**E54\_Time Is Just the Wrapper**

[00:00:00] **Janene:** Welcome to Live with the Pricing Lady. I'm Janene Liston. Your host is for this show. This show is all about you and pricing in your small business. I work with small business owners to help them create, communicate in charge for the value they deliver to help them feel more confident in the prices they've put out there and how they're executing them in their company. Ultimately to help you build more sustainable profit in your business.

[00:00:30]Today, we're going to talk about a very special topic. I love this topic.

[00:00:35] I was talking with a client and we we're having this conversation about hourly pricing. They were really adamant at the time that hourly pricing was the only way they could do pricing in their business. I really wanted to emphasize to them how it could be different for them, so I asked the question.

[00:00:56] How do you perceive time in relationship to your [00:01:00] price? Is that why people are buying from you or are they buying from you for another reason? She looked at me kind of confused. I waited for a moment then I said, " Time is just the wrapper that your services come in." It's like a cereal, when you buy cereal at the grocery store you buy the cereal for the cereal, not for the box.

[00:01:25] Now the exception might be when Wheaties comes out with their Olympians on the boxes and things like that. But the reality is, is we don't buy things for the packaging, we're buying it for what's inside.

[00:01:37]The same is true when it comes to your services. They're buying it for the value they're going to get from it, not for the time.

[00:01:45]That's what I want to talk to you about today. We're going to look at three things. First, what are some of the disadvantages of hourly pricing. When you understand how it's working against you, you might be more inclined to look at [00:02:00] how to start using something other than hourly prices.

[00:02:03]The second thing we're going to take a look at is, when is it appropriate for your business? The last thing we'll take a look at is how do you get started shifting from hourly pricing to something that's going to be more reflective of the value that you are delivering.

[00:02:19]Let's get stuck into this topic about how time is just the wrapper that your prices are delivered in.

[00:02:27]The first disadvantage to pricing by the hour is when you do that you're telling the customer that the price is really related to you and not to them. The focus becomes all on you instead of the value that you can bring them in whatever journey you're taking them on. You want the focus to be on the value that you bring.

[00:02:49]Second of all hourly prices, they just kind of sound expensive. Now we can say hourly, half day, full day, a week. It's [00:03:00] time-based so again, you're going to have these disadvantages. One of them is that it sounds expensive. We think, wow. You know, 300 francs an hour, that sounds really expensive or 50 francs an hour, depending on what it is, can sound really expensive.

[00:03:13] Just think about babysitters. I know when I was babysitting, I started when I was 12 years old, I was super excited to get like $3 an hour. That, to me, sounded like a super lot of money. From a parent's perspective at the time paying three bucks an hour, it's like they go out, they have dinner and they have some drinks.

[00:03:31] They might go out to a movie afterwards and the $3 an hour on top of everything else that they're paying for made the date expensive. Again, hourly rates or time-based rates can sound really expensive and people are just then calculating the hours it's going to take, or the days it's going to take, and they're doing the math in their head.

[00:03:51]The third reason, or disadvantage to time-based pricing is it makes you appear like a commodity. [00:04:00] Once people perceive what you do as a commodity, then you are left trying to fight on price that's not what we want for you. When you are perceived as a commodity, that's going to work against you and time-based pricing makes you appear more commoditized. The assumption is that you do it the same as everybody else does. Then people are just going to look for whoever is the low price leader. This is something we want to steer away from because we know you are delivering value.

[00:04:33] Disadvantage number four. This is a biggie. If you're just starting out in your business you won't work as efficiently as you've been as if you'd been doing it for 20 years or 10 years even. What happens as time go by time, goes by, you get more experience and you work more efficiently. People start paying less for more value.

[00:04:55] I said less for more value because let's face it, most people like [00:05:00] things done and more speedily they're willing to pay for it to be done faster. If you are more efficient and you're charging less than you're charging less for more value. Which is the opposite way from which we want things to go. If you're delivering more value, we want you to be able to charge additional for the additional value you're delivering.

[00:05:22]Disadvantage number five is that the time you spend isn't directly proportional to the value the customer gets. The real perspective I want you to understand here is that the value isn't derived from the amount of time spent. The value is derived from your experience, your know how, your perspective, the way you solve problems, the way you approach the work that you're doing. These are the things that will bring additional value to your customers. Anybody can spend time on something, but it doesn't mean that they're going to be [00:06:00] delivering the same or equal or more value.

[00:06:04]Those are the five disadvantages.

[00:06:07]The next thing that we wanted to take a look at is when is it suitable to use hourly pricing? There are some cases where it does make sense. In some industries, it will be the standard and the only accepted standard. I'm going to be really careful here because I hear from people all the time, " That's what everybody else does." That's not what I mean by the only accepted standard. Just because everybody else does something this way doesn't mean that you have to. There may be an advantage for you doing it differently because you will stand out. In some industries, it's simply that, that is the only way it's done.

[00:06:48]Here in Switzerland with people who provide things like massage therapy or other alternative therapies that are sometimes covered by the health insurance. In those cases. [00:07:00] I see people who say, no, I can't charge anything else other people say, Oh yeah, I can charge plenty there is the possibility. You just have to figure out how to do that it has to be fit for the people who are targeting again, if it's an industry standard and the only standard, then that is a time when you would want to use it.

[00:07:21] Next, when there are regulations to what you can charge. In some industries you're not allowed to charge certain above a certain level or charge your prices in a certain way. There may be regulations that are driving what you can and can't do in terms of time-based pricing.

