

The Compensation Dance

Retainers, Fees and Agency of Collaboration



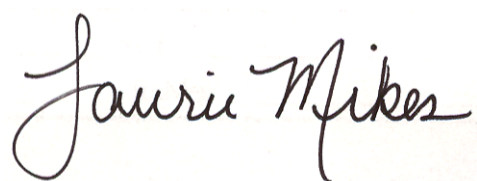
The agency business has become a fee-driven business.

Much like legal and accounting firms, agencies now bill much of their time by the hour, or by the project. But there are other methods of agency compensation that offer benefits to clients, while ensuring their agencies can have some control over cash flow and some ability to project income.

We have examined agency compensation practices, and offer this white paper as an overview on how agencies can negotiate more client- and agency-friendly compensation arrangements... including a new approach, agency of collaboration, a modern take on the traditional agency-of-record status.

As you discuss compensation with clients, remember that the agency is your business, not theirs, and you have a say in how you are compensated. Be prepared with proposals that offer equitable benefits to both parties, and be very careful about working with clients who try to dictate payment terms.

It's a dangerous world... but a smart agency can survive, and even thrive, by being ready to negotiate with the big dogs.



Laurie Mikes
COO
Second Wind Ltd.

The Basics

The Perfect Compensation Plan

There are many agency compensation plans in place these days. “You bet,” said a friend of mine who owns a Pennsylvania agency, “and most of them are downright dangerous to the future of your agency.” He has a point. Every time we have a compensation discussion with an agency principal, we hear about clients suggesting deals that they would be embarrassed to entertain themselves. In truth, some still allow the full 15 percent media commission, while others feel the commission system is dead and buried. Many clients feel agency commissions should be less than the traditional 15 percent and negotiate appropriately. In addition, there are various discussions over what should be included in commissions. Creative time? Account service time? Public relations time? Add the ongoing discussions about agency markups on outside purchases and you have a jumble of varying, sometimes conflicting, opinions that usually lead to agencies getting the short end of the stick, competition being what it is today. Nobody said your competitors were smart.

There is a better way.

Every agency should strive to make a fair profit on their investment. Based on the

Second Wind Annual Agency Survey Report, we conclude that agencies should aim for a 30 percent gross agency profit on client billings, and strive for at least a 5 percent net profit (8 percent would be better). These are reasonable figures. Clients or potential clients who don’t believe these figures are reasonable should check their own numbers.

The agency has to be allowed to make a fair profit if a client wants to build an ongoing, profitable, complementary relationship with an agency. One thing we do know: if the agency cannot make a fair profit on the account, the account will not receive the quality of work or service it deserves. Smart clients realize this and should be open to hearing about compensation based on fair and reasonable profit. Determining agency compensation then becomes a matter of client and agency agreeing on this basic business tenet. If the client agrees, the compensation solution is simple. Take the projected billings for the year, apply a 30 percent gross margin number and divide by twelve. If the agency owners want 30 percent gross margins, and they realize that negotiating the gross margin number with one client will lower overall

margins, it's a simple decision. If the agency can't obtain a fair margin from one client, they'll seek it from another.

Of course, all of this is tempered by volume.

If a potential account has huge media volume, agency management should consider the “pure” dollars running through the agency. After all, money is money. It's tough to find high volume accounts, so you must make a strategic decision in the case of heavy media. Management must remember, however, that acceptance of lower potential gross income will affect the agency's overall gross income figures. We still think it is better for agencies to strive for higher gross margins. It makes operating life a lot simpler.

“Giving away the store” to obtain big accounts is seldom a good, long-term decision for an agency. The big account walks in the door, takes over the agency, negotiates low rates, causes havoc on a regular basis, and then leaves. Do not let high volume accounts sway you toward decisions that are not in your agency's best interest. Look for more stable accounts, with a mix of work spread between advertising, collateral, public relations, interactive and sales promotion. Look for relationships, not quick hits. Relationships allow you to work within a range of projects, enabling the agency to make a fair profit over the long haul.

Nevertheless, try not to get caught up in the delirious dance of agency compensation. It goes without saying that you need to be flexible, but you don't need to give your store away simply for the honor of losing money in the name of a client. Take your time when agreeing to agency compensation. Almost any format is acceptable—fees, commissions,

hourly rates—as long as it enables your agency to make a fair gross income.

