

Advertising Agency Compensation: What's Trending?

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Nomura Global Media Field Trip

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The Axiology Network

Beekman Associates 

Beekman Associates, the world's leading agency compensation assessment and benchmarking specialists assessing over \$5 billion in agency compensation annually

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FLE, the largest independent media auditor accessing a database of 18 billion euros of advertisers' media expenditure in 70+ countries

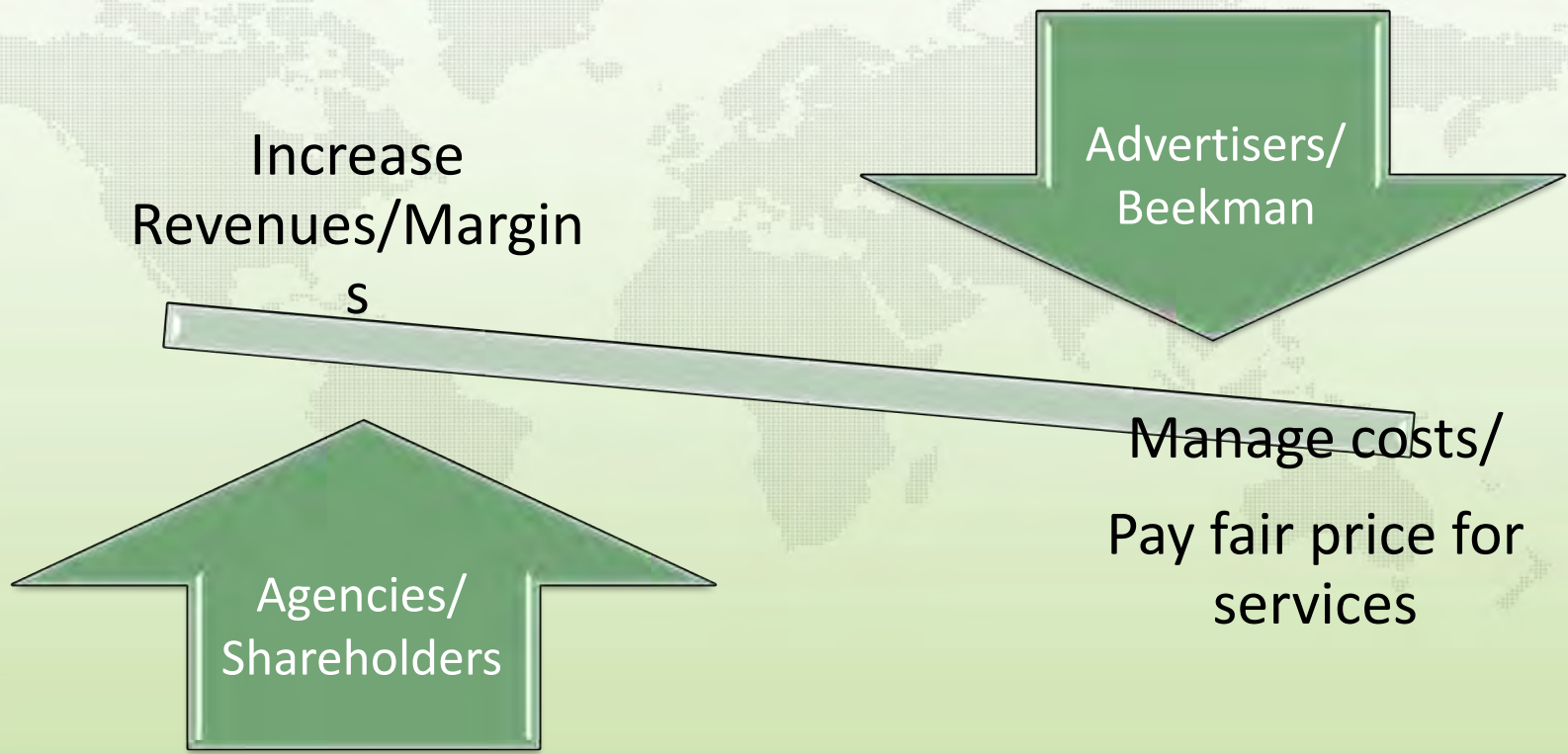



FirmDecisions ASJP is the world's largest independent financial auditor that specialises in marketing services and marketing compliance

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Opposing perspectives





Here's Where Agencies Are

Situation at holding companies

Summary:

Agency revenue up

Agency costs near flat

Agency margins way up

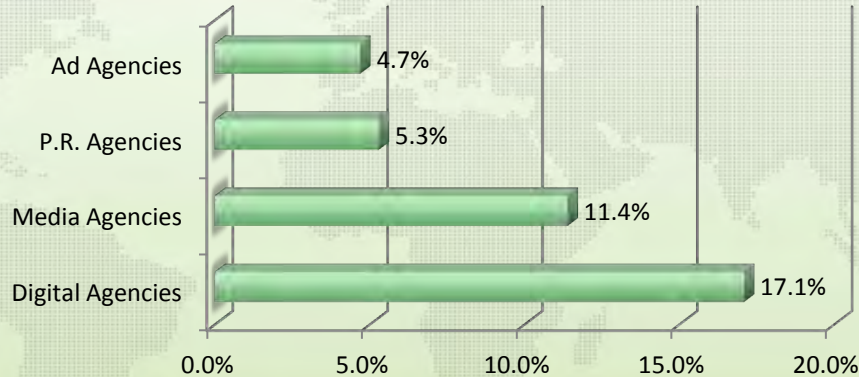
Margins improving at holding companies

Publicis Groupe's ZenithOptimedia estimates that U.S. major-media spending grew just 1.6% in 2011 while total agency revenue was up 8.1%

Globally revenue of the top 50 agencies grew about 12%

Margins improving at holding companies

Revenue growth driven by digital and media agencies



- Digital spend has a very low out-of-pocket (third party pass-through) costs, nearly all of it is agency revenue
- Addition of “value-added” holding company “bulk” media buying which potentially can take an additional piece of the media pie (rebates?)

Margins improving at holding companies

Agencies are going after Accenture and Deloitte IT revenue

Publicis Group launched Fluent—software intended to help clients sort in-house data to ad-targeting and analytics

WPP unit, Fabric is pushing its product that connects client data to marketing tools

Example: P&G continues to work with Accenture but has clarified the difference between "tech work" and "creative work," according to a P&G spokesman. P&G now partners with "a mix of tech providers and the tech branches of some creative agencies" for IT development

Margins improving at holding companies

Agency costs are near flat

Agency revenue growth has outpaced staffing growth during the recovery; agencies have been successful at generating more revenue per employee.

Interpublic Group of Cos., for example, last year increased U.S. revenue by 4.8%, while its year-end staffing remained essentially unchanged from 2010.

Employment stands at 51,200 jobs below its all-time high in November 2007, a month before the recession began.

Margins improving at holding companies

WPP reports record \$1.45 billion profit for 2011

“WPP reported record profits of more than \$1.45 billion for 2011, up a whopping 43% from the year prior, and the holding company expects to see continued momentum in 2012 due to increased ad spending” ... — Advertising Age

Agency brass are sharing in the bounty

“Omnicom President-CEO John Wren, for example, reeled in total compensation of \$15.4 million in 2011, a 43% increase. Mr. Wren earned \$1,760 an hour, assuming that he worked 24/7” — Advertising Age

WPP disclosed more than \$500 million in 2011 incentive payments, representing "close to maximum achievement of agreed performance objectives." The company defended its rich payout: "Given the record profit and margin performance in 2011, most of the group's operating companies achieved record incentive levels -- reflecting pay for performance, not failure."

IPG CEO Michael Roth received a hefty pay increase according to the company's proxy statement, with the total coming in at just under \$13 million, up 27% from the previous year.

Shares in WPP, Omnicom and Publicis hit post-recession highs in 2012



Here's Where Advertisers Are

How advertisers see agency compensation



Advertisers are confused

This year 84% of clients are charged with better controlling spend

52% of marketers surveyed will challenge their agencies to reduce costs internally this year

but...

Only 17% of 250 advertisers surveyed plan to cut agency compensation

Source: January, 2012 ANA Study

What advertisers hear from their agencies

At a recent ANA (advertiser) conference Sir Martin Sorrel (WPP CEO) lectured advertisers indicating:

- Clients are excessively “squeezing” margins [What he didn’t say is WPP’s margins are up 43%]
- Don’t use benchmarking data — “use compensation consultants like Mike Farmer” [What he didn’t say is Farmer was hired by Ogilvy and Grey to develop pricing strategies to maximize agency profitability]
- It’s not smart to have an agency that’s not profitable

Advertiser view of agency compensation



Agencies have had the advantage in negotiating fees



- Marketers do not have internal resources with expertise in agency compensation—agencies do (CFO)
- Marketers are accepting procurement’s involvement but procurement is still learning agency compensation
- There is a significant mismatch of “compensation experts” between agencies and advertisers

Agencies are focused/clients are learning

SOLUTION: Advertisers need to look at agency compensation in the same manner as agencies do. Procurement is helping.



THANK YOU

QUESTIONS AND ANSWERS

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