Remunerating for success

to stimulate effective collaboration

acc accelerating agencies

pitch point

UBA
Taking brands further

Foreword

Partners of growth

ACC and UBA, together with PitchPoint, set out a clear vision where Agencies and Brands are acknowledged as true "partners of growth". We have seen that the right mix of creativity and "logic" ensures long-lasting relationships. Get it right and partnerships get the return they deserve for their work.

We have also seen a clear correlation between the quality of business relationships and the role that Agencies play. Great relationships lead to great work and great results on both sides of the partnership.
Similarly, broken commercial relationships can render even exceptional strategic and creative outputs unproductive and ineffective.

Remuneration and pricing models

Remuneration and pricing models are part of this relationship and should receive the necessary attention. They play their role in stimulating efficiency, effectiveness and creativity. Understanding how this works is key.
Innovation in the way Agencies and Brands value the Agency services has lagged behind the innovation that Agencies have shown in their products and services.

Currently, time-based-charging approaches - also called 'input-based' - are still the predominant pricing model. The complexity of marketing though, has become exponentially higher than a decade ago, but the pricing models haven't evolved in the same way. We need to find out how to move away from this model as -in many cases- it is not fit for purpose anymore.

From input- to output-based model

Given the many drawbacks of input-based charging, especially for creative thinking, it could be an attractive idea to move to an output-based model. But what if both parties have only ever operated on an input-based model to date? How do we change if we measure everything through timesheets right now?

We shouldn't discard this time-based model outright. The simplicity of this approach can still be a massive benefit, especially early on in client-Agency relationships. But when the time is right, there is a need to explore more appropriate ways of remuneration.

Objective of this paper

We will show you how to identify the opportunities for innovation, the potential of a Brand-Agency relationship and, hopefully, we will encourage you to innovate commercially with purpose. By sharing a variety of pricing models in use and stimulating the adoption of a wider range of models that better reflect the value Agencies generate for Brands.

Who is behind this paper?

This paper is the result of a collaboration between a diverse group of Agencies, intermediaries, procurement specialists and Brands. We based ourselves on the UK's IPA paper "The Price of Success", which was written for Agencies, and turned it into a document that reflects both Agency and Brand perspectives.

Four things this paper wants to achieve

1 This paper gives a neutral overview on pricing in the Agency world with strengths and drawbacks for every model.

2. This paper aims to let the Belgian creative industry speak the same language concerning remuneration.

3 This paper demonstrates that pricing is nothing without governance and collaboration efficiencies

4 This paper indicates there is no such thing as the perfect remuneration model. Various elements have to be taken into account before knowing what the pricing for success might be for you.

We lift a corner of the canvas on how to proceed. Examine any Agency and Brand relationship through this lens, and you should find it a lot easier to develop a robust and objective pricing model which works.

How to align with Procurement?

When talking about Pricing Models, procurement obviously needs to be involved or even be the initiating party. Although the advertising industry and many marketeers still sometimes think of procurement as a 'necessary and unavoidable evil', the vision of the advertiser industry on procurement has changed.

As a proof of this, the World Federation of Advertisers (WFA) recently initiated Project Spring: a global sourcing initiative, designed to transform the value proposition of marketing procurement.

It identifies multiple initiatives being independently developed by WFA members to evolve their function and ensure it becomes more relevant, adapted and supports the business positively. It is designed to inspire and help marketing procurement practitioners to evolve beyond blindly cutting costs and reducing fees. It is not a routemap to perfect practice but the start of a journey. As with any transformation, the drive to create 'value in' instead of 'cost out' should never end.

Project Spring clearly states that marketing procurement should be in the added value business. To minimize complexity, keep all metrics focused on the desired outcomes for the business, set clear targets as part of a contract, track and measure them and ensure that the outcomes are delivered.

At its best, marketing procurement ensures that the rigour and discipline of contracting with Agencies results in business growth and a fulfilling relationship for both partners. Now more than ever we need great marketing procurement to deliver.

For more information on Project spring:
https://wfanet.org/leadership/project-spring

Part 1.

Exploring the six main Pricing Models

1. Why one pricing method does not fit all

Creativity is valued. In business, everyone talks about the value of creativity and is looking for a greater focus on creativity to make a competitive difference. However, we all know that rapid and fundamental changes are impacting business on many different levels. Market forces drive companies to rethink everything about how their business operates.

Fragmentation of media channels, and an increasingly crowded competitive landscape, have led to a significantly more competitive ecosystem, generating pressure on pricing, performance, creativity and operational strength. Newcomers have introduced new ways of creating and delivering valuable growth to CMO's and their Brands.

These new models and approaches increase the pressure on both creative and media Agencies to become more agile, fluid and adaptable, leveraging their skills to any brief a client may request, using new tools, technologies and operating platforms.

Against this background, Agencies and Brands may need to re-evaluate and re-imagine their respective roles in the relationship, creating maybe different business models in the new ecosystem.

Transparency is key

For Brands, establishing transparent analysis of ad campaigns can be a key factor for their success. This is because insights and feedback from the market can steer campaigns in the right direction if they are not performing well. It can also yield better results, as transparency is key to richer and enhanced communication.

For Agencies, establishing transparency with their clients builds trust and a genuine partnership, be it on the level of timesheet reporting or for reporting performance. This helps them not only retain their clients but also improves their reputation in the market.

Despite that, transparency remains a challenge because it is often linked to remuneration.

What can help in achieving transparency?

1. Make all Brand and Agency data directly and openly accessible to each other. In this way all interpretation can be done from a single source perspective.
2. Be sure everyone understands the working process. This can be the process of automation in performance-based environments or the process of creating a TV spot. If you don't understand the process, you can't interpret the cost and you get suspicious.
3. Don't put too much pressure on the remuneration of the Agency. It can drive Agencies to safeguard their margins in ways that might not be conducive for the health of your relationship.

