World Federation of Advertisers

Observatory International

WFA Webinar

Squaring the remuneration circle

Our network of 100+ brand owners

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- Reckitt Benckiser
- Red Bull
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- SC Johnson A Family Company
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- Singapore Airlines
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- Sony
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- Tata
- Telefónica
- The Coca-Cola Company
- TomTom
- Turkish Airlines
- Unilever
- Vestel
- VISA
- vodafone
- Volkswagen
- Volvo

Introductions…

Stuart Pocock
Managing Partner
The Observatory International

Laura Forcetti
Global Sourcing Manager
WFA

Hanne van de Ven
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WFA

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Global Agency Remuneration 2018

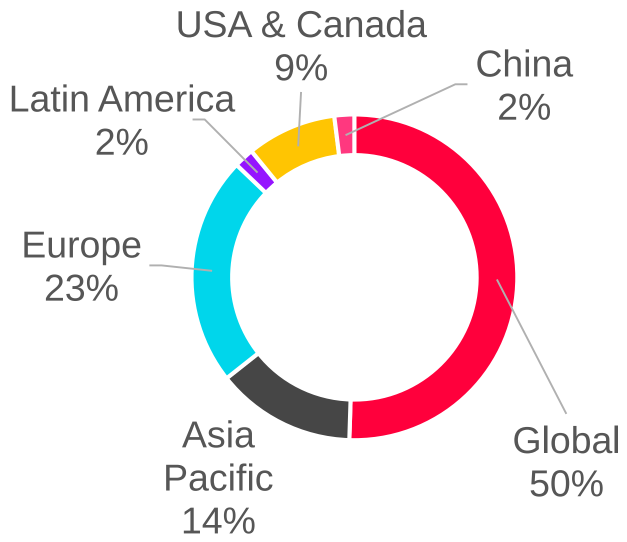
Survey results

8th of February, 2019

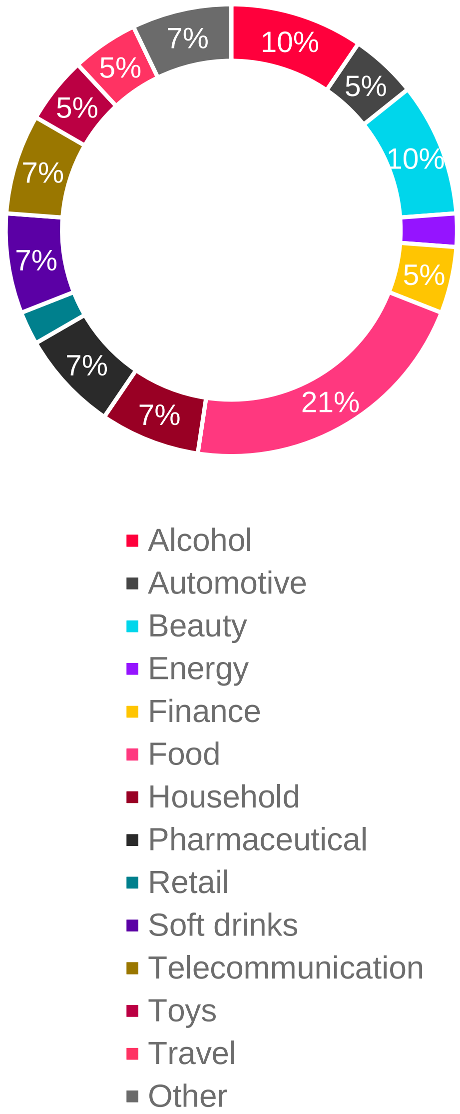
About our recent study

- Our online survey was conducted in Q3 2018 and analysed in Q4 2018.
- All respondents were **senior marketing procurement experts**, half of them have a global strategic role.
- **42 different advertisers** took part into this study, representing over **14 different sectors**.
- Some comparisons have been made to similar studies in 2011 & 2018 (the questions are consistent but the samples differ, so should be used for indicative purposes only).

Q. Which of the following geographies best describes your area of responsibility?



Respondents' sectors



Source: WFA Global Agency Remuneration 2018; Base = 42 (companies); Date = August 2018

Models that participants have undertaken

"Share of revenue for successful launch of campaigns"

"Sponsorship contract introduced fee + payment by results"

"Variable pricing relationship (mix of retainer + time and material)"

"Value and project based including PBR linked to the project based on an annual forecast (no commitment)"

"Open book calculation in FTE incl. Performance based remuneration by taking full margin at risk incl. potential malus if very bad performance"

"Variable pricing relationship (mix of retainer + time and material)"

"100% fee at risk for Media buy if not achieving cost guarantee"

"High percentage of risk and earn back through delivery of business metrics"

"Moving social media team compensation from a fixed commission to an FTE + small % commission"

"100% based on incremental sales generated"

"Linked 10% of event agency fee to 3 KPIs:

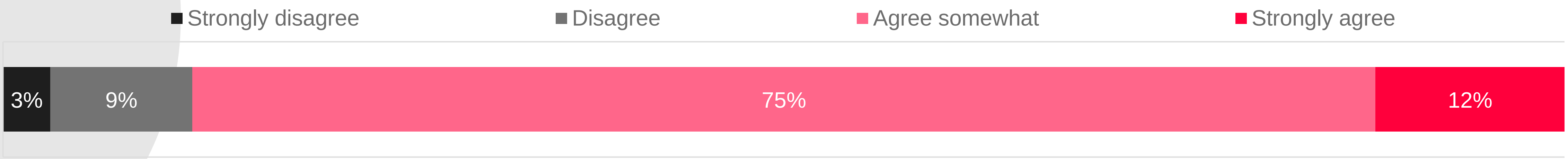
- quality measured by participants of event,
- service measured by brand teams,
- efficiency measured by comparing spent time"

"Baselining and transparency, to then build up a value based model"

Source: WFA Global Agency Remuneration 2018; Base = 42 (companies); Date = August 2018

Despite the headlines; perceptions of value for money from agencies is very positive

