A guide to agency remuneration

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ID COMMS
a modern communications company

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Preface

Welcome to the Guide to Agency Remuneration.

This guide is intended to answer some common questions and help clients better understand the options available of how to incentivise their marketing service agencies.

Do you pay your media agency a fixed commission for the work they do?

Do you know where the agency adds the most value to your business?

Are you unsure if you are getting value for money from your agency?

Do you want to make them more accountable for their results?

Are you nervous about the lack of transparency from your agency?

Do you think that commission is so low that your agency must be losing money?

Have you wondered what alternative models might exist?

If so, this guide has been written for you.

In recent years more and more clients have been finding that the traditional commission based model of paying an agency is rather outdated because it may sometimes reward the agency to give a less effective solution. Instead many clients are now seeking new ways to reward and incentivise their agencies, aligning them closer with their own goals and keeping them more accountable for success.

We have created this guide in response to a number of remuneration related projects we have been engaged with and the many questions we get asked by clients just like you about how to best engage their agencies to work more effectively so they make budgets go further.

This guide is primarily written about media agency remuneration, but the models and principles can equally be applied to other agency disciplines such as creative, digital, PR, direct marketing etc.

"A majority of marketers around the world do not believe that their agencies are sufficiently results driven"
WARC.com, April 2010

Executive Summary

If you don't have time to read the whole guide, then this page serves as a brief summary of the main points.

Having the right agency remuneration model in place will make your investments in communications more effective.

Most clients still work with out-dated legacy models, mostly using media commission, which we believe causes as much as 30% of the value to be lost.

We strongly encourage you to consider moving away from commission to an alternative model which will guarantee greater transparency and align your agency directly with your company's own marketing goals.

The three main models:

1. **Commission Based** - agency earns % of media billings spent
2. **Fee Based** - agency earns an hourly rate based on resource supplied
3. **Value Based** - agency earns profit based on value they create for the client

There is a growing trend of clients moving away from Commission towards modern Fee and Value based models. Some combine these to form a hybrid of fee plus a performance related bonus payment.

The Five Rules of Modern Remuneration:
1. Suppliers will need to become more accountable for the value they create
2. Suppliers will need to work to clearly set "higher goals"
3. Clients will need to be able to offer a share in success to suppliers
4. The supplier's profit must be in areas where most value can be created
5. There should be no profit from areas where no value can be created for client

The STAR model - Shared Targets And Rewards - a modern, value based remuneration model for the 21st century. STAR has two components:
- A base fee which allows the agency to cover its costs and break even
- A separate profit component calculated upon the agency's performance and delivery of results

"If agencies are to avoid longer-term decline, experimentation in new models of remuneration and agency structure is only going to increase"
Tim Bradshaw, Financial Times

Contents

Why consider remuneration?

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Agency remuneration is the hottest topic of debate

We estimate that for many large brands, up to 30% of the value of their communications investment can be lost in the media value chain.

What this means is that the client's marketing service suppliers are not creating enough value from their involvement relative to the fees that they are charging. This guide is not about cutting agency fees, instead we are focusing on how to make every unit of marketing investment work harder by incentivising agencies to account for the net value they create.

Loss of value is usually the result of:

- incorrect objective setting
- poor briefing
- poor strategic planning
- working with the wrong suppliers
- un-transparent trading practices
- weak remuneration models
- incorrect media choice and execution
- lack of proper data, analysis and reporting

These are all areas that can be addressed by having the right payment model in place. The right model will prioritise (by rewarding) the right areas of agency focus, which create the most value.

The issue of agency payment models has earned a lot of press coverage, comment and debate in the last 12 months, prompted by a severe recession which caused many clients to re-evaluate their supplier contracts and terms of business. We believe this was long overdue and we now encourage the increased interest in finding new, more effective ways for agencies and clients to work together.

> "Painful as it is, this recession is highly disruptive and a powerful force for change. It demands the development of new ideas and facilitates long-needed action"
> *Colin Gottleib, CEO, OMD EMEA*

Current Market Context

Good media performance is no longer just about media discounts. Media pricing is now so low from competition that is has created a commoditised market. Today, what will differentiate one media agency from another is not pricing but how much value they can create from a fixed media budget.

The skill of a modern media agency needs to be less about access to individual media and discounts and more about choice - making decisions in media which have the greatest positive effect to grow a client's business. And so, as the media market has rapidly evolved in the last 15 years, so too must the model for how agencies are measured and rewarded to make the right decisions.

In recent years with increasing business pressure on marketing departments, there has been an increasing focus on marketing to deliver MORE with LESS. More sales, traffic, brand awareness etc. with less budget, less people, less suppliers and less overall resources.

At the same time there have been huge economic, social, technological and behavioral shifts at play which have had significant effects (many positive) on the media and marketing industry. The primary change has been the continued fragmentation of media audiences away from mass channels into more niche media consumption. Fragmentation has also diluted the general quality of media environments, making it important for the media agency to be able to identify the best quality media spaces and not just the best audiences.

Why remuneration is so important

A positive of media fragmentation is that it has created far more opportunities than ever for brands to connect efficiently with their most valuable audiences, because once you have found them, you can target them very directly and engage them very efficiently.

However, the ongoing fragmentation of media means that your media agency is having to make many more, important choices on your behalf than ever before:

Choosing the most effective channels

Choosing the best way to activate in those channels

Choosing the best complementary mix of channels

Maximising 'free' media distribution (e.g. social media)

It is how and why those choices in media are made that is the key issue. Clients need to ensure that their agency payment model is incentivising the right choices to be made which create the most value for the client.

Why? Because different choices in media may also have different impacts on the media agency's income and therefore the way the media agency is incentivised from the outset will naturally have an influence on how they make choices in media. Having a remuneration model which aligns the media agency closer to the client's business goals is fundamentally important to generate the most value for the client, in the choice of media.

Put simply, the agency's opportunity to make a profit should lie in making choices which generate the greatest value from the client's investments in media and communications.

Accountable media neutrality

With so many media choices available to clients, they need to know that they are getting unbiased advice on which channels to use.

An agency with a cross-media offering (such as a creative agency or media agency) should in theory offer clients a completely objective point of view about which media channels will be most effective and relevant to answer the client's brief.

In practice however, there is often a bias towards certain media choices, meaning that the choice of media is not always made 100% in the client's best interests. Usually this is a symptom of a remuneration model that influences an agency's choices, for example if a creative agency is making a large proportion of their income from the production process then they may be more likely to recommend media, such as TV or print, which are more production intensive than say PR which involves minimal production. In the same way, a media agency paid by media commission may be more likely to recommend media which takes less time (and headcount resources) to implement. A TV plan can spend large chunks of the client's money very quickly compared to say, organising an event or planning an intricate digital campaign.

In many agency contracts, the additional labour involved in planning and buying digital media will be charged at a higher rate of commission than offline media. It is clear to see how this situation could rightly or wrongly bring into question an agency's media neutral advice.

We believe that it should be the ambition of all clients to work with agencies that are media neutral to ensure that the advice they receive is entirely in the best interests of the client not the agency's bottom line. Agencies themselves feel a growing sense of frustration at having their media objectivity questioned, simply because of a payment model often mandated to them by the very client who is questioning their media choices.

The only way to guarantee neutrality in advice on media channel is to ensure that the agency has no direct income advantage in recommending one medium over another or one media owner over another. This can be achieved by adopting a remuneration model which fairly rewards the agency for making choices in the client's interest.

