfaction guarantees with little likelihood of a client untowardly taking advantage of it. Once middle managers or multiple decision makers get involved, an invitation to tip makes sense over a satisfaction guarantee. But there’s no reason why you couldn’t use them together. It seems to me that in any situation where you would communicate a satisfaction guarantee, it would also make sense to insert a tip clause.

Points

There’s a small trend in a corner of the digital marketing world toward a new points-based pricing system in which each client deliverable is assessed a point value which, when fulfilled, is applied against a block of points the client has purchased or purchases monthly.

The challenge with this model is that a more elegant and universally accepted points-based system already exists. This new system doesn’t propose to supersede the old one, but to layer in on top of it, adding what I see as unnecessary complexity. In the current, globally adopted system, we call points dollars (or pounds, euros, etc.).

The only motivation I can discern for injecting another equation between value created for the client and money received by the firm in compensation is to buffer the salesperson/pricer from direct conversations of money and value with the client. But such conversations are a mandatory requirement for a successful relationship. There’s just no way around them, nor should you be looking for one. Instead of adding layers of complexity, you would benefit from stripping out unnecessary language or devices and, as directly as possible, correlating your financial compensation with the expected value created for the client. Master the value conversation instead.

Sprints

Sprints are units of time, typically one or two weeks, in which a firm assigns a dedicated, cross-functional team to a client project. They’re a tool of what’s known as Agile development, a more flexible, interactive approach to software development that has many adherents in a growing number of sub-formats with names like Scrum, Kanban, and dynamic systems development method (DSDM). As the lines between application development and interactive design have been blurring for years, one doesn’t have to look too far in the design world these days to find an “Agile shop,” and where you find Agile, you typically find a firm selling sprints, which are a form of cost-based pricing.

The argument for selling sprints is the argument for Agile itself. Software development is messy; standard development approaches are too planned, rigid, disconnected from the user or market, and incapable of pivoting to capitalize on opportunities or swerving to avoid obstacles no one can predict in the planning process. It’s better to sprint, assess, iterate, sprint again, etc., working to ship a minimum viable product (MVP) quickly, and then sprint again to iterate that in-market product until there’s a more complete product/market fit. If you cannot fully plan application development, the argument goes, then you cannot offer a fixed price.

I buy the merits of Agile development, but I don’t believe that being an Agile shop automatically consigns a firm to a stone-age pricing model. Jon Lax, Facebook design director and founder of the influential erstwhile UX firm Teehan + Lax, says, “Sprints are a better way to build products but not necessarily a better way to get paid for performance.” Lax favors a fixed price for the initial discovery phase, followed by sprints supported by incentives for hitting certain milestones, such as launching an MVP and achieving a mutually-agreed upon definition of a product/market fit. Lax points out that the incentives for hitting milestones need to outweigh those for the firm to drag out the engagement, which is a challenge any client experiences when running an open tab of time and materials.

CHAPTER 20

Sell Risk Reduction

In which we see that every choice the client makes involves a tradeoff of risk, and we explore the merits of speaking directly of such tradeoffs during the sale.

Economics is the study of tradeoffs and incentives — what must be given up in one place to gain in another, and what might inspire or incite someone to act. The acts of framing options for the client, and everything she must sort through to choose the best one for her, are a microcosm of the entire field of microeconomics. You've taken care to frame your options, as best you can, to the specific wants and needs of the client, but you haven't finished the job yet. The proposal, after all, is the words that come out of your mouth, and the one-page document is there for support. The words you use in that conversation have a significant impact on the option the client chooses. In many such closing conversations, it will make sense to tie the choice in front of the client to the amount of risk she is comfortable taking.

The Two Definitions of "Premium"

In sales and marketing parlance, a premium is an amount paid above an ordinary or benchmark price. In the insurance world, a premium is an amount paid for a policy to protect against risk. That both definitions are the same is one of the most profound realizations I've had in my pricing journey. Most of your higher- or premium-priced options are just that: insurance policies against risk.

There are many types of risk a client might gladly pay a premium to insure against by hiring your firm. The largest is the financial risk tied to poor performance, or the answer to the question, "How do I know you're going to get this right?" And, "What is this going to cost me if you get it wrong?"

The late Peter Drucker, author of around 60 books on managing, famously said, "in business, all profit comes from risk."[13] Your client sees an opportunity in the market and decides to risk resources, including, but not limited to, money and opportunity cost, to pursue that opportunity. He hires you to help by taking on some of the risk that he is taking in the marketplace. Only he knows how much risk he's willing to pay you to take away, but you will notice that the closer he gets to buying, the more likely he is to pay a slightly higher premium to make some more risk go away. That's because later in the sale, the client overweights the consequences of failure and underweights the value of a po sitive outcome, whereas earlier in the sale this dynamic is reversed. This is a good rationale for always offering an option that is priced higher than the client's stated budget.

Clients Should Be Allowed to Choose Their Risk Level

I once had an auto mechanic who would routinely decide for me that I could squeeze a few more miles out of a battery, a starter, or some other component that was worrying me, so when I picked up the vehicle, I often found he hadn't replaced the part. He was proud of the money he had saved me. He didn't see how unfair it was to impose his own risk profile on me (save the money, Blair, and take the risk) when I would have gladly paid the premium (the incremental cost of replacing a part before it absolutely had to be replaced) to mitigate the risks of breaking down and the weight of worry while I drove. He saved me money and increased my worry, when I had wanted the opposite.

Do you ever do this to your clients? Your clients should be able to choose the risks they want to mitigate and, therefore, the premiums they want to purchase.

Yet this mistake is the norm in the proposals of most creative firms. (I'll confess that I made this mistake for more than a decade, forcing one-size-fits-all solutions with the same premiums on my consulting clients who each had different risk profiles.) The lesson is that your guess at the risks your client wants to take is probably wrong. You should price your engagements with this built-in assumption of your own ignorance. Risk, in this manner, is one more strong case for the necessity of options.

The Client's Choice: Pay the Premium or Take the Risk?

The guaranteed value against which you anchor in the value conversation represents the lowest-risk option to the client (and the highest risk to you), and, therefore, the highest theoretical price. At the other end of the spectrum, the highest risk to the client (and the lowest risk to you), and, therefore, the lowest-priced option you have, is capacity or time. In the former, the risk is all yours, in the latter it's all the client's — and the vast area in between represents the tradeoff area.

CHAPTER 21

This is all easy to understand in theory: The more risk you take away from the client, the more she pays in the form of a premium. The point I want to drive home in this chapter, however, is that in many instances you would do well to be open with the client about the risk levels of each price. Don't just factor in the risk premium, but *speak to it*.

"I've got three ways we might work together to help you achieve your goals and deliver the value we discussed. I have a low-risk option (to you) that's priced at $100k. I have an option that meets your desired budget of $40k, but as you'll see, at that price you'll be assuming all the risk. And I have a middle option at $65k that sees a more balanced sharing of the risk. Let me explain each of them, beginning with the low-risk option."

The rental car business is built entirely around risk. The clerk at the counter is paid minimum wage, and if you waive all premiums, he and the company stand to make no profit. Driving a strange vehicle in a strange place is fraught with risk, however, and rental car companies have all kinds of premium options for you to insure against risk. The GPS will mitigate against you getting lost. The accident coverage will protect you against insurance claims. The prepaid fuel will cover you if you're running late and cannot gas up. The snow tires should help with your safety concerns, and if you're really concerned about safety, perhaps you're interested in upgrading to the SUV? The choice is yours, Madame Customer — what risks do you want to take on and what do you want me to make go away? That's the same conversation you should be having with your clients.

It's often appropriate to get the subject of risk out on the table for discussion when presenting the options in your proposal. See what you can learn from the client about how much risk he is comfortable with, and how much he wants you to take away.

CHAPTER 22

Nudge, Nudge; Wink, Wink

In which we review the biases that can be used to nudge people along in their decision-making processes.

“Heuristics” is a grand word for the mental shortcuts human beings take when processing information and making decisions. Such alternatives are helpful when speed or efficiency is paramount in decision-making, but they leave us prone to numerous cognitive biases that skew our thinking in ways that are well-documented and predictable.

Being aware of such biases allows us to nudge others toward certain decisions or behaviors without taking away their freedom to choose. In this chapter, I’ll explain those nudges I find to be most useful for ethically influencing the choices of clients and prospects in a sale without misleading them or impairing their ability to choose what’s right for them. It’s also helpful to watch for these biases in our own decision-making.

This act of nudging is often referred to as choice architecture. It is at the very heart of the field of behavioral economics. Richard Thaler, professor of behavioral science and economics at the University of Chicago Booth School of Business, is considered one of the fathers of behavioral economics. It’s worth noting that his book, *Nudge*, coauthored with Harvard law professor Cass Sunstein, is subtitled, *Improving Decisions About Health, Wealth, and Happiness*. Sounds noble to me! I once published a blog post on this topic under the tongue-in-cheek heading, “The Dark Arts of Cognitive Biases.” It was no surprise that the post elicited some righteous accusations of immoral manipulation.

Whether nudging people with the mechanisms depicted below is a force for good or evil depends entirely on your own use and motivations. Like I said earlier, the idea that you could put a proposal of any kind in front of a client without somehow influencing his choice is preposterous, so why not learn how you are affecting the client and seek to use your influence for better outcomes for all?

With your solemn oath to nudge only for niceness instead of evilness, let us examine some of the more interesting cognitive biases and how to use them.

Anchoring

We’ve already devoted one chapter and sections of others to anchoring, so I’ll just recap the definition here: Anchoring is the tendency to rely too heavily on the first piece of information received. When you anchor by leading with a high price, you can expect that to affect the final price. In addition to anchoring with prices, you can also anchor with creative concepts, conditioning the client by showing the riskier version first.

If you do not anchor high, your client is likely to anchor low, as most of us intuit the anchoring effect even if we’re unaware of the underlying science. Anchor or be anchored.

Social Influence

When your mother exclaimed, “I suppose if Billy jumped off a bridge then you would, too!?” she was trying to counteract the influence of others on your behavior, otherwise known as social influence. There are different types of social influence — some based on overt peer pressure and others based simply on information of what others are doing — but all can have a profound effect on decision-making.

The most common examples of attempts to leverage social influence in a sale include any time you see the phrase “most popular” next to an option. The inference is that all the people buying this option must know something that you do not, so you’d better follow their lead. It’s classic FOMO (fear of missing out). By telling your client that “most of our clients choose to hire us at this middle option level” you are similarly leveraging social influence. Another form of social influence that can be effective earlier in the sale is to show clients what their competition is doing in their marketing that they are not.

Occasionally, you’ll be asked to sell to a prospect with requests like, “Tell me why we should hire you.” An expert practitioner should never accept such an invitation. Instead, counter with something like, “How about instead of trying to convince you, I tell you why our current clients hire us, and you can see if those reasons make sense for you?” By refusing the invitation to relegate yourself to vendor status, and instead, bringing your clients’ peers into the room, you have effectively swapped your own self-serving bias for your prospect’s bias to be influenced by others.

Related: The Bandwagon Effect

A bias related to social influence is the bandwagon effect, which sees the tendency to increase the conformity of one’s behavior as the number of other people exhibiting similar behavior rises. Implied in the bandwagon effect is a sort of tipping point, where even a small imbalance brings instability that builds until the vast majority ultimately conform to the new belief or behavior. The modern vernacular is “going viral,” which is apt because the spread of infectious diseases was the area of study that led to the observation of the tipping point effect. It has since been applied to other areas thanks to Malcolm Gladwell’s book, *The Tipping Point*.

