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MODELS, PROBLEMS AND PERSPECTIVES OF CHARGING BY MARKETING COMMUNICATIONS AGENCIES

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Abstract: *This paper deals with the practice of paying for services provided by marketing communications agencies and whether it is possible to assess the agency's contribution to the client's business and link these results to the payment model. The way of functioning of this market is presented, and by analyzing the genesis of the relationship-model and payment conditions, the authors locate the essence of the problem in the agency-client relationship and come to the current model that puts agencies at a disadvantage and lowers the level of service quality. The main problem is that there is no consensus and clear methodology on how to assess the contribution of an agency's work to its client's business results. Unlike digital services, where it is relatively easy to measure the achieved results, in traditional advertising the situation is much more complicated and more difficult to measure. That is why the authors favor the model that has started to be applied on a smaller scale lately, and that is payment by result. The topic is of theoretical importance for researchers and of practical importance for both parties in the described process - both for clients and agencies.*

Keywords: *agencies, clients, payment, change*

INTRODUCTION

Marketing communications agencies (hereinafter referred to as agencies) are an indispensable part of the implementation of the marketing strategy of most market-oriented companies (hereinafter companies, clients or advertisers). To a greater or lesser extent, agencies have a role in the planning and implementation of the so-called fourth P - Promotional part of the marketing mix. Without going into a review of the topicality of the 4P model (Kotler, Armstrong, 2005), this paper has in mind all forms of communication with potential customers or users of products or services of advertiser companies.

The agency is typically responsible for all or part of the following activities:

- market and consumer analysis,

- developing communication strategies,
- conceptual creation of the content of communication campaigns,
- coordination and control of the work of third parties engaged in the implementation of campaigns (production companies, printing houses, off-line and on-line media,),
- media leasing and planning,
- implementation of communication campaigns, etc.

Basically, the business relationship between the agency and the advertiser falls into the b2b category. The services provided by agencies to clients are highly sophisticated and include the engagement of a wide variety of categories of professionals: client service managers, researchers, strategic planners, designers, copywriters, digital consultants, media specialists and many more professions. At first glance, it is clear that gathering and coordinating so many experts of different profiles under one roof is not easy and that it can never be cheap. More than 50% of all expenses that the agency makes for performing its activities are salaries of employees. The rest refers to general expenses such as space rent, utilities and the like (Gardner, 1988). The usual model was for clients to pay media agencies through a percentage of the budget, and creative and other integrated services on a fee basis.

In the last few years, the crisis of the business model of marketing communications agencies has been noticeable. The value of shares of large holding companies is oscillating or falling sharply, the prices of agency services are experiencing a drastic decline, many international conferences have hot topics related to the problems of fair collection of agency work; agencies are looking for ways to reduce costs, research shows growing dissatisfaction of agency employees. Although at first glance most agencies in the world record stability in revenues, the nature of agency work is such that millions of clients' budgets pass through third parties to its account, and this blurs the picture of the real situation.

The agency receives compensation from the client for its work. As early as the early 1960s, Shell imposed on its newly elected agency Ogilvy a completely new method of payment - a fee based on the engagement of people in the agency (Farmer, 2019). Similar to lawyers, the billing model was based on the hours spent, that is, the time of hiring people from the agency. The price of the hour included a) salary of employees, b) general operating costs of the agency and 3) agreed percentage of profit.

Over time, the described model became dominant and survived until recently, but short while ago it began to change significantly. These changes, unfortunately for the agencies, were not so much qualitative as quantitative. They were introduced by the company's procurement service. In practice, budgets for market communications are growing, but agencies are left with a smaller and smaller part of that financial cake.

Consequently, it is increasingly difficult for them not only to maintain stable growth but to survive. Due to all this, agencies spend more and more time in negotiations with clients on compensation for their work, which, according to clients, shifts the focus from the most important thing of joint cooperation: creating effective market communications (Worldwide Federation of Advertisers, 2018). This further leads to a reduction in the quality of services provided by larger agencies.

1. CLIENT COST OPTIMIZATION

In the early 1990s, large international companies found it increasingly difficult to find ways to further grow sales of their products or services. There has been a kind of oversaturation of the market. Everything that could have been done has been done: geographical expansion (globalization), billions invested in market communications, portfolio diversification. The answer to that question was given by one sector that had been somewhat neglected until then - the procurement sector. Its answer was relatively simple: instead of a very hard and expensive struggle to increase market share and increase sales, earnings growth can be achieved by reducing costs. A new star and a new business ideology was born.

This approach has brought very rapid and tangible financial benefits, as opposed to the slow and unpredictable effects that investment in marketing and frontal market competition have had. By controlling and reducing costs, balance sheets and income statements began to grow and shareholders became satisfied again. The pressure to reduce expenditures was not limited to suppliers of raw materials, intermediate goods and energy. One of the more ambitious goals of the procurement service was to control and optimize the huge marketing costs and the agencies were the collateral damage of this process. Until then, the holders of the flattering title of the main partners of the companies of the advertisers were demmoted overnight into the rank of a provider of creative and media services. Agencies have been in a position to do more and more work for less and less money.

