

Your RightSpend insider's guide to Brand / Agency contract terms simplified

1. **Direct Expenses**

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A. Total Actual Hours

This is the actual number of hours of direct staff worked on the client's account (A) plus the actual number of hours worked on other client accounts (B) plus the actual number of hours worked on non-client (agency) business such as new business development, executive and admin but excluding holiday and sick time (C). If actual hours are not available because the agency is projecting for a future period, then historical average hours can be substituted for actual hours, in which case the agency must state it is using average hours and give the average hours used. Just don't use an agency standard hour formula. Here's why.

For example: If your agency account person spends 1,000 actual hours on your (client) account, 800 actual hours on another client account and 200 hours on internal agency work such as new business development etc then that is a total of 2,000 actual hours. The account person earns an annual base salary of \$100,000 per payroll registers, then the direct base salary would be allocated as: \$50,000 for your (client) account, \$40,000 would be allocated to other clients and \$10,000 would be allocated to the agency's indirect payroll portion of overhead.

B. Direct Staff

Direct Staff are those agency employees who work "hands on" in Direct Departments (as listed below.) The term doesn't include any agency employee, regardless of department, whose primary responsibility is in the area(s) of finance, accounting, secretarial, administrative, agency related computer services or executive management. It is assumed that each direct staff person listed is a full-time, full-period employee of the agency and any variances need to be indicated.

C. Direct Departments

1. Account Services – Hands-on staff working on Client contact, marketing, planning, merchandising, etc, by principals and by account staff. Account Planners should be included under the "Research/Account Planning" section and not in this section.
2. Creative – Hands-on staff working on the Client's creative including concepting, copy writing, art direction, finished art, layouts, mechanicals, illustrations, stylists, etc.
3. Account Planning – Hands-on staff working on research, market analysis, account planning, library functions, etc. for the Client's business.
4. Research – Hands-on staff working on research including information specialists, researchers and other professionals.
5. Media Strategy/Planning – Hands-on staff working on the Client's media planning, estimating, media research and strategy.
6. Media Buying – Hands-on staff working on executing the media plan by negotiating, contracting, buying or tracking the Client's media.
7. Production – Hands-on staff working on managing and performing all facets of the Client's production of advertisements for broadcast, print, and collateral.
8. Traffic – Hands-on staff working on managing and performing all facets of the Client's trafficking of advertisements for broadcast, print, and collateral.
9. Interactive – Hands-on staff dedicated to interactive activities including website development, programming, etc., but does not include the time of people in the Account Service, Creative or Media departments working on the creation or placement of advertising that will appear in an interactive medium (their time is collected in the respective departments above.)
10. Other – (if any, must be agreed to in advance by the Client and be described in detail).

D. Direct Base Salary

Direct Base Salary is the base salary per the agency's payroll register for Direct Staff employees (as defined above.) and excludes any (i) bonuses, (ii) stock, (iii) deferred compensation, (iv) payments into retirement plans, (v) profit sharing, (vi) contributions to benefit or savings plans, (vii) benefits and perquisites, (viii) medical, dental, and disability insurance, and (ix) payroll related expenses such as payroll taxes, insurance, and other mandated employee benefits. These excluded items are included elsewhere.

Non-employees such as independent contractors and free-lance workers, who work on client matters, should be listed on the Staffing Plan as such at their net cost prior to benefits and overhead costs. Indicate if the person named is an employee by including an "E," freelance by including an "F," or a part-time by including a "P" after their name.

E. Client's Share of Base Salary

The Client's Share of Direct Base Salary is defined as each Direct Staff person's salary (as defined above) for the period being reported, multiplied by the percentage that is derived by dividing (i) in the numerator the person's actual hours worked on the client's account for the period, and (ii) in the denominator the person's "Total Actual Hours."

2. **Overhead Expenses**

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Overhead costs are defined as the agency business expenses that are necessary and related to conducting the agency's operations, are not included in Direct Base Salary, are not an allocation of the costs of running the agency's parent company, and are specifically included below within one of the five subcomponents of Overhead Costs:

A. Indirect Payroll

1. Employee wages paid for new business development
2. Employee wages paid for the Agency's publicity and public relations

3. Employee wages for finance, accounting, billing, and checking
4. Employee wages for data processing, data management and computer maintenance
5. Employee wages for human resources and personnel issues
6. Employee wages for general office functions
7. Employee wages for executive management
8. The indirect portion (non-client time) of Direct Staff employee's salaries
9. Temporary services for the above function
10. Other (if any, must be agreed to in advance by the Client and be described in detail)

B. Payroll Related Expense

1. Social/Payroll taxes
2. Employee medical, disability, and term life insurance benefits
3. Payment into retirement plans, 401K plans and profit sharing that do NOT replace agency bonuses
4. Auto allowances
5. Third-party payroll processing costs
6. Moving and relocation costs
7. Other (if any, must be agreed to in advance by the Client and be described in detail)

C. Corporate Expenses

1. Agency's non-payroll advertising and publicity costs
2. Donations to charities
3. Operating and property insurance expenses
4. Memberships dues and subscriptions
5. Out of pocket new business expenses (non-payroll portion)
6. Office supplies, stationery and petty equipment
7. Postage and delivery charges
8. Data processing expenses
9. Equipment depreciation
10. Internal (non-client-related) travel
11. Severance
12. Telephone, teletype and facsimile expenses
13. New Business (non-payroll) out-of-pocket costs
14. Seminars and conferences
15. Use taxes

- 16. Bank fees
- 17. Other (if any, must be agreed to in advance by the Client and be described in detail)

D. Professional Fees

- 1. Outside Certified Public Accounting fees
- 2. Outside legal counsel
- 3. Outside consultants
- 4. Other (if any, must be agreed to in advance by the client and be described in detail)

E. Space & Facilities Expenses

- 1. Rent, light, heat, electric and repairs
- 2. Leasehold depreciation and amortization expense
- 3. Real Estate and occupancy taxes
- 4. Security
- 5. Other (if any, must be agreed to in advance by the Client and be described in detail)

3. Direct Client Expenses

Direct Client Expenses are non-salary, non-reimbursed, out-of-pocket expenses that are directly attributable to a client's account. Direct Expenses include:

- A. Non-reimbursed travel to and from client offices during the routine management of the client's business but does not include time for staff

- B. Non-reimbursed entertainment
- C. Non-reimbursed research costs directly attributable to the Client
- D. Non-reimbursed presentation costs
- E. Bad debts and doubtful account reserves
- F. Foreign currency exchanges gains/losses
- G. Media services including data subscriptions
- H. Trafficking services (if handled externally)
- I. Other (if any, must be agreed to in advance by the Client and be described in detail)

4. Profit

Profit includes the agency's operating profit, employee bonuses (including other similar types of employee incentives), employee retirement plans if given in lieu of bonuses, stock options, reorganization/restructuring costs, goodwill amortization, interest expense.

Payments to the agency's parent or holding company (other than an allocation of the parent or holding company's third party out-of-pocket expenses directly related to agency).

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

