# EVOLVING CLIENT AGENCY MODELS

CONTENTS

INTRODUCTION

In the past 18 months, there have been a large number of brands examining their agency operating models in light of a number of key factors including the increasingly complex operating environment for marketing, budget pressures and an overarching need to simplify what has become, for many, a complex ecosystem of agency partners often with overlapping remits.

The cost of getting it wrong, or worse leaving things as they are, is high. As marketing departments emerge from their own transformation projects in a bid to move to a more customer centric approach, they are now starting to examine their agency ecosystems and operating models to determine whether they are fit for purpose and fulfilling the right remits.

In this report, we want to understand the specific dynamics that are shaping evolving partnership ecosystems. How are marketers and procurement professionals approaching and shaping their agency partner models to help navigate this complexity? What's driving this process of examination? What new operating models and remuneration approaches are emerging?

METHODOLOGY

This report, authored by Neil Perkin, was informed by an extensive series of in-depth interviews with marketers, marketing specialists and experts, consultants and senior level agency-side practitioners. These interviews were augmented with comprehensive desk research into the challenges and opportunities that impact on this rapidly shifting environment.
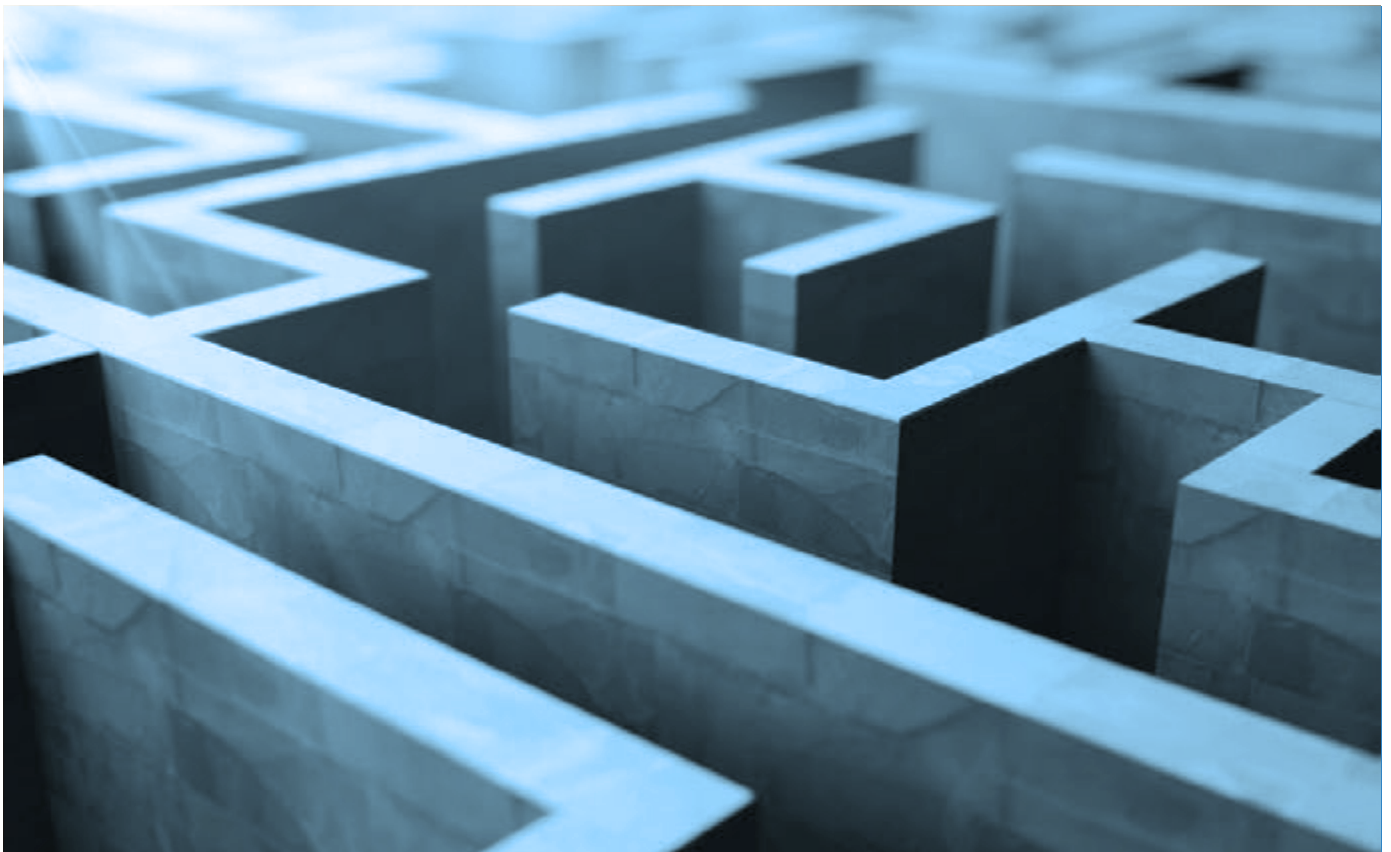
EXECUTIVE SUMMARY

It's clear from our research that there is broad diversity in how clients are choosing to structure their agency ecosystems, and also a significant number of key factors that are shaping how marketers are making decisions about the optimal partnership set-up for their needs. Some of the key contexts and findings discussed in this report focus on:

01. Growing marketing complexity

As organisational focus has aligned around the importance of customer experience, marketing has expanded to encompass a much broader set of touchpoints, channels, technologies, specialist knowledge areas and levers for growth. This presents both challenge and opportunity, but has led to a heightened complexity for marketers to navigate, meaning that the overarching focus and trend for agency partnerships is shifting towards greater simplicity

02. Changing contexts for partnerships

Alongside growing complexity, marketers are facing a number of new challenges to partner decisions, including heightened accountability and attribution pressures, the impact of zero-based budgeting and a general shift towards more short-term decision-making and prioritisation

03. A changing environment

As marketing (and the context in which it operates) changes, agencies are broadening and adapting their capability and propositions. This is leading to plenty of blurred lines and crossover between agency types, but also some key shifts in what clients are looking for from their partner agencies

04. What clients want

Our research identified a number of key trends on how client demands are shifting; dynamics that can also provide a roadmap for partner selection:

- **Simplicity** – ease of coordination, effective use of time, limited duplication of resource, getting the balance right between specialisation and generalisation on the roster

- **Integration** – a macro trend for media and creative coming closer together, and for more joined-up approaches through the funnel between branding/above the line, performance marketing and optimisation

- **Agility and performance** – more responsive working processes, smart use of data and analytics, market-beating performance

- **Transparency and trust** – catalysed by well-reported issues around the media supply chain, a heightened level of transparency around arrangements and processes but also the important role of the trusted advisor

- **Creativity** – truly transformative ideas that can take business and brand performance to another level are still believed to best be originated outside the client organisation. The opportunity is in how agencies can apply creativity in new ways

- **Sensemaking, learning, credibility** – in a complex, rapidly changing world, partners can add significant value by helping clients make smarter decisions, understand and interpret changing contexts, and learn new ways of working and operating

05. Balancing single discipline agencies vs multi-discipline agencies within the ecosytem

This has emerged as a key dynamic. Getting the right mix is down to balancing a number of key factors including the need for integration, specific expertise, effective collaboration and coordination, agility and simplicity

06. Changing remuneration and engagement models

The diversity in engagement models gives clients the opportunity to shape arrangements in ways that suit their particular circumstances. Engagement and remuneration are typically shaped by three factors: retainer, project and performance. But the subtlety is in how clients can bring these together in the optimal way

07. In-housing and talent

The other key balance is what to take in-house, and what to leave to external agencies. We look at the key elements that are coming in-house, the main reasons behind the changes and how the talent dynamic is presenting both challenges and opportunities for clients

It's apparent there are multiple influences that impact on how marketers make decisions about the shape of their agency partnerships, but also a hunger for good insight into how to capitalise on shifting trends in order to make smarter partnership decisions.

THE MARKETER'S CONTEXT

Five factors driving the review of agency ecosystems

1. INCREASED COMPLEXITY

If there's one overarching theme from our research, it's the increasing level of complexity that is shaping marketing.

The explosion in channels, touchpoints and formats requires marketers to acquire a much broader spectrum of knowledge across many different areas of expertise, but also to make smarter choices about the depth of knowledge that they need in specific areas, and the role of agencies in providing expertise and specialist capability.

Recent high-profile roster consolidation reviews (including P & G[1], Nestlé[2], Asda[3]) are being driven by this desire for greater simplicity and cost saving. A number of interviewees talked about the challenges of dealing with expanded rosters and managing a much larger cross-agency team.