The agency was unconditionally expected to reduce its prices. The basic ways in which the procurement service achieved this were 1) distribution of business in several agencies and 2) tenders. Until then, contracts with agencies were mostly long-term and exclusive, which is why agencies could plan their revenues and expenditures, organizational structure in advance, count on a secure inflow of money, a stable portfolio, attracting the most talented employees, etc. The situation has now changed radically.

Large clients first began to entrust their various brands to competing agencies. After that, the process of choosing different suppliers for different types of services began: media, creative service, BTL, productions, and later digital marketing. In this way, clients gained greater bargaining power, were able to use different payment models for different types of services, and ultimately achieved significantly better financial conditions. Organizing tenders and keeping agencies in suspense over gaining or losing jobs has paid off for advertisers, as potential job losses for agencies would make a big hole in the budget and force them to reduce costs, staffing and investment. Worst of all was that the loss of the client would have a negative impact on the value of the shares of the agencies themselves on the stock exchange. To prevent this from happening, the agencies were ready to make any compromises just to keep the business - lower price, extended payment deadlines, more services for the same money, etc. The big winners in this game were the clients, and the losers were the agencies. The media and other subcontractors involved in the chain of creating and realizing marketing communications did not lose anything from the beginning because they did not care through which agencies the money would arrive. Of course, later, they also became the target of the procurement sector because the procurement sector took negotiations on prices into its own hands, skipping agencies.

The downward spiral regarding the payment of agency work continues. From the former 15% of the commission on the media (Peric, 2008), in recent years, figures ranging from 1 to 2 percent have appeared more and more often in contracts. Exactly the same situation happened when it comes to fixed fees. Worst of all for the agencies was that in the meantime, with the emergence of new technologies and new communication channels, the volume and complexity of work has increased significantly, and earnings in market communications have decreased many times over.

The main problem is that there is no consensus and clear methodology on how to assess the contribution of an agency's work to its client's business results. Unlike digital services, where it is relatively easy to measure the achieved results, in traditional advertising the situation is much more complicated: several agencies of different profiles are engaged in the realization of market communications, so it is difficult to isolate the contribution of each (Chowdhury et al., 2016), certain things clients do on their own (in house), goals are not always short-term so it is difficult to measure the effects of campaigns.

2. PENETRATION OF DIGITAL SERVICES

An additional blow to the already shaken positions of agencies was made by the development of modern technologies and its derivative - digital marketing (Hughes & Vafeas, 2019). Initially misperceived only as new media channels, the internet, mobile technologies, social media and e-commerce have built an entire proprietary system that can be said to cover all elements of the marketing mix. Digital owns its products, has its own pricing system, its own distribution methods and its own promotion. In addition, with products or services that were not previously part of the digital world, modern technologies have provided great opportunities for placement and, most importantly, for brand development. They have turned one-way communication with the audience into two-way communication.

The biggest problem for agencies has not been that clients are increasingly shifting their budgets from traditional to digital marketing. Nor is it that most of the earnings remain with only a few global players who had a monopoly in that market - Facebook, Google and Amazon (Liberto, 2019). The biggest challenge for traditionally profiled agencies was the fact that digital agencies have a precise measurability of the results of their work, which classic agencies do not have. Clicks, conversion rates, online purchases, can clearly show the advertiser, and especially the purchasing department, how much money invested in digital has brought benefits to the company. That is why it is not surprising that there is a huge growth in investments in digital and, in parallel, much better payment for online services compared to the so-called off line. And although there is more and more talk about the limits of digital marketing (Verma, 2018), its growth is still going on, but at a somewhat slower pace than in the previous decade.

The positive effects of the digital agency billing model, which clearly shows the connection with the results, encouraged all participants in market communications to start finding and applying a similar model in working with traditional agencies. In connection with that, lately there is more and more talk about payment based on work results (PBR, Performance based remumeration, Payment by results, Value based compensation). This relatively new business model should stop the deepening financial problems that agencies are currently in.

3. MODELS OF AGENCY CHARGING

It should be borne in mind that in practice there is a very large variety of payment models and that different authors make different classifications. We will take one of the most commonly used categorizations — according to Gardner (Gardnner, 1988). There are four approaches to paying for agency work depending on what they are based on, and in practice a combination of these models is very often used:

- Payment based on the type of services provided (price list)
- Payment based on direct campaign expenses (commission)
- Payment based on agency costs (fee)
- Payment based on achieved results[1]
- Payment based on the type of services provided - price list

A fixed fee for a certain type of service according to the price list is the simplest model of paying for agency work. The agency makes a list of services it proposes, their

[1] We will deal with this model separately in a separate chapter of this paper.

prices and charges for its work according to the price list. The amount of fees for individual items depends on the complexity of the job, its importance, competitive market conditions, but to a large extent also on the reputation of the agency itself and its expertise. Well-known, more established, more rewarding agencies usually charge more for their services. This model is relatively simple, transparent and does not require high administrative potential for its application.

