2014 WFA report on

Global Agency Remuneration Trends

and the use of

performance metrics

In partnership with: ID COMMS

WFA WORLD FEDERATION OF ADVERTISERS

ID COMMS

Contents

Avenue Louise, 166
B-1050 Brussels – Belgium
T +32 2 502 57 40
F +32 2 502 56 66
s.lightfoot@wfanet.org
www.wfanet.org

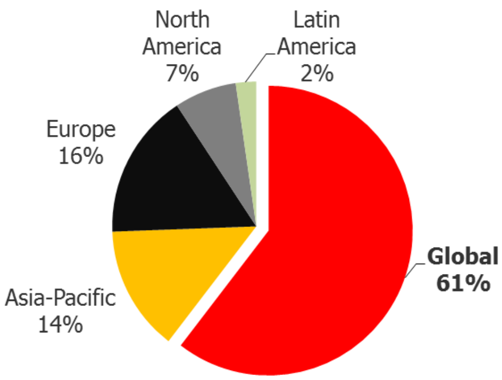
1. Background to this document

It goes without saying that agency remuneration is an area that provokes significant discussion with the industry. The past 15 years have seen many changes in terms of how clients pay marketing communications agencies for their services, and with ever increasing pressure on marketing budgets, agency remuneration looks set to be an ongoing priority topic for marketers for the foreseeable future.

With that in mind, WFA has sought to conduct global research amongst its members around the world to understand not just how trends in this space are evolving, but also to give more information on the common practice of rewarding agencies for their performance.

Please bear in mind that this document is not a definitive guide. Rather, it provides general, high-level information to assist WFA members when unilaterally taking decisions concerning their negotiations with agencies on appropriate agency remuneration models.

Survey respondents



This document was created from the results of an online WFA **SOURCING**FORUM survey, conducted from December 2013 – January 2014. The survey received responses from 43 different companies, representing over 12 different commercial sectors. The respondent profile was client side marketing procurement and media directors. When asked what their main geographical remit was, respondents answered as per the chart to the left. The majority (61%) of responses therefore represent those of global marketers.

About WFA

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WFA is the **only global organization** representing the common interests of **marketers.** It brings together the biggest markets and marketers worldwide, representing roughly 90% of global marketing communications spend, almost US$ 700 billion annually. WFA champions responsible and effective marketing communications.

The WFA **SOURCING**FORUM brings together more than 550 marketing procurement experts from multi-national advertisers and national advertiser associations in WFA membership. It meets in major cities worldwide every two months. Find out more at www.wfanet.org

Avenue Louise, 166
B-1050 Brussels – Belgium
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F +32 2 502 56 66
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www.wfanet.org

2. Definitions of common acronyms and terms

The following list of definitions is not exhaustive but covers most of the terminology specific to this report and the way the industry currently refers to remuneration models.

PRIP = Performance Related Incentive Program
PRP = Performance Related Pay
PRC = Performance Related Compensation
PFP = Pay For Performance
IBC = Incentive Based Compensation

The list above are different words for the same thing, namely an agency payment model which includes an element based on some evaluation of the agency's performance.

VBC = Value Based Compensation
VBR = Value Based Remuneration

Similarly, these are different words for the same thing, namely an agency payment model that includes an element based on some evaluation of the value the agency contributed to the advertiser's business.

STAR = Shared Target and Rewards

Output = a result of the agency's contribution, measured in terms of the agency business or processes, examples include hours worked, media plans, adaptation and GRPs.

Outcome = a result of the agency's contribution, measured in terms of the advertiser's business metrics, examples include sales, store footfall, share price and market share.

Bonus = Some form of additional payment on top of the agreed agency fee designed to reward good behavior, output or outcome. This is a crude version of a performance incentive.

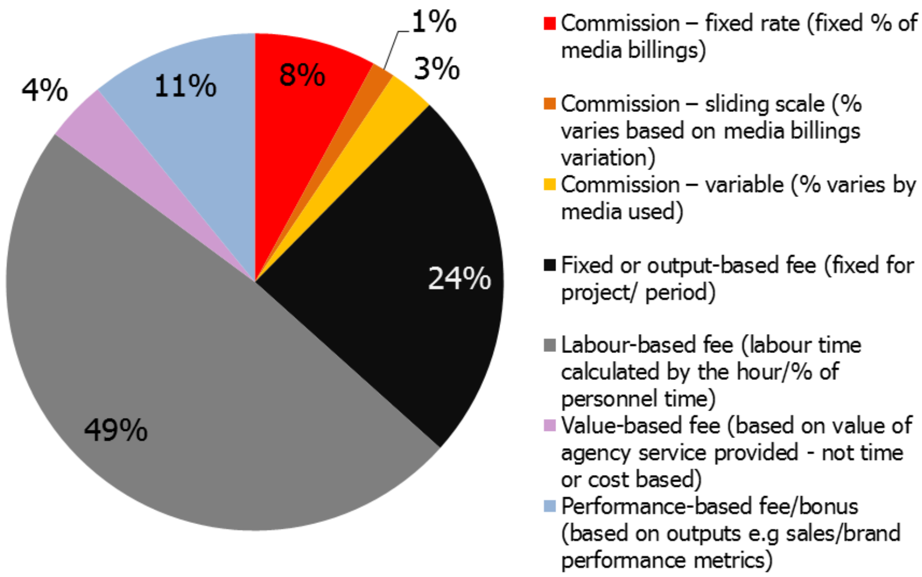
Malus = An element of a payment model which penalizes the agency based an undesired outcome or for not meeting agreed goals. Typically, this would be deducted from a future bonus payment.

Avenue Louise, 166
B-1050 Brussels – Belgium
T +32 2 502 57 40
F +32 2 502 56 66
s.lightfoot@wfanet.org
www.wfanet.org

3. Primary global agency remuneration models in use

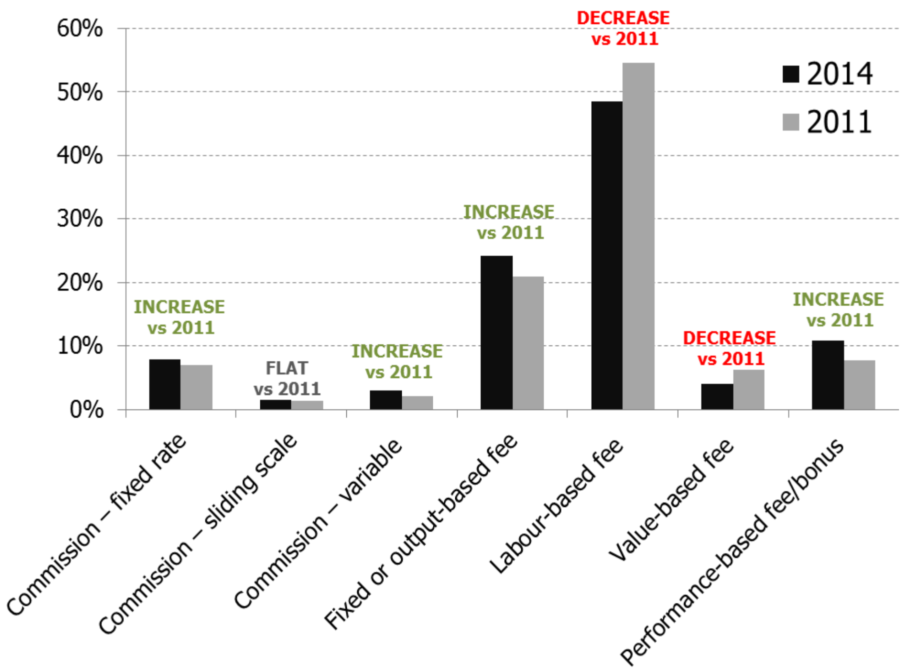
To give a macro view of remuneration trends worldwide we analysed **202 primary remuneration models** in use across seven different agency types (full service, creative, digital, media planning & buying, production, PR, BTL).

The following chart represents the overall global summary of remuneration models currently in use:



Labour based fees are the most popular model worldwide. Almost half (49%) of all agency remuneration agreements are set up this way. Commission, once the only model to choose from, now only represents 12% of the models analysed. Performance and Value-based fees have in fact now overtaken Commission and represent 15% of all agreements.

