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ISBA | Observatory International

UK agency remuneration survey 2022 – Executive Summary

Marketing & procurement perspective

Introduction

We last looked at remuneration in early 2020 with a 'live' presentation of the findings presented at ISBA HQ literally moments before the UK Government put us all into lockdown.

Few could have predicted at that time that the pandemic would be something that lingered on for two further years, throwing business and our lives into turmoil.

And just as we started to see some sort of post-pandemic normality starting to form, the industry faces equally difficult issues of rising prices, exponential growth in the cost of energy (from whatever source) and tempestuous trading conditions.

All of which will provide a back-drop to the way in which marketers and procurement professionals will continue to engage with their agencies in the future.

The following report, conducted and 'in the field' when the storm clouds were merely gathering – although the imminent downpour was more than apparent - shows how behaviours have changed over the pandemic period and how businesses are looking to the future in terms of their agency remuneration principles.

In many respects little has fundamentally changed – aside from a lowering of budgets and continuing pressure on what businesses are paying their agencies.

It's perhaps that point (or the fact we're still recovering from or continuing with post-covid business fatigue) which has resulted in fewer respondents (49%) engaging with this study than in 2020.

As such, some of the findings in this report should perhaps not be taken as definitive – but simply as reflective of the overall picture with the readers drawing comparisons with their own experiences during both the pandemic and recent months.

Executive summary

The past few years have been difficult for the industry in general - whether one's role is client or agency-side.

This has resulted in some behavioural and financial changes due to the disruption of the pandemic, and its impact both on our ways of working and challenges to the way in which we communicate with our audiences.

Financial management continues to be a shared affair between marketing and procurement – though with a shift more towards procurement being responsible versus our previous study.

This report does indicate a shift in the frequency of discussions on agency costs, with a higher percentage checking in quarterly rather than more regularly as in previous years. There are multiple factors that may have caused this shift – less work being done during the early period of the pandemic, greater focus on other financial issues, or better financial management of agencies in general.

This doesn't mean to say that focus on finances is in any way diminished - market conditions will inevitably mean that greater pressures will exist to reduce costs and improve efficiences, though care needs to be taken that this does not affect quality of outputs.

There was a high degree of movement in the media marketplace during the pandemic, with many clients reviewing their agency relationships in an effort to reduce costs. The converse was true of creative pitches which, whilst some businesses did review, many kept their current arrangements in situ. This we feel, given current economic pressures, is likely to change during the latter part of 2022, though hopefully most clients will approach any such initiatve with the ISBA/IPA Pitch Positive Pledge at front of mind.

As shown in our 2020 report, multiple remuneration constructs are in play with both media and creative agencies. Whilst payment methodologies may have shifted in their usage (potentially due to the need to switch channels of communication during the pandemic) the basic models have not, and postives/negatives around each remain. The pandemic may have led to many innovations, but the creation of revolutionary remuneration constructs is not one of them.

However, performance is a key focus – and we have seen a marked shift since our 2020 report in the need to link agency payments to their performance, with media agencies being a greater beneficiary in terms of potential fee earnings (10-30% in play) versus creative agencies (<10%).

Difficulties in setting KPIs seems to be a continued problem for creative agencies in particular, and this needs to be addressed along with a performance approach which is geared to simply supressing desired agency margins rather than genuinely incentivising them.

The vast majority of respondents (83%) felt they were getting value for money from their media agencies which was in significant contrast to the response on creative agencies which, when asked the same question scored an alarming 55%. This evidences the fact that media value is more measured and definitive – creative is somewhat intangible, especially to non-marketers.

Client/agency behaviours at the outset of the pandemic resulted in change and, inevitably, subsequent refinement over time. Evidence suggests, at the early stages, there was a sense of all being in this together, notwithstanding the fact that many brands cut back expenditure which had an effect on their agency partners. As spend came back, but cost was even more in focus, we saw a change in approach for many in terms of the financial demands from their agencies. This is unlikely to change now we've largely exited the cororavirus crisis but are faced with other significant market, supply-chain and financial issues.