However, paying according to the price list has a lot of disadvantages for both clients and agencies, especially when it comes to hiring larger agencies. For clients, this is the most expensive payment model, because when an ad hoc project appears, the agency should have free human resources to engage in the implementation of the project. Since it is rare to have free people, mostly external associates are hired or permanent employees work overtime, and that raises the costs of the agency. In addition, it is difficult to estimate how much time and resources such a project will take, as well as how much audit the client will require. That is why agencies insure themselves by giving a higher price in advance, because the greatest danger for the agency is to misjudge the scope of work and expectations of the client and to be paid too little. Because of all this, instead of ad hoc projects, agencies prefer long-term contracts and precisely planned workloads. Then they can much better optimize their internal resources and costs and thus reduce prices for customers.

Payment based on direct campaign expenses - commission

Agency commission is a method of payment that is based on a percentage of expenditures to third parties, that is, on the budget spent on the campaign. Initially, the standard 15% of the budget was the usual method of payment covering all services offered by the agency. During its long duration, the agency commission has developed several of its sub-variants and currently this payment model is the most present in the work of advertisers with media agencies.

Commission from suppliers

This model created the agency business. The first agencies performed the function of sales operations of the then commercial media: print media, radio and outdoor advertising. Agencies found advertisers and, with a commission from the media themselves, resold them space and time. Advertisers were not entitled to a commission because they were direct users of the service. This approach suited them because the commissions paid by the media covered the entire procedures of renting, planning, distribution of advertising materials, as well as the creative work of the agency in designing the content of the campaigns. The essence was that the agency earns from the media, not from the client, and therefore its relations with the media were more important than with advertisers. (Peric, 2008).

The amount of the agency commission often depends on the size of the budget that the agency spends with a given supplier. Agencies with many clients and large budgets brought more money to the media, so they were entitled to a higher commission. Having better conditions, later they could resell media space and time to clients at a lower price than the official tariff and keep the desired difference for themselves. This was in the interest of clients because they received better conditions than they could achieve by buying directly (Peric, 2008). The model of collection through agency commission from the media is considered obsolete and is used less and less in practice. It does not suit clients that agencies protect the interests of the media (from which they make money), but they want agencies to primarily take care of their business.

Contracted Commission Rate

This model (contracted commission rate) represents the contracted percentage of the budget that the client pays to the agency for expenses to third parties (media houses, producers, printing houses, etc.) It implies that the client knows at what price the agency buys media time or space and based on that pays the agreed percentage to the agency.This final media price the agency has after all the discounts is called the Net Net price.Although this looks similar to the previous model (the client costs the same and the agency earns the same), the basic idea was that the client pays the agency and not the media house. Therefore, it is assumed that the agency will primarily protect the client's interests and be transparent about the tariffs at which it buys media space. However, over time, the agency commission decreased and varied depending on the scope and specificity of the work. The agency is expected to sell media to clients at the best price it has and receive compensation for it.

The positive financial side effect of applying this model to agencies is that any increase in the budget or increase in media rental prices leads to an increase in earnings. Agencies benefit from any increase in media budgets or the use of expensive subcontractors, because in that way they earn more. Although in the sphere of certain services this model has an advantage for the business of agencies, it also has its serious limitations. For example: there are activities that have low direct costs and high human engagement (BTL, Events, PR…). If the standard commission were calculated, the agency would not be able to earn enough to cover its costs.

Variable commission

Due to the diversity of scope and type of services provided by agencies to advertisers, several models of so-called variable commission are used that are tailored to these characteristics: commission based on the specifics of the agency's work, commission based on budget and commission based on type of media the agency buys and plans. The main advantage of linking the payment of agency work to the size of the budget is its simplicity in terms of calculation and management of the ministry. In addition, it basically sounds logical that, working on a bigger, more significant and more expensive campaign, the agency earns more and vice versa - for smaller budgets, the agency earns less. On the other hand, with the development of integrated marketing communications, expanding the types of services and involving more subcontractors in the implementation of communication activities, the linear relationship between the budget and the amount of work of specific participants in the process is lost. In some activities, the agency's operating costs exceed the budget of the project itself, so any percentage of the budget is not applicable as a payment model. That is why this model is still used in practice only in about 10 percent of contracts, mostly in the media.

Probably the biggest disadvantage of this model for clients is the conflict of their and agency interests. The client has a clear need to find the cheapest possible subcontractors and to eventually achieve the same communication effects with the smallest possible budget. Agency interest is just the opposite. The bigger the budget, the bigger the profit. To solve this problem, many agencies have promoted the concept of media neutrality. This means that it selects subcontractors not on the basis of its financial interests but on the basis of research results through the budget optimization process.

Payment based on agency costs - fee

The fee is the amount paid for agency work that is not related to direct expenses. The costs of hiring the agency itself are paid and the agreed profit is added to the costs. This is why this model is often called the cost-plus model. Currently, this is the most commonly used payment model. It is mostly used in providing creative and integrated services, ie. for services that do not have a more direct proportion to the costs of project implementation (as opposed to media lease, production supervision, etc.). Although commission is much more common in media planning, the practice for advertisers with large media budgets is to sometimes use the cost-plus model when working with their media agencies.

