Valuing Media

A perspective on
the dynamics of media
agency remuneration
in the digital age

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Welcome to Valuing Media. This collection of short essays from a cross section of commentators aims to explore the dynamics of media agency remuneration in our digital age. Some of the content you may find contentious but hopefully will stimulate further debate.

Introduction

In 2006 the IPA, in association with ISBA and CIPS (the trade association for procurement professionals), published *Magic and Logic*, a paper that explored and recommended good procurement practices for clients and agencies. Magic and Logic was focused predominantly on creative agencies. This *Valuing Media* paper aims to start a similar debate for the media agency community.

Context

In my conversations with advertisers and agencies, I often find myself discussing the issue that the cost of digital media planning and buying tends to be more expensive per media pound than other major media channels. Perhaps this is understandable given the commoditised and traded nature of more traditional media but from my point of view indicates agencies are arguably not being rewarded for the complexity of the digital planning and buying process.

In an age where digital media accounts for nearly a third of advertising investment and given expectations that digital share will continue to increase, this anomaly clearly requires further discussion. If the relative contribution to the media agency bottom line varies significantly by media channel, overall media neutrality and potentially advertiser effectiveness may come under the spotlight.

At Google, we believe that agencies should be paid *in proportion to the value they create for clients*. In this world, the impact on agency business model economics of differing media channels should be transparent and assessed in relation to the costs of the planning, buying and reporting as well as the brand and or sales impact.

We hope this paper will add to the ongoing debate, encouraging clients to review how they pay their media agencies in proportion to the value they create, and empower media agencies to secure fair remuneration against the most effective media mix.

Importantly I'd love to hear your views and feedback so that we can continue to develop the debate.

Enjoy the read

Mark

Nick George
Partner, TMT Strategy
PwC

Profiting from growth?

"The most basic question any advertiser planning a multi-media campaign can ask, after 'will my advert work', is 'how many people will see my ad? And how often?'."

Online powers on, reshaping the marketing landscape

Online has reshaped the advertising and marketing services landscape in the UK and in most developed Western markets. From c.3% of total media spend in 2003, by the 2008/09 recession the share of online had grown to c.20% (2008), and today it is £5.4bn in the UK (2012), or c.32% of total media spend. In absolute and relative terms, online has outgrown other media, in good times and bad. With 17.5% year-on-year growth to H1 2013, there appear to be few signs of an imminent slowdown.

Within online, search has been and remains the largest component (43% of online spend in 2003, 59% in 2008, and 59% at H1 2013). With much of this activity managed by agencies on behalf of their clients, the c.£500m of additional search spending expected in 2013 should be providing plenty of momentum for marketing services.

Blurring lines across multiple media

We focus here on online media, although of course online is only one of multiple choices facing an advertiser, or able to be sold by an agency. And many media owners have multiple propositions for advertisers – for example online alongside print, TV, cinema or outdoor/point of sale – highlighting questions over who is the online audience, and how much is truly incremental versus substitutional against other media?

An integrated picture of offline and online audiences – that is, a single de-duplicated measure of audience reach – is critical information to enable agencies to plan campaigns based on reach and frequency, particularly for a sophisticated campaign planner looking to take advantage of the "multiplier effect" when consumers view ads in both traditional and digital media.

In a modern variation on "content is king", media owners love to claim, "My audience is channel-agnostic... consumers just want engaging content." Yet when asked how large this channel-agnostic audience is, a typical media owner response might be, "My weekly print circulation is X; my monthly unique browsers are Y; my new app has Z downloads; oh, and I've got loads of likes and followers...." This immediately puts the platform first and audiences second. Of course platforms are important; but advertising is a people business, so people should come first. The most basic question any advertiser planning a multimedia campaign can ask, after "Will my advert work", is "How many people will see my ad, and how often?" This ought to provide fertile ground for agencies in providing authoritative advice and planning based on robust measurement, plus of course multiple creative and media buying opportunities.

> “Digital marketing must move to being marketing in a digital age and this integration of online and offline requires new vision and new leadership.”

Have agencies benefitted?

In this synopsis, we briefly assess how agencies have fared on two metrics – development of agency margins, and changes in valuation. As a necessary shorthand, the analysis conducted looks at the large publicly listed integrated agency groups. We recognise this is by definition a limited sub-set of the total market (of course not all agencies are listed, and the listed businesses can be impacted by factors wider than the changes in marketing services). Results therefore are only indicative.

