TRENDS IN AGENCY COMPENSATION

18th Edition

NOVEMBER 2022

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EXECUTIVE SUMMARY 2022

Fees, particularly labor-based fees, are the most dominant method of compensation today, according to the results of the ANA's *Trends in Agency Compensation* survey, which is now in its 18th edition. Fees are becoming so prevalent (used by 82 percent of respondents) that they are, in fact, increasing in popularity over newer methods of compensation, such as value-based compensation and sales commission-based methodologies. This is somewhat surprising, as past editions of this survey indicated that newer methodologies might start to take root among the marketing community.

Although labor-based fees remain the most dominant method overall, it is interesting to note the significantly increased use of fixed or output-based fees vs. labor-based fees amongst the largest advertisers. Specifically, 53 percent of the advertisers spending $500mm or more per year are now employing fixed or output-based fees, up from only 5 percent in the 2016 study.

It also appears that performance incentives as a complement to fees are being increasingly questioned, with 70 percent of respondents stating that they "don't know" whether performance compensation is improving their agency's performance. Not surprisingly, respondents' use of performance incentives with at least one of their agencies has declined to 41 percent in 2022 (the lowest reported level since 2003).

Two other valuable trends uncovered by the survey:

- Respondents evaluate the performance of their agencies across several different primary metrics. Agency performance reviews continue to be the most used incentive criterion for advertisers (75 percent). Brand awareness and sales goals are the next most commonly used metrics (71 percent and 52 percent respectively), which indicates that, despite all the available performance data, marketers still struggle to attribute more specific results to an individual agency partner, consistent with the continued challenges with attribution along the consumer path to purchase.

- Despite the great majority of respondents (approximately 85 percent) saying they are either "very satisfied" (24 percent) or "somewhat satisfied" (61 percent) with their current compensation approach, a significant percentage of respondents are planning to change their agency compensation agreements: 51 percent responded that they are likely to change their compensation approach with full-service advertising agencies, 46 percent with creative agencies, and 45 percent with media agencies. This contradiction could simply be due to changing business conditions and/or agency resource needs, or it may mean that "somewhat satisfied" may actually mean "not satisfied enough."

INTRODUCTION AND METHODOLOGY

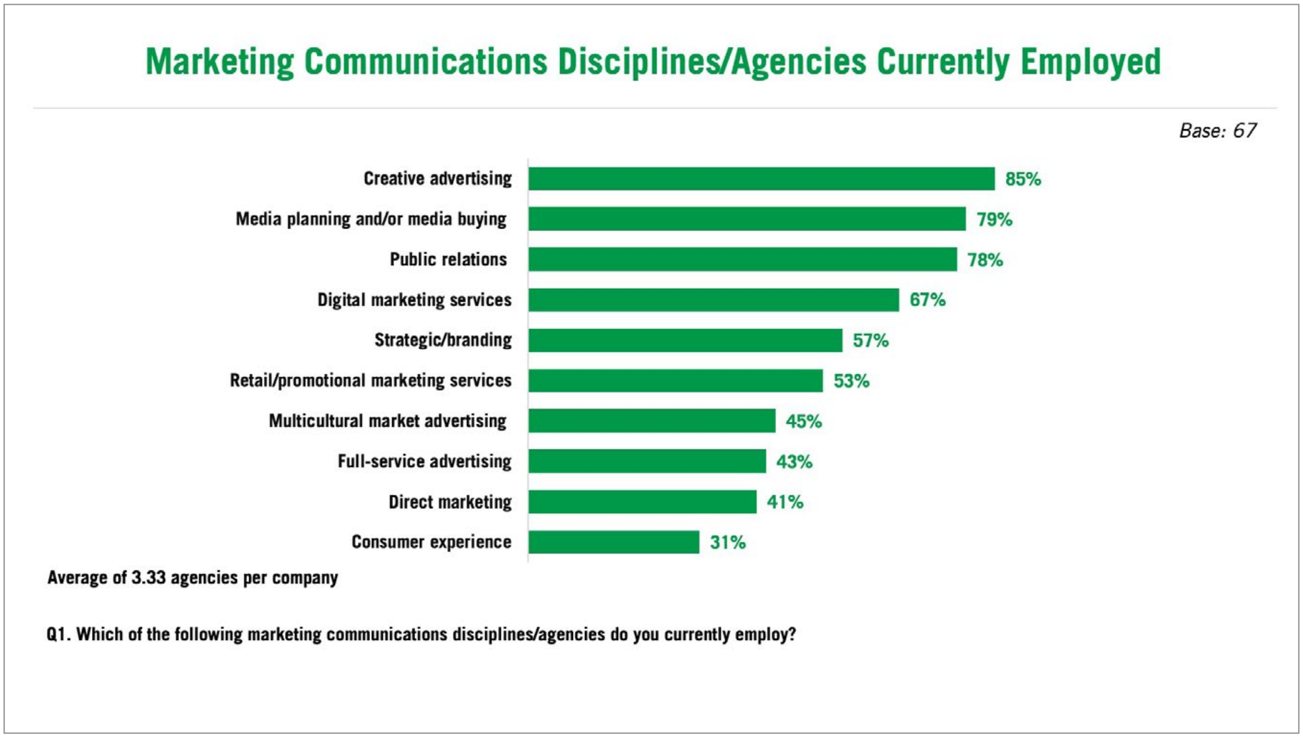
The survey was completed during the second quarter of 2022 among a sample of 101 client-side marketers, and was supplemented with qualitative interviews with both marketing and agency executives to probe on newer and emerging methods of performance-based compensation. Those 101 marketers represented 336 total agency/client relationships for an average of 3.33 agency relationships per marketer. Respondents were drawn from the membership of the ANA. Survey respondents have an average of 18 years of experience in the marketing/advertising industry.

For more than 50 years, the ANA has fielded this unique and comprehensive agency compensation trend survey among client-side marketers. This is the 18th edition of this study. David Beals, CEO, and Tom Browning, president, both at JLB + Partners, worked with the ANA to analyze the findings of the research and presented the initial survey results at the ANA's Advertising Financial Management Conference in May 2022.

This edition's survey was streamlined versus previous surveys to focus on compensation methodology by agency type and to update industry practices around performance incentive compensation.

ABOUT THE RESPONDENTS

ANA members responded to the latest survey encompassing 336 total agency relationships. A wide range of agency types are partnering with ANA members, with the most common being creative and media agencies. Consumer experience agencies are included for the first time.



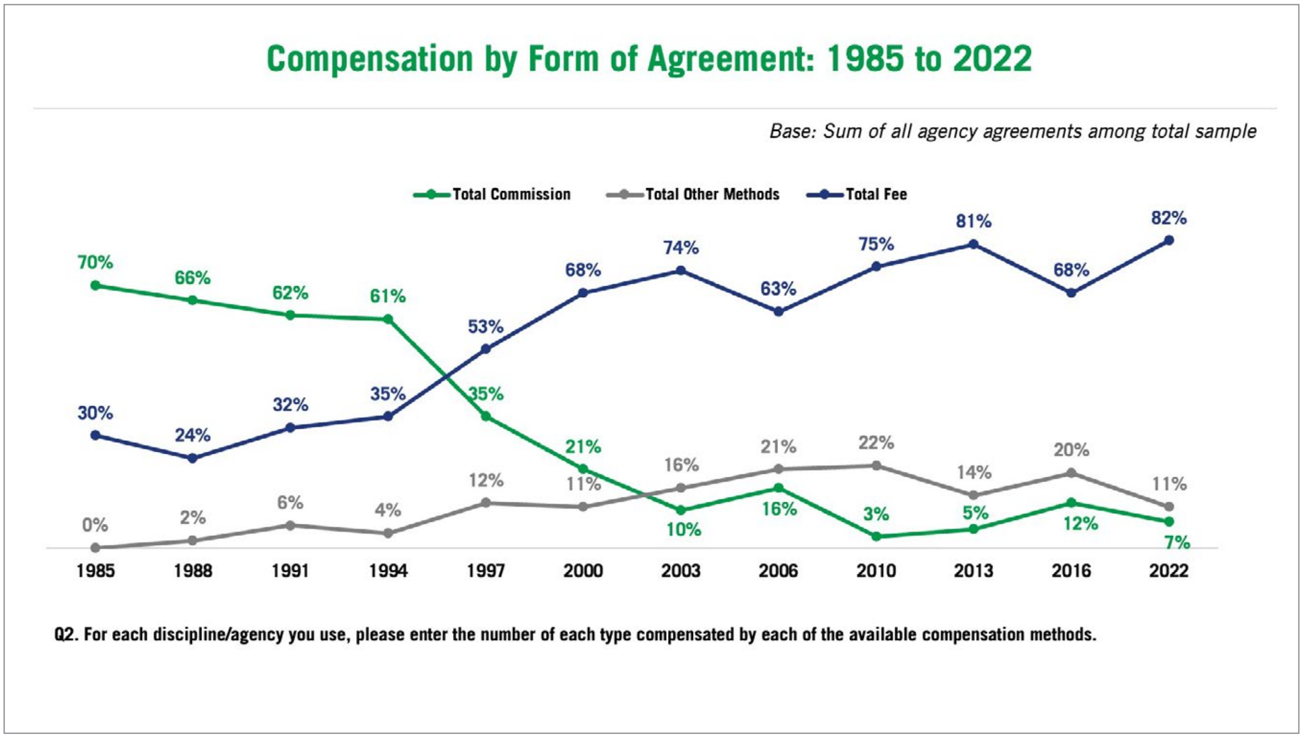
SECTION I: METHODS OF AGENCY COMPENSATION

Fee-Based Compensation Methods Continue to Dominate

Fee-based methods of compensation continue to dominate, with 82 percent of the respondents reporting the use of a fee compensation method in at least one of their agency agreements.