[00:07:39] The last one is if there's no way for you to deliver something with a fixed scope. This is why I think traditionally people have price based on time because they, they go in and they don't really know how much time it's going to take. They simply just [00:08:00] say, okay, it'll cost us much per hour

[00:08:01] and however much time I spend is how much it's going to cost you. What I'm saying here is that if you can't fix the scope of something, then of course, it's going to be really hard for you to price based on fixed prices, which is the direction you would want to head if you steered away from time-based pricing.

[00:08:21]If you can't do that, then you're not going to be able to shift over to this other way of pricing. You're going to have to stick with this time based things. You're going to have to figure out how you can minimize the disadvantages that I spoke about here at the beginning. If there's no way to deliver that fixed scope for something, then you're going to struggle to do anything but time-based pricing.

[00:08:46]Those are three areas where you might not be able to shift things. But what's really important is I want you to challenge your thinking on this. You know, my mom used to always say, well, Janene, just because everybody else is jumping off a bridge doesn't mean you [00:09:00] have to. As much as I hate hearing that, it was actually true.

[00:09:06]What's important here is that you challenge your own thinking on this, if you think about, okay, how can I do this?

[00:09:12]That's the third thing that I want to talk to you about ? What can you do differently if you're currently charging based on time and you want to start shifting away from that?

[00:09:22]I have some clients who use a hybrid. They create standard offers for things where they can build a scope around it. Then they have specific offers for each of those, with a fixed price. Then when it comes to bespoke or custom solutions, they get into custom pricing. But usually we're still working with packages here. They're just built based on each customer's specific needs.

[00:09:47] That's one thing that you want to start taking a look at is how can you build up packages for what you're offering. Again, they need to have a fixed scope to them. What do I [00:10:00] mean by a fixed scope? Let's say your building a website for somebody and you can build a very simple one. You can build one where you include some branding work and you can build one where you include branding. Plus some social media work on top you could actually build packages. For those three things. That's an example.

[00:10:23] What can you do different? I don't want you to let go of time entirely. But I want you to use it in a different way. For some of you, and I've worked with quite a few freelancers, this is a tough one. What am I talking about?

[00:10:37] What I'm talking about is time isn't going to be the basis for your pricing, but it is going to be the basis for you to understand your own efficiency. You may set your packages based on an assumed daily rates or an hourly rate that you use, but you never communicate those rates to customers.

[00:10:58] That's just for your own [00:11:00] information in the background. One way you're going to set these package prices and you're going to estimate how much time, it's going to take a, and you're going to use that to understand your efficiency after each project. You're going to go back and say, okay, how much time did I actually spend versus how much I thought I would spend?

[00:11:19] Am I working as efficiently as I need to be? And if I am, or if I'm not, does that mean I should adjust my pricing to see what I mean? You're using it in a different context. Also, this is the hardest part, you're going to have to let go of the time factor. This is a tricky one, especially for you freelancers out there who are used to just calculating time and charging people based on time.

[00:11:47] When you shift to package pricing, you're going to have to say, all right, on some projects, I'm going to earn a little bit more money. On some projects. I'm going to earn a little bit less because it's going to take me [00:12:00] more time. You have to be okay with that plus minus. But that's why it's so important that you understand and are very clear about the scope of your standard packaged offers.

[00:12:12] So that if you start to go outside the scope, you have a way to go back to the customer and say, okay, this was the original scope of what we intended. Now we're, we're moving into this new area and we need to talk about what you want here so I can make you an offer for that.

[00:12:30]There's two points that I've covered in here. One is letting go of, sometimes I'll make more, sometimes I'll make less. Two, really clearly defining that scope for those standard offers so that if it goes out of scope, you do still have the opportunity to be able to go back to your client and make a second offer or make an additional offer to go along with what you're working on.

[00:12:57]One of the reasons we use time-based pricing is [00:13:00] for things that we think a large majority of people can do this kind of work. We see this sort of a commodity. One way to take yourself out of a commodity space is not to just offer your website development services for example, but to also offer the strategy.

[00:13:17]One way you can start making that shift is by putting more strategic work in with what you do. Then you can charge differently for that. It's also a way to create packages that are of varying value. Your cheapest package has zero strategy in it while your premium packages have more strategy in it.

[00:13:38]More one-to-one support. We're trying to think about what's the value we can put into these packages at different levels. We can hit different price points and different value points for different types of customers. Those are some of the things that you can start doing differently in order to shift your business from time [00:14:00] based pricing, to value based pricing.

[00:14:04]The big message I want you to take away is that timed based pricing is not going to be a value based approach. We want to make sure we shift that right on over so that you can start earning prices that are reflecting the value you are delivering in your business.

[00:14:24]That's what I wanted to share with you today. Real brief recap, there are five disadvantages to time-based pricing. Hourly rates are about you, not your customer is number one. Time-based prices seem really expensive. They make you appear as a commodity rather than something special in a value. Number four, if you're more efficient, you end up charging less for more value. Number five, time spent isn't necessarily where the value comes from.

[00:14:56]Most of you are going to be able to start shifting on over [00:15:00] to package prices rather than time-based. But in order to do that, you need to have a few things in place. You need to let go of the time factor when it comes to your standard packages. Be okay that sometimes you'll earn more and sometimes your arm less. But not throw time out altogether, because you're going to use that to understand how efficiently, you're working in your business and occasionally adjust your prices if you see your efficiency shifting in one way or the other.

[00:15:30] You are going to create packages and you're going to combine different types of value for different types of customers into those packages so that you can create the right packages to target the people who you want to work with most.

[00:15:45]If you want to talk to me about pricing in your business, how to start shifting your own business from time-based to package based pricing. Go ahead on over to www.thejanenliston.com/discoverycall [00:16:00] and book that call with me.

[00:16:02] I'll see you next time. As always everyone enjoy pricing.