World Federation of Advertisers

Global agency remuneration trends

2022 update

In partnership with:

Observatory International

December 2022

This report includes some references and comparison with:

[2018 Global Agency Remuneration]

[2019 Media Agency Models & Remuneration]

The world today is a very different place to the one that we looked at when we produced our last 2018 report. We were starting to see positive trends in terms of remuneration practices – especially in the perception of agency value for money amongst businesses, and a welcome increase in performance-based compensation constructs. Then the Pandemic hit.

Whilst we saw some ‘short-term’ efforts by clients to support their agencies’ financial position during covid in the early part of 2020, over time and as the Pandemic continued unabated, client focus inevitably turned predominantly on their own business needs and, judging by some of the detailed findings later in this document, agencies were subsequently very much left to their own devices to weather the storm. Clients and agencies alike had to become realistic, park altruistic behaviours and deal with the problems that were closer to home. Survival was a common goal for both parties, each taking the necessary steps to ensure that was the case.

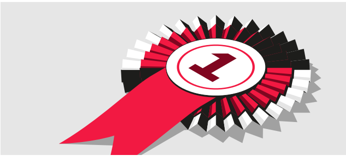
To say this was a difficult period is an understatement. Clients were suffering from extended lockdowns impacting working practices, a surge to get on-line with their offerings, Pandemic supply chain issues, rising costs and a myriad of other issues affecting the day job. Agencies were trying to cope with slashed incomes and a shift to try to find some form of effective remote ways of working in an industry that thrives on its collective and team nature. It was perhaps not surprising that the world had to widely adopt a firm ‘keep calm and carry on’ approach.

Since the outbreak of the Pandemic our perception has been that, whilst marketing has never been under so much pressure from day-to-day challenges, the advertising and communications aspect of their role has been rather less front of mind. It clearly hasn’t been ignored, but the usual levels of focus definitely dropped – certainly in terms of most major new planned initiatives and definitely in terms of agency new business pitches.

So, with all that in the background, it’s perhaps not overly surprising that there hasn’t been a seismic shift in the way businesses were viewing agency compensation when the focus of attention for most clients was elsewhere. The good news is that some of those positive key trends we saw in 2018 have remained – and in some instances increased in the interim period.

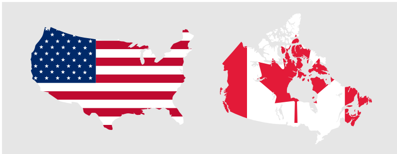
Stuart Pocock
Managing Partner and Founder,
The Observatory International

As you'll see from the report, this new research highlights some good news, and some bad news. We've lived with some of the issues we report on before – and come through the other side. The difference here is that the problem ones are all happening at the same time. Even after a period of turmoil, still apparent in China with their current zero covid tolerance approach, we believe that we are facing a rocky passage over the coming years. And as a result, arguably it's never been more important that the agencies that are highly valued by marketing are kept on-side with appropriate and fair compensation. Because even in the most difficult of times, creativity is the differentiating factor that can keep your brand front of mind with even the most hard-pressed consumer.



+5%

Perceptions of value provided from relationships are up 5% since 2018 by those agreeing most strongly with this aspect, and +19% since 2011.



+7%

Performance-based compensation maintains a steady climb with a +7% increase in global use since 2018, though there's significant 'tailing off' on this approach in North America as a combination of roster complexity and in-housing seemingly making it more difficult to analyse results, which has culminated in a default back to standard fees. We've also seen a significant climb in value-based compensation –against the trend, but we conject that this may bean interpretation of performance-based, rather than true 'value-based'* which so many have struggled with and failed to implement.

Emphasis given to diversity, sustainability, and talent

Evidence suggests that many are also prepared to pay more for diversity, sustainability, and talent. Whist this is very positive, we've yet to see any significant climbs in preparedness to actually implement increased compensation across for any of these, despite ongoing focus across these dimensions – which tend to simply be a requirement. Perhaps this approach is taking time to play through the negotiation cycle.

Positive 'come-back' signs of increased levels of spend may be short lived

Conversely, an overarching trend was a reduction in budgets and a squeeze on payment terms during the Pandemic itself – the former showing signs of improvement as we moved out of covid – the latter not - with many businesses extending payment terms over the last 18 months. Invariably businesses are protecting themselves – but it's a fine line in instances when they are dealing with organisations far smaller than themselves who can ill afford to have payments stretched in a difficult marketplace. And to that point, whilst this report was in the field in the summer of 2022, and there was positive 'come-back' signs of increased levels of spend, the global financial environment has subsequently moved sharply into a less positive place, and we are already seeing evidence of future budgets forecasts falling significantly in the expectation of an extended difficult global trading period ahead.

Further pressure to be applied to client and agency relationships

Whilst clients are, quite naturally focused on their own business needs, few can fail to note the turbulence in the agency world. A significant talent shortage, a workforce largely reticent to return to the office (and the effect that has on delivering quality work), the same rising cost issues faced by their clients, means that great agencies are going to become more selective about who they do business with.

"Remuneration is money or other financial value given in exchange for a service. The role of procurement is to define the right way to structure that exchange, identify the approach that drives the best behaviours and shared accountability for success. With agencies, for example, that means considering payments structures such as hourly rates, deliverable-based, commission and fixed fees, as well as how to balance fixed and variable compensation. It is critical to align how the company buys and how the agency sells; if an agency sells services only by time (hourly rates) and your brand wants to buy a business outcome, the challenge for procurement is how to bring them together in a structure that works for both. Procurement should be the experts on all options, it should consider the business objective and remember to reward and recognise great work."

WFA's Global Sourcing Board

Current perceptions

"The biggest challenge isn't necessarily how much we pay, but often our over complicated system for managing budgets, which has a knock-on effect and can put a strain on client-agency relationships. Agency remuneration is a huge topic, but the actual negotiation of fees is relatively minor compared to the whole financial flow discussion."

Cloe Lowery
Buyer – Marketing,
Nissan Europe

"We would like to implement a sustainability based PRIP but agreeing on how we, and our agency, measure the baseline remains an issue as carbon calculators can vary greatly."

Briony Blyth
Marketing
Operations Lead,
NatWest

Despite post Pandemic global financial issues, overall client perceptions on value for money from agencies are positive

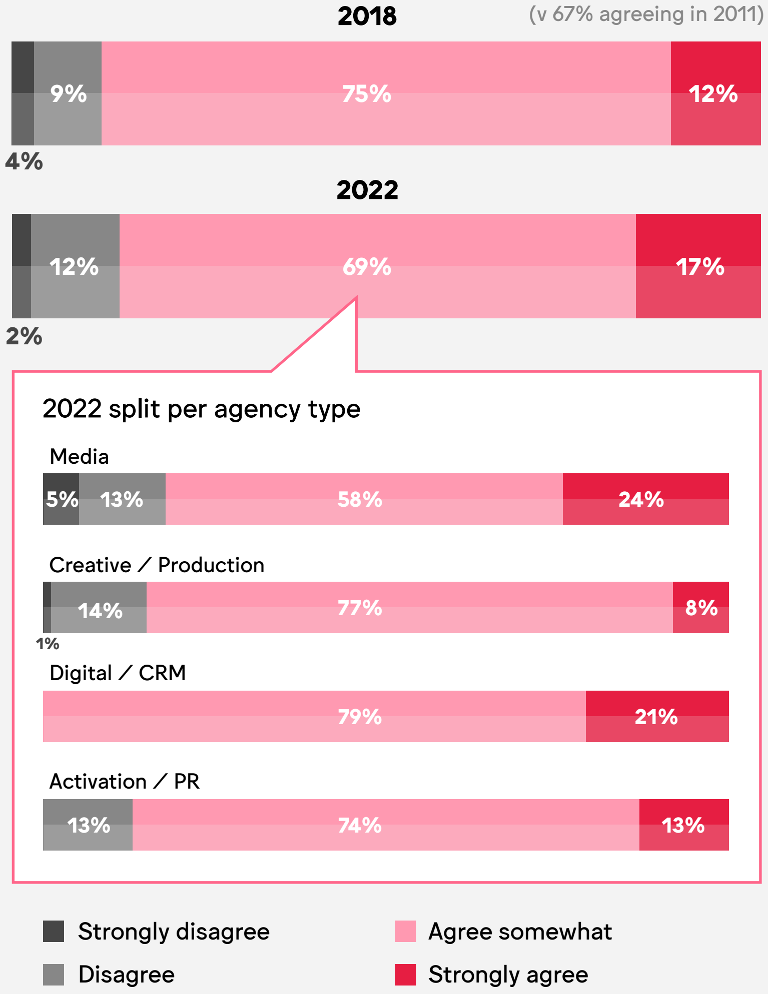
We saw a significant up-tick in value perceptions between 2011 and 2018 as procurement and agencies started to both understand each other and work better together.

And the good news is that status-quo basically remains even though virtually everything else in financial terms has shifted dramatically both during and post Pandemic. Positive perceptions remain broadly similar between 2018 and 2022 with a 5% increase in those who strongly agree they are getting value.

Drilling down however, value for money from media agencies seems to be the most questioned (with 5% strongly disagreeing that they are getting this) – and we've seen evidence of clients feeling that their teams are lacking in original thinking and rolling out the same solutions which has led some respondents to question overall value (rather than performance). Creative, production, activation and PR have similar levels of satisfaction (though little was happening in the activation space during the Pandemic) and, perhaps surprisingly, a unilaterally positive view of value for money in digital and CRM – possibly as a facet of wider experience and increased degrees of dependency during the Pandemic.

The question asked is, of course, about perception - so somewhat open to interpretation. But for those who have a negative view of their agencies value for money there is perhaps a need to understand the basis for this and to spend time drilling down and subsequently correcting issues. No agency goes out of its way to provide poor value.

Q. Do you agree with the following statement:
I feel that I am getting value for money from my agencies



Honest and open discussions between clients and agencies have been needed during and post Pandemic

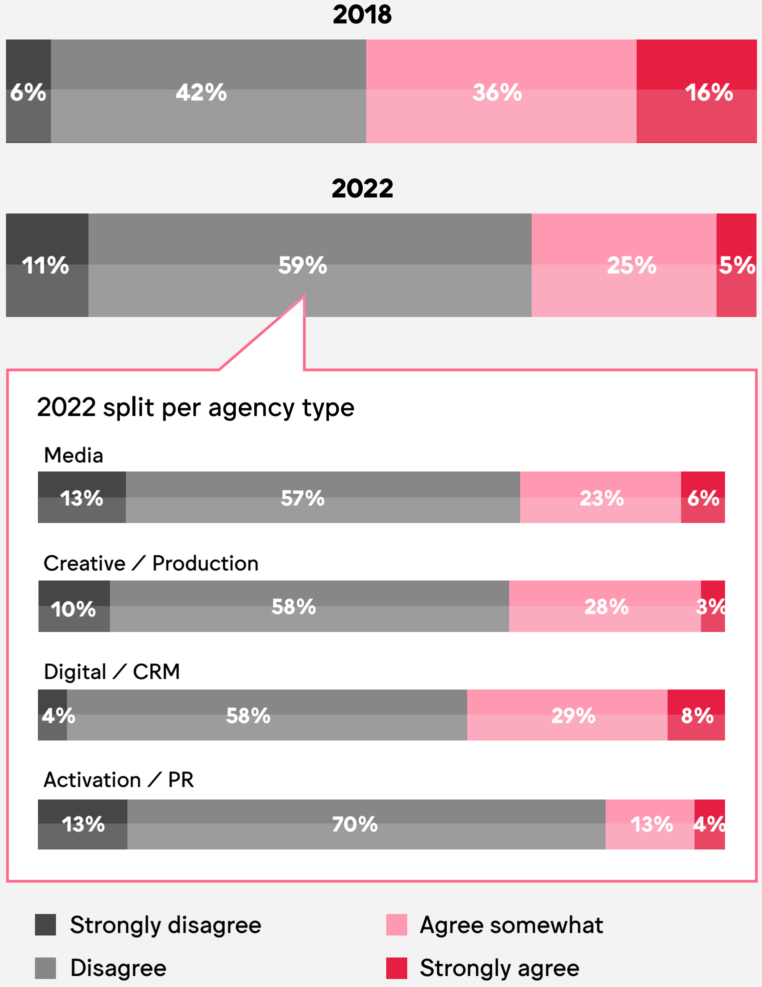
Given that the perception of value for money has moved little over the last four years, and that most seem comfortable with the arrangements, it's perhaps not surprising that many feel ongoing high levels of focus on compensation can be damaging to the relationship.

Certainly, during the early part of the Pandemic, when businesses and agencies took an 'all in this together' stance, we observed, in the main, real understanding of the issues affecting both parties and a meeting of minds to solve issues and short-term financial pressures and ensure the maintenance of positive relationships.

As the Pandemic 'bedded-in' there was recognition that the status quo was unlikely to prevail, and budgets simply had to be cut. The findings would suggest the increased maturity of relationships between procurement and agencies and the recognition that difficult conversations would need to take place.

But given the looming turbulent financial issues that organisations are seeing on a global basis, and the further pressures these will bring to business, it will be interesting to see whether the demands by organisations' finance departments on procurement and the subsequent need to deliver savings will disturb the client/agency status quo.

Q. Do you agree with the following statement:
As client, we focus too much on remuneration and this has a detrimental impact on agency relationships

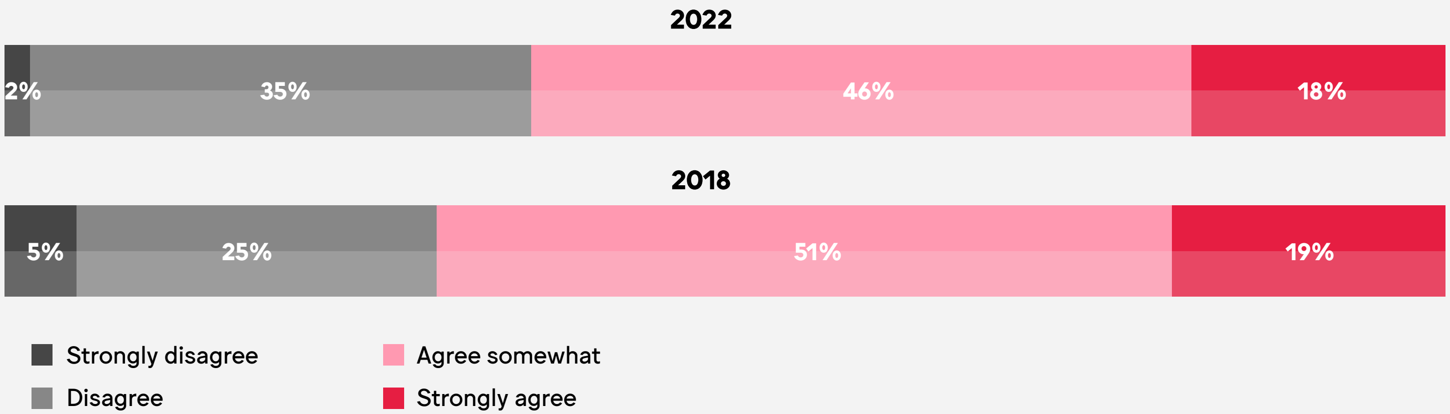


Yet, majority agree that new remuneration models could improve client-agency partnerships

There is definitely a continued sense from some that revised compensation methods can improve relationships. The proportion has diminished somewhat since our last survey, and there is clearly still a latent belief that there could be better ways of compensating agencies. Unquestionably there is always room for improvement (it's clear from the survey data that some have achieved this over the last few years), but in many respects, because the accepted core ingredients for costing remain as cost of employees and the time they spend on business (pretty much regardless of what construct you may have in play), finding a truly innovative methodology is somewhat like searching for the Holy Grail.

That is not to say that different approaches to those that businesses are using currently can't improve partnerships – but all too often, we see it's the ways of working between the parties that are fundamental not only to the relationship but also act as catalysts to financial issues which arise as result of poor behaviours (from both sides).

Q. Do you agree with the following statement: **Changing our current agency remuneration models would improve the relationships that we have with agencies**

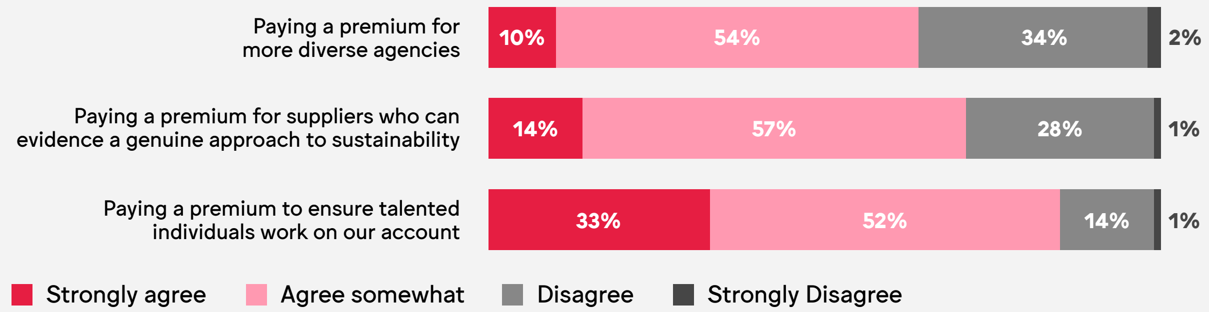


"Client-agency relationship vs partnership: what is the real difference? Clients and agencies investing to move their relationship to a partnership will increase speed, drive shared accountabilities, and deliver joint value via better work, lower total system costs and top-line growth potential on both client and agency sides. Clear alignment on goals and priorities and transparent feedback via deliberate and proactive management is key. Honest, ethical, and fair treatment of all third parties applies whether it is a relationship or a more integrated partnership."

WFA's Global Sourcing Board

Clients appear to value excellence and want to reward it

Q. Do you agree with the following statement: **We are happy to pay...**



Client responses show a real desire to pay more for agencies that can truly differentiate; 64% for greater diversity, 71% for sustainability and a staggering 85% for best talent. That will be reassuring for those agencies who've made significant strides across diversity and sustainability – but in our experience that approach is yet to be reflected, for many, by a preparedness to actually pay these compliant agencies more.

Certainly, there is a desire for agency diversity by global organisations (though there is a recognition that in some markets this can be a real issue). For more locally-based clients, this is often not seen as an issue, regardless of how unpalatable that may be. Quite simply, and whilst never overtly stated, many businesses simply want the best equipped people on the business – and if this ticks the box on diversity, then that's good, but it's not necessarily seen as a crucial issue.

And whilst agencies strive to deliver sustainability (and most certainly have an active desire and approach to this) the reduced outputs of their sustainability policies pale into insignificance in comparison to those that are caused by many of their clients. And as for talent, the reality is that budgets are set, scope is agreed and often agencies simply have to navigate how they staff business to deliver the best possible results. That said, best talent will always go to those clients who are either a joy to work with or are paying the most (or, indeed, both). It has long been recognised within the agency fraternity that the talent follows the value of the business.

That has never been truer that with the current talent shortage. So, businesses need to focus on amount of time that is provided the 'best talent', where they can add greatest value and ensure that budgets are sufficient to guarantee appropriate levels of deployment over time rather than simply assume they'll be there for you 24/7.

"Agencies and talented people who place diversity, inclusion and sustainability at the forefront, should become not the extra but the basics."

Laurent Dailloux
Internal Production Manager – Europe, Nestlé

"Diversity should not necessarily lead to higher cost. It is something that should be common behaviour."

Robert Bennemeer
Global Category Manager Media Procurement,
Heineken

"Diversity and sustainability strategies should be an integral part of any company's strategy, not a unique competitive positioning used to justify a premium pricing model."

Hannah Woodgate
Global Marketing Procurement Category Lead,
Reckitt

Transparency remains an issue though; with media costing models raising the highest concerns

There has been a marginal downward shift in those feeling they lack transparency from their agencies since our last report – but nearly half of respondents still have concerns – with the highest degree of real concern lying in media (11%) even though media overall has a higher percentage of confidence. Unsurprisingly this, in many respects, somewhat mirrors view for those responding to the media question on value for money.

Conversely, 54% of those responding to the digital/CRM discipline had concerns over transparency (yet unilaterally felt they were getting value in our very first question), perhaps suggesting that they were positive about getting plenty of delivery but were unclear on quite what the cost of that really was.

However, overall, it's somewhat disturbing that such a high percentage of respondents still have a level of discomfort over their agencies' costs with little improvement over the last few years. In the main, agencies, over recent years have, we believe, made significant advances in transparency and it is fair to say that they would be concerned if they understood their clients felt this way.

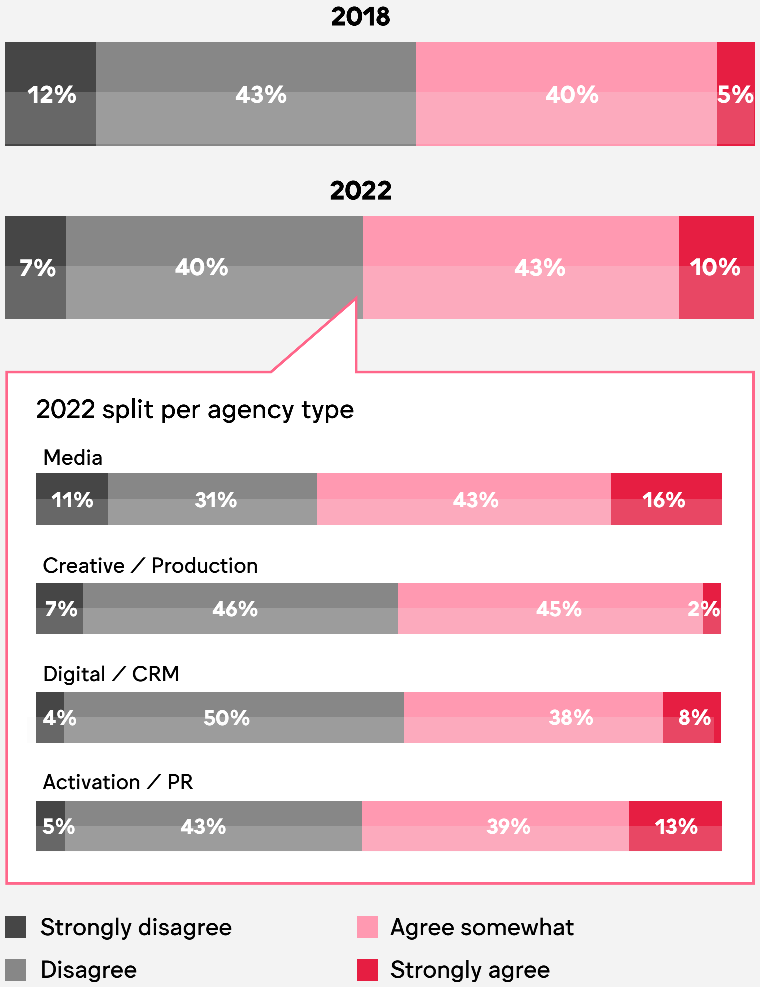
One wonders if many of these issues stem from perceived increases in the cost of assignments once they start to be undertaken. Certainly, we often see these issues arising and being a cause of client complaint. But very often cost increases are down to client behaviours; not being precise in scope, scope creep (which needs to be paid for), poor briefing resulting in re-work or a general lack of understanding on the cost implications of poor and inefficient ways of working.

Unquestionably these have long since been issues that agencies complain about – and given the fact that many of these behaviours continue, this may explain why the degrees of suspicion on costs also remain in play.

Without question, it is easier to monitor individual projects on a one-by-one basis (and therefore have greater perceived transparency) – far more difficult if you are working with multiple agencies in multiple markets on multiple projects. But the way to overcome this is to ensure that you have tight guardrails in place, regular reporting, an effective agency performance monitoring system in place and, most importantly an 'alarm' system in place to flag when issues are starting to arise.

Crucially, getting the right ways of working framework and reporting in place between marketing, procurement, agency account management and agency finance can do much to overcome issues – it may be time consuming to set that model up – but once done it can be applied and monitored across the board to ensure confidence that everything is on track – or warn you if it isn't.

Q. Do you agree with the following statement:
I feel that I am getting full transparency on my agencies' costing models



Primary models in use

"Evolving remuneration models, and for instance moving from hourly rates to deliverable-based pricing requires significant change management, but it's definitely worth it as it promotes agile and efficient ways of working."

