ASSOCIATION FOR COMMUNICATION & ADVERTISING

AGENCY REMUNERATION PRINCIPLES

Version 0.9

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1) Foreword

How much does an idea cost?

Putting a price on intellectual capital is one of the biggest conundrums facing agencies and clients. Sometimes it takes a day, other times it takes six months to crack the right idea. So should you pay for the hours spent on the job or for the worth of the idea?

And how do you really know if an idea is going to be the one that takes your business to the next level? Should you pay the same for an idea that increases sales by 0.5% as you do for an idea that increases sales by 500%?

It's questions like these that have taxed our industry for decades. While nobody globally has been entirely successful in solving the conundrum, we believe this document provides fair models of renumeration, how the work and principles of best and worst practice.

It is hoped that this document will assist both agencies and clients in determining fair and equitable agency renumeration that will allow the partnership to develop and prosper.

Now isn't that a worthy idea?

Best wishes,
Wayne Naidoo
ACA Chairman

2) Introduction

Why agency remuneration can be a complex negotiation

Agency perspective

- Relationships are fundamental to a successful business partnership, so that agencies often don't want to negotiate too hard.
- In the case of an existing client, the agency may fear that if they push too hard, they may force the client to put the business out to pitch.
- As there is a growing squeeze on margins and profitability, winning and keeping clients is seen as paramount.
- Agencies will work more effectively and productively when they believe they are being fairly remunerated.

Client perspective

- Often the client doesn't understand the financial structure of an agency.
- The variety of remuneration methodologies in use can make it confusing.
- Lack of understanding means that clients are often suspicious about costs.
- There is continuing pressure from internal management to cut costs.
- Many clients do not understand the complex process needed to develop a creative idea, or that its value does not simply relate to "man hours".
- Negotiation may come at an awkward time - after the agency selection decision has been emotionally made.

No two clients are the same

- Clients usually have different requirements of their advertising agency. For example, a primarily retail account will have an emphasis on production with fast turn-around time, whilst another client may want a strategic business consultant who can help manage a brand portfolio. It's easier to demonstrate value for money with 40 weekly press adverts than improvement to the underlying equity of a corporate brand.
- Agencies also know that making an advert for client 'A' can take twice as long as a similar advert for client 'B', depending on their internal procedures (approvals, research, etc).

No two agencies are the same

- Superficially the job titles and processes may look the same, however the experience of the staff, culture and focus will vary (e.g. some agencies believe strongly in the importance of unique creative concepts, others may have a different focus and philosophy and this may influence costs).
- The marketplace includes a wide range of agencies that offer services with a variety of fee structures. That's why there isn't a standard agency industry cost, any more than there is a standard cost for clients' products.

Lack of upfront clarity about budget

- Too often, under the pressure of a competitive pitch, agencies do not ensure they have an accurate indication of the budget and scope of work involved. In many cases clients are not in a position of providing this information, at this stage. Good business practice requires that this is clearly stated in the brief, so that the agency can be confident it can provide the services required within the budget, before it enters the pitch process.

3) Guiding Principles for Agency Remuneration Agreements

The Best Compensation Programmes

- **Are simple to understand and easy to administer**

Clients hire agencies to help create and execute business building advertising ideas and marketing programs. All the supporting processes, including agency remuneration, need to be geared towards that goal. Accordingly, it's imperative that a remuneration programme be simple and clear enough for all involved to understand and execute.

On the flip side, a complex and poorly understood programme may cause too much attention and energy to be diverted to administration and conflict resolution. These efforts do not aid in the developing of great advertising or marketing ideas.

Too much time spent debating the remuneration arrangement can impair results and hurt the relationship.

- **Align client and agency interests and priorities**

If the agency and client are to achieve superior results and have an outstanding working relationship, it is important that the remuneration system is designed to align the client's priorities and interests with the success of the agency.

Remuneration arrangements must be carefully constructed so that the rewards provided by the programme fully support the priorities and intent of the client's goal to build awareness of a new product, promote trial of a new product, or increase store traffic etc. The remuneration programme should be designed to encourage agency actions that promote client's specific goals.

Both parties must feel as though they are working towards a common goal.

- **Are fair to both client and agency**

A client should expect to pay, and an agency should earn, fair remuneration including a fair and competitive profit.

A frank, open and up-front discussion of both client and agency remuneration expectations, including profit expectations and value to be delivered, is important to avoiding contentious misunderstandings of what is needed from both sides.

A mutual understanding of the vernacular employed in individual remuneration arrangements generally makes for longer, more enduring remuneration agreements.

- **Establish clear goals and objectives up front**

The client and agency should determine and prioritise critical short-term and longer-term goals and objectives, and since no two marketing assignments are the same, there is a broad range of possible objectives that could come into consideration.

Once marketing programme objectives are set, the agency and client can hopefully establish clearly defined, measurable, appropriate goals. These goals should be a by product of both the client's business plan and agreed upon marketing priorities.

The same rigorous planning process that is used to establish objectives and goals for marketing plan elements should be applied to the agency's remuneration arrangement.

The objectives of the remuneration plan should be carefully constructed early in the process. Once again, there is a range of considerations. These include remuneration philosophy; scope of services; consistency; quality, depth and diversity of staff; cost; administrative expectations; and agency profitability considerations.

- **Establish agreement on key remuneration definitions and terms up front**

Take the time to establish a joint understanding of important remuneration terms and conditions as they apply to your particular remuneration agreement.

Agency CFO's and their client counterparts should use the same words and phrases when discussing agency remuneration arrangements (these include fixed fees, labour based arrangements, adjustable fees, hourly rates, full time equivalents, multipliers, mark-ups, margins, direct costs, etc). But the meanings of these words and phrases often vary among their users. Care should be exercised to ensure that everyone is on the same page.

- **Are finalised before agency resources are committed**

Time is forever being compressed and there is an urgency to get things done. Assuming there is concurrence on the need to match remuneration and resources, it is equally important that this be accomplished before the work begins.

To avoid misunderstanding and undue risk to either the agency or the client, work should not commence until there is substantial concurrence on the terms of the agency agreement.

- **Have specified tracking and review dates**

Work being done and expected to be done, should periodically be compared with the original scope of services and service requirements.

- **Involve senior management stewardship with principles clearly communicated to the teams on both sides**

Senior managers who are responsible and accountable for the effectiveness of the marketing and communications should be accountable and responsible for establishing the objectives and operating mechanics and the agency remuneration programme. Those working on the business, in both organisations, should also know a good level of detail to avoid conflict in their day to day dealings.

