Getting what you're worth: the possibilities and promises of value-based billing

By Greg De Blasio, Ph.D.

2007 IABC Heritage Region Conference

Getting what you're worth

Overview

- The practice of PR and marcom and the role of trust
- Mechanics of account management and billing
- Conceptual challenges
- Creating value through knowledge management

PR and marcom practice

- Providers of PR and marcom services follow a business plan
  - Definition of the business and its objectives
  - Description of management structure
  - Definition of services
  - Marketing plans
  - Departmental plans
  - Financial plans

PR and marcom practice

- Providers engage in business functions:
  - Administration
  - Finance
  - Development/marketing and sales
  - Client services
  - Production

PR and marcom practice

- Aside from strategy, production represents the lion’s share of deliverables to the client:
  - Copywriting
  - Photography
  - Design-graphics/pre-press
  - Printing
  - Communication technology
  - Special events (Brody, 1987)

PR and marcom practice

- Anything delivered to clients carries
  - Innovation
  - Creativity
  - Strategic savvy, and
  - Meaningful results
- The strategy-tactic model appears to be well understood and accepted

PR and marcom practice

- Brody's (1987) three-stage strategic management model:
- *Strategy formulation (1)*
  - *Mission*
    - *Objectives*
      - *Strategy*
        - » *policies*

PR and marcom practice

- Strategic management model continued:
- *Strategy Implementation (2)*
  - *Programs*
    - *Budgets*
      - *Procedures*
- *Evaluation and Control (3)*
  - *Performance*

PR and marcom practice

- The model leaves off where we are forced to begin answering questions about billing and trust
  - *Trust is the degree to which the trustor holds a positive attitude toward the trustee's goodwill and reliability in a risky exchange situation (Wicks & Berman, 2004).*
    - Trust is a <u>socially embedded</u> part of concrete personal relations (Granovetter, 1985). Yet, trust is <u>continuously variable</u> and not an either/or phenomenon.

PR and marcom practice

- Hung’s (2005) organization-public-relationship types in descending order:
  - 1. Mutual communal
  - 2. Covenantal
  - 3. Contractual
  - 4. Symbiotic—kind of “neutral,” interaction part of job requirements, for example
  - 5. Manipulative
  - 6. Exploitive

PR and marcom practice

- Hung applies Goffman’s (1961) concept of social and economic exchange
  - Social exchange=something is returned because the continuance of a stable relationship requires it
  - Economic exchange=favors must be returned of the same value or equivalent goods
  - Communal relationship=expresses concern that one person has about the other

PR and marcom practice

- All exchange relationships suggest that members benefit each other in response to past exchanges or in expectations of future exchanges. Resource theory is used to describe interactions in exchange relationships.
  - If relationships begin as exchange relationships and evolve into communal relationships, consider the perceptions of marketing and PR practice

PR and marcom practice

- *Marketing personnel are responsible for developing exchange relationships with consumers with the goal of increasing the organization's profit margins. However, public relations people need to communicate communal relationships for management* (Hung, 2005, p. 397).

Mechanics of account management

- Some standard “taken for granted” billing practices as suggested by Croft (2006):
  - PR and marcom practitioners tied to profit and loss expectations
  - Net income—not billings—as an indicator of financial success
  - Adding 17.65% to all expenses—functions as the 15% ad agency commission

Mechanics of account management

- Still, billing is fraught with uncertainty. How can one billing standard apply to the full evolutionary cycle of the PR counselor-client relationship?
- Lordan (2003) traces an evolutionary relationship that PR managers are expected to cultivate.

Mechanics of account management

- Lordan's evolution in ascending order:
  - Technical Services Provider—communication skills, media contacts, production, event planning
  - Communication Process Facilitator—information mediator among key decision making parties on a strategic level
  - Problem-solving Process Facilitator—collaborative relationship working toward systematic problem solving processes; draws information from key constituencies within the organization

(more)

Mechanics of account management

- Completing Lordan's evolution:
  - Acceptant Legitimizer—reinforces concepts by restatement from outside; provided support (seal of approval), seldom new information provided
  - Expert Prescriber—consultant operates as an authority on problems and solutions; although flattering there is a danger of being perceived as a "guru" who is becoming distant to the interdependence of PR activities

Mechanics of account management

- Some one-off account management truisms that start to get sticky a a group:
  - Every client account requires about 40 hours a month (billable) to produce results
  - The strategic abilities rather than the tactical capabilities are valued much more by clients
  - Outside PR services are pitched over what can be accomplished by internal staff with the promise of greater accountability

Mechanics of account management

- More one-off truisms:
  - Clients expect “transformation” from PR services. Counselors need to engage clients through “prophetic” communication
  - PR practitioners need account management software to
    - Track billable time
    - Track profit on a client-by-client basis
    - Generate reports for internal and external distribution