Enrique Arceo
Global Media, Content & Partnerships - Team Lead, Sanofi

"For us, a PBR model is a good way to show a true partnership model between the advertiser (us) and the agency, which we believe will drive effectiveness and business growth for both parties. A PBR model motivates the agency to be innovative and generate values continuously, at the same time accountable for the performance. We have been using PBR model with some of our key suppliers, and plan to accelerate & expand in the coming years."

Jessica Kesumah
MARCOM category procurement, FrieslandCampina

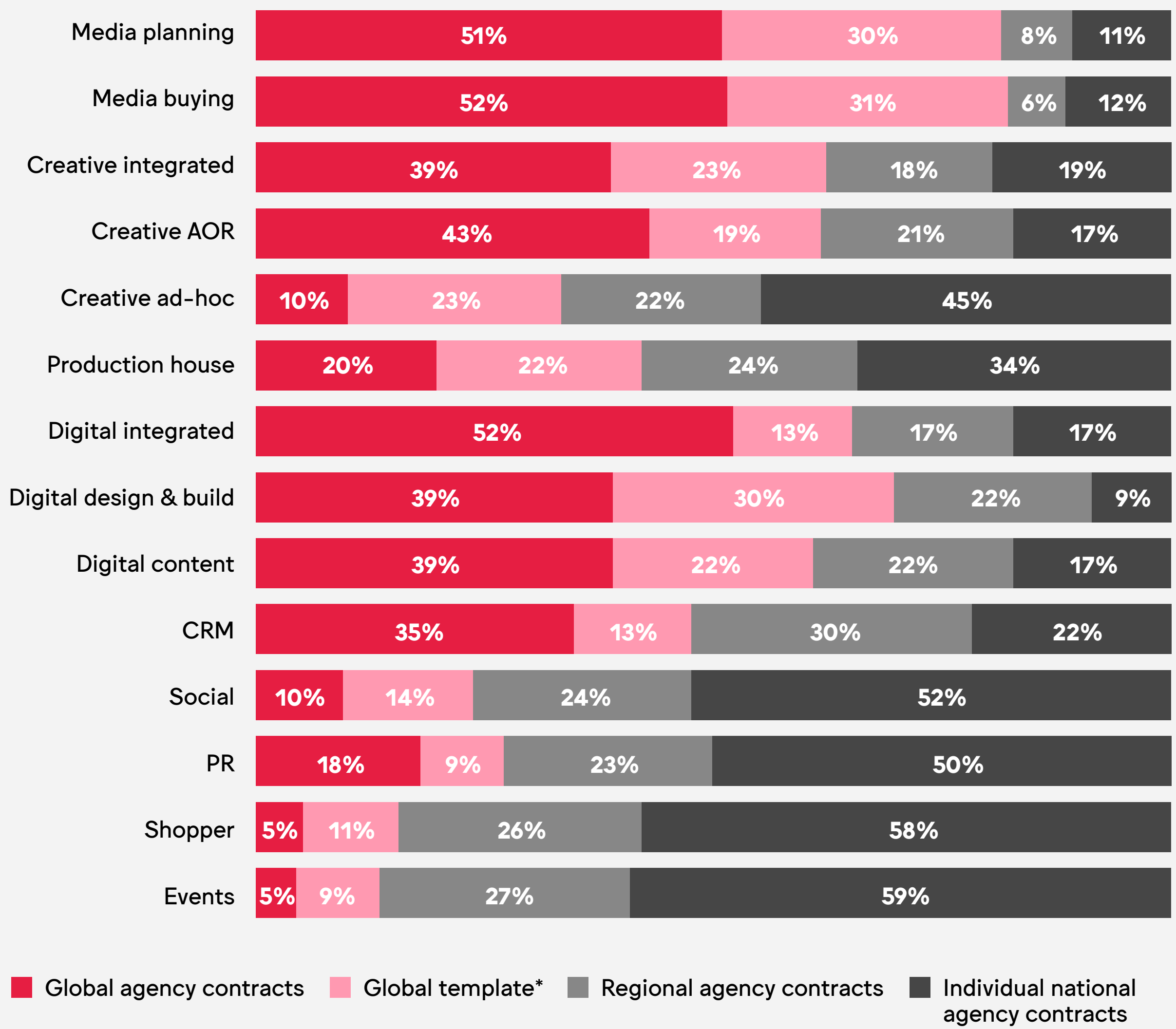
Global contracts dominate across 'principal' agency types

Whilst the percentages may have moved around compared with previous findings on types of contracts, the essence hasn't. There remains no 'one size fits all' construct and businesses logically arrange their contractual arrangements around their agency model.

That said, as would be expected, where there is a global remit there is a global contract across those types of agencies – and a desire to have consistency of approach in other instances by using a global template.

Invariably there's a need to modify this for regional activities and bring this down to a local version where there is more one to one relationship – i.e., creative ad-hoc, digital, CRM, social, PR, shopper and events, though these may be framed/influenced by global or regional master contracts and modified to take local nuances into account.

Q. How do you approach your agency remuneration?



*to be adapted regionally or locally. Note: sample of respondents overwhelmingly in global or regional roles for multinational companies.

Procurement and marketing work hand in hand in most organisations

Unsurprisingly procurement continues to take the lead on agency negotiation, though ‘responsible’ levels have dropped somewhat – 72% in ’22 vs 84% in 2018. This may be a reflection of some marketers stepping in to protect their agencies during the Pandemic – and we would expect the role of procurement to rise back up significantly as the world looks towards a potential oncoming recession.

Whilst procurement and marketing purport to work hand in hand in most organisations, we see plenty of evidence to suggest this is at surface level for many. Procurement’s role is to manage cost/value (and they are often bonussed on it) whilst the marketers desire is to get business changing outputs from their agencies. Those intentions can often work at cross-purposes.

There needs to be real collaboration (and understanding of objectives) between both parties from the outset with roles and responsibilities clearly defined and close working between both parties throughout negotiation. All too often we see marketing simply handing off financial issues to procurement with little involvement throughout the negotiation process. Marketers may be busy people – but their knowledge of what’s needed to run the business efficiently and effectively is crucial – and simply leaving that to those that don’t interact on a daily basis and don’t fully understand the nuances behind a great relationship can lead to issues down the line.

Having a senior marketer in lockstep with procurement to help them navigate through the necessary ‘softer’ elements of a relationship (and the associated costs for that) is vital in ensuring a compensation framework that will meet the needs of all parties.

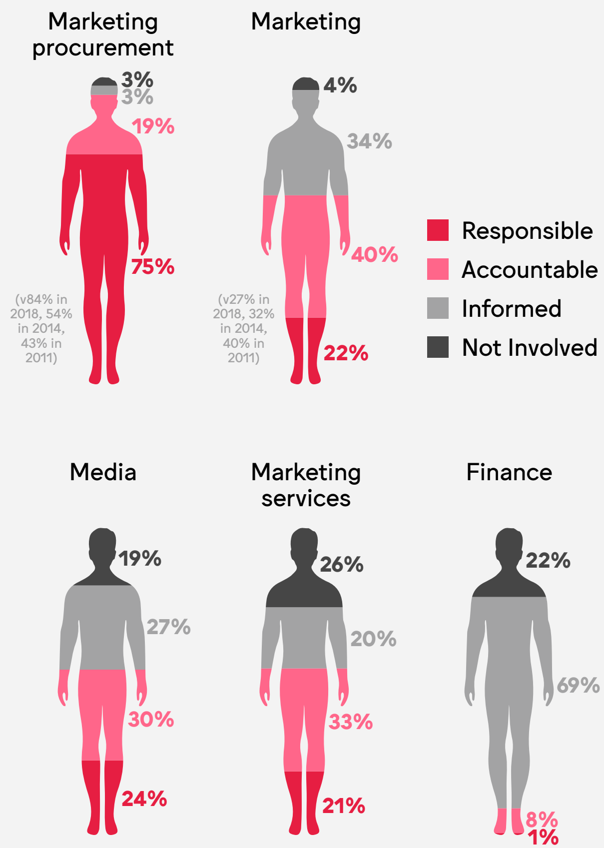
“Reviewing and implementing changes to agency compensation models must be a joint responsibility between marketing and procurement teams.”

Dana Kleiser
Sr. Manager Indirect Procurement - Marketing,
The Hershey Company

“The stakeholders who are involved in reviewing and implementing changes to agency remuneration models would depend on different factors, such as the type of agency, project, and compensation model itself. Procurement and marketing teams are always responsible and/or accountable. And if the remuneration includes PBR mechanisms, our finance colleagues can be informed or, in some cases, become accountable.”

Achim Doellinger
Procurement - Global Category Manager
Creative, Beiersdorf

Q. What roles in your organisation do stakeholders take when reviewing and implementing changes to agency remuneration models?



WFA
Observatory International

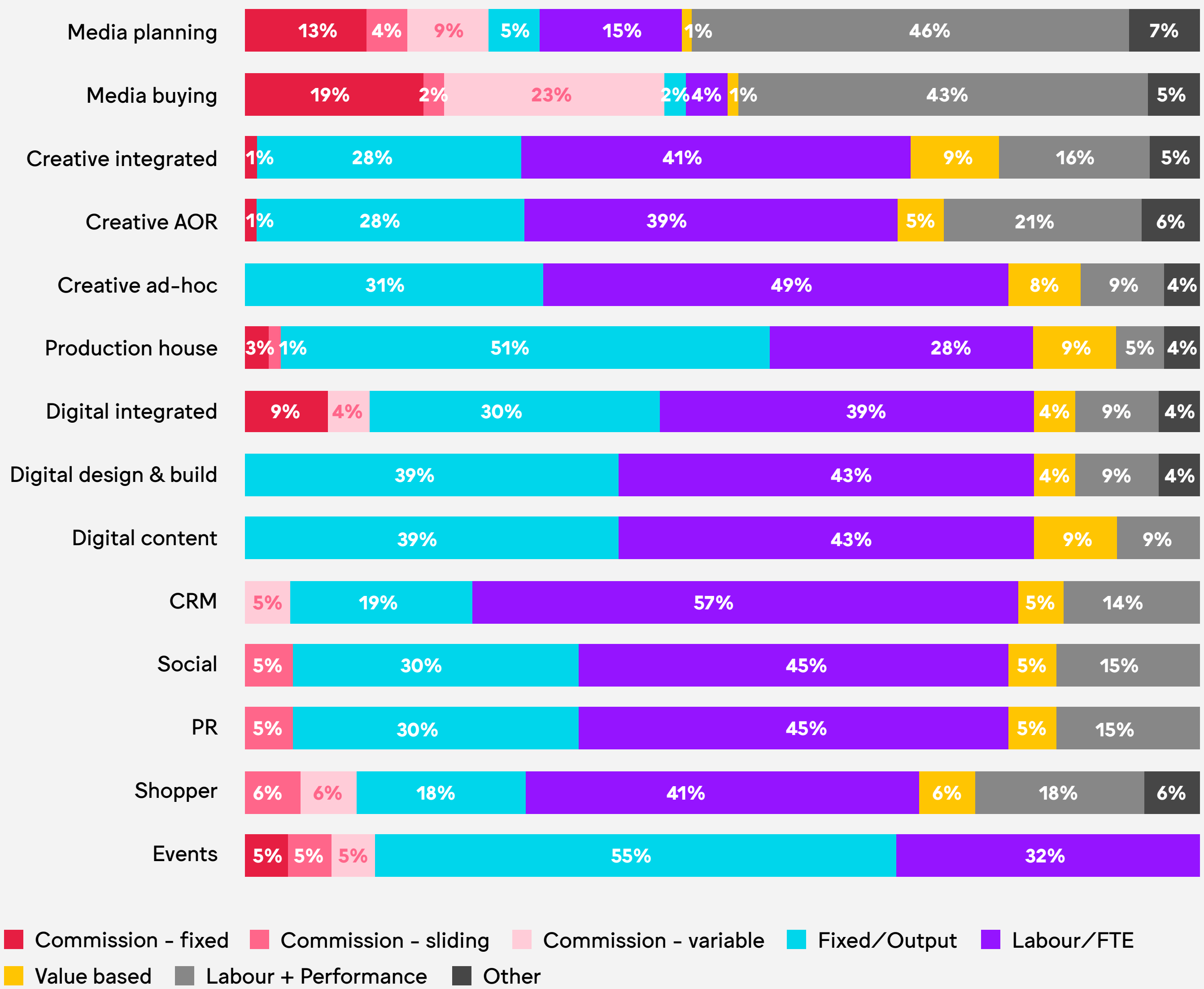
Approaches taken by clients highly vary per type of agency

We asked this question in our 2018 survey, and whilst the percentages by type of compensation may have shifted somewhat, the overall picture and the conclusions remain the same, i.e., there is no 'one-size-fits-all' solution.

Organisational structures and operating models will inevitably mean that different companies take different approaches – often multiple variants dependent on market needs.

What we do observe is the continued trend of 'fixed output/project' fees – reflecting the needs of many organisations' requirements for flexibility and a desire not to commit to long term retainers. It also underlines the recent trend towards short-termism over brand-building regardless of the overwhelming evidence of the dangers of taking that approach.

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



A range of remuneration models can be used

There are pros and cons to each – but the key is to ensure the model clients use is appropriate for the tasks in hand. In essence, constructs can be broadly grouped into three buckets – time-based, commission-based, and value/outcome-based. But within the time-based model we have seen a significant growth in a hybrid which straddles retainer and project compensation – Dedicated Account Team (DAT) + project. The business retains a small team, often comprising account management, strategy and to a lesser extent, creative. That team has day to day oversight of the business and holds within it the institutional knowledge of the business. When specific activity comes into play, they can call on a broader resource within the agency to tackle assignments on a project basis. In essence clients are retaining the 'thinkers' and giving project to the doers. It ensures that clients both retain key talent but are not paying for a broader group who may or may not be used over time.

		For	Against
Time-based	**Retainer**	+ Transparent + Accountable + Locks in key talent + Media neutral + Encourages consistency + Provides a good basis for a true business partnership	– Lack of flexibility – Requires clear and detailed scope of work – Can be complex and time consuming to negotiate – Unless tied to a PBR mechanism can reward a good or poorly performing agency in the same way – Does not drive efficiency
Time-based	**DAT + Project**	+ Ensures retention of top talent and institutional knowledge for consistency + Additional costs for projects provide total flexibility + Projects can be linked to menu pricing + Transparent i.e., all the advantages of retainer and project combined	– Project costing may be time consuming unless menu pricing is agreed – Menu pricing requires significant up-front negotiation and alignment
Time-based	**Project**	+ Transparent + Accountable + Flexible + Media neutral + Minimise risk	– Requires clear and detailed scope of work – Can be complex and time consuming to negotiate – Real potential for lack of consistency – Unlikely to provide best talent – Caries a higher margin
Time-based	**Menu-priced**	+ Simple + Absolute clarity between parties on cost + Media neutral + Can be used with a 'light touch' core retained team to deliver oversight or talent on business where activities can be turned on/off as required	– Will require significant up-front negotiation and alignment – Potentially lacks incentive – May lack flexibility dependent upon assets negotiated
Commision		+ Simple to calculate + Enables focus on quality of output rather than cost + Basic form of PBR - greater the media spent, the greater the return + % can be 'stepped' on degree of spend	– Relates to amount of media spend – Not actual scope of work – Only applicable to creative with paid for media – Not media neutral – Lacks transparency in relation to actual agency input
Value or outcome		+ Accountable + Potential lower risk + Quality focus + Can potentially drive partnershipthrough shared goals	– Needs deep understanding of previous scopes and costs – Considerable client work to frame basis – Can be very complex to negotiate – Lack of appeal to agency as payment will be end-loaded – May only be appropriate for large or powerful clients

Note: The recommendations included in this document are merely meant as suggestions or proposals. They are not binding in any way whatsoever and WFA members are free to depart from them.

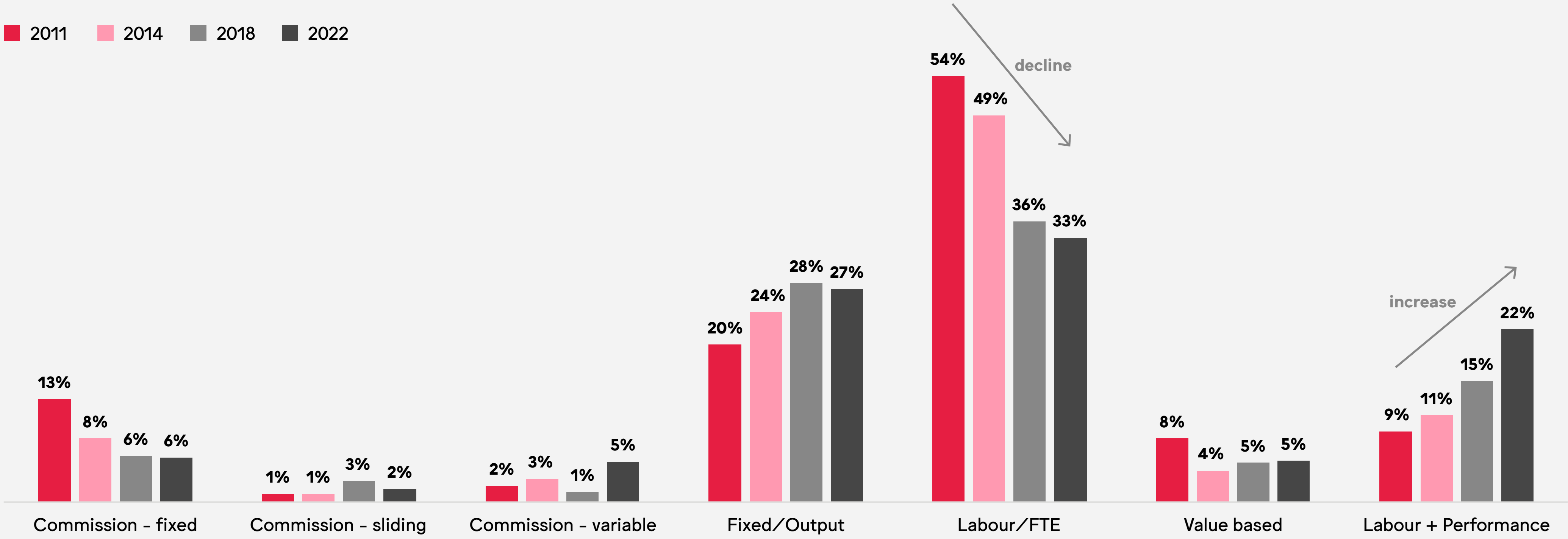
Compensation methodology evolution since 2011

The '22 report evidence that little has changed on the media front in terms of commission-related models, other than an up-tick in variable commissions – though we're somewhat surprised at the low levels of commission-based compensation in general.

Fixed output/project remains fairly consistent, as does 'value-based' (which is open to broad interpretation) but where we do see continuing trends is the continued slide in labour/FTE or retainer-based activity versus labour and performance – up from 15% in 2018 to 22% currently.

Of course, labour + performance can take on many dimensions. Agencies are keen to demonstrate they can deliver, and performance-related pay can be a great motivator to perform. But that is somewhat dependent on the approach.

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

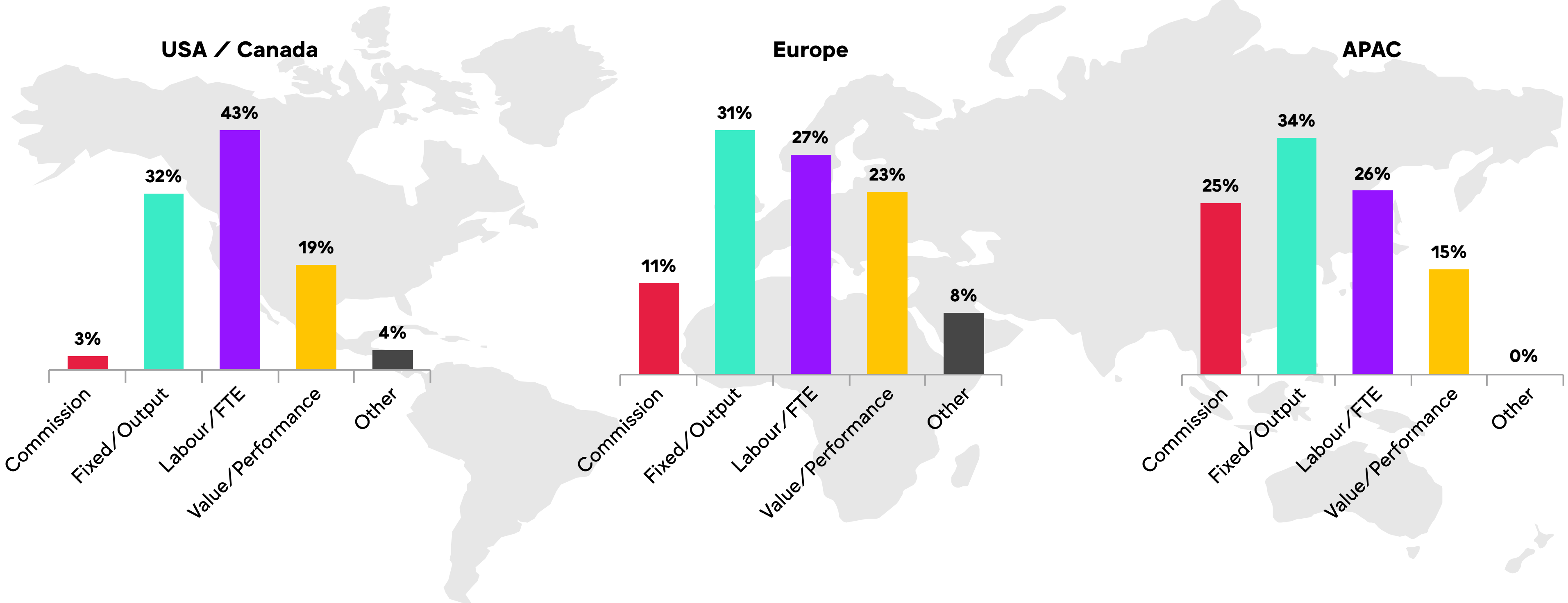


Regional models differ significantly* too

As indicated below, these figures should be treated with caution due to low sample size but provide an indication of regional differences. But across markets it's apparent that similar percentages of clients are using fixed/project fees, whilst labour based/FTE retainers still rule in North America. There certainly seems to be a greater desire for performance-related pay in Europe vs both North America and APAC – the latter having the highest degrees of commission-based payment.

In North America, one would expect performance-based methods of compensation to be on the rise because of the ability to measure digital, social, and programmatic media, and because of the increasing sophistication of attribution modeling and analysis. However, there is a real sense that whilst there's that increasing ability to measure performance in real time, this very fact is making the analysis more complicated given the high number of external agency and tech specialists larger U.S. (and global marketers) tend to employ. This is also being compounded by more advertising capabilities being brought in-house. As a result of this complexity (and not a small degree of confusion) it seems that many are 'parking' performance incentives and defaulting back to fee arrangements where it's simply easier to understand the composition and costs.

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



*Note: Results are indicative only. Samples not statistically relevant. 57% respondents were global (not regional) in scope and so excluded from this. Excluded LATAM and MEA as sample too low.