Q. I feel that I am getting value for money from my agencies



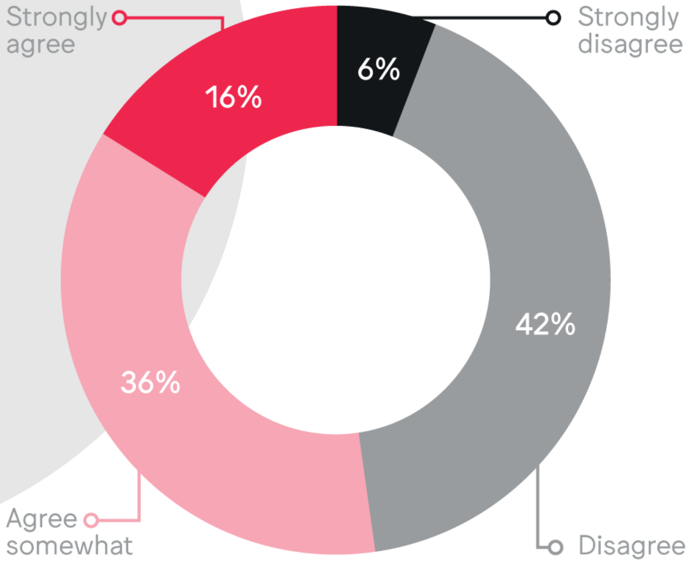
87% of respondents feel that they are getting value for money from their agencies (v around 67% in 2011) and **69% agree that that their agencies are now accountable** for the value that they create.

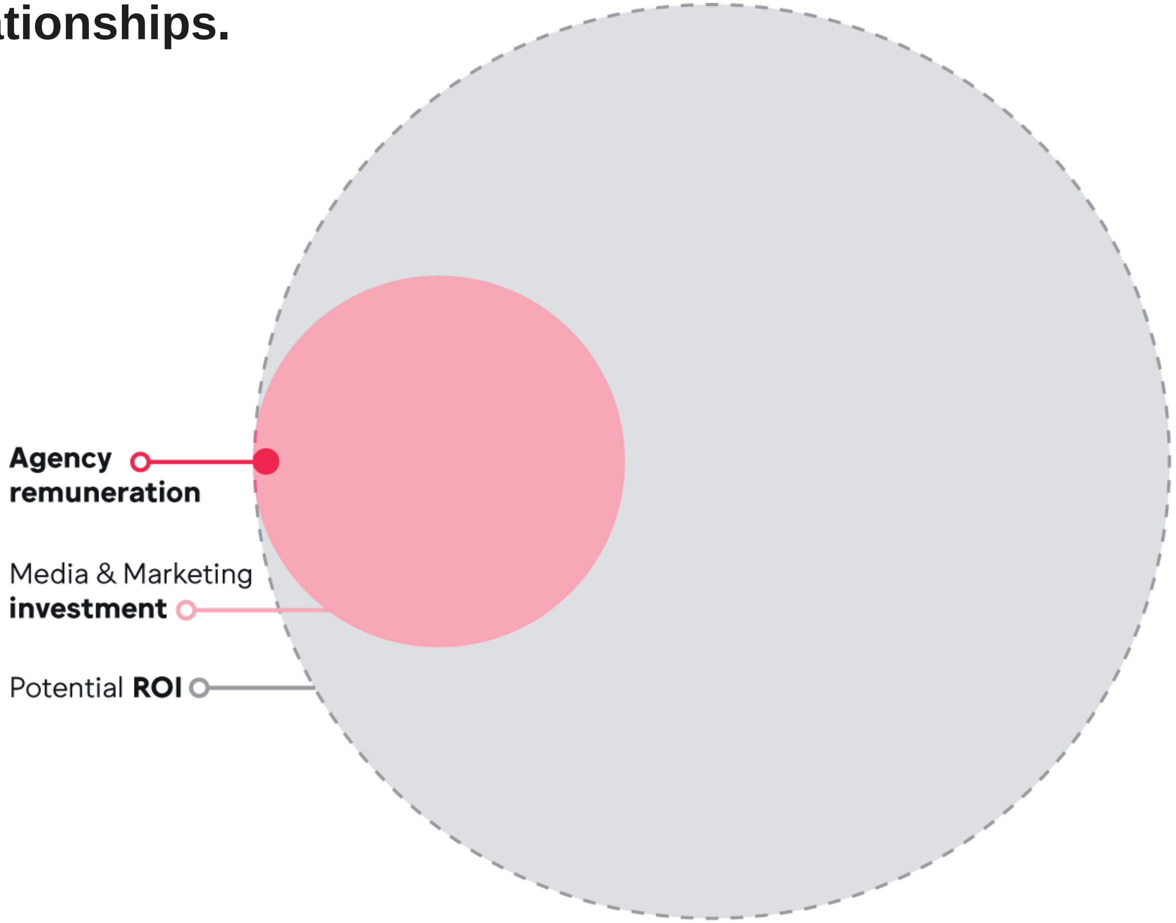
<u>Source</u>: WFA Global Agency Remuneration 2018; Base = 42 (companies); Date = August 2018

52% think they focus too much on remuneration

and this has a detrimental impact on agency relationships.

Q. As clients, we focus too much on remuneration and this has a detrimental impact on agency relationships



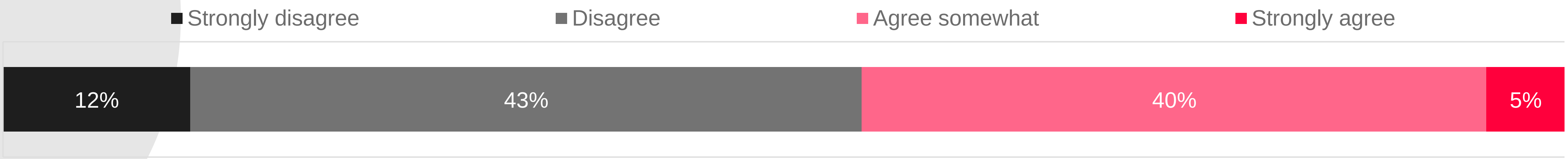


Where the value opportunity sits, or the 'Bubble' illustration
David Little, Senior Marketing Procurement Expert.

