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Pricing for Professional Services work in the era of Generative AI



The **current** landscape

Pricing for professional services work is changing. Fact. You can no longer avoid it, and if you do, it will be at your peril. At least 20% of all PS firms are expected to fundamentally change their revenue model in the next 3-5 years¹.

If you take a cross-section of professional services businesses and ask how they price their work, you'll get a whole range of responses. There's a complete lack of consistency,

with multiple pricing models in play. Customers often don't know what form the price will take when they meet with a new professional services company.

Size, specialism, sector, location and company age are no longer indicators to how a professional services business prices their work. You'll always be surprised, but not necessarily delighted.

It's common to find highly traditional firms using the latest pricing models and cutting-edge new companies pricing like it's the '60s.

There are **four core methodologies** used in pricing professional services work:

Subjective pricing

This is a traditional approach where you essentially set prices based on what you believe you can get away with. It relies on gut instinct and personal judgment rather than concrete or objective factors.

Result-based pricing

This ties some or all of the project's costs to its end performance or its 'added value.' It's among the most challenging to set up, manage and measure, carrying a significant financial risk for the supplier.

Time/Effort-based pricing

This involves charging clients directly for the hours your team spends completing a project, with your profit margin embedded in the hourly rate charged to your client. This usually means time sheets and micromanagement around what is done after the fact.

Deliverable-based pricing

This is a model where you charge the market value of the end deliverables of a project (not the cost to get there). Projects using this model are often broken down by the individual tasks or milestones required to complete the whole.

Subjective pricing is finished with

It's an unfortunate fact, but customer trust is on the decline. Research shows that today, only 30% of customers now 'highly trust' the companies they are engaged with².

In this atmosphere of client cynicism, it's not feasible to price purely based on what you think you can get away with. Clients will simply no longer take pricing at face value. There is an expectation of transparency and an expectation of cost justification.

They too are under immense pressure, especially from their own finance and procurement departments. More than 70% of procurement professionals

currently see cost reduction as a priority³, so therefore, if you can't justify the cost of something clearly and concisely, then how can you expect your client to get it signed off?

The strength of your client relationship can't transcend a procurement/finance team's imperative to drive down costs. Subjective pricing is simply asking for the big red 'rejected' stamp from your clients' internal stakeholders.



Result-based pricing is full of pitfalls

Result-based pricing is attractive at face value and is experiencing a surge in popularity. After all, who doesn't want to incentivise success? Yet, in practice, it's often painful for everyone involved. Often one side (usually the supplier) finds themselves at a complete disadvantage.

The trouble begins with the lengthy process of negotiating and finalising contract terms, which can drag on for months. This is followed by the painstaking task of tracking, monitoring, reporting and forecasting on your activity. This then culminates in the always awkward scenario of having to go hat in hand to the client to justify why you deserve payment.

Success in this model hinges on an unwavering trust in the client's willingness to pay the full fee in the

first place. It also requires you to have complete confidence in your own company's ability to deliver on the promised outcomes.

While in theory it's a great concept, the reality is that it often introduces a highly negative and damaging dynamic into the supplier-client relationship. As Deloitte suggests in a report on Result-based pricing, "rather than working together to deliver a successful product/service and creating the maximum value, each party may manipulate the outcome in its own favor, trying to maximize individual gains⁴."

Result-based pricing too often allows subjective views to obscure objective realities, burning everyone involved.



Time/Effort-based pricing is becoming increasingly problematic

By far, the most popular method of pricing professional services work is by essentially reselling the hours of your team members' working days (with a profit margin built into the hourly rate).

Why? Because it's the simplest to price and easiest to explain on a day-to-day basis. In theory, you don't need long, drawn-out conversations or protracted negotiations on each project because the time worked is the time needed to complete the desired outcome. If the client has approved a rate-card, then they can't complain about the price of work.

It's a sound idea, yet in practice the model has become increasingly problematic. For the last 20 years, there's been inflection point after inflection point that's made pricing by effort become increasingly unsustainable.

The tech wave of the '90s and early '00s saw the time/effort taken to complete projects reduce significantly. From humble word processing to CAD/CAM software, complex projects needed fewer people and hours to complete.

