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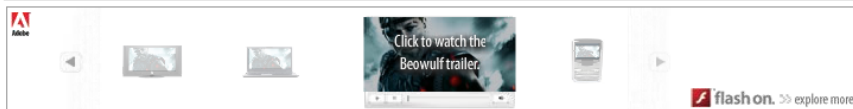
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Agency Community Needs to Look at Risk Differently

An Ad Age Editorial

Published: November 12, 2007

If agencies want to move beyond the time sheet, they're going to have to accept risk.

One of the most important findings in [a recent ANA study on agency compensation](#) looked downright paradoxical: Performance-based incentives, the study found, have become commonplace among major marketers, while value-based agreements, used by just 3% of marketers, barely registered.

Let's start with the definitions. Performance incentives usually take the shape of bonuses that are triggered when an agency's work meets or exceeds expectations on specific metrics. They're chunks of change added to the fee agreement that guarantee the agency's costs are covered, as well as a bit of profit.

The value-based concept requires a more fundamental reshaping of how an agency is paid. It's predicated on results, but it's not an additive part of the compensation deal. It is the deal. And it often involves agencies forsaking the relative safety of the cost-plus-fee system and taking on more upfront risk in exchange for a bigger payout on the back end. As a result, a true value-based agreement may mean a shop is getting paid only if business targets are hit. Most importantly, it defines an agency's value as something more than just the hours it logs on time sheets, something agencies have been longing for ever since the death of the 15% commission.

A lot of agencies -- especially those under the quarterly pressures that come with being owned by a public company -- would rather avoid the risk that goes with these agreements. That's fine. Making big bets isn't for everyone. Those fee agreements do keep the lights on and the bean counters happy and, in the best cases, leave a little left over for investments in talent and tools. But they also commoditize agencies and do much to ensure that ad shops are viewed as vendors rather than partners.

To get out of this cycle, the agency community needs to look at risk differently. It needs to take a hard look at whether its output for marketers has value beyond the churning out of a commodity product, whether its work is something worth making a real bet on. If the business isn't willing to put its money where its mouth is, then maybe it's time for it to stop flapping its lips on the compensation issue. Either give up some of that safety net or just stop worrying and learn to love the fee.

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