Source: WFA Global Agency Remuneration 2018; Base = 42 (companies); Date = August 2018

Though transparency concerns remain

Q. I feel that I am getting full transparency on my agencies' costing models



More than half of the respondents don't feel that they are getting full transparency on their agencies' costing models.

Source: WFA Global Agency Remuneration 2018; Base = 42 (companies); Date = August 2018

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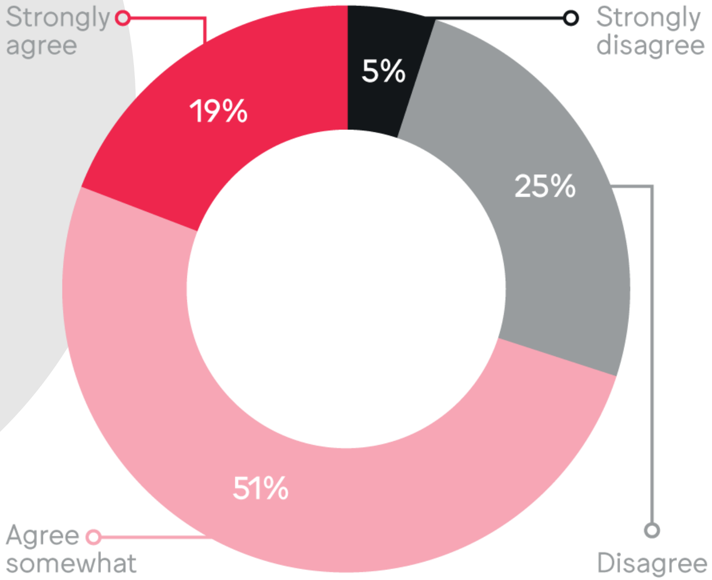
The majority believe new models could improve client-agency partnerships

Q. I feel that changing my current agency remuneration models would improve the relationships that I have with my agencies



81% expect there to be a continued shift towards performance based remuneration models (a focus on outcomes), to the ongoing detriment of labour based (FTE) and commission based models.

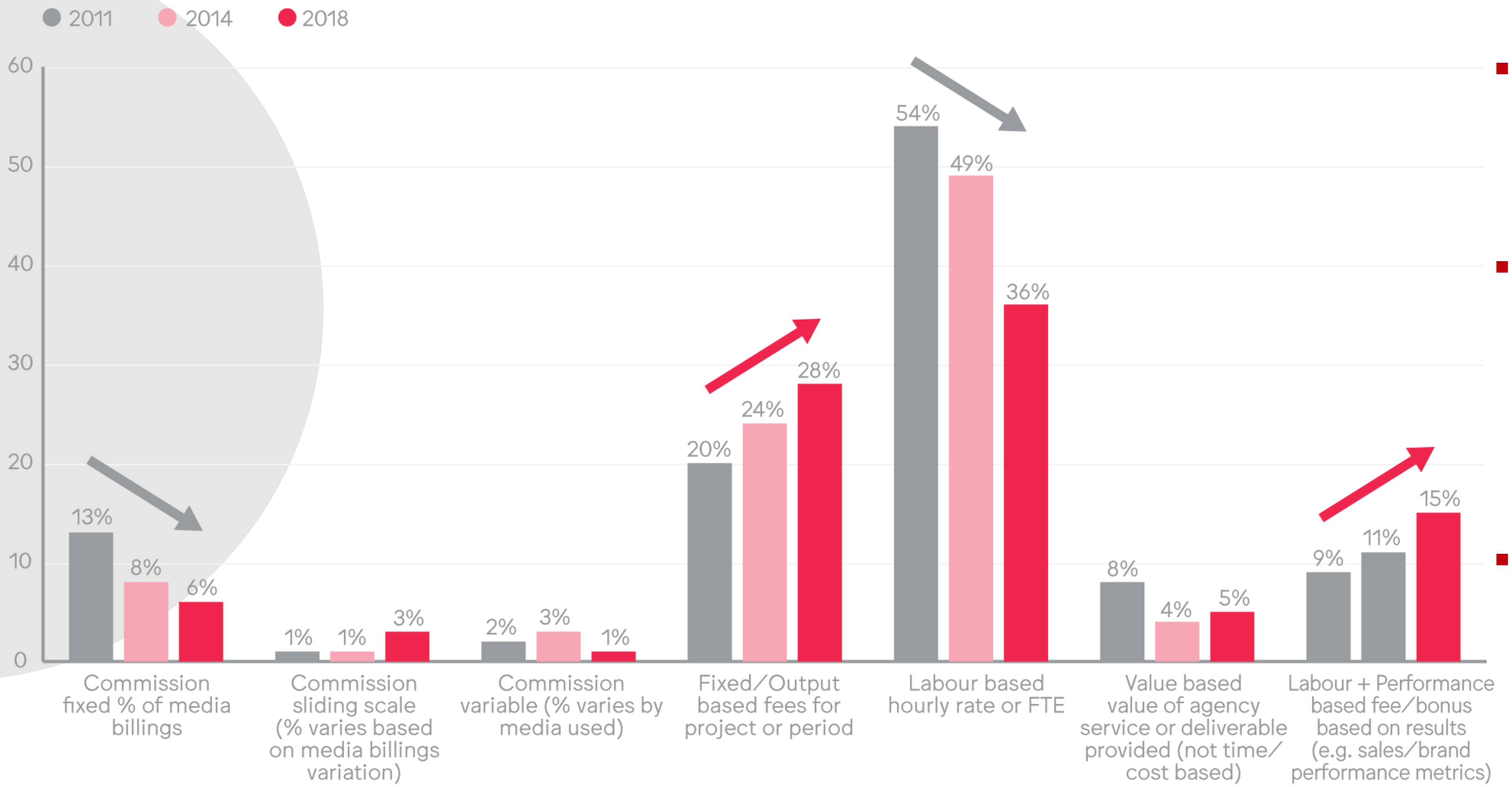
In one respondents' case they have moved to "100% based on incremental sales generated"

<u>Source</u>: WFA Global Agency Remuneration 2018; Base = 42 (companies); Date = August 2018

Getting into the detail…

Full report available here:
https://www.wfanet.org/tools/global-knowledge-base/#!/item/631

Compensation methodology* evolution since 2011



- **Many are recognising FTE's are unsatisfactory** and fewer companies are using them.
- 'Value based' whilst a hot topic continues to be used by few, but we have seen a **climb on FTE fee + Bonus** which makes the agency more accountable.
- Project based fixed fees show steady increase in use.

