

4A's Client Compensation

Best Practices — Do's and Don'ts



4A's finance committee task group advocates compensation negotiation best practice suggestions for agency leaders

A cross industry task group, comprised of senior agency executives, has developed guidance and is advocating best practices that will help marketing services agencies interact more productively with client procurement groups and industry compensation consultants.

The task group's recommendations, which carry the endorsement of the 4A's finance committees, suggest proactive positive steps that agencies should take when negotiating client compensation i.e., "Do's". The guidance also suggests behaviors that agency management should not condone and practices that agencies should stop doing i.e., "Don'ts".

Guidance on Do's and Don'ts

Key client compensation negotiation best practice themes, expressed as "Do's" and "Don'ts", are provided below.

What to Do

- 1) *Do ...* Adopt a strategic, principles based approach to client compensation. For example, the [4A's Compensation Strategic Pillars](#).
 - Agency Management team must lead; with a key financial partner identified.
 - Reframe the value discussion ... Communicate the value of marketing and the value of your services.
 - Align on agency compensation principles and policies. Develop and communicate your agency policies and principles related to compensation, terms, MSA provisions, etc. Holding companies should establish uniform compensation principles and contract terms across all business units.
 - Negotiate as a team—not in silos. Don't let client negotiators isolate their marketing department from the compensation process. Consider a deal team concept that involves, at a minimum, senior agency representatives from client services, finance and legal.
- 2) *Do ...* Have a compensation negotiation process—it could be the [4A's Compensation Dialogue Process](#) or your own process. Agree on expected scope of benefits, scope of work and compensation framework before discussing compensation particulars
- 3) *Do ...* Have agency and client agreement on clearly defined, detailed scope of work and timeline for the delivery of the work. The scope of work plan should also document agency services that are not included in the authorized SOW.
- 4) *Do ...* Understand procurement's metrics & scorecard
- 5) *Do ...* Proactively discuss efficiency (can be items other than fee related concessions). Efficiencies should be both agency and client driven
- 6) *Do ...* Develop negotiating skills. Have an agency negotiating plan---Get the right players (agency & client) at the table. Rigorously prepare for negotiations; prepare, prepare, prepare; role play and do ... leverage information.
- 7) *Do ...* Establish in advance—push back points. Prepare concessions menus in advance—what you will "give" and what you "want" in return. Be prepared for procurement's "power moves" (e.g., "other agency partners accepted these terms why don't you accept our terms?").
- 8) *Do ...* have a thorough understanding of the cost drivers within the fee and agency structure.
- 9) *Do ...* have a thorough understanding of the business environment and financial performance of your client.
- 10) *Do ...* Develop specific value metrics for each client.

What to Stop Doing

- 1) Don't ... Begin work on a new client assignment unless fee, scope of work and MSA have been agreed at the very least in principle.
- 2) Don't ... Disclose individual salaries or detailed components of overhead. Clients or compensation consultants that request individual salary or detailed overhead information are not in compliance with industry best practice.
- 3) Don't ... Give away IP in new business. When you give away your ideas you give away your strongest negotiating leverage.
- 4) Don't ... Say yes to every procurement/consultant request/demand. Client procurement groups and compensation consultants are professionally trained negotiators. They will continue to press until your agency says no.
- 5) Don't ... Talk too much and don't get emotional during a negotiation
 - Ask questions—then —LISTEN & Use Silence as a response.
 - If you think being silent is difficult—it is often even more difficult to remain calm and to avoid becoming emotional during a negotiation. Manage your emotions—advance preparation, internal agency management alignment on negotiating principles & thresholds as well as strategically timed hiatus in a negotiation can all help.
- 6) Don't ... wait for a negotiation to start before developing a relationship with client procurement
- 7) Don't ... negotiate prematurely. Always trade concessions.
- 8) Don't ... take on risk because of unfavorable contract terms (indemnities and other key terms)
- 9) Don't ... have separate negotiations within the agency and client organizations
- 10) Don't ... Take bad business—all business is not good business. Stop ambulance chasing. Establish opportunity screening criteria at your agency—then adhere to your criteria.

Guidance Summary

The members of the 4A's finance committees recommend that your agency management team review your agency's compensation expectations and principles prior to every significant client compensation negotiation. Agency management, your client service director, finance group and attorney must be in alignment on your "Do's" and "Don'ts".