This is important stuff, folks. It takes many agency owners their whole careers to figure out they are running hard every day and not making enough for their time and trouble. Clients want to give you the work but want to cut great deals for themselves. Others in the agency look at the volume and prestige and beg you to take the account. Your partner wants it, the account executive wants it, the media director wants it. You must be strong. Don't take the account if you can't arrange fair payment. Life is too short to spend it chasing your tail. □



Retainers

How to Structure a Full Retainer

Full retainers are attractive to clients, and to agencies, at least on the surface, because they lock in a consistent monthly expense to the client, and consistent monthly income to the agency. Many agencies are leery of them, however, because of the double danger to the agency of misuse and misunderstanding. Clients are not dumb when it comes to their money. If they commit to spending a set amount on a monthly basis, many of them are going to get their money's worth... and more! And even though retainers in theory sound like a sensible way to compensate agencies, we find it is very tough for a client to write the big check every month. Thus, retainers are the first things to be cut in a downturn, sensible or not.

If you are faced with the possibility of full retainer compensation, follow these few rules, and you'll at least be in a stronger position.

1. Establish a "Blended Agency Rate."

Take all agency annual payroll, exclusive of benefits or bonuses, and divide that number by the total number of expected annual billable hours for all of your people against that account. Art directors and copywriters bill full-time; in their cases,

figure 1,600 hours a year. Other employees, including traffic managers and bookkeepers, bill somewhat less time to the client. In these cases, use a percentage of 1,600 hours. Total the hours, then multiply that number by 3. This will cover your overhead. If your agency is run very lean, you can reduce the overhead figure to 2.5 or even 2.0, but be careful. The sum gives you a blended agency billing rate. (See page 14 for more about blended rates.)

2. Analyze how many hours a year you will need to accomplish the client's goals and objectives.

The best way is to work with the client and build a plan from the ground up. This allows you to determine what the client expects from you in the coming year. Take the number of hours you arrive at from the plan, multiply them by the blended hourly rate, and divide by twelve. That would be your retainer for each month.

3. Another way to accomplish this is to look at the client's proposed budget for the year.

Your goal would normally be to make about a 30 percent margin on your client's budget in Agency Gross Income (AGI). This figure varies depending on

the type of account. If the account is billing a substantial amount of media, say over one-half of the budget, then a 30 percent AGI would be hard to achieve. But, if the account is high in collateral materials and other creative and production-oriented projects, you should be able to achieve a gross margin of higher than 30 percent. Nevertheless, 30 percent is a good average.

To calculate a retainer this way, simply take the client budget and multiply it by the proposed AGI. The sum divided by twelve will give you a monthly retainer figure. This allows you to consider the margin gained from media commissions or mark-ups on outside services if you worked in a more traditional way with the client.

4. Once you establish the monthly retainer figure, put it into an agreement that agency and client can understand.

Here is the way it should be structured:

- a. Have a six-month evaluation of the agreement. If there is overuse, offer the client a 15 percent overuse refund with no extra charge. If the client overuses the retainer by more than 15 percent, send a bill for the difference based on your blended agency rate. If the client does not use the full amount of the retainer during the first six months, offer to repay the amount over the next five months through an hours credit of 20 percent a month deducted from the retainer.
- b. Keep copious track of your time. Everyone in the agency should track time spent on the retainer account. Projects should be opened as normal,

but ALL time needs to be tracked.

- c. At the end of the month, recap all agency time, job by job, employee by employee, and submit it to the client with the retainer invoice. Retainers should be paid in advance; so the time you are tracking is for the previous month, while the bill you are sending is for the upcoming month.

Remember, the more you cover yourself in a full retainer situation, the better off you will be in the long run. Follow these few suggestions, and your agency will come out ahead when playing the retainer game. □

How to Structure a Full Retainer

1. Analyze how many hours per year you think you will need to accomplish the clients goals and objectives.

$$\text{Hours x Blended Rate} \div 12 = \text{Monthly Retainer}$$

OR

2. Look at the client's proposed budget for the year.

$$\text{Budget x Proposed AGI} \div 12 = \text{Monthly Retainer}$$

3. Remember to set a floor and ceiling!

Sample Retainer Contract Language

Agencies should always strive to have a signed contract with their clients. Following are two examples of retainer fee arrangement language, suitable for use in an agency contract.

As with all contractual language, have your legal advisor review it before putting it in use.

EXAMPLE A

In addition to revenues derived from commissions and hourly rate charges for direct project time, an annual supplementary service fee arrangement is agreed upon. Based on experience with similar clients and budgets, a fee of \$ZZZ,ZZZ.00 for the first twelve (12) months is requested commencing with the month of () or on such date as shall be agreed. \$ZZ,ZZZ.00 will be billed in the first _____ month(s) and \$ZZ,ZZZ.00 monthly from the () month.

The fee service arrangement will be reviewed at the end of the first twelve months and thereafter on an annual basis. Cost accounting procedures are maintained, based on a timekeeping system. Fee arrangements will be reviewed and renegotiated as necessary in light of this experience.