*across all agency types

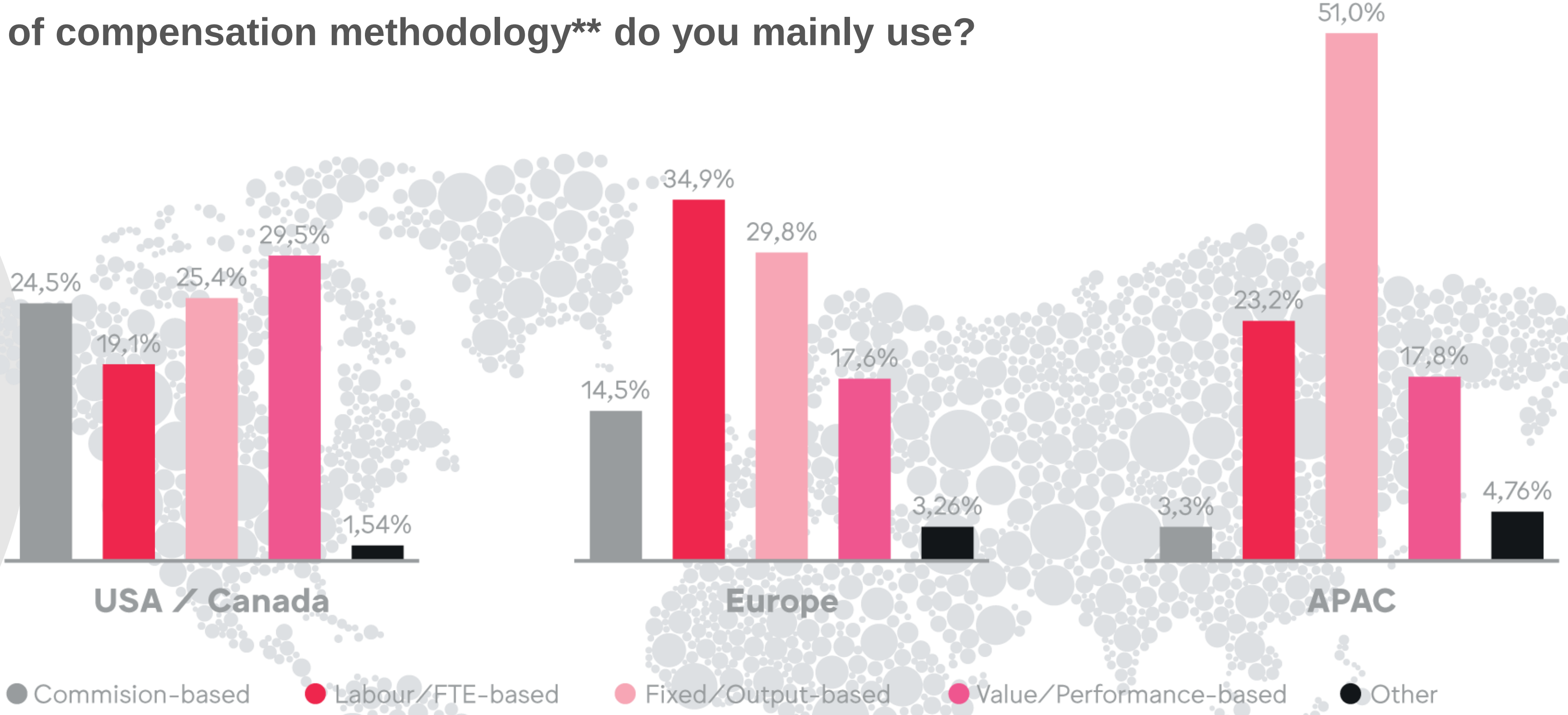
Source: WFA Global Agency Remuneration 2018; Base = 42 (companies); Date = August 2018

Key observations

- Confirms the trends we are seeing globally
- Labour or FTE-based remains the dominant default
- Declining because there is recognition of that this methodology provides identical reward for highly ***and*** poorly performing agencies
- Moving to project based activities is becoming increasingly popular – but there are watch-outs here
- Fees with a performance incentive are on the increase – but not unilaterally across agency types, and the performance basis can vary dramatically
- Value-based remains static, largely due to complexity