The Framing Effect

We all intuitively understand that how we frame a choice, to ourselves or others, has a significant impact on the decision that gets made. The framing effect sees people draw different conclusions from the same information based on how it is presented or framed.

Related: Loss Aversion Bias

I’ll move quickly to loss aversion bias because one of the simplest ways of reframing a decision to your advantage is to frame the choice as giving something up rather than acquiring it.

Loss aversion bias, also known as the endowment effect, is somewhat quantifiable. It’s been proven that people dislike giving up something they possess about twice as much as they like the idea of acquiring something they do not yet possess. This is just one reason why guarantees and offers to “try before you buy” are effective.[14]

Loss aversion bias explains why you overpaid so much at that charity auction. Once you made a bid, the item was yours (in a part of your mind, anyway) and you valued it more than before you bid. If you were bid up by competitors multiple times, then your sense of ownership, and of potential loss, increased, so you paid more than you planned to. It happens every time, even at corporate auctions where we assume the bidders to be more rational. They’re not. It’s been proven that they’re as susceptible to such biases as those of us with smaller checkbooks.

When you close on a diagnostic instead of the whole engagement, you harness loss aversion bias. The two parties are already working together. Deciding to separate from a relationship is more difficult than deciding not to get into one in the first place. Even if the first phase did not go swimmingly, the client is likely to rationalize, at least a little, on why it makes sense to keep going. The lesson is to find a way to begin the engagement, even if it’s a small step.

Sunk Cost Bias

If you’ve ever increased your investment in a pitch in the face of information showing that the original investment was a poor one, then you, my friend, have been had by the sunk cost bias. We all understand that mistakes in investing and hiring need to be ruthlessly corrected once the error of our ways becomes apparent, but most of us can rationalize why we should keep going for *just a little while longer*. And then longer still.

What expensive new-business opportunity are you pursuing right now under the undue influence of a sunk cost bias? Now that you know what to do, will you do it or will you keep investing and rationalizing until the inevitable conclusion? We all know how this movie ends. (Pass the popcorn.)

Certainty Bias

At least one study has shown that when someone claims to be “99% certain” they’re only 40% likely to be correct. So, when you hear someone make this claim, the smart thing is to assume a certainty bias and bet against them. Certainty bias stems from the difficulty of assessing our own judgments. People who operate on instinct tend to be more prone. Scientists, perhaps, just a little less so.

Related: The Dunning-Kruger Effect

The interesting Dunning-Kruger effect sees unskilled individuals tending to overestimate their abilities and highly skilled experts underestimating their abilities. The amateur tries too hard to convince. The pro undersells. I think we innately sense this when we're sitting across from a salesperson. The more they push, the more we wonder.

Interestingly, women tend to understate their qualifications in job interviews relative to their male counterparts. So if you've got two candidates for a position, one is a male selling himself hard, and one is a female underselling herself, stop and ask if the Dunning-Kruger effect is in play.

The place to watch for the certainty effect is in your own, or your salesperson's, overstatement of the likelihood of an opportunity closing. The short of it is that if you sense someone's confidence has crossed the line to overconfidence, you're probably correct. Certainty unsupported by empirical data is usually misplaced. Place your bets accordingly and watch for phrases like, "This is a sure thing," "It's a slam dunk," or "I'm 99% certain."

Scarcity Bias

Scarcity bias is the often-false assumption that things that are rare are valuable, and things that are abundant are not. Communicating that you only take on three or four new clients a year leverages scarcity bias in the client's mind. So, too, when you explain that one of the value drivers in your proposal — perhaps open access to the CEO — is one of only two slots that are made available to clients. If you have something in limited supply or that you make available only on an occasional basis, that will trigger scarcity bias. How can you use this in your next proposal?

Charms

Charm pricing, sometimes referred to as psychology pricing, is the act of ending a price with the number 9. Prices that end in 9 seem to send a signal that the item is on sale. In one study of Richard Thaler's, a women's garment was priced alternatively at $34, $39, and $44. The $39 price outsold even the cheaper $34 price.

Of course, any entity that charges in the thousands of dollars should not end a price in a 9; that would imply a formula to your pricing (which we've already covered). But you can still employ the effect to make the price of your target option — usually the middle one — seem more attractive. Perhaps you arrived at the following prices for your options: $10k, $20k, and $30k. You might decide to nudge the client to the middle by pricing it at $19k instead of $20k.

Confirmation Bias

Confirmation bias is the most common, obvious, and — to my mind — the most powerful of all the biases. It is the tendency to look for and invite information that supports preconceptions and existing beliefs while ignoring information that challenges them. Pay attention, and you will see it everywhere. I mean *everywhere*, even among those people you respect the most.

The book *Immunity To Change* by psychologists Robert Kegan and Lisa Laskow Lahey maps out three core stages of "mental complexity" in human beings that the authors claim have little to do with education or even measurable intelligence. To paraphrase their work in simple terms that I'm sure would make them uncomfortable, the first level of mental complexity is where we embrace certain ideas of others and become followers.[15] The second level is where we author our own ideas, and the third level is where we become aware of our biases to our own ideas, and, while we are able to further those ideas, we can also rethink, reshape, and even recant them if necessary.

What's interesting about the second level, where I believe most competent, successful people lie, is that once you start showing conviction for your ideas, those around you become aware of your biases and tend to bring you information that supports your point of view, while withholding information that challenges it. This feedback loop increases your certainty. The higher up you go in any organization, I believe, the more your certainty becomes entrenched. That's why all dictators and most governmental leaders are delusional.

People at these first two levels also only seek out information that confirms their biases. So, while someone might be well read on a subject, the breadth of their reading rarely allows for differing ideas, leading to the type of intransigence that makes the company Christmas party so eventful.

Global warming and politics are two arenas for the demonstration of confirmation bias on both sides of either debate. Most of those who don't believe the planet is warming, at least in part because of the activities of humans, become more entrenched in their position as they accumulate more information. Those on the other side become equally convinced of the certainty of the apocalyptic forecasts even as their opponents put forward data to support their position. Opposing information is treated as suspect or even malevolent ("Fake news!" seems to be the refrain of our day), but the real power of confirmation bias is that once we have a position, we then only seek out information that supports it. Further, we tend to associate with people who share our views and therefore only share with us information that supports those shared views. And it appears to be getting worse, driven in part, I believe, by the artificial intelligence (AI) bots employed by social networks and news sites. The more content you look at that is left- or right-leaning, that is pro or con a certain issue or public figure, the more similar content the bots will serve up to you. In this way, everyone's viewpoint is becoming more and more entrenched.

I recently started following a few people on Twitter (I've used it for years but only to transmit and not to receive) and after a few weeks I was struck by what seemed to be universal opposition to a certain prominent elected U.S. official. "Wow," I thought. "Nobody likes this guy." But then I started looking around, searching some of the hashtags that his supporters use and, lo and behold, he is loved by many. Each side of this divisive figure has millions of people who think that those on the other side are a) a vocal minority, and b) merely lacking the proper information. Neither assumption is correct. That's confirmation bias at work.

It's a mistake to assume that the only thing standing between a person and enlightenment is information. It's almost never the case. The more the average person thinks they know something, the more susceptible they are to confirmation bias. This idea holds true for scientists (regardless of their protests that science is above bias) and us Muggles.

This highest level of mental complexity, where we are aware of our own biases, is rare air. How many successful people do you know who invite challenges to their thinking or beliefs? How many of us truly consider viewpoints that are at odds with the ideas we've worked so hard to develop or those of others to which we've become so committed? Less than 1% of the adult population, according to Kegan and Laskow Lahey. Chew on that for a minute.

How do you leverage confirmation bias in the sale? I don't think you do. I think you rise above it and use the idea that the client boss is used to having her view validated and supported by those around her as your opportunity, or even outright obligation, to challenge that view, and assert your claim to the expert practitioner position. If you have not yet, you will one day be in an opportunity where the senior client is surrounded by sycophants creating an iceberg of ignorance at the top of the organization. These scenarios are prime client-from-Hell candidates, but they needn't be. Simply decide that you will be the one to try to break through the confirmation bias fog and say to the client what her own people dare not. The sport of it alone is worth the attempt.

We're Only Human

We are all rife with biases. They originate in the gap between our two systems of thinking — our quick, intuitive, shortcut-based system that lets us do complex things like driving a car while talking on the phone and drinking hot coffee without much conscious attention or cognitive cost, and our more considered, analytical system that lets us do long division. These systems work together to allow us to parallel process our way to decisions in an incredible manner that even the world's best computers cannot replicate. The intersection of these two systems just happens to leave us open to a bit of hacking, if one knows where to look.

If you're still of the mind that it is wrong to use these biases to help your clients shape their decisions, you're wise to study these biases anyway, because, being human yourself, you are a regular victim of them.

Your Power in the Sale is a Function of Desire

Figure 22.1

$$P=db/D$$

Never Discount (But When You Do, Do it Right)

In which we agree to abide by the basic rule of refusing to discount price — and also agree on when and how to break it.

A discount is different from a price cut (which is the topic of the next chapter), because a discount is seen by both parties as a rare event, usually merited by special circumstances, whereas a price cut is understood to set a new price level moving forward.

I make a lot of rules, for myself and my clients in the Win Without Pitching program, but I believe it's the rare rule that doesn't deserve to be broken under the right circumstances. *Never discount* is a great rule to live by, and I did for years, but when you see enough scenarios you start to see the grey in between the black and white. So, like many laws in the remote mountain region where I live, this rule is treated more like a guideline. Just like in law, however, if you are going to break this rule, do it right. Here are some guidelines for considering the discount, and doing it properly when it makes sense to offer one.

Don't Discount to Win Business

This is a big one. Negotiating the final price is a legitimate sales activity in which you may have to give up some margin to get the deal. (We'll discuss when and how to do that in some of the chapters that follow.) Don't delude yourself or others on your team into thinking you are offering a one-time discounted price when what you are really doing is cutting price to win the business, thereby establishing a new pricing and profit margin threshold. While in the average firm it's more important if the overall client engagement is profitable than it is that any specific job is profitable, the exception is the first job for any new client: *It must always be profitable.*

Your profit margin, like your power, diminishes with time. It's vital, therefore, that you begin any new engagement at a high margin with the firm positioned as the expert practitioner. Discounting price to win business on the first job sends all the wrong signals, and the idea that you'll make up the lost margin down the road is either delusional or dishonest. (Dishonest because you'll essentially try to *sneak* profit from the client, finding a way to make more than they expect you to make.)

A price buyer will not suddenly become a value buyer after the first project. If you're cutting price to win business, you need to be comfortable with that lower price and margin moving forward. That is the benchmark from which you will only slide, not climb.

Discounts a re for Loyal Clients

If discounts aren't appropriate for winning new clients, when do you use them, if at all? The answer is that discounts are reserved for good, loyal clients when they need a break, like on an underfunded pet project. You know who your good clients are — among loyalty and other characteristics, these clients understand and support your need for healthy profit. They treat you well and pay you well. Discounts are opportunities for you to give back a deserved reward. It's best to think of discounts as favors. We grant favors to our friends and family and others who deserve them at appropriate times. They might ask, or we might offer first. Someone who is always asking is probably neither a true friend nor a good client.