- **Remain flexible to accommodate change**

It is important that remuneration terms remain flexible enough to accommodate significant changes in scope of services, timing of services , mix of employee resources, new products being developed, new and foreign markets, and products with limited or erratic spending.

- **Can be adapted globally**

With continuing globalisation, consideration needs to be given to remuneration arrangements that are adaptable for global use.

A global remuneration structure, whether fee or commission based, may need to be adjusted by region to allow for differences in regional cost structures or custom.

- **Are recorded in a ratified client-agency contract**

A written contract provides reassurance and clarity over time. If there is no clear written agreement, then there is no basis for dispute resolution. It is important that all parties understand the contract and the obligations it imposes.

- **Endure over time**

As a result of adopting the guiding principles listed above, both client and agency can expect a remuneration programme that endures over time. It is inevitable that a client's business plan will change, thus impacting the agency's scope of service. Budgets may increase or decrease, and the communications mix may change. Regardless of these business changes, the objectives of the remuneration programme should not change. Embracing the guiding principles of simplicity, fairness, alignment, clarity, adaptability, and flexibility will ensure that the remuneration programme established will stand the test of time.

4) COMMONLY USED REMUNERATION METHODS

- **The Commission system**

How it works

The commission system is a type of remuneration based on a percentage of standard gross media and/or mark-up on production spending

Historically, on Above-the-Line services in South Africa, 16.5% of commission on gross media spend, plus a 20 - 25% mark-up on third party production costs, plus DTP and design fees were considered the norm for a 'full service' arrangement. Concept fees were also sometimes charged. The 16.5% commission included Media Planning and Media Buying services. Other remuneration systems were used for Below-the-Line services. Variations of the commission system remain today Flexibility exists for clients to negotiate the rates and costs if they have economies of scale or want less than full-service requirements.

Advantages	Disadvantages
- Simplicity in the case of mainstream advertising. Often no negotiation is required other than to define which services are included. - Easy to calculate and administer. - Both parties are focused on the quality rather than the price of the service. - Once the media plan is in place, the advertiser knows what they will be paying their agency and the agency knows what it will be receiving. - Puts pressure on an agency to keep its costs down.	- The agency may appear to be encouraged to promote media expenditure in its own interest, rather than being solution neutral. - Equally, because it is volume-based, the system is inappropriate for digital agencies and others whose activities do not relate to media. - Cancellations of spending (often at the last minute) have a severe effect on agency income with little or no opportunity to reduce costs. - Some Clients may thin that paying a full-service fee entitles them to obtain unlimited service. - Unlike a cost-based system, an agency may make profit on some brands while losing money on others. - Does not allow for 'degree of difficulty' or level of full-service. - Agency investment is front-end loaded; remuneration back-end, i.e.: agency is required to invest considerable time developing campaigns prior to earning commission. - High risk on new product development work.

	- Agency recommendations for higher expenditures may be perceived as self-serving.

Best Practice	**Worst Practice**
- The best commission structures guarantee a revenue floor to cover base agency staffing requirements. - Commission revenues should reflect service requirements allowing the agency to yield fair and competitive profits. - It is a best practice to define what costs are to be marked-up or subject to commissions. This information is generally specified in client/agency service agreements. The client/agency service agreement should also indicate those out-of-pocket costs that are billable versus those, if any that are non-billable. - Commissions generally work well for larger brands where spending is significant. - Proper provision should be made for remunerating non-media communication activities. - Audit or third-party expenditure incurred by an agency on a client's behalf should be considered. Any audit should be performed by credible, qualified independent auditors, agreeable to both the client and the agency.	- Setting commission rates without identifying the employee resources needed to provide the scope of services. - Commission based systems can be inappropriate, especially for lower-spending brands, certain types of media, niche markets, new product introductions and when the scope-of-work includes significant integrated marketing services that will have little or no commissioned media. - This method is usually not suited to creative agencies working n integrated campaigns where there is no commissioned media.

When to use

Commissions and service fees are best suited when:

- ***Clients wish to tie the agency fee to media placement decisions and***
- ***The agency is reasonably able to assess the risk and return.***

- **The Fee or Retainer System**

How it works

Resource Package Fees (RPF's) – also known as Retainer Fees – were developed as an appropriate way to remunerate creative agencies in the period following the splitting out of media planning and buying from creative. Media placement costs and external production costs are typically on-charged to the client at net cost.

Fixed fees or Retainers are defined as fees which are agreed in advance to cover a period of activity, normally a year, and are paid monthly. Typically an agency retainer fee arrangement will be based on an agreed detailed scope of service and employee resource plan for the defined period, seeking to reflect the likely workload of the agency.

Retainer fees are usually based on agency costs including direct salary cost (employee salaries and related benefits for the employee category / level), an overhead allocation (expressed as a % of direct salary cost), and an appropriate agency profit margin. ACA agencies have access to the ACA Salary Survey and may choose to use this data for calculating retainer fees and charge out rates.

The scope of work and agency employee resource plan should be set out in detail with the various phases of activities separated out in terms of the input required from employees with the required skill sets and seniority to produce the deliverables. This will produce a schedule of employees' hours and charge-out rates which can in turn be translated into a total cost to client, billable on a monthly basis. It is beneficial for retainer fees to include an agreed formula for revising rates (on an annual or biannual basis) so that if both parties agree to continue the agreement a new retainer does not need to be negotiated every year. But in practice the detailed scope of services changes every year, thus necessitating an adjustment in fee level.

Advantages	**Disadvantages**
- Fees reflect the cost of the agency. The best commission structures guarantee a revenue floor to cover base agency staffing requirements. - Commission revenues should reflect service requirements allowing the agency to yield fair and competitive profits. - It is a best practice to define what costs are to be marked-up or subject to commissions. This information is generally specified in client/agency service agreements. The client/agency service agreement should also indicate those out-of-pocket costs that are billable versus those, if any that are non-billable. - Commissions generally work well for larger brands where spending is significant. - Proper provision should be made for remunerating non-media communication activities. - Audit or third-party expenditure incurred by an agency on a client's behalf should	- Setting commission rates without identifying the employee resources needed to provide the scope of services. - Commission based systems can be inappropriate, especially for lower-spending brands, certain types of media, niche markets, new product introductions and when the scope-of-work includes significant integrated marketing services that will have little or no commissioned media. - This method is usually not suited to creative agencies working n integrated campaigns where there is no commissioned media.

be considered. Any audit should be performed by credible, qualified independent auditors, agreeable to both the client and the agency.	