Regional models differ significantly*

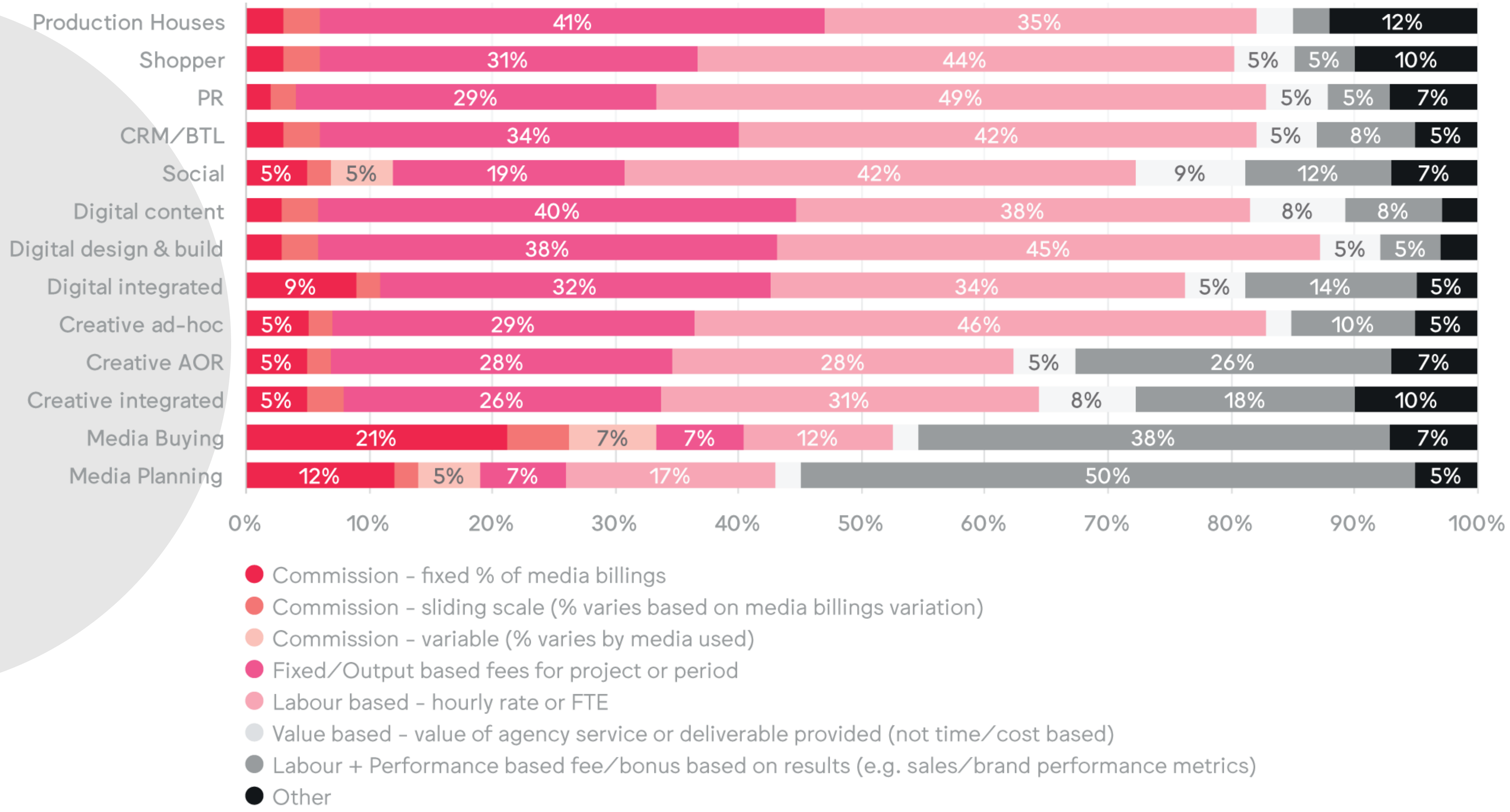
Q. What type of compensation methodology** do you mainly use?



*Note: **Results are indicative only**. Samples not statistically relevant. 50% respondents were global (not regional) in scope and so excluded from this.
Excluded LATAM and MEA as sample too low
** across all agency types including media

No clear 'best practice' by agency type

Q. What type of compensation methodology do you mainly use?



Source: WFA Global Agency Remuneration 2018; Base = 42 (companies); Date = August 2018

Key observations

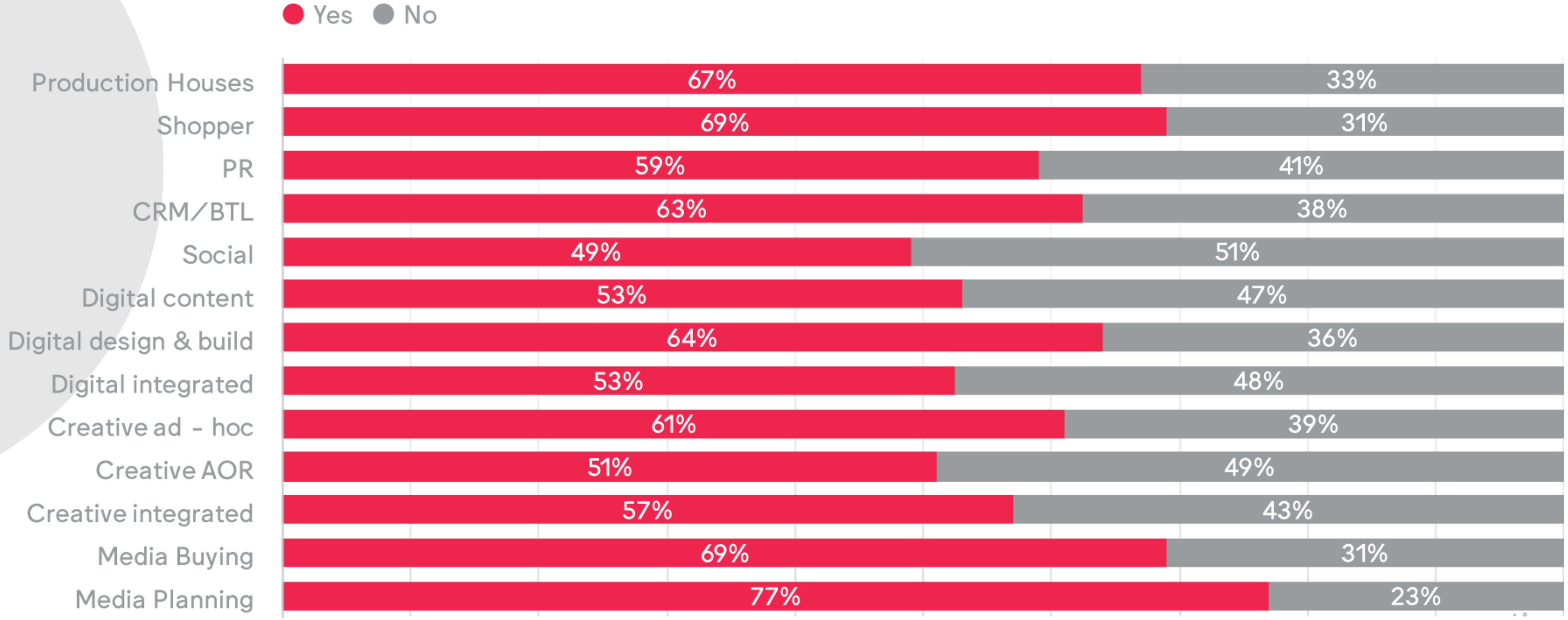
- Again not a surprising outcome – very much reflects the need we see for businesses to feel that they need tailor remuneration to their specific needs and their agency types
- Predominant methodologies are fixed of project-based and labour-based
- But there are a wide range of methodologies in play
- Suggests that;
    - Businesses are searching to define the best remuneration method