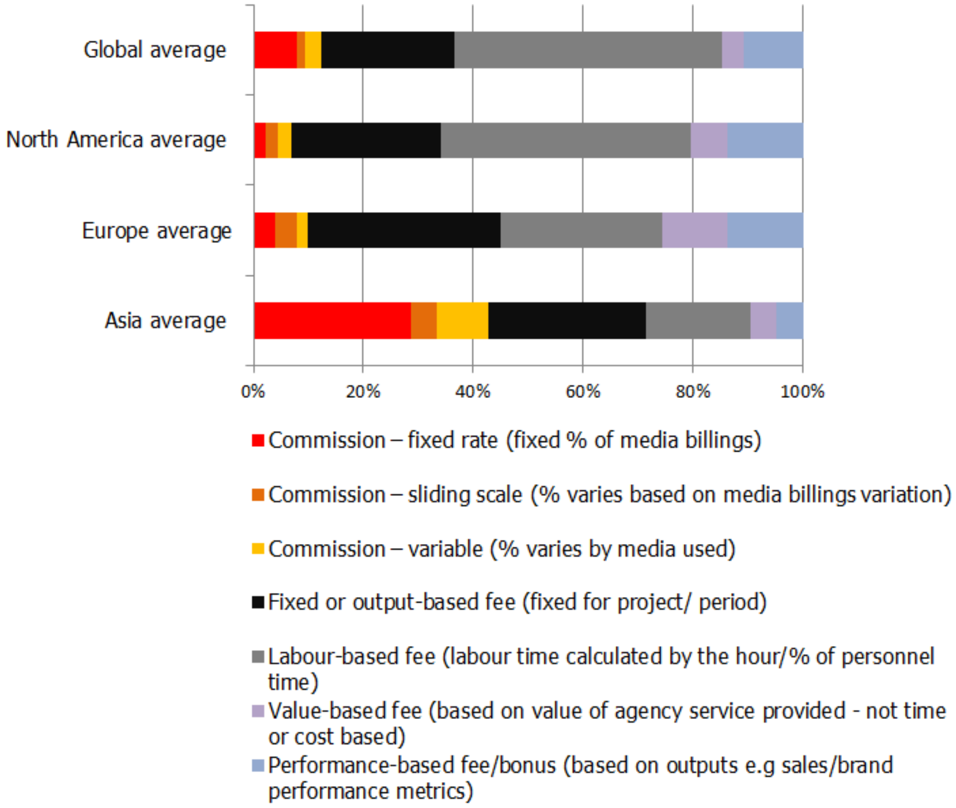
WFA conducted similar research in 2011 with the same classification of remuneration models. Comparisons with the data from this previous research show how remuneration model use is changing over time:



Although we can see small increases in the use of a couple of commission models, their overall use remains low compared to that of fees. Most notable is a six % point decrease in labour-based fees, coupled with a three % point increase for both performance incentives and fixed or output based fees. These latter increases point to where remuneration trends are heading.

Avenue Louise, 166
B-1050 Brussels – Belgium
T +32 2 502 57 40
F +32 2 502 56 66
s.lightfoot@wfanet.org
www.wfanet.org

Regional variations in agency remuneration models

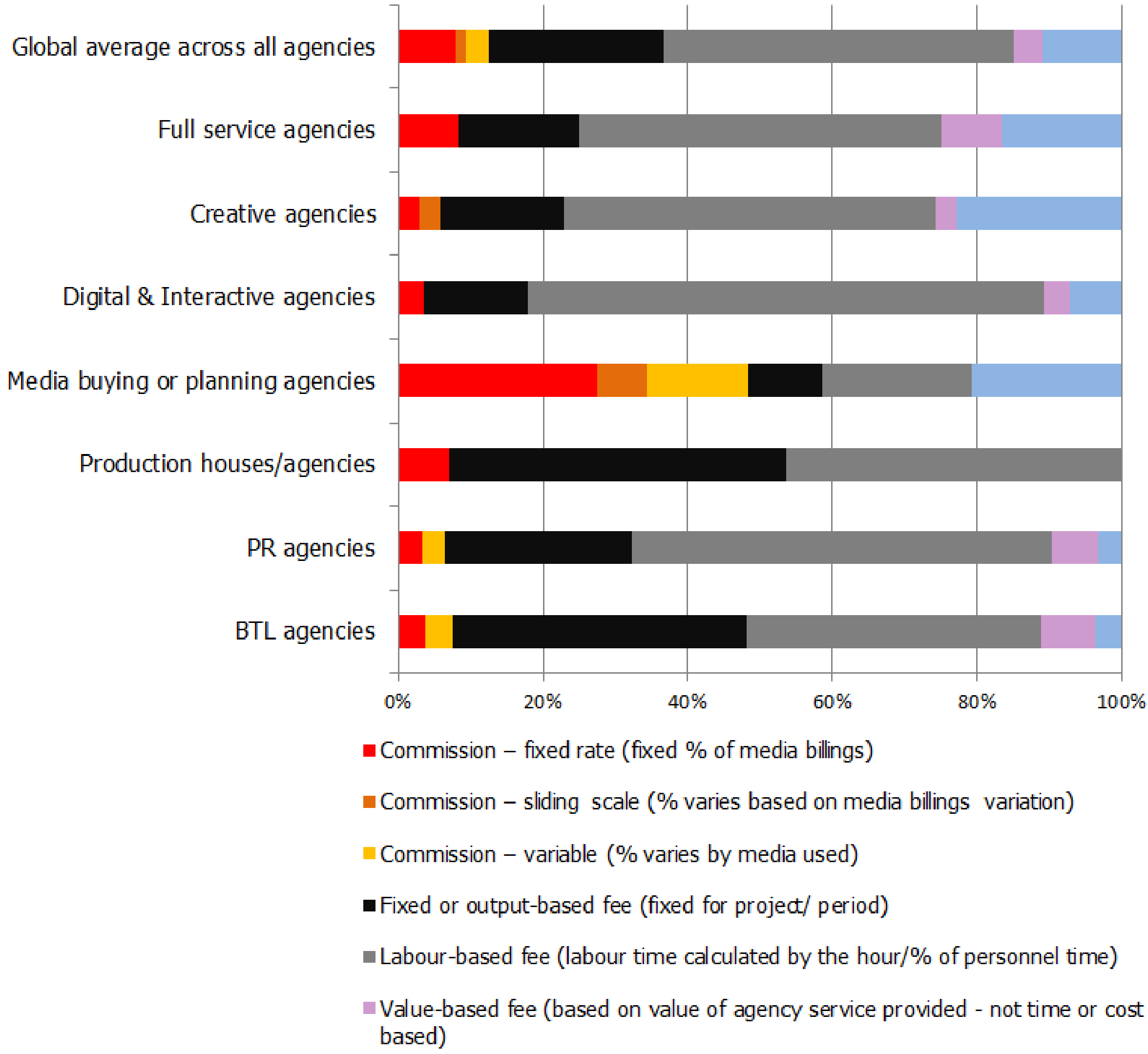


Comments: Fixed rate commission models are still very common in Asia, with around 30% of all agency agreements there using this model. North America and Europe have broadly the same use of models, with just a higher use of fixed fees vs. labour based fees in Europe and vice-versa in North America. Performance incentives are used to a similar extent in North America and Europe, with just a slightly higher uptake of value based fees in Europe. As we saw previously, there has been a slight decrease overall in the use of value based fee models and based on anecdotal feedback from respondents we can attribute this to the complexity of these types of models and the challenge in implementing them internally. Later in this report though we will see how it is the intention of marketers worldwide to move further in this direction.

Avenue Louise, 166
B-1050 Brussels – Belgium
T +32 2 502 57 40
F +32 2 502 56 66
s.lightfoot@wfanet.org
www.wfanet.org

4. Agency remuneration models in use by agency type

To help give a more realistic picture of remuneration trends globally, the following chart highlights the models in use according to different agency types:



Comments: Although clearly the fee based models are predominant, the chart above shows how media agencies skew the global average in terms of commission use: for other agency types the use of commission is very limited. Media agency agreements stand out as having the largest variety of remuneration models in use, whereas digital agencies are the agency type for which labour-based fees are most commonly used. The growth in the use of performance incentives can be seen to be led within creative agency, media agency and full-service agency agreements.

Avenue Louise, 166
B-1050 Brussels – Belgium
T +32 2 502 57 40
F +32 2 502 56 66
s.lightfoot@wfanet.org
www.wfanet.org

5. What is "Performance" and how do you measure it?

What is Performance?

Performance measurement should not be seen by either the advertiser or the agency as a route to reduce marketing spending. Instead, Pay For Performance (PFP) should encourage an agency to deliver up to and beyond advertisers' expectations in pre-agreed areas.

This ensures that within the advertiser company marketing spend is more accountable, which transforms it into a business growth lever (rather than just a cost) and this in turn makes it more interesting to both the board and ultimately the shareholders.

Good performance is defined as a situation where an agency supplier adds value to an advertisers business by delivering against a set of metrics.

The metrics you choose to measure agency performance are therefore very important. If your agency performance metrics are wrong then the results won't drive business performance.

Performance metrics that might be considered include a balance of soft, medium and hard metrics. Soft metrics are not less important but instead are qualitative metrics that normally relate to things that could be considered subjective, such as agency service evaluations. The methodology for capturing and comparing soft measures must be robust and transparent. Medium metrics include tracked results, such as brand awareness, equity scores, social media metrics such as re-tweets and likes. Hard measures typically relate to purely quantitative results and include financial performance, market share, savings and share price.

How do you measure it?

Albert Einstein famously said: *"Not everything that counts can be counted, and not everything that can be counted counts."*

Performance, ultimately determined by advertisers' business success, can be defined in many ways. It is not sufficient to rely on anecdotal or informal performance measures. Similarly, loading up all the things that can be measured and calling them metrics creates unnecessary complexity. Reaching agreement on the right metrics of successful performance will improve your short-term business performance and the long-term productivity of the relationship you have with an agency.

