



How to get the right agency service at the right price

Call it a review, reconciliation or just a conversation, meeting up with your agency at the end of the year is the simplest and most effective way to make sure you are getting the right service, for the right amount of time, at the right price. It'll also build trust, fairness and transparency within your agency relationships.

Having many of those straight up conversations about time, money and process with your agency partners is never easy but here are a few tips to doing it well.

The process does involve reconciling your agency estimated staffing plan and fee against the actual staff fee used during the year. You'll probably be relying on history as a gauge for determining what level of agency staff will be required to complete a scope of work. So, if the last year's scope is similar to the previous year's, then the staffing and fees should be the same.

But what if you cut spending and the scope of work and so your agencies made significant adjustments in staff to account for their lower fees? Then would your agency's estimate on how many employees it would take to complete the work still be accurate?

No one but the agency knows this and if we're building a fair and transparent relationship, you should too.

There are several different types of reconciliations. Some clients reconcile the agency's estimated hours against actual hours but do not reconcile the costs. But this type of reconciliation can be misleading since it's common for the agency's actual hours worked to be higher than their estimates. Also, the people working those hours are often more junior than was planned for, so you can actually overpay your agency.

In our experience, it's better to reconcile both the hours as well as the costs to get a true picture of what's going on. When we do this for our clients, we've seen them make 7-9% savings. There is also the added benefit of knowing to set the next year's staffing plan to 7-9% lower than the current year (for the same level of work).

If you look at the table below, the agency estimated 4,700 hours on the client account and actually delivered 5,100 hours - 8% more hours than were planned. Because the hours were distributed, on balance, to more junior people, the real cost of \$396,000 for the 5,100 hours is 13% lower than the \$455,000 that was paid to the agency. In other words, the agency was paid \$59,000 more than they should have been.

Here are the answers to some of our most commonly asked questions:

"We pay our agency based on a commission on media spend so there's no need to do a reconciliation, right?"

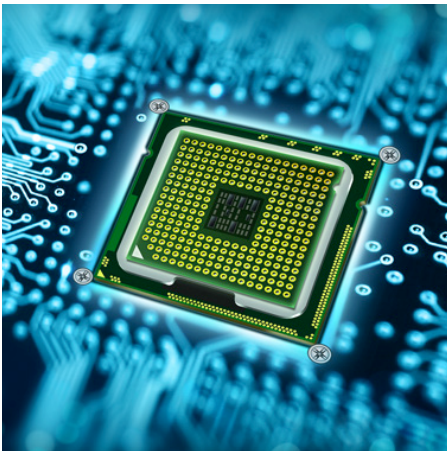
Actually, yes, there is. It doesn't matter how you pay your agency - whether commission, retainer, project or hourly - a reconciliation always makes financial sense. In the case of commission, the

	Hourly Rate	Hours on Client		Cost*	
		Estimated	Actual	Estimated	Actual
Account Director	180	1000	500	\$180,000	\$90,000
Account Servisor	105	1200	800	\$126,000	\$84,000
Account Executive	66	1500	2000	\$99,000	\$132,000
Account Coordinator	50	1000	1800	\$50,000	\$90,000
Total		4700	5100	\$455,000	\$396.00

*Cost includes salary + overhead + profit

reconciliation will allow you to see if the commission rate that you're using is appropriate given the level of agency staff on your business. Brands who use a commission have the greatest opportunity for savings by doing a reconciliation.

Why? Since agencies that work on a commission only basis are paid based on how much the client spends (and not on how many people it uses), the agency can increase its profit on an account by using staff more efficiently.



The reconciliation will provide transparency to how many people the agency is using and will allow clients to assess whether their commission rate is appropriate.

“Is this a complicated process? What’s involved? “

- The agency regularly (usually monthly) performs client reconciliations for their internal purposes so the data is readily available. The information that must be collected by the client includes:
- Actual hours worked on Client's business
- Total actual hours worked on Agency's other clients (without identifying the clients)

“When is the best time to perform an agency reconciliation?”

- Actual hours worked on Agency's non-client matters (training, administrative, new business, etc.)
- Direct Base Salary* (in aggregate by department), for the year being reconciled
- The agency employee's title

*Direct Base Salary is salary before benefits of bonuses for Direct 'Hands on Staff

At a minimum, annually, after the agency has closed its books.

If your company has not been utilizing this industry best practice in the past, an agency reconciliation is worthwhile - especially if you've reduced agency fees.

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

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