



## QUESTION

## How do small agencies price their services?

## INSIGHTS

- Retainer and fixed fee pricing structures are currently the most popular for small agencies, but there are many advantages to considering the blended hourly rate model.
- In the U.S., most retainers range from \$2500 - \$5000 while blended hourly rates range from \$60 - \$200 with a majority falling between \$101 and \$150 per hour.
- It is crucial to defend your agencies' rates from the beginning of your work with a client.



## OVERVIEW

Hello! Thanks for your question about the pricing of small agencies' services.

The short version is that most small agencies currently utilise retainer or fixed fee pricing structures. However, many consultants advise the blended hourly rate pricing model as an alternative. As far as specific pricing is concerned, most retainers range from \$2500 - \$5000 while blended hourly rates in the U.S. range from \$60 - \$200 with a majority falling between \$101 and \$150 per hour.

Below you will find a more in-depth look at my findings.

## OVERVIEW

My findings begin with the different pricing structures small agencies utilise. It leads into a breakdown of the most popular pricing structures in the industry, lumping retainer and fixed fee pricing into one category and exploring blended rates afterwards. I then go into detail about the pricing structures and price ranges found for design, technology and strategy services. All of these numbers are focused on the U.S. market.

## PRICE STRUCTURES

According to a [HubSpot Research survey \(4\)](#) of 782 agencies, the breakdown of specific pricing structures is as follows:

- 59% : Retainer pricing structure
- 53% : Fixed fee (price/project)
- 39% : Hourly rate ("average agency hourly rate or blended rate")
- 26% : Hourly rate ("hourly rate determined by job function")
- 11% : Commission
- 8% : Pay for Performance / Value based

## PRICE RANGES: RETAINER & FIXED FEE PRICING

When [calculating retainer and fixed fee pricing structures \(4\)](#), most agencies look at the client's budget, the anticipated services performed and the approximate number of hours.

The [overall spread \(4\)](#) of retainer pricing was \$500 - \$20,000+ with 17% costing \$500 -



\$1000, 21% costing \$1001 - \$2500, and the largest segment at 28% costing \$2500 - \$5000. The additional 34% ranges in cost from \$5000 - \$20,001+.

#### PRICE RANGES: BLENDED RATE

[Blended rates \(7\)](#) seem to work better for smaller firms while larger firms tend to have different rates for different clients. For an agency with 8-10 employees, it is important to make sure the employees are 70% billable; if not, consider hiring part-time staff. The bill to the customer should be no less than double what the employee is paid and "[your baseline internal rate \(7\)](#) (list price) for your staff should be 3x what you pay them" to ensure profit. An example of this will be found in the STRATEGY SECTOR section below.

Another way to determine sufficient margins, is to consider "[hours of effort involved \(1\)](#), overheads atop the salaries you pay, and utilization rate of your employees." You must also be sure to calculate the cost of those employees who are not "client-facing."

Utilisation can be tricky to figure. In this [example from Arjun Moorthy, \(1\)](#) let's imagine "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."

#### DESIGN SECTOR: FIXED PRICING & BLENDED HOURLY RATES

For fixed pricing in the design sector, specifically with Independent Firms, most logos range in price from [\\$500 – \\$3000 \(10\)](#).

The blended hourly rates for a professional advertising agency fall between [\\$100 - \\$200 depending on the size of the city \(6\)](#) where they are located. The total expense to the customer will depend on how many employees worked on each logo, graphic, etc as the \$100 - \$200 is per employee per hour.

When considering the use of copies, proofs and printing, most agencies [markup these physical materials 15-20% \(3\)](#).

## TECHNOLOGY SECTOR: RETAINER & FIXED, PROJECT BASED

The retainer based pricing of web development can range from [\\$1500 - \\$7000 per month \(8\)](#). For the [Kreative Webworks agency, this range \(8\)](#) depends on "the aggressiveness of [the clients] lead generation plan" as well as other variables.

For fixed, project-based pricing in the technology sector, the price for building a simple website with a blog as a small web developer is approximately [\\$10,000 \(5\)](#) or so. This price can climb to [hundreds of thousands of dollars \(5\)](#) for a large, global site that includes e-commerce, database tie-ins, etc.

## STRATEGY SECTOR: RETAINER, FIXED & BLENDED RATES

For [retainer pricing in the digital marketing industry \(2\)](#) within the U.S., pricing starts around \$1000 and rarely exceeds \$3000.

For fixed pricing in the strategy sector specifically in market research, [custom research studies can cost \\$20,000 \(6\)](#) and up. For a "conversational research assessment" online, they can range in price from \$3,000 - \$5,000.

For blended hourly rates in the strategy sector, they are approximately [\\$60 - \\$100 per hour \(7\)](#) for general digital marketing. For specialised SEO services, rates for agencies in the US [\(7\)](#) are concentrated in the [\\$101-\\$150 per-hour range. \(7\)](#)

In calculating your studio's specific blended hourly rate, be sure your employees are 70% billable. For instance, "if you have a [\\$20/hour entry-level digital marketer \(7\)](#)...your list price should be to bill them at \$60 per hour, and your bare minimum billable rate for them, even after protracted negotiations with a client, should be \$40 per hour (2x their cost should NOT be the norm for their billable rate). That way, even if you bill them out at only [70% of billable hours \(7\)](#) at 2x what you pay them, they are still contributing something back to the business from their billable time."

## DEFENDING YOUR RATES

There are multiple reasons to defend your rates to your clients. One reason is that it is very [difficult to increase rates \(7\)](#) to a client over time. Another reason is that your transparency will build trust with clients and ["lifetime value \(LTV\) of customers for your](#)



[client \(1\)](#)" leading to repeat purchases.

## CONCLUSION

To wrap it up, retainer and fixed fee pricing structures are currently the most popular, but there are many advantages to considering the blended hourly rate pricing structure. In the U.S., most retainers range from \$2500 - \$5000 while blended hourly rates range from \$60 - \$200 with a majority falling between \$101 and \$150 per hour. Thank you for using Wonder! Please let us know if we can help with anything else!



SOURCES

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