How to Set Your Advertising Agency Rates - 4 Steps

As digital technology advances, competition in the advertising industry is becoming more competitive. Multiple media platforms are available to showcase countless ads. That means more of them will show up on the screens of our phones, computers, and televisions. A report from DigitalRemedy.com says that the US has over 13,000 ad agencies as of 2017. And by 2023, the advertising industry's worth will be $52.6 billion potentially.

With those in mind, you might be thinking that launching an ad agency is impractical due to heavy competition. Yes, there will be challenges. But that doesn't mean profitability is out of reach. By setting your rates right, you can build a sustainable company. Here, we'll show you the four steps in establishing your advertising agency rates.

Perform a Cost Analysis

Cost analysis is a fundamental and necessary step in setting your price quotation. You need to know the total expenses of creating an ad campaign to set a rate that can generate decent revenue. Coordinate with your future clients. Discuss with them the details and components of the advertising or marketing strategies that they want. Most importantly, determine the ad campaign's needed materials, tools, and media platforms.

Track the CPM of an Advertising Medium

In advertising or marketing, there's this term called cost per thousand impressions or CPM. A CPM is a measurement unit that advertisers and marketers use to identify the cost of reaching a thousand viewers, visitors, readers, or listeners. So, basically, in getting the CPM, you're calculating a percentage of the operational cost in running an ad campaign. Since it's a cost, it factors significantly in setting your advertising rates.

CPM is especially important in monitoring web ads, social media ads, or any advertising medium. Plus, it's easier to track on the web than through television and radio. Advertisers can conveniently monitor CPM on the internet because they only need to count the number of clicks an ad receives. Because most ads nowadays are on the web, you should familiarize yourself with the CPM's concept.

Research Your Competitors

One way of getting relevant ideas in setting reasonable ad rates is by researching other ad agencies. Their operations will be the same as your operations once your agency launches. The size and scope of the ad campaigns they cater to will be similar to yours. And with their current rates, most of them have a steady clientele. That said, looking at their price ranges is an excellent reference in setting your ad rates.

When you set your rates, don't try to lower them compared to your competitors. You might think that it can attract more clients, but it doesn't. Having lower rates might give the impression that your ad agency provides subpar services. Although some clients prefer lower prices, it won't earn you a proposal from clients who own big-name companies.

Select a Pricing Method

The last but not the least step is selecting a pricing method. This step is crucial because it determines how frequent your agency will receive an inflow of revenue. None of the pricing methods are perceived as the best or worst. You just need to select one that fits with your planning and management procedures. Or, in other words, choose one that works well enough for your agency.

Here are four pricing methods that you can choose from:

Hourly Pricing

As its name implies, hourly pricing allows you to charge clients by the hour. This method of pricing is the most traditional. It has been around ever since the infant ages of services-based businesses. Hourly pricing doesn't imply that your agency will receive money from clients every hour. You need to monitor the number of hours spent doing their project and charge them once finished. For example, if your rate is $60 per hour, and it took you 250 hours from your schedule to complete a project, the total payment will be $15,000.

Retainer-Based Pricing

In retainer-based pricing, you'll be charging your clients a fixed price monthly, quarterly, or yearly. This pricing method works perfectly with long-term projects. It would be like the clients are subscribing to your services for longer periods. If your ad agency offers consultation services or a partnership, you should consider retainer-based pricing.

For retainer-based pricing to work in your favor, you need to keep regular communication with your clients. Each month, quarterly, or year, you must send your clients a notice or memo to pay their dues.

Value-Based Pricing

Value-based pricing is the most distinct method by far. It's very different from other pricing methods almost by a mile. In value-based pricing, the total payment will be based on a project's profitability. This refers to how much value a project brings to a client's business. For instance, if a client's ad project generated revenue that far exceeded the cost to create it, your agency will receive a higher payment. If the project made millions of dollars, your agency might enjoy revenue similar to that amount.

Fixed Pricing

Fixed pricing is the simplest pricing method in the book. As its name suggests, you'll charge your clients a fixed price for a single ad campaign. You just have to set a price based on a project's total operational costs, and set a markup percentage for profit. And that's about it, no need for further calculations. Admittedly, not many agencies are using fixed pricing. It doesn't help much in increasing profitability. It's capable of maintaining revenue, but your agency's financial growth will be slow, or possibly stagnant.

You can choose more than one pricing method in your agency. At times, one pricing method is the most practical choice for a project's size and scope. However, you may select all four of them for versatility. You can also formulate your pricing method for as long as it's fair and legal.

These four steps will strengthen the financial power of your advertising agency. So, include them in your objectives checklist. Or better yet, stipulate them to your advertising agency business plan. Soon, your agency will be able to stand its ground against your competitors.