

“6 Best Practices for Managing Digital Agency Fee Costs, Process & Performance”

By Arthur Anderson & Daniela Raggetti

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Over the past year, major moves have been made to articulate Best Practices for managing digital agency fees by the marketer. On the other hand, there is still other measurement work that remains to be done, particularly in measuring business results. At the ANA’s recent conference in New York on Digital and Social Media, attended by Morgan Anderson as advertising agency compensation consultants, it was clear that effective metrics and methodologies for measuring positive impact on sales and ROI in the digital area remains work-in-progress.

While the ROI challenge is being sorted out in the digital industry, one can move forward, however, and focus on managing digital agency fee costs, processes, and performance. Over the past year or so, innovations for benchmarking and evaluating digital agencies have evolved for marketers to use.

Best Practice “musts” that we have worked out for marketers follow. These apply both to existing agencies and during a digital advertising agency search. Case examples will be provided in subsequent issues of Morgan Anderson’s e-mail “Perspective”.

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1. Digital Hourly Rate Benchmarks. Importantly, the traditional ad agency compensation “inputs” methodology [where inputs = salary + overhead + profit = multiplier], although useful, is not best for managing digital agency compensation. Hourly rate benchmarking is a preferred approach because:

- *All of the 90+ job positions for a major digital agency are now specifically defined for the industry by Morgan Anderson and can be benchmarked for digital agencies*
- *Digital hourly rates are now fitted in accepted industry ranges and are straightforward as well as accessible*
- *Digital hourly rates can now be benchmarked with confidence given the private and public body of work now available*
- *Digital agencies prefer hourly-rate discussions and can provide greater transparency for this approach*

However, as secondary support and backup to hourly-rate assessments, a marketer can (and should) use backup data points using a traditional advertising multiplier “inputs” methodology (inputs = salary + overhead + profit = multiplier). This gives additional support to managing digital agency fee costs, process, and performance.

2. Fee \$ Cost Per Deliverable (Output). 80% of a digital fee is comprised of recurring deliverables. The other 20% are strategic or one-offs. With a methodology set in place, these fee costs can be defined, compared, and benchmarked over time. This type of benchmarking provides yet another data point for managing the digital agency relationship.

3. Precision Digital Scope of Work (SOW). The more specific, the better. A Best-Practice SOW can easily run 12 to 15 pages. The absence of specifics in a SOW is often the Achilles Heel of a digital agency relationship. Consider these building blocks we used in one case study:

- *Strategic Focus*
- *Required Creative Content*
- *Itemized Deliverables (Outputs)*
- *Agency Performance Measurement*
- *Priority Ranking*
- *Complexity Ranking*
- *Timeline*

4. Digital Fee Transparency. This is for the marketer’s use comparing digital agencies to benchmarks, future SOWs, and to multiple digital agencies. This can now be done and should cover metrics such as:

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- *Fee \$ Cost Per Digital Deliverable (Output)*
- *FTE Per Deliverable*
- *Fee % Commission Rate Equivalent*
- *Value Based Compensation*

5. Industry-Acknowledged Staffing Plan Definitions. Another Achilles Heel. Until recently, virtually no work had been done on defining digital agency positions to industry standards that are conformed across the agency spectrum. This has now been done. There are now 90+ digital functional job positions that have been put to the test so digital agency fees can be benchmarked in terms of \$, FTE, etc. *Importantly, the rates for the same job position at a digital agency versus advertising agency do not differ materially.*

6. Talent Type/Seniority. If the view that senior talent is best AND is a correct assumption (it usually is), ranking and evaluating agency talent by type and seniority provides a useful insight into managing digital agency fees.

Should you wish specifics of the study or to learn more, please email Lee Anne Morgan at lamorgan@morgananderson.com or Arthur Anderson at aanderson@morgananderson.com.