Survey on Agency Performance Incentive Compensation Payment by Results (PBR)

May 2014

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Notice
A publication of the American Association of Advertising Agencies
1065 Avenue of the Americas, New York, NY 10018

Disclaimer
The 4A's does not recommend one compensation method above another. Commission structures, fixed fees, labor-based arrangements, and value- and performance-based compensation plans that are fair, equitably agreed upon by the parties, and predicated on carefully crafted scope of deliverables or outcomes can all work appropriately for the marketer and the agency.

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I. Executive Summary

Within our industry, there has been a great deal of recent discussion of agency performance incentive compensation and payment by results (PBR). However, there is little recent agency information about the prevalence of such arrangements, their structure, and their economic impact.

To shed some light on this important issue, the association conducted the *4A's Survey on Agency Performance Incentive Compensation.* The survey provides information on many aspects of incentive compensation including prevalence, structure, and amount; correlation with business relationship and base compensation; agency-client relationship management; and performance incentive criteria.

<u>Summary Observations</u>
Agencies and marketers have expressed interest in evolving legitimate performance incentive compensation. However, based on the findings of this 4A's survey, incentive compensation, payment by results (PBR) arrangements are not currently prevalent in most agency-client agreements and do not represent, in aggregate, a significant impact on agency revenues.

Incentive compensation overlays to traditional labor, fee, and commission arrangements require a great deal of thoughtful collaboration, cultural compatibility, management commitment, as well as goodwill between the parties in order to succeed.

The industry would seemingly be well served to focus efforts on expanding robust, formal, two-way relationship management processes as the initial step in aligning interests between the parties. Inculcating comprehensive relationship management arrangements can and should help create management alignment, dialogue on key performance indicators, and the framework for establishing the appropriate range of performance expectations. Formal relationship management process can be initially evolved without the tension of assigning economic terms to the discussion, which is likely beneficial because linking economic requirements to a relationship management process might create tension and conflict since the two parties' economic interests diverge at the point of consideration of performance payment amounts.

Alignment of economic interests between an advertiser and its agencies is an important and worthy goal. However, to date, the industry has not cracked the code.

Key Survey Findings

Prevalence of Incentive Compensation Arrangements

The 4A's Survey on Agency Performance Incentive Compensation Payment by Results features responses from 168 member agencies. However, only 66 agencies (39% of respondents) reported that they had any incentive compensation arrangements with clients in 2013.

Did you have any performance incentive arrangements with any of your clients?

Agency Respondents	Yes	No
All Respondents	39%	61%
By Agency Size:		
Up to 100 Employees	10%	90%
101-500 Employees	55%	45%
Over 500 Employees	93%	7%

The prevalence of client performance incentive arrangements skewed toward larger agencies:

- Most larger agencies (500+ employees) have experience with incentive arrangements with at least some of their clients
- Most smaller agencies (100 or fewer employees) do not have experience with incentive arrangements with any of their clients

The 66 agency respondents who indicated they had 2013 experience with client incentive compensation reported on the prevalence of incentive compensation arrangements for 594 of their largest clients. The prevalence of 2013 client performance compensation for this group was limited.

For each of your (10) largest clients, characterize the prevalence of performance incentive arrangements with those clients in 2013.

No Incentive	66%
Yes Incentive	34%

Economic Impact of Performance Incentive Compensation

The core group of 66 agencies that had performance incentive compensation arrangements with clients in 2013 was asked to quantify the impact of incentive compensation on the agencies' overall gross income.

What was the impact of incentives on 2013 agency gross income?

Agency Incentive Income % Aggregate Agency G.I. (Fee, Commission, Incentive)	% Responses
Less than 1.0%	32%
1.0% – 1.9%	35%
2.0% – 2.9%	18%
3.0% – 3.9%	9%
4.0% – 4.9%	3%
5.0% or more	3%

For two thirds of the agencies that had 2013 client incentive compensation arrangements, the impact on overall agency gross income (commissions + fees + incentives) was less than 2%.

Business Relationship and Base Compensation Methodology

Agencies provided information on the business relationship and base compensation methodology for approximately 600 client arrangements.

The majority of arrangements with respondents' largest clients were either annual retainer (45%) or a hybrid combination of annual retainer and project fees (41%).

What was the primary business relationship, for each of your 10 largest clients, in 2013?

Compensation Method	%
Annual Retainer	45%
Project-by-Project Relationship	14%
Hybrid Relationship (combination of Annual Retainer and Project Fees)	41%

The base compensation arrangements for respondents' largest clients skewed toward Labor-Based Fees (44%), Fixed Fees (24%) and Hourly (12%) arrangements.

Which base compensation method provided the primary source of gross income, for each of up to your 10 largest clients, in 2013?

Compensation Method	%
Fixed Fee – No Reconciliation	23%
Labor-Based Fee – No Reconciliation	32%
Labor-Based Fee – With Reconciliation	12%
Cost-Plus – With Actualization	3%
Hourly Rate – Actual Hours	12%
Commission on Media and Marketing Spend	4%
Commission on Sales	1%
Fee and Commission Combined	11%
Other	2%

<u>Incentive Compensation Structures</u>

Survey participants, reporting on 201 incentive arrangements with their largest clients, indicated that slightly more than one half (53%) of the 2013 arrangements were structured as "skin-in-the-game" arrangements, where the agency put some base compensation at risk in return for the potential to earn performance compensation.

How was the incentive arrangement structured?

Risk/Reward – Some Agency Base Revenue at Risk	53%
Incentive Is a Bonus – All Upside	47%

Slightly less than one half (47%) of the 2013 arrangements were structured as bonuses, which provided agencies with the potential to earn incremental compensation beyond the base compensation amount, predicated on performance.

“Skin-in-the-Game” Risk/Reward Economics

Respondents reporting on 2013 “skin-in-the-game” incentive arrangements indicated that the amount of base compensation at risk was most often (41%) between 5% and 10%.

What percentage of your base compensation was put at risk?

At-Risk Comp % Base Compensation	%
Less than 5%	24%
5% to 9.9%	41%
10% to 14.9%	19%
15% to 19.9%	6%
20% to 24.9%	4%
25% or More	6%

Slightly more than one third (35%) of 2013 “skin-in-the-game” incentive arrangements entailed agency base compensation risk of more than 10%.

Survey participants were asked to report on the “reward” dynamics of their 2013 “skin-in-the-game” incentive arrangements. Agencies reported on the maximum, target, and actual (earned) performance amounts expressed as a percent of the agency’s adjusted/reduced base compensation with the client.

What was the performance incentive range, expressed as a percentage of the agency’s adjusted/reduced base compensation with the client?

Performance Incentive Range % of Adjusted Base Comp	Potential Incentive Range		Actual Earned
	Maximum	Target	
Don’t Know	8%	8%	
Not Yet Determined			19%
Less than 5.0%	12%	21%	31%
5.0% to 9.9%	30%	35%	28%
10.0% to 14.9%	21%	15%	13%
15.0% to 19.9%	11%	10%	3%
20.0% to 24.9%	8%	4%	1%
25.0% or More	11%	7%	5%

Potential maximum and target incentive ranges tended to cluster around 10% of adjusted/reduced base compensation, whereas actual earned incentives skewed below 10% of adjusted/reduced base compensation.

It is surprising that the actual level of attainment for almost one in five (19%) 2013 incentive awards was not known 3-4 months after the end of the year.

Reward-Risk Dynamics: "Skin-in-the-Game" Arrangements

A comparison of responses related to "skin-in-the-game" incentive arrangements seems to directionally indicate that in 2013, agency earned incentives, in aggregate, did not quite fully recover the amount of base compensation that agencies put at risk.

% Base Compensation	Skin-in-the-Game % Responses	
	At-Risk Compensation	Actual Earned Incentive
Don't Know		19%
Less than 5.0%	24%	31%
5.0% to 9.9%	41%	28%
10.0% to 14.9%	19%	13%
15.0% to 19.9%	6%	3%
20.0% to 24.9%	4%	1%
25.0% or More	7%	5%

The approximate correlation between the 2013 amount of base compensation that agencies put at risk and the amounts actually earned seems to reinforce the mindset by some agency executives that many performance incentive arrangements are self-funded by the agency rather than by the marketer.

“Bonus” Reward Economics

Survey participants were asked to report on the economics of their 2013 incentive arrangements that were structured as a bonus, i.e., no agency base compensation at risk. Agencies reported on the maximum, target, and actual (earned) performance amounts expressed as a percentage of the agency’s base compensation with the client.

What was the performance bonus range, expressed as a percentage of the agency’s base compensation with the client?

Performance Bonus Range % of Base Compensation	Potential Incentive Range		Actual Earned
	Maximum	Target	
Don’t Know	9%	5%	
Not Yet Determined			26%
Less than 5.0%	26%	44%	45%
5.0% to 9.9%	22%	28%	18%
10.0% to 14.9%	20%	10%	5%
15.0% to 19.9%	5%	4%	1%
20.0% to 24.9%	12%	6%	4%
25.0% or More	6%	3%	1%

Potential maximum and target bonus ranges tended to be below 10% of base compensation, and actual earned bonus amounts were often below 5% of base compensation. It is also significant to note that one quarter (26%) of 2013 bonus awards were not known 3–4 months after the end of the year.

Performance Criteria and Weighting

There is a broad range of performance incentive criteria that can be used to determine incentive compensation. Survey respondents reported that weighting of 2013 incentive compensation income skews toward client business results (38%) and agency service levels (34%).

For 2013 performance incentive compensation income, what was the proportional weighting of incentive criteria?

Incentive Criteria	% Incentive
Client Business Results	38%
Agency Service Levels	34%
Marketing Activity Analytics	19%
Cost Efficiency	7%
Other	2%

Respondents were asked to assess the relevance of incentive categories:

- Sales and market share were viewed as the most relevant client business results criteria.
- Recall and brand health perceptions were thought to be the most relevant marketing activity performance measures.
- Within the category of agency service level performance, collaboration, strategic thinking, and timeliness were noted as very relevant standards. However, overall agency performance evaluation scores are viewed as "very relevant" by the most agencies (74%).
- Cost efficiency was noted as a relevant performance measure primarily in the media space.

When asked how and when performance criteria measures are established, agencies indicated:

- Performance criteria are most often agreed to by the agency and the client, either prior to authorization of the assignment, or at the beginning of the assignment. However, it should be noted that performance criteria are sometimes reviewed and agreed to mid-way or at the end of the assignment.

- Performance criteria are often mutually agreed upon between the client and agency. However, there is a significant number of agencies that reported that performance criteria are always set by the client.

Relationship Management Processes

It is important to establish a robust, formal, and balanced relationship management process as the foundation for building trust and confidence, prior to evolving performance incentive compensation programs.

The survey probed dimensions of the relationship management process:

What type of relationship management process, if any, was conducted with each of your largest clients in 2013?

Relationship Management Process	%
Evaluations were ad hoc and informal	35%
Formal “One-Way” evaluation process (i.e., the client evaluated the agency)	33%
Formal “Two-Way” evaluation process (i.e., the client evaluated the agency and the agency evaluated the client)	29%
Formal “360: Four-Way” evaluation process (i.e., the client evaluated both the agency and its own performance)	2%
Other	1%

Given the relevance of agency performance evaluations as a primary performance incentive criteria category, it is significant to note that less than one third (31%) of relationship management arrangements entail formal two-way or “360” processes.

Respondents provided information related to performance evaluation stewardship dynamics:

- Client marketing groups most frequently (53%) managed the evaluation process. However, it should be noted that evaluation process management is often (34%) managed jointly by client marketing and procurement.
- Formal evaluations are most often (71%) conducted on an annual basis.