Perhaps surprisingly, after an uptick in 2016, "other methods" of compensation, which include the compensation methods of value-based and sales commission[1], declined from 20 percent in 2016 to 11 percent in 2022. This may be due to the complexity and lack of confidence marketers are experiencing with the implementation of value- and incentive-based compensation agreements.

Only 7 percent of the respondents reported using traditional commissions as a compensation method with at least one of their agencies.[2]

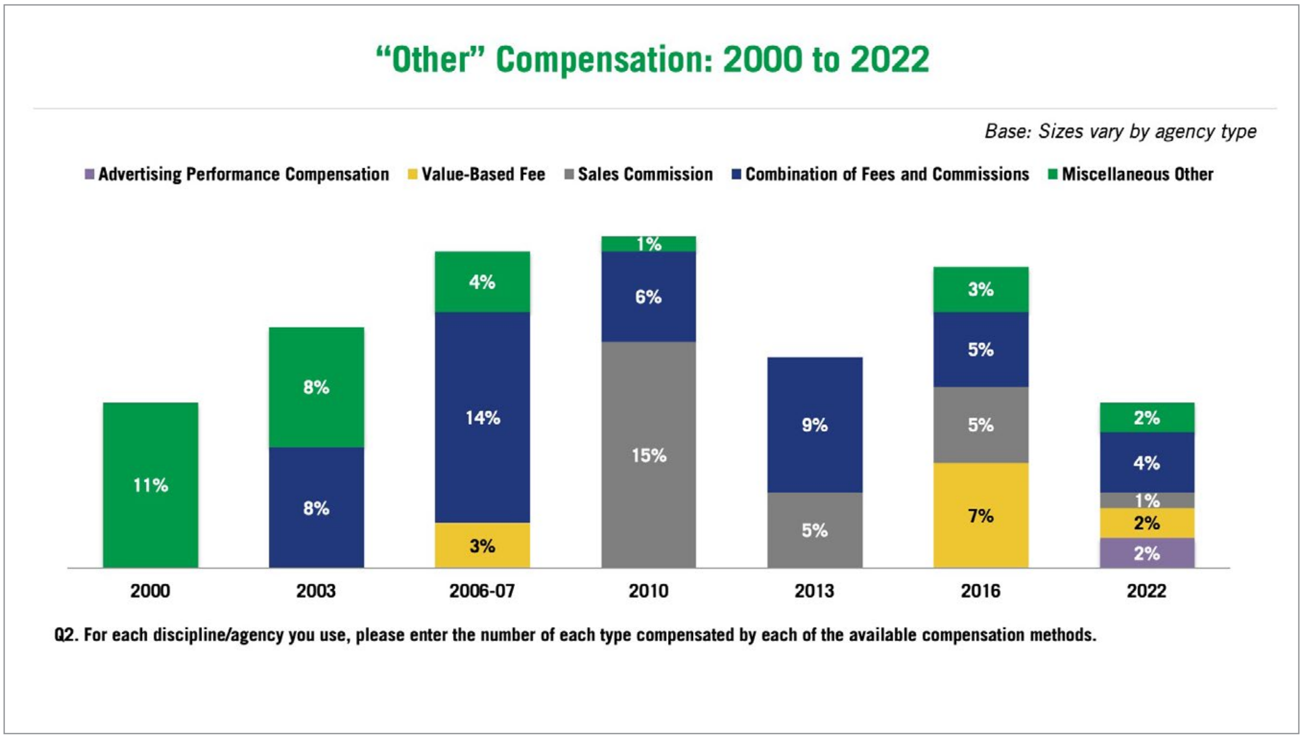


[1] "Value-based" compensation is where the agency's fee is based on the value, not the cost, of the work and services provided by the agency. Agency staff time, costs, and profits are not requested or reviewed as part of the compensation negotiation. "Sales commission" compensation is where the agency is compensated a percentage of the sales for the client or brand(s) it is managing.

[2] The years in this chart represent when the survey was fielded, not when the report was released. There was not a comparable survey or report done between 2016 and 2022. [Media Agency Compensation Practices](#) was released in 2019 but that report was focused on media.

"Other Methods" of Agency Compensation Are Not Gaining Significant Adoption

The use of new and "Other Methods" of compensation are not gaining any traction, and in fact have declined since 2016.

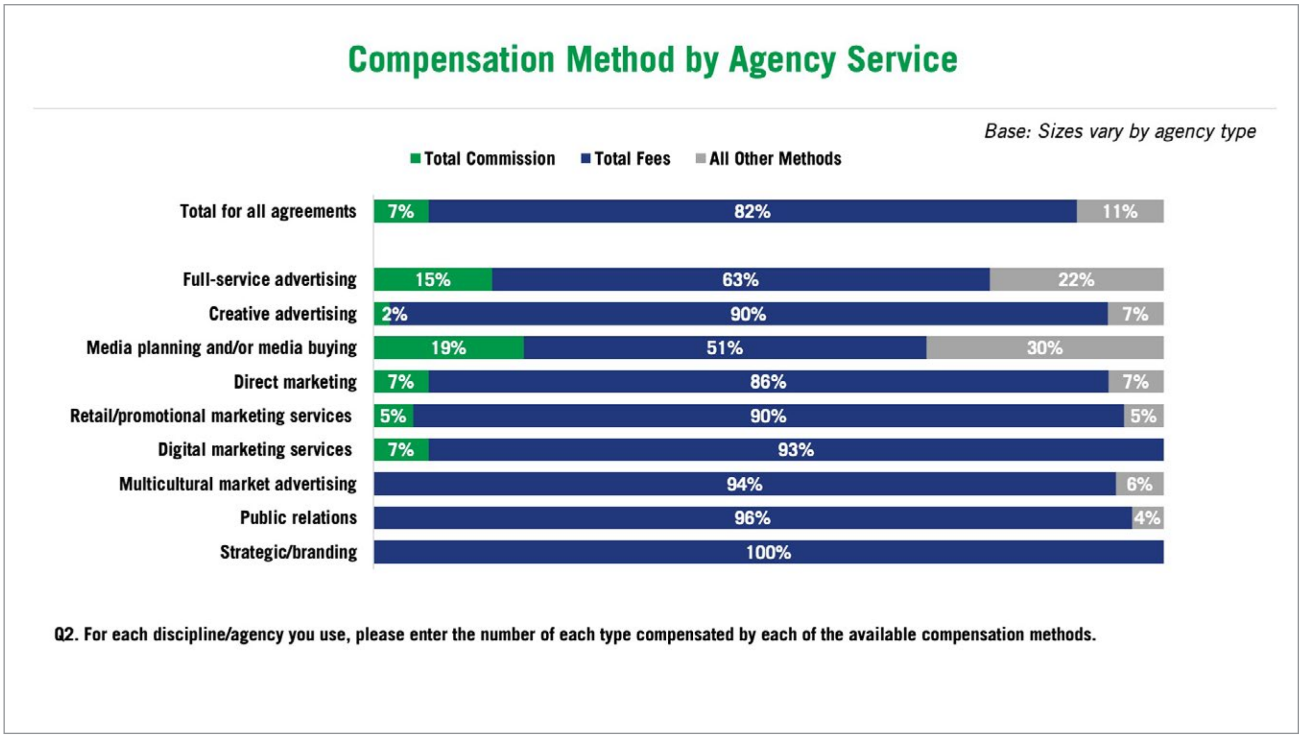


SECTION I: METHODS OF AGENCY COMPENSATION

Fee Methods of Compensation Employed Across All Agency Types and Services

While the use of fee-based compensation dominates across all types of agencies, traditional commissions, either on their own or in combination with fees (as reported in the "other" category), are more likely to be employed for media agency services (19 percent as sole method of compensation and 30 percent using a combination of commissions and fees) or full-service agency assignments, which often include media services (15 percent as sole method of compensation and 22 percent using a combination of commissions and fees).

Because media buyers at most agencies are buying on behalf of multiple clients, some marketers and their agencies find it easier to compensate the media buying function with a commission versus trying to accurately plan, track, and compensate for labor time with a fee.

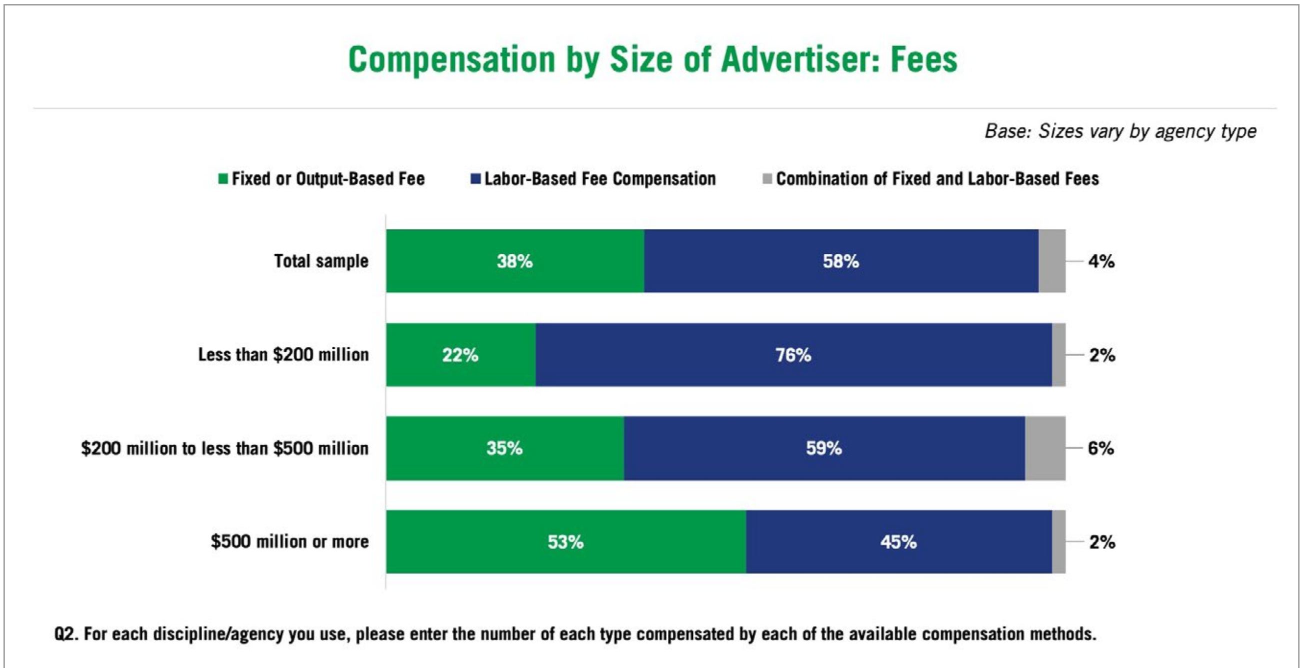


SECTION I: METHODS OF AGENCY COMPENSATION

Labor-Based Fees vs. Output-Based Fees

Larger advertisers are increasingly employing a fixed, output-based fee compensation method, where the fee is negotiated for a specific project or set of deliverables without regard to the agency labor time involved. Fifty-three percent of the largest advertisers are now employing this method, up from only 5 percent in the 2016 study. Smaller advertisers are much more likely to use labor-based fee compensation agreements (76 percent in 2022).

