NAIL YOUR
PRICING STRATEGY

Raise Your Agency's Margins with Value-Based Pricing

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IS THIS BOOK RIGHT FOR ME?

Not quite sure if this ebook is right for you? See the below description to determine if your level matches the content you are about to read.

INTRODUCTORY

Introductory content is for agency professionals who are new to the subject. This content typically includes step-by-step instructions on how to get started with this aspect of inbound marketing and learn its fundamentals. After reading it, you will be able to execute basic marketing tactics related to the topic.

INTERMEDIATE

Intermediate content is for agency professionals who are familiar with the subject but have only basic experience in executing strategies and tactics on the topic. This content typically covers the fundamentals and moves on to reveal more complex functions and examples. After reading it, you will feel comfortable leading projects with this aspect of inbound marketing.

ADVANCED

Advanced content is for agency professionals who are, or want to be, experts on the subject. In it, we walk you through advanced features of this aspect of inbound marketing and help you develop complete mastery of the subject. After reading it, you will feel ready not only to execute strategies and tactics, but also to teach others how to be successful.

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CHAPTER 1

INTRODUCTION

> "*The fastest way to a more profitable firm is not through increased sales or decreased costs, it's through a change in pricing strategy. With just a few small changes to the way they price, the average agency can easily increase profit by fifty percent.*
>
> *- Blair Enns, Author, The Win Without Pitching Manifesto and Pricing Creativity: A Guide to Profit Beyond the Billable Hour*

Most agencies struggle to earn decent and consistent profit margins. More often than not, they also wrestle with pricing, which is at the root of the problem.

Each day that you avoid nailing your pricing strategy (and sticking to it), is another day you keep your agency from earning that reasonable profit and growing at a desired pace.

If you're like many agency owners, you might say, "How I price depends on..." The "depends" we hear a lot are:

- **Agency's resources (capacity, talent, cash flow, etc.)**
- **How desirable the client is and why**
- **What the client needs to be successful, what that costs, and if he'll pay it**
- **How hard you have to work (client politics, purchasing, etc.)**

Although these are important factors, they aren't the best factors on which to base your pricing decisions — or to choose clients.

We believe it's time for a sea change in how agencies price their work. We believe that the "right price" is based on the value the client gets from the results of the work you deliver. That's because value is your common ground. Your client wants value for his investment. And so do you!

We won't kid you. Getting to value-based pricing from where you are now can be a lot of work. But the end result is well worth it. It's a journey filled with creating successful partnerships with the right clients. Clients who value what you bring and with whom you love working. Relationships that are mutually beneficial, profitable, and well — dare we say it – fun?!

It won't happen overnight. It takes time to retrain how you and your team approach pricing. You'll need to hunker down and spend time in the weeds on numbers. You'll experiment until you hit your stride. You'll lose some clients along the way — clients you probably needed to lose. After that — nothing will stop you.

HOW DO WE KNOW THIS?

We've watched how some of our top-tiered HubSpot Partners have transitioned away from cost-based pricing to valuebased pricing models as they became savvier about the value they brought, their pricing, and how to choose great clients. We hope this ebook helps you think about how you can apply new pricing strategies to your own business, and gives you the tools you need to implement the next step in your journey.

CHAPTER 2

HISTORY OF AGENCY PRICING

Most businesses, not just agencies, start off charging for their products and services based on their costs. This is a mindset that has been carved in stone since the Industrial Revolution — and has grown alongside accountants and bookkeepers demanding to know the cost of everything, but who often overlook the value being delivered. (Remember Scrooge?) For more than 100 years, we've all been held hostage by this costbasedpricing mindset.

Don't get us wrong. Knowing your costs is vital (more on this later) to understanding your profitability. But the problems start when you base your price on costs. Cost based pricing sets you up for an adversarial relationship with your clients from the beginning.

WHAT IS COST-BASED PRICING?

Cost-based pricing is a method for determining your selling price. It's relatively simple. You calculate what it costs to produce your product (or service), set desired margins, add those margins to your costs — et voilà! There's your price. Fairly straightforward, and easy to plug into a calculator. Accountants love this approach because it uses "hard" numbers — numbers that are easily attributed and measured.

Accountants care deeply about predictability and reliability. In fact, FASB (Financial Accounting Standards Board) oversees "official" accounting rules (such as GAAP), so that everyone does the same calculations in the same way. This makes it easier for one business to be easily compared to another business. It also makes it easier to regulate businesses. Setting prices based on costs is part of that tradition and mindset. Over the years, agencies have seen cost-based pricing evolve into three different models:

1. OPAQUE PRICING

Some agencies use a pricing model referred to as opaque pricing. This pricing gives clients little to no visibility into what and why an agency charges what they charge. (Old-time media production, buying, and placement comes to mind.) Clients can't understand how the price is derived since no specific calculations or rates are revealed, only the total price. This practice is rapidly disappearing as clients continue to demand greater transparency. Out of this model came "the billable hour."

2. BILLABLE HOURS / LINE-BASED PRICING

Agencies that use billable hours often have a price sheet that shows the hourly rate each service or line charges (e.g. creative, media, social media, workflow / programming, etc.). Charging by the billable hour lets clients see more of what they are getting and at what total price (e.g. at $100/hour for 200 hours means $20,000 for this campaign).

3. FIXED PACKAGE PRICING

This is a step up from the billable hour because it removes some of the nitty-gritty details of line-based pricing. It's another menu-driven option, but instead of an hourly rate and hours, it's tied to producing a specific number of deliverables within a set period of time. These are sold as one-off packages or in time-based retainers.

Examples of fixed packaged pricing an inbound marketing agency might offer are: social media packages, pay-per-click packages, or SEO packages.

The problem is most clients won't fit neatly into any one package because:

- Clients' challenges are not identical.
- Their resources fluctuate.
- Their business decisions, capabilities, and capacities are out of your control.

- Their growth goals rarely match their marketing investment.
- Their sales and marketing efforts aren't aligned (usually).
- Their emotional and intellectual commitmentsto you may change with the firm's political and economic weather.

Fixed packaged pricing is almost always either too low or too high.

Too low and you lose your shirt, slow your agency's growth, demoralize your team, and hurt the quality of your work and client relationship.