To ensure that discounts don't become a habit, recall Robert Cialdini's advice on planting the seed of reciprocity when extending them. When you offer the discount and the client thanks you for it, don't be dismissive of that thank you. Instead of saying, "It's nothing," try the words, "I'm happy to help. I know you would do the same for me." This gem of Cialdini's reminds the client of the symbiotic nature of the relationship and plants the seed to allow him to return the favor one day and thus feel like he is holding up his end of the relationship. It's important you tie your gift to the invitation to reciprocate at the moment the client thanks you, otherwise the gesture might go unaccounted for in the balance of trade. There's no requirement to ask the client to repay the debt in the future. You're simply preventing a positive relationship from deteriorating to the point where one party increasingly asks (or commands), and the other acquiesces, with increasing resentment.

Document All Discounts

Perhaps the largest mistake with discounts is the failure to document them properly. If you don't document your discounts, then the discounted price becomes the new standard moving forward. Documentation is what keeps a one-time discount from becoming the new standard. Be sure to show any discounts on your estimates and your invoices. Show the real amount first, followed by the discount, labeled "courtesy discount," and then the final discounted price.

If your accounting department can't figure out how to show a discount on an estimate or invoice, then you need a new accounting department. Or you simply never discount. It's that important. That piece of documentation is your powerful defense in the almost certain future battle where the client "forgets" that the most recent price was a discounted price. It has saved my bacon many times. Even the very best clients "forget," but they quickly remember once you remind them that the last price was a one-time discount for special circumstances, "as noted on the invoice, which I'll resend to you."

Ask the Client to Name the Discount

We all know we shouldn't negotiate against ourselves. In practical terms, this means that if the client is seeking a discount but hasn't mentioned a specific price she's looking for you to come in at, don't guess at that price — ask. You might say, "Okay, I understand your circumstance, and I might be able to do a one-time discount on this to help you out. What discount amount would be helpful?"

Sometimes the client will ask for significantly more than you are able or willing to give — and you can still counter with something lower — but just as often, the discount isn't as deep as you guessed she might be wanting. Ask.

What About Free?

Here is a final thought on discounts for your very best clients: In certain situations, you might consider going beyond the requested discount and doing the whole project for free. It might be the company's Christmas card or United Way campaign, a charity that is dear to the client, or any other project or cause that you find worthy or personally important to the client. Giving back beyond what he asked for builds meaningful bonds on both sides and pride for everyone on your team. Gestures like this can build loyalty that will carry you through some rocky times. Keep an eye out for opportunities to surprise and delight your very best clients this way — just don't get carried away with it!

CHAPTER 23

Alternatives to Cutting Price

In which we consider the many ways in which you might address, to the client's satisfaction, a request to cut price without actually doing so.

In the previous chapter, we established that you should never discount, particularly when negotiating with a new client on the first project or engagement, and we discussed the exceptions when it makes sense to discount, and how you might do that. Now let's look at the alternatives you have to cutting price when you find yourself in a situation where it seems like the deal might die on price.

Believe

The subjectivity of value works both ways. While value is personal and subjective, it is so to all parties on both sides of the buy-sell divide. And just as two different clients considering the same offering from the same firm will assign a different value to that offering, so too will two different salespeople putting forward the same offering.

One often hears neophyte salespeople, especially those who have had the role thrust upon them rather than having chosen it as a vocation, say that they can sell something as long as they believe in it. I assert, however, that the ability to sell ideas and advice is not tied to the salesperson's belief in the intangibles on offer, but to his belief in himself. A price premium is the ultimate economic measure of how meaningfully different the solution on offer is seen to be. The client must see it is as different enough to merit paying the premium over what a competitor would charge — which, as we've discussed, usually means taking a lower risk.

Before the client can see the solution as meaningfully different and worth the premium, however, the salesperson must see it this way.

Yes, the salesperson has to believe in the value on offer. The trouble is that those who believe tend to believe always, and those who don't tend to always cut price.

Look beyond the creative professions to any industry with scaled sales teams, and the managers of those teams will tell you that some salespeople are always talking about price — competing on price, losing on price, making the case to cut price. The more successful salespeople on those teams, however, almost never talk about price. Their margins and close rates are higher. It's not because the products or the clients are different or because they believe in the product more, but because they believe in *themselves* more; their self-esteem is higher. I'll come back to the impact of self-esteem later in the book, but there's little I can do for you on that front other than tell you that you're almost certainly worth more than you think you are. I can, however, arm you with some alternatives to cutting price when you're in a situation where you think that cutting price is the only course of action available to you. It is not.

Offer Terms

Terms are so very underutilized as a tool for closing business in the creative professions. Often, price negotiation, by smaller clients in particular, is driven not so much by the uncertainty of the value on offer but by affordability. A client might say, "I'm not questioning your value, we just can't afford it." When this is the case, terms are the tool to rescue the deal. "Can't pay it all now or in two installments? We'll put together a payment plan for you." Recall the earlier example in chapter 15: "Lease Instead of Sell" of a client who couldn't afford $50k for a website but ended up paying $108k via what were essentially more favorable terms.

Properly structured terms not only help you get the deal, but they can also make you more money, so get creative — especially where you have a good client who sees the value.

There are some terms I consider inviolable. For example, for any new client, you should demand a sizable deposit up front before you begin doing any work. In a large company, a purchase order will often suffice, but for all others wait until the check shows up. The tricky grey area is when leasing or licensing something that sees you bear a significant upfront cost, as discussed in the chapter 15. In situations where you are upside-down financially and carrying the client for the first part of the engagement, you should: 1) have your attorney craft a solid contract, and 2) build in a handsome profit for yourself (over time), from the generous terms that deliver the client's desired affordability.

Terms can be a source of competitive advantage. A client of mine who makes high-end films for Fortune 500 clients jokes that his second business is lending money to America's largest companies. In a space where cheap, ubiquitous technology is enabling lower-priced competitors to flood his market, his firm's ability to accept his clients' more onerous terms — terms that might threaten the viability of a younger, less financially stable firm — is a significant advantage. I wouldn't recommend setting out to compete this way (he did not, I can assure you), but it proves how important terms can be.

Take Out Some Value

When an otherwise good and valuable client cannot or will not meet your price, and you still want to make the deal work, it's okay to take less money *provided they give up some value*. A savvy negotiator will know that if you just cut your price without taking out value then there are more discounts available, and she is trained to keep asking until you say no. So, go ahead and offer that option at a lower price, but find something in that option that the client must give up to get the price. Think hard about doing this on your lowest-priced option. Such negotiations are reserved for good clients who want your higher-priced options.

If the client is not worth negotiating with, either because she is a price buyer or because accepting anything less than what was included in your proposal doesn't make sense, then simply point them to the affordable option in your proposal and stick to your guns.

Use Guarantees

Many gasp at the notion that you might guarantee your offerings, but there's far less risk in using a guarantee to secure a deal or derail a pitch than there is in doing the work for free and pitching it, which is commonplace in the creative professions. If the client's objection is risk — "That price sounds high. What if it doesn't work?" — then consider guaranteeing the first phase of the engagement to get your price. "If, after we present our findings and recommendations, you feel like you've made a mistake, then fire us and we'll give you back your money." Extend your guarantee as far as creative concepts, but think twice about guaranteeing further. Too many variables are out of your hands.

When working under such a guaranteed phased engagement, make sure that the client pays the full amount of that first phase upfront. Only then are they truly committed. This is significantly different, psychologically, from the pay-what-you-like model. It's a pay-up-front-with-a-guarantee model. The client commits financially and emotionally, and loss aversion bias kicks in.

When guaranteeing in this manner, don't put too many conditions on your guarantee. It's meant to instill confidence. When I used such a guarantee in my consulting practice, my only condition was the commitment of the principal of the firm — I couldn't be pawned off onto an underling.

Trade for Larger Commitment

Caveat first: Be careful with this one. Sometimes it makes sense to offer a price break if the client can commit to a volume of work sufficient enough to allow you to make more informed staffing and other resource allocation decisions. The challenge is that, in many creative firms, there are few true economies of scale. I've fielded many calls from panicky creative firm principals when the procurement department of their largest client started to squeeze them for a "volume discount." I'll touch on dealing with procurement later, but suffice it to say that in most of these instances, there were no economies of scale to be passed on to the client, making the idea of a volume discount laughable. Instead, it's better to use some of the other alternatives discussed here and elsewhere in the book. Like I said above, to a trained professional, the first discount is nothing but an invitation to keep demanding more.

There *is* something to be said for revenue certainty, and when negotiating with a new client, adding further project or spending commitments in (get them in writing!) is the same logical trade as taking value out. In examples like the above procurement squeeze, however, there is rarely a guarantee of more revenue — both parties are usually a year or more into an ongoing relationship by the time the first of these requests comes in. The exchange on offer for your discounted price is not *more* volume — but rather an implication that it's required for you to retain *existing* volume.

Walk Away

You've got to believe that you're never worse off walking away from a tough negotiation or a price buyer. When you walk away, you preserve your integrity and your positioning as the expert practitioner. You also reserve your right to do business with the client in the future. And you retain the right to re-engage later and resume the negotiation.

People fear walking away as though it is always the end. If everything was right but the price, then walking away isn't usually the end but a pause that can trigger the most basic animal instinct of attracting to us those from whom we retreat. I can think of multiple times in my agency career and consulting practice when I walked away when I could not get my price, terms, or conditions met, then reached out to the client after a few days with a new way to try to make things work. I secured some great engagements this way. Sometimes, walking away is a negotiation ploy, waiting for the other party to blink first. Sometimes, after thinking it through, I found a way for both parties to get what they wanted. I can think of many more times when I've walked away or counseled my clients to walk away, only to have the buyer suddenly reappear and readily agree to something they previously found unacceptable or unaffordable.

"No" is not the end; it's the beginning of what happens next. Everybody is buying. The only variable is time. The time might not be now. But if you're not willing to walk away from poor fits or unprofitable deals, then you'll be a slave to bad and unprofitable clients until you finally muster the courage.

CHAPTER 24

Remove Pricing From the Front Lines

In which we explore the merits of centralizing the pricing function, or at least prohibiting most people in the firm from setting price.

It's common in the creative professions that the person doing the selling has no training in negotiating. So we routinely get our heads handed to us when it comes to negotiating price.

Lessons From the Best: Car Dealers

I spent six years working in automotive advertising for some of the world's largest agencies on some of the world's largest car brands. Much of that time was spent working on so-called tier II or dealer association accounts that exist in the friction between slick brand advertising (tier I) and the hard-hitting, often schlocky, retail advertising of the dealer (tier III). At the dealer association level, we lived in the crossfire, alienating everybody. It was a war zone, but also an incredible learning experience. I learned a lot about how *not* to sell by watching sales happen in car dealerships and from listening to the incredible stories told over cocktails. But there were some great positive examples, too.

When you are negotiating to buy a car and you make an offer to the salesperson for anything less than the full sticker price, the salesperson does not have the authority to accept your offer. Even if, in mid-negotiation, you offer the salesperson a price that his sales manager has told him is acceptable, he still cannot say yes. He has to "take it back to my manager." Even then, it's likely he will come back with one more small ask (known in car sales parlance as a "security bump," designed to remove any doubt that your offer was too high). Removing the ability to set or accept price from the front lines in this way gives the car dealership a significant advantage during negotiations. It eliminates the possibility that a new, poorly trained, or otherwise hungry salesperson will do a deal that is unacceptable to the sales manager.

Ah, but such unacceptable deals happen in creative firms all the time, don't they?

