

# Toward Embracing Value-based Compensation

ANA Meeting | NYC

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*medco*®



ROSETTA®

# Introductions



**Jack A. Smith**

Senior Vice President, Chief Marketing Officer  
*Medco*



**Hari Mahadevan**

Managing Partner & Vertical Leader  
*Rosetta*

## About *medco*<sup>®</sup>

- Medco is the largest PBM (Pharmacy Benefit Manager) in the US, with the nations largest mail order pharmacy operations
- 2009 Revenues were ~\$60 Billion; Market Capitalization is ~\$27 Billion
- Medco provides pharmacy benefits for ~70 Million members
- Through state of the art pharmacy operations, Medco improves the health and lowers the total cost of care for clients and their members
- Medco is a direct marketing machine; mailed over 120 million pieces in 2009

## About **ROSETTA.**

Founded in 1998

Largest ***independent*** interactive agency in US – 9<sup>th</sup> overall

750 employees

Princeton, New York, Cleveland, Boston, Chicago, Toronto

### Our Passion

*Impact through transformation*

Rosetta drives material and measureable business impact by transforming marketing

## Agency Client Partnerships

It's a Relationship, right?

So, let's explore a few ...

# Start with Individual Relationships ...

... Attraction

Shared Values

Commitment

Mutual Respect

Trust

Accountability

Engagement

Potential for Joint Success



## Move up to Family Groups ...

... Love

Mutual Respect

Trust

Commitment

Potential for Joint Success

Shared Values



## Onto Organizational Relationships ...

- ... Mutual Accountability
- Shared Values
- Shared Needs
- Respect
- Potential for Joint Gain
- Trust
- Marquee Name





## Or Even National Ones ...

... Trust

Shared Needs

Shared Sacrifice

Potential for Joint Gain

Shared Values

Mutual Fears



# Some Central Attributes that Underpin Success

## Individuals

## Family Groups

## Organizations

## Nations

Attraction

Love

Potential for Joint Gain

Trust

Shared Values

Mutual Respect

Trust

Mutual Accountability

Shared Needs

Commitment

Trust

Shared Values

Marquee Name

Shared Sacrifice

Mutual Respect

Commitment

Potential for Joint Gain

Shared Values

Potential for Joint Gain

Trust

Potential for Joint Success

Shared Needs

Shared Values

Accountability

Shared Values

Trust

Mutual Fears

Engagement

Respect

Potential for Joint Success



How do Agency Client Partnerships work?

# Agency Client Partnership

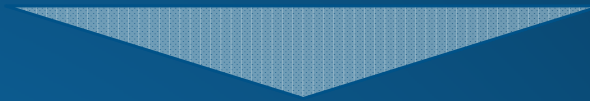
**Creativity/Ideas**

**???**  
**Great Brands**

**Experience**

**Marquee Name**

**Hourly Rate**



- Trust?
- Potential for Joint Gain?
  - Business outcomes?

## Where We Are

- ▶ Value-based arrangements are <1% of 1,000 comp arrangements<sup>1</sup>
- ▶ “Much maligned” labor-based fee is on the upswing<sup>2</sup>
- ▶ Input rather than output focus
  - Hours, people, rates, almost anything but *IMPACT!*

<sup>1</sup> Trends in Agency Compensation Survey – ANA 2009

<sup>2</sup> David Beals; *Advertising Age*, May 2010

# Why?

"Definitional"

Value

- Metrics
- Measurability

"Mechanical"

Control

Systems (leading to a vicious cycle)  
Tyranny of the simple / familiar

"Cultural"

Rewards based?

