FROM PUPPY PROFITS TO BIG-DOG EARNINGS

HOW TO FETCH BETTER CLIENTS WHO WILL REWARD YOU MORE

by **BRAD FARRIS**

INTRO

> **BUT THERE WAS ONE GOOD THING ABOUT THAT OLD, SOUL-SUCKING CORPORATE JOB – AT LEAST IT CAME WITH A PAYCHECK.**

My dog Emma leads a charmed life – a real "dog's life," as the saying goes. She sleeps for most of the day, gets up, eats ... and then hits the hay again. She just sits there and looks cute, while we run ourselves ragged making sure she's got everything she needs in life. Not that I'm complaining ... but she's got it good.

When you started your business, you probably envisioned this type of lifestyle for yourself – kicking back while your employees do the work and bring you treats all day. But soon, reality sets in.

You need to work your tail off to keep your business going! And, insult to injury, you're not making any money! You can't even afford kibble!

I know – you probably didn't start your business just to make money – but you also didn't start a non-profit foundation (at least you didn't mean to!). You had a skill, something you were good at, and you wanted to show it to the world. All the red tape, bad management practices and clunker team mates at your old firm were holding you back – and now it's your time to shine! But there was one good thing about that old, soul-sucking corporate job – at least it came with a steady paycheck! Now, three or four years later, you're realizing, "This money thing is pretty important." You've learned that it's a lot easier to spend money than it is to make money. And while you are doing great work, work you are proud of, that steady paycheck is still elusive...

No matter how great the work is, and how much fun you are having – nothing can thwart a business owner's enthusiasm like being broke. It's no fun lying to your vendors about when you can pay them. No one dreams of worrying all night about covering payroll. When you work night and day, night and day, only to realize that the money that just came in the door is about to go right out ... you start to think, "Take this job and shove it!" Too bad there's no boss to say that to!

So what's the answer? Well, most of the business owners I meet that are in this situation think they need MORE business. "If I just had 5 more clients..." If you had 5 more clients you'd be working 20 hours a day and turning out a poor work product!

YOU ACTUALLY NEED LESS BUSINESS – BUT BETTER BUSINESS.

Fewer clients, but more profitable ones.

Sounds like a great goal, right? But how do you get there? You are already starving with the clients you have and you can't just give them up! Don't worry – I don't want you to do that (just yet). I want you go through a process, one in which you start to change your mindset and make tough decisions, and make more of a profit as a result ... but we're getting ahead of ourselves. In this book, I will walk owners of service businesses from a state of frustration to a much better place – a state of gratification! I know, money won't solve all of your problems, and you are right there. But money can certainly take the edge off the problems you do have!

SO LET'S START MAKING SOME MONEY – AND KEEPING IT!

TO DO THIS, YOU NEED TO DO 5 THINGS:

- Project yourself as the "costs more but worth it" provider.
- Charge for value, instead of by the hour.
- Stop discounting your services.
- Factor in your costs.
- Raise your prices!

ARE YOU READY? **LET'S DO IT!**

CHAPTER 1

BE A PUREBRED – NOT A POUND PUPPY.

When it comes to pricing your services, ask yourself:

What do my prices say about my company? If you struggle with how to answer this, think about your own buying habits.

You need a new accountant. Now that your business has grown, your taxes have become very complex and you need someone who can get the job done right. You get two recommendations from people you trust. One recommendation is for the "cheapest accountant in town" and the other is for the "higher priced accountant but he's worth it."

Of course you choose the "higher priced accountant but he's worth it" accountant because you need this job done right! Now think about – don't your clients need the job done right too? Don't you offer a valuable service to them?

SO, WHAT IS YOUR BUSINESS – THE CHEAPEST OR THE BEST?

"My business is the best!" you say without an ounce of hesitation!

Of course it is! Now do your prices reflect that?

"That's a good idea in theory, Brad, but I don't want to raise my prices and lose clients."

Oh, ok. So you're good with making barely a profit at all, too? Yep, I knew you would be back. Let's dig into this idea in a little more detail...

	Your Business Now	With a Price Increase		With Higher Prices & Fewer Clients	
Sales	$500,000	$550,000		$458,333	
Salaries	$250,000	$250,000	45%	$208,333	45%
Other Expenses	$200,000	$200,000	36%	$200,000	44%
Profit	$50,000	$100,000		$50,000	
Profit % of Sales	10%	18%		11%	

If you are a service firm with a cost structure in which 50% of your sales dollars go to pay staff, 40% covers overhead, and the rest goes toward partner profits, then a 10% price increase would double your profits. (If your profits as a percentage of sales are lower, then the profit increase from a 10% price increase is even more dramatic.) So far, increasing prices is a really good thing, right?