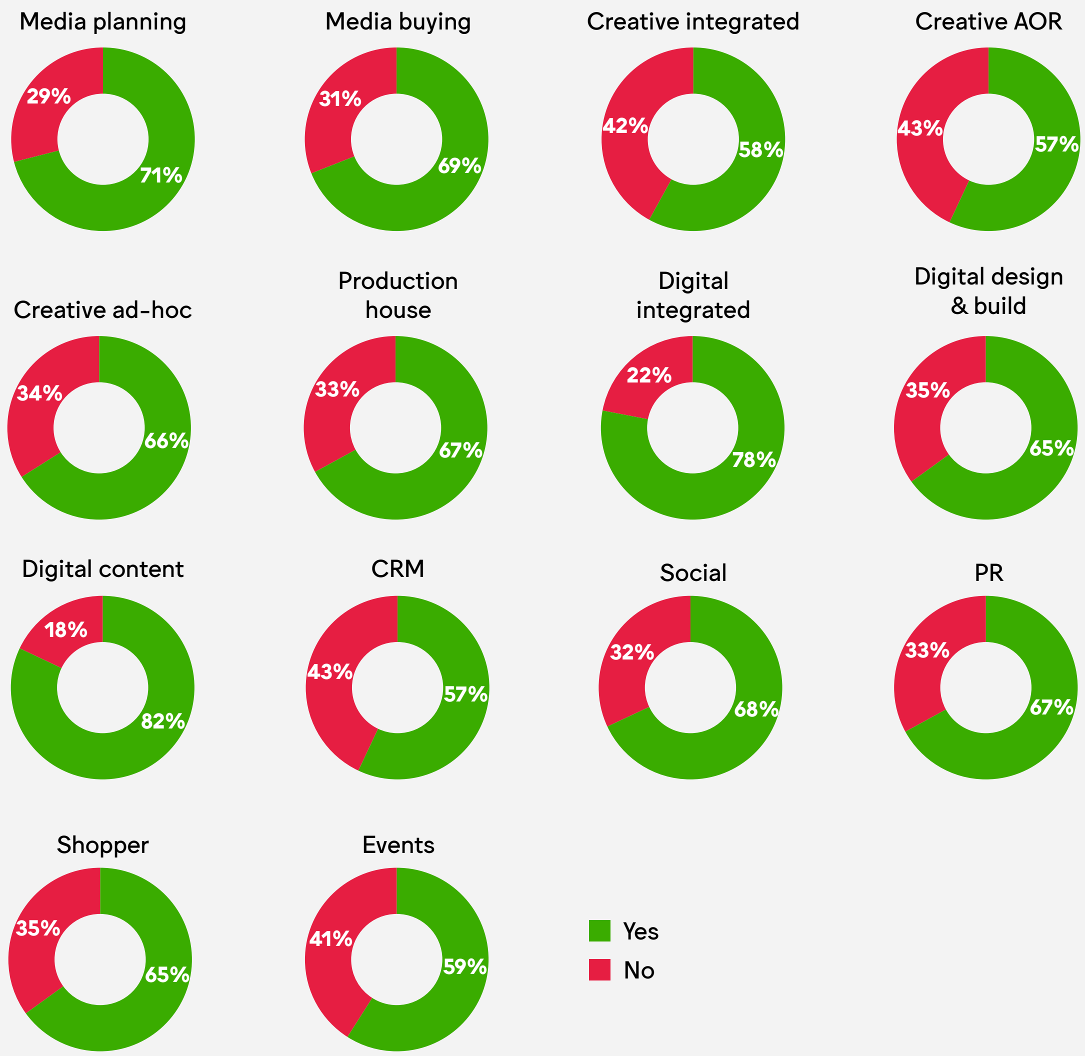
Majority happy with their approaches

but on average, 34% not (vs 39% in 2018)

Again, we see slight moves in positivity towards compensation arrangements over the last few years – but core creative agencies still lag behind others, and there has been a 10% drop on satisfaction levels on CRM.

But overall, whilst two thirds of respondents are happy with arrangements, a third aren't which, in many respects is reflective of views on transparency which begs the question why? Is it an instinctive lack of trust or a belief that there must be better arrangements that can be deployed. Either way, if doubts exist it's probably the right time to get marketing, procurement and the agency around a table to discuss and plan a better way of doing things.

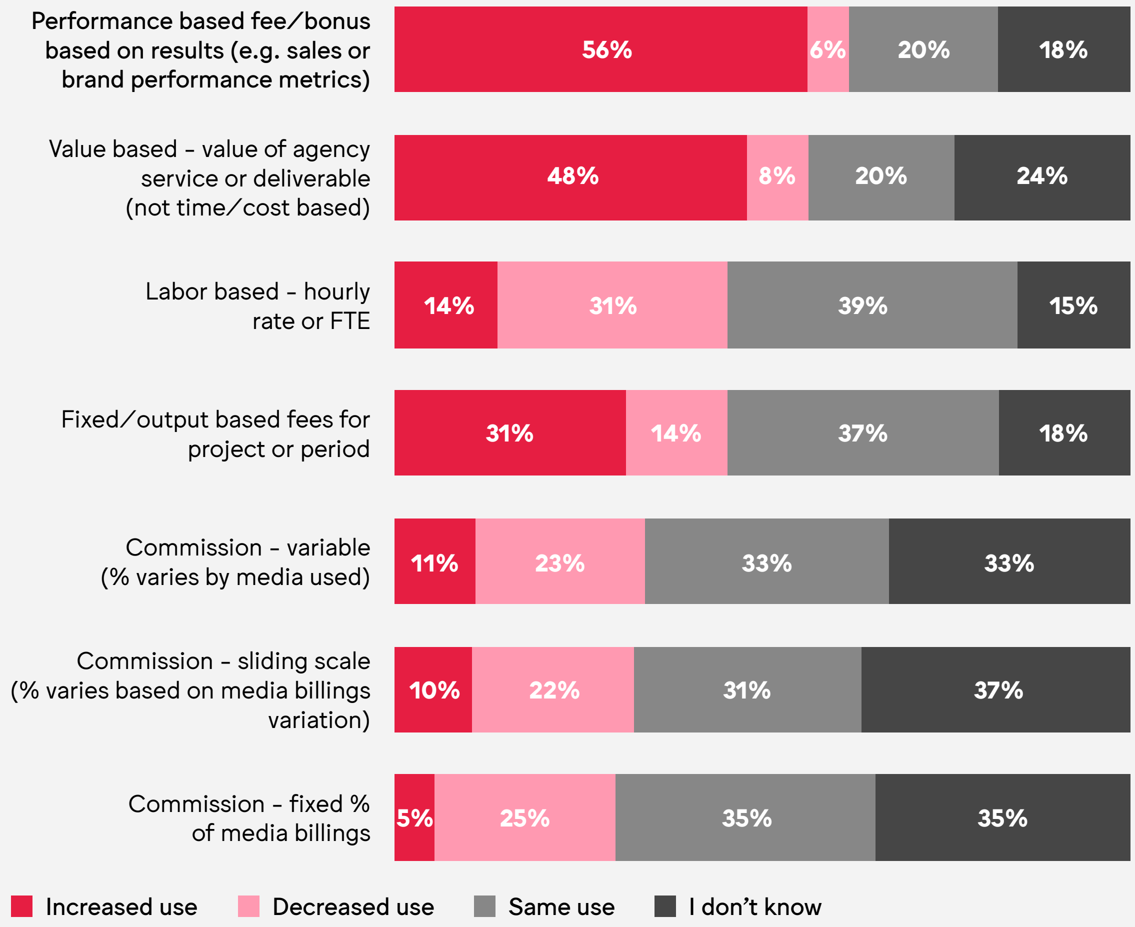
Q. Are you happy with your current model of compensation?



Future approaches will further reward value and performance

If there is one trend that seems to appeal is that of performance and value based. 56% of respondents intend to increase the use of performance related or bonus and nearly 50% suggesting they are going to increase the use of value based. This latter figure seems somewhat at odds with earlier findings which show only 5% currently deploying this approach – largely due to the difficulties of creating an appropriate structure for that approach to work. We suspect the term 'value based' is increasingly becoming open to interpretation and needs to be clearly defined when opening up discussions with agencies on such an approach.

Q. If you plan to refine your agency remuneration models over the next 12 months... **What changes are you likely to make?**



Impact of the Pandemic

"We recently implemented a blended rate model in a SOW with one of our preferred partners. We focused on the level of resources needed to ensure a fair balance between senior and junior resources. This resulted in agency resource efficiencies by reducing the overall number of billed hours and brought cost efficiencies to our organisation."

Deaneesha Govender
Global Strategic Sourcing Category Manager - Sales and Marketing, Intel Corporation

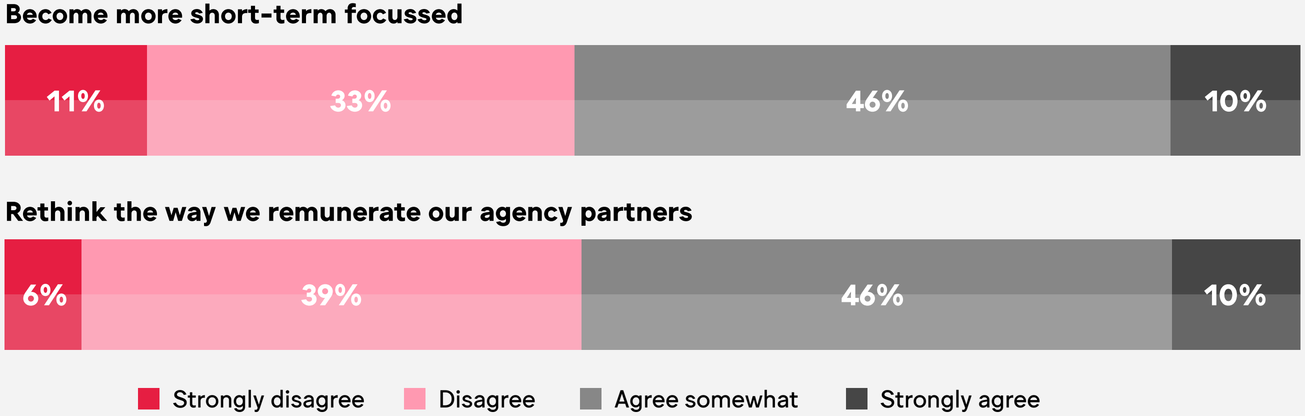
Balanced views on how the Pandemic affected the client approach to remuneration

For many (though not entirely all) the Pandemic feels like a bygone era as the world adjusts back to normality. Without question the effects hit clients and agencies alike and there was significant evidence of clients providing short term support for their agency partners.

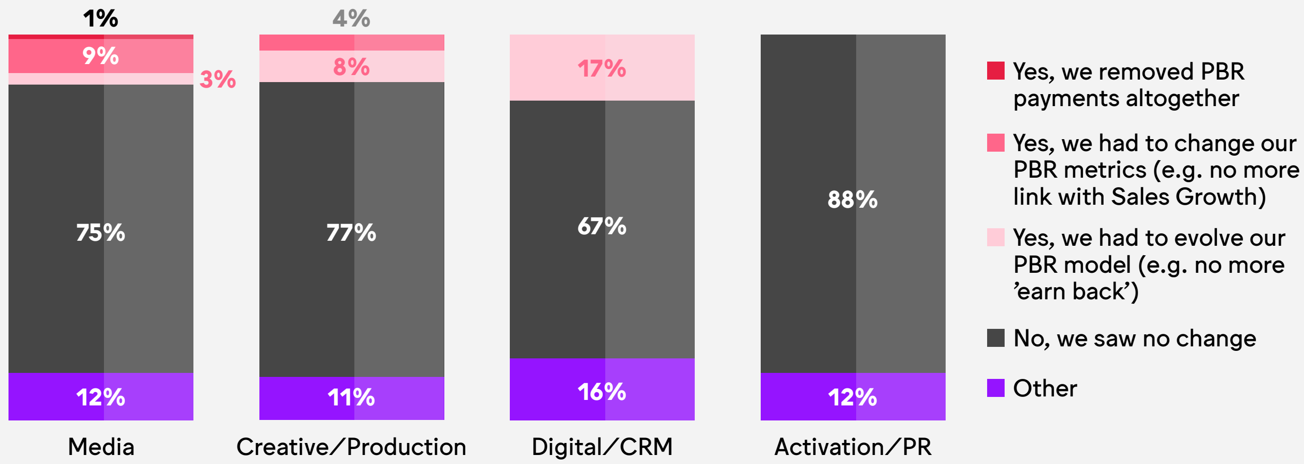
But it is apparent that the longer-term effects did little to shift the dial in terms of any big re-think on remuneration. And whilst demands of the situation led a significant proportion to move focus to a more short-term approach to their activities, this approach has remained subsequently and, we believe, is only likely to increase due to macro financial indicators and the need for business to remain highly flexible and reactive.

In terms of the alteration of any PBR mechanisms – very little change occurred during the Pandemic. Hardly surprising given that the day-to-day pressures on marketing and procurement were almost certainly focussed on more crucial macro business issues that were focused on keeping their businesses running as effectively as possible, rather than trying to nuance marketing-orientated PBR mechanisms and when agency spends were forced to drop. Both disciplines had bigger issues to attend to.

Q. Do you agree with the following statement: **The Pandemic forced us to...**

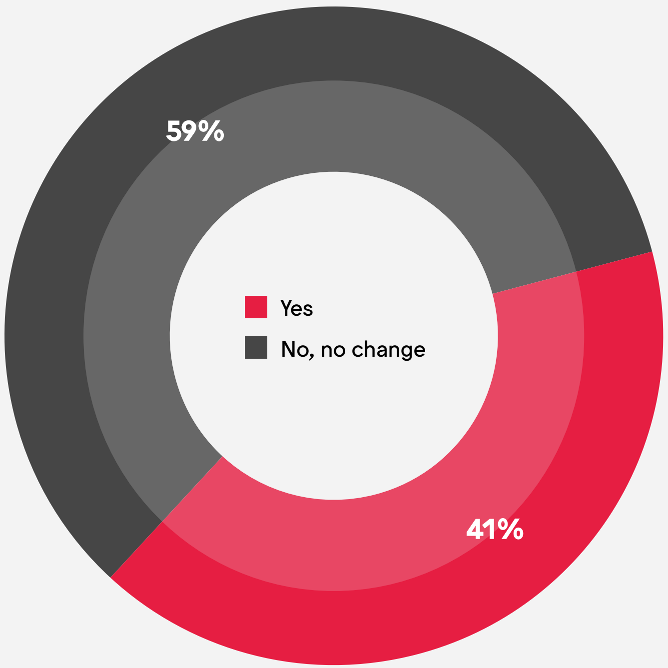


Q. Has the Pandemic influenced any PBR* mechanisms you have in place?



Some clients have experienced an increase in digital fees

Q. Some WFA members have indicated that they are seeing some shifts in digital costs. Do you agree?



Across the board we are seeing agency rates rising – and in particular this is affecting digital which saw an explosion during the Pandemic and high demands for personnel. Couple that with the well documented general shortage of talent, and those with the appropriate skill sets are capable of setting high salary demands in what is very much a sellers' market. Invariably agencies, whilst attempting to 'buffer' increased salary costs in an attempt to maintain acceptable pricing, will have to increase their rates to accommodate – and that trend, we believe, will continue across the board, not just in digital.

WFA member comments:

"Digital talent cost increasing."

"The costs are increasing and there is higher competition. After the Pandemic, lot of agencies were built and it's even more difficult to cut through the noise and find the right skillset."

"More budgets heading towards digital experiences."

"In UK & Europe, we've evidenced huge changes re digital resources, with typically rarely technology specialist asking for 20 to 30% average hike across 75% of roles regular billed."

"Costs are increasing as capabilities are improving and more players/ technologies have entered the market."

"50% increase in digital."

"Everything copies the economic trends."

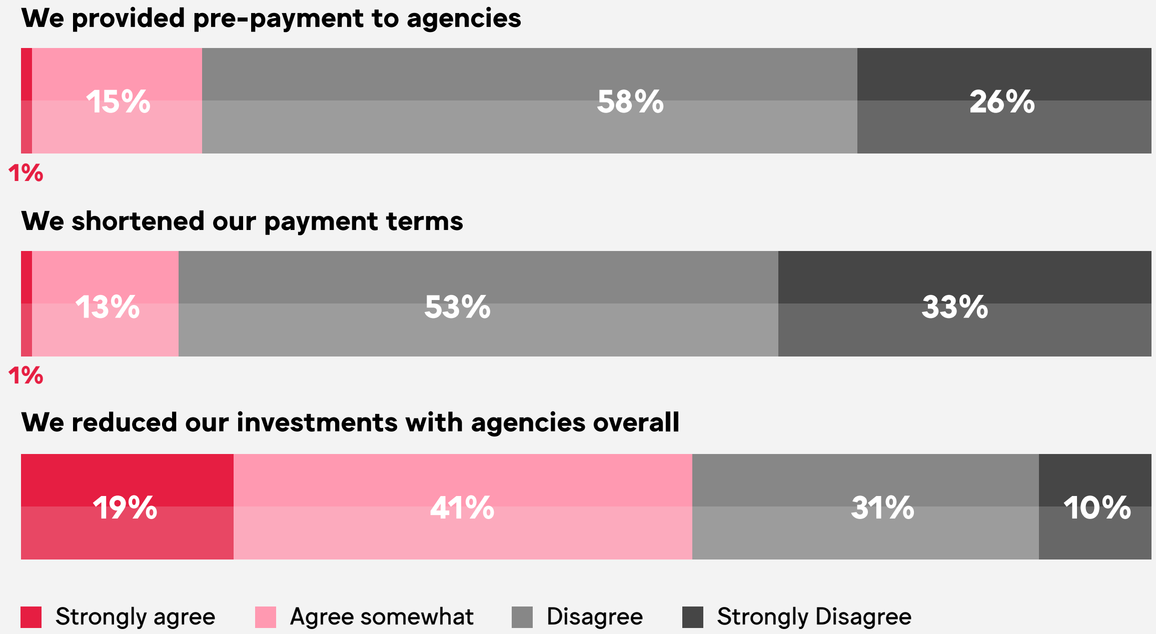
Reduced investments but little changes to payment terms

Whilst the early days of the Pandemic did see some exceptionally positive behaviours by clients to support their agency partners, with a 'we're all in this together' approach, the reality is that as the Pandemic continued, most clients moved to an 'I'm afraid we'll all have to suffer this together' stance.

As can be seen, 60% of respondents lowered spend with their agencies to some degree – whilst only 14% paid quicker to help out. 16% made some form of pre-payment – but it's unclear whether that was to aid their agency partners or simply regular (and expected) pre-payment for certain third-party costs (TV production/research etc).

The hard truth here is that virtually everyone was suffering, and marketers and procurement invariably sought to protect their own businesses first and foremost and weren't in a position to maintain generous agency support over time.

Q. Do you agree with the following statement: **During the Pandemic, ...**



Positive signs of recovery with over a third of clients who already have increased their investments over pre-Pandemic levels

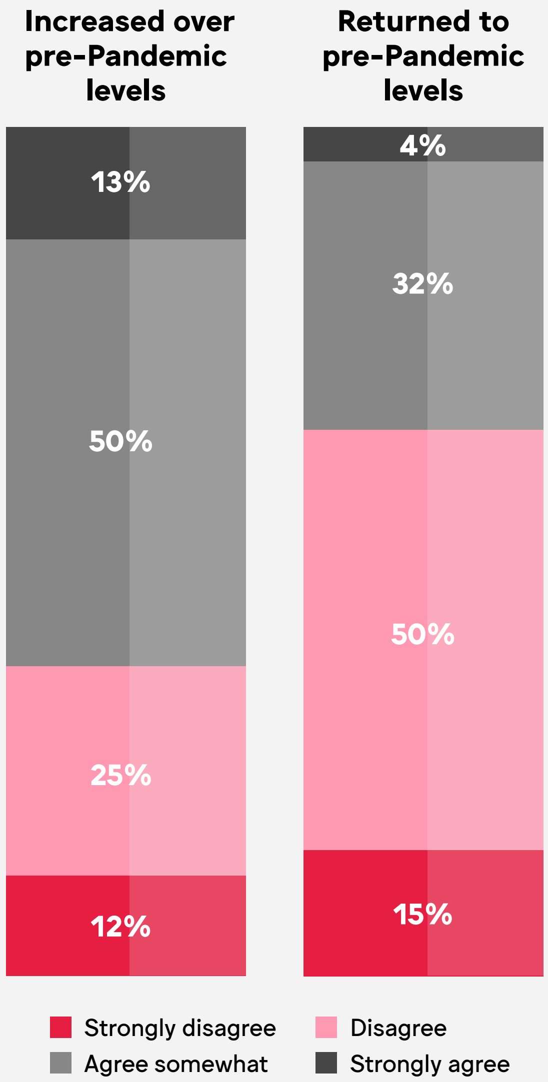
This research was in the field during the summer of 2022, and whilst there were ramifications of geo-political issues and general global financial concerns, the general indication is that spend was starting to return.

However, that was then. At the time of writing storm clouds are gathering and there is already strong evidence of a weakening global economy and imminent recession which will result in most businesses cutting costs with an early victim being marketing – despite all the contra arguments that have been well documented over the years.

Certainly, at the time of writing, latest WARC studies indicate spend levels falling sharply with trading conditions not recording growth in any region for the first time in two years.

Without a crystal ball it's difficult to estimate how deep and how long current financial issues will last and what parts of the globe will suffer most – but the one thing we can be clear on is that we are on a rocky path, and many (clients and agencies alike) will suffer before it's over – perhaps with some disappearing altogether.

Q. Do you agree with the following statement: **Post Pandemic, our investments with agencies have...**



The case of media, creative and production

"Our focus as clients, and in our industry, should be to optimize KPI frameworks and identify the right relevant metrics. For instance, vCPM is currently what we tend to all use, but we should be looking forward to more attention drive KPIs."

Reitze Feldmeijer
Global Senior Sourcing Manager – Media, Coty

"Where performance can impact remuneration, the agency incentives should be linked to the quality of the services they provide(d) to the client, and not to the client performance which the agencies have little or no control over. Creative pre-test metrics should be explored more often."

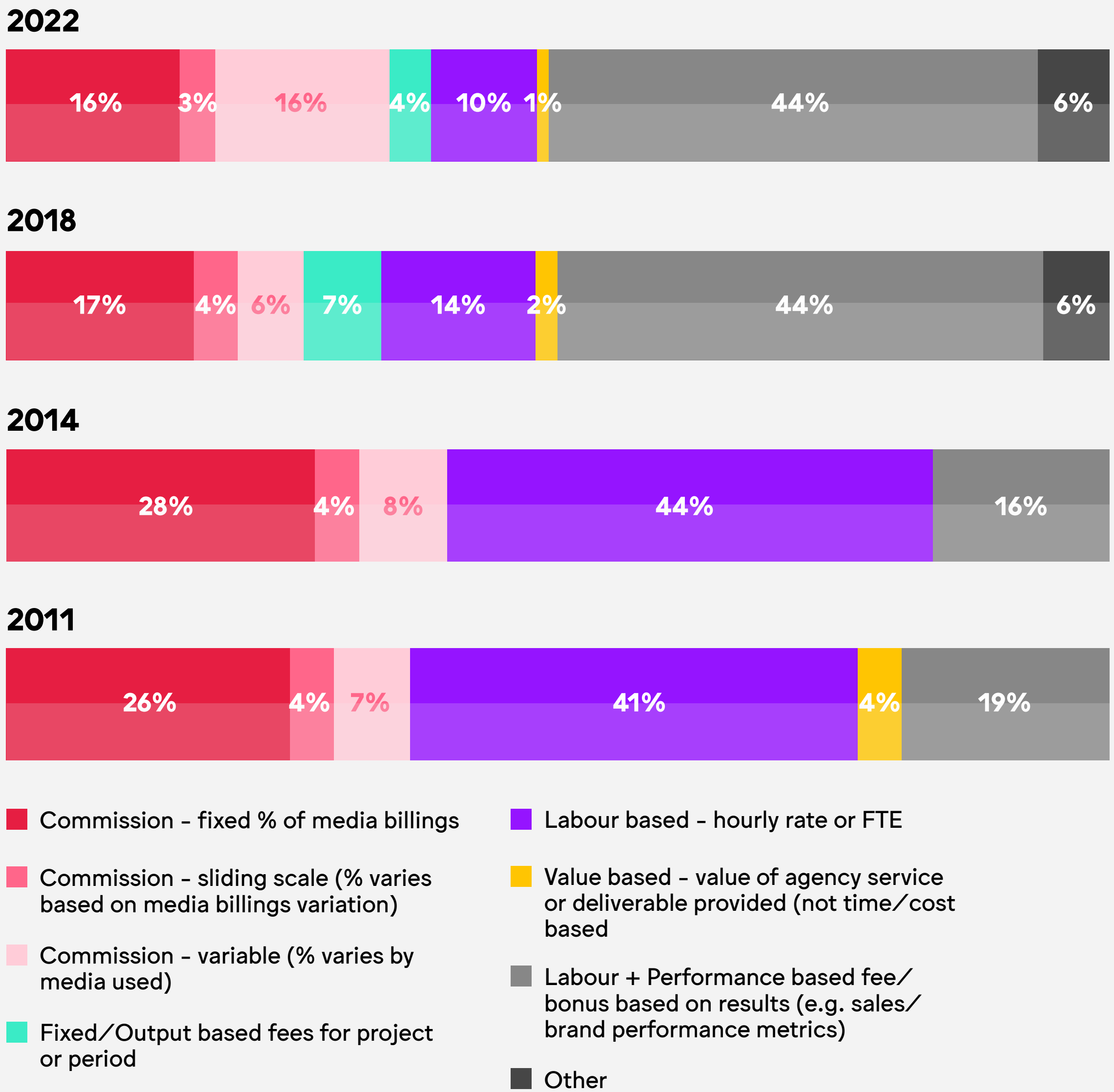
William Hocdé
Global Sourcing Manager - Marketing Services, Swarovski

Media: fixed commission and FTE-only based models have shrunk since 2011, in favour of performance or bonus-based fees

There haven't been any large-scale changes to media models since the previous survey was undertaken in 2018. The 'labour based' model continues to shrink as client seek a better demonstration of value being delivered by their agencies. This is being driven through additional performance-based constructs, plus the main growth area in this report as compared to 2018 is in the use of variable commission rates as clients seek more channel agnostic planning that is tailored to their individual needs.