      OR

    - There is simply no silver bullet that can deliver
- This picture underlines the additional effort that's needed to manage different systems – different negotiations, different terms, different contracts etc
- There is a need to stand back and look at how you can get greater alignment

Majority happy with their approaches, but on average 39% not, underlining varied approaches

Q. Are you happy with your current model of compensation?



<u>Source</u>: WFA Global Agency Remuneration 2018; Base = 42 (companies); Date = August 2018

Key observations

- Higher levels of satisfaction across media disciplines distort the overall picture
- Respondents are split around 50/50 in their comfort levels with their arrangements for
    - Social
    - Content
    - Integrated Digital
    - Creative AOR
- And we regularly see that this is largely to do with the issues procurement face in applying and managing their remuneration arrangements
- Again reflects what we see globally – genuine concern (and some confusion) over whether businesses have the right constructs in play
- And plays back to the fact that 70% think new payment models would improve relationships with their agencies

SOW from stakeholders is often not sufficiently detailed

"As much detail as available from marketing team"

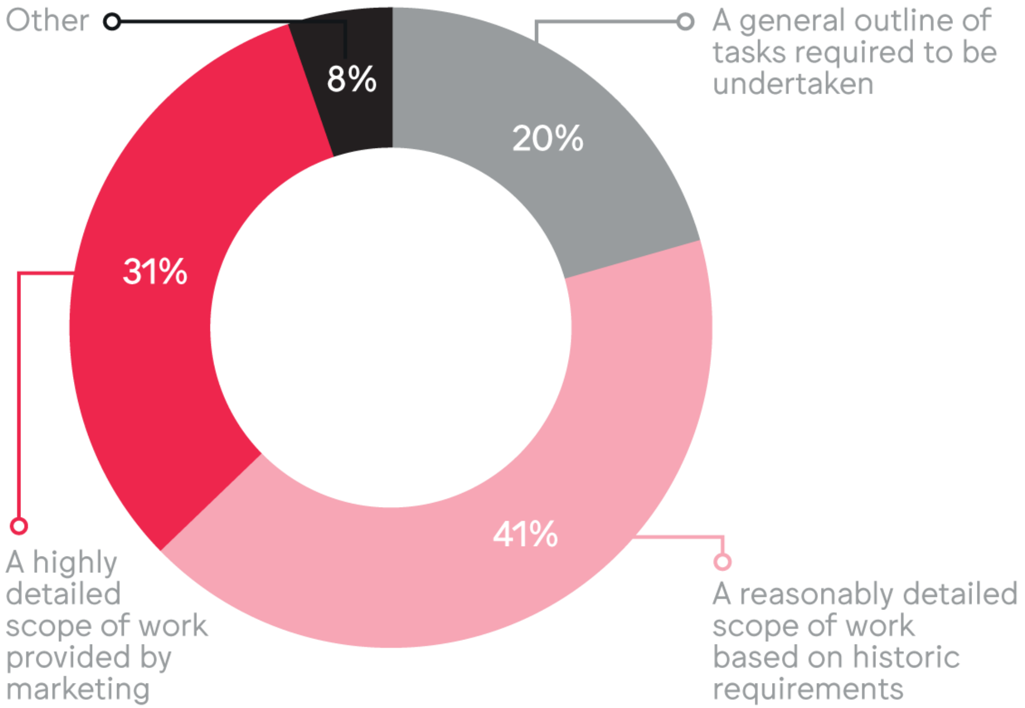
"50% a general outline and 50% reasonably detailed"

"Depends on the brands, all 3 situations may occur"

"Only basic briefings, no real scope-of work description possible to be used for RFQ existing"

"For some categories e.g. media and creative scopes of work are highly details versus in categories e.g. Experiential and PR which is much looser and unquantified."

Q. When asking your agencies to provide cost estimates... Do marketing provide you with:



Source: WFA Global Agency Remuneration 2018; Base = 42 (companies); Date = August 2018

