Pricing of Consulting Services

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Abstract

In the current economic context, the consulting has as main target to help a company manage home and foreign resources to cope with the problems and changes finding the best and innovative solutions.

When a company preparing to launch a new product or service it is imperative that it gets the price right the first time and that is based on useful data from the marketplace; the value perceptions of the buyers, their willingness to pay, and expected price elasticity and demand curve. To address these issues is very useful resorting to specialized consultants.

In the consulting field, one of the greatest variations is in pricing. Pricing is never just a number. It is a complete strategy for harvesting the highest possible profit from the value created for customers. Finding the best pricing strategy is extremely important to a company’s competitiveness. It can be appreciated that that pricing is a management decision with a large marketing input.

Keywords: consulting, marketing, price, services, strategies

Pricing Of Consulting Services

In the narrowest sense, price is the amount of money charged for a product or service. More broadly, price is the sum of all the values that customers give up in order to gain the benefits of having or using a product or service. Historically, price has been the major factor affecting buyer choice. In recent years, non-price factors have gained increasing importance. Nevertheless, price still remains one of the most important elements determining a firm’s market share and profitability (Kotler 2008).

One of the most significant developments in the global economy context is the constant expansion of services activities. In this respect, we can consider that the services role in socio-economical development refers both to their contribution to the economic growth and to life quality improvement (Crăciun 2012).

Nowadays the services quality represents a common subject, an ongoing concern of the world specialists, producers and traders, in order to conquer the national and international markets. The quality means more than a positive view on purchased services revealing the entire organisation quality, the rendered services accuracy and the staff skills as well. In this regard,
consulting services play an important role in increasing the competitiveness of firms in the market.

Prices in the consulting field are wide-ranged and all too often determined without any sense or sensibility (Kintler 1998). But is essential the importance of creating prices in the context of clear strategic marketing objectives.

In the market, pricing decisions are dominated by cost-based and „follow-the-leader” approach (Bateson 1995). For this, marketing managers have an important role in decision making process. In consulting services, the prices should depend on three factors:

a) **Ability to deliver results.**

In consulting business field, perception is everything. Perceived value depends on how the prospects are evaluated. Relevant aspects in this direction are:

- industry reputation;
- reputation of the firm in consulting practice;
- testimonials and referrals.

b) **Benefits of the consulting firms.**

The benefits of operating a successful consulting practice take into account items such as:

- salary/income;
- operating expenses;
- gaps between assignments.

c) **What the market will bear.**

What clients will pay for consulting services depends on factors such as:

- the industry served;
- the perceived value of the services;
- competitors’ consulting fees;
- the position of the decision/maker.

New entrepreneur consultants tend to undercharge for their services. The mistake is understandable. First, it's difficult to know the going rate because most consultants vigilantly guard their prices. Second, despite the seemingly small barriers to entry, first-time consultants usually don't have the strong relationships with clients. Finally, many consultants simply underestimate how much a business will cost to run.
Consultants’ fees vary depending on location and target industry. But must be a common methodological framework for arriving at an attractive pricing structure--both for the consultants and its customers.

Practically, there are various types of fees for consulting services:
- Hourly;
- Daily;
- Weekly or longer term commitments;
- Project fees;
- Payment for results.

Pricing strategy, a major component of the 4 P’s of marketing mix (product, price, placement, promotion), is vital because it directly produces revenue, whereas other marketing functions represent expenses and price must support them. Most pricing decisions can be implemented relatively quickly, whereas product, promotion and distribution changes usually take longer and cost more to complete (Wood 2005). Pricing strategy is also built upon a solid understanding of the 5 C’s of pricing: customers, competition, costs, capacity and business cycle.

When planning pricing, marketers first must determine what this strategy is intended to achieve, given the marketing, financial and societal objectives they have set. They also need to investigate the various external influences (customers, competitors, channel members; legal, regulatory and ethical concerns) and internal influences (costs and break-even; targeting and positioning strategy; product strategy; and other marketing decisions) that can affect pricing decisions (Wood 2005).