> " The big technology and business trends are reasonably clear and yet it feels more uncertain than ever about how things will play out. This means that it's increasingly hard to build a narrative to explain what's happening because it's not linear at all. "
> **Agency CEO**

As the number of customer touchpoints has multiplied over the past decade, marketers have added specialist agencies to manage the work for these new disciplines such as social media, content and performance marketing, user experience, and SEO.

In parallel, the more traditional comms agencies have grown into multi-disciplined businesses and built up their expertise beyond traditional advertising. For clients with large agency ecosystems, this has meant many agencies to manage and an increasing amount of scope creep as agencies butt up against each other on projects.

The challenge has become how to get the right balance of single and multi-disciplined specialist agencies within the ecosystem.

> " We think it's important to work with our agencies through the change. To co-create and work it out alongside them. To help them to build their capabilities to help us. "
> **Marketing Director, Pharma**

[1] https://www.marketingweek.com/2018/01/23/pg-cut-agency-roster-another-50-looks-reinvent-relationships/
[2] https://www.adweek.com/agencies/nestle-launches-review-to-consolidate-its-633-million-north-american-ad-business/
[3] http://www.thedrum.com/news/2018/01/22/asda-s-entire-advertising-business-being-reviewed-massive-consolidation-drive

2. THE RISE OF THE CUSTOMER

The focus on customer experience (CX) in recent years has arisen from a perfect storm of change in the industry - notably the need for brands to join-up an increasingly diverse and disparate set of customer touchpoints, the growth in the role of content and data, the rise in always-on channels and continually shifting customer expectation. Recent research, conducted by Salesforce, found that 75% of people now expect a consistent experience regardless of where they engage with brands.[4] Alongside this growing focus on CX comes the proliferation of service innovation and design, as more businesses develop discrete services or become service providers themselves. Brands such as Harry's, Birchbox and Casper are disintermediating retailers and changing the way in which products in the category are sold by establishing direct-to-consumer relationships powered by customer experience, content, data and analytics.

Exceptional customer experience has the potential to create not only competitive advantage but also exceptional return. Forrester found that (between 2010 and 2015) CX leaders delivered compound annual growth rates (CAGR) of 17% against just 3% for CX laggards.[5]

The convergence of marketing and customer experience is creating a new set of challenges but also opportunities for both brands and agency partners.

The challenge comes in marshalling the breadth of capabilities and touchpoints that exceptional CX requires and how best to structure the business, capabilities and partnerships for success. A number of businesses are unifying CX under roles such as Chief Customer Officer (CCO) or Chief Experience Officer (CxO).

[4] https://www.salesforce.com/blog/2017/07/customers-expectations-in-age-of-the-customer.html
[5] https://www.forrester.com/report/Customer+Experience+Drives+Revenue+Growth+2016/-/E-RES125102

3. THE IMPACT OF DATA AND TECHNOLOGY

Just about every interviewee talked about the significant changes that data and technology are bringing to the marketing function. As the marketing discipline expands to encompass new capabilities, including those that demonstrate the breadth and complexity of customer experience, technology is playing an increasingly wider and deeper role.

> " Marketers now need to be not just commissioners of great creative work but also masters of project management. Marketing is becoming less of an art, and more of a science. "
>
> CMO, Automotive

Research participants spoke of not only an increased spend on marketing technology (martech) but also a growing need to understand its application, potential and how systems can be combined into a marketing technology stack appropriate to specific needs. In practical terms, marketers are finding that their customer data resides across too many of their agency partners with no one agency able to offer actionable strategic insights.

One of the interviewees, renowned marketing technologist Scott Brinker, famously conducts an annual survey that tracks and maps the changing marketing technology landscape. When the survey began in 2011 there were only 150 separate martech vendors in the market. In the 2017 survey this number had risen to more than 5,000 separate martech solutions. Yet the growth did not stop there. The 2018 survey[6] results showed that there were no less than 6,829 marketing technology

Figure 1: The marketing technology landscape

Source: https://chiefmartec.com/2018/04/marketing-technology-landscape-supergraphic-2018/

[6] https://chiefmartec.com/2018/04/marketing-technology-landscape-supergraphic-2018/

solutions from 6,242 unique martech vendors.

Low barriers to entry on the supply side due to the availability of open-source resources, on-demand global talent and increased availability of cheaper infrastructure, combined with the explosion of channels and touchpoints and the expansion of marketing scope and scale into customer experience and content, in particular, has contributed to this huge growth in martech vendors and solutions. But the growth has also enabled a growing sophistication of in-house capability in some notable areas through technology.

There is more widespread recognition amongst marketers of the importance and value of first party data (that which is collected and held directly by brands) over second and third party data (sourced from external

> " Across the piece, all companies - even those whose route to market is via retail - are recognising the need for more direct relationships with their customers. "
> **MD, Consultancy**

partners or suppliers), alongside a focus on quality of data (particularly in light of GDPR).

Analytics is playing an ever-greater role in supporting marketing accountability, attribution and performance and now represents one of the largest areas of investment.

The Gartner 2017-2018 CMO spend survey[7] found that out of 13 marketing capabilities, marketing analytics was now the number one area of spend, accounting for 9.2% of total marketing expense budget.

Marketing is changing forever as teams become more sophisticated in the adept combination and application

> " We've always had lots of analytics in-house for things like manufacturing control and pricing, so we've focused on how we can extend this capability to marketing, advertising and media. It's important for everyone to be looking at the whole data set and have the complete view. "
> **European Head of Media, FMCG**

of a broad range of data and technology solutions to, as Scott Brinker notes, 'evolve from fragmented silos to a more holistic digital architecture'.

Where most of the attention over the past few years has focused on technology selection and combination, it's now more about capitalising on and optimising this capability. Marketing operations functions, with responsibility for building and operationalising the marketing technology capability and leveraging the potential of data and analytics, are growing in maturity and becoming increasingly prevalent. We're seeing the rise of the Head of Marketing Analytics and Chief Marketing Information Officer (CMIO) as a result.

The impact on client/agency engagement models is not insignificant. This shift is supporting the expansion of in-house data and analytics capability, but also the amplification of content and analytics as key areas of focus. As more capability is commoditised (for both content and media), it's more difficult for agency partners to generate significant margin from areas such as content production and adaptation, and even digital media placement. Instead, there is an increased need for agencies to plug effectively into a clients' technology capability and to help them operationalise, optimise, experiment and improve.

[7] https://www.gartner.com/smarterwithgartner/2017-2018-cmo-spend-survey-highlights-demand-for-results/

4. LOW GROWTH AND THE RISE OF ZBB

Many interviewees noted that they are operating in low growth sectors with increasing margin pressure. Cautious and ever-more savvy consumers, combined with highly competitive markets, are creating heightened pressures and challenges for marketers to drive brand and sales growth.

> " Clients have always wanted things faster, or cheaper, or better but now the expectation is for all three at once. "
> Agency Head

As the increasing role of data and analytics in marketing brings more accountability to spend, marketing has shifted from being seen as a cost within business to being positioned as an investment. Whilst this may not be a bad development for marketing, it does bring a new focus to the attribution of every pound spent.

One response to the continued pressure for growth, efficiency and the need for organisations to examine every financial investment with scrutiny is the rise of zero-based budgeting (ZBB). A number of research participants commented on the more widespread adoption of ZBB, but also noted that it carried with it some notable advantages and disadvantages.

The ZBB process, with its re-evaluation of every budget line and no pre-committed expenses, brings potential benefits in greater adaptability of budgeting, assessment of low value activities and in challenging assumptions which may create inefficiencies. But it also brings challenges, particularly when implemented badly. When every line needs to be justified, it may make it harder to validate longer-term investments that have yet to show return, and to maintain longer-term relationships when the value that they contribute is questioned so regularly.

5. SPEED AND SHORT-TERMISM

A perfect storm of environmental factors have contributed to marketing becoming more focused than ever on short-term results and the need for greater speed and agility. These include short-term business pressures, rapidly changing customer and consumer contexts, fast-moving competitive contexts and the need for marketers to be far more responsive and adaptive in an always-on world.

These pressures are leading to constricted time-frames, the re-evaluation of traditional linear campaign processes and instant accountability through real-time data. Marketers are increasingly looking to incorporate much higher levels of agility into campaigns, using data and analytics to evaluate early, take learnings and adapt quickly.

