## Contents

*Foreword*  
*Preface*  
*About This Book*  
*About the Web Site*  
*About the Words Used in This Book*  
*Acknowledgments*  
*About the Author*

### PART I  
**A RADICAL BUSINESS MODEL**

#### CHAPTER 1  
The Firm of the Past  

#### CHAPTER 2  
The Firm of the Future  

<table>
<thead>
<tr>
<th>Title</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Business Model of the Firm of the Future</td>
<td>8</td>
</tr>
<tr>
<td>Revenue Is Vanity—Profit Is Sanity</td>
<td>8</td>
</tr>
<tr>
<td>Businesses Have Prices, Not Hourly Rates</td>
<td>8</td>
</tr>
<tr>
<td>Why Intellectual Capital Is the Chief Source of Wealth</td>
<td>9</td>
</tr>
<tr>
<td>Negative Intellectual Capital</td>
<td>11</td>
</tr>
<tr>
<td>Why Effectiveness Trumps Efficiency</td>
<td>11</td>
</tr>
<tr>
<td>What, Exactly, Is Productivity?</td>
<td>12</td>
</tr>
<tr>
<td>There’s No Such Thing as Generic “Efficiency”</td>
<td>13</td>
</tr>
<tr>
<td>Where Do Profits Come From?</td>
<td>15</td>
</tr>
<tr>
<td>If Only I Knew Then What I Know Now</td>
<td>17</td>
</tr>
<tr>
<td>Summary and Conclusions</td>
<td>18</td>
</tr>
</tbody>
</table>
PART II  FOUNDATIONS OF CREATING VALUE

CHAPTER 3  Why Are We in Business?
The Economist’s Definition of Profit 21
The Marketing Concept and Total Quality Service 23
Summary and Conclusions 24

CHAPTER 4  A Tale of Two Theories 25
The Labor Theory of Value 26
Karl Marx, False Prophet 26
The Marginalist Revolution of 1871 28
Why Are Diamonds More Expensive Than Water? 29
Wrong Theory, Suboptimal Results 30

CHAPTER 5  Four Ps and Five Cs 31
The Five Cs of Value 34
You Are What You Charge 36

CHAPTER 6  What People Buy 37
The Dynamics of Customer Expectations 38

CHAPTER 7  How People Buy 41
Relative, Not Absolute, Price Matters 42
Price Psychology 43
Search, Experience, and Credence Attributes 44
Understanding Customer Risk 45
The Four Ways to Spend Money 47

CHAPTER 8  Your Firm’s Value Proposition 49
Moments of Truth 51
What Is Beyond Total Quality Service? 52

CHAPTER 9  The Consumer Surplus and Price Discrimination 55
Price Elasticity 56
Consumer Surplus 57
Price Discrimination 58
Requirements to Price Discriminate 59
CHAPTER 10  Macro Pricing Strategies 65
    Skim Pricing 66
    Penetration Pricing 66
    Neutral Pricing 67
    Two More Curves for Value 67
    Implications of the Curve 71

CHAPTER 11  Price the Customer, Not the Service 73
    Ten Factors of Price Sensitivity 73

CHAPTER 12  There Is No Such Thing as a Commodity 77
    The Perils of Benchmarking 80
    Purging the Commodity Word 80

CHAPTER 13  Baker’s Law: Bad Customers Drive Out Good Customers 83
    Customer Grading Criteria 83
    The Adaptive Capacity Model 87
    Firing Customers 89
    The Forced Churn 90

CHAPTER 14  Value Pricing and Self-Esteem 95
    There Is No Standard Price for Intellectual Capital 98

CHAPTER 15  Ethics, Fairness, and Value Pricing 101
    The Morality of Price Discrimination 106
    Prospect Theory 108
    Is Hourly Billing Ethical? 109

PART III  THE GENESIS AND CONSEQUENCES OF HOURLY BILLING AND TIMESHEETS

CHAPTER 16  A Brief History of Hourly Billing and Timesheets 113
    The Father of the Billable Hour and Timesheet—in the Legal Profession 115
    Summary and Conclusions 117
CHAPTER 17  The Deleterious Effects of Hourly Billing  119
The Advantages of Hourly Billing  119
What about the Customer?  123
The Disadvantages of Hourly Billing  124
Summary and Conclusions  138

