



# e-Learning Management 101 - Estimating, Pricing, and Running Your Business

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# Topics

- General “Wisdom”
- Figuring out a “billable” rate
- Estimating projects
- Pricing strategies for products
- *Joel on Software*
- Running a small business:  
Q&A/collaboration



# Track Employee Time per Project

- Critical to knowing where the time/money went
  - Compare revenue to costs (including support) at any time
  - Absolutely critical when a consultant
  - Can be unpopular with employees
- Examples
  - Learning & Mastering ToolBook
  - TBCON itself
    - Program
    - CD/Archives



# Manage Risk

- Use Ben & Jerry's or Dave Ramsey Strategy
  - No debt
  - No venture capitalists breathing down your neck
  - Grow Through Profits
- Avoid Fixed-Price Contracts Like the Plague
- Don't "Tinker" Products to Death
- Focus on Consulting that Either Improves your Products and/or Improves your Skills



# Use “Responsive Sales”

- Concept from [Eric Sink](#)
- Customer initiates contact rather than being “sold”
  - Make sure customers know about your product
  - Make sure product is something customers want
  - Make sure they can afford your product
  - Offer a full-featured demo download
  - Answer customer questions
  - Provide a place for community
  - Make it easy to buy over the web



# The Question is “How Much Do We Charge?”

- For services, we build up from costs, incorporate risk, and *try* (depending on the market) to achieve our profit margin
  - acme multimedia training.xls
  - sampleWorksheet.xls
  - sampleBigJob.xls
  - RecentBid.xls
- For products, the answer depends on the demand



# How Much to Charge as a Consultant?

- Start with expected salary
  - \$60,000 per year equates to about \$30/hour
  - Adjust for marketing/lack of work: Take into account that you won't be able to bill out 2000 hours/year. Figure out a reasonable amount of off time (proposal-writing, marketing, research, vacation, etc.). 500 off hours for our example. Adjust the base hourly rate to account for this:  $\$60,000/1500 = \$40$
- Add in:
  - Employer Taxes (Social Security (6.2%) and Medicare (1.5%)): 7.7% or \$3.08/hour
  - Benefits (health coverage, retirement, etc.): 15% - 40%. Use 30% or \$12/hour for this example
  - Other overhead (rent, utilities, computers, software, etc.): 30% or \$12/hour



# How Much to Charge as a Consultant?

- Add a company profit: 10% = \$4/hour
- Add it all together:
  - $\$40 + \$3 + \$12 + \$12 + \$4 = \$72$
- Obviously lots of variation and factors here, but this is the general idea.



# Estimating and Pricing Services 1

- acme multimedia training.xls
  - A “coverage” approach that focuses on the cost of resources and estimates a project based on the percentage of time by person over a particular time frame.
  
- sampleWorksheet.xls
  - A “screens” approach that breaks down a CBT or WBT into the number of screens of varying complexity.