The size and type of fees can be defined in several ways, but the starting point is always the cost of agency work and the expected profit. The first step is to calculate the cost of the agency. They consist of two items:

- people employed in the agency (Labor cost) - gross salaries and all taxes and contributions.
- general expenses (Overhead, out of pocket, OH) - overheads that the agency has to operate (legal services, bank fees, membership fees in professional associations, employee training, participation in festivals, research, IT costs, bookkeeping, space rental and other.

In addition, the general costs include the salaries of all those whose services are not usually charged to clients but without whom the agency would not be able to function - administrative staff, finance, drivers, human resources, but also top management who is not directly engaged in working with clients.

The proportion of the total amount of salaries of all employees in relation to the total amount of all overheads is the percentage of overhead rates. Usually this percentage is between 80 and 120%, which means that for every $ 100 in salary, people who work for agency clients have $ 80 to $ 100 in general expenses. However, when the costs related to all people are added up in this way and provided that the agency manages to hire them and charge the clients 100% of their time, the realized profit would be zero. Only expenses would be covered. Therefore, another step is added in the calculation and that is adding the expected profit to that amount. It is common, and clients agree, for the agency to achieve 15 to 20 percent profitability, so that percentage is added to costs. When the values of all employees are known, concrete negotiations are resorted to for the price of the service that the agency provides to advertisers. It depends on the volume of people involved in the project.

Agency hours' rate

Analogous to lawyers or accountants, the agency charges for each hour of its people. In this way, the agency charges its cost for a given client, plus the planned profit.

How is the hourly rate for each person in the agency determined (Agency Hours Rates)? The starting point is the value of the work of each employee whose calculation we demonstrated in the previous chapter. This value is divided by the number of hours per year. At first glance, the number of hours is obtained by a simple multiplication: 8 hours a day X five working days a week (40 hours) X 52 weeks a year makes 2080 hours. In practice, the number of hours is lower because from 2,080 days they need to deduct annual leave, sick leave, holidays, time spent on education, dealing with administrative matters… In other words, all hours in which it is not possible for employees to work for clients are deducted. The usual number of so-called effective hours ranges between 1,640 and 1,800. During negotiations with the client, based on the anticipated scope of work, the agency estimates how many hours it takes people to implement the project or possibly a year-round plan. The planned number of hours is multiplied by the value of the hours of each employee and thus the total amount that the client has to pay to the agency is obtained. However, after the completion of the work, the payment is made on the basis of actually realized hours (the agency sends monthly reports on the engagement of employees to the client - the number of early hours). When it comes to annual contracts, this amount is usually divided into 12 months, which gives the agency a monthly fee called the retainer fee.

Full Time Equivalent

This model (Full Time Equivalent) assumes the engagement of a specific team to work with the client and payment based on the structure and occupancy rate of individual members of that team. The advertiser pays a percentage of the value of the full occupancy of each person in proportion to his engagement in the given job. This is the most common model of cooperation in long-term - one-year or multi-year contracts and is absolutely the most common in practice - it is present in 36% of contracts (World Federation of Advertiser, 2018). There are many reasons for this. In the first place, it reflects the real work of the agency on a given project or client, so it can be said that it is fair. When applied in the form of a retainer fee for a longer period, the agency can count on a secure income and thus, it is easier to plan and organize its own resources. This allows customers themselves to better plan and control cash flow.

However, apart from the purely technical problem of accurately tracking engagement time, there is another major drawback to this model. It does not make a connection between the growth of the client and, in parallel, the growth of the profitability of the agency itself. In the last twenty years, the opposite has been happening in practice. Under pressure from the procurement service and during continuous tenders, agency work prices have plummeted. For one specific volume of work that, for example, was worth $ 400,000 in 1992, twenty years later, agencies receive about $ 150,000 (Farmer, 2019). Payment according to the cost plus model, in addition to providing space for continuous reduction of the amount of money for the same service, does not reflect what is most important, and that is what contribution the agency brings to the client.

Combined model of charging for agency work

In practice, a combination of these models is often encountered. Usually, strategic planning, creative work, client servicing and PR services are charged through a fee. Those services that are related to much greater engagement of third parties where the agency is an intermediary, supervisor or coordinator, are charged through a commission. It is most often about media planning and leasing and different types of production. Of course, this is not a universal rule. Each client has its own payment policy depending on the category in which it operates, the size of the budget, the preferred way of organizing work and other factors.

4. CURRENT PROBLEMS OF CHARGING FOR AGENCY WORK

Falling service prices in recent decades have led to what Jon Bond calls the "25 years of the deadly spiral" (Williams, 2019).

