AGENCY

#InboundAgencyPricing SERIES: PART 1

# PAVING THE WAY FOR A PERFECT CLIENT-AGENCY RELATIONSHIP

How Properly Pricing and Packaging Inbound Marketing Services Leads to Longer and Stronger Client Partnerships

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# PAVING THE WAY FOR A PERFECT CLIENT-AGENCY RELATIONSHIP.

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# INTRODUCTION: A RELATIONSHIP BOUND FOR A BREAKUP.

A cutting-edge website. A TV spot. 100,000 Facebook fans. A world class mobile app. For cheap. By tomorrow.

This is what the client wants.

On the other hand, you, the agency, want the time to be able to experiment with new technologies. You want an engagement that you can turn into a case study. You want the client to become your next reference. You want to be considered a trusted partner with one-of-a-kind expertise, and you want to be compensated for the value you bring to the table.

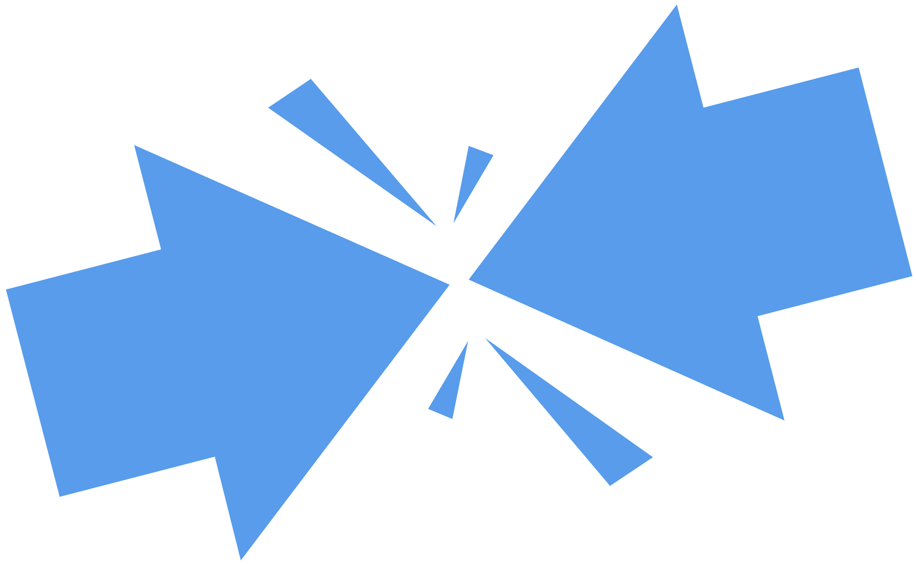
Instead, you come to find out the client neglected to call your team to fill them in on next's month's promotion because they knew the time it would take to get you involved would be subtracted from their monthly allotment of billable hours, and they'd prefer your agency spend that time doing "real work." Yet, had you known, you could have incorporated promotional messaging into the client's social media content plan and you could have adjusted the focus of your monthly reports to better measure immediate needs.

Neither party can win in an all-too-common situation like this one. There's a major disconnect and lack of trust, resulting in a commoditized and transactional client-agency exchange. Clients don't get the results they had hoped for, and agencies don't get the sense of pride and purpose that comes with being a relied-upon expert who actually impacts the client's bottom line.

In a world where 71% of marketers want their agencies to be more accountable to results and 72% think agencies are "inconsistent and need to improve," there's really no way for agencies to be satisfied either -- at least not for the long term.

If brands and agencies want to prosper in the future, agencies need to find a better way to create value.

# WHY MANY CLIENT-AGENCY RELATIONSHIPS GO AWRY.



If you ask agencies why a client engagement failed, they most likely will point fingers at the client. If you ask the client, they'll most likely point fingers at the agency.

However, clients and agencies alike can be at fault. Both can be difficult to deal with, can fail to live up to expectations, and can miscommunicate or not communicate at all.

But perhaps one major reason why clients and agencies so frequently butt heads is the result of something deeper than a lack of communication, the agency's inadequate capabilities, the client's unrealistic expectations, or some other detrimental attribute.