Robust formal joint evaluations would seem to be an opportunity area that can help establish a foundation of trust, confidence, and alignment on which incentive compensation arrangements can be nurtured.

Best and Worst Practices

Survey respondents were asked to share best practices for structuring beneficial performance incentive compensation arrangements as well as worst practices that can undermine PBR agreements.

Highlights from the best practices responses include:

- Align agency incentives with client senior management incentives.
- Arrangements should be simple to administer and simple to understand.
- Mutually agree upon criteria. Mutual collaboration on performance alignment will help deepen the relationship.
- Performance thresholds must be realistic and achievable.
- There needs to be full transparency on goals, metrics, and tracking of performance.
- Establish interim check points to gauge performance + course correct *(results shouldn't be a surprise).*
- There should be proportional rewards for proportional improvement *(avoid all-or-nothing structures…..Dramatic results should be richly rewarded).*
- Ensure funding is available.
- Senior management from both client and agency organizations need to be involved with the design and implementation of performance compensation arrangements.

A Few Parting Considerations……

The framework for building successful and sustainable performance arrangements must feature a client culture that embraces rewards for performance *and* a client mindset that embodies a "partner not vendor" mentality, i.e., a "We win. You win" philosophy.

II. Survey Design and Census

Survey Design

The 4A's Survey on Agency Performance Incentive Compensation Payment by Results questionnaire had nine sections and entailed 35 questions. More than one-half the questions ask the responding agency to provide information for up to 10 of the agency's largest clients.

Section I: Census (Q1 – Q4)
Section II: Qualifier Question (Q5)
Section III: Aggregate 2013 Revenue Impact—Incentive Compensation (Q6)
Section IV: Largest Clients Information—Billings, Business Relationship & Base Compensation Methodology (Q7 – Q10)
Section V: Largest Clients Information—Performance Incentive Compensation - Prevalence & Economics (Q11 – Q18)
Section VI: Largest Clients Information—Relationship Management (Q19 – Q23)
Section VII: Largest Clients Information—Performance Incentive Weighting and Criteria (Q24- Q26)
Section VIII: Performance Criteria Relevance (Q27 – Q33)
Section IX: Best and Worst Practices (Q34 – Q35)

Every 4A's member agency was given the opportunity to participate in the survey. The questionnaire distribution correspondence noted that even if the agency did not have any performance incentive compensation arrangements, they should complete the one qualifier question (Q5) and submit their response.

The survey information was collected during March–April 2014. The information that was collected related to 2013 performance incentive compensation arrangements.

Interpretation and Use of this Survey Information
The 4A's recommends that you use caution when evaluating survey responses where the sample size is modest.

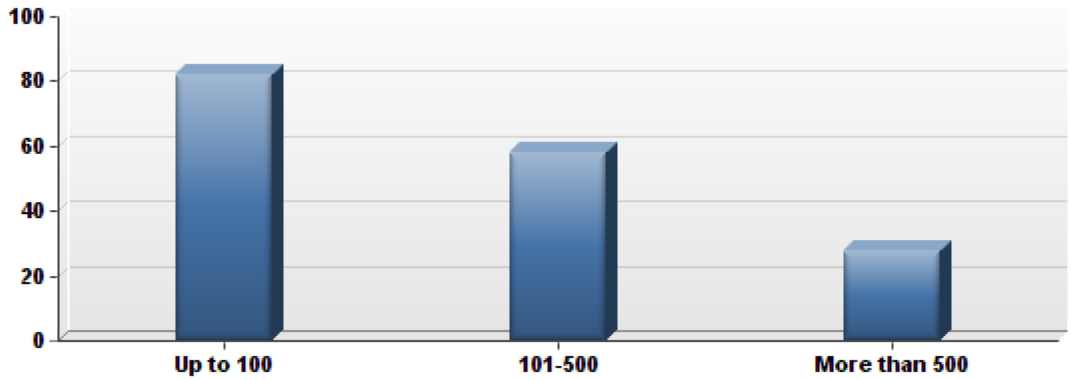
Profiles of Respondents

We present three profiles below: a description of all 168 respondents, a profile of the 102 respondents who reported that they had no incentive compensation arrangements, and a profile of the 66 agencies that reported that they had incentive compensation arrangements.

Profile of All Respondents

A total of 168 agencies responded to the survey.

Number of full-time employees



# Employees		Response	%
Up to 100		82	49%
101 – 500		58	34%
More than 500		28	17%
Total		168	100%

Profile of All Respondents

Primary agency service offering in 2013 (i.e., what service provided the largest percentage of agency gross income in 2013)

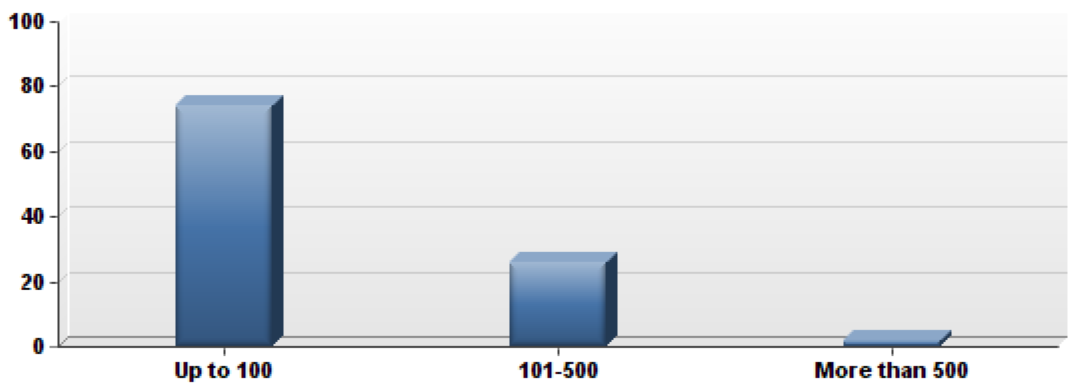
Service		Response	%
Full Service [i.e., a combination of Traditional (offline) and Digital/Interactive (online) services]		122	73%
Creative Services		10	6%
Media Services		16	9%
Digital/Interactive Services		12	7%
Other Services (Direct, PR, Promotions, Events, etc. Please describe below.)		8	5%
Total		168	100%

Other Services
PR
Sales Enablement
Field Sampling
Direct Mail
Direct and Digital, Minor Broadcast
Events, Sponsorship, Shopper, Promotions
Shopper Marketing
Full Service, Less Media

Profile of Respondents with No Incentive Compensation Arrangements

One hundred two agencies (102) reported that they did not have any incentive compensation arrangements.

Number of full-time employees



# Employees		Response	%
Up to 100		74	73%
101 –500		26	25%
More than 500		2	2%
Total		102	100%

Profile of Respondents with No Incentive Compensation Arrangements

Primary agency service offering in 2013 (i.e., what service provided the largest percentage of agency gross income in 2013)

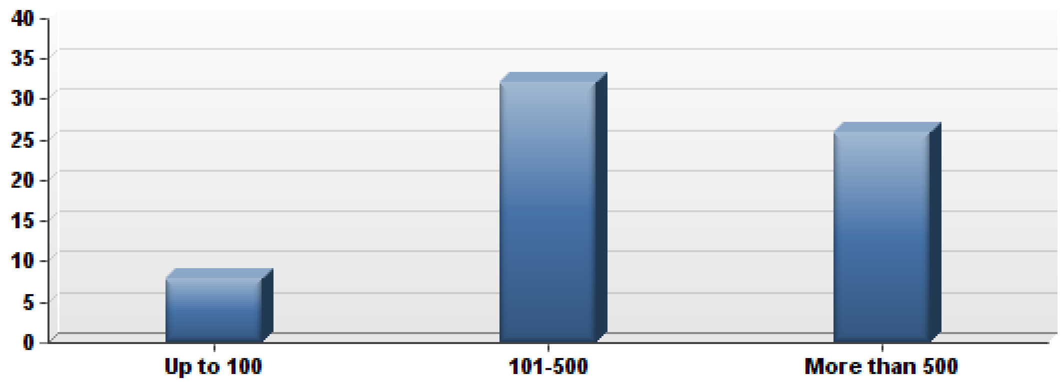
Service		Response	%
Full Service [i.e., a combination of Traditional (offline) and Digital/Interactive (online) services]		77	75%
Creative Services		4	4%
Media Services		7	7%
Digital/ Interactive Services		10	10%
Other Services (Direct, PR, Promotions, Events, etc. Please describe below.)		4	4%
Total		102	100%

Other Services
PR
Sales Enablement
Field Sampling
Direct Mail

Profile of Respondents Who Reported Having Incentive Compensation Arrangements

Sixty-six agencies (66) reported that they had incentive compensation arrangements.

Number of full-time employees



# Employees		Response	%
Up to 100		8	12%
101 – 500		32	49%
More than 500		26	39%
Total		66	100%

Profile of Respondents Who Reported Having Incentive Compensation Arrangements

Primary agency service offering in 2013 (i.e., what service provided the largest percentage of agency gross income in 2013)

Service		Response	%
Full Service [i.e., a combination of Traditional (offline) and Digital/Interactive (online) services]		45	68%
Creative Services		6	9%
Media Services		9	14%
Digital/Interactive Services		2	3%
Other Services (Direct, PR, Promotions, Events, etc. Please describe below.)		4	6%
Total		66	100%

Other Services
Direct and Digital, Minor Broadcast
Events, Sponsorship, Shopper, Promotions
Shopper Marketing
Full Service, Less Media

III. Detailed Report

Below is a detailed summary of the responses of the 66 agencies that reported having incentive compensation arrangements.

Aggregate 2013 Revenue Impact—Incentive Compensation

6. For 2013, what percentage of your agency aggregate gross income (paid or accrued) was derived from client performance incentives? Gross income refers to agency commissions and fees (NOT BILLINGS).

% of Agency Aggregate GI From Client Performance Incentives		Response	%
Less than 1%		21	32%
1.0% to 1.9%		23	35%
2.0% to 2.9%		12	18%
3.0% to 3.9%		6	9%
4.0% to 4.9%		2	3%
5.0% or More		2	3%
Total		66	100%

7. What was the range of client marketing spend for each of up to your 10 largest clients in 2013? For each client, please select the appropriate spending bracket from the options provided below. . Each client's marketing spend levels should include all media cost/investment (paid, owned, earned), production and agency fees associated with the services that your agency performed for that client. For example, if you provide creative services, include the client's media investment related to that creative, even if you do not handle media buying and planning.

Client Marketing Spend Range	Total Responses	%
Less than $10MM	191	33%
$10MM to $49.9MM	145	25%
$50MM to $99.9MM	75	13%
$100MM to $249.9MM	98	17%
$250MM or More	68	12%

Primary Business Relationship and Base Compensation Method—Largest Clients

8. What was the primary business relationship, for each of up to your 10 largest clients, in 2013?

Primary Business Relationship	Total Responses	%
Annual Retainer	267	45%
Project-by-Project Relationship	86	14%
Hybrid Relationship (combination of Annual Retainer and Project Fees)	246	41%

9. Which base compensation method provided the primary source of gross income, for each of up to your 10 largest clients, in 2013?

Base Compensation Method	Total Responses	%
Fixed Fee – No Reconciliation	141	23%
Labor-Based Fee – No Reconciliation	193	32%
Labor-Based Fee – With Reconciliation	72	12%
Cost-Plus – With Actualization	15	3%
Hourly Rate – Actual Hours	71	12%
Commission on Media and Marketing Spend	23	4%
Commission on Sales	5	1%
Fee and Commission Combined	68	11%
Other	12	2%

10. If in Question 9 above, you responded "Other," please describe your other base compensation method.

Other Base Compensation Methods
Fixed fees on projects throughout the year; not an annually fixed fee.
Project-based fee. Estimate individual projects with individual project fees.
Client 1, 2, & 5 — Reconcilable retainer and non-reconcilable projects / Client 6 - Day Rates (No Reconciliation)
Compensation is a combination of fixed fee and hourly rates or a combination of fixed fee, projects, and commission.