"Media agencies are seen as sometimes working to their own business agenda, rather than concentrating single-mindedly on the advertiser's marketing requirements"
Martin Sambrook, auditor, eBiquity

Why you should think about re-evaluating your agency's terms of business

Re-evaluating your relationships with agencies has never been more important. In a recession, improving the effectiveness of existing investments and generating new value from them is as important as cutting costs. To achieve that efficiency, all marketing service suppliers need to be making greater commitments to their clients. What does this mean for agencies?

We believe there are **five new rules** for the client / agency relationship:

1. Agencies will need to become more accountable for the value they create
2. Agencies will need to work to clearly set "higher goals" that align with a client's business goals
3. In exchange the client will need to be able to offer a share in success to the agency
4. The agency's "opportunity for profit" must be in areas where most value can be created for the client
5. There should be no "opportunity for profit" for a agency from areas where there is no opportunity for value to be created for the client

When to act? You don't need to wait until the contract expires to change your remuneration model. It won't require a complicated pitch process. It can be a mutually beneficial solution for both client and agency.

Next we will look at the three main remuneration models currently in common use.

"Existing terms of business need to be reshaped. The agency model of the future then must rest on some kind of pay-for-performance model, balanced by a share of both risk and reward"
Pip Brooking, Editor, Media & Marketing Magazine

The Remuneration Models

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The 3 remuneration models

COMMISSION BASED	FEE BASED	VALUE BASED
Agency earns % commission paid on variable media billings spent	Agency earns an hourly rate based on resource supplied	Agency earns profit based upon value they add to business

There are three main models for agency remuneration, each has its benefits and drawbacks. There is no hard and fast rule to which remuneration model you should use because it depends on your priorities as a client but the general trend in recent years is for clients to move away from commission based models to more accountable models of fee or value based payment.

The commission based model, which dates back to the early part of the 20th century, is surprisingly still the most common model of paying an agency. The commission level may be negotiated as part of a long term contract and is charged on a fixed percentage of media billings. Over the years the average percentage commission that agencies charge has been eroded by competition and now sits between 1-3% for most large agencies, although business has changed hands for less than 1%.

Some agencies and clients have moved to a fee based model, where the agency bills by the hour for work. This has the advantage of making the agency more accountable for the resource they supply because the hours spent on the client's work can be agreed upfront, audited and therefore can be more accountable than commission, usually the agency's profit margin and overheads are transparent in the fee.

Finally, some clients are moving beyond fee and adopting a value based model, which holds the agency to even greater account for the work they do by incentivising them on the value they add to the client's business. This is the most robust of the three models.

On the following pages we will explore the three models in more detail.

COMMISSION BASED

Agency earns % commission paid on variable media billings spent

The commission based model allows media agencies to retain a percentage of the client's media budget as payment for the services they offer in managing and investing that budget. Agency commission was originally charged at 15% but lately commission levels of 2% or less for offline media are not uncommon due to increased competition amongst agencies to win large billing clients. It is very hard for an agency to break even on a media commission less than 2.5%

	Positives	Negatives
CLIENT	Predictable expenditure Needs little management Easy to negotiate downwards	Makes the agency a 'selling supplier' Impossible to get media neutral advice Promotes culture of rebate retention
AGENCY	Predictable income based on budget Easy to look competitive Easy to under resource accounts	Income is slave to client budget changes Agency offering becomes commoditised Doesn't recognise value of good work

Commission based models are arguably out-dated today. They were designed for and made sense in a world of limited mass media buying, where an advertiser wanted access to the best TV programmes or sites in a newspaper. The advertiser would pay the agency for negotiating cheaper rates and better placement for their brand.

Today, commission is a flawed way to pay for media planning and buying because it actually incentivises neither. Commission does not incentivise an agency to buy cheaper, if anything earning a fixed commission on a cheaper media deal would actually result in less agency income. In a recession, agencies on commission will have seen their income drop, in some cases by 30% or more over the last two years, affecting service quality to clients.

Regarding media planning, with so many more choices in media, the skill of media planning has become more important, to ensure that the client's budget is invested in the most effective places. A commission based model doesn't incentivise the agency to necessarily provide the best media planning, because working on commissions can make it difficult for the agency to offer 'media neutral' advice. In fact, commission can reward the agency for prioritising mass media choices because those are the simplest (and less labour intensive) ways to spend large budgets and therefore earn the commission.

"Some say [the volume media deal] system, kills planning: money has to go where group deals need topping up to earn rebates for the agency, not the best place for the client."
Tom De Castella, MediaWeek

FEE BASED

Agency earns an hourly rate based on resource supplied

This form of agency payment is currently the preferred method for a growing number of clients that are evolving away from a commission based model. It is calculated based on the anticipated labour costs required to service the account, including agency overheads of between 50%-120% and for good measure topped up with a profit margin of anything up to 15%. It is guaranteed agency income irrespective of fluctuating marketing budgets and the clients business performance.

	Positives	Negatives
CLIENT	Greater transparency Ensures agency neutrality in media choice Gives access to agency overhead and profit	Makes time the currency Can reward slowness and inefficiency Guarantees agency profit without results
AGENCY	Guarantees agency income Predictable profit margin Ability to plan (and stretch) resource	Transparency Limits some access to rebate income Exposes operational costs and overhead

Whilst commission still makes up the majority of agency contracts, some clients have been moving to a fee based model. They see this as a better alternative to commission based payment because it makes the agency account for the resource dedicated to that client and the time they spend working on the client's business. It empowers the client to strip away any resource they feel is unwarranted and makes every member of the team accountable for their time, if not the quality of their work.

It has the advantage of creating a more transparent working relationship, because the client can see how much the agency charges for overhead and what profit margin they expect. The limitations of a fee based model however are that the agency isn't rewarded for efficiency and if budgets are cut then the agency can arguably earn a greater profit margin because fees will usually remain fixed. It also doesn't hold the agency to account for results or the value they add to the client's business.

As a result, many fee based deals contain a performance bonus (PRIP) as an incentive to deliver high quality service. However in our experience the benchmarks for these are often too few and too soft and can usually be regarded by agencies as guaranteed income.

> "One finance director confided to me that his agency had little incentive to streamline the creative development process because they would earn less as a result. That cannot be a satisfactory state of affairs."
> *Pauyl Feldwick, AdMap*

VALUE BASED

Agency earns profit based on the value they add to the client's business

The value based system is where the agency earns a profit based upon the value they add to the client's business. It allows the agency to share in the risks and rewards of media investment and so makes them more accountable for the value they create. It brings a greater sense of business partnership into the client / agency relationship by allowing the agency to guarantee a break even point and then earning all of their profit based on their performance.

	Positives	Negatives
CLIENT	Aligns the agency to client's goals Total transparency from agency Agency accountable for the value they add Less financial risk than a fee based model	Hard work to roll-out initially Requires management of scope of work Requires some auditing & evaluations
AGENCY	Opportunity to make better profit margin Projectable, reliable income Elevates agency to valued partner status	Loss of profit for year one Requires resource to be re-organised No room for un-transparent income

The value based remuneration model is arguably the future of agency contracts because it entirely aligns the work of the agency with the client's business goals, meaning all agency resource can be focused and accountable for the value it creates. In this model, the agency's profit can only be maximised if they deliver against the metrics put in place, ensuring the agency applies the most appropriate resources to the client's business and manages the work in an efficient way.

The upside for the agency can be a greater profit margin, but because this is only earned when the value delivered to the client is maximised, the additional cost to client can be justified as an accountable investment. This also has the benefit of encouraging the agency to ignore the contractual loop-holes which may have allowed the agency to profit from media rebates in the past and keeps them focused more on delivering greater value to earn greater profit, in a transparent way.

The value based model requires some work to set up because a detailed scope of work and set of agency evaluation metrics needs to be agreed, however this is a one-off task and one which begins paying back immediately.

