

Benchmark for agency studies

Decision makers from the region's major advertisers have participated in a pioneer survey on agency compensation. The Advertising Agency Compensation Research study, undertaken by Singapore's Saffron Hill Research, will provide data to agency compensation specialist R3 Asia Pacific, and the results will be used as a benchmark against other studies around the world and in Asia itself over time.

Interim results were presented recently at two workshops in Singapore and Kuala Lumpur, in conjunction with the visit of David Beals, CEO of US firm Jones Lundin Beals (JLB). The firm has more than 30 years of compensation experience and research history of US trends.

The study, which was completed last month, covers 150 regional and local advertisers in Singapore, Malaysia and Hong Kong. Individual results are confidential, but combined results shed some light on compensation trends.

Dividing the budget

In Singapore, 59.8 per cent of the surveyed marketers' budgets is spent on above-the-line (ATL) advertising, which targets the masses through channels such as TV and newspapers. The rest is for below-the-line (BTL) advertising, which targets specific groups using methods such as direct mail and promotions. Interestingly, the ATL-BTL split is about 66/33 per cent in the rest of Asia, reflecting the diversity of this market. The ramification for agencies is that as the ATL figure includes media spend, the actual revenue as a percentage agencies are making from BTL is closer to 75 to 80 per cent. The challenge then lies in how the agency gets paid for its time.

Fees vs commissions

Trend data from JLB shows the shift from media commissions to fees. In the most recent survey (2000), 68 per cent of US marketers moved to paying their agency on labour-based fees. In Singapore, this number is only 26 per cent. In addition, project-based work takes up a further 20 per cent of assignments, reflecting the tactical nature of many relationships here. The danger we see for both agencies and clients is this: If 49 per cent of relationships are on commission and yet 75 per cent of the income is for BTL tasks, shouldn't there be a better, more transparent way to pay the agency?

Expanding agencies

The survey also looked at the nature of media specialists and BTL agencies as part of and



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separate from the main ad agency. Fifty-three per cent of respondents still have media managed by their primary agency, but it is projected that this number will decline significantly in the next study. A major challenge facing advertisers is how to get these agencies to connect more effectively with each other. Whether they are under one profit centre, one roof or one owner hasn't made any significant difference in the US from JLB's experience, which still sees a huge inconsistency in the area of integration. Ultimately, it comes down to people — human beings that actively want to work together for a common goal.

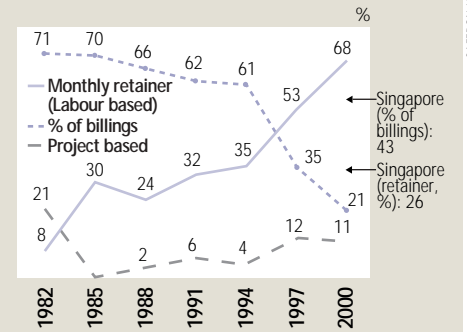
Paying for performance

R3 has been an advocate of agencies getting "some skin in the game", as one local managing director has put it, and says this works in both parties' interests. But with just 14 per cent of marketers paying their agency on some sort of performance basis, Singapore has a long way to go to this end; 86 per cent of agency relationships here have no incentive apart from "not getting fired". In a 2000 US study, the results showed that more than 35 per cent of relationships function on a performance basis. That number is projected to be closer to 50 per cent now.

What's next on fees?

The agency business is not the only one that's suffering. The shakeout in many sectors in the past two years has dramatically

What are trends in the US?

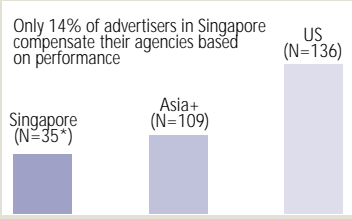


affected the overall marketing landscape. That said, clients and agencies need to think differently to avoid discounting while dropping service levels, and fees with performance incentives are the best step. The client-agency relationship is more like an employee-employer relationship than a vendor one. On this basis, the key word is transparency — marketers sharing their sales targets and brand challenges with agencies, and in return, agencies being clear about charging a fee to cover specific people's time with an agreed profit margin. And an incentive. As an industry leader put it: "Human beings are human beings. We need motivation."

Saffron Hill will release the full results of the study this month, and it will be available to clients, agencies and the industry at large.