Alongside responsiveness, they are looking for greater speed and efficiency. Marketing teams are not growing but are often being asked to do so much more with the same budget. This is compounding the need to cut through complexity, challenging traditional agency

"Short-termism is one of the biggest risks going forwards. (Client company) boards don't really understand what agencies do and how they work, they just see the big costs. So it has never been more important for them to demonstrate the ROI."
Company Director, FMCG

lead-times, and forcing agency partners to develop new ways of working to respond to these shifting needs.

More than ever, the environment created by these converging and intensifying pressures is focusing marketer's minds on establishing a partner ecosystem that is optimised for their specific needs.

WHAT MARKETERS WANT FROM THEIR AGENCY ECOSYSTEMS

Eight characteristics of a modern agency ecosystem

1. SIMPLICITY

One of the overarching trends shaping the examination of agency ecosystems is the desire for greater simplification. More than one interviewee noted the proliferation of agency choice now open to marketers.

Several recent agency ecosystem reviews[8,9] seem to be driven as much by a wish to reduce duplication and cost as to generate efficiency in time and management.

A number of interviewees had either actively reduced the number of agencies in their ecosystem or were considering doing so.

This does not mean, however, that the era of the specialist, single discipline agency is over. Quite the contrary. There's still a strong requirement for specialism in particular areas, notably in performance marketing, conversion rate optimisation and other outcome-related marketing disciplines. In addition, there are a raft of new technologies bringing additional complexity that marketers will need to navigate such as AI and Blockchain. Specialist agencies are already emerging in these areas and will, no doubt, start to find their way into the agency ecosystems of larger brands.

> "There is too much choice for clients now. I think that in the future we will end up with fewer agencies which will make it easier for clients to decide on partnerships."
> **Agency CEO**

What's more, the management of specialist versus multi-disciplined agencies is making for sometimes messy ecosystems, with agencies doubling up on areas of expertise and marketers complaining that they have to work with multiple overlapping agencies on particular briefs. We have seen this most often when it comes to briefs with a heavy data input or ones that rely on multiple customer touchpoints for delivery.

Some agency respondents noted that clients are often unsure whether the best option to fulfill a brief is their existing multi-discipline agency (often retained/lead agency) or a more specialist agency on the roster. This is especially common with digital requirements, be they communications or media-related.

8 https://www.adweek.com/agencies/nestle-launches-review-to-consolidate-its-633-million-north-american-ad-business/
9 https://www.marketingweek.com/2018/01/23/pg-cut-agency-roster-another-50-looks-reinvent-relationships/

This overlap in claimed skillsets between multi-disciplined, often advertising-led, communications agencies and specialist digital communication agencies is another area where marketers are seeking opportunities to simplify.

The overall decline in the number of digital communication pitches bears out this trend, and seems to be benefiting the more traditional communications agencies, some of whom have become more adept at offering clients more integrated approaches across multiple digital channels.

The need for multi-disciplined and single discipline agencies within their ecosystems is rarely a binary choice. It is more a question of defining the correct balance and how you can bring various kinds of expertise together in a way that reflects your specific needs. It's worth noting that there is often a need for specialist agencies when new channels or ways of communicating arise such as AI or Voice. Then, in time, these skills filter into the more established agencies and become part of their multi-disciplined offering.

2. INTEGRATED STRATEGY

One of the broader trends to emerge in the research is around the need for greater strategic integration. This is especially true in terms of creative and media strategy which are, once again, coming closer together. There have been some recent examples of creative and media consolidation[10] into one agency, but perhaps the greatest demonstration of the trend towards more integrated approaches is the rise of the cross-holding company single client team.

WPP's move towards more integrated workings (as demonstrated by their work for Walgreens/Boots and IAG), the Publicis 'Power of One' approach[11] which they use across Mercedes, and Omnicom's expanding relationship with McDonalds in the USA are clear demonstrations of this trend. Taking this even further, P&G and Unilever recently asked agencies from multiple holding companies to work in their specialist agency team.[12]

We'll explore the merits and otherwise of these cross-holding company models later on, but the need for integrated strategy, simplicity and efficiency are supporting more progressive models.

> " It's so important for us to get our agencies working together as one team. We work hard to actively promote collaboration, collaborative behaviour and incentivise on how well agencies work together. "
> CMO, Retail

10 https://www.adweek.com/agencies/kfc-sends-234-million-u-s-media-account-to-wiedenkennedy/
11 http://www.publicisgroupe.com/en/services/the-power-of-one
12 http://www.thedrum.com/news/2018/06/22/unilever-tests-new-model-plucks-creative-talent-different-agencies-one-dedicated
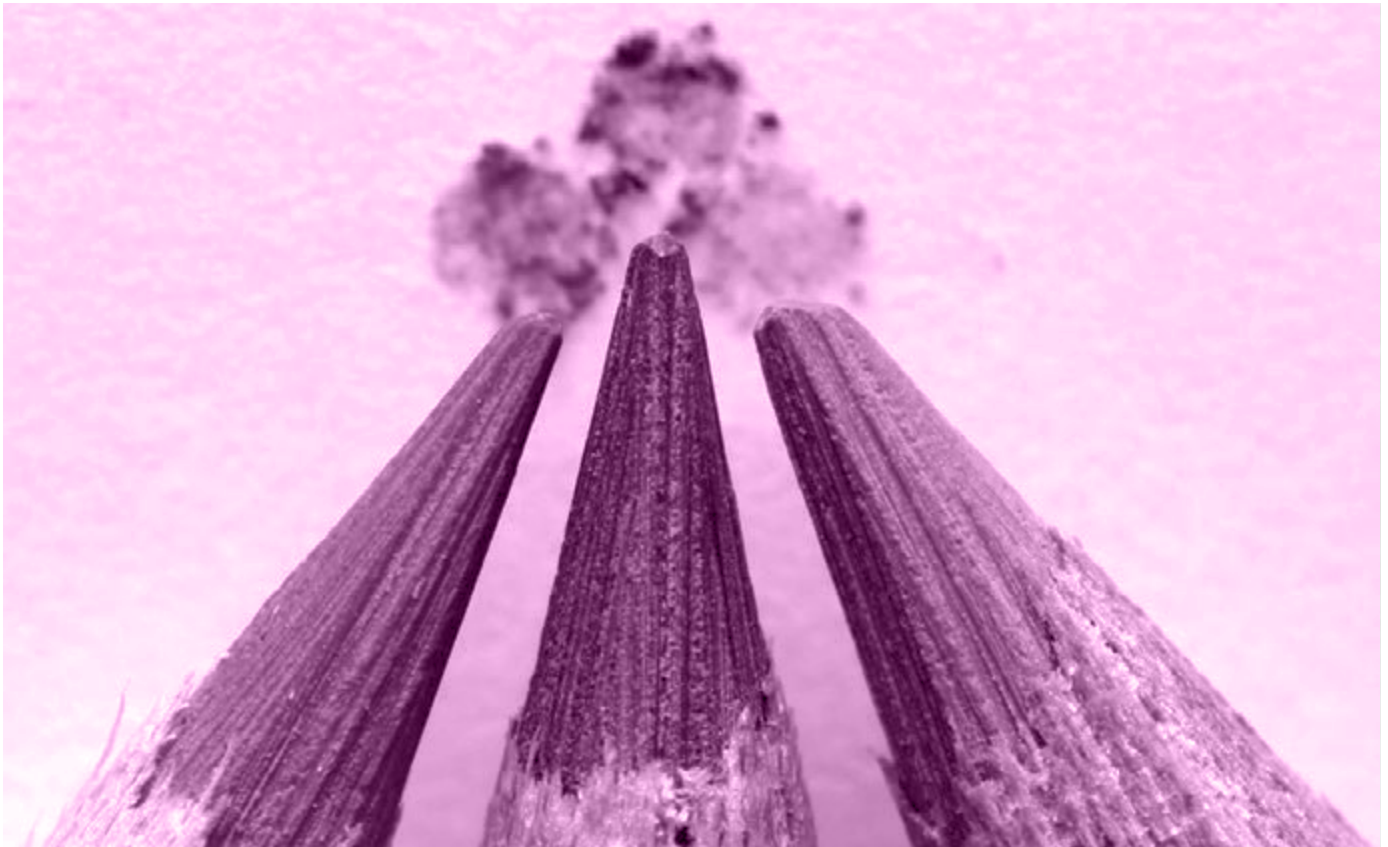
3. CREATIVITY

We'll discuss the trend toward in-housing in greater detail later but there was consistent feedback from a wide range of interviewees around the ongoing need for external creative input and big, transformative ideas. In a highly competitive, rapidly-changing world the need for exceptional creativity has never been greater.