In the late '00s we saw a global financial crash that started a decade of shrinking client budgets and requirements. The mantra of 'better, faster, cheaper' got baked into most client relationships. Then, to top it all off, we had the fallout of COVID-19 with its staffing crises and inflationary pressure that spiked the internal costs of doing business.

We've now had two decades of higher costs and lower budgets, resulting in 35% of companies lacking any serious ability to significantly increase their prices⁵, and that's before we even start to think about the coming impact of GenAI.

GenAI is a **ticking timebomb**

For professional services, GenAI is a double-edged sword. It has the potential to create business efficiencies we could previously only dream of, but at the same time it could also significantly reduce the overall total you're able to bill.

To begin, let's look at the positive. Some of the latest research shows some pretty impressive stats.

41% of the work automated⁶

40% improvement in skilled worker productivity⁷

25% increase in profitability⁸

If realised, these figures would transform the professional services sector.

Yet shockingly, research by the Simon-Kucher Institute has found that hardly any businesses have an actual plan to address AI's inevitable impact on their revenue model⁹.

Forbes showed that 4 in 5 business leaders are prioritising AI adoption¹⁰. Therefore clients will be expecting you to integrate AI into your practice. If you do, and you continue to price by time/effort, clients will want to see a reduction in overall project hours; they will expect to share in the efficiencies AI adoption will bring.

You'll never be able to benefit from the 40% uplift in productivity and 41% automation on a like-for-like project if you're simultaneously having to shed a chunky percentage on the total hours worked.

What is needed is a scalable pricing model that works regardless of how much AI is incorporated into your project.

How can you get around this?

Project without GenAI

Person 1	25 hours	\$1,875
Person 2	30 hours	\$2,610
Person 3	20 hours	\$2,420
Person 4	60 hours	\$5,880
Person 5	70 hours	\$3,500
Person 6	20 hours	\$2,600

Total billable= \$18,885

Same project with GenAI

Person 1	15 hours	\$1,125
Person 2	Not needed	-
Person 3	12 hours	\$1,452
Person 4	36 hours	\$3,528
Person 5	42 hours	\$2,100
Person 6	12 hours	\$1,560

Total billable= \$9,765

Deliverable-based pricing is 'AI agnostic'

Let's think about the well-known maxim: "A song is more than a combination of notes."

There is more value in a project than simply the physical effort taken to get there. The collective power, experience and configuration of your combined team adds inherent value to a project, making it worth more than just the price of combined man-hours worked. A client could not repeat this themselves (with or without AI) in their own business, and remember, they 100% would if they could.

If you sell the overall deliverable or set your price based on the market value of that output, then how you get there internally becomes irrelevant.

Does it really matter if you shaved off 41% of the labour by using GenAI if

the end deliverable retains the same market value?

Let's look at the latest iPhone. Research shows that it costs around \$500 to produce¹¹, yet it sells for well over \$1000.

In the future, we can expect the production costs of an iPhone to decrease through even greater factory automations and the support of AI in areas like QA. Yet we're not expecting the price of the phone to fall.

Why? Because there is more inherent value in the product than just the cost of production and a baked-in profit margin.

Now you might be thinking, 'but that's a product, and we offer professional services; it's different for us...' Let's clarify this point.

You can absolutely 'productise' your services

It's essential in the era of GenAI.

At the end of the day, there are very few circumstances where all you're doing is reselling someone's time (and even then, there will be a host of admin/HR/finance costs).

Most professional services work is therefore a unique configuration of raw manpower plus other elements such as strategy, research, technology and administration. Today, the only difference is that you will also be throwing GenAI utilisation into the mix.



Your unique configurations are your 'special sauce', and when packaged correctly, they can be bought/sold as products just like an iPhone. What makes you unique is the deliverable/outputs you sell; it's the 'sauce' itself, not the method or ingredients used to cook it.

'Productisation' is already happening

Productising your offerings is the only way to use GenAI and not take a hit on your margin. To do this requires a fundamental shift in mindset about how you see your company and what you sell. Yet it's perfectly possible.

Across the globe, companies in all sectors of professional services are shifting to this way of pricing.

Research by the TSIA shows that around 1 in 10 companies currently use this type of model¹², and as we saw earlier, an additional 20% of companies are expected to change it in the next 3-5 years¹³.

We could therefore see at least a third of all professional services using this type of pricing model by 2027.



