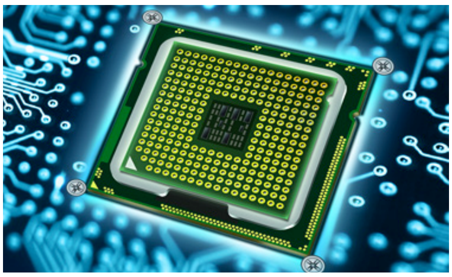
Make cost savings and grow your agency relationships?

Yes, it is possible to do both effectively and at the same time.

We've implemented many cost management solutions with great successful results for a number of our clients.

The second article discusses an area that could lead to significant agency cost reductions. We show you how advertisers can overpay the Agency by 25% or more if Agency standard hours are used to compute Agency compensation, and we provide you with valuable information about Beekman's benchmark average Agency hours per employee.

We hope the topics in this edition of The Beekman White Papers will provide you with a few ideas that you can implement in your management of Advertising costs.



For more information about agency reconcilliations, please contact Beekman Associates.
www.beekmanassociates.com

How to save on marketing costs and grow your agency relationships

Yes, you read right. It is possible make cost savings and grow your agency relationships – at the same time and in real time. We've successfully implemented many cost management solutions for our clients for many years – this is what we do! And here's how.

There's no brand that doesn't want to manage their costs more effectively and make savings. Brand marketers are always looking at all areas of spend to find efficiencies and cost saving opportunities, and procuring agencies and agency fees are part of this question and equation.

We work with some of the most successful global marketers to identify effective cost management solutions, and based on that work, we've put together a list to outline the areas which have yielded the most successful results.

Are you overpaying your agency?

If you're using agency standard hours – you could be.

For example, if an agency employee earns $100,000/year and works on your business 1,500 hours per year. The employee also works on another client (client "X") 300 hours and works yet another 200 hours on agency new business, administration and training (for a total of 2,000 hours).

So how many hours do agency employees really work? And, how does this impact client/ agency fees and contracts?

The agency employee is working 75% (1,500/2,000) of their time on your business. So you should pay 75% of their salary or $75,000. Client X would pay 15% (300/2,000) of the employee's cost or $15,000. The remaining 10% (200/2,000) or $10,000 would be included in the agency's overhead as indirect salary.

Knowing the answers to these questions could If you're using agency standard hours – you could be.

If then we take the same example above but instead look at the results when the agency uses

1,600 standard hours to calculate your share of the agency employee costs. The employee is working 1,500 hours on your business and this time the denominator is artificially lowered from 2,000 to 1,600 standard hours. Your share of the salary would then be 94% (1,500/1,600) or $93,750. That's a 25% variance from the $75,000 above. And, after adding overhead and profit to the inflated salary, the effect is to inflate the agency's fees by a full 25%. Some, particularly at agencies, may argue that in their case it doesn't matter because they cap the hours billed on your account to the 1,600 standard hours. Simply put, that argument is not mathematically correct, it does matter. As you'll notice in the above example, the agency would still be charging 25% too much because the employee worked 1,500 hours you would be paying 94% (1,500/1,600) or $93,750 in-stead of 75% of their costs or $75,000 (a 25% variance).

Actual Hours vs Standard Hours

Example:	
$100,00	***Salary***
1,500	***Hours on your business***
2,000	***Total Actual Hours***
1,600	***Agency Standard Hours***
Using Actual Hours	
1,500/2,000 x $100,000 = $75,000 Salary Share	
Using Standard Hours	
1,500/1,600 x $100,000 = $93,750 Salary Share	
$75,000 vs $93,750 = + 25% Salary Variance	

" When Total actual hours cannot be used, we recommend using the benchmark average hours of 2,040."

What happens in the above example if the employee worked more than the 1,600 standard hours on your business? You would still be over-paying. For example, if the agency employee worked 1,800 hours on your business you would be paying 100% of the employee's cost (because he exceeded the 1,600 hours) when you should be paying only 90% (1,800/2,000). This is a variance of 10% that again carries through after overhead and profit to a full 10% excess in the agency's compensation.

There is absolutely no instance in which using artificially low hours is to the client's favour – none – and, in most cases, it works against you.

So, what should that all-important denominator be? We recommend using the agency's actual hours. If you are projecting for a coming year or entering a new agency relationship, then historical actual hours (an average of the previous year's average hours/ employee) makes the most sense. But, if it is absolutely necessary to use a standard (for example in the case of calculating an hourly rate), we suggest RightSpend's benchmark average agency hours per employee of 2,040[1].

This benchmark is additionally supported by other industry sources as well. A major agency Chief Operating Officer stated in AdAge[2] that "The majority of [agency] employees clock in excess of 1,800 billable hours." Note that "billable hours" exclude the non-billable (or indirect hours) which is 10% of an agency employee's time, for total hours "in excess" of 2,000/year.

To recap, it is best to use total actual hours when calculating your share of agency employees' costs. Per RightSpend definitions, total actual hours includes (a) the actual number of hours worked on the client's account plus (b) the actual number of hours worked on other client accounts plus (c) the actual number of hours worked on non-client (agency) matters such as new business development, executive and administrative matters, but excluding vacation, holiday and sick time. When total actual hours cannot be used we recommend using the benchmark aver-age hours of 2,040.

[1] 2,040 is the U.S. consumer advertising agency benchmark average. Note that international benchmark hours vary significantly by country (e.g. 1 Japan significantly exceeds the U.S. benchmark and France is significantly under the U.S. benchmark).

[2] AdAge, December 22, "DDB: Workweek is Now 40 Hours – or More" by Jeremy Mullman.

[3] See The Beekman Report, issue for a complete set of Beekman Associates' Standard Definitions.