EXAMPLE B

Minimum Income Guarantee: Agency's minimum annual income shall be \$ZZZ,ZZZ.00. Should the Agency earn \$ZZZ,ZZZ.00 or more, during any fiscal year, in commission income from media, production, and research, then the Agency will retain all commission income and no fee will be charged. Should the Agency's commission income, during any fiscal year, fall below \$ZZZ,ZZZ.00, then the Client will pay the Agency a fee based on the balance between the commission income earned and the \$ZZZ,ZZZ.00 minimum annual income.

A reconciliation of the commission income earned against the minimum annual income shall be conducted on a quarterly, pro-rated basis [i.e., \$WWW,WWW.00 after three (3) months; \$XXX,XXX.00 at the end of six (6) months; \$YYY,YYY.00 at the end of nine (9) months; and \$ZZZ,ZZZ.00 at the end of twelve (12) months]. In the event of termination, reconciliation shall be performed on a pro-rated basis, based on the number of months from the last twelve-month reconciliation to the date of termination. □

Client-Friendly Compensation

It's true. Clients really have changed the way they compensate their agencies. Following are some guidelines you should review during your next compensation negotiation.

Many clients are not comfortable with:

- Commissions
- Markups
- Anything we call a retainer
- Projects that have no price
- Agency of record status

Incidentally, these methods were once used 90 percent of the time to compensate agencies. *Today, many clients want:*

- Net media
- Net outside purchases with invoice proof
- Good estimates on projects
- Volume discounts
- No agency of record

However, *many clients are willing to consider:*

- Giving the agency a bonus for performance. Few clients are willing to put the agency on an open-ended, risk-based compensation plan (we think they feel the agency could make too much money).

Following is our take on a very client-friendly, but agency-fair, system.

- 1. Charge net for media.**
- 2. Charge hours for planning placement and analysis each month.**
- 3. Charge net on outside buys (invoices available).** Negotiate a volume purchase, discount agreement with selected vendors to obtain a 5-10 percent rebate for volume, using your purchasing power to deal with vendors. This power spreads over a number of clients, so no single client can suggest that you are marking up their work.
- 4. Provide an estimate on every project.** Give the client a one-line, rather than a multi-line, estimate. This way the client buys the "whole car," not just the "steel."
- 5. Establish a monthly service arrangement.** This covers account service, education, trade show attendance, and other important industry and knowledge-based stuff. Perhaps you can give the client a volume-based discount on your blended agency hourly rate.

6. Establish a monthly public relations service arrangement. Separate from the account service arrangement, this covers your monthly public relations work for the client. Since you cannot guarantee placement of any public relations in any one month, and since the PRSA frowns on opportunistic/results-based PR compensation, the monthly stipend is the fairest way to go.

7. Base the agency bonus on agency performance and client performance. We suggest agencies place themselves in the hands of their clients on this one. Most clients really don't want to share their financial information with your agency, and they really don't want a partner. The gesture of allowing some up-front discounts with the ability to earn a bonus at year-end is something most clients are willing to accept. Maybe next year or the year after, clients will be willing to accept agencies as true partners, but for now this is a sound way to work up to partner status.

By the way, the bonus or "play for pay" arrangement enables the agency to ask for *agency of record status*. This gives the agency, and the client, a more equitable operating platform.

Agency of Record status allows:

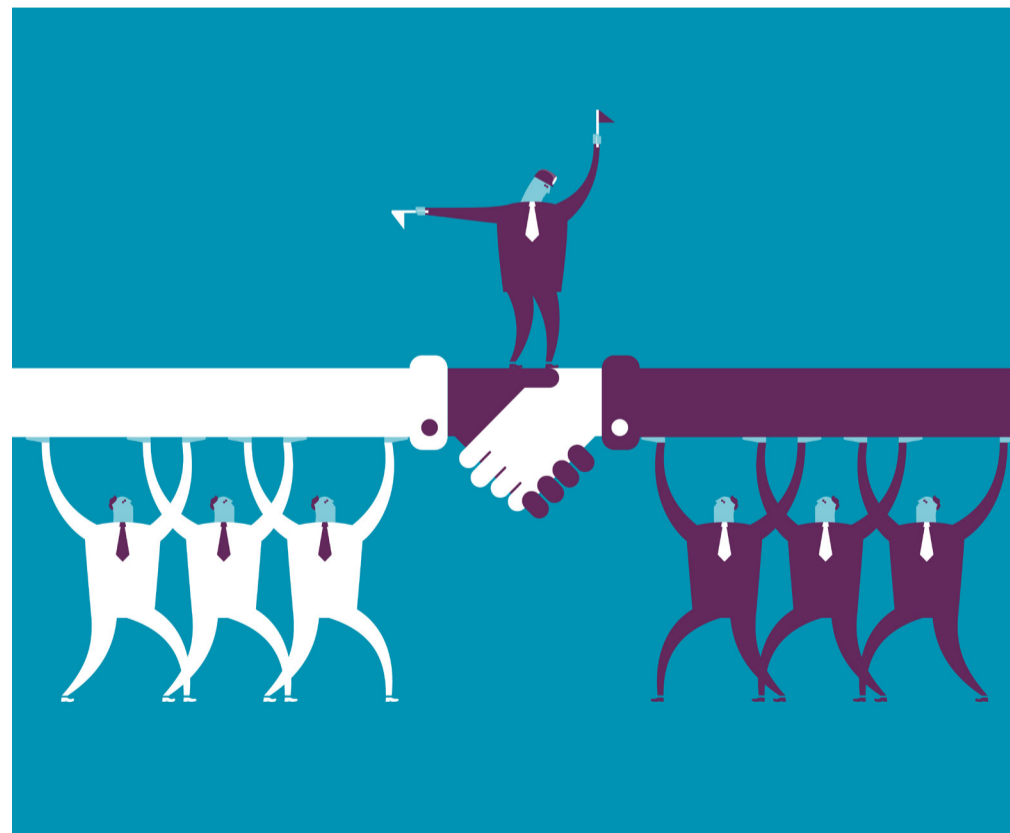
- **Clients to own all the work.** The work-for-hire contingency is in effect for agencies of record and their clients. This saves a lot of grief down the road.
- **Agencies to escape charging sales tax to clients.** In agency of record agreements, agencies take ownership of nothing, so cli-

ents assume the burden of paying sales tax or using tax as they deem necessary. See our sidebar on page 9 for more about agency of record benefits.

Since over 100 years of published American case law exists regarding agency of record situations, both client and agency are more protected through precedent.

There are many valid types of agency/client compensation plans. "Whatever seems to work for both sides" has always been our operating philosophy, but the plan above seems to bring a smile to most clients' faces, and we sincerely believe it is fair for agencies.

One more point: After negotiating the deal, please make sure you have a formal buy-in meeting with the client to review the terms, sign the contract and explain to them how you will bill, when you will bill, why you may need occasional up-front payments, why there are sign-offs, what your estimates look like, etc. Take it from us... this up-front, semi-formal meeting at the beginning of the relationship is worth its weight in gold. □



The Agency of Record Advantage

Where agencies have the opportunity, they should try to be assigned agency of record for their clients. Following are some things that characterize agency of record status in today's market.

The client has an advertising/marketing relationship with only one agency. Whether this applies only to a brand, a product or a campaign, no other agency is involved.

The agency is authorized to plan and place media and earn commissions where appropriate. Seek a 15 percent commission, if you can; commissions should be directly related to media planning, placement and analysis—no other services should be included.

The agency has the right to earn markups on outside services where appropriate. Many clients now require that agencies back away from markups. The truth is, agencies can almost always make better buys than clients, but clients don't want to pay markups.

The agreement consists of a full or partial retainer relationship. In a full retainer relationship, the agency usually foregoes all commissions and markups. In a partial retainer arrangement, the client understands that the agency needs to put in time for education, travel and account service that has nothing to do with the projects, and needs to be compensated fairly.

The relationship is a marketing partnership. Client and agency recognize the importance of being in sync on marketing client goods and services, and the client ensures the agency is a part of the process, not just a vendor looking in from the outside.

The relationship is knowledge-based. The client permits the agency to be "on the inside"; the agency is committed to the client in a way that gives them a complete knowledge of the client's business and industry.

The relationship is established so the agency may benefit by the client's success. Performance- or risk-based compensation is often part of agency of record contracts. If the client sells more products, the agency earns a bonus for doing well.

Marketing planning is a very important part of the process. The agency must write the marketing plan, write some of the marketing plan or be allowed to read the client's marketing plan to be a "partner" and full-service agency of record.

Branding is at the core of all marketing decisions. The agency strives to supply the client with the brand awareness they need to succeed in their marketplace.

Justification

The Last Detail

As we move toward fee or time billing and away from commissions and markups (realizing a number of agencies are no longer structured around commissions as in the past), a large number of agencies are now structuring client compensation programs driven by monthly retainers. Retainers have many advantages for both clients and agencies. They level payments, offer discounted rates for assured business, and allow the formation of closer partnerships.

They also have some disadvantages.

One of the biggest drawbacks is the continual need for justification. Over time, clients tend to question the validity of regularly paying large amounts of money to an advertising agency. Agencies must be prepared to justify their existence at all times. Detailed employee time tracking serves as the basis for that justification. In order to ensure this method, agency people must log detailed, daily time information (either digitally, or even old-fashioned time sheets).

