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A BOOK APART

PRICING DESIGN

DAN MALL

FOREWORD BY
MIKE MONTEIRO

BRIEFS

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FOREWORD

YOU ARE GOING TO make more money from this book than you spent on it.

You are going to read it—probably more than once. You're going to highlight quite a few passages. You're going to have your fair share of "aha" moments. You're going to take the lessons to heart. And eventually, you're going to make adjustments to how you price your work based on what you'll read here. You'll be more confident. You'll ask for more than you've asked for before. And if you're good at what you do, you'll get it. You'll start making more money for yourself. Your business will grow. And you may even hire some people to help you with the newfound work.

You are going to make more money from this book than Dan Mall ever will.

Dan is okay with that. Because that's what Dan does for a living. He builds value. And as a designer, Dan understands that his clients will make more money from his work than he ever will, especially if he does it right. And quite honestly, that's the key to pricing work. Understanding that the people you're doing it for stand to benefit considerably if you do it right. And that's why Dan charges them according to the value of the work. Because Dan makes money for people.

And yet, designers (and I love you all) get so weird about money. We hem and haw when it comes up. Our hands get clammy. Our hearts start racing. We start sweating. We hope the client brings it up so we don't have to. Money makes us nervous. And there's absolutely no reason for this. Everyone who will ever hire you has exchanged money for services. They probably exchanged money for coffee this very morning. It's a daily occurrence. So treat it that way.

Dan gets it. And like all of us, he learned some of those lessons the hard way. And because he's a good guy, he wants to share what he's learned with you. Because he wants you to be happy, pay your bills, and have a good career.

You should listen to him.

—Mike Monteiro

INTRODUCTION

I WANT TO help you make more money.

Maybe this story sounds familiar. When I went out on my own, after a decade at more than a few agencies, I settled on charging $100/hour, as that's what I'd heard most freelancers charged. Clients hardly pushed back. Projects went well, and I raised my rates—I got to $150/hour before customers balked. Agencies would contact me to do design comps for $150/hour, up to $1,500. (I eventually learned this was shorthand for "We think this shouldn't take more than ten hours." More on this later.) By then, I could do a round of work in about three hours, which meant 1) I'd make $450, and 2) I'd leave a lot of money on the table.

So I tried an experiment. On the next project, when I asked, "How much do you want to spend?" and they said, "One hundred and fifty dollars per hour, up to fifteen hundred," I countered with a flat fee of $1,000. I was happy because it was way more than $450 (I was always pretty good at estimating my hours), and my client was happy because it was still less than their budget: win-win.

It worked so well, I was soon booking five months out, and that's when I met Esther—and doubled down on this whole pricing enterprise.

Esther (not her real name) came through a friend's referral. She was an entrepreneur, with a great idea for a site she wanted to build from scratch. When we talked about her project, I reckoned it'd be a six-month effort. Given my existing work pipeline, I'd be booked for most of the year, and I didn't want to be that locked down. Worse, what if I agreed to the project, turning down others, only to have Esther bail just before we got rolling?

So I gave her the "go away" price. You know the one. You quote some ridiculously high number that the client wouldn't possibly pay. To sidestep the slight chance that she *would,* I added extra repellent. (I know I could've politely declined, but I hadn't yet developed the muscle of saying no to good projects.)

I emailed Esther a "Save the Date" contract:

You agree to pay a one-time, additional, nonrefundable fee of $7,000. This ensures that the October date will be held for your project.

Esther never responded.

Five days later, I received a check for $7,000 in the mail.

I learned a terrific lesson that day: people will pay for things they value, no matter how wildly out of reach you might think it is.

This is a book about making more money—about knowing your worth, your value. It's a book about understanding what your clients want, and doing the best work you can for them.

Pricing feels fraught, but it isn't once you put some definition around it and put it into practice a few times. It's a crucial part of business, so set your mind on getting better about it. I'm here to help you figure out what price to name—the one that simultaneously makes you rich and sounds like a steal for your clients. I'll share examples of pricing gone wrong and pricing gone so, so right.

This book is for you.

1

PRICING METHODS

WE'RE LUCKY. Our profession pays well, because we've convinced our clients that design is important (and it is). But few of us price properly to capitalize on that importance. Almost every freelancer and agency owner I talk to says the same thing when I ask why they price the way they do: "It's all I know, because that's how they did it at my last company."

For as much as we question and reinvent our processes and project deliverables, few of us take the time to question—to *design*—how we price. We tend to assume there's only one method, whether it's an old way or something a friend tipped us on.

In reality, we can price projects in many ways. Let's inventory the most common and assess each of their benefits and drawbacks:

1. Industry standard
2. Cost-plus
3. Opportunity cost

(Heads up: this book does contain some math. Should you become nauseated or light-headed, math-sick bags are located on the back of the seat in front of you. And don't worry, we all start out this way. The more you practice pricing, the easier the math part gets.)

INDUSTRY STANDARD

This is also known as a *market rate*. As the word *standard* suggests, this means your rate lines up more or less with everyone else's.

The easiest way to come up with an industry-standard rate is to survey your friends' rates. Say you chat with your designer pal Lindsay, who says she charges $125/hour. Then you ask Michael, who charges $90/hour. You also ask Tobias, who charges $80/hour. You average those rates to land at $98.33/hour, and you round up to $100/hour because the math is easier. Presto: your market rate.

So far, so good. The problem is that market rates tend to work against you, unless you're at the bottom of the pile—that industry standard just telegraphs, "Well, I'm not worse than anyone else." Let's say a prospective client is deciding among you and your three friends. If all of you have roughly the same level of experience and similar-caliber portfolios, who do you think the client will choose?

Most likely, it's the person with the lowest rate: in this case, Tobias, at $80/hour. This pricing strategy—setting cheaper rates than your competitors and hoping you get more work to accommodate the price drop—is called *penetration pricing*. It's difficult to bank on (get it?), and most economists suggest using it sparingly and only for a limited time. If you're Tobias, you'll win work, but you won't do yourself any favors in the long run.

I'm coming down hard on market rates, but I believe they're only a good place to start if you don't know yet what to do. (Hey, I started that way too.) They don't scale as you gain more experience. The minute you become better and more desirable than your peers and competitors, you've outgrown industry standard pricing.

COST-PLUS

With cost-plus, you calculate your costs—overhead, salaries, miscellaneous expenses—and add some percentage on top of that to ensure profit. Your costs can be expressed hourly, weekly, monthly, or for any time period; the logic still applies.

When I started freelancing, I tallied all my bills for the month to see how much I cost (**FIG 1.1**).

At the minimum, if I made $7,038.95/month, I would break even. So I added a little padding, or *margin*—42% to be exact—to make sure I'd always turn a profit. I set a goal to make $10,000/month, which would give me an extra $2,961.05 to save for a rainy day. This is cost-plus: $7,038.95 was the cost, $2,961.05 was the *plus,* and $10,000 was the monthly rate I quoted to anyone who inquired (**FIG 1.2**).

The main driver for using cost-plus is its simplicity: calculate your break-even number, add a little on top (most agencies go

FIG 1.1: A roundup of my monthly bills.

ITEM	COST
Health insurance	$472.62
Gym	$79.98
Mortgage	$700
TV services	$25.99
Auto expenses	$887.27
Groceries	$400
Misc. shopping	$407
Student loan	$128.09
Taxes	$1000
Phone	$200
Water	$80
Electric	$125.00
Tithe	$400
Property tax	$100
Sewer dept.	$33
Miscellaneous	$2,000
Total	**$7,038.95**

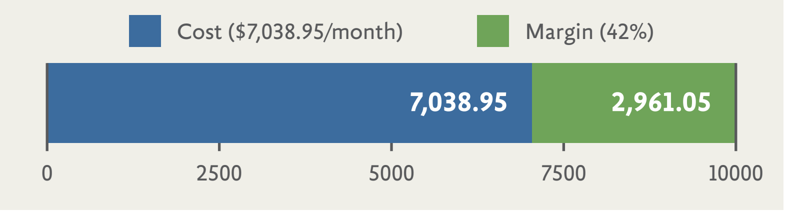

FIG 1.2: Cost-plus visualized: cost + margin = price.

for somewhere between a 15% and 50% margin), and you have your rate. My CPA likes to say that even his eight-year-old knows to charge more for her lemonade than the total cost of supplies.