On margins, the decade of substantial growth in online does not appear to have had a positive impact on overall reported margins for the large integrated agencies, or at least, any benefit has no more than offset margin declines (implied or observed) in more traditional channels. Average margins across the peer group were 15% in 2003, and averaged 15% over the ten-year period.

In valuation terms, the giants of the ad world have seen a pro-cyclical profile; values declining faster than the overall stock market index during the downturn and coming out the other side more quickly. However, valuations tended to lag the index before the downturn, and remained below the index for almost all of the period – until 2013. This raises the questions:

- Given the structural shifts at play in the industry, could it have been possible to capitalise more fully on, and better monetise, the opportunity presented by online?
- Is the recent strong run a recognition (potentially belated) that the agencies have now got the business model right, or just a cyclical bounce-back boosted by a mega-merger?

On the evidence presented above, the industry’s “scorecard” seems somewhat mixed. Presented with the biggest structural shift in media spend for a generation, margins have remained flat and valuations for the quoted agencies have only recently risen above the overall index. How will agencies fare a decade on from today? There seems much to play for.

In a world experiencing such radical shifts in terms of where consumers spend their time and how they interact with media, constant innovation by agencies and other service providers has become the new licence simply to operate. Digital marketing must move to being marketing in a digital age, and this integration of online and offline requires new vision and new leadership. This is the end of the digital beginning – and the winners of the next decade will embody these new values.

Additional contributors: Simon Harris, Sam Tomlinson, Anna Bartz

Jason Dormieux
Chief Operating Officer at MEC
on behalf of the IPA Media Futures Group

Measuring up to the market challenge

"Magic will always be the lifeblood of how agencies create value for clients and there will always be a direct correlation between great work and great talent."

Some years ago, Marilyn Baxter and her fellow contributors published their IPA report *Magic and Logic*. It pulled no punches, challenging agencies, marketing and procurement alike to do more to ensure that marketing's contribution to UK companies' bottom lines could be more tangibly valued and fairly rewarded.

For agencies in particular, the recommendations were clear; they needed to acquire better business management skills, develop more robust and formalised working processes, become more accountable for the results of their work and take responsibility for articulating the value they created. The authors drew their recommendations against the backdrop of a world that would continue to transform beyond all recognition – technologically, culturally and economically. Seven years (and one global economic crisis) later, it's interesting to consider how relevant these recommendations still are for agencies today, especially in the context of value creation and reward.

Of course some things never change; magic will always be the lifeblood of how agencies create value for clients and there will always be a direct correlation between great work and great talent. What has changed immeasurably over the last seven years is the attitude of agencies towards accountability and their confidence around being judged by results – with their business models developing to reflect this. Placing success criteria and measurement at the heart of every brief is now standard practice. At the same time, agencies have invested heavily in complementary services such as econometrics, research and digital attribution modelling in order to more robustly demonstrate the value they add to client profit. This change in attitude has manifested itself in other ways as well. Linking agency remuneration with client marketing and business objectives was a relatively nascent practice at the time the report was published, however it is now commonplace. The most enlightened examples of such agreements build in safeguards to ensure bravery and innovation are encouraged and they appropriately reward an agency's contribution to the bottom line.

Yet despite these advances, discussion around levels of agency remuneration continues to be hotly debated. It is inevitable that we are constantly being asked to deliver more on less income. So are our clients. And just as our clients have to make their processes more efficient to survive, without losing the magic that marks them out and ensures their success, so must we. In certain areas – and online is one of them – the challenge is significant. But we are all working to address these issues with increased investment in talent from new specialisms, technology and infrastructure. At a time when cost control is of paramount importance we need to continue to work together to demonstrate the accurate and efficient use of media as a value, and not cost, creator. We've certainly never been better placed to do so.

Paul Zwillenberg
Partner and Managing Director
BCG

Real-time change

"Sustained competitive advantage will come from a focus on campaign performance, enhanced optimisation, much deeper insight that delivers the most impact for the least amount for money. In other words – effectiveness."

