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Pioneering Agency ROI Solutions For Marketers Worldwide

# "Benchmarking & Brokering U.S.A. & Global Agency Compensation"

By Arthur Anderson & Lee Anne Morgan

## A Morgan Anderson "Best Practice" Series

### THE BACKSTORY

When American Express engaged Morgan Anderson in 1994 to conduct a year-long assessment of global agency fees, they said, if successful, it would be the first time a viable methodology for benchmarking, assessing, and brokering global agency fees was fully accomplished. In the early 1990s, American Express, along with other global marketers, had failed to attain goals in this area. True, commission arrangements were applied globally, but understanding and negotiating fee arrangements for global agencies was a new challenge for marketing and procurement given **1)** the need for an acceptable methodology that could be applied consistently year-to-year to every market, and **2)** the lack of agency transparency, especially under the commission and hourly rate systems.

The American Express goals were to: ***a)*** *analyze agency staffing, economics, and compensation in 40 countries across all regions, and* ***b)*** *develop strategies for brokering a single global methodology applicable to all markets, agencies, and agency offices.*

In the collaboration between American Express, its three agencies, and Morgan Anderson, a solution was created that has evolved over the years into a best-in-class approach to global agency compensation for negotiations across ***all*** marketing service types as well as other kinds of professional service firms. Today, with the addition of other advances such as real-time benchmarking, best-practice Scope of Work models, and value-based approaches to compensation — and with transparency now expected by all marketers — global fee arrangements are readily determined. Even a single global multiplier can be devised, negotiated, and applied to all countries for a global agency.

**Benefits:** Aside from high value-add marketing as a client performance objective, our experience in assessing and restructuring global compensation is that **agency efficiency savings can range from 5% to 15+% of U.S. A and Global fee spend.**

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### WHAT THIS PAPER COVERS

In this paper we outline two of the key drivers for several process steps needed to analyze, construct, and broker global compensation arrangements:

**1.** Determine, analyze, and benchmark agency economics by country market (Chart A.)

**2.** Development of a customized, best-practice Scope of Work by market (Chart B.)

This paper derives from actual assignments; **not** from trend data, or industry surveys. Many marketer and procurement professionals use survey and/or advocacy benchmarks to select a specific number they wish their agency to meet, requesting their agency's data conform to it. This is not a prudent formula to follow for it will not yield the 'best and right' results for the marketer or its agency. **Importantly, it does not provide the "tool kit" of facts and data with which to broker the right fee with an agency, whether global or a single office. The process we recommend, after two decades of continuous and rigorous refinement, is to investigate the agency's economics and then place those findings in the context of experiential data that has met the reality of client negotiations with their agencies.**

## A. U.S.A & Global Agencies

### METRICS AS TOOLS FOR NEGOTIATION

Two of the fact-based metrics we utilize as tools for developing global fee arrangements are **Overhead Rate** and **Profit**, culminating in a Multiplier, or single fee. These enable a marketer to construct **1)** a single multiplier and fee for each country or, if desired, **2)** a single fee and multiplier applied across all markets globally, provided weighting adjustments are made for fee spend in each market. Agency salaries (as the multiplier "base") are separately assessed for each market and globally and vary depending on the methodology definition used, for example, whether benefits are or are not included.

In addition to Overhead, Profit, and Multiplier, other agency metrics that are analyzed and benchmarked include:

- Salaries by position vs. benchmark
- Hourly rates by position vs. benchmark
- Overhead components vs. benchmark
- Payments to parent and holding companies vs. benchmark
- FTEs per staffing plan vs. benchmark
- FTEs by department vs. benchmark
- Fee cost per FTE vs. benchmark
- Senior/junior staffing ratios

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Such analyses can be conducted no matter the compensation methodology, whether annual fixed fee, labor based, commission based, deliverables based, value based, or hourly rate. The same analysis can be orchestrated to make one methodology comparable to another and to serve as a "double blind" approach for negotiations.

## FACTS, TOOLS & BROKERING FEES

One of the insights from Chart A. is the wide variance in metrics market-by-market, as well as variances in what agencies "report" vs. benchmark. It is in the area of "reporting" vs. benchmark that the opportunities for marketers in brokering agency fee compensation reside. The variables are many and complex if a disciplined methodology is not applied.

### Chart A Example: Variables

| Market | Overhead Rate "Reported" by Agency (Average)* | Benchmarks Used for Study Definitions | "Reported" Variance Range [Reported - Benchmark] | Profit "Reported" by Agency (Average) |
|---|---|---|---|---|
| U.S.A. | 1.55 | 1.35 | **+15%** | **16%** |
| Brazil | 1.70 | 1.05 | **+62%** | **5% (not including bonification profit)** |
| China | 1.00 (index) | 1.15 | **-15%** | **11%** |
| France | 2.50 | 1.40 | **+78%** | **20%** |
| Germany | 1.70 | 1.35 | **+26%** | **16%** |
| Hong Kong | 1.35 | 1.15 | **+19%** | **-7%** |
| India | 1.00 | 1.10 | **negative** | **negative** |
| Italy | 2.25 | 1.38 | **+63%** | **7%** |
| Japan | 2.10 | 1.55 | **+35%** | **13%** |
| Malaysia | 1.30 | 1.20 | **+8%** | **11%** |
| Russia | 1.90 | 1.45 | **+31%** | **8%** |
| UK | 2.10 | 1.35 | **+55%** | **18%** |

- **"Base Salary" (excludes social taxes and benefits) and "Total Employment Costs" (includes social taxes and benefits) have been conformed and are represented by index = 100.**

With this approach, not only does a marketer gain a deeper understanding of how specific agencies operate, but it also enhances its ability to broker agency fees based on facts and driven by facts and benchmarks (Chart A.) and Scope of Work elements (Chart B). Other process tools for the marketer's table include:

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- Best practice contracts that include high standards for agency transparency and definitions of client marketing objectives and agency performance
- Qualitative metrics and quantitative metrics that can be used for value-based compensation arrangements
- Potential consolidation to an agency's "best-in-class" country offices that have demonstrated outstanding creative work

## B. The Best-Practice Scope of Work

### FOUNDATION DOCUMENTS

Chart B. illuminates a best-practice Scope of Work (SOW) in schematic form from recent assignments. Development of a good SOW is **an essential foundation for agency staffing and, ultimately, the efficiency of the client's agency relationship.** If a SOW is simply a laundry list of tasks and activities, absent codification, it cannot function as an **effective negotiation and agency management tool for the marketer.** We advise clients to provide substantial detail in a SOW that enable a clear understanding to evolve between client and agency of the needs, performance expectations, and the requirements for agency efforts.

Chart B. is an abbreviated version covering multiple agency offices where the client has defined its SOW in terms of **Complexity, Priority, and Rework Rate**. In addition, specific goals, units of output, and deliverables/projects were indicated in the SOW.

SOW variables differ from client-to-client and from business-to-business depending on objectives, marketing programs, and the category. For global agencies and multiple brands, a schematic format such as the following is useful for the application of the necessary factors and variables. Done correctly, the SOW and benchmarking serve as underlying negotiating tools for the marketing and procurement professionals.

### Chart B. Scope of Work Variables

Chart B. reflects a particular client's variables of **Priority, Complexity, and Rework Rate** for its SOW:

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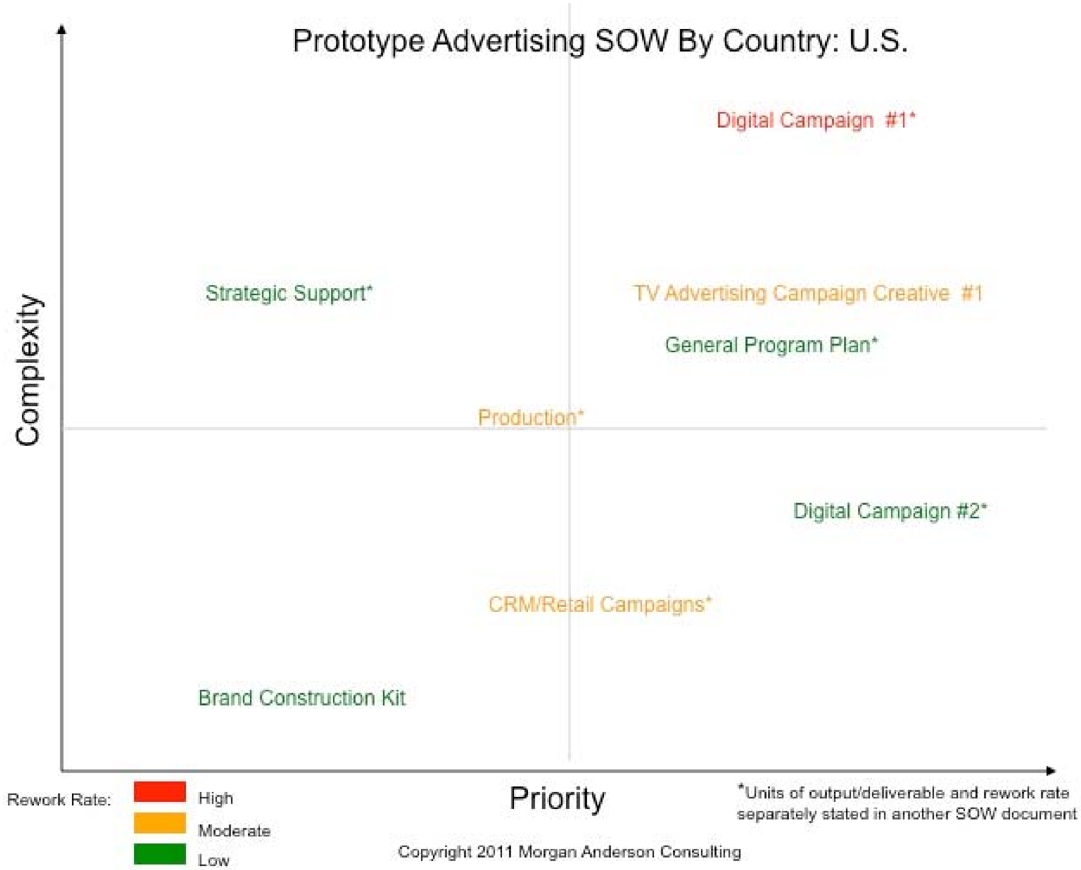


## IN CONCLUSION

Agency compensation approaches can be analyzed, benchmarked, and brokered using a range of fact-based metrics, tools, and strategies. These provide a marketer with the opportunity to **better understand and manage its agency relationship and its agency fee spend in order to determine whether the investment is fair and reasonable or deserves to be re-configured with the agency.** This can be done for global fee arrangements as well as country-by-country. Although effectiveness of marketing programs is a very important goal for global compensation arrangements, likewise is efficiency of fee spend and overall value-for-money in the agency relationship.

At the beginning of this paper, we told the story of American Express and how the collaboration among client, agencies, and consultant served to accomplish the early-on groundbreaking work in the analyses, benchmarking, and development of brokering strategies for global agency compensation. We have since applied this approach to a host of other global marketers. This is not accomplished in a vacuum. Rather, industry benchmarks are critical, client-agency-consultant "collaboration" is essential, agreement on objectives is crucial, and a "willingness" to

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provide transparency, accountability, clarity, and solution-based results for this type of initiative, and for these types of critical relationships, represent a foundation which leads to success.

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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.