California Contract Education TAP Boot Camp

Slide 1: Unit 6 – Pricing Contract Education

California Contract Education TAP Bootcamp. Unit Six: Pricing Contract Education.

Slide 2: This set of slides covers…

This set of slides covers how to price contract education, understanding the contract costs, the difference between formula pricing and market pricing and which one you should use from our perspective, and pricing best practices for our industry.

Slide 3: Understanding Contract Costs

Let's understand a little something about contract costs. So when you're talking about the price to deliver a contract, a big piece of what you're talking about is production costs. Those costs would include all the things that you would be paying for if you had a private, for-profit business in training. So you would have the presenter fee or the consulting fee, any travel, product development--that is if you need to build a class from scratch or modify it--materials, food, anything at all. Room, handouts, technology, anything at all that you would have to pay for. Parking. That would be included in the production costs.

Slide 4: Pricing Contracts

When you're pricing contracts, we want to know... we want you to know that many people use what's called formula pricing. So they say, okay, we're going to take the production costs, and we're going to multiply those by some multiplier. That's called formula pricing. And the truth is, it doesn't work, it's not quite sophisticated enough. What we want to do is use market pricing. Market pricing really is just a tweak on the formula pricing process. So you take the cost of producing the contract. And then having figured that out, you take a look at what competitors are charging for the same or similar courses, and what that client or clients like them have been willing to pay in the past. So it's really just putting a little more brainpower and a little bit of your own past experience into the pricing process.

Slide 5: Pricing Example – Market Pricing Method

All right, let's take a pricing example using the market pricing method, which is the one that we recommend. Let's say to produce a class, it costs you $4,000. And let's say that you wanted your production costs as a percentage of income to be 40%. So then what you would do is you would take the $4,000 and divide it by point four oh, and you get the projected income of $10,000. And then you ask the question, "What's the competition charging?" and "What has the client paid in the past?" And you set the price. And then you set a price range usually, and then you're going to review the price breaks and set a final price range. So in our case, the price range would be something like 9,500, to 12,500. So something in there. And let's talk a little bit more about that.

Slide 6: If your competitor's prices are lower, then..

If your competitor's prices are lower than the price you set--so this is another little train of thought that we go down before we look at price breaks here--you want to do one of three things. You can cut your production costs, and that would cause the formula price to go down. Or you could just say no, actually what we're offering is worth it and so we're going to charge more. And we're going to develop a sales argument for why we should be able to charge more, even though in the past it was less or even though they can get it for less somewhere else. And that should be not just a sales gimmick, but a really honest assessment of that. Or the third option--and never ever forget that this is an option--is that you can walk away understanding that, actually, you can't afford to do this contract at a price that the client would buy.

Slide 7:

Not included in presentation

Slide 8: Pricing Best Practices

Let's talk now about pricing best practices. There are a number of them, but they're actually fairly simple. The first one is: use market pricing where you can. And if you can charge more than the formula price do so. And if you can't compete, be sure you understand that you should just walk away from the job. A job can actually cost you to deliver it. Unless there's a political agenda or something behind that job, just let it go. It's not a client that you want.

On an average contract, your income should be at least two times the cost to deliver the contract. So that would be the production costs, right. So on your average contract, your income should be at least two times the cost to deliver the contract.

Add value to contracts by including a nationally known presenter or having a webinar or giving more handouts or having totally customized exercises. That's one of the ways you can raise your prices is that kind of adding value.

Understand price breaks. So stay off double or more zero numbers and use the number five. It's just... it's a very old marketing concept. And believe it or not, research says it works.

Be careful not to sell just one price range of contracts. Diversify your contracts and therefore your prices. The reason we do this is it allows us to appeal to audiences who want contracts at different level of prices. The way that I remind myself of this is, remember the old seminars? You could get a seminar in project management for managers, and that was $199. And then some brilliant person said, "Oh, we could offer it for frontline staff for $99." It was basically the same content, a few tweaks, but they were appealing to different audiences who were sensitive to price in a different way.

And then the last one is give your clients, especially new clients, more than one price option. And what I mean by this is when you go into a sales meeting, have three things in your head. One is the most likely price, the one that they'll probably buy. But if they seem to feel that that was quite affordable, be sure that you have a scenario that says something like this, "Now that's the baseline price. But if we added these things, which would benefit the students in the class, then it would cost this much to add those things in."

On the other hand, I like to have in my mind another scenario, which is something like this. If you... if you deliver the price, and they have a little gasp, and/or they say that's really, totally, completely out of our budget, then I like to be prepared to say, "Well, all right, we could lower the price. What is your budget?" And if they say, "It's $5,000," and you say, "We could do it for five." But now, and this is important, you need to remove some of the service aspects of the contract. So be ready to say what that is. That's not something you want to make up on the fly.

Slide 9: Summary

So in summary, LERN recommends market pricing, not formula pricing. Second, costs should include everything you spend to create and offer the class. But you don't include in that administrative staff time because that's really, really hard to measure. You also don't include phone, communication costs or any other direct costs. That would just be too complicated. We can get it by including the production costs that we mentioned in the readings and in the slideshow. Never, ever, drop a price without taking away some of the service aspect of the contract. Or what you've basically said to the client is we overpriced it in the first place so we can afford to cut the price in our conversation with you. Do not train your clients to do that. And then last, product development costs should never exceed more than 10% of the projected operating margin for a class.