In far less than half a blink of an eye, or some 150 milliseconds, a marketer can buy online access to a customer who has just browsed an online shoe department before drifting onto the homepage of their favourite celebrity magazine. There appears the ad for the shoe, alongside the latest pictures of the royal baby. The automated auction process, real-time bidding, is just one example of how digital has put the modern day advertising agency in as great a state of flux as TV brought to the 1960s "Mad Men" of Sterling & Cooper.

Without a doubt, agencies must keep up with the pace of change to ensure their core value adds to a client's success.

And that change manifests itself in two fundamental ways. First, shifting from simply executing sales to offering strategic expertise on how the client can target the right consumer, at the right time, with the right message. So from service provider to strategic adviser. And second, agencies need to alter the client perception of value – refocusing the marketers' mindset from the volume of impressions towards the quality.

Advertisers now have the ability to know in great detail whether they are targeting the right person – this is powerful. But for agencies, this capability comes at a price: the almost limitless choices and flexibility related to the timing, placement and format of digital ads inject multiple layers of complexity and often inefficiency to the agency's work.

Agencies need to learn how to identify value-creating activities that ultimately lead to more effective campaigns. BCG analysis of 24 digital campaigns across 15 agencies in five European countries revealed efficiency can be improved by as much as 33%. The use of unified technology platforms and a rethink of basic processes and structures from planning to billing can free up talented people to focus on high-value tasks. And in today's increasingly complex world – with video, mobile, native, enhanced and more – this is even more imperative.

The digital advertising industry will continue to evolve. As advertisers focus more on measurable goals for both brand building and direct response, improved efficiency will soon become, if it is not already, a hygiene factor. Over time, clients will reward the most efficient with a seat at the pitch table.

But just eliminating waste and improving the time on task is, by itself, insufficient for winning consistently in the digital world. Sustained competitive advantage will come from a focus on campaign performance, enhanced optimisation and much deeper insight that delivers the most impact for the least amount for money. In other words – effectiveness.

“For the mad men and women of the present day, the calling cards will be science, technology and mathematics.”

This ultimately impacts the skills the agency needs, people it hires and how it works. In the age of “Mad Men”, client service was delivered over three-martini lunches. As the industry matured, creativity moved to the fore. In the digital era, ROI and brand impact are driven by data, analytics, optimisation and continuous improvement. For the mad men and women of the present day, the calling cards will be science, technology and mathematics.

Technology will continue to advance and the industry will continue to evolve. An agency that is able to translate efficiency gains into added value, superior performance and ROI for its clients will future-proof its business.

Graham Cooke
Founder/CEO
Qubit Group

Discovering new value through data

"To be a great advisor you need to be a great data aggregator."

The future of digital decision-making is data. Being a digital native or having a great creative mind is no longer going to be enough. Clients want partners who can provide the best advice derived and supported by the most accurate forecasts from good quality data.

To be a great advisor you therefore need to be a great data aggregator. No technology provider can collect all the data you need in one system (despite their claims to the contrary). Instead, you need to look at ways of collecting and combining different silos of information to extract real value.

Take web analytics – at one time that was hailed as the answer to all of your web data problems. However, whilst it might be useful for web marketing reporting, it really only represents a small slither of what you should be basing your decisions on. The problem is that a single data source such as web analytics can never be truly actionable as it can't tell you the whole picture. When was the last time an ecommerce business made a decision based on time-on-site data alone?

Business intelligence is perhaps the best example of how this data aggregation can work. Long the preserve of HR and finance teams, BI enables the aggregation of multiple data sources, letting you crunch the numbers across different data silos to find interesting patterns.

If you can look across your organisation to link together disparate customer data it could totally change the way you value media. At the moment a customer lifetime value (CLV) calculation is based on a function of average margin and retention rate. However, if you can look more broadly to establish how CLV is impacted by – say – a customer's likelihood to repurchase within the next three weeks combined with their likelihood of returning a product, then you'll have a completely different understanding of that customer.

We believe that there's going to be a renaissance in BI, driven by access to more granular web data built on strong standards combined with better data processing and visualisation techniques. Agencies are going to be a key part of building this new BI and will be able to add unique IP on top by making this data predictive and actionable.