But cost-plus has a big drawback—it's all about one thing: you. Pricing is like the tango; it takes two. Using cost-plus to land on a rate completely independent of your customer has a great deal of inflexibility. Because I calculated *my* costs and built in *my* desired margin long before any client showed up, I don't have much space to work with clients who can't afford my rate, unless I trim my margins or eat into my costs—both undesirable. I also can't benefit from clients who are willing and able to pay well over my rate because they believe they're getting way more in return.

We work in a service business; a pricing approach that doesn't honor half of the relationship is, by definition, lopsided.

OPPORTUNITY COST

The last route to a rate is tough to quantify, but it considers your priorities, what your client wants, what you bring to the table, and what you're willing to pass up.

My friend Robert is always up for a dare; all our friends know this. Whenever we get together, we often find ourselves offering him $20 to eat a ghost pepper or $50 to spill his beverage on the adjacent table or $100 to knock over that kid's ice cream cone.

Though it's hard to say what goes through Robert's head—seriously, why is he even friends with us?—I'd imagine he weighs the cost of his actions and any sacrifice against the return. Setting his mouth on fire for a few minutes is worth $20; making a kid sad is not worth any amount. (Robert's such a sweetheart.)

That's what a rate based on opportunity cost is about: Is the gain worth the price?

Consider this scenario. For one hour of work, you'll receive a nice crisp C-note (**FIG 1.3**).

FIG 1.3: An opportunity-cost approach asks what you're willing to give up and what you'd want in return.

In return, you'll give up:

- an hour of playing your new video game
- an hour of playing with your kids
- an hour of feeling the burn at the gym
- an hour of picking up crochet as a hobby

You get the idea. Is that hour a fair trade to you? If so, $100/hour fits the bill. If you'd rather spend that hour getting chiseled calves, then $100/hour is too low; you'll likely need to increase that rate.

But wait—how do clients fit into this? While you're weighing your proposed trade, your client is considering the same question: Is what I'm getting better than what I'm giving up?

The cool part about this type of pricing is that it puts you and your client on even footing. But it's also the method that people are least comfortable with, because it can't be derived from a formula. (If only there were a way to back your gut with sound, persuasive examples of what's worthwhile to the client… we'll get to that.)

Your job as a professional is to create things for your clients that boost their business, and price them in a way that both works out on a spreadsheet and (more important) feels good in the gut—for both of you.

"WHAT'S YOUR RATE?"

Now that we've covered the three general rationales for pricing, you can describe the outcome of that pricing to your customers as a *time-based rate* or a *fixed price*.

Time-based rates

The common advice you'll hear when starting out is to charge hourly, mostly because it's what everyone else does. (Industry standard, remember?) This often comes from reputable sources. AIGA has some tips on calculating a freelance rate (http://bkaprt.com/pd/01-01/), as does Treehouse (http://bkaprt.com/pd/01-02/). HOW lays out average hourly rates across the US to help you see if your rate is on par with everyone else's (http://bkaprt.com/pd/01-03/).

From my experience, freelance designers and developers charge anywhere from $50/hour on the low end to $150/hour on the high end. Agencies typically charge a bit more, partly because they have higher overhead, but mostly because they can. Some agencies have a *rate card,* shared with clients, that lists an hourly rate for each role (**FIG 1.4**).

Other agencies opt for a simpler *blended hourly rate,* which can be calculated in a couple ways. You can:

1. **Average your rates.** In our example, one hour of this agency's time for all team members costs $1,300. Divide that by eight team members, and the blended rate is $162.50/hour. It's lower than the principal rate, but a bit higher than the junior rate; the agency makes more money off the blended rate if the juniors bill more hours than the seniors.
2. **Use past experience.** Look at a prior project that's similar in scope. Say that project took 360 hours and you charged $67,000. Some quick math ($67,000 / 360 hours) gives you a blended rate of $186.11/hour, which you can now charge your new customer.

Hourly pricing is easy to grasp—the more you work, the more you get paid. If you're comfortable with that, you can

ROLE	RATE
Principal	$250/hour
Creative Director	$200/hour
Technology Director	$200/hour
Senior Designer	$150/hour
Senior Developer	$150/hour
Senior Copywriter	$150/hour
Junior Designer	$100/hour
Junior Developer	$100/hour

FIG 1.4: A sample rate card for agency roles.

put this book down and go forth to charge. Thanks for reading, and best of luck to you. We'll even send you a prorated refund for the pages you didn't read, and we'll subsequently go out of business. (Foreshadowing!)

Beyond hourly rates (the most common), other variations include daily, weekly, or monthly rates. They each have pros and cons, but they all suffer from the same major setback: directly tying your revenue to your effort. Let's look at how this breaks down.

People want prices up front

A brand-new restaurant opens in your town, and you nab a reservation for its first night. You open the menu and none of the items has a price next to it, so you order your favorites: an heirloom tomato salad, the surf and turf, a side of seasonal vegetables, a bottle of wine, and a cheesecake to top it all off. It's one of the most delicious meals you've ever had.

And then you get the bill.

It's *hundreds* of dollars more than you expected to pay. Suddenly, you second-guess your choices. Perhaps you could have had an eight-ounce steak instead of the surf and turf. Perhaps the seasonal vegetables were overkill after the salad. You didn't really drink *that* much wine, so maybe you should have gotten a glass instead. And did you really need that dessert?

But it's too late, because you've already eaten the meal. You can't regurgitate and return it, even though you now wish you could. This is what your customers go through when you bill them hourly. People like knowing the price of an item or service *before* they commit to purchasing it—it's how we assess what's worth paying. Think of everything you might have paid for in the last week: groceries, clothes, dry cleaning, new equipment, books. All of these things have a price up front, and you can decide for yourself whether they're worth parting with your hard-earned money.

An ever-changing bill does no one favors. Really. It doesn't help your costs when you come in way under hours, and you're scrambling to make up the difference at month's end. And a project worth $10,000 to the client might not be worth $12,000, but they won't find that out until you've done the work and sent the bill. The best transactions—and ones that stand a chance of repeating!—are beneficial for the seller *and* the buyer.

Value is relative

If I walk up to you and say, "Here's a candy bar. That'll be $100," your brain would immediately whir to assess what makes that candy bar worth $100. The first step is to compare it with every other candy bar you've had in your life. Recalling that you've paid roughly $1 for most of them, you then hypothesize why this particular bar's value is significantly more. Maybe its ingredients include some rare form of chocolate, imported from a remote part of the world few have access to. Maybe it grants you special powers, like temporary X-ray vision or the ability to extinguish student loans. And if you conclude that this candy bar is pretty similar to others you've eaten, you probably won't leap to spend an extra $99.

If I instead approach someone who hasn't ever heard of a candy bar before, they have a far more difficult decision because they can't rely on past experience. So the candy bar gets compared to other things that cost $100. Is it worth as much as that necklace? That jacket? This lamp?

When you tell a client that you have an hourly rate, they compare you with all the other people they know to have hourly rates. They might think:

- Fast-food workers make minimum wage. High school students, or younger people, tend to work those jobs.
- Plumbers, electricians, or professionals in similar trades make more. Most have gone to school and obtained a license. (Unless they're a friend's "I know a person," who comes dirt cheap and learned by watching YouTube videos.)
- Lawyers and doctors cost an arm and a leg. But their level of training is intense—spanning a decade or more for doctors—and they've conquered rigorous exams. They also deal with the most sensitive information, and, in some cases, literally save lives.

