Is Coke Offering Agencies The Real Thing?

A little over a year ago, Coke introduced its "value based" compensation model. As expected, the agency world turned its nose up at the idea.

Zero profits with performance incentives and payments based on output, not man-hours or commission rates, scared the sh-- out of most agency heads.

My question is why?

Don't most people in the ad industry believe their agencies increase brand value? And don't the people that actually do the work between 7AM and midnight at those agencies think what they do makes a difference? If any of that is true, then why all the negativity?

One word answer — **scared**.

Agencies have always been scared about change, especially when it comes to their money. Whether it was from commission rates to retainer, from fees to cost plus man-hours, they've been scared. And now they are literally petrified regarding Coke's "value based pricing" and hope other clients don't hear about it or want to have anything to do with it.

But this time, the fear comes from a different place — **agencies might actually have to put "real money" on the line for what they are professionally recommending.**

But to be fair, Coke may have the right principles — zero based performance incentives and payment for output – but their system is way too complicated and maybe even too one-sided.

Coke's value pricing idea could change the advertising industry to be more like Wall Street (even though some people have recently hijacked the core idea).

As most people know, investment bankers, P&E guys and stockbrokers make very little in salary — less than your average Senior Copy Writer. But, they are rewarded with big bonuses if they are successful and generate results for their firm, clients and investors. **Simply put, these smart guys are focused on nothing but results because they know that their livelihood and that of the firm depends on success**.

Agencies need to adopt a similar model or way of working. Maybe even paying their people less salary but a much bigger bonus when their work is effective and clients pay for success.

Taking REAL accountability for one's recommendations by putting more of the agency's revenues and profits at risk would change everything. The alternative is to quit whining about the deterioration of agency margins and the encroachment of procurement. It is time for agencies to believe in themselves (again) and realize **they should not get a 20% profit margin just for showing up.**

With that being said, Coke needs to simplify its program (or what I think their program is).

Some suggestions:

1. Upfront, the **client needs to articulate why the agency is being hired**. You need to write it down: move the brand from number 2 to number 1, increase brand awareness, double sales, get more clicks. Whatever.

   Make it clear to everyone on both sides of the table what is the primary objective(s) is/are for employing the agency. By the way, making "me" (the client or brand) famous isn't an objective. Put down something that can be measured and validated. This should not be individual project objectives, nor should there be qualitative evaluations that allow for conjecture. It should be a common, quantitative goal that both the CMO and agency collectively own.

2. Be specific, but not overly complicated about the metrics of measurement. We now live in a data and digital world where proof is much easier to obtain. **There should be an independent source for the information and transparency regarding what happens to those metrics/goals if the spending goes up or down**. And this goes without saying – the metrics should have multiple data points and match up with the "why I'm being hired" objective outlined in point number 1.

3. SOW is key to everything. **If the client is paying for output, a detailed SOW is a must.** Clients can't just ask for a new television or online campaign. But they need to outline the number of executions, adaptations and versions they think they need. List the complexity of the assignment (i.e., extension of current campaign or something brand new) and the number of rounds and rework the agency needs to plan. And here is the important part: Ask the agency what they feel is necessary in terms of the annual scope of work and give them a real seat at the table. **By asking the agencies to risk all their profits, they deserve a strong voice as to what is needed to reach the objective(s).**

4. If I were Mr. Coke **I wouldn't limit my agency's profits to 20, 25 or even 30%** especially if they hit one out of the park. Why? Because, if set-up correctly, the agency and client efforts will generate more profits for the client and, therefore, these funds can more than pay for higher agency profits. And I certainly would not make my agency wait a full year to receive their bonus. Question: Does the management of Coke get their 2010 bonus in December of 2011? Just asking. Make sure the goals and objective(s) match-up with the timing and usage of the creative output on the SOW. Incentives work two ways. They can excite and motivate or do just the opposite if they are unrealistic, unattainable, unfair or delayed. Or, even worse, never paid.

Coke has a winning idea based on real accountability. But they need to focus on the important part of that idea and keep to their basic principles if they want more people in the industry to embrace it.

And all you agency folks – grow up and have some backbone. Believe in yourself and what you do and you will be rewarded with more profits.

In the end, it's this simple for agencies — **if you don't want to take the risk or can't jump as high as the client wants you to, you can say no** and look for easier or better assignments. I know turning down business is hard but maybe you should focus on what is doable—especially if all your profits are on the line.

By believing and being more accountable both the clients and agencies can make more money and maybe even stay together a little longer.

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