Invoking Policy

A few years after my stint in automotive advertising, I met with an existing design firm client to discuss an identity project for a new acquisition they were making. I knew what I wanted to charge for the project and how much time my team needed to get it done: $20k and eight weeks. I knew I would get pushback on both, as my client had no qualms about always asking for a lower price and a quicker turnaround.

I prepared for the meeting by typing up a policy on identity design. In the most formal language I could muster, I wrote in two brief paragraphs the scope of identity design work, the price ($20k), and the amount of time required to deliver (eight weeks). I printed the one-page document on three-hole-punched paper to make it look like I had pulled it from a poli cy manual, and I put it into a folder, into my briefcase, and went off to the meeting. The meeting began as I suspected it would. The client outlined the project, I explained the price and timeframe, and she asked for concessions on both. I replied with, "Just a minute." I then opened up the folder, read to myself the policy statement I had typed only an hour earlier, and said to the client, "Sorry, it's $20k and eight weeks." I handed her the policy statement. She read it for herself, handed it back to me with a simple, resigned "Okay." That was it.

Wait, what? "It's not that easy," I thought. "It can't be!"

It is. Invoking policy is an incredible lever that we rarely use in the creative professions, probably because we have so few of them. We didn't get into this business to be governed by all these policies, after all, did we? Well, some of those policies are good for us. So good, I started making them up.

A policy is merely a predetermined decision. I had communicated to the client that I had no authority to accept her lower price or shorter timeframe because of a policy. She wasn't about to negotiate with me on a point of policy.

I took the lesson I learned that day about removing pricing decisions from the front lines and started using it elsewhere. I found myself saying, "They don't let me set price" or, with a slight self-deprecating smile, "They don't let me talk about money." It worked great. When I went on to become a consultant, I noticed that in my clients' businesses there were many account services and new-business personnel who were routinely underpricing or getting beat up in negotiations with clients. The solution was simple: remove pricing authority from these people. Most who were stripped of this authority were relieved, and everyone benefited.

In my consulting practice, I routinely invoked policy about things I would or would not do in the engagement and not once did anyone ever say to me, "Well, it's your company — you made the policy, just break it." As I think back over my career working in ad agencies and design firms, running a solo consulting practice and a larger training organization, I cannot recall one instance where anyone ever tried to get me to change or deviate from an objection or request that I stated as policy.

More Policies, More Often

We run into policies all the time when negotiating with clients, and when they use them, we always back down. Anytime a client invokes a policy, they seem to win. But we shouldn't let them, not always. We lose because we come into the negotiation backed by preferences and inclinations. Policies trump wants every time. We need to use more policies in our negotiations, and we need to meet policy with policy when a client uses one. For example, when a client says, "It's our policy that the firms submitting proposals cannot speak to the decision-making team during the process," you could reply with, "Well that's unfortunate, because it's our policy that we never submit a proposal to an organization without first having a conversation with the decision makers."

Now what? In a policy stalemate like this, human beings have to step in and make a judgment call. They have to talk and work things out. Imagine that.

Use more policies.

Who Should Have Pricing Authority?

Assuming you see the benefits of removing pricing authority from the front lines, the next question is, where does it go? Who should set price?

Generally, you want the price setter to be someone who is not overinvested in the sale, in the client, or in the work. That means not the artist in love with the craft, not the high-affiliation account person in love with the client, and not the new-business person in desperate need of a win.

In many firms, it also means not the principal.

It's my experience that in more than 50% of creative firms with ongoing margin problems, the principal is the main price-cutting culprit. There's no standard answer to the question of who should set price, but there is an easy way to get to the answer: *Ask your people*. The answer may be more than one person. You may decide that one account person handles pricing well, but another should not set price. Should the new-business person set price? Again, that depends on the person, and the best judges are the others in the firm.

In *Implementing Value-Based Pricing*, Ron Baker recommends creating a new role of chief value officer with the responsibility for making all pricing decisions, or an internal value council for the same purpose. These are two great ideas worth exploring.

Make the Next Price Perfect

Whether you decide to remove pricing responsibility from some and leave it with others, to concentrate all pricing responsibility in one person, or to create a committee or council, a vital part of value-pricing success, particularly in the early days as you transition from cost-based models, is to standardize a pricing review process to be conducted after the conclusion of each value-priced engagement. Knowing what you know now, if you had to price this engagement again, how would your options, pricing models, and prices change?

“If you want to be a billionair
a way to help a billion peopl

Peter Diamandis

Author of *Abundance: The Future Is Better Than You Think*

Negotiate Like a Pro

In which we explore a list of tips to improve your negotiating prowess, preparing you to stand up to professional purchasers and trained negotiators.

Much of the negotiating you will do when following the principles, rules, and tips laid out here will be handled by the document itself — your one-page proposal containing three options. You will still find yourself in situations, however, where further negotiating is required. This is most likely to happen when others come to the table late in the sale. Often, these late arrivals are from the client's procurement, legal, or accounting departments. They've been brought in to get the best possible deal from you, which in their eyes might mean rolling back all the pricing gains you've made by following the guidance in this book, and more. Don't worry — they're headed for defeat. Here are some helpful tips to round out your negotiating skills toolkit.

Tip: Don't Overinvest

One of the foundational principles in Win Without Pitching is to avoid overinvesting in the sale. Your power in the sale is a function of which party wants the engagement to happen more. It can be expressed as the following formula:

The Impact of Self-Esteem on Pricing Power

Figure 24.1

$$PP=M \times A \times SE$$

Where *P* is your power in the sale, *db* is your desirability — how much the clients needs or wants you, and *D* is your own desire for the client. The party that wants the engagement the most is the party with the least power. That party also incurs the bulk of the costs associated with buyer and seller coming together to determine a fit. When you overinvest in the sale, you send signals of neediness and hand power over to the client. Trained negotiators on the client team will use this power to get a lower price and better terms. They'll also know that your own overinvestment will make it easier for them to keep extracting concessions from you as the negotiations go on, because the more you invest in the deal, the harder it is to walk away. That's the sunk cost bias we discussed in chapter 18, "Nudge, Nudge; Wink, Wink."

Let's look at three types of sunk costs or overinvestments that you are most likely to incur, thereby sending all the wrong signals to the client negotiating team.

Sunk Costs: Time and Effort

You know that 50-page deck you stayed up all night crafting so you could wow the client in the meeting? The client was impressed with your dedication. So were the professional negotiators on her team. They really took note of how invested you are in this deal and deduced how difficult it would be for you to walk away. Your team might be proud of their effort and the client might be appreciative, but the sharks on her team know they've got you.

Sunk Costs: Emotions

The second sunk cost is your level of emotional or psychic investment. The client can tell how invested you are by the way that you're talking to her, by the neediness in your voice, or the crafting of your email. Perhaps the buyer is treating you rudely, and you're responding cheerily, "Hey, I've sent you two emails and left you three voice mail messages and I haven't heard back. Give me a call, we're very excited to get going!" You wouldn't let your child get away with such a failure to respond to your repeated inquiries, why would you let an adult get away with it? One reason: *because you want it more than they do*. Power to the client.

I had an ad agency principal client once leave a voicemail message for a prospect who had negotiated in good faith then let the last two messages go unanswered. My client's message to him was, "I've left you a few messages now and not heard back from you. If this is how we're communicating now, I'm wondering what's it going to be like if we actually work together?" His prospect client promptly called him back with an apology. Keep your emotions in check. Your demeanor should be professional and clinical. Human, yes, but not the puppy dog version.

Sunk Costs: Money

You got on the plane. You hired an outside researcher at your expense to come up with some free insights in the sale. You pulled your two best creative teams off of paying client work to generate some concepts for the pitch. All of these sunk costs make it more difficult for you to do the right thing, and often in negotiating, doing the right thing is walking away or communicating to the client your willingness to walk away if this isn't a good fit.

You might have a ton of power in the sale. Yours might be the hottest creative shop on the planet right now, with the awards and the rockstar creative director and the new campaign that everyone's talking about, but if you don't leverage that power, it's useless. The only lever you really have is to walk away or to have the client think you might walk away. Rein in the neediness, including the overt and unnecessary expenditures.

Tip: Stop Negotiating When You've Won

The second negotiating tip is to stop making concessions once you've won. The challenge is knowing that you've won.

If you've made it all the way through the closing conversation, where you present your proposal, and procurement doesn't show up until afterward, then there's a high degree of certainty that you've won. It's not in procurement's interest to let you know that you've already won, so they don't. Tom Kinnaird is the former head of procurement for marketing firm holding company WPP. In a speech to the Institute of Practitioners in Advertising (IPA) in London in 2016, Kinnaird spelled out one of procurement's core tactics: "They lie. 'Guys, it's down to two or three firms, it's time to sharpen your pencils.' Bollocks."

If the client's procurement department gets involved early, then they will run the whole show and the decision will come down to price. In such cases, you should think long and hard about even participating. I had a marketing firm client once whose dream client was a large, well-known software company in her backyard in Silicon Valley, but she had no way in. Then one day, the dream client called. "I'm calling from the marketing commodity procurement department," said the voice on the phone. My client sighed, replied, "Then you're calling the wrong firm," and hung up. She wanted an inroad into that client badly, but no matter how badly she wanted it she still recognized that the "marketing commodity procurement department" was a road to nowhere.

When procurement arrives late, it's almost always because the client has made the choice (if you're still in contention, that choice is you — congratulations) and now it's procurement's job to get the best price they can negotiate. They will ask for concessions on price, on terms, on scope, on IP rights, on price again; and they'll just keep going. Until you say no. They are trained to ask until you say no.

When they arrive late, *you should start with no* and then, if you must offer some concessions, consider using some of the tactics described in earlier chapters, like trading a lower price for a reduction in value.[16] It's a shame to watch firms negotiate away margin and terms when they needn't. Before you start negotiating, ask yourself if you've already won.

Kinnaird and Gerry Preece, former Procter & Gamble global head of design procurement, both run consulting practices that teach creative firms how to negotiate with procurement. Preece's book *Buying Less for Less: How to avoid the Marketing Procurement dilemma* is a must read for anyone who has to face off against procurement.

Tip: Out-Wait the Waiter

A key tactic of the professional negotiator is to slow everything down and test your nerves. *How badly do you want this? How anxious are you? If I just wait, what will you read between the lines and then do to tip your hand?*

This plays out through long delays in responding to your queries. They ignore your messages for days and then reply saying, "I've just been busy with other things. By the way, I need X from you, and I need it within 24 hours."

That's the game they like to play. When you've decided you've already won, and you're not overinvested in the deal, and you recognize that procurement is telling lies, you respond by slowing things down even further. It's all a test to see how badly you want it — therefore, how much or how little power you have. If the client takes a day to respond to you, you take two. If the client hints at a stall, saying, "I'm going to be out of town next week," then so are you, plus a couple of days. Out-wait the waiter. If the client is caught in the crossfire of this waiting game between you and her procurement person, send a courtesy note to her saying, "This doesn't seem to be a priority for your procurement team right now, so we're going to slot in another client project, but we'll be ready when you are."

If procurement goes back to the client and says, "They're taking forever," and the client calls you and asks, "Hey, what's going on?" you want to be able to say, "Your procurement team is using the stall on me. They're dragging this out forever, and I'm just letting them do it. I know you want to get going. You and I had an agreement. I'm willing to move forward on that agreement. If procurement needs a win in some other area, other than price and terms, you and I can agree on a bone that we can throw them. But if you want to move this thing forward, you really need to speed up your procurement people."

