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## “New Ways to Benchmark Digital Agencies | Digital Agency Compensation”

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In the past year, it has become possible to **benchmark** digital/interactive agency fees, staffing plans, economics, scopes of work, and deliverables. This not only provides a handle on digital agency efficiency and effectiveness, but also contributes to developing strategies for agency compensation and performance arrangements that are fair and provide value-for-money.

Trends below were developed using Morgan Anderson proprietary data followed by Case Examples derived from actual Morgan Anderson assignments across multiple marketer clients.

### TRENDS

Marketers are re-balancing their advertising spend more and more towards digital channels. Zenith Optimedia projects U.S. Internet spending to increase to 13.1% of total spend in 2010 and 17.1% in 2011. Internet spending as a percentage of total U.S. ad spending increased from 6.0% in 2005 to 16.6% expected in 2010.

USA	ACTUAL				PROJECTED		
	2005	2006	2007	2008	2009	2010	2011
<b>Internet % of Total Advertising Spending</b>	6	7.1	9	11.4	14.3	16.6	19.4
<b>Internet Spending % Growth vs previous year</b>	12.7	22.8	26.1	16.6	13.4	13.1	17.1

Zenith Optimedia, Ad Expenditures Forecast 2009

The main reasons for the continued expansion in our opinion are:

- Many marketers find Internet ads more measurable than ads in other media and, today, measurable criteria are preferred, particularly when budgets are tight.
- Internet ads are seen as delivering behavioral, demographic, and regional targeting and this means more efficient spending.

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- Marketers continue moving a greater share of spending online to more closely match the increasing time people spend there (especially younger audiences).
- The internet offers speed and flexibility to respond to changing advertiser needs and spend and is particularly appealing to cash strapped companies.

Growth within Internet channels is uneven given video advertising, for example, is still rapidly gaining ad dollars, while marketers will spend substantially less on static display ads (banners) in 2010 than just the year before.

It is well for a global marketer to keep in mind the variances between regions that Internet spending is as a percentage of total spend and how this is expected to change ...

- Zenith Optimedia projects that in 2009 U.S Internet spending overtook Western Europe as a percentage of total spend.
- By 2011, both U.S. and Asia Pacific are expected to exceed Western Europe as percentage of total spend.

**% OF ADVERTISING SPENDING - INTERNET**

BY REGION	ACTUAL				PROJECTED		
	2005	2006	2007	2008	2009	2010	2011
US	6	7.1	9	11.4	14.3	16.6	19.4
Western Europe	5.3	7.9	10.5	12.7	14.5	15.1	16.0
Central & Eastern Europe	1.2	1.8	3.3	4.2	5.5	6.2	6.9
Asia Pacific	5.9	7.7	9.8	11.7	14	15.3	16.2
Latin America	0.9	1.2	1.6	2	2.3	2.5	2.7
Total	5.3	6.8	8.6	10.4	12.6	13.8	15.1

Zenith Optimedia, Ad Expenditures Forecast 2009

**CASE EXAMPLES**

Below are from recent digital agency assignments which have been sanitized:

**1) Conforming Digital Job Definitions.** A key to benchmarking digital agency economics is to conform definitions of digital job positions so they can be benchmarked properly. Job position salaries are, after all, the “base” for traditional labor-based fees.

**For example,** if a Digital Project Manager has a benchmark hourly rate in the range of \$135 to \$149, then for purposes of benchmarking and comparability, the definition of this term must be clearly differentiated from a Senior Project Manager with a benchmark rate of \$160 to \$177, and a Digital Traffic Manager with a benchmark rate of \$124 to \$136.

**To give this aspect of fee assessment granularity, it is now possible to compare 90 digital agency job positions to benchmarks.**

**2) Benchmark Hourly Rates.** Once job positions are defined and benchmarked, it is possible to take an agency staffing plan and benchmark it to hourly rates so an agency's proposed fee can be proposed to benchmark.

**For example,** if a digital agency fee is within + or – 5% of benchmark fee, this is considered fair and equitable and if there is a variance, as is often the case, then discussions with the agency are in order to sort out why, using the variances as guidance.

**3) Benchmark FTEs.** Fee cost per digital agency FTE can also be benchmarked as one means of providing a fee “value”. This can be done by a) agency department, b) client channel, and c) overall.

**For example,** for a client's digital channel, an overall fee cost per FTE of \$218,000 would be a reasonable benchmark for the combined account services, creative, production, research, and planning departments.

**4) Benchmark Fee Cost/Deliverable.** Deliverables for a digital scope of work can be defined as well and reduced to a per deliverable fee cost.

**For example,** an agency's deliverable(s) can be compared to other agencies comparable deliverable costs as a perspective on your agency's value-for-money equation.

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

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