Whilst the commoditised end of content and production may be coming in-house for many clients, there is seemingly an almost universal belief in the value of truly game-changing creative ideas coming from outside the client organisation.

Research participants spoke of the value of external creatives being exposed to a breadth of different inputs and client challenges outside of those that are seen within the client. And of the challenge in recruiting exceptional creative talent into client organisations themselves.

With some notable exceptions from those whose models involve active insourcing, the majority of the interviewees still felt that the environment and culture of an external agency made it easier, and more likely, that stand-out creative talent would want to work there. Creative agencies, and those that have creativity at their heart, regard their culture as a unique advantage in attracting and retaining the kind of creative talent that has extraordinary value to clients.

4. SPEED AND AGILITY

Agile has become something of an overused term but there's no doubt that there is a heightened need that marketers have for responsiveness, speed and manoeuvrability.

Every marketer is challenging their agency partners to work in more agile ways. To question and reinvent workflows and processes in order to be faster to market or to serve customers better. Of course, the agencies rightly point out that it takes two to be agile. Clients must also adopt the characteristics of agile working.

Key aspects of agile methodologies are being adapted to bring heightened levels of adaptability to marketing processes. There is a wider trend, for example, for client marketing teams to be working more closely with their agency partners, and some clients have taken this as far as working concurrently in sprints with their agencies in order to benefit from greater agility.

> " I regard my agency team as part of my team. We work so closely together it makes sense to treat them no differently to how I would treat one of my own team. "
> CMO, Retail

Co-location is also more common, with client and agency team members spending more time in each other's offices, and agency teams (even cross-holding company teams) co-locating different disciplines into single client-facing teams.

Whilst many marketers are very keen to adopt more agile ways of working, they are often frustrated by slow internal processes and decision-making, even when their agency team is aligned and able to move fast.

5. REAL BUSINESS VALUE

It's self-evident that marketers employ agencies to drive and support sales performance but it was notable from the research how data and analytics had brought an entirely different level of focus on attribution of value and return on investment.

The expectation is now that agencies demonstrate real business value and not just communications impact. However, the complexity of many customer journeys and fragmentation of touchpoints has brought significant challenges in effective attribution. More forward-thinking

agencies are investing heavily in more sophisticated attribution techniques and modelling over time, even working proactively with clients to drive not only sales upside but cost savings that can be re-invested in new initiatives.

This also means that agencies are in a stronger position when remuneration discussions arise to request a share of revenues or an outcomes-based payment model rather than the traditional time-based remuneration model.

6. TRANSPARENCY AND TRUST

Issues around transparency and ad fraud, notably in digital media and programmatic ad buying, have created a trust fracture in the industry that has been well discussed in the media.

Problems around ad placement, viewability and measurement, combined with opaque media supply chains involving multiple platforms and networks each looking to take their cut of the advertising budget, create transparency challenges that are in danger of eroding client/agency trusted relationships.

This confluence of issues has meant that trust in partnership arrangements is more important than ever. When we asked our interview participants to identify the key factors that can support improved trust in agency/client relationships there were some key themes that emerged:

- **Expertise and competency**
  The demonstration and effective application of knowledge, skill and proficiency in the service of client needs, performance and results

- **Reliability**
  Appreciation of client needs, consistency and dependability in delivery

- **Integrity and honesty**
  Principled, sincere willingness to challenge and speak up when appropriate; no nasty surprises

- **Communication**
  Regular, frequent, appropriate communication and updates; transparency

- **Respect**
  Recognition and understanding of key client contexts and priorities, senior level involvement, considerate in approach

- **Intimacy**
  A productive, close working relationship over time, consistency in contact

Some interviewees noted that media and advertising is still very much a people business, and individuals can make a huge difference to the working relationship between agency and client. Clients are generally supportive of agencies making a decent margin, but the greatest negative factors that can destroy trust are seen to be when agencies consistently (and unnecessarily) put their own interests over those of their client to the latter's detriment, and a lack of transparency in arrangements, communication and activity.

7. CREDIBILITY

Many agencies are evolving their propositions significantly to adapt to changing client needs. As agencies expand into new capability areas, some interviewees noted how they risk losing credibility if they move too quickly or neglect to adapt the shape of their talent as they change.

Agencies that have breadth of capability can benefit from cross-fertilisation of knowledge and a comprehensive approach for clients, but marketers have become wary of agencies putting a digital veneer on old practices or inappropriate solutions. Several interviewees highlighted, for example, the lack of mobile-centric or mobile-first solutions or the risk of agencies presenting a creative platform for an ad campaign when much more is needed.

Agencies have to be flexible in how they present themselves to clients as needs change, just as clients have to be sure that agencies are not stretching themselves into areas of non-core capability.

"Lots of leaders now have learned hard lessons from being burnt by previous experience and this can dramatically affect who they want to work with. What they don't want are big promises about big fixes and grand plans with big technology. Instead more focused on coaching, learning, agile and adaptive partnerships.**"**
**Agency CEO**

8. SENSEMAKING AND LEARNING

As discussed earlier, marketers are operating in ever more complex environments which is bringing a heightened need for clarity in key strategic decisions around investment, direction and technology. At the same time, they have an increased need to develop learning and new capability, to adapt to rapidly changing consumer and competitive contexts.

Many are increasingly looking towards their agency partners to help them make sense of complex, uncertain environments and choices, and to help them develop capability and continuously improve. This is evident in engagements which are specifically focused on learning as well as outputs, on operationalising capability and even into behaviours, skills and leadership. One agency interviewed for this report, for example, had been appointed as the 'global capability agency' for a large FMCG business.

Figure 2: Sensemaking, learning, capability change
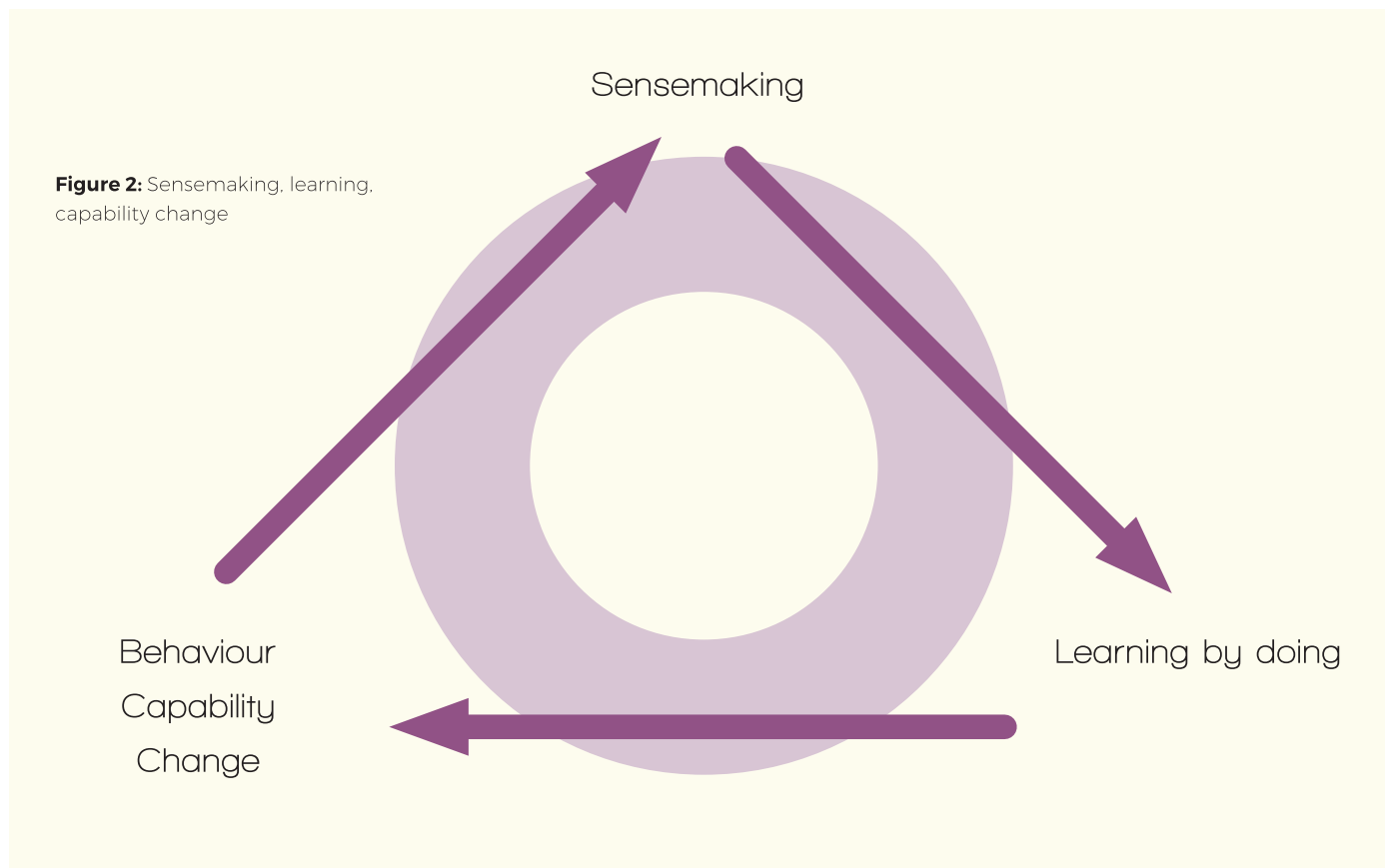
REMUNERATION AND OPERATING MODELS