That's the position you need to be in. There are three parties in this scenario. You want the client to be the most anxious to move forward so that you can afford to out-stall the procurement people.

Tip: Decide Your Concessions in Advance

The people who don't get carried away in the heat of the moment at an auction tend to be those who decided in advance what their highest bid would be, and then they stick to that self-imposed limit. You would do well to apply that same idea to any concessions you might make in any negotiation with a professional buyer or negotiator: determine them in advance of the negotiation. Some call this "deciding your give-gets," which implies that you decide in advance not just what you're willing to give up, but what you would want to get or trade for that concession. For example, your standard payment terms might be 30 days, while in many large companies they really want 60. If you're willing to trade a longer payment period to get your price, then it's good to have that decision made in advance. Avoid agreeing to something in the moment that you hadn't previously thought through, then regretting it afterward when you're able to examine the trade in the cold light of day.

One caveat, however: Just because you decided you might give something up to get something, beware that you don't give it up or offer the trade too soon.

Tip: Neuter the Final Negotiators

Imagine that you've successfully concluded a positive closing conversation and secured a verbal agreement from the client on one of your options. You know from doing business with this type of organization, however, that the inevitable call from procurement is coming. They will seek concessions on price and terms. They always do. In such a situation, consider concluding your closing conversation with an explanation to the client of what is going to happen next. "Now let's talk about the phone call that I'm going to get from your procurement department. They're going to ask me to cut the price, but the price is the price — I think we both agree it's fair. So my answer is going to be no. Then, they're going to slow down the paperwork and use other tactics to try to force concessions from me. It's nothing personal, it happens all the time and I kind of enjoy the games. The problem is that it will be many weeks, months even, before we can get started on a project that we could otherwise begin next week."

Many of my clients have had success with this approach. In this moment you're at the height of your power to deal with procurement and it's a great time to leverage that power. This approach is especially effective when dealing with C-suite clients who have the authority to overrule or expedite procurement and to whom the project is particularly important. You can share the inside joke by looking the senior client in the eye, smiling and asking, "When I get that call, can I refer them to you?" In this moment, the players — you and the client — are conspiring against the bureaucrats — procurement — to get shit done. It's a wonderful, conspiratorial moment, trumped only by the one when procurement calls and you get to say, "I've been expecting you. Your president wants to talk to you about this."

Your power is greatest in the moment right after you get a verbal agreement. Leverage it to neuter the final negotiators.

Tip: Use Alternative Forms of No

"No" is such a great word. Soon after a child learns to speak she discovers the amazing power in the word. In sales, no is a great word to hear. It's the second best answer after yes. You can often do something with a no, and if you can't do something with it now, then no doesn't mean "no, not ever," it just means, "not right now."

Let's stick to how you might deliver a no in a negotiation. There are many ways to do so, and you should know a few of them.

Alt No #1: Use a Positive No

In a positive no, you take the request that you're hearing from the client, and then you restate it in your own words, distancing yourself from the specific request but providing a solution — a yes to the need or want underpinning the specific ask. For example, a client might say, "I need you to get down to this price. I'm not arguing about the value. We just can't afford it."

The specific request is a price break, but the underlying issue is affordability. In a positive no you would ignore the specific request, which the client has put forward as the solution to his underlying problem, and instead offer a different yes or solution. "I'm hearing you say that affordability is the issue. I can help you with that by stretching out the payment terms. What terms would you need?"

When delivering a positive no it's important that your whole demeanor is saying yes. You are optimistic, enthusiastic even — you're there to help and together you're both going to get this thing done.

Alt No #2: Ask "How?"

When the client is demanding a concession you are not willing to give, and you can't use a positive no, another approach is to simply ask the client, "How would I do that?" Let's say you're negotiating and the chosen option is priced at $75k. The client comes back and says, "I need you to deliver this level of service (or quality or deliverable) at $50k." Clearly that creates a dilemma for you (profit!). Ask the client how he thinks you should solve that dilemma by simply saying, "How would I do that?"

"I don't know, just cut $25k off the top," the client might reply. There are many ways you could respond. "Are you saying you think I've got 33% margin built into this price?" Or, "Do you think we should do this work for you at a loss to us?"

You can imagine all the places this conversation might go. It's no surprise that this tip comes from former FBI hostage negotiator Chris Voss, co-author of *Never Split The Difference: Negotiating As If Your Life Depended On It*. It's a great question for outing outrageous requests. If the client can't solve the problem for you (and he can't), you might start thinking out loud. “I suppose I could do this by putting a junior team on it, but to go to $50k I’d probably have to give this one to the interns.”

Save asking “How would I do that?” for the more outlandish requests where you know that to give the client what he wants, he’s going to have to give up a whole lot.

Alt No #3: Use “Yes, But”

You might think of “yes, but” as a spin on asking how. Let’s revisit the above scenario but taking the “yes, but” tack instead. “Of course, we can find a way to meet your budget. We’ll just put our junior team on it, remove access to principals, get you to pay up front, and then we can meet your price.” Of course, we can do that, but here’s how we’ll do it. A yes like this is a great move for separating price buyers from poker players. Somebody who really is interested in value will say, “I’m not willing to do that. I want to have senior people on the job and I want to be able to pick up the phone and talk to anybody on any issue.”

Tip: Don’t Negotiate Against Yourself

“Don’t negotiate against yourself” might be the most oft-repeated phrase in all of negotiation skills training. One of the common mistakes this phrase cautions against is responding to a client request for what seems to be a sole, acceptable concession. “Hey, I’m talking to my team here, trying to sell this proposal of yours,” says an agreeable-sounding negotiator. “Would you be able to do 60 days instead of 30 on the terms?” To the untrained ear, such a request might sound like, “You’re going to get the deal if you give me this one thing.” This is good news! So the seller agrees, expecting to get the signed contract. Instead they get one more request.

The untrained ear hears the end of negotiations, “If I just agree to this small concession ….” The trained ear hears, “I have a long list of concessions I would like to extract from you, and I’m going to drop them on you one at a time, making you think that each is the last.”

The 1970s police drama *Columbo* starred Peter Falk as Inspector Columbo, who would famously visit crime suspects, ostensibly to ask them just one question. Upon getting his answer he would begin to walk away, then stop, turn around and say, “Just one more thing ….” With Columbo, there was *always* “just one more thing.”

You would do well to assume the same when you get the request for one simple concession. To respond to these concessions one at a time is to negotiate against yourself. Before you agree, try a simple trial close, which is an “if, then” statement. “If we were to agree to 60-day terms, then do we have an agreement or is there something else in the way?” If you hear, “Yes, we have an agreement,” it’s best to remain cautious with trained negotiators. Reply with, “Send over the agreement and I’ll take it to my team (boss, CFO, etc.) and see if I can get it signed.”

Tip: Beware the Rabbit

Let’s keep going with the above scenario where you trial close before offering the 60-day terms, asking if anything else is in the way before you agree to extended payment terms. Let’s say the client comes back and says that, why yes, something else is indeed in the way. “Once we have your best offer then we have to go get three bids. Nothing personal, it’s just policy.”

Have you ever been in this situation? Disheartening, isn’t it?

Here’s how I recommend you respond at the mention of the need to go get multiple bids. “Why don’t you go ahead and get your three bids. If, after reviewing them, you still want to talk to us about the engagement, then let’s talk. If you find a proposal that suits you better, great — you won’t hurt my feelings.”

In negotiating parlance, the rabbit is the firm that has been invited to bid on the project because it is known for low prices. Usually the rabbit’s quality is as low as its prices, so it is not seriously considered for the more strategic engagements; it simply functions as procurement’s way of driving prices down. Many of procurement’s claims that “your proposal is the most expensive” are outright false, but they will also solicit quotes for one or more firms after receiving yours as a negotiating lever. Sometimes it is indeed policy that they do so. You are under no obligation to be a pawn in such games, and you should certainly be asking yourself if *you* are the rabbit in this deal. If the opportunity seemed too good to be true to begin with, then perhaps you are the rabbit.

You’ll sometimes hear the three-bid requirement from the client (not procurement) earlier in the sale. Even then it’s a good time to be clear that you won’t be a pawn in that game. “We’re not really in the business of getting into bidding wars. I’ve already kind of explained what we do and the price range of our solutions. Why don’t you go get your three bids, and then once you have them, let’s you and I have a conversation? If, after getting three bids, you still feel like maybe we should consider this, then we’ll find a way to get you what you need so that we can work together.”

Based on the client’s reaction, you should get a sense of if you’re in the preferred expert practitioner seat or if you’re seen as the rabbit vendor. Don’t be the rabbit.

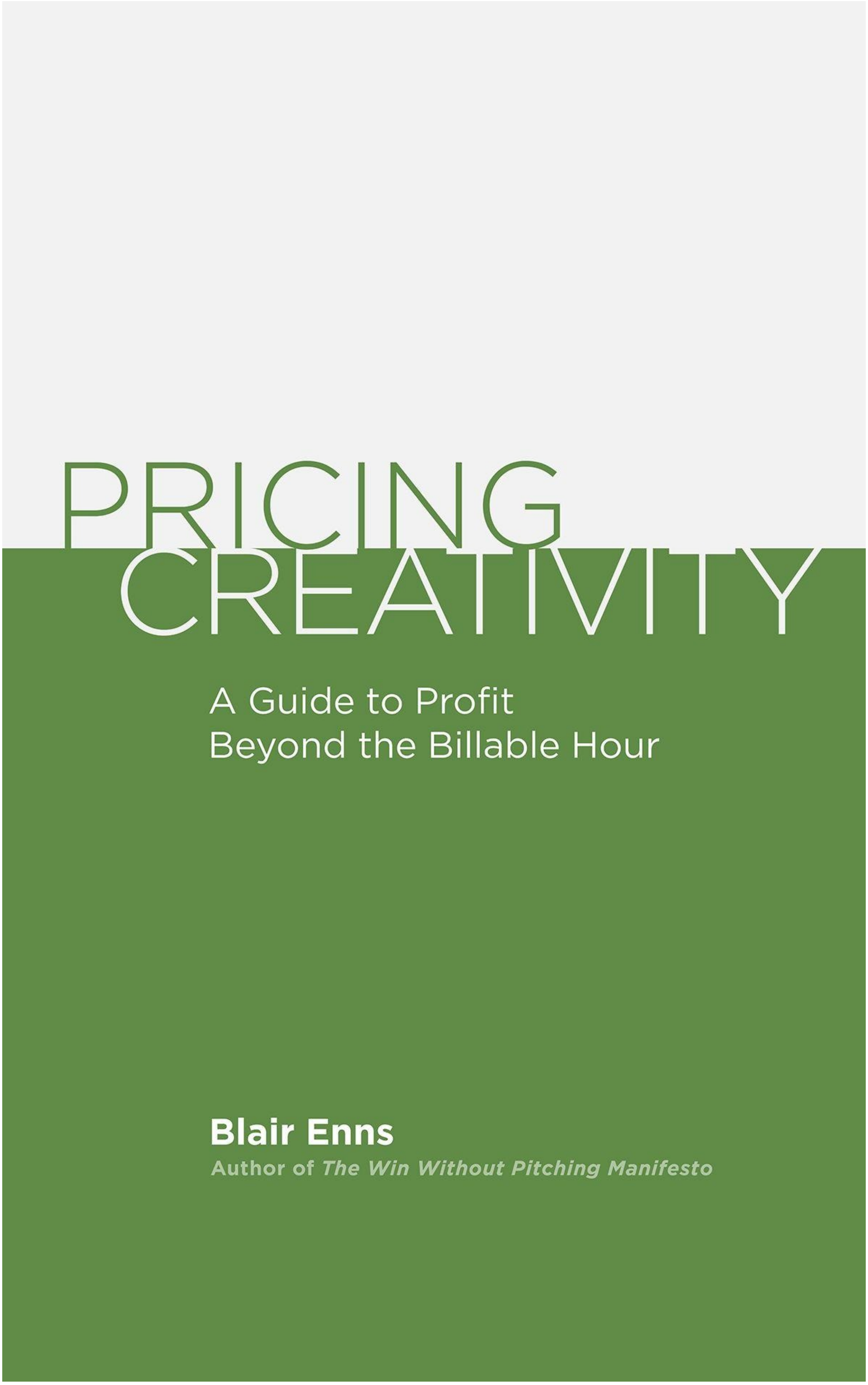
Tip: Beware the White Knight

The white knight is the senior person on your team who swoops in at the end of the negotiation so he can be the hero and drag the deal over the finish line. He thinks he can save the deal, but he usually wrecks everything, easily giving up margin that others fought for and that was there to be won all along.

