



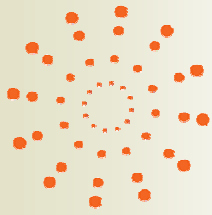
Pay Your Agency on Results: Risk-Sharing Compensation Models

David Levin, President, i33 communications



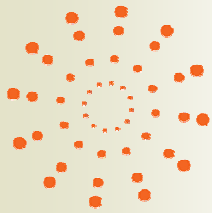
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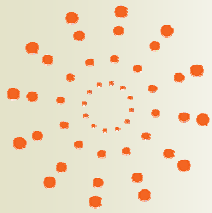
**“ You’re telling me that
for every dollar I spend with you,
I would make \$12, why wouldn’t
I just give you a billion dollars? ”**

**Based on a conversation with
Richard Branson
Chairman, Virgin**



Risk-sharing works for all types of interactive services and marketers

Service	Representative i33 Client	ROI Goal
Website Development	 BUICK	J.D. Power Rankings, Quality of Agency Service
	Publishing Client	Timeliness of Completion
Online Advertising	L'ORÉAL	Retail Sales
		Subscriptions for Free (Leads) and Paid (Sales) Services
Both Website and Advertising	GMAC	Closed Contracts
	 entertainment. <small>The Premier Source for Discounts and Promotions</small>	Coupon Book Sales
		Retail Sales Revenue

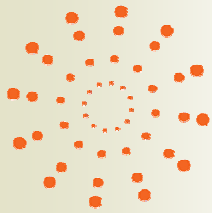


Pay Your Agency on Results: Risk-Sharing Compensation Models

What is Risk Sharing

Why Share Risk

How to Build a Successful Risk Sharing-Model



In sharing risk, marketer and agency align around possibility of failure

share

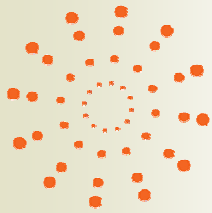
v.

