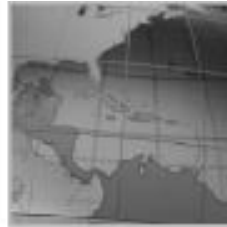


Analysis



Business Development Services



November 2011

Pricing to Extract and Maintain Value from Offering Cross-Media Marketing Services

Service Area

Business Development
Strategies

[Comments or Questions?](#)

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Introduction

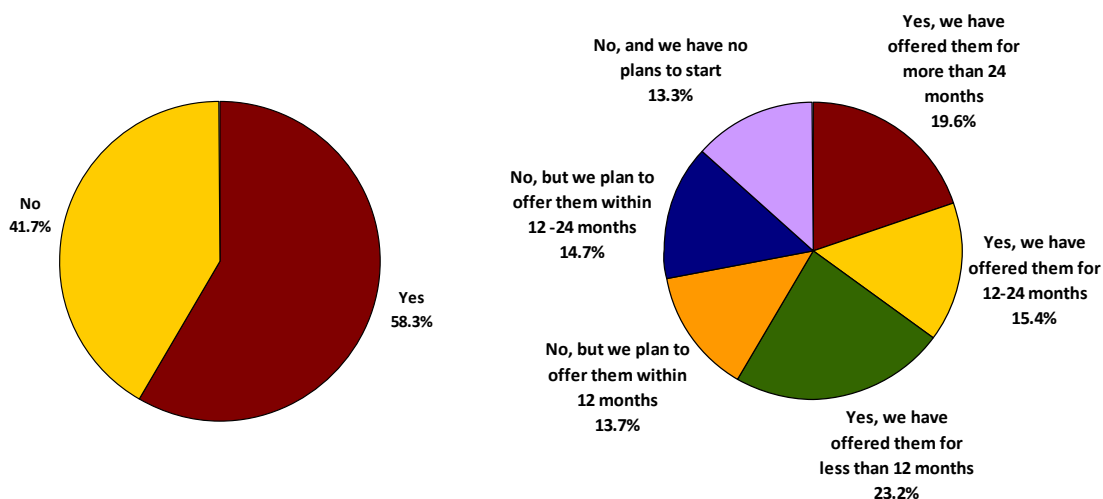
Print service providers have historically given away value-added services to win printing business—a practice that has hurt profits over the long term. It is time to change the pricing culture! The move into cross-media marketing services offers print service providers the opportunity to fortify profits by charging for the value these services deliver to customers. This report provides a detailed look at the pricing strategies in practice at leading firms offering cross-media marketing services, as reported in InfoTrends' recent research study *The Evolution of the Cross-Media Marketing Services Provider*.

The Evolution to Offering Cross-Media Marketing Services Has Begun

The graphic communications industry is in the midst of a natural evolution where firms are moving from offering print-based services to offering cross-media marketing services. Firms of all sizes are expanding media types offered and backing them with marketing services, such as creative, campaign strategy and management, as well as data analytics. The idea is to have a variety of marketing communication tools on hand that can be custom blended into the perfect media mix based on individual client needs to generate results. A core component of that mix is print.

InfoTrends' recent research study *The Evolution of the Cross-Media and Marketing Services Provider* surveyed more than 280 print/cross-media service providers to understand the current state of cross-media and the evolution taking place in the graphic communications market. Study results indicate that firms understand the critical importance of getting into cross-media services. Of the 285 survey respondents, 58% are offering some level of cross-media services today. Furthermore, 87% of respondents were offering services today or had plans to offer them in the next 24 months.

Figure 1: Do you offer cross-media marketing services?