What's even more exciting is that this 'new BI' – web data BI as opposed to traditional finance and HR BI – is going to change both the customer experience and the creative process. It will help web businesses understand their customers' tastes, buying habits and lifecycles, giving a real insight into their audiences for first time. This is going to form the basis of truly integrated, personalised customer experiences, driving a much greater lifetime value.

For agencies this can only be positive. Whilst the rise of data requires new skills and approaches, it also opens new opportunities to add value and truly understand, measure and optimise the products and services that you offer your clients.

Mandy Merron
Partner
Kingston Smith W1

Communicating brand values to drive business success

"Creative agencies can work with clients to understand what they stand for, who to sell to and where to find them in the most cost effective way."

In the current marketplace, a consumer-focused business needs to live and portray its brand honestly, build its reputation based around that and then engage with its customers in a positive way. It's not easy, but good creative consultancies and agencies can help with every aspect by bringing a unique brand of strategy and creativity. Brand specialists can help a business understand its brand, its customer base and employees, and develop a communication plan to help staff understand the brand, behave in accordance with its values and communicate that to its customers.

The best way to engage with customers and potential customers without pouring unnecessary marketing spend into a big pot is perhaps the most difficult aspect of marketing in the digital age. There are so many choices – traditional offline media channels and a bewildering array of digital tools. Big and small brands really benefit from the knowledge and insight planning that digital experts bring to them. They understand how to use every aspect of online and visual techniques and, more importantly, which ones to use to reach which audience. They guide clients on the way to bring all elements of communication together so it is consistent across all channels.

For example, for retailers the challenge is to find how to engage clients offline, online and in store in a consistent way that facilitates a customer actually buying something. There are retail specialist agencies that can deliver creative and technological solutions joining up the customer's journey to a purchase whether that started online and ended in store or vice versa, or whether it started with a television commercial or an in-shop mobile reminder based on search history.

Creative agencies can work with clients to understand what they stand for, who to sell to and where to find them in the most cost-effective way. But the magic dust that only a creative agency can sprinkle is finding the content which is consistent with the brand and which will engage the right customer in the right way and help that conversation along. Their content ranges from commercials and press ads to apps, commercials, films and TV programmes. It might include YouTube clips and short stories.

So, the creative industries generally are converging in the same space called *content and engagement*. TV production companies produce games based on their programmes. Consumer publishing businesses that specialise in direct customer publishing have become content specialists. Public relations businesses have in-house studios in order to produce bespoke content for clients and are able to create events and social buzz around them. New start-ups blend TV production and planning skills.

"The creative industries generally are converging in the same space called content and engagement."

There's a bewildering array of ways clients can try to engage with their customers and potential customers. Great creative businesses can guide them through this ever more complex communications maze to drive turnover for their clients and create content that fuels this.

So, the core value a creative agency offers its clients is guidance in a highly complex world to find the right route to:

- identify what the client stands for
- behave consistently with that business purpose
- engage with its customers in the most cost-effective way to drive revenue

And they will flourish in doing so.

Paul Frampton
CEO
Havas Media

Focus on business returns, not media metrics

"In a paid, owned and earned media world, brands should pay agencies to give them the right mix for their business problem."

All good advertising is about storytelling, right? Well, permit me to relay a short story. A long, long time ago when there was just a handful of TV stations and breaking news was delivered once every morning, media agency remuneration was born. In 2013, the media landscape shifts daily and suffers from hyper-fragmentation. Emerging media opportunities are nigh impossible to monitor and harder to master, so as a result advertisers fight to get the best media planners working on their account. So, why then do we still have an archaic remuneration model linked to spend volume?

With the schizophrenic habits of today's consumer and the plethora of new digital platforms available, the media planner's job has never been so demanding. Agency remuneration meanwhile hardly distinguishes between whether an agency puts all the money into TV, all of it into digital or opts for a multi-channel approach. A brief survey of marketers would quickly tell you that they no longer solely believe in the former. The second and third though require significantly more man-hours and a "bench" of experts to deliver.

PPC was the first emerging channel to throw up the acute disparity between resource and fee; now agencies are inundated with niche, emerging channels that are complex to master. The relative levels of complexity and resource required to deliver a social, mobile or content strategy are not well understood. Media agency talent however clearly recognises the difference; one only needs to look at the more than double-digit salary inflation as evidence. These contrasting economics create an unhealthy (if often silent) friction within any media agency and advertiser relationship.

