American Marketer

Business at its best

MARKETING

Challenges and opportunities that deliverable-based pricing represents to marketing

April 26, 2021

Solving the agency pricing model is key for marketers. Image credit: The Virtu Group

By MICKEY ALAM KHAN

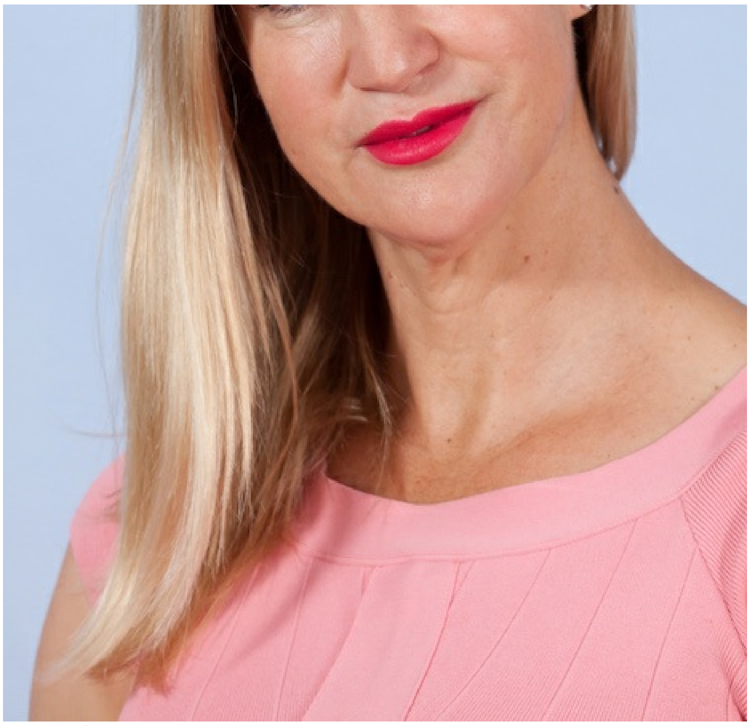
Ad agencies and marketing firms have hundreds of reasons not to do it. It requires a 180-degree change of mindset, involving moving from a risk-averse position of covering costs to accepting risk and using management information and innovation to get margin growth. It requires good change management, a new pricing model and a tech stack. All of which most agencies do not want to deal with, especially when they are under rate card pressure.

But Coca-Cola, Pepsi, JetBlue, American Express and Microsoft are all shifting their agency retainers to deliverable-based pricing models.

From the perspective of Tracey Shirtcliff, founder/CEO of London-based The Virtu Group that developed the Scope SaaS product, clinging to old ways like a raft in the ocean is no defense against the gaining headwinds of market forces.

Rather than shake your proverbial fist in the air, the smarter play is to embrace the inevitable change and get out in front of it as a leader. How to do that?

Ms. Shirtcliff spoke with *American Marketer* about the challenges and opportunities that deliverable-based pricing represents to the marketing sector.


Tracey Shirtcliff

Typically, ad agencies are resistant to deliverable-based pricing. What is the argument you hear most often against adopting this type of approach?

It requires a change of mindset. Moving from a risk-averse position of covering costs, to accepting risk and using MI and innovation to get margin growth.

Yes, it requires good change management, a new pricing model and a tech stack areas of transformation that we know agencies don't find easy, especially when they're under rate card pressure.

Overall, how has COVID-19 changed the way that ad agencies think about budgets?

Agencies were already experiencing the move from annual retainers to more flexible ways of providing services and COVID-19 has accelerated this even further.

The best agencies can plot a reroute for a client, before the client even knew there was an issue ahead.

Why is time-based pricing so engrained? What is the problem with it?

Selling time not just with ad agencies, but all professionals who sell their professional services such as lawyers or therapists essentially rewards inefficiency.

Historically, they've always sold people, roles and time. Work is priced from scratch every time and it's a difficult, finger-in-the-air process. It's rarely right the first time, and it's inflexible and hard to adapt if something changes once you've priced it. Meaning, you have to start again.

Finally, and most importantly it rewards inefficiency. The longer it takes to complete a job, the more valuable that job is, which is simply not true.

Agencies have been doing this forever and it started when they could no longer make money from commissions by selling creative output alongside media. Their solution was to sell the hours it took to complete the work because it was the least taxing some might say lazy way to solve the problem.

So, what is a better way to do it? What model should replace time plus materials?

When we look at pricing intelligently, I believe strongly that it's better to sell things, outputs and deliverables instead of marked-up time and materials.

