MarCom Metrics: Proposing a Practical, Result-oriented Compensation Model for a Sustainable Advertising Industry

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Summary

Considering marketing communication (MarCom) expenditure as an investment rather than costs is increasingly common. Advertiser-agency relationships and remuneration models must be adapted accordingly. We present a result-oriented compensation model, facilitating communication, collaboration and measurability of performance (extending the value-based approach, as developed by Ignition Consulting) for national contracts. Interviews with senior marketing executives helped fine-tune the model, and increase objectivity and mutual acceptability of evaluation criteria. The new compensation model could substitute hourly-rate fees, allowing 1) agencies to better defend costs and 2) advertisers to better justify marketing budgets, increasing mutual accountability and responsibility, and promoting industry sustainability.

Keywords: **Accountability; Sustainability; Result-oriented compensation model; Advertising agency; Marketing communications**

Introduction

Traditionally, advertising agencies were paid a 15 % commission on advertisers' media expenditure (Said, 1999). Simple hourly-rate based agency compensation models have gradually substituted this commission model. Underlying these hourly-rate models is an agreement between advertiser and agency that the hours spent developing a creative concept are charged to the advertiser – generally without a minimum, but with a maximum total charge. Like the commission model, the hourly-rate compensation model typically creates a cost-results disconnect. A very effective, but rapidly conceived creative idea would cost very little according to this model. A mediocre idea, but one that took much longer to develop (say 40 hours), could cost a fortune. Advertisers often agree in advance to pay for a maximum number of hours (e.g. 20 hours). In the first case, they would actually pay for a few minutes and in the second case for 20 instead of 40 hours. The example illustrates that the currently used compensation model could be counterproductive (e.g. Hauser and Katz, 1998): hourly-rate compensation models ignore the quality, the effectiveness, and/or the results of the services provided. They could also reward inefficiency and punish efficiency.

In the present article, we aim to develop a better, practical compensation model for the marketing communications (hereafter called MarCom) industry, overcoming some of the shortcomings of traditional commission and hourly-rate approaches. The need for a better compensation model has become somewhat urgent – at least from the perspective of the advertising agencies - due to the global economic recession. Clients of ad agencies, i.e. the advertisers, are increasingly tempted to apply short-term cost cutting strategies. MarCom expenditure is considered a major cost driver, while marketing managers have not succeeded in demonstrating the return on MarCom investments (Jones, 1999; Schultz and Gronstedt, 1997). To be fair, neither marketing managers nor ad agencies have done enough to quantify the important role advertising can play in the economic sustainability of firms. In this article, we use the terms marketing, MarCom and/or advertising to refer to various integrated marketing communication instruments, including advertising campaigns, direct marketing mailing, sales promotion, marketing events, Internet campaigns, and other implementations.

The practical ad agency compensation model we propose allows advertisers to make more efficient and effective use of their MarCom budgets. By effective we mean realizing the advertiser's goals, in return for a fair compensation for the advertising agency, allowing the latter to stay in business. The model we propose appears realistically applicable to national contracts, as local decision-making power from the advertiser is a pre-condition of its success. Measuring MarCom results on a national scale is also more practical than measuring it on a global scale.

The compensation schemes most often criticized (commission basis, flat fee and hourly-rate) are the ones that are used most frequently (Verbeke and Mosmans, 1992). However, what would a sustainable result-oriented business model in the advertising industry look like? In the first place, for marketing and advertising agencies to survive the economic recession, both should invest in making their activities more transparent (Schultz and Gronstedt, 1997). The tool developed in this article will help increase the accountability of marketing activities, based on the fundamental assumption that MarCom expenditure should be seen as an investment and not as cost (Henderson Blair, 2006). Ultimately, what differentiates one company from another in the mind of consumers is its brand and image, rather than its products and services (Keller, 1993). Brand and image are developed over many years. All marketing activities combined create global brand equity or brand value (Ambler, 2002; Pahud de Mortanges and Van Riel, 2003). In this light, MarCom investments do not differ from e.g. ICT investments. Both have short and long-term objectives, and should be seen as any other business investment (Ambler, 2002). Marketing departments should eventually set ROI targets and quantify the results of their campaigns whenever possible (Farris et al., 2006).

