Agency Remuneration

WFA CMO Spotlight

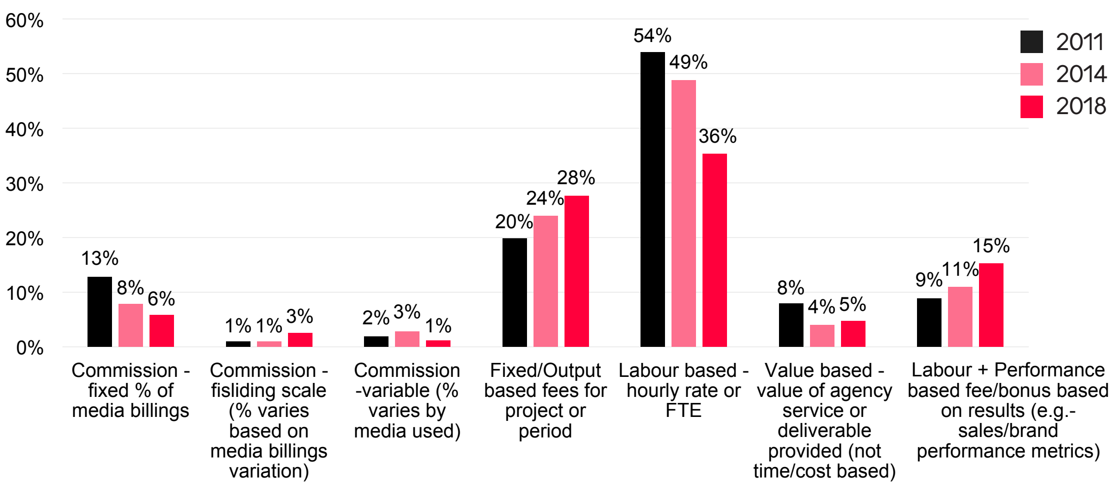
In this, the first of the WFA's CMO Spotlight reports, we share topline insights on how Global Agency Remuneration is evolving, based on two recent WFA surveys with Marketing Procurement and Media members.

Summary

19% drop in remuneration based on FTE	Agency remuneration models have undergone significant change, with a shift away from full-time employee (FTE) models for both Media and Creative Agencies. There is an evolution away from single media agency partnerships to more mixed networks, and more in-house teams handling biddable media.
82% support for PBR	Performance-Based Remuneration (PBR) is perceived to add value, however there are substantial challenges with implementation, largely due to complexity and a lack of detail upfront on the scope of work.
87% satisfaction with overall value from agencies	While most respondents feel that they get value from agencies, there is still tension around a lack of transparency. However, many expressed frustration that there is too much focus on remuneration, which is felt to undermine the quality of agency relationships.

Key Findings

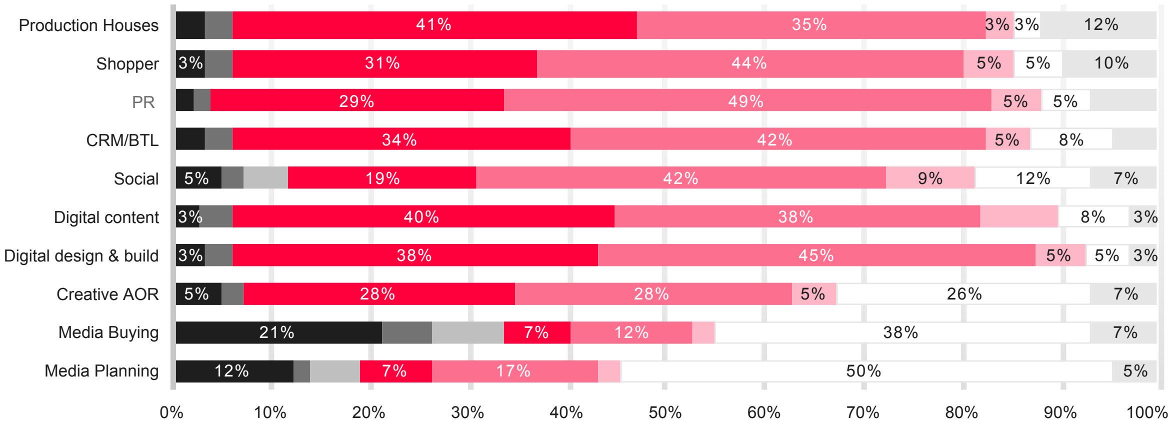
1. There are significant changes with agency remuneration models, especially for Creative and Media agencies, with FTE making up on average just 36% of remuneration, down from 54% in 2011.



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

However, FTE is still the predominant model overall, with commission-based still the most common model for media buying. Overall there is no 'one-size fits all' approach, with different models for different types of agency and client structure.