> ''From a client point of view, you don't only want to pay for effort, you want to pay for results''
> *Carol Kruse, VP Marketing, The Coca-Cola Company*

The problem with commissions

Consider an estate agent (or real estate broker):

Most estate agents work on commission, averaging 2%

When selling your house, your goal will usually be to maximise the sale price and minimise the headaches

The estate agent's goal may be very different, for example, to make the biggest operating margin on any house sale

Using a scenario: you have a house, priced at £320,000 to sell.

Working with a commission based model, the estate agent would prefer to sell your house quickly by pricing it below the market at £300,000 (earning them £6,000 commission), even though it is £20,000 less than you wanted.

For the estate agent, this is better than working an extra month finding the right buyer for you at £320,000.

Putting in the extra time and effort to sell your house for the higher price would only earn them an additional £400, whilst their extra effort would be worth an extra £20,000 to you.

So, for the estate agent, earning the first £6,000 of their income is relatively easy, but the final £400 is what requires the most time and effort.

In this scenario, you can see that the commission model doesn't actually incentivise the estate agent to work 100% in your interests because there will be a point at which delivering exactly what you want (as the client) becomes financially difficult for them (the agent) to do.

In most cases, commission payment models for agencies provide similar conflicts of interest.

You can see here how a commission payment model doesn't always provide the most value because it doesn't incentivise behaviour which is in the best interests of the client.

Changing to a new model

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How do you change models?

It is understandable that commission based remuneration has survived for so long as the thought of changing models can seem like a daunting and risky undertaking, plus commission often appears to be convenient, accountable and manageable. However, you can be reassured that changing your company's model is simple with the right planning, good communication and a clear timeline.

Many clients have already begun to evolve their agency remuneration models, many managing a hybrid of commission and fee where the agency earns a small percentage commission for media buying which covers basic overheads, a central team charges a management fee and then a performance bonus element allows for the agency's profit.

This is a positive step but it is not enough. We believe that clients should now be looking to move away from commission entirely and look to work with a fee or value based model. Sometimes a hybrid (fee+value) model will be most appropriate.

The process of changing the agency remuneration model should take between 2-6 months to complete and involves a commitment from all stakeholders to make a positive change but the rewards are many, from short term benefits of creating a closer more aligned relationship with your agency, through to long term financial benefits from far more effective communications, with your marketing investments working to their full potential.

Moving to a value based model, clients will discover that costs can be saved immediately in year one, as the profit payment to the agency is deferred until the close of the client's financial year. More on this later...

A common issue around value based models is that in order to fairly reward the best work, they require complicated econometric modeling to determine precisely the proportion of success that an individual agency delivered to the clients business.

We believe that identifying an agency's exact contribution is not only hugely subjective (if not impossible) but that isolating an individual agency's work creates areas of conflict across the agency roster unnecessarily and inhibits inter-agency collaboration.

Therefore, a modern, value based model need to take a broader view of client's business success. The model must be a system of shared targets and shared rewards, so that agencies are encouraged to collaborate in the best interests of the client.

The STAR model: Shared Targets And Rewards

Due to increasing interest from our clients, at IDCOMMS we have developed a value based remuneration model called STAR.

We believe that having shared targets and rewards is the key to a successful and profitable client / agency partnership. STAR is proprietary to IDCOMMS and has been a year in development, the first STAR programme having been rolled out across Europe for a top 10 consumer brand in 2009.

STAR is a modern agency remuneration model in which the entire agency profit is determined by the value the agency generates for the client's business on specific performance indicators.

STAR is designed to be used by agencies and clients seeking a fairer, more transparent and effective method of agency payment. The core focus of STAR is to ensure that the full value of a client's media investment is being realised and no value is being lost from poor media choice and agency inefficiency.

STAR is a framework which can easily be tailored to a client's specific situation meaning our clients get a STAR model unique to their business but one which is built upon a set of consistent principles.

The STAR philosophy:

Investing in the best agency resource to deliver the most value

Motivating the agency to deliver world class work whilst managing costs in order to maximise their profits

Shifting the responsibility for agency profitability back onto the agency, requiring them to manage their costs and demonstrate the value delivered to client

Encouraging the client to be more disciplined in managing budgets, briefs and scope of work

Focus everyone on driving tangible value to the business from investments in media

STAR: How It Works

STAR calculates the agency's income in two parts, separating a base fee from the agency's potential profit margin.

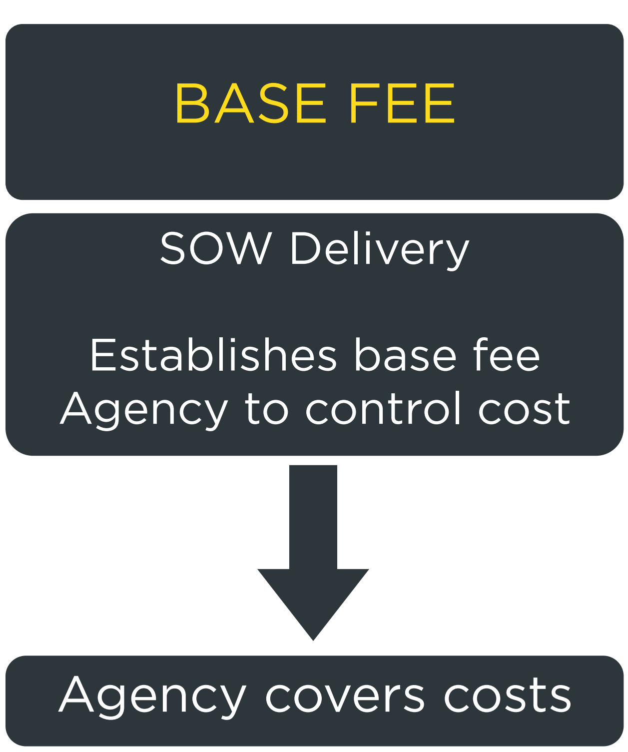
Firstly, we always allow the agency to break-even on their costs of servicing the client's business. We don't believe that agencies should normally be expected to risk losing money, thus the calculation of the base fee needs to be set at the agency's break even point. Our operational expertise and knowledge of industry best practice allows us to accurately set this benchmark.

Therefore once we help define the agency's scope of work, we then review the agency's FTE resource proposal against delivering that scope of work and then cross-check this against our pool of agency salary benchmarks.

We then apply a conservative agency overhead based on our agency management experience.

This overall calculation defines the agency's base fee, the minimum they could earn from working with this client. Once this is agreed it becomes incumbent upon the agency to manage their own costs efficiently, encouraging them to organise their resources more effectively to best service their clients.

The agency's ability to earn a profit is calculated completely separately, based on their actual performance, as detailed on the next page.



Base Fee - a scope of work, associated headcount costs and agency overhead which calculate the agency's base fee, to a break even point. ID COMMS can benchmark these against an audit pool of agency costs.

Example elements of a scope of work will include:

- Insight Tasks
- Planning Tasks
- Execution Tasks
- Contingency & Support Tasks

STAR: Calculating the Profit

The old adage "what gets measured gets done" is very relevant when considering your agency's profit. We believe that calculating the agency's profit entirely upon their performance keeps them focused to deliver the most value for clients.

In the STAR model, the agency's profit is calculated based on their performance score from 0 to 100, where a score of 100 unlocks the maximum profit margin, perhaps 30%.

We recommend assessing the agency across four areas, each with a weighted contribution to the overall score, this weighting will vary client by client depending on the objectives for their business and their marketing priorities.