N = 285 Print Service Provider Respondents

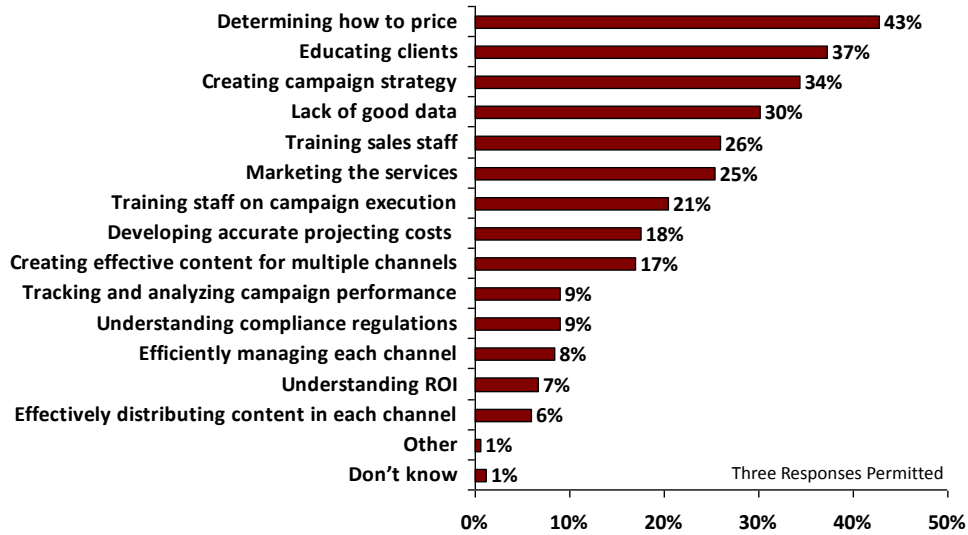
Source: *The Evolution of the Cross-Media Marketing Services Provider*, InfoTrends 2011

Pricing is the Key Challenge to Offering Cross-Media Marketing Services

An underlying theme from our research is that firms are struggling with pricing cross-media marketing services.

Print service providers who were offering cross-media marketing services reported determining how to price as their top challenge. This was one of the recurring themes from our research.

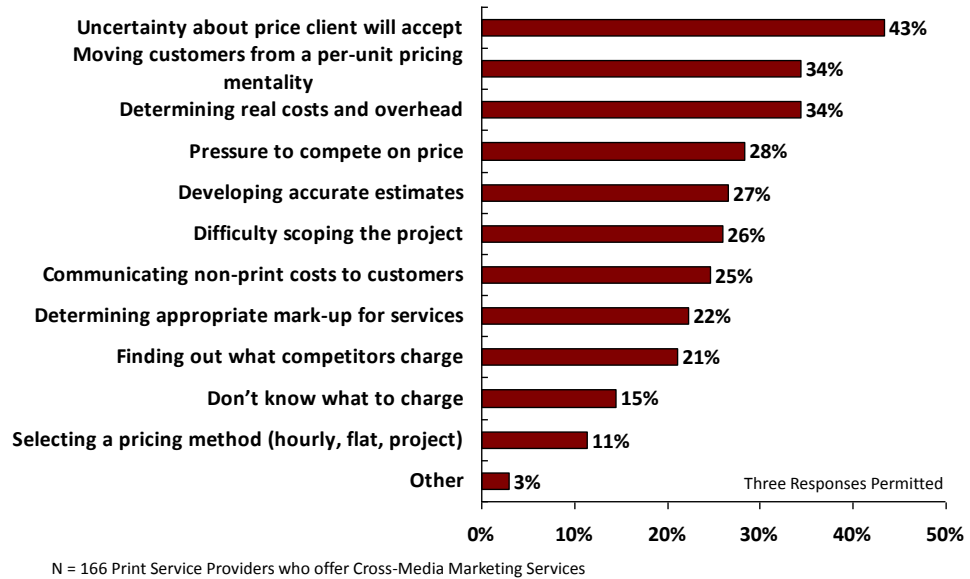
Figure 2: What do you consider the top three challenges for OFFERING cross-media marketing initiatives in your print operation?



N = 166 Print Service Providers who Currently Offer Cross-Media Marketing Services

A deeper dive on the pricing question revealed that the top challenges encountered by PSPs offering cross-media marketing services were uncertainty about the price clients will accept (43%), moving customers from a per-unit pricing mentality (34%), as well as determining real costs and overhead (34%).

Figure 3: What are your top three challenges in pricing cross-media marketing services?