Now we've delved into the marketer's context to understand more about their world, and have heard more about what they're looking for from their partner ecosystems, we can turn to look at the various agency operating models available, as well as the remuneration approaches they can adopt.

There are wide variations in the shape and type of agency operating models marketers adopt because one size never fits all. Below, we will discuss three main operating model archetypes:

- The retained agency model
- The bench model
- The single client team model

There are often overlapping areas within these three archetypes that, in reality, mean there are many more models marketers adopt in practice.

There are always multiple considerations when choosing an agency operating model. These include the global versus local dynamic; the list of jobs to be done and scope of work; the role of in-sourcing in all its forms; the role that brand communication plays versus other areas of marketing such as product development; and budget.

REMUNERATION MODELS

In terms of remuneration models, the research demonstrated that marketers are using blended approaches. These blended approaches may draw from multiple mechanics but are typically based around inputs, outputs, and/or outcomes:

> " All agencies on our roster have some form of performance related pay, usually linked to sales performance. We incentivise our agencies on the same numbers as our team so that we can work better as one team. "
> CMO, Retail

An example of the cross-over between inputs and outputs is where retainer relationships are augmented with projects or specific initiatives that are costed individually. One respondent described this as combining 'fixed' (retainer based services that are core requirements that can be accessed often) with 'flow' (more ad-hoc or project-based, relevant for some categories, newer initiatives). A combination of inputs and outcomes might combine retainer with an element of performance related fees. Outputs and outcomes based remuneration may happen in a project where payment to an agency for specific produced work may also be augmented by fees tied to the impact or performance of that output.

In this way, remuneration is typically centred around three main models, with the opportunity for marketers to take a singular or blended approach appropriate to their needs.

Similarly with remuneration, whilst retainer models are far from over, there is an increasing focus on project related remuneration, and one of the key trends is how marketers are blending retainer working with other forms of remuneration, especially performance. This can take different forms but performance incentives are most often incorporated on top of the retainer as a way of incentivising specific outcomes rather than just inputs or outputs. Aligning performance related incentives across agency and client teams can be a way to support real collaboration.

> " We're focusing on output based pricing. We've tried outcomes based remuneration but it's very tricky to do and only really works if the payback or upside is sufficient to really incentivise behaviour. "
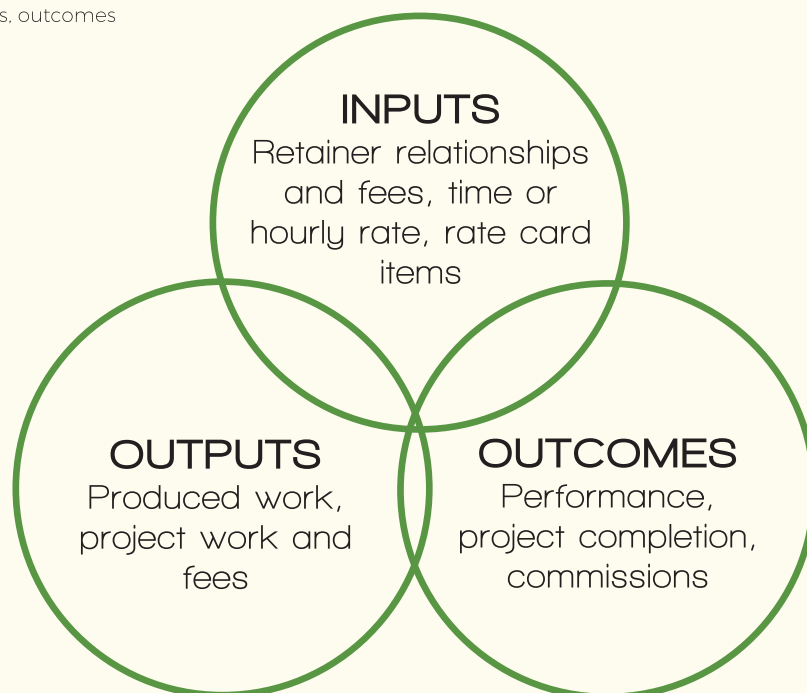> **Marketing Director, Pharma**

> " Our focus is on quality.
> We believe in media and creative coming closer together but we also believe that we need to have the flexibility to work across different networks in order to get the kind of top quality that we need. "
> **CMO, FMCG**

The challenges around performance related remuneration when used in conjunction with retainer fees are usually focused on the difficulty of defining the right measures or attributing real value. Some interviewees, for example, noted how longer-term brand building value can be difficult to attribute in the short-term. One consultancy interviewee pointed out that the best option to help define effectiveness and performance KPIs is to work both with the CMO and the Finance Director.

Figure 3: Inputs, outputs, outcomes

INPUTS
Retainer relationships and fees, time or hourly rate, rate card items

OUTPUTS
Produced work, project work and fees

OUTCOMES
Performance, project completion, commissions

THE RETAINED AGENCY MODEL

Whilst project-driven models have grown in popularity, the retained agency of record model is alive and well. Many marketers find great value in a long standing, retained relationship where the agency partners have time and motivation to go deep into the client's business and strategy.

Typically, the retained lead creative and media agencies will be supported in an ecosystem with a limited number of more specialist, often retained, agencies such as PR, CRM and data, and digital.

Retainer models give clients a higher level of predictability and consistency in remuneration but may be coming under greater pressure in an era of heightened accountability, challenges around attribution and ROI, and zero-based budgeting.

The retainer model is right for you if you require:

■ **Trusted Advisors:**
Clarity and simplicity in sources to go to for ongoing strategic advice

■ **Simplicity:**
The opportunity to potentially limit retained relationships to multi-disciplined partners that can fulfill multiple tasks, and so simplify arrangements

■ **Flexibility:**
In situations where the retained agencies have broad capabilities and can scale up and down effectively. This can make it easier for clients to access the expertise and services they need, as and when they need them

> " Our roster agencies are ones that we believe are the best in their fields. And we always believe that they should be given a shot at solving a brief first. It's only if we're not satisfied that we then look outside. "
> **CMO, FMCG**
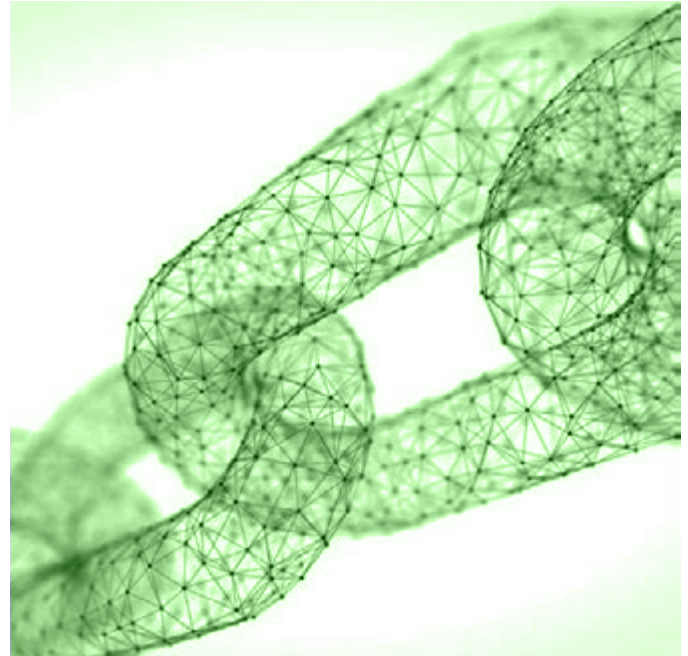
■ **Depth:**
The opportunity to develop deeper relationships over time. Whilst project engagements don't entirely mitigate against this, it was felt from the feedback that it's often easier to generate deeper levels of knowledge and understanding in the relationship through retainer models

■ **Consistency:**
Of approach, working relationship, remuneration, representation. Having agency staff that have worked on the account for a good amount of time. Having consistency in a time of reduced CMO tenure

■ **Contact:**
Consistency of senior level contacts and work. Retainer relationships can help underpin a staff cost base on the agency side (particularly for the senior representation), and allow for variability in staffing according to need on top of that

In summary, the retainer model works well where there is frequent need for strategic input and advice, the need for consistency in representation and deeper, longer-term understanding of the brand and sector challenges.