Too high and a new client won't hire you. Current clients may accept your price for now, but we've seen agencies lose them quite often. As long as clients remain unclear about the value they get from you to justify (in their minds) paying your fee, they'll find it easy to walk away

THE TRAP

Setting your price based on costs is a vicious trap. If you use either of the above methods, you open the door for clients to challenge your:

- Expertise ("Why do I need blog posts, wouldn't PPC be better?")
- Efficiency ("Why should producing an ebook take 20 man hours?")
- Personnel ("Why use Ann to design when she costs more

than Steve?" or "Why do you need so many people to do this campaign?")

- Quality ("Stop using stock or custom photos, just use Creative Commons.")

All of which puts you in a tug of war with your client. He always wants "your best price." He wants a bargain. He wants the most he can get for the least he has to pay.

While you want to get paid the most you can for the least amount of expense / effort. That's the conflict costbased pricing sets up.

Is that where you want to be?

COST-BASED PRICING DISTRACTS YOUR CLIENT FROM FOCUSING ON THE VALUE YOU ADD TO WHAT HE CARES ABOUT MOST — HIS COMPANY'S BOTTOM LINE.

CHAPTER 3

WHAT IS VALUE-BASED PRICING

> *Adopting a value-based pricing strategy has had an added benefit of allowing us to better qualify prospects. Knowing the LTV of their customers, lets us know whether or not they can afford our services. We want our retainer based services to make economic sense for their company as well as ours.*
>
> *– Susie Kelly, Spot On*

Value-based pricing is a method that quantifies your agency's value in ways a client can relate to his profitability. Using it means you will no longer discuss packages or billable hours. Instead, your conversation will shift to your client describing his goals, desires, challenges, pains, capacities, all the different solutions he's thought about or tried (and failed), and how he measures the results he gets. In doing so, you position your agency as a trusted advisor that helps clients become more profitable.

Once you understand your client's context, you're now able to attribute your efforts to specific outcomes — usually traffic or leads in the marketing funnel you're managing for him — which directly relate to profit.

There are two basic ways an inbound marketing agency adds profit to a client's bottom line: deliver more revenue or save money.

To create the foundation for a value-based relationship, you need two data points from your client to determine the pricing strategy you'll use:

- His average customer Life Time Value (LTV)
- His Marketing Customer Acquisition Cost (M-CAC)

LIFE TIME VALUE (LTV)

The first data point, LTV, is the estimated revenue that an average customer will generate during the entire span of his relationship with your client. LTV is important because it helps you gauge the maximum amount he should be investing in marketing.

For example, depending on his customer LTV, it may be worth it to your client to spend more than the value of the first few sales to acquire them because their customers' lifetime value is much higher. [An investment, by the way, that goes towards building a lead generation factory — an asset that keeps delivering value without more investment. Your client's CEO or CFO will love hearing that.

Precisely how LTV gets calculated depends upon your client's business model. However, here's a simple formula you can use to estimate his LTV.

Average Value Value of a Sale **X** Average Number of Sales in Customer Lifetime **X** Gross Margin **=** Lifetime Value (LTV)

Why Gross Margin? it's a first-level approximation at the value of a customer, and can help normalize the calculation across industries.

What if my client doesn't want to share this info? It is important to let your client know that you are asking these questions to ensure that they're spending the right amount of money to acquire clients - neither too much nor too little.

MARKETING CUSTOMER ACQUISITION COST (M-CAC)

The second data point is M-CAC, which is total marketing cost (both program and people) divided by the number of customers acquired over a specified period of time (a month, quarter, or year). For example, if your client spends $300,000 on marketing in a year and adds 30 customers that same year, then M-CAC is $10,000.

Your client's current marketing M-CAC indicates how efficient and effective his marketing is.

Something to keep in mind:

Every client will have a different model based on their LTV formula. For example, the LTV of a nonprofit industry client is $2,000 and a healthcare industry client's LTV is $5,000. Both invest $10,000 in marketing and it yields 10 new customers for each of them which means M-CAC is $1,000. However, since the LTV for the healthcare client is higher, they are being more efficient and effective with their marketing investment ($50,000 in revenue vs. $20,000 in revenue).

Marketing Costs ÷ Customers Acquired = Marketing Customer Acquisition Costs (MCAC)

What if my client doesn't know these figures? Not every client will know these figures, but even ballpark numbers are far more insightful than having no numbers at all. Worst case scenario, you can pull these numbers from a comparable company in the industry ideapipe

that has public filings (e.g. their annual report).

ZEROING IN ON PRICE

Ultimately the purpose of pricing by value using LTV and M-CAC is to help your client invest the optimal amount for inbound marketing to support the growth he needs.If his goal is to grow 38% next year and he plans to only spend 5% of revenue on sales and marketing, what are the chances of his hitting goal? Pretty slim. But you'd know more once you calculate his LTV and M-CAC and analyze his business situation.

Avg. # of Customers Acquired Each Month **X** Greater of (10% LTV or M-CAC) **=** Retainer Cost

WHY USE 10% OF LTV

LTV is a good pricing metric to use when your client wants to reduce his overall marketing costs and still maintain his current growth rate.

This is a simple way of setting up for a great return on investment. It's saying for every $1 spent on marketing you'll return $10 in customer value over that customer's lifetime. Pretty good and easy for the client to grow.

A simpler way to convey this: "If you give me one dollar to market your product, you'll get $10 back over the lifetime of this client."

The more technical answer to this is a 10x return over 10 yrs is about 25% annual return, which is solid for a business investment.

Let's say your client's average customer LTV is $50,000. Ten percent of $50,000 is $5,000. If you determine you can deliver enough leads that he can close 25 new customers this year, 25 customers * $5,000 = $125,000. That $125,000 shows the monetary value of the leads you would deliver to your client.

Can your charge that? Maybe. Depends on your relationship with the client. And whether you have a track record of delivering leads at that volume in his industry. If you don't, you may need to "step in" to that pricing. See 6 Tips for Selling Value.

WHY USE M-CAC

M-CAC is a good pricing metric if your client is not looking to save on marketing expense, but rather is trying to accelerate growth.

