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Embrace value-based pricing

Value-based pricing builds better firms, empowered people and happier clients, writes **Shaun Jardine**. Here's how you can make this move.

"Price is what you pay, value is what you get." So said Warren Buffet. The chances are that during 2023 you are likely to be asked something along the lines of "Can you find out more about value-based pricing."

Why are you likely to be asked to embark on this quest? Well, we know the professional services market, in its current form, is being disrupted. There is a battle for talent, and a demand from the workforce to work in an agile manner. And there are new technology-based entrants to the professional services market.

New businesses are being created every day by a new generation of owners that expect their advisors to be reflective of who they are and how they work.

Unsurprisingly, both clients and their advisors are becoming more vocal about their dislike of the billable hour and are searching for better alternatives.

The professional services industry is changing at a pace like never before. As the American author William Gibson wrote, "The future is already here – it's just not very evenly distributed." This is true for value-based pricing. It's here.

But what is value-based pricing?

In short, it is agreeing a fixed price with a customer which is fair to them and to the firm that carried out the work which created the value.

Or, to put it another way. It's not the six minutes it takes a professional to give an answer to a problem, it may be (in my case) the six minutes plus 36 years of experience I bring.

Value-based pricing, or VBP, is nothing new. It is only new in the professional services sector where the billable hour is dominant.

What is value?

Value is not rational. It is subjective, contextual and a feeling.

Don't believe me? Why then do people get so attached to objects on the BBC's *Repair Shop*? It's because the items have sentimental value over and above the price someone else would pay. It's a feeling.

I will have a different watch to you, but they both give us the same information. Why do people pay more? Because they like the feeling of owning the watch they have. It is subjective. The amount we pay for water is different. A glass of water at home is hundreds of times cheaper than a bottle of water we pay for in a restaurant. How much would you pay for water if you were stranded in the desert? Value changes all the time. It's contextual.

So, what are the benefits of VBP?

Here are some of the key advantages that follow from a value-based pricing project for firms, clients and staff.

Clients

- It means predictability and certainty. No extras. No surprises.
- Transparency, cutting down bill reviews.
- It reduces mistrust.
- Clients will get access to talent within the firm (for a price).
- It allows clients to see the benefits of collaboration with experienced professionals.

Firms

- It projects confidence and experience.
- It pre-qualifies the client to ensure they are a good fit for the firm.
- It provides the opportunity to cross-sell additional services.
- It improves communication between clients and advisors - a stepping stone to the fabled 'trusted advisor' status.
- Profits increase. Debtors will reduce. Cashflow improves.

- Clearer bill forecasting. Reduced administration costs.
- Professionals can delegate effectively.
- Teams act as teams with no hoarding of work.
- Team morale improves.
- You attract proactive staff who do not want their lives measured in six-minute units.
- You can motivate and reward individuals and teams who overperform.

Employees

- Will have conversations with clients to make sure they are a right fit for the business.
- Are empowered to turn clients away.
- Will be able to give fixed value-based prices and a choice of options.
- Will feel confident telling clients they don't have all the answers (yet).
- Will be able to tailor service levels, response times and service delivery. One size does not fit all.
- Less chasing from managers.
- Delegation of billing to others.
- Better levels of confidence and self-esteem.
- Enjoy a better work-life balance, with less stress and improved mental health.
- A happier (working) life.

So, if having read the above you ask yourselves why every firm doesn't do this, the answer is it takes planning and it's a change of a business model.

Now we all know that many professionals dislike change. To implement VBP it is necessary to embark on an unlearning exercise.

Change management

Any successful change management project must be planned. Participants have to accept it will take time to embed that change.

John Kotter's book *Our Iceberg Is Melting* is a great place to start. A fable about how a colony of penguins need to find a new home or die. I have bought over 50 copies of this book in my time (Amazon must think I am mad). It's a great book to explain the change management process.

To implement change break it down into eight steps. The steps below are from Kotter's book. I have added a word beginning with P to each one as it makes it easier to remember them.

Under each heading, I highlight the areas that marketing and BD professionals can get involved in delivering. I am of the view that they should be part of the leadership team to deliver this project.



Why do barristers have clerks and actors agents? They are better at negotiating prices.

So, like all fables... if you are sitting comfortably, let us begin.

Step one - Paradigm: create a sense of urgency

- You need an 'as is' review of where you are now.
- The clients you act for.
- The clients that rate you.
- The type of clients you want to act for.
- Identify where WIP is being written off and why.

Step two - Pioneers: pull together a guiding team

- Looking at the current client journey.
- Map out a better customer journey.
- Create communications which are informative and empathetic.

Step three - Plan: create a change vision and strategy

- What do your customers buy?
- What clients do you want?
- How can professionals boost self-esteem?
- Create a list of VBP questions via work type.
- Create template fixed price agreements which clearly identify scope, assumptions and exclusions.
- Create gold/silver/bronze price options for the services you deliver.

Step four - Promote: communicate understanding and get buy-in

- Create both internal and external communication plans.

- Work with HR teams for compelling recruitment, induction and training programmes.
- Create a change order and communication process for when matters go out of scope.
- Workshop and create responses to deal with internal resistance and objections.

Step five - Permit: empower others to act

- Removing obstacles to action being taken... sacred cows may be slain!
- Accept that there are myths and bust them.
- Work out strategies and communications for off-boarding clients.
- Allow others to review and approve your pricing. Two pairs of eyes on every price. Why do barristers have clerks and actors agents? They are better at negotiating prices.

Step six - Prize: short-term wins

- Plan for wins.
- Identify low-hanging fruit.
- Plan to celebrate successes.

Step seven - Persist: implementing and sustaining change

- Do not let up.
- Prepare second wave of pioneers
- Identify and create a skills matrix for VBP and train where there are gaps.
- Implement and carry out After Action Reviews. Capture the learnings and recycle them.

Step eight - Passion: create a new culture

- Training policies.
- Training-needs analysis.
- Capture and celebrate customer moments of truth.
- Create case studies.
- Ensure leaders walk the walk.

So when you are asked "Do you know anything about value-based pricing?", you will be able to answer "Yes," I have the outline of how it all works." And we will all live happily ever after.



Shaun Jardine is the founder of Big Yellow Penguin, an advisory firm that helps lawyers embrace value-based pricing. He was previously a partner and CEO of the law firm Brethertons. Visit www.bigyellowpenguin.co.uk.