One likely reason for a switch from labor-based to fixed or output-based fees relates to greater administrative efficiency. Because the fees are based on outputs, there is no review or haggling over agency labor time. A second reason is more philosophic and may relate to marketers who want to compensate the agency for what they produce, not the time it takes to produce it.

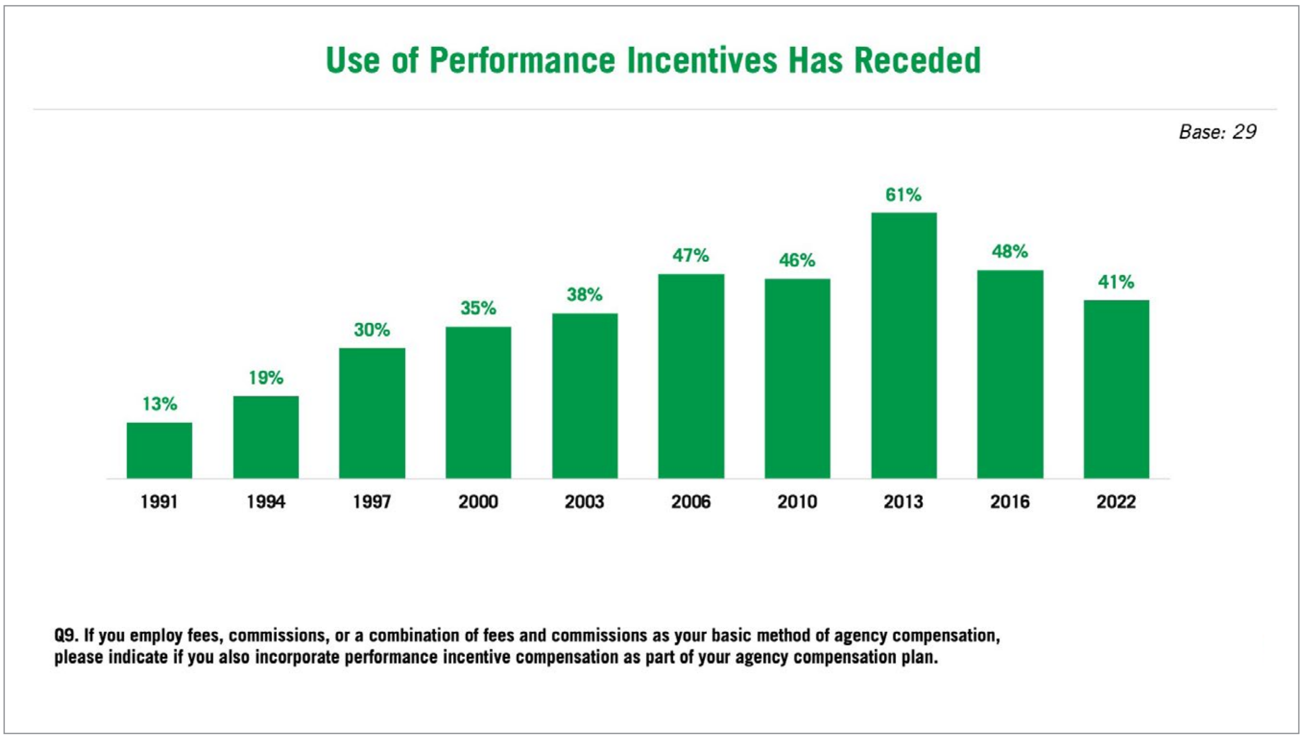


SECTION II: USE OF PERFORMANCE INCENTIVES

Use of Performance Incentives Has Receded

Performance incentives are an additional element to a fee or commission-based compensation plan and are structured as a bonus for meeting or exceeding defined performance goals. After peaking in 2013, the use of performance incentives as an element of agency compensation has declined markedly, from 61 percent nine years ago to 41 percent in 2022 — its lowest level since the 2003 survey (almost 20 years).

This is likely due to the complexity and effort required to structure an effective performance incentive agreement and the increasing number of respondents who say that the agency performance incentive agreements they have in place have not had an impact on agency performance.

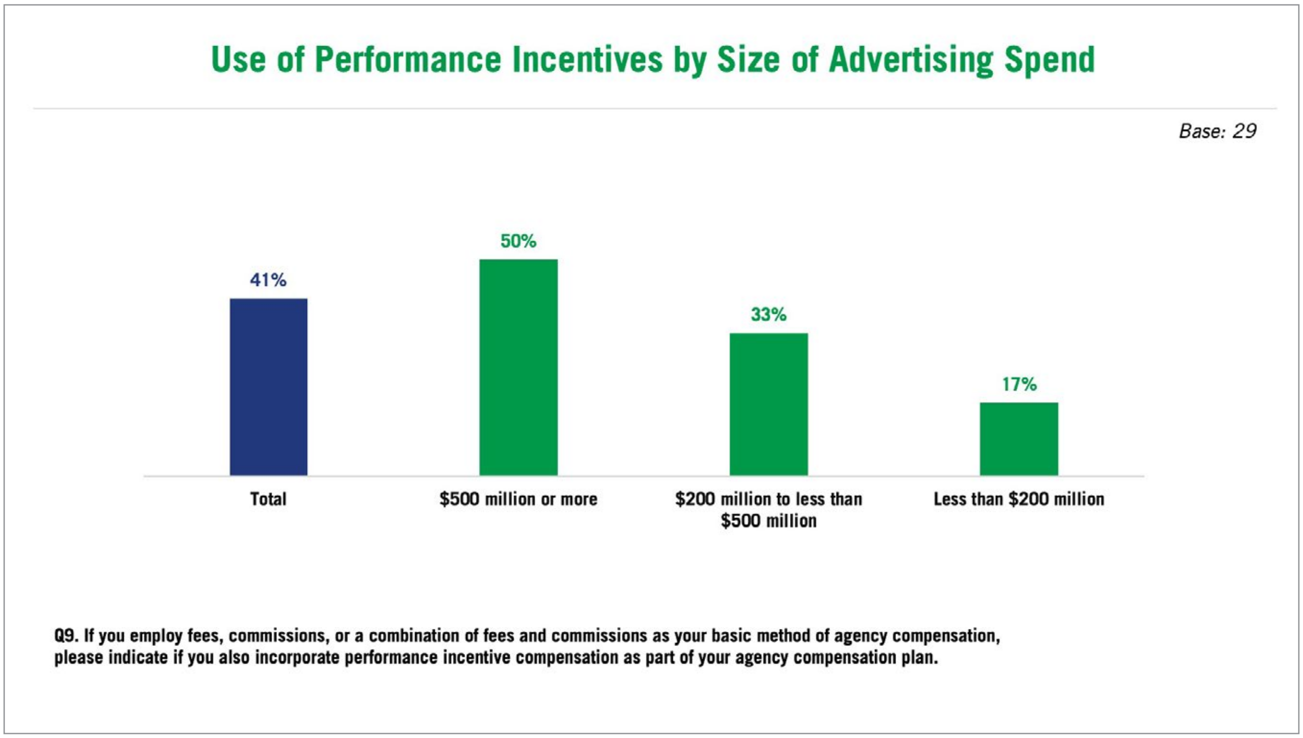


SECTION II: USE OF PERFORMANCE INCENTIVES

Larger Advertisers Use Performance Incentives Substantially More Often

Consistent with previous surveys, the use of performance incentives is far more common among the larger advertisers. Smaller spenders are significantly less likely to use incentives (17 percent). This might be related to several factors:

