

# Value Pricing for Software Developers

Presented by Kirk Bowman  
MightyData, LLC



# Who Am I?



- President of MightyData (Dallas, Austin, Houston and Denver)
- FBA Platinum Partner
- FileMaker 10 Authorized Trainer
- FileMaker 10 Certified Developer
- Speaker at FileMaker Developer Conference
- 15+ years experience as software consultant
- [www.mightydata.com](http://www.mightydata.com)

# Know Thy Price



- From Dilbert and <http://www.patrickjlamb.com/archives/commentary-know-thy-price.html>

# The Danger of Budgets



- From Dilbert and <http://www.patrickjlamb.com/archives/commentary-the-danger-of-budgets.html>

# Questions to Consider

- What does your customer buy?
- Are you a consultant or a developer?
- Are value pricing and fixed pricing the same?

# My Value Pricing Journey

- Advocate for hourly billing during panel at DevCon 2009
- Recognized hourly billing was artificial limit on income
- Began to study value pricing as alternative in September
- Recorded podcast with Jonathan Stark and Matt Navarre to discuss my conversion in November
- Made commitment to convert to value pricing in one year

# What is Value Pricing?

- *Value pricing is a shift from what this will cost the developer (hours) to what ROI this will generate for the customer (value). By starting with a conversation of "why do this" rather than "how to do this", you change the basis for the definition of scope, not eliminate it.*

– Kirk Bowman

1. Determine how the customer perceives value
2. Set a price which matches the value perceived
3. Determine if you can deliver the value at that price for a profit

# Hourly Billing vs. Value Pricing

- *Professionals undervalue their services because they are operating under the **labor theory of value**, which posits that the value of a service is determined by the amount of labor used in its production. Conversely, professionals who subscribe to the **subjective theory of value** believe that the services they offer are only valuable to the extent that there is a potential buyer desiring them. Value is in the eye of the beholder.*

– Ron Baker, "Pricing on Purpose: How to Implement Value Pricing in Your Firm"

<http://www.journalofaccountancy.com/Issues/2009/Jun/20091530.htm>



# Time Is Not Money

- *That is why I prefer Oscar Wilde's quote to that of Benjamin Franklin's: "Time is a waste of money." Value is in the eye of the beholder, not the labor time of the seller.*
  - Ron Baker, "Hourly Billing is the Opium of the Profession"  
[http://www.verasage.com/index.php/MainThreads/comments/hourly\\_billing\\_is\\_the\\_opium\\_of\\_the\\_profession](http://www.verasage.com/index.php/MainThreads/comments/hourly_billing_is_the_opium_of_the_profession)

# Commitment to Value

- *Before the famed consulting firm McKinsey & Company will accept a customer, they claim they have to provide at least three times more in value than the price they charge. What would happen if all professional service firms were to use this approach?*

– Ron Baker, "If You Don't Discuss Value, Expect to Discuss Hours"

[http://www.verasage.com/index.php/community/comments/  
if\\_you\\_dont\\_discuss\\_value\\_expect\\_to\\_discuss\\_hours/](http://www.verasage.com/index.php/community/comments/if_you_dont_discuss_value_expect_to_discuss_hours/)

# One Advantage to Client

- *The new approach helps clients determine legal costs in advance and often prevents legal problems from escalating because clients are no longer reluctant to seek advice out of fear of incurring a hefty bill, said Jay Shepherd, the firm's founder.*

– "Beat the Clock: A Boston law firm says no to billing by the hour, and its clients say they are pleased"

[http://www.boston.com/business/globe/articles/2007/10/08/beat\\_the\\_clock](http://www.boston.com/business/globe/articles/2007/10/08/beat_the_clock)

Let's Discuss!

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# Value Pricing Advocates

- Alan Weiss, management consulting  
<http://www.summitconsulting.com>
- Ron Baker, accounting and economics  
<http://www.verasage.com>
- Jonathan Stark, software consulting  
<http://jonathanstark.com/blog/>

# Top 10 Resources

- Ask VerasSage: All About T & A

[http://www.verasage.com/index.php/community/comments/ask\\_verassage\\_all\\_about\\_t\\_a/](http://www.verasage.com/index.php/community/comments/ask_verassage_all_about_t_a/)

- Pricing on Purpose: How to Implement Value Pricing in Your Firm

<http://www.journalofaccountancy.com/Issues/2009/Jun/20091530.htm>

- Hourly Billing is the Opium of the Profession

[http://www.verasage.com/index.php/MainThreads/comments/hourly\\_billing\\_is\\_the\\_opium\\_of\\_the\\_profession](http://www.verasage.com/index.php/MainThreads/comments/hourly_billing_is_the_opium_of_the_profession)

# Top 10 Resources Cont.

- Top Ten Ways to Convince a Buyer Value-based Fees Are Best  
<http://www.summitconsulting.com/articles/vol-4-3.php>
- 101 Questions for Any Sales Situation  
<http://www.contrarianconsulting.com/101-questions-for-any-sales-situation/>
- Determining Value-based Fees for Software Projects, Part 1-4  
<http://www.ecademy.com/module.php?mod=blog&op=liste&uid=91561>
- What If the Apple Store Billed by the Hour  
<http://www.clientrevolution.com/2009/06/what-if-the-apple-store-billed-by-the-hour.html>

# Top 10 Resources Cont.

- Value Billing and the Use of Transparent Pricing  
<http://legaltalknetwork.com/podcasts/un-billable-hour/2009/12/value-billing-the-use-of-transparent-pricing/>
- Value-Based Fees by Alan Weiss  
<http://www.amazon.com/Value-Based-Fees-Ultimate-Consultant-Pfeiffer/dp/0470275847>
- Pricing on Purpose by Ron Baker  
<http://www.amazon.com/Pricing-Purpose-Creating-Capturing-Value/dp/0471729809>



# Resources for Scope Definition

- The Triangle of Truth

[http://www.verasage.com/index.php/community/comments/the\\_triangle\\_of\\_truth/](http://www.verasage.com/index.php/community/comments/the_triangle_of_truth/)

- Elements of a Scope Document

[http://www.verasage.com/index.php/community/comments/elements\\_of\\_a\\_scope\\_document/](http://www.verasage.com/index.php/community/comments/elements_of_a_scope_document/)

- Elements of a Change Request

[http://www.verasage.com/index.php/community/comments/elements\\_of\\_a\\_change\\_request/](http://www.verasage.com/index.php/community/comments/elements_of_a_change_request/)

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Thanks for coming!