Are you the white knight in your firm?

Consider removing such discount-prone saviors from the negotiating front line. Often, the culprits are your firm’s senior people who only need to be at the negotiating table when the senior client is in attendance.

Sometimes, the principal applies other less direct pressure to give up margin or terms, by continually asking whoever’s negotiating what the status of this deal is. But the worst thing the white knight can do is get frustrated with the slow pace and think he will swoop in and get it all done, violating some of the principles we’ve been discussing. He’ll make the big concession and say to procurement, “Okay, we’ll give you that thing that you’re asking for. Now let’s sign.” What’s procurement going to do? That’s an invitation to proceed and ask for more. Beware the white knight on your team — and recognize if it’s you.



Begin to Untether From Time

In which we examine different methods for transitioning from cost-based to value-based pricing, and for letting go of the scourge that are timesheets.

I said at the beginning of the book that I've known many creative firm principals who netted out lifetime earnings equivalent to what they would have earned if they had just gotten a job. And yet these principals worked so much harder than they would have in any job. But hard work and efficiency, as we've already discussed, come at a cost. Those who are afraid to let go of selling and tracking time are clinging to the efficiency paradigm. They cannot see the benefits of letting go — the potential for innovation, the impact on their clients' businesses, and supernormal profits — because they're afraid that they won't know what to measure.

Let's explore untethering from time in two steps: first by discussing how to transition away from selling time, and second by discussing ways to transition away from tracking time.

Transitioning From Cost-Based to Value-Based Pricing

A slow transition away from *selling* time, isn't as necessary as it might be in moving away from *tracking* it — the harder addiction to break. But here are two intermediate steps you might take if you don't have the stomach to switch to value-based pricing in one fell swoop:

1. Distinguish Between New Clients and Old

You reinvent your firm one new client at a time. So many new sales techniques, pricing strategies, and other innovations you implement are best applied to those with whom you do not have an existing relationship. Clients accustomed to being charged one way often resist being billed another — especially when they've been buying time, which many believe is easier to account for than value. If you're struggling with the transition, draw a line today between your current clients and future clients, and resolve that for all future clients you will price the initial engagement based on value, using options, anchoring, and other principles I've laid out in this book. Go ahead and try value pricing with your current clients if you're up for it, but if you get so much resistance that you feel you need to retreat to your previous pricing model, don't sweat it. Treat any conversions of existing clients as a bonus. Your focus is on reinventing your pricing strategy one new client at a time. Old clients equal old prices and pricing models. New clients equal new models and prices.

2. Value Price Strategy First

The arc of projects within your client engagements follows these four phases: diagnose, prescribe, apply, and reapply. The first two phases of diagnose and prescribe are often referred to together under the banner of strategy, planning, or diagnostics. In this combined phase, your primary deliverable is the thinking that precedes and wraps around the doing that comes later. To transition slowly from selling time to selling value, begin by value pricing the strategy portions of your engagements while you continue to sell hours for implementation work.

After you get comfortable value pricing the first phase, then start including the creative concept work in your value-based prices. Then include the initial application work, or first application of the new creative, which is always more valuable than the repeated applications that follow bec ause design language is set in the first one.

You may never be able to value price the re-application or implementation work of the final project phase, what we referred to earlier as "marketing logic." Some firms can do it, but in some markets or disciplines, it's just too commodified. If that's the case, don't fight it. In fact, go the other way and step on the tactical to raise the value of the strategic by charging less for re-application work, treating it like the commodity your clients view it as. (You'll only do this if you can value price the strategy work, obviously.)

So, the two first steps in moving away from selling time are: 1) Start with new clients first, and 2) value price just the strategy work in the beginning, expanding into creative concepts and initial application work as you get more comfortable with your new pricing model.

Transitioning Away From Tracking Time

More firms struggle with the idea of not tracking time than they do with not selling it. How, after all, will you track profitability? How will you allocate the resources of the firm?

First, I'll point out that letting go of tracking time is not a requirement of no longer selling time. There are some tradeoffs you'll make if you continue to track time, but you'll still be farther ahead than when you were both selling and tracking time. Those tradeoffs include the administrative burden in time and anguish, and a culture of hour-counting and efficiency at the expense of innovation and customer value.

Back in my consulting days, when I felt like I was pushing the solo-consultant model as fast as I could, a friend suggested that I would make an extra $100k per year if I simply tracked my time. He believed that if I had a better accounting of how I spent my time I would become more efficient and find more ways to make money. "Perhaps I'll try it," I said, unconvincingly. I never did. In addition to my skepticism about his claim, I became an entrepreneur, at least in part, to escape the suffocating world of timesheets and other false gods of productivity.

A few months later as I lay in bed, felled by yet another illness brought about by working too hard and traveling too much, I considered again his suggestion that I should track my time, thinking it might be the route back to a saner work-life balance. I almost decided to try his experiment — and then I had the idea to flip it. Instead of tracking time, I would track time off. I would set a goal of taking a certain number of days off in the next calendar year and I would track my success. I targeted six weeks off, which was a significant upgrade over the year just ending. How did I do? That next year, I took over nine weeks off. And I made the same amount of money as I had the previous year when I had run myself down to bedridden status four times on three continents.

We may have this time thing backward.

The Two Stages of Success

Strategic Coach founder Dan Sullivan has observed that in the early days of your business or career you get ahead by working hard and by saying yes to everything. But you achieve the next level of success by different means that require you to not only use a different set of tools, but to renounce the tools you used to get to the first level. The saying that "what got you here won't get you there" could not be truer.

Where hard work and saying yes got you to the first level, the second level requires innovation and saying no. Innovation, which is a byproduct of creativity and risk-taking, requires time because it is wasteful by nature. It requires the freedom to fail. You find the time required to fail by saying no to most things. Warren Buffett famously said, "the difference between successful people and *really* successful people is that really successful people say no to almost everything." Saying no creates the time you need to waste, luxuriously, in the pursuit of innovation and customer value. You'll be stuck at the first level of success until you get your head around that.

What Is Time?

Most of us are slaves to the clock, but as I said at the very beginning of the book, few of us truly understand this *thing* that seems to rule us all. Yet time is not a thing at all. It is not a fundamental principle of the universe, as most think, but a property of the observer and his relationship to the universe. It is a human construct designed to measure change.

That time is our own invention surprises most people, who assume it to be a property of the universe. Einstein's idea of space-time, from his Special Theory of Relativity, after all, places time as the fourth dimension in an equation that sees it flex, along with space, as the speed and position of the observer changes. To a photon (the smallest unit, or *quantum*, of light), time and space do not exist because both collapse and become "undefined" at the speed of light. If it were sentient, the photon would experience being everywhere in the universe at once, for all time. You, standing on the street observing the photon zip through the sky, however, would see it moving at 186,000 miles per second and then "die" as it hit the pavement in front of you and transferred its light energy into heat. The photon thinks it lives everywhere, forever. You think it lived for a brief period along a precise and fast-moving path. Who is right? You both are. Such is the nature of time. Like value and fairness, it exists only in the mind of the observer.

Einstein seems to have come to grips with the full implication of time being a property of the observer, and not the universe, late in his life. One month before his own death, the great scientist famously wrote of the passing of his friend, engineer Michele Besso, "People like us, who believe in physics, know that the difference between past, present, and future is only a stubbornly persistent illusion." Still, as far as illusions go, it's pretty useful to know that when we show up to work in the morning, others on the team, who share our illusion, will be there, too.

I took you only a little way down the rabbit hole of time hoping you would come away with even the slightest sense that our ideas about it are incomplete and limiting. Still, I won't make the leap from that to the assertion that you should stop tracking time, cold turkey, today. There are ways to ease into a world without timesheets. Here are two steps you might take:

1. Track Time Only for Those Who Sell Time

The first step in letting go of tracking time follows the step of transitioning to value-based pricing on strategy work before implementation work. If you're not selling strategy in units of time, then simply set your people free from the need to track it for this type of work. If your firm is large enough, free the strategy people up from tracking time altogether. That's the easiest way — to make some people hourly and others not. Then make it a goal to free more people from timesheets over time.

When I was a young account person and I saw the agency principal billing his expensive time to my accounts, I got a little miffed. My incentives were to keep the senior people away from my clients so that I could deliver on budget, profitably. My attitude would have been completely different if the principal didn't have an hourly rate. The firm could have taken many thousands of dollars off the top of the engagement for "strategy," leaving me to account only for implementation in my work in progress reports, thereby encouraging me to tap into the big brains in the firm rather than hiding from them.

2. Measure Profit More Broadly

Another transition idea and one that works well with smaller firms is to quit tracking time altogether and track something else as an indicator or predictor of profitability. It might be firm-wide profit itself, or it might be the AGI/FTE that we discussed in chapter 3, "Inputs, Outputs, or Value: What Are You Selling?" Simply select the metric you are most comfortable with and set a target for that metric, one that you'll measure less frequently than by job, perhaps by quarter. Let your team know that timesheets are required only when firm-wide performance falls below your target metric.