Some have looked to outcome-based models that give a holistic view by connecting all agency types – but they are tough to establish, as each agency will be unlikely to commit to delivering outcomes that they are not wholly responsible for delivering and have the sole capability to influence. There is too much perceived risk for a media agency to be held accountable for outcomes that creative can influence, and vice versa. The more typical approach is to identify outcomes for each agency type that they are in control of influencing and delivering against.

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



Media agency remuneration levels*

Q. 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?

Regional trends

	Europe	LATAM	USA/ Canada	India	APAC	China
Media strategy & planning	5.4%	5.6%	5.9%	3.0%	5.6%	4.5%
Offline media buying (excl. OOH)	4.5%	4.8%	5.0%	2.0%	4.6%	3.6%
OOH	3.9%	4.3%	3.9%	3.0%	4.2%	3.8%
Digital display + video media buying (incl. social but excl. programmatic)	6.9%	7.1%	7.0%	4.0%	7.3%	6.9%
Paid search (PPC)	6.9%	7.3%	7.5%	4.0%	7.4%	6.4%
Programmatic media buying TECHNOLOGY costs	6.2%	6.6%	6.6%	4.0%	6.7%	6.3%
Programmatic media buying MANAGEMENT/SERVICING costs	8.0%	8.5%	8.6%	6.0%	8.6%	8.9%

Global aggregate

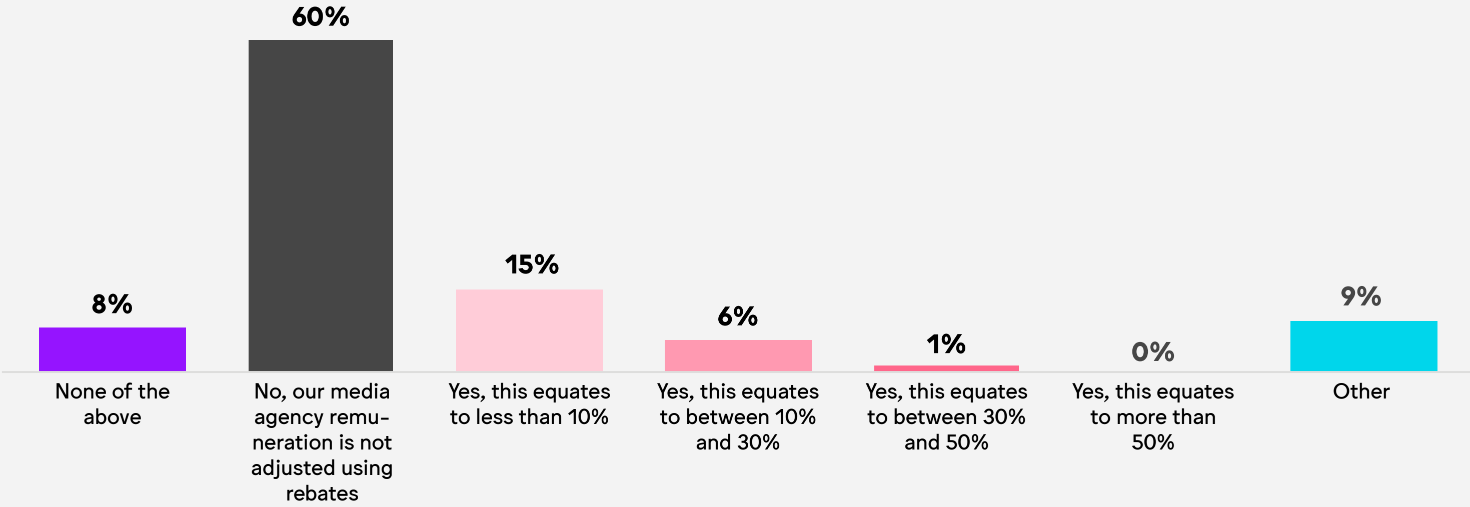
	2022	2018	2016	PoP % (points) '22 v '18
Media strategy & planning	5.0%	3.9%	n/a	1.1
Offline media buying (excl. OOH)	4.1%	3.7%	3.2%	0.4
OOH	3.8%	2.6%	n/a	1.2
Digital display + video media buying (incl. social but excl. programmatic)	6.5%	6.6%	4.8%	-0.1
Paid search (PPC)	6.6%	6.3%	6.3%	0.3
Programmatic media buying TECHNOLOGY costs	6.1%	8.1%	n/a	-2.0
Programmatic media buying MANAGEMENT/SERVICING costs	8.1%	8.4%	8.5%	-0.3

* Weighted average assuming normal distribution within % ranges

Note: the recommendations included in this document are merely meant as suggestions or proposals. They are not binding in any way whatsoever and WFA members are free to depart from them.

Majority do not adjust their media agency's compensation against volume rebates

Q. Is any part of your media agency remuneration adjusted or offset against volume rebates received by your media agency? If yes, please indicate (approximately) how much of the fees are represented by rebates.



In an era of transparency and well thought through working practices, volume rebates are rightly no longer an industry secret. Requirements around rebates should always be outlined during contractual negotiations and set in stone so that there is no mystery around the process. In healthy client-agency relationships, the agency should be remunerated fairly and sufficiently so that rebates are not needed to make an account profitable.

Whether volume rebates should affect the remuneration package however depends on each individual client and their objectives for using an agency. If there are set buying targets and media value goals, then achieving rebates can be an indicator of success and could be used to incentivise performance. From our survey however, 60% of clients do not connect volume rebates to the agency remuneration. For clients whose focus is more on achieving marketing outcomes rather than media buying costs, then volume rebates play less of an important role.

Of course, rebates and unbilled media costs should always be covered in contract negotiations at the start of a working relationship so that all parties know what is required and should be returnable to the client in the form agreed.

WFA member comments:

"Rebates equal to 10% of the net spent needed to return to client based on contract."

"In GB we receive the AVB back once a year. In France, with Loi Sapin, it is no longer the same WOW."

"We treat media AVBs separately from agency remuneration."

"Media rebates are primarily covered via media pitch commitments, but their bonus is dependent on commitment delivery."

"We do get volumes rebates separately and it is <10%."

"We receive AVBs, but these are not directly offset against fees."

"We do not have volume rebates, but unbilled and rebates or kick backs are paid directly back to us."

"It's not our standard WOW, although some markets are known to be doing it."

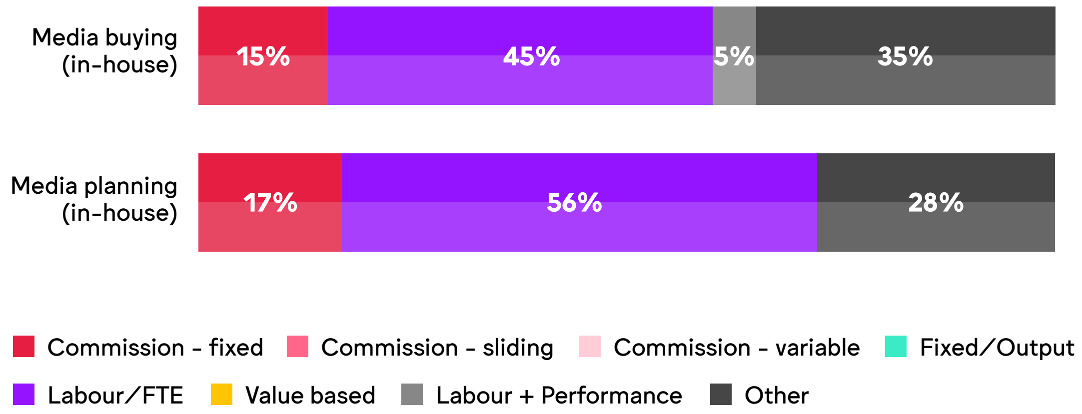
Media in-house agency – often paid as regular employee salaries (FTE)

The in-housing of media services continues to be a growing trend, with a third of respondents currently utilising in-house media services and a further 23% planning to implement this. It is still a relatively new model for businesses to adopt so it is understandable that the majority that utilise in-house services are operating at cost.

Successful in-housing is an iterative approach that requires evolution over time, and so it is likely that in future surveys will show in-house services starting to return a profit to the business.

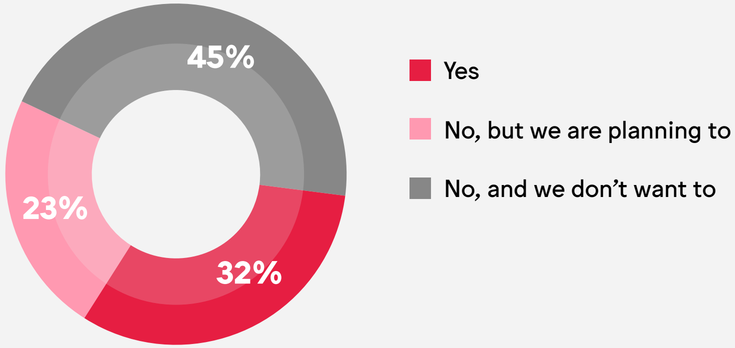
Similarly, it makes sense to start the in-housing journey by structuring resource using an FTE compensation model. Over time, as in-house teams are bedded in and a clearer picture of resource and capacity develops, this will likely evolve to reflect methodologies more similar to the way external agencies are compensated – e.g., variable commission or performance-based.

Q. What type of compensation methodology do you mainly use for your media in-house agency?



Q. How does your in-house agency operate?

Q. Do you in-house some media services?



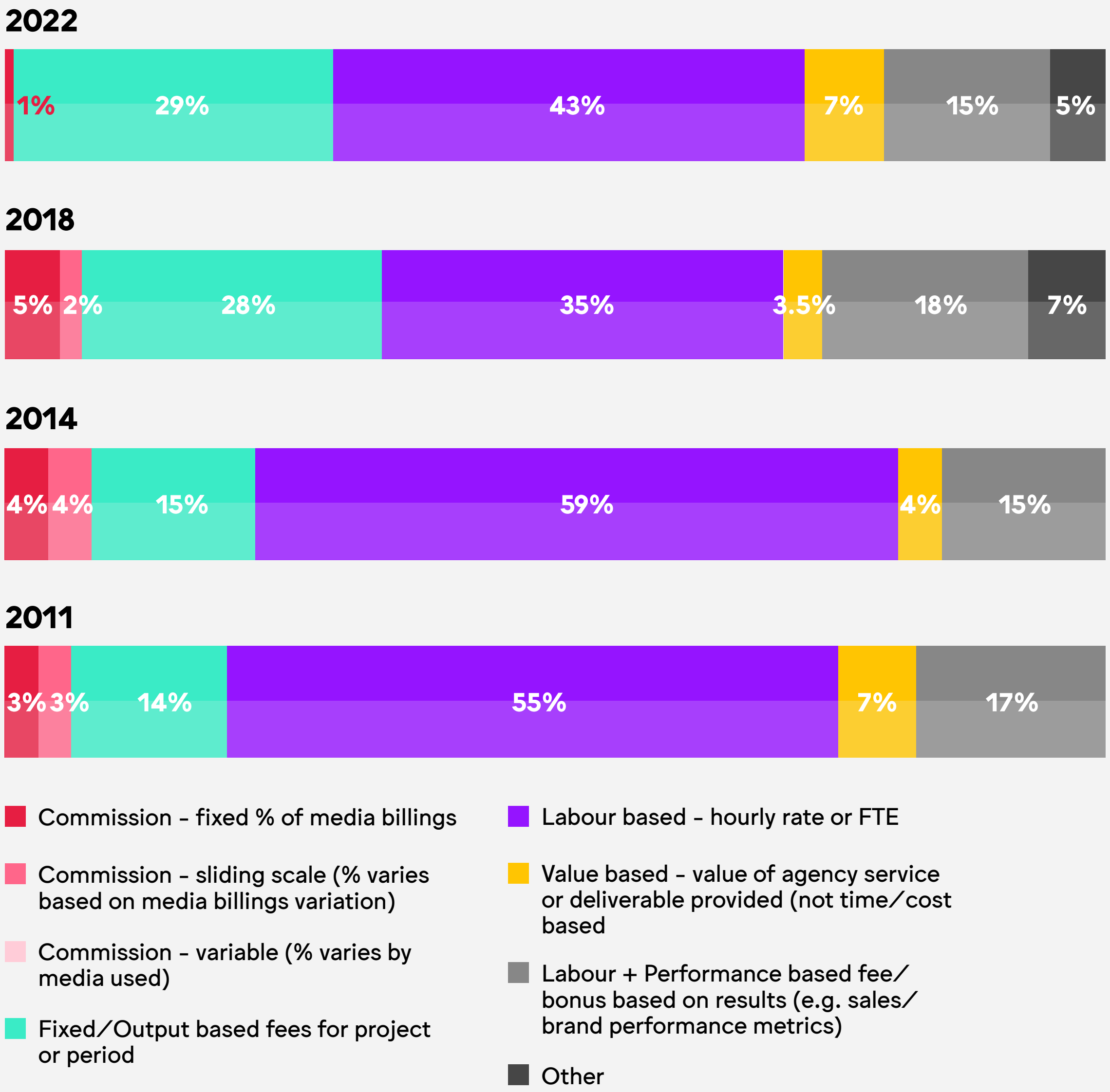
Creative: shift to fixed/output-based models; FTE-based slightly on the increase v 2018, but no clear sign of coming back

Not unsurprisingly, we see that any form of commission-based payment has effectively disappeared in this latest report, with fixed/output based (project) fees remaining fairly consistent over the four years since we last reported.

Labour + Performance based remuneration has dropped however – largely due to a shift back to labour based (FTE) payment in the US where the complexity of allocating PBR elements with a large number of specialist agencies working across assignments has proven to be too much of a headache. This has resulted in an additional 23% of respondents opting for the relative simplicity of FTE payment.

Value-based remuneration has doubled – from 3.5% to 7%, but as mentioned elsewhere in this report the definition of value-based is very much open to interpretation. Certainly, we believe very few are adopting the original methodology (and true definition of value-based, developed some years ago and only really used by one organisation) due to its complexity.

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



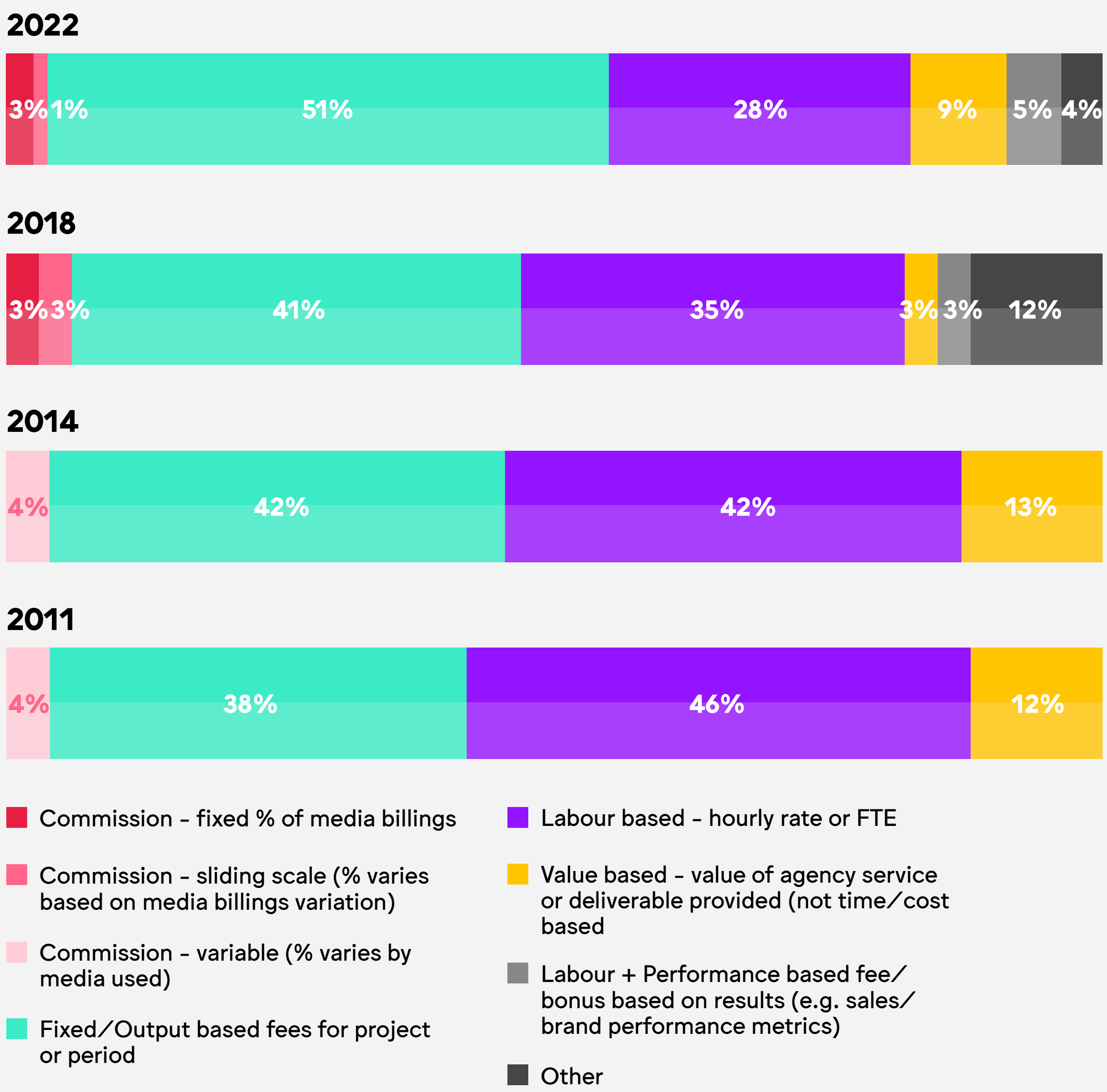
Production: steady shift towards output, some trials to link with performance; consistent approach over the past 9 years overall

Traditional production companies must be differentiated from automation or AI companies who operate with different business models and approaches, talent, and craft. Although it is necessary to speak of them separately for now, ultimately clients should find a way to integrate them. As a result, Advertising Production Resources (APR) would typically classify production projects and related remuneration models in two big buckets:

The traditional production company that is all about craft, and when those companies are included in the production strategy, their business models are based on a detailed bid structured around labour, expenses, and mark-up. Compensation models are based on labour and output, usually together. This has been consistent for the past 15 to 20 years, when most clients stopped paying commission to agencies on production. Those models can include extra expenses that the 'content engines' don't encounter. For example, expenses such as: craft services, client/agency dinners; 20% to a rep; and a % of the underages going to the director.

The newer production companies or 'content engines' producing 1000s of assets using automation and AI, that are used for content at scale. Those 'engines' are known to operate with an annual fee – often a three-year retainer to give the relationship time to develop and improve, and to support the production if assumptions can be made on the assets needed. In some cases, a performance-based incentive is built into the arrangement as there is sufficient data to track and validate results.

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



Creative agency fees vs production costs split

Whilst we felt it worthwhile to ask about ratios of creative and production fees, and the below may be helpful as a guide, it should be treated with caution. Much is dependent upon the nature and volume of work; a 'one' off TV commercial may accrue lower fees than a highly active '24/7' retail account for example – and production can vary dramatically from digital to regular press activity. As ever with this industry there are no set standards as everyone's requirements vary.

Q. What % do fees represent of total spend (including media) for average scopes of work? Please provide data for the regions/markets where you can and ignore the regions where you're not confident in your answers.

Europe	Not applicable	0% - 2%	2.1% - 4%	4.1 - 6%	6.1% - 8%	8.1% - 10%	10.1% - 12%	12.1% - 14%	14.1% - 16%	16.1% - 18%	18.1% - 20%	>20%
Creative agency fees	14%	6%	6%	3%	14%	6%	11%	0%	6%	0%	6%	31%
Production costs	9%	3%	3%	12%	6%	18%	6%	3%	3%	0%	0%	36%

LATAM

Creative agency fees	29%	0%	10%	5%	10%	14%	24%	0%	0%	0%	5%	5%
Production costs	25%	6%	0%	19%	6%	13%	6%	6%	0%	6%	0%	13%

USA/Canada

Creative agency fees	21%	0%	4%	7%	7%	11%	7%	0%	4%	4%	0%	36%
Production costs	13%	0%	4%	4%	9%	9%	0%	9%	4%	0%	4%	43%

APAC

Creative agency fees	26%	11%	7%	4%	4%	26%	11%	4%	7%	0%	0%	0%
Production costs	23%	5%	5%	5%	18%	18%	0%	9%	9%	0%	0%	9%

China

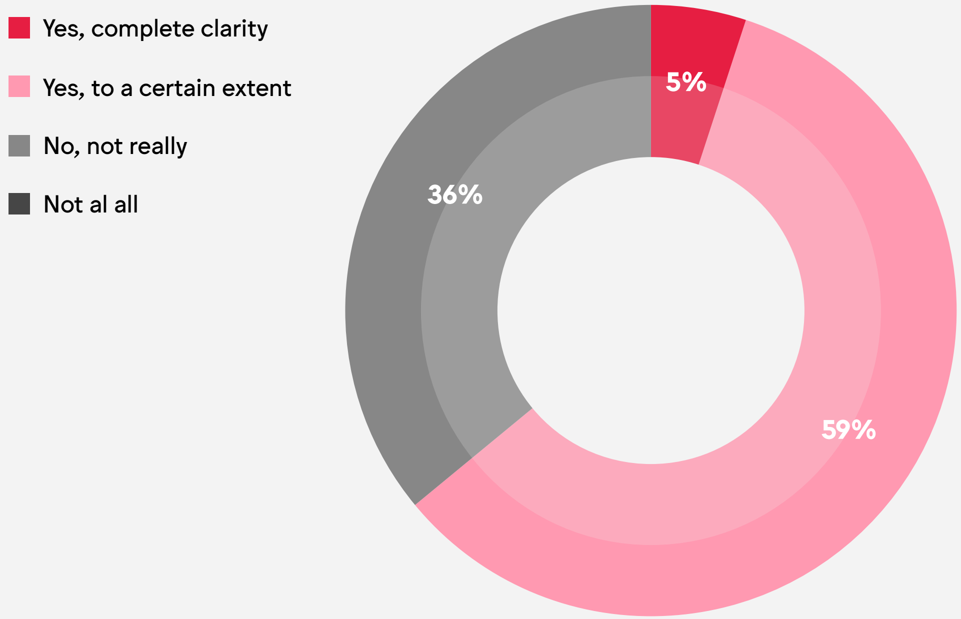
Creative agency fees	24%	8%	16%	8%	4%	12%	16%	4%	4%	0%	0%	4%
Production costs	26%	5%	5%	5%	16%	11%	5%	5%	5%	0%	0%	16%

How to read these charts: at the top, you have the % ranges for fees as a portion of total spend (including media). Below, you have the % of respondents who selected this range.

The convergence of media and creative in digital makes it hard to obtain absolute clarity on the cost of creative work

Again, we see issues on clarity with over a third of respondents having a lack of comfort on cost. This mirrors concerns over digital transparency and it is incumbent on clients to insist their agencies provide full details of mix and construct of costs. Generally, the methodology for developing costs is the same from a specialist digital agency and any media agency that offers equivalent creative work – so this should be directly comparable. If, however, as some respondents' media agencies are simply 'rolling' creative and media monies together (which is unusual) this is inevitably going to have the potential to cause mistrust and suspicion, even if the reality is that the client is actually getting comparable value for money.

