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Section 2
Group 1

MEET OUR TEAM

Olivia Hinn

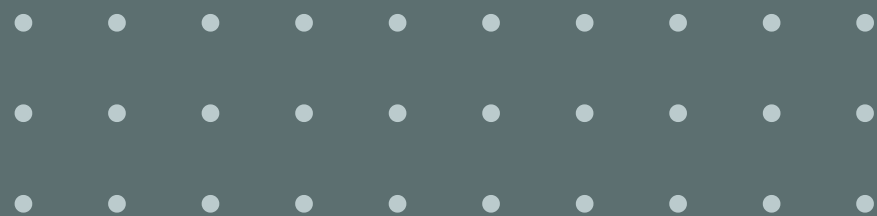Ben Hertaus

Griffin Jones

Wendy Lin

Tania Smith

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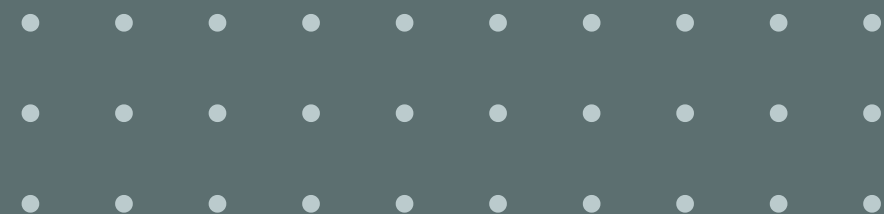# PRESENTATION OVERVIEW

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COMPANY BACKGROUND

- **Established in 1994 by CEO Mike Hinn**
- **Focus heavily on both people and purpose to make "work places more human"**
- **Specialize in:**
  - **Culture Transformation**
  - **Learning and Development**
  - **Brand Marketing**
- **Engagement Agency**
  - **Combination of consulting and traditional ad agency**

"WE ARE AN ENGAGEMENT AGENCY THAT BUILDS BUSINESS THROUGH HUMAN CONNECTION."
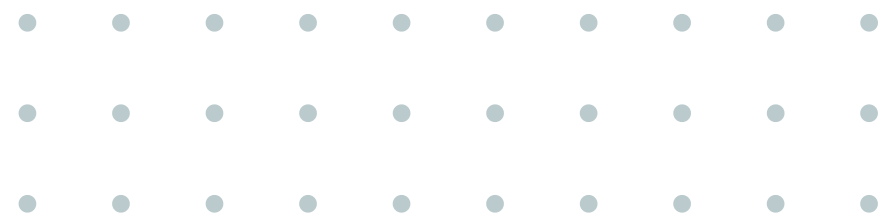
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BRAND PORTFOLIO

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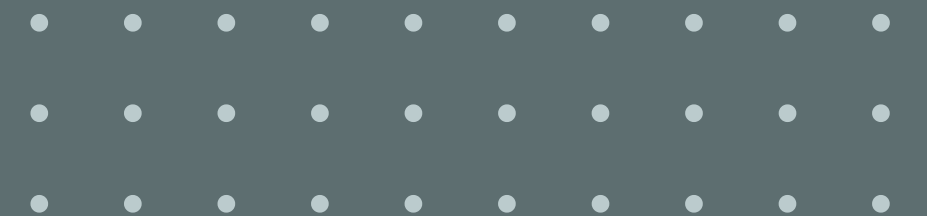
INDUSTRY OVERVIEW

- **Advertising agency market: $391.6 billion in 2023**
- **Fostering the connection between brands and their consumers by producing campaigns**
- **Constantly evolving**
- **Large shift towards social responsibility**
  - **Knight Agency is a pioneer in this area**

INDUSTRY ANALYSIS: COMPETITORS

Top Experiential Ad Agencies

1. Viral Nation
2. Moburst
3. NeoReach
4. HireInfluence
5. Zorka.Agency

6. RMNG
7. NEXT/NOW
8. MKG
9. Sector 5 Digital
10. Pro Motion

INDUSTRY ANALYSIS: HOW TO WIN CLIENTS

- **Client Trial Opportunity**
- **Pricing**
- **Time to Produce**
- **Largest Segments: Large brands hoping to generate experience internally & externally**