This is the frame of reference you go up against when you say you bill by the hour. When I started freelancing, I found it incredibly difficult to get more than $150/hour, because my customers slotted my skills alongside those of their plumber or electrician. Perhaps they thought what I did was a one-time service like unclogging the drain, or maybe they had a niece that took a class in high school on building websites, and they couldn't tell the difference between what she could do and what I could do. No matter the reason, framing sales through hourly rates makes this type of comparison easy for a client.

Hourly rates don't grow as you do

Think back to when you started designing. You graduated high school and stumbled on a completely legal copy of Photoshop. Remember your first customer? That friend of a friend who needed a flyer for her real estate business? You charged her $50/hour, because you heard that was the going rate. She agreed; you were proud. It took you ten hours, and you made $500. You were living the dream.

Fast-forward to now. You have five years of experience under your belt. You've worked at a few agencies, and you're in a pretty senior position. But that doesn't stop Ms. Real Estate from coming back. She trusts you, and she needs a new flyer. You oblige. You've doubled your rate, as $100/hour is closer to the industry standard. She agrees; you're still proud. With all that experience you have, you finish the flyer in five hours, half the time it took you half a decade ago. You make $500. You're living the drea—wait a sec. You made the same amount of money that you made way back then? How does that make sense? Why are you being penalized for your experience and efficiency?

Let's redo the scenario. To turn a better profit, you quadruple your rate to $200/hour. But this time, Ms. Real Estate refuses, because she can't stomach paying four times as much as the last time. Sad trombone.

Even worse: while your customer stared down the barrel of a quadruple increase ($50/hour → $200/hour), you only would have made twice as much ($500 → $1000). It's a lose-lose situation.

Misaligned incentives

With hourly billing, the more time you spend on the project, the more money you gain. However, the more time you spend, the more money your customer loses. This is when customers ask, "Shouldn't that only take an hour instead of four?" Not necessarily because they think it should, but because they want it to! From the outset, you and the customer are in conflict, because your incentives are on opposite ends of the spectrum.

Setting a time-based rate shines a spotlight on the fact that more work equals less money in your client's bank account. But you want them to focus on all the benefits your work will bring them, not what they'll give up.

Artificial ceilings

If you're billing your time, you've placed an artificial ceiling on the amount you can make. Say you have forty billable hours in a week and fifty-two weeks in a year, which works out to 2,080 billable hours in one year—if you don't take vacation or get sick. Assuming a rate of $100/hour, you make an annual $208,000 if you are 100% billable. While that's not a small chunk of dough, it's an arbitrary limit.

Let's take an extreme example. You've decided to work *every* hour of the year. (You go, Captain Ambitious.) One (non-leap) year holds 8,760 hours. At $100/hour, you can make $876,000 if you are 100% billable. Again, it's a lot of money, but how are people out there making millions?

Because we all have the same amount of time, it's not a differentiator for anyone. And since you can't create more time, the only thing to do is increase your hourly rate. But you've seen how difficult it is to convince customers to pay over a certain rate. The combined limitations of time and rates make for ineffective variables in raising your income.

Fixed prices

Fixed prices are slightly more beneficial for your customers because they offer something that time-based rates don't: judgment. Customers can look at a fixed price, compare it to what they're getting, and determine whether it's worth the money *before* you both agree to do the project together.

Fixed prices appeal because they appear to solve the plight of experienced designers who zip to a project's finish. Unfortunately, the methodology to derive a fixed price is often based on an hourly price, a line of reasoning that sinks you from the start. You might've gone through this scenario:

Client: *I want a website.*
You: *That'll be $10,000.*
Client: *What's that based on?*
You: *Um…[struggles to come up with a reason on the spot] I think it'll take about 100 hours and I usually charge $100/hour.*

Annnnnnnnd welcome back to all the downsides of time-based rates. Even worse, you don't have a rationale that holds water if you want to increase your price—without increasing your time on the project.

I've seen people try to beat this system two ways. Some designers give in to temptation and pad their hourly estimate

ROLE	RATE
Director Client Services	$533/hour
Executive Director Account Planning	$601/hour
Executive Research Director	$427/hour
Chief Creative Director	$964/hour
Executive Media Director	$478/hour
Executive Director Print Production	$391/hour

FIG 1.5: These astronomical numbers emphasize just how unsustainable it is to raise hourly rates.

to land on a bigger fixed price. I have a word for that: *lying*. It starts innocently enough; they're trying to find a way around the constraint that time is finite. But make no mistake: this is unethical. Your pricing methodology is the foundation of how you do business. If your foundation is rotten, the fruits that grow from it will be rotten too.

Others work the other end of the equation and hike up their hourly rates. Remember the agency rate card we saw earlier? Advertising Age reported on a survey taken in 2008 on the average billing rates of New York ad agencies with over 500 employees (http://bkaprt.com/pd/01-04/). It's clear that, to make a project worth their while and talents, these agencies have to lean on pretty ridiculous figures (**FIG 1.5**).

You can see right through these rates. $964/hour? Come on! If you think persuading a client to spend more than $150/hour—as I have—was difficult, imagine trying to talk them into three times what they pay their lawyer.

Pocket knives and atom bombs

A last thought: a common defense of charging for time—whether as an hourly rate or the basis for a fixed price—is that it gives you the ability to allow for shifting requirements or clients who can't seem to make up their minds about what they want. In other words, most professionals who charge for time use pricing to solve a scoping problem. But that's like bringing an atom bomb to a pocket-knife fight. Price is one of the most powerful tools you have in a project conversation; use it effectively.

So what's the best way to solve for the lack of scope? Create one. Your clients look to you as the professional who can get them to a destination they can't reach on their own. You're the travel agent of their project, and you know exactly what tools and routes best take you there. No one pays a travel agent to lead them in circles, and that's what time-based rates give you permission to do: work without an end in sight.

Spend the time with your customer to learn about where they need to go, and why. If you can understand their desire for the destination, you can put together a few packages that get them excited about where they'll soon be—and make you rich at the same time.

Behold the light: you're ready for value-based pricing.

2

VALUE-BASED PRICING

I'M A SNEAKERHEAD. I've reduced the number of sneakers in my rotation in recent years; I'm down to about thirty pairs. Before I became a designer, I was a manager at Foot Locker, Inc., and its subsidiaries. As you can imagine, the then-50% discount was a blessing and a curse.

In sneaker culture, there's a phenomenon known as a *release*, the first day a well-known brand is set to sell a particular shoe. For the Jordan XVII release—the 17th model of basketball superstar Michael Jordan's footwear—I got to my store around 4 a.m. to prepare the stockroom. People would start lining up around 5 for the store to open at 8. And, they'd be prepared to spend up to $500 for a pair. Once the stores sold out, people could only get the sneakers from private dealers or eBay.

Now, I could go to any local big-box store and buy some molded rubber to cover my feet for less than $10, but something about these shoes made people want to spend twenty to fifty times more. The customers *valued* the sneakers. Some were collectors and couldn't pass them up. Some were brand loyalists. Some loved the aesthetic. Some appreciated the functionality; they were the best basketball shoes around. Whatever the motivation, people were willing to give up their money, time, and logic to get their hands on a pair (**FIG 2.1**).

Isn't that what we want in our businesses? Don't we want our clients to be so excited to work with us that they're willing to defy reason (within reason)? How do we get them to line up outside our metaphorical doors at the crack of dawn? You need to have something that's worth so much to them that they can't stand not having it.

You need to have something they value.

DEFINING VALUE-BASED PRICING

Here's the typical understanding of how a transaction works, and what it means for your bottom line. If you subtract your costs from the price you charge, the surplus is called *profit* (**FIG 2.2**).