Q. When digital converges across media and creative, do believe you have absolute clarity of cost of creative work?



"Procurement must understand the marketing supply chain to ensure that costs are valid and deliver intended results. Knowledge is power but it also brings big responsibility. Procurement should drive for transparency so both parties can identify and remove waste from the process and invest resources wisely, using this knowledge to drive shared accountability for success and fostering trust over time. Please note that transparency does not mean savings. Real transparency goes beyond pricing models. It is a two-way street. Transparency, beyond knowing the cost drivers, is about understanding how work is done and drive mutual value for client and agency."

WFA's Global Sourcing Board

For 9 in 10 clients, the management of content production is handled by their creative agencies

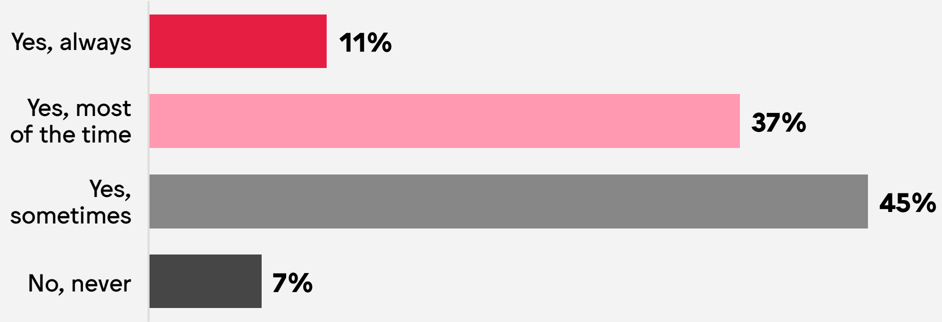
The implication here is that AORs are, in the main, producing content for all, and we would certainly agree that many clients still rely on their tier 1 agencies to steward the creative production process. However, within that supply chain, we would also expect to see a mix of specialist agencies delivering on the client's creative content needs. These agencies responsible for execution only may simply have been 'rolled-up' into the 'creative' classification.

From a remuneration perspective, the vast majority of production partners (around 80%) are remunerated following a labour-based or cost per project model, the latter of course essentially being labour + time-based, so, much the same thing. Whilst there are a small percentage of respondents who are working on commission-based approaches – presumably via their media agencies, the balance are using a wide variety of payment methodologies – but are clearly in the minority.

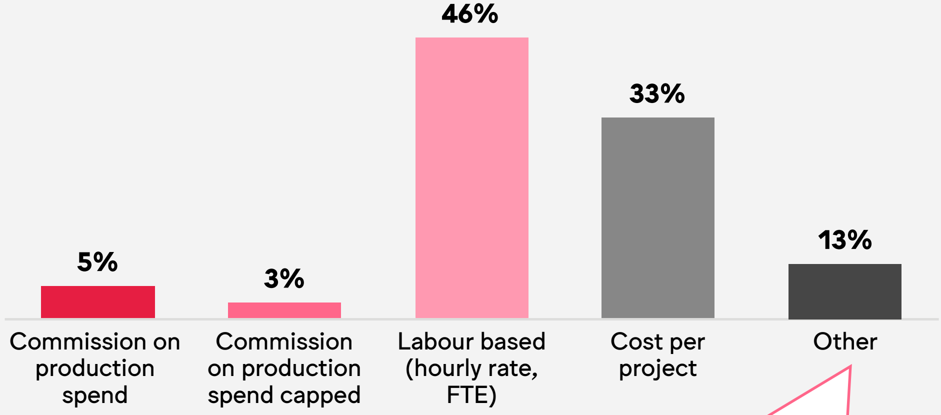
APR are seeing the same within their client base as our survey with regard to who is handling management of content production. Most of the productions are being handled by agencies on behalf of clients. Even though clients are building in-house production capabilities, the majority of the spend tends to flow through external agencies while the spend going through in-house teams remains fairly insignificant at this time for most, but not all, companies.

Whilst a more intriguing question here may be related the remuneration model between the AOR and production company. APR's observation would be that most production that is funnelled through a creative agency tends to either be part of a firm/fixed bid, or cost-plus firm with cost plus line items. Additional remuneration models to engage production companies could include negotiated rate cards – especially, in the case of content engines and post-production, or flat fee for a project.

Q. Is the management of content production handled by your creative agency?



Q. When production is handled by your creative agency, how does your creative agency remuneration model look like?



"Mix of commission and labour."
"Project cost which is labour based."
"Cost per deliverable."
"Value based compensation."
"Combination of commission prod spend and labour-based."
"Some labour based, some project based."
"Based on the assets being produced."
"The agency does not take any commission to handle production. We pay third party costs with no overheads and post-production work."

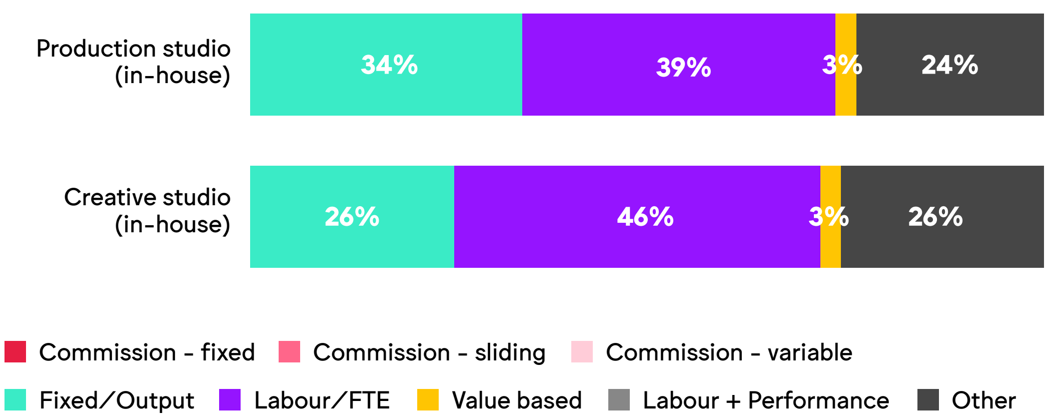
Creative in-house studio – paid as FTE (part of staff) or project based

Nearly 60% of respondents have some form of in house-studio with others showing keen interest but almost a third resolutely rejecting the idea. A small percentage are seeing a profit return to the business, but for the majority its either a 'staff cost' or a project fee (which again will be worked out on a cost/time basis). There is no mention of overhead here – which of course is built into an agency cost, so it would be interesting perhaps to drill down on this at some stage to see how all the elements that come together to form these remuneration structures are handled by the company.

Few of these companies, of course, are likely to have completely in-housed. In-housing takes many forms from studios producing day to day basic materials through to more fully formed operations with planning and creative in-built.

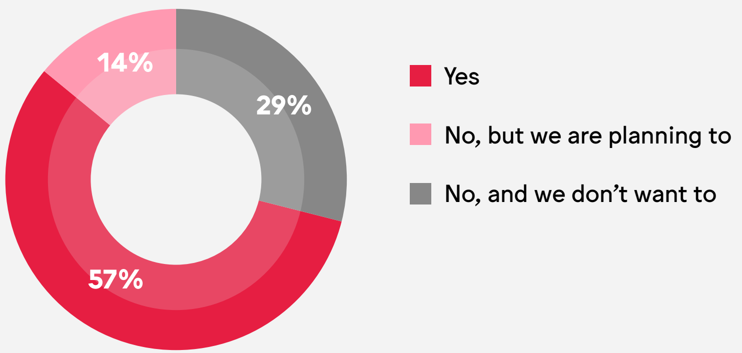
But few clients will totally walk away from the talent that lies in external agencies and the perspectives that can bring to the business through other wide-ranging and shared multi-client and multi-sector experiences. The role of the creative agency is, and remains, strong.

Q. What type of compensation methodology do you mainly use for your creative and/or production in-house agency?



Q. How does your in-house agency operate?

Q. Do you in-house some creative and/or production services?



PBR*

“We have been using PBR models to reinforce the partnership with our key partners, because we believe these foster and support a trustful and long-lasting relationship. One successful model was a performance-based remuneration based on mutually agreed KPIs and objective evaluations. Instead of penalty fees we used a bonus system.”

Jessica Kaschade
Global Category Lead Marketing Agencies, Bayer AG

“PBR is a great tool, as it ultimately helps drive business growth. In order for PBR to be impactful, metrics should be directly impactable by the agency. Metrics such as ‘engagement’ with the campaign in question is one example we use to reflect the performance of our agencies.”

Annamaria Fuzy
Global Director of Experiential Procurement & Sustainability, ABInBev

* Performance Based Remuneration

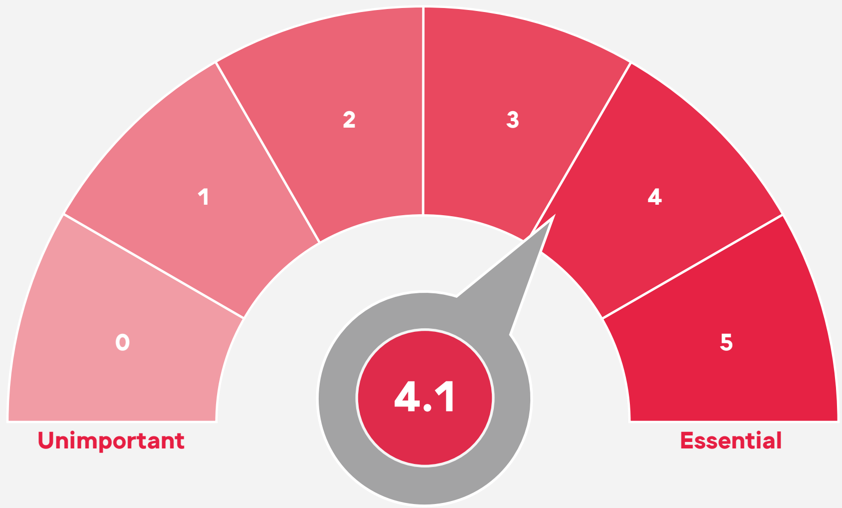
Clients think it's important to link agency income and performance, and do so where possible or relevant

Performance is becoming increasingly important – in many respects it always has been in media where it's easier to measure – but over recent years there has been a significant increase in performance-related pay for creative services. Certainly, we often identify clients struggling to set appropriate KPIs on creative, but this doesn't seem to deter intent given that virtually 80% of respondents are using some form of PBR with their agencies. It's surprising that a rather lower percentage are doing that in the digital space - especially given the fact that measuring should be much simpler for digital where outputs are highly trackable. Despite client intent, this is often due to push back from the agencies, when they don't feel that they have full control or influence over the elements that go into delivering against the KPIs.

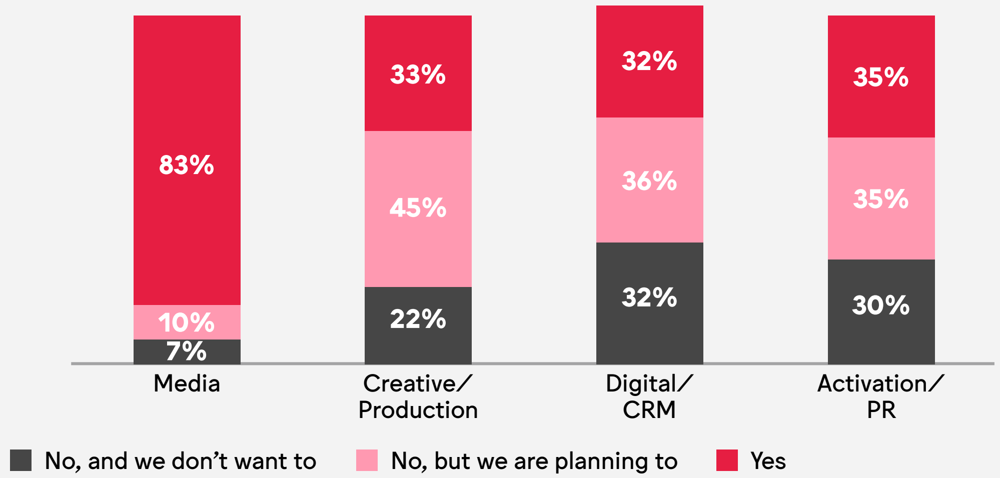
This contrasts with e-commerce (see next page) where we can see the highest percentage of performance-related pay in play and where tracking and performance is naturally in-built – so easily calculated. That can't be said so easily for influencers, with many clients struggling to define parameters and having to negotiate these with, sometimes difficult, individuals or their agents.

Influencers are, inevitably, their own brand to some extent, so they have to be confident that the client's KPIs and objectives don't jar against their own established parameters of personality, behaviour or activity. As a result, it can be far harder to find agreement of what constitutes 'performance'.

Q. How important do you think it is for your agency income to be linked to the client or brand performance?



Q. Do you use PBR models? (across all agency types)



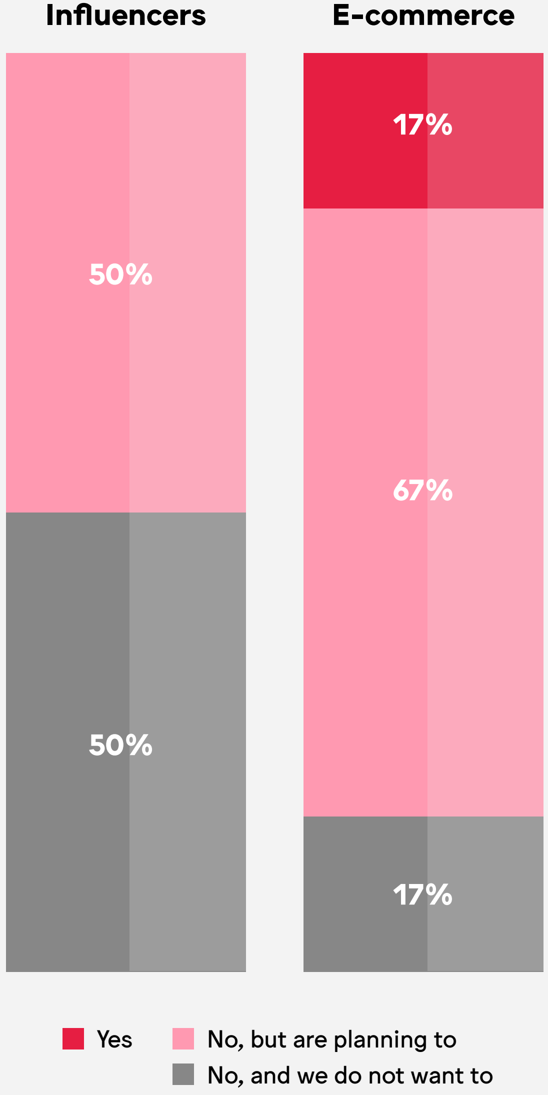
More PBR models to be explored e.g., with influencers and e-commerce partners

Agencies who offer influencer marketing services are usually remunerated for performing a project management role. They perform landscape searches, identify potential influencers, contact and negotiate with them, handle contract details and deliver ongoing project management to achieve an end result. This mainly works using an hourly/FTE model.

A variable element can be added in to ensure certain performance goals are being achieved. For an agency, this could be a commitment to identify and sign-up a specific number of influencers on behalf of a client over a set time period. For the influencers themselves, this would depend on the objectives for using them and the goals that are being aimed for.

Influencers can perform and acquisition role in driving web traffic, downloads, sign-ups etc, but any variable remuneration for delivering against targets would need to be negotiated from the outset and be agreed to by both parties.

Q. Have you implemented a PBR model with....



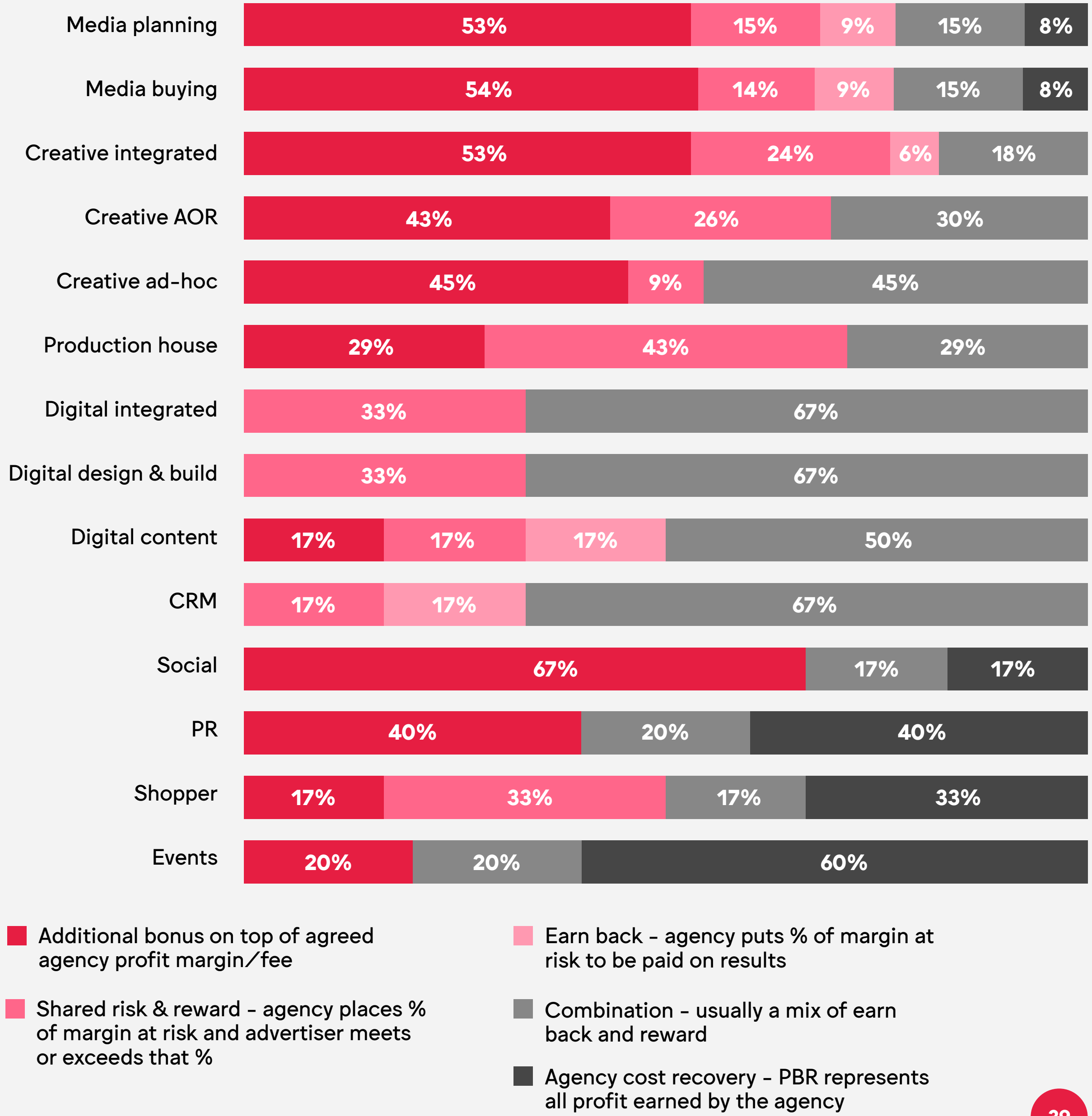
Lack of client consensus on PBR best practice methodology

In the same way businesses use multiple methodologies to compensate their agencies, there is a similar pattern when it comes to PBR.

Perhaps surprisingly, the most dominant approach is pure additional bonus (though methodologies and approaches will vary significantly) – used by the majority for media, integrated creative and particularly social, followed by a combination of earn-back and reward – particularly prevalent in digital and CRM. Cost recovery features in media (to a small extent) and in social, PR, shopper and is dominant across events.

Cost recovery may provide a warm glow to those focused on cost savings – but we would advise against this methodology because of the potential downsides. Running business at a net cost for agencies is precarious, offering no 'buffer' against unpredictable or unforeseen market activity and can only protect their position by placing lower cost (and less experienced) people on the business with the obvious long-term outcomes. Simply put this is a 'stick' approach and unlikely to endear agencies to clients who adopt these tactics which means they will either make some money on the business – or end up running the business at loss – which is clearly unsustainable.

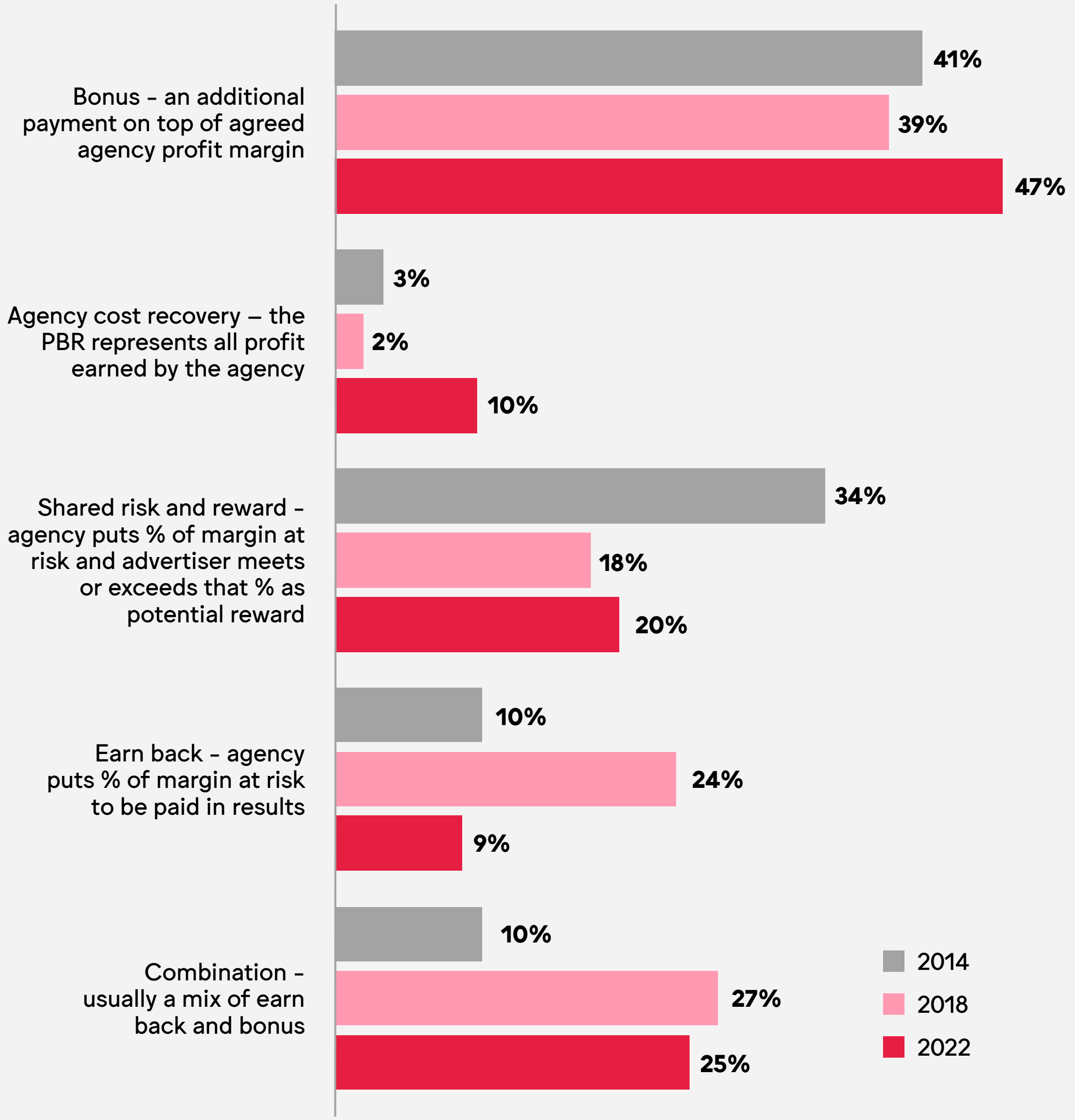
Q. What approach does your PBR model most closely resemble?