Time tracking should include date, job number, billing function and time spent, (see Figure 1), and details regarding exactly what the employee was doing during that time period.

At month end, the agency should gather all time segments on a job-by-job basis and create a summary, submitting a monthly total hours analysis to the client along with the invoice.

If your AMS or time tracking software does not allow you to pull reports based on client activity, the alternative is to have the account coordinator build a spreadsheet and produce the monthly recap. If you use a time tracking or agency management system, the AC should be able to draw time from the system against his/her assigned retainers, and keep the spreadsheets current. Account executives should review their clients' spreadsheet each month before they are exported to send to the clients with the monthly invoices.

This gives the client both *a monthly summary of hours spent, and a job-by-job summary* (see Figure 2).

Managing time, understanding how your people spend their time, and how they can use time more efficiently are all critical as agencies and clients move toward more realistic compensation plans. □

DAILY TIME SHEET		Name	<i>Harry R.</i>		Date	<i>7/14</i>	
Job#	Client	Billing Category	Full Detail	From	To	Hours	
<i>1234</i>	<i>PA TUBE</i>	<i>DESIGN</i>	<i>Roughs - Brochure</i>	<i>8:00</i>	<i>10:00</i>	<i>2</i>	
<i>1696</i>	<i>Rdg.HONDA</i>	<i>Comp Art</i>	<i>Traps on AD</i>	<i>10:00</i>	<i>1:30</i>	<i>3.5</i>	
<i>1700</i>	<i>CableLine</i>	<i>ADMI</i>	<i>Newspaper Details</i>	<i>1:30</i>	<i>2:30</i>	<i>1</i>	
<i>1711</i>	<i>Kidsport</i>	<i>DESIGN</i>	<i>Logo Roughs</i>	<i>2:30</i>	<i>5:00</i>	<i>2.5</i>	

FIGURE 1

RETAINER RECAP		Client	<i>PA TUBE</i>		Month	<i>JULY</i>	
Date	Employee	Job #	Billing Category	Full Detail	Hours		
<i>7/14</i>	<i>Harry R.</i>	<i>1234</i>	<i>DESIGN</i>	<i>Roughs-Brochure</i>	<i>2:00</i>		
<i>7/12</i>	<i>Jim F.</i>	<i>1896</i>	<i>COPY</i>	<i>Changes - Trade Ad</i>	<i>1.75</i>		
<i>7/15</i>	<i>Geena T.</i>	<i>1898</i>	<i>MEDIA</i>	<i>Research - Fall Plan.</i>	<i>2:00</i>		
<i>7/22</i>	<i>Amy D.</i>	<i>1898</i>	<i>Strategy</i>	<i>AE/Crea. Meeting</i>	<i>.30</i>		
<i>7/15</i>	<i>Carl S.</i>	<i>1898</i>	<i>PR</i>	<i>Fall Planning</i>	<i>2.00</i>		
ETC.							

FIGURE 2

Blended Rates

The Trend to Fees Gains Momentum

More and more often, clients are asking agencies to cut commissions and eliminate mark-ups. We remember when these forms of income made up most of an agency's billings. Today it sometimes seems that clients want agencies to work for free. However, this trend is due to clients wanting a more complete understanding of what they are paying for.

Years ago, *The Wall Street Journal* and *Advertising Age* published stories about large clients asking agencies to change their method of compensation. In both cases, the companies, Ford and General Motors, asked their agencies to stop taking media commissions and to begin working on a set fee basis with performance incentives. We pointed out this trend over several years, and now it seems it is becoming the industry standard.

Here are the details of the Ford and GM agency compensation plans.

- Agencies will receive a monthly fee based on payroll costs plus a set overhead and profit factor.
- Agencies will pass all outside purchase costs on to the client at net.
- Agencies' billings will be reviewed often.

- Agencies will be paid a performance bonus based on the client's system of evaluation.

Pretty simple, isn't it? In a recent poll of large advertisers, many of them felt this was a fair, businesslike form of agency compensation.

Does this mean you should scrap client compensation plans where you are still paid through commissions and markups? Not by a long shot! This new trend in compensation is slowly taking hold in the general culture, and many better clients are now demanding fee compensation, so you might as well understand it.

Why is this a big deal, you ask?

