

INTRODUCTORY

YOUR PRICING IS WRONG.



One critical mistake
that most agencies
make.

A publication of

HubSpot

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 THIS BOOK

Introductory content is for marketers 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 marketers 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 marketers 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.

Share This Ebook!





FOR THE LOVE OF MARKETING.

HUBSPOT'S ALL-IN-ONE MARKETING SOFTWARE.

... brings your whole marketing world together in one, powerful, integrated system.

[Request A Demo](#)[Video Overview](#)

MARKETING ANALYTICS

Analyze your web traffic and see which sources are generating the most leads.



SEARCH OPTIMISATION

Improve your rank in search engines by finding and tracking your most effective keywords.



BLOGGING

Create blog content quickly while getting SEO tips and best practice pointers as you type.



LEAD MANAGEMENT

Track leads with a complete timeline-view of their interactions with your company



EMAIL

Send personalised, segmented emails based on any information in your contact database.



SOCIAL MEDIA

Publish content to your social accounts, then nurture leads based on their social engagement.

Share This Ebook!

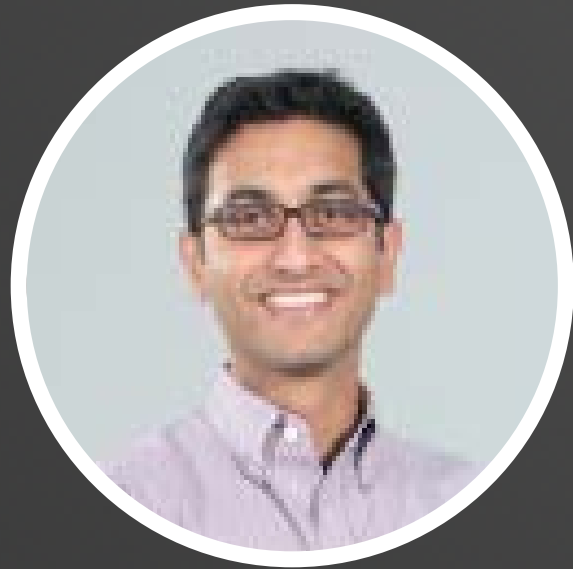


WWW.HUBSPOT.COM

YOUR PRICING IS WRONG.

Written By Arjun Moorthy

Arjun is the VP of Business Development and Partner Programs at HubSpot.



FOLLOW ME ON TWITTER.
[@JUICEMOORTHY](https://twitter.com/JUICEMOORTHY)

Introduction.

Recently one of HubSpot's very best partners decided to redo their well-regarded pricing page, saying "That model of 'here's everything for \$X' is broken, and has been either un-qualifying us when we should be qualified or setting us up for failure."

Their experience points to how hard it is for agencies to get pricing right, yet this may be the single most important thing to get right in order to grow your agency in a sustainable manner. In this short ebook, I will cover:

- Why getting pricing and packaging right is crucial
- Price by value rather than by cost
- Two ways to provide value
- Not promising end results (sales) too early
- Understanding your costs, and
- Whether you should publish your pricing on your website

So let's dig in!



Why Getting Pricing and Packaging Right Is Crucial.

1. **If you price too low** you may not make enough margin to support your business' growth.
2. **If you price too low** you're less likely to go the extra mile that is always required because no project is ever perfectly scoped.
3. **If you price too high** you get beat out by the competition needlessly.
4. **If you price too high** you may be replaced in the future by a lower cost competitor because the client can't tie your price to the value you deliver.

Share This Ebook!



Price by Value Rather Than by Cost.

The last point hints at the underlying reason why most agencies get pricing wrong: they price based on their costs rather than value delivered. Pricing by cost means that you determine how much a job will cost you and add a markup. However, this means that your client pays for your efficiency (or lack thereof).

Example

If it takes you three hours to produce a blog post, even though another agency can do it in two hours, your client has to pay for the inefficiency built into your price. Furthermore, your client doesn't actually care how long it takes you to do any particular task. They care far more about what value you drive to their bottom line, especially when most retainers are \$25K-\$100K/year. Every client would rather talk about value delivered than hours provided.

“Bury the billable hour.” - Blair Enns, Author
of Win Without Pitching

Share This Ebook!



Two Ways to Provide Value.

There are two simple ways for an agency to provide value to a client. Either bring in more revenue, or save cost. In order to determine which of these your agency will provide (and implicitly price by value), you need to understand your client's business in two specific areas:

- The lifetime value (LTV) of customers for your client
- The client's current marketing cost of acquisition (COCA)

The LTV of customers is crucial to understand because it ensures that marketing spends a commensurate amount to acquire that customer.