CASE ANALYSIS

US Open: Equity for All

Event Based Brand Experience

US OPEN MATCH DAY EXPERIENCE

- **Generate a booth highlighting "equity for all" and 50 years of equal prize money**

- **Interactive experience including: touch screens, educational pieces, and a 360 selfie camera with jumbotron activation**
  - **Edutainment**

- **Given 20 feet of space and $125,000 in 2022**

- **Given 60 feet of space and $300,000 in 2023**

2023 US OPEN

CELEBRATING 50 YEARS OF EQUAL PRIZE MONEY | 1973 – 2023

Project Progression: $125,000 fixed cost in 2022

Project Progression: $300,000 fixed cost in 2023

Pricing Models

CONSULTING/ PROJECT PLANNING COST-PLUS	• Values come from a combination of planning the project with Knight employees, the salary amount for each employee's time, as well as consulting with the client to gather a vision for a blueprint
DESIGN-BUILD OF EXPERIENCE COST-PLUS	• Value is derived from the amount needed to design and build out the experience • Include partner services, or outside services that are included in deliverables, such as printing, videos, digital media, etc. • Not seen as outsourcing, but a "partner" brought into the team for the project

Pricing Model Numeric Break Down

|	

CONSULTING/ PROJECT PLANNING
 	
COST-PLUS
	• Price to client:
	  ○ Blended Hourly Rate $175 per hour * 150 hours = $26,250
	• Internal pricing model:
	  ○ 2.5x of blended labor cost of $70 per hour
	  ○ Internal blended cost: $70 * 150 hours = $10,500
	  ○ Margin allocations:
	    ▪ 40% direct labor
	    ▪ 35% general and administrative expenses (G&A/business overhead)
	    ▪ 25% profit margin

DESIGN-BUILD OF EXPERIENCE
 	
COST-PLUS
	• Internal pricing model:
	  ○ Cost-plus for COGS: Cost + 20% margin
	  ○ Value/fixed pricing for required in-house services
	• Project example for COGS: $150k net
	  ○ Booth Construction: $100k
	  ○ Multimedia: $25k
	  ○ Event Management for 3 weeks: $25k
	
	• Project example for agency services:
	  ○ COGS Margin: $37,500
	  ○ Value/fixed pricing for services: $112,500
	  ○ Total fixed price for experience: $300k