to have in common

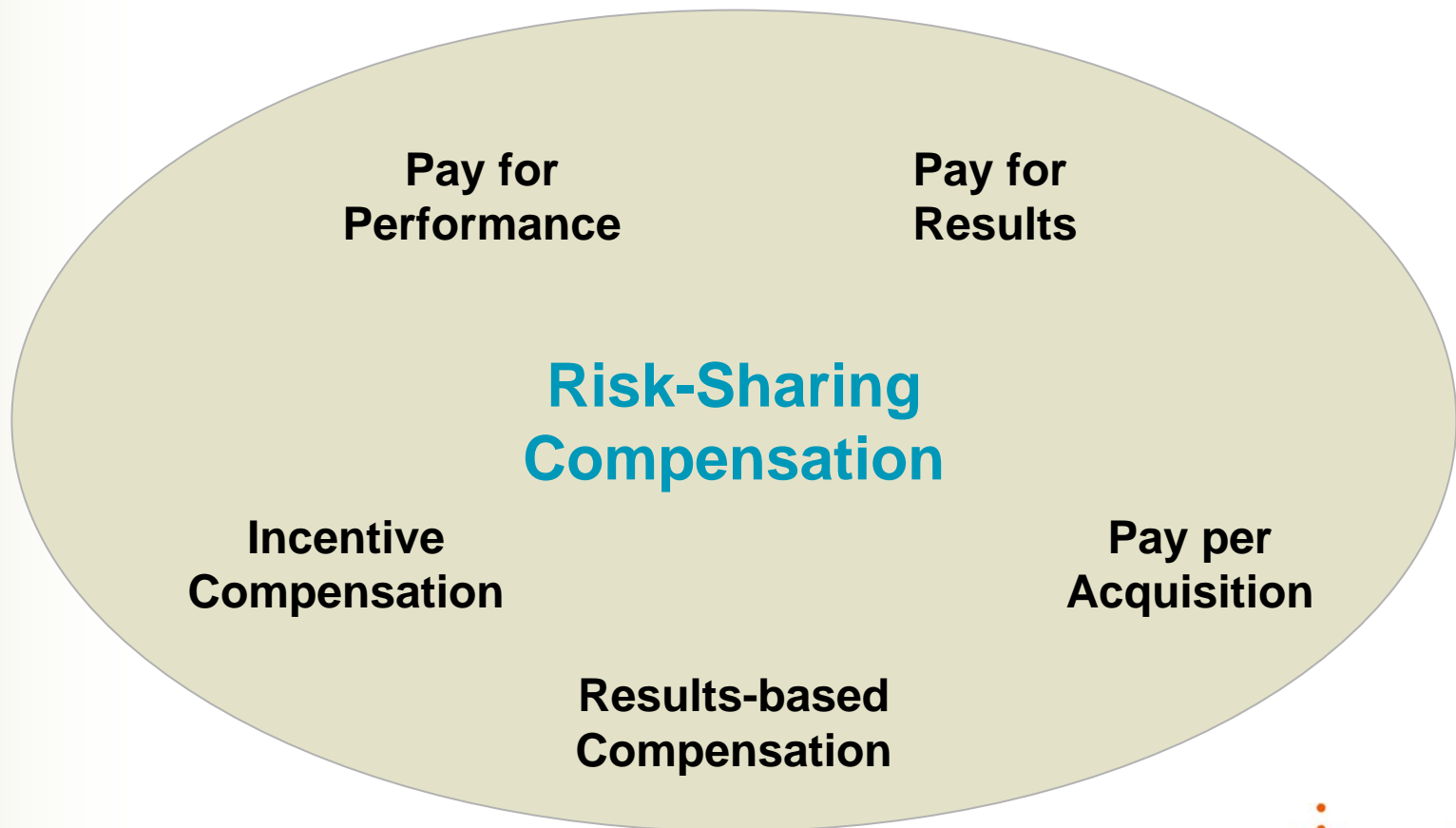
risk

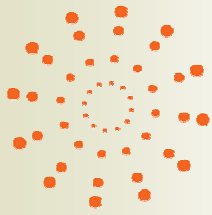
n.

the possibility of loss



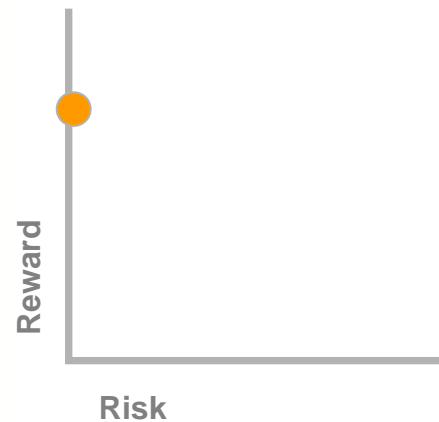
**No matter what you call it,
it's all about sharing risk**



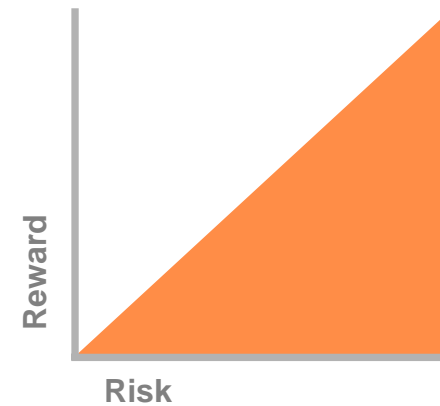


Agencies that share risk should share in reward

Traditional Model (essentially fixed fee)

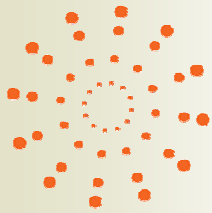


Risk-Sharing Model (variable fee)



“Higher Risk, Higher Potential Reward”

