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Meet the MasterMinds: Harry Mills on Pricing Consulting Services

Harry Mills is the CEO of The Mills Group, an international consulting firm, and an expert on marketing and selling professional services. He's a regular keynote speaker and the author of twenty-three books on sales, negotiation and influence, including ***Artful Persuasion*** and ***The Rainmaker's Toolkit: Power Strategies for Finding, Keeping, and Growing Profitable Clients***.

MCNews talked to Mills about the always-controversial subject of pricing consulting services.

MCNews: What do you think is the client's view on the pricing of consulting services?

Mills: Well, it's obviously a very self-interested view. The typical client's thought is probably, "how do I get the best bang for the buck I'm paying?" Clients also tend to simplify things. They don't know how to determine what the price should be, so they look for a benchmark or an anchor.

I call it the Eiffel Tower effect. If you're lost in Paris, you use the Eiffel Tower as your reference point, right? Clients want a similar reference point, or anchor, when it comes to price. That's why hourly pricing is so attractive to clients because it's an easy way of anchoring. But to answer your question, I don't think clients understand pricing very well because they don't understand the value consultants offer. So they look for a way to simplify the matter.

MCNews: Does the variety of pricing models—whether it's hourly, contingency, value-based or fixed fee pricing—confuse clients?

Mills: Yes, it does. So I think you've got to keep price out of the equation for quite a long time. First you've got to create value in the client's thinking; you don't want the price or the pricing model to come up too early. Otherwise you'll get the anchoring effect. You've got to communicate how you will create value before you put a price on it.

MCNews: Many clients want to get to the price before talking about value. How do you manage that pressure?

Mills: Clients do tend to want an indicator of what you're going to charge and may say, "just give me an idea what it will cost." If it's a simple project—just a few hours or a few days long—it's much easier to do that. But for most large jobs, I recommend a three-part value creation process.

First, establish what I call the Initial Value Proposition (IVP). Now obviously when you meet with a client for the first time, you don't know all the facts about the business or the project. Establish credibility by presenting a compelling story—a case study based on a previous client. And through that story, show the specific value you were able to create for that client. So that's the IVP. From there, you explain to clients that once you have a thorough understanding of the problem, you will quantify the value for them.

And value is what clients don't understand. They start out with an understanding of the problem or the pain. Even if they have a notion of the solution, they don't necessarily know the potential value of the solution. If you're a highly skilled consultant, you should have a more sophisticated understanding of the solution and its potential impact than the client does. The last thing you want to do is talk about price or fee before you've established what you can do. In other words, you've got to sell the value before you start talking about price.

The IVP gives them an idea of what you can do. Then you gather a whole lot of information about the client and the project as you go through the rainmaking, or sales, process.

MCNews: At this stage, are you identifying the potential range of value you can provide given the project objective?

Mills: Yes. For example, you might be working on a project that could potentially provide benefits to the client that are worth twenty times your fees, but only if the client is prepared to make significant changes. If the client is only prepared to make limited changes, then the benefits might only be worth five or six times your fees. You get your super profits when you add super value. But you have to realistically analyze the client's environment and ability to change to quantify the value you can actually provide.

MCNews: If you take a client through that process and there's a quantifiable value they can understand and agree with, what happens if you're competing against a consultant who is pricing by the hour?

Mills: You have to make the case to the client why it's not a good idea to be too simplistic by bringing it down to an hourly rate. You've got to say, look, this is a complex project and there are things that could go wrong. In part you're paying for insurance because something might happen no one can foresee. What's that worth to you? So that's part of the response.

But the most important point you have to make is that your approach is so different that it can't be brought down to an hourly comparison. If you're going to use value pricing, you've got to differentiate yourself in a fundamental way from the competition

You've got to establish the value of your approach, its intellectual underpinnings and the track record behind it. You have to explain why you're different from the hourly players out there who are simply selling time. That's what you're really saying—the competition is just giving you time; I'm offering you an entire approach, which I define as value.

MCNews: Are clients migrating from the hourly rate mindset to value? Do you see this taking hold?

Mills: Well, the trouble is that pricing labels get blurred. For example, the downside of hourly rates for clients is lack of control over the end cost. So many clients try to turn hourly rates into a fixed fee. The client will ask for your hourly rate and an estimate of how long you think the project will take, and then say, I'm not going to pay anymore than whatever that total works out to be. What they've really got is a capped hourly rate.

But what's happening is that a whole lot of people are saying, if we're doing it for a fixed fee, that's value pricing. So the two are getting confused. When you ask people what they mean by value pricing, it turns out to be just an hourly rate in drag.

MCNews: You're not likely to go back and measure whether you achieved a particular value for a client in a fixed fee contract, are you?

Mills: Some professionals agree on a fixed fee in advance and call that value pricing. Well, I have a broader and a deeper definition of what value is. I think you create value in conjunction with the client. You work out together what the solution is worth.

I tend to use a 5:1 ratio. If I quantify a million dollars worth of value or benefit to the client, I think I can easily justify a $200,000 fee. Now there's a bit of arbitrariness in using a 5:1 ratio. But I know there's a huge amount of skepticism on clients' mind. Even if the benefit is twice your fee, you will run into resistance from clients. If you can't confidently establish at least a 5:1 ratio between benefits and fees you're going have problems using value pricing.

