

The Curse of Karl Marx

Why Most Freelancers Under-Charge For Their Services And What To Do About It?

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Do you know that a significant number of kings and emperors throughout history have been totally and utterly mad?

George III, who was also called Mad George, ruled England in the 18th Century, and was afflicted with porphyria, a maddening disease which ended his life rather prematurely in 1765.

For instance, Caligula got his father, mother and brothers murdered to become emperor. Nero got his mother and first wife murdered.

There's been so much incest among royalties that over time rulers have become dumber and dumber.

And the reason why I mention this interesting fact is because when it comes to pricing freelancing services, many freelancers simply “mate” their situations with the prevailing orthodoxy of the whole industry, and end up doing what the rest of the industry is doing.

But as we know from Earl Nightingale...

Whatever the majority of people are doing under any given circumstances, if you do the exact opposite, you will probably never make another mistake as long as you live.”

So, let's go against the majority, and see how we can avoid pricing mistakes most freelancers make.

How Karl Marx's Labour Theory Of Value Impoverishes Freelancers

In 1848, by Karl Marx and Frederick Engels published The Communist Manifesto, the famous revolutionary treatise that is still haunting the world. And in it the labour theory of value...

The relative values of commodities are, therefore, determined by the respective quantities or amounts of labour, worked up, realised, fixed in them. The correlative quantities of commodities which can be produced in the same time of labour are equal. Or the value of one commodity is to the value of another commodity as the quantity of labour fixed in the one is to the quantity of labour fixed in the other.

According to Marx profits are evil because any profit the company makes is money stolen from the workers.

Translation: Any profit the freelancer makes is money stolen from the client.

On the final analysis, freelancers are knowledge workers who create, disseminate, provide and sell customised intellectual capital in order to improve their clients' condition.

The labour theory has been debunked over the years, except two places, governments and universities. Nevertheless, many freelancers are still not comfortable to charge what their expertise is worth.

According to Marx value is objective as stipulated by the seller. But value is subjective as perceived by the seller.

Beauty is in the eye of the beholder. So is value.

Why This Discussion

McKinsey & Co. study of the Global 1200 found that...

- 1% reduction in fixed cost leads to 2.7% increase in operating profit
- 1% increase in sales volume leads to 3.7% increase in operating profit
- 1% reduction in variable costs leads to 7.3% increase in operating profit
- 1% increase in average prices leads to 11.7% increase in operating profit

Yet, most freelancers are obsessed with either cutting costs or acquiring new clients.

In a survey on the consulting profession by the Professional Consultant, 76 consulting practices have been analysed in depth with the following results:

- Those working exclusively on a hourly fee basis had **87%** lower profits than those who worked on a fixed-fee.
- When profits and salary were added together, the hourly fee group had profits and salary that were **95%** lower than their fixed fee colleagues.
- For those consultants using hourly based fees, profits were **32%** lower, and profits and salaries **36%** lower than the consultants using both time-based and fixed fees.

6 Reasons Why Most Freelancers Shy Away From Charging For Their Value

1. My clients can't afford higher fees. - Shelter story – Money is always available
2. I wouldn't pay more than what I charge now
3. I have nothing special to offer
4. Mine is a poor industry
5. I've just started my business
6. The real cause of all excuses which almost never gets said: I do not deserve it

Why Buyers Regard Most Freelancers As Fungible Vendors As Opposed To Respectful Experts

It's a marketing-, a self-esteem- and a language problem.

Many freelancers have never developed the kind of English that executives speak in boardrooms.

So, these freelancers get relegated to purchasing agents, training managers or self-important HR flunkies.

Marketing: Due to lack of marketing, many freelancers are not well established as respectable experts, so they operate as fungible vendors. But we know from Peter Drucker that...

“Because its purpose is to create a client, the business has two - and only two - functions... Marketing (you get paid for creating a customer) and innovation (you get paid for creating a new dimension of performance). Marketing and innovation produce results, all the rest are costs”

Self-esteem: We all have our own mental and emotional baggage, so we just have to work on them.

Language: We have to learn the language of business so we can get invited to boardrooms to talk to executives, and we don't get stuck in the hallway to talk to price-obsessed purchasing agents.

How To Screen Out Real Buyers From The Ocean Of Self-Important Flunkies

Instead of tasks to be performed and about deliverables, they ask about expected results.

Instead of methodologies, they focus on improvements to their companies.

Instead of pestering you for price, they focus on received value.

Instead of answering phone calls and checking emails during conversations, they interact with you.

They keep their egos in check. They are punctual and respectful of your time.

They are intimately familiar with their companies' strategies and their role within those strategies.

They accept accountability.

They find ways to get things done and don't complain.

They accept challenges and don't make excuses.

They spend the preponderance of their time focused on client issues, service quality and relationship, and a minimal amount of time on office politics and gossip.

They stay away from office politics and gossip.

They regard you as a respectable collaborator and for your contributed value not as a fungible vendor paid competitive(ly low) hourly rate

Three Value Components Freelancers Must Discuss With Buyers

As a freelancer, you get hired to deliver one or more of three types of added value:

1. You enable your clients to add more value than they would be able to add without your support.
2. You enable your clients to add value sooner than they would be able to add without your support.
3. You enable your clients to add value with greater certainty than they would be able to add without your support.

