"Spectacularly simple, remarkably true, for every small business owner who's determined to grow, *Breaking the Time Barrier* will work for you!"

—Michael E. Gerber, best-selling author of *The E-Myth*, and inventor of *The Dreaming Room* for entrepreneurs

Breaking the Time Barrier

How to Unlock Your True Earning Potential

FreshBooks Co-founder & CEO

Mike McDerment

and **Donald Cowper**

FRESHBOOKS cloud accounting

Praise for *Breaking the Time Barrier*

"It's the eternal struggle of the freelance worker: how do you price your work in a way that's fair to both you and the client? Nothing less than your career success and personal happiness hinges on this question. Spend an hour with this book, and you'll come away with a whole new way of looking at your value and your relationship with your clients."

—Daniel H. Pink, best-selling author of *Drive, A Whole New Mind* and *Free Agent Nation*

"Spectacularly simple, remarkably true, for every small business owner who's determined to grow, Breaking the Time Barrier *will work for you!"*

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"Breaking The Time Barrier *is a must read for every business owner who's ever struggled with putting a price tag on their services. If only it would have been around when I started my design studio."*

—Tina Roth Eisenberg, founder of *CreativeMornings, swiss-miss.com*

"In order to understand the difference between time and value, just read Breaking the Time Barrier. *In about an hour, Mike McDerment will get you up to speed on the fundamental difference between churning billable hours and delivering value to your clients."*

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How to Unlock Your True Earning Potential

Mike McDerment and Donald Cowper

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TORONTO

A word or two before we begin

In January 2003, I was running a small design firm when I finally snapped. I was using Microsoft Word to bill my clients when I accidently saved over an invoice. The frustration of billing my clients overwhelmed me, and so did the thought of using accounting software—so I built my own solution.

Building my own product company quickly became a passion, but passion projects don't pay...at least not on day one. To keep the lights on I moved into my parents' basement for 3.5 years to save money and I completely revamped how I ran my design firm to the point where I worked 19 days in one year and generated over $200,000 to fund my side project. How did I do that? This book will show you—and help you do it too.

Thinking back, my ability to work so little and produce so much income had a lot to do with how I priced and positioned my services, something most

small business owners struggle with. So I sat down with Donald Cowper—a best-selling author who joined FreshBooks as our small business writer last year—to try and capture the essence of things. The result is this book—a business fable designed to share the lessons I learned the hard way, so you don't have to.

This book will take you one hour to read, and you can read it for free. But a free book about pricing, that's ironic, no? Yes. So here's the twist: I hope that once you have read this book you will find it so valuable you will WANT to pay for it to recognize its value. Should you feel that way, please do two things. First, share it with others so they can benefit too. Second, go to FreshBooks.com/BreakingtheTimeBarrier where you can pay what you believe this book is worth to you and your business…it could be one dollar, could be $5000—you decide.

With that, enjoy.

—Mike

Mike McDerment
Co-founder & CEO
FreshBooks

About FreshBooks

FreshBooks is a simple-to-use, cloud-based accounting solution designed exclusively for small business owners—the kind of owners who are passionate about what they do and may not fully understand a balance sheet (or even know what one is), and shouldn't be ashamed of that. Since launching in May 2004 from Mike's parents' basement, FreshBooks has helped more than 5 million people send and receive, print and pay invoices.

At the time of writing, only Intuit—makers of QuickBooks—have more online paying customers in America than FreshBooks, making FreshBooks the #1 cloud accounting solution designed *exclusively* for small business owners.

The FreshBooks vision is a world where entrepreneurs successfully run their businesses without having to learn accounting. If this sounds good to you, go to FreshBooks.com and [try it for free.]

False Start

Steve stepped out of his boss's office, stunned. The company couldn't meet its payroll and needed to cut half its staff. Steve was one of the unlucky ones. It was the second time he'd been laid off because his employer went belly-up. And it would be the last, he thought as he marched out of the building. He was going to start his own design firm, take charge of his own destiny.

Three weeks later he was sitting in front of someone who wanted him to work his design magic on her

website. Then she asked a question he wasn't fully prepared to answer—"How much is this going to cost me?"

That night, Steve jumped on his computer and began searching for what other freelance web designers charged. The results weren't very helpful. Some designers charged $10/hr, some over $200/hr, and the rest charged anything in between. He wasn't sure where to peg himself. Then he remembered that his old college buddy John had gone out on his own as a designer.

Over the phone, John suggested that Steve figure out his rates using a tried-and-true pricing formula—an approach that is known in the accounting world as "cost-plus." With the help of an online rate calculator, Steve plugged in his costs—the various business expenses he expected to have as well as his personal life expenses. After he put in how many hours he would be able to work over the year, the calculator spat out a breakeven rate of $50/hr. To generate a 20% profit—the "plus" element in "cost-plus"—he would have to charge $60/hr. If he worked steadily, his annual income—after business expenses, taxes and government plans—would be around $50,000.

It wasn’t the six-figure income he hoped to make one day, but he felt it was fair considering he was just starting out.

Steve won that client, and a few others over the ensuing weeks. He was busy, but found himself struggling with a few problems.

For one, he was almost always competing for the business, sometimes against cut-rate designers or services that offered inexpensive, do-it-yourself website solutions. He would try to explain why he was the better choice, but in the end, he felt that if he stuck to his rates, he’d lose out. And at this early stage, he badly needed to build a clientele. So he would often offer discounts, sometimes below his breakeven rate. He wasn’t happy about it, but it seemed to be the only way he’d stand a chance to get the business.

For another, Steve would also try to beat out the competition by quoting fees based on conservative estimates. It worked a lot of the time, but it usually meant he had to put in more time to finish his projects. Plus, a lot of his clients tended to grind him down, insisting on extras here and there. The result—

he was making significantly less per hour than the rate he billed.

A few months after going solo, he was run ragged and having trouble paying his bills. A conversation one night with John helped him through a particularly low time.

“Everyone goes through these growing pains,” John said. “When you’re new, you do what you gotta do to win the business and survive. It’s a matter of paying dues. You hustle, gain experience and build up your skill set until you establish a clientele of higher-quality clients. Don’t worry, things will improve.”