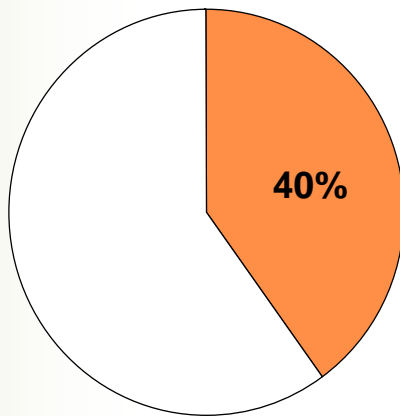
- Marketers lower downside risks but pay more if agency achieves goals
- Agencies increase upside potential but receive less compensation if not successful



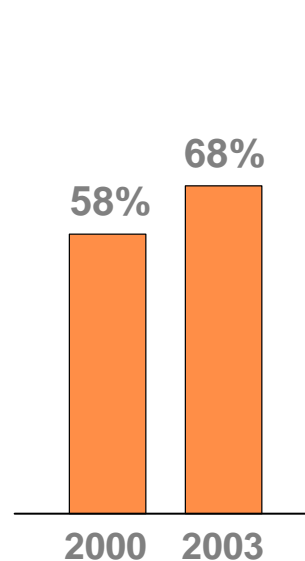
Many marketers have employed risk-sharing with great success

