Pricing on Purpose: Creating and Capturing Value

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“The business enterprise has two -- and only two -- basic functions: marketing and innovation.

Marketing and innovation produce results; all the rest are costs. Marketing is the distinguishing, unique function of the business.”

Peter Drucker
What are you really selling?

What are your customers really buying?
Simon Sinek, Start with Why
www.ted.com
“The customer never buys a product. By definition the customer buys the satisfaction of a want. He buys value.” - Peter Drucker
How often do agencies track the following?

<table>
<thead>
<tr>
<th>Metric</th>
<th>Percentage</th>
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<tbody>
<tr>
<td>Job estimates</td>
<td>98%</td>
</tr>
<tr>
<td>Labor hours and costs</td>
<td>94%</td>
</tr>
<tr>
<td>Client business results</td>
<td>22%</td>
</tr>
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</table>
The First Law of Pricing: All Value is Subjective
Value = The maximum amount a consumer will pay for an item
Confusing Cause and Effect
Eight Steps to Implementing Value Pricing
Implementing Value Pricing

Eight Steps at a Glance

1. Conversation with Customer
2. Pricing the customer, not the services (CVO/Value Council)
3. Developing and pricing options
4. Effectively present options to customer
5. Option selected codified into an Fixed Price Agreement
6. Proper Project Management
7. Scope creep, utilize Change Orders
8. Conduct Pricing After Action Review
“Language was invented to ask questions. Answers may be given by grunts and gestures, but questions must be spoken. Humanness came of age when man asked the first question. Social stagnation results not from a lack of answers but from the absence of the impulse to ask questions.”

-Eric Hoffer, Longshoreman Philosopher
Implementing Value Pricing

1. Conversation with customer

Not: “What do you need?”

But rather: “What are you trying to accomplish?”
Implementing Value Pricing
1. Conversation with customer

Listen > Talk

Opening: “Mr. Customer, we will only undertake this engagement if we can agree, to our mutual satisfaction, that the value we are creating is greater than the price we are charging you. Is that acceptable?”
The Benefits of Discussing Value

1. Creates trust
2. Aligns incentives
3. Differentiates you from competition—how you sell is indicative of how you solve
   4. Frames your services as an investment, not an expense
   5. Inspires action
   6. It improves communication since it’s focused on results
   7. It lowers client’s price sensitivity
The Second Law of Pricing: All Prices are Contextual
Implementing Value Pricing
3. Developing and Pricing Options
Rational vs. Irrational
Behavioral Economics
Insert Dan Ariely Video here
<table>
<thead>
<tr>
<th>1 Yr Sub</th>
<th>Price</th>
<th>Mkt Share</th>
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<td>Print only</td>
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<tr>
<td>Print &amp; Web</td>
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42.8%

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<tr>
<td>Print &amp; Web</td>
<td>$125</td>
<td>32%</td>
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Anchoring
$1,000 Omelette
Framing
Options: factors to consider

- Timing
- Terms
- Talent
- IP Ownership
- Degree of customization
- Level of service
“We’re not in the business of selling time—we sell momentum for your business. Do you want to haggle over hours, time, and costs, or do you want the ideas that will give momentum to your brand?”

Jeff Hicks, CEO
Crispin Porter + Bogusky
Thank You!

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