Mechanics of account management

- The question that must be spoken: Should measurement and billing in general consider <u>output</u> or <u>impact</u> or both?
  – Firm-client agreements or contracts don’t answer the question
  – Billing procedures and time management practices don’t answer the question

Mechanics of account management

- Carrington (1992) suggests providing clients with a combination “qualitative/time usage” report
  - In other words, do an analysis of your own work
- Or, by using two monthly reports:
  - *One, a quantitative list of billable hours broken down by projects. The other qualitative giving a progress analysis of the month’s activities and projections for the following month, and projecting into the next month.*

Mechanics of account management

- Projecting ahead strategically will help with resource and financial forecasting
- Forecasting applies to understanding profitability. Croft (2006) notes four basic factors:
  - Salary/benefit costs
  - Income
  - Non-overhead expenses
  - Overhead percentage

Mechanics of account management

- Profitability as it relates to billing will often be dependent of some combination of:
  - Billing for time
  - Universal rates—working from the perspective of “street value” for each deliverable
  - Blended rates—the average of all people working on the account; this confounds precision calculations concerning profitability
  - Value billing—tying fees to performance or strategic applications

Conceptual challenges

- Will you be working from a service-driven or a cost-driven perspective? Hagley (2006) notes an important distinction:
  - *A <u>service-driven</u> practitioner charges a predetermined fee, often a retainer, and within that fee does whatever additional work is necessary to satisfy a client. A <u>cost-driven</u> practitioner charges an hourly rate for all the time it takes to do the job.*

Conceptual challenges

- PR is service driven!
  - *But, PR has yet to be fully accepted as a true profession (Hagley, 2006). There are no standardized educational requirements. There is no mandatory licensing or certification. There is no effective self regulation* (p. 14).
    - True enough, if these are the only criteria
  - So, practitioners must set their own standards for performance—and clients must decide whether those standards are up to their expectations

Conceptual challenges

- Should PR practitioners somehow convince clients that they are informed by notions of continuous improvement, management by objective, quality circles, or by contingency or complexity theory?
  - Some of these concepts are positively old fangled and others just sound over the top
  - Practitioners need to demonstrate that they are able to draw from some type of management perspective to better serve clients

Conceptual challenges

- Clients are likely to ask why practitioners are not willing to share some of the financial risk associated with the enterprise
  - No denying it—this is good question!
- Another question often raised by clients, according to Eagle & Kitchen (2000), asks why practitioners are slow to engage in behavioral segmentation on their behalf
  - Thankfully, web-based behaviors, which are fairly easy to track, are considered to be of primary importance

Conceptual challenges

- Singh & Singh (2002) position complexity and chaos theory as a way to manage cost estimates, profitability, linear analysis, and long-range planning
  - *Chaos is an aperiodic, unpredictable behavior in a system extremely sensitive to variations in initial conditions, exhibited by phenomenon such as turbulent flow, long-range weather patterns and cardiac arrhythmia, among many others* (p.23).

Conceptual challenges

- We are asked to remember that chaos is defined as unpredictability of specific behavior within a predictable general structure of behavior
  - Shifts that are random but show no evidence of a pattern fall under the general category of complexity—when patterns are evident, the shifts would be covered by "chaos." This is an important distinction. In other words, the totally random is governed by complexity and if our projects and tasks appear to respond to rules (to some degree) we can apply chaos theory.

Conceptual challenges

- Why does getting a handle on chaos matter? Singh & Singh were writing to cost engineers. They claimed chaos matters to:
  - A cost-performance index
  - Inability to explain or follow a schedule
  - Inability to manage a production team
  - Interpretations of contracts and agreements
  - Misbehavior of the client
  - Failure of quality, and more

Conceptual challenges

- *"Determine the pattern of the forests rather than distinguishing the forests from the trees."*
- The chaos lens challenges Newtonian thinking and a mechanistic approach to order, control, and predictability
  – Why does the economy "run out of steam" or "gain momentum"?
  – Is western management locked into the language of a Henry Ford factory notion of car building?

Conceptual challenges

- For a visual analogy, Singh & Singh ask us to consider the fractal—a geometric figure resembling a snowflake or crystal with infinite variations and thereby representing randomness within a pattern
  - The fractal also illustrates how the infinite can reside within the finite
- Why can chaos be your friend?
  - *Two types of actions bring order to a project—the exercise of controls and the introduction of change* (p.28).

Value and knowledge management

- *Most marketing texts (i.e. Boyd* et al.*, 1999) stress variations of the conventional perceived wisdom that planning of all company activity be centered on the primary goal of satisfying customer needs. This is perceived to be the most effective mechanism to achieve competitive advantage* (Eagle & Kitchen, 2000, p. 668).

Value and knowledge management

- Eagle & Kitchen (2000) also note:
  - The role of synergy throughout all levels of the organization enhances competitive advantage
  - That customers and other stakeholders automatically integrate brand characteristics and messages
    - How should marketers and communication practitioners plan, therefore, to either abdicate or manage the process?