Agency Incentive Compensation

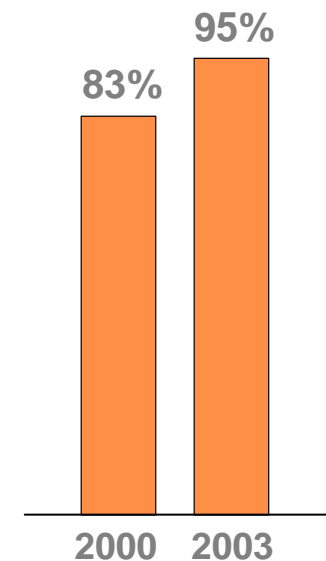
Use Currently



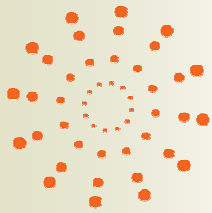
Improved Performance



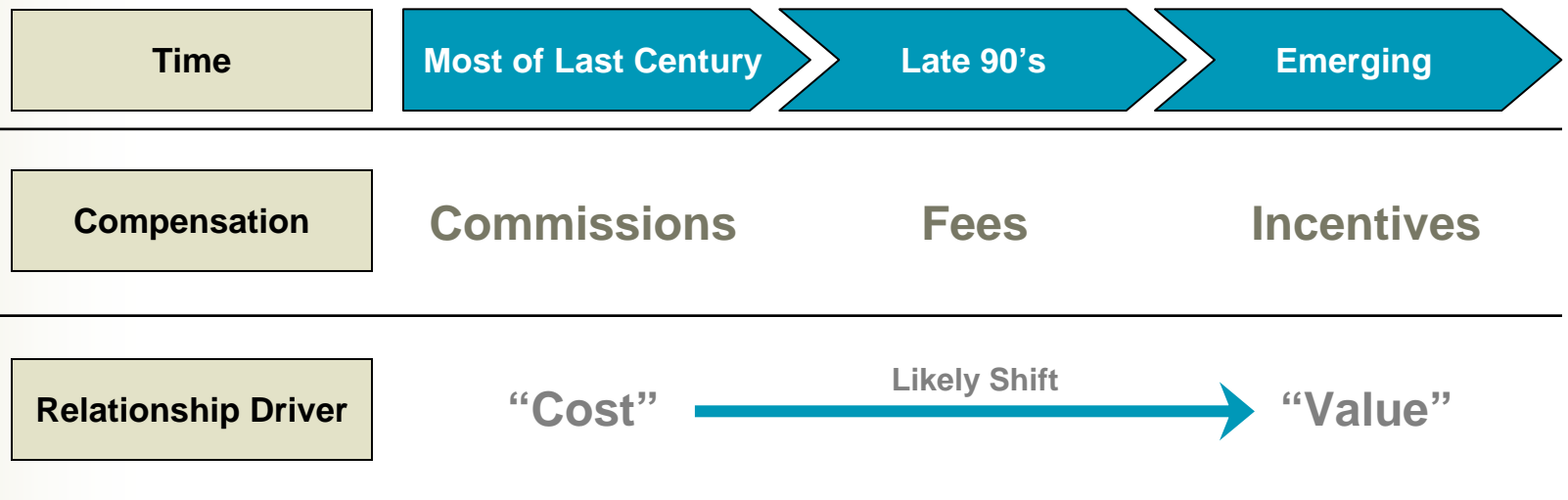
Will Continue to Use



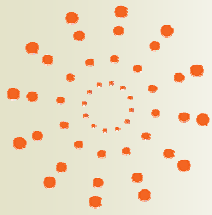
Source: Association of National Advertisers, Trends in Agency Compensation, 2004



Increasing use of incentive comp signals discussion of agency value over cost

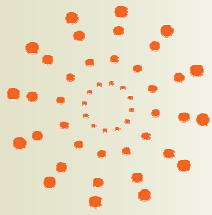


Source: Association of National Advertisers, Trends in Agency Compensation, 2004



Marketers currently employ numerous agency compensation models

Comp Method	Description
Media Commission	Agency is paid on variable percentage of media billings
Fixed Fee	Agency is paid fixed amount for a project or period of time
Time & Materials	Agency is paid hourly rate(s) for time spent by individual resources
Combination of Fees & Commission	Agency is paid fees and commissions sometimes split by services (fees for creative & commissions for media)
Risk-sharing/ Incentive-based	Agency is paid based on achievement of ROI goals and/or other agency performance criteria



Entrenched fee-based comp models hinder risk-sharing adoption

Agency Barriers

“The Gravy Train”

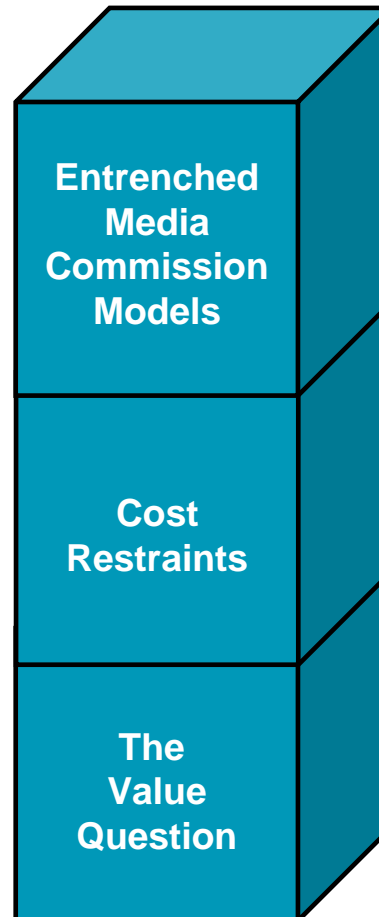
- Established revenue stream from core large clients
- Proven profitability track record with current fee models

“Labor Pains”

- Complexity of balancing resource allocation relative to potential return
- Desire to staff junior resources to mitigate risk

“Get More”

- Complexity of determining ROI goals and fair compensation
- Fear that risk is too high relative to potential remuneration



Marketer Barriers

“Rewriting the Rule Book”

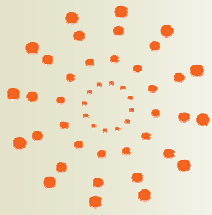
- Established agency comp models & evaluations (high switching cost)
- Lack of education and advocacy for new fee models

“Red Tape”

- Limit on ability to sign open-ended fee arrangements (caps)
- Unwillingness to go “up the corporate ladder” for approval

“Pay Less”

- Complexity of determining ROI goals and fair compensation
- Lack of interest to pay more for greater value