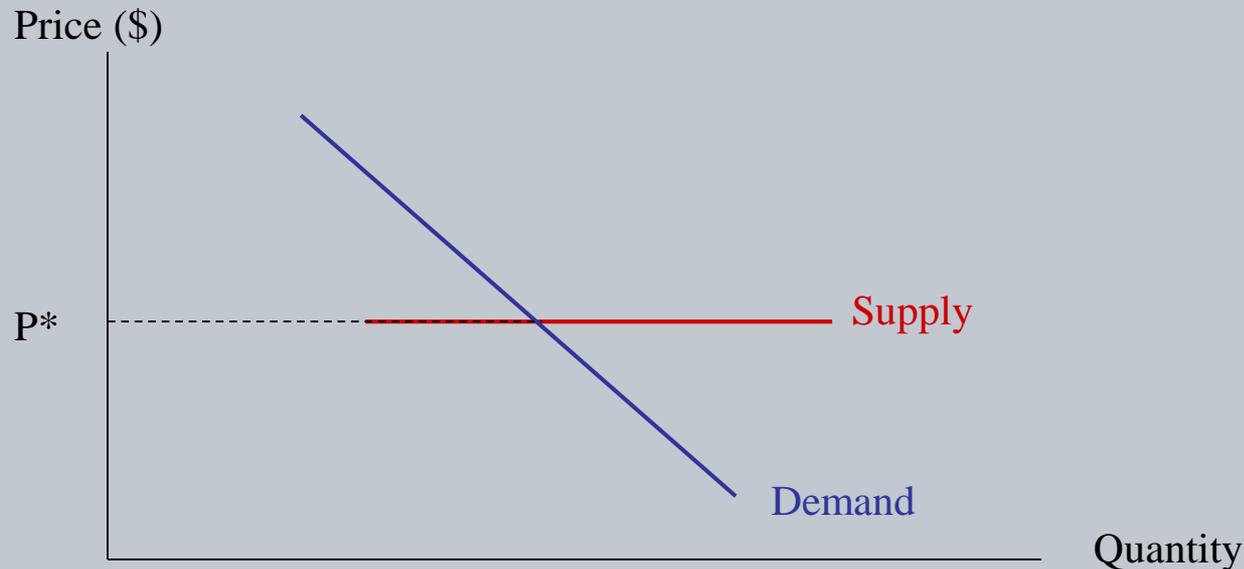
# Estimating and Pricing Services 2

- sampleBigJob.xls
  - Another screens approach where the price came out so high that we didn't even bid. Instead, we sent a letter suggesting a "prototype."
- RecentBid.xls
  - Relatively simple estimate to come up with the numbers to bid on a fixed-price, sole source contract based on requirements



# Pricing for Products

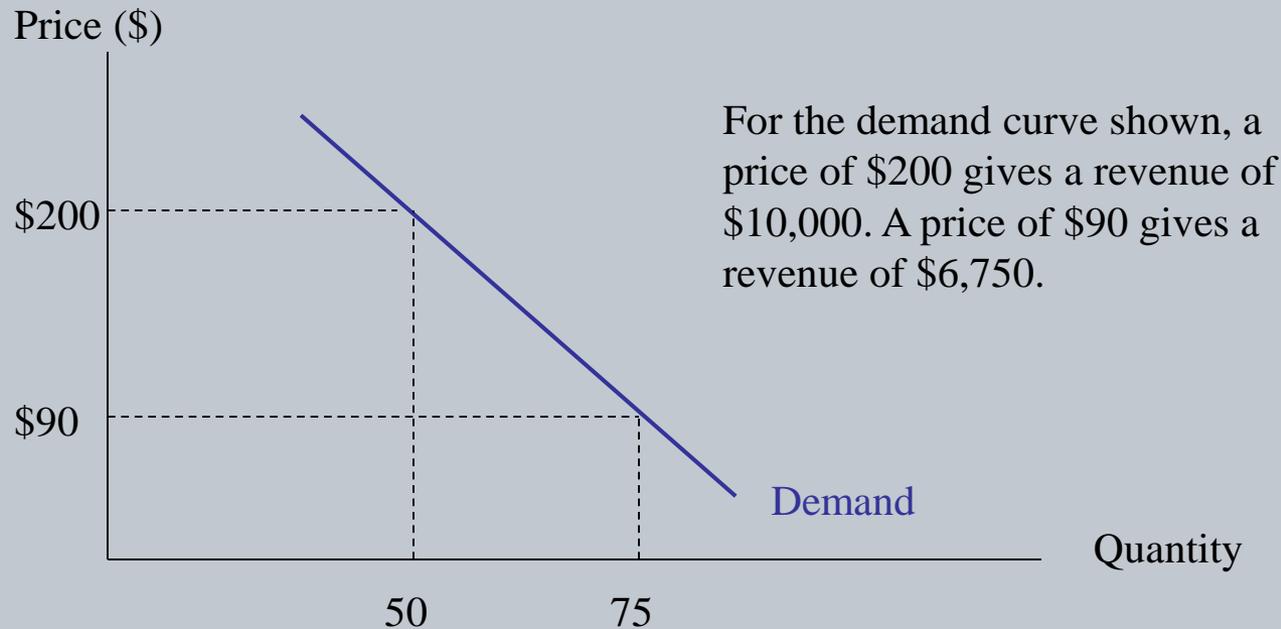
- The key is demand
  - Supply is basically infinite for software products





# Pricing for Products (Continued)

- We set the price and get the corresponding demand





# What We Need To Know

- The *level* of demand
  - How far the demand curve is to the right
  - Reflects the size of the market
- The *price elasticity* of demand
  - How much will quantity demanded go up when we drop the price?
  - Shown by the *slope* of the demand curve



# The Level of Demand

- Besides price, what affects the demand for our product?
  - Tastes/Preferences
    - Advertise to boost this
  - Population of buyers
    - *ToolBook Companion vs. Programming for e-Learning Developers*
  - Buyer's income/wealth
  - Prices of substitutes and complements
    - [Commoditize Complements](#) and Differentiate Yourself
  - Expectations of future price changes
- Tastes is the only one that you can normally do anything about.



