

RAISING MARGINS THROUGH VALUE-BASED PRICING

Arjun Moorthy

*VP Business Development & Partner
Program - HubSpot*



- 1 Evolution of Pricing & Packaging in Partner Program
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- 3 Caveats in Pricing by Value



Evolution of Pricing & Packaging in Partner Program

In the beginning there was “a la carte”

SERVICE DESCRIPTION	PRICING
ONLINE MARKETING	
Online Media Exposure Program	\$599
Amazon® Exposure Program	\$699
Book Trailer	\$1199
Digital Galley Campaign	\$399
Google Adwords Assessment	\$200
Google Adwords Pay-Per-Click Campaign	\$1499+
SOCIAL MEDIA MARKETING	
Customized Facebook® Fan Page	\$299
Facebook® Advertising Assessment	\$50
Facebook® Advertising Campaign	\$499
Custom Twitter® Page	\$399
TRADITIONAL BOOK PR	
Advance Reader Copy Service	\$899
Traditional Media Outreach	\$499-\$2999
Full Publicity Campaign	\$5,000-\$10,000

And it was good

But it had its limitations



Client pays for your inefficiency



“Bury The Billable Hour” – Tim Williams

Next came package pricing

	Smart	Really Smart	Super Smart	Genius
Social Media Packages	\$2,000/mo	\$4,000/mo	\$6,000/mo	\$7,500/mo
Pay-Per-Click Packages	\$2,000/mo	\$4,000/mo	\$6,000/mo	\$7,500/mo
Inbound Marketing Packages	\$4,000/mo	\$6,000/mo	\$8,000/mo	\$10,000/mo

And it was better

Risks of package pricing

Price too low and...

1. Insufficient margins
2. Quality suffers

Price too high and...

1. Competition undercuts you
2. Competition replaces you as
can't tie your price to value
delivered



**“All value is subjective”
– Ron Baker**

The next step is value based pricing

Home What We Do. Why We Are Different. **How We Help Grow Your Business.**

Growth Delivered - Case Studies

Read our case studies to find learn we helped two of our clients grow their business.

Learn How A Website Redesign Resulted In 200% More Leads And Conversions.

[Read The Case Study!](#)

[Download The Case Study.](#)

Durable Technologies, with over 100 years of experience, manufactures and supplies a wide selection of traditional marking tools for industrial part marking, package date coding as well as hot stamping and branding applications. Find out how they increased website leads and conversions by 200%.

Free E-Book

Inbound Marketing For Manufacturing

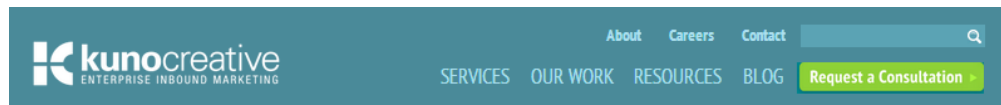
How a Capital Equipment Manufacturer Grew Over 250%.

[Download Now!](#)

MSI, a small capital equipment manufacturing company was struggling with sales revenue. See how they used Inbound Marketing to grow their business by 86%.

Nirvana!

Value-based pricing with guidance



Get Started



Create a Rock Solid Plan
for 2014 and Beyond

[Get Started](#)

Get More Leads



Demand Generation Programs
that Convert More Leads

[Get More Leads](#)

Get More Sales



Marketing Automation Strategies
to Get Your Leads Flowing

[Get More Sales](#)

Additional Services



Paid Search Package
Starting at \$500/Month



Social Media Package
Starting at \$750/Month



Blogging Package
Starting at \$2,000/Month



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Pricing by Value



All Value Is Subjective

*While true we should quantify value as better
buy-in from client*

Two ways for an agency to add value



Acquire more
customers for client



Save money on
acquisition costs

Acquire more customers



Understand LifeTime Value (LTV)

Calculating LifeTime Value (LTV)

- ☑ 2 Types of customers
 - Non-recurring revenue
 - $LTV = Revenue * Gross-margin$
 - Recurring revenue
 - $LTV = Revenue * Gross-margin * average \# \text{ of repeat purchases}$