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



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

Commission - fixed % | Commission - variable** | Labour based | Labour + Performance
Commission - sliding* | Fixed/Output (project) | Value based | Other

*% changes based on media billings variation. **% varies by media used

a. Media Agencies saw the biggest changes, with FTE models down from 44% in 2014 to 14% in 2018, and a dramatic increase in PBR, now at 44% of remuneration. Creative agencies have also experienced a significant move away from FTE, down from 65% in 2014 to 49% in 2018, towards output-based fees. 44% of Procurement respondents say there is more value to be delivered on Creative so expect further changes in 2019.

b. Media cost benchmarks tend to be based on translating the total cost of service into a percentage of total media spend – with ranges from c. 3% for offline media to 18% for programmatic. However, the concept of 'value' is shifting from cost to other areas, with 86% of respondents agreeing that they are 'looking for new ways to extract value from agencies' around planning, insight and strategy.

Media Agency Remuneration Report

2018 by region	Europe	LATAM	US/ Canada	APAC	China	GLOBAL aggregate
Media strategy & planning	4.6%	3.2%	4.8%	3.0%	3.3%	3.9%
Offline media (exc OOH)	3.9%	4.6%	3.7%	3.0%	3.2%	3.7%
Out Of Home	3.4%	2.2%	2.3%	2.4%	2.3%	2.6%
Traditional digital (e.g. insertion order)	7.0%	5.8%	6.1%	7.6%	6.5%	6.6%
PPC	7.4%	5.5%	6.7%	5.5%	5.8%	6.3%
Programmatic (Technology)	9.1%	7.1%	7.7%	8.7%	7.2%	8.1%
Programmatic (Management/Servicing)	9.1%	7.7%	8.1%	7.8%	8.1%	8.4%
Total Programmatic	18.1%	14.9%	15.8%	16.5%	15.2%	16.4%

Irrespective of the actual remuneration model you use, if you were to combine ALL media planning and buying remuneration costs (fees/ bonuses etc.), for the past 12 months, what would this EQUATE to as a percentage of your NET annual media expenditure for the following media?

c. There is a move away from single network media agencies, currently used by 42% of respondents, towards mixed networks, and this is set to accelerate. There is also an increase in in-housing, with 68% saying they will bring more biddable media in-house over the next 3-5 years. However, 40% of respondents believe in-housing is a 'false economy', and members who have engaged on this path report challenges such as identifying and retaining talent. When asked about intentions towards Management Consultancies as media/digital partners, there is considerable scepticism with 52% saying they would not be comfortable adding them to a media pitch list, although 26% say they would.

d. One important point on Media Agency contracts that's worth checking – Ebiquity findings from over 300 contract compliance audits showed:
   - 29% of Media Contracts were unsigned;
   - 32% had insufficient audit rights;
   - 59% had insufficient rebate return clauses.

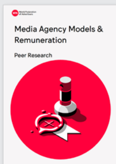
2. PBR is perceived to add value, with 82% of respondents supporting linking agency income with performance, although PBR is still only a small element of remuneration at less than 20% for 80% of respondents. There is no consensus on best practice methodology, which may depend on the trackability of value. There are substantial challenges with successful implementation of PBR, in particular from a lack of clarity on the scope, with only 31% of Procurement teams reporting they receive sufficient detail in time from their Marketing counterparts. This can lead to conflict when the actual needs are eventually briefed to the agency, often too late for either resource or financial changes. If organisations continue to expand PBR, and 81% of respondents reported this is planned, then optimising the process and input for a detailed SoW negotiation may need further focus from Marketing leadership.
3. There is a high level of claimed satisfaction (87%) with the overall value that agencies deliver, yet room for improvement is identified on social, digital and creative agencies. The lack of transparency continues to create tension with less than half believing they have sufficient transparency, and 70% reporting they don't have visibility on what's included in the agency overhead. This will undoubtedly be an area for CMO intervention in top-to-top discussions with Agency leaders, or as a pre-requisite to agency pitches. The Media Remuneration report includes recommendations on how to address transparency. There is an underlying tension however as we evolve agency models, over half (52%) of respondents expressed frustration that there is too much focus on remuneration which is felt to undermine the quality of agency relationships.

Food for thought

It is a universal truth that the best talent within an agency is assigned to the clients who are willing to pay for it. Given that agency remuneration only makes up a small percentage of overall marketing investment, the question facing Marketing Leaders is how much they are willing to invest in agency partners as a driver of growth. Finding the balance between cost efficiency (bottom line) and agency effectiveness (topline) will be an ongoing challenge.

Further insights and charts can be found in the full reports available at wfanet.org/knowledge:

The Marketing Procurement report >



The Media report >

Background

- The surveys ran in Q3 2018, amongst Marketing Procurement and Media members. Some comparisons have been made to similar studies in 2011 & 2014. The questions are consistent, but the samples differ, so should be used for indicative purposes only.
- 42 different advertisers took part into the Sourcing study, representing 14 sectors. 51 advertisers took part in the Media Remuneration study, representing 15 sectors.