On the cusp

Steve took John’s words to heart and muscled on. His perseverance looked like it would soon pay off after a friend introduced him to a start-up with a health product. Steve loved the people at the start-up, and their product too. They wanted a killer website with an e-commerce function. It was going to be a large project that would keep Steve busy for a few months, with ongoing servicing after that. As an added bonus, the start-up was well capitalized and so Steve

proposed a fee based on his profitable hourly rate, which they didn't blink at.

Steve, who felt like he was on the cusp of success, threw himself into the project. The start-up team loved his work, particularly his great ideas around how to design the site as a marketing engine, not just a storefront. Steve's ideas worked wonders. Soon after the site went live, the company began selling product at an accelerating rate, hitting their aggressive revenue targets on time. Everyone at the company was going to get rich. Steve was thrilled that he had been instrumental in the start-up's wild success. But given the kind of impact he'd made, a part of him wondered if he'd charged for his services properly. After all, it was his ideas, not just his work, that had made the difference.

The next time Steve spoke with John, he explained what had happened with the start-up, and asked John if he ever felt underpaid in situations like that.

"Sure, I get that feeling sometimes," John said. "I did this amazing redesign for a client that totally turned around their business. Considering the impact it had

on their revenue compared to what I charged, they got an amazing deal. But what else can you do?"

"I don't know. That's why I'm calling you."

"Well, all you can do," John said, "is try to increase your rates so it gets a little fairer. In this case, I'd negotiate a higher rate for your ongoing service for the start-up."

Steve did quote a higher rate for the maintenance work, which the team agreed to, but the ongoing service amounted to only a couple hours a week. So Steve had to scramble again for new business. He was determined, however, to charge a higher hourly rate to all new clients. Unfortunately, many of his prospects were referrals from clients he had offered discounts to, who expected similar rates. Because he was desperate for billable hours, he took on the low-paying business.

With a six-figure income looking like a pipe dream, Steve put in another call to his buddy John, hoping for some new insights. Instead he discovered that John had just taken a full-time position. Steve was floored. After probing, he learned that John had been secretly struggling. Work wasn't always steady and bills had

been piling up. With a new kid on the way, John had decided he needed the security of a steady paycheck.

Darkness

After hanging up the phone, Steve sat down on his living room couch, put his head in his hands and closed his eyes. All he could see was darkness. He began to wonder if he should pull the chute like John. It was a thought that gave him some relief. After all, the past few months hadn't been much fun. As he sat there contemplating the death of his young business, he recalled the afternoon his former boss called him into his office and told him he had just received his last paycheck. It was a painful day, but one that taught him a lesson—there was no more security in a full-time job than in running your own business. He hoped things would work out for John, but Steve wasn't going to put all his energy into finding a job, only to get laid off a third time.

Steve opened his eyes and looked around his living room. He made a promise to himself right then—that he was not going to give up. And right after that, he made another promise—that he was going to find a way to do more than just scrape by. The world was full

of successful business owners and somehow he was going to become one of them. Exactly how, he didn't know yet. But he went to sleep that night determined to find out.

The next morning it hit Steve that seeking John's advice had probably not been the wisest move. John had been handy, but that didn't make him the right teacher. After spending a few hours sifting through his list of contacts, Steve found that he had a mutual connection with Karen, one of the most successful designers in his city. Later that afternoon he spoke with Karen over the phone. After briefly sharing his story, he explained that he was reaching out to her because she was an inspiration and he needed some of that now. She said she'd be happy to talk with him and they agreed to meet at Karen's favorite café that Friday.

A Whole New Way of Thinking

On Friday Steve stepped into Karen's café, a cozy spot with leather chairs and shelves lined with old books. He looked around, taking in the aroma of fresh coffee, then made his way to a back table, where Karen was waiting for him.

After Karen greeted him warmly he settled into his chair, thanking her for meeting with him.

"I'm happy to help," she said before a server came and took their order. Then Karen invited Steve to sketch

out his solopreneur journey, which he did over the clatter of coffee cups that surrounded them.

When Steve was done she gave him a one-word verdict: “Pricing.”

“Pricing?” he asked.

She nodded as their coffees arrived. “Well…pricing and positioning. From what you’ve told me, it sounds like the way you think about pricing is holding you back.”

“In what way?”

“If someone wanted to know what exactly you sell to your clients, what would you tell them?”

“My services. Web design.”

“How do you charge for your services?”

“I charge them a fee based on my hourly rate.”

“Then aren’t you really selling hours?” Karen asked.

“But I use those hours to design websites.”

“Do those websites have any positive impact on your clients?”

“Sure,” Steve said.

“Do you think it would make more sense to charge a fixed fee that represents the value of the impact your websites have on your clients?”

“Well, I do mostly charge fixed fees—”

“But those fees are based on a multiple of your hours, right?”

“Right,” he said.

“I’m talking about fixed fees based on value, not time.”

“I guess I’m not sure what you mean by value.”

“The value of what I do,” Karen said, “is based on the impact I can have on my client’s business. Impact is how they value my services. So I look at pricing from their point of view. They don’t hire me to design a website for the sake of designing a website. They hire me to design a website that’s going to help them grow their business. I find when I look at it like that—from their perspective—it’s clear I’m not selling time. Instead, I’m selling a solution that is going to make an impact for my client and achieve some business objective.”

"So, how do you set your prices then?"

"Let me give you an example. A couple of months ago I sat down with a client to talk about their website. I asked them to tell me why they thought they needed a website. When we drilled down into their reasons, they said they believed a website could generate an additional $100,000 of profit annually for their business. So I asked them to make an investment of $20,000 in the website. Based on your hourly pricing model, you'd probably charge in the area of $2,000 to $2,500."

> *"The value of what I do is based on the impact I can have on my client's business."* Tweet this

"Did they agree to your price?"

"Yes. Wouldn't you invest $20,000 to generate $100,000?"

Steve agreed and he was excited about what Karen was telling him, but lots of questions were flooding his brain. "I get your math," he said, "but doesn't it come down to time in the end anyway? I mean, you spend a certain amount of time on the project. You could

theoretically work out your hourly rate and so could your client. You're probably effectively charging $400 an hour, or something like that. What if your client thinks that's too high?"