IDCOMMS works with the marketing team and procurement specialists to define the focus of these assessments and will advise the correct weightings based on our experience of what will provide the correct incentive for the agency.

Within each of the four areas of assessment, a STAR assessment matrix is created bespoke for each client which aggregates the weighted scoring for each element and generates the overall score out of 100. The profit payment is based entirely upon this score.

Profit - A schedule of agency assessments which scores their performance across the year and determines the agency profit. The profit payment is made in arrears at the close of the client's financial year, meaning the client can defer this payment into the next financial year, saving costs from the first year of a STAR programme.

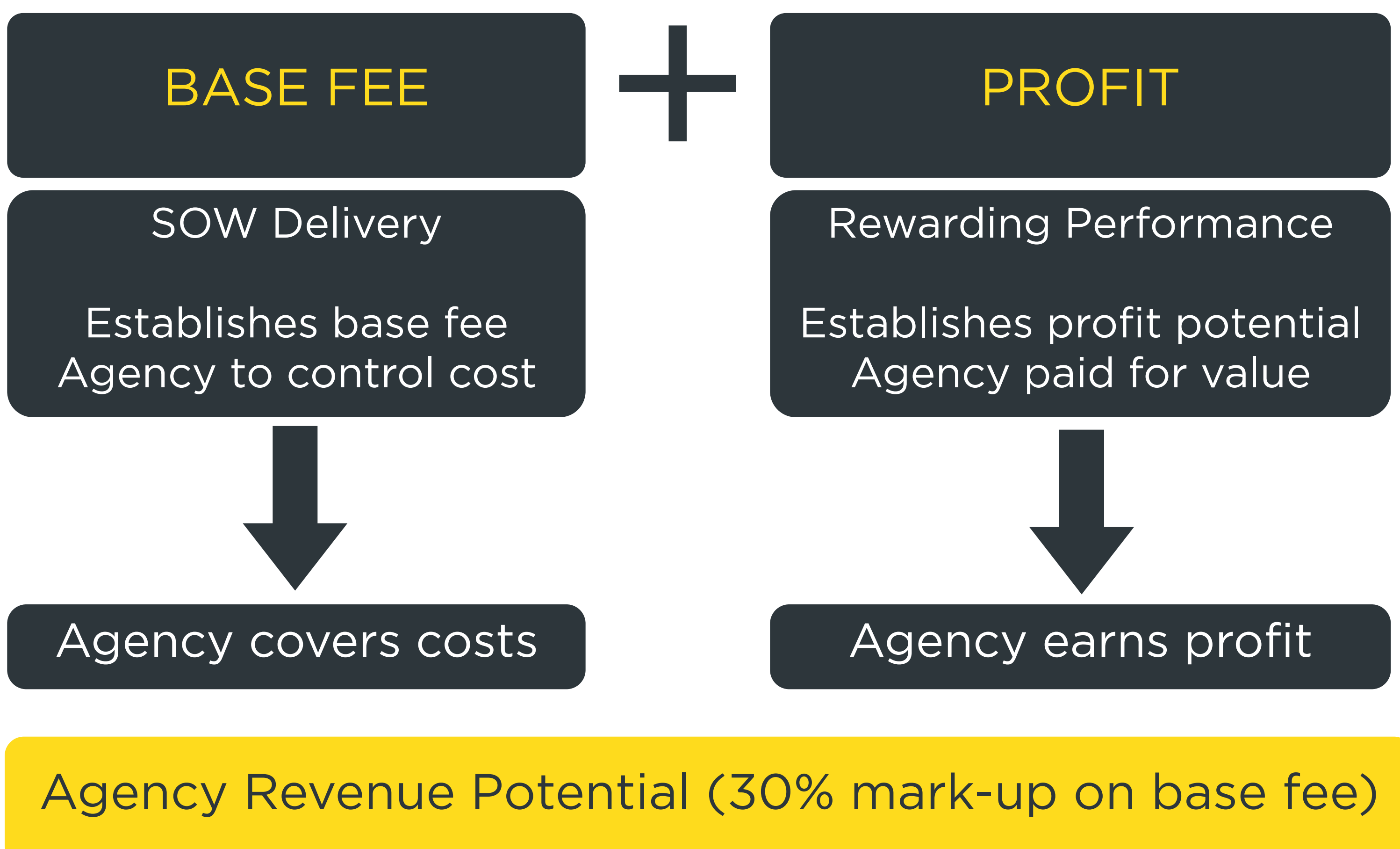
Example elements of a performance evaluation will include:

- Delivery of the Scope of Work
- Agency service evaluation
- Buying performance
- Client's business performance

Client Business Performance - this KPI will naturally vary by client depending on how they measure their own success. We will strongly advise that the agency be rewarded upon very similar metrics of success that the client uses internally.

STAR: Summary

So, the agency's income consists of two parts, a Base Fee which allows them to break even and cover their costs of doing business added together with a Profit element which is earned only from their good performance. The agency's opportunity to make a profit is therefore directly linked to creating the most value for the client.



The STAR value based remuneration model offers a new, more rewarding way for clients to work productively with their agencies.

The model is designed to protect the value in the media value chain and ensure that client's budgets are working as hard as they can at all times.

We believe it is fair to the agency and gives them the freedom to focus all their energy into delivering world-class work rather than worrying about their bottom-line, in the knowledge that by doing the best work they can, they will share in the client's success, be well rewarded and be more valued as a partner.

We believe STAR is the most user-friendly, transparent and productive remuneration model. It offers companies a clear working process, setting reasonable benchmarks for the agency based on up to date industry standards.

STAR: Benefits

Moving from a commission based model to a value based model.

From	To
Paying agencies for media buying	Rewarding agencies for results
Receiving cost proposals	Focusing on solutions to challenges
Agency as a supplier	Agency as communications partner
Individual targets	Collaborative goals
Hoping for media neutrality	Ensuring media neutrality
Doubting transparency	Guaranteeing transparency

The benefits of STAR:

The STAR value-based remuneration model creates the best possible client and agency relationship, each side aligned to achieve the same goals and working in partnership to generate the most value to the client's business. It is an easily achievable win-win.

STAR - makes the client and the agency jointly responsible for delivering value

STAR - generates immediate cost saving for year one

STAR - establishes a true partnership between client and agency

STAR - guarantees transparency, media objectivity and accountability

STAR - is unquestionably the remuneration model of the future

Agency evaluation can very easily become a subjective exercise and it is very important, whichever model you use, to have a clear framework which allows a structured, objective approach to be maintained. IDCOMMS' independence guarantees that objectivity prevails across the process.

Case Examples

The Coca-Cola Company started implementing their Value Based Compensation (VBC) model in 2009. “Implementation began in five countries in 2009 and Coca-Cola plans to add another 35 in 2010. By 2011, the company expects to have expanded the program across all its agency engagements." Sarah Armstrong, director worldwide media operations, The Coca-Cola Company. “Now, by switching to a value-based system, we're going to be focusing on outputs and outcome."

The Coca-Cola Company haven’t yet released results from their first year working with a value based model, however their continued roll-out plan suggests that they are positive about the five market test last year. We see Coca-Cola’s pioneering in this area as a possible game changer for the industry, as more clients look to make their agency relationships more valuable and more accountable.

ID COMMS has recently completed a large STAR programme roll-out for a Top 10 European consumer brand. They are implementing the STAR model to manage their existing agency relationships across Europe.

The brand was looking to revise their agency contracts and find a payment model which would focus their agency on delivering maximum value from their media investments. We worked with them to tailor the model closely to their specific KPIs and began implementing the STAR programme in 4 of the top markets in Europe for 2010 with the intention that the model will be rolled-out to the remaining EMEA agency network later this year for financial year 2011.

