

English version

CAKI miniguide

pricing and *negotiation*

Pricing and negotiation

It is important that you take a reasonable price for your work. You need to make your business profitable, and you have to avoid underbidding the market, which would be a disadvantage for both you and your colleagues.

There are different price levels depending which line of work you are in, how experienced you are and the current price level in the market. Location and season can also have an effect on the price. The hourly rate you can expect for your time might also differ, depending on whether you have established a well-known practice that customers are willing to pay a high price for, or if you are unknown and only beginning to establish a name for yourself.

As a newly established professional, most often you will have to invest in your business, either with resources or with your time. Later, when you are more experienced, have better routines in your everyday working life and have more customers as references, the difference between your investment and the sale price of your work will begin to level. And in the long run, perhaps you will start making a profit.

At the same time, putting a price on any form of arts object or service can be a challenge. The value of art is not measurable or easily translated into money, as it is the case with an hour with a lawyer or a dinner at a restaurant. To this should be added that many professionals working in the arts are not working under the same type of regulations and legislation as the rest of the work force. One of the consequences of this is that there are no givens for pension, paid holiday and salary during illness. The creative industries are the Wild West compared to other industries and sectors, which does not make setting a price any easier.

The Pricing

There are a range of factors that matter when you set your price. You have to be careful not to underbid the market price, since you risk sending a signal that you are new to the market and not aware of its mechanisms, or that you don't necessarily have confidence in the quality of the product or service you are selling. This could be used against you in a situation of negotiation. Likewise, you shouldn't set the price too high either. This will only make you look silly and send the message that you don't know the market, and you will probably be scaring customers away.

Some industries work with tariffs or fees that the associations working for the industry have helped define. That is not to say that they are always complied with, but it is useful for you to know that they are there. You should always check if your industry has a trade union or organization that provides guidelines for the rates or fees for your line of work.

In the following, you are presented with some different pricing models you can be inspired from, when you are setting the prices in your business. And when are setting your price, always remember that you're not the one for sale: it's the work you're doing that is for sale. It may sound trivial, but as an artist it can sometimes be difficult to separate yourself from your work. But you are not your work. You are you, and you are not for sale.

The Marked Price

Whatever you are selling, your business is part of a market. Therefore, you should always research what the market price is for products or services similar to what you are offering. There are several ways to do this:

- Ask your colleagues, who are working with something similar, what they are charging for their time, services or products.
- Ask potential customers, clients or partners what they would normally pay for a similar task, product or service.
- Research if there are market studies concerning economic factors in the industry, where you are working.
- Check if there are professional organizations in your industry that have an opinion about pricing, fees and wages.

Cost based pricing

Cost based pricing means that you set your price based on the expenses that you have had making the product or service.

When you add up your expenses, it is important that you remember to include indirect costs such as operation and administration of your business (rent, insurance, accountant etc.), as well as your own fee, including insurance such as retirement savings.

When you have added together your expenses, add the amount that you want to have as profit, and you have your price.

- Direct cost (materials, sub-suppliers, tests, prototypes, travel, etc.)
- Indirect costs (studio rent, insurance, accountant, etc)
- The hourly rate or fee.
- Profit

Value based pricing

Now value is, of course, an abstract concept, because the value of art is often intangible and not immediately measurable, as is the case with the kg price on gold or carrots. Nevertheless, it is an advantage if you can articulate what value your work brings to the customer.

Regardless of where in your working life you are, the price of a commission, a product or a service should reflect what value it has for the customer, the buyer or recipient as well as be in a reasonable relation to the market price. The better you know the customer, the better you will be able to price in accordance with the value you bring to them.

When you're identifying what your customers are willing to pay for the value proposition you are offering them, you can begin by asking yourself a series of questions about the interests and needs of the customer:

- Are they interested in an experience that enrich their daily life or give them an emotional experience – it could be a theatre play or a concert.
- Are they interested in learning something – it could be playing an instrument, using creative processes in their daily work or improving their photo skills. Or perhaps learning something about themselves as human beings.
- Is the product/service /commission made specifically for them – the unique experience, the commission of an art work or the tailor-made product?
- Is the customer offered an opportunity to buy or experience your product before anyone else? It could be your new album, your latest movie, a design collection or a preview on a performance.
- Does the customer have a need? It may be a company that are giving its employees a gift or an experience – or maybe a workshop in creative processes and idea development. Or someone who needs a beautiful piece of clothing for a special occasion. Or it could be a gourmet restaurant that needs a sound carpet to surround the guests as part of the dining experience.
- Do they get the opportunity to meet the creator/the artist/the producer in real life – don't underestimate your own wow-effect.
- Does the product or service solve a specific problem for anyone?
- Do they have an interest in investing in an object that they own and can have at home – it could be a work of art, a design object or a vinyl record. It might be because they want the latest, because they are collectors or for purely practical reasons.
- Is it easy? It could be an all access membership or ticket, that the product is accessible 24 hours a day or that you deliver to the door.
- For many, it will also add value to their investment that the product or service is not mass-produced, but something exclusive and something that isn't easily copied. It's about aesthetics and uniqueness.