Additional bonus remains the most common PBR model

Worryingly, as can be seen from the survey data, cost recovery appears to be on the increase – up from a negligible 2% in 2018 to 10% in 2022. Biggest move other than the fall in 'earn-back' which has fallen over the period by 15% – which we believe is a positive step. Pure agency reward is up by 8% over the period – the second most significant increase. Undoubtedly PBR arrangements provide focus for both clients and agencies alike – but there are pros and cons to these approaches.

Q. What approach does your PBR model most closely resemble?



The chosen PBR model will dictate the type of relationship clients want to have with agencies

Type of PBR	For	Against
Bonus or additional payment beyond agreed agency margin	+ Potentially straightforward providing clear KPIs are agreed from the outset + Easy to budget	– Lacks any real motivation for the agency – they are guaranteed to achieve their base margin regardless. – Very often purely reliant on agency behaviours rather than business-changing dimensions
Cost recovery, where PBR represents all agency profit	+ Can be seen to be an aggressive cost management approach + Easy to budget	– Needs focus to set appropriate KPIs – Corners the agency – they stand a high risk of unprofitable business – Agencies likely to protect their position by putting lower calibre/ cheaper people on the business – Unlikely to build any true partnership
Shared risk and reward	+ Can benefit both client and agency alike + Basis for true partnership – carrot and stick approach + Real motivation for agency to perform beyond expectations + Provides focus on business changing KPIs	– Needs focus on setting realistic KPIs – Works best when based on realistic agency margin as a base – Less motivational if undertaken with reduced agency margin (which can effectively be an earn back)
Earn back	+ Potentially easy to set up	– Lacks agency motivation – Reduces potential for real partnership – ‘Stick’ approach only
Mix of earn back and bonus	+ Similar to shared risk and reward + Potentially similar benefits	– Tends to be the setting of lower expectations – May not be that motivational for the agency – downside being greater than any potential upside

Note: the recommendations included in this document are merely meant as suggestions or proposals. They are not binding in any way whatsoever and WFA members are free to depart from them.

Robust metrics encourage positive behaviour and better agency performance

Setting KPIs needs close thought but generally operate across three parameters;

- **Hard (sales performance)** e.g., sales/share v plan
- **Robust (brand performance)** e.g., brand tracking measures
- **Soft (agency performance)** e.g., team, strategy, deliverables, operations

How the three dimensions are weighted, and which components are used will vary across type of client and the priorities they are seeking. For example, some clients and agencies will consider certain 'hard measures' such as sales as being influenced by a number of factors beyond those of comms. In this instance they will want to allocate a smaller percentage to this element. Measures where the genuine effect of comms can be identified usually fall into the robust areas. 'Soft measure' i.e., the agency's general performance should have close consideration in terms of percentage weighting. They are service businesses and as such a high standard should be the 'norm'. And, as mentioned earlier, KPIs need to be realistic and achievable. And monies need to be set aside within the budget in the event of maximum scores being realised.

In our experience the most effective PBR schemes generally seem to be those that have the greatest level of focus on 'robust' measures – the area where agencies can genuinely demonstrate their potential to change business.

Overweighting 'hard' measures can lead to issues – as there will be elements outside of the agency's control which can affect company performance – or sometimes result in the agency being over-rewarded if the company has an unusually good year.

We mentioned previously the fact that one should be cautious on overweighting 'soft' metrics, agency performance measures as service levels are to be naturally expected. However, we have seen high weighting on soft measures used for inter-agency collaboration to significant effect. Agencies rarely play well together – but by placing a reasonable sum of money up for grabs if the agencies work well together has proven to be a significant incentive to change behaviours.

For the PBR mechanism, and for agencies providing 'creative' assets, The Observatory International generally recommend the following as a simple risk/reward mechanic:

Within an agency fee, there will generally be an agreed agency profit margin. We recommend the amount equivalent to 50% of this margin is put at risk by the agency. However, this amount is matched by the same amount from the client and put into the 'bonus pot'.

- > If the agency misses KPIs, it falls short of its desired profit margin.
- > If the agency hits KPIs, it gets its desired profit margin.
- > If it beats KPIs, it can beat its desired profit margin.

Example:

- Agreed agency fee: $1,000,000
- Agreed agency profit margin: 15% i.e., $150,000
- Agency puts amount at risk (50% of profit): $75,000
- Client matches amount at risk: $75,000
- Total bonus pot: $150,000

Outcome:

- KPIs not achieved: agency forfeits up to $75,000, and does not hit desired profit margin
- KPIs achieved: agency earns back the $75,000, and hits desired profit margin
- KPIs beaten: agency earns up to an additional $75,000, and beats desired profit margin

Very often approaches on PBR vary from the same clients across markets and regions. This can lead to complexities and confusion – far better that a single approach be taken to accommodate the various agency types and applied unilaterally.

Varied % of remuneration linked to performance

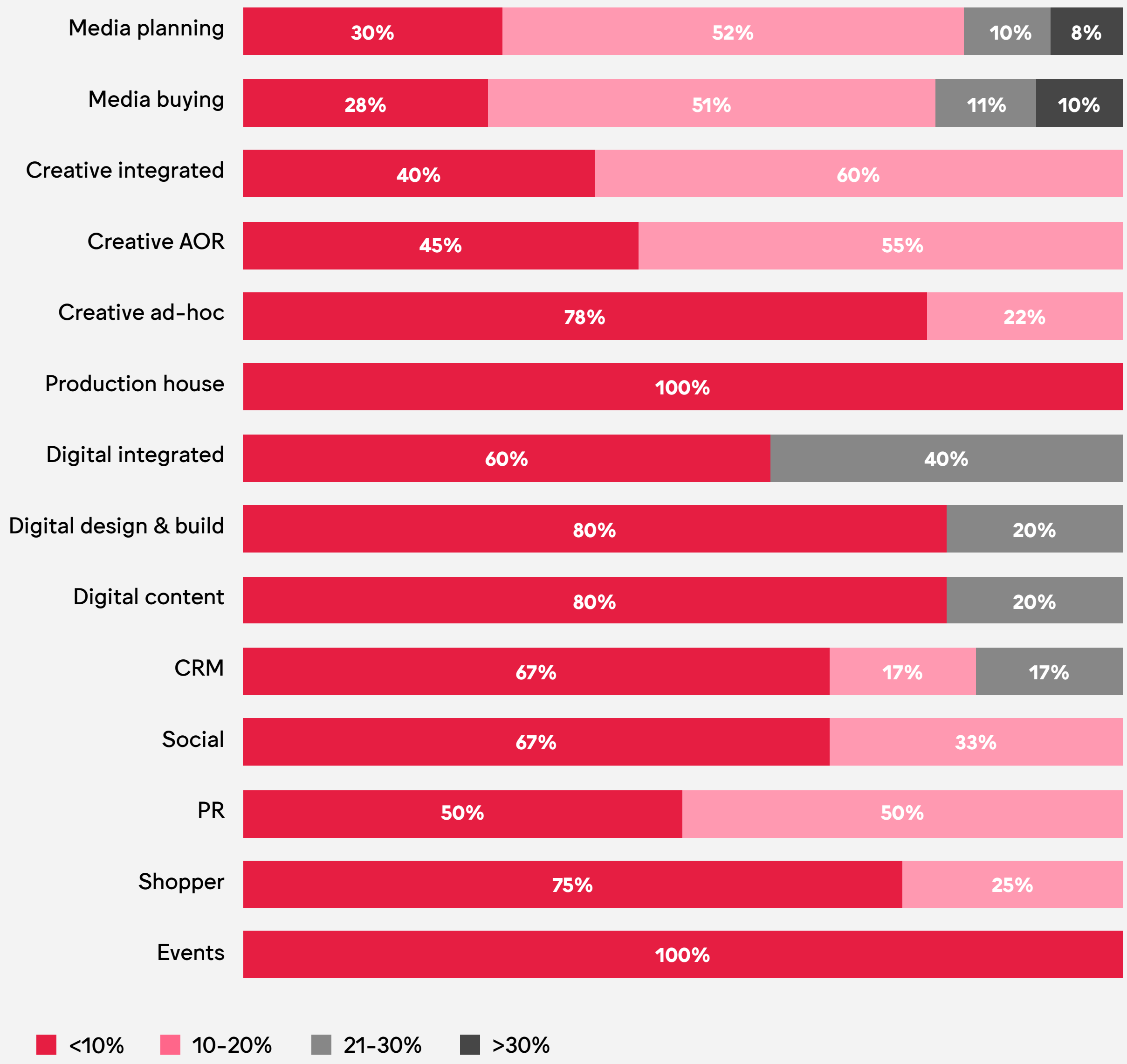
In the main, the amounts paid for PBR are up to 10% of fee spend across most disciplines – with the exception of media where around 50% of respondents are paying up to 20% with a further 18% paying a higher amount still. These higher amounts are likely built around performance marketing where tracking is effective enough for both parties to confirm results.

For creative services, the majority are contributing between 10% and 20% though ad-hoc activities are dominated by a lower level of payment. Digital/CRM appears to command a higher level of PBR for some – 20-30%.

Whilst this may look like quite good news for agencies, it's important to bear in mind the basis upon which these arrangements are made. Very often they are formed around heavily negotiated agency base amounts – so they may not be as generous as they appear.

We have seen some clients attempt to integrate performance compensation where creative/data/media are all connected – largely unsuccessfully. This is due to the fact that the complexities make it very difficult to implement as agencies will push back on being measured against areas that they cannot fully control. Each agency type will need to have KPIs, and performance targets agreed with them individually. This is easier to do in the media space where tracking of performance is much more tangible. As outlined in the report, creative performance-related remuneration is harder to establish as work is less tangible in form and measurement is more subjective.

Q. If you remunerate your agency based on performance/value, what % of the remuneration agreement as a whole does that typically constitute?



Broadening incentivisation

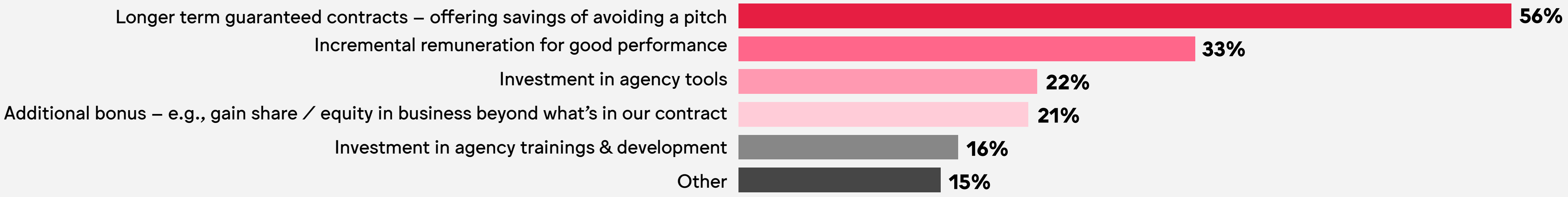
"Being fair to our agencies includes:

1. **Clear briefs;**
2. **Reasonable pitch timeline;**
3. **Equal opportunities;**
4. **Clear measurement and evaluation metrics;**
5. **Professional conduct – pre, during, and after pitch;**
6. **No unauthorized use of ideas. If a non-winning agency has a tactical idea we want to implement, we would pay for the concept."**

Wei Li Low
Regional Procurement – Marketing Services Lead, Grab

Clients exploring alternative ways to incentivise their partners

Q. Do you use alternative ways to incentivise your agency partners? Tick all that apply



It's encouraging to see endeavours to incentivise agency partners – but the reality is that many of the above are either complex to implement or whilst well intentioned, will do little to truly motivate their agencies.
Long term contracts may seem to be appealing – but in reality, whilst agencies will feel a higher level of comfort with 'rolling contracts' (with appropriate termination clauses) long-term fixed contracts don't take into account changes in the day to day, either in terms of requirements or inevitable staffing changes (from both sides) which may alter the dynamic. If an agency fails to perform (for whatever reason) a long-term fixed contract can cause real problems.
And whilst providing extra payment for exceptional performance is fine, it should be based around a variety of KPIs – not just good service by the agency. Agencies operate at the 'sharp-end' of 'service' industries – so good behaviours should be a given. There are other far more important and measurable business change dimensions that should be considered.
The thought of investing in agency tools is interesting – though in reality clients should ensure their agencies have the appropriate tools in play prior to appointment – and the investment into their portfolio of tech will potentially be wasted should the relationship come to an end.
Because it can engender a real and deep partnership with mutually shared objectives, we have always felt that gaining equity in a client's business is an interesting approach (and many agencies do too). But the reality here is that we have never seen it come full into play because it always gets headed off at board level or because of legal complications, largely in relation to potential issues arising from the investment situation, if the relationship terminates.
The thought of investing in training is perhaps the most positive thought here – though not purely for agencies – in our experience many clients could benefit from this too.
The reality is that many clients (especially at mid/lowers levels) don't really understand how agencies work – and the reverse is certainly true of many in agencies who assume that their clients have the same level of focus on agency activities as they do – when the reality is that it's simply one small aspect of their job. Joint training can do much to overcome these issues and create an environment for great partnerships and resultant work.

There are other areas we have identified as providing motivation for agencies:

- Investing in regular relationship management surveys that can head off issues before they become significant;
- Investing in effectiveness awards;
- And an annual awards programme for roster agencies will definitely appeal to the competitive nature of these business who always want to beat their rivals.

But above all else, the thing that will produce the best results will be being the best possible client. And that's a combination of behaviours and paying appropriately. Talent, as we all know, is finite in agencies and has never been more in demand. Being a great client will attract that talent – having a poor reputation for behaviours will mean you'll be struggling to get good people on the business in the long term. And agencies' best people will always follow the money – squeezed budgets means those clients are unlikely to get the agencies' premier (and, obviously, more expensive) people.

Paying for pitch – becoming a common practice in certain cases?

Leading on from the thinking behind being the best possible client, nothing sends a bigger signal of what type of client you are going to be than recognition of the need to make some form of contribution to a pitch.

Industry data suggests that the average cost of a mid-sized 'domestic' creative pitch for an agency is in the region of US$200,000 when one takes into account time and materials costs. Clearly for regional/international business, there will also be significant travel and accommodation costs that agencies will need to cover as we come out of the Pandemic.

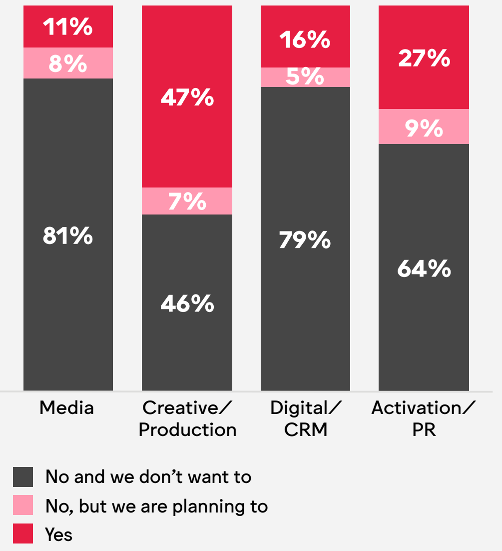
Whilst agencies would never expect to be re-imbursed for the total costs of a pitch, providing some sort of payment, even as a gesture, will say much about you as a future business partner. Businesses should certainly consider a contribution to necessary travel costs which, despite a period when pitches were done virtually, will return due to overwhelming desire by marketers to actually meet properly with the people they will be working and doing business with.Yet we see from the findings that (with the possible exception of creative), the vast majority have no intention of making any contribution – even genuine third-party costs such as travel. It will be interesting to see whether this approach will continue to prevail given the headwinds the industry is facing.

One the one hand we see a reduction in budgets being forecast which will inevitably result in clients pressurising agencies to continue the trend of supplying more for less. On the other, talent shortages, increasing selectivity by agencies on what they pitch for plus a focus on delivering for existing clients, may provide a reticence to participate. We are already seeing procurement being surprised that agencies who they would normally expect to come rushing to the party, politely declining (and these tend to be the better offerings who can be more selective). That, of course has a tendency to leave the 'best of the rest' to compete, which may not be best for the business.

The question then is not should we pay but how much should one pay to get the best possible contenders on pitch lists. Looking at the comments from those who do contribute, it's apparent that these amounts can vary and, in many instances, are 'token' gestures. These need to be looked at on a case-by-case basis. Certainly, across the board some form of travel contribution should be made if travel is an issue. For creative, digital, PR and experiential one needs to look at the value of the opportunity and the 'ask' in terms of the deliverables at the pitch. The greater these are, the higher the contribution should be – within reason.

And in all of these instances, expecting any fee paid being conditional on agency intellectual property (IP) being handed over on the work presented, is a non-starter for all but the desperate. No matter what the amount is, the fee will rarely be an adequate reflection of the value of thinking/ideas – and asking agencies to sign away highly valued agency IP pre-appointment definitely signals less than satisfactory behaviours by the client and will put agencies off.

Q. Have you ever paid agencies for taking part in a pitch? i.e., whether the agency was appointed to the business or not, have you compensated them for the time they spent taking part in your pitch?



WFA member comments:

"5K or 5%."

"We have provided pitch fees 3000-5000 when we are asking big ideas."

"2k-10k but max. 10% of the pitch budget in total."

"Fixed cost for taking part of the pitch and additional $ if business was awarded (besides of the project cost)."

"Based on the project budget c. £10-15k.

"We don't do it anymore but regional was $5k to $10k and global was $25k."

"5k - 10k."

"For a 360-campaign development brief, €5K for participating to the first round +2K for making it to the final round."

"Only when we go very far in the process, like expecting deliverables for testing (like mock up - animatics)."

"In case of complex pitches, we might pay 5-10k€ compensation for not winners."

"Depends on the size and the ask between 2,000euros and 10,000 euros."

"Yes, travel and a fixed fee was paid. The fee ranges from 2.000 € to 5.000 € per candidate."

Profit margins and overheads

"The goal of marketing is to drive business growth so value should be considered as any and all activities that improve brand performance. This covers all procurement activities that drive marketing efficiency and effectiveness whilst managing risk and building reputation. Examples of value include increased transparency and therefore trust, progressive and fair compensation models, securing the best agency talent and the right agency for a given task, driving excellence in agency relationship management with higher quality output, as well as leading Diversity and Inclusion and Sustainability programmes with partners. Multiple tactics need to be implemented in order to achieve each of the examples above and, ultimately, improve agency relationships with a view to maximizing Return On Marketing Investment and driving business growth."

WFA's Global Sourcing Board

Varied degrees of transparency into agency overheads, depending on agency type, but also geography

Understanding of agency overheads remains an issue for most and has slightly decreased since our last report (around 5% of respondents), and this varies not only by agency type but also by region – largely due to variances in methods of reporting.

Generally, overheads should comprise costs of non-chargeable personnel, property related costs, equipment, heat, light etc – all the elements required to run a business. But agencies may also include other elements which means that what's in an overhead can flex. Agencies are often reticent to break this down in detail, but you are entitled to press on this point.

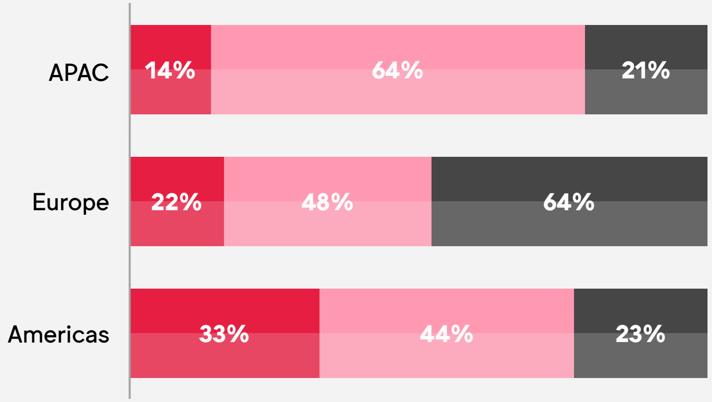
As can be seen from below, overheads vary by agency type and location (and even within location as a result of being in major or secondary cities) – so whilst the below can be taken as a general guide, these figures are by no means definitive.

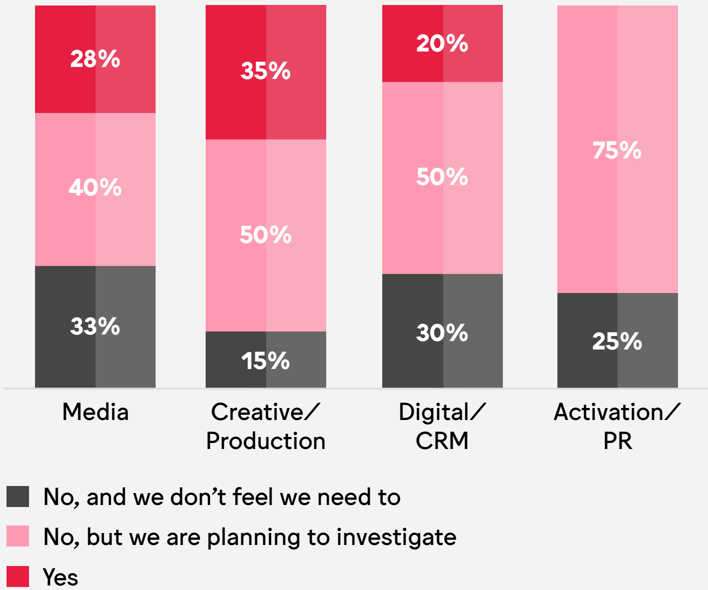
What we have observed (though not necessarily reflected below), has been a general lowering of overheads as many network agencies have been re-grouped/merged with multiple agencies often being put into one principal location within cities rather than having separate offices across the city. This means that one block containing several agencies has one property and energy cost which can be amortised across individual agencies within that building rather than duplicating costs across a wider estate.

During covid, and 24/7 WFH, many clients asked what the ramifications of that would be on overheads. This simple answer is that most agencies have long term arrangements on their property and need to cover costs whether staff are in the office or not. But post-Pandemic their return to the office has been sluggish for many agencies – some of whom have been able to move to smaller facilities that can cope with staff attendance flux and a subsequent reduction in overheads.

Without question some agency types can operate more readily with virtual or semi virtual working – others (especially creative related) are putting up a resolute public face on the benefits to their staff of hybrid working but privately totally recognise a need for the workforce to return in order to deliver work that's up to standard. As a result, they are maintaining the arrangements they had pre-covid in the hope of a greater level of staff return. It's a major issue for agency leaders who walk a fine line between understanding preferences of individuals and the harsh realities of running a business. And there's a high level of recognition of the potential long-term damage to the industry especially in relation to more junior staffers who will not learn the business effectively by sitting on Zoom calls and isolating themselves from the buzz and learnings that are obtained by daily agency life. The damage that will cause will become apparent in future years.

Q. Do you have detailed insight into what the agency overhead comprises?





China

The following provides indicators of both profit margins and associated overheads by agency type and location. Again, we would stress that these figures, provided by our respondent base should be treated with caution as, again, these can vary significantly by both business value and agency size.

In particular, we only have figures from Brazil in LATAM – and market conditions there are significantly different to other LATAM market (Argentine, Chile etc) not least of which being that fact that in Brazil, Media and Creative, unlike any other market, are inextricably linked.

And we would suggest that China also be treated with extreme caution. Not only is the sample size low, but the political and economic situation with 'spot' shutdowns where covid is identified, together with supply chain issues, has meant that it's been a very difficult environment to navigate and predict.

Profit margins

	0-5%	6-10%	11-15%	16-20%	21-30%	>30%	Don't know
Media	17%	33%	0%	0%	33%	0%	17%
Creative	0%	25%	25%	0%	0%	0%	50%
Production	0%	50%	0%	0%	0%	0%	50%

Overheads

	<50%	51-60%	61-70%	71-80%	81-90%	91-100%	101-110%	111-120%	121-130%	>130%	N/A
Media	33%	33%	0%	0%	33%	0%	0%	0%	0%	0%	0%
Creative	0%	0%	0%	0%	22%	0%	0%	0%	0%	0%	78%
Production	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	100%

How to read these charts: at the top, you have the % ranges for overhead and profit. Below, you have the % of respondents who selected this range. Red cells indicate the clusters showing the majority of responses.