These problems are all just symptoms of a much bigger problem: it's the broken agency business model that leads to most client-agency breakups.

Here's why.

# Reason #1: Agencies Charge for Time, Not Value.

The typical agency business models operates on a billable hours or percent-of-media-purchased fees. Billing clients by the hour allows agencies to get away with charging a flat fee for unequal outputs, causing clients to scrutinize invoices due to nonexistent, mediocre, or arbitrarily measured results. When it comes times for the client to pay, it's no surprise when they do so grudgingly, and retract from the relationship to avoid creating any additional opportunities to have to rely on the agency's resources.

The problem with percent-of-media-purchased fees is their hypervariability. Budgets and priorities inevitably change; recessions occasionally happen. When advertising budgets decrease, agency revenue decreases. When advertising stops altogether; the agency revenue comes to a screeching halt. It's not easy to grow a business when many of your revenue streams are at the mercy of circumstances you can't control.

Paul Roetzer, Founder of PR 20/20 and author of The Marketing Agency Blueprint, argues that agencies nimble enough to change their business model have the opportunity to emerge as market leaders:

> "Pricing strategy is a key component to disruption. Agencies motivated to change will shift away from the inefficient legacy system of billable hours, and move to more results-driven, value-based models accessible to the mass market. This presents the opportunity for agencies and independent consultants to disrupt the industry with lower prices, and potentially higher profit margins."

The price clients play should be equal to the value they receive; not how long it took to complete the job, nor should they pay the same rate for unequal services rendered, nor should they pay for an agency's inefficiencies. Likewise, agencies shouldn't leave money on the table when they're in a position to charge more.

In 1971, Carolyn Davidson designed the Nike "swoosh" logo for a grand total of $35, and she estimates it took her about 18 hours to complete. What could she have been paid if she was compensated for value instead of a meager $2/hour?

## Reason #2: Agencies Don't Offer the Right Services. If They Do, They Don't Package Them Properly.

Today's always on, real-time world calls for always on, real-time marketing. Marketing and advertising used to be oriented around campaigns, sales and promotions, but the age of the internet and social media have created a necessity for brands to become conversational, findable, and interesting around the clock.

Marketing nowadays has to be integrated and holistic. When we say "holistic," we mean there's more to marketing than top-funnel awareness building through display ads, blogging and social media publishing. Every facet of paid, owned and earned media have to work in tandem to collectively to bring the client closer to its business goals.

A modern day agency practices inbound marketing: a methodology that involves delivering content to prospective customers when and where they want to be reached. This means content has to contain context; it must be targeted based on behavioral data as well as the prospect's current stage in the buying cycle. This only occurs when agencies don't package or sell their marketing services like the countless dishes on the dim sum menu.

Producing more meaningful outcomes requires implementing whichever cross-channel approach will reach consumers and garner results. This is much easier when, for example, SEO can be bundled with complementary services like social media management, content development and reporting.

> "Marketing campaigns are not about winning awards for creative, building the flashiest websites, gaming Google for higher rankings, generating mounds of media coverage, or negotiating the lowest cost per thousand (CPM) in order to interrupt the largest audience. The job of a marketing agency is to produce results that impact the bottom line. It's that simple. - Paul Roezter"

Gone are the days where the one-time campaign dominates the ad budget. To be relevant today and in the future, brands must create a steady pulse of digital content and social interaction. These brands need agencies to meet their needs with marketing services that are packaged and priced for months or years at a time.

# Reason #3: Agencies Aren't Accountable Enough to Results.

Marketing agencies are still too focused on the glory of the big idea, not the glory of results -- and this is despite a growing demand for bottom-line results that stems from executive pressure.

In 2011, Fournaise Marketing Group in London surveyed 600 CEOs and decision makers to find that:

- 72% of CEOs think marketers "are always asking for more money, but can rarely explain how much incremental business this money will generate."
- 70% think marketers "bombard their stakeholders with marketing data that hardly relate to or mean anything for the company's P&L."
- 67% think that, "unlike CFOs and Sales Forces, [marketers] don't think enough like business people: they focus too much on the creative, 'arty' and 'fluffy' side of marketing and not enough on its business science, and rely too much on their ad agencies to come up with the next big idea."