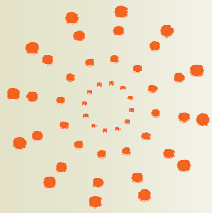
Smaller agencies more likely to consider risk-sharing comp than larger agencies

Smaller Agencies

- Typically privately held
- Lower overhead costs
- More flexible and diverse compensation models
- Mix of Fortune 1000 and mid-sized clients

Larger Agencies

- Typically publicly held
- Higher overhead costs
- Established, standard compensation models
- Fortune 500 customers

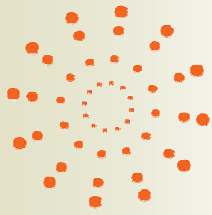


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How to Build a Successful Risk Sharing-Model



Online is the most “trackable” medium, enabling marketers to share risk

Top 5 Reasons Marketers Should Share Risk

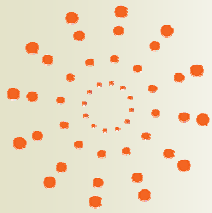
- 5** Leverage the fact that online is the most “trackable” medium

- 4** Lower your upfront costs for site development and advertising

- 3** Focus initial ad spending on media, rather than agency fees

- 2** Ensure alignment with your agency as a partner

- 1** Promote aggressive growth through incentive

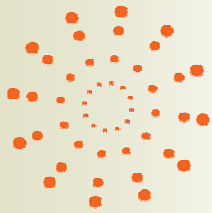


You should share risk if you know how much you can pay and have strong direct-response experience

Scoring 5-10 points indicates a strong affinity for risk-sharing

<u>If You:</u>	<u>Score Yourself:</u>
Know how much you're willing to pay to acquire a lead or sale	3 points
Want to limit your downside risk	1 point
Have aggressive acquisition goals	1 point
Use offline direct-response marketing currently	2 points
Are seeking to start a new venture or test a new product	1 point
Are willing to truly share rewards of success with your agency	1 point
Are company with risk-sharing comp (bonuses) or strong sales focus	1 point

Your Total Score: ____ / 10 points

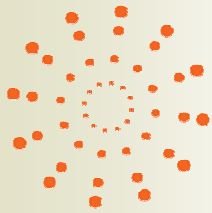


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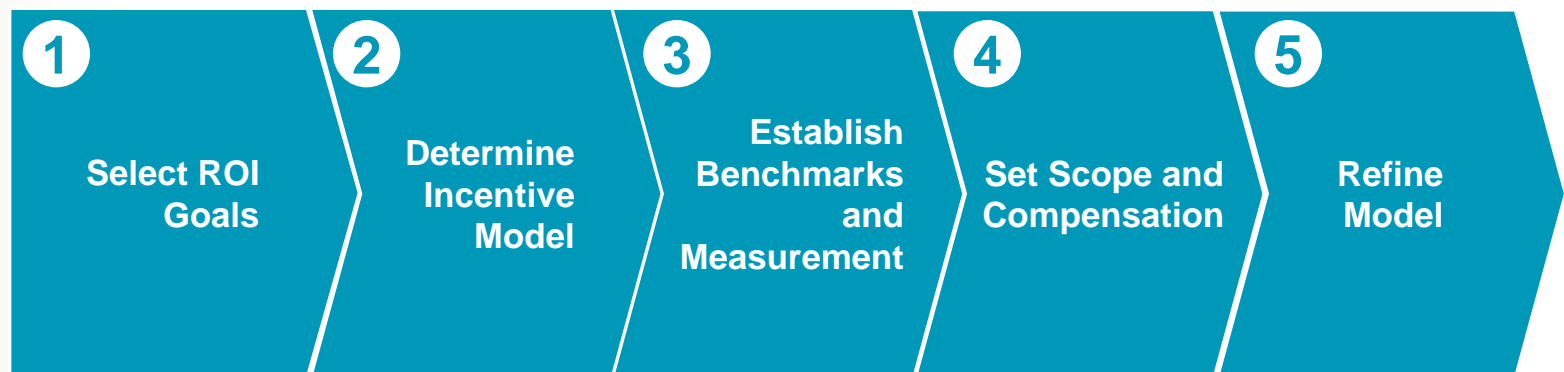
Why Share Risk