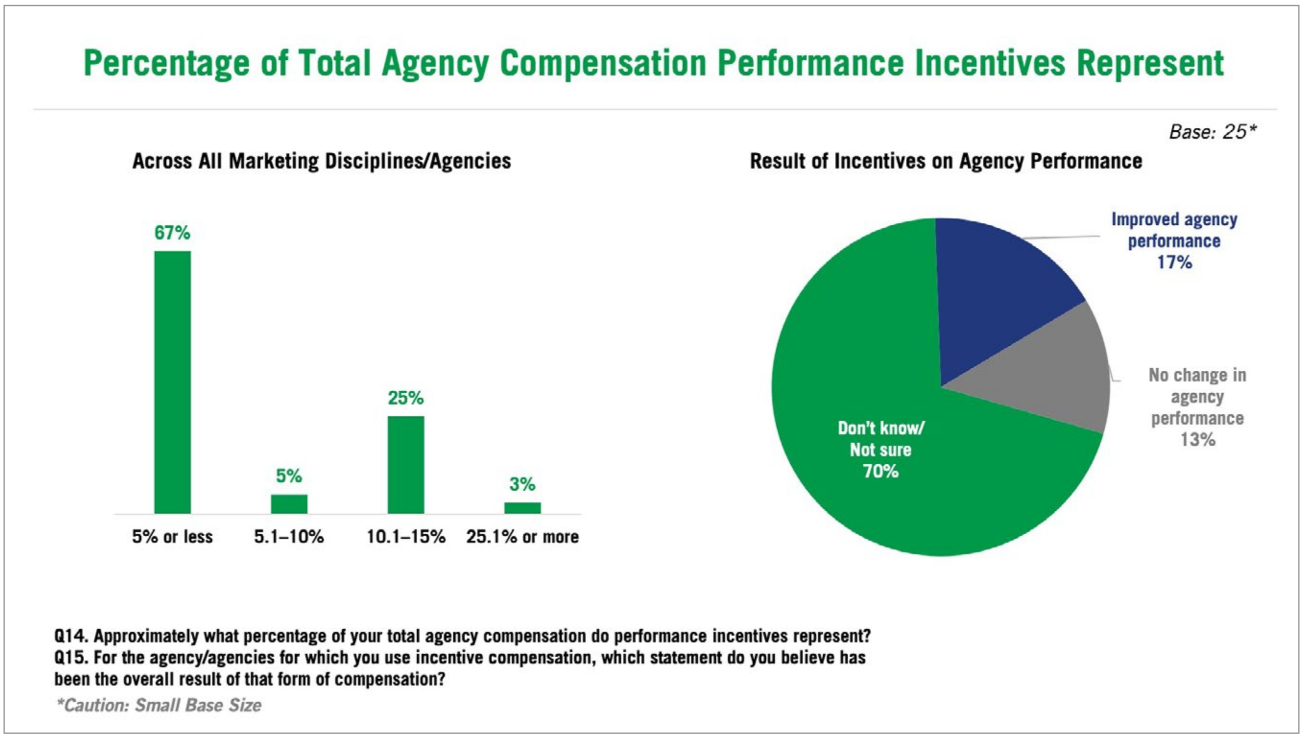
- A small marketing and agency compensation spend might not warrant the time to plan and manage incentives.
- Smaller marketers might be less able to afford marketing communications measurement tools.
- The budgets are too small to allow for the potential upside bonus payment to the agency.



SECTION II: USE OF PERFORMANCE INCENTIVES

Overall, Performance Incentives Are a Small Percentage of Agency Compensation

Performance incentives account for 5 percent or less of an agency's total compensation for two-thirds of respondents, which is important, since 13 percent of respondents say the incentives don't have an effect on agency performance and a staggering 70 percent of respondents *don't know* if they have any affect. This relatively small percentage of an agency's total compensation could result in a self-fulfilling prophecy: the incentive compensation upside is not meaningful enough to affect the agency's actions and, therefore, performance.

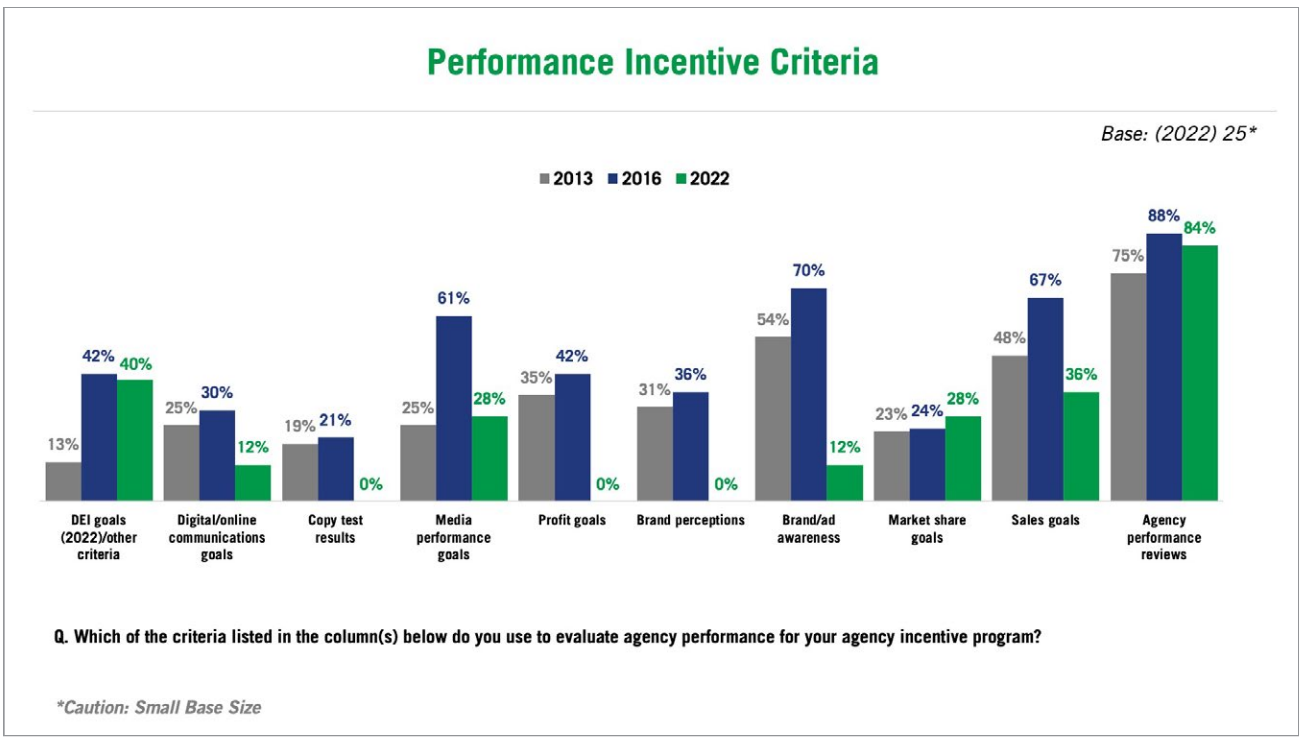


SECTION II: USE OF PERFORMANCE INCENTIVES

Agency Performance Is Measured by a Number of Different Metrics

Advertisers use a number of different metrics to measure their agencies' performance. Agency performance reviews continue to be a key incentive criterion for most advertisers (84 percent).

In 2022, for the first time, we incorporated DEI Goals (e.g., agency performance in meeting or exceeding diversity goals in staffing and third-party subcontracting) as a potential metric. This is the second most used metric by advertisers for performance incentives (40 percent). Almost all other performance incentive criteria decreased in usage from 2016. Only Market Share Goals had a slight increase (28 percent) in use from the previous survey.



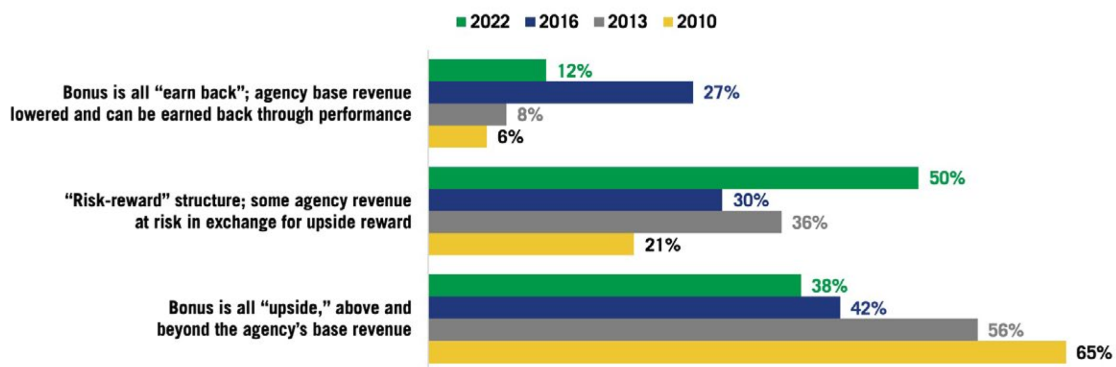
SECTION II: USE OF PERFORMANCE INCENTIVES

An Increasing Number of Respondents Are Using a Risk/Reward Incentive Structure

Half of the respondents structure their performance incentives in risk-reward fashion, up significantly since 2016. Thirty-eight percent structure the incentive as a pure upside bonus on top of the negotiated "base" compensation. Of course, it is also possible that some marketers negotiate very low base fees to set a low floor but include a bonus, so the agency has potential revenue upside. In cases like this, the compensation agreements might actually be functioning as "earn backs" even though the respondent is not defining them that way.

