

Billing on outcomes versus hours

By [Phillip Britz](#), issued by [Urban Espresso](#)

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When it comes to revenue models for advertising agencies, charging for time isn't the only way to bill a client. In fact, there's a far better way for an agency to bring in revenue that benefits the client at the same time: an outcomes-based pricing (OBP) model. But what is OBP, and what are the benefits?



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With a traditional time and resource base revenue model, the agency effectively tells the client that they will spend a certain number of hours trying to solve their particular business problem. If, at the end of that period, the agency hasn't solved the problem, the client has to spend more hours until they are satisfied the problem has been solved. With an outcomes-based pricing model, the agency doesn't base their pricing on how many people and hours it will take to complete the requirement. Rather, they determine what the value of the outcome to the client is and charge a set fee for this.

There are several benefits to an OBP approach:

- **It aligns the agency with the client.** Charging an hourly rate means that the more hours an agency charges a client, the more they can bill. On the other hand, the client wants the agency to use as few hours as possible and complete the task as quickly and efficiently as possible.

This creates a fundamental misalignment in agendas and can result in tension between agencies and their clients. In fact, this has spawned an entire industry of cost consultants who evaluate the amount hours dedicated to a piece of work. So more hours and budgets are spent monitoring the amount of hours an agency charges, budget that could have been spent solving business challenges.

- **It saves resources.** A downside of charging hours is that reconciling every cost estimate, based on the number of hours quoted versus the hours used, takes a significant amount of resources and administrative effort – which means time and budget taken away from solving for your clients.
- **It creates certainty for the client.** With an OBP model, the client pays a set fee for an outcome. This model creates

financial certainty for the client because they know exactly what they are buying at a set fee. With an OBP model, an agency can never go to a client and say that they have run out of hours and need to buy more because they have bought a deliverable not the hours associated to it.

- **There's more incentive to turn work around more efficiently.** With an hour-based retainer model, there is no real risk in burning hours to solve a problem. There is also little incentive for an agency to turn work around efficiently. With an OBP model, it's the agency's responsibility to be as efficient in their work as possible at the set price. The more efficiently the agency solves the problem the more profitable the project becomes.

At [Demographica](#), we employ an outcomes-based pricing model, we charge a set fee to solve our clients' business problem. This means that the cost to client stays the same whether we solve in two days or two months, whether it takes us three reverts or 30. And **if it takes us more time and resources than we originally estimated, then that's our problem – not our client's.**

Using an outcomes-based model means that we don't use any timekeeping software. All our clients need to do is decide whether or not they are willing to pay X for result Y. This structure also means that our clients can make intelligent business decision based on what price is commercially viable to pay in order to solve a business problem. We work with our clients to determine what this figure is by creating a business case for the solution to the problem at hand.

Some might be wondering how you deal with a client who has nine reverts on a banner ad? Our view is that we back our approach to get it right more often than not, and that has been our experience so far. We also believe in spending significant time with more senior resources to complete even the smallest tasks. This formula of giving senior resources ample time to deliver on all aspects of the project means we win far more than we lose.

With an outcomes-based billing model, it becomes the responsibility of the agency – not the client – to deliver the solution efficiently and profitably.

ABOUT THE AUTHOR

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