If you would like to discuss your agency payment model or need some impartial advice on how you might evolve to a more accountable model please get in touch with us.

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Implications for the industry

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Implications for the industry

A change of remuneration model of course has implications on anyone working within the media value chain. In this chapter we will consider what some of the major implications are for agencies, clients (from a procurement perspective) and media owners. We also look at how the agency pitch may change as a result of a greater demand for accountability.

A value based remuneration model encourages greater accountability for results and that naturally will require the business models of some agencies and media owners to be updated.

We believe that all the knock-on effects to the industry of using a value based model are positive but it is important to consider what they are.

We have used our own experience and knowledge of industry best practice to compile these implications plus we have sought the additional input from a selection of thought leaders within each of these disciplines. We have also included some relevant quotes recently appearing in the trade press.

This is certainly not exhaustive and we expect much more debate on the various implications of new remuneration models. If you work in any of these disciplines and either agree or disagree or want to add to these implications please do get in touch with us. There are many stakeholders and beneficiaries to a more constructive and equitable remuneration model and we would love to hear your thoughts.

Finally, you will find towards the back of this book a selection of recent articles debating the changing models of agencies and how they might be more accountable.

> "Payment by commission works badly in an age when many of the best solutions don't pay any commission. Payment by the hour is possibly even worse. It means there is virtually no connection between the agency activities that add value and those that make [them] money"
> *Rory Sutherland, President, IPA*

Implications: Procurement

Greater definition of value
Procurement specialists often get accused of being in the business of cost savings and thus commission based models would seem to be popular amongst procurement because of the ease with which they can be negotiated downwards. However, we could equally accuse the agency of commoditising media (and losing sight of the value of their offerings) which has caused procurement to view media as a cost rather than an investment.

We believe procurement has a crucial role to play in ensuring that the relationship between client and agency is as productive and creates as much value as possible. This requires the procurement specialist to have a good understanding of the marketing process and where value is created, lost and hidden.

Media as an investment
We advise all marketing procurement professionals to be helping clients re-evaluate their agency's terms of business and be driven by the desire to unlock value rather than further commoditise media by searching for lower costs. Agencies often complain that they are seen by clients as suppliers of commodity and that they get no traction at the top table with their clients. We believe that procurement will play a vital role going forward in translating marketing success back into the language of success that the CEO and CFO can appreciate, who are in the business of managing investment rather than just controlling costs. That should be good news for anyone in the marketing services business.

New insights for Procurement
For procurement, moving to a value based model provides three interesting learnings:

1. Identifies agencies that are over-delivering - STAR rewards them by ensuring they are paid fairly for the extra value they are creating
2. Identifies agencies that are hitting expectations and earning a profit in line with their value delivery
3. Identifies agencies that are under-performing or currently over-charging for the value they are creating

This is an incredibly valuable insight, it allows the client to be able to prioritise the agencies being used, based upon their value delivery to the business.

> "In a recession, improving the effectiveness of existing investments and generating new value is as important as cutting costs"
> *Howard Stringer, CEO, Sony*

Implications: Media Agency

Agencies are willing to be more accountable
It could be presumed that being forced to be more accountable should be a headache for agencies. However, in our experience most agencies are happy to be more accountable because they want to be able to prove the value they can add and therefore be paid more fairly for the work they do. In truth, very few agencies would fight against getting greater credit for their hard work. A value based system will cause the agency to reorganise their resources around a new scope of work but this is a job that only has to be done once and leaves the agency with a far more efficient structure. They also have to face this challenge whilst being unsure of their profit margin for the first year (because it is paid in arrears), which perhaps makes any new investment in resource a small risk for them.

Isolating an agency's contribution
A common criticism levied at value based remuneration models is that it requires an agency to account for their individual contribution of success. How do you isolate the contribution of a single agency to the marketing success? Many have attempted heavyweight econometric modeling to identify which parts of the marketing mix achieved what result. These usually have tracked variables in the marketing mix and created a 'statistical likelihood' at best. We believe this holy grail of infinitely accountable marketing is both unachievable and ultimately counter-productive. Imagine the scenario where every agency could isolate their contribution to the client's success, this would end up being more divisive than helpful because it would pit agencies against one another in competition rather than collaboration.

Unlocks media neutrality
Another implication for the agency is that it allows them unquestionable legitimacy in claiming media neutrality and provides the media agency with the complete freedom to develop strategies in the client's best interests.

A more creative agency culture
Internally within agencies, having the freedom of media neutrality will arguably raise the importance of high-quality planning skills. This will present a significant cultural shift within media agencies where good ideas become the valued currency not media discounts. We would expect that an agency working in a value based remuneration model would generally be a far better place to work for anyone with a creative drive than one working on a commission model.

A seat at the top table
Moving to a STAR model will fundamentally change the client / agency dynamics, with the shared target and reward principle resulting in a true partnership and therefore opening the door, perhaps for the first time, to a seat for the agency at the marketing top table.

Implications: Media Owner

Greater transparency in trading

As agencies become more transparent and accountable, this will inevitably have a (generally positive) knock-on effect to the media and content owner, who themselves will have to demonstrate more transparency and accountability in the deals they do with agencies and clients. Media owners universally recognise that if the media agency can be neutral and make choices in media which are less income dependent then they will make fairer, more considered recommendations to their clients. In practice this may benefit smaller media owners who may have a very effective platform but until now haven't been able to compete with the commercial terms of the big media networks.

Media owner acting like an agency

We expect that many more deals will be done directly between client and media owner which has been a growing trend in recent years as media owners invest in their own planning and creative development capabilities. Of course media owners are naturally media biased, but for some of the big groups like Time Warner, IPC, MSNBC they have a broad enough portfolio that strong full-service deals are being done with brands that see them as a good brand fit (Rolex and CNN for example). Some clients may actually consider their key media owners more trusted than their agency, so there may be more cases of client brands and media owner brands forging powerful long-term brand partnerships directly.

The end of rebates as incentives

For those media owners who have pegged much of their success on offering rebates and financial incentives to agencies, they will have to re-think how they market their media product to clients and agencies to attract media budgets. Others meanwhile, who have been able to already offer a transparent deal, will be able to better merchandise this position to clients.

Media pricing

We may see media pricing go down as media owners cease subsidising agency income through rebates and could therefore invest more into the actual deals they offer. Also as agencies act in more media neutral ways, the bigger media owners will have to get more competitive on price because there will be more valid competition for every dollar of the client's media budget.

"Most good ideas are not actually now coming from the agency, they are coming from the media owner, which has invested in whole teams of people trying to make the most of the media they've got"
Nick Manning, CEO, Ebiquity

Implications: Agency Pitch

A quick word on the agency pitch process.

In recent years, media pitches have become more and more competitive on price. As that competition has driven down media pricing, focus turned to the agency's income. Again, aggressive competition (and an inability of agencies to often justify and defend what they are paid) has eroded agency income.

The modern pitch process finds a commission based payment model very convenient because it provides an easily comparable standard when looking at different agency structures, it can easily be negotiated downwards and is very procurement friendly because it appears to be discounted.

However, we believe that because agency offerings are becoming more standardised and comparable, there are too many media agency pitches now being won on the continued discounting of media prices and especially agency fees. This is not the client's fault, arguably it stems from agencies being unable to differentiate themselves from their competition, forcing pricing discounts, rather than value or creativity to be the determining influence on agency choice.