Performance Incentive Compensation:
Prevalence and Economics—Largest Clients

11. In 2013, for each of your 10 largest clients, which of the following best characterizes the most prevalent approach to how performance incentive compensation was structured?

	Total Responses	%
The incentive is a bonus and is structured where the agency puts SOME of its proposed/negotiated base compensation (agency fees/commissions) at risk or agrees to a lower level of base compensation than the agency normally or averagely accepts in exchange for an upside incentive for meeting or exceeding defined performance goals.	107	53%
The incentive is a bonus the agency can earn above and beyond the base compensation (base fee or commission) for meeting or exceeding defined performance goals. NONE of the agency's base compensation (agency fees/commissions) is at risk	94	47%

12. In 2013, for the clients you noted in the previous question who had an incentive compensation arrangement that put SOME agency base compensation at risk or you had agreed to a lower level of base compensation than the agency normally or averagely accepts, what percentage of your base compensation was put at risk/reduced (if any)?

	Total Responses	%
Less than 5%	26	24%
5% to 9.9%	44	41%
10% to 14.9%	20	19%
15% to 19.9%	6	6%
20% to 24.9%	4	4%
25% or More	7	6%

Incentive Earned With Some Portion of Base Compensation (Agency Fees/Commissions) at Risk

13. In 2013, for any of your 10 largest clients whose performance incentive compensation was structured in the form of incentives earned beyond the agency's base compensation, where SOME of the agency's base fees/commissions was put at risk or the agency had agreed to a lower level of base compensation than the agency normally or averagely accepts, what was the MAXIMUM potential performance incentive range, as a % of the agency's adjusted/reduced base compensation with that client?

	Total Responses	%
Don't Know	8	8%
Less than 5.0%	13	12%
5.0% to 9.9%	32	30%
10.0% to 14.9%	22	21%
15.0% to 19.9%	12	11%
20.0% to 24.9%	8	8%
25.0% or More	12	11%

14. In 2013, for any of your 10 largest clients whose performance incentive compensation was structured in the form of incentives earned beyond the agency's base compensation, where SOME of the agency's base fees/commissions was put at risk or the agency had agreed to a lower level of base compensation than the agency normally or averagely accepts, what was the TARGET potential performance incentive range, as a % of the agency's adjusted/reduced base compensation with that client? Note: Target performance incentive range represents the range that the agency and client discuss as a goal or likely outcome OR the range that is budgeted/accrued for the incentive.

	Total Responses	%
Don't Know	7	8%
Less than 5.0%	19	21%
5.0% to 9.9%	32	35%
10.0% to 14.9%	14	15%
15.0% to 19.9%	9	10%
20.0% to 24.9%	4	4%
25.0% or More	6	7%

15. In 2013, for any of your 10 largest clients whose performance incentive compensation was structured in the form of incentives earned beyond the agency's base compensation, where SOME of the agency's base fees/commissions was put at risk or the agency had agreed to a lower level of base compensation than the agency normally or averagely accepts, what was the ACTUAL (EARNED) performance incentive range, as a % of the agency's adjusted/reduced base compensation with that client? Note: Actual (Earned) incentive range responses should reflect amounts actually paid or amounts accruable based on reasoned/informal estimates. If 2013 incentive earnings cannot yet be estimated, please select the first option below for that client.

	Total Responses	%
Actual incentive for 2013 for this client not yet determined	20	19%
Less than 5.0%	32	31%
5.0% to 9.9%	29	28%
10.0% to 14.9%	14	13%
15.0% to 19.9%	3	3%
20.0% to 24.9%	1	1%
25.0% or More	5	5%

Incentive with No Base Agency Compensation at Risk

16. In 2013, for any of your 10 largest clients whose performance incentive compensation was structured in the form of incentives earned beyond the agency's base compensation, where NONE of the agency's base fees or commissions was put at risk, what was the MAXIMUM potential performance incentive range, as a % of base compensation, that was possible for the agency to earn with that client?

	Total Responses	%
Don't Know	8	9%
Less than 5.0%	24	26%
5.0% to 9.9%	21	22%
10.0% to 14.9%	19	20%
15.0% to 19.9%	5	5%
20.0% to 24.9%	11	12%
25.0% or More	6	6%

17. In 2013, for any of your 10 largest clients whose performance incentive compensation was structured in the form of incentives earned beyond the agency's base compensation, where NONE of the agency's base fees or commissions was put at risk, what was the TARGET potential performance incentive range, as a % of base compensation, that was possible for the agency to earn with that client? Note: Target performance incentive range represents the range that the agency and client discussed as a goal or likely outcome OR the range that is budgeted/accrued for the incentive.

	Total Responses	%
Don't Know	4	5%
Less than 5.0%	35	44%
5.0% to 9.9%	22	28%
10.0% to 14.9%	8	10%
15.0% to 19.9%	3	4%
20.0% to 24.9%	5	6%
25.0% or More	2	3%

18. In 2013, for any of your 10 largest clients whose performance incentive compensation was structured in the form of incentives earned beyond the agency's base compensation, where NONE of the agency's base fees or commissions was put at risk, what was the ACTUAL (EARNED) performance incentive range, as a % of base compensation, that was possible for the agency to earn with that client? Note: Actual (Earned) incentive range responses should reflect amounts actually paid or amounts accruable based on reasoned/informal estimates. If 2013 incentive earnings cannot yet be estimated, please select the first option below for that client.

	Total Responses	%
Actual incentive for 2013 for this client not yet determined	24	26%
Less than 5.0%	42	45%
5.0% to 9.9%	17	18%
10.0% to 14.9%	5	5%
15.0% to 19.9%	1	1%
20.0% to 24.9%	4	4%
25.0% or More	1	1%

Relationship Management—Largest Clients

19. What type of relationship management process, if any, was conducted with each of your 10 largest clients in 2013?

Relationship Management Process	Total Responses	%
Evaluations were ad hoc and informal	144	35%
Formal "One-Way" evaluation process (i.e., the client evaluated the agency)	136	33%
Formal "Two-Way" evaluation process (i.e., the client evaluated the agency and the agency evaluated the client)	116	29%
Formal "360: Four-Way" evaluation process (i.e., the client evaluated both the agency and its own performance)	8	2%
Other	2	1%

20. For each of up to your 10 largest clients that have a formal agency evaluation relationship management process, which of the evaluation features from the options below were included in the 2013 client evaluation of your agency?

Evaluation Features	Total Responses	%
Quantitative Measures—Client Business Results (Sales, profit, market share)	166	25%
Quantitative Measures—Market activity and campaign-specific analytic criteria (awareness, trial, research scores, brand health metrics, etc.)	159	23%
Qualitative Measures—Agency service level/activity criteria (proactivity, responsiveness, stewardship, timeliness, etc.)	229	34%
Cost Efficiency	113	17%
Other (Please describe in Q21 below.)	5	1%

21. If you answered "Other" in Question 20 above, please provide a detailed description of the "Other" evaluation features in the space provided below.

Other Evaluation Features
Both qualitative and quantitative.
Business unit ratings don't specifically list criteria.
Value-added services

22. For each of up to your 10 largest clients that have a formal agency evaluation relationship management process, how/who handled process administration in 2013?

	Total Responses	%
Client used a third party consultant to manage the evaluation process.	8	3%
The client managed the evaluation process internally under the direction of their Marketing Group.	142	53%
The client managed the evaluation process internally under the direction of their Procurement Group.	27	10%
The client managed the evaluation process internally. Process was JOINTLY managed by Client Marketing and Procurement.	90	34%

23. We'd like to understand the frequency and timelines of formal evaluations. For those clients that have formal evaluations processes with your agency, please indicate the applicable time frame from the options below.

Frequency	Total Responses	%
Annual	195	71%
Twice a Year	46	17%
Quarterly	21	7%
Other	13	5%

Performance Incentive Weighting and Criteria—Largest Clients

24. For any of your 10 largest clients for which you had a performance incentive compensation arrangement in 2013, did the arrangement have separate performance thresholds for specific discrete service functions OR did the performance compensation structure have an integrated holistic approach that covered the full range of agency services?

	Total Responses	%
Performance thresholds were separate for discrete service functions.	36	18%
Performance thresholds covered the complete range of services.	166	82%

25. For any clients you had in 2013 in which the incentive compensation arrangement included separate performance thresholds for discrete service functions, please indicate which functions had such separate performance thresholds.

Service Function	Total Responses	%
Full-Service Advertising	19	16%
Creative Advertising	21	18%
Media Planning and/or Media Buying	29	24%
Direct Marketing	5	4%
Promotion/Event Marketing	9	7%
Interactive/Internet/Digital	18	15%
Multicultural Market Advertising	1	1%
Public Relations	0	0%
Strategic/Branding	18	15%

26. For the portion of your 2013 agency gross income that relates to performance incentive compensation, what proportional weighting percentage of your performance compensation came from the incentive criteria categories listed below.

Incentive Criteria	Total Responses	%
Client business results (sales, profit, market share)	72	38%
Market activity and campaign-specific analytic criteria	35	19%
Agency service level/activity criteria (proactivity, responsiveness, stewardship, timeliness, etc.)	64	34%
Cost Efficiency	14	7%
Other	3	2%

Performance Criteria: Relevance

27. Based on your agency's top 10 client 2013 incentive/PBR arrangements, please indicate the relevance of the CLIENT BUSINESS RESULTS performance measures listed below.

Client Business Results	Not Applicable	Very Irrelevant	Somewhat Irrelevant	Somewhat Relevant	Very Relevant	Total Responses
Sales	9%	3%	3%	29%	56%	66
Market Share	23%	6%	8%	33%	30%	64
Client Profit	31%	8%	13%	39%	9%	64
Stock Price Performance	52%	13%	13%	23%	0%	64
Other (Described in Q31)	89%	0%	0%	0%	11%	27

28. Based on your agency's top 10 client 2013 incentive/PBR arrangements, please indicate the relevance of the CLIENT MARKETING ACTIVITY performance measures listed below.

Client Marketing Activity	Not Applicable	Very Irrelevant	Somewhat Irrelevant	Somewhat Relevant	Very Relevant	Total Responses
Brand/Ad Awareness (Recall)	21%	0%	2%	31%	47%	62
Trial	50%	5%	10%	23%	13%	62
Brand Perceptions/Health (Purchase Intent, Brand Equity, etc.)	23%	0%	7%	28%	43%	61
Research/Copy Test Results	42%	3%	11%	26%	18%	62
Digital/Online Communications Goals	38%	5%	13%	21%	24%	63
Social Marketing Communications Goals	38%	3%	14%	24%	21%	63
Other (Described in Q31)	80%	3%	3%	0%	13%	30

29. Based on your agency's top 10 client 2013 incentive/PBR arrangements, please indicate the relevance of the AGENCY SERVICE LEVEL/ACTIVITY performance measures listed below.

Agency Service Level/Activity	Not Applicable	Very Irrelevant	Somewhat Irrelevant	Somewhat Relevant	Very Relevant	Total Responses
Agency Performance Overall Evaluation Score	11%	2%	3%	11%	74%	65
Collaboration	13%	2%	2%	39%	45%	64
Integrated Marketing Communications Coordination (IMC)	19%	3%	8%	38%	32%	63
Consultative Guidance/Strategic Thinking	10%	2%	2%	31%	56%	62
Timeliness (Responsiveness, Meet Deadlines)	10%	2%	5%	32%	52%	63
Administrative and Financial Stewardship	11%	2%	8%	44%	35%	63
Proactivity	16%	2%	10%	29%	44%	62
Quality of Creative	23%	2%	5%	23%	48%	62
Innovation	17%	2%	6%	35%	40%	63
Other (Described in Q31)	92%	0%	0%	4%	4%	25

30. Based on your agency's top 10 client 2013 incentive/PBR arrangements, please indicate the relevance of the COST EFFICIENCY performance measures listed below.