FIG 2.1: The Nike Mag, a replica of the shoe featured in *Back to the Future Part II,* was only sold via auction. The highest bid was $9,959, on release day in 2011 (http://bkaprt.com/pd/02-01/). Photograph courtesy Nike (http://bkaprt.com/pd/02-02/).

FIG 2.2: Profit is the difference between price and cost. Hope I'm not blowing any minds here.

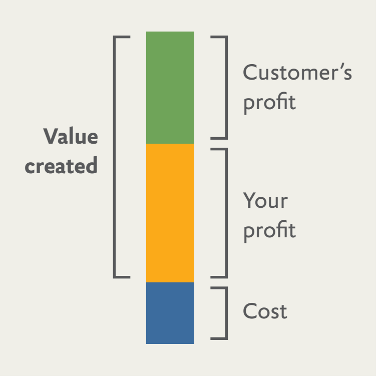

FIG 2.3: The secret in graph form: the more value you create, the more you increase your customer's profit as well as your own.

But every transaction has another kind of profit that most people forget about: the customer's profit. The combination of your profit and your customer's profit is called *value* (**FIG 2.3**).

I'm a huge believer in value, because it gets at what makes our work succeed (and yep, what makes us profit): a focus on what we can do for our customers. As web and app makers, we build our businesses on trading something valuable we have that customers want for something valuable they have. What they want includes the obvious: design, development, content strategy, information architecture, research. But it goes beyond services. Our clients long for heading home to their families earlier every night. More efficient workflows. Reduced overhead. Less stress. Pride in their products. These things hold value.

Your job as a service provider is to create as much value as possible for your customers.

The more you provide value for your clients, the more they profit. Their businesses do better, and they're happier. That's the backbone of value-based pricing—your primary driver is what you can achieve for your customers. The more profit—read: value—you can create for them, the more of that profit you're entitled to. Value-based pricing is the intersection of how much value you can create for a customer and the amount you ask for in return.

To ensure you can hold up your end of the bargain, you must first understand how valuable you are and what you value.

Your value

How valuable are you? (Or, for agency owners, how valuable is your agency?) For some, this can be a hard question to answer, buried under an avalanche of self-doubt, imposter syndrome, and other tragedies. We're all capable of creating value, but it might have been a while since you last believed that. Let's rebuild that instinct by looking at a few examples.

How much does a website cost?

Ask any proponent of value-based pricing, and they'll recite this mantra: price the customer, not the service. Building a website doesn't have an inherent price. My agency once designed and built a website for $18,000, and we did the same project for a different client for $230,000 that year.

A website doesn't have an inherent price. An illustration doesn't have an inherent price. Heck, a shoeshine doesn't even have an inherent price; you could get a fast shoeshine, a thorough shoeshine, a specific-type-of-shoe shoeshine…they have different prices because they're valuable in different ways to different people at different times. Price the customer, not the service or product.

I have a slight twist on that. As I'm pricing a customer, I can't help but think about another crucial part of the equation: me. How badly do I need this work? Perhaps this month, I'm booked up, and it would take quite a sum to persuade me to take on anything new. Next month, however, work may dry up, and I may be willing to do the project for much less. Same customer, but the timing changes things. For me, value pricing is even more than pricing the customer. It's about pricing the moment.

Object value pricing

When you start to assess your own value, it can feel awkward. It's like going to the gym again after months of couch surfing: even the shortest workouts make you sore. Keep at it. Pricing is a muscle. You need to keep exercising it to get stronger.

Let's say someone comes to you to design a website. What dollar amount do you put in a proposal? (Shrug emoji.) Money is tough, because it's little pieces of paper and some jingly coins. They're abstractions of value, and abstractions are tough to understand.

Here's an exercise you can do every time you get a new inquiry. I call it *object value pricing*. Don't think about money; instead, think about what object you would take in trade for the job. Would you do the website for a new camera? No way. What about a new MacBook Pro? Meh. A used Honda Accord? Maybe. Two years' worth of mortgage payments? Now we're talking.

You've got your range. A used Accord might be about $12,000. A $1,000/month mortgage accumulates to $24,000 over two years. So, this job feels somewhere between $12K and $24K for you. Do this exercise a few times and you'll trust your gut a lot more when it comes to recognizing what you're worth.

Ch-ch-ch-ch-changes

Your value isn't "set and forget." It changes constantly—annually, monthly, even daily.

The largest factor in your current value is *your ability to walk away from a prospect*. If your bank account is full, your portfolio is stacked, and you're incredibly fulfilled in the work you're doing, a prospective client would have to pitch *you* on taking their project. If you won't take their project for $10K, the only recourse they have is to offer you $20K, then $50K, then $100K, until you finally take it—or don't.

In social psychology, the *scarcity principle* says people put a higher value on an object or service that's scarce and a lower value on one that's abundant. When you're at Peak Valuablenessity™, the services you offer are at their scarcest, so you introduce maximum FOMO for your prospects.

On the flip side, if you're struggling to pay the bills and have no projects on deck, you take what you can get. The scarcity principle works both ways; in this scenario, *you're* the one anxious that the client—and their purse strings—will go elsewhere.

Whether you're slammed or scrambling, a set rate doesn't make sense. Let's say you have a rate of $100/hour (the industry standard). When you're at your most valuable—when you're most able to walk away—charging the same as everyone else doesn't do you any favors. It may even work against you: an industry standard price makes you seem less scarce than you actually might be.

When you're at your least valuable—when you really need the gig—you probably want to drop that rate lower than what everyone else is charging to be more competitive.

So what's a designer to do when a potential client asks what your rate is? Here's the script I follow:

Client: *What's your rate?*

Me: *I don't have one.*

Client: *So how do you know what to charge me?*

Me: *I'll spend as much time with you as I can to understand what you need and want. Based on what I hear, I'll come up with a few options that simultaneously seem like a steal for you and are* *lucrative for me. I want to make sure that we can both profit by working together.*

Client: *That sounds wonderful. When do we start?*

Me: *We already have!*

See how easy that was? Being able to tailor each price to your value and what your client values is the beauty of value pricing, and it's one of most courteous things you can do for them.

As much money as possible

Perhaps the biggest misconception of—and objection to—value pricing is that it's about charging the largest amount of money possible.

Let me clear that up: it's not.

It's easy to think that way. After all, I use words like *value* and *premium* and *worth* all over this book. But value pricing is about making the price *match* the value. If the value of what you're doing is small, it's okay for the price to be small. If the value is immense, the price should follow suit.

Now that you have a few examples for assessing your own value, let's figure out the other side of the coin: What's it worth to your customer?

What your customer values

Esau and Jacob were twins. Esau was born a few minutes earlier, so he earned the inheritance of his family as the firstborn. (He was also his dad's favorite.) One day, he was out hunting and didn't catch anything. Hungry, he returned home, where generally jealous Jacob was cooking a stew. Big brother Esau asked for a bowl. And Jacob value-priced him: "I'll trade you this stew for your inheritance."

"What good is an inheritance if I starve to death? I'll take it!" Esau retorted.

What's a bowl of stew worth? A few bucks? A huge inheritance? The real answer is: it depends. Remember: price the customer, not the service. How badly do they want or need that service? How badly do they want or need that service *right* *now*? Even more than pricing the customer, value pricing is about pricing the moment.

The rush charge, the pain-in-the-butt charge, and more

When clients want it done yesterday, often our instinct is to jack up our hourly rates. That's a form of value pricing: your client's saying they value speed, and you're saying that speed is worth a premium. In practice, with hourly (or any time-based) rates, you bill less the faster you work. But customers that value speed would pay double for a project that gets done in half the time they expect—charge for that.

The same concept applies when a prospect seems difficult to work with. I leave it to you to do your personal calculus on what makes a project worth the hassle, but I do know people who tack an extra $10/hour to their standard rates. That's value pricing too: putting a price on tolerance.