The modern media pitch must evaluate agencies based upon the value that their ideas and effort can generate. This requires a re-calibration of how agencies themselves are valued. Having the right remuneration model as part of that pitch focuses the agency to present a business case which doesn't put discount above all else, but instead offers the greatest value to the client from the same resources and budget. We believe that many agencies have lost sight of their own value to clients and struggle to differentiate themselves at a pitch whilst also proposing remuneration terms that demonstrate the value they are offering.

If you are contemplating pitching your media agency, we highly recommend you should also be re-evaluating how you will incentivise them and take the opportunity to introduce the right remuneration model for your business.

"If billings and market share are the objectives, agencies might take on business at a loss or a low commission. They hope to negotiate improved terms later on, but that's wishful thinking."
Jed Glanvill, CEO, MindShare UK

"Agencies have reduced their fees to a level where they just are not viable, so you have to ask the question where else are they getting the money from?"
Francis Marsh, auditor, Fairbrother Lenz

Some further reading

Out of the Box

Tim Bradshaw, Financial Times

Aug, 2009

Digital discombobulation, combined with the recession, has taken its toll not only on advertising budgets and fees but also on the self-esteem of a vast industry, in which the top five global agency groups are expected by Jefferies, the investment bank, to earn revenues of $45bn this year, with the marketing services industry as a whole turning over $80bn. The sector is facing huge cyclical and structural upheavals. According to a forecast by GroupM, part of the WPP group that buys media space for clients, global advertising expenditure will fall 5.5 per cent to $417bn this year and a further 1.4 per cent in 2010. WPP, which ranks as the world's largest communications group by revenues, this week disclosed that its profits had almost halved in the first half, further underlining the strain placed on the industry by the recession.

But the very troubles faced by traditional agencies are providing opportunities for advertisers, which spend about $1,000bn a year with third-party marketing and communications agencies, according to estimates by Jefferies. Volkswagen, for example, chose to launch the latest version of its Golf GTi without using television or print advertising, relying almost entirely on free "buzz" online. "The tough times and the niche nature of the model got [VW] across the line to go pure digital," says Mike Parsons, UK managing director of Tribal DDB, whose GTi website won a coveted mention on the BBC's *Top Gear* motoring programme. **Long-established agencies are floundering** in a sea of social media, viral marketing, behavioural targeting and three-dimensional "augmented reality". They are reacting to these buzzwords, not coining them. And their businesses, little changed since Draper's day, are ill-equipped to cope. "In the old world, agencies were way out in front of clients," Mary Beth West, chief marketing officer at Kraft Foods, said in a panel debate in Cannes. "Now . . . clients are ahead of the agencies - and the consumer is ahead of all of us."

Economic pressures are making change in the marketing business more urgent, according to Jim Stengel, who as chief marketing officer of Procter & Gamble until last year was the industry's biggest single client, before leaving to establish his own consultancy. As marketing budgets are increasingly spent on "service and utility and help for customers", a smaller slice of the pie may be left for what agencies have traditionally done. "What was already a volatile and changing situation is just accelerating," says Mr Stengel. However, he adds: "In the long term, it's positive because I think it has opened people's minds up to different ideas and models, and to taking more risks." Some agency chiefs admit that their model is ill-suited to the internet age.

Fernando Rodés Vilà, chief executive of Havas, the French agency group, says the old wartime metaphors of "campaign, target and launch" no longer apply. "The model that started with world war two was based on control in a few hands: very few media, two or three relevant brands in each sector and a few agencies," he says. "We are [now] facing a very different panorama, which is much more democratic, much more social, much more interesting but much more difficult for marketers."

This change has been under way since well before the recession started to bite last year. Global advertising expenditure as a percentage of gross domestic product has been falling since 2002. Up until then, it had risen and fallen in line with the broader economy since the 1970s, according to Robert Shaw, a professor at London's Cass Business School. He blames the divergence on the shift of budgets to the internet. "The problem with online is that many of the [media] costs are so much lower that it's dragging everything down," he says. "But for agencies, the irony is that their costs are so much higher online than they were on television," he adds. That eats into their profit margins

Because the internet audience is more fragmented, **every pound spent on advertising space online costs almost three times more, in terms of time and labour, than it would if you spent it on traditional media**, says Quentin George, chief digital officer at Interpublic's Mediabrands. The traditional time-based billing model is tough to uphold when developing online campaigns, says Rich Silverstein, co-founder of Goodby, Silverstein & Partners, an agency owned by Omnicom, the global marketing giant. "The internet is so deep it's like drilling for oil," he says. "So far, I don't think we've really charged for all the time we've put into it." Agency chiefs bat off fears that their industry is in long-term decline, however. Sir Martin Sorrell, chief executive of WPP, says trends such as increasing globalisation and corporate social responsibility among clients will raise demand for marketing services. Maurice Lévy, his opposite number at Publicis of France, is confident margins can return to more than 16 per cent within three years - up from 13 per cent in the first half of 2009 - in part by creating contracts with more incentives based on performance. "As our clients are cutting fees and want more for less, we say 'OK, but **we want to be incentivised on performance. If you win, we win**.'

Coca-Cola is one large advertiser that is already moving to performance-related pay with all its agencies. "From a client point of view, you don't want to pay only for effort, you want to pay for results," says Carol Kruse, vice-president for interactive marketing at the soft drinks group. **If agencies are to avoid longer-term decline, experimentation in new models of remuneration and agency structure is only going to increase.** Consultants at PwC do not expect global advertising spending to recover to 2006 levels until 2013, with internet advertising meanwhile more than doubling its share of budgets from 8.6 per cent to 18.7 per cent. In the past 20 years, "the ability to measure and control [marketing] spend has got so much more sophisticated", says Mark Lund, chief executive of the UK government's Central Office of Information, Britain's biggest advertiser. "Overall expenditure has been allowed to go down. It's not that people are marketing less well but it is being better planned." Advertisers, which have long complained that half of their budget is wasted but they do not know which half, are now ensuring they get a better return on their investment.

"I don't believe in the 'self-proclaimed genius with a bunch of helpers' structure that [many] agencies have," he explains. "Trying to turn an old-school Madison Avenue institution into something different is a lot more difficult" says Gaston Legorburu, executive director and creative officer at Sapient, a digital agency.

That is precisely the challenge facing David Eastman, worldwide digital director at JWT, one of the oldest agencies in the business. "It's hard to get an advertising agency and an online agency working *simpatico* ," Mr Eastman says, because traditional agencies tend to see themselves as guardians of the brand, while interactive agencies approach briefs from the consumer's perspective. "These are two fundamental opposing views which exist and are very much entrenched today." For many traditional agencies, moving into digital will mean forming partnerships with technology groups that they once saw as their rivals - notably Google and Microsoft. While WPP's Sir Martin describes Google as a "frenemy" - part friend, part foe - Publicis's Mr Lévy has cosied up to the two internet giants in part by buying a digital agency (Performics and Razorfish repsectively) from each. More prosaically, Interpublic is working with Microsoft to build an automated system for planning and buying media space. Most agencies still use Excel spreadsheets and fax machines, with the process oiled, as ever, by long client lunches. But **technological improvements more profound than binning the fax are required if holding companies are to increase their efficiency**, says John Farrell, until last month a member of Publicis' executive committee.

"I can't think of many other industries where the fundamental process of producing the product hasn't changed for 40 years," he says.

This article had been edited down to fit this guide, you can find the full article by following this link:

http://www.ft.com/cms/s/0/04b5a80c-9369-11de-b146-00144feabdc0.html

Will others follow Coke's remuneration model?

John Tylee, Campaign

Feb, 2010

As Coca-Cola brings its 'value-based' compensation system to the UK, are other big clients likely to copy it?

