Video 1: Why is customizing and pricing your inbound services important?

Hi there, it's Katie Carlin from the HubSpot Partner Sales team. In this lesson, we're going to show you how to customize and price your inbound services. But first, why is customizing and pricing inbound services important?

As a service provider, it's important for your firm to offer the right inbound services for a prospect at the right price. "The right services at the right price." While it may sound simple in theory, it requires thought and planning to do well.

Before getting into customizing and pricing your services, let's back up a step. At this point, you've likely already given thought to your standard set of inbound services.

As a reminder, these are the most common inbound services you expect to offer to your most common type of prospects. Or, put another way, they're the primary inbound services you'll go to market with.

If you haven't already defined your standard set of inbound services, check additional resources for more information on how to do it.

Defining your standard set of inbound services is valuable, but it's only the beginning. You also have to adapt your services to each prospect's unique needs. Every prospect has different goals, resources, and pressures. Later on, in this lesson, we'll show you how to customize your inbound services for a specific prospect or client.

Now, not only do you have to offer the right services for a prospect, you also have to do it *at the right price*.

Offering services at the right price means pricing high enough so that you have the resources to deliver an engagement right. It ensures you'll:

- Turn a profit (which is kind of important, right!?).
- Have funds to invest back into your staff and your firm.
- Feel fairly compensated for the value you provide.

Of course, it's also important to not price too high, as doing so can lead to losing deals that you should win or potentially making yourself vulnerable to future competition.

In short, don't underprice, don't over-price, but instead price right. Now, are you ready to get started learning how to do it? Continue by checking out the next video!

Video 2: How do you customize your services to match prospect needs?

Hi, it's David Weinhaus from Partner Sales Enablement.

Inbound is all about helping your clients grow better. To do so, it's not enough to offer the same exact services to every client. You need to customize your services to match each client's needs. In this video, we'll share how to do it.

There are four steps to customizing your services to match your prospect's needs. They are:

1. Understand your prospect's needs.
2. Consider your baselines.
3. Select the right services and hours to apply.
4. Evolve your services over time.

In this video, we'll go through each step in more detail.

The first step is to understand your prospect's needs. It would be nice if all your prospects had the same goals, and the same resources, and the same market demands – but we all know that's not the case.

To gather the specific needs of your prospect, you need to run a good exploratory call.

An exploratory call is a call in the sales process where you learn all about your prospect's goals, plans, and challenges. On a good exploratory call, you'll ask a lot of questions, some of which might look like these:

- What do you hope to accomplish with this business initiative?
- How will you measure success?
- What is your biggest challenge?
- Do you need a solution by a certain date? Why?
- How many visits, leads, new customers, and promoters are you seeing monthly?
- What is your biggest bottleneck in sales? In marketing? In service?

At HubSpot, we believe strongly in the exploratory call. In fact, we believe as my colleague Jill Fratianne says, "The exploratory call is the new closing call". Now, don't get confused. We are not saying you should close your business on the exploratory call. But we are saying that the exploratory call is often where the sales process is made or broken.

We believe so strongly in the exploratory call that we have a whole lesson on it in the HubSpot Academy Learning Center for partners. Find it in the additional resources section.

The second step to customizing your services is to consider your baselines.

A baseline, according to the Oxford Dictionary, is defined as "a starting point used for comparison."

When customizing services, it would be hard to start from scratch each time. It's much easier when you have a couple baselines to use as a starting point. In this step, we're going to cover two baselines you can use.

Your first baseline will be your standard set of inbound services. As you'll recall, these are the most common services you expect to offer to your most common type of prospects – i.e., your go-to-market service offering.

For help creating your standard set of inbound services, check out the additional resources section.

Your second baseline will be the set of services suggested by the pricing and packaging inbound services tool. Before we continue, if you're not familiar with the pricing and packaging inbound services tool, it's a tool to help you define, customize, and price your inbound services, all in one place! To find and review it, see the additional resources section.

Within the tool, you have the ability to indicate an area of inbound focus for your prospect.

For instance, if you believe your prospect should focus on traffic generation, there's an option to select this right within the tool. You would select "MARKETING-TRAFFIC GENERATION" as the inbound area on which they should focus. Subsequently, based on your selection, the tool will offer suggestions on inbound services and hours that correspond.

With our two baselines in mind, let's now take a look at how setting baselines might work in practice. In fact, let's work our way through an example.

Imagine a fictitious service provider, Acme Inbound. For context, let's imagine Acme Inbound is a traditional web design shop. However, they recently became a HubSpot partner with the goal of expanding their services.

Even if Acme's profile isn't the same as yours, pay attention to their process. You can apply the same process even if your background is different than Acme's.