Total Cost: 273,000   Total Price: 326,250

CRITICAL ANALYSIS

PERFORMANCE & RESULTS

1 MILLION
US OPEN
ATTENDEES
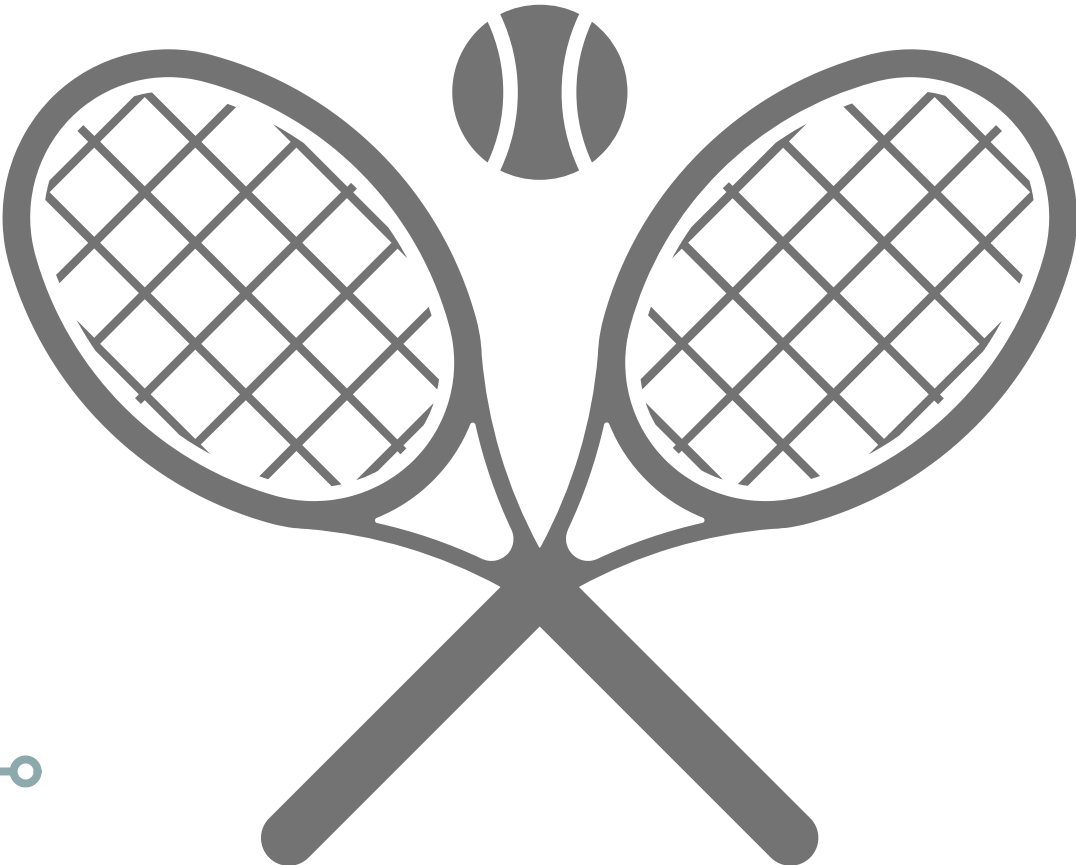
100,000
GUESTS CAPTURED BY
EQUITY FOR ALL
BOOTH

35,000
INTERACTIVE
IMPRESSIONS

10X
INCREASE IN GUEST
CAPTURED FROM
2022-2023

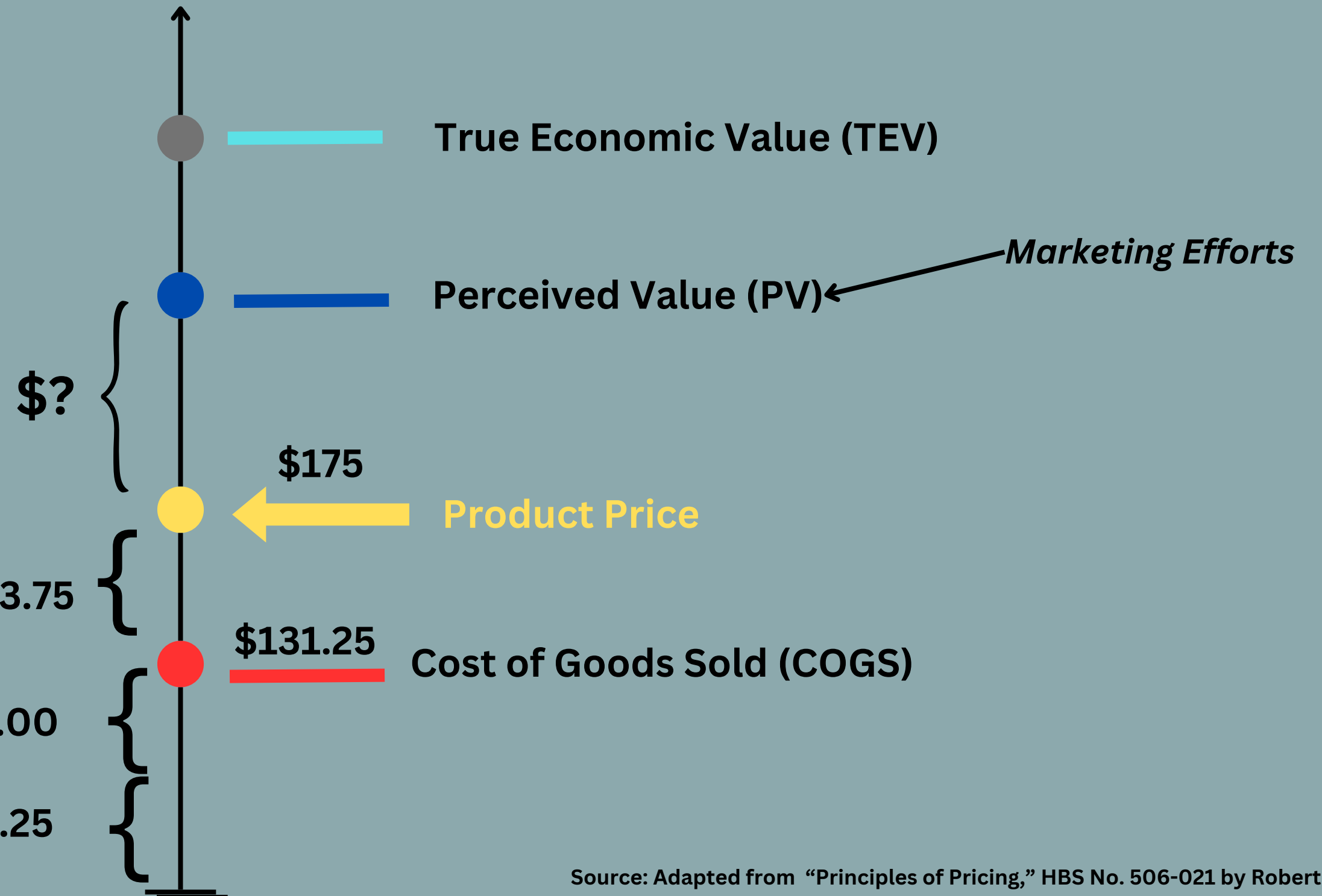# CURRENT PRICE THERMOMETER (BLENDED HOURLY RATE COST PLUS)