Ten months after Coca-Cola unveiled its plan to impose a "value-based" compensation model on its agencies across the world, which reached the UK this month, the best that can be said of it is that the jury is still out.
The worst - in the words of a leading pitch consultant - is that the scheme is so "downright barmy" that no other big client in their right mind would copy it.
The model, still being rolled out until it covers all Coke's creative and media agency relationships by 2011, goes much further than any payment-by-results incentive that now forms a part of a significant number of agreements between agencies and clients.
In short, Coke agencies are being promised profit mark-ups of up to 30 per cent if certain targets are met. If they aren't, agencies will recoup nothing more than their costs. It also means greater uncertainty for roster shops accustomed to knowing what profits are coming in before the creative work goes out.
The world's sixth-largest advertiser, with an annual spend of around £2 billion, not only wants agencies to truly earn their money but to spark a worldwide movement among clients to take a similar path.

The Coke system overturns the usual definition of value based on how many agency staff and how many hours are needed to complete the work. Under its arrangement, value is determined by a range of factors - including a campaign's strategic importance and the talent involved.
According to a senior manager at a Coke network agency: "Each brand has a different matrix. For example, Diet Coke compensation is linked to where the creative work runs. That means the more countries that run an agency's work, the bigger the fee."
At the moment, the main concern among Coke's agencies is about the time being taken to find out if the new model works. The company says it will be making no comment on the initiative - or the thinking behind it - until the first full year's data has been reviewed.
"Coke is paranoid about anyone knowing too much about this," a source within one of its media agencies confides. "The company drives as hard a bargain as any client I've ever come across."

"The difficulty for us is the large sums of money involved and the long delay before we know what the results are," another Coke agency insider explains. "So it may well be a long time before we get any profitability." This, however, may be the least of the scheme's shortcomings, a UK intermediary suggests.

"The plan is too leveraged and too risky," he says. "I fear agencies will be conned into going along with it against all their instincts." He adds: "Coke seems to be hoping that by doing this it will become a more formidable client. But agencies will always aim to do their best possible work for Coke. And it's not as though there's any shortage of good people wanting to work on its business."
The move reflects what Debbie Morrison, the ISBA director of consultancy and best practice, says has become a relentless search by clients for new systems of remunerating agencies.

Last year, Procter & Gamble, frustrated at not being able to react to shifting media trends because its budget was locked into a fixed fee with a single agency, began evolving its so-called brand agency leader model. This sees one executive and one agency put in charge of a brand's entire marketing.
Stephen Woodford, the DDB UK chief executive, believes the trend towards more payment by results will accelerate - and agencies shouldn't be frightened of it because it usually stops at between 10 and 15 per cent of an agency's remuneration because clients have not usually had the appetite to go further. He says: "I think this proportion will increase - and good agencies should be prepared to stand or fall on the business contribution they make."
But he warns: "If agencies are putting revenue at risk, there has to be a bigger upside. They have relatively high fixed costs in terms of people and if revenues become less predictable, they will need to reduce those costs and rely on more freelance help. That wouldn't be a good thing."
Ian Armstrong, Honda's head of customer communications, has similar misgivings. The car manufacturer has operated a scheme for the past six years under which some of its agencies are paid bonuses if they deliver against certain agreed matrices.

"Coke obviously believes its scheme is right for its business but it would be a step too far for us," he says. "The danger is that an agency is left too exposed financially and that it tries to cut people costs to sustain its margins and the client doesn't get the most appropriate people on his business."
Guy Hayward, the JWT UK group chief executive, says: "Such a scheme can only work if the matrix is fair about what the agency can influence. We could spend a month making a TV commercial that will have value to a client for the next ten years - but we're only paid for a month's work."
There is also a thought that the trend towards new remuneration models will require agencies to change their old skillsets. And while adland is, on the whole, open to this idea, there are fears that the right people to implement it are difficult to find.
Nigel Jones, the Publicis Groupe UK chief executive, says: "In the old days, you had account people who were brilliant at selling creative work but couldn't read a balance sheet, while there were others who were great business people but wouldn't recognise a great ad if it bit them. Now we need to have those skills within a single person - and those people are few and far between."

But despite the many naysayers, the ever-optimistic advertising industry has thrown up some people who are excited at the idea of the drive towards a full-blown system of payment by results by major clients, and that is the creatives. Gerry Moira, Euro RSCG London's chairman and director of creativity, says: "**It's good for clients and agencies to be in it together as long as everybody is agreed about the goals**."

Leon Jaume, the WCRS executive creative director, agrees. "Success is very difficult to measure and it would be wrong for a client to transfer all responsibility for success or failure on to an agency," he argues. "But **payment by results can sharpen an agency's creativity and I like that challenge**."
Others believe that Coke's plan may move on even further and pave the way for clients to move beyond just payment by results and offer their agencies a direct stake in their business.

Publicis has been working on the big-budget launch of a new product from an as yet unnamed client, with the agency taking a share of future sales.
Jones says: "The incentive for us is to put in the extra hours on the business. But the downside of such an arrangement is the lack of upfront investment which can make it difficult for some agencies to take business on this basis."
Nevertheless, Morrison detects no client stampede to emulate Coke. She says: "**I think it's more likely that clients will take elements of what Coke is doing and adapt them to suit their own agency relationships**."

Proceed with caution is the best advice to agencies working on the payment-by-results model. Not only must firm ground rules be agreed between both parties about what constitutes value and how it should be rewarded, but no agency promised jam tomorrow should be left with too little jam today.

This article had been edited down to fit this guide, you can find the full article by following this link:

http://www.campaignlive.co.uk/news/987004/Close-Up-Will-others-follow-Cokes-remuneration-model

2010: Media pitches and a year of broken promises?

Martin Sambrook, Billetts

March, 2010

For international media agency groups, 2009 was the "Year of the Pitch". Promises were made. 2010 is the year when they will have to be delivered. And therein lies a problem.
The events that led up to the greatest media market upheaval of recent years are virtually unprecedented. In reaction to last year's deep financial crisis, advertisers massively cut their media spending. The slump in demand abruptly sent media prices into a tail-spin across big western markets. Years of steady price increases were suddenly flung into reverse. Double-digit deflation quickly undermined the established negotiating stances of media-owner and media agency oligopolies. Advertisers read the signs, and saw a once-in-a-generation opportunity to leverage media prices lower still, imposing a step-change in their own favour.

Marketers were unsure if this was a one-off situation, but no-one wanted to miss out on savings. Suddenly the world's biggest advertisers were calling competitive pitches on their media buying service contracts. They were looking for significant short-term reductions in media and service costs, but also for ways of preserving those reductions for the future, should price-inflation conditions resume in a post-recession media market. Agencies sat in pitch meetings and pledged huge cost-efficiency improvements in order to clinch new business wins. The question is, did some of them over-promise?

The catalysing event was the widely-publicised announcement by Procter & Gamble last spring that their agency agreements were producing "value improvements worth $400m". This revelation suddenly ratcheted up expectations in boardrooms everywhere, with the assumption that unprecedented savings were there to be seized. From that moment on, client procurement teams were putting on the pressure, and a frenzy of service reviews and media pitches ensued. We at Billetts were partnering clients on about half of them, and we thus had an unusually comprehensive inside view of what was going on.

Advertisers' purchasing and procurement teams were very much in the driving seat where all these pitches were concerned. Procurement is an integral part of today's corporate structures, generally reporting to the CPO (chief purchasing officer). These are the storm-troopers of the CEO and the board, targeting serious savings for the company. Indeed, at most big corporations today a strategy for overall cost-containment has taken on equal importance to measures for generating growth.
Media procurement has advanced in sophistication over recent years. A dwindling few of its practitioners may still wield blunt instruments, convinced that agencies are benefiting from hidden value and revenue streams anyway, so they should take back whatever they can. But such attitudes can be obstructive to the win-win that we at Billetts know to be achievable and sustainable over time.