Acme's first baseline is its standard set of inbound services. These services, with which they go-to-market, include:

- Foundational, one-time services including running a kickoff call, developing buyer personas, creating a content strategy, handling the technical implementation of HubSpot, and offering CRM/closed loop reporting services.

- Ongoing services including blogging, video production, conversion path creation, personalized content, social publishing, sales and marketing alignment, ongoing reporting and review, and ongoing knowledge base content creation.

Now, let's advance to Acme's second baseline. As a reminder, the second baseline includes suggestions from the pricing and packaging inbound services tool based on what inbound area Acme believes its prospect should focus on most.

Speaking of prospects, let's imagine that Acme's prospect in this example is the fictitious firm, XYZ Tech Solutions, a manufacturer of high-tech industrial equipment.

Through a good exploratory process, Acme uncovers that XYZ's most pressing need is generating website traffic. Thus, within the pricing and packaging inbound services tool, Acme indicates that XYZ should focus most on "MARKETING-TRAFFIC GENERATION". Given the focus on "MARKETING-TRAFFIC GENERATION", the tool suggests the following services and hours.

The tool suggests both foundational/one-time services and ongoing services. It also suggests a total number of hours for each service. The tool's suggestions are consistent with a prospect whose primary needs are traffic generation but who also needs more leads and customers, too.

Now, if you were to consider Acme's two baselines together, you would notice they have some services in common and also some differences. There are also some services that neither includes, but possibly they should base on what Acme might have learned in its exploratory call with XYZ.

The baselines are a good starting point, but clearly there's more work to be done.

That brings us to the third step in the process. You've understood your prospect's needs, and you've considered two baselines. Now it's time to put it all together by selecting the right services and hours to apply for your individual prospect.

Selecting the right services and hours isn't easy. At this point, if we had a magic wand, we would happily provide it to you.

Sadly, we don't!

Instead, this is the part where you take everything you've learned so far and combine it with your smarts, experience, and know how.

While we can't do this for you, we can make it a little bit easier. The pricing and packaging inbound services tool has a worksheet that lines up your two baselines next to each other [pause] and next to that, allows you to configure your final customized services for a prospect.

To see how this might look in practice, let's return to Acme Inbound.

We've already reviewed Acme's two baselines. Now, let's review what Acme put together as its customized set of services for XYZ. Acme put this together after having considered its two baselines, its understanding of XYZ's needs gathered through the exploratory call, and its own capabilities to deliver.

As you might notice, compared to its two baselines, Acme made several adjustments. For instance:

- Acme reduced the total number of hours down from 45, which was suggested in its second baseline, to 40, which it felt was a better match for XYZ's needs and resources.
- Acme also excluded some service from its baselines that were not immediately relevant for XYZ, such as Sales & Marketing Alignment services. Acme felt like this might be a future initiative but was not relevant for right now.
- Finally, Acme added a few services not found in its baselines based on its understanding of XYZ's need. For example, it added email marketing, which it had uncovered in its exploratory call with XYZ, which was important to engage an existing contact list.

In summary, Acme combined its two baselines, knowledge of the prospect, and some smarts to customize the right mix of services and hours for XYZ.

How do you feel about selecting the right services and hours for a prospect or client of yours? It takes a bit of thought and planning. A little bit of experience doesn't hurt either. Here are a couple more tips to help.

First, if you have a dedicated HubSpot resource, use them! Oftentimes, HubSpot has helped other partners do the same thing as you're looking to do, and we would be happy to offer our experience and knowledge. For more information on which HubSpot resources to contact, see the additional resources section.

Second, HubSpot has a wonderful community of partners. Tap into them where it makes sense for help. This works great if you've formed relationships with other partners online, offline, or at events. Finally, there are also some partners who offer paid services to help other partners. For more information, check out the additional resources section.

This brings us to the fourth and final step to customize your services: Evolve your services over time.

So far, we've treated customizing services as a one-time event. That's a fine approach to take at the beginning of an engagement. You have to start somewhere, and it makes sense to start with your prospects' initial needs.

However, at some point, things can – and will – change. Goals change, or the market changes, or the stakeholders change. Or your recommendations change as you gain experience working with the client.

While it's great to start with an initial set of customized services, it's also great to adapt it over time. Be thoughtful and re-evaluate your services on a regular basis.

By the way, don't keep this a secret from your clients. Let them know at the outset that you'll evolve your services and enlist their help.

So, there you have it. We've worked our way through all four steps of customizing your services to match customer needs.

So, to recap, we just reviewed how to:

1. Understand your prospect's needs.
2. Consider your baselines.
3. Select the right services and hours to apply.
4. Evolve your services over time.

Later in this lesson you'll have the opportunity to apply and practice these learnings. However, before we get to that, we have another important topic to cover, and it's a big one, how do you price your services right.

