The currency of ideas

By Lynn Madeley, issued by Havas Johannesburg

11 Aug 2010

Have you heard about the new fee models that are being rolled out by the big FMCGs such as Unilever, P&G and Coke? I have recently been doing a great deal of research on these models, as well as the current remuneration models in operation in the advertising industry.

The interesting thing is that from a remuneration standpoint, there isn't that much 'new' news. Agencies are still charging on time-based models, which means they're still paid to be as inefficient as possible, which procurement departments overlook and accept because any other model is, frankly, too complicated.

There has of course been a lot of talk being bandied about by both clients and agencies about being paid for effectiveness. In truth though, no-one's really committed to these models and for good reason.

By its very nature, effectiveness tends to be measured over the short term, which potentially means brands will be killed off, which could be a rather expensive exercise.

And how do you decide who's responsible for what part of that effectiveness? If a strike at the client's factory causes stock-outs just as a campaign is launching, who should be penalised for the downturn in sales? The client or the agency?

Then of course, if the success of the work is really going to make a material difference to the agency, how would the client and agency deal with the conflict. There's often enough blood on the walls as it is. And then there are agency partners and all the confusion and additional work that that creates for everyone, particularly the marketing director.

So what tends to happen is that an incentive gets put into the model. Sometimes this incentive can be extremely lucrative, but more often than not, it's little better than 'okay'. With the current remuneration structures, depending on the agreement with the client, most agencies are allowed to make between 10 and 20% profit. No-one thinks about that however: they just see a big, fat fee and assume the agency is making exorbitant amounts of money when often it is losing money on the big accounts that have squeezed it dry. In some cases, the incentive goes towards helping the agency just cover its resource and running costs.

The truth is this, as so concisely put by PWC's Russell Sapienza at the recent Advertising Industry Business Transformation Series held in New York: "Long-term relationships are very important. Rekindle them with your clients and put yourself in their shoes. And try and be transparent. There is no one fixed metric. Models vary. One thing that has not changed is that clients will want the lowest cost and you'll want to provide the highest value. That's advertising."

Two trends may force a change

There are two trends emerging that may mean the model really does need to change. First, we are no longer in the currency of advertising, but in the currency of ideas. As the world becomes more digital, more fractured and more about having to reward each and every consumer in some way before they will interact with your brand, we are seeing more and more specialist agencies becoming involved with each brand.

Many marketers are having to brief up to eight or more specialist agencies on one brief. Then they need to manage the ideas, egos and often, the lack of consistency that comes out of each agency as they play the rather negative game of "Pick Me".

Second, we are now fully fledged in the world of Content. If I'm a consumer and you make me laugh, make me think, tell me something useful, I might engage with you. If you push overt sales messages at me, I will not only disengage but I will probably try and do you harm. Maybe I'll do it via a tweet or via my blog, or just through good, old-fashioned word of mouth, but a tweet can do so much more damage, particularly if I have hundreds, or even thousands of people following me. Ouch.

So, we come back to resources. The marketing director doesn't have the time to manage all the agencies playing "Pick Me", and she hasn't got the time or the money to create all the content required. So what should she do?

Simply this: pay the guys that work in the Ideas Currency more, and get them to manage the process once again. Don't however, pay them like you used to, at charge-out rates of X rand per hour. Pay them according to a formula based on specific objectives that work around the following:

- Brand equity;
- Sales volume;
- Share of sales; and

- ROI

Which all adds up to that six-letter word, "Profit".

The new P&G model is called the "Brand Agency Leader" model, no doubt soon to be given the pithy label of BALM. Using this approach, P&G selects one agency to head up all the marketing efforts for a specific brand. This lead agency appoints and pays any other specialist agencies it chooses to use. It derives up to 10% of its fee from sales and share data, as well as its performance evaluation.

Rich DelCore, P&G's finance director of global marketing said: "In the past, we would have six creative briefs, six creative directions. Now we have one. One brief. One meeting. One channel. One idea that goes forward to generate consistent communications to our consumer."

The question is this however. Is 10% of an agency's fee based on success enough? It's safe, but is it enough?

Agencies cannot work on risk, and why should they? They are established businesses that are expected to give returns to their shareholders. For them however, unlike their clients, there is always a limit in terms of their profitability.

If, as the client, I sell a million "wotnots" and I make a profit of R10-million, that's good for me. If the agency has had a brilliant idea and I end up selling five million "wotnots", my profit goes up to R50-million. According to the current and even the newest remuneration models, I might then give the agency an additional 10% of their fee - not very motivating, is it? If however, the agency has a percentage profit share in my business, it will give me blood, not only because it will make more money but because the agency will then be your true partner.

So let's do away with time-based fees. Let's cover costs and work on a profit share basis, because in the future, if not now, if there isn't an idea, there will be no content and so there will be no brand.

The currency of ideas is truly the most valuable it has ever been.

**First Published in The Journal June/July 2010

ABOUT THE AUTHOR

Lynn Madeley is CEO of Euro RSCG South Africa.

- **Havas Red expands to South Africa adding PR, social and content capability to the region** 11 Sep 2023
- **Havas Media ranks 5th as media agency in South Africa, Recma First Edition 2023 results show** 9 May 2023
- **Havas prosumer studies reveal interesting facts on lesser explored topics** 12 Jan 2023
- **Pernod Ricard appoints Havas Media SA as its media agency of record** 22 Dec 2022

Havas Johannesburg

HAVAS To be the world's best company at creating meaningful connections between people and brands using creativity, media and innovation.

Profile | News | Contact | Twitter | Facebook | RSS Feed