MCNews: How do consultants verify that the value was achieved? What are some techniques to prove that the client actually achieved that million in cost savings and that the savings were attributable to the consulting intervention?

Mills: Tax accountants have an easy job proving value. So we need to be more like them. We've got to quantify benefits with the client in areas that are not as concrete as tax, where there are numerous external variables that drive value.

The first rule for consultants is to use value pricing only in areas where there are definite opportunities for value creation. You won't get very far, for instance, if you tell an auto dealership that you can save it $25 per car sold. That would be just pitiful.

Next, block out the areas that are quantifiable. For example, let's say you have a measure for your client's sales productivity. We would show the client that for every percent we can improve that measure of sales productivity, we can increase revenues by about half a percent. We can't guarantee absolutely, but based on our work in similar industries, we conservatively estimate that we can raise productivity substantially through the use of our services. Once that is quantified, we move onto the other value areas we have diagnosed.

MCNews: Do you think the offer of a guarantee—not necessarily of an outcome but of client satisfaction with consultants' work—is emerging as a trend?

Mills: I don't see guarantees emerging as a trend, but they are a great value add-on. The firms that have been bold enough to offer a guarantee as a differentiator have been enormously successful. We've offered a money-back guarantee on all of our training for twenty years and we've had only one problem.

The reason I don't see guarantees as a trend is because a lot of my work is with the big accounting firms. And they are incredibly risk-averse by nature. They live with professional liability, and are having the pants sued off of them in all sorts of environments. So the notion of a guarantee just gives them the willies. I do tell consultants they should consider guarantees, and they say yeah, it's a good idea, but someone else can do that.

A guarantee puts huge pressure on consultants to deliver consistent performance and at the right times. Most consultants wow the client in the initial phase, win a big contract but then don't keep managing the wow experiences like a performance. A performer who is being judged every day knows that the final show has to be as good if not better than the first. The best consulting firms not only impress the client at the beginning, they wow them at the end.

MCNews: If they don't want to offer a guarantee, what else can consultants do?

Mills: Don't say to the client, we're going to do this big project and you'll pay us a huge fee. Instead, segment the project into defined value chunks. Make them explicit with deliberate sign-offs for each chunk, and set it up so the client can walk away at the end of each segment. That way, the client doesn't have to buy the whole project at once but can buy it in smaller pieces. What you're establishing is a series of value checkpoints.

Clearly define the way you go about your work and be explicit in the way you create value, how you price it and how you collect the money as well. Most consultants want their money in small or regular chunks for obvious reasons, so that's a much better way of doing it for consultants as well as clients.

MCNews: Do you think the hourly rate approach to pricing will ever go away?

Mills: No, I don't, because it's very, very convenient. An American legal group recently did a review of the history of it. Funny enough, it has a recent history. I never realized that. You might think it's always been around, but lawyers have only been charging an hourly rate extensively since about the Second World War.

The hourly rate simplifies the process and I think it's useful for clients who want to make quick decisions and price quickly. It's also advantageous for consultants when there's high risk and low value in projects.

MCNews: What's your opinion on the effectiveness of services marketing?

Mills: In general, marketing for services doesn't work very well. I did a speech on entrepreneurial markets for an MIT forum. I made the point that the reason entrepreneurs struggle with marketing, particularly for services, is that the model doesn't make sense to them. But just about every Western manager has been through Marketing 101, and they learn their Four Ps. I can't believe academics are still flogging the Four Ps but they continue to do so because they've hung all their work on that model.

Professionals' mindset about marketing has changed quite dramatically over the years. They really want to understand how they can create, communicate and capture value for their clients. But there haven't been any marketing models that explain how that all hangs together.

We have found that as soon as we introduce the 8 R's framework for marketing services (http://www.millsonline.com/services_products.asp), professionals get quite invigorated. All the pieces come together and they say, that's what I've always done, but I haven't really understood the whole picture before.

And as a professional you're never just out there rainmaking, are you? You're never just doing one specific marketing task. While you're out there working on a project, you might also be talking to someone with the intention of creating a referral. You're always doing some other part of it and you need to understand the whole when you're doing the part.

I have found that you can change the mindset of the professionals, but our biggest resistance comes from marketers.

MCNews: Because they're wedded to the old model?

Mills: Much of what firms spend their marketing money on is of dubious value. There are huge teams of people spending a lot of time creating newsletters and marketing collateral and a lot of other things. But if you actually have a look at it, they're spending money on advertising campaigns that have no demonstrable return on investment at all.

MCNews: Last question—what's on your reading list these days?

Mills: I'm very interested in how people change minds, so I'm reading the biographies of famous people who have been brilliant at changing minds in different situations. Churchill for example, at the right time and the right place, was able to move nations and people with a vision. I like reading about quirky characters, and I like Churchill particularly because he was not slick. He was pudgy and funny looking—much closer to the average consultant. We don't normally look like presenters on television. So Churchill leaves us with hope.

MCNews: Thanks for all of your time.

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