Are you ready? Let's talk some pricing.

Video 3: How do you price your inbound service offering for success and profit?

Hi, it's David again.

Now that you've customized services for your prospect, it's important to price your services right. Pricing your services right ensures you'll have the resources to help your clients grow and to be profitable yourself. In this video, we'll share how to do it.

To price right, there are six steps:

1. Customize your services to match prospect needs.
2. Determine your costs.
3. Add your markup and check your results for profitability.
4. Consider the value you're creating.
5. Review and set your pricing.
6. Choose your pricing structure.

In this video, we'll go through each step one at a time.

A warning ahead of time – there *is* some math involved! Sorry to those of you that don't like math. But being profitable requires at least some math.

However, I do have two pieces of good news. First, it's not hard math. We'll go through it step by step. Second, all the calculations we'll review in this lesson – all of them – are laid out in the pricing and packaging inbound services tool. Find more information on accessing the tool in the additional resources section.

Ready? Let's get to it.

The first step in pricing right is to customize your services to match prospect needs. Guess what? More good news. You already learned how to do this in the previous video in this lesson.

Let's return to the example service provider from that video, Acme Inbound. We'll follow them through this video as well.

If you recall, after some work and thought, Acme put together a customized set of services to help its prospect, XYZ Tech Solutions, meet its goals.

The services looked like this. Having customized their services for XYZ, Acme is now ready for their next step.

That second step is to determine your costs.

A note: Although we're going to be referring a lot to hourly costs in this step, don't take that to mean that you're going to price hourly to your client. Rather, we're recommending that you at least understand your hourly costs as a way to help understand your profitability. To determine your hourly costs, follow this five-step process:

1. Calculate the average salary plus benefits of your delivery team.
2. Convert the average salary plus benefits into an average hourly wage.
3. Identify your utilization rate.
4. Account for utilization rate to determine your firm's cost per billable hour.
5. Account for overhead costs to come up with your effective hourly cost.

Let's go through each one at a time.

Step 1: Calculate the average salary plus benefits of your delivery team.

A note before we begin, for this example and the rest of the video, we'll be referencing U.S. dollars. However, the process still applies, even if your native currency is different.

To see how this looks in practice, let's return to Acme Inbound.

Let's presume Acme will have the following salaries on the team delivering services for XYZ Tech Solutions.

- A senior account manager – $75,000 annual salary
- An inbound strategist – $55,000 annual salary
- And a content writer – $50,000 annual salary

If you add up all three salaries and divide by 3 team members, you find that the the average salary is $60,000.

Here we're using a simple average, giving equal weight to all salaries. This presumes all team members share engagement hours equally. However, if each member were to contribute a different number of hours, Acme should consider using a weighted average based on the relative number of hours contributed by each team member.

After you've averaged salaries, add benefits. Benefits include things like tax contributions made on behalf of employees; paid leave; health, vision, dental, and life insurance; retirement contributions; and more.

The MIT Sloan School of Management suggests that the average cost for employee benefits is typically in the 1.25 to 1.40 times base salary range.

Calculate what works best for your firm, but let's say that at Acme, benefits represent an additional 25 percent of an employee's salary. Adding 25 percent for benefits to an average salary of $60,000 results in an average salary with benefits of $75,000.

Step 2: Convert the average salary with benefits into an hourly wage

In this step, you're going to come up with an hourly wage with benefits by taking the average salary with benefits from step 1 and dividing it by 2080 hours.

2080 is the calculation of a 40-hour workweek multiplied by 52 weeks in a year.

Returning to Acme Inbound, dividing their $75,000 average salary with benefits by 2080 hours shows that their average hourly wage with benefits is about $36/hr.

Step 3: Identify your utilization rate

Your utilization rate is the percentage of time your team dedicates to client work as a percentage of its total working hours.

Although your team is in the office all day, they aren't spending every minute on client work.

Some of their time is being used for administrative tasks, checking and responding to email, time spent on internal projects, creating agency content, or maybe continued learning. There are other things that take your team out of the office too, like vacations, sick time, or parental leave.

Utilization rate, especially when you do a good job tracking your team's time, will help you calculate the percentage of time that can be considered billable to your clients versus not.

If you don't currently track your employees' time, or if you're in the market for a new tool, check the list of time tracking systems in the additional resources section of this lesson.

Going back to Acme Inbound, their engagement team, on average, spends 24 hours per week on client activities versus a total of 40 work hours per week. Acme's utilization rate is thus 24 divided by 40, which equals 60 percent.

Step 4: Account for utilization rate to calculate your cost per billable hour.

Specifically, in this step you'll divide your hourly wage with benefits from step 2 by your utilization rate in step 3.