Cost Efficiency	Not Applicable	Very Irrelevant	Somewhat Irrelevant	Somewhat Relevant	Very Relevant	Total Responses
Media Cost/Efficiency	62%	0%	5%	8%	25%	63
Production Cost/Efficiency	44%	8%	10%	24%	15%	62
Event or Sales Promotion Cost Efficiency	68%	6%	6%	13%	6%	63
Other (Described in Q31)	93%	0%	0%	7%	0%	27

31. In the space provided below we invite you to comment on the relevance of any incentive PBR compensation criteria that were not mentioned in Questions 27 through 30. We would also welcome your comments related to which performance categories are most appropriate in the context of incentive compensation.

Comments
Client Marketing Activity: Specific metrics related to our loyalty program services are established to measure marketing effectiveness such as Membership, Retention, # of visits, # of purchases, etc. Agency Service Level: Evaluation is graded by service offering (General, Creative, Digital, Direct, Strategy, Data Analytics, etc.) Cost Efficiency: This is measured as "value add" (additional work provided at no additional cost).
As a media Agency, we are judged primarily on our ability to buy media more efficiently than either the prior year or an agreed-upon market benchmark.
The criterion that is developed is very specific for this healthcare organization and is based on a research study that is done each year. Our incentive bonus is tied to the same criteria as the bonuses for the marketing department, which is an effective way for us to work toward the same goals.
The challenge was when an agency met the established objectives, but then client "didn't have the budget to pay for the incentive compensation" and tried to renegotiate performance compensation with agency. There was no dispute over the agency meeting the objectives; the client just didn't plan ahead to ensure funds would be available.
Only one client in 2013 with incentive which was solely based on client satisfaction and timeliness.
The performance categories we find most appropriate in the context of incentive compensation are those that our agencies can influence and that influence can be measured. More specifically, those categories include sales, market share, brand/ad awareness, research/copy test results, digital/online and social media communications goals. While it's important to maintain an appropriate service level with our clients, the ratings for these types of categories (e.g., collaboration, strategic thinking, and proactivity) are subjective in nature and should significantly drive the incentive compensation calculation.
Traffic.
The data was not available at the time of survey completion.
Balanced mixed between Qual. and Quant. metrics. Timely updates throughout the year from an independent source.
Staffing Efficiencies was not mentioned above. Client marketing activity, Agency service level/activity, and Cost efficiency measures are the most relevant because the Agency can directly impact these.

Performance Measures: When and How Established

32. Please indicate below, in general, when performance criteria measurements are agreed to between the agency and the client.

	Always	Sometimes	Rarely	Never	Total Responses
Performance criteria are agreed to prior to authorization of the assignment.	40%	40%	18%	2%	62
Performance criteria are agreed to at the beginning of the assignment.	19%	53%	15%	13%	53
Performance criteria are reviewed and agreed to mid-way through the assignment.	2%	44%	23%	31%	52
Performance criteria are reviewed only at the end of the assignment.	10%	31%	12%	48%	52
Other	0%	13%	0%	88%	8

33. Please indicate below, in general, how performance criteria measurements are agreed to in your performance incentive compensation arrangements.

	Always	Sometimes	Rarely	Never	Total Responses
Performance criteria are set by the client.	24%	53%	4%	20%	55
Performance criteria are set by the agency.	0%	26%	28%	46%	50
Performance criteria are mutually agreed to between client and agency.	40%	53%	5%	2%	57
Other	0%	0%	13%	88%	8

Other
In some cases we are able to influence the scaling to make it more realistic.

Performance Incentive Compensation Agreements: Best and Worst Practices

34. In the space provided below, please share any related business practices that you found to be MOST successful.

Most Successful Business Practices
Aligned with senior management bonus structure. Easy to understand and administer (sales or market share driven). Scalable.
Mutually agreed upon with reasonable objectives that benefit both client and agency.
-Negotiate up front during retainer fee discussions. Clear, measurable results. Criteria a mix of quant. (business + market goals) and qual. (service levels).
-Allows for collaboration of goals. -Goals are set based on specific metrics that are measurable. -Provides a formalized process to evaluate performance.
To the extent we put a portion of our fee at risk in the form of an incentive, we would expect to have an opportunity to earn this back based upon challenging, but nonetheless achievable, goals and KPIs. To the extent we exceed those goals, we should have the opportunity to earn above and beyond what we've put at risk.
Our experience is these are always in addition to our standard fee (retainer and/or commission) and we normally try to assemble a fixed amount or % that is awarded based upon client Savings and/or Sales/Revenue/Profit increases. Putting in place a measurable performance incentive that is based on client success metrics has been very successful for us both financially and in building strong client relationships.
As mentioned earlier, both the Agency and the client Marketing team's incentive comp. are tied to the same criteria, which help us work together toward shared goals.
We have only had one client that offered incentive based on quality of work and timeliness and it was for a one-time broadcast production spot.
In instances where you do have a "skin in the game" incentive, it is important to agree with the client for partial payment/recognition or payment/recognition based on estimate in the current year. This will mitigate the gap experienced in recouping costs.
The Incentive Compensation arrangement should be simple to understand and easy to administer. There should be mutual agreement and full transparency between Agency and client regarding the IC terms and measures. (This can even include the acknowledgement of "discretionary bonus" and how/why those are given out). There should be clear and measurable metrics. Objectives should be fair, reasonable, achievable and mutually agreed upon. There should be interim reviews in order to gauge performance. There should be timely year end performance reviews —and prompt award of bonuses earned.
The metrics must be discussed with the client and mutually agreed-upon upfront, at the time the scope of the work document is executed. They should be simple, specific, measurable, transparent, and easy to understand and administer. They should be as objective as possible Metrics should relate to criteria that the agency can control, as well as to criteria that are important to both the client's business and the agency's success. They should be realistic and achievable. If the client's processes need to change or be maintained in order for the agency to achieve the goals, then this needs to be specified in the agreement. An agency should not be penalized if they failed on certain tasks due to client issues. Generally, a split of 50% qualitative and 50% quantitative (25% client business results and 25% marketing results) is ideal for most clients • Qualitative metrics may include proactivity, responsiveness, stewardship and innovation. • Quantitative metrics relating to client business results may include sales, share and profit. • Quantitative metrics relating to advertising/marketing success may include awareness, research scores and brand health. A mid-year review is essential to identify problems and course-correct. An agency should be able to achieve a portion of the maximum incentive; it should not be an all-or-nothing agreement.

Most Successful Business Practices
We have found that incentive compensation is oftentimes a cost-cutting strategy that is sold as incentive compensation. We try to avoid introducing incentive compensation models into agreements until year two of the relationship.
1) Clear agency objectives that are agreed and within the Agency's control, 2) Achievable objectives that are measurable (rather than solely opinion based), 3) Strong alignment with client executives' own incentives 4) Needs to have full transparency of targets and actual results, 5) A sliding rather than stepped scale of incentive payment, thus providing incremental reward for incremental improvement, 6) A formal process to evaluate performance.
• Metrics are mutually agreed upon, rather than dictated • Metrics have a balance of quantitative and qualitative metrics (more and more important as clients move to quant metrics that are in large part outside of the direct control of the advertising agency) • The entire performance agreement, all aspects, should be put in writing for both sides to review; there should be no ambiguity • Metrics/Goals are mutually agreed upon at the beginning of the year, no later than 30 days into the year (in the case of an annual agreement) • In terms of quantitative assessment, both Agency and Advertiser agree in advance on the survey/evaluation questions, participants (positions/titles, if not names), grading system, and a payout scale • There is a mid-year check-in • Of utmost importance is that the advertiser believes in the concept of a performance incentive and the "we win – you win" philosophy from the top down. Too many advertisers these days, on the advice of consultants (it seems), are using performance incentives as a way to reduce price. The negotiation of measurable metrics, and total opportunity (in dollars), after the business is awarded in these instances is very difficult. • Quantitative measurements, in addition to broader metrics like EBITA and STOCK PRICE, include metrics that the agency can truly independently influence • The payout should be on a sliding scale, not "all or nothing" • Both the agency and the advertiser should establish a point person to own this process and to ensure adherence • There should be agreement from the inception on the assessment period(s), a commitment to deadlines, and agreement to when payouts will be made, if any an incentive is earned.
We find when the Agency's incentive comp metrics are the same as the marketing teams' metrics, this alignment helps everyone work together to achieve success together.
Our experience indicates that performance-based compensation can be a challenge in a year one relationship. Doing this after a first year relationship can help us set appropriate targets, based on observations in year one.
1) Agency goals should be aligned to client's goals to ensure the two parties are working towards the same objective. 2) Agency incentive criteria should be set against measures the agency can impact and not exclusively against macro factors such as stock price and sales, which are outside the Agency's control. Setting the Agency's incentive against impactful items will incentivize the Agency to go the extra mile. 3) Agency goals should be established early so that Agency has clear direction and sufficient time to drive business/strategy towards this goal. Setting goals at the end of the period of performance is meaningless, as Agency will not have sufficient time to drive results. 4) Agency should not reduce profit when unachievable incentive goals are set. This effectively is a tactic to reduce Agency compensation that does not reward the Agency. 5) Proper participants should be involved in establishing and planning the incentive. For example, the client's finance or procurement team may need to establish a provision to ensure funding is available should Agency achieve goals. 6) There should not be a cap to the Agency's incentive. If the client's business performs well as a result of the Agency's work, then the Agency should share in the upside, especially when Agency has taken on additional risk by lowering profit, 7) We have recently noticed that clients without an incentive opportunity produce a higher margin on average than clients with an incentive opportunity.

Most Successful Business Practices
The most successful arrangements usually are more heavily influenced by categories that an agency can most influence (e.g., sales, market share, research/copy test results), and where such influence is quantifiable (e.g., an increase in sales, increase in market share, achieving a research score). The agreed-upon goals or targets for such measures are achievable.
Keep it simple. Simple to understand, simple to administer. At most, should limit the criteria being rated to no more than three items. Try to align with the clients metrics for success. For example, if their bonus is based on sales growth, then this should be a majority of the agency criteria.
Aligned with client business goals for that year or a three-year plan.
Joint development of the target by both agency and client. Brand and procurement agreement of what the targets are upfront; often what is important to the brand is not as important for procurement and then the Agency is stuck in the middle and not evaluated fairly. Ideally there should be a single champion at the client who bridges both brand and procurement demands. Clear timelines, formalization of reviews and feedback.
Early in the relationship, taking the time to understand all parties KPIs (client's CEO, CMO, marketing team, and procurement, as well as the agency) and developing a well-defined incentive compensation program that is directly tied to those KPIs. Communicating it clearly and reviewing/updating it periodically. Also having periodic "check-ins" vs. goals to track performance to give parties time to course correct if necessary, and so that all expectations are met.
When the agency has a say in how the incentive is structured, it deepens the relationship.
Overall, I would say that performance compensation does not work for advertising agencies. In 99% of the cases, it is a decrease in effective margin. Most clients are not honest about the ability to earn the bonus and will tell you that it is achievable when it is mathematically impossible to achieve. We have been successful once in a while to get the clients to change the scaling to take this under consideration. The best practice is to meet at least twice a year so that we can react to any comments. One of the most successful things we have been able to do is get our clients to pay us during the year as if we are going to hit the TARGET margins, under the theory that we should not be paid as if we are doing a horrible job. The benefit of this is that, psychologically, the client has already spent this money and may be less likely to think that it is all upside to the agency.
Simplicity of the incentive plan such that the costs of administering the plan are not burdensome for either party.
The key to a beneficial incentive compensation agreement is understanding the client's internal KPIs. When the agency understands these metrics, they can determine what services can be provided that will help the client reach their goals. In this situation, the agency-client relationship becomes a true partnership where both sides can benefit. It is not easy to establish these kinds of agreements. On one hand, it requires the client to be more transparent with their agency. The client needs to be willing to disclose to their agency what their measures of success are. In addition, the client should be willing to not only compensate the agency when goals are met, but incentivize them even more when results exceed expectations. On the other hand, for the agency, they need to be willing to put their compensation on the line. If results are not met and the client suffers, then the agency needs to feel the consequences. But if the client prospers, then the agency should prosper as well. It is not just about the services that the agency is providing, but the business results that come out of it.