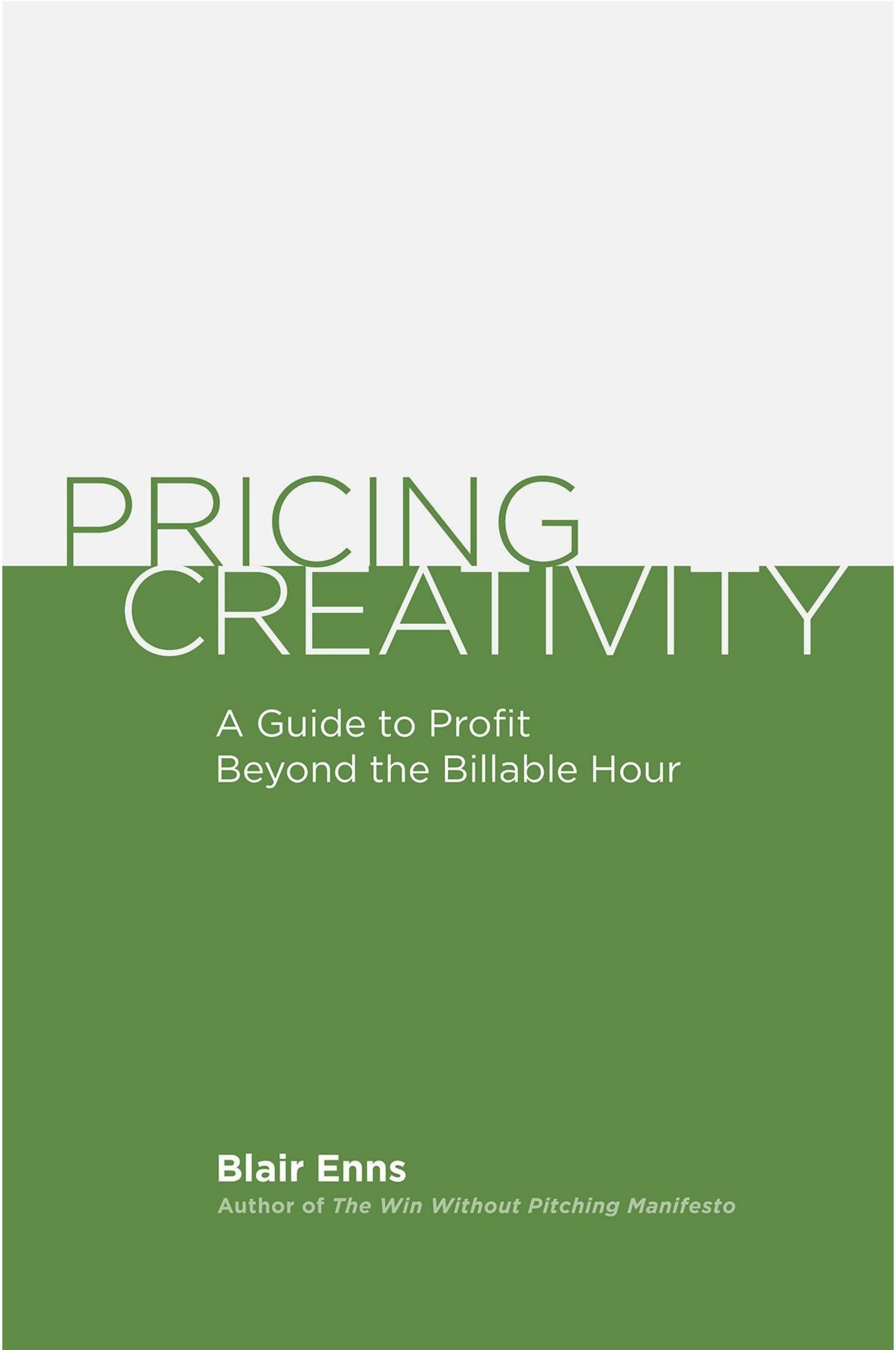
"But, how will we know if each job is profitable?" is a common reply. You won't know by this measure, but in value-based pricing, you'll continue to get some prices wrong, just as you do now. The only difference is that when selling value, you give up the right to go back to the client and ask them to pay more for your poor scoping or shoddy project management. You'll compensate for this by charging more.

A Final Lesson From Car Dealers

As a young advertising account executive working on an automotive account, I found myself sharing a drink with a car dealer one night after attending the black-tie charity night at the Detroit Auto Show. After our second or third drink, I told him I had a question about the car business and I wanted an honest answer from him. "Sure, anything," he said. I asked him, "Is there such a thing as a deal in the car business?" He frowned. "What do you mean?" I clarified, "I mean when I need a new car and I call my brother-in-law who works at your store and he says, 'Come on down, I'll get you a great deal,' am I really getting a great deal?" The dealer's eyes narrowed on me and he leaned in to let me in on a secret. "The rule in my store," he said, "is friends and family get grossed 25% more."

I lost it. "I knew it!" I all but yelled. "You guys are crooks! That is unconscionable!" He had just admitted that if the average gross profit on a car was $2,000, he would seek to make $2,500 from friends and family. I was livid, but he stayed calm and explained. "They pay more because they get better service. They get bumped to the front of the service line when they need a repair. They get their salesperson's car as a loaner when theirs is in the shop. They get better service than everybody else and so they pay for it. We would resent them if they didn't." His argument did nothing for me that night but over time I came to see the brilliance and the fairness of it.

Just as some relationships are messy or demanding and require different economics to make them work, so too is value-based pricing. The lesson here is to assuage your concern over the ability to track profit job by job. Follow the car dealer's lead and charge more to compensate you for any messiness.



The Last Obstacle Is You

In which we examine our own ideas and beliefs that may be preventing us from charging what we should and earning what we might.

The gap between what you earn and what you feel you should earn is a function primarily of things going on inside you. That this book is relevant to you and you can afford its exorbitant price places you easily among the most financially fortunate people on earth. I won't go so far as to suggest that your financial fortunes are fully unaffected by external realities; instead I'll quote a wise friend: "I learned years ago that most of life's external problems are internal problems."

Mental Barriers to Pricing Success

You can employ all the pricing strategies in this book and yet there may remain some final mental barriers to pricing success that will impair your profit and larger personal financial success. While my list of barriers isn't exhaustive, I think I've hit on the most common ones. Perhaps you will see that one or more of these are indeed internal issues that you must come to terms with, or perhaps you have leaped over these barriers and are ready to take your success to the next level.

Low Self-Esteem

An oft-cited organizational behavior model says that performance equals motivation times ability (P=MxA), with motivation being a multiplier of ability rather than additive to it. Numerous studies have shown that people with similar measurable abilities (skills) and only moderately different motivational makeups (drives) will yield widely different performance levels. To a pricer and salesperson, however, there's another vital variable that must be added to the equation: self-esteem.

Self-esteem is a subjective and emotional assessment of one's own worth. This self-judgment and the resulting attitude toward oneself imbues one's beliefs and behaviors across most aspects of one's life. In pricing and selling, self-esteem is easily as important as motivation. Allow me to suggest a new formula that includes its impact as I see it.

Pricing performance (PP) equals motivation (M) times ability (A) times self-esteem (SE). If that's too many variables, I'll state it more directly with only the slightest generalization: *Gross profit is a measure of many things, the most important thing being the self-esteem of the pricer-salesperson.*

Low self-esteem is no small issue. It is not something to belittle or laugh about, but neither is it in my ability to affect it. If you suffer from low self-esteem, however, there are things you can do to compensate.

Consultant David C. Baker identifies the two main sources of confidence in business as 1) deeply held beliefs and 2) options. The deepest, most foundational belief we might hold is the self-esteem belief of "I am worthy." All other beliefs, such as "I am worth this price," or "I, not the client, am the prize to be won in this relationship," are built on this foundational belief of self-worth. Some come to this belief easily, while others find it just out of their grasp when they need it most. In his book, *The Business of Expertise: How Entrepreneurial Experts Convert Insight to Impact + Wealth*, Baker writes of how some of his clients' poor views of themselves affected their pricing: "The pricing premium they were seeking was elusive, as was the pricing premium that I thought should be the ultimate test of their positioning success. Over and over again they based their pricing on what they thought of their abi lities and not what I [or their market] thought of them."

Among the business practices that stand as evidence of a lack of belief, Baker lists:

- Discounting your fees.
- Modifying your terms.
- Allowing unusual invoicing procedures.
- Providing advice before an engagement is crafted.
- Letting clients determine the problem while just looking to you for transactional solutions.

If you lack the deeply held belief of your own worth, then you must compensate for it, says Baker, by controlling your options. Having alternative options to whatever opportunity might be in front of you allows you to act more confidently — in our case, pricing higher and presenting that price with confidence. The best confidence-boosting path to creating options, says Baker, is to ensure that your new business opportunities exceed your capacity. (Another justification for limiting your client base to around a dozen.) Throughout this book we've discussed other confidence-boosting techniques as well, such as not overinvesting in the sale and keeping your desire for the engagement at a place slightly below that of the client. Other options that allow you to price with confidence include a healthy new-business pipeline and money in the bank. The lower your self-esteem, the more you need to manage all the other variables. Perhaps one day you will recognize that you are worthy of success and monetary reward.

Dysfunctional Ideas About Money

I don't understand money as fully as I would like to, and the more I try to learn, the less I feel I know. Like time, our ideas of money are incomplete and limiting. Regardless, what I've come to understand about money from a pricing point of view is that our relationship to it and our ideas about it are most important.

Money has a funny effect on people. It triggers the most basic response in us, the one that is fundamental to all life: the imperative to survive. When we don't have money, or fear we will not, we react as though our lives are endangered. We act the same way when we get accustomed to a comfortable lifestyle and then run the risk of having our income drop to old levels. It's a limbic response, one that is irrational in today's world but deeply hardwired. I'll assume that for anyone reading this book the risk of their very existence being threatened by a lack of money is low. Yet we all feel personally threatened when our financial security is threatened.

I believe that many are deeply uncomfortable with their own primal response to money — feeling the fear when they know there is no rational basis for it. Many overreact by blaming money itself, perhaps seeing it as evil, and they compensate by eschewing what they see as monetary excess, spending only on their most basic needs.[17] Some quietly loathe themselves for having such visceral reactions to money. I have noticed that some of these same people tend to stockpile cash. They abhor and hoard money in equal measures, despising it yet living in fear that they won't have enough. Anyone with that type of relationship with money will resent anyone else who seeks to get others to part with more of it.

Many people fail to see the degree to which money keeps moving. If you think back to the early days of your career, you'll remember that just a small number would get you excited back then. Now, the number that it would take to elicit the same joy or terror is likely to be much larger, because as we age, we more innately understand that money is meant to be passed around. We don't actually touch much cash anymore. We just watch as numbers on a screen come in and go out, get bigger and smaller.

The larger the numbers are that move under our stewardship, the more everyone benefits. Problems arise, for us and others, when we clutch at money rather than take some and move it on. You can view money as something that is pulled from one set of hands into another, something to be hoarded and guarded — or you can view it as the lifeblood in a system of cooperation among strangers, a system that works to the benefit of many as long as that blood keeps circulating. To ascribe any more judgment to money than that is to project our own fears and desires onto it.

Difficulty Letting Go of the Labor Theory of Value

We don't have to think too much about the subjective theory of value — that all value is personal and subjective — to understand it. Yet in moments of stress, many believers default back to the labor theory — that the value of something is determined by the cost to make it. I'm sure that even the most classically liberal of economists has had a reactive moment of outrage, thinking, "How can $Y be the price when your cost is only $X!?" before they recalled the more reasoned subjective theory, overriding their initial primal response.

Many of us want to live in an absolutist world, clearly defined by laws of nature, jurisprudence, and social interaction that are understood and obeyed by all. In such a world, the labor theory of value, or something similarly neat and tidy, would rule. But life is almost entirely subjective, no matter how much we wish for objectivity. Many people consider value, beauty, fairness, color, sound, and time to be absolutes — real things external from us and universally true — and yet none of them are. They are all our own mental constructs — perceptions of electromagnetic stimulation translated by our brains into a cognitive experience that is unique to each of us depending on the innumerable variables of our individual circumstances. The idea that a cost should be X or a price should be Y is delusionally disconnected from how the universe works.

To succeed as a pricer you need to watch for your own tendency to default to the labor theory of value. My wife, the hardest working person I know, will occasionally remark about someone, "She is very successful. She must work very hard." Like a programmed droid, I reply, "No, she must take a lot of risk." After the initial stage of success (the validation or proof-of-concept stage, which does require a lot of hard work), your success will depend more on your creativity (ability to see opportunity) and risk (willingness to leap for it) — which together equal what I call innovation — than it will on hard work (labor). To price based on effort is to shackle yourself to a life of hard labor and devalue the expertise you have amassed.

