

DIGITALAMBITION.CO



DIGITAL AMBITION

Value-Based Pricing Cheat Sheet

What Is Value-Based Pricing?

Value-based pricing is a pricing strategy which sets prices primarily, but not exclusively, according to the perceived or estimated value of a product or service to the customer rather than according to the cost of the product or historical prices.

How Is That Different From Other Pricing Models?

The pricing methods you'll most commonly see service businesses use are:

Cost-plus pricing – a pricing strategy in which the selling price is determined by adding a specific dollar amount markup to a product's unit cost.

Salary-based pricing – a pricing strategy where you start with the goal salary you want, add in your costs, and then divide by the number of clients you want to work with (or sell to) in order to reach the goal figure.

Why Is Value-Based Pricing Better? ([Full Article](#))

1. It better leverages supply and demand.
2. It aligns the value of your skill and knowledge with the value you bring to the client – it's a fairer pricing model.
3. It greatly increases your profit margin.
4. It allows you to make more money while working with fewer clients.
5. It provides you with much higher margins that can be used to increase freedom or scale.
6. It opens the door to working on your business instead of in your business, elevating you to CEO.
7. It empowers you to provide a higher quality service.

How Do I Switch To Value-Based Pricing?

Switching your service or freelance business from cost-based pricing or salary-based pricing to value-based pricing is fairly easy. The two most difficult steps are finding the confidence to do it and communicating that confidence to current and future clients.

To be clear, value-based pricing does not work if you are unable to confidently communicate all the value you provide to your client.

With that said, here are the steps...

Step #1: Outline Your Intangibles.

What do you bring to the table that your competitors don't? These are what I call, "intangibles." They separate you from the competition and they're a big part of what your client will be paying for.

Examples:

- You have more experience.
- You're more trustworthy (in your client's eyes).
- You're faster.
- You're more responsive with communication.
- You fill a gap/need that others don't.
- Specific skills that directly contribute to more value for your client (maybe your competition designs pretty websites but you design pretty websites that CONVERT at double the rate of your competitors' sites).

Obviously, some intangibles are more important and more valuable than others.

Step #2: Stop Quoting Clients Based on Cost or Hours.

If you currently have hourly pricing on your website or in your proposals, delete those mentions. Never speak of hours or costs, ever, unless there are significant costs associated with taking on a client (such as a photographer who has to rent specialized equipment or sets in order to create a specific shot).

Your pricing, for the most part, will no longer have anything to do with either of these factors ever again. Once a client knows you price your services that way, you're finished.

Note: If you want to take baby steps toward value-based pricing, you can allow all your current clients to remain on your current pricing model and only present value-based pricing offers to new clients.

Step #3: Understand Your Client's Pain and Put That Pain in Context Before You Offer a Quote.

There's a reason your client is coming to you. They have a pain that they're trying to solve. That pain, plus the specific circumstances surrounding your client and their pain, are what create the value of your services. If you don't understand the pain, or aren't able to grasp the context, you're going to struggle with determining a price.

Here are some questions you can directly ask your client (in whatever way you'd like that fits your discussion)...

1. What will [my service] do for you or your business over the next 6-12 months?
2. More specifically, how will that help you? What will you be able to do that you weren't able to do before? *(Always go deeper on the first question. They'll usually answer with something generic).*
3. How long have you been looking to take action on this? *(If it's very recent, you might be one of the first people they're talking to which means they're more likely to shop around after getting your quote. They're going to require more education around the value you provide).*
4. If we don't do this, what will happen? *(Get them to communicate the negatives or missed opportunities they'll experience if they don't take action).*
5. Are you willing to make a significant investment in this and how soon are you prepared to take action? *(This will help you determine if you're working with a serious client who is truly feeling their pain point).*

Here are some questions you can ask yourself as you listen to your client...

1. What will my intangibles do for this client, specifically? *(You need to know the answer to this so you can communicate it clearly rather than just talking about your intangibles in generic terms).*
2. What is the total value my client will gain from investing in my services? *(If your client is *truly* making an "investment" with you, then you need to treat your pricing like an investment product. What kind of ROI will your client be getting? Is that a good ROI or is it an ROI that's exponentially greater than they can get anywhere else? If it's exponentially greater, why are you okay with leaving so much money on the table?)*
3. How pressing is the need? What is the timeline? *(This is urgency. The more pressing the need, the greater the value).*
4. How soon am I able to execute on this? How fast can I get them a return? *(The sooner you can execute and the faster you can get your client a return, the more valuable you are. If your client has to wait for you to get started or has to wait a significant amount of time to see a return, your value is reduced. In behavioral economics, this is referred to as "hyperbolic discounting." The longer it takes to realize a return, the less value the client will place on that return).*
5. How many closing signals has the client given me? *(If a client has given you signals that they are ready to work with you or ready to buy, that's a good sign. It should also be a signal to stop selling and ask for the sale right then and there).*

Step #4: Sell

Now that you've worked to deeply understand your clients pain point and how your service and your intangibles align with that pain point and the value they provide, it's time to sell.

