

" Price Your Services for Consulting Success "

Presented By
John D McQuaig,
CPA, CMC



John McQuaig- my Background

- CPA and CMC
- Bank Chairman
- McQuaig and Welk, PLLC
- Business Faculty- LCC International University, Klaipeda, LT
- Clear Focus, Inc
- Real Estate Development
- Farmer
- Mountain Climber: Aconcagua, Orizaba, Kilimanjaro, Rainier, Hood, Baker, Adams, Kala Pattar
- Author: Parallel Peaks: Lessons Learned While Climbing the World's Highest Mountains
- Actor Singer
- Other Sports



You Are What You Charge For

"The driving force of the economy is not dollars in people's pockets, it is the ideas in their heads--what they plan to do now. The dollars in their pockets reflect what they did before. What matters about the future is people's current projects and ideas."

—George Gilder

Gilder Technology Report



Ideas- Intellectual Capital

- Does NIKE make shoes?
- Microsoft
- Ideas are of great value- **good news** for consultants!



An Amazing BFO

The Customer Does Not Buy Hours!
Thus, consultants Do Not Sell Time!



The Four Ps of Marketing- Marketing Mix



Another Word For Marketing

Communication



In the Final Analysis

- You Are What You Charge For
- Do you want to be defined by an hourly rate?
- Is that your experience?



How Are Hourly Rates Determined?

$$\frac{\text{Overhead} + \text{D.N.I.}}{\text{Expected Hours}}$$

= AHR



The Role of Pricing in Product/Service Development

Cost-Based Pricing

Product/Service > Cost > Price > Value > Customers

Value-Based Pricing

Customers > Value > Price > Cost > Product/Service

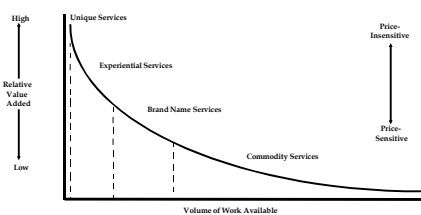


Are Consultants Commodities?

- Taxi Cab
- The Starbucks Effect
- Lettuce Business
 - salad in a bag, \$2.4B from late 1980s to 2004
- Evian
- Naïve



The Value Curve



© William C. Cobb
SOURCE: Adapted from William C. Cobb, "The Value Curve and the Folly of the Billing Rate Pricing," in *Beyond the Billable Hour: An Anthology of Alternative Billing Methods*, Richard C. Reed, ed. Chicago: American Bar Association, 1989, p. 18.



What People Really Buy

- 1) Good Feelings/Convenience
- 2) Solutions to problems; or Expectations, according to Ted Levitt, Harvard Business School



The Progression of Economic Value

- If you charge for **stuff**, then you are in the *commodity* business
- If you charge for **tangible things**, then you are in the *goods* business
- If you charge for **the activities you execute**, then you are in the *service* business



The Progression of Economic Value

- If you charge for **the time customers spend with you**, then you are in the *experience* business
- If you charge for the demonstrated outcome the **customer achieves**, then you are in the *transformation* business



The Five Offerings

- Commodities are *fungible*
- Goods are *tangible*
- Services are *intangible*
- Experiences are *memorable*
- Transformations are *effectual*



Transformations

- Charge for a demonstrated outcome—fitness clubs vs. trainers
- Sustained, through time
- Individual—the customer is the product!
- Establishes a unique relationship



You Are What You Charge For

“We have it in our power to begin the world over again.”

—Thomas Paine

“Could we start again, please?”

— Mary Magdalene
Jesus Christ Superstar

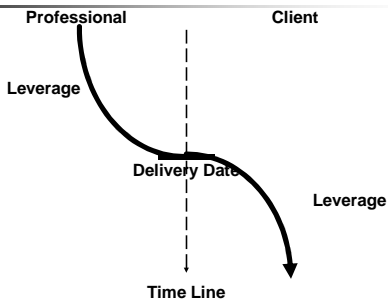


2 Characteristics of Price Psychology

- Price Leverage
- Price Emotions



Price Leverage



Every Customer Must Overcome Three Pricing Emotions



Questions Consultant asks him/herself when opportunity arises

- Who on organization chart?
- Who referred client?
- Timeline/Deadlines?
- Who's paying for service?
- Any competitors? Who? Sole Source?
- Price information?
- How profitable is company? How long in business?



Questions to ask (cont.)

- Does customer add to firm's skills or markets?
- Do we like this customer?
- Do they speak our language?
- What price do we desire?



Questions to Ask the Customer

- What do you expect from us?
- What is your current pain?
- What don't you like about your current situation?
- Does someone do this for you currently?
- Have you engaged a consultant before?



Questions to Ask the Customer (cont.)

- What keeps you awake at night?
- If price wasn't an issue, what role would you want us to play in your business?
- What evidence will you need in six months to determine if you've made right decision to hire us?
- If we could arrange to start this project the first of the month, Is there any reason we should not go ahead?



Asymmetrical Information

- Information concerning a transaction which is unequally shared between the two parties to the transaction
- Buyers will not willingly share with you how much they value your services



Outside-In Pricing

- Ask the customer what they think it's worth?
- If low, don't accept
- When do you want to discover their perception of value? -at start or end of engagement? When they get the bill?
- Self-identifies "A" customers



The Fixed Price Agreement

- Defines all services in upcoming year
- Clarifies customer expectations
- Defines subjective "fair price, prompt payment"
- Qualifies the customer
- Gaining an understanding of customer's goals
- Conveys your concern and willingness to assist



The Fixed Price Agreement (cont.)

- Discuss price up-front
- Involves customer in more than just paying the bill
- Better communication between customer and consultant
- Ability to quote fixed prices projects confidence and experience
- Strengthens your relationship with customer



The Fixed Price Agreement (cont.)

- Takes the mystery out of pricing policies
- Removes the customer's risk and uncertainty
- Increases accounts receivable collection
- Larger share of customer wallet
- Forces firm to be efficient and delegate if possible
- Allows the customer to determine payment terms



The Fixed Price Agreement (cont.)

Focuses customer on totality of the value

Tangibilize the intangible

Specifies the scope of each service

Competitive differentiation

Customers love it!



Factors That Influence Value/Price

Risk

Intellectual Capital: Computers, knowledge, networks

Extra effort-deadlines

Potential profit/loss to customer-economic and psychological

Comfort level-relationship



Overcoming Payment Resistance

- Payment Plan
- Auto payments
- Everybody is managing cash flow today



Sample Engagement Letter

Determine total cost

1. Individual Project Costing-Detail
2. Hourly compilation times 2 plus 15%
3. Value determination- What does it mean to the client?



Hourly Reporting

- Timesheets
- Ron Baker says no
- Cost is irrelevant
- Value is the only determinant?
- Does Microsoft price its software based on cost?
- Should ideas be priced on cost?



How did I earn \$ 9285 per hour?

- Contact called looking for financing...
- Up against it, special credits
- Worn out welcome...
- \$ 1.3 million x 4% divided by 5.7 hours

- Is that fair?



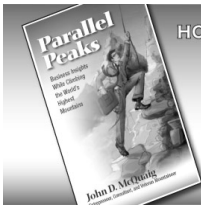
Our Firm...

- Upper end billing rates
- Consistently wrote down 12-15% over course of year.
- Now have net write ups...

- It works!



John McQuaig
509-665-6600
john@mcqw.com
www.mcqw.com
www.parallelpeaks.com



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AND KEEP HEADING UPWARD!

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CONSULTANT JOHN MCQUAIG