In his excellent book *Pricing for Profit,* business consultant Dale Furtwengler lists other examples of value that clients are willing to pay for: friendliness, integrity, dependability, convenience, image, service, innovation, and knowledgeable salespeople. These are all things that you can—and should!—put a price on. (Furtwengler even demonstrates how to quantify these values into actual dollar amounts. While that's out of the scope of this text, I highly recommend giving his book a read.)

So what do you do when you get an inquiry from a prospective customer? How do you find out exactly *how* valuable the project is and which values are most important to them?

The questionnaire

This series of rapid-fire questions is designed to extract as much project detail as possible in a short period. The trick is to keep your ears open for value, not just the specifics of the answers. Here's what I ask, and what I'm listening for. (I typically email these questions first, and then follow up on the answers through a phone call.)

What's the timeframe? Does a certain event depend on this project launching?

Speed is a value. A big part of what your customers pay for is your expertise and your time to put that into practice for them. Customers who want something fast should be willing to pay accordingly—read: a lot—for that service.

Look out for customers who manufacture false urgency. "Our CEO wants it done by May" isn't a real deadline, but "We want this fantasy football app done two weeks before the season starts" is.

What are you looking for from us? Do you want us to design, build, and launch the whole site? Or do you have developers or other partners lined up and only need us for design?

You have to understand the actual scope of the project. This also answers how much the customer knows about you. Are they asking for what you do best? Do you even offer the services they want? Is it an opportunity to experiment with the things you'd like to offer but don't have much experience with?

This question gives you the chance to discover what else your customer's looking for. If they go into dreams of a more coherent social strategy, and you're talking websites, it's a good time to offer your other services—the classic up-sell, but done tastefully and appropriately.

Last, you can double-check their comments on timeline. Are they asking for six months' worth of work but only giving you six weeks to do it? That can show you how much your customer actually knows about the work they want. It's either a chance for you to demonstrate your expertise and steer the ship a bit more, or a warning sign that the expectations are misaligned and you're headed for troubled waters.

Have you already started on any part of the project? Do you have existing work? A new logo? Some rough designs or ideas for the site?

On the surface, it's good to know how much of a head start you'll have on work—or how much you'll need to undo. If the client already has a ton of wireframes and documentation, they may be looking for someone who can execute without questions instead of someone who can refine their vision. I'm wary of situations like this, because it becomes difficult to provide real value—and charge for it.

You might have more baggage to unpack in their answers. If they're shopping around because they fired their last agency, sure, maybe the agency didn't do good work. But it's also possible this organization doesn't know what they want, or they're overly demanding, and the agency quit because it was too much to deal with. Sniffing this out early will help you to make an informed decision on whether you want to inherit the work.

The answer isn't always bad. Through this question, I've also found that the customer was already working with an amazing branding, motion graphics, or development shop that I was dying to collaborate with. Surfacing those opportunities can make for better holistic work. But get a view of your customer's complete ecosystem of partners before proceeding.

How large is your team? What are the roles you envision on your end?

Team size says a lot about how much an organization values the project they're hiring you for. If the project will commandeer the entire marketing team's attention for a whole year, it's probably really important to them. However, if it's something they're sticking the new guy on because he has nothing else to do, the project probably isn't a priority—and they likely won't spend a lot either.

Large companies are especially notorious for starting projects and not paying proper attention to them, leading to project pauses and ultimately stagnation. You're looking to see if the team you're working with can build the right momentum on the project to actually ship it. Are they a group of middle managers who don't have the authority to finalize decisions? If the person who hired you is a high-ranking executive, will they have the availability to respond as quickly as you'll need them to, or will they be pulled in too many directions? I've often had to request certain roles on the client end (like project managers or supporting designers) to make sure our work gets put to good use.

You also get clues about certain stakeholders. Is there a VP who doesn't care about wireframes but will want to be involved heavily in the aesthetic phase? Does the technology director want to audit your markup at every round? Use this information to wisely scope and price the project. I don't recommend working with difficult customers, but if you do, don't forget the pain-in-the-butt surcharge.

How did you hear about our work? What specifically interests you about it? Any projects you're keen on?

This is a basic weed-out question. I get people who've never seen our work, thought we were a different agency, mistakenly sent us an inquiry, and lots more.

It's crucial to work with people who respect you and your work. If they don't know you from a hole in the wall, make like a tree and stop wasting your time.

Keep an eye out for generic terms or buzzwords, like clean! Simple! Modern! Responsive! They can either let you know that the customer hasn't spent much time with your work *or* reveal what's important to them as an end result.

How much money have you set aside for this project?

The million-dollar question. (Hopefully, literally!)

If you're not asking about money when you talk to a prospective client, you're doing it wrong. All of these questions unearth the value of a project, but this one is the most direct. Don't skip it.

(Notice that I asked about "money," not "budget." The word budget connotes cheap, like it's all you could afford—"not in the budget." Focusing on "money" keeps the conversation on maximum value, whereas "budget" draws attention to minimum spending.)

Lots of people are uncomfortable discussing money, so where this question falls in the order of all your questions is important. Ask too late, you'll look like you're too afraid to ask about it—awkward. Ask too early, you'll look like you're only in it for the cash—awkward. I've had the best results when I've placed this question about three-quarters of the way through, after I've lobbed them an easy one—why they thought to contact me. Bonus: that question perfectly lines me up to say I'm worth a premium.

The more comfortable you are talking about money, the more comfortable your client will be. It's your job to put them at ease through these questions, so treat this with the same straightforward attitude as you do team size and timeframe. This takes practice, so don't worry if you need a few tries to really nail it.

Many clients shy away from giving a number. They'll often counter your question with something like, "Well, we want to know how much you think it'll cost." Sometimes they honestly don't know. Most times, though, they have a number in mind and they're hoping you come in lower.

At this point, I'll use a technique that almost always works. Ask: "Are you aiming to spend closer to $500K, $50K, or $5K?" You're trying to force sticker shock to get a feel for a range.

Look for a gut reaction. You'll often hear something like, "Oh, definitely not $500K."

You politely reply, "Of course not! How do you feel about spending $50K?"

They say, "Yeah, if we can stick to about $50K, that'd feel right."

Voilà: you've got a starting point for your project price.

Are you talking to other companies about this project? Might we ask how many? What do you like about their work?

You just asked an awkward question about money—and got through it!—so you might as well lump the awkward questions together.

It's nice to know who you're up against. Being informed about your competition isn't just a sales tactic; it helps you to better serve your customers. Lots of studios have a design style; wouldn't it help you to know that your customer likes that style, especially if it's not your own?

Knowing the competitive landscape also helps you assess your chance of winning. If you're one out of twenty competitors, run! The odds aren't in your favor, or worse: your customer doesn't know what they want or how to make decisions. I've rarely entered situations where more than three studios were pitching.

Anything else we should know about?

The catch-all. Time for closing statements. Check that you haven't missed anything. Also, ask yourself if they're the type of client you'd have a meal with. If you can't hang out, what makes you think you'll be able to work together?

This is your last opportunity in this initial conversation to let your client know that you're listening. For example, if they say they're in a rush, let them know that you'll "turn around a proposal before the end of the week to get this moving." Or, if they seem hesitant about whether you can do the work they want because they don't see it in your portfolio, offer to immediately introduce them to a former client who can vouch for similar work. Projects where the client feels heard often end in success.

(If you want a text version of these questions to email to a client, grab them from GitHub: http://bkaprt.com/pd/02-03/).

ALIGNING VALUE

Imagine you're sitting at a blackjack table with your potential client, with the dealer across from you both. Instead of handing out cards, he gives you each a piece of paper. He asks your client to ignore all the cockamamie psychology of trying to get a deal and instead write down an honest dollar amount that they're willing to spend on the project. ("As little as possible" is not an appropriate response.) He asks you to ignore all the baloney of trying to milk as much money as you can and instead write down an honest dollar amount that you're willing to do the project for. ("As much as possible" is not an appropriate response.)