"Your math may be right, but I'm not a collection of hours," Karen said. "I'm the accumulation of all my skills and talents. I'm wisdom and creativity. I've stopped seeing myself as a punch card. My clients don't see me that way either. Yes, sometimes, I've had to change my client's mind-set. But it starts with me, first, just as it starts with you. You have to forget selling time. The best thing you could do for yourself is to get the concept of time out of your head."

"Don't I need an hourly rate for some stuff? Everyone I know has one."

"You know me now, and I don't have an hourly rate."

"So I should never charge by the hour?"

"I'm the accumulation of all my skills and talents. I'm wisdom and creativity."

Tweet this

“To be honest, when I started out I charged an hourly rate and I think hourly rates make sense for someone just starting out, someone with little experience and limited skill. But over time I established myself and my credibility, which led to great references. When that happens, you begin to outgrow the cost-plus pricing model of charging by the hour. So if you stay with that pricing model, you’ll find it very limiting.

“For example,” Karen continued, “since there are only so many hours in a year, it puts a cap on how much revenue you can collect in a year, and it means that the only way to make more money is to work more hours. These are limits…and the truth is, they are false limitations that lead to bad behaviors, like burning yourself out by working around the clock in an effort to earn more.”

“That’s me,” Steve said.

“Me too, when I first went out on my own, until I learned that a value-based approach to pricing your services is a powerful way to break through the time barrier and avoid the bad behaviors. But like a lot of people, I didn’t start from scratch, and neither did you. You started your business after many years

of design experience. You already had the ability to create value for your clients. And now, after being in business for a while, you've got references you can build on. You've also had the chance to see the impact your projects have had. I'm sure it's far greater than you expected. Think of the value you created for that health start-up. That's an impressive story that you can use to move away from charging based on time to charging based on value."

Steve nodded. Karen was right—his experience with the start-up was something he could leverage. At least for project work. "But what do you do for ongoing service?"

"I charge a recurring fixed fee. Depending on the client, it could be $500 per month. Or $1,000 per month. Or whatever is appropriate for the value I'm delivering."

Steve recalled a time when he ended up doing way more maintenance for a client than he'd estimated. "But what if you have to spend 25 hours on one client that month? If you're only charging them $500 your hourly rate is $20."

"You're stuck on time, aren't you?"

“But we all have only so much time. Time is money, isn’t it?”

“We do have only so much time,” Karen said, “which is why you need to divorce yourself from the time model. It will limit you. You and I share one thing in common—the number of hours in your week is the same as in my week. I could walk around the marketplace with a higher hourly price tag on my forehead than you, but that still puts a revenue ceiling on my business. Plus, it doesn’t serve my clients.”

“What do you mean?” Steve stirred his cappuccino. “Selling hours actually creates a conflict of interest. It puts you and the client on opposite sides of the table. If you’re selling hours, it’s in your best interest to take longer, to bill more hours. But your client is interested in getting solutions that work as promptly as possible. What if you work quicker for one client than another, but deliver the same value? Should you penalize the client you worked longer for? If you’re slow, it’s not their fault.”

“And if you get quicker at something,” Steve said, “which was happening with me, you should get

rewarded, right? But I was charging less if it took me less time."

"Exactly," Karen said, smiling. "For a lot of your clients, getting your solution sooner rather than later has more value, and for that they'd pay more, not less. So let me ask you this—have you ever delivered the same thing to one client that you once delivered to another client?"

"Selling hours actually creates a conflict of interest." Tweet this

Steve thought for a minute. "Yes. I built a little program for one client that I reused in a project for another."

"What did you charge for that?"

"I don't know. I mean, I didn't charge specifically for it. I just charged the client my time for the whole project."

"So, with regard to the program, you charged for however long it took you to install it, right?"

"I guess so."

“Maybe ten minutes of your time?”

Steve nodded.

“But I’m sure your program had value to your client that wasn’t captured by the price of those ten minutes,” Karen said. “Let me share with you how I handle something like that.

“I have a turnkey e-commerce solution that I spent years building. I threw all the genius and creativity I could muster into it so I could help my clients increase their revenue. It’s proven to do just that—usually by a minimum of 15%. Because it’s so powerful, they want it as soon as possible. I can install it in a couple of hours and right away it starts having an impact. Would it make sense for me to charge two hours of installation time? Hardly. It has significant value to them, so the price they pay is based on what it’s worth to their business.”

“That makes sense,” Steve said, “but I still want to know what you do when you have to spend 25 hours one month on a client you’re only charging $500?”

“I do what it takes,” Karen said. “And yes, that situation has happened before. But those cases are

offset by everything balancing out eventually. I have to make sure I can cover my costs."

"So you do care about your costs?"

"Absolutely. I know all the numbers for my business, including my costs. I actually use one of those cost and rate calculators. To run my shop and support the people I work with I personally need to generate almost $100,000 annually. In your time-based world that works out to an average of $100 an hour for 20 hours a week, 48 weeks of the year."

"So you haven't completely given up the concept of time."

"Do you mind if I give you an example from some other people?"

"Of course not. Let's hear it," Steve said.

"Okay. Arty and Mack are two designers I know. Arty runs a lean operation. He works out of his apartment and keeps all his costs as low as possible. He's super frugal. Doesn't own a car, rarely eats out and doesn't take vacations. Mack's the opposite. He's got a huge house, fancy car and leases a big office downtown. He also spends lavishly and travels the world. They both

use a cost-plus approach. Arty's hourly rate is $20. Mack's is $210. Thing is, they both provide the exact same level of service. Should a client be asked which lifestyle they want to support?"

"No."

"Right. Our clients don't care about our costs. They care about the value we create for them, so that's what we should be asking them to pay for. But just because my clients don't care about my costs, doesn't mean I don't. I do care, very much. Which is why I see it as my job to look for ways to create value for my clients so that I can charge fees that more than cover my costs, making my business profitable.

"Unfortunately," Karen continued, "making a profit is difficult with how you're pricing your services now. You are too vulnerable to a project taking longer than expected, or to droughts. If you go a month or two without making a

"Our clients don't care about our costs. They care about the value we create for them, so that's what we should be asking them to pay for."

sale, you're out of business. But slow stretches happen to everyone. Trust me, I know. I've had my share of droughts over the years. They are not fun, but they are to be expected and nothing to be ashamed of. But because I charge value-based prices, instead of cost-plus prices, I give my business the margin of error our profession demands."