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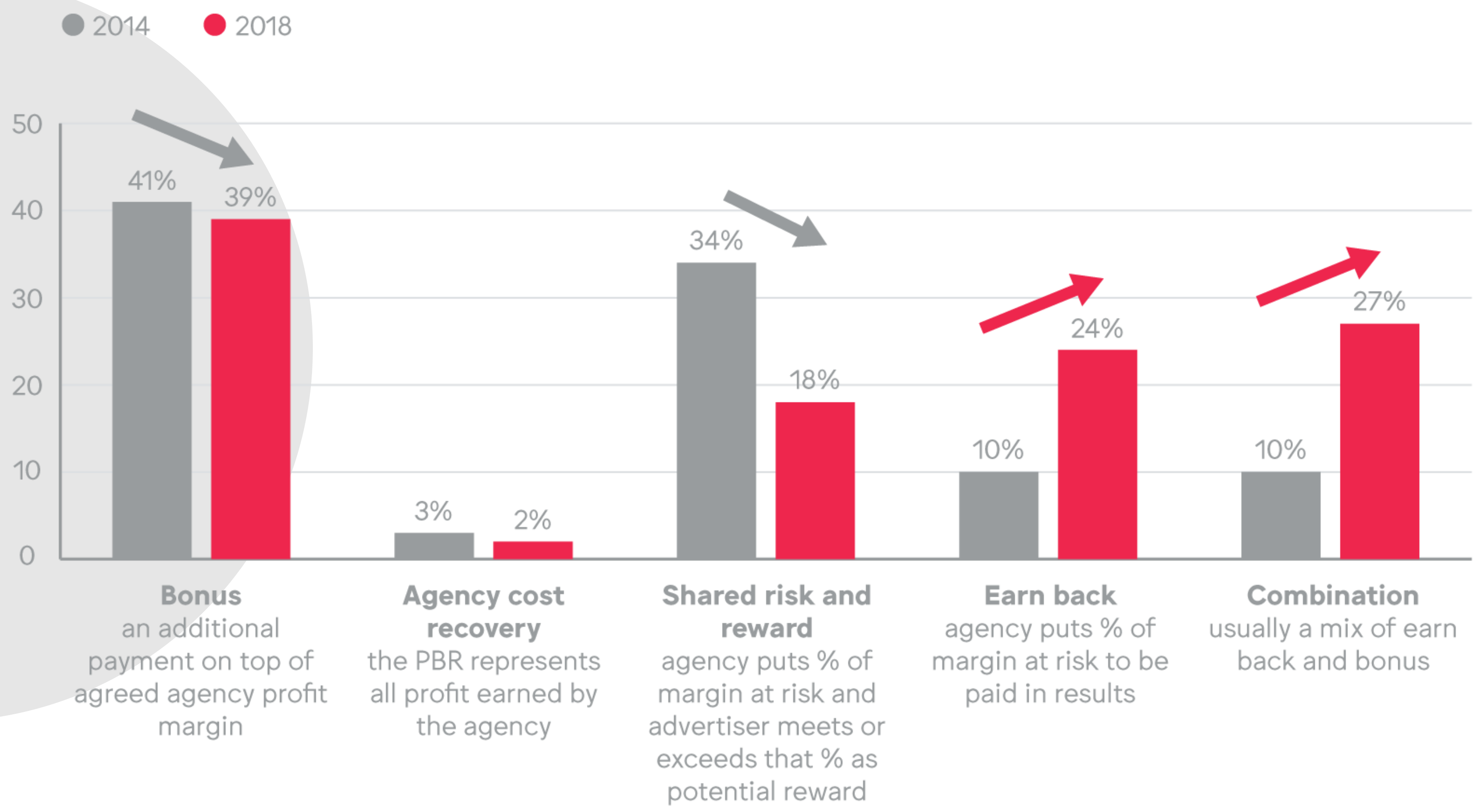
Key observations

- A unilateral issue which we see on a daily basis
- No agency can cost accurately without a clearly defined scope of work
- Key for marketing to supply full detail – or accept they'll have issues down the line
- Only 30% seem to have that level of detail
- We saw earlier that over 50% of respondents had concerns over transparency
- Agencies feel the same way too!

PBR methodology evolution since 2014

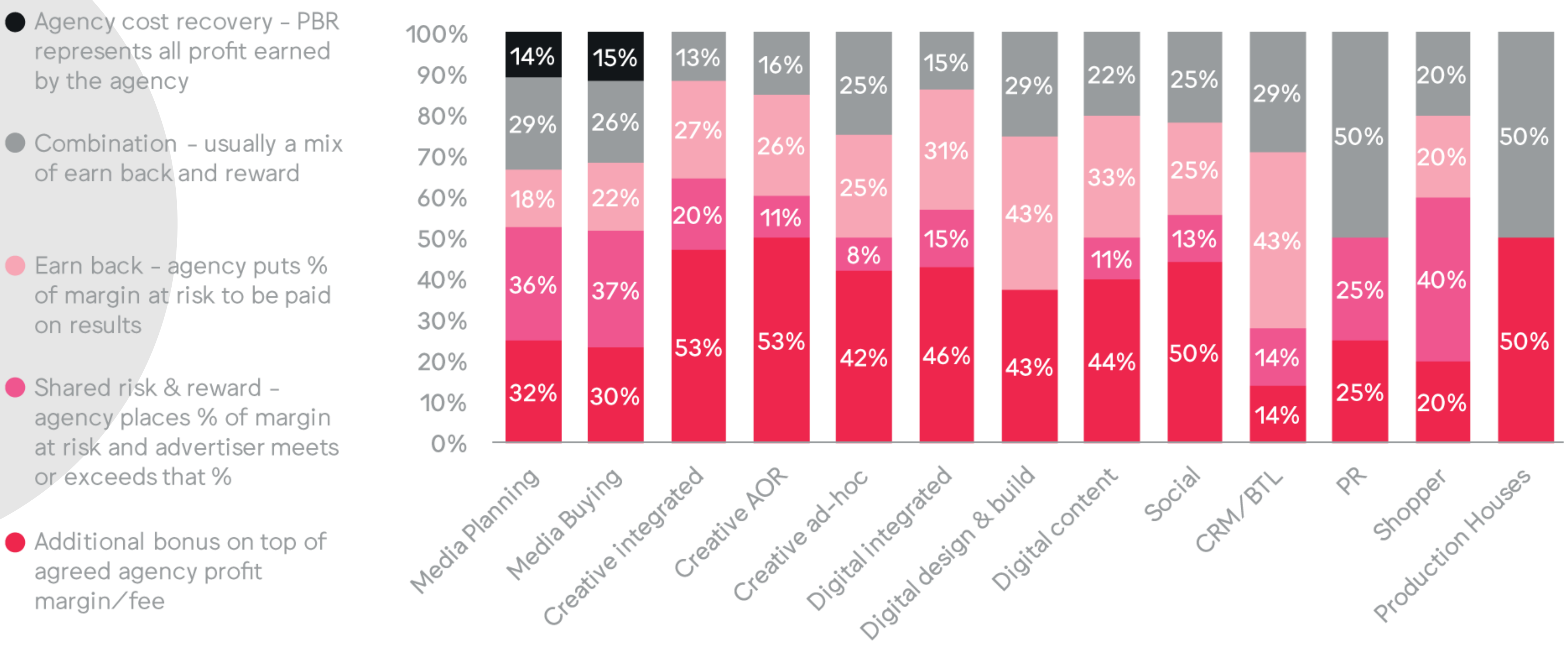


- Usage of the 'earn-back' model seems to be increasing, which may be linked to risk mitigation. However, unlike true risk and reward, this may have limited motivation for agencies.
- Shared risk demonstrates greater commitment between parties and yet seems to be decreasing in use.