"Our clients appreciate the clarity and simplicity that deliverable based pricing offers"

Richard Tan
CFO/COO
FIG (Figliulo & Partners)

So, where to begin with 'productisation'?

Choose your most friendly client and start a conversation. You might be surprised by their response. Companies want more collaboration, not less, and therefore a frank and honest conversation on pricing is not something to fear.



In fact, the advent of GenAI gives you the perfect inroad. As mentioned earlier, your clients will be expecting you to integrate GenAI in your practice at some point, so therefore it's much better to be proactive and lead the conversation from the front.

What's key is to see it as a transition, not a revolution, and to start the process from there.

It will take time to repackage your services as deliverables or outputs, it will take time to move over your clients, and it will take time to train your staff in the new art of selling, but the most significant step you can take is to start the process.

Overcoming some of the **common objections** to deliverable based pricing

"We don't have the time..."

If not now, when? The cycle of "better, faster, cheaper" is a downward spiral that will eventually force some form of change, and by then, you'll probably have even less time and fewer resources.



"It will be difficult..."

Yes, it will be, but no more difficult than any other form of business change. The key is to begin. It's better to start the change on your own initiative rather than be forced into it further down the line.

"We don't know how..."

There's plenty of support out there, and technology like CPQ (Configure, Price, Quote) tools make it much easier to manage. Companies like SCOPE Better offer implementation support throughout the transition.



"Our clients won't buy it..."

Most clients are looking for closer collaboration and a tighter relationship. A clearly defined commercial model, easy to explain and easy to understand, is in both parties' interests.

Technology is driving the **change**



Most professional services business already have a tech stack in place with both a CRM and ERP system in situ, yet these platforms often don't speak to each other and are not built to handle comprehensive or varying based pricing models. Until recent years, moving to value-based pricing has been hampered by technological barriers.

The development of CPQ tools has transformed the landscape. Sitting as a single source of truth between your CRM and ERP platforms, CPQ tools like SCOPE Better are able to handle value-based pricing models and allow you to manage complex pricing in a fast, scalable and repeatable way.

Partnering with **SCOPE Better** could be a transformative move for you

At SCOPE Better, we've built a cloud-based CPQ platform specifically for professional services businesses.

From day one, we work with companies to package up and build out all their 'products' and then train their teams on how to use our powerful CPQ tool.

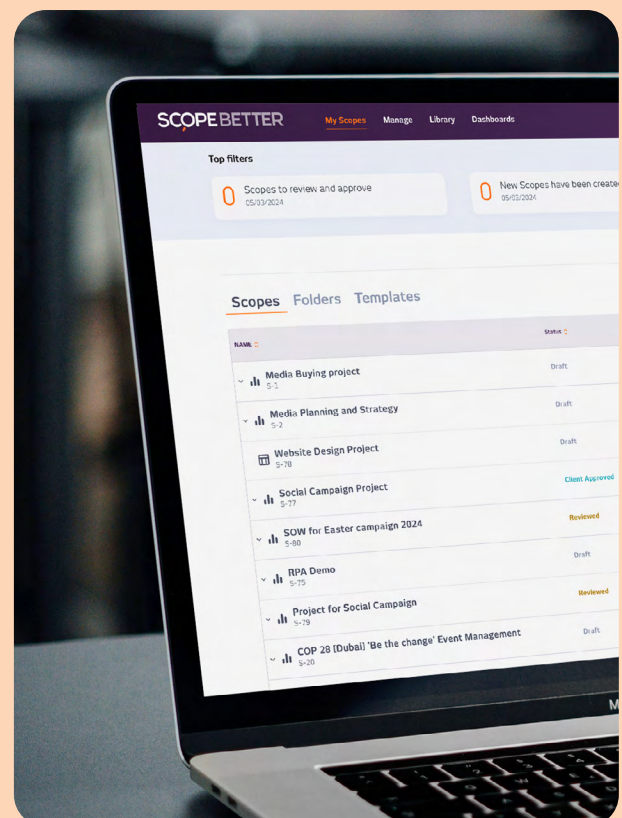
CPQ tools can help companies achieve:

8.2x wider margins

45% increase in RFP response times

1.6x reduction in the number of errors

If you would like to find out more about our platform, simply go on our website scopebetter.com where you can book a demo with one of the team.



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