Best Practice	**Worst Practice**
- When developing a fee, all the parties should have a clear understanding of the fee's components and definitions. Upfront understanding reduces confusion and disputes. The client / agency service agreement should also indicate those out-of-pocket costs that are billable versus those if any, that are not billable. - The required agency employee resources and fees must be based on a detailed, mutually agreed scope-of-work. The scope-of-work should include clearly identified deliverables; list of projects, timelines, number of revisions included, and core team responsibilities. - There should be a clear process for reviewing and adjusting fees – both upward and downward – based on changes in the scope of work and resulting change in agency resources required. - The periodic reviews are particularly important for fixed fee accounts and for accounts that have a history of spiralling work and costs. - A cost plus fee's components are generally broken into direct salary and benefits, overhead, and other specific direct cost (e.g. travel, entertainment, research) and profit. (Many clients and agency professionals opt to express overhead and profit as a multiplier on direct salary costs.) - Actual overhead rates fluctuate. It is a best practice to develop a longer-term perspective on overhead and it is usually beneficial to agree to overhead rates that can be kept in place for multi-year periods. Fixing the overhead rates, or	- Whilst the need for transparency is understood, the requirement by some clients that agencies should disclose information about individual salaries is not appropriate. Privacy legislation prevents the disclosure of such information. - Agencies are also not under any obligation to disclose details of how the charge-out rates for staff are calculated. Charge-out rates for staff are easily comparable between agencies, without the need for a specific breakdown of the calculation. - Clients who do not acknowledge that they have contributed to significant additional workload through inadequate briefing or changes to the brief or scope of services, are also being unfair to the agency. - Client reporting requirements that are either extreme or lax should be avoided. Most organisations have their own reporting requirements. However, customised reporting should only be required if it serves a meaningful business purpose. It is worthwhile for the client and agency to mutually decide on the level of information and the preferred reporting format and frequency. By working together, a lower cost solution that serves the desired purpose usually develops. - While benchmarking can be a valuable and important activity, data this is obtained inappropriately or is restricted in its use should not be used. Additionally, it is important that the benchmark results are valid, accurate and truly comparable. - Arbitrary definitions of an agency's allowable costs, and unreasonable capping of direct salary rates (i.e., capping rates or using average rates for above-average staffing

multipliers, in this way can simplify the remuneration process. - Audit of third party costs incurred by an agency on a client's behalf, should be discussed and agreed to up front. The data being verified should be directly relevant to the remuneration agreement. Any audit should be performed by credible, qualified independent auditors, agreeable to both the client and the agency. - If verifying the accuracy of individual salary information is a priority, the Task Force suggests that verification be conducted on a confidential basis by a mutually agreed, independent auditor.	needs) should be avoided. - If a cost plus or hourly billing fee arrangement is agreed to, providing for only one-way fee adjustments is unreasonable. If the fee is subject to actualisation, it should be subject to both upward and downward adjustment. There should be reasonable guidelines and interim checkpoints to allow for these adjustments.

When to use

Retainers are best suited when:

- ***The client and the agency seek budget certainty, and***
- ***Where the scope of service can be clearly defined and understood in advance.***

Retainers are best suited in stable, established agency-client relationships

- **Variable Fee based on Actual Hours**

How it works

This system is less common in creative agency agreements, but more widely found in other marketing service agreements, e.g. direct marketing, sales promotion and public relations. Fees are based on actual time spent using hourly charge-out rates for employee category levels. The charge-out rate will be calculated to cover the employee's direct salary cost (employee salary and related benefits for an employee category / level), an overhead allocation (expressed as a % of direct salary cost) and an appropriate agency profit margin. Although this is a similar approach to the RPF model, there is one essential difference: the fee paid is calculated after the event (based upon actual hours worked) rather than in advance (on a pre-negotiated estimate of employee resource).

This method is potentially the fairest way of remunerating an agency. Client demands can evolve over the time period, as they almost always do, without either party being penalised.

Advantages	**Disadvantages**
- Reflects client needs and agecy activity whilst allowing for budget changes and flexibility. - Relatively easy to administer, provided	- Client and agency administration can be time consuming with possible conflicts and added expense. - The agency has no direct financial incentive

the agency maintains accurate time records and ensures that timesheets are completed on a regular basis.	to run its business efficiently. Indeed, the more time it spends on a given task, the greater its income will be. While the impact of this may be short-lived, it is impossible to ignore this factor in the longer term. Not surprisingly, this can lead to much discussion as to whether the agency's recorded costs were, in fact, true costs. - Neither the client nor the agency knows in advance what they are letting themselves in for. The client can't budget with a fixed figure and the agency can't staff with the same confidence.

Best Practice	**Worst Practice**
- Agency caps the number of chargeable hours on each job. - Client commits to a minimum annual expenditure, so agency can staff appropriately.	- Inadequate timesheet records. This can happen if agency staff is pressed for time to meet deadlines.

When to use

Hourly rates are best suited when:

- ***Significant uncertainty exists regarding the required resources for an engagement; and***
- ***The agency is unwilling to assume the risk associated with an open-ended engagement.***

Hourly rates are best suited in an environment where significant employee resource flexibility is required during the assignment process.

- **Project fees**

How it works

An alternative to fixed annual fees, are fees that are determined on an individual project basis.

This system is usually not suited to longer term arrangements. It is really only relevant for the provision of ad hoc or supplementary services, or for specialist services such as sales promotion. It would be suitable for clients who are keen to work with the agency on projects or ideas which are additional to their main advertising requirements. Sometimes the fee covers the planning and creative process with production or implementation being charged additionally as part of a total project budget. This method should normally attract a higher level of charge than a retainer, as it does not give the agency the security of a notice period or a specific initial tenure.

Advantages	Disadvantages
- Easy to control expenditure provided realistic time estimates are given. - Reflects specific needs. - Suites integrated or niche services approach.	- Short-term focus does not encourage partnership relationship and longer-term brand building. - Agency can't staff with the same confidence as in annual agreements, unless the detailed annual scope of work is clearly set out at the beginning of the year. - Difficult to build continuity of relationships or any performance incentive for the agency.

Best Practice	Worst Practice
- Clients providing an estimate of minimum annual expenditure on their project work.	- Using project based remuneration ofr longer term relationships. The lack of continuity can make it more difficult for the agency to build an understanding of the client's business.

When to use
Project fees are best suited when:
- ***The nature of the services to be provided can be fully scoped prior to commencement of each project; and***
- ***Where clear deliverables can be agreed up front.***

- **Concept fees**

How it works

A Concept fee is a one-off fee agreed to cover the cost of developing the creative concept for the campaign.

