

## **IN OVER MY HEAD**

We're currently working on several fee negotiations between clients and agencies in Asia, and we always run into the issue of the term 'overhead'. So we figured this would be as good as forum as any to try to give some sense of what it is, why it will increasingly matter and how clients and agencies can connect on it.

## **We hate commission**

Firstly – let's start with the basics. We hate commission. It's an old-fashioned way of agencies getting paid, it encourages agencies to recommend only media-driven work, it doesn't link to the required scope of work and output, and it just isn't transparent – an agency can make a windfall profit or massive loss based on factors beyond both parties' control. OK, enough of that. Back to overhead.

## **Moving to fees**

On a fee, we routinely have agencies calculate the cost of actually running the client's account in two areas – direct salary costs and overheads. Again to clarify, direct salary costs do not mean individual costs of people on the account – its unethical and unprofessional for any consultant or client to ask for these – it's up to agency management to hire the right people and pay them appropriately. We look instead at cost by department. Separate to that, we look at 'everything else' – the overhead. This includes the rental, the finance and admin people, usually general management and all other costs of running an agency.

## **What is a 'fair' overhead**

It's also not really the client's place to manage or dominate an agency's overhead. The office they have chosen is for their reasons. If they're a multinational agency, they will have to pay fees to fund regional and global resources. And they have their own masters in Hong Kong and New York. You can generally tell when you first walk into an agency what their average overhead costs will be. Usually they are between 40-80% of the direct salary costs of the agency. The ones on the higher side will invest in the latest IT equipment and may be in a better work environment than the ones on the lower

side. Obviously a higher overhead will directly relate to a higher agency fee – but if that’s your deciding factor in choosing the agency, you should think more carefully about what you want from an agency. There will always be a ‘cheaper agency’ somewhere out there in KL – the question is, will they be ‘better value’?

### **Time for Multiple Choice**

We don’t have the time and space here to adequately explain the role of a ‘multiplier’ but for us, it’s core to the way clients and agencies connect on overhead costs. Assume an overhead is at 80%. We use a number of compensation models and tools to then “peg” this over 2-3 years. Depending on the markets, we may allow for inflation/deflation, rental costs etc. But importantly, the ‘multiplier’ becomes set – if the agency can then manage their own internal costs, they can generate some savings until the next contract renewal. Likewise, the client is protected with an overhead ‘ceiling’ and can budget better and plan ahead with confidence.

So now I suspect all of you are saying “Hmmm...this fee thing sounds hard – maybe I should stick to commission...” On the contrary, the fees once set become the simplest and most transparent way for both parties to work. Media commission is just what the name says – the media paying the agency. It’s like you asking an architect to design your house, and him saying “Don’t worry – the construction company will pay my fees.” That’s not a good long term business model for anyone. So let’s hope more clients will join the move to fees in Malaysia.

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