- ☑ Examples
 - Toy store: $\$50 * 30\% * 10 = \150
 - Agency: $\$2000/mth * 55\% \text{ gross margin} * 18 \text{ mths} = \$20k$

Save money on acquisition



Understand Marketing COCA

Calculating Marketing COCA

$$\text{Marketing COCA} = \frac{\text{Total marketing spend}}{\text{\# of customers acquired}}$$

Zeroing in on price using LTV and COCA



- The monthly price is:
 - The Higher of 10% of the LTV and the COCA
- Why 10%?
 - An investment that yields a 10x return in 10 years is a great investment (25% IRR). If return is shorter than 10 years even higher return.

Pricing calculator to help with the math

Agency's Value to Client

Calculate Lifetime Value of your client's customers

Revenue per customer (recurring purchases)	
Average purchase per customer	\$ 700
Average number of purchases by customer over their lifetime with you	50
Average revenue per customer (recurring purchases)	\$ 35,000
Revenue per customer (non-recurring purchases)	
Average revenue per single-purchase customer	\$ -
Percentage of your client base that is single-purchase	0%
Average revenue per customer	\$ 35,000
Gross Margin of client	70%

Average Lifetime Value (LTV) of customers for your client

\$ 24,500

Client's Marketing Cost of Customer Acquisition (COCA)

Fully loaded annual salary of FTEs involved in marketing team	\$ 7,200,000
Annual program spend by marketing team (conferences, advertising, software etc)	\$ 4,800,000
Approximate number of customers acquired annually by client (all channels)	4,000
Marketing COCA	\$ 3,000

Suggested price agency can charge per customer acquired

\$ 3,000

Incremental customers acquired by agency's efforts (per month)