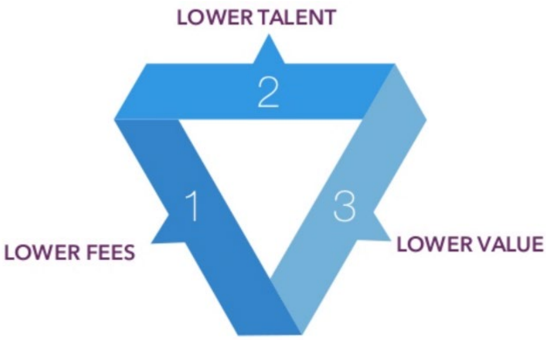

Figure 1. The spiral of the impact of reduced payments on talent loss and reduced added value

Pressure from advertisers to reduce service prices is forcing agencies to reduce their spending. The most serious consequence of that can be seen in the forced tendency to fire the most expensive and thus the best people due to lack of funds. This inevitably leads to a decline in the quality of service and thus the feeling that the agency is not contributing enough to the clients' business. This then provides a basis for clients to organize tenders, look for better subcontractors and thus further lower the prices of agency work.

The question is, how did the agencies manage to survive with such a small official commission? The secret was hidden in the bonuses that the agencies received from the media themselves. Unfortunately for the agencies, and most of the large holding companies, a big blow to this practice happened in 2017. Then the Association of Advertisers in the USA made an audit of the media business of agencies and media. It turned out that the agencies receive such bonuses from the media themselves, which they are not entitled to. The discovery immediately caused a drop in the value of the shares of most holding companies. Predictions of financial results have dropped drastically. Forced to pass on additional bonuses to clients, the agencies lost another source of income that kept them alive.

Proof that the business of agencies will not be much easier in the coming period, is confirmed by the results of the research of the World Federation of Advertisers, published in 2019 that follow.

Table 1. Increase of work per project

Year	Work per project	Fee based on the amount of contracted work
2011	20%	54%
2014	24%	49%
2018	28%	36%

Advertisers are moving to a model of agency engagement on a project basis, and the still dominant payment model based on the agreed volume of work is decreasing. This is bad news because working on projects does not give agencies the ability to plan financially in the long run. Instead of exclusivity and contractual security regarding the scope of work, employment of their people and income, agencies are constantly fighting for individual snacks in tenders. Also, 42% of advertisers currently work with more than one agency and this trend will continue, while 68% of advertisers intend to move media lease from agencies in the coming period and perform them independently (in house).

Dividing the business into several participants complicates the work process and coordination of projects, which leads to the need for more human resources. In financial terms, for agencies proposing integrated communications this leads to underutilization of the resources they possess. Often, due to conflicts of interest, other departments whose services are not included in the contract are not allowed to work for competing clients, and 70% of advertisers do not trust the transparency of agency work regarding hidden rebates and the structure of general agency costs (World Federation of Advertisers, 2019).

Due to all the above, it is extremely important to find the right model for paying agency work that would stop further financial stagnation of the entire advertising sector. One way this problem could be solved is to pay the agencies based on the results achieved.

5. PERSPECTIVE – PERFORMANCE BASED REMUNERATION

In order for the agencies to be more motivated in the conditions of fierce market struggle and to have the opportunity to earn additional money, the model of charging agency work based on the achieved results (Performance Based Remuneration) is being applied more and more. This relatively new model links the amount of compensation to the results achieved by agency work. PBR is gaining more and more popularity because it is trying to connect the essence of agency work with agency earnings. Basically, all the payment models used so far are not sufficiently balanced and give the possibility that one or the other party will be damaged and dissatisfied. For example, in all traditional models there is very little risk for the agency and great risk for the advertiser. The client pays all the costs of the campaign and the work of the agency, and in case of bad results, and only he bears the negative consequences. On the other hand, if the agency does a great job, it is entitled to only a small part of the benefits it achieves for the client. A more proper balancing of earnings and strengthening of partnerships would benefit both sides. And as payment based on the results of work implies a certain type of measurement or evaluation, the basic question is the standardization of the methodology by which this is done.

Performance evaluation of the agency

When it comes to evaluating the work of an agency, different authors emphasize measuring different dimensions of performance. Sometimes in the literature, payments based on time spent or on the basis of delivered services are classified in the category of PBR (Gardner, 1988). This is partly understandable because the payment is tied to the specific activity of the agency in terms of the scope of work. However, this is a relatively passive measure that does not reflect the added value that the agency brings to the client's business.

Therefore, it is necessary to first clearly define what the basic goals of cooperation between the agency and the advertiser are. The agency's assessment should be based on achieving these goals. Broadly speaking, the purpose of the agency's engagement is to help conduct communication activities towards and with certain target groups where the ultimate goal of communication is the (business) benefit of the advertiser. Although the most common goal of this cooperation is material gain for the company, there are areas where results of an intangible nature are expected, as in the case of social or political campaigns. In order to verify the achievement of goals, an assessment is made of certain phases of the work process itself. Each of them can be connected to a certain type of evaluation of the work of the agency as well as to measuring the results achieved by the final product of the agency - marketing communications.

There are a number of classifications of objectives that a communication campaign can achieve and that can be measured. Although in the literature very often specific elements from certain categories overlap, most often we talk about communication, marketing and business goals. Since the topic of this chapter is the evaluation of the work of the agency and not the communication itself, we propose a slightly different classification, such that it covers the basic areas in which it is possible to evaluate the work of the agency and the results of its work. These are the following three areas:

Agency performance (The focus is on the process of planning, creating and implementing communication activities).