The Good News: Firms are Charging for Services

The good news in today’s market is that service providers clearly understand that they need to charge for cross-media services. At the inception of Web-based services, hosting, and variable data, service providers had a tendency to give these services away. With the exception of project consultation and project management, more than 85% of cross-media providers are extracting value for advanced services. The fee structure varies; some charge project fees while others bill out at an hourly rate.

Figure 4: How does your company charge for the following cross-media marketing services? (Tier 1)

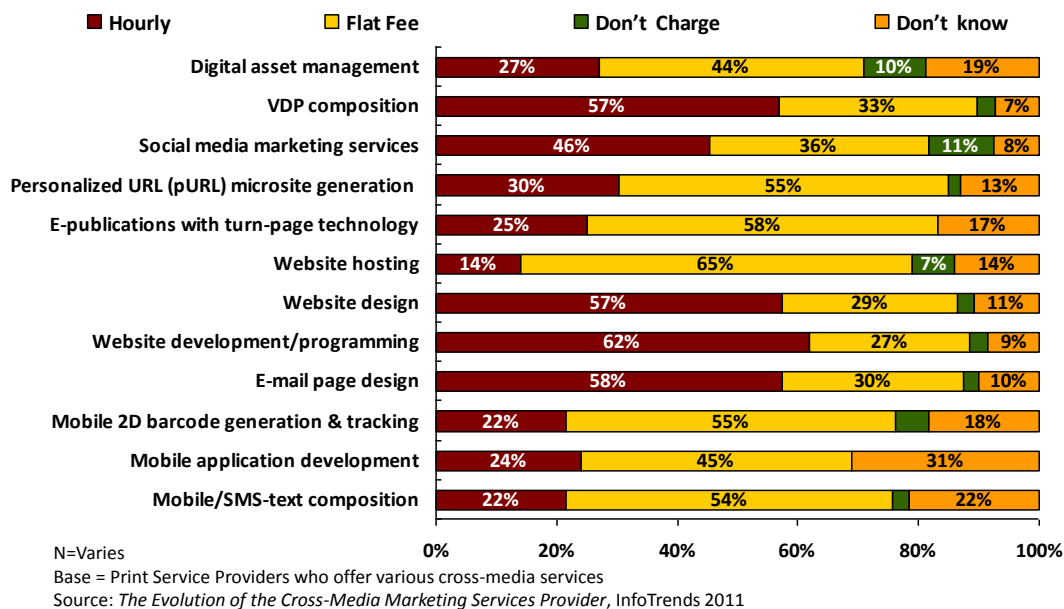
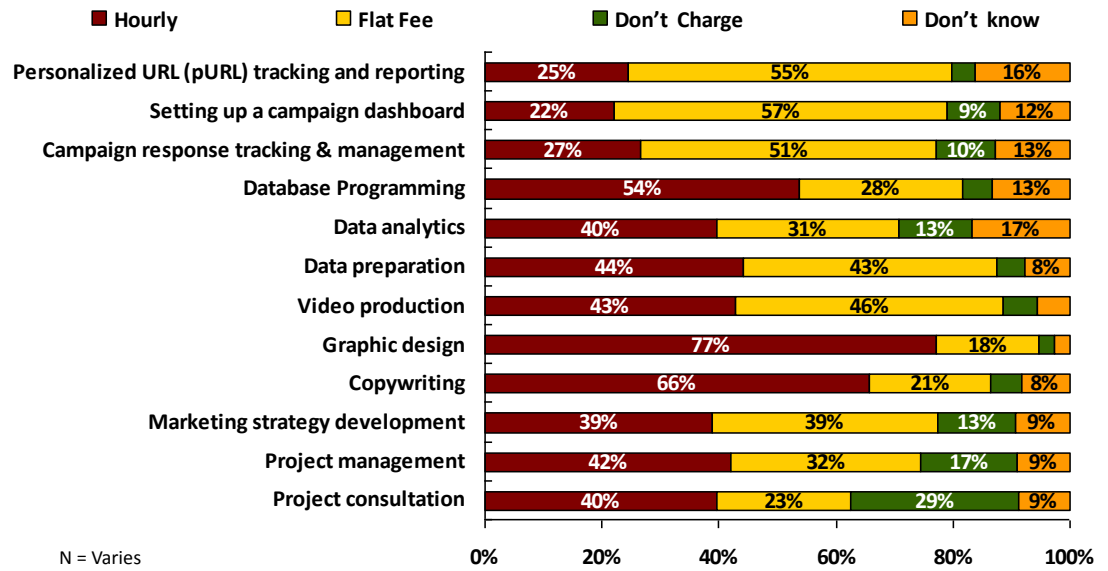