THE BENCH MODEL

At the other end of the spectrum from the retained approach, some clients have structured their agency model around a 'bench' of preferred partners who have usually pitched for a spot on the bench and are actively working with the brand in some form. This approach is more on-demand based, and usually involves no retainer.

The clear benefit of this model is flexibility. The reality is that many clients don't need large retained agencies to be working continuously on their account since their needs are far more episodic. It also allows marketers to draw on specific depth of expertise as and when needed. It allows them to add additional agencies as and when required for new requirements.

The downside, however, is that you are reliant on the agency's capacity to respond and work on-demand (which can hamper agility if they can't), and there is also the potential that you may lack the benefit of establishing a deeper relationship over time as work is dispersed across too wide a group of agency partners. Challenges may also come in being able to integrate activity effectively across multiple agencies and create a properly integrated agency team.

With remuneration, many agencies have long done project based work for clients but an increasing proportion of engagement models seem to be primarily driven by it, and some agencies work almost entirely on this basis. There are some important dynamics around this worth considering:

■ Project-based engagements make building those deeper and lengthier client/agency relationships challenging, particularly if engagements are isolated. The counterpoint to this, though, is that initial projects can often lead on to further projects, meaning it's possible to build long-term relationships over time

■ Related to this, project work can make it challenging for agencies to manage revenue, cash flow and resourcing. But a 'share-of-wallet' approach can actually enable agencies to start with a relatively small engagement and then expand this into further projects, potentially with other areas of the business. In this way, clients can not only deepen relationships with agencies over time but also expand the footprint of their

engagement. There is greater potential uncertainty for the agency in this approach, but a good level of flexibility for the client

■ The basis for project remuneration is typically time and materials based inputs but this can expand into outputs or even outcomes. This means agencies have to be good at charging properly for their time and the value that they're creating, but also that clients have to get good at aligning agency inputs with clearly expressed desired outputs and make sure they are remunerating in a structured way to avoid any nasty surprises

■ Project work can work well for both client and agency - it can be a focused, efficient way to remunerate agencies and ensure good levels of flexibility for clients

In summary, a bench of agencies works well where requirements may be more diverse or where single discipline specialist expertise is needed on a reasonably frequent but ad hoc basis, and where there is a greater focus on project-based work, or a greater flexibility in roster arrangements is required.

THE SINGLE CLIENT TEAM MODEL

One of the broader and more popular trends is the shift towards the cross-agency-holding-company team. This team is structured to deliver for a single, often larger or multi-region, client.

Although not new (Ford, for example, has been doing it for over twenty years) this operating model has taken on a new level of significance in response to a number of key pressures and trends, most notably:

- The heightened need for more integration between disciplines and thinking (not least creative, media and data)

- Client-led desire for simplicity in arrangements, including one key point of contact and one cross agency invoice

- Cost savings

- Concerns around inefficiencies on the roster and the duplication of resource

- Holding companies desire to package up the breadth of capability in more accessible ways

- The threat of consultancies entering the market with broad, integrated propositions

A number of high profile clients have moved to consolidate agency partner resource into a single client focused holding company team including Mercedes, Vodafone, IAG, ASDA and Walgreens Boots. Whilst resource is typically drawn from one holding company, P&G and Unilever have recently moved to asking staff from multiple holding companies to work as part of one team.[13]

Whilst the move so far has been for larger clients to choose this model from within the traditional holding companies, there are a number of smaller 'startup' holding company groups who are acquiring agencies with skills to ensure they have a robust and competitive

> " The problem with this (single client team) model is that they may well end up trying to sell you services that you don't really need. "
> **Category Director, Drinks**

alternative to the traditional holding companies. This single client team or use of multiple centres of excellence within these 'new-breed' holding companies will be yet another option for marketers to consider when they want to move beyond their current operating model.

A single client team is right for you if you require:

- **Simplicity:**
  Ease of access to breadth of expertise across an entire agency holding group, improved efficiency of managing disparate capabilities, single point of contact. You may, however, experience increased cross-selling, as those managing your account seek to offer you the opportunity to work with a wider range of agencies within the group

- **Integration:**
  Easier to co-ordinate activity and ensure effective collaboration, particularly when the team is co-located

- **Flexibility:**
  Bespoke approaches, the ability to draw on wide ranging specialisation efficiently and on-demand. If you require expertise outside the chosen holding company, however, you may find yourself restricted

Overall, most respondents felt that we will see more single client teams in the near to mid-term future, not less. But it's not right for every client. The desire for simplicity of access and integration may be strong enough for the trade-offs in expertise and flexibility to be worth it for large clients with high potential complexity, but perhaps less so for smaller clients.

[13] https://www.wsj.com/articles/p-g-to-bring-ad-holding-company-rivals-together-to-form-new-creative-agency-1523277000

The key question for this model is whether the holding company can pull together the team in a truly integrated and meaningful way. The critical things for clients who are considering this model to look out for are:

- **Consistent senior representation:**
  Again and again, the feedback was that success and failure is often down to the senior people on the team. Having an exceptional account leader and consistency of senior staff was felt to be essential

- **Alignment of incentives:**
  Several interviewees noted that a single P&L for the team can really help align incentives and ensure true collaboration, without each agency still fighting for their share

- **Alignment of expertise:**
  Some holding companies are stronger than others in key areas of specialist expertise. So, if that discipline is key to your success, it's essential to ensure there is a good match between your specific needs and the portfolio of agency capability

- **Culture:**
  It's important to retain some of the individual culture and strengths of the specific agencies represented in the group, whilst still developing a strong, unified team culture

> " Common, shared values are what makes the team behave as a coherent unit. Values become like the glue. "
> **Agency CEO**

It's important to ensure, on both sides, that there is maximum clarity about priorities and measures for success. Then to focus on the right remuneration and incentives to promote productive engagement and behaviours.

There's no one model that fits every business. Many employ a mix of the retainer and bench models in order to get the best of both worlds; a deep understanding of their business from their lead creative and media agencies and the flexibility for project work from their digital, social or other specialist agency partners. When it comes to the single client team model, marketers are in the driving seat as holding companies struggle to retain business against the pressures outlined above.

KEY TRENDS AFFECTING AGENCY OPERATING MODELS

Alongside the different operating models there are some additional trends affecting the marketer's agency ecosystems.

THE RISE OF OUTSOURCING, INSOURCING AND IN-HOUSING

One of the potentially most impactful trends affecting partner ecosystems is the shifting balance between what is done inside the client business and what is outsourced. Broadly, there are three key trends:

1. Bringing work in-house by creating dedicated agencies onsite to service content, social and low level production requirements

2. De-coupling production from your retained agencies and giving the work to dedicated production agencies, mostly for digital communications and media

3. Building wholly in-house capability with a dedicated team of employees, often as a result of work previously being done by onsite agencies

> " I believe that the kind of creative, game-changing ideas that can really take a brand to the next level will typically come from outside of the business. "
> **CMO, FMCG**

> " In-housing works well where a client has an ongoing need for large volumes of collateral and is perhaps frustrated by how slow traditional agency models can be. It's probably less suitable for advertisers that have two big campaign spikes of activity a year. "
> **Agency CEO**

There was common feedback from research participants that more capability coming inside the organisation, whether through dedicated on-site agencies or capability building, represented a high level trend in the market and that an increasing scale and scope of proficiency is being brought inside for reasons of efficiency, cost and agility. It seems it's no longer a question of 'if' but 'when' for many brands.

Yet it's also important to appreciate the nuances to this trend. It is, for example, typically the more commoditised end of both content and media that is being brought inside. Alongside this, it's specialist capability areas that have become critical to keep close, such as social, media and analytics, that are also transitioning inside.