2. The fundamental factors of pricing remain

In order to build a commercial partnership, we must understand pricing and the three basic types of pricing models, built around **input**, **output** and **result**.

While the fundamental elements of pricing are relatively well established, there are different ways of applying them – with often distinctive variations. Not only are there differences in how we can apply each type of pricing model, but differences can exist within individual commercial components.

A. Input based

The most traditional approach: counting a defined amount of time (number of hours or % allocation of time) spent by defined Agency members on the project, often based on a scope of work.

Commercial agreements tend to be based on hourly rate cards, by profile. These can be broken down by a mixture of market-priced rate cards, or cost-plus made up from:

- Salary costs
- Overhead (%)
- Profit margin (%)
- Annual hours

Leading to a net/gross hourly rate.

B. Output based

Brands pay for defined specific deliverables, based on a given scope, or based on a specification of the output.

Output based deliverables can be a limitless number of things, but the main ones are built through the following approaches:

- Effort per deliverable.
- Deliverables: usually built from mapping all output needed. Taking into account the processes required and the methodology used.
- Service definition: often built around a regular, ongoing service which is not results-based.

C. Result based

In theory, this is the most advanced approach on how to price Agency services. The focus moves completely from the cost of input into agreeing, beforehand, the value based on the results. This can be hindered by the complexity of set-up, as well as the need for ongoing management.

Critical elements that are required to successfully set-up and manage result-based models are the following:

- A clear definition of success and total alignment on evaluation of value/impact of work.
- Mutually agreed and objectively measurable KPIs, linked to business performance.
- A very strong value attribution model.
- An effective performance management framework.

3. The six types of Pricing Models and their definitions

DIMENSIONS IN PRICING MODELS	SIX PRICING MODELS	DEFINITIONS	ADVANTAGES	DISADVANTAGES
INPUT-BASED Pricing based on cost of services	**COST ACCOUNTING**	Post-activity invoices based on actual hours spent	• Easy to calculate and implement • Is perceived to be transparent	• Does not encourage efficiency at Agency side • Potentially over or under values the work
	RETAINED TEAM	Remuneration agreed to retain a dedicated team, or a proportion of a fixed resource with the benefit of being payable in equal instalments across the year	• Security of inflow cash for Agency and security of outflow cash for the Brand • Easier staffing planning • Ability to plan long-term strategy for Brand	• Scope does not always correspond to initial estimation • Does not encourage efficiency at Brand side
OUTPUT-BASED Pricing based on the value of what's delivered	**DELIVERABLES BASED**	Remuneration agreed to deliver a pre-defined scope of work with clear deliverables. If the scope doesn't change, the fee doesn't change either	• Incentive for efficiency gains • Reduce cost to serve by standardizing common solutions whilst maintaining a healthy margin	• Limited customization • Risk of scope change • Risk of miss-forecasting resources required • Needs an efficient collaboration process
	COMMISSION	As a fixed percentage of the spending in media and production.	• Reflects trust between Brand and Agency • Easy to calculate and manage • Flexible to changes throughout an agreement	• Cancelled spending last minute • Potential conflict of interest because not media-neutral • Risk of less reflection on quality of work. Agency benefits anyhow when budgets increase
RESULT-BASED Pricing based on Brand's business outcomes	**BRAND PERFORMANCE**	Variable remuneration based on success metrics, depending on the degree in which an Agency can influence Brand business performance	• Aligns Brand and Agency goals • Depending on agreement, potential benefit can be uncapped	• Complex set of variables affecting outcomes are difficult to calculate • Measuring too many KPI's can be expensive
	EQUITY BASED	Accepting minimal or no fees for service in exchange for equity	• Aligns Brand and Agency goals • Potential benefit is uncapped • Creates a long-term relationship for mutual benefit	• Complex scope & risk of venture failure • Potential tax and legal ramifications • No short-term cash flow against costs for Agency • Can Agency exit and at which terms?

How do you go about doing this?

After reading this paper, you might ask yourself: "How do I implement all this and where do I start?". Whether you are a Brand or an Agency, it is important that you set an objective for yourself first and that you start an open discussion with you counterparts.

Here are some suggestions that might put you on the right track:

1. Define your motivation

Why do you want to do this exercise? Is it because you want to benchmark your current pricing model? Or do you think there is more potential in the collaboration with your Brands/Agencies and do you believe that a profound discussion on the pricing factors that define the most optimal pricing models will help you unleash that potential? Whatever your motivation is; make sure you discuss it openly and upfront with your counterpart.

2. Set your priorities

What is it you want to achieve? In what order? And where do you start? Do you just want to 'upgrade' from one pricing model to another or do you want to do the exercise from a Scope or Governance point of view? This will have an impact on the discussions with your counterparts, so prepare yourself.

3. What is your margin for manoeuvre?

It is probably wise to start from what has already been defined and cannot change and to see what you can optimize onwards. If your budget is fixed and you still want to incentivize the other party, you might want to look at adapting the scope or becoming somewhat more risk tolerant.

4. Book a training session with PitchPoint

The best way to get the most out of this Pricing for Success paper, is to book a training session; Brand and Agency – or Agencies – together, and to learn from the experiences of neutral consultants, who can analyze your existing pricing model(s) and point out areas for improvement, with respect for both Brand and Agencies.

5. Join an UBA/ACC Masterclass on pricing

Alternatively, you can subscribe for a Master Class, hosted by UBA and ACC, where the models will be explained, illustrated and where you can exchange points of view with your peers.

Part 2.