Most Successful Business Practices
Being proactive about scheduling informal evaluations throughout the year in order to possibly modify any detrimental behavior that could affect PRIP award. At minimum, could help in the forecast process and avoid any disappointing surprises. Being involved upfront in setting the metrics and making sure they are clear and achievable with an objective verification. Agency appraisals should be a constructive feedback exercise rather than a venting exercise. Agencies should try to weigh the metrics based on what they can better control and should take the client offering/competition into consideration. Agency goals are aligned CMO individuals goals.
Most successful business practices are when both Agency and Client agree on very specific criteria with specific measurement tools, measurable goals and regularly communicating and reviewing performance throughout campaign.
Best Practices: • Goals and approach should be discussed and mapped out well in advance of the contract year to which incentives will be applied, as these programs impact the way we staff, price, scope and service the work. • To the extent possible, quantitative is better than qualitative as the latter is prone to subjectivity and emotion • Quantitative measures should be predicated on those KPIs that the agency team is tasked with affecting and has control over doing so. For example, increasing brand awareness, favorability, perceptions, message alignment, social engagement, etc., are typical of classic brand-level activity. For RM assignments, acquisition, conversion, retention, switching, etc., are the actions the agency is tasked with driving. Incentive comp should not be tied to metrics the agency is not tasked with or lacks the direct means to drive • Put in place an overall framework where the metrics and their relative weighting is spelled out. Work collaboratively between client and agency to arrive at fair and reasonable weightings. For example, with one of our clients, we divided the incentive compensation across three areas: o Key brand metrics (as noted above) with weighting assigned to each and benchmarks for low, medium and high ranges of improvement based on prior year's experience • Media performance: To what extent did our media planning and buying achieve its stated goals, deliver at or above expectations, generate added value? o Agency performance evaluation: This was a series of questions addressed by the client team that measured the agency's performance across a set of key criteria. While qualitative in nature (i.e., the answers reflect the client team's opinion of the agency's performance), responses are given quantitative values that ultimately result in a Net Promoter Score • Develop a clear understanding and basis for the total amount of the incentive comp and use this consistently year to year. This can be a % of total agency fee—and this can be on a sliding scale as the agency fee increases or decreases. This can also be based on putting agency revenue "at risk," but in this case, Best Practice is for the potential reward to be greater than what would be the case if the agency simply was paid the fee w/out incentive comp • Agree upon the dollar value associated w/the comp plan in each of its core areas so that is transparent. • Develop a clear timeline for the metrics that make up the incentive comp to be evaluated and completed. Client should provide the agency with a written report that details the agency's performance against agreed-upon criteria, then review that report in a live meeting w/senior team. • Revisit the criteria each year to account for inevitable changes in the relationship, agency responsibilities, client's priorities, etc.
Ensure that you have a strong top-to-top relationship with your client, to have open and honest conversation about the intent of the incentive/PBR arrangement, such that the true intent is not an alternative method for lowering costs.

35. In the space provided below, please share any related business practices that you found to be LEAST successful.

Least Successful Business Practices
Profit driven. Unattainable results. Budget driven.
Putting any compensation at risk.
Unclear measures –Quant. measures whose tabulation is at all subjective and tabulated solely by client.
Time consuming to develop, track and evaluate- Doesn't always factor out uncontrollable variables-Penalties for missing the metrics-No mechanism to arbitrate if we don't agree with final decision.
Worst practices include basing performance incentives on unrealistic or non-achievable goals and requiring the Agency to guarantee media costs to the extent we could lose more than what we are paid.
Incentives based on subjective criteria. These types of bonus/incentive models can breed arguments and resentment.
If client marketing negotiates the incentive compensation, they may not always plan ahead and budget for the funds to actually pay the agency when the agency hits the objectives. Needs to be both objective and subjective criteria.
I would echo comments that if the client is not already operating in an incentive-based culture, then it likely will not be a successful outcome for the agency-client relationship.
Practices that frustrate participants and have lower incidence of success, such as: Introduction of changed terms/measures at time of IC fulfillment. Criteria established as you go along – objectives and metrics not well thought out or planned. Unrealistic and unachievable performance goals. Client does not adequately budget for anticipated incentive. An attempt to use incentive to fix faulty base compensation programs.
Having the client dictate what the metrics will be, without any discussion/input from the agency. . Not agreeing to the metrics upfront. Having metrics that are unrealistic in terms of achieving a reasonable percentage of the incentive.
Agreeing to a lower margin with expressed intent by the client to later add incentive compensation is a losing proposal and in the end the client gets a lower margin and the conversations on incentive compensation never happen.
Linking incentive to client business results or market share, as there are too many variables outside the Agency's control.
• Goals are NOT mutually agreed upon, but mandated by the client • The performance incentive process does not get agreed-upon upfront • Success metrics do not get agreed-upon upfront • The process does not get documented • The advertiser is not a PARTNER because they don't embrace spirit of win/win • A performance incentive is perceived as cost-saving measure by the advertiser • Success metrics are strictly quantitative • Clear owners/stewards of the process are not identified (on one, or both sides) • Success is measured as all or nothing rather than on a sliding scale • There is not a mid-year check-in (in the example of an annual incentive)
Having a model fully based on qualitative criteria is not ideal, as it leaves the latitude to the client to treat this as a discretionary bonus.

Least Successful Business Practices
The least successful practices involve arrangements that are heavily influenced by subjective ratings in “agency service level” categories. In effect, the value achieved by the client that utilizing “the work” is of less importance than people’s opinions of the agency. This is not to say that the quality of the agency-client relationship should not play a role in a potential incentive arrangement. What is important is that the focus of the incentive should be to provide outstanding work to the client that will have a positive impact on their business results.
Overly complicated. Too many inputs and decision makers. The results shouldn’t be a surprise to anyone. We should be able to get a sense as we proceed through the year whether we are on the path for a bonus. Hard to be motivated to exceed expectations and earn the bonus if the bonus criteria seem so convoluted or completely dependent on a year-end subjective survey.
Those that drive only one criteria of the Clients’ business, i.e., sales.
Setting unrealistic goals; trying to apply metrics or KPIs too broadly or not tailored to the specific situation.
Some of our clients have link score testing tied to the incentives. In some cases, it is either physically impossible to achieve the scores requested or there is no advertising produced in a given year that is relevant. Overall, it seems that the wider the distribution of the incentive scoring, the more impossible it is to achieve a perfect score. Clients generally feel that even if you have put your margin at risk in order to get an upside, they view the entire bonus as upside.
There are a few practices that can undermine a PBR/incentive agreement. The first being the client establishing KPIs for the agency without discussing with the agency beforehand. This disconnect can result in the agency having goals that are not within their control to achieve. Another problem that can arise is establishing the incentive guidelines in the middle or at the end of an assignment. This can result in an agency providing services and results that are not in line with the client’s overall business goals. Finally, if the amount of compensation is not commensurate with the results achieved, then it can damage the agency-client relationship and the ability to achieve/exceed business objectives.
Targets not being established until half-way through the year. Tracking being opaque and nontransparent. When appraisals are not unanimous. When Marketing folks are not involved in the appraisals (driven solely by procurement financials).
Least successful business practices are when neither Agency nor Client agrees on specific criteria. Vague or subjective measurable goals or not communicating and reviewing performance throughout campaign.
Worst Practices: Simply take the opposite of the above. • Program introduced once the year or contract period is underway. Incentives are based totally on client team’s subjective, one-way evaluation • Incentives based on metrics outside of agency or marketing control (e.g., increase in sales, profit margin.) • Criteria that is not well spelled out, not transparently communicated to the agency. This was the case for one client in years prior when they suddenly introduced their “Net Promoter Score” and graded the agency on criteria that were not germane to our work nor did we know were the basis for our evaluation • Evaluations conducted by people who are unfamiliar with or have little interaction with the agency relative to core clients; also giving equal weighting to these outliers’ evaluations. • Lack of clarity and consistency regarding the basis for the incentive comp. budget. Incentive comp. that is actually an “earn back the money you should have made in the first place.” This is not a true representation of rising and falling together; it’s reducing the agency’s rightful compensation with a chance to earn it back based on meeting or exceeding performance targets. Lack of a clear timeline or process for evaluating measurement criteria, providing feedback and awarding the bonus.

IV. Questionnaire

Survey on Agency Performance Incentive Compensation – Payment by Results (PBR)

INTRODUCTION

There has been a lot of industry discussion of agency performance incentive compensation and payment by results. However, there is little agency information on the prevalence of such arrangements, their structure, and their economic impact.

To shed some light on this important issue, the 4A's has created this survey in order to examine the many aspects of incentive compensation including prevalence, structure, and amount; correlation with business relationship and base compensation; agency/client relationship management; and performance incentive criteria.

Thank you for taking the time to respond to this very important survey.

Of course, all survey responses are confidential, and all participants will receive a copy of the results.

An outline of the survey sections follows below.

Section I: Census (Q1 – Q4)
Section II: Qualifier Question (Q5)
Section III: Aggregate 2013 Revenue Impact—Incentive Compensation (Q6)
Section IV: Largest Clients Information—Billings, Business Relationship & Base Compensation Methodology (Q7 – Q10)
Section V: Largest Clients Information—Performance Incentive Compensation - Prevalence & Economics (Q11 – Q18)
Section VI: Largest Clients Information—Relationship Management (Q19 – Q23)
Section VII: Largest Clients Information—Performance Incentive Weighting and Criteria (Q24 – Q26)
Section VIII: Performance Criteria Relevance (Q27 – Q33)
Section IX: Best and Worst Practices (Q34 – Q35)

Section I: Census

Q1: Agency Name

Q2: Name of person completing this survey

Q3: Please indicate the number of full-time employees in your agency. Please DO NOT include part-time employees or freelancers.

- ❍ Up to 100
- ❍ 101-500
- ❍ More than 500

Q4: What was your primary agency service offering in 2013 (i.e., what service provided the largest percentage of agency gross income in 2013)?

- ❍ Full Service [i.e., a combination of Traditional (offline) and Digital/Interactive (online) services]
- ❍ Creative Services
- ❍ Media Services
- ❍ Digital/ Interactive Services
- ❍ Other Services (Direct, PR, Promotions, Events, etc. - please describe below)

  ____

Section II: Qualifier Question

Q5: For 2013, was any of your agency gross income derived from client performance incentives (i.e., did you have any incentive arrangements with any of your clients)?

- ❍ Yes
- ❍ No (this will take you to the end of the survey)

Section III: Aggregate 2013 Revenue Impact—Incentive Compensation

Q6: For 2013, what percentage of your agency aggregate gross income (paid or accrued) was derived from client performance incentives? Gross income refers to agency commissions and fees (NOT BILLINGS).