Ask if your client is okay with his M-CAC. If he's more interested in growing his company, M-CAC is the better metric to use for your pricing. Openly have this discussion with your client. If he says that his M-CAC rate works for him, probe more to understand why it does.

Let's imagine his M-CAC is $2,000. You've learned that with his present sales and marketing efforts he's generating 500 visitors to his website each month, converts that traffic into 20 leads a month (4% conversion), and his sales team closes 10 customers each month (50% close rate). It also means he's spending about $20,000 per month ($2,000 [M-CAC] * 10 [new customers]) or $240,000 per year ($20,000 * 12) on both sales and marketing. So, in this example his 10% of LTV is $5,000 and his M-CAC is $2,000.

ALIGN YOUR CLIENT'S MARKETING INVESTMENT WITH HIS GROWTH GOAL

Because 10% of LTV ($5,000) is higher than M-CAC ($2,000), we can determine that this client is under investing in marketing. He is saving money at the expense of stifling his company's growth. Business experts have pointed out that companies that don't grow — die, albeit slowly. This client can financially afford to invest more in marketing and LTV is the way to show him how that's possible, and prudent, to do so.

Alternatively, If M-CAC is higher than LTV, he may be over investing because he wants to significantly grow his company's revenue. And as long as your analysis shows the company is healthy (i.e. not overextended financially, etc.), it is safe to use M-CAC.

RECAP: WHY THE HIGHER OF 10% OF LTV OR M-CAC?

10% of LTV is a good pricing metric to use when your prospect wants to reduce his overall marketing costs and still maintain his current growth rate.

M-CAC is the pricing metric to use when company growth, and using marketing dollars more effectively, is the goal.

So, if M-CAC is higher and prospect is ok with it, then use that so that you don't shortchange growth investment.

But, if 10% of LTV is higher than M-CAC then marketing is currently under-investing for the value of the customers they are acquiring. Have that discussion with prospect and confirm that they should be more aggressive with marketing investment.

These metrics are the simplest way to determine:

- What a new customer is worth to your client
- How efficient a client is with his marketing dollars
- Whether he's under (or over) investing in marketing

Having an open discussion with him about these metrics creates the context for him to better understand the value you bring to the relationship. And it deepens your relationship with him because it shows you know enough, and care enough, to ask the hard questions to help him grow his company.

What you must decide now is what you'll deliver (traffic and/or leads) to your client—what kind of plan and services that will take—and what it all costs. Because you too need to make a profit!

POINT PRICING FOR AGENCIES: DRIVE PRODUCTIVITY, PROFITS AND PERFORMANCE WITH VALUE-BASED PRICING

By Paul Roetzer

I discovered early on in my career that the billable-hour model was a flawed, archaic, agency-centric system that wrongly tied agency performance to outputs, not outcomes.

Thus, I became highly motivated to build a more efficient and profitable solution that shifted the focus to client needs and goals. My theory was that if clients understood exactly what they were getting, and agreed ahead of time what it was worth, then we could remove the mystery from the equation and focus on delivering value and results.

After many service package iterations and trial and error, we conceived of using point pricing in 2012.

Point pricing is a value-based pricing model. Using point pricing, each marketing project is assigned a fixed-point total (e.g. blog post = 3 points) based on value creation rather than hourly estimates. The *totals are standard across all clients and are determined using the Fibonacci sequence (i.e. 1, 3, 5, 8, 13, 21 . . .). Points are applied at the project level and allocated monthly based on campaign performance.*

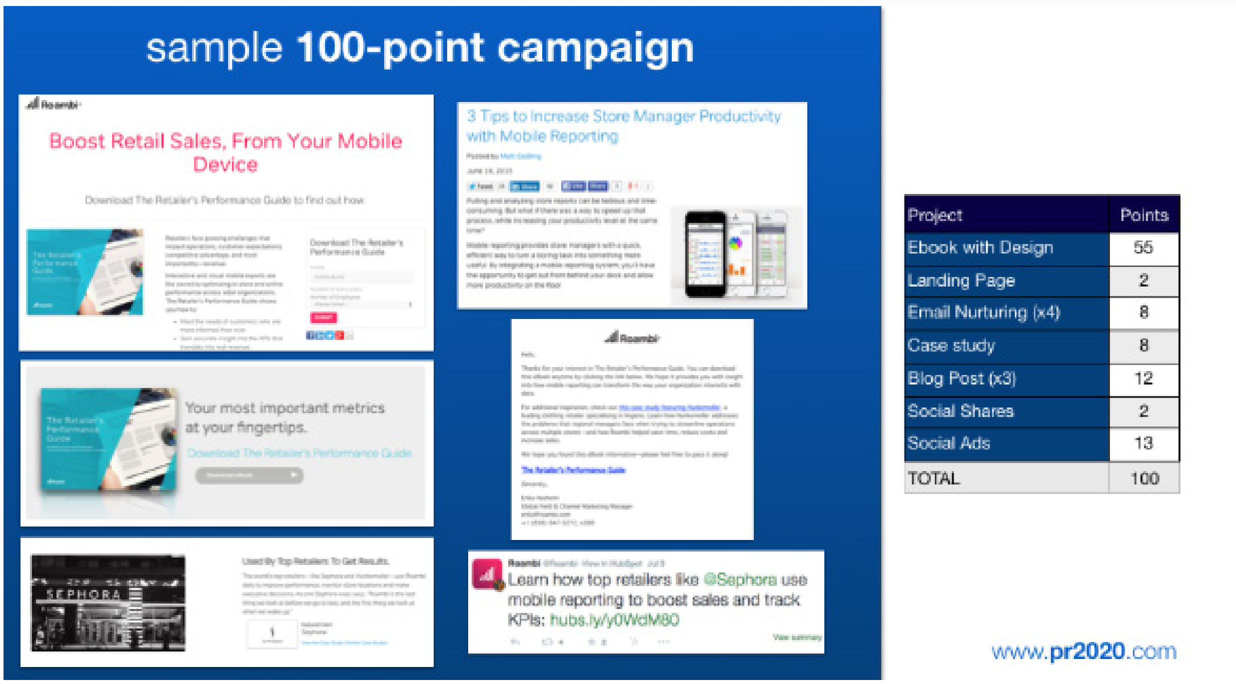
Bottom line: Every point has a purpose.