Exploring the 6 Key Pricing Factors to define the optimal Pricing Model between Brand & Agency

How to choose from three key pricing methodologies

Input

Output

Results

Six relevant parameters have been identified to impact the choice of the most suitable pricing model or models.

The wheel below illustrates how the different parameters will help to define the most relevant remuneration model.

6 Governance

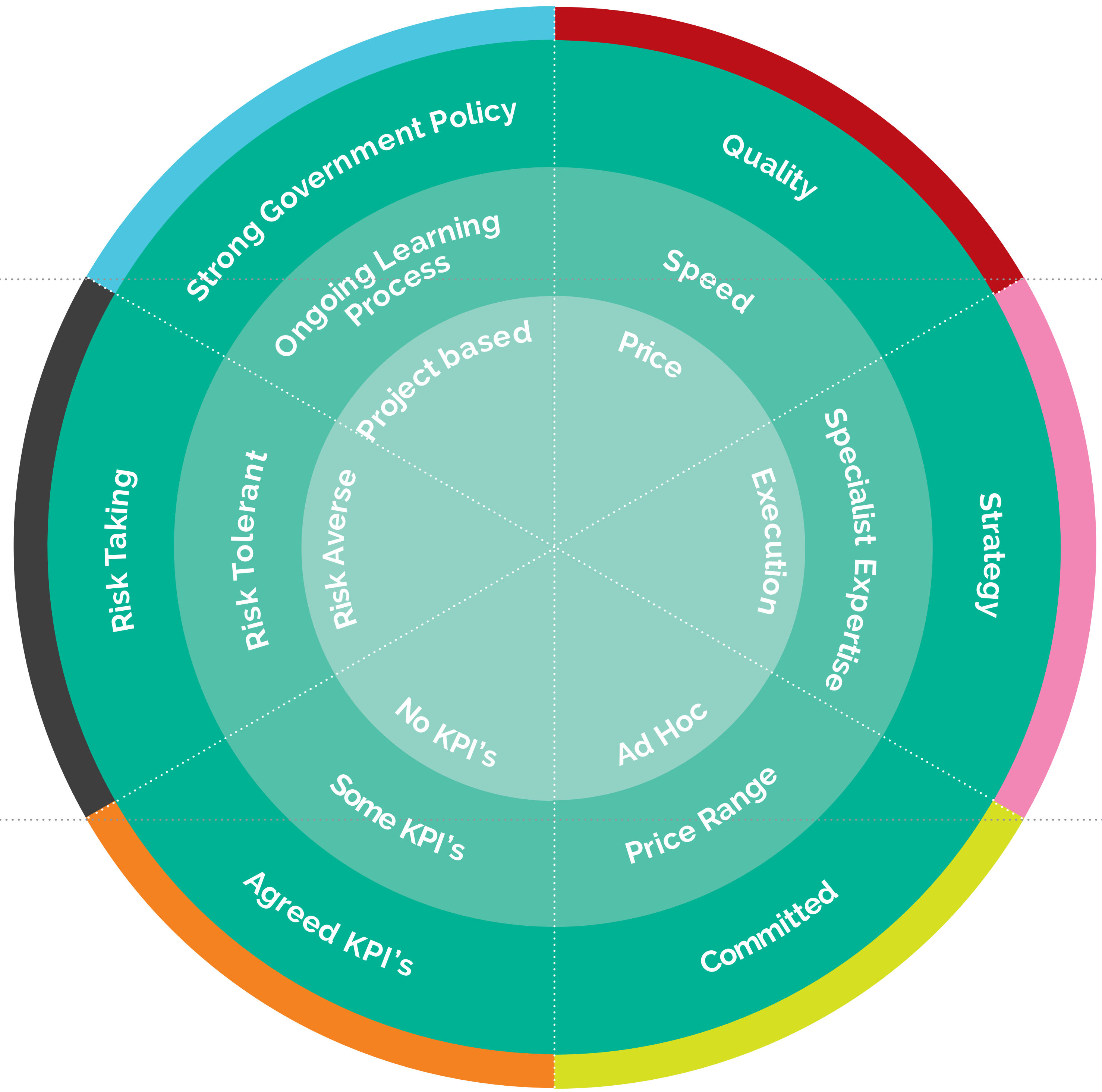
How well defined are the various aspects of Good Governance?

5 Risk

What is the Brands' and Agencies' attitude towards Risk?

4 KPI Settings

To what extent do Brands and Agencies attribute activities to business outcome?



1 Brand Needs

What expectations do Brands have?

2 Scope

What type of activity do Agencies provide to meet Brands' needs?

3 Budget

Is the budget committed upfront over a considerable period in time?

1. Brands Needs

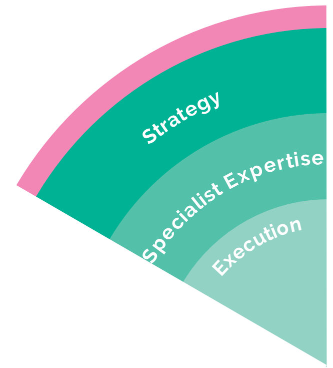
To define the ideal remuneration model between Brand and Agency, one should bear in mind what the Brand really needs. There is a saying that there are three aspects to every task: quality, speed and price and that you can only get two of them, in detriment of the third one.

These 3 elements have always been in the mind of Brands while looking for Agency value. What is new, is that, in a more digital world, many Brands need all three of them at the same time.

Although many Brands are still looking for cost effective solutions to short term issues or opportunities, the shift towards digital has increased the need for speed of action/reaction tremendously whereas the increasing number of touchpoints has put a huge pressure on the budgets available for strategic advice, conceptual development and execution. So more and more, Brands need timely and cost-effective solutions without wanting to compromise on quality.