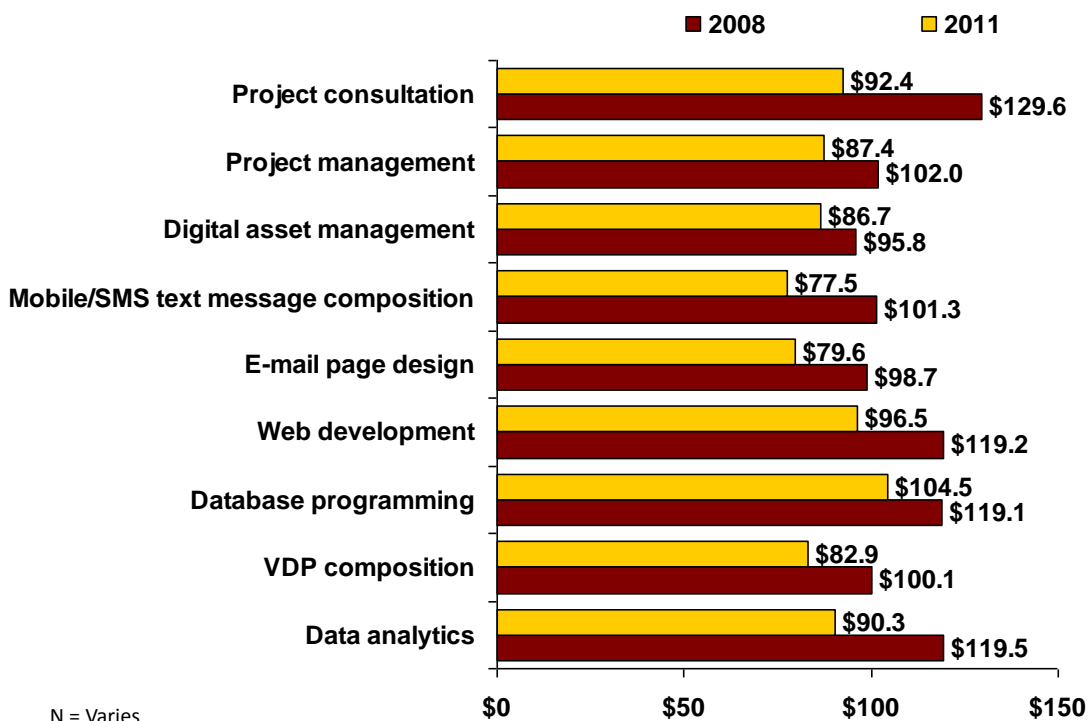
Figure 5: How does your company charge for the following cross-media marketing services? (Tier 2)



The Bad News: New Entrants Not Charging Enough

Despite the move toward value-added pricing, there is considerable concern that new cross-media services market entrants will commoditize the value of these services and take price levels down. This concern is justifiable—uncertainty about customers’ acceptance levels, old pricing models based on unit manufacturing costs, and a lack of understanding underlying costs are leading newer service providers to undervalue their offerings. As a result, they are not extracting the maximum value for the service levels they are delivering. Results from a similar pricing survey that InfoTrends conducted in 2008 confirm that the mean prices for hourly fees for various services have dropped over the past few years.