Conflating Egalitarianism and Fairness

In September 2017, Russ Roberts tweeted a line that seemed to be at the core of many conflicting ideas around economics, commerce and, most relevant here, pricing: “I don’t think the conflation of egalitarianism and fairness is a good idea.”

Conflation is the combining of two concepts into one. Egalitarianism is the idea that everyone deserves equal rights and opportunity, something all but anarchists would agree on. There’s a secondary level of equality implied in the doctrine, however, and this is what serves as the divide among the population: the idea that inequality in income and wealth — and by extension, prices — is unfair. Roberts points out that people with strong egalitarian ideals often presume to work in the name of fairness, assuming that egalitarianism *is* fair. But it’s not necessarily so.

Some believe that having everyone pay the same price is fair, but they’ll never get all the people who would be paying that same price to agree. Everyone’s idea of fairness, after all, is different.

Views on egalitarianism differ widely, as well. Some of today’s personality tests actually measure something close to your egalitarian quotient. In Gallup’s Strengthsfinder, for example, I score high in Individualization, which Gallup says makes me “intrigued with the unique qualities of each person.” Which is a polite way of saying that I see the differences in people and justify treating them differently based on those differences. My business partner-wife, on the other hand, scores equally high in what Gallup calls Consistency, which means she is “keenly aware of the need to treat people the same.” Neither of us is right or wrong — it’s just the way we see the world. Any serious conflicts that might arise in parenting or managing are rooted in thinking that one view is right and the other is wrong. That is the only mistake anyone can make when it comes to their worldview: to mistake it as truth.

Having declared my bias toward individualization, I’ll reiterate Robert’s caution of conflating or confusing, via your pricing decisions, an egalitarian worldview with your right to decide what is fair to others. Fairness is a feeling — and you cannot decide for others what they should feel. You are responsible for coming up with a price that will be fair to you and that you estimate should provide a decent return on the client’s investment. Whether the client feels that price is fair is for her to decide. Don’t worry, *she’s likely to let you know!*

If egalitarianism is a big part of your personal doctrine, ask yourself if you have repeatedly undercharged or overcharged your clients because of this conflation of equality and fairness. Try to recall your own reaction when another person tried to impose their idea of fairness on you or told you what you should be feeling.

A Scarcity Mindset

Those with a scarcity mindset seek security over freedom, believing there is only so much money, opportunity, or time to go around. They believe we should be content with getting our needs met, and that it’s unseemly to want more. If that describes you, then you will always secretly sabotage your own financial success. You will see every attempt to get a higher price as a greedy act, one that leaves one party enriched at the expense of the other, rather than an opportunity to create more value in the world and enrich the lives of others while simultaneously enriching your own. This scarcity-driven idea that business is zero-sum — that if I have a dollar then someone must have one less — is one of the most dangerous ideas in business. And it’s the root of much of the denigration of capitalism in the 21st century. Wealth is created through trade, through helping others in the pursuit of that double thank-you moment that leaves each party enriched and grateful.

In his book *Wanting What You Want*, Strategic Coach founder Dan Sullivan observed that scarcity-minded people stop growing. They expend negative energy on unhealthy competition for what they see as scarce resources. The abundance-minded, on the other hand, says Sullivan, have a positive creative energy that they direct to always building a better future. The abundance-minded never stop growing.

I believe that continuous growth is a fundamental requirement for human beings. But the idea that growth is a necessary requirement of a successful economy never sat comfortably with me. Indeed, it was the first lesson I learned in my first university economics class. It rattled me then, and it has troubled me for more than three decades. (For the record, economics was not my area of study. Billiards was.) I was certain that perpetual growth was unsustainable. I therefore reasoned that either the growth requirement was wrong or that the entire capitalist system on which it was built was fundamentally flawed. I think many share this belief, largely because we equate economic growth with natural resource extraction and environmental degradation. But consider how much of today’s economy is created from selling the intangibles of ideas, advice, and experiences. I sell training to those who sell ideas to those who sell services, experiences, other ideas, or goods. Look at that value chain and ask how much of the total economic value is wrapped up in the good or product at the end. The razor or car or CNC machine that your client’s client sells is far removed from you, or me, or my lawyer, or the person who walks my lawyer’s dog, and yet a lot of wealth is created along the way.

Technology is a massive driver of growth. According to Peter Diamandis, author of *Abundance: The Future is Better Than You Think*, technology has a dematerializing effect that most of us haven’t stopped to consider. Take the phone in your pocket and consider the volume of raw materials that it replaces:

- Landline phone
- Computer
- Camera
- Video camera
- Address book
- Photo album
- Calculator
- DVDs and music player
- Flashlight
- Calendar
- Wristwatch
- Alarm clock
- Kitchen timer
- Stop watch
- Compass
- Level
- A room full of books and magazines
- The Encyclopedia Britannica
- Dictionary
- Greeting cards
- Voice recorder
- GPS
- Scanner
- Guitar tuner
- Airline tickets

That list is ridiculous. And that’s just as of this writing in 2017. Spread it all out on the table in front of you and marvel that in just over a decade, it all got reduced to one device that fits into your pocket. While growth sometimes means more stuff, especially in the previous century, increasingly it means less. Even soda cans today are made with roughly 30% of the material they were two decades ago. Diamandis is adamant that technology dematerializes everything. It also:

- Demonetizes, making things more affordable. By one estimation, the things your iPhone replaces add up to hundreds of thousands of dollars; and

- Democratizes, putting it into the hands of the many.

Joseph Pine and James Gilmore, in their book *The Experience Economy*,[18] say we have progressed from an economy of extracted commodities, to one of manufactured goods, to delivered services, and finally to staged experiences. Each progression, the authors contend, adds another order of magnitude to the value created. They use the progression of the birthday cake to illustrate: "Most baby boomers can remember childhood birthday parties when Mom baked a cake from scratch. That she actually *touched* such commodities as butter, sugar, eggs, flour, milk, and cocoa." The ingredient costs were probably about 20¢ to 30¢. Over time, the commodity-based birthday cake was replaced by packaged mixes ($2 to $3), then delivered cakes ($20 to $30), then staged parties ($200 to $300). Pine and Gilmore see the next level of progression as the staging of *transformational experiences*, which calls to mind the multithousand-dollar birthday parties, what some may consider over the top, lavished on 5-year-olds these days. That's a four-orders-of-magnitude increase in economic value from about four decades ago, when my mom made my birthday cake, to the epic extravaganzas of today. Very little of the massive increase in value is tied to materials.

Wealth in the modern world is increasingly generated through the creation of intangibles: services, ideas, advice, knowledge, and experiences. We're certainly not free of all problems associated with growth, but the progression toward experiences and the trend of dematerialization show that, contrary to the ideas I held for decades, continuous growth is desirable and sustainable.

Now, Go Get It

I recently said to an older friend in a whimsical moment of generational payback, "The problem with your generation is you don't understand that money grows on trees." We shared a laugh over my perspective, which is a product of two things: First, there is so much more wealth in the world today than there was even a generation ago, and second, my own worldview is one of optimism and abundance. Both of those conditions — one external and the other internal — are products of pure chance: when and where I was born, and the genetic makeup and/or early nurturing of my parents. I won the lottery on both counts.

Many people come by their scarcity mindset honestly, by being only one or two generations removed from real economic hardship. It needn't be a life sentence, however. Times have changed and you can, too.

Entrepreneurs, with their high tolerance for risk, tend to part with money easily because, from their abundance-based perspective, money is everywhere. They know that if they really want more, they can just go get it. The vast majority of entrepreneurs see themselves as earning that money by creating happiness or wealth or otherwise helping others. They see trade as beneficial, indeed as the very mechanism through which they help. To see this — that you help others through the trade of your creative ideas and advice — is to clear one of the last barriers of success in pricing.

Endnotes

1 Identity designers might see my use of the word “logo” as a cringeworthy oversimplification of the more complex visual identity systems they sell, but I’m going to continue to use the term in this context precisely because it’s often how the question is phrased by the client: “What do you charge for a logo?”

2 Based on a *respectable* profit margin of 20%. In truth, the typical creative firm is less profitable — closer to 15% on average, according to ReCourses, therefore the percentage increase is likely to be higher.

3 Ravasi, D.; Schultz, M. “Responding to Organizational Identity Threats: Exploring the Role of Organizational Culture.” *Academy of Management Journal*, vol. 49, no. 3 (2006): 433–458.

4 The basic ratio of “60/45/20” is explained as follows: keep firm-wide utilization at 60% or greater and limit payroll to no more than 45% of adjusted gross income (revenue less any cost of goods sold, abbreviated as AGI) and you should be able to get to a profit margin target of 20%.

5 As an example, ten full-time employees and three half-time employees would yield an FTE count of 11.5.

6 This does not apply to a productized services firm. I draw a clear distinction between customized and productized firms in the next chapter.

7 Other professional firms that I’m less familiar with, such as legal, accounting, and those that use a partner model, might scale differently with an optimal client size higher than 10 to 12. I don’t know those businesses well enough to say so definitively. I do suspect the almost universal condition in most professions is a firm limited by too many clients.

8 In some studies, adding a third, higher price increases the sales of the middle price — previously the highest price — by almost 50%.

9 The rookie mistake when delivering paid diagnostic findings is to present a report that is so lengthy and detailed that the profit on what should be a lucrative first phase is eroded. Such excessive writing also impairs your ability to close on the remainder of the engagement in the meeting, as the client now has to retreat to read your report! *Beware the report.* When it comes to presenting diagnostic findings and strategic recommendations, there’s an inverse correlation between the value of your thinking and the amount of paper it takes to communicate it. If the diagnostic has a technical component, or any other valid basis for a lengthy written document, be sure to summarize the key points in a briefer document upon which the decision makers can base their decision while the technical people scour the report to validate your synopsis.

10 I used to joke in speeches on the subject that the “killer app” of the proposal deck was to place the firm’s logo and the client’s logo in the top corners of every page, thereby triggering the client to believe that you were destined to be together. I stopped using the joke when I noticed far too many people nodding their heads and taking notes.

11 *The Home Depot®* and *Home Depot®* are registered trademarks of The Home Depot, Inc.

12 In chapter 10, “Limit Unpaid Proposals to One Page,” I said that when proposing a diagnostic you should eschew the options rule and present only one. That guidance still stands; however, there will be situations where it makes sense to propose a diagnostic of some sort as one of the options, typically the lowest-priced one.

13 I try to apply Drucker’s advice to life in general, broadening the definition of profit beyond just the monetary form.

14 In sales, the “try before you buy” approach is also known as the “puppy dog close.” “Take the puppy home for the weekend and then decide if you want to keep it.” In the history of life on earth, no puppy dog close has ever failed to work. In the sale of puppies, anyway.

15 Kegan and Laskow Lahey use the term “stages” rather than “levels” and they identify five of them in their model, but for the sake of simplicity and clarity, I’m sticking to the truncated idea of three levels here.

16 *Start With NO* is the name of one of my favorite books on negotiating: *Start With NO: The Negotiating Tools The Pros Don’t Want You to Know*, by Jim Camp.

17 It’s beyond the remit of this book to address the issue of chronic and needless overconsumption, other than to acknowledge that it is another common affliction also rooted in uneasy ideas about money, fear, and happiness.

18 Updated edition, 2011