For example, a customer that makes many repeat purchases may be worth spending a lot on -- even taking a loss on the first few purchases -- if you know that on average they make many more purchases.

Knowing this metric helps the agency determine how much value, in the form of revenue, the agency will provide.

Share This Ebook!



Not Promising End Results (Sales) Too Early.

Pricing by value inherently means tying your efforts to some marketing outcome, typically a traffic, leads or customer number in the client's funnel.

However, an agency cannot, and should not, promise bottom-of-the-funnel numbers like customers -- because the agency doesn't know the client's sales capabilities and historical close rates. Hence, at least early in the engagement, the agency should commit to the top-of-the-funnel (TOFU) numbers -- traffic and later on, leads -- until the sales capability and close rates are well understood.

For some agencies, committing even to the TOFU metrics can be daunting, as there are few guarantees in marketing. However, any agency that has this level of transparency in their efforts and pricing will help build a high degree of trust between the agency and the client, and ultimately trust is what will keep the two partners together for a long-term relationship.

Share This Ebook!



WWW.HUBSPOT.COM



Example:

Let's say your typical employee costs \$52/hr (\$80K salary + 30% overhead costs).

A 75% utilization rate means the effective cost of this employee is $\$52/\text{hr} / 0.75 = \$69/\text{hr}$. -- i.e. this employee needs to bring in \$69 per billable hour to cover their costs (and then bring in more to actually have a profit).

Let's assume there is one admin for every ten client-facing employees in the agency. So we amortize this admin's cost, say \$50k/yr, over all client-facing employees, adding \$5K of cost to each employee or \$54.5/hr cost. Adjusting for utilization again gives an effective cost of \$72.6/hr.

Share This Ebook!



Should I Publish my Pricing?

This all gets to the heart of another popular question agencies have:

“Should I publish my pricing?”

Publishing cookie-cutter pricing does a disservice to clients and to you. Fundamentally, the marketing spend a company has is tied to growth the company expects. (Often marketing spend is a % of revenue this year for a growth rate next year). How can you publish a standard price if you don't know how fast a particular customer wants to grow next year?

However, most buyers today expect pricing information given the vast information available on the internet from other agencies. So offering a range of pricing options with some guidelines on the types of activities will set expectations on both sides while ensuring that you offer the right level of service for what your client needs to support their growth.

If you're having trouble calculating all these elements -- LTV, marketing COCA, net margins, fully loaded costs -- to establish value-based pricing, you don't have to do it on your own.

Get in touch and we'll walk you through it with HubSpot's calculator.

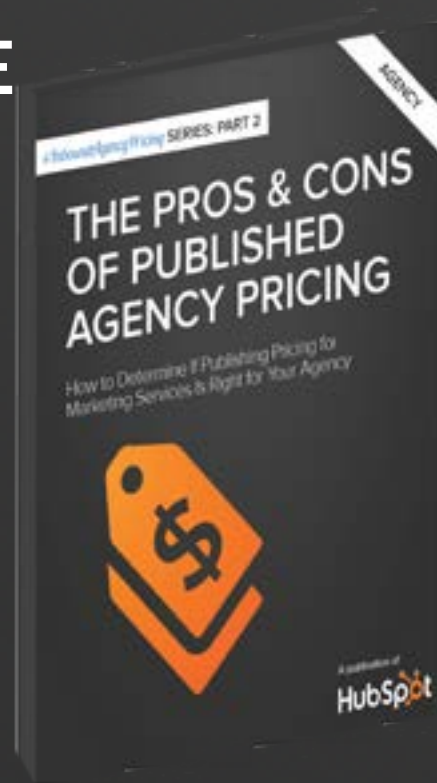
Share This Ebook!



Conclusion.

Hopefully this has all helped you determine the right pricing strategy for your agency. As detailed above, this means understanding your costs, and positioning your public-facing pricing around the value you can reliably deliver to your clients. To learn more about pricing your services, download The Pros and Cons of Published Agency Pricing to see how fellow agency principals are tackling the topic of pricing.

DOWNLOAD HERE



LEARN HOW TO BECOME AN INBOUND AGENCY.

Talk to a HubSpot specialist to learn how you can transform into an inbound agency. [Click here to contact a partner marketing specialist today.](#)



TALK TO US
TODAY.



[HTTP://BITLY.COM/CONTACT-SALES-HUBSPOT](http://bitly.com/contact-sales-hubspot)