Blended Hourly Rate	
Direct Labor (40%)	$ 70.00
General and Administrative (35%)	$ 61.25
Markup (25%)	$ 43.75
Total	$175.00

True Economic Value (TEV)

Marketing Efforts

Perceived Value (PV)

Consumer's Incentive to Purchase
=PERCIEVED VALUE - PRICE

$?

$175

Product Price

Firm's Incentive to Sell
= PRICE - COGS

$43.75

$131.25 Cost of Goods Sold (COGS)

Direct Labor Fixed 40% $70.00

$61.25

G&A Fixed 35%

Source: Adapted from "Principles of Pricing," HBS No. 506-021 by Robert J. Dolan and John T. Gouville.

PHASE 1: COST PLUS THERMOMETER

Phase 1 Consulting/Project Planning		
Direct Labor [$70 per hr * 150 hrs]	$	10,500.00
General and Administrative [$61.25 per hr * 150 hrs]	$	9,187.50
COGS	**$**	**19,687.50**
Profit Margin [$43.75 per hr * 150 hrs]	$	6,562.50
Total Price	**$**	**26,250.00**

True Economic Value (TEV)

Perceived Value (PV)

$?

$26,250

Product Price

Firm's Incentive to Sell
Margin = PRICE - COGS → $6,562.50

$19,687.50   Cost of Goods Sold (COGS)