PART IV  WHAT REPLACES HOURLY BILLING AND TIMESHEETS

CHAPTER 18  Why Carthage Must Be Destroyed  143
What, Exactly, Replaces Hourly Billing and Timesheets?  147

CHAPTER 19  Price-Led Costing Replaces Hourly Billing  149
Wisdom Is Timeless  151
Summary and Conclusions  153

CHAPTER 20  The Wrong Mistakes  155
The Almighty Hourly Rate  156
Making the Wrong Mistakes  157

CHAPTER 21  Who Is in Charge of Value?  163
The World’s First CVO  164
Leadership  167
Attitude  168
Commitment  168
Experimentation  169
Youth  170
Not Final Thoughts  170

CHAPTER 22  Measure What Matters to Customers  173
The McKinsey Maxim  174
Developing a Theory  175
Pantometry versus Theory  176
A Gedanken  177
CHAPTER 23  Firm-wide Key Predictive Indicators  181
             KPIs for a Professional Knowledge Firm  181
             KPIs Equal Customer Accountability  188

CHAPTER 24  Knowledge Worker Key Predictive Indicators  191
             A Model for Knowledge Worker
             Effectiveness  192
             Key Predictive Indicators for Knowledge
             Workers  196

CHAPTER 25  After Actions Reviews  205
             We Know More Than We Can Tell  206
             The Economics of Structural Capital  207
             Knowledge Lessons from the U.S. Army  210
             Summary and Conclusions  214

CHAPTER 26  O’Byrne & Kennedy: A Firm of the Future  215

PART V  EIGHT STEPS TO IMPLEMENTING VALUE
         PRICING

CHAPTER 27  The Eight Steps at a Glance  231
             Three Different Kinds of Problems  232
             Eight Steps to Implementing Value Pricing  233

CHAPTER 28  Step One: Conversation  235
             The Conversation  236
             Naïve Listening  236
             Focus on Wants, Not Needs  238
             Starting the Conversation  238
             Conversations Lower Asymmetrical Information
             and Adverse Selection  240
             Questions You Should Ask the Customer  241
             Ordinal Value, Not Cardinal Value  243
             Discussing Risk with the Customer  243
             Summary and Conclusions  244
| CHAPTER 29 | Step Two: Pricing the Customer: Questions for the Value Council | 245 |
| Questions to Ask before Establishing a Price | 246 |
| Factors of Price Sensitivity | 250 |
| Pricing Questions | 251 |

| CHAPTER 30 | Step Three: Developing and Pricing Options | 257 |
| The Psychology of Price | 258 |
| Seven Generic Customer Segmentation Strategies | 259 |
| Pricing Options | 263 |
| Pricing Complex Projects | 264 |
| FORD—A Model for Consulting | 273 |
| Dipping Your Toe in the Water | 275 |
| Formula for Calculating Reservation Price | 276 |
| Summary and Conclusions | 278 |

| CHAPTER 31 | Step Four: Presenting Options to the Customer | 281 |
| Handling Price Objections | 282 |
| Summation: Presenting Your Price to the Customer | 287 |

| CHAPTER 32 | Step Five: Customer Selection Codified into the Fixed Price Agreement | 289 |
| Date of the FPA | 289 |
| Professional Services | 291 |
| Unanticipated Services | 295 |
| Service and Price Guarantee | 295 |
| Payment Terms | 296 |
| Revisions to the FPA | 296 |
| Termination Clause | 297 |
| Other Issues Regarding the FPA | 297 |

| CHAPTER 33 | Step Six: Proper Project Management | 299 |

| CHAPTER 34 | Step Seven: Scope Creep and Change Orders | 311 |

| CHAPTER 35 | Step Eight: Pricing After Action Reviews | 317 |
PART VI  INFLECTION POINT

CHAPTER 36  No One Can Forbid Us the Future  321
             Business Model Innovation  322
             The Diffusion of Theories  325
             Firm of the Future or Firm of the Past?  328

CHAPTER 37  Declaration of Independence  331

Bibliography  337
Index  351