Marketing decisions must be consistent with the total organisational objectives. Pricing decisions are just one of the marketing decisions. Obviously, if the organisation has a target return on investment, we can see the link to pricing (Adcock 2001).

Pricing decisions can have important consequences for the marketing organization and the attention given by the marketer to pricing is just as important as the attention given to more recognizable marketing activities.

It is important to know that pricing policies are critical depending on the type of market structure to avoid the business failure. So, it is relevant for a select market structure to choose the optimal pricing policy to insure that the firm is able to be successful and earn long-term profit.

Pricing is a dynamic process. Companies in the consulting field design a pricing structure that covers all their services. Pricing strategies usually change and adjust to the market.

There are many ways to price a consulting service such as:
• **Premium Pricing**
  This approach is used where a substantial competitive advantage exists and the marketer is safe in the knowledge that they can charge a relatively higher price. We can use a high price where there is a unique brand.

• **Penetration Pricing**
  The price charged for services is set artificially low in order to gain market share. Once this is achieved, the price is increased. The companies need to increase the number of their consumers in order to get people to sign up for their services. Once there is a large number of subscribers prices gradually creep up.

• **Economy Pricing**
  This is a very low price. The costs of marketing and promoting a service are kept to a minimum. During times of recession economy pricing sees more sales.

• **Price Skimming**
  Price skimming sees a company charge a higher price because it has a substantial competitive advantage. However, the advantage tends not to be sustainable. The high price attracts new competitors into the market, and the price inevitably falls due to increased supply.

• **Psychological Pricing**
  This approach is used when the marketer wants the consumer to respond on an emotional, rather than rational basis. It's strange how consumers use price as an indicator of all sorts of factors, especially when they are in unfamiliar markets. Price therefore may be an indication of quality or benefits.

• **Service Line Pricing**
  Where there is a range of services the pricing reflects the benefits of parts of the range. Service line pricing seldom reflects the cost of making the service since it delivers a range of prices that a consumer perceives as being fair incrementally – over the range.

• **Optional Service Pricing**
  Companies will attempt to increase the amount customers spend once they start to buy. Optional “extras” increase the overall price of the service.

• **Captive Service Pricing**
  Where services have complements, companies will charge a premium price since the consumer has no choice.

• **Service Bundle Pricing**
  Here sellers combine several services in the same package. It's a good way of moving slow selling services, and in a way is another form of promotional pricing.
• Promotional Pricing
Pricing to promote a service is a very common application.

• Geographical Pricing
Geographical pricing sees variations in price in different parts of the world.

• Value Pricing
This approach is used where external factors such as recession or increased competition force companies to provide value services to retain sales. Value price means that you get great value for money. In many ways it is similar to economy pricing but is a mistake to think that there is added value in terms of the service. Reducing price does not generally increase value. Also, on these issues, consulting firms can develop:
  a) Low price strategy
     – used to attract new consumers or to make an offer to existing customers;
     – used short term to stop new competitors entering the market;
     – used to generate enough revenue to cover costs.
  b) High price strategy
     – used to generate profits to cover launch costs. Service may have a unique point of different;
     – used to grow profits;
     – used to maximise revenue in order to fund new projects.

For many consulting services, marketers rely on fixed pricing, in which customers pay the price set by the marketer; in other cases, marketers use dynamic pricing, varying prices from customer to customer or situation to situation.

From a customer’s perspective, value is the difference between the total perceived benefits and the total perceived price of a consulting service. Marketers care about customers’ price perceptions because they influence the demand. Price elasticity, which indicates customers’ price sensitivity is calculated by dividing the percentage change in unit sales demanded by the percentage change in price (Wood 2005).

Pricing is difficult and must reflect supply and demand relationship. Pricing a consulting service too high or too low could mean a loss of sales for the organisation. Therefore, pricing should take into account the following factors:
• Fixed and variable costs;
• Competition;
• Company objectives;
• Proposed positioning strategies.
• Target group and willingness to pay.
Marketers should use value-based pricing rather than cost-based pricing to formulate a strategy that satisfy company objectives and customer needs.

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