Figure 6: What is your company’s hourly fee for the following cross-media marketing services? (2008 vs. 2011)



N = Varies

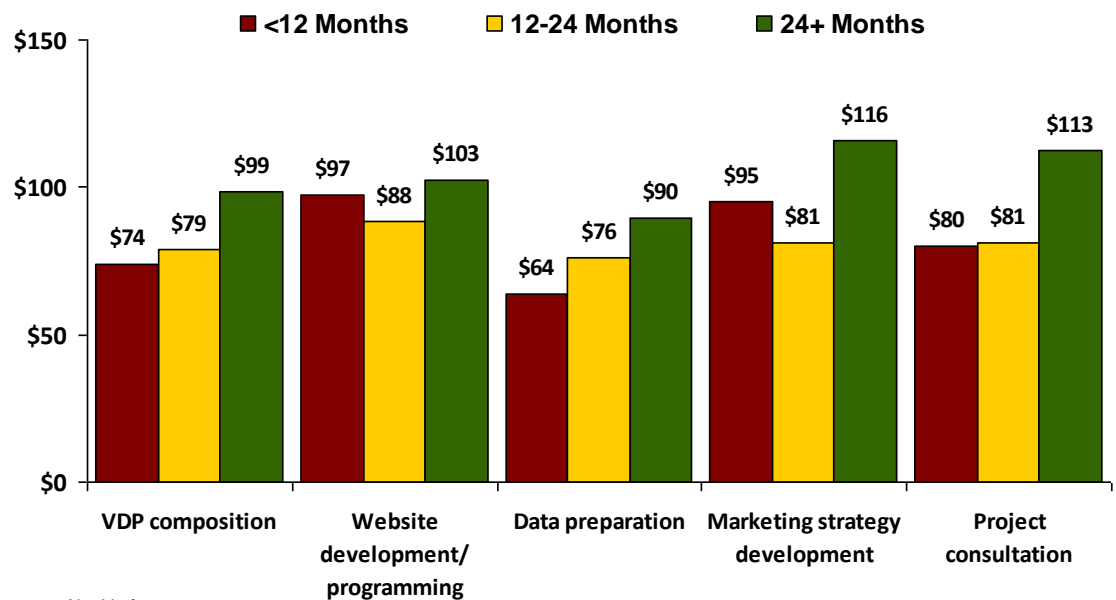
Base = Print Service Providers who charge an hourly fee

Source: *The Evolution of the Cross-Media Marketing Services Provider*, InfoTrends 2011

The Solution: Learn From and Follow the Leaders

New entrants to the market need to take a lesson from those with experience on how to properly price value-added cross-media services. InfoTrends' research indicates that PSPs offering cross-media services for at least 24 months are charging between 30% and 40% more on an hourly basis compared to firms with less than 12 months of experience for services like VDP composition, Website development, data preparation, marketing strategy development, and project consultation. Those with experience are pricing services based on a solid understanding of their underlying cost structure and the value they can extract from customers.

Figure 7: What is your company's hourly fee for the following cross-media marketing services? (By Length of Time Offered)



N = Varies

Base = Print Service Providers who charge an hourly fee

Source: *The Evolution of the Cross-Media Marketing Services Provider*, InfoTrends 2011

The printing industry has frequently approached the market pricing on a “cost-plus” basis, where price is based on production cost plus a standard mark-up. This pricing model is best left for commodity products, not customized cross-media marketing services that dramatically improve customer results and profits. Experienced cross-media providers recognize pricing these services should be based on the value delivered to clients and they are asking, “What costs can we afford to incur on this project given the price obtainable from the client and still earn an adequate profit?”

Successful cross-media marketing services providers understand that in economic terms, value is the “maximum” amount that a customer is willing to pay for a service.

Pricing Strategies of the Leaders

Executives from the leading firms indicated that pricing is indeed an art form. A common theme from InfoTrends' research was that some elements of pricing are standard, but the amount that a customer is charged is based on scoping the project requirements to determine and cover baseline costs, and then marking up that project based on customer intelligence.