This study results in a practical compensation model for the advertising industry, valuing both short-term (financial and nonfinancial) and long-term effects (the more diffuse effects) of a creative idea or an advertising campaign. The model enables a genuine partnership between advertiser and ad agency through mutual sharing of information, risks and profits. It could even be adapted to be used in other creative or consulting industries that are currently using commission fees, or hourly-rate compensation. Service providers could benefit from ring-fencing shared responsibilities and risks, ultimately leading to shared contributions and benefits. From the perspective of the advertiser, the contribution made by this article is to assist in establishing a practical and objective measurement of the results of MarCom activities. Especially in times when marketing budgets are being intensely scrutinized, it is important to be able to demonstrate these outcomes.

The article is structured as follows: First we review relevant literature on marketing metrics, and accountability of marketing spending. Second, we develop a practical, result-oriented (R-O) compensation model for advertising agencies, based upon the value-based (V-B) approach developed by the Ignition Consulting Group (Williams and Baker, 2008). Subsequently, we report the results of extensive discussions with nine marketing executives of Multinational Enterprises (MNE), to whom we presented our model. These discussions provide us with feedback that allows us to partially revise and adapt the model.

Literature review

Advertising aims at making target consumers either think of or react to a product or brand (Kotler et al., 2005). “Advertisements and their content play an important part in the process of commercial communication as a means of achieving advertising goals. It is the content of the advertisement as well as the product and brand advertised that determine greater or lesser memory retention" (Royo-Vela, 2005, p. 13). The main factors considered when hiring an advertising agency are creative performance and media services (Verbeke and Mosmans, 1992).

Accountability in marketing

MarCom expenditure is often treated as a balancing item, which can be stretched in good times and cut back when profits are declining (Doyle, 2000a). In some firms, top management appears to believe that advertising spending has little or no demonstrable impact on shareholder value. Problems regarding the justification of advertising budgets occur, because sales are affected by many other factors than advertising alone, e.g. the quality of the product, price setting, distribution, service, competition etc. "Studies of advertising agree that the effects of advertising on sales are small, certainly much smaller than the effects of price or promotion. The maximum advertising elasticities reported are around 0.2, meaning that a 10 per cent increase in advertising would increase sales by 2 per cent" (Doyle, 2000b, p. 241). Moreover, current and future sales are not only affected by current advertising, but also by consumers' memories of past advertising. A short-term estimate of the impact of advertising expenditure may therefore underestimate or under-value its total impact on sales (Clark et al., 2006). To prevent top management from arbitrarily reducing marketing expenditure and thus destroying shareholder value, and to ensure the sustainability of advertising agencies, we need to be able to better model and measure the effects of an advertising campaign.

How should we measure the results of a creative idea or an advertising campaign?

Over the past thirty years, various theories and models have been developed in academia with the purpose of estimating advertising effectiveness (Farris et al., 2006). Examples are the Persuasive Hierarchy and the Low Involvement Model (Vakratsas and Ambler, 1999). These models compare the evolution of shareholder value - using the Net Present Value (NPV) method - of a company with advertising expenditure and of a company that has eliminated advertising. Another model developed to estimate MarCom spending effectiveness is 'Tracking'. Tracking aims at continuously measuring relevant intermediate advertising effects (psychological brand effects and advertising effects). The method makes the assumption that these outcomes will ultimately lead to a sale (Hoogerbrugge, 1996). Little research is done, however, to improve the conceptualization and measurement of the effect of a campaign (Hoogerbrugge, 1996; Llonch et al., 2002; Verbeke and Mosmans, 1992). Stewart (2009) discusses the important role of marketing standards and standardized measures, and describes three types of return on marketing and measurement. Stewart's (2009) article, like most of the available models, however, remains fairly difficult to implement regarding short-term or incremental effects, long-term effects, and future opportunities created by marketing activities.