Advertisers could consider performance metrics to fall into three categories:

- Soft metrics, those focused mainly on agency service and scope delivery
- Medium metrics, those focused on advertising performance
- Hard metrics, those focused on business and financial performance

The actual blend of these metrics will vary by the type of agency being evaluated and the nature and capability of the advertiser to measure them robustly and fairly.

The combined "Performance" number should include a blend of soft, medium and hard. The perfect blend is unique to each brand, based on what behaviors and outcomes you want the agency to focus on.

Being clear on the definition of performance (and how the performance element is earned) is important to establish upfront, especially where there is a qualitative evaluation (such as a client satisfaction survey) of the agency performance assessment. It is also critically important to be clear what the performance related element is, otherwise there can be confusion.

For example, in businesses where the marketer regards the Performance element as some incremental 'bonus', they are likely to only award it where they believe the agency has exceeded their contractual obligations. On the other hand the agency might believe that the performance element is essentially a "fee at risk" and should earn it simply for delivering the agreed scope of work.

If it is to have the desired effect of improving performance, it is crucial that performance-related income needs to be a significant proportion of agency earnings so that it effectively incentivizes the desired behaviors.

Avenue Louise, 166
B-1050 Brussels – Belgium
T +32 2 502 57 40
F +32 2 502 56 66
s.lightfoot@wfanet.org
www.wfanet.org

ID Comms Comment: "We think that this should be a minimum 20% of a base fee as anything below this level is insufficient to incentivize (influence) behavior. See the example on page 25."

Aligning roster agencies to drive integration

One of the greatest benefits of shifting to a performance-based approach can be better alignment across a set of agencies on a roster. The more aligned a group of agencies are to a particular output or outcome, the more efficiently they should work together to achieve that result. Advertisers that can align the performance metrics of a suite of agency resource should find that better agency integration happens naturally, improving efficiency across the board.

An example PFP model

This is an example of how to construct a basic Pay For Performance (PFP) model. The best solution for an advertiser will be dependent largely on the behaviors they are trying to incentivize and hence this type of model should be adjusted to fit specific requirements.

Start by separating out the various elements of agency cost:

a) Salaries (this includes only the gross salaries paid to employees)

b) Agency overhead (this should include here costs of doing business, employee-related taxes and costs of employee benefits to avoid creating a distorting multiple)

c) Profit margin potential (this includes a clear description of the performance metrics used to earn it)

Once this has been worked out, the advertiser and agency should then undertake the following:

1. The advertiser must prepare a scope of work for the agency that is aligned to the company's marketing objectives (including the outcomes and outputs required) by describing the agency resources required and the tasks they will need to perform. The scope of work allows the agency to provide a cost proposal for the resource. This forms the basis of all other calculations.

2. The agency should provide clarity on gross salary costs required to fulfill the scope of work

3. Added to that is the overhead* which is usually quoted as a multiplier (%) applied to all resource costs to give the total base labor cost for the agency

4. Additionally the agency must be permitted to earn a fair profit on the work they do. It is reasonable to expect that the profit margin should be variable based on the agency's performance.

5. Good practice is to offer an enhanced profit opportunity in return for holding profit to account against a performance evaluation. Typically, a 30% maximum profit margin is reasonable but this is earned by exceptional performance.

Advertisers should remember that not all agency talent costs the same, and trying to benchmark and then negotiate down the cost of an Executive Creative Director for example means you just end up with the agency's cheapest, rather than the best Executive Creative Director. We advise advertisers to request that named resource is made clear as part of the agency's proposal and that the advertiser has the right to interview and approve senior hires who are allocated more than 50% of their time to that advertiser.

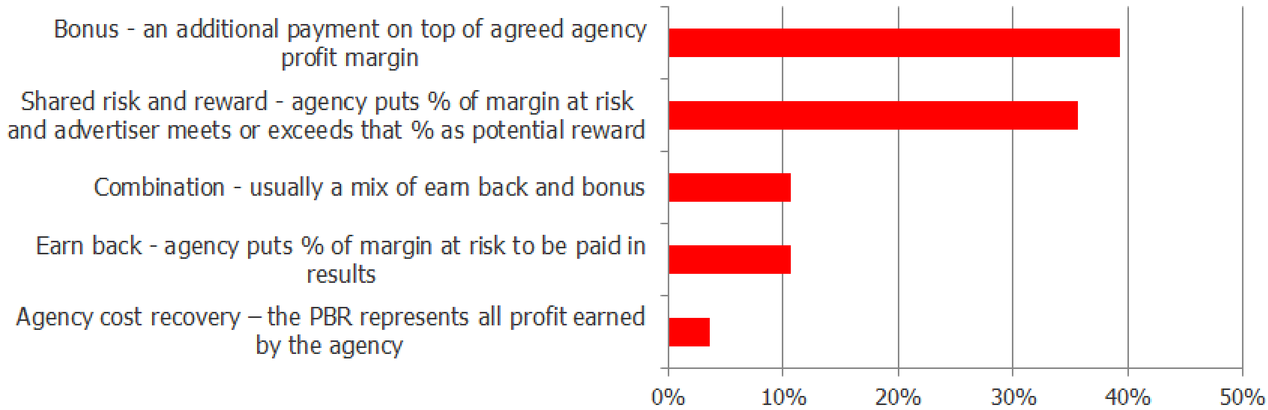
* *Overhead is not an indicator of agency profitability or efficiency. A desire to improve the efficiency of agency costs should not lead you to assume that overhead is too high. It is not a universal benchmark and many factors can influence overhead as a percentage of total agency costs. For example, if staff costs rise relative to rent costs, overhead will go down. In contrast, as agency technology costs rise this should reduce labor costs and thus push up overhead as a proportion of overall costs. In different parts of the world, the ratio between people costs and rents or technology vary hugely. It is therefore important to dig into overhead with an open mind and not see it as an immediate lever for negotiation or savings. There may be a very good reason for the overhead to appear high in relation to salary costs.*

Avenue Louise, 166
B-1050 Brussels – Belgium
T +32 2 502 57 40
F +32 2 502 56 66
s.lightfoot@wfanet.org
www.wfanet.org

6. Understanding performance based remuneration components

Performance and value based fee components now represent 15% of all remuneration agreements worldwide. Rewarding agencies for attaining or exceeding agreed performance goals is a well-documented way to motivate them to do their best work, and most global marketers have experimented to some extent with bonuses, earn back deals, shared targets and incentives etc.

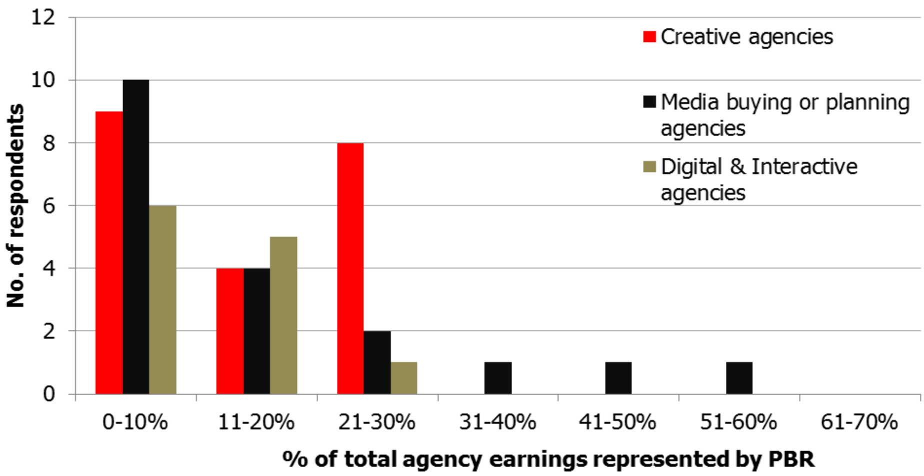
We have purposely not sought to give a definition for what PBR component means, as in almost every case (as this research shows) they have different structures and approaches. Nevertheless, we did seek clarification on the framework used to implement it. We asked therefore respondents: "What approach does your performance based model most closely resemble?"



Comments: In 75% of cases, PBR models are either a simple bonus paid to the agency on top of an agreed profit margin, or they are a % of the agency profit margin that is put at "risk" by the agency. The latter model means that agencies have to put more "skin-in-the-game", as their profit margin is less certain. For clients there is less of a difference or distinction in these two main methods (both require the same potential budget), and this means careful consideration is needed as to which model to pick given the agency and the service in question.

Performance based remuneration components are not without their critics. When implemented poorly they can have a harmful effect on the relationship between client and agency. Over-complexity can be a detrimental factor, as can a lack of senior client and agency stakeholder buy-in to the model chosen. Later in this report we look at recommendations for marketers, but one area that always provokes discussion is the "size of the prize", or how much of the amount paid to agencies should be devoted to rewarding performance.

