Pricing in turbulent times with Casey Brown & Drew McLellan

Meeting Date: September 29, 2025, 09:59 am

Notes

Fundamental Pricing Methodology Crisis

- **Critical mathematical error** in agency estimation process identified as root cause of profitability issues across industry (05:10)

  - Traditional method involves asking team members for time estimates on projects, receiving "nirvana day" projections

  - Reality factors ignored: interruptions, lack of sleep, personal distractions, Slack notifications, client changes

  - **Mathematical solution**: Apply 1.3 to 1.5 multiplier to all initial estimates to account for real-world execution challenges

  - Multiplier represents actual time required versus optimistic planning, not additional profit margin or client billing time

  - **Parkinson's Law consideration**: Do not give teams the additional time - task will expand to fill available time

- **Price capitulation pattern** destroying agency profitability through predictable client negotiation cycle

  - Client requests quote, agency provides number, client responds with budget constraints

  - Agency owner immediately reduces price without strategic consideration or scope adjustment

  - **Financial reality**: Starting number already below actual cost due to estimation errors, price reduction creates guaranteed loss

  - Pattern occurs because agencies confuse cash flow (money coming in) with profit (money remaining after expenses)

AI Disruption and Strategic Positioning

- **Client perception research** from **Agency Edge Research 2025** reveals counterintuitive market reality (07:53)

  - Clients don't expect AI to make agencies cheaper - they expect it to make agencies more valuable

  - **Key insight**: Clients understand they need skilled operators to drive AI tools effectively

- Analogy provided: AI is "high-powered telescope" requiring skilled astronomer to point correctly and interpret results

- Clients want agencies as AI Sherpas/guides for implementation across their entire organizations, not just marketing

- **Service vulnerability framework** categorizes offerings by AI disruption risk level (29:32)

  - **Red zone (Sun services)**: High vulnerability including basic content creation, social media posts, light video editing, data entry

  - **Yellow zone (Shadow services)**: Moderate risk including campaign development, reporting, some creative work

  - **Green zone (Shade services)**: Low vulnerability including strategy, relationship building, crisis management, media relations

  - **Strategic response**: Bundle vulnerable services with high-value offerings rather than competing on price alone

- **Value delivery transformation** using Human-AI-Human (HAH) methodology for optimal results (32:13)

  - Human expertise required for proper AI prompting and direction

  - AI capable of processing and generating content at scale

  - Human oversight essential for quality control, brand alignment, and strategic relevance

  - **Client education opportunity**: Demonstrate that unsupervised AI produces "AI slop" while guided AI amplifies human expertise

Market Opportunities and Revenue Streams

- **AI beta testing programs** emerging as significant new revenue source for forward-thinking agencies

  - Agencies proposing experimental AI implementations to clients across multiple departments

  - **Pricing strategy**: Offer beta pricing with commitment to honor rates for extended period post-launch

  - Example provided: College recruitment bot development for querying prospective student preferences and optimizing messaging

  - Opportunity extends beyond marketing into operations, customer service, and other organizational functions

- **High-performing service categories** maintaining strong demand despite economic pressures (12:06)

  - **Countable work**: PPC and SEO with clear attribution models showing direct ROI ($1 spent = $3 in leads)

  - **Strategic services**: Planning and thought leadership consulting commanding premium rates

- **Retention-focused programs**: Loyalty programs and community building as clients prioritize keeping existing customers
- **Data and research services**: CRM management, list growth, first-party data collection experiencing resurgence
- **Premium positioning opportunities** exist within AI-enhanced service delivery
  - **Case study example**: Video production partner maintaining same budget while delivering 2-10x output through AI integration (36:13)
  - Client receives more value (additional content, faster turnaround, more creative options)
  - Agency maintains or increases margins through efficiency gains on technical execution
  - **Key principle**: Use AI to increase value delivery rather than decrease pricing

Strategic Response Framework

- **Defensive positioning** requires protecting core relationships and optimizing service portfolio (23:19)
  - **Core customer focus**: Identify clients where agency represents perfect fit, concentrate resources on these relationships
  - **Segmentation strategy**: Distinguish between high-value core clients and lower-profit peripheral accounts
  - **Service categorization**: Map offerings across sun/shadow/shade framework to align pricing strategy with vulnerability levels
  - **Granular pricing approach**: Abandon one-size-fits-all rate cards in favor of segment-specific pricing strategies
- **Offensive positioning** leverages AI disruption as competitive advantage rather than threat (42:03)
  - **New revenue stream development**: AI tool training, implementation consulting, organizational AI strategy
  - **Messaging transformation**: Reframe AI as amplification tool rather than replacement threat
  - **Value proposition evolution**: Position agency as essential for maximizing AI tool effectiveness
  - **Competitive differentiation**: Emphasize human creativity, relationship building, and strategic thinking as irreplaceable assets
- **Client relationship management** becomes critical during periods of economic uncertainty (48:24)
  - **Proactive communication**: Regular check-ins with clients to understand changing business pressures
  - **Empathy and friction reduction**: Acknowledge client challenges while streamlining engagement processes

- **Excellence in delivery**: Focus on communication quality, project management, and customer experience

- **Strategic counsel**: Help clients understand when AI is appropriate versus when human expertise is essential

Financial Performance Optimization

- **AGI (Adjusted Gross Income) framework** provides clear financial management structure for agencies (59:19)

    - **Definition**: Gross billings minus cost of goods sold (COGS) = Available funds for operations

    - **Allocation model**: 55% for personnel, 25% for overhead, 20% for profit (EBITDA)

    - **Volume vs. value decision**: Agencies should prioritize profit per client over total client count

    - **Optimal client structure**: Target 20 clients representing 5% of AGI each for maximum profitability and risk distribution

- **Employee alignment** with profitability goals requires systematic approach to compensation and education (13:33)

    - **Problem identification**: Account service teams often prioritize client satisfaction over agency profitability

    - **Bonus program implementation**: Link employee compensation directly to AGI achievement and profit margins

    - **Education initiative**: Help team understand connection between pricing decisions and their personal compensation

    - **Cultural shift**: Transform team mindset from client advocates to business partners who balance service with profitability

Action items

Drew McLellan
- Send executive summary of Agency Edge Research 2025 to participants who request it (07:53)

- Provide strategic planning workshop exercises and resources mentioned in solo cast (22:06)

- Send bonus program documentation to address employee pricing concerns (13:33)

- Distribute meeting recordings, decks, transcripts, and course links within couple days (06:53)

Casey Brown
- Send blog posts and videos addressing guilt around pricing to agencies with concerned account service teams (12:55)

- Provide additional team program information for larger organizations interested in pricing training