You each slide your paper back to the dealer, who glances at them. He flips them toward you so you can see what's written. Both pieces of paper have the same number: $10,000.

Congratulations: you've come to terms.

When your client was writing their number, they thought:

- They tried this project last year with an inexpensive—but inexperienced—freelancer. They paid $5,000; paying more might lead to better results.
- They might get their weekends back if the thing you build actually automates a lot of the work for their team.
- They'd be more than willing to spend half of their $20,000 annual budget for audience development in order to exceed the standing company record by 15%.
- Their colleague at that other company spoke highly of you and your work, which liberated that team from previous monotonous tasks.

These are all the things they value. They picked $10,000 to represent that value.

When you were writing your number, you thought:

- You're busy right now, and you'd have to turn away many inquiries to commit to this work.
- You're an expert on building plugins to automate content migrations from a print to a web CMS, which is exactly what this client needs. You've done similar work for some of the world's largest media companies, so few people can do this better than you.
- This work would take a month to do, because you can reuse tools you've built in the past. This would take anyone else three to six months.
- This client's team easily spends between $15,000 and $20,000 each month on meaningless tasks, just because their current system is inefficient.

- Your family needs $4,000/month to pay the bills and live comfortably.
- You'd like to specialize in this kind of project.
- You'd like working with this client, because the entire team seemed friendly and open to your ideas.

These are all the things you value. You picked $10,000 to represent that value.

The magic in pricing is when you can match what your customer values with how valuable you are. That's why you don't see a lot of students doing work for Fortune 500 companies: students aren't often capable of creating all the value that's possible. The balance of value is what makes for the most productive relationships; iron, after all, sharpens iron.

3

A PRICING CASE STUDY

HERE'S A REAL request for proposal (RFP) my design collaborative, SuperFriendly, fielded. (I've changed the names.) We'll use it to play out the full scenario, from receiving an inquiry to responding using value-based pricing.

> *Hello,*
>
> *We are pleased to invite you to submit a proposal for front-end development of the AmericanBoatCompany.com redesign.*
>
> *Mega Agency is the Agency of Record (AoR) for American Boat Company, and we are seeking a front-end partner to develop the next-generation user interface and presentation layer for AmericanBoatCompany.com.*
>
> *The attached RFP provides the concrete business requirements and key evaluation criteria. We hope it provides you with valuable information about the project, context, and timelines, and enables you to submit your proposal. Your proposal should specifically address the needs outlined in the attached document.*
>
> *Please note that proposals must be received by 12:00 a.m. EST on 7/14/14, and should be sent to Calvin UX Director (calvin@megaagency.com) and me. Project stakeholders and ABC Procurement will review the proposals, and announce their decision on 7/25/14.*
>
> *If you have any questions, we would be happy to answer them in a conference call. Additionally, questions can be directed via email to Calvin and me.*
>
> *We would appreciate a brief receipt confirming that you have received the RFP, and look forward to receiving your proposal.*
>
> *Best,*
>
> *Sally Producer*

Even from the initial email, I'm looking for signs of value—what's important to the client, what's interesting about the project for SuperFriendly:

- Sally didn't address my company or me by name. I wonder if she has any idea about our work. I bet we're one of sixty companies invited to this RFP process.

- I'm well aware of American Boat Company. I've ridden on their boats, and this could be a really cool project. Plus, they're a Fortune 100, publicly traded company, so I can easily find a lot of their financial information to evaluate how much my work can—or can't—affect their bottom line.
- They mention front-end development, but nothing about design—my company's main strength. Will this project be a good fit? Maybe it's a job where they have Photoshop files and are only looking for the lowest bidder to slice and dice.
- I don't know Mega Agency. Let me look at their work. [*Looks*] Wow, I've seen a lot of their work before and didn't realize it. I need to find out if they're looking for an expert to partner with, or if they're expecting to dictate directions to a vendor that won't question anything.
- Two weeks to prepare a proposal. That's not too bad.
- No mention of spec work. Good.
- They're happy to have a conference call. Awesome. This isn't a "deposit your answers into this system" RFP. I'm hopeful that means we're pitching against a small number of firms, because they probably don't want to telephone sixty agencies.
- They're asking to confirm receipt of this email, which I don't often see in RFP inquiries. That's smart.

I'm not a fan of RFPs, because they usually come in the form of long documents that don't say much, but this one has enough substance to pursue it further. The project is valuable to me because it's prestigious, and Mega Agency may be great to work with. The project sounds like it's valuable to them because they need someone to do the work that they can't, but need to, for American Boat Company.

I pop open the attached document, a twenty-two-page brief that contains:

- Overviews of the companies involved (both agency and customer).
- The five phases of the project. Phases 1 and 2 are thoroughly documented, while Phases 3–5 look vague. Each phase lasts

about a quarter (Phase 5 is two quarters), so we're talking about an eighteen-month engagement.
- Lots of technical requirements (must use LESS and not Sass, lazy-loading guidelines, browser support requirements, etc.).
- Almost no design requirements.
- Expected deliverables and process info.
- Expected format for the RFP response.

A supplier survey, asking for financial information about my company (tax returns, annual revenue for the past three years, etc.).

I decide to email Mega Agency:

Hi Sally,

Thanks for getting in touch!

We'd absolutely love to help you and Mega Agency do great work for American Boat Company. However, we can't really do our best work under a rigid RFP process. We're different from a lot of other agencies, and a process that forces us to look the same as everyone else makes us look … well, kinda the same as everyone else.

We'd love to chat about how we could create the most value for you, though admittedly some of it would be a bit outside the steps you've outlined. If that's not possible, we definitely understand, but regrettably will have to politely bow out.

Whaddya say? Would you have some time for us? If so, could we send over a few questions about the project that will queue us up for a good conversation?

I'm doing a few things here:

- I'm being honest. It's the best way to start any conversation or relationship.
- I'm reminding Mega Agency that we're different. Presumably, they contacted us because we stood out from the crowd.
- I'm establishing our ability to walk away. I don't need their work right now, so I'm looking for a reason to want it.

They reply:

> *We'd love to chat. We're excited to have you in the running and look forward to receiving your questions.*

Awesome. I've established that it's at least valuable enough for Mega Agency to spend time with me and my team to see if we align. But I don't yet know specifically *how* valuable, and I need to know before I can assign any numbers to anything. So I send my questions—see the questionnaire from Chapter 2—and get on the phone with Mega Agency. I learn:

- Mega Agency's team consists of strategists, UX designers, graphic designers, copywriters, an account manager, and a heavily involved chief creative officer (CCO). With agencies this size, the CCO often isn't involved unless it's an important account.
- I'm pitching against three other agencies. Mega Agency isn't willing to reveal who they are.
- They heard about SuperFriendly through a talk I did on responsive design processes—a good sign that my approach and subject matter expertise resonates with them.
- The October deadline lines up with the first media buy. It's not a fake deadline, and missing it can have some dire consequences for American Boat Company.
- They've been burned before by a vendor who wasn't available enough for their liking.
- They won't tell me how much or little they want to spend. (We'll come back to this.)
- Mega Agency has been working with American Boat Company for the last eight years and is ready to "take it to the next level."
- They say "best-of-breed" a gazillion times.
- I confirm that the project is development only, and they already have comps.

At this point, I pause the conversation. You can't make a site in a vacuum by throwing comps over the wall. I take this opportunity to demonstrate some expertise and put up a few roadblocks. I tell them that if they're after a chop shop, I'm probably way too expensive and others would be better; in fact, I'm happy to recommend some. But if they want best-of-breed, they'll need to be open to changing things around a bit. I share two stories of recent projects that were incredibly successful because of tight integration between the design and development teams. I offer to write a proposal that restructures their design process to get to their desired outcome. Essentially, I'll write a proposal for the job I want, not the job they're offering. They agree vigorously; I can all but hear them nodding over the phone.