Source: WFA Global Agency Remuneration 2018; Base = 42 (companies); Date = August 2018

No clear consensus on ‘best practice’ PBR methodology

Q. What approach does your PBR model most closely resemble?



Source: WFA Global Agency Remuneration 2018; Base = 42 (companies); Date = August 2018

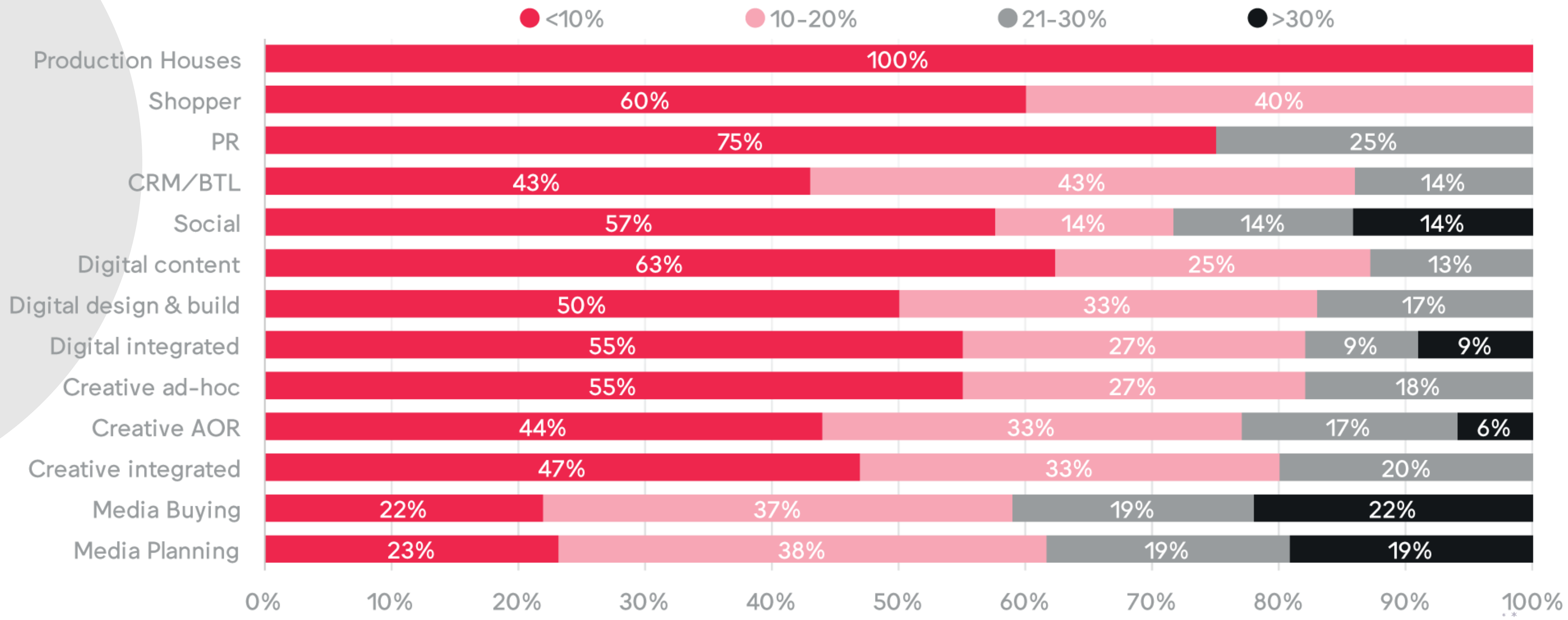
Key observations

- 80% of respondents feel a PBR component is key
- 75% have some form of PBR in play
- But this isn’t applied unilaterally across all agency types
- And the type of PBR mechanism can vary significantly
- Adds further to complexity when dealing with negotiations, terms, contracts etc

Importantly; a great PBR model should genuinely motivate an agency – not potentially penalise them

% of remuneration linked to performance often too low to offer significant incentive

Q. If you remunerate your agency based on performance/value, what % of the remuneration agreement as a whole does that typically constitute?



Source: WFA Global Agency Remuneration 2018; Base = 42 (companies); Date = August 2018

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5 key pointers to Square the Circle

Full report available here:
https://www.wfanet.org/tools/global-knowledge-base/#!/item/631

1 – Build a close working relationship with marketing

- You need to work as a genuine team
- Too many claim this – but we see it relatively rarely
- Set out clear goals, responsibilities, operating guardrails and make sure you have absolute clarity on roles
- Make sure you proactively manage the financial side of the relationship
- Don't just negotiate and go!
- That management will be appreciated by marketing and can flag budgetary (and other) issues early

2 – Get that scope of work in detail

- Marketers are busy people
- But they need to understand the importance of providing their partners with absolute clarity of requirement
- Vague scopes of work will alarm agencies and are at the root of difficult and prolonged remuneration negotiations

3 – Make sure your agency team is fit for purpose

- Get the agencies to fully cost scope
- Benchmark their rates
- Look at expected time-burn
- Make sure the construct of the team is appropriate to deliver the quality of work you require
- Discuss with your marketing counterparts
- Push back to agency as necessary

4 – Manage expectations

- The trend for all is to get more for less through efficiencies
- However what you may be asking for may not be deliverable at the budget levels you have and the quality you need
- You’ve done the due diligence on what the agency costs are
- If you are happy with those, you need to be flexible on what the agency can deliver for the budget and push back to marketing
- Forcing scope for a fixed price will mean the agency may agree, but switch to more junior people which at best threatens quality, at worst can cause a breakdown in the relationship

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5 – Motivate your agencies

- Motivated agencies produce the best work
- Having a motivated agency isn't all about money
- But it is a significant element if you want the best talent
- Make sure you have a PBR scheme in play which recognises a business partnership
- Risk & reward would be our recommendation
- That way you can make failure expensive for the agency

But:

- Success beyond expectations, highly rewarding

Thank you!
Q&A

Full report available here:
https://www.wfanet.org/tools/global-knowledge-base/#!/item/631

For more info, please get in touch with:

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