- **Quality:** for many Brands, quality is their top priority. They are willing to pay the price for getting this top quality from their Agency. They will focus on a remuneration. They will focus on a remuneration model that incites the agency to give the best of what they have in terms of people's expertise and experience.
- **Speed:** for other Brands, flexibility and speed to market are top priority. This means that the remuneration model needs to allow the best possible resource planning and stimulates an efficient operational model.
- **Price:** for some Brands, getting the lowest price is key. This means the remuneration model must stimulate economies of scale, transparency and budget control.

Strategy	Brand positioning, media strategy, creative strategy, campaign strategy, social-media strategy, content strategy, e-commerce strategy, PR strategy, sponsorship strategy, communications strategy, in-housing, CRM/customer-engagement strategy
Conc. & creat.	Brand concept, Brand guidelines & story, Brand voice, campaign concepting, design
Expertise	Set-up if needed, in-house Agencies (media & creative), management of in-house 'Agency' teams, training, secondments, thought leadership, knowledge transfer
Insights	Qual & quant, customer research, audience insights, Brand perception, customer experience, customer segmentation, performance insight
Implementation	Campaign management, influencer relations, social activation,SEO & PPC execution, physical experiences/activations, content management, technology development (web, mobile, app development), social-media monitoring & management, crisis management, media relations
Optimisation	Campaign optimisation, conversion optimisation, media optimisation
Media Pl & buy	Media plan & buy (broadcast, digital, press, OOH), programmatic buy, sponsorship buy, influencer buy, product-placements buys
Measmnt & Eval.	Benchmarking, reporting and evaluation
Data & Analysis	Data analytics, data management attribution modelling, segmentation
Production	Film&photography, TV/radio/print ads, e-commerce platform, user experience & design, advertising artwork, digital design, digital build/ dev. user-interface design, mobile/application design, event production, in-platform execution



2. Scope

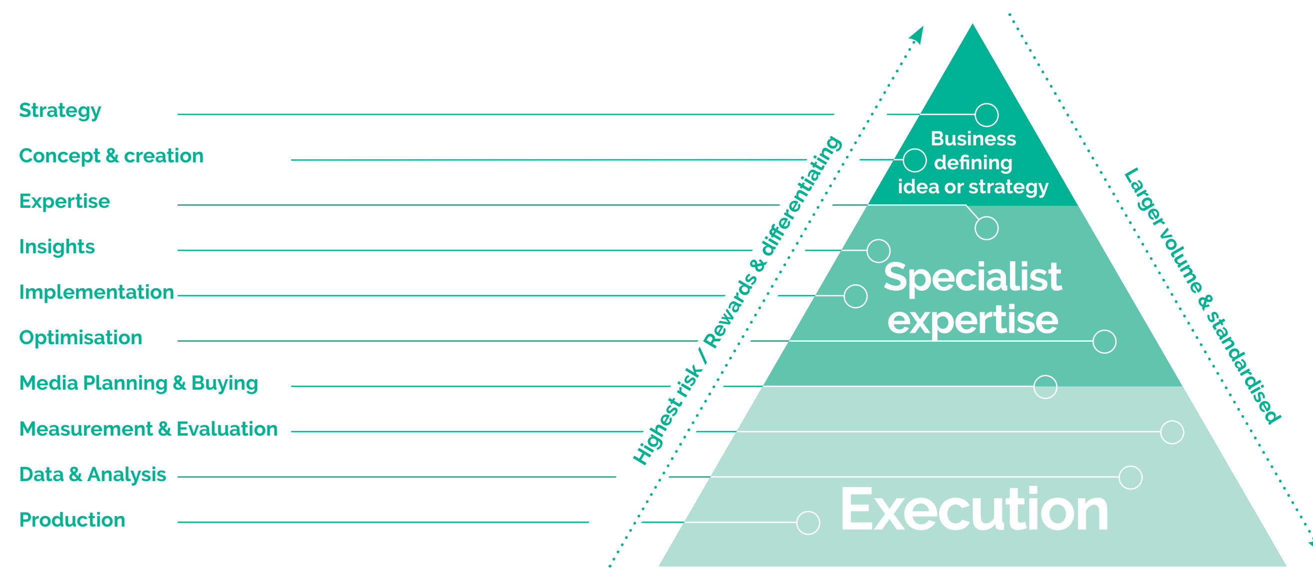
Defining a detailed scope of works means clearly listing which deliverables you expect and in what quantity.

This is a real challenge for most of the Brands and needs the necessary attention.

Understanding the full **impact** on the Brand's business of achieving the commercial objective – be it revenue growth, an operational improvement or efficiency – influences the choice of pricing method, and measurement process, as well as the range of pricing models that will be required for the services the Agency will need to provide. Brand needs can go from standardised and efficient execution, over specific expertise in certain domains, to the need for strong strategic transformation.

We see three levels of scope:

- **Strategy:** Business-defining ideas or strategy assignments are typically higher value. This category includes developing strategies and concepts and can be differentiated based on key talent and high-performance Agencies as recognised by effectiveness papers and awards.
- **Specialist Expertise:** Specialist expertise represents specific specialized skills which Agencies possess that are independently valuable to Brands. These may be accessed alone or as part of the strategic process or quality execution. Typically these skills are specialized or unique and will change over time.
- **Execution:** We think here about high volume and more standardised pieces of work. This category can include production, data and analytics, measurement and evaluation as well as media buying. Typically, this category includes products and services where the use of automated tools, templates and technology platforms have been developed to manage work at scale. Accreditation to industry standard tools and quality-control processes will become more important as they become adopted across the marketing industry.



