

## VIEWPOINT

# It's time for agencies to slaughter the sacred cow of compensation

A successful payment structure would reward great ideas and streamline client approval

By BEAU FRASER

The advertising industry is filled with herds of sacred cows: a set of old-school rules or actions we blindly follow because that's how it's always been done.

Something passed down from generation to generation like a family heirloom. We pass them every day, grazing lazily in our hallways. In moments of honesty, we may even admit to seeing them: "Great creative sells itself," "The consumer is always right" or "Creative shootouts lead to the best work." But no other sacred cow has grown fatter from years of mindless feeding than agency compensation.

If we were to slaughter the status quo and start over, we would need to examine what clients and agencies want. Agencies would answer that they want to be compensated fairly for their investment in people and the ideas they generate. Clients would say they want to feel as though they are getting value for their dollars. And both want budget predictability.

The traditional methods of compensation—hourly rate, fixed fee against an agreed-upon scope of work and commission against dollars spent—don't address these stated wants and, therefore, leave everyone pouting. Each of these methods started out as an "accounting" system—they account for time spent on a business



or account for how much money clients spend. But when we weren't looking, they somehow became a handy way to compensate for work.

Any compensation method should be tied to the value or benefit of what is provided. Commissions on media have no

relation to the workload or the value of an agency's idea. An hourly rate is fair in that agencies get reimbursed for their investment in time and people, but it is also not tied to value. If a great idea takes 30 seconds to conceive, does that mean agencies should charge 1/120th of an hour?

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What's that, a buck fifty? There is also no incentive for the agency to be "efficient" in managing a client's business, which can lead to recriminations over hours billed at year-end. Fixed fee against a scope of work is fair, as long as there are no disagreements or changes on what is in the scope. How often does that happen?

Incentive-based compensation was meant to be our savior. While wonderful in concept, incentive compensation is often ineffective in practice because it can be hard to design and implement.

## A FRESH METHOD

So, we are back to square one.

What if we were to turn incentive compensation on its head? What if we were to develop a method that offered the client an incentive for reaching mutually beneficial goals by rewarding them with a fat end-of-year bonus?

So what do we both want?

Agencies want an efficient process. Endless rounds of revisions, killed ideas and inconsistent direction are all costly to margins, morale and the agency-client relationship. How many times have our client counterparts swooned over a strategic platform or creative campaign, gone back to headquarters with the promise of merely "flashing the idea past a couple of people just as a courtesy" and left a message on our voicemail two weeks later saying the campaign has been killed? Or my favorite: A formerly supportive client sits silent, thumbing through a BlackBerry,

while you get eviscerated during a presentation to their senior management. Did our client counterpart forget the role they played in developing the work?

It's simple: If you don't like the work, kill it. We're professionals. We can deal with that. But if you do approve it, have the professionalism and courage to stick with your convictions.

A solution: Rather than divide agencies by department, think about a department's output and the value of that output. Then admit the truth: Some of what we do has more value than others. What has value is our thinking, our ideas. So for ideas and thinking, charge a higher rate. For deliverables that have less value, such as executing an idea, charge a commodity rate.

To make this work, we need to rethink how we as an industry account for time. If we were to divide our time sheets not only by client, but by the phase of the typical project, we would create more meaningful buckets:

- The discovery phase. All the work and learning that's needed to build the strategy, creative, communications and media plan.
- The strategy phase. All the work that goes into developing the insight and strategy that guides all the deliverables.
- The development phase. Deliverables such as creative, media, etc.
- The production phase. Getting deliverables ready for the market.
- The revision phase. Having to make significant changes to any work because of meaningful client redirects.

The discovery and strategy phases have real client value. Developing and producing deliverables, while valuable, are more commodity-like.

The revision phase, the bane of our existence, has no value to anyone and is extremely costly to everyone. Excessive time spent on "revisions" suggests a real problem with the relationship, project management, or, most likely, clients not taking responsibility for their direction or not standing behind their decisions as work moves up the corporate ladder.

With the smarter time-sheet buckets in place, agencies and clients would agree to an annual base fee and start to track time. At the end of the year, both the agency and client could see whether or not the account is running smoothly—the client would see if its fee compensates work that has value or not, while the agency would see where additional staff may be needed. But above all, clients would see the cost of agency time devoted to redirects. The agency could then incentivize clients to take responsibility for their approvals and direction by rewarding them handsomely with a year-end bonus. A bonus of between 5% and 10% of the base fee if "revisions" are low is a worthwhile investment for the agency and a meaningful reward for clients.

That is an incentive-based compensation model that can be easily designed and tracked and that benefits everyone.

Can we finally kill this sacred cow?

the gate



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