Simply stated, media commissions are historically a tried and true form of paying agencies for client work. Until recently, the media gave agencies a discount for placing advertising with their publications. Clients could not obtain that same discount, so they felt that agencies were not charging for their services. In other words, the ad was marked as costing \$10,000 in SRDS. The client saw it cost \$10,000. The agency billed the client \$10,000. The client paid the agency \$10,000 and the agency paid the media \$8,500. For

almost 100 years, this was a good deal for all parties—until the media decided to offer the client the agency commission, or some euphemistically-disguised form of direct discount. Once that happened, it was just a matter of time until clients felt they could buy the media at the lower price without involving an agency. Hence the trend to fees.

We used to be upset about this. Commissions were an equitable and profitable way to compensate agencies. “Old school” thinking. We’re no longer upset. We’re more optimistic about fees today, and no longer think of them as a limiting form of wages—work an hour, get paid for an hour. Agencies must convince clients they are ready, willing and able to be sophisticated marketing partners—partners who make money for clients instead of costing them money. Then, a fee-driven base income structure along with a performance mandate and reward is a great win/win for both clients and agencies.

Agency managers should work to differentiate their agencies from the competition through improved compensation methods. This is another weapon in the war that agencies are waging against increased competition: creative expertise, research, account planning, strong relationships with clients, and now fair and equitable compensation with a performance incentive feature.

To repeat... the future of agency compensation will be a fair and equitable front end for the agency, i.e., fee cost plus profit, etc., combined with a performance incentive. Start thinking about this and put together a plan for your next new business presentation. □



Fee for All

Years ago, many agencies made most of their money on media commissions. Agencies and media enjoyed a wonderful relationship, and no one else was invited to the party. Today, everyone is invited. Anyone who puts money on the table can obtain a media discount. This spurred one agency to abandon all commissions and most markups as a form of agency compensation and convert all of their clients to monthly retainer or fee-based arrangements.

Some of you will feel uncomfortable with the concept. “Full retainers,” you murmur, “very dangerous. They lead to heavy client scrutiny, and especially to sudden cancellations because of client cutbacks.” One principal said recently, “Retainers are almost not worthwhile to our agency. We have to document each minute of usage, and often the client overuses the agreed-upon amount to the point where the account isn’t even profitable.”

These shortfalls in retainer arrangements can be problematic—but the principal who converted his agency to all-fee explained it from a different perspective, revealing that fee-based agency/client relationships can be a positive for your agency.

Here’s what this agency did. Instead of converting clients to retainer arrangements, they position the situation a little differently: *they ask regular clients to consider buying a block of time from the agency at a discount.* The word “retainer” doesn’t even enter the picture. What emerges is a volume relationship where client usage of the agency is valuable not only from a strategic marketing sense, but also on a favorable pricing basis. This concept absolutely eliminates the procurement mentality rampant in many companies today. Following are some things to consider if you want to move your agency into this type of compensation arrangement with some or all of your clients.

- 1. You must understand how to blend your agency’s rates.** The secret to offering a discounted package to a client is to offer them one lower rate. You do this best by blending your agency rate and offering the client one rate for all services. On page 15 is a formula for establishing a blended rate.

For employees who bill full-time (e.g., creatives), 1,600 hours/year is a fair figure. Other employees may bill less than 1,600

How to Determine Your Blended Rate (Example)

Total base payroll for all billable employees (in this case, 5)	\$200,000
<i>Divided by</i> the number of ideal billable hours on the account for the year (1,600 per employee)	÷ 8,000
<i>Equals</i> the Billing Factor	25
<i>Multiply</i> times 3 (for overhead)	x 3
<i>Equals</i> the Agency Blended Rate	\$75

hours—calculate their annual billing as a percentage of the 1,600 hours. Add the figures together, divide to get the billing factor, then multiply by 3. If you run very lean, you may reduce your overhead factor to 2.5 or even 2.0, but make sure you are covered.

- 2. Make sure the contract between agency and client is more a “terms of engagement” letter than a legalese agreement.**
- 3. Make sure the terms establish a floor and ceiling on usage.** Translate the hourly rate into hours allotted per month. If the client overuses the agency in one particular month, give them a little leeway (say 10 percent), but charge them in that month for overuse of 11 percent or more at your agreed-upon blended rate. If clients underuse the agency in any one month, don’t give them their money back, but tell them you will credit those hours for their use the next month, or over several months if the underuse was substantial. Ceilings and floors allow agency and client to get a fair deal.

- 4. Make sure the agreement gives you at least sixty days notice for termination.**

Fee-based compensation situations allow both agency and client to even cash flow and operate in a more professional, partnership-driven way, as long as the plans are structured correctly. They are the compensation choice of the future. □

Agency of Collaboration

It's Now Agency of Collaboration, Not Agency of Record

One of the casualties of the recent recession seems to be the client's desire to hire one agency and call them their Agency of Record. It seems that clients want to free themselves from the rigors of these relationships. Instead, clients seem to want to "play the field," interviewing agencies, granting projects to those who seem to fit best, and all in all, taking advantage of their "free agent" status.