Direct Labor Variable Cost → $9,187.50

$10,500

G&A Variable Cost
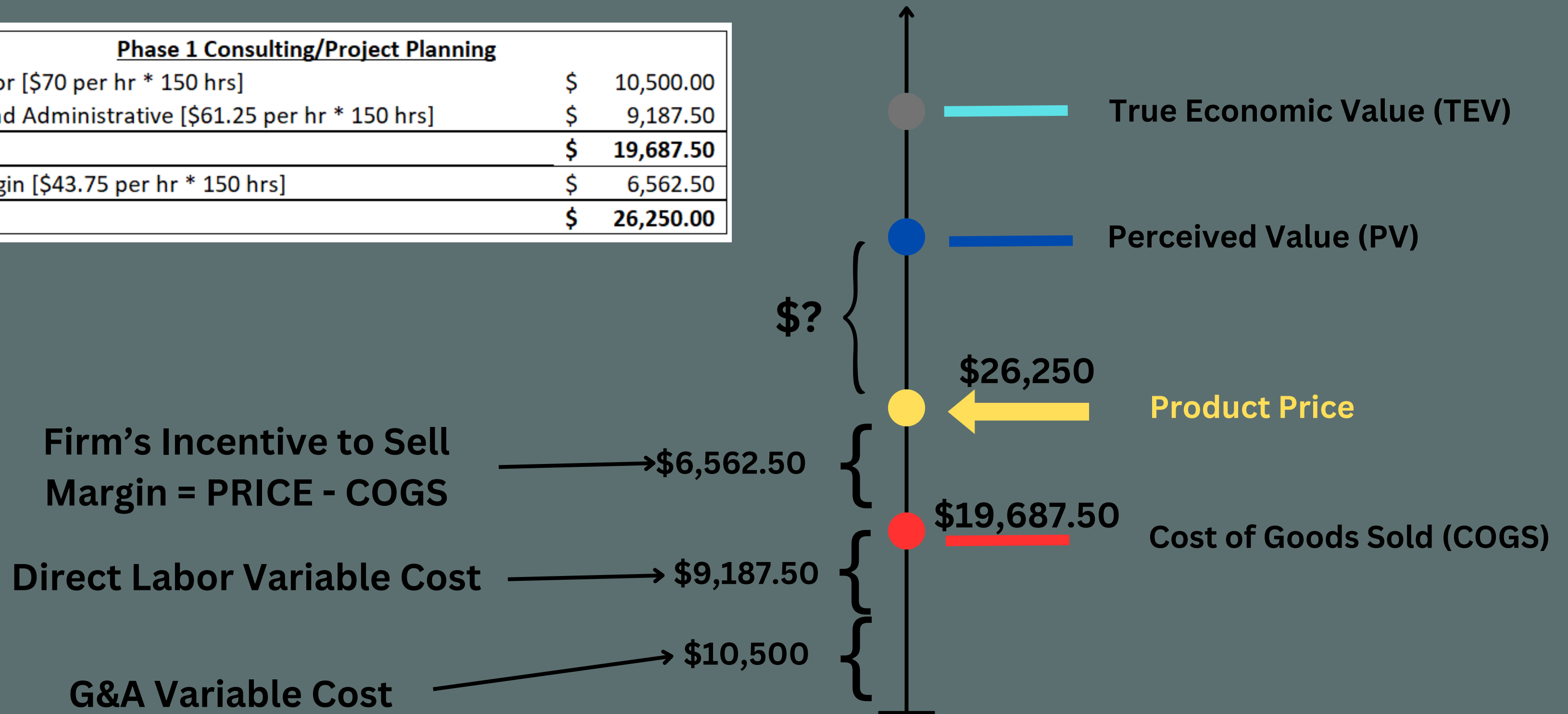
PHASE 2: COST PLUS THERMOMETER

Phase 2: Design & Build of Experience
(Fixed & Cost Plus Pricing Model)

Booth Construction	$	100,000.00
Multimedia	$	25,000.00
Event Management for 3 weeks	$	25,000.00
COGS for Build & Management	$	150,000.00
Agency Services [643 hrs*$175]	$	112,500.00
COGS for Agency Services	$	112,500.00
Markup for Agency Services (25%)	$	37,500.00
Total Price	$	300,000.00

True Economic Value (TEV)

Perceived Value (PV)

$?

$300,000

Product Price

Margin for Agency Services
(Firm's Incentive to Sell) → $37,500

$262,500 Cost of Goods Sold (COGS)