It is based on the estimated value of an idea to the client's business and its anticipated use in an agreed context over a specified time period. Concept fees are sometimes charged when the agency is only required to supply the concept while the implementation of the job is completed elsewhere, e.g. in the case of an Activation or Promotion. Concept Fees, like Project Fees, generally attract a premium rate due to the short-term tenure of the assignment. Usage of the concept outside of the agreed parameters will attract a further fee.

An important factor is the overall understanding of the issue of Intellectual Property Rights (IRPs) which legally reside with the creator of the concept, unless otherwise assigned. The agency holds the IPRs and the Concept Fee means that the agency is paid in a similar fashion to musicians and artists for usage of these materials. Payment can be for outright ownership or on a licence basis to the client. The purchase or licensing of the concept should be enshrined in a contractual agreement that specifies when, where and how the concept can be used.

Advantages	Disadvantages
- This can be an attractive option to a client wanting to buy or licence rights to a first class concept that is going to enhance its brand value. The Concept Fee is an appropriate acknowledgement of the value of the idea.	- Clients should understand that the creation of quality concepts does not necessarily relate to time. It is usually impossible to use both the employee hours and concept calculations at the same time. For a Concept Fee the value of the idea has to be the only determinant. - Use of the creative concept for the client's communications strategies outside the agreement can be a major bone of contention.

Best Practice	Worst Practice
- Clients understanding that the creation of quality concepts does not necessarily relate to time and that the concept fee is an appropriate acknowledgement of the value of the idea and the agency's intellectual property rights.	- Use of the creative concept for the client's communications strategies outside the agreement.

When to use
Concept fees are best suited when:
- ***The client wishes to make their investment decisions one stage at a time.***
- ***The client wishes to buy only the concept from an agency and buy implementation elsewhere.***

- **Licensing fee – payment for copyright and intellectual property rights**

How it works

This differs from the Concept Fee in one important regard. Under a Licensing Agreement the client may choose to pay the agency for concept development at a reduced rate than that paid under the Concept Fee basis and then agrees to pay a Licence Fee for the finished concept once it has been approved.

Conventional contractual arrangements provide for a client to own IPRs in a material it has paid for. The agency retains IPRs until it has been paid for the relevant materials. But this approach assumes a commission or RPF scenario where these rights are bought by the client as part of the overall agreement. Licensing fees highlight the importance of big ideas and concepts by making provision for them to be paid for and used under licence. Under such an agreement there will normally be a reduced level of Retainer/ Service fee. Licensing Fees are a common feature of client agreements with digital agencies.

The agency may also normally charge royalties if the concept is used for a period longer than the original agreement or outside the geographic area specified in the agreement.

A royalty could also apply if a contract is terminated with the creative agency and the advertiser wants to continue to use the idea.

The fee acknowledges the agency's rights as the originator of an idea and allows it to be compensated for the value of the intellectual property.

It should be noted that talent, photographers, music owners and producers, all charge usage, rollover or royalty fees, which the agency will pass onto the client as third party costs.

Royalties are extremely important in the case of multinational clients where concepts may be used in multiple markets.

Advantages	**Disadvantages**
- Incentivises agencies to produce big, campaignable, flexible, long-term ideas to build the brand. - Licensing Fees are best suited when clients wish to minimise their up-front-cost. - This type of agreement is attractive to agencies when they see the potential for use of concepts in content or programmes, movies, etc., and wish to retain all or part of the rights associated with concepts they have developed. - Licensing can work well for multinational clients and their agencies, when the concepts developed in South Africa may be ultimately used in multiple markets. This system allows usage in each market to be negotiated as and when required, so avoiding either heavy upfront costs or disputes later about client's rights for extended use.	- There are certain things that are beyond the scope of copyright. There is no copyright on an idea – only in the visualisation or the expression of the idea in hard copy. - Straplines can't be protected by copyright and must be registered as a trademark.

Best Practice	**Worst Practice**
- Agreement by the client at the beginning of the relationship that that it will pay copyright/royalty fees where appropriate on al work created by the agency.	- Terminating the client/agency service agreement and continuing to use the idea without fair remuneration.

<u>When to use:</u>
Copyright royalty fees are best suited when:
- ***Clients wish to minimise their up-front commitment; and***

Agencies wish to retain rights associated with concepts they have developed.

- **<u>Hybrid methods and variations</u>**

Often the ideal remuneration method in a given situation will be a hybrid of the range of methods described above. Hybrid structures are limited only by the imagination of the parties however these still need to be guided by the principles outlined in section 3 including simple to understand and administer, remain flexible to accommodate change, etc.

<u>Examples of variations and hybrids include:</u>

Retainer with Project Fee for Major New Launch
An agency with a long-term client agrees to an annual retainer that excludes a major new product launch. This product launch is quoted on a project fee basis once the scope of the project is fully defined.

Discounted Hourly Rates with Copyright / Royalty Fees
An agency agrees to develop a range of concepts at a discounted rate on the basis that they will be paid an appropriate copyright / royalty fee on the concepts used.

Minimum Guarantee (Guaranteed Minimum Compensation)
This arrangement involves putting a 'floor' under the agency's remuneration. A minimum-income figure, including a profit, is predetermined by making assumptions about the level of service required for a period, usually a year. Payments are customarily made monthly. Commissions are credited against these payments, and the agency keeps the excess of commission over the aggregate payment during the contract year.

Flat Fee Plus Direct Salary Costs
This is a combination of 'fixed fee' plus 'hourly charges'. There are several varieties. The fixed, or flat amount, can be the agency charge for either: (1) overhead, (2) overhead and profit, or (3) just profit. Correspondingly, the hourly charge would cover either: (1) direct salary cost and profit, (2) direct salary cost only, or (3) direct salary cost and overheads only. Each variety is a way of modifying the 'cost plus' fee arrangement, i.e.: the higher the cost to the client, the greater the profit to the agency.

Reduced Commission / Sliding Scale
In this instance, a client pays the agency an amount less than 16.5% for less than the "full-service", based on the volume of business being generated. The effect is to find economies of scale based on increased volume.

Volume Rebates
These are similar to reduced commissions but entail full-service to an account. This remuneration type works when the client's media expenditure increases beyond a certain level, without a

proportionate increase in agency resource costs. The client recovers an increasing commission rebate as the billing increases.

Cost-Plus-Profit

The cost-plus-profit system is similar to the hourly rate arrangements, except that the profit factor is negotiated and added to the total annual service cost and usually billed in monthly installments. During the year, or at the end of the year, the fee is adjusted to compensate for any difference between the estimated and actual cost.