- Less than 1%
- 1.0% to 1.9%
- 2.0% to 2.9%
- 3.0% to 3.9%
- 4.0% to 4.9%
- 5.0% or More

Section IV: Billings, Business Relationship & Base Compensation Arrangements – Largest Clients

In this section, as well as Sections V-VII, you are asked to provide information for client-specific arrangements (for up to ten of your largest clients).

We do not want you to identify the client—no client specific or agency specific information will be included in the survey report.

We need you to maintain continuity of client specific information across survey Sections IV-VII.

To illustrate this continuity concept….when you enter information for your “Client ABC” in the questionnaire field column marked as “Client 1” then only information for “Client ABC” should be reported under the field column “Client 1” throughout the survey [similarly when you enter information for your “Client XYZ” in the questionnaire field column marked as “Client 10” then only information for “Client XYZ” should be reported under the field column “Client 10” throughout the survey].

Survey questions 7 through 26 relate to your “10 largest clients”- we expect that some of those clients will represent global (or multinational) servicing arrangements. The agency responses should reflect the appropriate proportional allocation related to your domestic operations.

Q7: What was the range of client marketing spend for each of up to your 10 largest clients, in 2013?

For each client please select the appropriate spending bracket from the options provided below. Each client's marketing spend levels should include all media cost/investment (paid, owned, earned), production and agency fees associated with the services that your agency performed for that client. For example if you provide creative services, include the client's media investment related to that creative, even if you do not handle media buying and planning.

Please check only ***one*** answer per client.

	Client 1	Client 2	Client 3	Client 4	Client 5	Client 6	Client 7	Client 8	Client 9	Client 10
Less than $10MM	❑	❑	❑	❑	❑	❑	❑	❑	❑	❑
$10MM to $49.9MM	❑	❑	❑	❑	❑	❑	❑	❑	❑	❑
$50MM to $99.9MM	❑	❑	❑	❑	❑	❑	❑	❑	❑	❑
$100MM to $249.9MM	❑	❑	❑	❑	❑	❑	❑	❑	❑	❑
$250MM or More	❑	❑	❑	❑	❑	❑	❑	❑	❑	❑

Q8: What was the primary business relationship, for each of up to your 10 largest clients, in 2013?

Please check only ***one*** answer per client.

	Client 1	Client 2	Client 3	Client 4	Client 5	Client 6	Client 7	Client 8	Client 9	Client 10
Annual Retainer	❑	❑	❑	❑	❑	❑	❑	❑	❑	❑
Project-By-Project Relationship	❑	❑	❑	❑	❑	❑	❑	❑	❑	❑
Hybrid Relationship (combination of Annual Retainer and Project Fees)	❑	❑	❑	❑	❑	❑	❑	❑	❑	❑

Question 9 relates to the base compensation arrangement that you have with each of your 10 largest clients.

Please use the following definitions when responding to Question 9.

Fixed Fee – No Reconciliation – Agreed upon (negotiated) annual fixed fee – no labor or cost reconciliation at end of year.

Labor-Based Fee –No Reconciliation – Annual fee is based on an estimate of labor. The fee is not adjusted/actualized (up or down) at the end of the year.

Labor-Based Fee With Reconciliation – Annual fee is based on an estimate of labor. The fee is adjusted/actualized (up or down) at the end of the year.

Cost Plus- With Actualization – The final agency compensation payment is based on the actualization of all costs (labor, overhead, profit) at the end of the year. Interim billing/payments, if any, are based on a budget estimate.

Hourly Rate / Actual Hours – The final agency payment is based on actual hours for year at agreed upon rates. Interim billing/payments, if any, are based on a budget estimate.

Commission on Media and Marketing Spend -- refers to when the agency is compensated based on either a percentage of media billings and/or markup on production costs.

Commission on Sales -- is when the agency is compensated based on a percentage of the sales for the brand(s) it is managing, e.g., the Proctor & Gamble model.

Q9: Which base compensation method provided the primary source of gross income, for each of up to your 10 largest clients, in 2013?

Please check only ***<u>one</u>*** answer per client.

	Client 1	Client 2	Client 3	Client 4	Client 5	Client 6	Client 7	Client 8	Client 9	Client 10
Fixed Fee – No Reconciliation	❑	❑	❑	❑	❑	❑	❑	❑	❑	❑
Labor-Based Fee – No Reconciliation	❑	❑	❑	❑	❑	❑	❑	❑	❑	❑
Labor-Based Fee – With Reconciliation	❑	❑	❑	❑	❑	❑	❑	❑	❑	❑
Cost-Plus – With Actualization	❑	❑	❑	❑	❑	❑	❑	❑	❑	❑
Hourly Rate – Actual Hours	❑	❑	❑	❑	❑	❑	❑	❑	❑	❑
Commission on Media and Marketing Spend	❑	❑	❑	❑	❑	❑	❑	❑	❑	❑
Commission on Sales	❑	❑	❑	❑	❑	❑	❑	❑	❑	❑
Fee and Commission Combined	❑	❑	❑	❑	❑	❑	❑	❑	❑	❑
Other (Please explain in Question 10)	❑	❑	❑	❑	❑	❑	❑	❑	❑	❑

Q10: If in Question 9 above, you responded “Other”, please describe your other base compensation method.

If you DID NOT respond “Other”, simply click the Continue & Save button to skip to <u>Section V: Performance Incentive Compensation - Prevalence & Economics – Largest Clients</u>.

Section V: Performance Incentive Compensation - Prevalence & Economics – Largest Clients

This section of the survey probes incentive/PBR compensation structure, prevalence and economic impact including quantification of “skin-in-the-game “(if any), incentive earnings potential (Maximum &Target) as well as actual PBR income realized for 2013 performance.

Please maintain continuity of client specific information in columns across survey Sections IV - VII.

Q11: In 2013, for each of your 10 largest clients, which of the following best characterizes the most prevalent approach to how Performance Incentive Compensation was structured?

Please check only ***one*** answer per client.

	Client 1	Client 2	Client 3	Client 4	Client 5	Client 6	Client 7	Client 8	Client 9	Client 10
N/A (The agency-client compensation arrangement for this client did not include a performance incentive component)	❑	❑	❑	❑	❑	❑	❑	❑	❑	❑
The incentive is a bonus and is structured where the agency puts SOME of its proposed/negotiated base compensation (agency fees/commissions) at risk or agrees to a lower level of base compensation than the agency normally or averagely accepts, in exchange for an upside incentive for meeting or exceeding defined performance goals.	❑	❑	❑	❑	❑	❑	❑	❑	❑	❑
The incentive is a bonus the agency can earn above and beyond the base compensation (base fee or commission) for meeting or exceeding defined performance goals. NONE of the agency's base compensation (agency fees/commissions) is at risk	❑	❑	❑	❑	❑	❑	❑	❑	❑	❑

Please answer Questions 12-15, if in Question 11 above, you selected Item 2 (The incentive is a bonus and is structured where the agency puts SOME of its base compensation [agency fees /commissions] at risk or agrees to a lower level of base compensation than the agency normally or averagely accepts, in exchange for an upside incentive for meeting or exceeding defined performance goals) for any of your 10 largest clients.

Note: If none of your 10 largest client's incentive arrangements required "skin-in the-game", skip to "Incentives Earned Beyond Base Agency Compensation" (after Question 15) by clicking the Continue & Save button at the bottom of this page..

Q12: In 2013, for the clients you noted in the previous question who had an incentive compensation arrangement that put SOME agency base compensation at risk or you had agreed to a lower level of base compensation than the agency normally or averagely accepts, what percentage of your base compensation was put at risk/reduced (if any)?

Please check only ***one*** answer per client.

	Client 1	Client 2	Client 3	Client 4	Client 5	Client 6	Client 7	Client 8	Client 9	Client 10
N/A for this client (i.e., Item 2 was not selected in Q11 above)	❑	❑	❑	❑	❑	❑	❑	❑	❑	❑
Less than 5%	❑	❑	❑	❑	❑	❑	❑	❑	❑	❑
5% to 9.9%	❑	❑	❑	❑	❑	❑	❑	❑	❑	❑
10% to 14.9%	❑	❑	❑	❑	❑	❑	❑	❑	❑	❑
15% to 19.9%	❑	❑	❑	❑	❑	❑	❑	❑	❑	❑
20% to 24.9%	❑	❑	❑	❑	❑	❑	❑	❑	❑	❑
25% or More	❑	❑	❑	❑	❑	❑	❑	❑	❑	❑

Incentives Earned with Some Portion of Base Compensation (Agency Fees/Commissions) at Risk

Q13 (Maximum), Q14 (Target), and Q15 (Actual) apply only if Item #2 was selected previously in Question 11 above (The incentive is a bonus the agency can earn above and beyond its base compensation for meeting or exceeding defined performance goals. SOME of the agency's base fees or commissions are put at risk or the agency had agreed to a lower level of base compensation than the agency normally or averagely accepts).

Remember: Please maintain continuity of client specific column information across the survey

Q13: In 2013, for any of your 10 largest clients whose performance incentive compensation was structured in the form of incentives earned beyond the agency's base compensation, where SOME of the agency's base fees/commissions was put at risk or the agency had agreed to a lower level of base compensation than the agency normally or averagely accepts, what was the MAXIMUM potential performance incentive range, as a % of the agency's adjusted/reduced base compensation with that client?

Please check only ***one*** answer per client.

	Client 1	Client 2	Client 3	Client 4	Client 5	Client 6	Client 7	Client 8	Client 9	Client 10
Don't Know	❑	❑	❑	❑	❑	❑	❑	❑	❑	❑
N/A (No PBR or No MAXIMUM applicable to this client)	❑	❑	❑	❑	❑	❑	❑	❑	❑	❑
Less than 5.0%	❑	❑	❑	❑	❑	❑	❑	❑	❑	❑
5.0% to 9.9%	❑	❑	❑	❑	❑	❑	❑	❑	❑	❑
10.0% to 14.9%	❑	❑	❑	❑	❑	❑	❑	❑	❑	❑
15.0% to 19.9%	❑	❑	❑	❑	❑	❑	❑	❑	❑	❑
20.0% to 24.9%	❑	❑	❑	❑	❑	❑	❑	❑	❑	❑
25.0% or More	❑	❑	❑	❑	❑	❑	❑	❑	❑	❑

Q14: In 2013, for any of your 10 largest clients whose performance incentive compensation was structured in the form of incentives earned beyond the agency's base compensation, where SOME of the agency's base fees/commissions was put at risk or the agency had agreed to a lower level of base compensation than the agency normally or averagely accepts, what was the TARGET potential performance incentive range, as a % of the agency's adjusted/reduced base compensation with that client?

Note: Target performance incentive range represents the range that the agency and client discuss as a goal or likely outcome-OR-the range that is budgeted/accrued for the incentive.

Please check only ***one*** answer per client.

	Client 1	Client 2	Client 3	Client 4	Client 5	Client 6	Client 7	Client 8	Client 9	Client 10
Don't Know	❑	❑	❑	❑	❑	❑	❑	❑	❑	❑
N/A (No PBR or No TARGET applicable to this client)	❑	❑	❑	❑	❑	❑	❑	❑	❑	❑
Less than 5.0%	❑	❑	❑	❑	❑	❑	❑	❑	❑	❑
5.0% to 9.9%	❑	❑	❑	❑	❑	❑	❑	❑	❑	❑
10.0% to 14.9%	❑	❑	❑	❑	❑	❑	❑	❑	❑	❑
15.0% to 19.9%	❑	❑	❑	❑	❑	❑	❑	❑	❑	❑
20.0% to 24.9%	❑	❑	❑	❑	❑	❑	❑	❑	❑	❑
25.0% or More	❑	❑	❑	❑	❑	❑	❑	❑	❑	❑

Q15: In 2013, for any of your 10 largest clients whose performance incentive compensation was structured in the form of incentives earned beyond the agency's base compensation, where SOME of the agency's base fees/commissions was put at risk or the agency had agreed to a lower level of base compensation than the agency normally or averagely accepts, what was the ACTUAL (EARNED) performance incentive range, as a % of the agency's adjusted/reduced base compensation with that client?