While it is sometimes difficult to determine the right pricing levels, experienced providers are working to ensure that they extract value to maximize the revenue potential for their businesses across all services. InfoTrends one-on-one interviews with experienced firms revealed various approaches to pricing:

- “Pricing is not easy because it’s a moving target,” stated the Marketing VP of a cross-media provider located in the South. “You need to determine the client’s budget for a project and then build a program that takes most of the budget. You need to identify the value of a win for the specific client and price for it. If a single campaign is worth \$100,000, that’s what you need to charge for.”
- “We don’t have a standardized way to price,” reported the Marketing VP of a large Midwest firm. “Our general approach for pricing large cross-media projects is to come up with a one-time development/implementation fee, standard line items, and transaction-based charges. [As Marketing Director,] I’m always part of what we are charging. Pricing for cross-media marketing proposals is handled by a variety of people, including a dedicated estimating group (for line items and transactional fees), project managers (to oversee the project), IT staff (to estimate the costs of building applications), and our salespeople (to price for value delivered).”
- “We estimate our costs based on hours to complete and raw materials consumed, then buffer that by 25% to get a baseline,” explained the VP of Cross-media Marketing Services at a 54-employee firm in the Northeast. “The baseline is a check that we are covering our costs, not the final price. The street value is based on how the customer will benefit from the work in terms of increased revenues, lower costs, optimized processes, etc. We’ve sold work at 20 times the baseline; the final sales price is based on what we bring to the table.”

Preparing Pricing Proposals

Firms interviewed reported a common approach to preparing pricing proposals. The process starts with scoping the project with the clients, listening to their needs, identifying their goals and challenges, and developing a solution based on what has been learned. The actual proposal is a detailed narrative explicitly describing the scope of the job, expected results, how those results will be achieved, and explicitly who is accountable for what. Pricing is presented in bundled form, as individual line items, or a combination of both (depending on the customer’s request). Firms interviewed offered the following insights on developing pricing proposals:

- “Proposals should look professional. We print ours on our digital printing devices and include print samples and demos as needed,” stated the Marketing Director of a 26-employee cross-media marketing services provider with \$4.2 million in annual revenues. “We rarely encounter objections because the proposal explains and justifies all costs up-front. We then compromise as needed to close the deal.”
- The Vice President of a 54-employee cross-media marketing services firm in the Northeast noted, “We don’t charge for the proposal if the customer doesn’t sign the deal, but we close 85% of our deals. The cost of producing the proposal is written into the price.”
- According to a Marketing VP at a large firm based in the Midwest, “Most clients don’t want line items. They want the pricing streamlined/bundled because it is more convenient.”
- Preparing proposals is a time-consuming process that involves several meetings with clients and devising a strategy for them before any deal is signed. One company that we interviewed reported charging for the work involved in proposals. “We charge \$200 per hour for our strategy and expertise,” explained the President of a 35-employee cross-media services provider in the Midwest. “Charging for our services was the turning point for us... and that was when I knew we had made the transition to a cross-media marketing services provider.”
- Nevertheless, the overall consensus among the firms that we interviewed was not to charge for project scoping. The Marketing VP at a large Midwest firm concludes, “We typically don’t charge for scoping a project, but clients will usually buy. Preparing the proposal is a risk that you take because you’ve done all that work for nothing if they don’t buy.”

InfoTrends’ Opinion

Cross-media providers need to earn what they are worth. An alarming pattern is emerging where new entrants to the market are undervaluing services. If this trend continues, then history may repeat itself where firms—once again—give away value-added services to keep printing equipment running. If this happens, then it will be a race to the bottom. A key benefit of getting into the cross-media marketing services is to get out of the commodity print market and offer value-added services that strengthen client bonds and boost profits. It is time to change the conversations with clients from “cost per piece” to “value delivered.” The successful delivery of cross-media marketing services is built on knowledge, a factor that adds value and is not easily replicated by competitors. An organization’s leaders must become obsessed with capturing the economic value of services delivered. It is time to change the pricing culture! It is time to sustain long-term financial health through value-added pricing.

This material is prepared specifically for clients of InfoTrends, Inc. The opinions expressed represent our interpretation and analysis of information generally available to the public or released by responsible individuals in the subject companies. We believe that the sources of information on which our material is based are reliable and we have applied our best professional judgment to the data obtained

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