5) PERFORMANCE INCENTIVE BONUSES

Performance Incentive Bonuses (PIB) are incorporated into an increasing number of client-agency agreements, with the incentive based on achieving mutually agreed upon goals.

The intention is to devise a win - win situation with better, more measurable outcomes for the client and the potential for a higher return for the agency.

The agreed goals may be qualitative, quantitative, or a mix of both. They must be meaningful, achievable, and measurable. The goals should be considered very carefully to ensure that any focus on short term objectives, is not at the expense of long term brand building.

The suitability of an incentive arrangement will also depend on the availability of meaningful data and the flexibility of the marketing budget. It is important that agreed incentives are allowed for in the budget.

Advantages	**Disadvantages**
- The increasing focus o accountability makes it highly desirable that agencies are rewarded – at least in part – on the basis of performance and deliverables. - It is very helpful, in new relationships especially, and after a precise scope of work has been agreed, for ‘success’ to be defined – and some part of the agency’s reward to be related to it. - In a relentlessly competitive market for agency services, PIB schemes give incumbent agencies the opportunity to demonstrate the contribution they make by offering them an additional benefit from their achievements.	- It is often difficult to isolate the effect of marketing communications on sales and commercial goals. This can lead to protracted negotiations on the exact mechanics of PIB arrangements. - PIB arrangements can sometimes be constructed in too complicated a way, leading to an extended “How much is the agency entitled to?” debate. (A good rule of thumb is that if it is not immediately obvious at the end of the year how much the agency has earned, the scheme is flawed.) - Clients do need to provide for at least the possibility of the agency winning the full incentive. Failure to do so can lead to damage to the relationship. Careful budgeting and internal discussions with client finance departments are necessary to ensure that the PIB arrangement is set up properly. - PIB, which is mean to be motivating for agencies, can work the other way, if the agency consistently fails to earn the level of incentive it feels it deserves.

Best Practice	**Worst Practice**
- Clear and measurable criteria that align with the client’s goals and objectives and that are based on reasonably achievable	- Failing to establish the incentive criteria up front. - Incentive systems that are based on virtually

performance targets. - Client must budget for anticipated agency incentive amounts in the year earned. - Client's senior management should oversee incentive agreement and assessment. - Timely year-end and interim performance reviews and timely payment. - The package must allow the agency to exceed the income it could normally anticipate, provided it reaches or exceeds the performance criteria. - Limit the number of criteria to say 4 – 5 for each core component of the PIB.	unachievable performance goals and 'all or nothing' structures since both tend to fall more frequently. - Discounting incentive payments from amounts actually earned under the incentive plans previously agreed criteria and parameters. - Clients not budgeting for the incentive payment. - Agency has to forego profit (or <5%) to earn PIB. - The PIB is an all or nothing – agency has to achieve greater than x% to achieve any PIB – 50% achievement should equate to 50% payment of PIB pool.

- **Performance Incentive Bonus - Plan types**

In practice, PIB can take several forms, with varying degrees of risk/ reward built into the remuneration equation, which can reduce the agency's revenue and profit margin, but offsets this with the opportunity to earn more revenue and a greater profit margin through the successful achievement and delivery of results. Essentially there are two main forms of PIB:

1. **Bonus**

   The agency's revenue and margin is unchanged and the agency can earn more revenue based upon meeting or exceeding the prescribed performance criteria.

   The base remuneration may be established by using historical costs with the appropriate inflation factor, or retainer fees calculated each year based upon the new scope of services, or by commission %'s as detailed in section 4. Under the "Bonus" PIB, the base remuneration will include direct salary costs, indirect costs and the standard agency margin. The Bonus PIB plan poses no downside risk to either the agency or the client. Each participates in the rewards of improved performance or endures the 'opportunity cost' of a failure to meet established performance targets.

2. **Shared Risk and Reward**

   The agency risks a portion of its profit margin against the potential of upside reward. This can be an attractive concept for both agency and client, but both parties must enter this arrangement with trust and integrity. The key principle is that, in return for placing a proportion of remuneration at risk, the agency must have the potential to recover an incentive which will result in a profit in excess of standard margins, i.e. the reward.

   Criteria for earning bonuses should be clearly defined and agreed in advance.

- **Performance Incentive Bonus - Performance Assessment**

There are three typical types of performance measurements used in PIB plans to determine the PIB payable.

1. **Business Performance**

   Examples include: sales, traffic, profit, market share, volume growth, etc. These can be measured

by the same criteria that the client uses for their internal bonus systems.
The risk to the Agency is that business results may not be within their direct control. Many other factors besides advertising can affect business outcomes. Decisions by the Client to de-emphasise a product or brand, failure to secure adequate distribution, or product/service quality are all examples of factors that are outside the Agency's control. This area can be particularly challenging for the Agencies of multi-national or global brands where network Agencies are rewarded based on local results by their owners and on global results by their clients!

2. **Advertising Performance**
   Examples include: product awareness, advert awareness measures, consumer measures, attitude ratings, persuasion, purchase intent, awards, brand equity, image, effectiveness awards, etc. The challenges with this kind of performance assessment are that they are vulnerable to research technique, statistical anomalies and discussions of creative 'philosophy'. As well, when used to summarise performance over a range of brands in a client portfolio, they may be vulnerable to investment decisions or competitive anomalies.

3. **Agency Performance**
   This area relates primarily to the evaluation of agency functional areas: client service, creative, production, strategic planning and media in terms of: performance, service, relationship, cost efficiencies, etc. Agency performance against specific targets, objectives and key initiatives can be included.
   The challenge with using Agency Performance is that it is highly subjective and **may be** affected by 'entertainment' on the upside and personality problems on the downside. Best demonstrated practice in this area provides for a mutual review process for both client and agency performance measured against predetermined expectations. Moreover, agency performance should be conducted throughout the year (every six months), so the review is not unduly influenced by the most recent time period.

- **Performance Incentive Bonus - Guidelines**

1. **PIB is not suitable for all client/agency relationships**. Implementation may not be possible or suitable for a number of reasons; however the process of examination and discussion can still be very beneficial.

2. **There must be TRUST and mutual respect**

3. **There must be a fundamental acceptance of fairness and equity**. PIB is not a means to reduce agency revenue and margins. The agency needs to be fairly remunerated and make a fair profit margin before PIB is considered.

4. **Consider the current client/agency relationship** and remuneration structure to determine how PIB may be applicable. Context is important. The current remuneration arrangement must be fair and equitable before a transition to PIB is attempted.