Buying some "media" and a focus on price is not the route to delivering sustainable value in a mature market like the UK. It is often the necessary action once a clear strategy has been defined, but the real craft is the planning that leads to that strategy and the mobilisation of agency resources once the campaign is in market. My blunt view is that more than 80% of the value a media agency provides is centred around cracking how to make a brand meaningful in this optimisation phase. Most agency remuneration (whether commission or fee) is still primarily focused around the 20%, namely the "buying" – but half the time much of the solution is no longer "paid media". Ironically, there is some appreciation that specialist services like SEO or data analytics work require a man-hours approach, but this struggles to bleed into the mainstream media space for some reason.

“Genuine and transparent value creation on both sides is absolutely possible in the digital world we live in and creates a sense of partnership and a focus on business return, not media metrics.”

My humble view is that in a paid, owned and earned media world, brands should pay agencies to give them the right mix for their business problem. To provide that solution will require a range of expertise and talent, depending on the scale and nature of the challenge. An agency should be as likely to advise the brand not to spend on paid media, but current models actively discourage that. After that, the agency’s ability to earn should be linked to tangible value created as a result of the agency’s advice.

Brands only invest in media to affect their own bottom line so closer correlations between spend and P&L impact is essential. A mutual risk approach with P&L related incentivisation would enable the agency to benefit where value can be proven.

The current legacy model is lazy but the most progressive marketers are already challenging it. Genuine and transparent value creation on both sides is absolutely possible in the digital world we live in and creates a sense of partnership and a focus on business return, not media metrics. It will also, by the way, encourage senior agency management to ensure their best talent touches your account.

Matt Owen
Managing Director
Jellyfish

Agency remuneration models: an overview of considerations

"Digital agencies (like traditional professional services firms e.g. lawyers, accountants, IT consultants) are purveyors of a specialist premium service, with implied expertise, best practice, IP and so on."

Digital agencies (like traditional professional services firms such as lawyers, accountants and IT consultants) are purveyors of a specialist premium service with implied expertise, best practice, IP and so on. From an agency perspective, we (Jellyfish) have a seasoned view on the amount of time that 'doing a good job' takes.

Our calculation is based on a time allocation per campaign – let's say 100 hours per month – and the cost required to deliver those hours, factoring in standard fixed costs, staff and training expenses, sales and marketing investments, and of course a target profit margin. Obvious so far, and analogous to (although probably cheaper than!) your lawyer or accountant.

Now pause for a moment, and review a basic CMO consideration: does a proposed remuneration model represent good value? This question is not easy to answer, for a number of reasons.

Many digital agencies do excellent work, and are endowed with positive reputation as a result. Agencies invest considerable effort in creating case studies and valuable insight to support their brand. Yet many agency appointments ignore these signals of quality, preferring to rely on poorly conceived and executed pitch procedures. During such procedures, is it possible for a CMO to really gauge the relationship between a proposed fee structure and the potential value the agency will deliver? And will the fee structure be the key decision-making factor? At this early stage of the client/agency relationship, the difference in actual delivered value between say 10% and 12.5% of media fees will be very challenging to unravel.

An added complication is created by the way in which agencies calculate their likely fees.

- Some providers can use cheaper labour, by offshoring, outsourcing or a combination of both.
- Search methodology varies; some agencies favour a more technology-based approach (cheaper!), while others believe in greater levels of manual oversight and intervention.
- Some larger agency search fees can give a false impression as to the true cost of running an effective search account. These, sometimes nominal, fees are 'offset' by the more profitable media buying channels, often in order to retain control of the entire marketing mix.
- Fees may vary subject to the financial 'health' of the competing agencies – a desperate supplier may be willing to win business at any price!

In other words, gauging value and thus implied remuneration is tricky from both an absolute and comparative perspective. So how should agencies be remunerated?

“Remuneration should be based on business principles, which encourage long term trust and collaboration, including fairness, transparency and mutual respect.”

In broad terms, the transaction must be approached with implied trust; despite the similarities between digital agencies and other professional services organisations, we are not viewed in the same way. Lawyers and accountants are rarely asked to pitch, or reduce their fees, as they are thought of as trusted professional partners. Be mindful that no one wants to do a bad job, and risk harm to precious reputation. CMOs may query ‘But trust is earned!’ Agreed – and this is why the agency brand, reputation, case studies and so on should be considered in the first instance.