Confidence

Personality

Business goal focus / acumen

## The Rosetta Perspective

- ▶ *Change the Game...* Client Service Teams (CST)
  - Forced to be cross-functional
  - Build the business case

- ▶ *Share ...* Put profit at risk against upside

- ▶ *Collaborate...* Client Cornerstones

▲ *Move up the Trust gradient*





# How?

Begin with a mindset

- Agreements on control and oversight
- Mutually reinforced business discipline
- Collaborative environment
- Metrics for value add; Awards *AND* results

Add clarity on value in business impacting terms

- Market share
- Program/engagement economics, e.g.,
  - Conversion within respondents
  - Database capture to conversion

Share an ongoing commitment

- To the people involved
- To measurement
- To continual optimization



## Real Life Examples



*Value Sharing | The Situation*

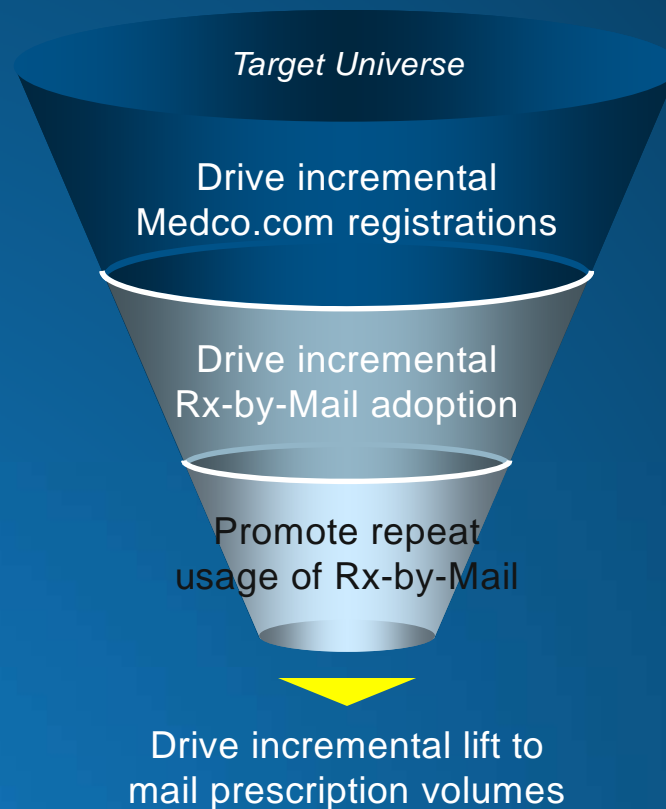
- In 2009, Jack's office was looking to increase online contribution of mail order adoption among its member base through marketing investments
- "Online mail starts" was a new investment area
- Minimizing initial investments, maximizing speed to market and chances for success was key to decision making on investment
- Rosetta was providing focused online agency & consulting support for a non-Rx business at Medco
- Rosetta was new to the Rx side of Medco but had demonstrated superior ability to understand the complex Medco business & operations and open to building a business case to support investment in Rosetta's approach

## Real Life Examples

*medco*<sup>®</sup> ROSETTA.

*Value Sharing | The Situation*

- Rosetta, Jack and several senior Medco executives collaborated in a workshop to understand the business model and opportunity
- Rosetta built a program plan *and a pro-forma* of the potential investment and return, and led with pay-for-performance structure



## Real Life Examples



*Value Sharing | The Negotiation*

- Rosetta leveraged program design & financial acumen to build a holistic model and adjust proposal
- Medco compared the opportunity to other portfolio options, asked for specific changes which Rosetta was able to provide
- The entire exercise was collaborative and a genuine effort to come to closure on a tricky business problem

**Why did this feel different than just a “big client arm” twisting an “eager agency”?**

***Transparency throughout*** – Felt like a Team seeking solution with significant data sharing

***Joint Problem Solving*** – Multiple meetings and 2 workshops were held to get to solution

***Smart business decisions*** – For example, a “mutual escape” clause minimized the duration of a no/low margin risk for Rosetta, and controlled the upfront investment by Medco

