Let’s kill the hourly rate: We are leaving money on the table

One of the hottest topics and hotly debated threads on r/ppc is about rates and what you should charge. What does an agency charge? What should I charge as a freelancer? How do you charge if you do work on Amazon versus Google or Facebook?

Different ways to charge clients

There are a lot of models for how you are going to charge a client. No one model is perfect and you have to do what is right for your business in the end.

Hourly

Bill for each hour of your time and track how many hours you worked that week. This is one of the most common ways we have seen freelancers charge for their time.

Pros

Work more hours and you know you are going to get paid more (all things being equal). Clients love to love the hourly rate because they are familiar with it from designers and other creative industries.

Cons

As you get better at a task and it takes you less time, you end up making less money even if you are getting better at

your task. How does that make any sense? This is the biggest drawback to the hourly rate, in my opinion.

Percent of spend

Scale that spend up and bill each of your clients more money at the end of the month. This is the most common way we see agencies charge. It’s what clients expect to hear but increasingly clients do not want to pay this way as it can lead to abuse.

Pros

As clients trust you and they spend more money, you see your agency revenue increase in lockstep with that higher spend. Assuming that increase is leading to a profitable business, this can work out well for both sides.

Cons

Not every client loves this because it can be abused by some agencies to just spend money but not have it be profitable. Also, there are some clients who don’t think an agency should be paid $10,000/month, even if they manage a large ad spend budget that has a good ROAS.

This can lead to “negotiation” on agency fees or firing the agency and taking it all in-house. The latter being from a lack of value for what agencies can do and thinking they are easily replaceable. You can not in-house an outside point of view for your business.

Monthly retainer

Charge a fixed or flat monthly fee for the work that was agreed upon in the contract and proposal.

Pros

It keeps billing simple and both sides know what to expect each month. It’s easier to sell it to clients versus other methods above. Clients are less likely to feel like they are getting ripped off.

Cons

Scope creep can increase the workload and yet, it can be harder to increase that monthly fee. If you don’t think about where you will be a year from now with that client, you could find yourself with an unprofitable client on your hands.

Performance-based

Not as widely used but an interesting model we have done with clients. You set a target based on top-line revenue you bring into the business. As you hit different tiers, you get paid on that tier level.

Pros

Clients love it because they feel the agency is putting skin in the game. If the agency is good at what they do and the client’s site is top-notch you can make a lot of money each month.

Cons

This depends on trust from both sides and a site that is ready to convert. If that site is not good, you can spend a lot of time going nowhere. Also, some clients may not pay the bonus even after the agency did an amazing job. I worked on an account in the UK where this happened.

Mixed Model

Do a combination of the above. Maybe you do a month strategy fee and then do 5% of ad spend each month. You could do a

monthly retainer with a performance bonus basked in. There are a few ways you can mix this model up.

Pros

It gives you a base retainer for each client but gives you the upside if work increases and the client wants a deeper relationship. You can make more money to cover your costs.

Cons

A more complex pricing model that some clients might find more complicated. It can be harder to explain to some clients or turn them off because you still have a percentage of spend in there.

Kill that hourly rate

Once you start charging hourly, you often get into discussions about how long something took.

This could be because the client was thinking it would take less time or they feel it should take less time because they used to do it themselves.

If you spend all of your time talking about hours and how long a task took on their invoice, the conversation shifts away from outcomes and towards labor.

This shift is about pressuring you to be faster at a task, where there might not always be a faster way to do it. Sometimes faster is not better if you don’t reach the same outcome.

Less time spent on a task means the client spends less money on marketing. So many view marketing as a cost center, when

it’s an investment center. Based on my experience, the majority of clients who like hours are just trying to find the cheapest person to do the task.

Hiring agency A at $50/hour is going to be the same as hiring agency B at $100 or $150/hour. We all know this is not the case.

If agency B comes down in price, then this tells the client that this set of work is worth that much. Even if it’s going to cost you a lot more to deliver on the work. We should stop selling hours and starting selling outcomes.

No one right way future

As much as I believe there is no right answer to what we should charge as an industry, I also believe that we should stop underselling ourselves and leaving money on the table. The biggest way we leave money on the table is by competing on price.

Tell me if you heard this one before: you are talking to an awesome client and the brand is one you want to work with. They love you and you love them…you got that first date vibe going on. They ask about your pricing for the project and you tell them your fee structure.

There is this pause and you just wait for them to respond. What has only been 30 seconds feels like minutes. The client then tells you some other agency can do the work for X or your hourly rate of $150/hour is too high because they talked to someone who can do it for $100 cheaper.

Not valuing the work can come from not understanding the task and what it takes to deliver. What is worse is that the client

does not value the task and just wants someone, anyone…the cheapest agency to do the work. Large brands have been known to be just as bad at this as SMBs.

What do you do? Some agencies will come down in price and not change the scope of work. Other agencies will come down in price but will ask for a change in scope of work. Other agencies will just say they don't compete on price and this is what it costs to do the work right the first time.

Working with a client needs to be a partnership. Both sides need to understand that each other's success creates a rising tide which lifts all boats. Creating a win-win partnership is the only way that both sides will succeed and will be in business a year from now. Remember, an agency is a business and needs to make a profit. Killing the hourly rate can help us get there as an industry.

Duane Brown will be participating in a roundtable discussion about profitable pricing strategies at SMX East on Nov. 12.

More about SMX

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About The Author

Duane has been called an international man of mystery and

digital nomad by friends. He has lived in 6 cities across 3 continents and visited 40 countries around the world. He uses his curiosity for people and love for people watching to run better marketing campaigns for clients. After leaving Toronto in 2011 to gain an international view of the world. He has worked for Telstra in Australia and brands including ASOS, Jack Wills and Mopp (bought Sept. 2014) while in London, UK. He now lives in Montreal, Canada helping brands grow through data, CRO and marketing at Take Some Risk Inc.
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