Specifically, our preferred model is:

- Initial period based on an agreed percentage of media fees. This provides the agency (and client) with the security of a known budget for the first three months, and thus facilitates the planning and delivery of high quality on-boarding, account restructuring, strategy development and so on.
- During this period, remuneration can be focused on a transitional model, where, for an agreed transitional period (usually three months) we will run the campaign on a management fee basis in order to track and hence establish a robust and accurate CPA via paid search. This tracking will capture all acquisitions, online as well as calls generated (if applicable).
- At the end of the transitional period, agency and client will review the CPA that has been achieved. The client then has the option to switch to a hybrid or pure performance model going forward, subject to the robustness of campaign tracking and CPA calculations.

To summarise, remuneration should be based on business principles, which encourage long-term trust and collaboration, including fairness, transparency and mutual respect. On this basis, CMOs will achieve superior value from digital agency relationships.

Emmanuel Arendarczyk
UK Country Manager
Netbooster

Choosing an agency and remuneration model to suit

"Understanding deeply the company's cost / revenue structure is a must and will help a lot in building new type of KPIs."

Any company seeing its performance decrease over time or willing to grow faster and outpace its competitors will eventually wonder the following: "Should I do everything myself? Or if I don't, how would I choose an agency?" Picking the right agency can prove to be extremely difficult; the UK market gives birth to new agencies almost every single week, all claiming they perform incredibly well, that they're transparent and that you won't ever regret choosing them. As a matter of fact, you know this very choice is about picking a business partner. Choosing right will bring you invaluable benefits, but failing in your choice will cause you immense harm. As dramatic as it all sounds, answering these two simple questions can help you pick the right one.

First, how do I measure the added value it will bring me? The most important thing is to get as close as possible to the actual added value, in other words the net margin generated over time (or so-called "lifetime value"). While companies are very reluctant to communicate on their net margin for obvious reasons, understanding deeply the company's cost/revenue structure is a must for an agency and will help a lot in building KPIs.

One of the important factors is to make sure the agency understands the contribution of all the channels involved. This will help in allocating the budget between channels and activities that have the highest impact on the lifetime value of your customers and conversions. Think about it: only looking on a last-click or same-session basis would mean that any agency would advise cutting a display budget in order to bring more profitability to your digital footprint. However, understanding the contribution via the right attribution model provides answers to questions such as, "Should I spend my budget evenly between channels, or is there a specific weight I should take into account?" Or, "What's the impact of my TV campaign online (on my website) and offline (ROPO)?"

Building strong brand and fantastic user experience is crucial to gain loyal customers and attract a new audience. This will inevitably result in higher performance, leading to higher conversions rates, higher average baskets and a larger number of items sold over time. Your agency must understand that branding campaigns and customer engagement are part of performance-driven campaigns and share the same business objective.

Secondly, finding the right remuneration model is obviously extremely important and the outcome must be a win-win model. Advertisers look more and more for a business partner to help them grow, understand their business and support their effort in achieving the goals. The commitment and strong relationship between the two parts are the basis of effective collaboration, and a competent agency will always choose to share its destiny with that of a client.

"Incentive and performance based models are great examples of how to make client feel more confident about their investment."

Incentive and performance-based models are great examples of how to make clients feel more confident about their investment. NetBooster, as a performance agency, developed several models for existing clients where we receive payments based on the teams' achievements. The partnership revolves around the following principles. As an agency, we commit to put any resource needed to hit set KPIs, always trying to overachieve. Agency fees are twofold. First, there are fixed fees; a number of resources help organise the project and deliver certain campaigns. The fixed fees enable the agency to spend time on strategy development, research, analysis of the industry and markets, also making sure campaigns are "future-proofed". Secondly, a performance-based incentive applies, not caped if possible, whereby the more we achieve the more we get paid. However, not achieving KPIs and/or a certain level of the service level agreement would lead to a penalty. The incentive is not linked to a percentage of media spend but to performance of KPIs such as revenue, ROI or any other KPI agreed with the client, and the payment is usually related to the net margin generated. As in any relationships, partners needs to review whether the relationship is working well. Regular review of services provided with comparison to services agreed should be carried out by an agency, and clients should receive monthly reports of work conducted and time spent on their campaigns.