For example, we earlier determined that Acme Inbound has an hourly wage with benefits of about $36/hour and a utilization rate of 60 percent. $36 divided by 60% or 0.6 results in a cost per billable hour of about $60.

Acme's cost per billable hour, which accounts for its utilization rate, is a far more reflective measure of Acme's cost than just it's hourly wage alone.

Now, Step 5: Account for overhead costs and come up with your final effective hourly cost.

To this point, there's still one thing missing in your cost calculations. It's overhead. Overhead includes the cost of rent, insurance, technology, tools, office space, utilities, coffee, non-client facing staff, and more.

Add your overhead as a percentage of your cost per billable hour to come up with your final effective hourly cost.

It's best to calculate your own overhead expense. However, for reference, HubSpot has researched and discovered that the average overhead for professional services firms is 30%.

So, for the final step in this calculation, take your cost per billable hour and add in your overhead. For Acme Inbound, they add 30 percent overhead, or multiple by 1.3, to their $60 cost per billable hour to come up with an effective hourly cost of $78/hour.

[Pause] Great! You've now gone through the 5 sub-steps to determining cost and have arrived at your effective hourly cost.

Does your head hurt from all the math yet?! Hopefully not. We have a bit more to go. Again, as a reminder, all these calculations are contained within the pricing and packaging inbound services tool.

Now, having calculated your costs, it's time to advance to step 3 on our pricing right list: add your markup and check your results for profitability.

Adding your markup is simply adding an amount to your costs to arrive at your final price. In other words, you're adding your profit.

To determine the best markup to use, we recommend first creating a markup range. At the low end of your range should be your minimum markup. Your minimum markup is the minimum required markup you would accept to take an engagement. At the high end of your range is your high markup. Your high markup is the ideal markup you would hope for and target —realistically, of course.

Returning to Acme Inbound, they've realized that for an engagement to be worth their time, they need to markup their costs at least 25 percent. That's their minimum markup.

Adding a 25 percent markup to their $78 effective hourly cost results in an effective hourly billing rate to the client of $98. This equals $3,920 when extended over Acme's 40 ongoing engagement hours per month.

By the way, when we say Acme's effective hourly rate to the client is $98, again, we're not necessarily suggesting that Acme bill out to their clients by the hour. What we're suggesting is that Acme break down their average hourly cost and rate so that they better understand their profitability. We'll talk more about client-facing pricing structures in step 6 of this video.

Having defined its minimum markup, Acme is now ready to define its high markup. Based on a healthy margin target, even if it might be a bit of a stretch, Acme sets its high markup at 55% Adding a 55% markup, or multiplying by 1.55, to their $78 effective hourly cost results in an effective hourly rate to the client of about $121/hour. This equals $4,840/month when extended over Acme's 40 ongoing engagement hours per month.

In summary, this exercise has produced a markup range for Acme between the equivalent of $98/hour at its minimum markup and $121/hour at its high markup. Of course, this is illustrative, and your markup range will very likely be different.

Regardless of how you set your markup, you want it to be profitable. To help, we'll next show you how to compare your billing rates against a couple of standard industry profitability measures.

We'll get to those indicators and how to use them in a moment.

Before we do, we interrupt this training for an important math alert. Yes, you heard that right! Math alert!

As if there hasn't been enough math in this video, there is an important mathematical distinction of which you need to be aware.

Markup percentage is not the same as margin percentage. These terms are different, mean different things, and they're often confused. Confusing them will cost your firm money.

When most firms think about measuring profitability, they think about their margin percentage. Your margin percentage is simply your profit as a percentage of your client price.

However, when firms set their price, they typically think in terms of markup percentage. Markup percentage is your profit divided by your costs.

To see the impact of the difference, let's look at Acme and their markup percentage versus margin percentage. In the Acme example earlier, let's say they markup their costs of $78/hr by $20/hour producing a client bill rate of $98/hr.

Based on this example, they have marked up their costs 25%, which is their profit divided by their cost.

However, did you know that that markup of 25% produces only a margin of 20%? What? Yes! Let's look at the numbers.

The same $20 profit, but divided by the final client price of $98/hour shows a margin of about 20%

This is a lot of not so fancy math, but here's the key takeaway so that you don't lose money. Your margin percentage will never be as high as your markup percentage. If you're aiming for a certain margin percentage, use a markup percentage that's higher.

To make it easier for you, the HubSpot inbound service packaging and pricing tool shows both markup and margin percent.

Okay, end of the math alert!

We now return to the training. With your effective hourly billing rate in hand, you'll want to compare it against a couple of industry norms to help ensure your profitability.

The first industry norm is that profitable service providers should, generally speaking, have an effective hourly rate of between $100 and $200 per hour. Such a rate typically means a firm is covering their costs and leaving room for a healthy profit.