5. **Be very clea**r on the objectives, measurement criteria and performance standards that will determine the PIB.

6. **Incorporate a mutual performance review** to improve fundamentals for both parties. Conduct the performance reviews frequently (every 4 – 6 months), particularly during the early adoption stages of PIB. Ensure that the measurement dates are clearly stated.

7. **Clearly establish roles and responsibilities for both partners,** through development, implementation and monitoring.

8. **Keep it Simple** - develop greater complexity as you move forward together and increase your learning. Restrict the number of criteria to 4-5 maximum per core component of the PIB

9. **Start out with a lower level of PIB remuneration**, and then grow the percentage over time.

10. **Establish 'hard', quantifiable measurement criteria** to the extent possible and control 'soft' qualitative measures. Ensure that all criteria are clearly defined with detail on how they are applied. Each criteria must refer to a source. An evaluation document must be prepared to measure agency appraisal.

11. **Give serious consideration to drawing down the PIB 'pool'** as frequently as possible – don't wait for an annual assessment and payment. Review sales objectives quarterly; increase the performance review frequency, etc. Behavioral changes and focus on the 'new way' will intensify with frequent reminders.

12. **Continually refine and enhance** the process, criteria, measurement, weightings, etc. Learn as you go.

13. **You will need greater COMMUNICATION**, openness and transparency. Training of the participants can be an important element in the success.

14. **Incorporate the PIB agreement, criteria and measurement into the client / agency service agreement** and ensure that client's senior management is aware and involved.

15. **Ensure there is top management sign-off at the Client** and that the accumulation of "upside" PIB amounts are 'in the budget'. In PIB plans with 'downside risk', payment schedules should allow more frequent payment as milestones are reached through the year – protecting the Agency's cash flow consistent with their performance.

16. **Recognise that there may be some difficulties involved**, particularly in the early stages of implementation. The negotiation process can be protracted and there can be disagreements on the risk/reward, measures, objectives, methodology, size of the PIB pool, weighting, etc.

17. **Consider using an independent, objective mediator** to facilitate and manage the process.

18. **PIB is payable dependent upon % achievement of agreed KPIs.**

19. **Prepare a PIB example based upon the framework established – calculate possible score and feasibility and ensure that both parties understand the implications of the PIB.**

- **Performance incentive Bonuses - Criteria and Mechanics**

Criteria

Typically measures fall into three distinct categories – performance of the client, the agency or the advertising. All should be considered for their relevance to the marketing sector, communication objectives and the role of the agency. Their use depends on the availability of data; the time frame envisaged and cost the considerations. The aim is to choose measures that fairly and simply reward the agency for its contribution.

1. Is client's business performance a relevant measure?
A measure of client's business performance can be successful where the centrality of the agency's role is recognised but not actually quantified. The more direct the agency's contribution the more relevant is this measurement category. Measures such as sales, market share or contribution are simple and objective. Other composite measures, if available, such as corporate or brand performance, e.g. brand equity, may be appropriate. Typically objectives are set based on planned activity. The client will need to share its thinking on the viability of achieving the forecast targets with the agency. All business performance measures must be fair and realistic.

2. Is the performance of the advertising a relevant measure?
This category includes a range of advertising measures (e.g. awareness, recall, likeability), brand measures (e.g. image shifts) and consumer measures (e.g. attitude ratings, usage profile) available through tracking studies or proprietary research. Measures should be chosen that reflect the brand's communication objectives. It is potentially problematic and costly if you need to determine the impact of advertising on sales, especially if this is indirect. Whilst these measures are objective, care needs to be taken to ensure selection (and targets) are appropriate. This may involve detailed discussions.

3. Can the agency evaluation be used for PIB?
Regular formal evaluation of agency (and client) performance is useful in identifying opportunities for improvement and in clarifying roles and expectations. Typically evaluations assess the agency's performance on task, service and relationship competencies. Although agency evaluations are inevitably subjective it is possible to benchmark an agency's performance against others, thereby adding a degree of objectivity for PIB purposes.

Whilst the upside potential of PIB is generally linked to Business Performance, Advertising Performance and Agency Performance (or some combination of the three), the choices under these headings are virtually endless.

The following are examples of possible the PIB measures:

- Sales volume, volume growth, total sales, total sales growth, brand profitability, brand equity, brand market share, relative brand performance

- Advertising awareness, brand image shifts, attitude ratings, advert scores, advert enjoyment, persuasion index, brand personality, customer loyalty, pre-disposition to purchase

- Agency service delivery, relationship management, functional competencies, cost efficiency, project management, composite performance, contribution to 'branding', administration, pro-activity

The PIB pool is allocated based on mutually agreed performance standards established within each criterion. Agencies typically wish to increase the relative weighting of those measures where advertising plays a more important role and where the agency feels that they have more direct control over the outcome – advertising and agency performance. Clients often push to have their business performance measures featured heavily in the weighting formula.

Mechanics

Based on current practice, and expressed as a percentage of base remuneration, target PIB pools average in the range of 5-20% of total agency revenues. The % should be meaningful and must allow the agency to earn a reward over and above a fair base fee.

- **Performance Incentive Bonus – implementation process**

The following outlines the key steps that are recommended in the creation of a Performance Incentive Bonus plan.

Phase I – Preparation

1. Establish Client and Agency negotiating teams; include a mediator (either an inside or outside consultant).

2. Objectivity and impartiality - ensure that both the Agency and the Client fully understand the need for an objective and unbiased process. Establish the commitment of both parties to work together towards a 'win-win' remuneration base.

3. Education and Information - ensure a common understanding of what PBR means to both the client and agency. Review research and learning from South Africa and around the world.

4. Principles – establish principles for PIB that both parties endorse.

Phase II – Assessment

5. Assessment – meetings and discussions with key Agency personnel and Client managers to discuss the current relationship, goals, objectives, performance, problems, issues etc. This includes validation of the fairness and equity in the current remuneration arrangements.

6. Goals and Objectives – establish goals and objectives for PIB that are agreed to by both parties.

Phase III – Create the PIB Plan

7. Key Issues – Identify the key parameters of the PIB plan (base remuneration, PIB pool / upside), risk and reward, performance measures, evaluation formula). Ensure that both parties are in general agreement.

Phase IV – Validation

8. Interactive planning – key Agency and Client representatives must meet to validate the goals, objectives and key issues, and negotiate any gaps in PIB criteria, weighting, performance standards and measurement. Identify the roles and responsibilities of each party and the employee resources the Client must commit to in order to achieve the performance standards. Provisions for change (e.g., market conditions and other factors that might affect the PIB targets and evaluation) would be determined at this stage.