Basis for Performance Incentives

*Base: 25**



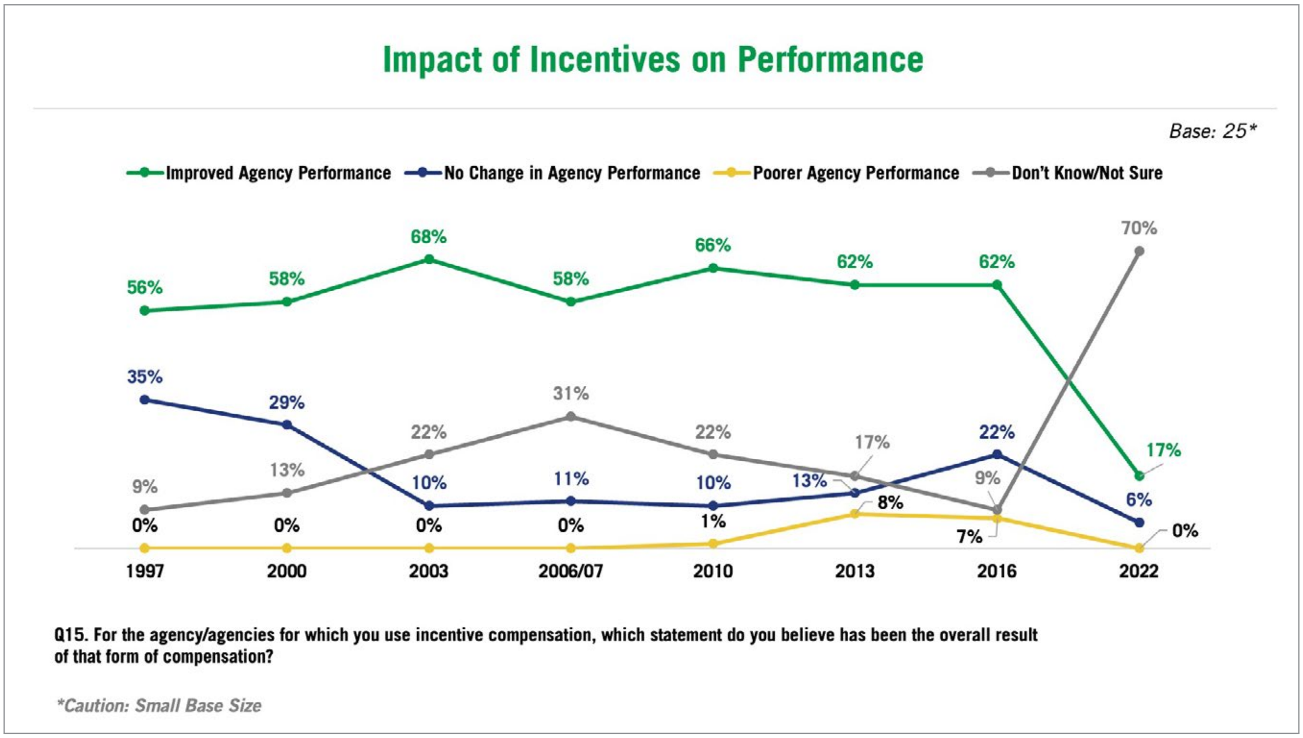
Q10. You indicated that your firm utilizes performance incentive compensation. Taking all of your agency relationships as a whole, which of the following best characterizes your most prevalent practice in structuring the performance incentives?

**Caution: Small Base Size*

SECTION II: USE OF PERFORMANCE INCENTIVES

There Is Decreasing Confidence in the Impact of Performance Incentives

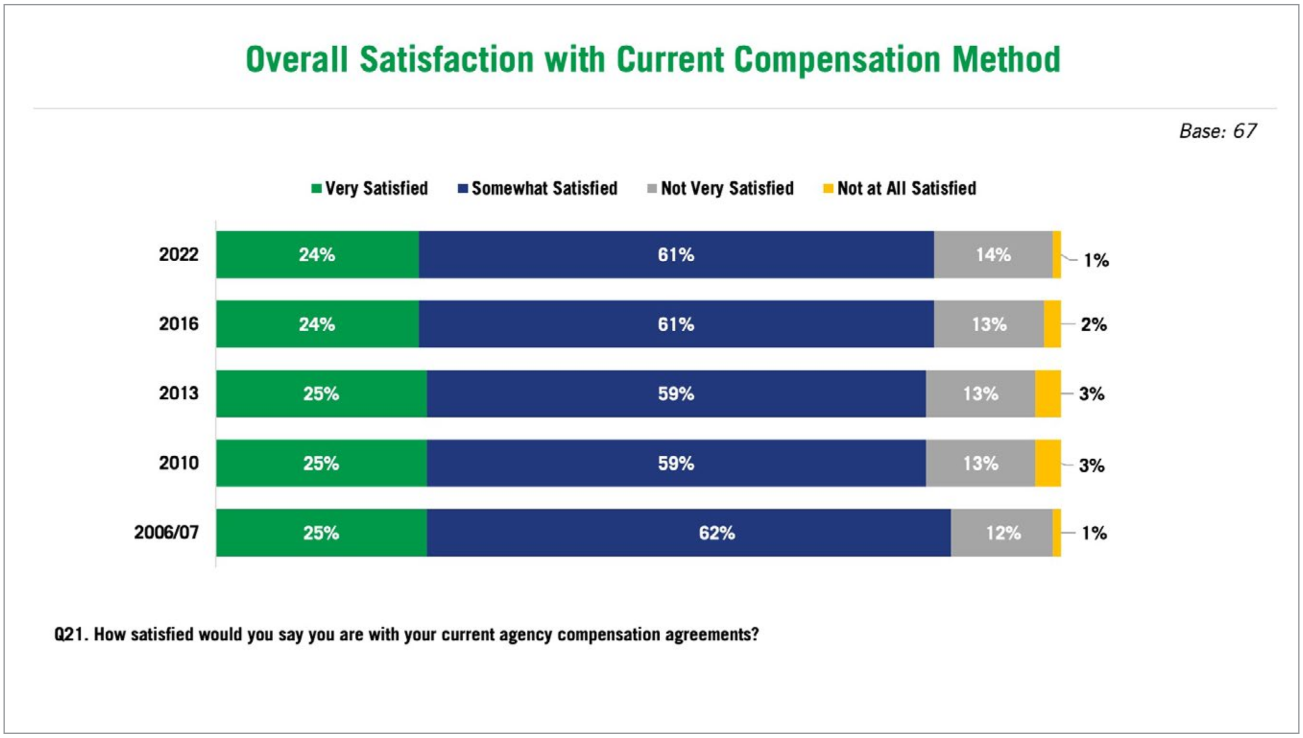
There has been a dramatic decrease in marketers' expressed confidence in the impact of performance incentive compensation. This "crisis of confidence" is indicated by the significant increase in the number of respondents who say they don't know or are not sure about the ability of incentives to drive improved agency performance (increasing from 9 percent in 2016 to 70 percent in 2022). Some possible explanations for this drastic change include data overload (making it more complicated to know what's working) and challenges of attribution. With the large number of specialist agencies, consultants, tech firms, and in-house agency resources, it has become more challenging to single out the quantitative contributions of a given agency partner.



SECTION III: CURRENT PERCEPTIONS OF AGENCY COMPENSATION

Expressed Satisfaction with Compensation Methods Remains Steady

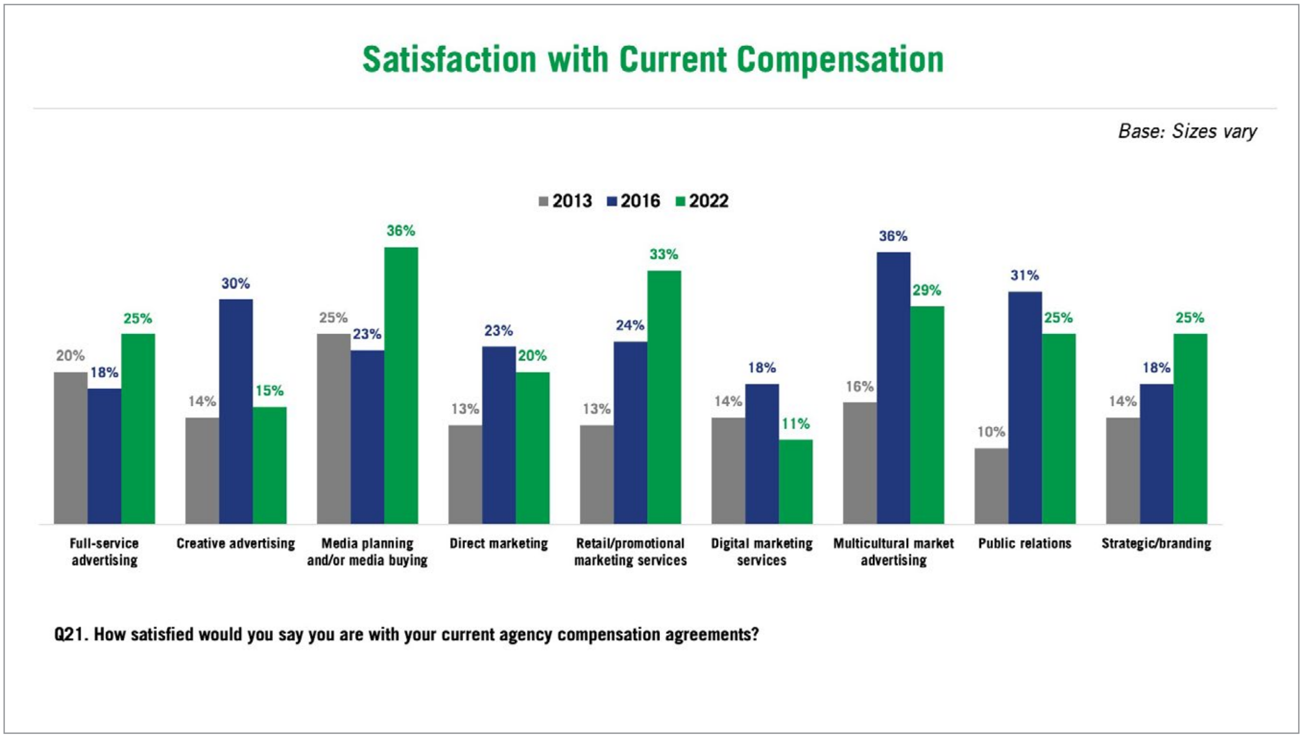
Despite the previous data demonstrating marketers' lack of confidence in their performance compensation agreements, the great majority of respondents express general satisfaction with their current compensation methods, and this data has stayed remarkably consistent for the last 15 years. Eighty-five percent of respondents continue to report that they are "very satisfied" (24 percent) or at least "somewhat satisfied" (61 percent).