This dimension refers to the way of work and the quality of services provided. Every client has expectations related to the type and level of service of the agency he hires, so meeting those expectations is a very important element for evaluating its work. Discrepancies between the expected and actually delivered level of service by agencies are the most common cause of dissatisfaction and poor grades. Although expectations vary significantly depending on many factors, for example, the specific business for which the agency is engaged, the corporate culture of the advertiser and the specifics of the market in which it operates (Chu et al., 2019), there are certain aspects of the agency that are relevant to the client and which are most often the subject of evaluation.

When it comes to specific dimensions of services, these are just some of the variables that can be evaluated (Hughes, Vafeas, Hilton, 2018):

- understanding the client's business and sector,
- brand understanding,
- knowledge of consumers and markets
- creativity,
- understanding the effectiveness in practice,
- potential of the agency in research and planning,
- ability of the agency to evaluate creative ideas,
- potential for realization of ideas,
- work process management and
- achieving good conditions in negotiations with subcontractors.

Some scientific studies (Chenet, Dagger, O'Sullivan, 2010) analyze the relationship between the client and the agency at a somewhat deeper level of the relationship and highlight the basic attributes that can be evaluated:

- trust in the agency,
- job commitment,
- liability,
- initiative,
- honesty and
- cooperation

All these dimensions can be assessed by the service user (client) in a simple way - with a questionnaire. This way of assessing satisfaction with the work of the agency is often used in practice and can be directly related to, lately, a popular concept - customer experience. In b2b business relations, which include the agency-client relationship, this is done by defining in advance the expectations from the service that are important to the client and after a certain time it is assessed whether these expectations are met.

Although this is a relatively simple approach, it also hides certain shortcomings. Basically, the assessment is often very subjective, it is subject to the influence of interpersonal relations of participants on both sides and, most importantly, it is not always directly related to the achievement of communication and business goals of cooperation. The de facto agency is evaluated, not its product. Therefore, it is desirable to evaluate the performance of the agency on the basis of specific results of market communications for which the agency is engaged.

The effect of the communication campaign (the focus is on achieving indirect goals - the impact on consumers).

When using market communications as a means of market struggle, the achievement of communication goals is an intermediate or indirect goal towards achieving business (usually financial) goals of the company. It is assumed that the impact of the campaign on the perception, attitudes, information or behavior of consumers ultimately leads to sales results (M.L. DeFleur, M.H. DeFleur, 2010).

Although more than six decades old (Colley, 1961), the DAGMAR[2] concept still provides a good basis for evaluating the results of communication activities. The concept implies that measurable goals of market communication should be defined in advance in order to be able to evaluate the achieved results. Furthermore, at a time when classic advertising dominated, the basic means of communication of which were the mass media, the simple concept of AIDA[3] provided an answer to this question. With the advent of interested marketing communications in which began to use a variety of techniques for communication with consumers (mass media, promotions, special events, PR, direct marketing, interactive marketing, direct sales, etc.), the classification of goals and their connection with the agency has become more complicated.

The goals and content of a particular campaign depend on many factors. In the first place, these are: a) the characteristics of the product itself and its position on the market, b) the characteristics of the target group and 3) the activities of the competition. However, the most important guideline for any type of communication is the general business strategy of the company where the achievement of communication goals is part of that strategy. Starting from the needs of the company related to the implementation of the strategy, it is possible to make a classification of basic communication goals that the agency usually has as a task or should achieve them through market communications. Those are:

Strengthening brand awareness. The aspiration of every advertiser is for his product or brand to achieve the highest possible score on the Top of Mind Awereness scale. The correlation of this measure with sales results is very high - brands that are better known, as a rule, have better market results.

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[2] DAGMAR-Defining Advertising Goals For Measured Advertising Results. A marketing model that insists on clearly defining goals so that the results can be measured based on them.
[3] AIDA-Atention, Interest, Desire, Action.

Building the desired image. Image is a set of certain attributes that define the emotional experience of a brand by consumers. At its core, brand personalization, expressed through the desired emotional profile, facilitates consumer identification with the brand and thus greater attachment, trust, and connection to it.

Launch of a new product on the market. Starting from scratch, a new product or service has the difficult task of finding its place in the minds of consumers. In many cases, the task of the agency is to define the correct positioning of the new product and directions for building the brand, both in the context of the entire portfolio of the company itself, and in relation to the competition. Usually this process requires more time and takes place in several phases where each stage has its specific goals: from attracting attention, through strengthening interest and awareness of the brand, influencing the motivation to try the product to the first purchase. In general, when launching a new product, the emphasis on sales results is only in the last stage.

Consumer promotion. Sometimes a customer's goal is to increase sales of their products in a relatively short period of time by providing potential customers with additional economic or emotional benefits.

These four communication goals are generic and are most commonly encountered in the practice of market communications. Of course, there are many other goals that advertising can achieve, but most of them are based on the realization of these basic goals.

