

An Innovative “Point System” for Creating More Profitable (And Easy-to-Manage) Retainer Agreements

Summary Handout

Introduction

Eduardo Esparza runs a marketing agency called Market 8. They help SaaS (software as a service) companies grow by building and optimizing websites and other web properties. When Eduardo started the company a few years ago, he struggled to manage retainers. That all changed when he developed a point system.

Dave Vranicar started out as a freelance writer about six years ago. More recently, he’s been transitioning from content creation into marketing consulting.

Eduardo and Dave often work together on client projects.

How do you structure your retainer agreements with clients?

Today, most Market 8 revenue comes from retainers. Initially, the company struggled to manage its retainer agreements, but after some experimentation, Eduardo and his team came up with a point system.

They assign points to every activity performed by the company. They have a catalogue of about 100 activities. Every two months, clients buy a certain number of points. Clients then draw from their points to engage the services they need over those two months.

The number of points assigned to each activity reflects the complexity of each task.

Can you tell us more about the concept of Agile development?

Market 8’s clients are mostly software companies in the early stage of development. So in most cases, they don’t know what they need—and their needs change from month to month. This makes it challenging to create a retainer agreement.

What’s needed is a retainer agreement that:

- 1) Gives clients the flexibility they need, and
- 2) Protects the agency so they’re not delivering more than they signed up for. The agency needs to have some level of predictability so it can allocate resources each month

Why use points instead of dollars? Points prevent clients from working backwards to calculate your hourly rate. It also prevents them from obsessing about the dollar value of each point because they're not directly translatable.

How were you structuring these arrangements before?

Before, their retainers were based on a bucket of hours. But they found that the clients' objectives were always changing. So at the end of the month, the allotted hours had been used up but the objectives weren't fully met.

Clients complained they weren't getting value. The agency was working hard but nothing was getting delivered. It was a bad combination.

Moving to the point system changed the dynamic. Suddenly, both sides were focused on delivering the work to earn (and use up) the points.

Once they made this change, internal approvals started happening much faster.

Do you still scope out the work with clients?

Eduardo still scopes out the work that needs to be done. He then comes up with a schedule of how that work will translate into points.

When clients are starting their business, they have lots of ideas about what they want done. Eduardo and his team capture those ideas. Then, every two months (or every quarter), they sit down and look at what's been delivered. They also look at the "wish list" and assign priorities in concert with the client.

Retainers usually get renewed because this cycle can continue indefinitely—the client always has new ideas on what it wants done. The agency becomes part of the clients' growth engine.

Dave, you recently landed a new opportunity by proposing this system. What happened?

A software company wanted to enter the U.S. market, but it had a number of marketing gaps it needed to fill first.

Dave put together a proposal for six months of work. He made a list of about 80 different initiatives, including blog posts, lead magnets and customer interviews.

The system reassured the client that it could stay within its budget, while also having some flexibility. It allows Dave to manage his team's resources.

Tell us about the two-month rolling window

At the end of one month, clients can roll the points over to the next month. Or if the agency used up more points than budgeted in the first month, then they will perform less work in the second month.

But at the end of 60 days, if the client hasn't used up all the points, they lose it. And if agency goes over the point threshold, the client keeps it.

They employ a two-month rolling window because the agency doesn't want a "debt" of work to keep rolling forward. The bandwidth to perform the work is perishable. It can't be sold once it's gone.

Having a two-month rolling window creates a strong incentive to get the work done in a two month block.

Who do you think would benefit from using this kind of system?

If you're performing work that's formulaic, then this system may not be helpful. But if you're doing anything beyond a simple arrangement of three blog posts per month (for example), this system could work for you.

One of the key criteria is your relationship with your clients. Do your clients want flexibility? Are they unwilling to commit to services far in advance? Do they need to have the ability to make changes month to month?

Also, how strategic are you? Do you want to stick to writing? Or do you want to act as a consultant? Do you want to help your clients determine what they need and then deliver that service to them?

If you want to move into that role, then the point system is worth exploring.

If You Use Retainer Agreements, Give This System a Look

Retainer agreements can be difficult to manage at the best of times. They become even more challenging when clients aren't sure of their needs and want to build in some flexibility.

This is what makes Eduardo's and Dave's point system method so brilliant. It shifts the focus from "How much is this costing me?" to "How can we get this done?"

Which is exactly where you want it.