Thus, to an extent this creates a perfect storm for the industry. Clients are already spotting that service levels are down from pre-pandemic, caused by the much publicised talent shortage with many leaving the agency world and proving difficult to replace. This will have an inflationary impact on desired salaries from both movers and those long term staffers who will be aware that new joiners are being paid significantly more and will push for their own increases. That, along with the financial tribulations that all businesses are experiencing will invariably push agency costs up whilst clients are trying to push them down.

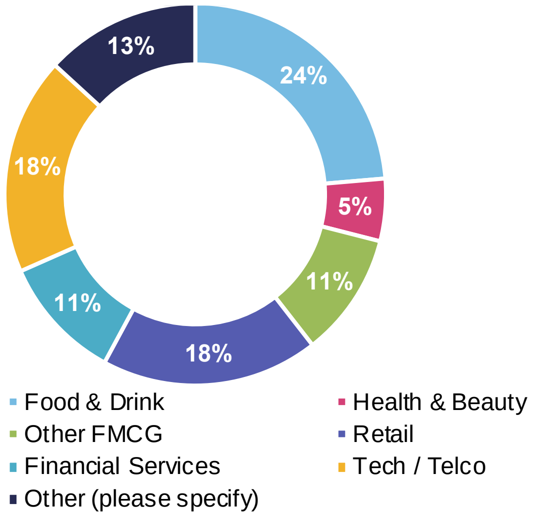
Evidence suggests that many will need to look closely at the way they work with their agencies, the number they have and how that roster serves the needs of marketers. They will need to re-visit and re-construct their roster to create greater efficiencies and overall cost savings rather than simply take a line-by-line approach with each agency to force costs lower which, potentially, and for the first time in a long time, will result in agencies refusing to accept.

The full report can be found here.

About this report

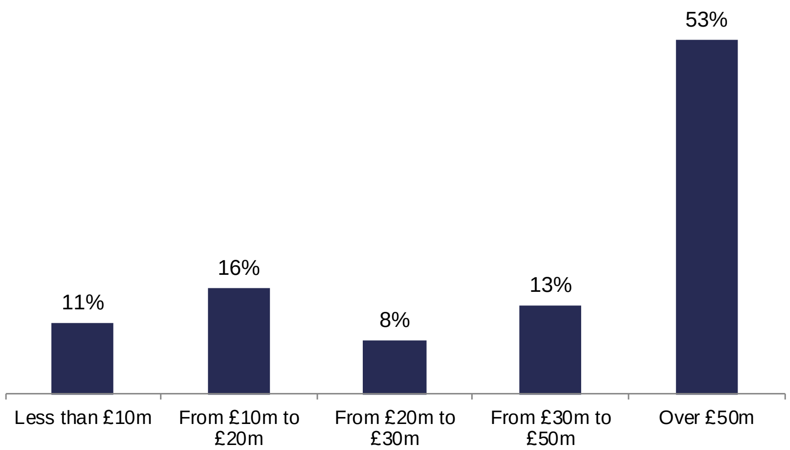
The report is based on an on-line survey undertaken with ISBA members in Q1 2022.

38 individuals responded split approximately 40% marketing and 60% procurement from 35 companies operating across 7 business sectors.



58% Procurement
42% Marketing and comms

Approximate total UK Marketing & Communications expenditure
(media, content and production)



About the Observatory International

The Observatory International is the leading global management consultancy dedicated to helping companies drive brand growth by transforming their marketing and communications resources.

We bring global and local perspectives to marketers and procurement along with the knowledge required to overcome the challenges associated with managing communications agencies in these dynamic times. With over 15 years of experience working with many of the world's leading brands and agencies, our casebook is full of best practice on how to get the best from your marketing resources.

To learn more, visit: observatoryinternational.com

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