"I'm following all that," Steve said, "but dollars are dollars, and you're obviously implying that charging value-based prices will be more expensive to the client. I certainly want to make more money, but I know my clients want to keep their costs down. So I don't understand why they would pay $20,000 to you to design their website when they could hire me to build the same site for $2,500."

"Ah," Karen said, "but I wouldn't build the same website as you."

"But earlier you said that I would charge $2,500 for the same project you would charge $20,000."

"I didn't actually say it that way." Karen took a sip of her coffee. "I essentially said you would charge $2,500 to the same client I would charge $20,000. That's

different.” Her cup clinked on the saucer as she set it down.

“I don’t understand.”

“When you meet with a client, one of the first things you talk about is price, right?”

“Sure,” Steve said, “because that’s one of the first things they ask about. They want to know what my rate is or how much things are going to cost.”

“And you tell them your hourly rate, right? Or give them a rough estimate?”

“Sure.”

“Do you realize that when you start off talking about price with a client, you’re putting your needs ahead of theirs?”

“How?”

“What does the client get for paying you $50 an hour, even if you’re quoting them $2,500 overall?”

“When you start off talking about price with a client, you’re putting your needs ahead of theirs.”

“A website.”

“They don’t want a website,” Karen said.

“They want revenue. Is that what you mean?”

“Maybe. The truth is, I don’t know what the client wants, and neither do you. Which means you can’t really give your client an appropriate price. And when you talk about price before exploring what your client is trying to achieve, you risk delivering a solution that isn’t right for them.”

“So what do you do if your client wants to talk about price right away?”

“I tell them I need to understand what they want first before I can set a price. Most people are fine with that. If they’re desperate to know a ballpark, I might give them a range, but I really resist that. I find that prospects who focus on price right away often turn out to be the kind of client you don’t want anyway. The best thing I can do for the client is to help them explore what they want. And it turns out, this initial conversation about their problem is the foundation of my approach to pricing.”

“In what way?” Steve asked, before sipping his coffee.

“In that conversation I’m probing the client for information. I want to know the pain they might be experiencing, the problems they want to solve. I’ll probe on what their dreams are, their big goals. A lot of the time, clients aren’t clear about what problem they want solved or what their objectives are. If they can’t define success or establish ways to measure success, then pricing is guesswork. That’s not good for either of us. Both of us should know that the price they are going to pay makes sense based on the value they can expect from my services. So I’ll keep nudging that conversation forward until we get some clarity. In an ideal world, the client can express what they’re trying to achieve in a dollar figure, like revenue. Or cost saving.”

“The best thing I can do for the client is to help them explore what they want.” Tweet this

Steve said, “Some of my clients might be able to measure value in dollars, but sometimes they just want a website that helps build their brand. What do you do in situations like that?”

“A friend of mine who is a marketing consultant likes to ask, ‘How much is a client worth to you?’ Usually the answer is more than the cost of her services. So if she can help the business get even one more client, it’s worth it to hire her.

“By taking this approach, my friend is able to make an intangible benefit real. That’s how you want to handle benefits that are hard to measure. Sometimes it helps to ask: ‘What does success look like to you? How are you going to know you’ve achieved what you want?’ I had one client tell me that he’d know the project was successful if most of his clients thought his website was beautiful. He’d kept hearing that people thought his current site was ugly. So that’s what he really wanted—to change the perception. Going from 25% of people loving his website to 75% was something he could measure, and something he could put a value on. He also knew that a more beautiful site would increase referrals and, therefore, business.”

“What if the client can’t put any value on your service? Does that ever happen?”

“Yes,” Karen said. “Sometimes the client’s business objectives don’t actually warrant much investment in

a website. If that's the case, I'll tell them there's not much reason for us to pursue a working relationship. They appreciate that kind of honesty. In most cases, though, we're able to establish how valuable the website is to them."

"So, do you give them a price at the end of the meeting?"

"In a word, no. I will do it very rarely, and only for small jobs. Instead I tell the client I'll go away and work up a proposal. That proposal outlines the scope of the project and includes some options, each with its own value and price."

"You quote more than one price?"

"I do."

"Why is that?"

"Because that's what's best for the client."

"How so?"

"Having an exploratory conversation with your clients leads to a number of benefits for them. I've actually found seven kinds of value over the years. I write them

down when I discover them. Let me show you what I have so far."

Karen laid a computer tablet on the table and pulled up a presentation that read *The seven mutual benefits of exploring value with your clients*.

"This is from a presentation I developed for a webinar I gave last year," Karen said. "I'll run through it if you've got a bit more time this afternoon."

"I don't care about time anymore," Steve said.

Karen laughed. "You'll see that I call them mutual benefits. That's because you benefit from exploring value just as much as the client does." Karen then began to walk Steve through each of the benefits, thumbing through her presentation slides as she did so.

The seven mutual benefits of exploring value with your clients

1. Creates trust

"When I start off by asking my clients probing questions, they see that I'm interested in understanding their unique problems and crafting solutions based on what I learn. That inspires trust

because they know I'm not trying to push cookie-cutter stuff that I force on everyone. I also ask a lot of insightful questions that demonstrate my expertise, which reassures the client that they've got someone in the room who can help them. That relieves a lot of anxiety for them. I had that experience myself a few months ago. My knee had been bothering me so I went to a doctor. During the examination he asked me if it hurt a lot when I flexed my foot a certain way. As soon as he asked that question I knew I had the right doctor, because when my foot was in that position it hurt like hell. I want my clients to have that same 'aha' experience that I'm the expert who knows exactly how to solve their problem and that I have experience with what is ailing them. That feeling deepens the trust I've started to create, which is something of great value to both my clients and me."

2. Fosters alignment

"During the exploratory phase I'm trying to foster alignment, because to move the relationship forward in any meaningful way you have to be on the same page. I find it helpful to see if we can agree on two points. Point A is where the client is now. Point B is where the client wants to go. To establish Point A, I'll

probe on what problems or pain the client might be experiencing. That might be sales trending downward or new competitors emerging. I try to probe for big problems where the stakes are high, because those are the ones my client needs help with most, the ones they value solving. Too many service providers focus on small problems, but the client is less likely to take action on those and their work is less likely to have a big impact.