USA

Profit margins

	0-5%	6-10%	11-15%	16-20%	21-30%	>30%	Don't know
Media	0%	31%	37%	20%	0%	0%	11%
Creative	0%	19%	38%	17%	0%	9%	17%
Production	0%	27%	13%	27%	7%	13%	13%

Overheads

	<50%	51-60%	61-70%	71-80%	81-90%	91-100%	101-110%	111-120%	121-130%	>130%	N/A
Media	0%	0%	6%	19%	13%	31%	6%	16%	0%	0%	9%
Creative	5%	15%	7%	2%	0%	24%	22%	2%	0%	7%	15%
Production	0%	8%	8%	0%	8%	25%	17%	0%	0%	8%	25%

Canada

Profit margins

	0-5%	6-10%	11-15%	16-20%	21-30%	>30%	Don't know
Media	0%	28%	36%	28%	0%	0%	8%
Creative	0%	31%	34%	12%	0%	0%	23%
Production	0%	56%	11%	11%	0%	0%	22%

Overheads

	<50%	51-60%	61-70%	71-80%	81-90%	91-100%	101-110%	111-120%	121-130%	>130%	N/A
Media	0%	0%	10%	30%	10%	40%	10%	0%	0%	0%	0%
Creative	14%	14%	0%	0%	0%	59%	0%	0%	0%	0%	14%
Production	13%	0%	0%	0%	25%	38%	0%	0%	0%	0%	25%

How to read these charts: at the top, you have the % ranges for overhead and profit. Below, you have the % of respondents who selected this range. Red cells indicate the clusters showing the majority of responses.

Brazil

Profit margins

	0-5%	6-10%	11-15%	16-20%	21-30%	>30%	Don't know
Media	0%	25%	33%	17%	0%	0%	11%
Creative	12%	27%	27%	6%	0%	0%	27%
Production	9%	36%	18%	9%	0%	0%	27%

Overheads

	<50%	51-60%	61-70%	71-80%	81-90%	91-100%	101-110%	111-120%	121-130%	>130%	N/A
Media	0%	0%	0%	33%	11%	33%	11%	0%	0%	0%	11%
Creative	11%	0%	3%	0%	11%	29%	11%	0%	0%	0%	34%
Production	11%	0%	0%	0%	22%	22%	11%	0%	0%	0%	33%

Germany

Profit margins

	0-5%	6-10%	11-15%	16-20%	21-30%	>30%	Don't know
Media	12%	50%	6%	4%	0%	0%	29%
Creative	0%	20%	45%	20%	0%	0%	15%
Production	7%	14%	21%	21%	0%	0%	36%

Overheads

	<50%	51-60%	61-70%	71-80%	81-90%	91-100%	101-110%	111-120%	121-130%	>130%	N/A
Media	9%	11%	15%	13%	15%	9%	0%	0%	0%	0%	30%
Creative	20%	15%	3%	6%	17%	21%	0%	9%	0%	0%	9%
Production	8%	17%	0%	0%	8%	8%	0%	0%	0%	0%	58%

How to read these charts: at the top, you have the % ranges for overhead and profit. Below, you have the % of respondents who selected this range. Red cells indicate the clusters showing the majority of responses.

UK

Profit margins

	0-5%	6-10%	11-15%	16-20%	21-30%	>30%	Don't know
Media	11%	41%	12%	5%	0%	0%	32%
Creative	0%	9%	41%	20%	0%	0%	30%
Production	6%	17%	22%	22%	0%	0%	33%

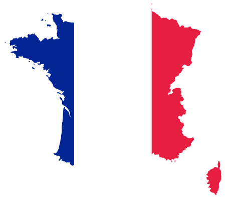
Overheads

	<50%	51-60%	61-70%	71-80%	81-90%	91-100%	101-110%	111-120%	121-130%	>130%	N/A
Media	10%	5%	10%	17%	14%	8%	0%	0%	0%	0%	36%
Creative	15%	4%	2%	0%	13%	23%	0%	8%	0%	0%	35%
Production	13%	7%	0%	0%	7%	7%	0%	0%	0%	7%	60%

France

Profit margins

	0-5%	6-10%	11-15%	16-20%	21-30%	>30%	Don't know
Media	8%	44%	11%	4%	0%	0%	33%
Creative	0%	17%	40%	15%	0%	0%	29%
Production	7%	7%	29%	21%	0%	0%	36%



Overheads

	<50%	51-60%	61-70%	71-80%	81-90%	91-100%	101-110%	111-120%	121-130%	>130%	N/A
Media	8%	6%	10%	16%	13%	8%	0%	0%	0%	0%	37%
Creative	12%	15%	3%	0%	15%	21%	6%	0%	0%	0%	27%
Production	8%	17%	0%	0%	8%	8%	0%	0%	0%	0%	58%

How to read these charts: at the top, you have the % ranges for overhead and profit. Below, you have the % of respondents who selected this range. Red cells indicate the clusters showing the majority of responses.

Payment terms

“It cannot be in clients’ long-term interest, when reputation is so critical to ensuring you can work with the best possible talent, to unfairly extend payment terms.”

Stephan Loerke
CEO, World Federation of Advertisers

WFA

“I think there are situations which are unfair and cross the line, and I am not a proponent of continuing to extend terms. There are some situations which have broached into unfair territory and there needs to be a reckoning between clients and agencies to what is reasonable and sustainable over the long term and stick with that.”

Bob Liodice
CEO, Association of National Advertisers

ANA

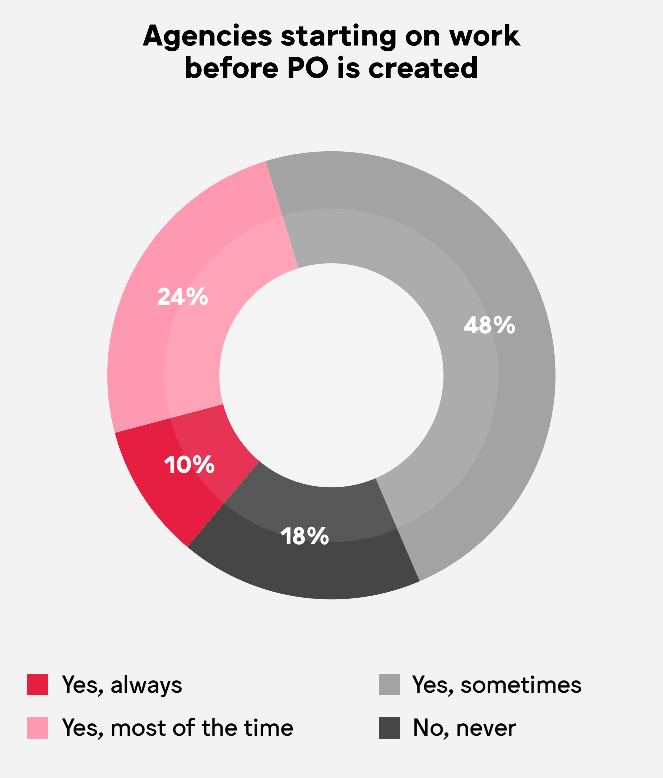
Too many agencies are being asked to start work before a PO is created

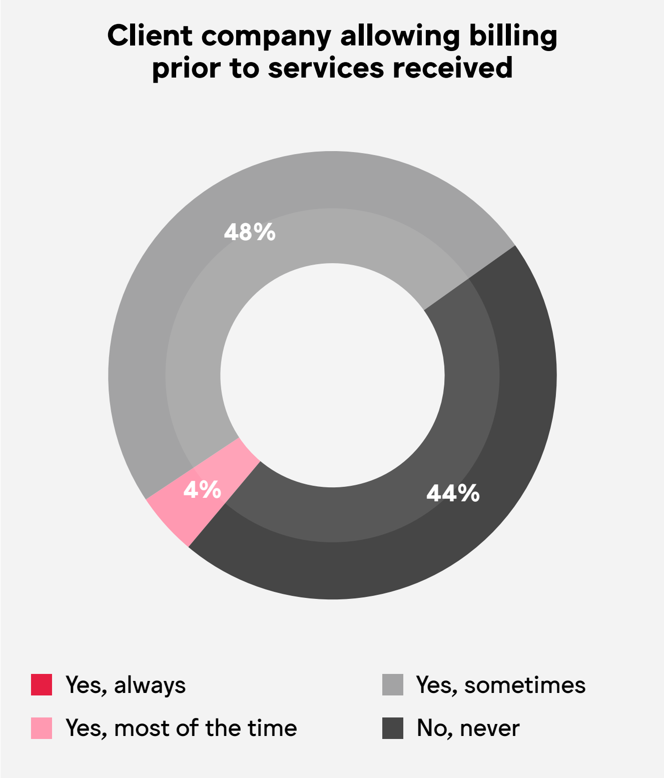
We often hear complaints from agencies that they have delivered work but have issues in getting PO's. The very 'service' nature of agencies means that they 'jump' to client requests and very often marketers need work urgently – but fail to follow process through or requests for PO's get stuck with purchasing.

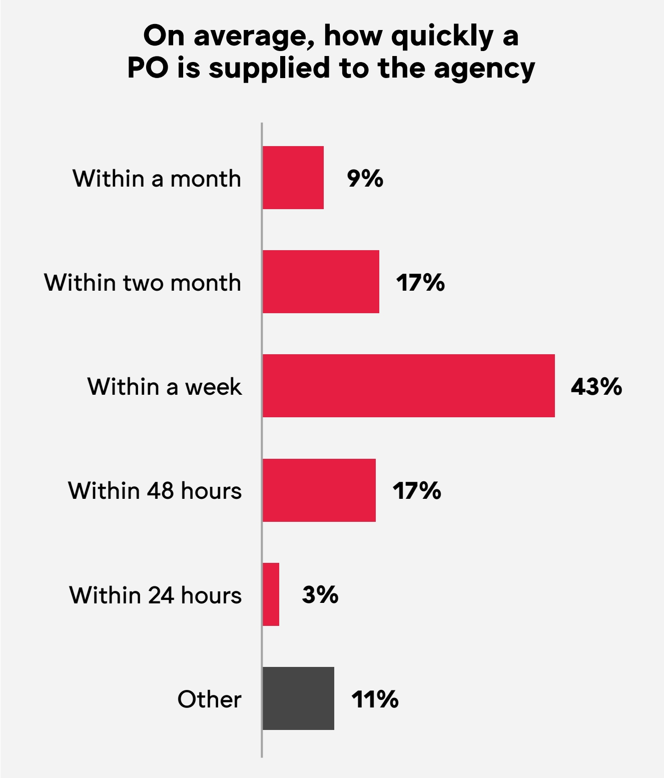
We doubt there will be many contracts that don't contain a clause which states that work shouldn't be carried out without a purchase order – but in this industry the urgent often supersedes the important and, as we can see, a staggering 82% of work is commissioned without PO's, and whilst 80% of respondents indicate that PO's follow in short order, we suspect this perception is not the reality due to delays in the system between marketing and procurement.

What is really surprising is the degree to which work is billed prior to work being delivered. Perhaps that is a facet of very long payment terms, with agencies trying to re-coup costs as early as possible. The cynical may suggest that late issue of purchase orders simply works in the clients favour as it further extends payment terms. Certainly, agencies shouldn't be expected to bank-roll clients. Despite the fact that agencies are seen to be big businesses, the reality is that this is a perception rather than fact – and they need to pay their suppliers (very often, very small businesses) quickly – so damaging their cash flow is not in anyone's interest.

The fact remains that all the above are bad behaviours, but clients and agencies are both complicit in this. Such bad practice should, quite simply, not be the norm.





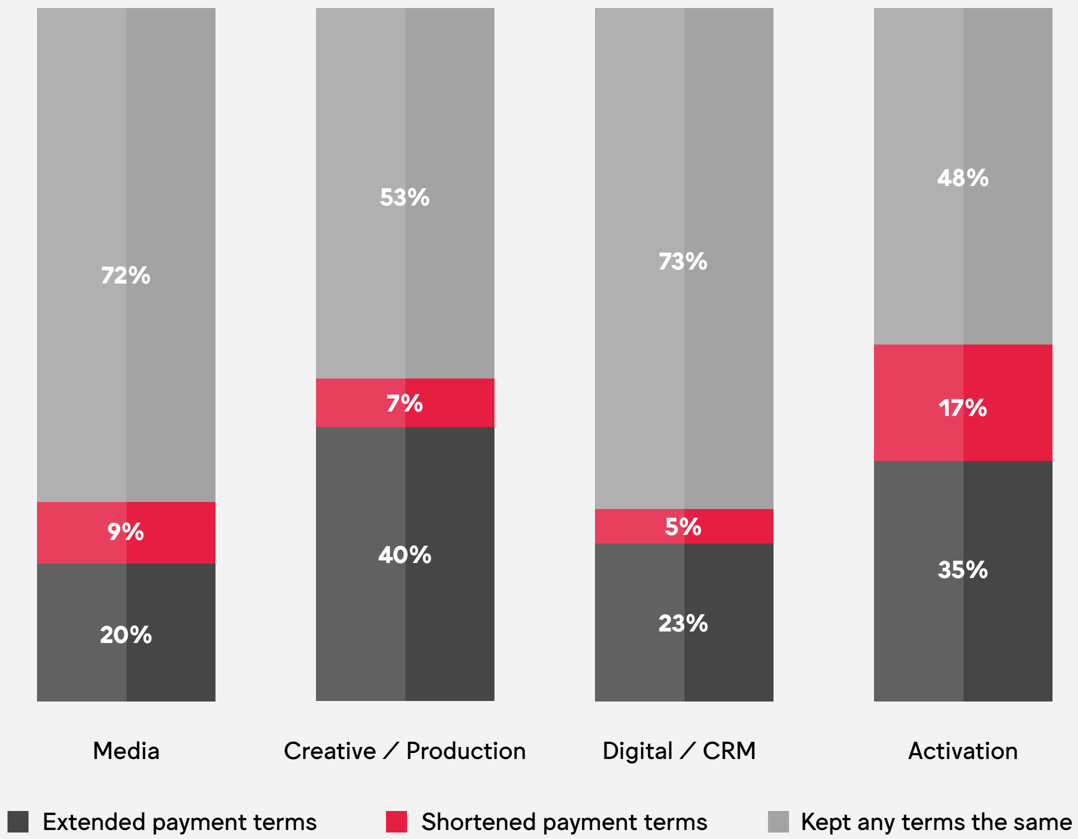


On average almost a third of clients have extended their payment terms

And to further evidence the latter, we have seen that on average 30% of business have extended their payment terms – with most notably 40% across creative/production.

Without the detail on what the specific increases to those payment terms precisely are, it's difficult to estimate the degrees of stress agencies are being placed under – but it's a worrying trend and unlikely to motivate agencies to deliver efficiencies. And certainly, simply taking a blanket approach, regardless of type and size of supplier is not a positive way to engender a good working relationship with business partners. It's not unreasonable for a small agency to expect 30-day payment – and for larger agencies to look to 45 – and certainly no more than 60. Marketing should also have role in these discussions to ensure business critical activity is not put at risk by the impact of unreasonable payment terms.

Q. Overall, in the past 18 months, has your company...



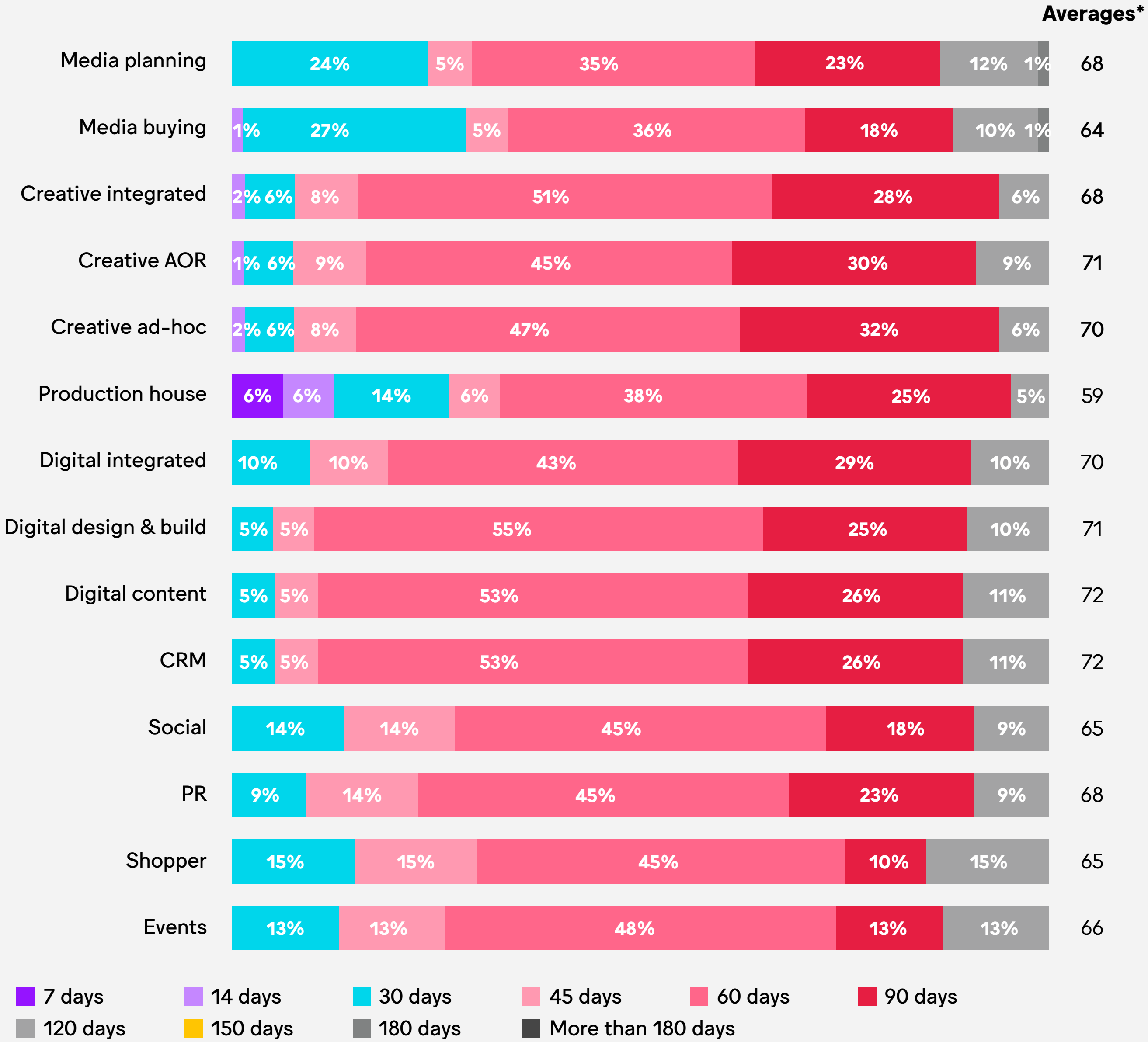
Main ‘standard’ for payment terms revolving around 60 days

Just reflecting on terms, it’s easy to see that in the main that ‘standard’ appears to be 60 days (but as mentioned previously, this shouldn’t simply be a blanket approach).

What is more concerning is that nearly a quarter of business are working on 90-day payment and an alarming 10% on 120 days or more – meaning that very often work will have been completed (and have to be paid for by the agency) before any money lands.

This may make sense for the purchaser as the benefits of delayed payment improves their cash flow – but it’s definitely to the detriment of the supplier who will have to take out extended credit to cover the cost of doing business, and with rising interest rates globally, this is going to cause significant issues with some, smaller agencies, potentially being forced out of doing business.

Q. What are the current payment terms offered by your company to your agencies?



* Weighted average assuming normal distribution within % ranges

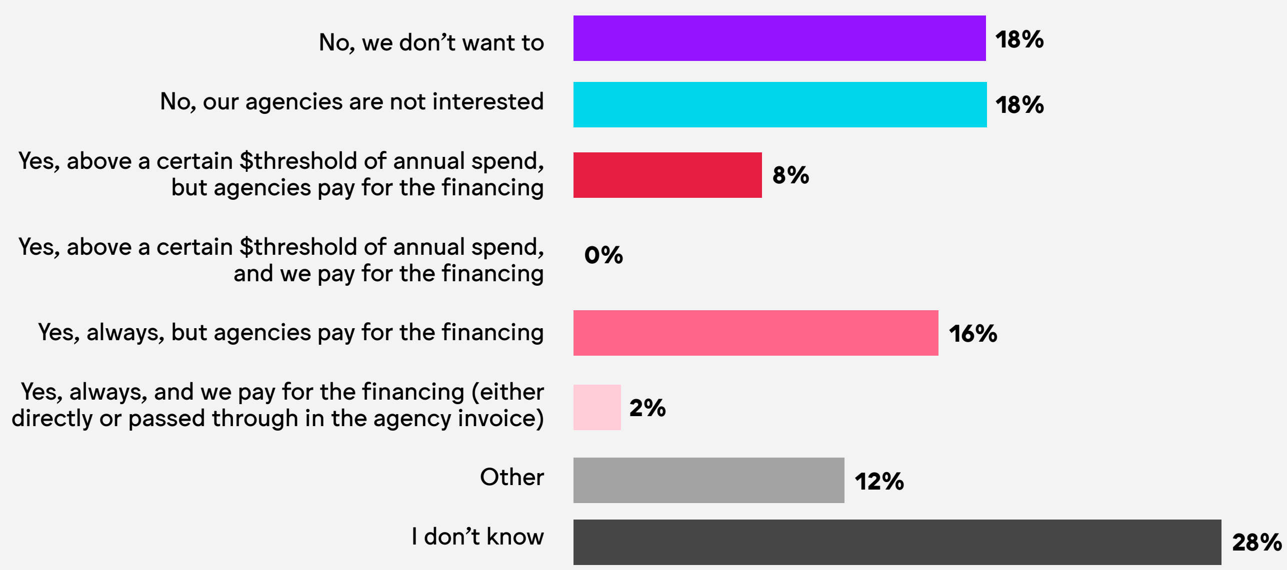
SCF solutions are not always seen as attractive solutions

Supply Chain Finance (SCF), also known as reverse factoring, is a set of solutions that optimises a client's cash flow by allowing them to lengthen their payment terms to their agencies while simultaneously providing the option for agencies to get paid early or on time.

The survey showed a close split between clients (26%) who offer SCF, to those who don't (32%). It is possible that for major global networked agencies, clients' bank conditions might not be better than the one they can have themselves. This can be different with 'smaller' agencies who may agreed to it. The success of the program depends as well on the country, and the agreement existing with the bank locally. Very few clients pay for the financing, and this can also create additional reluctances from agencies having to pay an incremental cost coming from the reverse factoring.

Having clear marketing materials, a clear onboarding plan, as well as involving experts e.g., finance teams to help explain the benefits and mechanics, and making SCF optional, were recurrent tips from WFA members who successfully implemented SCF with some of their partners.

Q. Do you offer Supply Chain Finance (SCF) solutions to your agencies?



WFA member comments:

"Our standard payment terms are 45 days, we pay our small medium enterprises in 30 days, our pay on time is in the high 90% and are considered good payers when it comes to our suppliers and agencies. We are not a mature supply chain, we do not buy raw materials or manufacture. We purchase services and technology – typically these industries do not require supply chain financing. Finally, we are governed by the BOE. We are required to conduct financial security (and many other) checks on all potential suppliers. Any supplier that has a high risk identified through Dun and Bradstreet analytics, would need careful consideration and internal approval for exception to use."

"Our agencies' payment terms with media vendors were much longer than our terms with them, so we recently extended our terms by additional 30 days without need for SCF. We do have SCF with smaller agencies but are starting to get push back from them as LIBOR rates increased dramatically. The cost to the agency usually tracks LIBOR (interbank interest rate) which is currently higher than national bank rates. In countries with previously low interest and inflation rates the cost of financing for the agency has doubled or tripled in the past few months."

"The main pushback is that it would cost our global agencies money to receive payment that's already due to them. For some smaller agencies, receiving payment earlier is a priority for them and they're prepared to pay a small fee for it."