Ignition's Value-Based compensation approach

How then should we capture the value of a creative idea? Experts agree, that fixed fee and hourly-based business models focus entirely on the *wrong* things - efforts, activities and costs -, at the expense of the *right* things - outputs, results and value - (Williams and Baker, 2008). "A cost-based agreement usually fosters a production mentality, because the focus is on accomplishing the scope of work within a specified number of hours. A value-based (V-B) agreement is associated with a more entrepreneurial mindset, because the goal is not efficiency, but rather effectiveness, which leads to more innovative and/or creative ways to solve problems" (Williams and Baker, 2008). Williams and Baker (2008) recently introduced a V-B compensation model, focusing both on lagging performance indicators (e.g. financial indicators such as sales, market share development, etc.) as well as leading performance indicators, which have predictive capabilities regarding the lagging indicators. They insist that value-based agency-advertiser relationships must focus on effectiveness rather than efficiency (Williams and Baker, 2008). In their view, a truly effective idea or campaign adds much more value than an average idea or campaign that has been developed within an efficient time frame, and should therefore be compensated proportionally. A true V-B model, such as the model Ignition describes (Williams and Baker, 2008), aims at coordinating the economic motivations of advertiser and agency, with the ultimate goal of mutually creating added value. It also provides the ad agency with a clear incentive to be more proactive, and genuinely focus on value creation for the advertiser. In that case, both the agency and the advertiser are trying to accomplish the same result through sharing information, risks and rewards. This would also lead to a longer-term relationship with higher levels of trust and mutual respect (Williams and Baker, 2008). The model described by Williams and Baker (2008) is theoretically sound, but rather difficult to implement in practice, since 'value' is hard to estimate. 'Value pricing' is defined by Baker (2009) as "the maximum amount a given advertiser is willing to pay for a particular service, before the works begins." Baker (2009) says "this is not to suggest we can capture 100% of maximum value, but rather that we have the potential to access some of it with strategic pricing." Strategic pricing remains very subjective. Still, the concept is useful for the compensation model we intend to develop in the following paragraphs. Our model takes a result-oriented (R-O) rather than a value-based approach. In our R-O compensation model we focus on the actual, measurable outcomes of a campaign, and not on its 'intrinsic' or 'estimated' value. Ultimately, repeatedly applying and documenting an R-O compensation model could permit a detailed estimation of the value. At that point the R-O model could be transformed into a V-B model. In the following paragraphs, we discuss the R-O compensation model for the advertising industry in detail.

The Result-Oriented compensation model

Figure 1 visualizes and summarizes the R-O compensation model, from the point of departure to the value it delivers to advertiser and agency.

Please Insert Figure 1 Here

We first describe the different components of the R-O model. We then explain the methodological approach we used to validate and adjust our model.

The R-O compensation model

The implementation of a genuine R-O compensation model starts with the provision of a base fee[1], which is a compensation for annual MarCom services (like communication concept or campaign theme development) as agreed between advertiser and ad agency. This is a standard fee, excluding any profit for the ad agency. On top of this base fee, the agency can either be rewarded a considerable bonus or be penalized with a substantial subtraction. The reward or punishment fee is determined based upon an evaluation of the performance of the ad agency in a range of dimensions. The implementation of the result-oriented compensation model includes the following steps:

Step 1: Develop a 'rewards' system, set precise objectives of the campaign and determine how the results will be measured

The first step in implementing the R-O model consists of three sections (see Figure 2).

Please Insert Figure 2 Here

Section 1: Establishment of a Service Agreement between advertiser and agency

Establishing a service agreement between ad agency and advertiser is required for effective collaboration and a genuine partnership based on mutual respect and trust. However, in contrast with more traditional models, in this model the service agreement contains stipulations regarding the performance of *both parties*. Examples of stipulations regarding the *agency's* obligations in such a service agreement are 'assigning the agency's top people to the project', or 'proactively developing fresh, unexpected creative ideas'. Examples of stipulations regarding the *advertiser's* obligations are 'taking care of sufficient (media)

[1] Often this base-fee is calculated and agreed upon by looking at the previous year's remuneration of the ad agency, following the old hourly rate compensation in combination with the marketing plan for the next year. Hence, the base fee takes into account an increase or decrease of the number of projects extracted from the advertiser's annual marketing plan.

exposure' or 'having an approval structure with the involvement of top management decision makers'. At the start of the partnership, the advertiser and the agency each prioritize the various stipulations, e.g. by scoring them on a scale from 1-10. Advertiser and ad agency then both fill out a service agreement table. This table is a management tool, containing all stipulations and space to score them. Both parties evaluate their own and the other party's performance on each of the dimensions between 1 - very unsatisfactory, and 5 - very satisfactory. This is the "zero measurement". After a certain period, for example three months of partnership, advertiser and agency will again fill out this table. This mutual evaluation should then be repeated on a regular basis, e.g. every three months, to track progress and discuss the cooperation. The total scores could be added, or averaged, to emphasize the objective of the partnership of achieving one shared goal. A high score indicates excellent collaboration or partnership. A low score reflects a deficient collaboration or partnership and should lead to actions that improve the partnership.