Let me tell you why and let's also open up the options.

Deliverables can be flexible. They can be swapped and changed. They can be set with clear definitions, KPI's and timings, and they reward efficiency.

If I produce them better, smarter and with additional value, I will get paid more for them even if they take less time to complete.

complete.

Is there not a value that agencies bring to clients that is hard to quantify? For example, their value based on knowledge, talent, know-how or reputation?

A deliverable-based model allows for skill, experience, complexity, efficiency and innovativeness of work to be recognized and rewarded when set up properly.

The next step would be to sell value. For agencies, this is the Holy Grail to be paid in line with the true potential ROI value of their work. Or is it?

I was asked this question by the 4A's recently: Is there a system or way to charge for value in agencies?

I immediately started to chuckle because right now agencies are still selling cost-plus and FTEs [full-time equivalent].

The industry hasn't even moved to a deliverable-based remuneration model yet, with the exception of a very few and the lip service of a few more.

If we aren't even charging for things, how can we leapfrog straight to getting paid for the value we deliver? Indeed, how?

So, what is the next step in your view?

It's about moving to a different story and navigating a new journey.

Before you can make the jump straight from selling time to selling value, you have to go through the process of selling deliverables first.

You cannot and should not even entertain the notion of selling value until you can disconnect your cost-plus pricing model. However, it's worth exploring the discussion.

If we're going to attach value to the work we do, what's the metric we need to use?

Interesting. How would you answer that question? What metric should we use?

For much of what agencies do, tracking value is virtually impossible.

Yes, work that leads to a direct increase in sales can clearly be measured and valued.

Mostly though, it's hard to connect your work to a tangible, quantifiable result for the client.

For example, let's say an agency is tasked with completing a competitive review for their client. There is undoubtedly value for the client in this piece of work.

However, it's not likely to lead to a direct and quantifiable sales increase. The value/pricing discussion stalls here over something that is a key deliverable.

The value that an agency delivers isn't just in sales. It's in creativity, originality, integration. Not only that, every client, brand and market will realize different gains from your work.

When you look at it like this, you need to create a much more sophisticated value framework based on the individual value KPIs for each client and circumstance.

There needs to be a base measurement before value is added and an understanding of the risk/reward relationship.

Value metrics need to take into account the connection between greater investment equaling greater return.

What if you are an agency working for a brand that is already the market leader and very little room to grow market share?

Then it becomes about protecting and maintaining that position.

The value you can deliver would be connected to loyalty, awareness and advocacy.

If you're working with a challenger brand in the same market, their priorities are all about growing market share. Their value metric is different.

All of a sudden, your simple, or not so simple, framework doesn't fit all purposes. Different needs require different value metrics.

For agencies to have a chance of creating a framework that takes into account the complex value metrics for each of their clients, they first need to shift to a pricing model that at least supports outputs or deliverables to start with.

Pricing needs to evolve through this phase and only when we start focusing on outputs can we begin to entertain the idea and complexity of charging for value.

Like it or not, we need to embrace deliverables.

What would be your three best-practice tips or advice for brands and agencies mulling over this type of change in approach?

First, the pandemic has created a more trusting and healthier form of accountability.

If the output's great, then it doesn't matter where we're working, nor, more importantly whether a piece of work took fifteen minutes or three hours.

Next, brands need to understand what they're buying.

Paying for time tells you nothing. You have no way of linking spend back to what an agency has done for you, to their contribution towards your organization or campaign's goals.

Finally, agencies struggle to track time, defend rates and monetize thinking. They need to understand what they're selling, and price not cost it correctly.

To do this they need to have a baseline of deliverables that accurately considers the resources and effort involved and the value delivered.

These elements need to be tracked to verify assumptions and the MI used to inform pricing decisions going forward. Invest in technology that will support you.

MOST POPULAR

1. Brands should incentivize consumers to go green
2. Retailers expanding pickup options, facing staff shortages this holiday season: report
3. Owning the customer experience in an Amazon-disrupted market
4. Shifts in retail sales of women's designer bags
5. Macy's trademark decision confirms importance of surveys
6. Year of the Rooster luxury items: Hit or miss with Chinese consumers?
7. How luxury is the millennial's unlikely weapon to fight social inequality
8. Luxury brands need to change their marketing strategy for India
9. Green is the new black: Backing the Fashion Pact
10. How resale, rental and flex payments can put luxury within reach – especially now

© 2021 Napean LLC. All rights reserved.

American Marketer is published each business day. Thank you for reading us. Your feedback is welcome.