Perceptions of Media Services Compensation Are Improving

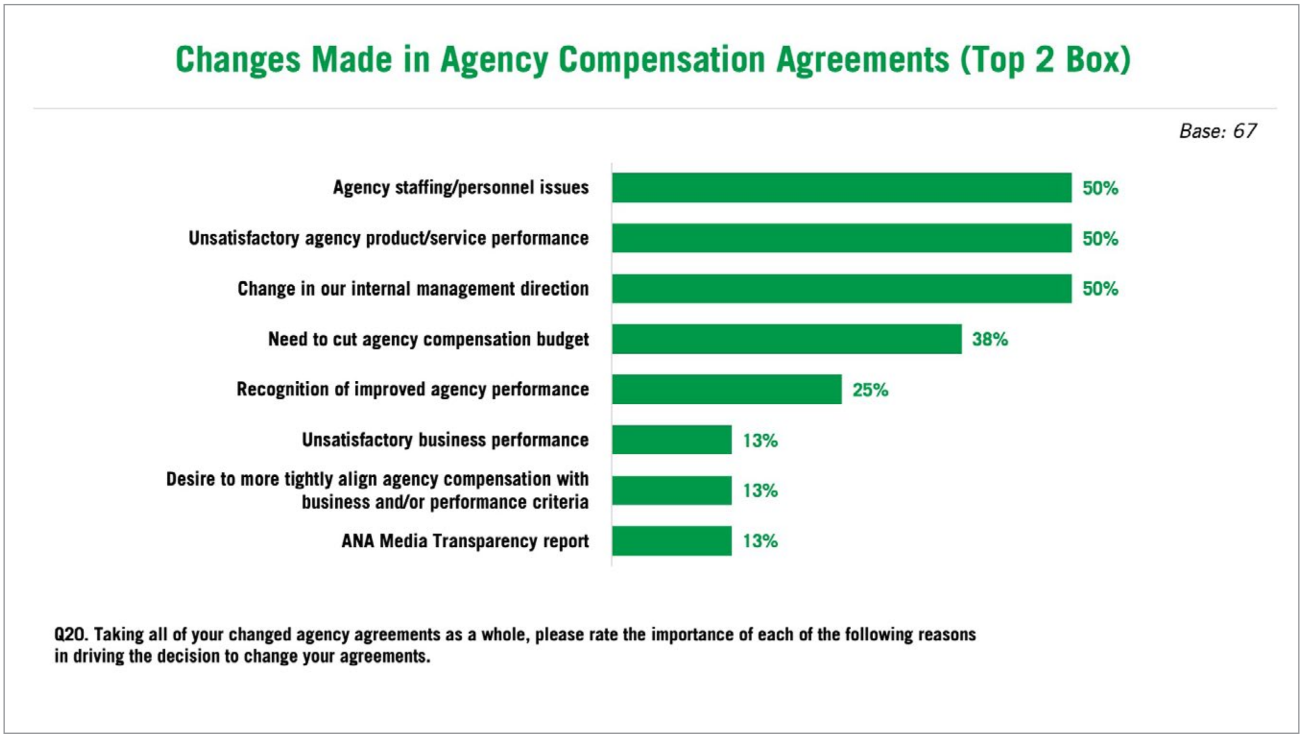
Respondents in the 2022 survey expressed a significant improvement in their satisfaction with their current compensation approach for both media agencies and full-service agencies (which include media).

One potential explanation is the increasing levels of cost transparency of media agencies, which was a key issue expressed in the 2016 survey.



Agency Performance Issues and Changes in Internal Company Direction Drive Compensation Changes

Of those marketers who have made changes in their agency compensation agreements, the top reasons cited are unsatisfactory agency performance, agency staffing issues, and changes in internal management direction (all 50 percent). On a more positive note, 25 percent of respondents made changes in their agency compensation agreements to recognize improved agency performance. The ANA media transparency report was noted by 13 percent of respondents.

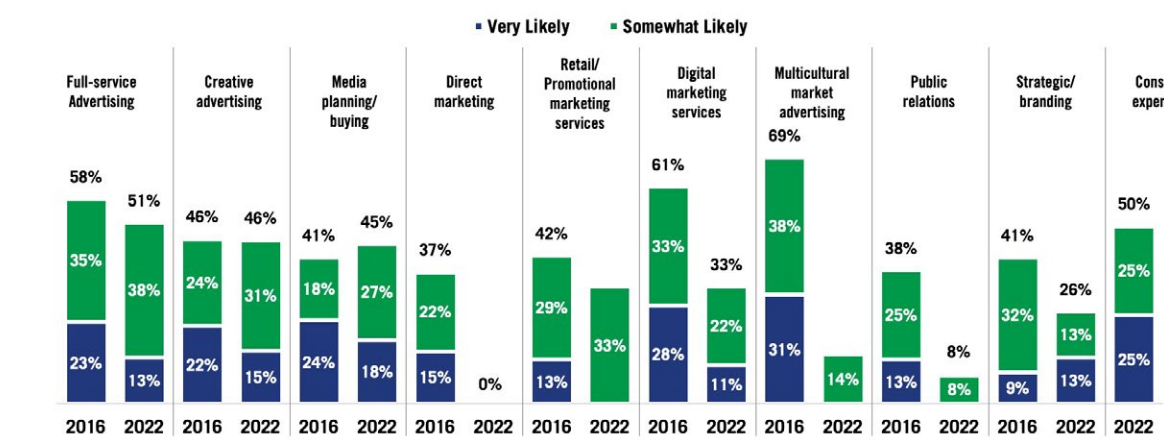


SECTION IV: RESPONDENTS' FUTURE PLANS FOR AGENCY COMPENSATION

A Significant Percentage of Respondents Anticipate Changing Agency Compensation

Despite the great majority of respondents (approximately 85 percent) saying they are either "very satisfied" (24 percent) or "somewhat satisfied" (61 percent) with their current compensation approach, 51 percent say they are likely to change their compensation approach with full-service advertising agencies, 46 percent with creative agencies, and 45 percent with media agencies. This seeming contradiction could simply be due to changing business conditions and/or agency resource needs, or it may mean that "somewhat satisfied" may actually mean "not satisfied enough."

Likelihood of Changing Current Compensation Approach in Next 12 Months



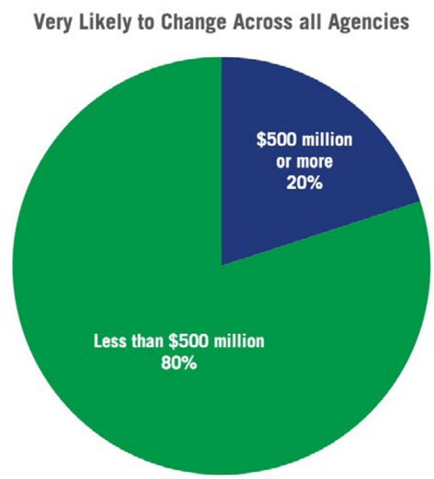
Q22. How likely do you believe you are to change the current compensation approach with your agencies in the next 12 months?

SECTION IV: RESPONDENTS' FUTURE PLANS FOR AGENCY COMPENSATION

Marketers with Smaller Budgets Are More Likely to Change Compensation Approach

Of the respondents saying they were "very likely" to change their compensation approach with at least one of their marketing communications agencies, 80 percent were marketers with budgets less than $500 million.

Likelihood of Changing Current Compensation Approach in Next 12 Months



Q22. How likely do you believe you are to change the current compensation approach with your agencies in the next 12 months?

SECTION V: IMPLEMENTATION OF AGENCY COMPENSATION AGREEMENTS

Almost Three-Quarters of Respondents Negotiate Agency Compensation Annually

Most advertisers (65 percent) negotiate their agency compensation on an annual basis, and this has become the dominant practice over the last decade. The next largest group is those who negotiate "when required" at 23 percent.

Frequency of Agency Compensation Negotiation

*Base: 17**

Frequency of Compensation Negotiation								
Base: Total Sample	1997 %	2000 %	2003 %	2006–07 %	2010 %	2013 %	2016 %	2022 %
When required	45	33	30	30	23	26	40	23
Annually, for the following year	36	42	63	61	61	72	53	65
Other	19	25	11	8	11	2	N/A	12
Never	N/A	N/A	6	1	N/A	N/A	6	N/A
Don't know/Not sure	N/A	N/A	N/A	N/A	5	N/A	N/A	N/A

Q18. How often does agency compensation negotiation typically occur? Please choose one response that summarizes the majority of your agency relationships.

**Caution: Small Base Size*

SECTION VI: ADDITIONAL PERSPECTIVE ON PERFORMANCE INCENTIVE COMPENSATION AGREEMENTS

As a complement to the data presented here, JLB + Partners conducted a series of qualitative interviews with ANA members and agencies who were employing some form of performance-based compensation. The goal was to learn from the industry leaders and glean some perspective on where performance-based compensation could be headed in the future.

Three key headlines from the study:

- True performance-based methods of compensation (where most or all of the agency's compensation is tied to performance) have not yet gained any significant use or traction. Interviews confirmed certain limiting factors:
  - Attribution issues
  - Complexity
  - Uncertainty about their impact on agency performance
  - Agency concern of adequate staff-cost coverage

- There are some common characteristics of situations where performance-based compensation works best:
  - E-commerce or "digital direct" assignments, where one agency is mostly or totally responsible for the media and messaging planning and execution, which allows for easier attribution
    - Employing highly measurable online, social, and programmatic media that can be tracked and connected to sales or sales-influencing KPIs
    - Most often on performance engagements with Cost Per Outcome or Cost Per Lead/Sale as main KPI
    - A single source of performance data and data measurement that is aligned between marketer and agency is essential

- For those interested in taking advantage of the potential benefits of performance-based compensation, there are some basic tenets of success:
  - Waiting until the agency/client relationship is firmly established. This avoids an additional level of complexity in Year 1 and allows for a common understanding of critical success metrics
  - Ensuring both client marketing and procurement/finance departments are in full alignment
  - Taking a test-and-learn approach so both parties can ensure mutual satisfaction before expanding; e.g., starting with a single channel or a smaller assignment

CONCLUSIONS

Despite the rapid changes to the media and marketing landscape in recent years, newer methods of agency compensation have not started taking any significant root.

In contrast to previous enthusiasm for new and innovative methods of compensation, fee-based compensation methods continue to dominate and, have even grown in popularity.