With this in mind, let's go back and take a look at the Acme Inbound. As you'll recall, Acme's markup range put their effective hourly rate between $98/hour and $121/hour. The lower end of it's range doesn't exactly meet the $100/hour norm, but it's pretty close.

If you similarly find yourself below the $100--$200/hour norm, don't immediately fret. Especially if your wage scale is lower than others due to geographical or other factors, it's possible to be under this range and still have healthy profits.

You should also consider a second profitability indicator, which is your average multiple on hourly wage. This indicator says that a firm should bill out it's team at a rate of at least 3 times as high as it's average wage.

This is known as the rule of thirds. It is based on the old consulting advice that if you were to leave your job and become a consultant, your consulting rate should be at at least 3 times your existing salary. This applies to how your team bills out as well. Profitable firms bill out their teams at a rate of at least 3 times their average salary (before benefits).

The rule of thirds takes its name from the fact that about a third of the billing rate goes to salary, about a third goes to expenses, and about a third goes to margin.

The rule of thirds is a good norm for all firms to pay attention to, especially firms in lower wage geographic areas where the first profitability indicator, effective hourly rate, isn't as good of a fit.

With this in mind, let's take a look at Acme again. We learned earlier that the average wage of an employee before benefits is $60,000. Divided by 2080 work hours in a year, that equates to an average hourly wage of $29/hour.

We also learned that Acme's markup range put its effective hourly rate between $98/hour and $121/hr. At the low end of their markup range, their $98/hr bill rate is 3.4 times their $29/hour wage, higher than the recommended minimum multiple of 3. At the high end of their markup range, their $121/hr is 4.2 times their $29/hour wage, even higher than the recommended minimum multiple of 3.

One more note on profitability for firms that are small and growing: You don't have to determine your costs just based on today's costs. If you anticipate your salary, including your own salary, and costs will grow soon, consider using anticipated future costs. This will help provide for profitability as you grow.

Phew, OK! That was fun! We just covered determining your cost, setting a markup range, and reviewing a couple different profitability measures. Being able to do that will go a long way towards helping you price your services right.

Let's keep going.

Next is step 4 – consider the value you're creating.

A few moments ago, we discussed establishing a markup range, with a minimum and high point, to guide your pricing. In this step, you're going to add another point, your value-based price.

Whereas your first two points were based on your costs, this point is going to be based off potential value created for your prospect.

To take a measure your work's value, discuss with your prospect how many new customers is your service likely to help drive. Also ask:

- What is the average purchase size for a customer?
- And how often does the customer repeat a purchase?

The information you've just gathered will help you set a value-based price. To demonstrate, let's return to the example of Acme Inbound and their prospect XYZ Tech Solutions.

Together, Acme and XYZ agree that Acme can likely help drive an additional 6 customers per month. Acme also learns that each customer spends an average of $5,000 per purchase and will go on to make 2 total purchases. Multiplying these numbers together, Acme will be helping to drive an incremental $60,000 in growth for XYZ every month.

To derive an appropriate value-based price, take 10% of the growth you'll help drive. For Acme, they take 10% of the $60,000 in growth they will help drive to come up with $6,000 as a value-based price point.

Although it can vary by industry, 10% is a good rule of thumb for the spend on marketing and growth as a percentage of the revenue growth to be achieved.

Before continuing, note that Acme's value-based price, $6,000 monthly, is higher than its markup range, at the high end by over $1,000. This isn't uncommon. Professional services firms can sometimes underestimate the value of their own work. Or, it's also possible that the value-based price point is just high.

You may not ultimately set your price based on value, but it is an important reference point to consider.

Speaking of considering your reference points, that brings us to step 5 – review and set your pricing.

OK, so this step is exciting. You're going to determine the final price for your client.

Let's review where you are. Thus far, you've put together custom services to match your prospect's needs, you've determined your costs, and you've determined three different price points: your price with a minimum markup, your price with a high markup, and your price based on value.

Before we continue, let's return to our example of Acme Inbound and review their three different price points as well as their costs.

Here's what we know of Acme so far:

- Their effective hourly cost is $78/hour, or $3,120/month when extended over 40 ongoing engagement hours per month.
- Their effective rate with a minimum markup is $98/hour, or $3,920/month when extended over 40 hours per month.
- Their effective rate with a high markup is $121/hour, or $4,840/month when extended over 40 hours per month.
- Their value-based price point is $6,000/month.

By the way, for this example, even though Acme has some one-time foundational and setup hours, we're leaving those aside to focus on ongoing monthly hours.

Given what was just reviewed, Acme is looking at an overall pricing range between – on the low end, $3,920, and on the high end, $6,000.