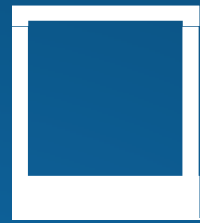
**TRUST & VALUE SHARING**

## Real Life Examples



*Value Sharing | The Outcome*

- The negotiations were successful; Medco & Rosetta partnered (and we mean **PARTNERED!**) to help solve the business problem
- We launched the program as planned but mutually identified an issue preventing reach of the original goals; program performed as promised on a per-capita basis but lacking “top of funnel” scale was not pursued further
- Rosetta did not make money but did not feel penalized
- Medco was genuinely disappointed to not pay Rosetta its bonus
- Both parties came away with additional respect for each other and the Rosetta-Medco relationship continues to be strong to this day
- Rosetta remains the agency partner of choice in the non-Rx business; we are currently discussing an expanded role as the CRM agency partner to the Rx business



**Nationwide<sup>®</sup>**

## Real Life Examples



*Value Sharing | Summary*

Partnership based on shared set of business goals and key metrics. Results in focusing time and energy on ideas that improve results as opposed to haggling

We both invest in the relationship:

Drive innovation with ideas like a new iPhone app built on an accelerated timeline on the basis of two phone calls; (AdAge placed the app in the top 10 apps of 2009)

Support initiatives important to Nationwide (e.g., charity events)

Bring thought leadership (e.g., Google briefings) and latest tools (e.g., ClearSaleing)

We have fun together and share success (and challenges)

**TRUST & VALUE SHARING**

## Real Life Examples



*Value Sharing | Details*

Rosetta's has taken a "*do whatever it takes*" approach to the partnership. Services delivered include:

### Analytics and Optimization

Solution development, page tagging, data mobilization, data manipulation, process automation, report compilation, results interpretation, recommendations, ad hoc data delivery, and ad hoc analysis

### Contract and Payment Management

Negotiate and execute contracts directly with more than a dozen third party service providers inclusive of processing, validation, reconciliation, auditing and payment

### Development and Testing

Creative services, information architecture, image hosting, software licensing, QA, content publishing, automated A/B and multivariate testing, results determination and application to other campaigns

### Paid Search/Organic Search

Campaign strategic development, keyword research, campaign set-up, execution, content/article creation/syndication and optimization

### Insight-based Strategy



## Real Life Examples



*Value Sharing | Metrics*

- Online Binds
- Cost per Completed Quote
- Cost per App Start

'06 thru '10 performance trends:

Rosetta has consistently driven down cost of acquisition, while increasing spend, and decreasing our fee rates

'09 partnership investments:

Nationwide iPhone app and video  
Car shopping iPhone app and video  
Nationwide Children's Hospital sponsorship

### YTD ROI calculations

> V Thousand	YTD online auto binds
\$ W Million	Estimated offline policy revenue
X %	Incremental bind lift
\$ Y Million	Incremental revenue
\$ Z Million	YTD auto paid search fees
>80%	ROI

>A K	YTD online auto binds
\$ B M	Estimated online policy
revenue	
\$ C M	Estimated offline policy
revenue	
\$ D M	YTD organic search fees
>500%	ROI

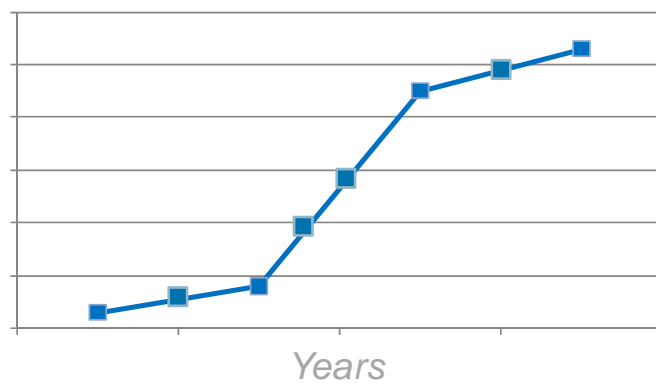


## Real Life Examples



*Value Sharing | Impact*

Spend



Cost Per Acquisition



## Additional Real Life Examples



# Open Forum