Unlike the evaluation of the way of work and the quality of service provision, the evaluation of the achieved communication results of market communications is more complicated and significantly more expensive. It is usually necessary to hire an independent research agency that in certain time intervals, on the members of the desired target group, measures the achievement of each of the set goals. For example, every three months there is an increase in brand awareness, changes in the perception and experience of the brand and the like. Only the results of consumer sales promotions can be monitored by the company itself based on its sales results. That is why achieving the goals of such purely sales campaigns often fall into the next category, the category of business goals. In addition to creating promotional consumer campaigns, there are other types of business that fall within the domain of agency work and that have a direct connection with sales. These are primarily certain digital services (e-commerce), point-of-sale promotional activities and direct sales. However, in most cases, the goal of engaging the agency is to achieve indirect communication goals with defined target groups.

In addition to the fact that monitoring the communication results of campaigns is expensive and demanding, the basic problem for evaluating a specific agency contribution lies in the way it works. Namely, the creation and implementation of the campaign is a process in which at least two and often many more parties participate, so we cannot talk about the exclusive role of only the agency in this process. It is about the so-called common creative value - value co creation (Galvagno, Dalli, 2014). The means of communication that emerge from this work (basic messages, TV spots, events, media plans, etc.) are the result of the joint work of the client and the agency, where the client usually has the last word. The same applies to the application of Integrated Marketing Communications, where several specialized agencies are involved in the implementation of campaigns, so the importance of the contribution of each of them is even more difficult to isolate.

Benefits for the client (the focus is on achieving business goals).

When it comes to business goals, it is important to keep the following in mind. Although market communications are a powerful tool for boosting sales and business growth, they are not omnipotent. On the contrary, they can be counterproductive if the client does not do a good job related to other elements of the marketing mix. For a campaign to be successful in terms of sales, there must be no problem with distribution, product quality or price. The same, of course, applies to services.

From the position of an advertiser company, marketing budgets, which include the direct costs of the campaign and the payment of the agency's work, are non-capital investments. Therefore, an analysis of the return on investment (ROI) is very often made. The simplest way to do this is to compare sales results in non-campaign periods and in campaign time (Lenskold, 2003). If sales increase during the campaign period, the investment for the campaign itself is deducted from that added earnings. This gives added value or a percentage of return on investment in marketing communications. When sales growth is higher than investment, positive ROI indicators are obtained. When the increase in sales revenue is less than the investment in advertising, the ROI is negative and this is treated as a failed campaign. It is on this principle that the work of agencies as creators, both successful and unsuccessful campaigns, can be evaluated. The higher the return on investment thanks to the campaign, the agency, as the creator and implementer of the campaign, receives a better score according to this criterion.

Evaluating the work of the agency through the prism of the client's business results is, precisely because of its indirectness, the important role of the client and often the long-term goals set, the most difficult to implement in practice. If we exclude consumer promotions, e-commerce and direct sales, in most other cases it is not easy to make a connection between the work of the agency and the achieved business results. However, during the evaluation of the agency, these factors are often mentioned as criteria for the success of cooperation.

Among top managers of companies (Swain, 2004), ROI analyzes are the preferred model for evaluating the work of the agency, most often in the context of the effectiveness of all market communication activists. Although at first glance this seems logical, applying agency valuation through the prism of market results is not that simple. The main reasons for this are:

Very often, the goals of market communications are related to strengthening or repositioning the brand. Changing brand parameters is a very long process that only brings benefits to the advertiser in the long run. Therefore, the annual investment may show a negative ROI, although it is not fundamentally so. Unfortunately, due to the pressure from the stock exchanges and also due to the usual way of bonusing the management (based on quarterly or annual results), very often short-term goals are preferred. That puts agencies in a bad position.

As in other evaluation models, ROI-based evaluation has difficulty in delineating the role of different participants to the achieved result. This refers to the wide range of external collaborators who created the campaign, as well as the influence of other intra-company structures that are responsible for various elements of the marketing mix.

The evaluation of the agency based on the results of work is increasingly applied in practice. Achieving predefined and measurable key performance parameters (KPI[4]) related to:

a) the quality of the service itself,

b) communication, as well as

c) sales results of the campaign, are the basis of such evaluation.

Previously, such evaluation was mainly used to give feedback to the agency in order to take certain measures in order to improve the service or optimize the communication strategy. Systematic non-fulfilment of these parameters provided clients with a basis for conducting the process of selecting a new agency. In recent years, such evaluations are increasingly linked to the process of paying for the service.

6. RELATING THE PERFORMANCE TO THE AMOUNT OF COMPENSATION (PBR)

Linking the agency's performance to the amount of compensation brings a lot of benefits to both parties. Basically, this method of payment is the closest to an ideal partnership where clients and agencies depend on each other and in case of success and failure share a common destiny. Although the advertising services market is still dominated by the payment of commissions and fixed fees, they are increasingly losing that leading position, and the PBR model is gaining more and more popularity.

[4] Key Performance Indicators.

In practice, there are certain variations in the agency's performance, but the most frequent model is the one in which the agency is paid its costs (people and overheads) and in case expectations are met, a bonus is paid. A bonus scale is usually agreed upon, which is linked to the degree of achievement of the results. Such a scale enables the agency to earn far more than 15% of the profit, which is the standard for payment according to the expenditure-based model. On the other hand, in case of not achieving the goals, the bonus can be 0%. This means that the agency will not generate a minus (because its costs have been paid), but it will not make a profit either. Example follows.