Agencies of the future need to be laser-focused on driving business results if they not only want to get hired, but want to stick around for awhile.

Roetzer sums up this notion eloquently in his book, The Marketing Agency Blueprint:

> "Although traditional marketing firms rely on impressions, reach, advertising equivalency, PR value, and other arbitrary measurements of success, marketing firms now have the ability to consistently produce more meaningful outcomes -- inbound links, search engine rankings, click-through rates, website traffic, landing page conversions, content downloads, blog subscribers and leads -- that can be tracked in real time and directly correlated with sales. These success factors are how firms should and will be judged."

## Reason #4: Agencies Don't Charge Enough.

According to agency consultant and author of Win Without Pitching, the inability to price at a premium has allowed clients to rule the client-agency relationship: "The client's power in the buying cycle comes from the availability of substitutes -- from the fact that if your agency doesn't play ball [compete on price or give away some of your best ideas during the RFP process], there are four, five or forty-five hundred others who will."

Since clients typically have the power in the relationship, they can sign contracts for sometimes less than profitable prices and weasel agencies into parting with their most creative and strategic ideas for free in the pitching or onboarding process. Or both.

"The two common conditions [of a failing agency]," according to Enns, "is having too many clients who are too small [not paying enough], or a having one gorilla client that is causing undue pressure and stress [allowing them to strongarm you into lower fees and unpleasant tasks]."

Being in this position makes it even harder for agencies to engender the loyalty they desire as well. According to Enns, "A lot of firms assume the customer is always right and somehow that will magically translate into loyalty, resulting in being willing to pay more." That's not how it works:

> "Profitable clients become loyal clients, not the other way around. Profit drives loyalty and the reason why is that if you're charging enough and making money, then you have enough margin built into the engagement to be able to afford to deliver good customer service. - Blair Enns"

Agencies have to gain more power in the sales processes to avoid becoming victim of one of the above scenarios. We'll talk more about how later on.

# THE PERFECT CLIENT-AGENCY DYNAMIC DEFINED.

In a world where both client and agency are satisfied with one another, the relationship would look something like this:

- You and your clients would share the same values.
- Every client engagement would start with a proper inbound marketing assessment so you can diagnose client pain points (goals, obstacles, timeline, budget) before you prescribe medication (strategic and tactical plan).
- Clients would respect you, value your expertise, and consider you a strategic partner, enabling a bidirectional flow of honest feedback, dependence and collaboration.
- You would charge premium pricing because your credibility would precede you.

- The price you're paid for your services would be equal to the value you provide, not the hours you spent.
- The price clients pay would always result in a positive ROI.
- Your client roster would consist of, on average, 10 clients -- neither of which accounts for more than 10% of revenue so that losing one client doesn't lead to massive layoffs or having to close your doors (more on this in the next chapter).
- The majority of the services you sell would be standardized and offered on a retainer basis, allowing you to continually improve efficiency of delivery.
- All of your clients would sign long (yearly) contracts for you to deliver goal-oriented marketing services and results month over month.

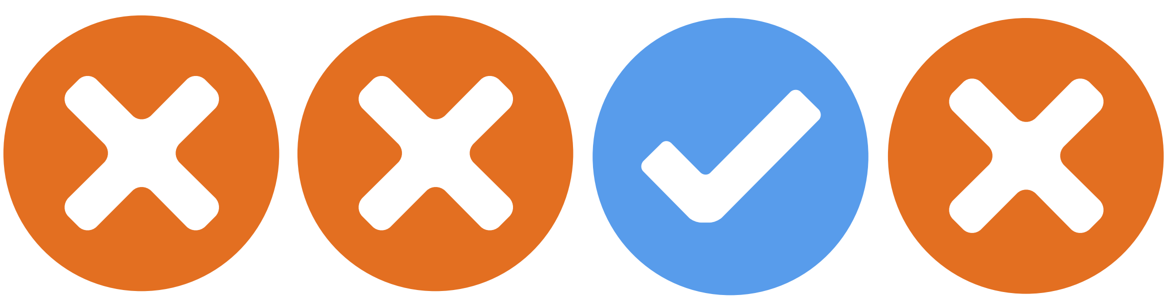
Impossible? At the snap of a finger -- yes. But not if you take the 3 steps toward a more profitable relationship, which we outline in the following chapter.