The question before Acme, and that will be before you, is: "How do you decide where your ultimate price should fall within your range?"

To help answer that question, let's define the concept of pricing power.

Pricing power, as the name suggests, is a representation of how much pricing leverage you have. Specifically, it's defined by The Business Dictionary as "the extent to which a company may raise its prices without reducing demand for its products".

Accurately understanding your own pricing power is the key to selecting a price. Pricing right is not about blindly choosing the highest or lowest price in range. It's about choosing the best price given the situation.

Here's a way you can accurately assess your pricing power. The following criteria indicate high pricing power.

- You're meaningfully differentiated from the prospect's other alternatives. The prospect would've a hard time replacing your services if you were to leave. And...
- Your price is equal or lower than the prospect's next best alternative including their cost of inaction.
- You've earned the prospect's trust and confidence. Perhaps you came highly recommended and/or ran a great sales process and/or have highly credible industry case studies. And...
- Your firm has a healthy pipeline and can afford to walk away from the business if your price isn't met.

If you meet all these criteria, congratulations, you have high pricing power! You should steer your pricing towards the middle to high end of your pricing range.

Now, if you don't meet all the criteria, you have medium to low pricing power. Steer your pricing towards the middle to lower end of the range.

If you have medium to low pricing power, don't get discouraged. Because you've been through this pricing exercise, your profits are still going to be healthy. They just might not be as high as they could be if your pricing power was stronger. Also, more firms have lower to medium pricing power than have high power. It's very normal for firms to grow their pricing power – and prices – over time as they gain experience, differentiation, and track record.

In fact, this is the position in which Acme Inbound finds itself. They self-rate their pricing power as medium. Because of that, Acme is going to steer towards the middle/lower end of their pricing range. Within the middle to low range, they decide to set their pricing at $4,200 per month. It's a price that ensures they meet their minimum margin requirements and still make a nice profit but is less than their ideal markup or value-based price point.

Do your best to go through the same process as Acme. Given your prospect and the situation, consider your pricing power, and then determine the right price.

We are now up the final step in pricing right.

Step 6 – Choose your pricing structure.

You've worked hard so far, but you still have one more step in the process. You need to choose the structure you'll use to present your pricing to your client.

When reviewing pricing structures, it's first useful to distinguish between one-time project work and ongoing services. Pricing for one-time work is usually straightforward. A flat fee works well when the the requirements are well defined and scoped. An hourly rate works well if there's variability in the requirements or scope.

Where structuring pricing gets a little trickier is when it comes to pricing ongoing services. It can be cumbersome to price each and every service each and every month. It's even harder when services evolve over time, sometimes every month.

Because pricing for ongoing services is more challenging than for one-time services, let's focus our attention here.

There are a lot of ways to structure your pricing for ongoing services. We're going to give you three of the ways that are currently being used within the HubSpot Partner community.

As we describe each way, we'll describe its advantages and disadvantages. It's important to note that no pricing structure is perfect. Your job is to choose the one that is the best fit for your business.

The first pricing structure for ongoing services is a fixed monthly fee. In this structure, the client pays a fixed monthly price in exchange for a roughly constant level of activity and effort from your firm.

Typically, you'll recommend an initial set of services for a fixed price with an understanding that those services can evolve as the engagement goes on – while the price and level of effort will remain the same.

This is the most common pricing structure for many partners in the HubSpot community because of its simplicity.

To see how this might work in practice, let's go back to Acme Inbound. Recall that Acme determined that $4,200 per month was the right price for XYZ Tech Solutions given the services it was recommending.

Imagine that for this price, Acme prescribes the following activities for XYZ:

- 4 Blog Articles monthly (including a new pillar page every 2 months)
- 15 Social Posts monthly
- 1 new Ad Campaign quarterly
- 1 Basic Video quarterly
- 1 Conversion Path and Offer quarterly
- 1 Email Marketing Campaign monthly
- Monthly Reporting & Review

You should recognize these services because they are the same ones Acme put together earlier in this lesson as its customized set of services for XYZ. However, there's one difference. Before, for each service, Acme determined a number of hours to spend. Here, Acme has translated each service's hours into a level of activity. For instance, for the 10 hours of blogging it determined before, it has now translated that into 4 blog articles per month. It has gone through the same exercise for each service on its list.

Although Acme knows the number of hours it takes to complete each activity, it doesn't quote hours to XYZ. Acme knows that discussions about hours are often distracting and that XYZ is more concerned about the final work product than the hours that it takes to complete them.

Acme is recommending an initial set of ongoing activities for XYZ, but they will likely want to evolve those services over time. For instance, at XYZ, they might learn that video is better at driving new traffic than blogging – and want to update services because of it.