The following chart shows responses to our question: "Typically what % of agency earnings does your PBR component represent?"

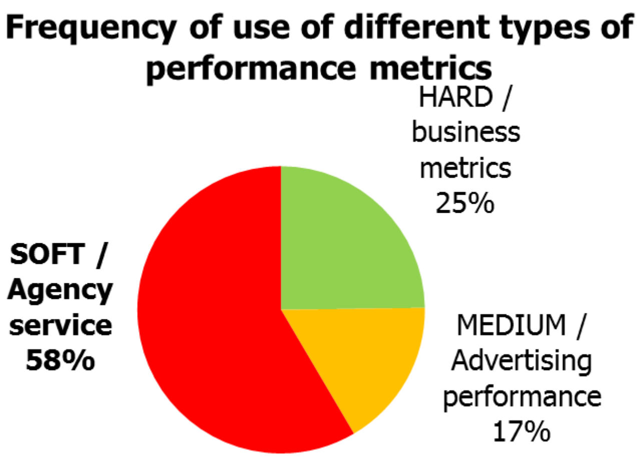


Avenue Louise, 166
B-1050 Brussels – Belgium
T +32 2 502 57 40
F +32 2 502 56 66
s.lightfoot@wfanet.org
www.wfanet.org

Comments: Creative agencies feature more prominently above than other agencies as they are the agency type that has the most performance incentives. Media agencies have the biggest spectrum of agency earnings from PBR components, but for all agency types there is a cluster towards the range of 0-10%. If we apply weighted averages, we see that the average % of agency earnings represented by a PBR component is 14% (across all agency types).

7. The frequency of hard, medium & soft performance metrics

For the purposes of understanding the different types of individual performance metrics used by advertisers, we divided our list of common metrics into three classifications: **hard** (business metrics), **medium** (advertising performance metrics) and **soft** (agency performance metrics). Across these three classifications we analysed a total of **573 metrics** across seven different agency types (full service, creative, digital, media planning & buying, production, PR, BTL). The rationale for doing this is that often different metrics are used to assess the work done by different agencies, so getting visibility on the metric type gives clarity on how to structure a balanced incentive component.



From this chart we can see across all the performance incentive components, soft metrics are those which are most commonly used by marketers. This means a typical incentive component features more metrics which are considered as agency performance KPIs than business metrics. However, this chart only shows the popularity of the metric type, not the weighting of a metric which we will come on to later.

Frequency of metric use

Hard
Business Metrics

	No.
Market/brand share	26
Sales Volume	25
Brand equity	18
Composite Performance	17
Relative Brand Performance	16
Buying targets	13
Brand profitability	10
Customer loyalty	9
Volume Growth	8

Medium
Advertising Performance Metrics

	No.
Advertising Awareness	16
Ad scores	16
Brand Image Shifts	12
Predisposition to buy	12
Brand personality	11
Attitude Ratings	10
Persuasion index	10
Ad enjoyment	9

Soft
Agency Performance Metrics

	No.
Agency Service delivery	46
Relationship Management	43
Collaboration	39
Project management	34
Thought leadership	28
Business development	27
Cost Efficiency	25
Pro-activity	25
Administration	24
Functional competencies	23
Contribution to 'branding'	21

Avenue Louise, 166
B-1050 Brussels – Belgium
T +32 2 502 57 40
F +32 2 502 56 66
s.lightfoot@wfanet.org
www.wfanet.org

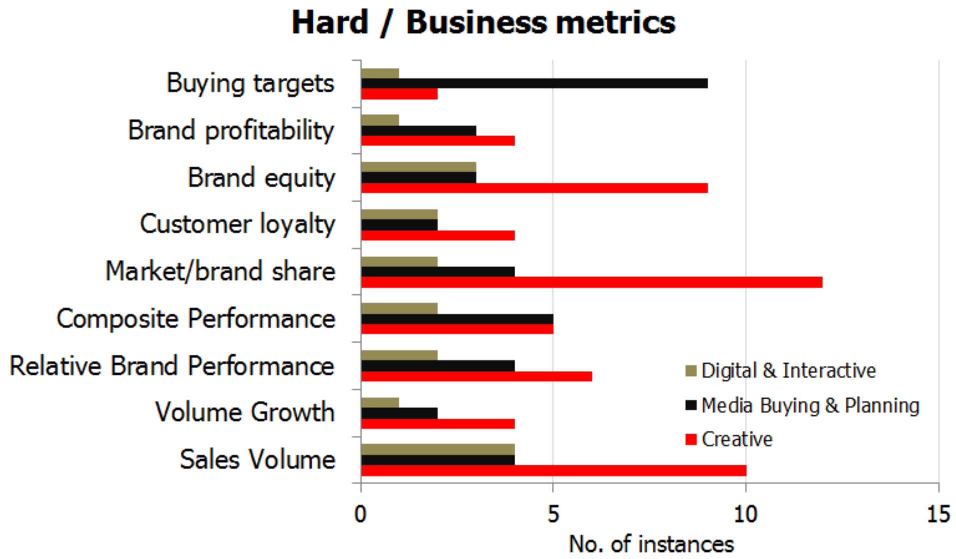
The numbers in the previous chart correspond to the amount of times an individual metric was reported as being used with an agency type. The following table ranks these metrics according to that no. of instances. This gives an overall popularity of each metric across all agency types.

Rank	*Metric*	*No.*	*Classification*
1	**Agency Service delivery**	46	**SOFT / Agency service**
2	**Relationship Management**	43	**SOFT / Agency service**
3	**Collaboration**	39	**SOFT / Agency service**
4	**Project management**	34	**SOFT / Agency service**
5	**Thought leadership**	28	**SOFT / Agency service**
6	**Business development and brand strategy**	27	**SOFT / Agency service**
7	**Market/brand share**	26	**HARD / business metrics**
8	**Sales Volume**	25	**HARD / business metrics**
9	**Cost Efficiency**	25	**SOFT / Agency service**
10	**Pro-activity**	25	**SOFT / Agency service**
11	**Administration**	24	**SOFT / Agency service**
12	**Functional competencies**	23	**SOFT / Agency service**
13	**Contribution to 'branding'**	21	**SOFT / Agency service**
14	**Brand equity**	18	**HARD / business metrics**
15	**Composite Performance**	17	**HARD / business metrics**
16	**Relative Brand Performance**	16	**HARD / business metrics**
17	**Advertising Awareness**	16	**MEDIUM / Advertising performance**
18	**Ad scores**	16	**MEDIUM / Advertising performance**
19	**Buying targets**	13	**HARD / business metrics**
20	**Brand Image Shifts**	12	**MEDIUM / Advertising performance**
21	**Predisposition to buy**	12	**MEDIUM / Advertising performance**
22	**Brand personality**	11	**MEDIUM / Advertising performance**
23	**Brand profitability**	10	**HARD / business metrics**
24	**Attitude Ratings**	10	**MEDIUM / Advertising performance**
25	**Persuasion index**	10	**MEDIUM / Advertising performance**
26	**Customer loyalty**	9	**HARD / business metrics**
27	**Ad enjoyment**	9	**MEDIUM / Advertising performance**
28	**Volume Growth**	8	**HARD / business metrics**

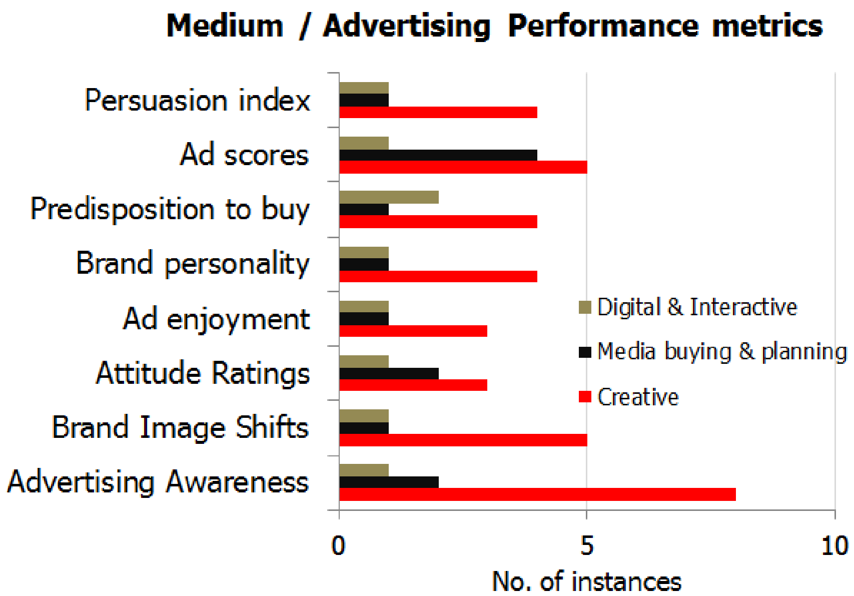
Avenue Louise, 166
B-1050 Brussels – Belgium
T +32 2 502 57 40
F +32 2 502 56 66
s.lightfoot@wfanet.org
www.wfanet.org

8. Performance metrics in use by agency type

Building on the previous section, the following charts show the frequency of use (instances) of different performance metrics within the three classifications (hard, medium, soft) across three distinct agency types (digital & interactive, media planning & buying and creative).