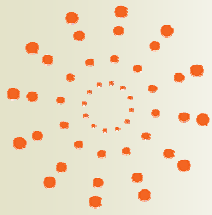
How to Build a Successful Risk Sharing-Model



i33 offers 5 easy steps to sharing risk with your agency

5 Easy Steps to Building an Agency Risk-Sharing Model





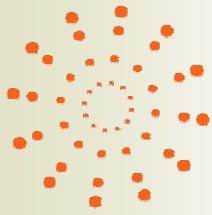
Select ROI Goals



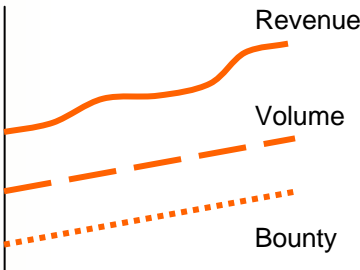
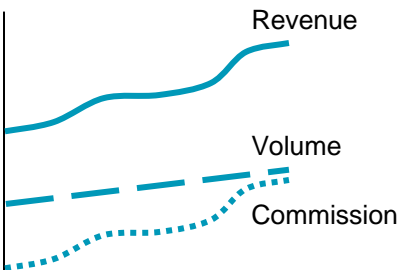
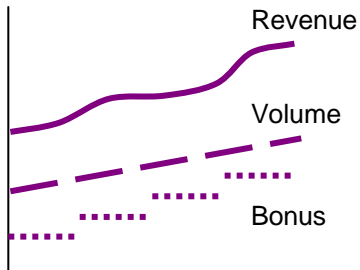
Your ROI goals may range from driving sales to increasing website usage

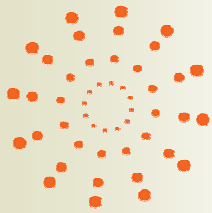
Potential ROI Goals

- Leads and/or Sales
- Customer Retention/Lifetime Value
- Website Usage
- Brand Metrics (awareness, intent)
- Industry Rankings and Awards
- Timeliness of Project Completion
- Quality of Agency Service



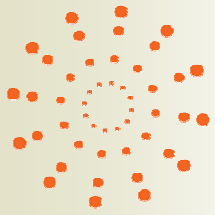
Bounties incent volume, while commissions address profitability

Bounty	Commission	Bonus
\$5.00 per sale	5% of revenue	\$25,000 for 10,000 sales \$60,000 for 20,000 sales
		
<ul style="list-style-type: none"> • Incent volume • May ignore profitability • Consider if you sell few products with established margins 	<ul style="list-style-type: none"> • Incent revenue • Addresses profitability • Consider if you sell many products with varying price points 	<ul style="list-style-type: none"> • Incent goal achievement • May ignore incremental results • Consider if your company employs bonus structure internally

