

MODULE

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YOUR HAPPY PRICE

An Article by Michael Ellsberg

Recently, I was consulting with a client who was having trouble figuring out his pricing. He was a talented web designer, with a history of undercharging. For that reason, he was struggling, and broke, and unable to leave his unsatisfying corporate cubicle day job.

I asked him how much he'd like to charge for his work if he was self-employed full-time, and he said \$10,000 per basic WordPress site. This struck me as odd, because he'd been charging a fraction of that, and even working for free a lot. He had no history of charging premium pricing. So I said, "We're going to get you there soon. But in my experience, people don't go from undercharging, to charging premium pricing, in one step. There are intermediate steps."

"Well how much should I charge then?" he asked.

"This is how we're going to figure it out," I said. "Imagine someone called you tomorrow, and said, 'I want you to design a site for me, and I'll pay you \$1,000.' Would you be happy, or sad, to do that job for that price?"

"Sad," he said.

"OK, how about \$2,000?"

"Sad," he said again.

"How about \$2,500?"

"Eh, that would be OK, but not that exciting to me."

"OK," I said, knowing the next question was going to be the clincher.

"How about \$3,000?"

"Would doing that work for that price make you happy or sad?"

"Happy!" he said, smiling for the first time in this process.

"Great, that's what I call your 'Happy Price.'"

Your Happy Price is the minimum amount for a service, that would

make you happy to get an additional sale of that service.

Usually, just below that is your “Eh... Whatevs” price. And below that is your Sad Price.

You should always charge your Happy Price.

Why? Because that’s the minimum you need to be happy doing that work. If you charge less, you’ll resent the work, and it will show in your quality of delivery, earning you a bad reputation and low-or-zero word-of-mouth. When you charge a Sad Price, you will also be unmotivated to market your services. Why would you want to expend all that time, money, and effort of marketing, only to bring in work that you resent and that feels un-nourishing and bothersome to you at that price?

OK, so we’re clear you shouldn’t be charging your Sad Price. But here’s another question. Why not charge more than your Happy Price?

This is the second most common mistake I see people make around their pricing, after undercharging. Puffed up by ra-ra Internet Marketing seminars in which they stood in their chairs as a group and pumped their fists towards the heavens (actually, towards the fluorescent lighting above in the Fern Room of the Ramada Inn), they have now been encouraged to “shoot for the stars.”

“\$1,000 per hour? Why so little? The seminar leader in front of the room charges \$5,000 an hour for his coaching! What’s wrong with you if you’re only charging low-four-figures per hour? Don’t you know that that’s trading dollars for hours? If you’re going to trade dollars for hours, you better at least be able to buy a mid-sized car for each hour you trade!”

What is missing from this kind of Internet Marketing puffery is any sense of whether your clients are actually getting value for these prices. I’m not saying there is no one who could provide value to clients at those prices. But if the only reason you’re charging really high rates is because some seminar leader told you to “reach for the stars” and envision yourself living on a yacht in 3 years, it’s probably not the right

price. (And you're probably having trouble finding customers at those prices, and probably getting zero word of mouth.)

All great businesses are based on word-of-mouth. Yet word-of-mouth depends entirely on the perception of great value on the part of the happy client spreading it—and their perception of value is highly tied to your price. (Think about it—what was the last great restaurant you recommended to someone else? Would you have recommended it if the prices were \$125 per dish instead of \$25?) Unless you've built up an insane brand, like many high-end fashion brands, in which people are willing to fork over ridiculous amounts of money just to be part of the brand experience, then you're going to need to base your business off of providing value to customers. And a great deal of whether a customer has the experience of receiving value or not, has to do not just with how much you gave them, but how much they paid.

They may have felt they received a great deal of value at one price, but double the price and their sense of the value diminishes greatly. So how do you make sure your customers have the experience of receiving great value for the price, while also making sure you feel glad to do the work at that price?

The solution is simple. Charge your Happy Price. Remember, your Happy Price is the lowest price at which you are happy to provide a given service.