This causes some feelings of concern among industry traditionalists who entered the business when clients chose their agencies and worked closely with them from the planning process to the creative ideas to media planning and placement.

But *this is a new time and it calls for new ideas*. The historic concept of agency of record may indeed be a thing of the past, but in its place is a new, more holistic relationship between agencies and clients. We call this new concept the *agency of collaboration*.

What does this new style of agency/client relationship look like?

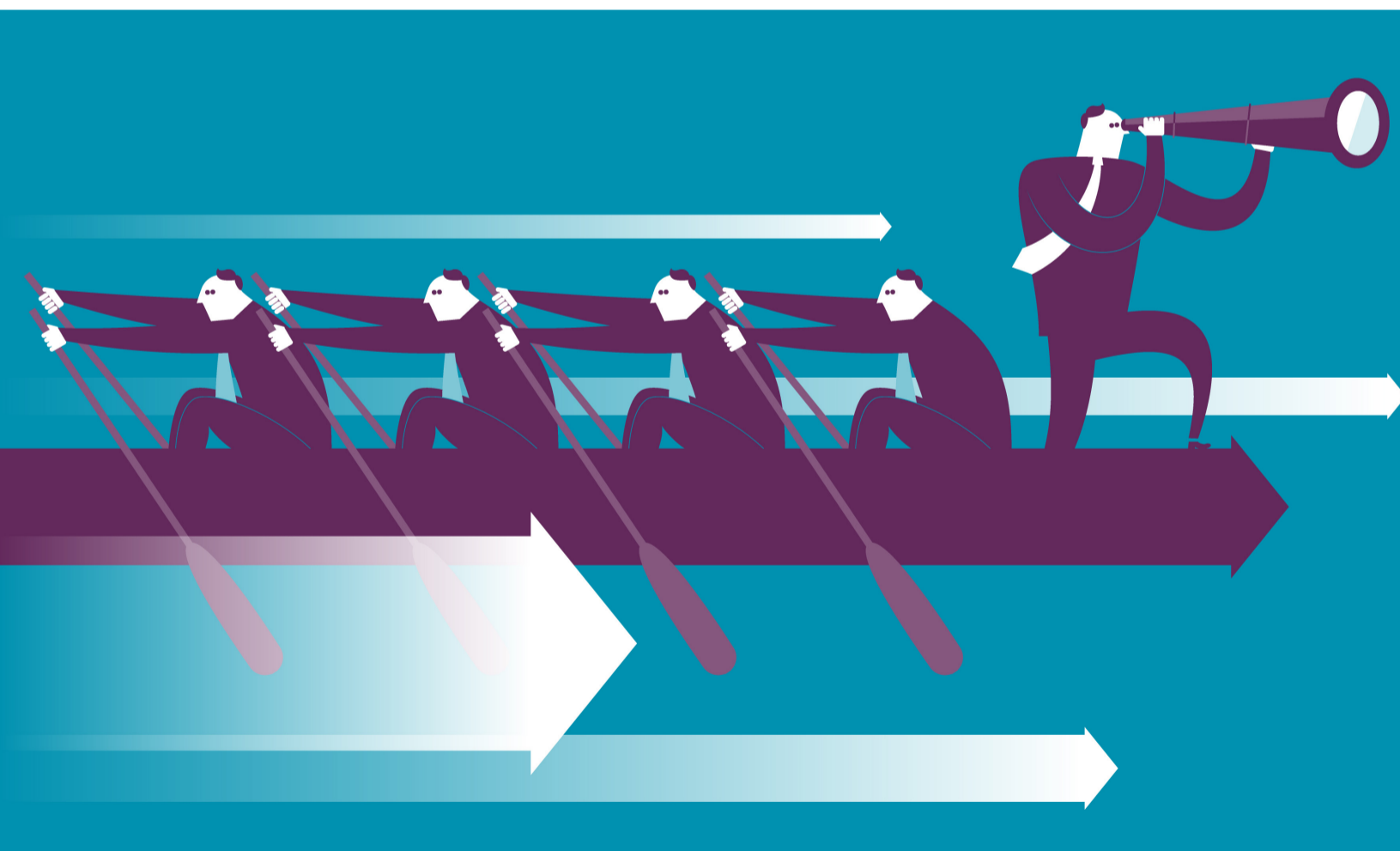
- 1. The client considers the agency a valuable strategic partner.** Since the client may choose to bring in other agencies or

firms to develop or execute particular initiatives, the agency can feel comfortable that they will be respected in such situations.