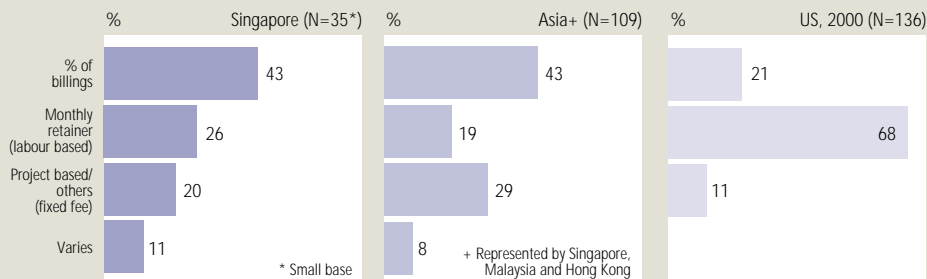
Goh Shu Fen is principal of client-agency consultancy R3 Asia Pacific, part of a global group specialising in agency remuneration, relationships and reviews

Compensation based on performance?

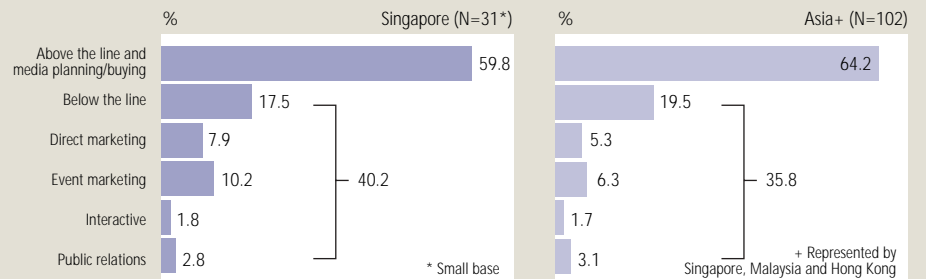


Note: Figures based on combination of company, agency and advertising performance
* Small base
+ Represented by Singapore, Malaysia and Hong Kong

What are current payment practices?



How is the budget split?



This is the first instalment of a monthly table covering the advertising industry and the wins and losses of major accounts between agencies in Singapore.

The table shows information on both creative and media agencies (in the past five years, the media planning and buying function has moved out of the agencies and into separate media specialist agencies). The numbers represent the size of the billings of each piece of business over a 12-month period. Billings are roughly the amount of media spending plus any other revenue and production the agency would be expected to undertake. They usually represent six to seven times a creative agency's actual revenue and 20 to 25 times a media agency's actual revenue.

This table is compiled monthly for The Edge Singapore by R3 Asia Pacific, a Singapore-based consultancy that specialises in agency compensation and relationships. R3 Asia Pacific engages all the main Singapore agencies for information and validates this against AC Nielsen data, other agencies and marketers. This is the first time such a monitoring of new business has been done in Singapore and it follows a similar methodology used in the US and Europe.

R3 ASIA PACIFIC

Singapore Advertising Performance League, February 2003

RANK THIS MONTH	RANK LAST MONTH	AGENCY	MAJOR WINS	YTD ESTIMATED BILLINGS (\$ MIL)	MAJOR LOSSES	YTD OVERALL BILLINGS (\$ MIL)
MAINSTREAM AGENCIES						
1	NA	BBH Singapore	F&N Coca Cola (Coke, Coke Light, Sprite, new brands)	5.5	—	5.5
2	1	DY&R	Caltex Asia	3.5	—	3.5
3	4	JWT	Civil Defence Force, Esplanade	2.4	—	2.4
4	NA	Saatchi & Saatchi	Ricola brand project	1.65	—	1.65
5	NA	Publicis	Guocoland (Nathan Place), Ria Bintan Golf Club Sony Ericsson P800 Launch	1.5	—	1.5
6	NA	Mandate Advertising	Total Defence	1.0	—	1.0
7	5	Lowe	MediaCorp Singapore project	0.8	—	0.8
MEDIA AGENCIES						
1	1	MediaEdge CIA	F&N Coca Cola, Caltex Asia, DHL Regional	18.4	—	18.4
2	2	Mindshare	KFC/Pizza Hut, Bvlgari Asia, Shell/Stanchart promotion Yahoo!, Informatics, Shangri-La	13.6	—	13.6
3	3	Motivator	Sara Lee	1.5	—	1.5
4	NA	Optimedia	MCDS	0.28	—	0.28