Note: Actual (Earned) incentive range responses should reflect amounts actually paid or amounts accruable based on reasoned/informal estimates. If 2013 incentive earnings cannot yet be estimated, please select the second option below for that client.

Please check only **one** answer per client.

	Client 1	Client 2	Client 3	Client 4	Client 5	Client 6	Client 7	Client 8	Client 9	Client 10
N/A (Not applicable to this client)	❑	❑	❑	❑	❑	❑	❑	❑	❑	❑
Actual Incentive for 2013 for this client not yet determined	❑	❑	❑	❑	❑	❑	❑	❑	❑	❑
Less than 5.0%	❑	❑	❑	❑	❑	❑	❑	❑	❑	❑
5.0% to 9.9%	❑	❑	❑	❑	❑	❑	❑	❑	❑	❑
10.0% to 14.9%	❑	❑	❑	❑	❑	❑	❑	❑	❑	❑
15.0% to 19.9%	❑	❑	❑	❑	❑	❑	❑	❑	❑	❑
20.0% to 24.9%	❑	❑	❑	❑	❑	❑	❑	❑	❑	❑
25.0% or More	❑	❑	❑	❑	❑	❑	❑	❑	❑	❑

Incentives Earned Beyond Base Agency Compensation

Q16 (Maximum), Q17 (Target), and Q18 (Actual) apply only if Item #3 was previously selected in Question 11 above (The incentive is a bonus the agency can earn above and beyond its base compensation [agency fees/commissions] for meeting or exceeding defined performance goals. NONE of the agency's base fees or commissions are put at risk).

Remember: Please maintain continuity of client specific column information across the survey

Note: If none of your 10 largest clients had this kind of incentive arrangement, you can skip to Section VI by clicking the Continue & Save button at the bottom of the page.

Q16: In 2013, for any of your 10 largest clients whose performance incentive compensation was structured in the form of incentives earned beyond the agency's base compensation, where NONE of the agency's base fees or commissions was put at risk, what was the MAXIMUM potential performance incentive range, as a % of base compensation, that was possible for the agency to earn with that client?

Please check only ***one*** answer per client.

	Client 1	Client 2	Client 3	Client 4	Client 5	Client 6	Client 7	Client 8	Client 9	Client 10
Don't Know	❑	❑	❑	❑	❑	❑	❑	❑	❑	❑
N/A (No PBR or No MAXIMUM applicable to this client)	❑	❑	❑	❑	❑	❑	❑	❑	❑	❑
Less than 5.0%	❑	❑	❑	❑	❑	❑	❑	❑	❑	❑
5.0% to 9.9%	❑	❑	❑	❑	❑	❑	❑	❑	❑	❑
10.0% to 14.9%	❑	❑	❑	❑	❑	❑	❑	❑	❑	❑
15.0% to 19.9%	❑	❑	❑	❑	❑	❑	❑	❑	❑	❑
20.0% to 24.9%	❑	❑	❑	❑	❑	❑	❑	❑	❑	❑
25.0% or More	❑	❑	❑	❑	❑	❑	❑	❑	❑	❑

Q17: In 2013, for any of your 10 largest clients whose performance incentive compensation was structured in the form of incentives earned beyond the agency's base compensation, where NONE of the agency's base fees or commissions was put at risk, what was the TARGET potential performance incentive range, as a % of base compensation, that was possible for the agency to earn with that client?

Note: Target performance incentive range represents the range that the agency and client discussed as a goal or likely outcome-OR-the range that is budgeted/accrued for the incentive.

Please check only ***one*** answer per client.

	Client 1	Client 2	Client 3	Client 4	Client 5	Client 6	Client 7	Client 8	Client 9	Client 10
Don't Know	❑	❑	❑	❑	❑	❑	❑	❑	❑	❑
N/A (No PBR or No TARGET applicable to this client)	❑	❑	❑	❑	❑	❑	❑	❑	❑	❑
Less than 5.0%	❑	❑	❑	❑	❑	❑	❑	❑	❑	❑
5.0% to 9.9%	❑	❑	❑	❑	❑	❑	❑	❑	❑	❑
10.0% to 14.9%	❑	❑	❑	❑	❑	❑	❑	❑	❑	❑
15.0% to 19.9%	❑	❑	❑	❑	❑	❑	❑	❑	❑	❑
20.0% to 24.9%	❑	❑	❑	❑	❑	❑	❑	❑	❑	❑
25.0% or More	❑	❑	❑	❑	❑	❑	❑	❑	❑	❑

Q18: In 2013, for any of your 10 largest clients whose performance incentive compensation was structured in the form of incentives earned beyond the agency's base compensation, where NONE of the agency's base fees or commissions was put at risk, what was the ACTUAL (EARNED) performance incentive range, as a % of base compensation, that was possible for the agency to earn with that client?

Note: Actual (Earned) incentive range responses should reflect amounts actually paid or amounts accruable based on reasoned/informal estimates. If 2013 incentive earnings cannot yet be estimated, please select the second option below for that client.

Please check only ***one*** answer per client.

	Client 1	Client 2	Client 3	Client 4	Client 5	Client 6	Client 7	Client 8	Client 9	Client 10
N/A (Not applicable to this client)	❑	❑	❑	❑	❑	❑	❑	❑	❑	❑
Actual Incentive for 2013 for this client not yet determined	❑	❑	❑	❑	❑	❑	❑	❑	❑	❑
Less than 5.0%	❑	❑	❑	❑	❑	❑	❑	❑	❑	❑
5.0% to 9.9%	❑	❑	❑	❑	❑	❑	❑	❑	❑	❑
10.0% to 14.9%	❑	❑	❑	❑	❑	❑	❑	❑	❑	❑
15.0% to 19.9%	❑	❑	❑	❑	❑	❑	❑	❑	❑	❑
20.0% to 24.9%	❑	❑	❑	❑	❑	❑	❑	❑	❑	❑
25.0% or More	❑	❑	❑	❑	❑	❑	❑	❑	❑	❑

Section VI: Relationship Management – Largest Clients

Agency-Client Performance Evaluations   A robust agency-client relationship management process can be a precursor for a performance compensation arrangement and/or provide a framework for developing and calibrating appropriate performance incentive criteria. This section of the survey contains questions related to the prevalence and structure of performance evaluations with each of your largest clients.

Remember: Please maintain continuity of client specific column information across the survey.

Q19: What type of relationship management process, if any, was conducted with each of your 10 largest clients in 2013? Please check only one answer per client.

	Client 1	Client 2	Client 3	Client 4	Client 5	Client 6	Client 7	Client 8	Client 9	Client 10
N/A (No Relationship Mgt process with this client in 2013)	❑	❑	❑	❑	❑	❑	❑	❑	❑	❑
Evaluations were ad hoc and informal	❑	❑	❑	❑	❑	❑	❑	❑	❑	❑
Formal “One-Way” evaluation process (i.e. the client evaluated the agency)	❑	❑	❑	❑	❑	❑	❑	❑	❑	❑
Formal “Two-Way” evaluation process (i.e. the client evaluated the agency and the agency evaluated the client)	❑	❑	❑	❑	❑	❑	❑	❑	❑	❑
Formal “360: Four-Way” evaluation process (i.e. the client evaluated both the agency and its own performance)	❑	❑	❑	❑	❑	❑	❑	❑	❑	❑
Other	❑	❑	❑	❑	❑	❑	❑	❑	❑	❑

Q20: For each of up to your 10 largest clients, that have a formal agency evaluation relationship management process, which of the evaluation features from the options below were included in the 2013 client evaluation of your agency?

Please check **all that apply** for each client.

	Client 1	Client 2	Client 3	Client 4	Client 5	Client 6	Client 7	Client 8	Client 9	Client 10
Quantitative Measures- Client Business Results (Sales, profit, market share)	❑	❑	❑	❑	❑	❑	❑	❑	❑	❑
Quantitative Measures- Market activity & campaign-specific analytic criteria (Awareness, Trial, Research scores, Brand health metrics, etc.)	❑	❑	❑	❑	❑	❑	❑	❑	❑	❑
Qualitative Measures- Agency service level/activity criteria (Pro-activity, responsiveness, stewardship, timeliness, etc.)	❑	❑	❑	❑	❑	❑	❑	❑	❑	❑
Cost Efficiency	❑	❑	❑	❑	❑	❑	❑	❑	❑	❑
Other (Please describe in Q21 below)	❑	❑	❑	❑	❑	❑	❑	❑	❑	❑

Q21: If you answered “Other” in Question 20 above, please provide a detailed description of the “Other” evaluation features in the space provided below.

Q22: For each of up to your 10 largest clients that have a formal agency evaluation relationship management process, how/who handled process administration in 2013?

Please check only **one** answer per client.

	Client 1	Client 2	Client 3	Client 4	Client 5	Client 6	Client 7	Client 8	Client 9	Client 10
N/A (No Formal Relationship Mgt process with this client in 2013)	❑	❑	❑	❑	❑	❑	❑	❑	❑	❑
Client used a third party consultant to manage the evaluation process	❑	❑	❑	❑	❑	❑	❑	❑	❑	❑
The client managed the evaluation process internally under the direction of their Marketing Group	❑	❑	❑	❑	❑	❑	❑	❑	❑	❑
The client managed the evaluation process internally user the direction of their Procurement Group	❑	❑	❑	❑	❑	❑	❑	❑	❑	❑
The client managed the evaluation process internally. Process was JOINTLY managed by Client Marketing and Procurement.	❑	❑	❑	❑	❑	❑	❑	❑	❑	❑

Q23: We'd like to understand the frequency and timelines of formal evaluations.

For those clients that have formal evaluations processes with your agency, please indicate the applicable time frame from the options below.

Please check only **one** answer per client.

	Client 1	Client 2	Client 3	Client 4	Client 5	Client 6	Client 7	Client 8	Client 9	Client 10
Annual	❑	❑	❑	❑	❑	❑	❑	❑	❑	❑
Twice a Year	❑	❑	❑	❑	❑	❑	❑	❑	❑	❑
Quarterly	❑	❑	❑	❑	❑	❑	❑	❑	❑	❑
Other	❑	❑	❑	❑	❑	❑	❑	❑	❑	❑

Section VII: Performance Incentive Weighting and Criteria – Largest Clients

This section probes performance thresholds components included within performance incentive arrangements.

For any client that did not have a performance incentive component, please leave the response field blank for that client or check N/A.

Q24. For any of your ten largest clients for which you had a performance incentive compensation arrangement in 2013, did the arrangement have separate performance thresholds for specific discrete service functions – or – did the performance compensation structure have an integrated holistic approach that covered the full range of agency services?

Remember: Please maintain continuity of client specific column information across the survey

Please check only **one** answer per client.

	Client 1	Client 2	Client 3	Client 4	Client 5	Client 6	Client 7	Client 8	Client 9	Client 10
N/A (Not applicable for this client)	❑	❑	❑	❑	❑	❑	❑	❑	❑	❑
Performance thresholds were separate for discrete service functions	❑	❑	❑	❑	❑	❑	❑	❑	❑	❑
Performance thresholds covered the complete range of services	❑	❑	❑	❑	❑	❑	❑	❑	❑	❑

Q25: For any clients you had in 2013 in which the incentive compensation arrangement included separate performance thresholds for discrete service functions, please indicate which functions had such separate performance thresholds.