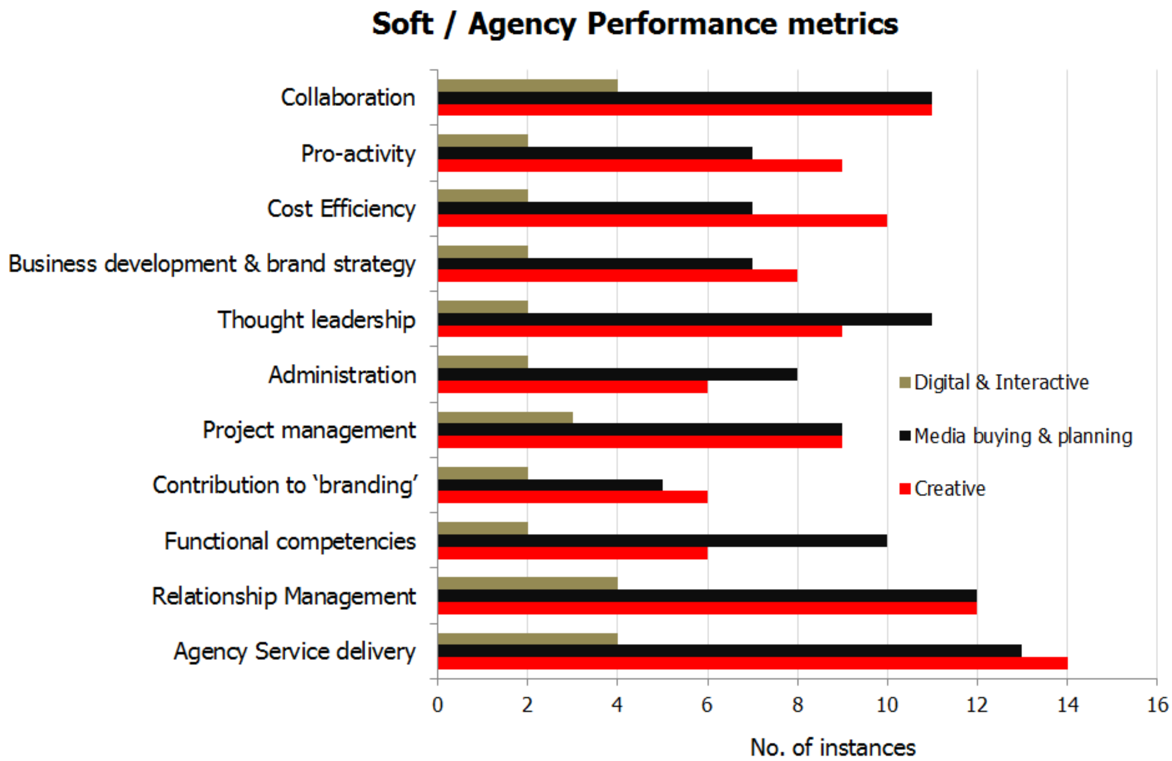


Comments: Although hard metrics are only used in 25% of cases (Section 4.) we can see that four metrics stand out above from the rest. "Buying targets" are common with media agencies, but understandably not for creative agencies where "brand equity", "market or brand share" and "sales volume" are common measurement criteria.



Comments: The advertising performance metrics above are those that are least commonly used by our respondents (o this classification represents only 17% of metrics used). There are fewer spikes in the chart, meaning lower levels of use in general, but "advertising awareness" stands out for creative agencies, and "ad scores" is notable for being a metric used both for media and creative agencies.

Avenue Louise, 166
B-1050 Brussels – Belgium
T +32 2 502 57 40
F +32 2 502 56 66
s.lightfoot@wfanet.org
www.wfanet.org



Comments: Agency performance metrics are the most popular type of metric used. "Agency service delivery", "relationship management" and "collaboration" are the most popular of all. From the higher no. of instances above it is clear that more respondents use more soft measures than medium or hard.

Popularity of metrics by agency type

The table below shows the top three most commonly used metrics for each agency type. The corresponding number refers to the amount of times respondents mentioned this metric for this agency type. The colour denotes the hard, medium, soft classification of that metric.

Creative agencies	
Metrics	**No.**
Agency Service delivery	14
Market/brand share	12
Relationship Management	12
Collaboration	11
Sales Volume	10
Cost Efficiency	10
Brand equity	9
Project management	9
Thought leadership	9
Pro-activity	9
Advertising Awareness	8
Business development & brand strategy	8

Media buying/planning agencies	
Metrics	**No.**
Agency Service delivery	13
Relationship Management	12
Thought leadership	11
Collaboration	11
Functional competencies	10
Buying targets	9
Project management	9
Administration	8
Business development & brand strategy	7
Cost Efficiency	7
Pro-activity	7
Composite Performance	5

Digital & Interactive agencies	
Metrics	**No.**
Sales Volume	4
Agency Service delivery	4
Relationship Management	4
Collaboration	4
Brand equity	3
Project management	3
Relative Brand Performance	2
Composite Performance	2
Market/brand share	2
Customer loyalty	2
Predisposition to buy	2
Functional competencies	2

Avenue Louise, 166
B-1050 Brussels – Belgium
T +32 2 502 57 40
F +32 2 502 56 66
s.lightfoot@wfanet.org
www.wfanet.org

Relative Brand Performance	6	Contribution to 'branding'	5	Contribution to 'branding'	2
Functional competencies	6	Sales Volume	4	Administration	2
Contribution to 'branding'	6	Relative Brand Performance	4	Thought leadership	2
Administration	6	Market/brand share	4	Business development and brand strategy	2
Composite Performance	5	Ad scores	4	Cost Efficiency	2
Brand Image Shifts	5	Brand equity	3	Pro-activity	2
Ad scores	5	Brand profitability	3	Volume Growth	1
Volume Growth	4	Volume Growth	2	Brand profitability	1
Customer loyalty	4	Customer loyalty	2	Buying targets	1
Brand profitability	4	Advertising Awareness	2	Advertising Awareness	1
Brand personality	4	Attitude Ratings	2	Brand Image Shifts	1
Predisposition to buy	4	Brand Image Shifts	1	Attitude Ratings	1
Persuasion index	4	Ad enjoyment	1	Ad enjoyment	1
Attitude Ratings	3	Brand personality	1	Brand personality	1
Ad enjoyment	3	Predisposition to buy	1	Ad scores	1
Buying targets	2	Persuasion index	1	Persuasion index	1

Comments: From the above table it becomes clear how performance incentives are used for different agency types. "Agency service delivery" is frequently at the top of the list across all three agency types, but when it comes to the hard metrics, there is more variability. For creative agencies, "Market/brand share" is most commonly used, whereas for media agencies it is "buying targets". Although the sample for digital agencies is smaller (likely because fewer respondents are using performance incentives with these agencies) "sales volume" is at the top of the list. Given the availability and traceability of data around the online purchase funnel, it is not surprising that some respondents are testing the use of harder metrics with these agencies.

9. Metric weighting within performance components

As well as highlighting which metrics are actually used, our research helped us understand the weighting that each metric has within the total performance component for each agency type. This is valuable in offering marketers some insight into how to create a balanced incentive component. The table below lists the average weighting of the top 15 most common metrics.

Metrics	*Ave. metric weighting (% out of 100) within performance component*	*Popularity Rank*
Ad scores	26	18
Buying targets	25	19
Composite Performance	24	15
Brand personality	23	22
Brand Image Shifts	19	20
Ad enjoyment	19	27
Agency Service delivery	18	1
Business development and brand strategy	17	6
Market/brand share	16	7
Pro-activity	16	10
Sales Volume	15	8
Relative Brand Performance	15	16
Brand equity	14	14
Advertising Awareness	14	17

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B-1050 Brussels – Belgium
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F +32 2 502 56 66
s.lightfoot@wfanet.org
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Predisposition to buy	14	21
Persuasion index	14	25
Contribution to 'branding'	13	13
Project management	12	4
Functional competencies	12	12
Volume Growth	11	28
Relationship Management	11	2
Attitude Ratings	10	24
Collaboration	9	3
Cost Efficiency	9	9
Brand profitability	8	23
Customer loyalty	8	26
Thought leadership	7	5
Administration	7	11

Comments: The data above shows that the most popular metrics are not always those which are most heavily weighted. Although the Soft / Agency performance metrics (in red) are most popular (see previous section), they are rarely individually weighted as strongly as medium or hard metrics. In fact the top three metrics in terms of weighting are those which are used almost the least frequently. One theory is that this is because certain metrics are perceived as more niche (e.g. ad scores) and serve to measure one type of result which only a few agencies can deliver or influence. However there is also an argument that the mid-table hard metrics above (market/brand share / sales volume) are those which all agencies should be working towards and therefore should be up-weighted and used more frequently.