Phase V – Documentation

9. The PIB Agreement – All key elements from the planning exercise must be documented; both parties should review internally with staff and management. The agreement is revised as needed until both parties are in agreement and sign off.

10. The Contract – The PIB agreement is incorporated into the Client / Agency Service Agreement. This would include Client's commitment to establish payment provisions for any bonus / upside (e.g., include in their budgets).

Phase VI – Management and Monitoring

11. Training – Client and Agency will establish training seminars for all the appropriate employees to explain the new PIB plan and ensure that everyone understands what responsibilities they have.

12. Monitoring – The PIB agreement should be reviewed regularly by both parties to ensure that equity and fairness is maintained. Ideally, the PIB pool is paid out as milestones are reached (apart from the achievement of annual targets). Ideally a senior person from each of the Client and Agency should be identified to share responsibility for managing the PIB relationship.

6) PROCEDURES, MARGINS AND FINANCIAL FORMULAS

Best practice recommended by the ACA, when costing and pitching, is for agencies to supply only gross hourly charge out rates and not the salary, overhead and margin components thereof. Not only does this ensure individual salary privacy rights but it also allows for an objective and clearly aligned inter-agency comparison to be made by clients.

- **Hourly Charge Out rate formula**

The formula for calculating hourly Charge Out rates is as follows:

Total Annual Salary Costs (including benefits ÷ Standard Hours (1600 used most often)
+Overhead
+Profit Margin (Calculated on Direct Costs plus Overhead)
=Hourly Charge-Out Rate.

The annual ACA salary survey can be used as the basis for determining annual salary costs in a particular agency discipline. Alternatively agencies can use their own actual salary costs to determine charge out rates.

Average charge out rates can be set in any one agency discipline (example client service; creative; DTP etc) using the same formula and utilising average salaries across a band of employees.

An agency should not disclose to clients actual employee salary costs for the staff allocated to their business. Disclosure would be in breach of certain privacy legislation.

- **Profitability: What is Fair?**

25% operating profit, as a percentage of gross revenue, is deemed to be a "fair agency profit". Variables in an individual agency's margin (within these parameters) would be influenced by their overhead structures, quality and quantity of resource, operating efficiencies and service requirements.

The advertising agency business is a service industry and operates under conditions of unusual risk and uncertainty. A 25% operating profit is lower than other comparable businesses, such as lawyers, contractors, management consultants and accountants, who generally aim to achieve an operating profit closer to 33.3%.

Normally an agency will indicate its targeted profit margin to client. An agency would not be required to disclose its actual profit margin to client.

- **Agency Ratio model**

The split between direct salaries and indirect costs will differ from agency to agency dependent on their area of focus, their internal systems, financial realities, efficiencies and charge out procedures. Typically Direct salaries would include salary and related benefits for:

- Client service
- Strategic services
- Creative services
- Production services
- Traffic (could also be included as an indirect cost)
- Management (could also be included as an indirect costs)

- And any other salary cost incurred where direct and dedicated time was spent on the client's work

Typically Indirect costs would include

- Traffic (could also be included in direct salary)
- Finance and accounting department
- IT department
- HR department
- Administrative department
- Management time of the agency as a business
- Non chargeable time – leave, internal meetings etc
- All agency operating costs e.g. rent, electricity, telephones, depreciation, etc

Where management is working on clients' business, this will normally be included in the direct salary cost.

- **Multiple on Direct Chargeable Time (Multiplier)**

This multiplier will vary from agency to agency dependant on which employees are included in direct chargeable time and which are not. The multiplier will also vary due to an agency's cost structure and its targeted profit margin.

- **Number of Normal Chargeable Hours per Annum**

The number of chargeable hours per annum most often used is 1600 hours. This is calculated in the following manner:

No of days in year	365
Weekends	-104
Public holidays - normally 14, some fall on a weekend	-12
Annual leave – average	-18
Sick days	-5
Non-productive Days	-12
Normal working days	214
Standard hours in a working day	7.5
Standard working hours in a year	1605
Rounded off to Standard Hours per year	1600

- **Exclusivity**

It is fair practice for a client demanding sole exclusivity within a specific category, to pay the agency a premium for that exclusivity.

The exclusivity payment is normally calculated as a % of the total advertising expenditure in that category. The % may vary depending upon the size of the category. Payment would normally be made on a monthly basis throughout the term of the Agreement.

Expenditure within the Category	% of total advertising expenditure - annual
Up to R50 million	1.0%

50 – 100 million	0.75%
➢ 100 million	0,5%

Alternatively the exclusivity payment could be calculated as a % of the negotiated retainer fee – a fair and reasonable % would be 25%.

Usually, sole exclusivity is negotiated for the period of the agreement. If a client requires exclusivity beyond the termination date, then the agency would require reasonable payment for granting this right. A fair and reasonable figure would be 50% of the average monthly remuneration earned during the prior 12 month period. This amount would be payable monthly throughout the period that the extended exclusivity applied.

This can be a complex issue and must be discussed, in detail, on an individual basis.

- **Audit of Financial information**

Clients may want to engage an independent auditor to examine the agency's financial information and records. The scope of this access to information will be restricted to relevant client information only – this will typically include third party expenditures recharged to client and time records. This will normally exclude any actual salary information for agency employees, general ledger balances and financial statements.

It is important to ensure that the client and agency agree upon the terms and scope of the audit upfront. The audit must be confined to information that is directly relevant to that client. It is not appropriate for the audit to include areas of the agency's business which is not directly related to that client.

Clients should not arbitrarily appoint an auditor without reference to the agency. In the interests of fairness in the relationship, it is important to ensure that the auditor is a professionally qualified consultant acceptable to both client and agency. The client should also expect to settle the cost of the audit.

7. WORKING WITH PROCUREMENT MANAGERS AND CONSULTANTS

General

In instances where procurement managers and consultants are not utilised in negotiating agency remuneration this procedure will normally be undertaken by senior client and agency employees with overall responsibility for the business. All agency and client staff working on the business should be fully aware of the terms of the remuneration arrangement and particularly the agreed scope of work.

- ***Working with Procurement Managers***

Some large clients are now handing over the responsibility for negotiation on remuneration to their company's procurement departments. The advantage to the client in that it allows the marketing department to be removed from direct and usually tough, negotiations on cost.

The procurement department's role is very specialised and focussed on purchasing services and products of all types for the company at the best possible cost. Rarely do procurement staff have a first- hand understanding of advertising - the nature of the agency-client partnership, or the agency's role. It is therefore important for the marketing team to remain involved in the negotiation process.