Point pricing ensures clients get the full value of every dollar spent, regardless of how much time it takes to deliver. Points provide total transparency into pricing, progress, performance and resource allocation.

We use points to forecast potential resource allocations when talking with prospective clients. This chart (pictured below) enables us to visualize a preliminary model by month and by campaign. Actual point allocation is determined during strategy sessions and then continually adjusted based on performance data and evolving client goals.

Campaigns	Points	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Month 7	Month 8	Month 9	Month 10	Month 11	Month 12
Foundation	162	71	57	34	0	0	0	0	0	0	0	0	0
Lead Gen Strategy (Audience #1)	21	21											
Brand Analysis	21	21											
Marketing Budget Analysis	8	8											
HubSpot Demo & Strategy	5	5											
Content Database Analysis	3	3											
Blog Editorial Calendar	13	13											
Lead Conversion Strategy	21		21										
HubSpot Integration & Onboarding	13		13										
Website Conversion Optimization Strategy	8		8										
Agency Metric Management Strategy	5		5										
Google Analytics Dashboard Setup	5		5										
Social Strategy Review	5		5										
Brand Awareness Strategy	34			34									
Lead Gen (Audience #1)	375	0	50	25	15	60	25	15	60	25	15	60	25
Lead Gen Campaign #1	100		50	25	15	10							
Lead Gen Campaign #2	100					50	25	15	10				
Lead Gen Campaign #3	100								50	25	15	10	
Lead Gen Campaign #4	75											50	25
Lead Conversion	300	0	0	50	25	15	60	25	15	60	25	15	10
Lead Conversion Campaign #1	100			50	25	15	10						
Lead Conversion Campaign #2	100						50	25	15	10			
Lead Conversion Campaign #3	100									50	25	15	10
Brand Building	327	16	16	16	31	31	31	31	31	31	16	16	16
Blog Posts (4 per month)	192	16	16	16	16	16	16	16	16	16	16	16	16
Brand Building Campaign #1	45				15	15	15						
Brand Building Campaign #2	45							15	15	15			
Brand Building Campaign #3	45										15	15	15

As you see in the 12-month chart above, we have preliminary allocations of 100 points per lead generation campaign. So what does 100 points get you? Here's an example from a past client campaign.



The point pricing model is built on the philosophy that if you can define the scope, which is possible with nearly every marketing agency service, then you can standardize the service and assign a set point value.

If executed correctly, point pricing can help agencies drive productivity, profits and performance by putting the focus on outcomes, not outputs.

You can download a sample 300-point GamePlan to see more point values and explore how we structure client campaigns.

And, if you're interested in learning more, Point Pricing for Agencies is now available on-demand. Point Pricing for Agencies is a three-course, on-demand series featuring more than a dozen exclusive resources, including pricing strategy documents, tools and templates that your agency can use to establish, launch and evolve its own point pricing model. You can register here.

CHAPTER 4

KNOW YOUR COSTS

Tracking your costs is important for three major reasons:

- It helps determine how much profit (or loss) you've made
- You can see where you're spending more (or less) than before so you can fix any problems sooner rather than later
- It helps you project what future costs can be so you can make more informed buying decisions

The biggest expense in any services company is labor. [Media (i.e. ad placements or mailing lists/postage) doesn't count for our purposes here.]

To provide the optimal services to a client to achieve the goals you've agreed to, you must calculate those costs. If the value-based pricing you've determined from your client's LTV or M-CAC isn't high enough to cover them, it's time to disengage because he doesn't have the funding necessary.

You may come across this situation among small companies, start-up companies, or even emerging brands within big companies. Which is why it's important for you to know your costs up front and for you to qualify a potential client ASAP using LTV and M-CAC.

Assuming however, that LTV or M-CAC is indeed high enough to afford your value-based pricing model, your baseline costs to solve various standard problems should set the minimum bar for you to even talk to a prospect.

AGENCY COST DRIVERS

There are three drivers of your agency's costs:

1. Hours used to complete tasks – e.g. thinking, researching, planning, writing, designing, meeting, etc.)
2. Your overhead is all your costs over and above labor, e.g. rent, furniture and equipment, business insurance, utilities, etc.
3. Employee utilization rate (how productive your employees are). In other words, in an 8-hour day, how many hours, minutes, seconds are actually used to complete the tasks assigned for that time period? For agencies we've seen utilization rates as low as 42% and as high as 65%. You can learn how to calculate your agency's rate here.

CALCULATE "FULLY LOADED" EMPLOYEE COSTS

"Fully loaded" means that all attributable labor costs are accounted for. This means her actual rate per hour, plus other costs, less any time she isn't producing (utilization rate).

Let's say your typical full-time employee costs $52 / hour ($80,000 / year payroll (salary, overtime). Add 30% overhead costs (benefits, rent, training, etc.). $52 ÷ 30% = $68 per hour of pure cost.

Now if this person is only 75% utilized, then her true hourly cost that you need to cover is $68 ÷ 75% = $90.66 per hour. This means each client-facing employee needs to bring in $90.66 per billable hour to cover his or her costs (and then bring in more to actually earn a profit for your agency).

Most inbound marketing agencies today are starting to track how much time it takes to complete a deliverable, e.g. write a blog post, write and design an ebook, write and program lead nurturing series, design and deliver a monthly report, create social media posts, do a workflow design, create a webpage design, write a web page, etc. By tracking task time, they can calculate how long a particular task takes on average.

They're also tracking results driven by task or campaign. This helps them estimate costs and results of future work. Now the agency is prepared to negotiate a contract with a new client or for a new project with a current client.

The good news is that the HubSpot Profitability Calculator [available from any HubSpot Channel Account Manager] lets you plug in your relevant numbers (hours, rates, delivery frequency, etc.) so you can estimate your monthly costs and your estimate monthly retainer.

Going through this exercise of understanding your costs helps you decide which future business strategies you may want to pursue.