Negotiation

Describe the process

If you are selling something that will only be developed or realised once the order is placed, it is useful to begin with describing the content and scope of the task before setting a price or providing a cost estimate.

Describing the process will help you get an overview of what it takes to achieve the desired result. And when you are aware of what resources the process requires, you have the prerequisites to make a reasonable price or cost estimate. It is also a point of departure for negotiations with the client or customer.

Once you have an overview of the process and the various phases in it, it will be much easier for you to communicate to the customer what they are paying for, since you can describe the different phases in the process for them. Thereby, you are giving the customer an opportunity to understand what they are paying for.

When you are able to describe the process to the client or a business partner, it will often build confidence and trust in your relationship. It can even help to create a shared space between you, maybe even a pride in being a part of a collective task. If you manage to establish such a relationship, the price for your work can in some cases become secondary in relation to the customer's contentment with working with someone they trust, rely on and know are capable of delivering a satisfactory piece of work.

Services with asymmetric value

Services with asymmetric value can either mean that you are offering something that has a high value for the customer and low costs for you; or that the client offers something that has great value for you and no or low costs for them.

An example of the first situation can be that if a company commissions an art work from you, you invite the company's board or art club to a studio visit, where you let them have a look behind the scenes and give them a presentation of your artistic practice. Or it could be that, if you have done a teaching job, you have prepared some material that you provide to students to take home with them, without additional charge. Or if you're doing a job for a library, you can offer to give a presentation for the members of culture department in the municipality or the local community. It will be of great value to the library and require little resources from you.

From the other perspective, the customer might be in a position to offer you something extra. If you're performing at a library, it may be that you can use the library's facilities for workshops without paying for it. Or your customer might be a company or media that can help making your company visible, thus cutting down your costs on marketing. There is almost always an opportunity to work with services with asymmetric value – you just have to use your creativity.

Negotiation

Before you begin the negotiation, it is a good idea to have thought of possible services with asymmetric value. Similarly, it is useful if you have described the process in detail in advance. You can then adjust in the phases of the process along the way if that becomes necessary.

The detailed description gives you and the customer an outline of how the price is obtained. As a starting point, the customer has a need, but often not a professional insight in the service that you provide. When you describe the process, you create insight for the customer. When the details of the task are described in parts, it also provides an opportunity for the process to be adjusted – if the customer can view all phases and resources used in the process, they have the opportunity to adjust according to their needs and resources. Where and if the task can be adjusted will of course also depend on your professional assessment.

During the negotiation, don't be afraid to get a no or feel insecure if the customer expresses doubt about the process. Instead, ask why they say no, or why they are in doubt. Do they doubt the quality? Is the price too high? Do they feel unsafe? When you ask, you'll have the opportunity to help and accommodate the customer. Margrete Bak, who has taught pricing and negotiation on CAKI's course ' *Business behind the Talent* ', always says that one should keep in mind that the negotiation is a creative act, and it can be a pleasure to meet someone who can and will negotiate.

The phases of a negotiation

A negotiation involves a sequence of phases. They are not necessarily chronological:

1. Preparation: All parties prepare and fill themselves in on all matters related to the forthcoming negotiation.
2. The negotiation begins. First step is to create a mutual understanding of what is being negotiated. What is the intent and purpose of the negotiation?
3. The negotiation continues: You agree on the terms of the assignment or commission including deadlines, scale and scope, materials, price, payment terms etc.
4. You are either in agreement and the negotiation ends or you disagree, which is then an opportunity to let the negotiation continue.
5. The negotiation continues, now with a focus on how to have all ends meet and reach a joint solution that both parties can accept. Return to the intent of the negotiation. See if you can adjust some of the conditions. Maybe other people can solve parts of the task, or maybe you can use a different kind of materials to save money on resources used. Maybe there are services with asymmetrical value that can help you reach an agreement.

In most cases, you will find that it is possible to find mutual ground, reaching a solution that is acceptable for all parties. Sometimes though, you have to walk away from a negotiation, because it is simply not doable for you and your business, and that is ok too.