Avinash Kaushik
Digital Marketing Evangelist
Google

In deciding on a success metric, choose wisely

"You are responsible for people walking out of your digital store in disgust. You are responsible for fulfillment, returns and everything else."

For the longest time this made complete sense: Pay agency X to do an incredible creative for you. Pay channel X to air or show aforementioned creative. Your company is done. God willing, people will run into stores and buy your stuff. Celebrate.

You did not have any control over the fulfilment process, you did not have to worry about merchandising, and there was absolutely no need to think about customer experience during the consideration and purchase process. You, and your agency, had very little influence over it.

Now, think about today and layer in digital.

Here's what's changed about the above scenario: The number of channels you have access to has exploded (search, display, social, email, affiliate, video, mobile apps and so on). More often than not you are responsible for the customer experience (on your website – mobile or desktop); you are responsible for people walking out of your digital store in disgust; you are responsible for fulfilment, returns and everything else.

In this new amazing world, should you continue to only pay your agency for the creative? Or worse, just for the creative and to beat people with it as often and as loudly as they can?

That seems absolutely silly.

And yet that is exactly what we do when our contracts with agencies are typically structured based on paying them for creative and the metric impressions.

I believe we should take the amazing set of skills that exist in our agencies and make them full partners in our success (or failures), and do so using metrics. Because we are going to ask for more, we should be willing to pay more for it.

You are welcome to pick how successful you want your agency relationship to be.

“We should take the amazing set of skills that exist in our agencies and make them full partners in our success (or failures), and do so using metrics. Because we are going to ask for more, we should be willing to pay more for it.”

Success metric: Impressions
What you pay your agency for: “Go shout at people as many times as possible. Don’t worry about anything else, the rest of the customer experience or our business outcomes.”
How much you pay your agency: Next to nothing.
Impact on your business: Marginal.

Success metric: Click-through rate
What you pay your agency for: “Go show our ads to as many people as possible, but make sure the ad is relevant and of high quality so that people click on it. Oh, don’t worry about the rest of the customer experience or our business outcomes.”
How much you pay your agency: A little more than nothing.
Impact on your business: Small.

Success metric: Click-through rate and bounce rate
What you pay your agency for: “Go show our ads to a large audience, ensure high clicks via relevance and creativity, and ensure their first experience on our site is incredible. Don’t worry about the rest of the customer experience or business outcomes.”
How much you pay your agency: Small amount of money.
Impact on your business: Medium.

Success metric: Conversion rate
What you pay your agency for: “You own the ad creative, the ad targeting, the landing page experience, influencing the website experience and ensuring we make money. Go, optimise!”
How much you pay your agency: Big amounts of money, along with lots of responsibility.
Impact on your business: Medium, short-term focused.

Success metric: Customer lifetime value
What you pay your agency for: “We value you as a true partner. Keep our advertising on the bleeding edge, focus on people and not just clicks, create such an amazing experience that people buy from us, and help us create a true relationship with our customers.”
How much you pay your agency: Bigger amounts, lots of responsibility, an office in your building.
Impact on your business: Massive, long-term focused.

"Your choice of something as simple as a metric can determine how much value you get out of the incredible collection of skills in your agency."

Amazing, is it not?

Your choice of something as simple as a metric can determine how much value you get out of the incredible collection of skills in your agency.

Your choice of a metric determines if you stay stuck in the old model of "shout at as many people as you can on our behalf" or "bring to bear the full complement of your skills so that we can deliver an amazing end-to-end experience for our customers."

Yes, that type of partnership costs money – because the value your agencies deliver to you will be immense.

Tomorrow, please restructure your agency incentives from impressions and clicks to clicks and bounce rate – shift responsibility from just worrying about the ad targeting and creative to that plus the landing page experience. See an immediate boost in relevance and customer satisfaction.

In a quarter, add conversion rates to the mix. Your agency will influence and improve your entire digital experience to add to your bottom line.

Next year, add customer lifetime value to the mix. Now both you and the agency are fully aligned on the long-term success of your business. No shouting, improved efficiencies, higher customer satisfaction and more profits.

At each step remember this little piece of wisdom: You get what you pay for.

Carpe diem!

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