FREELANCERS & CONTRACTORS

Some agencies prefer to use freelancers exclusively. If they do, many agencies negotiate a fixed price per deliverable. For instance, an agency may agree to pay a certain amount per blog post (600-800 words and a minimum number of links/citations). Same for ebooks, white papers, infographics, etc.

The good news is that with this model, you always know what your cost will be. And you don't need to track utilization rates. Good freelancers prefer to work on a project basis with a tight scope of work, a limited number of drafts, and an agreed upon timeline. Most agencies use a hybrid model with both employees and specialist freelancers. They use them to handle a temporary increase in the agency's work volume. They also look for top experts in markets, topics, or special services that aren't used often enough to justify putting them on staff.

HUBSPOT'S PARTNER PROFITABILITY CALCULATOR

The good news is you don't have to reinvent the wheel. You can use HubSpot's Partner Profitability Calculator to automatically calculate your client's LTV and M-CAC and a suggested price range.

Note: Typical employee utilization rate in an agency for client-facing account managers is between 40% – 75%. The higher the utilization rate, the more efficient the agency is.

The calculator is based on the annual MIT/Sloan Report's findings that have already determined the average two-year traffic and lead growth of more than 11,500 customers who have used HubSpot's software and methodology. These are hard numbers taken from HubSpot customers' actual results. You'll also be able to customize the workbook and plug in your agency's operating profit margin, rates by service, package, line item, etc. Then based on these numbers, it will calculate suggested prices for your agency to charge at different levels of desired growth for your client.

If your client doesn't have access to his LTV or M-CAC, or he's uneasy about sharing them with you, don't let that stop you. Use public financials of companies in his industry as benchmarks to start the conversation. You can ask him things such as, "Here's what A, X, and Q companies are investing in marketing. Here are their LTV and M-CAC metrics. Is that about where your company is? Does that sound reasonable for your firm?"

This discussion already adds tremendous value to him, especially if he hasn't thought about these metrics. This process educates him and helps him set reasonable benchmarks that make sense for his business.

To get the Profitability Calculator contact a HubSpot Channel Account Manager.

CHAPTER 5

TRANSITIONING YOUR AGENCY TO VALUE-BASED PRICING

Becoming good at value-based pricing takes time. You need to adjust how you qualify potential clients and get your processes and systems set up to support the move. Plus you have to get comfortable using the formulas and rationale we shared earlier. Few agencies jump into value-based pricing immediately and succeed. They move from one phase to another, trying different approaches and learning from their efforts. Before embarking on this journey, you need to determine:

- How much trust has been built up between you and each of your clients
- Whether or not targeted clients have inbound marketing
- KPIs in place
- If you have enough client trend data to feel confident in projecting your agency's performance
- If chosen clients believe strongly in your value (have connected the dots with (or without) your help)
- You've got the track record, talent, and capacity to deliver on performance
- You're tracking costs, time, and productivity

PHASE 1: ADOPT FIXED PROJECT PRICING

You're doing cost-based pricing, but have made the decision to change. You may need to find new clients on whom to try it out, because you're concerned your current clients may not accept this new approach.

In this phase, agencies start to offer fixed price deliverables based on tight scopes of work (maximum length and revisions, timelines with approval and delivery turnaround times, etc.).

They will often use freelancers on fixed project prices so that tracking the productivity rate is a non-issue. Many move current employees into new roles and change compensation models.

Current clients that aren't on retainer or under contract are quoted these prices. When doing a campaign, the different deliverables are pulled together into one package pricing. Having a clearly defined scope of work (SOW) to which you both agree is critical.

In the past, with cost-based pricing, you weren't as concerned with scope creep because you were billing by the hour. Now you need to be able to stand up to your client when they ask for something outside the scope and say, with a smile, "we'll be happy to quote you the additional costs as this is outside the scope of work we agreed to."

Building your project management muscles and diplomacy skills in helping clients stick to the scope of work will become paramount as you continue moving forward toward value-based pricing.

JOE AND FIXED PROJECT PRICING

When Joe first started out using fixed project pricing, he was so afraid of losing money. His clients constantly exceeded agency estimates because of all the changes they wanted. He always ended up in arguments with clients because of all the extra costs.

When he moved to fixed project pricing and set the maximum number of revisions to two, the hundreds of little changes stopped. Work got done faster. He made more money. And clients were actually happier.

Why? The scope of work (SOW) ruled everything. Clients paid more attention because the SOW was a detailed description, with roles and responsibilities, a timeline and a final fixed price.

Clients adhered to the SOW because it wasn't an "estimate." They didn't argue about any additional costs because they had to approve them ahead of time.

"It made a huge difference to my bottom line, and my sanity," said Joe.

SETTING FIXED PROJECT PRICING

So how do you set a price for an ebook? Blog post? Infographic? etc.

You should have a good idea how long it takes your team to produce each of these deliverables. You know which clients take longer, and why, and which clients take less time and effort. You'll start off with costs, being sure to include your overhead and profit. Create a range that covers them. Build a table for your existing clients.

For example:

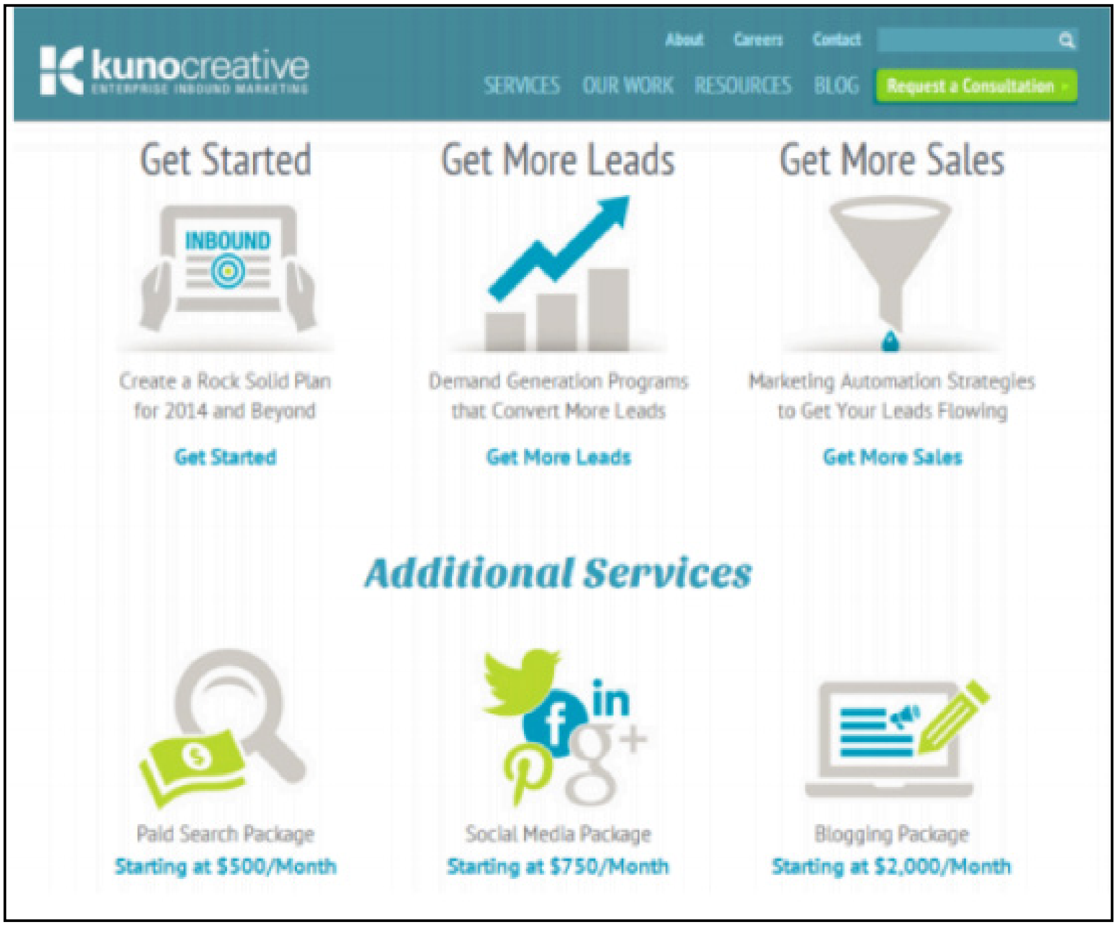
Item	A	B	C
ebook (<10 pages)	$6,000	$8,000	$10,000
ebook (11 – 30 pages)	$10,000	$12,000	$14,000
Blog article (max. 800 wds)	B2B - $250 B2C - $100	B2B - $375 B2C - $225	B2B - $500 B2C - $350

In this case, A, B, and C can represent three different clients or three different types of clients. This can help you as you pursue signing up new clients. "C" could be clients that are extremely demanding or very difficult to work with, or have a high M-CAC. "A" could be clients who are easy to work with or pay on time or have a low M-CAC / high LTV.

The point of this example is to show that your fixed fees, although based on costs, overhead, and profit, will not be quoted on a billable hour basis. And your scope of work must reflect the parameters of each item and your work process.

GROW INTO FIXED PACKAGE PRICING

As time goes by, you'll rapidly begin combining these deliverables into fixed-based packages that solve specific client problems: lead generation packages, social media engagement packages, SEO/ blogging packages, lead nurturing packages, etc. Your pricing on those will be more along the lines of what HubSpot platinum partner Kuno Creative did when they were at this stage:



Kuno's package pricing gave a starting price point. What's so smart about this approach is that prospects unwilling to invest that kind of money self-selected out. They didn't eat up a business development rep's time.

As you gain expertise in delivering these solution packages, you'll learn what works, and what doesn't. You start delivering even more value to your customers as you build your track record.

Your track record is what gives you bragging rights and the confidence to go to the next part of your valuebased pricing journey.

TIPS

- Add contingency money into your price in case something goes wrong on your end.
- Adjust your pricing to reflect what the market will bear. If it doesn't cover your costs, you need a new market or you've got to get more efficient.
- Once you find your optimal rates, stick to them until you've earned the reputation (the right) to charge more.
- Whenever you don't need to use the contingency money, sock it away in a separate account for when you do have dire emergencies.

PHASE 2: STEP INTO VALUE-BASED PRICING

Once you've got fixed project and package pricing down, it becomes easy to step into the next phase. By now, your agency's track record for increasing your clients' profits should be the envy of other agencies just getting started with inbound. You're fluent in valuebased pricing thinking and you're confident in your team's ability to solve various marketing problems using inbound.

You've also mastered the consultative sell. You can:

- Determine their business and marketing challenges and pain points.
- Glean what their consequences will be if they don't get the results they need.
- Use key pricing metrics (their LTV and their M-CAC) to figure out your pricing strategy.
- Ascertain prospects' true urgency and actual timeline.
- Derive their sales cycle, internal sales process, and how good they are at closing deals.

When you're finally ready to implement value-based pricing with a client, you still need to do a double check. Depending upon what their LTV and M-CAC looks like, and how successful they've been using inbound, they still may not be able to afford your services to accomplish their goals. It's up to you to ask the right questions about their goals and finances to determine if they are a fit for value based pricing. And if they are, to then determine the optimal price range you can charge.

CHAPTER 6

SIX SELLING TIPS FOR VALUE-BASED PRICING

"