Suggested price agency can charge for incremental customers acquired

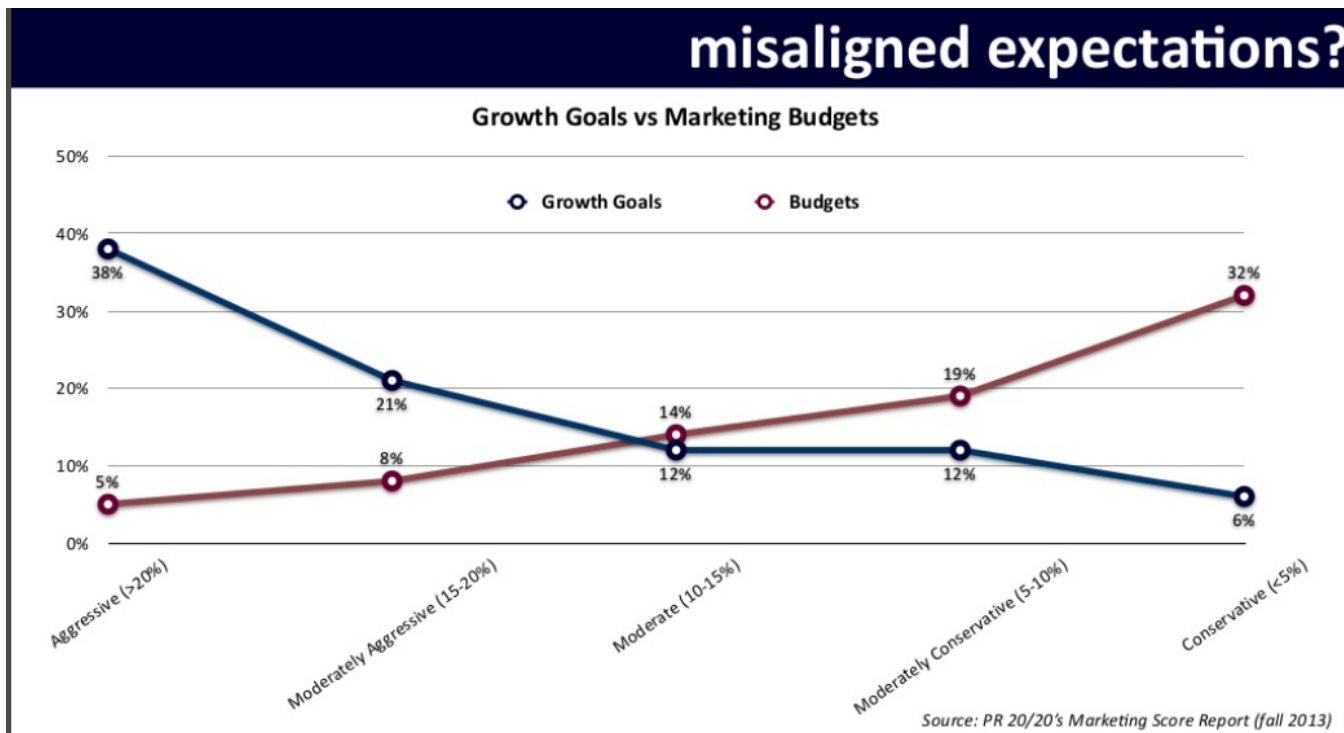
\$ 6,000²



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Caveats with Pricing by Value

Caveat 1: Marketing budget & driving growth



Caveat 2: Sell the process, not the promise

- Anchoring to visits or leads, not customers in first engagement
- You don't know efficiency of prospect's nurturing or sales process so promising customers in first engagement is irresponsible
- Prospect's sales cycle length is important to consider to verify marketing ROI. This time can be a guide for minimum retainer length



Caveat 3: Share in the risk





Bury The Billable Hour

While true an agency must know its utilization to ensure sufficient margins

Caveat 4: Understanding your costs

Three drivers of your costs

1. Hours of effort involved in a task, since primarily labor business
2. Overheads and loaded costs
3. Utilization rate of employees

Pricing calculator will calculate margins

RECOMMENDED STRATEGY: Conversions				
RECOMMENDED PLAN: Faster				
	Fast		Faster	Fastest
	Frequency/Month (Number)	Cost (\$USD)	Frequency/Month (Number)	Frequency/Month (Number)
Ongoing Activities				
<i>Attract More Traffic</i>				
Write Blog Article	2.4	240	3.6	6.0
Build Link	0.8	60	1.2	2.0
Interact in Social Media	8.0	200	12.0	20.0
<i>Convert Traffic to Leads</i>				
Build Offer	0.8	80	1.2	2.0
Build Landing Page	0.8	40	1.2	2.0
Build CTA	2.7	67	4.0	6.7
<i>Convert Leads to Customers</i>				
Build Lead Nurturing Sequence	0.5	40	0.8	1.3
Segment Leads	0.8	40	1.2	2.0
Send Email Campaign	1.2	90	1.8	3.0
<i>Account Mgt (reporting/strategy)</i>	1.6	160	2.4	4.0
HubSpot Subscription		1,000		
Total cost		2,017		
Operating margin for agency		60%		
Effort behind plan (hrs/mth)	16		24	40
Desired Operating Margin (net margin + tax)				
Monthly retainer price to client				
Amount for HubSpot subscription				



Thank you

Prove: Business Case/ROI – worked example

What returns can I get from inbound?	\$200,000
How much new booked revenue do you plan to generate each month	\$400,000
What % will come from inbound marketing	50%
What is avg. revenue per customer	£67,000
New customers needed monthly	3
What's the lead-to-customer conversion rate	0.1%
Monthly leads needed	300
What is your visitor-to-lead conversion rate	4%
Monthly visitors needed	7,500

What will it cost?	\$21,000
Planning: Brand, Creative, Messaging (divided by 12 to get monthly cost)	\$1,000
Website development (divided by 12 to get monthly cost)	\$3,000
Marketing Preparation (divided by 12 to get monthly cost)	\$1,000
Content to get started (divided by 12 to get monthly cost)	\$2,000
Marketing Tech (divided by 12 to get monthly cost)	\$1,500
Monthly Campaigns etc.	\$10,000
Internal Resource cost (divided by 12 to get monthly cost)	\$2,500