# Level of Demand: L&M ToolBook

- Look at each one of these for the *Learning & Mastering ToolBook...* series
  - Tastes/Preferences
    - Postcards, newsletters, web site, flyers in each box of ToolBook (killed by electronic download☺)
  - Population of buyers
    - Greatly dependent on the number of ToolBook developers
  - Buyer's income/wealth
    - Follows the state of the economy, since the buyers are mainly businesses

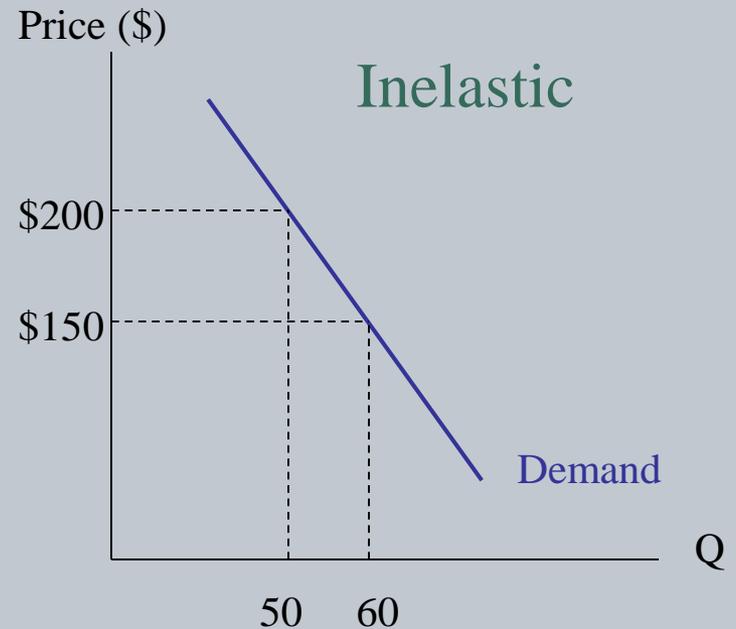


# Level of Demand: L&M ToolBook (Continued)

- Prices of competitor products
  - Classroom training courses (expensive)
  - Books (inexpensive)
- Expectations of future price changes
  - If customers expect a sale, they will wait
  - If they expect prices to rise, they will buy now

# Elasticity

- ▶ Lower prices if you have an *elastic* demand and raise prices if an *inelastic* demand.





# What Affects Elasticity?

- Availability of Substitutes
  - If customers can buy a similar product, then they will go for the lower price.
- Time
  - Customers can eventually move to other solutions if price is too high (buy a more fuel-efficient car if gas prices go up). So more elastic with time.
- Proportion of Income
  - More elastic if product takes a big “chunk of change.”



# How To Determine Elasticity?

- Pricing of Existing Competitor Products
  - Most Platte Canyon products have had no existing competitor product on the market.
- Surveys
  - Ask potential customers what they might be interested in paying. We did this with beta testers for L&M Instructor 6.5.
- Put products on sale and look at the response.
- Try a “Lite” and “Pro” version.



# Elasticity of Development Tools

- ToolBook and our ToolBook products have inelastic demand over a “reasonable” price range
  - Moving to substitutes difficult in the short-run (so *more* elastic over time)
  - Proportion of e-Learning development costs spent on tools is very low
- Examples
  - ToolBook 1.5 was \$495, ToolBook 10 is \$2,795
  - Demise of Plug-In LE
  - Subject Matter Experts versus Programmers
    - Exam Engine versus Question control
    - Training Studio



# Elasticity of e-Learning

- The key is the availability of substitutes
  - If the market is big (as for training on Microsoft Office), then there are likely numerous competitors. This will constrain the price you will be able to charge.
  - Need to research this thoroughly before setting pricing.
- Proportion of income
  - If you are training on an expensive product (sophisticated machinery or software), then easier to command a premium for the e-Learning.



# Tips from *Joel on Software*

- Fire and Motion
  - Don't react to competitors
  - Listen to customers
- Camels and Rubber Duckies
  - Consumer surplus and Bad Pricing (How Much Money Do You Have? and Site Licenses)
- Command and Control Management
  - Good for a minefield but not industry
- Econ 101
  - Don't Replace *Intrinsic* with *Extrinsic* Motivation
- Identity Management Method
  - Give employees the info needed to steer the organization in the right direction



# Running a small business: Q&A/collaboration

- Rule #1: Don't resemble *Dilbert*
- Ideas? Questions? Something to Share?