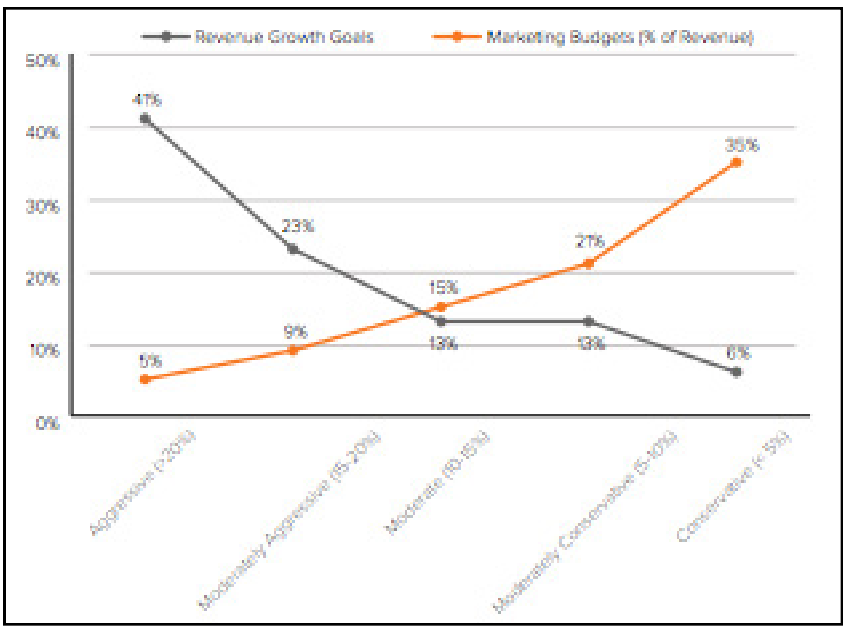
At Increnta, we view all client relationships as partnerships. We work with our clients to set SMART styled goals, that are aimed at achieving on overarching objectives (opposed to singular tasks). For each stage of the funnel we define KPIs, which are used to calculate a variable component to the price of our services. From this agreed upon price we have a 20% range for movement. Since both parties are focused on objectives, and not on singular tasks, we often provide additional work that is not billed in order to achieve those objectives. Alternatively, if we over achieve on our goals we receive a proportional increase in pay up to that 20% threshold. By pricing on value we are able to establish a mutually beneficial relationship that allows our team to focus on achieving the goals that move the needle for our clients.

- Eloy Montaña, Increnta

Keep in mind that all value is subjective. As an example, if you're in the desert, you'll pay more for a gallon of water than if you were in your kitchen with water readily available from the tap. Despite that, when you quantify value in a meaningful and relevant way to your client, you will always earn his trust and respect. Here are our tips to help you do that:

1. DISCUSS INVESTMENT VS. GROWTH

Ask your client what percent of revenue he spends on marketing and how much he wants to grow revenue. The [2014 Marketing Score Report] looked at how 318 marketers, executives, and entrepreneurs rated their marketing potential and performance. It measured how these firm's marketing budgets aligned with revenue growth goals.



Source: 2014 Marketing Score Report, PR 20/20

This chart shows that the majority of firms surveyed have aggressive growth goals – 41%. But only 5% have aggressive marketing budgets to reach their goals. (This is why knowing LTV is so important.) As you can see, few firms align their goals with their marketing needs.

If your client wants to grow at a certain rate, they need to spend a certain amount to get there.

In general, you want to see revenue growth and marketing budget be as close as possible when in a market that is still growing.

If a company is growing fast, they'll probably spend more than a company that isn't. Take a few comparable firms with similar growth goals (and size) using public financials of companies in same industry. Show your client where he falls in relation to what these similar companies are doing. When you price by value using LTV and M-CAC, you earn your clients' respect and trust because you're helping them address a critical misalignment. Ultimately your goal is to help your client grow his business. In this process, you help him reframe how he thinks about determining his marketing investment.

2. SELL THE PROCESS, NOT THE PROMISE

Because you have limited data, and no control over your client's business decisions, sales capabilities or capacities, and close rates, do not promise results you cannot deliver. Instead, sell the inbound process and methodology. Above all — don't promise bottom-of-thefunnel (BOFU) numbers such as customers or revenue.

When you first set out, commit only to performance criteria based on what your agency directly manages and can measure.

Although you will base what you do on acquiring new customers, make commitments only on activities that lead to visits and leads (which hopefully your client will turn into customers). That means top-of-the funnel (TOFU) and middle-of-the-funnel (MOFU) metrics only.

It's also vital to find out the average length of your client's sales cycle. It's a good indicator for your minimum engagement length. If your client has a ninemonth sales cycle, you'll need at least that long to see the full impact of your marketing efforts. Inbound takes about six months to see results. Add that six months on to your client's sales cycle and your minimum engagement length would be 15 months as in this example.

3. SHARE THE RISK

You will have greater success moving existing clients from cost-based pricing to value-based pricing when you've built a trusted relationship. When you're trying to get new clients, it will be harder to persuade them (and harder for you to do well) without a track record for delivering inbound marketing.

Don't let lack of inbound marketing experience stop you from embracing value-based pricing! Even if you're just getting started, or if there are special circumstances that will take time to see results, consider "stepping into" your new rate.

For example, let's say you've figured out that your valuebased rate should be $10,000 a month. You estimate it will take about six months before your client sees the first of the leads from your efforts and about a year for the client to see that you're really nailing it.

You might consider pricing this way: the first half of the year you charge 50% of your rate, the next three months charge 75% of your rate, and in the last three months step into your full value-based price. No matter what, you'll probably see healthier margins than cost-based pricing, but you're sharing in the risk and building trust with your client.

4. DON'T SET GOALS WITH INSUFFICIENT DATA

Depending upon how long and accurately your client has been tracking visitor-to-lead and lead-to-close rates from different sources, you may or may not be able to back into the goals you'd ideally like to set. (And if you have limited experience delivering inbound marketing to this market or buyer persona, all the more reason for caution.)

For instance, he may have a lot of Google Analytics data on traffic, but have no idea what he did to create that traffic. He may have limited data on the leads in his database and inconsistently track additional info such as source, phone calls, etc. There may be a lot of duplicate leads in his database or his leads are more than a year old. He may know he closes 10 deals a month, but doesn't know where those leads came from or how long they've been interested. He may have started using a CRM, which is great, but the data is too new to be predictable.

All of these factors complicate your ability to set realistic goals.

5. DON'T CHASE PERFECT DATA YOU'LL NEVER FIND IT.

You do need to have enough confidence in the data's accuracy and reliability that you can use it to predict future results based on past trends. Without that, there's a greater risk for both you and your client to be disappointed and dissatisfied.

6. SET PERFORMANCE METRICS

Carefully When client data isn't as pristine or reliable as needed, use [HubSpot's ROI Calculator](#) (it's also built in to the Partner Profitability workbook) to have the goal setting conversation with your client.

Be transparent about what is and isn't possible because there are no guarantees in marketing. The more transparent you are, the faster and deeper your client's trust will grow. And trust is what will keep you working together in a long-term partnership.