Section 2: Establishing Leading Performance Indicators

Leading indicators can be measured immediately after starting the campaign, and predict future performance (Williams and Baker, 2008). Examples of leading indicators could be brand awareness, purchase intentions, number of click-throughs, etc. A brand awareness campaign will have, for example, a leading indicator of "increased brand awareness" and a lagging indicator of "increased sales". The advertiser and the agency have to select those leading indicators that are most relevant and important for their partnership.

Section 3: Establishing Lagging Performance Indicators

Lagging indicators can only be measured after the campaign, and are measurements that confirm past investments or translate these past investments into a financial figure (Williams and Baker, 2008). Examples are profits generated as the result of a campaign, total sales, increased market share, etc. Advertiser and agency again have to select those lagging performance indicators, which are most relevant and important for the partnership. Advertiser and agency should also determine together how each indicator can and should be measured.

Step 2: Plug the data into a MarCom Metrics tool

Performance on the service agreement and both categories of marketing performance indicators must then be fed into a marketing metrics model. The marketing metrics model relates measured performance to ad agency compensation. To determine in a fair way whether objectives are met or exceeded, the measurements, the ratings and weights of the scales must all have been agreed upon in advance between advertiser and agency.

This model leads to a relatively objective justification of MarCom budget expenditures, achieving the goals of the advertisers in return for a fair compensation for the advertising agent. Relatively, because the 'service agreements' indicators are not entirely based on hard data.

Empirical Study

Methodological approach

To examine the plausibility and the practical applicability of the R-O compensation model, we use a qualitative research methodology. Strauss and Corbin (1990) argue that qualitative research methods should be used to acquire new insights, which may be difficult to express quantitatively. In this type of approach, the research problems tend to be formulated in the form of open-ended questions or statements. Qualitative research reports are typically rich in detail and insights into participants' experiences of the world, "may be epistemologically in harmony with the reader's experience" (Stake, 1978, p. 5), and are thus more meaningful. In this study we use an interview guide, framed as a mix of propositions and open-ended questions. Table 1 lists the interviewed executives of the companies and their industry sector.

Please Insert Table I Here

Sample

All interviewees are considered expert witnesses with over 10 years of marketing experience in their industry or in multiple industries. The interviews adopt the following structure: 1) discussing nine propositions (see Table II); 2) the presentation of the R-O model to the senior marketing executives and 3) obtaining their feedback and opinion about this model. The results and our interpretations are reported below.

Please Insert Table II Here

Results and interpretation of the interviews

When confronted with the statement "Your Company sets detailed targets and objectives for their marketing department and the MarCom budget", the interviewees declared that targets are set only summarily, if at all. MarCom targets are often not directly associated with the activities of the marketing department. None of the companies in our sample measured brand equity or brand value on a regular basis, or even incidentally. These concepts remain theoretical or are only measured at headquarters (in the case of E, G and I), and used for strategic decision-making, while national marketing departments appear not to use them in their decision-making and target setting.

Inescapably, the responses to our statement "Whether targets are reached is measured and analysed in great detail" were entirely in line with the responses to the previous statement. Only B, E and G confirmed that they measure results and analyse whether their marketing targets are reached, linking the compensation of marketing professionals to the (partial) results of marketing activities. The companies included in our sample regularly measure internal financial targets like the "stay within budget" of A, the "margin 3" of C, and the "enrolments" of F. C indicated "We often establish by 'feeling' and 'we think that...'. So it's very subjective."

When confronted with the statement "The MarCom budget is determined in great detail", C and E responded that they developed models to align MarCom budgets among products. C and E both have many different products in their offering, each supported by a fair amount of marketing expenditure. To avoid detailed discussions about the marketing expenditure per product with each product manager - who may feel that his or her own product line is the most important one - these organizations have developed objective budget allocation formulas. The other companies have fewer products, while F and A offer only one product. These companies are less marketing savvy, but they still break down marketing budgets in detail. One can conclude that each company in the survey breaks down the MarCom budget in great detail, but focuses more on internal allocation and fairness criteria, than on marketing objectives.

