



Where is Value Pricing in Today's Mix?

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Value pricing -- *the practice of setting the price based on the value of the service to the client* -- appears to be on the increase. In personal interviews with small marketing communication firms, I am told that approximately one-quarter of small and sole practitioner firms have implemented value pricing.

This estimate is probably too high because many of these professionals don't follow the specific tenets of value pricing. I believe less than five percent practice value pricing in its true sense.

My definition is you have to price before you do the work. Value pricing does not always mean a higher price. Value pricing could very well end up a lower price to the client. What's important is that the price is set commensurate to the value, and that could mean that some of the work marketing communication companies do is going to come out at a cheaper price to the client.

I found that many people incorrectly consider value pricing the same thing as value *billing*, which firms do after the fact, marking up the cost of service after reviewing the hours and expenses spent on that client's account.

In contrast, firms that use value pricing enter an agreement with the client that sets the price up front and that offers a 100 percent unconditional money-back guarantee. And I believe that should

be in every client agreement. Yes, partial refunds are sometimes due to clients, but in most of those cases the company admits they screwed up and they would have discounted it anyway.

Most marketing communication companies unlike accounting firms don't have a service guarantee. If they have a lot of client complaints, they'll do what it takes to keep the clients happy. So it shouldn't be a big stretch to develop your own value pricing service guarantee, to "put it out there and get marketing buzz." Do you remember Fred Smith, founder of FedEx who wrote "Absolutely, Positively Overnight" on every plane? Smith acknowledged that there are "unreasonable" clients. He just said, "You should fire them anyway!"

Getting Started: Three steps to begin establishing value pricing

I certainly know that moving away from cost-plus pricing and the billable hour is scary for marketing communication companies. After all, the agency business has relied on this method for more than three-quarters of a century. I recommend three beginning steps in the transition to value pricing.

- **Create a new position, a Chief Value Officer.**

This person owns the value and pricing functions and is held accountable for creating and capturing value across the entire range of clients. Pricing

should get as much executive commitment and attention as the creative product that is managed by the Creative Director.

I'm really excited about this idea.

I've helped a few marketing communication companies establish the CVO position, but confidentiality precludes me from naming the firms or referring you to them.

The CVO is an unusual position, one that has yet to prove its value. Some marketing communication companies moved forward with the visionary idea and created criteria on the type of person who can fill CVO shoes.

The five-prong criteria include leadership, attitude and commitment, as well as experimentation and youth. The latter probably raises eyebrows organizations, like people, tend to calcify with age, and youth can keep the blood pumping at a more vigorous pace. No doubt they (young people) will make more mistakes and incur more failure, yet risk is where profits come from.

- **Implement a pricing group....**

... a group of people in your company, who, with the CVO develops pricing policies in alignment with the company's overall strategy.

The group meets as often as necessary and views pricing from a company-wide perspective. This means someone may need to communicate and work directly with, for example, the account service folks to make sure account managers understand the full value of the service. I think the less time it takes a company to establish a price, the lower the price will be. Why? Because, most likely, the company has not given enough thought, creativity, and innovation to the value proposition being offered to the client.

Some of the functions of the pricing group are: establishing all client annual fees, including minimum prices and tiered bundling offers; reviewing and grading clients; establishing pricing

policies, who has the authority to grant exceptions, and the company's 100 percent money-back guarantee; conducting after-delivery review; dealing with price objections from clients and account managers; becoming active members of a network where they can make pricing comparisons.

- **Remove those that are responsible for less-than-accurate pricing from the pricing mix.**

Once you have a CVO and pricing group in place, it's time to take bad pricing people out of that role. Oftentimes, a partner/manager is responsible for setting the price, but that doesn't necessarily mean he or she is good at it.

Centralize the pricing function and don't leave it up to the individual mood of a partner. You can go into any advertising agency, graphic design group, public relations firm, interactive group or marketing consultancy in this world and ask them, "Think about the people who do pricing in your firm and grade them as acceptable, mediocre, or wimps. Since pricing is the number one driver of profitability, since prices are so sensitive to price changes, why would we let mediocre or wimpy partners/managers price? You need to be good at it or you shouldn't be doing it."

Pricing is far too important to the viability of the company to be left to mediocre pricing managers. No other area -- not cost cutting, productivity increases, or increases in volume -- can have as large an impact on profitability as does pricing.

Of course, there are internal challenges during this transition. I would point out that a partner/manager might have trouble accepting the CVO's pricing authority and sabotage value pricing (for instance, by meticulously tracking time in an attempt to prove hourly billing is more profitable to the company). Another obstacle is poor training. The entire company needs to understand the process, including the required paperwork. Not

catching scope creep and [not] pricing change orders will kill an attempt to establish value pricing.

Finally, companies need to defend their prices and resist giving up too soon. You could compare this to Tiger Woods giving up after a bad shot on the second hole. We're not going to become better at pricing by becoming better cost accountants. We're going to become better by focusing on the value that we're creating for the client. We supposedly already know our costs. The hard part is figuring out the value.

For those companies that have properly implemented value pricing, I have seen very positive outcomes, of which one begets another. The best outcome is an improved quality of life, as employees are no longer fretting over the amount of time they spend at the office or with a client. In turn, clients get better service because they're not afraid to call and rack up the hours. Firms are more profitable and able to shed the less important clients, and this gives workers more time to "think and innovate."

What the future holds

I acknowledge the roadblocks, all of which stem from the mentality, "this isn't how we're used to doing it."

To compound this problem, there is no mandate requiring us to change. The companies that have embraced it seem to build better profits, increase their return per full time employee and have a less stressful environment.

We haven't reached the tipping point on value pricing. More firms seem to be embracing the concept, but I'm still waiting for it to become a reality in smaller companies. They seem to be "stuck" on hourly rate plus mark-up pricing. They just can't see that they are "digging ditches" for their pay.

I need to mention the battle for talent and caution firms that stick to the timesheet method that they will have a difficult time recruiting young talent. The young kids should be given the chance to shake things up and ask "why are we doing this?" These kids are knowledge workers and understand the value that they bring. Yet we're treating them like union employees, making them worry about being paid by the hour.

Conclusion

Now, with all this talk of pricing and profits, let's not forget the needs of the client. I can assure you they want good communication, efficient turnaround and met promises.