With a fixed monthly fee pricing structure, Acme can recommend shifting resources from one activity into another, while keeping their price and overall level of effort the same. For instance, they could go from 4 to 2 blog articles monthly, taking those resources and increasing new videos produced to 2 per quarter.

The advantage of a fixed fee pricing structure is, again, its simplicity. The price stays fixed and predictable, and it's very easy to explain to the client. The disadvantage is that it lacks clarity. For instance, if you have a client for whom it's important to see how exact dollars translate into exact activities, this may not be the right structure for them. This pricing structure works well when your client will afford you trust and flexibility in shifting services.

Another disadvantage of this structure is that expanding an engagement can be difficult. You've already negotiated a fixed monthly fee. Expanding your level of services, even a small amount, often requires a new negotiation. For that reason, this pricing structure works best with engagements where the activity level is expected to remain fairly constant over time.

The second pricing structure is point-based pricing. Whereas a fixed monthly fee is based on a fixed level of activity, a point-based structure is based on a unit of activity, which is called a point.

Point-based pricing is best explained through an example. Going back to our example, recall that Acme Inbound determined that $4,200 per month is the right price for XYZ. Now, imagine that the $4,200 per month didn't buy XYZ a fixed set of services, but instead it bought them a bucket of points. For instance, let's say it bought a monthly package of 42 points.

Each month or quarter, Acme and XYZ will decide together how to spend those monthly points. For instance, a blog article may be 3 points each, while a content offer might be 15. XYZ and Acme can mix and match, easily adjusting activities based on shifting priorities and the budget of points.

An advantage of points-based pricing is it's transparency. Both you and your client know exactly what an activity costs in points. That makes it easy to swap out one set of activities for another. Point-based pricing also makes it easy to expand services. If a client is hoping to accomplish more one month in activities than it has in points, they can simply purchase more points. Finally, with point-based pricing, you have the ability to charge based on the value of an activity, not just the time it takes to perform it. You do this simply by adjusting the number of points an activity is worth.

Now, let's talk about the disadvantages of point-based pricing. The first one is that whereas a fixed monthly fee is simple, point-based pricing can be complex. For instance, you have to create a whole menu of services, define their value in points, manage those values, manage client point budgets, explain it to the client, and do this all across an entire book of clients. It can definitely be a little complicated!

The other disadvantage of points-based pricing is that ultimately you're charging for activities. In doing so, you're positioning yourself as an activity provider, not an overall solutions provider. Because you focus so heavily on activities, you're somewhat disconnecting yourself from the outcomes achieved and their value.

Point-based pricing is popular among partners that use it. For more about point-based pricing, check out additional resources.

The third and final pricing structure we'll review is value-based pricing. Whereas point-based pricing is connected to the activities you provide, value-based pricing is connected to the outcomes you achieve.

There are different ways to structure value-based pricing, but one gaining traction among partners is a hybrid approach. This approach combines a fixed monthly fee with a bonus structure based on results.

For instance, let's again return to Acme Inbound. Recall that Acme has decided to price it's ongoing services to XYZ at $4,200 a month. Imagine if Acme structured the $4,200 so that 65% of it was a fixed fee and 35% of it was a bonus tied to outcomes. Let's imagine that the bonus is based on Acme helping XYZ achieve new customer acquisition targets, and it includes a meaningful upside.

In this kind of a structure, the fixed fee provides stability for both sides. Acme can count on income each month. XYZ knows that they'll get dedicated resources from Acme each month. The bonus then provides upside and aligns incentives.

The advantage of a value-based pricing structure is that it aligns you and your client around what matters most, results. You position yourself as a partner in growth, not just an activity provider. Another advantage is that, because of the high level of alignment, the client often affords you more flexibility to adjust your services as you see fit.

Now, the disadvantages of value-based pricing. First, value-based pricing works best when you have some control over and visibility into revenue and new customer acquisition. These are the value metrics that typically matter most to clients. It can be difficult to have any control if you're helping your client in only one area of their business, such as marketing, but not in sales.

Another potential disadvantage of value-based pricing is that it requires you to have really good sales skills. Selling value requires being good at uncovering a client's goals, getting specific on targets, and being able to solve for business growth.

Value-based pricing is popular among those partners that use it. For more information about the value-based pricing structure, see additional resources.

Again, every pricing structure has its advantages and disadvantages. Choose the pricing structure that is the best fit for your firm from among these three or others.

So, there you have it. We just went through the 6 steps to price your services right. Again, they are:

1. Customize your services to match prospect needs.
2. Determine your costs.
3. Add your markup and check your results against basic profitability indicators.
4. Consider the value you are creating.
5. Review and set your pricing.
6. Choose your pricing structure.