Responses of the different interviewees to the 4th statement "The company measures the result of its marketing activities and actions are taken when results are good or not good" match the findings of Hoogerbrugge (1996) and Verbeke and Mosmans (1992). Hoogerbrugge (1996) observes that little marketing research is done to measure the effects of a campaign, and that the largest part of marketing research budgets is spent during the development phase. B, E and G confirm her observation. These companies spend a considerable amount of resources pre-testing their campaigns, but hardly measure the results. The indicators used (online performance (A), web-traffic volume, lead generation or order intake (D), enrolments per marketing activity (F)) confirm Stewart's (2009) observation that marketing research has been most successful at identifying, measuring and modelling immediate effects. None of the surveyed companies measures long-term effects. Stewart (2009) suggests that one of the problems in analyzing long-term effects is that marketers must first establish a point of departure, a baseline, and then decide which increase or decrease may have resulted from their marketing activities. The companies in the survey hardly carried out any performance measurements at all, and hence establishing a baseline is also not done (with the exception of B and E). All marketing executives perceived ring-fencing the precise effects of their marketing activities as very difficult. Advertising performance is indeed notoriously difficult to evaluate, due to the lagging effects (Clark et al., 2006; Doyle, 2000a).

Responses to the 5th proposition (A creative idea has a price and a value) ranged from an absolute estimate (between €10,000/€15,000 and €40,000/€50,000) to a percentage of media expenditure (the traditional way of determining the value of a creative idea). One interviewee indicated: “If a creative idea is working, it is priceless”, and another one “A very good creative idea has a very high value”. All executives demonstrated to be aware of the value of a creative idea. D commented: “The problem regarding the valuation of creative ideas is two-fold. On the one hand, how do I create a media strategy with sufficient reach? On the other hand, how do I create an impact with my message? For the latter the creative idea is important. What advertising agencies did wrong, is that they outsourced media consultancy to separate media agencies. This has created a split for both advertisers and agencies and has structurally put pressure on the business model.” Other interviewees (F and C) insisted that collaboration between advertiser, media agency and advertising agency is very important. C stated: “I believe that the advertising agency should re-include the role of a media expert to its agency. Media is too important to be considered in isolation”. Verbeke and Mosmans (1992) already observed that the most important reason why companies consider hiring an ad agency are creative performance and media services. From the responses from the interviewed executives we infer that they are well aware of the value of creative ideas, but find it very difficult to associate them with a precise and monetary value. A, D and F responded by attaching a specific value to an idea, although these companies hardly measure the outcomes of their marketing activities. B, C, E, G and I measure their results more extensively and indicated that the price of a creative idea is either a percentage of media expenditure or should be related to a kind of rate card (a pre-established, standardized pricing scheme).

Proposition 6 concerned the belief in a partnership between the advertiser and the advertising agency. All companies in the survey confirmed their belief in such a partnership. One executive commented that the partnership should actually be triangular, between ad agency, media agency and advertiser.

The 7th proposition, "Your company is working towards or would like to introduce a R-O compensation model for its relationship with its ad agency" led to the following observations: All companies believe in a variable compensation component, but only one company in the survey is already (partly) working with such a variable component. One respondent commented: "Result-oriented compensation is being discussed regularly with our advertising agencies. However, ultimately it boils down to one issue: how to formulate clear, measurable objectives. If you have identified these objectives and you agree upon them, then it is a piece of cake. Problems arise when constraints surface, and constraints will always surface. On the one hand, you have a theoretical model, which everybody agrees upon. On the other hand you have reality. This is where the paradox lies." This valuable comment highlights some of the challenges of an R-O business model.

Proposition 8 "What are in your opinion the advantages and disadvantages of moving to an R-O model" resulted in advantages like "objective, measurable, shared responsibility and accountability, and increased transparency". Disadvantages were reported in more detail, like "it is difficult to set the right targets; some effects, especially the lagged effects, are hard to measure; the ad agency cannot be held responsible for the product, whereas the product co-determines the results". All these remarks point at the difficulty of setting and measuring the right objectives and determining clearly who is accountable for what. E commented: "The model will certainly increase accountability and responsibility of the agency. This is really good, but it could also increase meddling of the agency with the advertisers' work and could result in the agency being a real pain-in-the ass. However if the collaboration is good, one wouldn't mind the meddling. Indeed, the agency and advertiser service agreements are very important. This model will keep the marketer on the ball." F did not see any disadvantages. This could be due to the fact that F's company is already using a kind of pay-for-performance model with a variable bonus for the ad agency when shared targets are met.

