Setting Customer Prices

A Step-By-Step Guide

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Now is the perfect time to reassess all the work you do for your clients, allowing you to see the value you're providing and get paid accordingly. Once you've established the scope of your work, you can share this value with your client, helping them get a better understanding of all the work you do for them as well as reviewing their current needs.

This workbook features eight steps to help you get to know your client's needs, create pricing to reflect your value and services, and maintain this value through creating a scope of work.

Whether you think about each step or print it out to work through, this workbook can help you get the most reward for your hard work.

To start, identify a few select people within your firm who can form your pricing council. These will be the individuals who can assess and determine prices based on the scope of work and value you will deliver to clients. If you're a small firm or operate on your own, consider creating a network of peers to form a pricing council for collaboration.

Step 1:

To make it easier to determine what services your client will require and how much work you will need to create value pricing for, ask your client the questions below. It may be helpful to add some or all of these questions to your current client intake process. Not only will these questions help you learn your client's needs and expectations, it will also allow you to communicate what value you can add. If a member of the pricing council is available, it's helpful to invite them to this meeting.

Questions to Ask the Client:

1. What do you expect from us, and how do you see us helping you address challenges and opportunities?
2. What growth plans do you have?
3. If price were not an issue, what role would you want us to play in your business?
4. Do you expect capital needs? New financing?
5. Do you anticipate any mergers, purchases, divestitures, recapitalizations or reorganizations in the near future?
6. We know you are investing in total quality service, as are we. What are the service standards you would like us to provide?
7. How important is our service guarantee to you?
8. How important is rapid response on accounting and tax questions? What do you consider rapid response?
9. Why are you changing firms? What did you enjoy about your former firm? What did you not like about your former firm that you do not want us to repeat?

10. Are you concerned about any of your asset, liability or income statement accounts to which we should pay particularly close attention?

11. How do you suggest we best learn about your business so we can relate your operations to the financial information and so we can be more proactive in helping you maximize your business success?

12. What is your budget for this type of service?

Step 2:

Present the information gathered from your client in Step 1 to your pricing council, who can then create three pricing options at three different levels of service.

For example, American Express Green, Gold and Platinum cards vary in price based upon the value and services they deliver.

It's important to offer clients options, not a take-it-or-leave-it single price. This allows the client to consider the value you provide and will also reveal the client's individual price sensitivity, which you can use in future pricing. It helps you answer the question: Did we leave money on the table? If there was no pushback on the price, then the price may be too low.

Step 3:

With your client's information, your pricing council can then go through 20 questions to ask before establishing a price (see Exhibit 3 below). Based on the answers, you can create three internal prices for each level of service, based upon their assessment of the client's subjective value and price sensitivity.

In tough economic times, this three-tier pricing model is a great opportunity to offer less expensive options for struggling clients. When times get better, many clients will often choose to upgrade their services.

1. **Reservation price**
   Below this price, the firm would turn down the work. It must get this price. It will generate a normal profit.

2. **Hope for price**
   A firm should get this price more often than not. It will generate a supernormal profit.

3. **Pump fist price**
   This is an aspirational price, when the firm is adding extraordinary value. It will generate a windfall profit.

Many firms use the following nine-box model:

	RESERVATION	HOPE FOR	PUMP FIST
PLATINUM	$C	$B	$A
GOLD	$N	$M	$L
GREEN	$Z	$Y	$X

From this brainstorming session, your pricing council can determine at which price the three options will be presented (obviously, not all nine prices are presented to the client). The higher range of these prices should be based on the value being created, yet all prices will be lower than that value to ensure the client earns more value than the price they pay.

For example, if you know the client is highly price sensitive, you may only present the reservation price for all three options. However, if there are some services that are adding marginal value, a hope for price may be quoted for the Gold and Platinum levels. If extraordinary value is being created, quote the pump fist price.

This is where the art of pricing comes into play. It requires judgment, but the more the pricing council does it, the better the members will get, since pricing is also a skill. Firms that use this model report that it makes a firm "compete with itself." To receive the best price, you must conjure up ways to add extraordinary value. This is a worthwhile thought experiment that focuses on value, not time.

Many people ask how to determine value since it's subjective and there's no formula. Determining value begins with a deep understanding of your client's value drivers, which requires an in-depth conversation with the client. Consider the following questions when thinking about what your client finds valuable.

20 Questions the Pricing Council Should Ask Itself Before Establishing a Price:

1. What is the client's cost of not solving this problem in dollars?

2. What is the economic benefit to the client if they solve the problem?

3. With whom on the organizational chart are we dealing?

4. Who referred this customer to us? Why were we referred in the first place?

5. Do they have any time-sensitive deadlines for the completion of this project? Why do they need to do it now and not in six months?

6. Who's paying for the service? Are they spending other people's money?

7. Do we have any competitors? If so, who?

8. What price information do we have about these competitors?

9. How profitable is the client's company? How long have they been in business?

10. Have they engaged with someone else prior to us to do similar work? Who was the prior firm, and why are they changing?

11. How sophisticated is the client?

12. Does the client add to the firm's skills or markets?

13. Do we like this client?

14. How do we help reduce the client's risk?

15. At what price would this be so expensive the client would not consider buying it?

16. At what price would this be expensive, but the client would most likely still buy it?

17. At what price does this become inexpensive?

18. At what price does this become so inexpensive the client would question its value?

19. What price would be the most acceptable price to pay?

20. What costs can we afford to invest in at the target price and still earn an acceptable profit? At what price would we walk away? What price do we desire?

Step 4:

Present the options to the client. A member of your pricing council should attend this presentation, especially if the partner leading the client meeting is not a member of the pricing council or is uncomfortable discussing price.

Step 5:

The option selected by the client is then added into a fixed-price agreement (FPA). You can include as much detail as required as to the scope of work, client responsibility to provide information, timelines for delivery of work, etc.

Step 6:

Perform an adequate amount of project management on the scope of work, detailing who will perform the work, timelines for delivery to the client, and other planning details.

Step 7:

If you discover scope creep and are performing work not outlined in the original FPA, inform the client, give an option of how to proceed, and issue a change order to perform any additional work. This policy also applies to any new services the firm provides within the year not specified in the FPA.

Step 8:

The U.S. Army has a policy of performing After Action Reviews (AAR), which take place after every mission. After assisting many firms in implementing AARs, we are convinced it is a practice that would have numerous benefits for your firm, especially as it relates to the pricing council, helping you to evolve pricing into a core competency.

For more information on value-based pricing, visit the Marketing Hub for additional articles and stories from firms that have made the switch.

Visit the Marketing Hub today at intuit.me/marketinghub

The steps in this guide are based off a webinar series and articles created by Ron Baker, a CPA who started his career in 1984 with KPMG's Private Business Advisory Services in San Francisco. Today, he is the founder of VeraSage Institute – the leading think tank dedicated to educating professionals internationally – and a radio talk-show host on the www.VoiceAmerica.com. His show, The Soul of Enterprise: Business in the Knowledge Economy, can be found here: www.thesoulofenterprise.com.

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