Table 2. Bonus scale

Grade		Bonus
From	**To**	**Addition to the fixed fee**
1	3	0%
3,1	5	3%
5,1	7,5	10%
7,51	8,5	15%
8,51	9	20%
9,1	9,5	25%
9,51	9,8	30%
9,81	10	35%

How was the grade obtained? It is the mean value of the various assessed aspects of the agency's work. In the previous chapter, we defined three basic groups of goals whose realization is related to the activities of the agency and on the basis of which it can be evaluated. These are: the service it provides, communication results and financial profit from realized campaigns. For the purposes of this paper, we will call them Service, Communication, and Profit. During the negotiations, specific indicators to be evaluated are defined. The example follows.

Table 3. Criteria for evaluating the Service

	SERVICE - Attributes of the agency	Grade 1 - 10
A	Understanding client business and sector	
B	Understanding brand	
C	Knowledge of consumers and market	
D	Creativity	
E	Understanding effectiveness in practice	

F	Agency potential in research and planning	
G	The ability of the agency to evaluate creative ideas	
H	Potential for realization of ideas	
I	Management of the work process	
J	Achieving good conditions in negotiations with subcontractors	
	Average grade	**SUM (A to J)/10**

Table 4. Criteria for evaluating the Communication

	COMMUNICATION - Communication goals	**Grade 1-10**
A	Increase of TOM from 34% to 37%	
B	Increase of brand attribute "friendly" by 10%	
C	Reduction of brand attribute "male" by 5%	
	Average grade	**SUM (A to C)/3**

Table 5. Criteria for evaluating the Goals

	PROFIT - Business goals of market communication	**Grade 1-10**
A	Increase of market share by 2.8%	
B	Sales increase in June by 10% compared to the previous year	
	Average grade	**(A+B)/2**

When we have three average evaluations of agency work, each of them is given a specific weight (ponder) depending on the specifics of the work for which the agency is engaged. These percentages can vary significantly. What is the share of each of the three factors in the overall assessment depends on (Spake, 1999):

- campaign objectives (sales, image, etc.)
- possibilities for results to be measured
- tangible or abstract benefits that are advertised
- implementation of other activities related to marketing
- product life cycle stages
- budget size
- the impact of market communications on a specific category of products or services
- characteristic of the target group
- number of agencies involved in the implementation of market communications, etc.

In any case, at the beginning of the cooperation between the agency and the client, less tangible, subjective factors of service quality are more important, and at a later stage, more measurable marketing or business goals play a greater role. The same is true in a situation where the agency has an indirect role in achieving sales results.

Example:

- If on the three scales the following grades are obtained:
- Service: 7,4 (40% of weight)
- Communication: 6,3 (40% of weight)
- Profit: 3,2 (20% of weight)
- The final grade is obtained by the following formula:

$$(7{,}4*0{,}4) + (6{,}3*0{,}4) + (3{,}2*0{,}2) = 6{,}12$$

Based on the example of the bonus scale, it would follow that the agency would receive a 10% bonus. This means that if a client has paid a fixed amount to the agency during the year to cover the costs of the people hired and the overhead of $ 100,000, after the evaluation, the agency will receive an additional $ 10,000 for a score of 6.12.

CONCLUSION

Although the popularity of the PBR model is growing, there are many obstacles and ambiguities before its mass application. The main problem is that there is no standardized methodology for assessing the agency's contribution to the client's business results. This is somewhat understandable, because in addition to the diversity of the goals themselves, there are a huge number of variables that have an impact on their implementation. Untying this Gordian knot goes beyond the capabilities of management and imposes the need to involve scientific research. A systematic approach to the study of this issue and finding a matrix of the influence of various factors can provide guidelines for their practical application.

Scientific research regarding the payment of agency services has been present in academic circles since the 1970s. Apart from purely exploratory ones, which aimed to make a cross-section of the current situation, a lot of research has been done within the framework of certain scientific theories. In general, modern issues of payment for communication agency services have direct or indirect connections with many other scientific areas: client - agency interaction, joint value creation, consumer behavior, the role of market communications in achieving marketing and business results of companies, etc. Despite the obvious problems, the results of research (Worldwide Federation of Advertisers, 2018) show that there is still client satisfaction with the work of their agencies. As many as 87% of them believe that agencies provide them with good added value. This shows that they are counting on them in the long run and that there is no interest in further weakening this industry. Fleeing from the classic models of payment, and in an attempt to somehow resolve the situation, more and more advertisers are introducing or intending to introduce payment models that would be based on the results of the work of agencies.

Classic forms of market communication, although in the background, still have great practical value in the business of companies. Precisely because of that, the problem of paying agencies for their services is one of the burning issues whose solution is essential for the further development of this business. Therefore, future research aimed at finding a model for adapting the work of agencies to a much more complicated environment in which agencies and clients currently operate would have a great scientific contribution and practical significance.

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