KEY FINDINGS

- > Fees remain the dominant method of payment for advertising agencies, regardless of agency type or service, and are trending up at the expense of newer compensation methods.
- > The larger the advertiser's spending, the more likely fees are to be employed.
- > No respondents indicated the use of value-based compensation.
- > The use of the sales commission method declined significantly.
- > Although newer methods of compensation are not taking off, respondents continue to demonstrate a strong interest in performance incentives across all agency services.
- > Performance considerations are an important factor in driving compensation change.
- > Compared to 2010, there is an increased emphasis on specific marketing communication goals (including digital/online), while the use of sales and market share performance incentive criteria have declined.
- > Eighty percent of respondents that use performance incentives plan to continue using them.
- > Of the multiple client internal groups involved with reviewing agency costs and negotiating compensation, procurement is playing a more prominent role.
- > Despite general satisfaction, anywhere from one-third to one-half of respondents are considering changes to their current compensation agreement. "Cost cutting" as a reason for change is declining.

NEXT STEPS

To download the 2013 Trends in Agency Compensation Survey PowerPresentation, visit www.ana.net/agencycomp.

▶ANA MEMBER PERSPECTIVE

TERRI BURNS

STRATEGIC SOURCING CONSULTANT, AFLAC, INC.

CHRISTINE EATON

SENIOR MANAGER OF DIGITAL MARKETING STRATEGIC SOURCING, GENERAL MILLS

On integrating marketing procurement into agency relationship management

Burns: It allows an organization to link agency deliverables to compensation more effectively. The goal is not to arbitrarily reduce costs; it is to ensure the maximum return for the marketing investments being made. Procurement's role is to work with internal stakeholders and the agency to clearly communicate objectives, link those objectives to reasonable fees, and outline both incentives and penalties based on the agency's performance against expectations. Agencies should be rewarded for outstanding work. However, they are not entitled to fees that were not genuinely earned through a positive impact on business objectives. Procurement can be extremely helpful navigating the potential subjectivity surrounding agency performance by more clearly connecting it to desired outcomes.

Eaton: Sourcing has limited engagement with agency compensation on an annual basis. This is typically handled by our marketing center of excellence. Sourcing is engaged every three to four years to benchmark and ensure we are consistent with industry practices.

On addressing cost detail and profit margins with agencies

Burns: The lack of full agency transparency is still a barrier to achieving greater trust between advertisers and their agencies. Our approach has been to employ third-party audits to explore these sensitive issues. Using a third party tends to neutralize some of the tension and also ensures our agencies are abiding by the contract terms and conditions negotiated in our contracts.

Eaton: Historically, we have rarely discussed agency cost detail at that level on an annual basis — the levels were set as part of the contract. Currently, we are revisiting our agency compensation model, and have engaged in frank and open discussions with our core agencies about overhead levels, overhead calculations, the profit they are receiving from our business, and their network average profit levels for customers of our size. The discussions have been focused on ensuring that we have a win-win model in place with the aim of identifying the issues of both parties and collectively identifying a solution or path forward that meets all our needs.

On why value-based comp (VBC) models have not really taken off

Burns: Value-based compensation is great in theory and extremely difficult in practice. I think the primary reason it has not been more widely adopted is that the complexity generally outweighs the prospective benefits for most organizations. Additionally, VBC is relatively easy to manipulate once you understand the key levers that determine formulaic outcomes. For these reasons, I believe a straightforward procurement process is a more effective approach for developing and sustaining mutually beneficial agency relationships. Ultimately, the goal is to achieve a win-win partnership with our agencies that rewards them appropriately without overburdening the entire process with pseudoscience.

Eaton: Our assessment is that value-based agency comp models take a significant amount of internal resources and time to handle and manage. The diversity of our brands, combined with the unique variations of need across those brands, makes placing a value on each piece of advertising delivered extremely time-consuming and labor intensive. We believe that there are other, easier-to-manage ways for a company with multiple brands to achieve high-quality, high-value advertising. *— Willette Francis*