Now I have enough to price the project.

QUANTIFYING VALUE

My go-to pricing framework is *Goldilocks pricing*: you offer clients three options (often tiered). This technique is effective because:

- It employs the *anchoring effect*, when the first element you encounter influences how you feel about every other price. In a TED talk, psychology and behavioral economics professor Dan Ariely described an anchoring experiment he did with MIT students, on the *Economist*'s subscription prices (http://bkaprt.com/pd/03-01/). At the time, the *Economist* listed three choices: $59 for web only, $125 for print, or $125 for both. Ariely surveyed a hundred students: which would they pick? Unsurprisingly, 84% chose both, with 16% opting for web only. He did a second survey, with another group of students—but he removed the print subscription. The results flipped: this time, 68% chose web only, while 32% chose both print and web. What Ariely found was that the inclusion of the print-only subscription, at $125, made the combo, also $125, feel like a deal—so more people picked it.
- Three options enable you to create your own framing. When you send over one price, your client has no choice but to compare you with other bids or the cost of similar services in the past. By listing multiple options with their own indi-

vidual prices, you encourage your client to compare you with you.
- Last, it forces you to think critically about *different* ways you can create value for your client. Exploring these options can lead you to unearth ideas you or your client may not have dreamed of otherwise.

One last note before we dig into the pricing proposal for Mega Agency. In brainstorming your options, the biggest mistake you can make at this stage is focusing on what type of deliverables you can create. You want to price on value to the client, which means you're selling results, not deliverables—as noted in Alan Weiss's book, *Value-Based Fees:*

> *Most consultants place their value proposition at the wrong end of the equation: they focus on their ability to do rather than on the client's ability to improve.*

When I'm pricing options, I base each one on a different trait or result that's important to the client. I then sort them into tiers: high value, medium value, and low value (**FIG 3.1**).

You may recall that Mega Agency wouldn't tell me how much they wanted to spend, which may happen to you from time to time, even if you use my magic sticker-shock question. That's okay: it gives you the opportunity to focus solely on the value you can provide in each of your options, rather than trying to come in at a number your client (maybe unrealistically) conjured. If you're new to pricing, getting a number is a great safety. But the more you price, the more comfortable you'll feel basing everything on the value you'll provide.

Option 1

Given everything I've heard from Mega Agency, I think they value **expertise** the most. That's what I'd like to sell as the first option. So, what's the price of expertise?

Before I set the price, I should determine what expertise Mega Agency would get. Well, they want the best responsive site possible. I've worked on some pretty great responsive sites,

OPTIONS	VALUE
Option 1	High
Option 2	Medium
Option 3	Low

FIG 3.1: A starter template for creating a range of options for your client.

if I do say so myself. I also collaborate with people and teams who make some of the best responsive sites out there, and teach others how to make them at conferences and in workshops—like Brad Frost, who creates great responsive resources; Paravel, who've done responsive projects for massive organizations like Microsoft; and heck, Ethan Marcotte, who invented the dang thing. What if I could get people like that to offer consulting time on this redesign?

The site would be good. *Really* good. It might win awards. That means it'd get talked about in books and magazines and conferences and interviews, both by the people who worked on it and by those who admired the work. That would probably get Mega Agency more attention and more work like it. And what would *that* bring in for Mega Agency? A few phone calls to agency friends with similarly sized accounts, combined with my own experience, tell me that similar agency-of-record work is worth about $8 million of revenue per year on average.

Based on those factors, it's reasonable to ask for 10% of their potential gain.

```
10% of $8,000,000 = $800,000
```

(I don't have any specific science on picking 10%, but I've found that around a tenth of the total potential bounty is both small enough for the client to consider a worthy investment and large enough to be lucrative for me.)

Since the project has five phases, I decide to offer a price of **$160,000/phase** for the expertise option (**FIG 3.2**).

```
$800,000 ÷ 5 phases = $160,000/phase
```

OPTIONS	VALUE	TYPE	PRICE
Option 1	High	Expertise	$160,000/phase
Option 2	Medium		
Option 3	Low		

FIG 3.2: High option done: the price of expertise is $160K/phase.

OPTIONS	VALUE	TYPE	PRICE
Option 1	High	Expertise	$160,000/phase
Option 2	Medium	Unlimited availabity	$100,000/month
Option 3	Low		

FIG 3.3: Two down, one to go.

OPTIONS	VALUE	TYPE	PRICE
Option 1	High	Expertise	$160,000/phase
Option 2	Medium	Unlimited availabity	$100,000/month
Option 3	Low	Deliverables	$400,000

FIG 3.4: All options filled in.

Option 2

Mega Agency moderately values **unlimited availability**. To price this, let's revisit the value pricing rationale from Chapter 2.

Mega Agency wants to be able to call me anytime, and I'll be there for them. How much is it worth for me to be on call for a year? How much is it worth to turn down every other project because I'll have to be that dedicated?

In 2013, SuperFriendly grossed about $1 million. To get an exclusive for a yearlong project, they'd have to at least replace that income. That's $83,333.33/month, but I'll round up to $100,000 to make the math easier.

The price of option 2 is **$100,000/month** (**FIG 3.3**).

Option 3

I bet Mega Agency will get the least value by someone completing the bulk of the work, Phases 1 and 2. Basically, **deliverables**. Now, you might think, "No way they value deliverables only a little. All customers want deliverables!" Sorta. Though many customers start a conversation asking for deliverables, it's really because they don't know what to ask for. No one was born a client, and most don't even know what questions to ask. (If this sounds familiar, see Mike Monteiro's *You're My Favorite Client,* another great title from A Book Apart. Finish this book first, though.)

Customers aren't directly interested in deliverables; they're interested in what those deliverables can do for them and *their* customers. An InDesign file of a prescription label is just binary data, but the application of that file's contents may help someone properly take their medicine and save their life.

How much do Phases 1 and 2 cost? To me, this option feels like a subset of Option 1, because Mega Agency is invested in working with experts to finish Phases 1 and 2. They know how to build a website; this time around, they want a better site than one they can muster on their own.

Since Option 1 is $160,000/phase and Option 3 has two phases, I estimate $320,000 for this option. However, doing less work with a client is often less efficient than doing more, so I bump the price up to $400,000 to accommodate any complexity that arises from covering only two phases (**FIG 3.4**).

AN OPTION BY ANY OTHER NAME

The last step is my favorite: naming the options. "Option 1" won't inspire anyone to drop a quarter of a million dollars. You're selling here; add a little romance.

Seeing as this is for American Boat Company, let's draw on nautical names. Instead of "Option 1," let's call the expertise option "The Eclipse," the most luxurious yacht in the world. Option 2 becomes "The RMS Olympic," a World War I troop-ship remembered for its reliability. The third option is now "Steamboat Willie," which has connotations of just chuggin' along (the deliverables) as well as being an incredibly innovative film for its time (the expertise).

This give us a new chart (**FIG 3.5**).

PO-TAY-TO, TO-MAH-TO

You'll notice that each price has a different unit (per phase, per month, fixed price). That's intentional. You may object, "But how can the client compare these with one another? Or with other bids?" Well, they can't. And you don't want them to—not on price, anyway. You want your client to focus on the value, on the results. Everyone you're pitching against likely sent one quote (unless they read this book before you); you sent three. You're presenting them with three unique ways you could help. You're sending the message that you can do things no one else can. Pricing with these options puts you in a category of your own.

ONE. GAJILLION. DOLLARS?!