CHAPTER 7

DIFFERENTIATE YOUR AGENCY

> *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. Point pricing, our value-based model, ensures clients get the full value of every dollar spent, regardless of how much time it takes to deliver. It removes the mystery from the equation and puts the focus on delivering value and results.*
>
> *- Paul Roetzer, Founder & CEO, PR 20/20*

Are you a smart agency that differentiates its brand and nourishes it? If so, feel free to skip this section (although we think it's worth skimming to glean any good bits you can use).

If you're a new agency, an agency that's feeling a bit worn around the edges, or an agency excited about reinventing itself, this section can give you some pointers about your agency's brand positioning.

Creating brand differentiation is your agency's bread and butter. You spend countless hours preaching how important it is to your clients. You work hard to make your clients' brands stand out, be memorable, and positioned to win.

So why is it we see so many marketing agencies ignore or neglect their own brand differentiation?

Much of it stems from an unwillingness to focus their resources. As Tim Williams of the Ignition Consulting Group says, "In my consulting work with agencies and other professional services firms, I've heard a very long list of objections to a focused business strategy. Curiously, many of these objects are emotional — not rational."

Distinctive differentiation stands between you and a burgeoning list of clients who can't wait to work with you. Strong brands can charge more for their products and services because they're perceived to be superior. For the same reason, they can withstand various crises more easily.

Could you ever imagine a more devastating impact to Apple's brand than the death of its iconic CEO, Steve Jobs in 2011? For years after, headlines abounded with pundits claiming that "the magic is gone". It's now 2018 and Apple is still one of the most valuable companies on the planet, and in history, hitting a market capitalization of more than $1 trillion in recent weeks. That's the power of a differentiated brand in action withstanding a crisis.

Did you know that one third of a company's shareholder value is determined by how its brand is perceived by customers? You don't have to be a public company to appreciate the significance of having a more valuable firm. Why not apply your stupendous skills at creating great brands to your agency too? What's in your way?

Whatever it may be — get the biggest bulldozer you can find and move that stuff OUT of your way and get going. The sooner you do, the sooner you'll earn higher profits. Here are a few ideas to help you along:

WAYS TO DIFFERENTIATE

The easy way out is to try and copy success — whether from a competitor or a client. As you know from your clients' experiences, copying rarely works. The smartest way is to discover and tap into the reasons why current and future clients will choose to work with you.

You can become different by thinking and acting in ways that no one else does. Even if it feels completely counter intuitive, and particularly if it's the opposite of where everyone else is headed.

Try locking you and your business partners in a room to do some deep thinking about your agency:

Define a focus that would make new clients lust to work with your agency. For instance, become experts on a specific buyer persona — know them inside and out, how they best respond to different types of marketing. Publish and share enough information to strut your expertise about them so you start attracting companies who want to reach that particular persona. [e.g. YPulse]

- Identify what you do well and what you don't.Focus on what you do best and think about creating alliances or business partners for what you don't do well. Maybe you create the whizbangiest of all mobile apps and interactive ebooks for financial services firms. And let's also say you hate creating direct marketing campaigns, but you've got a great partner to handle that. Yowza! Ya think some big investment companies might want to learn more about you? [e.g. AD:60]

- Get crystal clear about your "best" clients because they provide the best picture of your value proposition. What do they have in common? Challenges? Goals? Internal politics? Policies? Ask them why they chose you, why they stay, why they do/don't refer and to whom, what they wish you did or did better. From that thoughtful examination you should discover what you do well and where you need to bolster your weaknesses.

In order to do this, define what "best" means to your agency. Are they clients who:

- Inspire you to do your best work
- Are fun to work with
- Make the least complaints
- Demand a lot from you
- Pay you a lot
- Pay on time

Whatever your definition, make sure that definition includes the qualities you want in your future clients, or else you'll attract more of what you don't want. • Identify the core values you believe in and use them to guide interactions with clients, employees, and partners. Be sure that you write up and share examples of how those core values are put into action. If you aren't already, reward and / or coach your team as they put your agency's core values into practice. A strong culture is the framework for decision-making and defines your agency's rules of engagement. Best of all, your agency culture can be a unique differentiator — a compelling reason why clients want to work with you. [e.g. 72andSunny]

NEW MARKETS / INDUSTRIES — FIND YOUR NICHE

Firms are spending lots of money on marketing service these days.

But they're making different choices and going beyond traditional ad or PR agencies. Rather than chase after the same clients as everyone else, define your value proposition where marketing services are in short supply and / or under developed. Investigate and find which markets or industries have firms that need you because they:

- Do ineffective marketing
- Are woefully behind the times and can't respond nimbly
- Steadily lose market share
- Can't sustain growth
- Miss new market opportunities (myopic, afraid, etc.)
- Are making less profit
- Can't bring in the sales like they used to

Bear in mind that your differentiation should be extremely difficult to imitate or copy. You could adapt a pricing model, and that's easily copied. Even if they did, it still doesn't mean they'll make money or do it well, but it can be copied. It's a low barrier to entry. For example, a strong agency culture that is distinctly unique is the hardest of differentiators to copy. The outward appearance (cool offices, HR benefits, etc.) can be easily imitated — but how consistently your entire agency delivers on your core values over the long haul is what always forces copycats to try something else. The more specific your differentiation, the more unique

CHAPTER 8

CONCLUSION

FOR YOUR AGENCY TO RAISE ITS MARGINS AND MAKE A GREATER PROFIT, YOU MUST GRADUATE FROM COST-BASED PRICING TO VALUE-BASED PRICING.

Doing so means you and your team:

- Become experts in inbound marketing with a track record of increasing clients' profitability to prove it
- Differentiate your agency's brand so the right prospects find and relate to you faster and more easily
- Know and master your agency's costs
- Become superbly efficient with great talent
- Adjust people, processes, systems and tools to support the highest efficiency and effectiveness needed
- Ease into value-based pricing using fixed project and fixed package pricing
- Experiment until you dial in efficiencies and pricing
- Master the art of selling inbound the way HubSpot does, so your contract and its price is a mere formality

As we said at the start, this is a journey. And every journey begins with the first step. You've just taken it. Looking forward to seeing you on the other side!