bizcommunity

The future of marketer/creative agency compensation practices

With the advent of marketing procurement specialists in recent years, it is perhaps surprising tl change in agency compensation practice has been so slow.

By John Little 27 Apr 2017

Whilst some organisations spend time and effort looking at new compensation methodologies, the basic inertia is a trend we suspect will continue in the future, despite the rapid changes taking place in other area of the marketing world.

This lack of change in compensation practice is the result of a number of factors. These include return on investment (ROI) measurement accuracy, communication channel performance attribution and financial/accounting statutory limitations, to name but a few.

That said, distribution of the different practices will, no doubt shift. Driven by a desire for simplification, bet cost management and greater accountability, we see the application of project fees, for example, gaining traction in a number of markets.

Unquestionably, however, the relentless drive for greater efficiency will continue, regardless of the compensation models used.

What follows is our shortlist of the practices we believe will endure or gain traction moving forward:

1. **The value proposition:** The marketer determines a value for the work to be done. It's usually a fixed percentage of the intended expenditure. Very few marketers have sufficient, comparable data to crea benchmarks for what various agency deliverables should cost or are worth. This practice is used by T Coca-Cola Company.
2. **Retainer fees:** Currently this is the most common compensation practice. Against a scope of work prepared by the marketer, the agency prepares a resource plan and estimates the number of hours each team member will need in order to deliver the work required. The resultant fee is paid by way of monthly retainer.

3. **Retainer fees + PBR:** As above, but the agency puts a portion of its profit margin at risk, which is usually matched by the marketer. The agency earns back its profit or the bonus via a payment by resu (PBR) mechanism. It's the most prevalent practice, both globally and in SA, which provides procurement people with a comfortable measure of transparency. Procter & Gamble, the world's largest advertiser, utilises this model.
4. **Project fees:** In this practice, the agency works on a single project or series of projects that it costs o an adhoc, hourly rate basis. The benefit to the client is that they only pay for work done and are not committed to 12 months of fees, with attendant uncertainty as a result of the fast pace of change in th marketplace. And they can select different agencies, based on perceived suitability for the specific project, possibly from a roster of agencies. However, they sacrifice the benefits of continuity such as depth of market understanding, brand knowledge, historical learnings, which can lead to higher hours, generally at a higher hourly rate. This practice is experiencing a growth trend, particularly in the US, bu isn't one we favour.
5. **Retainer/project hybrid 1:** A practice we prefer and see growing going forward. This is a combinati of monthly retainer for key agency resources on work that is certain to be required, combined with project fees for 'out of scope' work, which cannot be anticipated at the beginning of the planning cycle
6. **Retainer/project hybrid 2:** A version of the above, except that the retainer only covers key, senior resources. This could be a sort of 'brains trust' to provide the continuity/experience, while the oversig of the work is done by the adhoc team assembled for the specific project. Our preference is for Hybr 1, but Hybrid 2 is still better than pure project fees.
7. **Cost + PBR:** This is a more aggressive fees, plus incentive model in which the agency only recovers its payroll costs without mark up or profit margin by way of monthly retainer. Achievement of KPIs is required to recover overheads and move into profit, but significantly so if the business does well. This might even include equity. It's attractive to procurement people, but there's not much traction for this option as the risk is too high for agencies.
8. **On risk + sales commission:** The agency produces the work free of charge (on risk), but stands to earn handsome commissions on all sales or equivalent metric. Very few agencies, understandably, have the appetite for this option. Equally, CFOs baulk at the 'open ended' nature of this type of arrangement.
9. **Royalty:** Similar to point #8 above, the agency produces the work at no cost to the client, but retains ownership of the IP. This is licensed to the marketer, who pays a royalty for usage of the work. It is gaining popularity in the digital/tech space.

As the line between creative and media blurs with the constant march of digital transformation and associated technologies, it is highly likely that new compensation structures will emerge.

But given the relative nascence of marketing procurement and the need to be reassured by transparency, the resource package fee, be it retainer or project, is more than likely to remain the default option for the v majority of marketers, for some time to come.

ABOUT JOHN LITTLE

John Little is regional managing partner, Middle East and Africa at The Observatory International. Between 1981 and 2009 he held the positions of MD of Ogilvy Jhb, Group MD of Leo Burnett, MD of Ogilvy Africa and CEO of GroupM, Africa. He served on the board of the Association of Advertising Agencies for 16 years. He chaired that body, as well as the Marketi Industry Trust and the Advertising Standards Authority. Little launched The Observatory International in SA in 2009.
View my profile and articles...

For more, visit: https://www.bizcommunity.com