

Value and Pricing Partners, LLC

Commitment to Profitable Growth



## Defending Your ProServe Rates:

### Re-energize your Efforts

By

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In virtually every industry pressure on prices is at an all time high, and technology professional services rates are no exception. Moreover, with a continuing slump and stubborn unemployment, pressure will likely not abate soon. So now, 18 months into the recession, what can you do to re-energize your efforts to defend your PS rates?

#### **1. If you are still not paying your sales people on margin, now is the time to start.**

Sales compensation for your typical pro-serve sale should be 50% based on margin, or as close as you can get. A margin focus prompts sales people to search out high value engagements and sell value thereby sustaining prices. Since sales organizations are often reluctant to change comp mid-year, consider a special incentive program for high margin business through 2009 as a proof of concept.

#### **2. Leverage the expertise of your best price performers**

If you sort your sales people or consultants by their pricing success, you will find some are more successful at capturing higher price, higher margin business than others. Recognize these individuals and laud their behaviors. Identify what they are doing and package it for training others. Then use these benchmarks to qualify potential new hires.

#### **3. Focus sales efforts on segments where margins are higher or pressure is lower.**

It is a lot easier to capture high prices from customers accustomed to paying high prices. Sort your customers by profitability (easier than you might think) and target them. Identify similar companies to your target, and focus sales efforts on them as well. In particular, target high profit customers of weak competitors. You might also consider exporting your low profit customers to your competitors.

#### **4. If you have not looked at your pricing practices lately, now would be a good time.**

Keep in mind that pricing practices, e.g. discounting policies, are intended to drive behavior among sales people and customers. If that is not happening, scrap the practices. Specifically look for discounting practices that are extravagant or not communicated well and reduce these revenue leaks. Alternatively,

look for undervalued services that could be priced higher or incremental charges that can be raised. Be cautious here.

**5. Instead of discounting your rates, offer to work for free.**

Yes, you read it right. Instead of knocking 8% off your rates to close a deal, offer the equivalent in free consulting. For example, during negotiations every client gives up some pet project in order to afford the primary initiative. Offer to complete the pet project at no charge if discounts are minimized and you have scheduling freedom. The client's perception of value is the face value of the consulting services while your cost is simply the time of someone probably sitting on the bench anyway.

**6. Build your proposals with the purchasing agent in mind.**

Purchasing agents get paid to find savings. You know what your target realized rates are, so raise your list pricing to make more room for the purchasing agents. Pad your proposals with some specific savings that purchasing agent can claim and be rewarded for finding. It's a win-win. As a bonus, you are testing higher list price levels.

**7. Revise your value propositions to match market realities.**

The value your client receives from your products and services changes with economic conditions. Highlighted features, marketing communications and ROI models all need adaptation to current realities. No matter how price competitive the market is, value still sells. Just make sure you are selling the right value.

**8. Highlight the risks of cheaper alternatives.**

Every consultant you lay off to reduce costs becomes a low priced competitive alternative. Demonstrate and document the costs of lower priced options. If the customer demands lower rates, draft a document that lists the services and guarantees they won't be receiving and acknowledges the increased risk they will incur. Ask them to sign it.

**9. Emphasize managed services, another win-win**

During downturns, capital budgets and hiring budgets are constrained. Managed services can be sold into operating budgets. With long term contracts for your resources, utilization rates are higher and lower rates generate solid margins. This is a win-win: Higher value and lower prices for the client, and higher margins for you.

It is probably over optimistic to suggest that these tactics will totally counteract the downward price pressure in the marketplace. A more realistic goal is to simply defend your rates and protect your margins. Stay profitable, and you live to fight another day.

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