Value and knowledge management

- ICH (Interoperability Clearinghouse, 2003) provides one perspective through its value chain and Value Coalitions® architectures
  - The organizational architectures are designed to encourage alignment of values and continuous improvement
  - Enterprises taking a role in the value chain are essentially completing work associated with positioning
    - ICH uses Microsoft and IKEA as examples

Value and knowledge management

- Consider work of the PR firm as the value chain/coalition concept is noted and contrast with organizations focused upon workflow activity and a functional hierarchy
  - The value chain approach begins with the processes that provided direct value to the customer
    - Why? Because those processes are also the ones that should be the largest revenue producers

Value and knowledge management

- Contrast the value chain approach with:
  - Workflow activity—initiatives that transform or create. You must ask if the activity really needs to be done. You could be placing more emphasis on doing things right than on doing the right things!
  - Functional hierarchy—take a top-down view of organizational functions like finance, marketing, engineering, and others. This approach builds in the disconnects.

Value and knowledge management

- From the ICH examples, the PR practitioner can easily consider the organization of client businesses
  - In building a portfolio of organizational assets, ICH (2003) notes five process segments:
    - Market-to-sell
    - Opportunity definition
    - Order-to-payment
    - Service delivery
    - Performance management

Value and knowledge management

- King’s (1968) conceptual framework for ad agency compensation provides additional direction that allows for “situational variations” when determining rates and billing schemes
  - The question remains: Is compensation to be based on work performed or results achieved?

Value and knowledge management

- King (1968) describes several risk-bearing alternatives to pricing that had been in place at the U.S. Department of Defense and the National Aeronautics and Space Administration (NASA):

Value and knowledge management

- 1. The **firm-fixed price** (FFP) arrangement represents the basic system for ad agency compensation (15% commission)
- 2. The **cost-plus-fixed fee** (CPFF) guarantees payment for cost plus some fixed fee

Value and knowledge management

- 3. The **cost-plus-incentive fee** (CPIF) places financial risk on the agency or firm and rewards the agency for quality performance
  - Note examples
- 4. The **fixed-price-incentive fee** (FPIF) is similar to the CPIF except that the basic payment is some mutually agreeable amount not necessarily based on cost, but perhaps on value!

Value and knowledge management

- King (1968) delineates high and low agency/firm participation and situation uncertainty in consideration of the types of tasks being performed. The list is very telling for a number of reasons:
  - New Product—Low Participation (NL)
  - New Product—High Participation (NH)
  - Old Product—High Participation (OH)
  - Old Product—Low Participation (OL)

Value and knowledge management

- Now for the fun part—King sees the natural pairings of pricing alternatives and categories of uncertainty and participation as follows:
  - NL-CPFF
  - NH-CPIF
  - OH-FPIF
  - OL-FFP

Value and knowledge management

- A parting thought:
  - *The consultant needs to destruct—only knowledge that destructs tradition and promises a dream future can be sold on the competitive market* (Böhm, 2003, p. 22).
    - Doesn’t that somehow sound like prophetic communication?

References

- Böhm, S. (2003). The consulting arcade: Walking through fetish-land. *TAMARA Journal of Postmodern Organization Science, 2* (2), 20-35.
- Brody, E.J. (2003). *Essentials of public relations management*. NY: Praeger.
- Carrington, J. (1992). The PR agency and the client: How to improve the uneasy partnership. *Public Relations Quarterly, 37* (3), 11+.
- Croft, A. C. (2006). *Managing a public relations firm for growth and profit*. NY: Haworth.
- Croft, A. C. (1996). Ten commandments for PR firm principles. *Public Relations Quarterly, 41,* (1), 35+.
- Eagle L. & Kitchen, P.J. (2000). IMC, brand communications, and corporate cultures. *European Journal of Marketing, 34* (5/6), 667-686.
- Hagley, T. (2006). *Writing winning proposals: PR cases*. NY: Pearson.

References

- Hung, C.F. (2005). Exploring types of organization-public relationships and their implications for relationship management in public relations. *Journal of Public Relations Research, 17,* (4), 393-425.
- King, W.R. (1968). A conceptual framework for ad agency compensation. *Journal of Marketing Research, 5,* 177-180.
- Lordan, E. J. (2003). *Essentials of public relations management.* Chicago: Burnham.
- Singh, H. & Singh, A. (2002). Principles of complexity and chaos theory in project execution: A new approach to management. *Cost Engineering, 44* (12), 23-33.
- Weiler, J. & Schemel, B. (2003). ICH value chain method: Actionable architectures for value chains and value coalitions. *Interoperability Clearinghouse.* *www.ICH.org*, retrieved March 7, 2007.
- Wicks, C.W. & Berman, S.L. (2004). The effects of context in firm-stakeholder relationships: The institutional environment, trust creation, and firm performance. *Business Ethics Quarterly, 14* (1), 141-160.