

## **Are you brave enough to pay/get paid for results?**

*by Greg Paull*

The compensation of agencies is going through a sea-change around the world, and rest assured, this is going to affect Asian relationships. Some marketers and agencies are ready. A lot we meet simply are not. Are you?

Since the nineteenth century until today, most advertising agencies have been paid on quantity. The bigger the media budgets, the bigger the revenue. However, in the US today, over 90% of all new negotiations that we get involved in as consultants are quality based – setting a fee for the estimated scope of work.

### **Why fees?**

Moving from a commission based to a fee based system is never easy, takes work, honesty and professionalism from both parties, and is unique to every single client relationship. Unlike a 15% commission, there is no 'off-the-shelf' \$100,000 a month fee relationship. But its important to 'graduate to' because it really works in the interests of both parties. The agency gets a guaranteed commitment and cashflow from the client and can plan resources more confidently. The client likewise can see exactly what they are paying for, and request and demand the right talent for their business.

### **How to set up a fee**

Setting up a fee means the agency needs more discipline - is everyone in the office filling in timesheets accurately? Are they being linked to what was promised to the client? Are they reviewed with the client every six/twelve months? Have you accurately forecast your overhead? Are your creative people working at the 'speed' you planned for? If this makes your industry sound too 'businesslike', well, welcome to Wall Street and the new reality of publicly listed agencies. The fee system also forces the marketer to a little more discipline in terms of scope of work, what talent they will need, what tasks need to be done. Setting up a fee requires a meeting of minds on needs and how to deliver them – and it's this meeting of minds that offers up an even higher potential – payment by results (PBR)

### **PBR – Relationship Nirvana**

Nothing secures a long term relationship more powerfully than an agency agreeing with a marketer to earn a part of their fee based on results. It shows they are willing to put their money where their mouth is – and it shows that the client recognizes and respects quality.

Books have been written on payment by results, the criteria , benefits etc. The best and simplest statistic we quote is 83%. That's the percentage of marketers in a US study who, having shifted to PBR, noted an improved performance from their agencies. A pretty good thing.

We've just completed a research project on 100 top advertisers in Asia, the topline of which will be presented later this month. Less than 10% of them pay their agencies an incentive for results. Why is this? Of course, the trend has always been "If we don't perform, we're fired" – will having been beaten with this stick, its time for the carrot – perform beyond expectations and earn higher profits. Today, enlightened agencies such as FCB and others in the US have said 'We won't sign up any new client agreement unless there's a PBR element to it'

The natural question is always 'how do you define results' and again, every relationship is different - but it is almost always a blended fee based on the performance of the agency, the advertising and the advertiser.

Paying the agency more requires bravery.

Working for results in an agency requires bravery.

Which relationships in this part of the world are prepared to take the lead?