3. Budget

It is not the size of the budget that motivates Agencies most. Although big budgets allow the Agency to display its knowhow and make the machinery work at full capacity; small budgets often stimulate the Agency to be more agile and inventive; to think out of the box.

What is really important to Brands and Agencies, is to know upfront what the budget is (even at the stage of an eventual pitch), so that they can plan their assets and people accordingly and they don't waste time and energy in developing huge strategic and conceptual work leading to over ambitious plans, when there's only budget for a short term tactical action (which is a great challenge as well, given the budget has been announced upfront).

We see three levels of budget allocation:

- **Committed:** Brand and Agency agree on a long-term commitment, with clear budgets set upfront to assure Agency engagement.
- **Price Range:** the Brand provides a Price Range for a certain period of time or a number of projects, with a minimum of commitment, so that Agency can plan talent needed.
- **Ad hoc:** the budget is determined by the Brand on an ad hoc basis without prior commitment and it might change overtime due to external factors.

SETTING KPI'S

Attention must be paid to choose the proper and the right number of KPI's.

Most often, leading KPI's work better than lagging KPI's.

The difference between a leading indicator and a lagging indicator is the fact that a leading KPI indicates where you're likely to get to, whereas a lagging KPI measures only what you have already achieved. Having good leading KPI's means that you can take corrective actions early. Leading KPI's are those that you can act upon to make a difference in the outcome. For example: measuring sales is a lagging KPI, whereas measuring leads is a leading KPI and will predict what the sales will be in the future.

How many KPI's we should set is another question. There is no such thing as a right number of KPI's. Goodhart's law states: "When a measure becomes a target, it ceases to be a good measure." In other words, when we set one specific goal, people tend to optimize for that specific objective regardless of the consequences. Therefore, a set of KPI's might be better to follow-up, than just one or two.

4. KPI setting

Being able to define the Brand's commercial objectives in words and numbers is critical to establish the value and impact of the work.

The commercial objective can be many things. It can be a level of sales, market share or share of voice. Key performance indicators (KPIs) may be hard to agree on; they differ between Brands and may evolve during the relationship.

Even with clearly defined KPIs, it can be hard to find a situation where an Agency's activity, products and services are the only contributing factor to success of a productive service.

The ability to prove the effectiveness of the Agency work, and attribute it to commercial outcomes, is often thought to be too expensive or impossible. This is not necessarily the case: a source for the measurement needs to be identified and agreed with both partners.

A list of factors or situations that may arise and adversely impact the outcome can be listed as 'external factors'. These then can be taken into account if performance goals are missed and they ensure both parties agree a fair measurement system.

An Agency's work must be able to influence the KPIs for any performance-based remuneration.

We see three levels of KPI-setting:

- **Selected KPI's:** the Brand provides a clear set of KPI's, often unchallenged by the Agency, and little is done to follow up or to measure the achievements of the work on a regular basis.
- **Agreed KPI's:** Brand and Agency agree upfront on a clear set of relevant KPI's; the way of reporting and the consequences of the outcome.
- **No KPI's:** the Brand provides briefings with certain communication and/or business objectives but no tangible and/or measurable KPI's, which makes it difficult to evaluate performance.

5. Risk

For some remuneration models to really work, there needs to be a degree of bravery and a capacity to take risk, on the part of both Agency and the Brand. While there are exceptions to the rule, Agencies and Brands in Belgium are generally fairly risk averse compared to anglo-saxon countries. They prefer to have the security of their costs being covered, and margins protected for the Agencies and full cost control for the Brands.

Therefore, determining upfront how much risk you want to take is important. This should ideally balance the level of risk with the level of opportunity. It seems clear that, without risk taking, result based remuneration will be hard to put into place.

For Brands taking risks in budget when pursuing performance or even outcome-based pricing models, you must be able to clearly define the impact (or the outcome) and have the ability to measure it. Often KPI's and outcome are not at the core of reporting and evaluation meetings. Putting risk next to opportunity should help in balancing both.

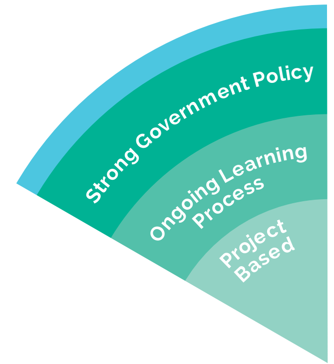
On the other hand for the Agency, there are two things that come into account while thinking about risk: how comfortable they are with risk taking and - as a direct relationship - how good they are at it. If the Agency wants to lean in and be accountable to performance, then it's got to be good. A lot of Agencies might pretend they want it, but they are not comfortable with the risk associated. "At the end of the day, you are either entrepreneurial or you're not".

On the other hand, for Brands too, taking risks in budget is not easy. Even if marketing directors sometimes are willing to do so, the budget planning inside the company does not allow for flexibility or extra budget even when commercial success is in. In most companies, there is no extra budget available for the marketing department when commercial (or any other business) success is higher than the forecast. Without this budget flexibility, result based remuneration will not be easy to apply.

Occasionally, we see that a results-based remuneration in Belgium is limited to a bonus of maximum 10% of the overall annual fee. The question remains if this is really inciting for the Agency to do a better job? Or isn't this the purpose of a bonus?

We see three levels of risk attitudes:

- **Risk Taking:** Brands and Agencies agree that both parties benefit from better Brand and business results the amount of remuneration is not known in advance.
- **Risk Tolerant:** both Brand and Agency are willing to accept some risk. In this case, Agencies want to cover their costs, but are willing to be flexible in terms of margin. The amount of the remuneration is not entirely fixed beforehand.
- **Risk Averse:** most of the time, we see Brands and Agencies fairly risk averse. They prefer the upfront security of their budgets/costs being covered and margins protected.