Gone, too, is the pretence that media is a unique and fiendishly complex industry that only "media mavens" can really understand. Procurement pros have learned to regard media advertising as just another service industry like IT and travel, which happen to revolve around intangibles such as information and services, and use discounts as their central dynamic. In purchasing circles, the media business is now considered a relatively unsophisticated one, at least in comparison with something really tuned-up and detailed like automotive.

Last year, many clients came out of their pitch meetings convinced they had died and gone to "Procurement Heaven". Some media agencies' offers on cost performance were simply incredible. In the suddenly unpredictable anarchy of media deflation, there were agencies that thought they could "just buy the business". Their assumption was that either recession linked media cost deflation would continue, handing them further opportunities to thump deals out of cash desperate media owners; or that the crisis would end, media price trends would normalise again, and somehow "all bets would be off". Such hopes failed to take account of the attitudes and ambitions that clients brought with them into the pitch meeting. It was always going to be about results.
There are agencies that have long maintained a fairly relaxed interpretation of their contractual undertakings. The client-agency contract has tended to sit in a drawer unread, pending the next review of the business. In that spirit, perhaps, agencies went ahead last year and made those big promises. Now the client-agency marriage contract says it's time to deliver. Why would clients not demand their conjugal rights?

Most of last year's public pitches resulted in accounts changing hands. It was rare for an incumbent agency to successfully defend a major piece of business. This shift was a direct result of escalating promises of better media value. With business hungry agencies vowing to reduce media costs substantially, what defending incumbent could promise to do the same, without implicitly confessing to past over-charging? It was only in the case of internal agency reviews (or "silent pitches") that media agencies could avoid the public humiliation of losing a race, and cling on to the account. But in those cases too, keeping the client meant swallowing hard and promising that the buying unit would henceforth deliver more for less.

In some instances there was a convenient misunderstanding getting in the way of delivering promised cost-efficiency results. Back in the pitch meeting, agencies were sure that what they promised to deliver was "more media exposure for the same dollars". The client was just as convinced he/she heard the agency say "the same media exposure for fewer dollars", a difference which is not merely semantic; in fact it is not the same thing at all. It is widely known that media agencies have consolidated into six main global purchasing points. The bulk of agency spending is pledged to media owners at group level. At this scale of trading, one could argue that the sheer size of deals works against the possibility of clients getting line-by-line matching of their brand budgets with the media channels that will carry their message most effectively.

A contentious issue will henceforth be that of agency media neutrality and transactional transparency. **Are agencies truly basing planning, buying and media mix decisions on each client's best interests? Or are they “retro-fitting” to meet their own business agenda?**

There have been cases where agencies "plan backwards" from the PRIP (performance-related incentive programme), quietly by-passing client briefs and objectives, and delivering only what will boost their reward. The PRIP tail can sometimes be wagging the campaign dog. But only the alert client would know the difference.

PRIPs are already a key source of media agency income. What is less well-known is that there are two basic sorts: some should really be called "soft PRIPs". Agencies can be remarkably adept at getting clients to agree to "challenging" performance targets that their buyers can in reality hit with their eyes closed.
The more meaningful sort of PRIP is based on targets that really will stretch the agency's capabilities and commitment, and only reward a superlative buying performance, actually surpassing set objectives. It should not be enough just to meet the targets. But such deals are recognised as "true PRIPs" by too few international advertisers. The concept of "no pain, no gain" has taken on a new twist. If the agency feels no pain, the client will probably be seeing little gain.

In 2009, the classic media agency model of recent decades was pushed almost to breaking point. **A new model is needed, focused on best effort, fairness and transparency, and capable of restoring trust between clients and their agencies.** Right now, that trust is at an all-time low. Why? The impact of the economic crisis on media markets has acutely focused client attention on the transactional dynamic between agencies and media owners. **Media agencies are seen as sometimes working to their own business agenda, rather than concentrating single-mindedly on the advertiser's marketing requirements.**

For their part, clients need to recognize that there are limits to how much can be saved by aggressive 2009-style cost-bashing "inquisitions". They should **now re-focus on the positive side of the equation: service, value and effectiveness.** Price as the sole measure of media efficiency only makes sense during rare episodes of media market deflation, which by their very nature will never last for long.

2009 was a truly unique year. The same things could only happen again in 2010 in the case of a double-dip recession. The game has shifted anyway. Media owners have learned lessons from the vertiginous price-collapses of last year. They are much more likely now to restrict inventory to bolster their bargaining position. But perhaps it no longer matters much. Tectonic plates under the client-agency relationship have shifted, and the newly uneven terrain now needs to be re-explored. **The strains in the business model will persist and worsen, until agencies and their clients sit down in a no-prejudice discussion and hammer out a better way of working together.**

This article had been edited down to fit this guide, you can find the full article by following this link:

http://www.campaignlive.co.uk/news/994025/2010-Media-pitches-year-broken-promises

About IDCOMMS

ID COMMS
a modern communications company

About ID COMMS

ID COMMS is an experienced consulting company, based in London, specialising in media and communications businesses.

We offer 30 years of diverse experience working for some of the world's biggest media and marketing companies.

ID COMMS was launched in 2009 offering high value consulting to brands, agencies and media investors. We are experts in the media value chain, understanding where value is created, lost and hidden.

We are entirely independent in our ownership and therefore our advice.

We work with:

- Senior Marketers
- Media & Digital Agencies
- Creative Agencies
- Investors & Entrepreneurs
- SMEs & Start-up brand businesses
- Media & Content Owners

Our overriding ambition and commitment is to make the business of communications more effective, more productive and more profitable.

We therefore offer objective, professional advice with specialist expertise and knowledge of industry best practice.

David Indo

Founding Partner

david@idcomms.com

David has spent the last 17 years helping brands solve their marketing challenges, both from an agency and client perspective.

Up until early 2009, David was President of Global Clients at Carat with leadership responsibility for some of Carat's flagship accounts; adidas, Coca-Cola and Diageo.

Prior to that he spent 8 years on the client side, first with The Coca-Cola Company responsible for the media function across the Middle East and North African division, and most recently as Nike European Media Director, based in the Netherlands.

During his time at Nike, David managed an annual media budget of $160m, an agency network spanning 27 countries and led the brand communications process for key global initiatives including 2 Football World Cups, an Olympic Games and the ground breaking launch of Nike+, in addition to over 40 pan-European campaign.

David's background provides him with a unique insight into how the demands of clients can best be served by their agency partners, and importantly, how the first question asked by agencies should be 'what's the problem?', rather than 'what's the budget?'

Tom Denford

Founding Partner

tom@idcomms.com

A multi-award winning communications strategist, Tom has 13 years of valuable experience in the communications business having worked for a number of the world's largest global media and creative agency networks and some of the world's biggest brands.

Most recently Tom was Global Head of Communications Planning at Carat and before that worked as Director of Comms Planning at JWT in New York.

He has built a reputation on offering clients straight talking, actionable planning, things that make a tangible difference to business growth, working closely with brands such as adidas, HP, Diageo, Nokia and Sony in recent years.

Tom is very driven by the desire to improve the agency model most notably how they get fairly and transparently paid and how clients can better see the value they offer.

As an avid writer and blogger, Tom tries to separate the myths from the facts relating to agency-land and share his thoughts on what will shape the communications businesses of the future. Tom sits on the editorial board of Cream Global.

Many thanks for reading, we hope you have found this guide useful. Please feel free share with others.

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