Green Papers - The problem with most agency fees is….

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Subject	Agency Fees
Title	The problem with most agency fees is….

" The problem with setting agency fees is that most are making them up"

Would it surprise you that many agencies set their resource plan to the agreed fees? In the absence of any quantifiable scope of work the best the agency can do is guess the resources required. Others use a rule of thumb based on old fashion benchmarks such as effective media commission or working to non-working ratios.

Or that some consultants will evaluate the proposed agency fees based on the hourly rates or the salary, overhead and profit margin calculation. But this does not evaluate the level of resources or the mix of resources to deliver the advertisers needs, which is usually guessed.

Or that procurement will think that by competitively tendering the account, the sample of financial proposals will provide a commercially sound evaluation of the most appropriate fee. But how do they explain the wide range of financial responses? And why is the lowest cost response considered the best, rather than the mean or median response?

The point is all of these are at best guesses. Often guesses based on experience, but nevertheless a guess. It all depends on if you want the guess to provide you with a sustainable agency fee model or just the cheapest.

The cost of agency resources

There is certainly plenty of information and misinformation on agency rates, fees and salaries. Much of the data available comes from existing client relationships and reflects the twenty-year trends in the fall of agency fees detailed by Michael Farmer in his award-winning book on the topic, Madison Avenue Manslaughter.

Tracking agency fees from 1995 to 2015, Michael Farmer has found that creative agency fees have reduced by 65% in real terms. How can this occur? Has the standard of agency resources fallen this much? Have agency salaries fallen this much? It is certainly not because of any major increase in agency automation or productivity.

There are a number of agency fee benchmarking resources that are deliberately under quoted to provide savings. There are others that provide an average rate of all agencies, when it is clear that there is no universal standard of agency. But no matter the source of the benchmark data the fact is it is simply the cost of the resource and not the value of the work or output produced.

Measuring productivity and not just cost

But more important than rate per hour is the number of hours required to deliver an output. A prime example was a procurement manager who had negotiated the hourly rate for the studio to half the agency rate card, only for us to discover on an agency fee assessment that the studio was almost three times less efficient than most. So, while the saving was 50%, the effective cost is 30% higher.

The focus on rate alone is no measure of cost or value. Having the agency guess the fee required to deliver an undetermined scope of work is a flawed approach. Having consultants provide average hourly rates is a flawed approach. Asking agencies to provide a cost proposal in a competitive tender is a flawed approach. In each case the result is a guess. Like guessing "how long is a piece of string".

What is required is a move from focusing on rates and cost to pricing and productivity. Having an agreed price based on the outputs provided by the agency. This focused on a measure or unit of resources required for each of the outputs required. These outputs can be intangible such as developing a strategy or Big Idea to tangibles such as advertising assets like television, video, radio and the like. Then these outputs resources have a price calculated based on the agency cost model against the resource units.

How to stop the guessing

For almost twenty years TrinityP3 and our Executive Chairman Michael Farmer have been collecting data, developing and applying the Scope Metric™ models. These models calculate and predict the resource units for thousands of creative, digital and content outputs using Scope Metric Units (SMUs) and billions of dollars in media investment for digital, non-digital and search using Media Scope Metric Units (MSMUs).
There are a number of ways that Scope Metrics™ can be used to calculate and reconcile agency fees rather than guessing. This can be to calculate a specific scope of work for a project or a retainer. Or to reconcile a retainer against the scope of work delivered.

The approach means the agency resources required can be calculated, rather than leaving it to guess or chance. It provides a way of measuring productivity. And it becomes a way for improving the value of the agency to the advertiser.

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