“To establish Point B, I’ll ask questions about their goals. Goals themselves create problems because if the goals aren’t met, the client will experience a loss. So the client’s problem is either something they are experiencing currently or something they will experience if they don’t get to Point B. The value I create for the client lies in closing the gap between A and B and solving the problem.

“You gain an immense amount of clarity by establishing the A and B points, but many service providers don’t do it. That’s why I said my solution would likely be different from the one you would design. Without crystal clear alignment, you risk designing something that doesn’t have as much value for the client as it could.”

3. Helps your client better evaluate vendors

"The clarity I help my client gain about why they are starting a project makes it easier for them to evaluate vendors. That's because the deciding factor becomes who can deliver value rather than price. And because I'm the one who's helped the client gain that clarity, I have a leg up on the competition. The client isn't likely to compare investing in me with your lower price of $2,500. Yes, your price is lower, but as far as the client is concerned, it's apples to oranges to them, because you haven't shown, as I have, that you can deliver a big impact. Lots of inexpensive providers are surprised to lose business to a premium professional like me. This is why and how it happens."

"I've had that happen a few times," Steve said. "It never seemed fair."

"When you present prices up front," Karen said, "you make price your distinguishing factor, not your ability to deliver results. You're encouraging your client to compare your hourly rate to someone else's. And as you know, having the most competitive rate doesn't always work in your favor. That's because low prices can create the perception of low value. The first thing

you think when someone offers to sell you a perfectly decent-looking car for a thousand dollars is that something must be wrong under the hood.

“So, if you want to be judged on your abilities, not your hourly rate, you have to go through this process. It’s better for you and your client.

“The first thing you think when someone offers to sell you a perfectly decent-looking car for a thousand dollars is that something must be wrong under the hood.”

“But having said all that, let’s be clear about one thing: this value-based pricing and positioning stuff isn’t just a bunch of consultancy voodoo. Because I dig in and come to understand the problems my clients have, I design solutions that are more strategic. I wind up taking a different and more impactful approach to what on the surface can sometimes seem like the same project. So my clients may pay more for my services, but they get more too. You know the saying, ‘You get what you pay for?’ Well, this is why.”

4. Frames the solution as an investment, not an expense

"You may have noticed I use the word *investment* when referring to price. This is one massive point of difference between my approach and yours. When you walk in and throw out a price, you're an expense. Nobody likes expenses, so they try to keep them as low as possible. That's why you experience downward pressure on your prices. But keeping the price low isn't a benefit to the client if they end up paying for something that doesn't create the value it could for them.

"By comparison, when I take my clients through the process I just outlined for you, I'm framing the price differently. Because it's tied to value, my price is an investment. When clients look at your prices through that lens, they merely want to know that the investment is a wise one. That the return is going to justify the outlay. And if there's a wide margin between my price and the expected return, as there always is, the investment is easy to justify."

5. Inspires action

"When I help my clients paint the picture of what Point B looks like, when I get them to envision the

awesome results they can expect from my project, they become emotionally involved. They're eager to make those results come true. They're inspired to act now. They don't really want to put things off to price shop. Acting soon is good for you, but also for the client, because the quicker they act, the quicker they get the great results they seek."

6. Lets your client make an informed business decision

"Which brings us to my point about offering clients more than just one option. When I present my proposal it comes like a menu—with options that have distinct prices. The choices address their business needs and goals, and offer solutions at various depths. I won't haggle on price. If a client wants to pay less, they have to choose to have less delivered. That puts them in the driver's seat where they can make an informed decision, one where they are clear about the trade-offs.

"By contrast, you ask your clients to choose your price or not choose your price. That kind of yes-or-no choice is more likely to result in not going ahead than a choice between various valuable options. And

just as in my previous point, a ‘no’ hurts both you and the client, who now won’t benefit from the results you could deliver.”

7. Establishes a trusted partnership

“The last point is the culmination of all the other benefits. Once you’ve created the first six benefits and you begin working with the client, they get to experience the impact of your work. As soon as their investment in you translates into real value for them, you become a trusted partner, someone they will continue to work with. They will also become champions for you, leading you to other opportunities.”

The heart of it

Steve was getting inspired just listening to Karen’s process, but questions continued to pop up. “Your process makes sense,” he said, “but I’m still having trouble seeing what you would do differently for the client. I know you’re a great designer, but I think I can do great work too. Can you give me more of an idea of what you would do that’s worth so much more for a client than something I would build?”

“That’s a great question,” Karen said, “and one that gets at the heart of value-based pricing—which is all about building high-value relationships.”

Just then the kitchen door beside them clanged open and a server came out with a tray of warm scones.

“They have the best scones in the city,” Karen said. “How about we get a scone and, as a way to answer your question, I tell you the story of the clothing company I helped last year?”

“I’d love that,” Steve said.

Inside Out

"Last summer," Karen said as she tore off a corner of her scone, "a client of mine introduced me to a successful clothing accessories company that sold product primarily through retail outlets. They were looking for someone to update the look of their website, which had an e-commerce store. I think a lot of designers would have started to spit out prices, but how do you put a value on something as vague as updating a look? So I began to ask them why they wanted to update their

site. They told me they thought the look and feel of it was outdated and probably turning away potential sales. But these were still vague terms, so I steered the conversation toward their overall business objectives. I wanted them to express some clear goals, not just for the website, but for the company in general.

“The client eventually revealed some revenue targets, which gave me something to work with, because missing their targets would be a serious problem. I then started telling them stories about how I had helped some of my other clients increase their revenue by millions of dollars by training their website to sell better. I told them I saw the same potential for them. In their case an extra million dollars a year was a realistic goal. That got them excited. They were now seeing how their website could play a much bigger role in helping them reach their company goals than they originally thought.

“By having this in-depth conversation I learned more about the client, so I could help them where they really needed it. That meant redefining the project from a paint job for their website to a complete rebuild from the ground up. A lot of designers wouldn’t have changed the project in this way, but

this is what the client needed. My next step was to go away and work up a proposal for solutions to hit their goals."

"Can you tell me more about your proposal," Steve asked, "because that's one area where I'm probably falling down."

