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## Value-Based Pricing is a process, not a project

Posted on [February 18, 2013](#) by [Jon Manning](#)

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*This post is by Jon Manning, Founder & Principal Consultant at [Sans Prix](#), a management consulting firm that helps companies monetise the value of their products and services with smarter, value-based pricing strategies.*

In my last post, I talked about what Value-Based Pricing is, why companies are adopting it, and why advertising agencies run the risk of “*commoditisation hell*” by not adopting it. But it would be remiss of me not to tell you how to start your Value-Based Pricing journey.

A couple of years ago, I went on a ride-along with a Sales Rep from one of Australia’s biggest online advertising portals. During the sales pitch, the rep told the advertiser about all the value they were receiving from their advertising: unlimited listings, preferential pricing on enhancement products, page impressions, click-thrus, email enquiries, phone calls, and so on.

The advertiser silently took all of this in, and then replied, “I hate phone calls!” The sales rep was taken aback. “What do you mean, you hate phone calls? That’s the most qualified lead to your business that we provide”, she said. “I don’t want to be answering my phone at all hours of the day or night. I value email

enquiries because I can respond to them when it suits me.”

This (true) story epitomises why the advertising industry has been a laggard in adopting Value-Based Pricing: they haven't worked out the real value they are offering. Value-Based Pricing starts with understanding value from the customers' perspective. The Sales Rep thought that phone calls were the most valuable ROI metric. She was wrong, because value is in the eyes of the beholder (the advertiser).



As I mentioned in my last post, there are three ways a vendor can provide value to a client, either by increasing their revenue, reducing their costs, or minimising their risk. The table below provides just a couple of examples in each category for the advertising industry (there are many more):

**Increase  
Revenue**

The advertised products command a higher selling price  
New or incremental sales (via new channels or

new markets)

**Reduce  
Costs**

Creative campaigns foster greater customer awareness and loyalty, which...Reduces the Cost-to-Serve

**Minimise  
Risk**

Campaigns are optimised in (next to) real time PR & Reputation Management

Sometimes, finding sources of value to monetise requires “out-of-the-box” thinking. Over Thanksgiving last year, Facebook sent a “swat team” to Wal-Mart’s headquarters in Bentonville with the specific objective of optimising 50 million mobile ads that Facebook users would see for toys, televisions and other discounted products. [According to MarketingWeek](#), “...Wal-Mart’s senior team were apparently won over by the service they received and the results”.

So how do you monetise advertising services on the basis of value? Here are just three alternatives:

### Option 1: Upfront Pricing

One of the best ways to align the price paid with the value received is to ask the advertiser upfront how much they think the solution you offer is worth. Not convinced that pay-what-you-want (PWYW) will work? Ask the owners of HumbleBundle.com, a website that has generated \$23mill in payments since launch, utilising a PWYW pricing model.

### Option 2: Contingency Pricing

If the advertising solution delivered achieves a satisfactory outcome, the agency’s fee is significantly higher than what it would earn under a normal fee arrangement. But in the case of a below par result, the agency gets paid less, costs only, or in the worst case, nothing.

Like PWYW, this pricing model may appear scary too, something that must have crossed Google's mind when they realised that if a user doesn't click on an ad, they wouldn't get paid.

### Option 3: Guaranteed Pricing

This is not a Value-Based Pricing model that agencies should jump to from the go-get, but where an agency has the knowledge and experience to offer an iron-clad guarantee around a satisfactory outcome for a campaign, it can be a highly differentiated, premium priced alternative.

Value-Based Pricing is a process, not a project. Careful consideration needs to be given to which clients it is applied to, and in what magnitude. It won't happen in the advertising industry overnight...but it will happen!

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### About Jon Manning

Jon Manning is Founder & Principal Consultant at [Sans Prix](#), a management consulting firm that helps companies monetise the value of their products and services with smarter, value-based pricing strategies. Jon is also the entrepreneurial mastermind behind [Pricing Prophets](#), the worlds first and only online pricing advisory service where companies can ask a panel of global pricing experts and thought-leaders what price to charge for a product or service, and why.

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