6. Governance

Consider the collaboration between a Brand and an Agency like any kind of relationship. It can be just of short duration, to fulfill an urgent need, or it can be a long-term commitment: in good times and in bad times.

Before engaging with a new partner, it is crucial to think about your expectations and express them clearly to the other party. Especially when the intention is to achieve ambitious goals together and when you know that the road to success will be bumpy but very rewarding when you exceed your objectives.

If you want a long-term relationship to succeed; you cannot just rely on 'old habits' and 'unspoken commitment'. You need clear agreements on your operational model (how Brand and Agency interact with each other and what happens when errors are made or goals are not achieved), you need to systematically plan mutual evaluations and deliver on the take-outs of such evaluations. And you definitely need to celebrate successes occasionally. Efficient governance defines clear platforms and uses efficient collaboration tools in order to optimise efficiency in the collaboration. This allows to shorten retroplannings and to enhance first time right work.

We see three levels of governance:

- **Strong Governance Policy:** Brand and Agency commit to a long-term partnership and agree on a set of mutual governance policies: the operational model, the attitude of the people involved and regular and professional evaluations.
- **Ongoing Learning Process:** Brand and Agency have a certain commitment towards each other, with a willingness to collaborate long term. The relationship tends towards effectiveness, but it is based on progressive insights rather than on upfront agreed operational models.
- **Project based:** the Brand and Agency collaborate on a project by project base. There are no clear agreements on collaboration or validation platforms or tools. The way of working of the Agency and the Brand is not reviewed, nor necessarily adapted one to the other.

But what with multi-Agency relationships?

The different remuneration models you discovered in this document can, of course be combined. Part of a total scope can be paid through one remuneration model, while another part of the scope would better be covered by another remuneration model.

Indeed, some parts of the scope might be very strategic while others are much more operational or pure execution. Using several remuneration models to pay 1 Agency according to the scope, makes things a little more complex but can be appropriate for Brands with somewhat larger budgets and complex scopes.

In some cases, the Brand is working with different Agencies. The challenge then is to have these different Agencies collaborate most efficiently with each other and with the Brand. Choosing the remuneration models to do so might stimulate this collaboration.

It is not the subject of this document to explain how to build an Agency roster and what you should take into account when doing so. However, a key aspect is to clearly define the scope of each of the Agencies. Often, one of the Agencies will be chosen to be the 'lead Agency'. If so, the Brand needs to describe what the role, responsibilities and scope of this lead Agency is. This can then be considered together with the rest of the scope and become part of the remuneration model reflection for each of the Agencies.

Not describing the role of a lead Agency and just asking Agencies to collaborate without taking this into account in the scope or remuneration model, will not work.

For building a performant Agency roster, we refer to UBA Academy - Training 24/7 about this topic.

Part 3.

Pricing for Success: combining the six Key Pricing Factors with the six Pricing Models

Before deciding on the most suitable Pricing Model between a Brand and an Agency or when re-evaluating an existing Pricing Model to strive for a better suited – more aspirational or value based – Pricing Model, one should consider the Brand's and Agency's maturity and ambitions on the 6 key Pricing Factors.

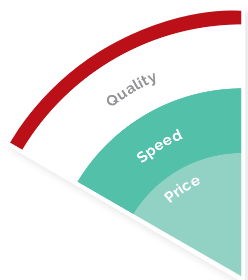
Input based models:

1 COST ACCOUNTING

This is the most used pricing model currently, because of its' ease of use and its' transparency.

1.1. Brand Needs:

According to the expectations of the Brand, the Agency will adjust the number of estimated hours for its services. But in many cases, the Brand just wants to get the work done in time for a reasonable -and accountable – amount of money.



1.2. Scope:

The Cost Accounting Pricing Model is ideal for a Brand that aspires a quality execution.

1.3. Budget:

In this case, the budget can either be allocated on a project by project basis, or by indicating a price range which can change according to the number of executed tasks. It is up to the Agency to estimate allocated talent to the Brand and to take the risk of having to free extra time when workload increases or to put allocated talent at work elsewhere when projects fall short.

1.4. KPI's:

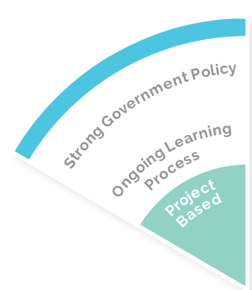
Although setting KPI's upfront is the right thing to do in any kind of business model, in reality many Brand/Agency relations that use the Cost Accounting pricing model very often don't use any KPI's to influence their pricing; the only metric that counts is justification of cost accounting via timesheets.

1.5. Risk:

This is the perfect pricing model for Brands and Agencies that don't want to take any risks: "what you pay for is what you get". Sometimes, Agencies are granted some extra margin in case they can perform the planned tasks for less hours than projected; sometimes the Brand is willing to pay an extra fee when the Agency can justify extra hours spent.

1.6. Governance:

The Cost Accounting pricing model doesn't encourage to set up a strong governance policy with mutual agreed tools to measure the relationship, except for regular timesheet reports. Although it is the most used remuneration model between Brands and Agencies.

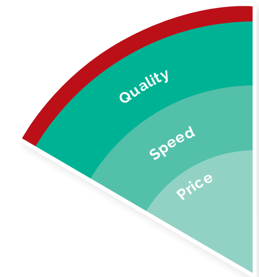


2 Retained team

When Brand and Agency both know what to expect from each other and when there is a good level of trust between two parties, justifying every hour spent becomes less important. Brand and Agency grant each other some margin and don't want eternal money discussions to interfere with their daily work.