10. Case-studies of real life performance components

To help give further perspective on the real-life use of performance incentive components, we have included below some anonymous examples of those reported for three agency types. Each column shows the different weighting of metrics from a handful of members. Darker cells show where weighting is the heaviest.

Creative Agencies	*Examples of performance component weighting*				
Metrics	*Member A*	*Member B*	*Member C*	*Member D*	*Member E*
Sales Volume			11-20%	0-10%	
Volume Growth					
Relative Brand Performance				21-30%	
Composite Performance			11-20%	21-30%	0-10%
Market/brand share	31-40%	21-30%	11-20%	0-10%	
Customer loyalty					
Brand equity			11-20%	0-10%	
Brand profitability				0-10%	
Buying targets					
Advertising Awareness			11-20%	0-10%	0-10%
Brand Image Shifts			11-20%		0-10%
Attitude Ratings					
Ad enjoyment					
Brand personality			11-20%		
Predisposition to buy			11-20%		0-10%
Ad scores			11-20%	0-10%	

Avenue Louise, 166
B-1050 Brussels – Belgium
T +32 2 502 57 40
F +32 2 502 56 66
s.lightfoot@wfanet.org
www.wfanet.org

Persuasion index		21-30%			
Agency Service delivery	21-30%			0-10%	0-10%
Relationship Management	11-20%			21-30%	0-10%
Functional competencies					
Contribution to 'branding'					
Project management			11-20%		0-10%
Administration					0-10%
Thought leadership		0-10%	0-10%		0-10%
Business development and brand strategy	21-30%	0-10%			
Cost Efficiency	11-20%			11-20%	0-10%
Pro-activity		0-10%		11-20%	
Collaboration		0-10%		11-20%	0-10%

Comments: The average number of metrics used across all creative agency performance components is nine. As you can see above, members A & B use significantly fewer metrics than that, and also appear to upweight "Market/Brand share" vs other softer metrics. Member E takes the approach of equally weighting all metrics and using a larger total number of metrics within their component.

Media Agencies	*Examples of performance component weighting*			
Metrics	*Member A*	*Member B*	*Member C*	*Member D*
Sales Volume	21-30%			0-10%
Volume Growth				0-10%
Relative Brand Performance	0-10%		0-10%	0-10%
Composite Performance		31-40%	0-10%	
Market/brand share	11-20%			0-10%
Customer loyalty				
Brand equity			0-10%	
Brand profitability			0-10%	0-10%
Buying targets		31-40%	41-50%	31-40%
Advertising Awareness				0-10%
Brand Image Shifts				
Attitude Ratings				0-10%
Ad enjoyment				
Brand personality				
Predisposition to buy				
Ad scores		0-10%	0-10%	
Persuasion index				
Agency Service delivery	31-40%	0-10%	0-10%	0-10%
Relationship Management	11-20%	0-10%	0-10%	0-10%
Functional competencies		0-10%		0-10%
Contribution to 'branding'				
Project management	0-10%		0-10%	0-10%
Administration	0-10%	0-10%	0-10%	0-10%
Thought leadership			0-10%	0-10%
Business development and brand strategy				0-10%
Cost Efficiency		31-40%		11-20%
Pro-activity				0-10%
Collaboration	0-10%		0-10%	0-10%

Avenue Louise, 166
B-1050 Brussels – Belgium
T +32 2 502 57 40
F +32 2 502 56 66
s.lightfoot@wfanet.org
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Across the performance components reported for media agencies, there is an average of 11 different metrics used. Unsurprisingly, when it is used within a component, "buying targets" is the metric that gets a heavy weighting across these example models (although overall it averages at 25%, slightly lower than the examples above would imply).

Digital & Interactive agencies	*Examples of performance component weighting*			
Metrics	*Member A*	*Member B*	*Member C*	*Member D*
Sales Volume	0-10%	21-30%	0-10%	
Volume Growth			0-10%	
Relative Brand Performance		0-10%	0-10%	
Composite Performance			21-30%	
Market/brand share		11-20%		
Customer loyalty	0-10%			
Brand equity	0-10%		21-30%	
Brand profitability				
Buying targets				
Advertising Awareness				
Brand Image Shifts			11-20%	
Attitude Ratings			0-10%	
Ad enjoyment				
Brand personality			21-30%	
Predisposition to buy	11-20%			
Ad scores				
Persuasion index			11-20%	
Agency Service delivery	0-10%	31-40%		11-20%
Relationship Management	0-10%	11-20%		0-10%
Functional competencies	0-10%			
Contribution to 'branding'				11-20%
Project management	0-10%	11-20%		
Administration		0-10%		
Thought leadership	0-10%			
Business development and brand strategy				11-20%
Cost Efficiency	0-10%			
Pro-activity				0-10%
Collaboration	0-10%	0-10%		0-10%

Fewer members reported that they are using performance incentive components with their digital & interactive agencies, but despite a smaller pool of data to work with, we have some example models above. Across the performance components reported for digital agencies, there is an average total of 8 different metrics used. Member B has the most balanced model with almost equal hard and soft metric weighting.

Average number of metrics

Across all seven different agency types we covered (full service, creative, digital, media planning & buying, production, PR, BTL) the average number of metrics used within each performance components is nine. As can be seen in the previous examples, some respondents are using many more than that, which prompts questions around efficacy and ease of management.

Avenue Louise, 166
B-1050 Brussels – Belgium
T +32 2 502 57 40
F +32 2 502 56 66
s.lightfoot@wfanet.org
www.wfanet.org

11. Why assessing agency performance is critical

Achieving competitive advantage in marketing communications is a hugely significant component of business success and so picking the right agencies, working with them in the right ways and using the right payment model is crucial. In many cases, a strong agency contribution can make the difference between a brand achieving or not achieving market leadership and all the monetary advantages that come with that.

Advertisers should carefully consider how they pay their agencies and the behaviors they are incentivizing..

We've all heard the adage "What gets measured gets done", which suggests that if you measure the things most important to your business then this is what your people will focus on. When considering agency payment models, the adage should read, "What gets measured gets done, and what gets paid for gets done first" because the payment model is the most powerful lever you have to ensure your agency is contributing effectively to your company growth.

If you believe that using a variable pricing model to pay for agency resource is appropriate for your business (compared to paying a fixed price such as a fee for a given deliverable or a fixed commission) then the variable element of that model must include some assessment of an agency's performance.

The challenge for the marketer is to ensure all your agencies are performing to their best ability and are aligned properly with your business's success metrics.

Assessing agency performance is a critical step in making marketing investment more accountable and improving marketing ROI because it draws agencies away from being budget obsessed towards being more result obsessed.

The process of measuring performance (and the inclusion of the results into a formula for paying your agency) will ensure:

- The agency is doing what it said it would;
- That the quality of work is of an expected (high) standard;
- That the agency will continuously strive for improvements;
- That the agency is more focused on driving your business success.

The fact is that the traditional, one-dimensional payment methods such as commission or fee, on their own do not usually incentivize the agency behaviors that will give advertisers competitive advantage. As advertising becomes increasingly digitized and accountable, there are more and more reasons to use these new sources of data to determine the success of a communications plan and reward the agency/agencies involved accordingly.

12. Why so much talk about VBC?

Many brands are interested in what has been most commonly termed value-based compensation (VBC). It is famously championed by both The Coca-Cola Company and Procter & Gamble and since both are rightly and widely admired as marketers, their approach has been closely watched.

VBC is designed to align the agency's interests more directly with those of its client. Agencies get paid not on the basis of the amount of money they spent or the time they working on a particular brand but for the value they created.

When it launched its VBC approach, The Coca-Cola Company said it recognized that agencies needed to be profitable and healthy but that profits would have to be earned through performance.

The key evolution that VBC introduces is to remove the guaranteed profit margin for the agency. Instead it allows them to "earn" an increased profit margin by creating additional value for the advertiser.

The thinking behind VBC is that agency effort alone (billing for time) doesn't always correlate that well to the value created for the client. Thus simply paying an agency just for its time may not be the most effective way to create good behaviors.

Avenue Louise, 166
B-1050 Brussels – Belgium
T +32 2 502 57 40
F +32 2 502 56 66
s.lightfoot@wfanet.org
www.wfanet.org

VBC can be a highly effective way to incentivize agency behavior and certainly can create a stronger agency / client relationship as both sides share more of the risk and reward. However, it requires brilliant clarity about how value will be defined, measured and reported. With the agency's entire profit being based on these measures, both client and agency have to agree these terms, which can be challenging.

Agencies often point to the wide range of factors that affect value which are out of their immediate control. The definition of value is critical and will be different for every company but agreeing what constitutes value and how it will be measured is vital because without a clear and agreed definition the agency will become less not more aligned to the client goals.

Advertisers need to be aware of the agency concerns around profitability and the impact that later payment can have on a business. Other factors have also mitigated against widespread adoption of Value Based Compensation include the length of the client/agency relationship, the short, average tenure for most CMOs and the trend, especially in creative services to move away from a relationship with a single network agency to create a roster of different specialists, all of whom contribute to ideas and hence communications value.