Please check **all that apply** for each client.

If none of your performance incentive compensation arrangements had separate performance thresholds for discrete service functions, please skip to question 26.

	Client 1	Client 2	Client 3	Client 4	Client 5	Client 6	Client 7	Client 8	Client 9	Client 10
N/A (Not applicable for this client)	❑	❑	❑	❑	❑	❑	❑	❑	❑	❑
Full-Service Advertising	❑	❑	❑	❑	❑	❑	❑	❑	❑	❑
Creative Advertising	❑	❑	❑	❑	❑	❑	❑	❑	❑	❑
Media Planning and//or Media Buying	❑	❑	❑	❑	❑	❑	❑	❑	❑	❑
Direct Marketing	❑	❑	❑	❑	❑	❑	❑	❑	❑	❑
Promotion/Event Marketing	❑	❑	❑	❑	❑	❑	❑	❑	❑	❑
Interactive/Internet/ Digital	❑	❑	❑	❑	❑	❑	❑	❑	❑	❑
Multicultural Market Advertising	❑	❑	❑	❑	❑	❑	❑	❑	❑	❑
Public Relations	❑	❑	❑	❑	❑	❑	❑	❑	❑	❑
Strategic/Branding	❑	❑	❑	❑	❑	❑	❑	❑	❑	❑

The next question deals with performance criteria and weighting. Performance criteria frequently include five categories:
1. Client Business Results
2. Marketing Program Results
3. Agency Services Levels
4. Cost Efficiency
5. All Other Criteria

Q26: For the portion of your 2013 agency gross income that relates to performance incentive compensation, what proportional weighting percentage of your performance compensation came from the incentive criteria categories listed below?

If you did not have a performance incentive arrangement with a client, please leave that client column blank.

(Please indicate a whole number percentage for all that apply and do not include the "%" sign in your response. Please leave fields BLANK; i.e., do not enter "0" or "-", for those methods that are not applicable.)

NOTE: In order to complete this question, the total of the percentage values you enter (for each client) should equal 100.

	Client Business Results (Sales, profit, market share)	Market activity & campaign-specific analytic criteria	Agency service level/activity criteria (Pro-activity, responsiveness, stewardship, timeliness, etc.)	Cost Efficiency	All Other Criteria
Client 1					
Client 2					
Client 3					
Client 4					
Client 5					
Client 6					
Client 7					
Client 8					
Client 9					
Client 10					

Section VIII: Performance Criteria Relevance

This section of the survey probes incentive/PBR performance criteria. We would like your perspectives on the categories of performance and specific criteria that you feel are most relevant.

This Performance Criteria section of the survey is structured with five questions:

Q27: Client Business Results criteria
Q28: Client Marketing Activity performance criteria
Q29: Agency Service level/activity performance
Q30: Cost Efficiency performance criteria
Q31: Any/all other performance criteria
Q32: When performance criteria are established
Q33: How performance criteria are agreed upon

Please base your rating assessment on your overall incentive/PBR compensation experience with your 10 largest clients in 2013.

Q27: Based on your agency's top 10 client 2013 incentive/PBR arrangements, please indicate the relevance of the CLIENT BUSINESS RESULTS performance measures listed below.

	Not Applicable	Very Irrelevant	Somewhat Irrelevant	Somewhat Relevant	Very Relevant
Sales	❍	❍	❍	❍	❍
Market Share	❍	❍	❍	❍	❍
Client Profit	❍	❍	❍	❍	❍
Stock Price Performance	❍	❍	❍	❍	❍
Other (Describe in Q31)	❍	❍	❍	❍	❍

Q28: Based on your agency's top 10 client 2013 incentive/PBR arrangements, please indicate the relevance of the CLIENT MARKETING ACTIVITY performance measures listed below.

	Not Applicable	Very Irrelevant	Somewhat Irrelevant	Somewhat Relevant	Very Relevant
Brand/Ad Awareness (Recall)	❍	❍	❍	❍	❍
Trial	❍	❍	❍	❍	❍
Brand Perceptions/Health (Purchase Intent, Brand Equity, etc.)	❍	❍	❍	❍	❍
Research/Copy Test results	❍	❍	❍	❍	❍
Digital/Online Communications goals	❍	❍	❍	❍	❍
Social Marketing Communications goals	❍	❍	❍	❍	❍
Other (Describe in Q31)	❍	❍	❍	❍	❍

Q29: Based on your agency's top 10 client 2013 incentive/PBR arrangements, please indicate the relevance of the AGENCY SERVICE LEVEL/ACTIVITY performance measures listed below.

	Not Applicable	Very Irrelevant	Somewhat Irrelevant	Somewhat Relevant	Very Relevant
Agency Performance Overall Evaluation Score	❍	❍	❍	❍	❍
Collaboration	❍	❍	❍	❍	❍
Integrated Marketing Communications Coordination (IMC)	❍	❍	❍	❍	❍
Consultative Guidance/Strategic Thinking	❍	❍	❍	❍	❍
Timeliness (Responsiveness, Meet Deadlines)	❍	❍	❍	❍	❍
Administrative & Financial Stewardship	❍	❍	❍	❍	❍
Proactivity	❍	❍	❍	❍	❍
Quality of Creative	❍	❍	❍	❍	❍
Innovation	❍	❍	❍	❍	❍
Other (Describe in Q31)	❍	❍	❍	❍	❍

Q30: Based on your agency's top 10 client 2013 incentive/PBR arrangements, please indicate the relevance of the COST EFFICIENCY performance measures listed below.

	Not Applicable	Very Irrelevant	Somewhat Irrelevant	Somewhat Relevant	Very Relevant
Media Cost/Efficiency	❍	❍	❍	❍	❍
Production Cost/Efficiency	❍	❍	❍	❍	❍
Event or Sales Promotion Cost Efficiency	❍	❍	❍	❍	❍
Other (Describe in Q31)	❍	❍	❍	❍	❍

Q31: In the space provided below we invite you to comment on relevance of any incentive PBR compensation criteria that were not mentioned in Questions 27 through 30. We would also welcome your comments related to which performance categories are most appropriate in the context of incentive compensation.

Q32: Please indicate below, in general, when performance criteria measurements are agreed to between the agency and the client.

	Always	Sometimes	Rarely	Never
Performance criteria are agreed to prior to authorization of the assignment	❍	❍	❍	❍
Performance criteria are agreed to at the beginning of the assignment	❍	❍	❍	❍
Performance criteria are reviewed and agreed to mid-way through the assignment	❍	❍	❍	❍
Performance criteria are reviewed only at the end of the assignment	❍	❍	❍	❍
Other	❍	❍	❍	❍

Q33: Please indicate below, in general, how performance criteria measurements are agreed to in your performance incentive compensation arrangements.

	Always	Sometimes	Rarely	Never
Performance criteria are set by the client	❍	❍	❍	❍
Performance criteria are set by the agency	❍	❍	❍	❍
Performance criteria are mutually agreed to between client and agency	❍	❍	❍	❍
Other	❍	❍	❍	❍

Section IX: Performance Incentive Compensation Agreements – Best and Worst Practices

Question 34 asks you to share your views on BEST practices for structuring beneficial Performance Incentive Compensation Agreements. .

Question 35 asks you to share your views on WORST practices that can undermine PBR/Incentive Compensation Agreements.

Q34: In the space provided below, please share any related business practices that you found to be MOST successful.

Q35: In the space provided below, please share any related business practices that you found to be LEAST successful.

Thank you for participating in our survey. Please click the Continue & Save button to record your answers. You will be redirected to the 4A's Management Section of www.aaaa.org

Survey on Agency Performance
Incentive Compensation
Payment by Results (PBR)

Participating Member Agencies

180LA
22squared, Inc.
360i LLC
72andSunny Partners LLC
A. Eicoff & Company
AdFarm Partnership
Alling Henning Associates Inc. (AHA!)
Atmosphere Proximity
Bailey Lauerman & Associates
Bartle Bogle Hegarty
BBDO Atlanta, Inc.
BBDO NY
BBDO San Francisco
Blast Radius, Inc.
bluetooth creative group inc
Boelter + Lincoln
Bohan Agency, Inc
Bolin Marketing
BPN
Brothers & Company
Brunner
Burgess Advertising & Marketing
Burrell Communications Group LLC
Butler, Shine, Stern & Partners, LLC
Cactus Communications
Campbell Mithun
Carmichael Lynch
ChappellRoberts

Clarity Coverdale Fury
Colle+McVoy
CP+B
Cronin and Company, LLC
Crosby
CTP
Dailey & Associates
davis elen advertising inc.
Deep Focus, Inc.
Dentsu ATTIK LLC
Departure
Deutsch Inc.
Deutsch LA
DGWB
Digitaria Interactive, Inc
DigitasLBi
d'Vinci Interactive
EGC Group
Eleven
Empower MediaMarketing
Energy BBDO Inc.
Eric Mower and Associates
Erwin Penland LLC
Eveo
Fallon
Fathom Communications
FATHOM Works Incorporated
FCB Garfinkel
Firstborn
Fitzgerald+CO
Gabriel deGrood Bendt, LLC
Gaddis Partners, LTD, dba T3
Garrand & Co., Inc.
Geometry Global
GlynnDevins
Grady Britton
Grey
GSD&M
Hart
Havas Media

Havas WorldWide New York
Havas Worldwide San Francisco
Hill Holliday LLC
Hitchcock Fleming & Associates, Inc.
HMH Agency
Hoffman Lewis d/b/a/ H&L Partners
Horizon Media
Howard / Merrell
Huntsworth Health
HY Connect
Ignited
Initiative
J WALTER THOMPSON CO LTD
Jay Advertising
JWT Atlanta
JWT New York
kbs+
Leo Burnett / Arc Chicago
Leopard
Lewis Advertising, Inc.
LimeGreen
Littlefield Brand Development
Lowe Campbell Ewald
MARC USA
Marcus Thomas LLC
Martin-Williams, Inc.
Mason, Inc.
McCann Erikson New York
McGarrah Jessee
mcgarrybowen
McKinney
MDB Communications
MEC
Media Works, Ltd
MediaCom
Mediavest New York
Meers Advertising
Merkley + Partners
Mindshare USA
Momentum NA, Inc.

Moroch Partners
Munn Rabot LLC
Northlich
Ogilvy CommonHealth Worldwide LLC
Ogilvy, New York
O'Leary and Partners
On Ideas, Inc.
OneWorld Communications Inc.
Organic
Osborn Barr
Palisades Media Group
Partners + Napier
Phelps
Preston Kelly
Prime Access LLC
Publicis Healthcare Communications Group
Publicis Kaplan Thaler
Pure
Rawle Murdy
Razorfish US
Rivet Markcom Midwest, Inc.
RTC
Santy Integrated
Seattle Wunderman Network
Smith Brothers Agency
SMM Advertising
Southwest Media Group
Spawn Ideas
St. John & Partners Advertising and Public Relations
Starcom
Swanson Russell
Swirl, Inc.
Switch Liberate Your Brand
TargetCast LLC d/b/a Assembly
TAXI INC
TBWA\ Media Arts Lab
TDA_Boulder
The Company of Others
The Cramer-Krasselt Co.
The Integer Group

The Lacek Group LLC (Ogilvy Minneapolis)
The Martin Agency
The Morrison Agency
The Tombras Group
The Valcort Group / CTCreative
The Yaffe Group
Topin & Associates
Two By Four Ltd
Universal McCann
Walker Marketing, Inc.
Walz Tetrick Advertising, Inc.
White Good
Williams Helde Marketing Communications
WongDoody, Inc.
Wunderman, LLC (Irvine, CA)
Y&R Austin
Y&R New York
Zehnder
Zenith Media
Zimmerman Advertising LLC