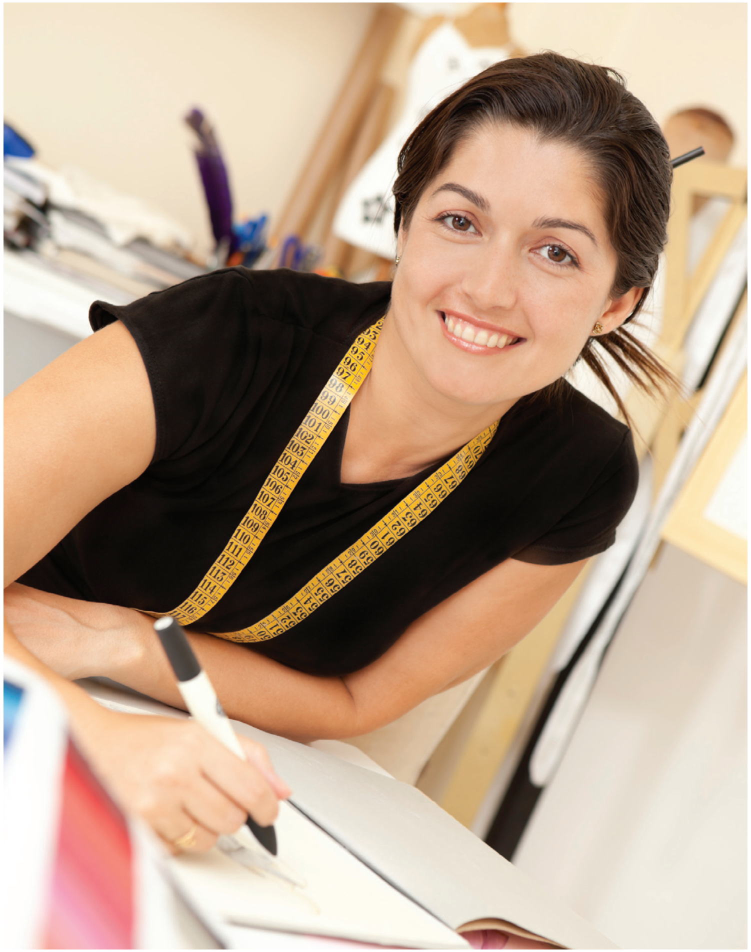
"But wait a minute, Brad – if I increase my prices, I lose some of my clients. My sales will drop."

That's true – so how much would your sales have to drop to reach the same level of profits? If you are billing $500,000, with profits of $50K (10% of sales) and you increase your price by 10%, you could bill $458K and still make $50K profit (assuming your expenses are all fixed and your salary costs are all variable). Wouldn't you rather do less work and earn the same amount?

Also, who would buy your services at that higher price? Only those companies who knew they would really benefit from your work. Only those companies who really needed you and would do anything to improve their situation. Do those sound like clients you want to work for – ones who follow your advice, get great results, and tell their friends and colleagues how great you are? You bet.

Also, the more focused your firm, the better you can communicate the value you offer to a client, the more referrals you get, and the more money you make. If a client needs the type of service that you have done many times over, you are more confident and insightful in the new business meeting, you take less time and risk building the proposal, the more efficiently you can deliver the work, and the more likely you are to get referred. Go narrow, become good at something and stick to it. If you are getting bored, find a hobby.

THE MORE FOCUSED YOUR FIRM, THE BETTER YOU CAN COMMUNICATE THE VALUE YOU OFFER TO A CLIENT, THE MORE REFERRALS YOU GET, AND THE MORE YOU MAKE.



The good news is that as a starting point, I'm going to suggest that you leave your current clients alone. I'll get to how to raise your prices in the last chapter.

CHAPTER 2

IF YOU WORK LIKE A HUSKY, DON'T CHARGE LIKE A CHIHUAHUA.

Let's look at a typical day for a service provider, Marcus.

On the way home from a long day in the office, Marcus thinks about his day. He spent the morning working hard on a client project and billed five hours for it. But as he thinks about it, he knows the client won't like it because this particular client doesn't like anything. He didn't realize this client would be so high maintenance and demanding when he bid the project, and now the project is headed over budget. Meanwhile, his team's been working on another project all week, and it should have just needed some finishing touches to get it ready to go out the door. But when Marcus opened the file and started reading, he realized it still needs a ton of work and the team is already over budget on the project! Argh!