Selling isn't closing, by the way. Selling is communicating.

Your job now is to communicate everything to the prospect. Say their pain point back to them. Mention again what they'll lose if they don't take action. Communicate your

intangible value specific to the context of their situation. Communicate the tangible, real-world value your client will get from working with you. Talk about the timelines (but don't say anything about hours or costs).

Additionally, you should inspire your client with confidence and keep their focus on how much better their life is going to be after working with you.

Step #5: Propose & Close

After you're done selling, it's time to propose and close.

Arriving at a price is more of an art than a science and boils down to a host of different factors.

Keep in mind two things when you're first starting out with value-based pricing:

1. Most people underprice themselves significantly in the beginning.
2. Your proposal is open to negotiation. It's not a take-it-or-leave-it offer.

Once you have your price, communicate it confidently to your client. There should be no question marks in your structure or tone.

For example, "I think it's going to come out to around \$15,000" or "How does \$15,000 sound?"

That's weak sauce.

Try, "We're going to knock this project out of the park for you. It'll be \$15,000 and we'll have it done by X date. Here are the payment terms..."

If you've communicated the value properly and you have a serious prospect on your hands, you'll close right then and there.

That will happen a good percentage of the time, but you'll also run into a high percentage of objections.

If your prospect objects...

Step #6: Overcome Objections, Negotiate, and Re-Close.

Value-based pricing is mostly subjective. A good salesperson is able to get both parties (themselves and their prospect) to arrive at the same objective conclusion (that the price is worth it).

If you're unable to do this, it's okay. It's important to acknowledge the subjectivity of value-based pricing.

If your client has objections, the first thing you should do is work to overcome those objections. This usually means re-iterating your intangibles, re-iterating the tangible value, and reminding them of what will happen if they don't take action.

If you're struggling to overcome objections, you can also negotiate on the price. If you've done things correctly up to this point, you've quoted a price that's significantly higher than anything you would have ever quoted before. That gives you plenty of wiggle room.

It's a matter of deciding how much you're willing to negotiate. An important part of value-based pricing is the willingness to let prospects walk out on you.

Remember, with value-based pricing you only need a small fraction of the clients you used to work with in order to make the same amount of money. You can afford to let certain prospects get away.

Once you've worked to overcome objections and feel like negotiations have gone well, re-close your prospect.

Some Random Closing Thoughts.

The value-based pricing model works both ways. If you're pressed for cash and clients (e.g. desperate), that's a context that plays against you and will allow your clients to get better deals.

The market is fair. This entire process is voluntary. Nobody is being taken advantage of. Both parties are free to walk away at any minute. That's the beauty of it all.

Many people will object and say, "that person can't be worth that much more than someone else." Well, here's the thing: there might be legitimate reasons why one person is worth so much more than another person in this context. BUT, there doesn't have to be! The simplest answer to the question, "Why is that person worth so much more?" is "Because they asked." It doesn't have to be any more complicated than that. All value is

DIGITALAMBITION.CO

subjective. What your client is willing to pay is always the right answer. Your job is to influence the amount they're willing to pay and then knock their project out of the park for them.

You won't get this pricing model right in the beginning. One of the first lessons you'll likely learn is that you continue to leave money on the table in your early dealings.

The more clients you land at higher prices, the more your confidence will grow and the more you'll start to really see how much you're worth.

After a few successful closings, you'll really start to feel the need to demand higher prices. Going back to the old model will look and feel like the worst idea ever and you'll kick yourself for how long you struggled within its prison walls.

NEXT STEPS

Thanks for Reading!

More About Me

My name is Kevin Geary and I founded DigitalAmbition.co to help digital freelancers and agency owners build better web design and digital marketing businesses.

I'm not big on shiny objects or "latest and greatest" tactics. I help you win by executing on proven, sound, and sustainable strategies. If that sounds like something that jives with you, reach out and say hi :)

In other news, I'm a brown belt in Brazilian Jiu Jitsu, I have three daughters, I'm an obnoxious Georgia Bulldogs fan (all in good fun, promise), and I'm the COO of a design and marketing agency in Atlanta.

You should also [subscribe to my YouTube channel](#).

I appreciate you.



Kevin Geary