I've been fortunate to work with a stunning range of clients, from local printing companies and tiny churches to giant corporations with multibillion-dollar revenues, and everything between. Perhaps the most valuable lesson I've learned is that they're all the same. People spend money the same, whether it's a few hundred dollars they've managed to stash away or it's a

OPTIONS	VALUE	TYPE	PRICE	NAME
Option 1	High	Expertise	$160,000/ phase	The Eclipse
Option 2	Medium	Unlimited availability	$100,000/ month	The RMS Olympic
Option 3	Low	Deliverables	$400,000	Steamboat Willie

FIG 3.5: Last step: name those options so they provide more of an emotional hook.

corporate checkbook. Spending 150% of the expense account is just as precious for a regional grocery store as it is for a Silicon Valley startup backed by venture capital. And I've produced equally valuable results for both types of clients; ask any other experienced pricer, and they'll tell you the same story.

Let me assure you that this isn't only an approach for big companies with big bank accounts, and it's effective whether you run a big design shop or you're just starting out. It transcends dollar amounts: focusing on value scales better than any other method you can come up with. No matter your situation or your kind of client, these pricing techniques still apply—and will work wonders for you.

WRAPPING UP

With your prices set and a solid rationale to back them, you're ready to drop them into your proposal. While I won't get into the specifics of writing a great proposal—that's another book entirely—make sure you're clear about what you're offering and, whenever possible, walk your customer through their options on the phone or in person, never solely through email.

4

VALUE PRICING: WHAT TO EXPECT

I BET you're dying to know which option Mega Agency picked.

After we discussed all three, they thanked me and said they'd send an answer. Here's what I received:

> *Hi Dan,*
>
> *First off, let me tell you that we really loved your proposal. We knew when we selected you as a candidate that we'd be in for something different and exciting, and you did not disappoint. We were genuinely delighted by your response and had many a spirited discussion as we contemplated how we thought the project would unfold within the context of a partnership with you and your SuperFriends.*
>
> *You provided several very interesting options that gave us pause and got us looking at our project at a fundamental level. Unfortunately, we don't believe that this is the right engagement, or, more accurately, the right point in time in this project to bring you into the process.*
>
> *That said, the whole team agrees that we were thoroughly impressed with your presentation, approach, and candor when discussing the creative and technical aspects of the project and would absolutely love the opportunity to work with you in the future, preferably on a project where we can get you involved from square one.*
>
> *Thank you so much for your time and effort in preparing your proposal. It was appreciated and certainly opened our minds to some very interesting possibilities for the future.*
>
> *Best regards,*
> *Calvin UX Director*

What?! You mean to say I spent the whole previous chapter walking you through options for a project I didn't win?!

Yep.

Since I've started using value pricing, my loss rate on proposals has gone way up—my agency lands significantly fewer projects than when we had a standard hourly rate. (But we make way more money now.) Value pricing is scary, both for you as the provider and for the customer. It requires trust on both sides. It's risky for both parties.

You're not going to be right for every client. Not every client is going to be right for you. Value pricing helps bring that to light more quickly, because it forces you to think deeply about whether or not you can bring value to the table. Value pricing usually isn't for customers who want to rush into things. And it's not helpful if all you're interested in is running the meter as soon as someone calls you.

When you do find the client who believes in the value you can offer them, and you can confidently create that value, you will both profit tremendously.

My goal was to build a relationship with Mega Agency, even at the expense of a project. Since I've switched to value pricing, I haven't been selected for a few hundred projects I've submitted proposals for. Only one of those rejections has involved an objection to price.

Look again at Calvin's email. There isn't one word about price. The options I sent made Mega Agency reexamine the project at a fundamental level. (I'm adding value without even being hired yet.) They realized this project wasn't a good fit. Isn't that what we strive for with our work? To find clients we mesh well with? When's the last time a client sought you out and then realized it wasn't a fit before the project began? Most times, we discover this in the middle of the work, after each party has invested blood, sweat, and tears.

If you're going to lose a project, this is the way to do it: when a customer says, "We see the value. This isn't the right thing, but we'll be back." You know what? They came back, and you won't believe what happens next. (Buy our next book!)

Be as intentional about your pricing as you are with your design process, your GitHub repository, the clothes you wear to that meeting, your Photoshop layers, and every other part of your business. You've already proven that you're worth every penny you believe you are. Now you know how to go out there and ask for it.

RESOURCES

Books

- *Implementing Value Pricing,* Ronald J. Baker
- *Management Challenges for the 21st Century,* Peter F. Drucker
- *Positioning for Professionals,* Tim Williams
- *Predictably Irrational,* Dan Ariely
- *Pricing for Profit,* Dale Furtwengler
- *Pricing with Confidence,* Reed K. Holden and Mark R. Burton
- *Value-Based Fees,* Alan Weiss
- *The Win without Pitching Manifesto,* Blair Enns
- *Work for Money, Design for Love,* David Airey

Courses and coaching

- The Designer's Pricing Class, nuSchool, http://bkaprt.com/pd/05-01/
- Expensive Problem, Jonathan Stark, http://bkaprt.com/pd/05-02/
- Value-Based Pricing, Sean McCabe, http://bkaprt.com/pd/05-03/

Podcasts

- *Art of Value,* http://bkaprt.com/pd/05-04/
- *The Businessology Show,* http://bkaprt.com/pd/05-05/
- *Touring Implementing Value Pricing,* http://bkaprt.com/pd/05-06/

Websites

- Agency Compensation & Pricing, Ignition Consulting Group, http://bkaprt.com/pd/05-07/
- Breaking the Time Barrier, Mike McDerment and Donald Cowper, http://bkaprt.com/pd/05-08/
- Harvest Field Guide to Pricing, http://bkaprt.com/pd/05-09/
- Project Questionnaire, http://bkaprt.com/pd/05-10/

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REFERENCES

Shortened URLs are numbered sequentially; the related long URLs are listed below for reference.

Chapter 1

01-01 http://www.aiga.org/calculating-a-freelance-rate

01-02 http://blog.teamtreehouse.com/calculate-hourly-freelance-rates-web-design-development-work

01-03 http://www.howdesign.com/design-business/pricing/hourly-rates/

01-04 http://adage.com/article/agency-news/4a-s-top-york-advertising-creatives-charge-750-hour/139409/

Chapter 2

02-01 http://www.nicekicks.com/2011/09/19/nike-mag-auction-2011-final-numbers/

02-02 http://news.nike.com/news/nike-mag-2015

02-03 https://gist.github.com/danielmall/87e4a93fa83f09e4ed18

Chapter 3

03-01 https://www.ted.com/talks/dan_ariely_asks_are_we_in_control_of_our_own_decisions

Resources

04-01 http://thenuschool.com/the-pricing-class/

04-02 https://expensiveproblem.com/

04-03 https://seanwes.com/value-based-pricing/

04-04 http://artofvalue.com/show/

04-05 http://www.businessology.biz/

04-06 http://www.verasage.com/blog/new-verasage-podcast-a-tour-through-implementing-value-pricing/

04-07 http://www.ignitiongroup.com/category/agency-compensation-and-pricing/

04-08 http://www.freshbooks.com/breaking-the-time-barrier

04-09 https://www.getharvest.com/field-guides/pricing/

04-10 https://gist.github.com/danielmall/87e4a93fa83f09e4ed18

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Dan Mall is a creative director and advisor from Philly. He's the director of SuperFriendly (superfriend.ly), a design collaborative that brings exquisite creative direction and design to the world's most important and interesting organizations. Dan is an enthralled husband and dad, and cofounded Typedia (typedia.com) (an encyclopedia for typefaces) and Businessology (businessology.biz) (a podcast and workshop series teaching designers how to run better businesses). He writes about design and other issues on Twitter (@danielmall) and on his industry-recognized site, danielmall.com.

Photograph by Maykel Loomans

ABOUT A BOOK APART

We cover the emerging and essential topics in web design and development with style, clarity, and above all, brevity—because working designer-developers can't afford to waste time.

COLOPHON

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