But there was one good thing that happened during the day. One of Marcus' clients called looking for some expert advice. Marcus kicked into action, offering some great solutions to the client's problems in just 20 minutes. The client says to him, "You are my hero, Marcus." That lifts Marcus up for a time, and he makes a mental note to charge the client an hour for his time (which he, of course, will forget to do).

Marcus then starts thinking about a meeting he had at the end of the day. Marcus has a great solution for an issue that his client thinks will take about 50 hours to solve. Marcus, however, already has some ideas from a project he's done before, and thinks he could get it done in 10 - 12 hours. But this could be a real breakthrough for the client, and they are prepared to pay for up to 50 hours to get this right … but Marcus can do it in 10, "Maybe I could milk it out to 15?" he thinks. But wouldn't those extra 35 hours of billings really make up for the big hole in the sales for this month?

This story demonstrates the problems with charging by the hour. Sometimes you spend solid hours of work, but don't produce any value for the client. So you write off hours. Other times, your skills and experience produce significant value for the client in a short time, but you have a hard time capturing the value you created. Other times, you get the chance to do several projects that are relatively similar, so the first client ends up paying more, and the other clients ride their coat tails. So, if you get better at what you do so you can accomplish it faster (improved efficiency), you get paid less (that's not right).

Lastly, there are times when all of your training, experience and hard work come together to create a brilliant insight in one moment (usually when we are in the shower, or behind the wheel of the car). How do you bill for that? Hourly billing ensures that you earn a minimum wage for your work, but it does a lousy job aligning the value you create to the revenue you receive.

Worse yet, charging by the hour usually turns into a "heads the client wins, tails you lose" proposition.

If things take too long, you can't usually charge all the time (some of it gets "written off," effectively lowering your hourly rate). But if things go really well, and you brilliantly get something done in half the time, you have a hard time charging more. Some clients go further by mandating that you bill hourly against a cap or maximum project fee. This is the ultimate set-up for they win (if you are fast and efficient), you lose (if you run into a roadblock or things don't go as planned).

THE EXPERT SHOULD PROVIDE CERTAINTY.

Now let's look at it from the client's perspective. They are coming to you because you have significant expertise. They tell you they have a problem and need a solution. If you're the one with the solution, should you be able to estimate what it's going to cost to fix it? They are filled with uncertainty, and that's why they turn to an expert. The expert should provide certainty.

The cost of the engagement is really basic. How do I, as the client, know I'm going to get value from this engagement when you can't really tell me how much it will cost? If you are going to provide some kind of estimate to remove the client's uncertainty – why not make it a fix fee assignment?

Further, when you bill for time, clients avoid spending time with you. Every service provider I know wants to be a trusted advisor for your clients; you want them to call you with challenges and opportunities as they come up. That way, you can have more influence and discover additional projects and ways that you can help them. The earlier you get involved usually the more effectively your expertise can influence the outcome. But pricing by the hour makes this risky for the client. "I don't know if this is worth her time..."

WHEN YOU BILL FOR TIME CLIENTS AVOID SPENDING TIME WITH YOU.

The better you get, the less you earn, so you have to raise your rate. This is okay if you are able to hire cheaper resources to do the more mundane work. But it often results in pushback from the clients about your rate. “Why am I paying $250 an hour for you to do that?” Again, more time gets written off, or you end up discounting your rate to make the client happy.

Hourly billing shifts the cost risk from the service provider to the client, and in most situations the service provider is the expert. You should have a good idea what it is going to cost, and if you don’t, you should (how about an assessment phase?). If you are the expert and you know (approximately) what it is going to cost and (about) the value the client will realize for your work, then hourly billing really does a poor job of aligning the client’s needs with the provider’s needs. In fact, it puts you at odds with your client. How do they know if another hour or two will make a huge impact, or just pad the bill?

Bill for value.

At some point, many service firms decide they need to find another way to charge their clients besides hourly billing. They can do this by defining the beginning, middle and end of a project, so that they can use some type of project fee or retainer/fixed-monthly-fee arrangement.

The idea here is that a client has an easier time determining the value they will receive from a project. So, instead of working out what it will cost you to complete a project, you can calculate what value the client will receive and see if we want to do this work for that price. Project pricing then provides incentive for the service firm to complete the work at a value that ensures the client will earn a return.