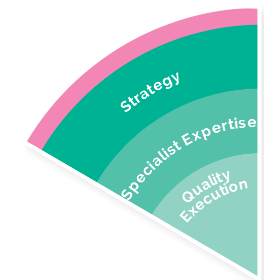
2.1. Brand Needs:

In this case, the Brand trusts the Agency to deliver timely and quality execution within a pre-determined budget. The Brand needs a team that is entirely available and dedicated.



2.2. Scope:

This remuneration model is mostly used by clients who have a complex set of projects to execute. Often also, the size of the scope is rather clear but the kind of projects change often during the year. Retained team is often used for larger clients.

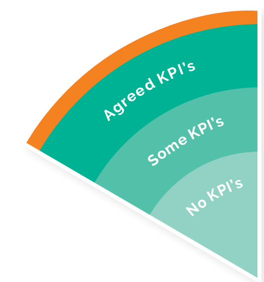


2.3. Budget:

Brand and Agency agree on a long-term commitment, with clear budgets set upfront to assure Agency engagement.

2.4. KPI's:

Since Brand and Agency grant each other a certain level of trust, most often some minor KPI's are being installed to replace the cost accounting verification although it works even when no KPI's are defined.

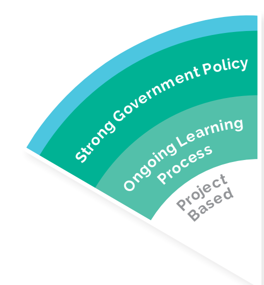


2.5. Risk:

When opting for a Retained Team, Brand and Agency are willing to accept some risk: Agencies want to cover their cost, but they are flexible in terms of margin.
Clients accept to pay fixed amounts.

2.6. Governance:

Brand and Agency need at least a certain commitment towards each other, with a willingness to collaborate on the long term. The relations should tend towards a search in effectiveness, at least based on progressive insights. An upfront agree operational model could however help in being more efficient and thus optimising timings and budget or margin.



Output based models:

3 Deliverables based

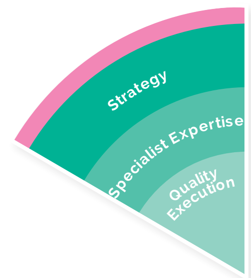
The Deliverables based pricing model is mainly used when the Brand has a well-defined idea of the deliverables and wants to involve the Agency on a project by project- or on a regular base. The Brand pays for output and result rather than for hours spend.

3.1. Brand Needs:

The deliverable based remuneration model can be used for any Brand need or for any combination of needs. Important is to fix the needs clearly at the start.

3.2. Scope:

In most cases, the Deliverables based model is used for well defined tasks that are easily specified and quantified. These can be strategic as wel as execution. Important is that they do not change in the course of execution.

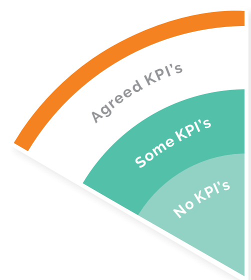


3.3. Budget:

Budget are defined on a project per project base but can be committed for a complete year.

3.4. KPI's:

This remuneration model defines clear output as a start for a project. KPI's can be part of this definition. But even with only a few of no KPI's this remuneration model works fine.

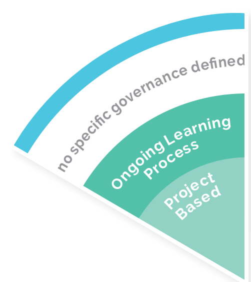


3.5. Risk:

The Deliverables based model is quite risk averse in the sense that the Brand knows upfront what he will pay for the Agencies' services. Especially when pricing is done on an ad hoc basis. The risk is high however for the Agency of no clear governance model is defined because inefficiencies might cost them a lot of time.

3.6. Governance:

The better the governance is defined, the better Agencies will be able to put fair prices on a deliverable. At least an ongoing learning process is needed in order to limit discussions and falling back on timesheets.

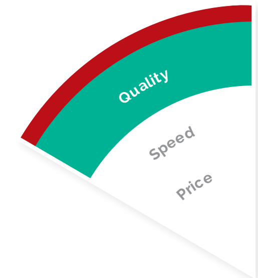


4 Commission fee

A Commission Fee is used when Brand and Agency agree that a fixed percentage of spending reflects the workload appropriately and that - if the Agency is successful and the Brand prospers from it.

4.1. Brand Needs:

When choosing for commission fee, all kind of Brand needs can be covered as long as they are clear from the beginning. If Agency can deliver top quality work in due time and earn money by working effectively, that is fine. If the Agency loses money, because they can't get it right from the first time, that's their problem.



4.2. Scope:

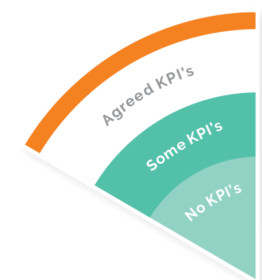
All kinds of scope can be covered by this remuneration model, although nowadays it is mostly used for media strategy, buying and planning and production follow-up. It is however not entirely neutral because the Agency does not receive an incentive for optimising cost of production or media. It is not longer used for other communication spend because the model does not take quality of execution into account

4.3.Budget:

Commission percentages are related to overall budget commitment. they might change if overall yearly budget change.

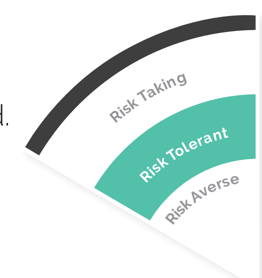
4.4. KPI's:

Definition of at least some KPI's is essential for this remuneration model. Brand an Agency should agree on some KPI's in order to avoid frustrations at the end of the year. However, little is done to challenge or evolve these KPI's.