To summarize the most important feedback received:

- All agreed that establishing a service level agreement is very important, but also very subjective. They all like the idea of including this service level agreement, when evaluating the results.
- All want to measure leading indicators per campaign. They also agree that the model is only applicable for larger campaigns. For small campaigns it would be too cumbersome.
- The lagging indicators were considered very difficult to take into account, and the marketing executives agreed that they only have limited direct effects.
- One executive commented on the financial model: "It is better not to give a discount, but rather to use the current price as a starting point. People tend to forget the old price, which in the R-O model is a 15% discount. If people want to stop working with the R-O model, they expect a lower price".
- A and B suggested that the service agreement should be evaluated and discussed each quarter, whereas the leading indicators should be defined and measured for every (big) campaign, and the lagging indicators should be attached to a multi-annual plan.
- E noted an unforeseen challenge: advertisers are becoming less loyal to a single ad agency and often prefer a pick-and-mix of agencies depending on expertise and opportunities. The same was more of less noted by C, as she advises ad agencies to adopt a more ad hoc attitude. In her view, a more ad hoc attitude results in more but

smaller assignments from clients, which could ultimately lead to long-term collaboration.

- C suggested including the financial effects of the collaboration for the client in the compensation model. This could ultimately lead to a measure of brand equity (Neal and Strauss, 2007). Over time, the R-O model will show advertising expenditure in relation to the increased brand equity per year and both the ad agency and the advertiser will benefit from this knowledge.
- B remarked, “This compensation model will really help me justify my marketing budget when discussing the budget with my CFO”. She also noted that marketers in general should take a more analytical stance and that the R-O model will help to achieve that.

Based on the feedback from the marketing executives, a number of issues were identified. First of all, insufficient data are often available to evaluate the effects of marketing communications. This lack of data is, at least partially, due to the media agencies' lack of willingness to collect and provide these data. At least in the short run, they do not necessarily benefit from a better insight into the effects of media expenditure. Their compensation increases when media coverage is broadened, whereas the advertiser would benefit from a better-targeted media coverage. Ad agencies alone cannot solve this paradox. It should be solved in collaboration with the media agency. Second, advertisers are becoming less loyal. Marketers are job-hopping more than in the past, which will also result in less loyalty towards ad agencies. Reduced loyalty could lead clients to pick and mix ad agencies, depending on their expertise and the requirements of the moment. The R-O model, however, works best when there is long-term commitment, and when so-called Above-The-Line (ATL) and Below-The-Line (BTL) activities are executed by the same ad agency: One ad agency should not be evaluated on the performance of another agency. Thirdly, A commented, “Traditionally marketing costs are being seen as fixed costs. The R-O model makes these costs variable as the costs are based on the result it is generating. That is very interesting and we have never done that."

Revised R-O model

Based on feedback and insights from the marketing executives, the R-O model was adjusted as follows:

- Regarding the leading indicators, it becomes clear that not leading indicators most relevant and important to the partnership *in general* should be selected. Instead, the leading indicators should be determined for *every campaign individually and specifically*. The leading indicators should measure those effects of the advertising campaign that best predict future performance.
- Regarding the lagging indicators, it was recommended that advertiser and agency should select only *one lagging indicator*. It would be too complex and time-consuming to ring-fence the effect of the work performed by the ad agency to attach this effect to long-term results.
- In the R-O compensation model, the initial fee should be the *current fee* and not a discounted fee. A and E indicated that clients easily forget that they already received a discount.
- In the revised compensation model, there is a *clear penalty and a clear reward*, instead of only a reward. In the original model, the scores started at "successfully meet". In the revised model, the scoring starts at "clearly fails".

  In the revised compensation model, not only should the compensation of the agency be included, but *the value gained by the client* as well. This requires input from the client, but ultimately it would be a good idea to translate additional value delivered to the client into a financial compensation of the ad agency.

Conclusion and Recommendations

In the next paragraph, we present the main conclusions drawn from the study, the challenges ahead and some suggestions for further research.