"Sure," Karen said. "In the proposal, I laid out one option that included various outputs and phases, things like customer research, a website audit, a market analysis, a complete redesign, various tests, and so on. Each element had distinct value. The price of them added together was $100,000, which was 10% of the total value the client could expect. By the way, the fee I charge will often range from 10% to 20% of the expected value, and usually the difference has to do with the risks involved. In this case, from the client's perspective, a 10% investment was sound, because they would only have to invest the $100,000 in the first year to build a website that could generate a million dollars every year thereafter. Even if they only hit $500,000, they still would have made a sound investment.

“My other two options included extras like daily reports to help the client make timely business decisions. Something like that might be worth tens of thousands to the client, so I set the price based on that. By the way, the client chose the top package for $125,000.”

“Wow,” Steve said. “One of those would make my year. And you’re right, I probably would have just updated the look of their site. But if I’m being honest, some of the value you add for your clients is beyond me right now. It’ll take me a while to do what you do.”

“You’ll get there someday. But you’ll also pave your own path and do things your unique way.”

“But how different could I really be?” Steve asked. “We’re both designers trying to help our clients in similar ways.”

“Not really,” Karen said. “I’m trying to help *my* clients, and you’re trying to help *your* clients. My clients are different from yours.”

“I’d like to have your kind of clients,” Steve said. “Isn’t that what I should be shooting for—the kind of big clients you work with?”

“There are all types of big clients out there,” Karen said, “and they’re not all the same. I work with a certain type of client who values the services I offer. I don’t go for just any big client. I look for a fit.”

“Okay, but I guess my problem right now is that the clients I’ve been working with need only small projects.”

“A value-based approach can help you build stronger relationships with your current clients as well as find other clients who need your help with bigger projects.”

“How?”

“By looking inward.”

“What do you mean?”

“When you have an exploratory conversation with your client, you’re getting to know them at a deeper level. But you’re part of the relationship too. And getting to know yourself in a deeper way is just as important. You want to consider all the ways you can contribute to the relationship. Sometimes that means tapping in to abilities you aren’t using, or developing new skills. In healthy relationships both parties are growing.”

“Can you show me what you mean?”

“May I tell you a story about how I helped someone who’s not a designer price and position their services? I find it’s helpful to understand how this works for other kinds of businesses, because it’s not just something for designers or techies.”

“Sure.”

“Okay, great. Let me tell you about Tara, my dog walker.”

The transformation of Tara

“A couple of years ago,” Karen continued, “Tara introduced herself to me and offered to walk my German shepherd. She was charging $15 for a half-hour walk. In our neighborhood that was the going rate for dog walking. I hired her. A few weeks later she told me she might not keep the business going. When I asked her why, she said she was having trouble making ends meet. So I sat down with her and had a very similar conversation to the one we are having now. I tried to show her how she could transform her business by thinking about her clients and their problems, not just how much time she spent walking

a dog. After we were done talking, I encouraged her to rethink how she priced and positioned her services. I suggested she come back to me another time so we could start our relationship anew. She did and here is what happened.

“Tara came back after a weekend of thinking and started asking me about my dog and why I wanted him to get walked. That led to a whole conversation about how important my dog is to the happiness of my family and how we all love him so much and want him to have the longest, healthiest life possible. She was getting to know me in a deeper way, but I also learned something because I hadn’t ever expressed exactly how meaningful our dog was to my family.

“Tara thought about what I told her, then began telling me all these new things she could do, like advising me on nutrition for my dog, grooming and training. She also had lots of ideas about accessories, like winter booties to protect his paws from salt on the roads, and the best chew toys to ensure dental health. She awed me with her expertise. I could be wrong, but I think she impressed and surprised herself a little too.

“Our conversation had clearly moved away from just walking my dog to providing my dog with the best life possible. By connecting our dog to the well-being of my family, Tara really got my attention.

“I then suggested to Tara that she go away, think some more, and then develop some packages with all the valuable things she could offer me.

“Tara came back a week later and presented me with three distinct packages. I chose the top package, which included several walking sessions a week, some of them private, some of them with other dogs. It also included training, dog food, dog treats, a monthly dog gift, grooming, and arranging vet appointments and boarding, as well as travel to and from those places. It was a whole package of services and products. I have no idea how the hours break down and I don’t care. All I care about is the value she delivers to my dog and my family.

“These days, I’m paying her considerably more than I used to, and I couldn’t be happier because I have the happiest, healthiest dog, so I feel that every penny is worth it for what she does.”

A matter of distinction

"When you look inward, like Tara did, and push yourself to come up with ways to serve your clients, you end up redefining what you do and expanding your services. The funny thing is, the other dog walkers in my neighborhood who keep losing business to Tara incorrectly think of her as the most expensive dog walker. A lot of them try to win back their clients by offering discounted prices. But they're playing the wrong game. Tara's services aren't commodities.

"While it's true that Tara is the highest-priced dog walker—well, her team is; she's employed two other walkers full-time—the more accurate way to describe her is as the dog walker who offers the highest value. And, of course, she's much more than a dog walker. She's running a thriving dog lover's business. By redefining her business based on delivering value, she effectively beat out the

"When you look inward and push yourself to come up with ways to serve your clients, you end up redefining what you do and expanding your services."

competition. And she's making more than she ever imagined possible when she first decided to walk dogs. But just as importantly, she feels incredibly fulfilled because she's impacting her clients' lives in significant ways. I think every service provider can go through the kind of exercise Tara did and transform their business."

"That's impressive," Steve said. "But it sounds like the key to her success was that after redefining what she did with you, she started working with more clients like you. That's how she grew."

"That's true," Karen said. "I represented an opportunity for Tara because there was so much potential in our relationship she wasn't tapping in to. But once she did it with me, she realized she could grow by targeting others like me—essentially busy professionals who travel a lot and who have a dog. So, gradually she started to build a clientele of similar A-level clients who could afford one of her packages—pretty much all through referrals because these clients knew each other and found Tara's services to be a great fit for them and, therefore, for their friends as well. Over time, she began to drop off clients who

weren't interested in the additional benefits of her services.

"One of the key lessons from Tara is that she developed a very specific ideal client. She knows what her ideal client values and how to make a big difference in their lives. She could go after other types of clients, but she's focused on delivering high value to a client with a specific lifestyle. That's what I mean when I say your big clients would be different from my big clients. Personally, I target three or four types of clients. One of them is medium-sized businesses that have a retail presence and untapped online distribution. I know exactly what they value and how to help them. I have so much expertise with them and that makes it hard for someone to match what I do."