During the recent economic recession, the convenience of fixed pricing has understandably also been popular. However, as economies recover and companies begin to focus again on topline growth, the importance of rewarding agencies for improving marketing performance and the value they create will encourage advertisers to seek more innovative, variable payment methods.

We expect that those advertisers that offer stronger performance related incentives will attract the best agency talent to work on their accounts, which in turn will deliver competitive advantage in marketing communications. Advertisers able to identify (and prepared to attribute) value contributions may consider implementing VBC as part of a topline growth strategy.

13. Reasons for considering a Pay For Performance (PFP) approach

Advertisers today seek agency partners that fully understand marketing's impact beyond viewers, likes and clicks. The trigger for a new approach can vary from client to client however there are a number of common triggers for a review of an agency payment model and the need to PFP:

1. A change of agency requirements can occur where it becomes apparent that an obvious campaign objective is both quantifiable and can be linked back to an individual agency.
2. For an advertiser that is unhappy with its current agency performance but confident that better incentives in the right areas could improve matters, investing time and thought to implement the right model could avoid calling an agency pitch.

Changes in structure or personnel can unleash a latent desire to introduce some form of performance or value-focused remuneration model.

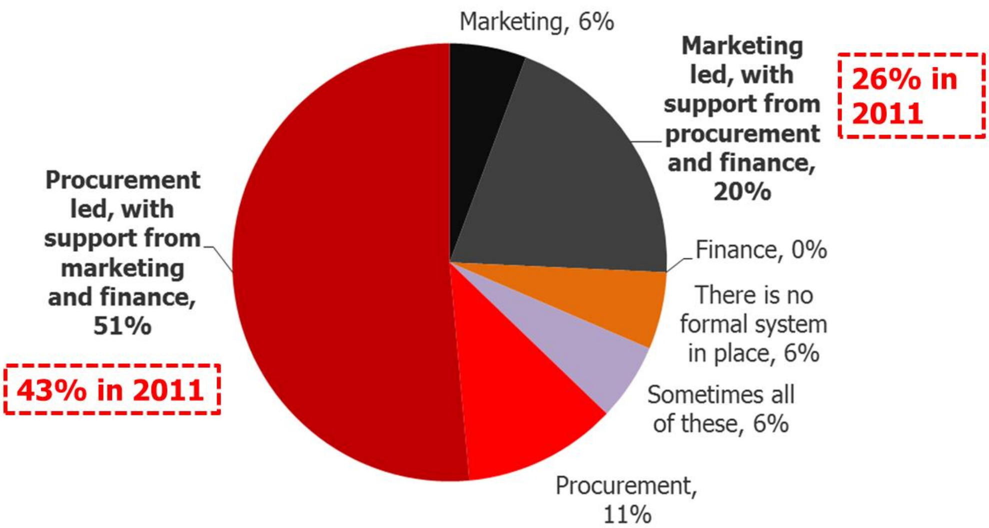
PFP is especially effective at incentivizing media agencies and is a good method for protecting and maximizing media value.

Avenue Louise, 166
B-1050 Brussels – Belgium
T +32 2 502 57 40
F +32 2 502 56 66
s.lightfoot@wfanet.org
www.wfanet.org

14. Procurement involvement in managing agency remuneration

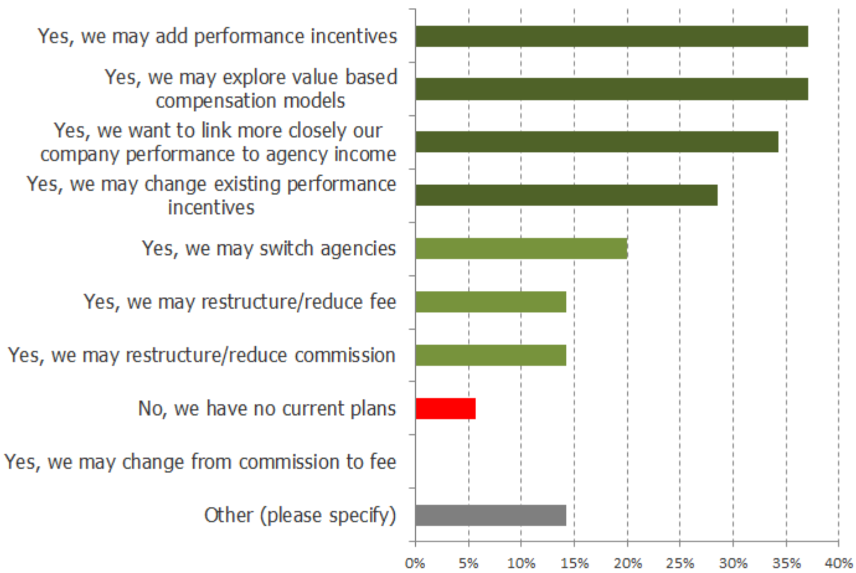
Agency remuneration model management is one of the most common ways in which procurement impacts on the way marketing budgets are spent. This section looks at how procurement is working in this space.

The chart below shows responses to the question: "Who in your organisation takes the lead in reviewing and implementing changes to agency compensation models?"



Comments: 62% of respondents say that procurement leads their agency remuneration implementation. A total of 26% say this is the responsibility of marketing. We have included data from a similar survey we conducted in 2011 to highlight the growing influence of marketing sourcing in this area (we asked exactly the same question to procurement directors). Procurement leadership is up from 43% in 2011 to 51% in 2014. Marketing leadership here is down from 26% in 2011 to 20% in 2014. Given the extent to which procurement teams are covering more and more marketing spend, it seems likely that this is a trend that will continue.

Increased use of performance incentives



This chart shows responses to the question: "Who in your organisation takes the lead in reviewing and implementing changes to agency compensation models?"

Comments: The top four responses all indicate increased use of outcome based remuneration models and the inclusion of performance incentives. A third of respondents are either considering adding in more performance metrics, or making changes to existing ones. This shows the extent to which global marketers are currently examining their models and trying to find ways to make them more oriented towards rewarding great agency work.

Avenue Louise, 166
B-1050 Brussels – Belgium
T +32 2 502 57 40
F +32 2 502 56 66
s.lightfoot@wfanet.org
www.wfanet.org

15. How can procurement get the most out of a P4P model?

Agency payment approaches are often made up of lots of different components and can quickly get complex and unwieldy. Typically procurement are better skilled to negotiate and manage the quantitative elements of a remuneration agreement whilst marketing might be more adept with the qualitative elements.

Where PFP fails to work effectively it is usually because Procurement and Marketing don't share the same understanding of the purpose of agency payment and haven't agreed how to manage the agency control levers.

However, where marketing and procurement can agree on some shared levers of agency control, this fosters better understanding of objectives and gives the agency one aligned client, which always produces better work.

Agency remuneration is an area in which great collaboration between marketing and procurement is not only possible but also very productive when it works well.

Best practice is for procurement and marketing to collaboratively agree the elements to include and then agree which elements procurement are best suited to manage and negotiate and which elements are better managed by marketing.

Marketing and procurement should work together to decide the following:

1. Which model is right for us?
2. Which components / levers will create the right agency behaviors?
3. What will be the metrics of success we should focus on?
4. How will we measure these things correctly?
5. Who will take responsibility for negotiating them and then managing reporting from the agency?

The chances of success also increase when the agency is being evaluated and paid according to goals similar to those that the client teams themselves are trying to hit. Where procurement and marketing have some common goals, agency payment should be aligned more to these areas to avoid confusion and conflict.

Key Procurement agency payment levers	Key Marketing agency payment levers
• Commission • Salary costs (versus a benchmark) • Profit margin • Agency Overhead • Transparency / Rebates	• PRIP / Bonus (focused on metrics around service, strategy, buying, business) • Agency service / performance evaluation • Fee vs. scope of work delivery

Avenue Louise, 166
B-1050 Brussels – Belgium
T +32 2 502 57 40
F +32 2 502 56 66
s.lightfoot@wfanet.org
www.wfanet.org

16. How to evolve from a "single lever" commission-only model to a "multi-lever" performance model (a staggered three-year plan)

The following is an example of a typical client journey:

Where we are now?

Paying for the agency by commission is convenient because it wraps up all resource into a single number, which each year can be negotiated downwards slightly by people who don't need to know too much about marketing, media or value. Commission is understood internally because it is one, simple lever.

Where do we need to get to?

We should be identifying a more responsive set of financial control levers, which can be shared between marketing and procurement and allow both to meet their obligations whilst correctly incentivizing the agency to deliver against the right KPIs for the business.

How do we get there?

It’s certainly true that changing agency payment models is not easy. There is a lot at stake; it requires marketers to be more specific about what output or outcomes they want and so this is something that needs to be considered carefully.

It requires good alignment on the client side across a stakeholder group who may view agency payment in very different ways. If you have a marketing department that looks at agency fees as an investment in people for growth and procurement that sees agency fees as a cost to the business, the desire to evolve payment may take them down different paths.