The value of the services offered by an agency cannot be determined in a simplistic manner. Important factors, such as the agency's level of understanding of the client's business, the quality of its people, its creative and strategic capabilities, and its ability to make money for the client, need to be considered in determining the value of the services.

The lowest price does not necessarily mean the best value, so that an exclusive focus on cost is not in the best interests of the client or the partnership.

Best Practice

- If procurement departments are involved, it is important that they understand the agency’s role and the potential of its proposals to add value to their company's brands and business.

- The remuneration discussion should be directly linked to the agreed scope of work and the marketing department’s requirements. It is important that the procurement department understands not only the kind of work required but also the load and flow. All three variables can affect a resource plan and therefore the fee.

- The Marketing Director should take final responsibility for the remuneration agreement, to ensure that important aspects of the relationship and the potential quality of the work will not be compromised by an agreement that focuses exclusively on costs and is fundamentally unsatisfactory to the agency.

- Where the procurement department does not have the necessary expertise in advertising and communication a specialist consultant should be brought in to provide this advice.

Worst Practice

- If fee discussions are held without a clear guideline as to the scope of the work required.

- If the marketing department has not been involved in final remuneration discussions in order to ensure that the agreed remuneration is in line with the required services.

- In the case of tenders and pitches, if the marketing department has not been involved in the initial drafting of the tender or in the final decision of the selected agency.

- Using consulting firms who are not suitably qualified and who do not have the necessary understanding of both client and agency needs.

8) GLOSSARY OF TERMS

Adjustable Fees

These are fees that are estimated initially and paid, but are then reviewed at the end of a given period based on actual activity. Depending on the agreement between agency and client, the review may result in an adjustment to the fees already billed in a particular period. In others, fees may be adjusted for the following period.

Billings

These are all amounts invoiced by an agency to its client including costs and fees. It may include media billed to the client by another organisation, so that the sum represents the total advertising expenditure of the client. The ACA believes that billings as a measure of agency (or industry) size, is no longer relevant and that revenue (also known as gross income) is a more accurate measure.

Commission

Commission is the amount rebated to agencies by media owners for media placed, and by production suppliers for the amount of production work placed. The agency should advise the client the nature of these arrangements, where they exist.

Concept

A concept is the original idea created by the agency, based on the client's brief, consumer insights and the agency's creative skills.

Direct Salary Costs and Employee Benefits.

Direct salary costs are employee payroll costs, on a cost to company basis, including all other payroll related benefits. This will include salary, medical aid, provident / pension contributions, all allowances, bonuses, annual leave, leave loading and long service leave, workers compensation and all payroll taxes.

Employee Hour Based Arrangements

These are arrangements based on employee hours, usually 1600 chargeable hours a year.

Extraction Rate

This is a term sometimes used by agencies as a measure of the revenue earned by the company expressed as a percentage of the total billings of the company. It may also be used on an individual client basis.

Fees

Agencies change for most services on the basis of fees. The fees are agreed in advance between client and agency, based on the scope of work. The fee is usually based on staff salary costs estimated to fulfil the brief, overheads, plus a fair profit margin for the agency.

Full Time Equivalents

This is a measure of the total number of full time staff assigned to a client's business.

For example if three people are assigned to a client's business and each works for two thirds of their time on that client's business it may be said that there are two full time equivalents working on the business (3 x 2 / 3)

Gross Media

This is the value of media space/time before:

- Deduction of any commission to the agency, and
- Addition of any service fee

Hourly Rates

Hourly rates are the rates set for one hour of a particular employee’s (or employee category) time. These are usually calculated by dividing the annual salary and employee benefit cost by 1600 (number of hours worked per year) and applying a multiple to allow for overheads and a profit margin.

Income

There are three elements of agency income:

- **Gross Income** (also known as revenue) which includes all income from client related transactions including fees, commissions, mark ups, service fees etc.
- **Other Income** which includes non client income which may include interest, dividends, discounts and rent received.
- **Total Income** which is the sum of gross income and other income

Mark-up

A mark-up is the amount that is added to the net third party costs on a commission based remuneration model. A mark up of 25% on net third party costs will equate to 20% on the total (inclusive of mark up) billing amount.

The term will also apply where direct salary costs + indirect costs are marked up by 33% to achieve a profit margin % of 25% on gross income / revenue.

Multiplier

This is the factor applied to direct salary costs to allow for indirect cost recovery and a profit margin element when calculating hourly rates for fees,

Net Income

Total Income received less all direct salary and indirect costs.

Net Profit

Usually termed net profit before tax, Net Profit is the bottom line profit for the agency after all income and all costs have been brought to account.

Operating Profit

Operating Profit (sometimes referred to as gross profit) is the profit before tax from trading activities (i.e.: before the deduction of interest and management fees and before the addition of other income to arrive at net profit before tax)

Overheads / Indirect Costs

Agency indirect costs (overheads) will include all the costs associated with doing business, except direct salary costs. Expenses such as office occupancy costs, communication, new business costs, travel, depreciation of assets, etc

The overhead component of agency costs varies significantly from one agency to another, as no two agencies are the same and cost structures vary.

When calculating fees, agencies may also include into their indirect costs, the costs of administrative staff and where appropriate, a percentage of management.

Performance Incentive Bonus

Performance Incentive Bonus (PIB) arrangements are incorporated into an increasing number of client-agency agreements, with the incentive based on achieving mutually agreed upon goals. The intention is to devise a win - win situation with the potential for higher profits for the agency and better, more measurable outcomes for the client.

Profit Margin

Profit Margin is the difference between gross income (revenue) and total agency costs and is usually expressed as a percentage of gross income (revenue). Thus if gross income (revenue) is R 100 and agency costs are R75 then the profit margin is R25 giving a profit margin % of 25%

Revenue

Revenue is another term for gross income.

9) Acknowledgements

- American Association of Advertising Agencies – Guiding Principles to Agency Compensation Programs

- Institute of Canadian Advertising – Payment by Results

- AFA Guidelines for Effective Advertiser / Agency Remuneration (Australia)

- Agency Remuneration – a Best Practice Guide on How to Pay Agencies – (IPA/ ISBA/MCCA/PRCA)

- Institute of Communications and Advertising (Canada) – Best Practices To Improve Remuneration and Terms

- ACA Remuneration sub-committee: Russell Cory, Judy van Dam, Graham Vivian, Peter Schumacher, Gail Curtis, Dave Livie, Lynn Madeley, Kurt Reed.