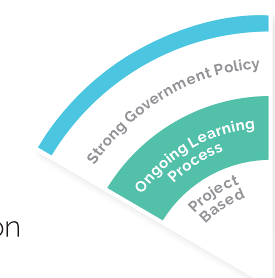
4.5. Risk:

There is no much risk involved. If the budget (for media or production) is defined, the percentage of commision is clear. No surprises. The Agency can work accordingly. The Brand knows exactly what it will cost.



4.6. Governance:

Brand and Agency should define a certain degree of governance and efficiency. This will allow the commission to be competitive and the Agency still to earn money. If the governance is not well defined, the Agency will need too many hours and will thus either loose money or deliver less qualitative work.



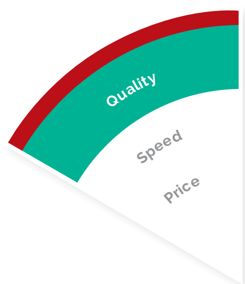
Result based models:

5 Business performance

Here, the focus moves completely from the cost of input into agreeing, beforehand, the value of output based on the results. This can be hindered by the complexity of set-up, as well as the need for ongoing management and is only possible if clear KPI's are defined and a strong governance is agreed upon.

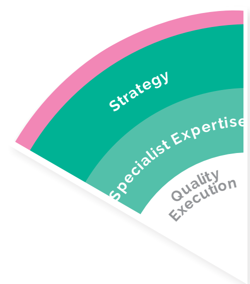
5.1. Brand Needs:

In case Brand and Agency choose for a Brand Performance model, focus lies on quality of the output and the results. The Agency commits to results. The Brand is willing to pay for that.



5.2. Scope:

This typically is a model to use when the Brand needs Specialist Expertise to solve his issues or is looking for a complete Transformation of his business.

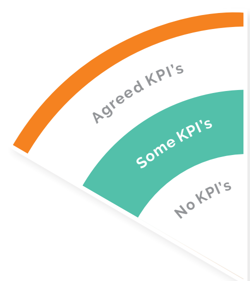


5.3. Budget:

The overall communication budget is clearly committed. The Agency know how much the Brand will invest and spend. This is needed in order to obtain the wanted results.

5.4. KPI's:

It is important to agree upfront on a set of well-defined KPI's and to evaluate them on a regular basis. If Agency achieves or outperforms on these KPI's, their revenues can increase. If they underperform, they might have to give in some margin.



5.5. Risk:

Since the Agencies revenues can vary according to the results it creates, both Brand and Agency are expected to be at least risk tolerant. It is advised though that there should be more to gain than there is to lose for the Agency in order to motivate the team and to push them further for the Brand

5.6. Governance:

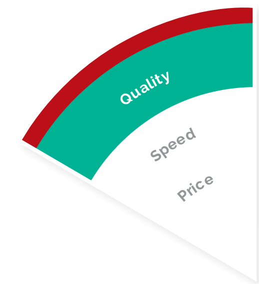
Brand and Agency are very committed towards each other, with a willingness to share in each other's profit or loss margin. Therefore, there should be a strong Governance Policy, with a clear set of operational models, including regular evaluations of both parties' performance, attitude and involvement

6 Equity based

This is a suitable model for aligning interests and sharing risks; it is usually used for start-ups that don't have the resources to pay for Agency services in cash.

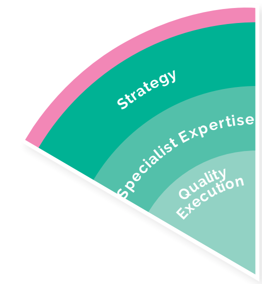
6.1. Brand Needs:

It is obvious that the Quality of the output should be the ultimate focus of both parties, since they share the same interests of growing their business.



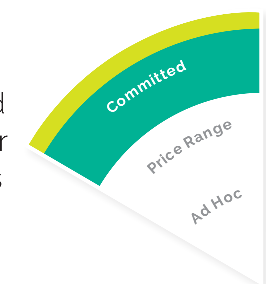
6.2. Scope:

This approach would work across all types of briefs, however most value can be provided when the client is looking for strategic, transformational services. This enables the Agency to play a key part in partnering to drive business success with its services.



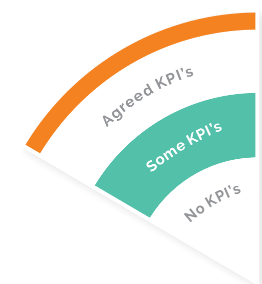
6.3. Budget:

In this case, there is a clear commitment from both Brand and Agency to invest together in a project. In case objectives are not achieved, Brand and Agency should agree mutually on how this affects Brand budgets and Agency resources in the future.



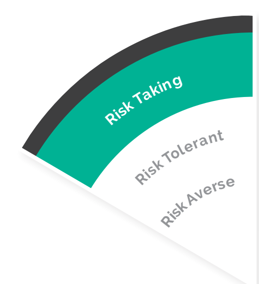
6.4. KPI's:

If the Brand allows the Agency to share successes (and failures), a clear set op upfront agreed KPI's is required.



6.5. Risk:

Both Brand and Agency take the risk of working together in an entrepreneurial spirit. If one or the other is not risk tolerant, this model will not work.



6.6. Governance:

Brand and Agency are very committed towards each other, with a willingness to share in each other's profit or loss. Therefore, there should be a strong Governance Policy, with a clear set of operational models, including regular evaluations of both parties' performance, attitude and involvement.

The purpose of the Association of Communication Companies is to unite all communication Agencies in their individual interests and their collective ambitions. Their mission is to upgrade, promote and defend the added value of our members towards (future) employees, clients, authorities, press and public.

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