Many factors go into determining what makes one price for your services Happy for you, and another price Sad. It could have to do with dozens of things, such as your living expenses, how much you enjoy or dislike the work, what your competitors are charging, your sense of how much value you actually provide to your clients, how much energy and work it takes for you to do a good job for your clients, etc., etc. But fortunately, you don't have to pay attention to any of these different factors to figure out your Happy Price.

What do you have to pay attention to instead?

Pay attention to your body, as you contemplate different prices. Or more accurately, your gut. Here's a simple, quick exercise to help you figure out your Happy Price.

I'm going to describe a scenario, and I want you to pay close attention to your own physiology (i.e., your gut) as I describe this. Don't worry about what your mind thinks— pay attention to how your body responds. Do you feel excited, or deflated, energized or depressed? Do you get an expansive feeling, or that sinking feeling in your gut, when I describe to you the following scenario...

OK. Imagine I call you and say, "Hey, I have a client who really wants to work with you.

He wants to do a 1-hour session with you, and he's willing to pay you \$50."

What did your body do? Since most of my readers who are service providers tend to charge more than \$50/hr (no judgment here if that doesn't describe you, it's just what I've noticed about my own audience), my guess is, you got that sinking feeling in your gut when you heard that. You might have heard a "No thanks!" arise in your mind, or just a sound.... "Ehhhh" or "Uggggh."

To find your Happy Price, we just repeat the above thought experiment, raising the hypothetical dollar amount in increments of \$25 or \$50. When I guide clients through this experiment, raising the amount by \$50 each iteration, usually there is a price at which my client says, "OK, I'd do an hour for that amount." Their gut eases and they feel less stressed and disappointed by the price. But they don't seem too excited by that amount either. That's the "Eh, Whatevs" Price." Usually, when we find the "Eh, Whatevs" price, one more iteration of \$50 or so per hour will get us to the "Happy Price." That is the first and lowest price at which you say, "Yeah, I'd be happy to do it at that price." Your physiology brightens, you feel expansive rather than contracted around that price, and you get a little spring and sparkle in your step thinking about that money coming

in. It's important to note that you do not need to quote or charge by the hour to use this price-discovery technique. You can modify it to work with per-project pricing (as my client did in the first example) or a monthly retainer. However, even if you charge per-project or on retainer, it is still useful to know roughly what your hourly rate is. Let's say you did this exercise, and you found your Happy Price was \$150 per hour for your services. At this point, the temptation is to say, "Well, if I'd be happy at \$150 per hour, I'd be even more happy at \$200, or \$250!"

Not so fast. Remember our discussion about value. A great deal of whether your client has the experience of receiving value, has to do with the price they paid. You want to charge your customer the lowest price at which you'd be totally happy to give them your absolute best and go the extra mile for them.

"But will my price always be stuck at that level then?" clients often ask next. Of course not. I've noticed that when people figure out and then start charging their Happy Price, they start getting a ton more work. Why? Because it's a price that actually motivates them to get the work and do the work well, yet it's not an over-inflated price either—it's the very lowest price they're genuinely happy to do the work.

And because they're genuinely happy to do it at that price, it shows up in their marketing, sales, and delivery. They are motivated to market and sell the service effectively, to get more happy money. And they're motivated to deliver an awesome service to their clients, gaining happy customers and word of mouth.

And as soon as they start getting more work at that price, often within a month or two, they get busier, and thus their Happy Price naturally rises. (Hint: when you keep raising your rates as your Happy Price goes higher and as you get more work, only raise it for new clients. Old clients get upset when you raise the rate frequently.) It's an upward

spiral in which your current customers are always happy, and you keep charging more to new clients, and everyone is happy because you're delivering awesome work, and everyone knows the system is honest and not puffed up by BS pricing.

My client mentioned above? Within a month of charging his Happy Price, his freelance schedule was completely full, he was earning more per month freelancing than he was in his day job. He was able to quit his day job within that month, living life on his terms with no boss, and now has a waiting list for his work.