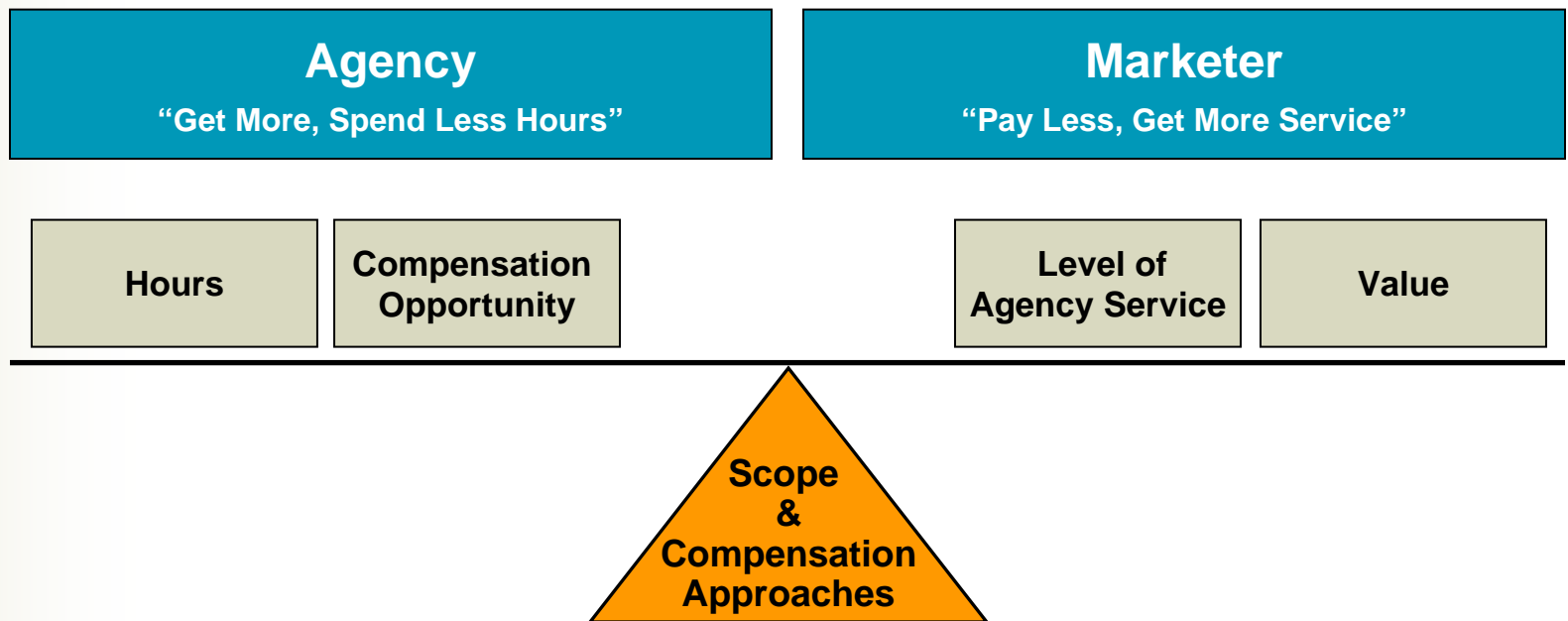


Select ROI metrics and quantifiable measurements based on your ROI goal

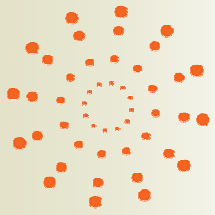
Sample ROI Goal	Sample Metric	How to Measure
<p>Lead / Sales</p>	<ul style="list-style-type: none"> • Volume • Profit 	<ul style="list-style-type: none"> • Cookies, codes, URLs • Sales data (e.g. i33's AdMaximizeSM Tool)
<p>Website Usage</p>	<ul style="list-style-type: none"> • Time spent • Unique visitors 	<ul style="list-style-type: none"> • Web analytics tools • Usability testing
<p>Quality of Agency Service</p>	<ul style="list-style-type: none"> • Strategic value • Quality of deliverables 	<ul style="list-style-type: none"> • Scorecard