When you charge a project fee, you preserve the upside (if you finish quickly, you earn more money) but accept some downside risk. You can mitigate some of the risk by negotiating change orders as the project progresses. One of the biggest advantages

of project billing is that it requires the advisor to constantly communicate with the client about how the project is going, warning them when it could be getting off track, and identifying risks and mitigation strategies.
This is also the downside to this payment mechanism: it requires a skilled account manager/project manager to stay on top of changes in scope and negotiate associated changes in payment.

If you charge a retainer (e.g., a fixed monthly fee that represents the expected value that the client receives) you may not get paid for every hour although not every hour you spend on a project creates value. So, sometimes you will have to over-deliver in order to deliver value, and other times you will deliver TONS of value in a few minutes and therefore be able to push more work out into the future and make more money per hour. In most of the firms that bill this way, there is a schedule with a list of deliverables to be completed this month, and have some forecast for what might be completed in the coming months, but they retain flexibility to use the brain of the advisor in any way that is needed. This works best for smaller firms or where the client is "renting" the advisor's knowledge and skill on an ongoing basis. The advisor remains in control of the "effort" they are delivering (you can always set deadlines in the next month) the client determines if that "effort" produces a good value. Again you need to be in constant conversation with the client about what value they receive to ensure that you are meeting their expectations.

TRANSPARENCY BUILDS TRUST IN AN UNCERTAIN ENVIRONMENT AND ALLOWS THE SERVICE PROVIDER TO BILL A FIXED FEE WITHOUT TAKING ON ENORMOUS RISK.

Lastly, the world of software programming has brought us a framework known as Agile, or Scrum. In this methodology you acknowledge that the project has tremendous uncertainty. So instead of creating a huge monolithic budget for a very uncertain project, you break the project into short phases. Each phase produces distinct value for the client since there are deliverables completed in each phase. At the end of one phase the scope is created for the next phase in cooperation with the client and those doing the work. This transparency builds trust in an uncertain environment and allows the service provider to bill a fixed fee without taking on enormous risk.

Charge for results.

The last is pay-for-performance. Clients love it, but in most professional-service businesses, there is still a HUGE gap between idea and execution, in which the client can turn your valuable idea into clay and you both end up with nothing. For this reason, it's been difficult to adopt. I have seen it used in a couple of different ways.

- Fixed project fee, with guaranteed results. In this case, the service firm will continue working until results are achieved.
- Fixed fee (or monthly retainer) with a bonus or increased rate depending on achieving certain goals.
- A "tip" system, where you and the client agree to a price, but you add a "tip" to the invoice that they can pay or not pay according to their perception of the value they received.

When there are tangible outcomes to achieve, this pricing mechanism works well. Investment bankers charge huge success fees when they sell a client's business. Recruiters often are paid only upon a successful hire. Even if you don't have such a tangible outcome, how can you tie results to fees? Here are some options to consider.

- A "bonus" payment if a project is completed by a certain date. Or extra payments if work extends beyond the budgeted timeframe (due to delays on the client side, of course).
- Think like an athlete. Sometimes athletes get bonuses if their work wins an award, or they have a record-breaking year. Could you ask clients for bonuses in those circumstances?
- Measure client "satisfaction" or the end user's perception of the value of your work and get some kind of escalated fees based on the results.

Some of these may seem far-fetched, but the only way to know if your client would accept them is to try them out. Brainstorm with your team to see how you might capture a little more value and then experiment with some of those ideas. You might be surprised at the results.

CHAPTER 3

STOP THROWING OUT BONES.

Once again, let's put you in the shoes of the buyer. When you are buying services and someone quotes you a price, say $20,000, and you get that look of shock on your face, "Wow, that's a lot more than I thought…." you may be about to say, "But we really need it, so go ahead." But before you can say that the service provider says, "Gee, it is a lot. I think there are some places where we could cut that back a bit, how about $15,000?" Now how do you feel? Where's your confidence level in this service provider? What messages did they send you?

Most likely you were happy with the idea of suddenly getting a 25% discount, but didn't it introduce some doubt into your mind? What was that $20,000 number? Was that a trial balloon? What happens if I make that face again? Does it suddenly become $10,000?

Offering discounts tends to have three consequences.

1

DISCOUNTING YOUR PRICES DEVALUES YOUR SERVICES.

You are communicating to the client that you need this business. This raises the question: Are you proposing this because it's something you are really good at, and can deliver superior value for the client? Or are you proposing this because you need the money? This isn't a question you want the prospects wondering about. You want them to know that you are proposing this because it's something you are good at and you are confident in the value you will deliver. If that's the case, then don't discount.