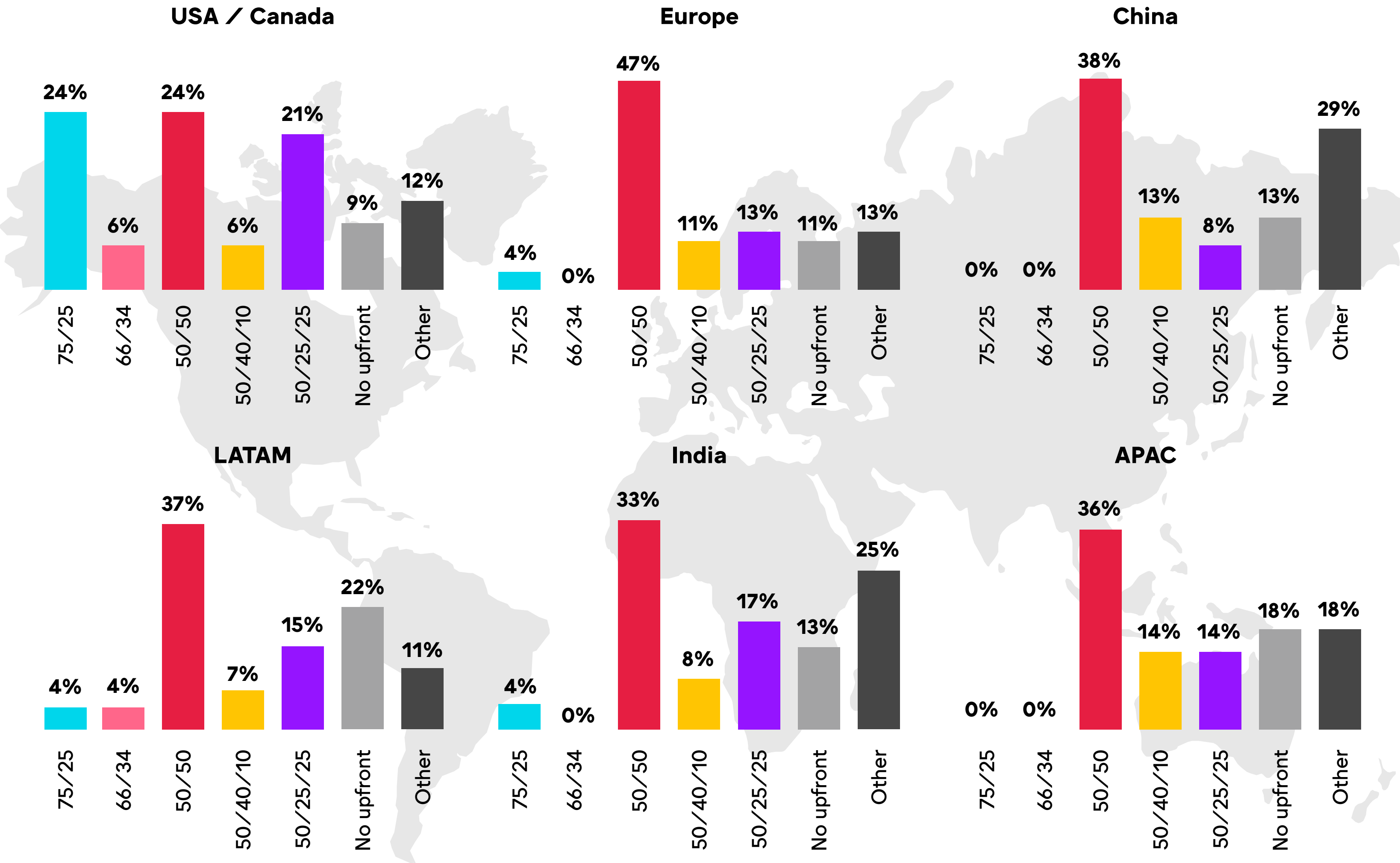
"Majority of the cost come from talent cost and our agencies do not think SCF will not help reduce talent cost."

Production pre-payments vary by region

The variance is in how much is paid upfront, how much is paid out and what triggers the payments. Many production companies will request 75% upfront and 25% at the last shoot day, but this is negotiable. It is important to consider the impact of the current economic climate as well as the following considerations collected from APR:

- Out of pocket costs. It is customary to provide some amount upfront (but not all) to cover the pre-production costs. This can vary by client, not just region and is based on preference and need.
- Timing of the project. If the project is to be shot within three weeks, a larger amount will be needed up front.
- Cadence of final payment and what triggers the final payment.
- Who is making the payment? Agency on behalf of the client? Direct from client? Third party?

Q. Do you pay a portion of the production cost upfront for any significant production jobs? And if yes, how does it mostly resemble?



APR's global advertising production payment guidelines

As marketers seek a better understanding of advertising production payments made by their agencies to production and post-production companies, this following offers current best practices and industry trends, and enables each party's point of view to be recognized and addressed.

- Advertisers: as payers, wish to minimize risk and maintain leverage to ensure value received for price paid.
- Advertising agencies: as purchasers, seek to balance payment schedules with their available cash flow, while executing productions and bringing content to market on schedule.
- Production companies: as creditors, look to minimize cash flow risk and receive prompt payment for services rendered.

Current processes

Production companies generally request a first payment of at least 50%. Crew costs may account for up to 40% of a production company's budget and carry the legal burden of labour payments due often within 7-10 days from initial pay period.

Post-production companies generally operate with lower variable costs and may be more amenable to payment terms in favour of clients.

Schedule constraints may require use of existing, or implementation of, a client-approved expedited payment process.

Sequential liability – in this context the shift of production payment liability from agency to client – is controversial, as production companies are usually unwilling to advance monies and risk unpaid balances historically caused by financial insolvencies of large advertisers.

One option to the agency-pays-production company model is the emergence of the client-pays-production company model, whereby the client receives more leverage and often lower rates. This model is currently being utilized successfully by several large advertisers globally.

Production and post-production contract

As the combined, collaborative project activities of the client, agency, and production/post company are defined and managed in the production contract – this legal document lists the client-approved final creative, budget, and schedule; and is executed between the production or post-production company and agency, on behalf of the client.

It is a best practice to synchronize contract language with brand production guidelines to ensure alignment with MSA, SOW, bid specs, cancellation / postponement policies, cost-plus policies, and project-specific requirements.

Payment structures

Although the global advertising production industry does not operate with standard payment terms, some regional industry standards are recognized; and where no such standards exist or have yet to evolve, a basic 50-50 structure (50% up-front, 50% upon delivery) is the most widely accepted.

Note: the recommendations included in this document are merely meant as suggestions or proposals. They are not binding in any way whatsoever and WFA members are free to depart from them.

APR's global overview of standard and accepted payment practices in advertising production

North America default payment structure

In North America, advertisers typically follow one of three payment scenarios:	50-40-10	50-25-25	75-25
First payment An initial % of the total production costs are paid upon award of the production.	50%	50%	75%
Second payment An additional % is paid upon completion of all shoot days and delivery of digital master dailies to the agency or editor.	40%	25%	-
Third / Final payment The last % is paid within thirty days upon receipt of invoice and approval by agency of contractual obligations, master, releases, actualization of any cost-plus and/or overage items and invoices.	10%	25%	25%

The 50-25-25 or 50-50 payment plan was the industry standard in the US for many years. Over time, several prominent agencies acquired the reputation for slow and late payments, prompting the production community to insist upon payment of 75% up front.

Canada is almost entirely committed to the 75-25 payment plan at this time. The shift toward this structure came about during the early stages of the last global recession, when the advertising industry was affected greatly by the downturn of the US economy.

LATAM default payment structure

In LATAM, there are different practices in terms and conditions of payment, but the following are the most common:	50-50	50-25-25
First payment 50% of the total budget must be paid no later than the first shoot day. The first payment is usually paid at the pre-production meeting.	50%	50%
Second payment A second payment of 25% must be paid no later than one week after the last day of shooting.	-	25%
Third / Final payment The final payment of 50% of the balance in the 50-50 Structure must be paid upon delivery of the master. In the 50-25-25 three-payment structure, the final 25% must be paid within one month after the 2nd payment.	50%	25%

In many Latin American countries, agencies pay the final 50% of production costs at 60-90 days, and it's not rare in Mexico and Argentina for final payment to come 120 days after receipt of the final invoice. As a result, some production companies have private investors who loan them funds so they can manage their projects and withstand the financial burden. Also, in Latin America, the client's advertising agency does not always pay the production company. The model in which the client pays the production company is being more frequently used, led by some of the big brands. Most clients paying directly to the production companies work under the 50-50 model.

Note: the recommendations included in this document are merely meant as suggestions or proposals. They are not binding in any way whatsoever and WFA members are free to depart from them.

EMEA payment structure

Standard payment practices in Europe are much more fragmented, but generally fall into two categories:	50-17-33	66-34
First payment Production company submits an invoice for a percentage of the total budget and all travel charges as soon as agency go-ahead is given. Payment must be received no later than 8-10 working days after signature or before the first shoot day. • First shoot date • First build date (subject to project and individual negotiation) or any other relevant first production date (large set or location, etc.).	50%	66%
Second payment The second payment of the balance must be paid upon delivery of the master.	17%	-
Third / Final payment The final payment of the balance (together with any agreed overage costs) must be paid at the latest 60 days after delivery of the master.	33%	34%

In Italy and France, and in some cases in Germany, it is common to see close relationships between specific production companies and specific clients, with clients contracting directly with the production companies, making direct payments to them and bypassing agencies. This can extend payment terms out as far as 90 days in some cases.

The payment landscape for digital partners is fragmenting in Europe. They commonly work on 30-day production schedules with staff generating multiple digital assets each day or week, rather than creating traditional video content as a one-time deliverable.

UK payment structure

The 50-50 structure has been industry practice for years in the UK. A project can be put on a 'fast track' if it needs to be completed within 21 days of signing the contract or if it's being shot in a foreign country.	50-50	'Fast track' 75-25
First payment Payable no later than 7 days prior to either: • First shoot date • First build date (subject to project and individual negotiation) or any other relevant first production date (large set or location, etc.)	50%	75%
Second payment The second final payment (together with any overage costs) is payable no later than the end of the month the invoice is received by the agency – provided it is received prior to the 15th of the month. Otherwise, it should be paid by the 15th of the following month.	50%	25%

For many years, the UK has used a standard advertising contract that most clients, agencies, and production companies adhere to, called the production insurance briefing specification or PIBS. This fosters a higher level of trust in the process and significantly reduces problems and friction between production companies and agencies/clients over contracts, late payments, insurance, and production terms. Clients should however ensure they familiarize themselves of the enhanced cancellation terms within the PIBS; guidance is available from both IPA and ISBA.

Note: the recommendations included in this document are merely meant as suggestions or proposals. They are not binding in any way whatsoever and WFA members are free to depart from them.

APAC default payment structure

In the absence of standard practice in APAC, a 50-50 payment structure is widely accepted.	50-50
First payment Upon award, or prior to: • First shoot date • First build date (subject to project and individual negotiation) or any other relevant first production date (large model build etc.)	50%
Second payment The second or final payment (together with any extra charges) is due upon completion/delivery; and no later than 30 days after the project deliverables have been received.	50%

Payments when shooting in a foreign country

When shooting in a foreign country, the production company is often obligated to pay the foreign vendors in full before leaving the country with the master hard drive(s). When engaged in foreign production, advertisers and their agencies can expect the 75-25 payment model since the contracted production company is usually expected to pay a large sum up-front and promptly to the production service company in a foreign country. Payment terms agreed upon between the production company and the production service company are negotiable, and largely dependent upon the relationship between the production company and the production service company.

Foreign currency

In recognition of the occasionally volatile nature of currency rates, the agency and the production company should – in advance of production – agree to contingency plans for rate fluctuations. Suggested options include:

- Negotiating a 'firm bid' rate with the production company and letting them handle the exchange rate risk.
- Setting aside a contingency amount to accommodate for fluctuations and actualizing at the end of the production to reconcile the rate transactions (useful when a job stretches over a long period of time, or when agency and client are in different countries and exchange rate exposure is long term.)
- Agreeing on a rate at the time of award or first payment so that the producer can 'buy forward' and fix the rate for the production.

Note: the recommendations included in this document are merely meant as suggestions or proposals. They are not binding in any way whatsoever and WFA members are free to depart from them.

- 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.

01

Future proofing your agency relationship in a more difficult world

We've exited a very difficult period which has involved some change in attitudes and behaviours between clients and their agencies – some for the better – some not so much. But given the global forecasts of difficult times ahead, there's inevitably going to be a need to 'double -down' yet again and ensure real focus on both how you are working with your agencies and how to pay them to ensure maximum effort from their side.

02

Look at what you've got

Global economic predictions suggest there's going to be a real need to maximise outputs and minimise spend. But we've seen that trend in play for several years, with an acceleration during the Pandemic and there is point at which agencies (who are also facing rising costs and less income) simply won't be able to deliver effectively if they are pushed to the extreme. One way out of the conundrum is to look closely at your roster. Have you genuinely got the best partners in play; is there unnecessary duplication, is the model you are operating geared for maximum efficiency – both for your teams and for the agencies you are working with. Not so long ago, integration was a rude word – but the complexities faced by many marketers has resulted in forward thinking organisations looking at rationalising the number of agencies they work with, avoiding excessive duplication and putting in play a model and ways of working which reduces costs without damaging outputs or agency relationships – albeit working with far less partners.

03

Be realistic about expectations

Budget setting is always fraught. But given the expectations that we're entering a period where budgets are going to get tighter (and may suddenly be further reduced because of market conditions), it's incumbent on marketers to be realistic about what they expect from their agencies for the money they are spending. Simply expecting the same levels of output for less money – and importantly at the right quality, is naive. Marketers should focus on the must haves from their agencies and be realistic on setting budgets to deliver these at the right cost.

04

Get on the same page

We've mentioned the importance of marketing and procurement operating in lock step. In difficult trading conditions it's vital that both work really closely together and are honest and open in their individual aims/needs and plan to make sure that these can all be met without compromising agency relationships down the line. Marketing needs greater involvement, not only from the outset, but throughout any negotiation. They simply mustn't walk away at the financial discussion stage and hand off to procurement who will work in isolation. If they do, nuances of the arrangement that may be vital to marketing, but not necessarily understood by procurement, will cause issues down the line once budgets have been fixed.

Note: the recommendations included in this document are merely meant as suggestions or proposals. They are not binding in any way whatsoever and WFA members are free to depart from them.

05

Be fair and balanced in your dealings

Dealing with professional services requires specialist procurement skills, largely because you are buying intangible assets and people. Whilst an objective mindset is required, this needs to be balanced with a recognition of the fact that long after negotiations have ended, your business needs a motivated business partner rather than a supplier who is always pushing back over monies which is a frustrating place to be and demotivating for all parties concerned. Of course, you need to ensure that you are getting good value – but this won't be achieved by being overly aggressive to simply push costs down.

06

Techniques for the task in hand

All will experience differing types of negotiation – negotiation in a competitive bid process (pitch), negotiating a new 'solus' supplier, or negotiating with existing suppliers all require slightly different approaches. Often there is a temptation to believe that negotiating in a competitive scenario gives a psychological 'edge' to the task in hand. On occasions, that may be true, but there is a need to be cognisant of the extra time and effort involved in competitive pitch processes (from both the business's and agencies' point of view) which may be disproportionate to any savings gained by taking such an approach.

07

Always have an open mind

No business will enter into negotiation with their business partners without having devised a remuneration strategy prior. But that shouldn't mean having a closed mind to any new approach to compensation that agencies may come up with. As agencies strive to move away from time-based fees, we do see some innovative models devised by them to remove the need for constant haggling and which are geared to the delivery of great work. You may need to 'park' the desire for granularity of costs - some of these approaches we have seen implemented over recent years may not provide the detail that procurement is used to (and perhaps raise concerns about transparency) – but providing the end figures are right and tied to a robust MSA, the results can save time and delight all stakeholders.

08

Organise for flexibility

The days when a marketer can be specific about scope seem to have long since disappeared, and when financial headwinds are blowing hard and consumer spend is unpredictable, you need a compensation model which gives you clarity. Experience shows that having a tight, retained dedicated account team (DAT) who know your business inside out and are there for you throughout the relationship is of significant advantage. Generally comprising sufficient high level account management, strategy and some creative oversight, that core team then has the ability to bring wider skills to bear when work needs to be done. These tasks can effectively be handled as projects – and ideally, assuming the nature of work is consistent, be delivered through 'menu pricing'.

Note: the recommendations included in this document are merely meant as suggestions or proposals. They are not binding in any way whatsoever and WFA members are free to depart from them.

09

Pricing your menu

If you are taking this approach, you do need to spend time negotiating with agencies on what is 'in' or 'out' for any piece of menu-priced project work. And you need to make sure your team is very clear also. Menu pricing is often set up in tiers of work (Gold/Silver/Bronze etc) and team members need to be sure they are not trying to get a higher-level output at a lower-level price – something we do see happening regularly and causing significant issues between them and their agencies. Of course, benchmarking agency rates can be complex and time consuming. Often, it's possible to compare with your own data but from time to time, a new category of agency or new territory arrives, and you have no comparisons to work to. In this instance you may look at third party data. That in itself is not an issue – but you do need to interrogate that data to establish its age, the pool from which it's taken (to ensure like for like agency comparison) and whether the rates are ratecard/un-negotiated or negotiated – and if the latter by what type of client. A big business will have the power to negotiate considerably harder than small ones.

10

Beware of the 'blended' rate

Centrally negotiating multi-market budgets can be fraught with complexity – especially when it comes to dealing with multi-market rates. Some agencies will look to 'uncomplicate' this by providing 'blended' rates on multinational business. Whilst there is an obvious simplicity and logic to this approach, it can disguise what you are actually paying. Your account director rate for London or Tokyo may look rather lower that normal – but that rate applied to their counterparts in Hungary or Vietnam could be massively inflated. And, of course, this can be further skewed by variance in industry norms in billable hours across markets (from around 1350 is some markets to 1850 in others). You either need to demand clear costs by market – or to satisfy yourself that the 'blend' is a true reflection of appropriate costs.

11

Performance-related payment can make all the difference

We've seen earlier in this report that performance-related pay is on the increase in many markets (with the exception of North America). There is no doubt in our minds that a great PBR arrangement can vastly improve agency outputs – but it needs to be geared to be in everyone's interest and should never start from a punitive base with a relatively unrewarding earn back. It should also be simple. Many organisations fall at the first fence by over complicating KPIs (the main reason we're seeing a fall off from this methodology in North America). It doesn't need to be rocket science – but if geared appropriately can produce astronomical results.

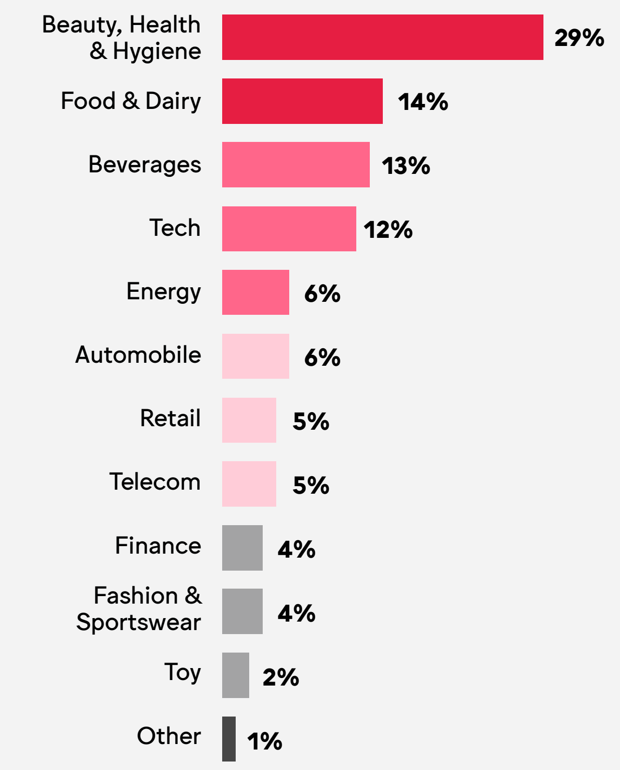
Note: the recommendations included in this document are merely meant as suggestions or proposals. They are not binding in any way whatsoever and WFA members are free to depart from them.

Data set and respondent profile

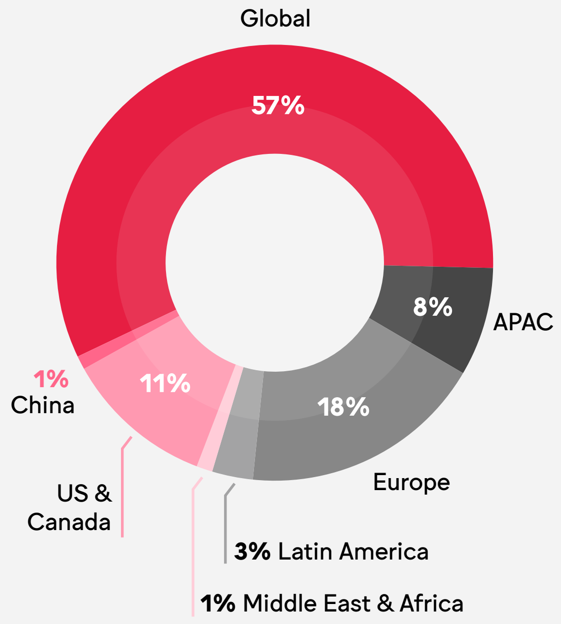
This document the results of an online survey conducted in July-August 2022. Over 200 respondents from 84 different multinational companies (client-side) took part. Respondents were mainly in a marketing procurement role. Over half manage a global remit.

Some comparisons have been made to similar studies ran in 2011, 2014 and 2018. Questions are consistent, but samples differ, so results should be used for indicative purposes only.

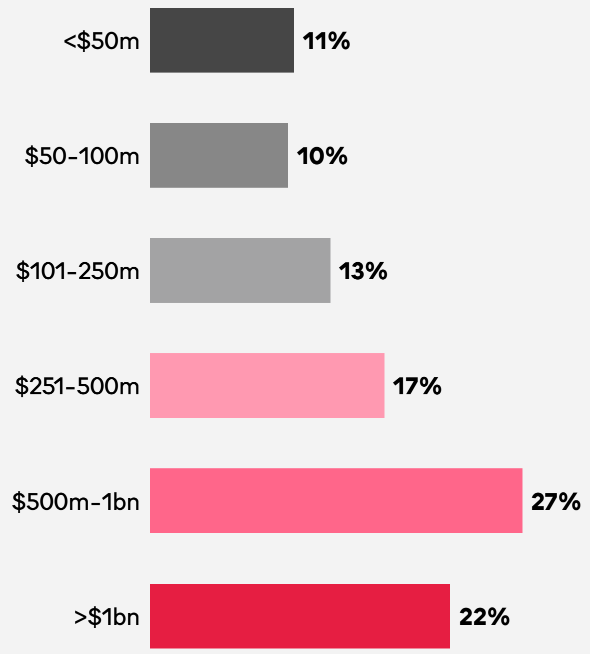
Industry



Q. Which of the following geographies best describes your area of responsibility?



Q. What range below is the closest to describe your annual marketing (incl. media) budget?



Observatory International

WORLD'S BEST MANAGEMENT CONSULTING FIRMS Forbes 2022

FT FINANCIAL TIMES statista UK'S LEADING MANAGEMENT CONSULTANTS 2022

About The Observatory International

The Observatory International is the leading global management consultancy dedicated to helping companies maximise their marketing and communications resources. We bring global and local perspectives to marketers along with the knowledge required to overcome the challenges associated with managing communications agencies in these dynamic times. With years of experience working with many of the world's leading brands and agencies, our casebook is full of best practice on how to get the most out of your marketing resources.

Find out more at: **www.observatoryinternational.com/uk**

Contact: **stuart.pocock@observatoryinternational.com**

WFA

About WFA

The World Federation of Advertisers (WFA) is the voice of marketers worldwide, representing 90% of global marketing communications spend – roughly US$900 billion per annum through a unique, global network of the world's biggest markets and biggest marketers. WFA champions responsible and effective marketing communications worldwide.

Find out more at: **www.wfanet.org**

Contact: **l.forcetti@wfanet.org**

King & Spalding

Note: All WFA benchmarks, survey results, agendas and minutes are reviewed by King & Spalding, our competition lawyers.
WFA Competition law compliance policy:

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.

WFA

World Federation of Advertisers
London, Brussels, Singapore, New York

wfanet.org

info@wfanet.org

+32 2 502 57 40

twitter **@wfamarketers**
youtube.com/**wfamarketers**
linkedin.com/**company/wfa**