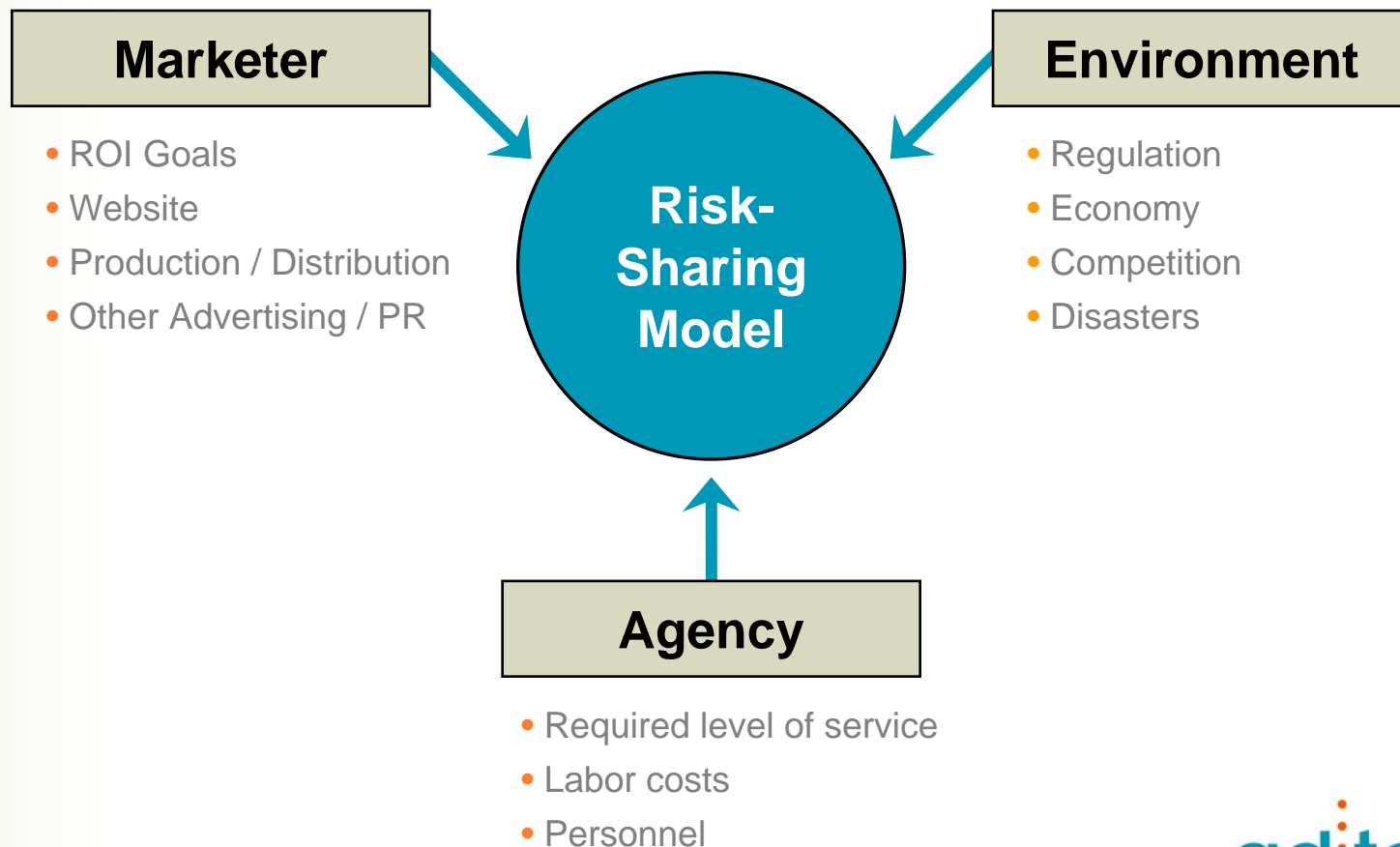
Balance agency's and marketer's competing priorities fairly

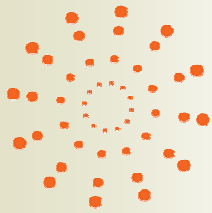


- Hybrid fixed / incentive fee model
- Regular reviews of model
- Separate fees for ad-hoc agency services (strategic, creative and technical support)
- Open dialogue with agency



Review risk-sharing model regularly to align with changing realities





Risk-sharing works: Pass it on

- Collaboration with your agency is key
- A fair compensation model shares risk and reward
- Build a model that rewards early wins and incents aggressive growth
- For more information, please contact:



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