Agency Services → $112,500

Multimedia → $25,000

Event Management → $25,000
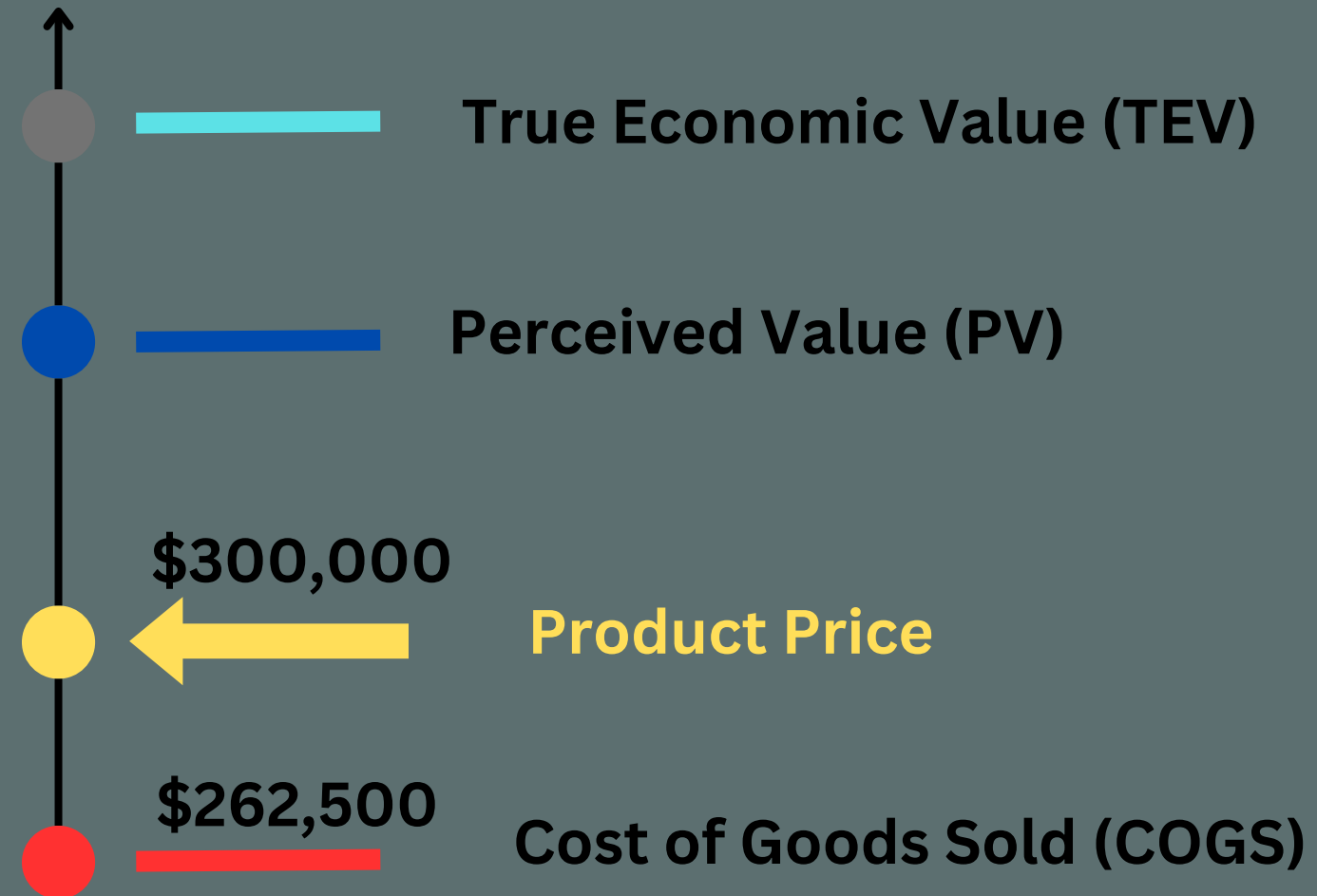
*Note: Agency services are based on blended rate, not to exceed 643 hrs.

Booth Construction → $100,000

Image Source: Adapted from "Principles of Pricing," HBS No. 506-021 by Robert J. Dolan and John T. Gouville.

BENEFITS OF COST PLUS PRICING

Simple

- Easy to calculate (add margin to costs)
- Status Quo (that's what we've always done)

Easy to Administer

- Can justify and explain to clients in a clear and concise way

Responsive to Uncertainty

- Changes in fixed costs (i.e. multimedia, construction supplies) are easily adapted to

NEGATIVES OF COST PLUS PRICING

Leaves Variables Open Ended

- Unknown Value to Consumers

- Ignores Demand

- Does not consider competition

Poor Communication of Pricing

- Value is not communicated to client

- Fixed costs are part of equation

- No options or packages (Good, Better, Best)

MANAGERIAL RECOMMENDATIONS

THE B-B VALUE BASED PRICING METHOD

01. IDENTIFY TARGET CUSTOMER

02. DETERMINE COMPETITIVE OFFERS AND THE FOCAL COMPETITION

03. CONDUCT HEAD TO HEAD COMPARISON

04. IDENTIFY DIFFERENTIATORS & DEFICIENCIES

05. ASSESS THEIR ECONOMIC VALUE

06. CALCULATE THE VALUE BASED PRICE

Dholakia p. 223 (Chapter 10)

VALUE BASED PRICING

1. **Target Customer Identification**

Targeting companies with a minimum of 10,000 employees who have aligned leadership and are purpose driven

VALUE BASED PRICING

Competitive Offers Determination

Head-to-head Comparison

2.

3.

- It is very difficult within the Ad Agency world to acquire list pricing from competitors

- To determine your pricing it is best to go off of industry standard and managerial insights

- Option to ask potential clients that did not accept a bid, why? Was price higher? How were the competitors superior?