"But," Steve said, "somebody could come along and match your service, right? You're always going to have competition. In Tara's case, couldn't another dog walker do what she did? Wouldn't that put competitive pressure on her prices?"

"Someone else could try to do what Tara does," Karen said, "but in all likelihood, they wouldn't do it quite the same way. In the service world, we all have

our differences, however subtle. What's important is that you know how you are different from your competition, and that you can help the specific types of clients you are targeting make an informed decision based on the distinctions between the choices they have. If things get very competitive in your industry, instead of trying to compete on price, which just reduces you to a commodity, look for new ways to distinguish yourself and your services. Sometimes that means learning a new skill.

"In fact, while Tara already knew a lot about dogs, she did a ton of research, took various courses and acquired a number of certificates. This has allowed her to help her clients in more ways—and stay one step ahead of the competition."

"If things get very competitive in your industry, instead of trying to compete on price, which just reduces you to a commodity, look for new ways to add value."

Lessons from a plumber

Steve's mind was racing, jumping ahead to ways he could grow, but then it hit him that Karen's approach was totally impractical for some of the ways he worked. "What about when people call me for small jobs—things that might take a few minutes or a couple of hours? That happens to me a lot. Isn't it easier to just give them my hourly rate, rather than going through this whole long exploratory process?"

"What do you do," Karen asked, "when you can solve the client's problem in a few minutes? Do you charge them a tiny fraction of your hourly rate?"

"The minimum I charge is an hour," Steve said. "So, sometimes I'll charge an hour and if I take less than that, the client can use up the unused time whenever they want. Other times, I'll just do it for free because it's only a few minutes of my time."

"I think it's okay to do things for free sometimes," Karen said. "But charging for small jobs based on blocks of time causes two problems. One, you're overcharging the client if they don't actually end up using the time they've bought from you. Two, you're likely to underprice yourself, because when

you only consider the few minutes of service time, you're ignoring all the time you've spent in your life acquiring the knowledge and skills required to solve the problem."

"So what do you do," Steve asked, "when you get that kind of quick service call?"

"I follow my regular exploratory process and establish the size of the problem for the client and what value they place on solving it. Most of the time this isn't a long, drawn-out dialogue. And it's not a waste of anyone's time, because it's a valuable and necessary conversation. In some cases I might end up charging the client a couple hundred dollars for something that might take me only a few minutes."

"And they're okay with paying you that for a few minutes of your time?" Steve asked.

"Have you ever called a plumber?"

Steve nodded.

"Last year my kitchen faucet sprung a leak and was spraying water all over the floor," Karen said. "So I called a plumber who offered emergency services. He rushed over in less than twenty minutes and spent

probably ten minutes fixing the faucet. Do you think he charged me ten bucks for his time?"

"No, but he also had travel time."

"He charged me $300. Even if you attribute $50 of that to travel, I paid him $250 for his service. But I didn't pay him for ten minutes' work. I paid him for his speedy arrival and for fixing my problem so quickly that he saved me thousands of dollars in water damage. Do you think I should have complained about his fee?"

"No."

"Right," Karen said. "I didn't complain because I understood the value of his level of service. He distinguishes his services by focusing on scenarios that are time-sensitive and for which he knows clients like me are happy to pay for responsive service. His quickness is valuable in my eyes. And that's on top of the value he provides for having the right tools and the know-how to save me from costly water damage. If you establish the value of your work—even for small jobs—your clients will feel the same way about your work and your expert know-how. And if you behave like this plumber did, you can carve out some very

profitable services for your clients, ones that are not as likely to be copied as you think."

Steve nodded and Karen looked at him. "You look a bit apprehensive," she said. "Are you having doubts about charging for the value you deliver?"

"I'm totally inspired by everything you've said," Steve answered. "I absolutely want to do this. I'm just trying to work through all the scenarios. Let's say your exploration uncovers the need for a big project. Don't you often waste a lot of time developing a proposal only to discover the client can't afford you? Wouldn't you have been better off talking about price up front?"

"If you ask a client up front what their budget is," Karen said, "they might give you a number. But that number often has the same lack of relevance that your hourly rate has, because the client might not fully understand what they want or what you can do for them. That's what that whole exploratory dialogue is for. You need to go through that process to define things. Then you can put the right numbers together. While sometimes a budget is set in stone, I've often found that there's flexibility for the right solution. If the client realizes that their original budget isn't appropriate, they might

be able to find the money, perhaps from other areas of the company that will benefit."

Bye-bye, vicious cycle

"Yeah, but that's not really going to happen with a lot of the clients I've been dealing with. They're grinders."

"True," Karen said. "Clients that hammer you on price are unlikely to see the merits in this approach, but honestly, you don't want them anyway. They're a headache and all they do is lead you to more low-quality clients. It's a vicious cycle that keeps your business from growing. But when you start working with clients who want results and want to invest in themselves, they'll refer you to other high-quality clients. Good clients beget good clients, which helps you move upmarket."

The alarm on Karen's smartphone went off. She glanced down at it. "Speaking of clients," she said, "I have a lunch meeting to head off to."

Karen took a last sip of her coffee and stowed her tablet in her handbag. "I'll end our conversation by saying that it all starts with you and how you see yourself. When you change how you see yourself, your

clients will change how they see you. You won't just be an expense to them and they'll never have to wonder if you're running out the clock. Instead, you'll be the partner they are investing alongside to deliver results for their business. You'll be working on the same side of the table and you'll be building a relationship that is mutually beneficial."

The server came and dropped off the bill. Steve went to grab it, but Karen snatched it up.

"You have to let me pay for it," Steve said.

"No. Please let me treat you, Steve. Years ago I was sitting where you are, across the table from someone who enlightened me about the best way to price and position my services. Sharing what I have learned with you, and picking up the tab, are my ways of saying thanks to that individual who helped me when I needed it. It's my way of paying it forward."

As they walked out of the café, Steve said, "I'm still absorbing everything, but I'm committed to changing and I have a feeling I'll look back on this conversation as one of the most important of my life."