And despite the increasing measurablity of online, social and, programmatic advertising that can be tied to an agency's contributions, respondents have also reduced their use of performance incentives. An increasing number of respondents say they're unsure if incentives have any effect on their agency's performance. And even when performance incentives are employed, they represent a small fraction of an agency's total compensation.

Finally, despite expressing general satisfaction with the methods of compensation they're currently using, a significant percentage of respondents anticipate changing their agency compensation in the coming years.

With marketers returning to the tried and true method of fee-based compensation, expressing a lack of confidence in performance incentives, and saying they plan to change their agency compensation, one can imagine that the opportunity for innovation in new methods of agency compensation remains.

ABOUT THE ANA

The mission of the ANA (Association of National Advertisers) is to drive growth for marketing professionals, brands and businesses, the industry, and humanity. The ANA serves the marketing needs of 20,000 brands by leveraging the 12-point ANA Growth Agenda, which has been endorsed by the Global CMO Growth Council. The ANA's membership consists of U.S. and international companies, including client-side marketers, nonprofits, fundraisers, and marketing solutions providers (data science and technology companies, ad agencies, publishers, media companies, suppliers, and vendors). The ANA creates Marketing Growth Champions by serving, educating, and advocating for more than 50,000 industry members that collectively invest more than $400 billion in marketing and advertising annually.

ABOUT THE AUTHORS

David Beals is CEO at JLB + Partners and has provided agency search, compensation, and performance evaluation counsel to a number of leading brands, including Walmart, the U.S. Army, Whirlpool, SC Johnson, Cisco Systems, Kellogg's, Microsoft, Johnson & Johnson, Nissan, and Allstate.

Mr. Beals joined Jones Lundin Associates in 1999 after a 19-year career at the DDB agency, where he worked on major accounts such as McDonald's, General Mills, Anheuser-Busch, and the Campbell Soup Company. He purchased the company in 2000, renaming it Jones Lundin Beals.

Mr. Beals has written the last four ANA *Trends in Agency Compensation* books, as well as the ANA Insight Briefs "Structuring Effective Agency Performance Evaluations" and "Compensation Guidelines for Today's Agency World." He is a regular contributor to and participant at ANA conferences and committees on the subjects of agency compensation and relationship management.

Tom Browning is president of JLB + Partners, a global consultancy which has the mission of helping clients improve the value and productivity of their marketing agency relationships. Mr. Browning joined JLB + Partners in 2021 after a career of over 30 years in the agency business, primarily at DDB Chicago and DDB Worldwide, where he worked on McDonald's, SC Johnson, Frito-Lay, Anheuser-Busch, Discover Card, Midas International, and Emerson Technologies. He also led the Nestlé USA business during his time at JWT Chicago.

In his first year at JLB + Partners, Mr. Browning has provided agency search and agency compensation consultation to AbbVie, Inogen, SC Johnson, Duke Energy, Consolidated Edison, and Rémy-Cointreau.

Greg Wright, vice president at the ANA, was the project leader on this initiative. (gwright@ana.net).

APPENDIX A: DEFINITIONS

Survey respondents were asked to identify their primary method of agency compensation. The different methods were defined as follows:

Commission — fixed rate refers to when the agency is paid a fixed percentage of media billings and markup on production costs.

Commission — sliding scale refers to when the agency is paid a level of commission that varies with the level of client media spending.

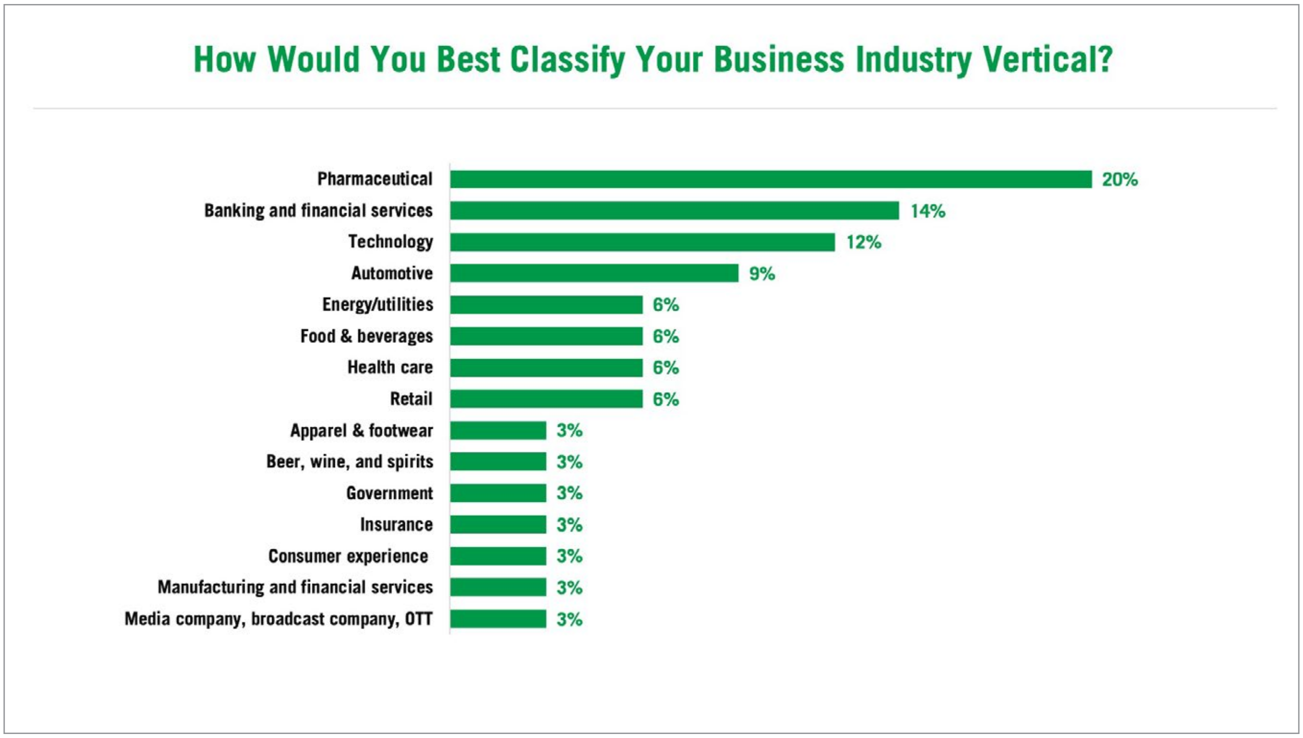
Fixed or Output-Based Fees are negotiated for a specific project or time period, and cannot vary. All media, production, and any other costs are billed at net, with no markup.

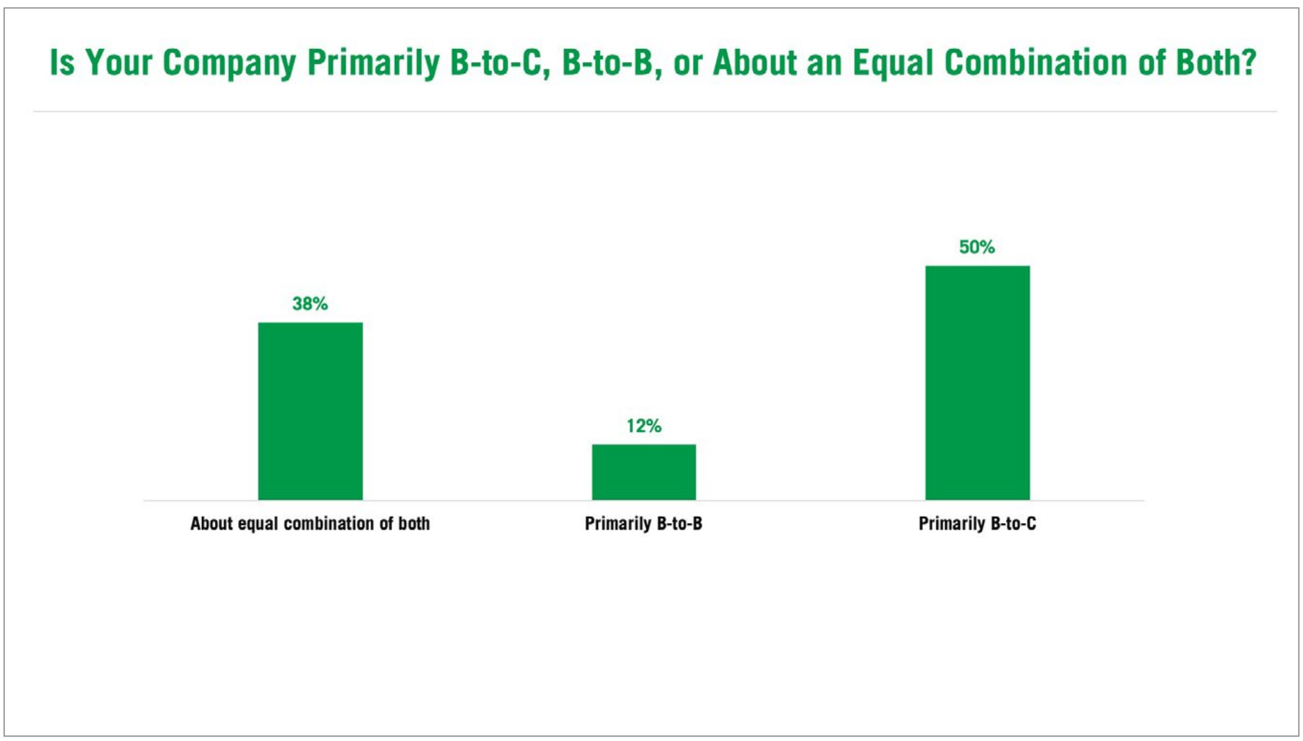
Labor-Based Fee Compensation is when the agency fee is determined by the amount of labor time multiplied against a negotiated hourly labor rate (or a percentage of time methodology); i.e., the cost estimate of agency time/personnel to service the account. All media, production, and any other costs are billed at net, with no markup.