2

DISCOUNTING CREATES UNCERTAINTY ABOUT WHAT THE "REAL" PRICE IS.

If you came down by $5,000, would you come down another $3,000? Another $2,000? There is a lot of uncertainty from the prospect's side about how services are priced; they suspect that you just make numbers up (I know some of you actually do, but that's a topic for another book). When you drop the price, it tends to reinforce that notion and encourage them to reach out to another provider to get a "sanity check".

3

IT ENCOURAGES YOUR PROSPECT TO NEGOTIATE EVERY PROJECT WITH YOU.

When prospects tell you they don't like your price it's not a sign of rejection, it's actually a buying signal. They wouldn't bother to negotiate your price if they didn't like your proposal or want to buy from you. So negotiating means they want to buy from you. But there's something in the way. Either your price is more than they have to spend, they don't have the money, or you haven't demonstrated enough confidence to command that price.

WHAT KIND OF GUARANTEE CAN YOU OFFER TO BOOST YOUR PROSPECT'S CONFIDENCE?

I had a client who was a personal trainer and weight loss coach. As part of his new client intake process, he would guarantee that the client would lose weight. If the client expressed doubt about the weight loss he would say, "I'm so confident that you will lose weight that I will bet my house on it. If you don't lose weight I'll give you my house!" How much confidence do you think that gave his prospects? Do you think they signed up when he expressed that kind of confidence? What kind of guarantee can you offer to boost your prospect's confidence?

But there are times when no amount of confidence will open up a client's budget enough to get your full fees. But you don't want to walk away from someone who wants to hire you and for whom you believe you can create real value. So how do you bridge the gap? Sometimes you can reduce the value you are offering to match their budget. Is there a way that they can do some of the project themselves? Maybe they take responsibility for gathering the data, or for writing the report? Can you do the project in phases? Reduce the scope to the level that they can afford now, then do the rest later? Can you risk some portion of the payment on a success fee?

You can reduce the cost of your services, but only if you reduce the value that they are getting by a similar amount.

CHAPTER 4

REMEMBER THE KIBBLES... AND THE BITS.

Keeping track of hours is a drag. Employees don't like it; they feel like "big brother" is looking over their shoulder (and owners sometimes treat it that way too!). Owners don't really like it either. It's one more thing to enforce, manage and analyze.

Tracking time (and looking at the reports) can have a couple of effects:

- Your people will start paying more attention to how they are spending their time.

  When you make people write down where there time is going, they will realize that their time is a valuable commodity (otherwise why would you be going to all this trouble to track it). If their time is valuable, they often start treating it with more care.

  Once you start tracking time you can also start budgeting it. "I'd like to see you complete this project in 20 hours. Let's touch base once you've got your concepts done, say, after 8 hours?" Conversations like this start to put boundaries on performance.

- You will need to police where people are charging their time.

  When you start tracking time, people will want to report a lot of productive time. They may even be tempted to "pad" certain projects in order to make sure they report enough "billable" time. This of course is noise in your system. In order to know what your projects cost, and where your work is going, you need to know the true costs associated with any job or task. So this "padding" creates inaccuracy and decreases the value of the time-tracking exercise.

  The best way to facilitate this is to have a project manager who is responsible for the profitability of the project. Reward him or her for keeping the hours on the projects that they manage low. Have that person approve the hours charged to his/her project. That minor watchdog effort usually keeps the time reports pretty clean.

WHEN WE GET INTO THE HABIT OF CHARGING FOR VALUE, THEN WE NEED A MECHANISM TO DETERMINE WHICH PROJECTS ARE PROFITABLE.

- You will have better information about what jobs cost you, and which jobs are profitable.

When we get into the habit of charging for value, then we need a mechanism to determine which projects are profitable. I'm not suggesting that you use this cost information as the basis for your pricing (remember, clients don't care how many hours it takes you). But if there are projects that you aren't consistently earning a good profit on you need to either look for a different way to complete them, or choose not to take them. Conversely, are there some projects that you are making a lot of profit on? How do you get more of those?

YOUR FIRM'S CURRENT PROFITABILITY IS BASED ON YOUR BILLABLE TIME, BUT YOUR FUTURE PROFITABILITY IS BASED ON YOUR UNBILLABLE TIME.

- Track "unbillable" time too.