“That’s great, Steve,” Karen said, standing in the sunlight. “I’m really excited for you. But things will take some time. Moving to value-based pricing isn’t something you can wave a magic wand on. You have to earn and develop your way into it.”

“I understand.”

“I want to thank you for reaching out,” she said as she stepped toward her car. “Many people don’t have the humility to ask for help, and it’s really the first step in your personal growth…personal growth that will lead to business growth. Be well and good luck.”

Karen dug in her handbag for her keys.

“One last quick question,” Steve said. “If you know Arty, why does he charge $20 an hour?”

“I’ve tried to tell Arty about pricing his services based on the value they bring to his clients, but he’s stuck in his ways, and he hasn’t wanted to do the extra work to interview and understand his customers.” She opened her car door. “You have to be open to thinking this way and he hasn’t yet opened his mind.”

As Karen got into her car, Steve thought to himself, *Funny…not much about pricing has made sense to me until just now*.

While Karen drove away, Steve headed down the street, eager to turn his business into the thriving entity he now knew was possible.

The Test

Steve started to make changes right away, but found some aspects of the new strategy easier than others. The most rewarding part was taking the time to really understand what his clients wanted. In those exploratory conversations he was acting more like a consultant than just a designer. Not only did he listen more deeply than he ever had before, he was also often heavily involved in shaping the vision and objectives for the client. He could tell that many of his prospects were seeing him quite differently from the way they used to—more like a peer than someone just pitching his services.

Some prospects, though, still insisted on knowing his rates up front and didn't want to get into a dialogue first. He knew grinders like this would just drag his business down, so he began to weed them out. That meant giving up the chance to earn a little money, which caused some short-term pain, but it also freed him up to search for better clients—clients like the health start-up. If he could get another opportunity like that and price his services appropriately, he and his business could make a big leap.

Wavering

While he didn't find such a client right away, he did uncover projects that were more lucrative than he was used to. Unfortunately, the first few times he reviewed his value-based prices with these larger prospects his voice wavered, which usually led to the prospect asking for discounts. He tried to follow Karen's advice not to discount, unless it was related to getting paid quicker, but he still found himself making some exceptions. And whenever he did that, he ended up feeling underpaid.

He eventually got tired of feeling like that and decided to take a hard look within. After considering

the incredible work he did for his clients, he finally embraced the idea that he was well worth the prices he set. He determined to always talk about prices with confidence and to hold his ground. Clients questioned him less. Many simply agreed to go ahead with one of his proposed options, frequently the highest-priced, most-valuable choice.

Another thing Steve struggled with was abolishing his hourly rate completely. Some of his clients were more comfortable using him on an as-needed basis for ongoing service and didn't want to commit to recurring fees when they might not use him. So Steve frequently used a combination of value-based fixed fees for projects and hourly fees for maintenance. He felt that this made more sense for the types of clients he had, who tended to be smaller and less established than the clients Karen dealt with.

Though he wasn't following Karen's model perfectly, his overall revenue increased and he enjoyed his work more. He was no longer on a vicious treadmill, living or dying by whether he could bill this hour or that hour. This separation of fees from time was very relieving. But it wasn't like he ignored the concept of time altogether. He still tracked his hours, but only to

better manage his time and more accurately scope out projects.

Moving up

Perhaps the most significant benefit Steve experienced was that he was gradually moving upmarket, dealing with bigger clients who had more exciting projects. He attributed this upward move to a few key factors.

One, the value-based approach weeded out low-quality prospects, forcing him to find better prospects.

Two, the better clients turned out to be referral engines to other similar prospects. This created a virtuous cycle, instead of the vicious cycle he was trapped in before when low-quality clients led him to more low-quality clients.

Three, his better clients had more exciting projects, which were fantastic opportunities to learn, improve his skills and gain experience—all of which made him more valuable in the marketplace. He ended up developing a lot of expertise in copywriting for the web. Remembering the story of Tara, he made this a point of difference to set himself apart from other designers, including Karen.

Beyond the time barrier

A few months after his café meeting with Karen, Steve got a call from one of his connections at the health company who wanted to introduce him to the CEO of an environmentally friendly construction start-up. A week later, Steve met with the CEO and had a conversation about how he could help. He essentially interviewed the CEO to understand the problems he faced, to become intimate with the pain he was experiencing. That eventually led to a discussion about the need to transform the company's website into a marketing and selling engine. Steve then told him about the impact his work had had on the health start-up. It was his first real chance to parlay that success into something equally promising, but this time he had no intention of selling himself short like he used to.

A few days later, Steve was back at the construction company, sitting across the boardroom table from the CEO. They had just reviewed Steve's proposal for a project where the fee was $30,000. If the CEO signed the check for the 50% deposit fee of $15,000, Steve's annual income would leap into the six-figure range for the first time.

As Steve watched the CEO review his payment schedule and terms, he reflected on how he would never have been in this position if he hadn't applied the pricing strategies his mentor Karen had taught him. He would never have had the opportunity to work with such a high-level client. But even if, for some reason, he had, he knew he would have proposed something more in the range of $3,000 for all his hard work, and for something that wouldn't come close to helping the client as much as his current solution would.

Steve took a close look at the CEO, trying to guess what he was thinking from the way he eyed the document. For Steve this was the moment, the true test of whether Karen's strategies would actually help him become the success he had always dreamed of. His heart started to race.

When the CEO looked up, he asked Steve, "Do you need a check today?"

Steve's heart rate kicked into a higher gear.

The CEO looked back blankly and Steve wondered if he was going to change his mind and reject the proposal. Steve waited and then the CEO reached a

finger toward his phone to hit a button. A few minutes later an assistant walked in with a check for $15,000. The CEO signed it, taking Steve to a new level.

A few months after finishing the construction project, Steve finally let go of his hourly rate completely, charging fixed prices based on value for everything he did. It was a milestone that signified he had a high-quality clientele. Most importantly, his business was highly profitable, his income was a healthy six figures and growing, and he loved his work.

He discovered something else he loved—paying it forward during coffees he shared with aspiring young business owners.

A Word Before You Go

Thank you for reading this book. This book was designed to help you unlock your true earning potential. If you've found this book valuable, please share it with someone you know and visit FreshBooks.com/BreakingtheTimeBarrier where you can pay what you believe it is worth to you and your business.

And with that said, happy trails!