MEDIA AND ANALYTICS

There are some key media areas for which the debate around in-housing and outsourcing are shifting in interesting ways, most notably:

- **Data/Analytics:**
  Brands of all types and sectors have really woken up to the heightened value of first party data and the opportunities created by establishing direct-to-consumer relationships. Some have invested through acquisition to learn and develop (e.g. Unilever buying Dollar Shave Club). Others have focused on new campaigns or propositions that can gather data as one of the key outputs.

Heightened pressures towards greater accountability and improved attribution have brought a new level of importance to analytics. Enhanced data management platforms have become central to the martech stack. The broad focus on developing end-to-end customer experience and a single customer view mean that data is ever more central.

New agile ways of working and optimisation techniques that require fast feedback loops have become more prevalent. More widespread ecommerce and the need for content optimisation that requires close analytical

> **"** Clients recognise that data and systems have to be done in-house. The 'digital brain' needs to be within the company itself - the infrastructure, reporting, operations. **"**
> **Marketing Technology Specialist**

support. As more priority is placed on the applied value in data, more emphasis is placed on data quality (catalysed by GDPR, of course). This convergence of priorities has led clients to focus on keeping data capability as close as possible, and the development of roles, teams, and functions in-house.

- **Programmatic:**
  There has been much attention focused on the management consultancies who are advising clients on how they can best establish in-house programmatic buying capability, yet there is a divergence of opinion on the scale of this opportunity and its applicability to different types of client.

The management consultancies involved believe this to be a broad ranging, significant opportunity for many different types of marketing organisation. A number of
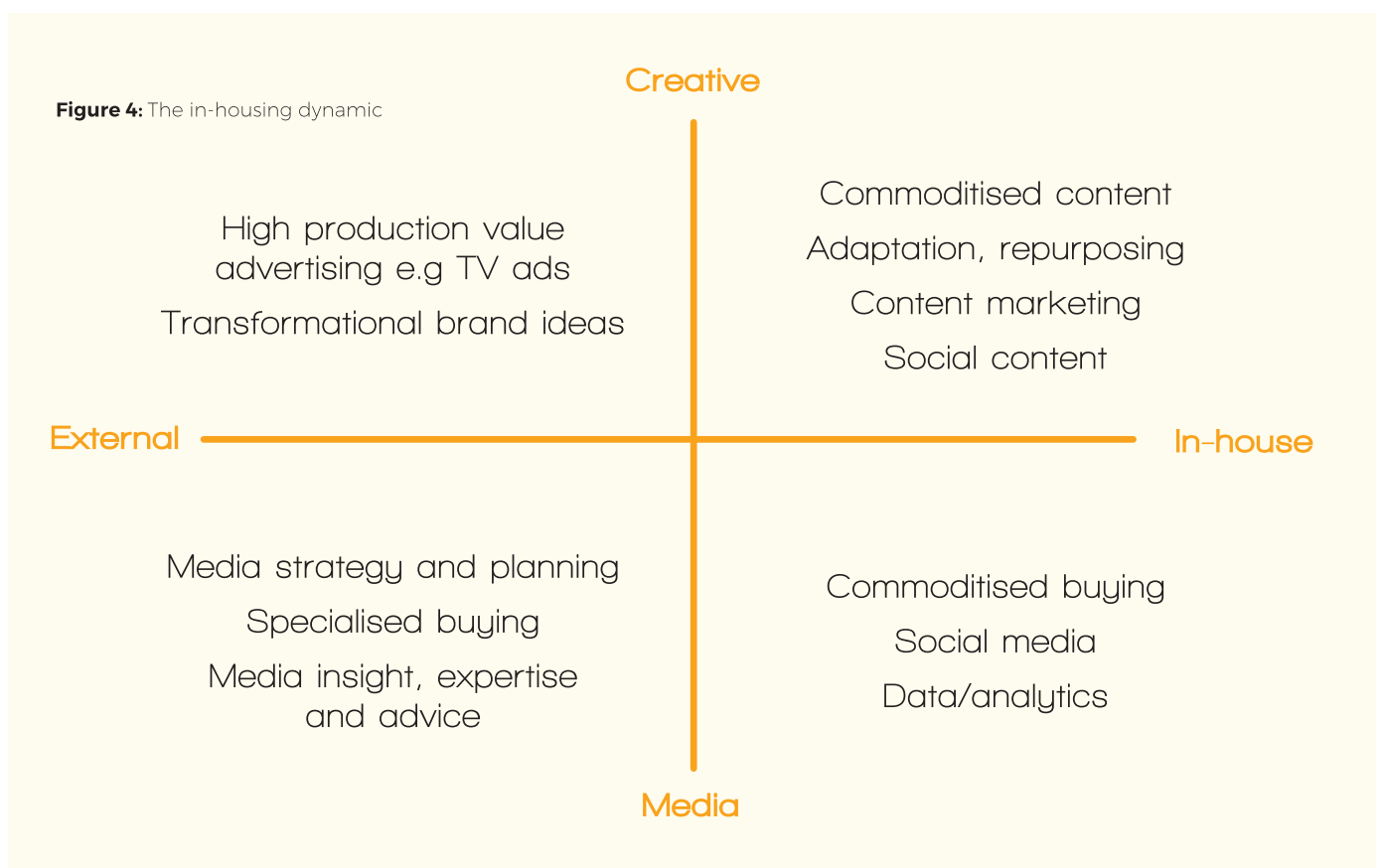
marketers we spoke to for this report, however, believed that the process would require significant investment, and the benefits from bringing programmatic in-house are only really evident for large scale advertisers with significant spend. For this reason, they believed that it only really works for the top advertisers who are able to pool or centralise spend.

- **Social:**
  The trend for bringing social media capability in-house has long been evident, driven by the convergent needs to integrate social content with other activity, to be

agile in response to crises and PR issues, and to ensure that the voice of the brand stays close. Some brands have gone as far as setting up brand 'newsrooms' to support agile, social and real-time content. Partner agencies may provide a range of services around social (e.g. social media monitoring, operationalising), but it seems that core competencies are likely to largely remain in-house.

Although it represents something of a simplification, we can broadly describe the in-house/outsourcing dynamic through the following matrix.

Figure 4: The in-housing dynamic

Creative

High production value advertising e.g TV ads
Transformational brand ideas

Commoditised content
Adaptation, repurposing
Content marketing
Social content

External — **In-house**

Media strategy and planning
Specialised buying
Media insight, expertise and advice

Commoditised buying
Social media
Data/analytics

Media

ADVANTAGES AND DISADVANTAGES OF BRINGING CAPABILITY INSIDE

When considering the choice between creating a dedicated onsite agency, building capability in-house and outsourcing there are some key criteria to evaluate.

The following should be considered when looking at in-housing:

- **Agility:**
  The ability to move at speed and be more responsive, efficiencies in time

- **Expertise and learning:**
  Developing improved knowledge and proficiency over time which can be applied more efficiently in multiple ways

- **Control:**
  Closer oversight, clear jurisdiction, direct supervision, the potential ability to more directly manage an end-to-end customer experience

- **Efficient repeatability:**
  Important when assets need to be repurposed often, and there is a continuous flow of requirements

- **Cost:**
  It can be more cost-efficient but there are significant up front costs if you are looking to build your own media capabilities i.e. a DMP

- **Lack of perspective:**
  Outsourcing naturally enables marketers to tap into broader inputs and perspectives outside of their own teams, which can be hugely useful

- **Lack of an independent view:**
  Agency partners can provide non-partisan advice and counsel

- **Scalability and flexibility:**
  Being overly focused on in-house resource can restrict the ability to scale up and down on-demand

- **Talent:**
  The ability to attract the best talent. Some respondents noted that it can be difficult to recruit the best talent to work inside a client organisation. Some others mentioned how the pool of talent can often be better outside the client organisation and outsourcing is a way of accessing this talent. In-housing can mean that skillsets are not refreshed regularly or that people are not getting the variety of briefs to work on

A number of interviewees noted that achieving the right balance can bring much greater efficiencies, so smart choices in this area are important.

More than one, however, believed that the balance between inside and outside was cyclical in nature so whilst the current trend may be inwards, that trend may reverse at some point in the future. Whilst bringing capability in can bring significant benefit, it can also be a false economy if not done in a considered way.

THE MANAGEMENT CONSULTANCIES

There has been plenty of coverage over the past few years on the threat that management consultancies pose to traditional marcomms agencies and holding companies. Through both acquisition and capability development on the part of both consultancies and agency holding groups, there is now much cross-over in proposition and proficiency.