- 2. The agency is paid fairly with an estimated base price for the project.** Allowances are made for changes in scope and other author's alterations (AAs). The base price is paid in the form of a monthly retainer, based on an estimated number of months divided by the base cost of the project.
- 3. Normally, the agency is allocated a bonus on the project, based on their meeting a set of mutually agreed upon performance standards.** These standards should be set at the beginning of the project, ranging from on-time delivery to a variety of sales and marketing goals.
- 4. The client shares all relevant sales and marketing information with the agency, allowing the agency to produce a strategically based campaign, and make appropriate mid-campaign corrections.** Since the agency will potentially achieve a performance bonus, information sharing is important for measuring success.

5. **Any outside purchases for the project will be billed directly to the client, but the agency will receive a management fee for coordination and management of these resources.** This fee covers in-house hours accrued in performing the job, and takes the place of commissions and markups. Since the agency is deeply involved with the outside resources needed to accomplish these initiatives, they truly earn this fee.

As you can see, agencies working within this type of arrangement are most definitely not vendors; but they are also not the same as the old agencies of record. These agencies are agencies of collaboration. Start thinking about how you can move your agency toward this more strategic model. □



How to Propose Agency of Collaboration to Clients

Agencies used to enter into agency of record agreements with their clients. This meant that the agency and the client had a contractual relationship that protected both sides, and assigned specific responsibilities to both parties.

Today's clients enjoy a great deal of flexibility and capability: they can use a bevy of freelancers, purchase services from around the world, and plan and buy media without having an agency or paying commissions. We are now seeing between agencies and clients the *agency of collaboration* relationship.

Following is some language you may consider using when working with a client who does not want to be bound by the AOR relationship.

Dear (client/prospect),

Thank you so much for your interest in working with ABC ADVERTISING. Our goal is to offer superior service for all of our clients. Following are some ways for us to work together to maximize the potential of the relationship.

Agency of Collaboration Client Choices

- 1. Monthly collaboration retainer.** Rather than sending separate monthly or progressive bills for each project, you allocate a number of hours each month for us to work with you, allowing you prime access to our best agency resources. We will track each hour based on the projects and project estimates, and you will pay us with one convenient monthly check. If we exceed the allocated hours, we will inform you and bill you accordingly. And, if we do not use all of the hours for the month, we will credit you for those hours in the next month.

All hours will be accounted for, and you will never lose an hour based on what we have estimated and what you want to spend.

This is our highest level of service account. It includes all project and strategic work we do for you to keep you up to date on marketing trends, competitors' movements and your customer's insights.

- 2. The partial retainer.** This is an agreement that our agency is basically working for your company on a project basis.

We progress bill you each month for work accomplished and/or level met.

In addition, we agree on a “partial” strategic retainer paid to the agency each month for us to keep track of industry trends, competitors’ movements and target audience insights. The data we gather serves to strengthen our relationship... and gives you access to the best marketing analytics, so your company’s marketing can always be on target.

3. Project work. Although we don’t recommend this type of relationship, we do work for some of our valuable clients on a project-by-project basis: Estimate given; project completed; monthly progress billing.

In all levels of our relationship, if you receive a project bid that is lower than ours, we would like the opportunity to make another bid. This guarantees continuity in our relationship and gives you more for your money. It protects your company because you are given the right to bid out, and at the same time it allows us to review other bids and determine if we want to match the amount or change our specs. Most impor-

tant, it allows us to continue our vision for your brands and to be an integral part of your brand team. We only ask that, as we all agree on a budget in advance and if there are scope issues later on, we can stop and come to agreement on them.

4. Strategic Partners. Further, if you decide to work with ABC ADVERTISING, and we become your partner agency, it means we know that we can count on working with you. This gives us great comfort and allows us to do the BEST work we can for you. That’s what is fun and satisfying for us. It also means that you own the various pieces we create for you. While we would never stand in the way of you owning your work, if we are an agency of collaboration partner, everything created is yours by law under “work for hire” precedents.

5. Termination. Finally, if the relationship is not right for either side, we both agree to give each other a 90-day “out” prior to ending the relationship.

We look forward to working with your company as your “agency of collaboration” partner. □



Conclusion

The best clients vest their agencies as part of their business. It is only under those circumstances that we can really become their marketing partners. Anything less is short of full sharing, with the agency on the employee/vendor side of the fence, not the partners' side.

The agency opportunity in these situations is to give clients more advertising for the same amount of overhead, or committed dollars, and to negotiate a higher rate of compensation for the increased sales these extra marketing expenditures might bring to their companies. Doing this through AOR or AOC relationships maximizes the strategic partnership, and provides both parties with greater profit opportunities. □

The Compensation Dance

Retainers, Fees and Agency of Collaboration

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