Some firms make the mistake of thinking that "billable" time, that is, time spent on client projects, is the most valuable time and focus their tracking on that. However, "unbillable" time, or time spent on training, administration, planning and selling are arguably more important than the billable time. Your firm's current profitability is based on your billable time, but your future profitability is based on your unbillable time. If you are billing too high a percentage of your time you cannot grow, or get better at what you do. Budget a certain percentage of your time to training (5% - 10%), Administration (5% - 10%) and planning (another 5% - 20% depending on role) and if you aren't spending enough in these categories you should see that as a risk to the future health of your firm.

- **Don't strain at nits.**

  Keep in mind that tracking, reporting on, and analyzing time is a cost for your business. Don't go overboard. You want to track enough detail to know where you are making money, and potentially show you who is most productive, but you can go overboard. I wouldn't track finer than quarter hour increments. Don't go down to the task level in projects, try to keep it high level. You just want to use this as an indicator of where your firm is investing their time (and therefore their money). Don't use time tracking as a punishment or reward system for your people (that tends to encourage people to falsify and pollute the data). Just use it to figure out where your costs are going.

CHAPTER 5

THAT WILL COST YOU TWO TREATS NOW.

As a first step, resolve not to accept any new business below your newly established higher price. If you feel pressured to take on business just to keep your staff busy it's better to reduce the size of your team than to discount. A leaner team will be more efficient and you won't feel so much pressure to discount your price.

Publish new contracts, price sheets or rate cards and stick to them. Once you start receiving business at your new price level, you will **know** your service is worth the higher value that these new clients have assigned to it. It takes courage and confidence to ask for that higher number, and some prospects are going to say no. That's OK, remember, you can have fewer clients if you are making more on each. If people aren't complaining that your price is too high, then it's too low!

Once you establish the new pricing with your new clients, then return to your old clients.

Have a face-to-face meeting with them, preferably, and review with them the value of the services you deliver. Let them know that you have researched your competitors and found that you are offering more value for less money, and as a result you are taking on new clients at the higher-price level.

ONCE YOU ESTABLISH THE NEW PRICING WITH YOUR NEW CLIENTS, THEN RETURN TO YOUR OLD CLIENTS.

Then, raise their prices with an effective date two to four months in the future. This gives you a chance to finish current projects or services at the present price while allowing them time to adjust their expectations and budget for future projects or services. If it's worthwhile to you, then offer them the chance to pre-pay now for future projects or services at their current low rate. This helps you secure their future business as well as put cash in your pocket today!

Setting your prices at true market value will secure client loyalty and respect, allow you to invest in and grow your business, and improve your profit margins. If you, as the business owner, don't value your own products or services, you can't expect your clients to value them either. $

DON'T SETTLE FOR LESS THAN YOU'RE WORTH!

CONCLUSION

DON'T LET YOUR BUSINESS GO TO THE DOGS.

I want to end this book with a personal story that illustrates that I do practice what I preach. In January of 2009, I lost half of my clients. The economy was tanking and they got scared and chose to cut back. So I had to hit the pavement HARD and got some new clients in the door. In the second half of 2009, I signed up about half the number of new clients as I ordinarily would. In a down economy, everyone wants to spend less. Prospects were trying to get me to lower my prices even though I knew I could deliver tremendous value to them, especially given the economic climate. But I held firm – as hard it was knowing that I needed money coming in the door – because I knew what my services were worth and I wasn't going to compromise. Some prospects said "See ya!" while other ones who knew I could provide a tremendous value to them said, "I just don't have the money right now; call me in six months."

I HATE TO SEE A BUSINESS OWNER WORKING HARDER AND HARDER EVERY YEAR, SKIPPING VACATIONS AND NOT ABLE TO EARN A DECENT LIVING.

I found a couple of larger clients in the meantime who could pay my full rate, and valued what I do. Slowly our core business came back, and now our business is as strong as ever. If I had taken on a bunch of work at lower prices, I'd be kicking myself now. My shop is full today of clients who are paying full price. Because they are paying full price I can afford to hire some additional advisors to help me deliver on this surge in business.

We are billing at a record pace – and I still have time to work on creating EnMast.com, writing this e-book, and helping businesses like yours.

I'm not telling you these things in theory. I know they work, because they've worked for my business. I've seen them work for clients' businesses and they will work for your business too. I hate to see a business owner working harder and harder every year, skipping vacations and not able to earn a decent living. Moving forward, focus only on the things in which your business excels. Find good clients who value what you do and will pay you for that value. Raise your prices, and get away from hourly billing. Keep an eye on your spending. By doing these things, you can turn things around and make money you've always thought you would make, have some extra free time, enjoy the freedom of owning your own business... and be on your way to living a real dog's life.

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