# 3 STEPS TO A HEALTHIER, MORE PROFITABLE PARTNERSHIP.

## Step 1: Differentiate and Specialize.

"How does a firm get better at getting more business, or more specifically, win without pitching? It does so in essentially two stages," says Enns:

> "The first is to gain power in the buy-sell relationship: set yourself apart from the competition. The second stage is to leverage that power. A firm's ability to impact how it's services are bought and sold is directly tied to it's ability to premium price because both of those are functions of the availability of substitutes. If a firm is seen as different with few competitors, it's going to be able to exert more power in the buy-sell relationship, and it's going to be able to charge more. Get more power by positioning yourself as different, then charge what you want and need to be paid."



## Step 2: Offer the Right Services and Adopt the Inbound Marketing Retainer.

A contributing factor to longer and stronger client-agency relationships is the ability to provide an integrated, holistic approach to online communications through bundling complementary services into what we call the new inbound marketing retainer. The new marketing retainer involves results-focused and goal-oriented marketing endeavors, a focus on content creation, and a frequency of activities based on client's pain points and goals.

Pete Caputa, VP of Sales & Marketing at HubSpot, describes the inbound marketing retainer like so:

> "The New Marketing Agency Retainer starts by the agency understanding the client's business growth goals; how much they want to grow their revenue and working backwards towards the quantifiable marketing metrics they need to hit. They then work together to create a plan that will get the client to those goals. They agree on how to report marketing and business results to each other, what to do if they're short of goal or over goal within the budget constraints.
>
> Agencies can start securing 'New Marketing Agency Retainers' by first defining pricing and packaging of marketing retainers, so that the services included and the frequency of

these services can predictably deliver the business growth that clients typically desire.

The best thing about this approach for agencies is that it if it's executed well, it enables them to divorce the amount of time they spend delivering marketing services from the fees they charge. In other words, because they are delivering ROI, they can charge based on the value they deliver, not the hours. This enables agencies to increase their profitability. ”

## Step 3: Fire Your Unprofitable Clients.

"Not every dollar is a good dollar," says author, agency consultant, and founder of Ignition Consulting Group, Tim Williams. In one of his blog posts on "Why you should fire your low-value clients," he describes what happened when his firm did just that:

“ Our firm once worked with a 50-person agency that had a roster of 45 clients. Their profit margins were razor thin, their work was only average, and their staff was literally overwhelmed by the demands on their time. The principals of the firm made the courageous decision to part ways with the bottom third of their client list – about 15 of their smallest, most unprofitable clients.

> They agreed that they would resist cutting any of their key staff positions until they could judge the results of their actions. The result was a rejuvenated organization that suddenly had the time and ability to grow the business of their best clients, resulting in greatly improved profitability, staff morale, and work quality. ”

The ideal scenario according to Enns is as follows:

> “ The rule of thumb for agencies large and small is to have about ten clients, each of which represents about 10% of total fee income, but they should all be in various stages of their agency relationship. The objective of the business development person is to replace the outgoing clients who no longer see your agency as an expert practitioner, allowing them to place undue pricing pressure on you. Replace those clients with strategic engagements -- with clients who are willing to let you lead the engagement and willing to pay you to do so. ”

Which of your clients need to go?

# CONCLUSION.

The rapid evolution of technology is changing the way your clients' end customers interact, shop and consume information, and that reality is flipping the traditional marketing playbook on its head. As a result, the typical billable hours model no longer equips agencies to best serve clients.

The agencies of tomorrow will be held to a higher standard for performance. By specializing, adopting the inbound marketing retainer, and firing your unprofitable clients, you'll be in a much better position to improve the pricing structure of your agency's marketing services, take greater control of the buy-sell relationship, and better serve the clients you choose to work with in the future.

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