Value is the desired outcome as defined by the buyer

You get hired to enable your clients to add more results, sooner and with more certainty than they would be able to add without your support.

This extra value sets the standards of performance. Consultants get evaluated on their abilities to team up with buyers to answer the buyer's three basic questions:

1. How much value do you propose to add?
2. How soon do you propose to add it?
3. How certain can I be of all that?

So, the buyer's basic question is how much value, how soon and how certainly do you propose to add?

With this in mind can you see that it is incorrect that you get compensated only for the elapsed time? The value of true expertise is measured by its impact on the client, NOT by the time it takes to dispense it.

Conceptual Agreement

Objectives: What is the ideal outcome you'd like to experience? What results are you trying to accomplish? If you could wave a realistic magic wand, where would you like your business to be six months from now?"

Metrics: How will you measure this? What indicators will you use to assess our progress?

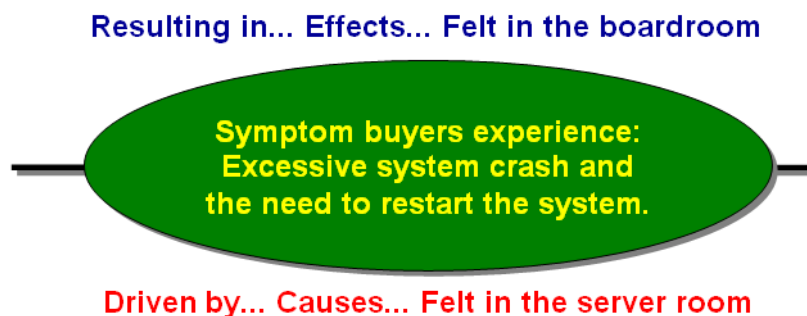
Obstacles: Is there anything we haven't discussed which could get in the way? In the past, what has occurred to derail potential projects like this?

Value: What will these results mean for your organisation? What would be the extent of the improvement (or correction)? What is the intangible impact (e.g., on reputation, safety, comfort, etc.)?

Important point: During the buyer interview you talk about the buyer and her company, not about yourself.

Reveal Your Value Like The Facets Of Diamonds

I've never cared much for jewellery, but I've read somewhere that the price of diamonds has something to do with the number of facets on them. So, let's use this analogy here to discuss the value of a solution.



Hard effects

- Stressed computer operators - usually the best - leave company (Increased employee replacement costs)
- Frustrated employees stay home sick even when not sick. Sick and tired of the sick system (Increased medical costs)
- Production downtime
- Increased management attention on an issue that should work (managers fall behind on their normal work)
- Delays in order deliveries (Increased client attrition and negative word of mouth)

Soft effects

- Compromised brand, market and community reputation

- Market perceives the leadership team as a bunch of idiots
- News draws the investor community's - negative - attention
- Losing respected expert status and becoming a mere vendor

Causes – Paid diagnostics

By now the cost of the problem is established.

- Memory leaks on Microsoft servers and workstations
- Malware infection on workstations
- Badly designed anti-malware programmes
- Memory corruption
- Operating system flaws

Setting Your Fees Based On Perceived Value

Take the value of the annualised improvement (X), as stipulated by the buyer. Then project that value out five years (5X). Now add some 15-25% to it for the “soft” factor (higher morale, better teamwork, higher reputation, improved brand, etc).

Make sure the annualised improvement (X) includes both bull’s eye value (value that directly happens) and peripheral value (value that’s added too but not thought of)

I want to demonstrate a minimum 10:1 ROI for clients, so...

\$100,000 annual value + peace of mind, security, higher morale and better reputation

Go out five years => \$500,000

Add annual compounding (X% annual expected growth percentage): \$600,000

Add soft value: \$150,000 => \$750,000

10% of \$750,000 = \$75,000 => This is option #1

Option #1: \$75,000

Option #2: \$97,000

Option #3: \$118,000

All options lead to the same objectives but through different values. Example: You can fly to London, UK in different ways. You can fly first class eating caviar and drinking champagne or strapped to the roof with a bag of greasy McDonald’s chips and a bucket of Coke. Same objectives but different values.

10 Instant Pricing Remedies

Add a little arrogance to your pricing

Clarify the value you offer to your client

Play better poker with customers

Price to increase client value not the amount of your labour

Add new products and services at various price points for various buyers

Build your marketing backbone to establish yourself as a respectful expert not a fungible vendor

Take simple steps to move from hourly or cost-plus to value-based pricing

Closing: Set your fees with confidence.

Remember who you are: A unique individual who provides unique value to the client in a unique fashion. No one else in the world can do that.

Resources

My monthly newsletter: Commando Consulting: Lessons, Principles And Practices From The Ultimate Professional Service Firm, The Military <http://www.di-squad.com/toolshed.html>

Measure what matters to customers webcast (8 hours): <http://webcast.educationfoundation.org/p60148156/>

Join the fight for value-pricing at <http://www.verasage.com>, a global think tank on burying value pricing and trashing time sheets.