Conclusions drawn from interviews

Main conclusions:

1. Nearly all marketing executives in the sample would like the ad agency to act as an extension of their own marketing department. The executives believe in partnering and close collaboration.
2. All companies in the sample have difficulties in defining accurate marketing targets. Often, targets cannot be influenced directly by the marketing departments, and are therefore difficult to evaluate.
3. When the right targets are not set, it is also impossible to evaluate how well targets are reached.
4. Advertisers appear only ready for an R-O model, when there is a marketing metrics culture in the company.
5. Most advertisers do not wish to spend much effort in determining the effects or results from their marketing campaigns. Increasing professionalization of marketing departments however, as B commented, will require a result-oriented justification of spending.
6. The presented model can only be used when advertiser and agency have a long-term, and largely exclusive, relationship. When results of various types of promotions cannot be measured separately, ATL and BTL communication should be executed by the same ad agency.
7. Advertisers in our sample appear not yet ready for a full implementation of the proposed model. All respondents believe in a partnership between advertiser and ad agency and all respondents see the potential benefits of such a relationship (more effective marketing

communication leading to better (financial) results). When applying Porter's (1985) five forces model to the advertising industry, it becomes clear why there is no urge for advertisers to move fast towards an R-O model. There are many suppliers in a shrinking and diversifying market.

8. Clients, ad agency and media agencies should probably cooperate much more extensively, in a much more result-oriented approach.

Challenges and suggestions for further research

The R-O model deserves to be further explored and tested in pilot projects. Running pilot projects alongside the old hourly-based model could be instructive, since it allows a genuine comparison. Such an experience would provide more conclusive insights regarding the feasibility of the R-O model.

An issue remains the observation that advertisers increasingly prefer ad-hoc relationships. Often, the choice of a MarCom agency is not related to the agency's prior performance, but based on arbitrary choices made in procurement departments. The challenge is to convince advertisers' procurement departments of the value of a result-oriented approach towards marketing communications. The revised R-O model considers marketing spending as an investment as it compares MarCom expenditure against value created.

A final challenge pertains to the current crisis and the general reluctance against increasing the proportion of variable costs. Koppel and Jones (2009) reported that the 'billable hour' is under attack for law firms and that, as a consequence of the economic recession companies are pushing law firms for flat-fee contracts. The advantage of flat fee contracts would indeed be that advertisers know their costs in advance, but a flat fee model does not in any way value creative ideas and is therefore not desirable in creative sectors.

Conclusion

A model was developed, inspired by Ignition Consulting's V-B approach. The model was further enhanced in order to be implemented in practice. Our R-O model uses the results of MarCom activities and not their value as an input for calculating ad agency compensation. Via qualitative research, using open interviews, this model was presented to expert witnesses. The interviews produced feedback and insights, which resulted in a fine-tuning of the model. The revised model differs from the traditional hourly-based model in the sense that advertiser and agency try to assign value to services the ad agency delivers, which cannot be captured in an hourly fee. It facilitates a contemporary way of thinking and collaborating between partners, wherein risks and benefits are shared.

Our model can be used in a wider context, where flat-fee or hourly-rate compensation undermines mutual interests, efficiency and shared responsibility.

Figure 1 Visualization and summary of the model

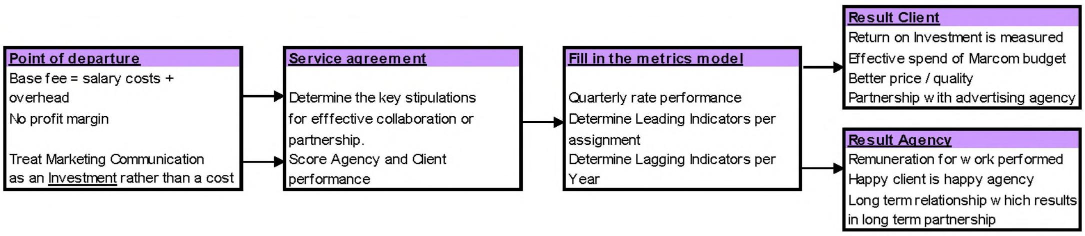

Figure 2 Model inspired by Williams and Baker (2008).

	Company	Industry
1	A	Airline
2	B	Technology
3	C	Publishing
4	D	Automotive
5	E	FMCG
6	F	Services
7	G	FMCG
8	H	BtoB
9	I	FMCG

Table 1 Interviewed companies

1.	The company sets detailed targets and objectives for their marketing department and the MarCom budget.
2.	Targets are measured and analysed in great detail.
3.	The MarCom budget is determined in great detail.
4.	The company measures the result of its marketing activities and actions are taken when results are good or not good.
5.	A creative idea has a price and a value.
6.	A partnership exists between your company and the advertising agency whereby risks and benefits are shared.
7.	Your company is working towards or would like to introduce a R-O compensation model for its relationship with its ad agency.
8.	Please provide advantages and disadvantages of moving towards an R-O model.

Table 2: Interview guide

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