Are you ready to try it out on your own? We hope so. The best way to get started is to practice. Our next video will help you do just that. It includes a step-by-step demonstration of the pricing and packaging inbound services tool.

You've just learned a lot! So, take a breather, get a coffee, and then come back and join us for the next video.

Video 4: How do you use the pricing and packaging inbound services tool?

Hi, Sam from HubSpot here.

Now that you know more about packaging and pricing your inbound services, in this video we are going to show an example of actually doing it. We'll share a step-by-step demonstration of using the pricing and packaging inbound services tool on behalf of an example service provider. We recommend that you do the same exercise we'll be demonstrating for a prospect of your own.

Please beware that as the tool gets updated over time in order to provide you with the best experience, it's visuals may change but the concepts demonstrated remain the same.

Let's dive in.

Wiley previously defined their standard set of inbound services. Here is what it looks like in tool.

Now that Wiley Inbound has defined their standard set of inbound services, it's time to customize their services for a particular prospect. They begin by determining which is the right area of inbound on which to focus for the prospect from among a list of possibilities. Since they've learned that their prospect's most pressing need is traffic generation, they select "MARKETING-TRAFFIC-GENERATION".

Wiley Inbound now proceeds to further customize inbound services based on their prospect. Their objective is to select the services that are right for the prospect, decide if they're one-time or ongoing services, and decide the number of hours required per service.
Fortunately, they have two baselines to consider as they go about this process.

The first is based on the prospect area for inbound focus they just selected – "Marketing-Traffic-Generation." This tool shows suggestions for inbound services that address this focus area in the middle section.

The second baseline is their standard set of inbound services, which is shown in the right-most section. These are the services they've already indicated they expect to most commonly offer to their most common prospects.

After reviewing the two baselines and incorporating their own understanding of the prospect's needs, Wiley Inbound now selects the right services to meet the needs and resources of its prospect.

Once the inbound services have been customized, Wiley Inbound proceeds to calculate costs and markups. They start off with the delivery cost, In this case the average employee salary is $60,000 dollars per year, benefits equal 25%, average utilization rate is 60%, and overhead costs are 30%.

As the effective hourly costs and total delivery costs are automatically calculated, Wiley Inbound now proceed to review their markup, they've decided that their minimum markup is 25% and maximum is 55%. In other words, the minimum price they can offer their prospect is $3,182 dollars, and $3,946 dollars is the max.

It's now time to estimate the value of the services Wiley Inbound are about to offer their prospect. In order to do so, Wiley Inbound made sure to ask for their prospects data before proposing a retainer. The prospect stated that they have 20,000 visitors per month, 150 of them become leads, and 7 turn into paying customers. The prospect wishes to double the amount of paying customers from 7 to 14, so they put 14 as the customer per month target.

After putting in the number of visitors, leads, and customers in the tool, conversion rates are automatically calculated. In this case, Wiley Inbound believes that the services they provide can improve the visitor to lead conversion rate from 0.75% to 2%, so they put 2% as the target. As they focus on improving conversion rates, less traffic than before is needed to generate leads as more people convert.

This is why the number of visitors differ in the current and target section after changing the conversion rates.

Wiley Inbound also received data that prospects end-customer spends $5,000 dollars per purchase, and they purchase twice in their lifetime. This means that the estimated value of a new customer is $10,000 dollars, and as the prospect generates 7 new customers per month, the customer lifetime value per month is $70,000 dollars.

With a marketing spend equalling 10% of customer lifetime value, the calculated value-based price of services is $7,000 dollars represented as the bar graph furthest to the right.

By simply filling out the services Wiley Inbound wants to provide their prospect and basing the retainer off of the actual data the prospect is sitting on, Wiley Inbound can now review and select the most appropriate pricing. The recommended pricing ranges from $3,182 dollars being the minimum margin to $7,000 dollars being value based. As Wiley Inbound determines their pricing power as medium with room for improvement, they decide to go with the high margin pricing of $3,946 dollars, rounded up to $4,000 dollars.

If they're met by raised eyebrows and the prospect not liking the price, they simply show the calculation of value-based pricing, that the value they provide is actually worth $7,000 dollars. As calculations are based off of actual data, it makes negotiations way easier. Luckily enough in this example, everything went well, and Wiley Inbound feel way more comfortable with pricing their inbound services.

That's really it when it comes to the tool itself. However, if you're in need of additional resources, we've got you covered. The Appendix section of the tool is full of useful resources to better use the tool and inbound retainers. Here's a quick review of the appendix.

The appendix shows a glossary of available inbound services, definitions, activities included, and which HubSpot product it's part of. Additional appendix tabs also include example packages for reference.

Great job! Hopefully by now you have a grasp of what the pricing and packaging inbound services tool can do for you and your business and your well on your way of creating exceptional inbound retainers.