Sales Commission is when the agency is compensated a percentage of the sales for the brand(s) it is managing (e.g., the Procter & Gamble model).

Value-Based Fee is when the agency's fee is established based on the value, not the cost, of the services and work provided by the agency. Agency staff time, costs, and profits are *not* requested or reviewed as part of the fee negotiation.

APPENDIX B: DEMOGRAPHICS





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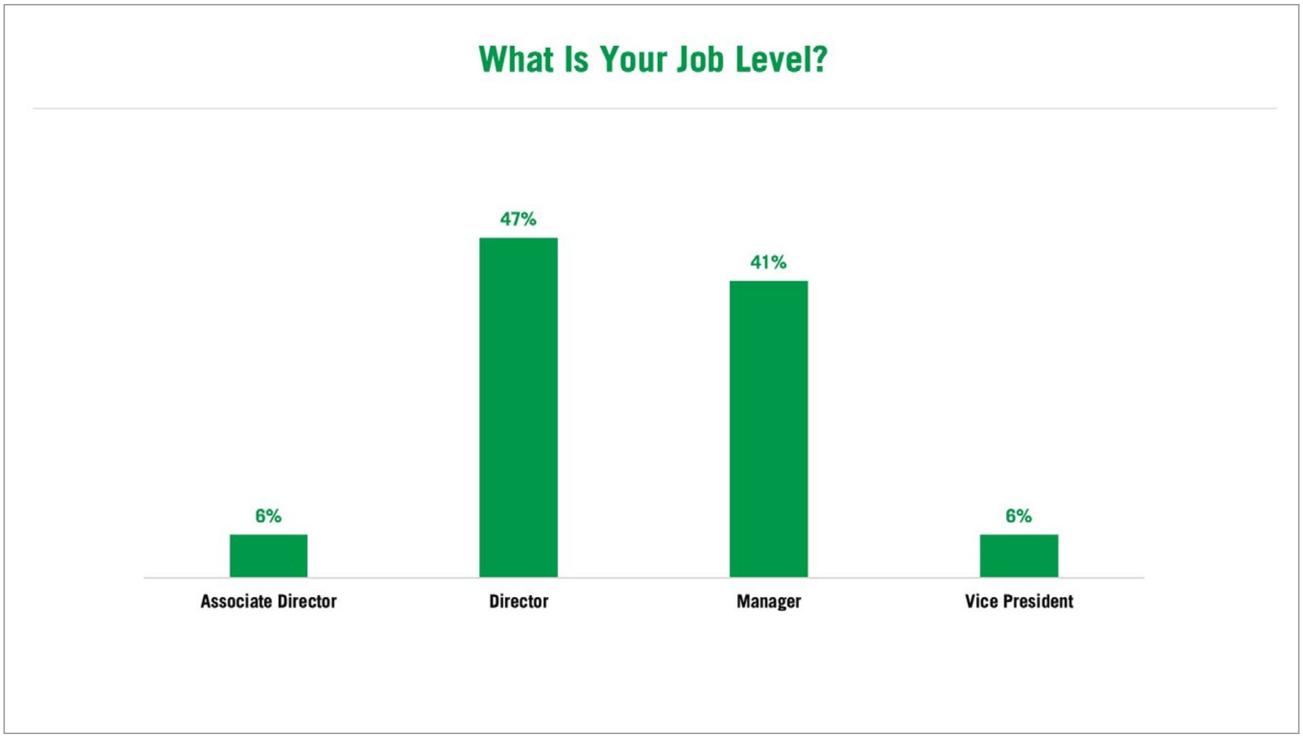
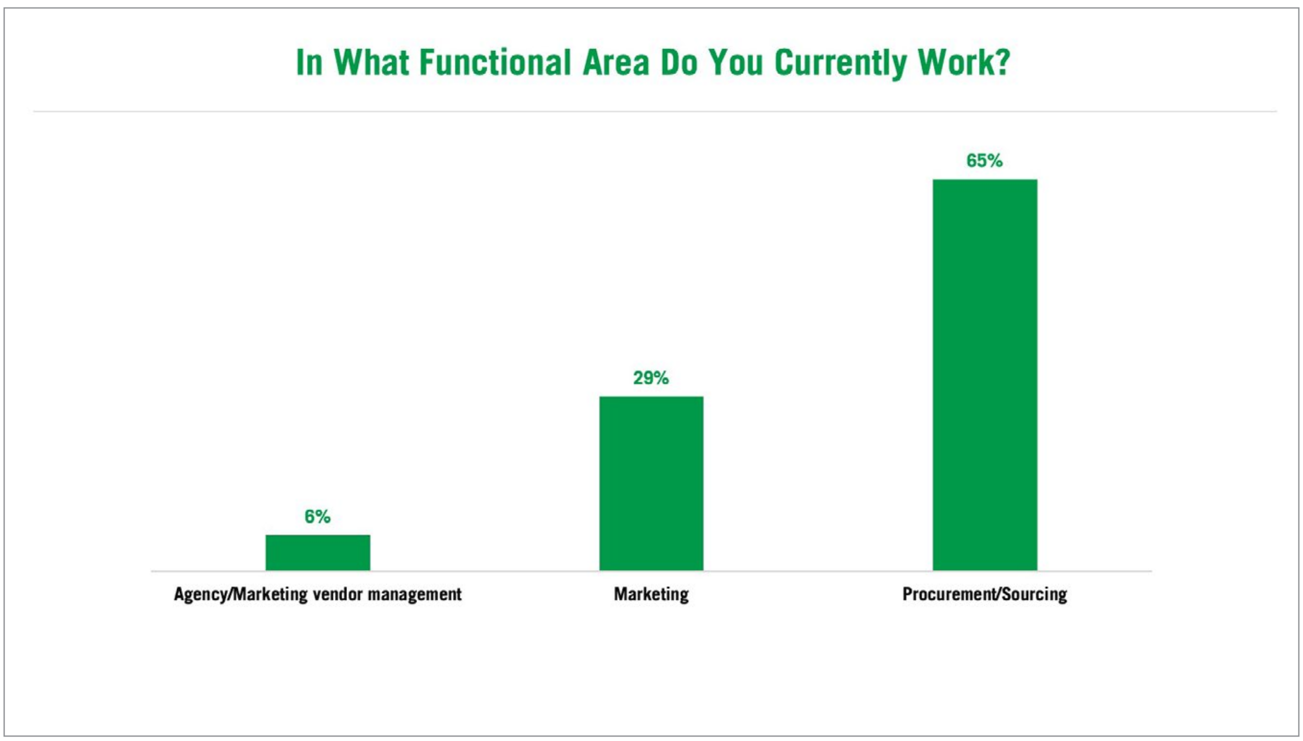
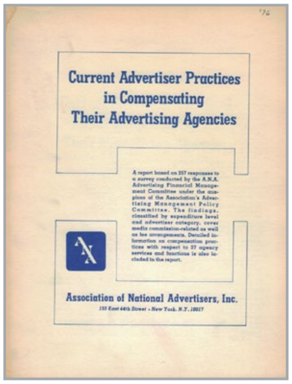
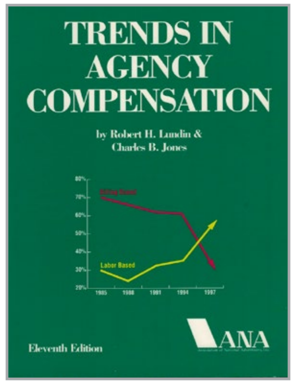
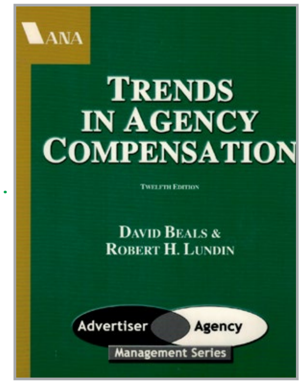


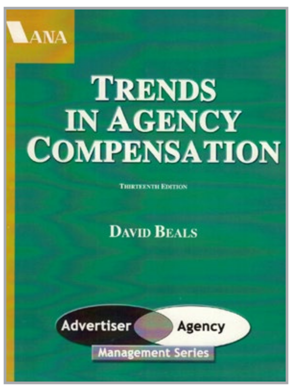


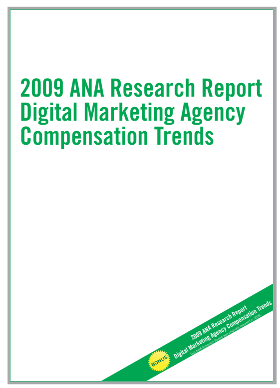
TRENDS IN AGENCY COMPENSATION THROUGHOUT THE YEARS

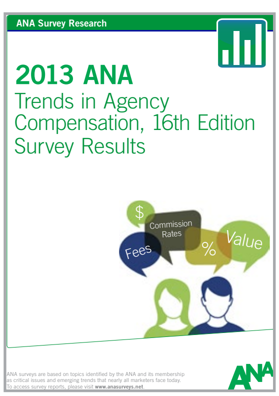


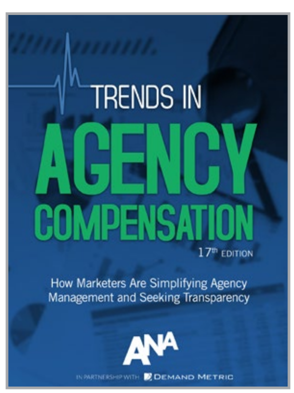


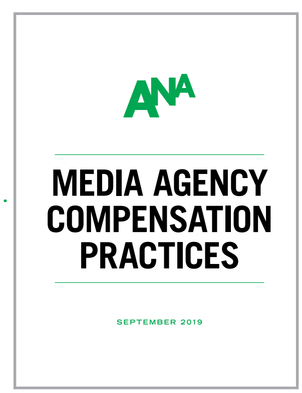












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