There were, however, some important nuances to this shift in competitive landscape expressed by those interviewed. Key strengths of the management consultancies include:

- Advantage in the breadth and seniority of their client contacts, which can enable them to work in more integrated ways with multiple client functions, and make it far easier to access the C-Suite

- Modern product marketing can often mean involving marketing earlier in development processes, and more cross-functional collaboration involving marketing and other stakeholders across the business, which may benefit consultancies in their desire to take an integrated, cross-functional approach to driving growth. Communications is now just one of a much wider set of levers that brands can use to support growth. This could limit agencies if propositions and capabilities are not evolved effectively and credibly

- They have greater credibility in digital and business transformation, which is a key area of focus for many brands

- Their data and technology expertise is in considerable demand

...and yet:

- Some respondents questioned the long-term challenge that margin dilution may bring to management consultancies as they move in on agency territory. Margins and remuneration per employee have been far higher than those that might be typical in agency engagements, which may mitigate their appetite to move further into market capability areas

- There was also some cynicism expressed about how well they can understand non-linear creative processes, how sensitively they can interpret and derive customer insights, and whether the wider organisation culture is right to attract and retain the best creative talent

CONCLUSION

It's clear that there is a wide diversity of approaches to implementing the optimal partner ecosystem. There is an ever-growing desire from marketers for practical insight into the most effective and efficient partnership model for their particular circumstances.

There's also a restlessness to ensure that the agency partner model they have is the right one, and that they are not missing out on any new opportunities to work with existing or different models in new or smarter ways.

Whilst there are clearly multiple factors to consider when structuring your agency partnership model, the good news is that there have never been more options for marketers in order to shape the model that is right for you.

BUILDING THE OPTIMUM AGENCY ECOSYSTEM

As with most complex environments, there is no single recipe for success. But the challenge (and opportunity) is instead in achieving the right balance between the main requirements, contexts and trends detailed in this report. Key among these are:

- The balance between the number and type of multi-disciplined and specialist agencies you work with

- The balance within your adopted model and finding the right model for your requirements, both organisationally and financially

- The balance between in-housing and external support
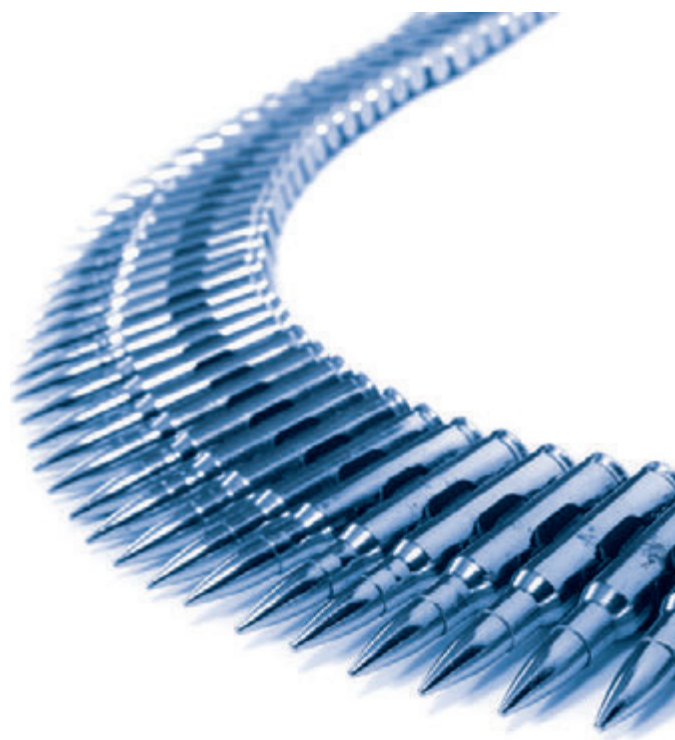
Making smart decisions about agency partnerships is increasingly about understanding the nuances of these dynamics, keeping them under constant review and structuring capability in a way that optimises for your unique context.

SOME FINAL FOOD FOR THOUGHT

In order to develop insight into the optimal agency ecosystem for you, we've defined key assessment criteria drawn from the research. Ask yourself these questions and score what is most important to you:

Simplicity
The importance of simplicity in agency roster management. The complexity of your requirements. Key points to consider:

- What is your assessment of the complexity of your requirements (e.g. multiple brands, discrete markets, complicated contexts, highly variable needs)?

- What is your level of concern about duplication of resourcing on the roster?

- How important to you is generating greater efficiencies (e.g. time) in the management of multiple agencies on a roster?

Scoring high on simplicity could lead to ecosystem approaches that support ease of access and oversight, and reduced complexity e.g. smaller roster, use of more multi-disciplined agencies, single client teams.

Single versus multi-disciplined agencies
The balance between the need for specialist expertise and the efficiencies that can be delivered through multi-disciplined agencies. Key points to consider:

- What proportion of your marketing activity uses specific channels or formats that require specialist knowledge or performance in particular areas?

- How important is specific depth of knowledge, or is the trade off to a 'good enough' level of knowledge worth it? How important is it for partners to have in depth understanding of specific, evolving or emerging channels, audiences or methodologies?

Scoring high on specialist requirements could mean that the 'bench' approach may suit your needs, or that measures would need to be in place to manage a potentially larger roster incorporating specialist agencies.

Frequency and flexibility
The regularity and degree of consistency of engagement balanced with the need to flex to bring in specific capability. Key points to consider:

- Are your needs relatively consistent, with a high degree of regularity and frequency? Or are they more episodic and highly differentiated?

- How easy is it to coordinate activity, and manage multiple agencies to get the outputs that you require?

- To what extent is it key for you to have flexibility to use a wider range of different agencies as and when required?

Scoring high on episodic, differentiated needs could lead to a more 'bench' driven approach to engagement.

Integration and collaboration
The need for optimal integration or agility across activity and agencies. Key points to consider:

- How important is it to your business to have a truly integrated approach to solutions and campaigns?

- How easy is it to take an integrated approach?

- How critical is it to your marketing to have effective working across multiple agency partners?

- How often do you need to move quickly in areas that might involve multiple capabilities?

- How important is it for your marketing activity to be responsive and adaptive?

Where integration and collaboration are particularly important, more unified approaches such as single client teams or a reduced roster may be more appropriate. Bringing capability inside the organisation may also enable greater agility for particular types of marketing activity.

There is no silver bullet to agency models, but those marketers who can stand back and look at their evolving requirements with a critical eye can then evaluate their current model in light of the contexts, trends and models we've outlined in this report and decide whether they are fit to take on the new marketing trends and business pressures of the next few years. Looking at things afresh will yield an ecosystem that is both effective and efficient for the future.

ABOUT AAR

AAR is a management consultancy that specialises in helping brands establish and manage modern marketing and innovation partnerships. We work with those seeking to appoint partners to deliver brand management, PR, communications and advertising, media management, digital and business transformation.

We work with marketing and innovation teams to help them make the right decisions in choosing new partners. Typical marketing briefs include consultancy in the appointment of new agency partners, roster rationalisation, agency model evaluations, benchmarking fees, and help delivering more effective working partnerships. In our innovation practice, typical briefs include helping brands find partners to drive growth and deliver business transformation.

Established in 1975, we were the first intermediary in the world and have pioneered best practice for over four decades. We remain the leading consultancy in the marketplace.

ABOUT THE AUTHOR

Neil Perkin is a renowned blogger, writer and the founder of Only Dead Fish, a digital consultancy that specialises in applying strategic understanding of digital and emerging technologies to help businesses and leaders optimise their effectiveness within the new, digital-empowered business environment.

Neil is the author of 'Building The Agile Business' (Kogan Page, April 2017) which provides an essential guide for leaders on achieving greater organisational agility and effective digital transformation. He has run global digital leadership programmes and consulted on transformation with a broad range of large, multinational businesses and is a regular keynote speaker across Europe on digital transformation and agile strategy and leadership. He's been named by BIMA (British Interactive Media Association) as one of the most influential people in the UK digital industry, and by SAGE as a TOP 100 Global business influencer.

He curates the global quarterly series of Firestarters thought leadership events on behalf of Google, is a keynote speaker on the Google Squared programme and has worked with market-leading global businesses including The Financial Times, BBC, Warner Bros, Vodafone, GSK, the UK Government, Samsung and YouTube. He is an associate of The Futures Agency, a collaboration of some of the world's leading forward thinkers and futurists, and is also the co-founder of the Fraggl Twitter curation app.