VALUE BASED PRICING

Differentiators and Deficiencies Identification

How do you determine your differentiators and deficiencies
if competitors will not share pricing nor results?

4.

Price Realization Gap Analysis

Why Use?

- Determine differentiators and deficiencies
- Gauge negotiations. None = bad. Too much = bad. Need balance.
- Track price levels were bids fail and win
- Establish record of wins and losses

Customer Sentiment Analysis

Why Use?

- Determines performance & offerings that stand out to customers
- Record of past results to track success and help establish trends
- Identify features that capture the most value to customers

VALUE BASED PRICING

Differentiators and Deficiencies Identification

"Post Bid Analysis Rubric"

Capture & analyze results from project bid & negotiations with clients.

Client Post Project Review

Capture & analyze results via a questionnaire to analyze performance & capture value add.

4.

Post Bid Rubric

Question	Answers
Win bid?	Yes
Final Price Offered:	$300,000
Number of Pricing Changes:	3
Bid 1:	$325,000
Bid 2:	$310,000
Bid 3:	$300,000
Negotiation Format & Notes:	Client met face to face for initial bid. Back and forth negotiations were done virtually and over email. P
Client Requests:	Client requested justification of price

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Knight Project Review

We value your feedback to help improve upon our service offerings. Thank you!

ben.hertaus@gmail.com Switch account

Not shared

What part of your brand experience booth do you think customers valued most? Why?

Your answer

Is there a service offering you would like to see added in the future?

VALUE BASED PRICING

Economic Value Assessment

Knights' POV:

Cost per reach 2023: $\dfrac{273,000}{100,000}$ = $2.73   (Cost per interactive impression: $7.8)

Cost per reach 2022: $\dfrac{\overset{\text{2022 Budget}}{125,000}*\overset{\text{Margin}}{0.8}}{100,000/10}$ = $10   (Cost per interactive impression: $40)

USTA' POV:

Cost per reach 2023: $\dfrac{326,250}{100,000}$ = $ 3.26   (Cost per interactive impression: $9.32)

Cost per reach 2022: $\dfrac{125,000}{100,000/10}$ = $12.5   (Cost per interactive impression: $50)

VALUE BASED PRICING

(326,250/12.5)*3   (326,250/50)*3

USTA is willing to pay $326,250 for 78,303 guest reaches (and 19,575 interactive impression) with the tripled size booth.

→ **exceeded the expectation by 21,697 reaches (27.7%) missed value: $2.73*21,697=$59,232.8**
(15,425 interactive impressions, 78.8%)

→ **$273,000 * 1.2 * 1.28 = $419,328**
(1.54)

True Economic Value (TEV)

$418,345
Perceived Value (PV)

$326,000
Product Price

$273,000
Cost of Goods Sold (COGS)