The challenge is to identify how both perspectives can benefit from an approach that makes the most sense for the business. Simplicity is key; whatever specific payment model is implemented, it is critical that every stakeholder (marketing, procurement and agency) clearly understands the components of the model, what metrics are used and how things are being calculated.

The final element in the process of change is that agencies have confidence and trust in their clients to pick the right metrics, evaluate them fairly and actually pay up when the bonus is due.

Moving to a performance model should normally be an evolution rather than a single giant leap. If you have a short-term agency agreement, for example if your agency contract is less than two years or unlikely to be renewed, then there is little point fully implementing a plan to evolve to a PFP model.

This is a process that takes time to implement and for the benefits to feed through so ideally you should want to evolve with an agency that you expect to be partnering with for some time.

This schedule for implementation should be slow, steady and include all stakeholders (marketing, procurement and agency) across at least two years with a clear plan of how the model will evolve each year to continuously improve the sophistication of metrics and measurement and thus performance. For short-term contracts, consider an agency bonus for the short-term delivery requirement such as completion on time, to budget etc.

Avenue Louise, 166
B-1050 Brussels – Belgium
T +32 2 502 57 40
F +32 2 502 56 66
s.lightfoot@wfanet.org
www.wfanet.org

Three-year plan example for advertisers moving from a commission or fee only focused model to a Pay For Performance (PFP) approach:

Year One (commission / fee + bonus)

In Year One, retain commission or fee to cover the agency resource and scope delivery but agree with the agency an end of year bonus to be paid based on one or two very simple performance KPIs such as a service evaluation or cost control.

Year Two (salary + overhead + some performance bonus)

In Year Two you should try to remove all commission-based elements where feasible and the agency should be providing a transparent, detailed resource plan with named resource in the more senior / influential positions. Salary costs should be identified and overhead separated out. The PFP element should be evolved to include performance elements (made up of soft, medium and hard metrics and ensure that the hard metrics are making up at least 20% of the agency's total income. Advertisers will also need to invest in robust measurement methodologies (in consensus with the agency) to track the agreed metrics in an objective way.

Year Three (emphasis on improving performance metrics)

If successful so far, the model can now be evolved further to place greater emphasis of agency income on a blend of performance metrics. This needs to be implemented in close partnership with the agency and may include more complex data sources such as predictive modeling, attribution or econometrics if relevant. With time the metrics of agency performance can be more closely aligned to the advertiser's business KPIs. A client/agency relationship with a commitment to continuous incremental improvement means that performance can be tracked over time and ultimately the agency rewarded largely based on improvement.

The ultimate agency control lever though is not just the agency potentially losing its profit but, after a run of poor performance, potentially losing the client altogether. It is this macro-risk that makes performance measurement so powerful at driving the right behaviors. The agency will always want to maximize its income in the short-term and retain their clients for the long-term.

Regular reporting

At the heart of the incremental improvement that clients want to create is regular reporting. All stakeholders but especially the agency must have access to this data so that they can adjust and improve each period. Ideally this should be calculated quarterly to give the agency time to address issues and correct course. Simply doing deep dive performance reviews once a year is ineffective because it doesn't allow improvement to be made in a timely way.

Avenue Louise, 166
B-1050 Brussels – Belgium
T +32 2 502 57 40
F +32 2 502 56 66
s.lightfoot@wfanet.org
www.wfanet.org

17. Ten pieces of PBR best-practice advice from WFA members

A combination of improving economic conditions in most markets and increased scrutiny over the way companies invest in marketing will lead to more advertisers considering performance related remuneration models when hiring agencies.

There is a natural trend for agency suppliers to work more closely to the same performance KPIs as their clients. Making an agency's performance more accountable as part of a client's marketing success will lead to better organized agencies, that can operate faster, leaner and more effectively to deliver the business results brands are seeking. Those agencies that are more naturally disposed to think and behave entrepreneurially by being paid for their performance will increasingly be the ones that advertisers ask for strategic thought leadership because they can act more like a business partner than a supplier.

On the client side, a better, collaborative understanding between marketing and procurement will have a huge impact on how effective the agency are allowed to be. However advertisers need to ensure that they are fully aligned before trying to implement any performance or value related payment models with their agency suppliers.

WFA members recommend the following best-practice advice:

1. **Start with the basics.** Don't try to create any new business models until you have the foundations in place. That means competitive agency rates and transparency on costs with your agency. Then other models can be built from understanding these fundamentals.
2. **Get senior marketing, procurement and finance stakeholder support**. PBR models can impact the profitability of your relationship with the agency and this can change more the just the financial dynamics. Likewise, contracts and SLAs need to be changed to reflect progression within remuneration models.
3. Develop relevant KPIs with the agency and **make them measurable**. Then make sure you measure them. Don't confuse poor brand performance with poor agency performance, as it is often easier to blame your agency than look internally for faults or shortcomings. Ensure fairness.
4. The PBR component ratio needs to be **big enough to motivate the agency**. There should be the possibility for the agency to achieve extra profit, otherwise the PBR won't be attractive but in fact actually demotivating.
5. **Link agency bonuses with your own key business performance indicators** (i.e. market share). Aligning to your company objectives can only bring agencies closer to your business, which is where they need to be to do their best work.
6. Keep it simple and **don't over-complicate**. The easier it is to understand, the easier it is for both client and agency to get on with the business of creating exemplary work. Keep a track of the different metrics being used and the resources needed to measure them (e.g. where does the data come from? And by when?). Ask your agency what they want to be measured on and make sure they are fully bought-in.
7. Every performance based remuneration model should ensure it is designed to **help make agencies work better together**. Agencies should be incentivised to do this.
8. Be conscious of **what models you are using**. Different schools of thought suggest you should either use the same models for all of your agencies, or use different ones depending on what service that agency is providing. Whichever option you choose, make sure it is deliberate and done for a reason.
9. **Consider the "what-ifs".** Example: if the target is 100, what happens if the agency gets to 99.5? What happens when the scope of work changes for the third time? Have you budgeted for the agency meeting 100% of their potential earnings? Etc.
10. **Clients should want agencies to be profitable businesses** that attract great talent. Understanding that agencies need margin and profit in order to be run effectively is vital. However, marketers should not shy away from requiring transparency within cost structures and getting robust external benchmarks to be able to compare costs.

Avenue Louise, 166
B-1050 Brussels – Belgium
T +32 2 502 57 40
F +32 2 502 56 66
s.lightfoot@wfanet.org
www.wfanet.org

18. Contacts

To find out more information about **WFA** please visit www.wfanet.org. For further research on global agency remuneration and the work done within our SOURCING**FORUM** (for global marketing procurement specialists), please contact Steve Lightfoot s.lightfoot@wfanet.org. To learn more about **ID Comms** visit www.idcomms.com or contact Tom Denford: tom@idcomms.com

19. WFA Competition law compliance policy

All WFA benchmarks, survey results, agendas and minutes are reviewed by Lovells LLP, our competition lawyers.

"The purpose of the WFA is to represent the interests of advertisers and to act as a forum for legitimate contacts between members of the advertising industry. It is obviously the policy of the WFA that it will not be used by any company to further any anti-competitive or collusive conduct, or to engage in other activities that could violate any antitrust or competition law, regulation, rule or directives of any country or otherwise impair full and fair competition. The WFA carries out regular checks to make sure that this policy is being strictly adhered to.

As a condition of membership, members of the WFA acknowledge that their membership of the WFA is subject to the competition law rules and they agree to comply fully with those laws. Members agree that they will not use the WFA, directly or indirectly, (a) to reach or attempt to reach agreements or understandings with one or more of their competitors, (b) to obtain or attempt to obtain, or exchange or attempt to exchange, confidential or proprietary information regarding any other company other than in the context of a bona fide business or (c) to further any anti-competitive or collusive conduct, or to engage in other activities that could violate any antitrust or competition law, regulation, rule or directives of any country or otherwise impair full and fair competition."

20. About ID Comms

ID Comms is a leader in global media governance and marketing change strategies. The company provides ambitious international brands with the strategies, processes and tools they need to improve the value of their investments in media.

Experts in the media value chain, ID Comms understands where value is created, lost and hidden.

Key service areas are:

- Media management and governance processes
- Media transformation / Change management
- Agency search & selection
- Agency remuneration models, scope of work and contracts
- Media value and performance measurement

ID Comms was founded in 2009 by global media experts David Indo and Tom Denford, who both left senior executive roles: Indo was previously a regional media director at Nike and Coca-Cola, Denford was previously Communications Planning Director at JWT New York and then Global Head of Communications Planning at Aegis Media in London.

Marketing leaders increasingly need expert guidance in managing media in an age when the media market is growing ever more complex and media agencies are becoming more powerful in controlling media value delivery. Hence ID Comms provides independent, expert consulting and works closely with marketing teams to design and implement change to improve media performance.

ID Comms works with leading brands across most categories: The company is headquartered in UK and has regional offices in key markets to service regional clients.

Avenue Louise, 166
B-1050 Brussels – Belgium
T +32 2 502 57 40
F +32 2 502 56 66
s.lightfoot@wfanet.org
www.wfanet.org