Exclusive Highlights for
#ANAAFM
Attendees

TRENDS IN AGENCY COMPENSATION

17th EDITION

How Marketers Are Simplifying Agency Management and Seeking Transparency

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Executive Summary

Use of labor-based fees and performance incentives have decreased as marketers look to simplify their agency compensation practices.

The latest ANA Agency Compensation research finds that the use of labor-based fees has decreased for the first time since 2006. The use of performance incentives has decreased as well, reversing an upward trend dating to 1991. Interviews that complemented the research revealed that some marketers feel that incentives are not working, and that their use can strain the agency relationship. Even those who continue to use them struggle with the complexity of structuring a proper incentive plan. Brands are using more traditional (non-incentive-based) commissions to simplify their agency compensation practices in an increasingly complex digital marketing landscape.

The new research also revealed that the ANA's 2016 media transparency initiative has had an impact on marketers' approach to agency compensation. **Although brands were already scrutinizing their agency compensation structures and costs, they are now looking more closely at the transparency of how their agencies are compensated, their agreements, and their agency revenue models.** Supporting interviews suggest the issue is influencing how marketers view their agency relationships, and concerns around transparency have led some advertisers to look more closely at agency compensation. Nearly half of study respondents who were familiar with the report have begun to address agency rebate and bonus practices as a result.

Supporting qualitative research finds that as a result of the ANA's 2016 Media Transparency Initiative, brands are more aware of their own agency compensation practices and are reviewing them at the highest level of the organization.

Key Findings of the ANA's 2017 Agency Compensation Research

1. **Fee-Based Compensation:** After years of growth, the use of fees, although still the most-used method, is losing momentum in favor of a small but increasing use of traditional commissions and value-based compensation.

2. **Performance Incentives:** The use of incentives has significantly declined for the first time ever in the survey. This is due to two key factors:

   a. An increasing number of marketers feel that incentives are not working to improve agency performance. While the majority of study participants who use performance incentives **(62 percent)** report that agency performance has improved, the number of respondents who claim incentives have negatively affected agency performance has significantly increased **(from 13 to 22 percent)**.

   b. Based on follow-up interviews, structuring and managing an effective incentive plan is complicated and time-consuming. Additionally, if it's done incorrectly, it can end up de-incentivizing agencies, or misaligning them on what is best for the brand.

3. **Commission-Based Payment:** Driven by marketers' push for simpler compensation methods, the use of traditional media commissions — near "extinction" at only **3 percent** of respondents in 2010 — has been on the rise, primarily for media services, and notably for programmatic media, which involves both human labor and technology costs.

4. **Value-Based Compensation:** This newer method rebounded after no reports of its use in the previous two surveys. Although only a small percentage **(7 percent)** employ this method, it is a further indication that marketers continue to explore alternative approaches to traditional fees or media commissions.

Analysis of the research as well as interviews with ANA members and subject-matter experts provided additional insights around the management of agency compensation:

1 **Negotiation:** Most advertisers **(53 percent)** still negotiate agency compensation annually; however, this practice is down 19 percent from the previous survey. Those who negotiate "when required" is at 40 percent, up substantially from 2013 **(26 percent).**

2 **Involvement:** Senior management involvement in agency negotiations more than doubled **(from 33 to 73 percent)** in 2016. Involvement of finance nearly tripled **(from 15 to 45 percent)**.

Recommendations

In a climate where marketers are looking to maximize the work they get from their agencies for the money they pay them and agencies are trying to remain profitable with rebates, a mutually beneficial compensation method won't come easily. **Marketers can take these four action steps to better align with their agencies on compensation goals.**

1

Collaborate to align incentives.

Structuring effective performance incentives is clearly a complicated undertaking. But marketers who use them are encouraged to take the proper time to develop a performance-based compensation plan that ensures the agency's performance goals mirror their own. This plan ideally is clearly tied to, and can be measured against, the agency's contributions to quantifiable business and/or marketing communications goals. Furthermore, marketers should closely involve their agency partners in the development of such plans to ensure both sides are aligned on the goals and the agency is properly incentivized.

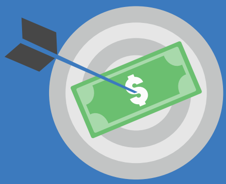
Marketers should resist employing incentives if performance goals tied to the agency's contributions cannot be clearly defined, measured, and aligned with the agency. In such cases, it is far better, and simpler, to negotiate a fair method and amount of compensation that does not involve incentives.

To learn more about the benefits of different compensation models, review the **Agency Compensation Model Framework** and leverage the **Agency Alignment Strategy Workbook** to align goals for both sides.

2

Establish transparency accountability.

Those marketers who have not yet reviewed the findings of the **ANA Transparency study**, or who have not applied those findings to their existing agency contracts, should have a sense of urgency about doing so. At a minimum, one should ensure that there are contract terms around agency cost/revenue transparency, and rebates and discounts that are related to today's potential sources of agency media income. Use the **ANA Agency Contract Template** as a guide to this process.



3 Align compensation to business goals.

Given the complexity of today's marketing and media environment, marketers should revisit their methods of compensation across agency types to ensure that their business goals are being supported and not overly complicated. There is clearly not a one-size fits all approach to agency compensation. Traditional commissions might be perfectly appropriate for certain media functions, labor-based retainer fees are effectively employed for ongoing annual creative agency activity, and fixed project fees are better suited for less frequent and/or unplanned promotional events and PR initiatives.

Review the **Agency Compensation Evaluation Checklist** to help discover which compensation model may be best for your organization.

4 Conduct timely reviews using mutually understood criteria.

Given the cost pressures all marketers and agencies are facing from global competition and disruptive new technologies, it is not surprising that the review and negotiation of agency compensation has become a "team sport," with lots of invested parties. Senior management, including the CFO, should always be involved, and it is important for marketers to have clear internal alignment on agency budgets and how they approach their agencies in negotiations. Mixed signals or compensation reductions without clarity and rationale can erode the agency relationship, which in turn can result in agency performance that is sub-optimal and not aligned with marketers' goals. Download the **ANA's Agency Performance Review tool** to get started.

During a review leverage the **Agency Compensation Audit Template** and review the **Agency Compensation Negotiation Checklist** to help ensure you are utilizing compensation negotiation best practices.

The full research report is available exclusively for ANA members. Visit the **ANA's Marketer's Edge research page** for the full report and additional content that explores agency compensation trends, including a short video and infographic on the research.

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