6.
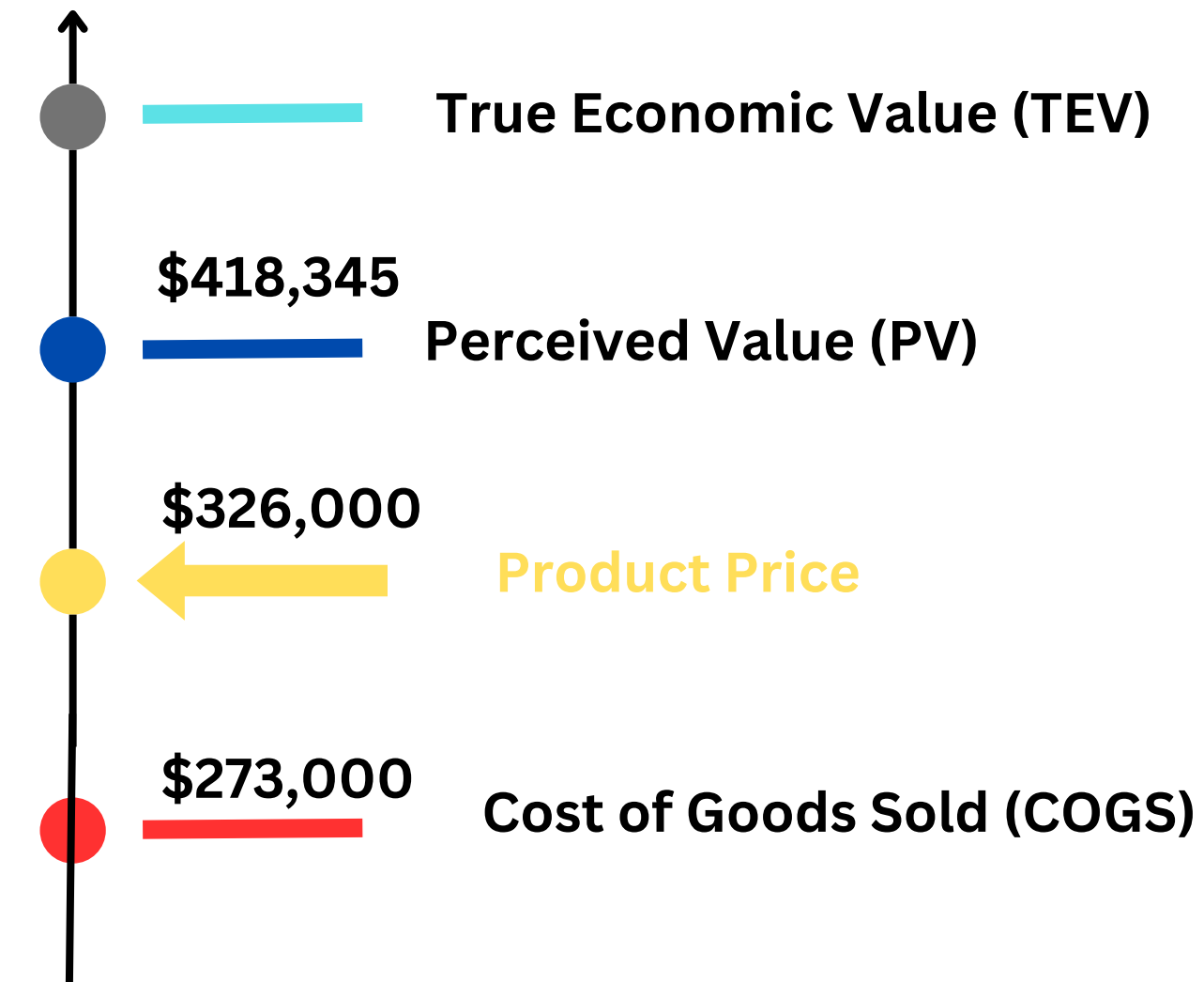
CONCLUDING PRICING RECOMMENDATIONS

- **Consider the number of attendees and impressions to-be-generated**
- **Do not communicate the cost to the client**
- **1/10 total attendees: target 1.54 margin**

Good	Better	Best
25% Margin for over 1/20 of total attendees	**35% Margin for over 1/12 of total attendees**	**53% Margin for over 1/10 of total attendees**
	$368,550	

Package differ in:
- **Event scale**
- **Labor hour**
- **Features**

COMMUNICATING VALUE

Good Better Best

- Develop clear and concise messaging for each price tier
- Emphasize how each tier caters to different customer needs
- Training staff with compelling language to highlight the value of each pricing tier.
- Showcase success stories through case studies
- Benefits:
  - Allows Knight to cater to a broader range of customers with varying budgets and requirements.
  - Customer choice and flexibility

COMMUNICATING VALUE

Leveraging Case Studies

- **Update "Work" subpage with case studies within 4 weeks of event launches**
  - **Provide written and visual representation of events**
- **Capture Value through:**
  - **Consumer + Brand Sentiments**
  - **Reach**
  - **Impressions**

ETHICAL CONSIDERATIONS

What are the ethical/moral implications of our managerial recommendations?

- Withholding price information from customers raises ethical concerns about transparency and informed decision-making

- Value-based pricing, while theoretically fair in aligning prices with perceived customer value, can pose ethical concerns related to equity and accessibility

- The good, better, best model relies on psychological tactics to influence behavior, raising concerns related to customer manipulation

MANAGERIAL TAKEAWAYS

Making the Most of the Experience

- Larger companies are unaware of what they are actually paying for and it is essential to optimize revenue project to project by calculating cost per reach/impression
- Ensure that you are outlining the value to the clients and presenting it, not the cost
- Attempt to capture the actual impressions and post an event survey to assess net promoter score
- Track the bid Price Realization Gap to assess margin potential

THANK YOU