

# CASH FOR IDEAS

Is the hourly-rate model used by the majority of pharmaceutical marketers and advertisers antiquated? **Mike Myers** provides some alternatives to the current system including the notion that clients should pay for ideas, instead of the time that it took to create them

I've always loved the book *The Emperor's New Clothes*. It was funny to me as a child and has resonated with me as an adult. It provides a simple moral: you need to stand up for what you believe to be true and not allow your judgment to be clouded by others or the potential impact of telling the truth.

With that said, even I know that you can't always call it like you see it. Sometimes, you have to choose your proverbial battles. At a minimum, it can be dangerous to tell a "king" that what he is thinking or doing isn't really the best.

As someone in the services side of our industry, I believe that many of us are suffering from this dilemma. We want to tell the "king" something, but are afraid to do so. We may have told him in the past, but he either didn't hear us or chose not to listen. Well—here goes—don't behead me.

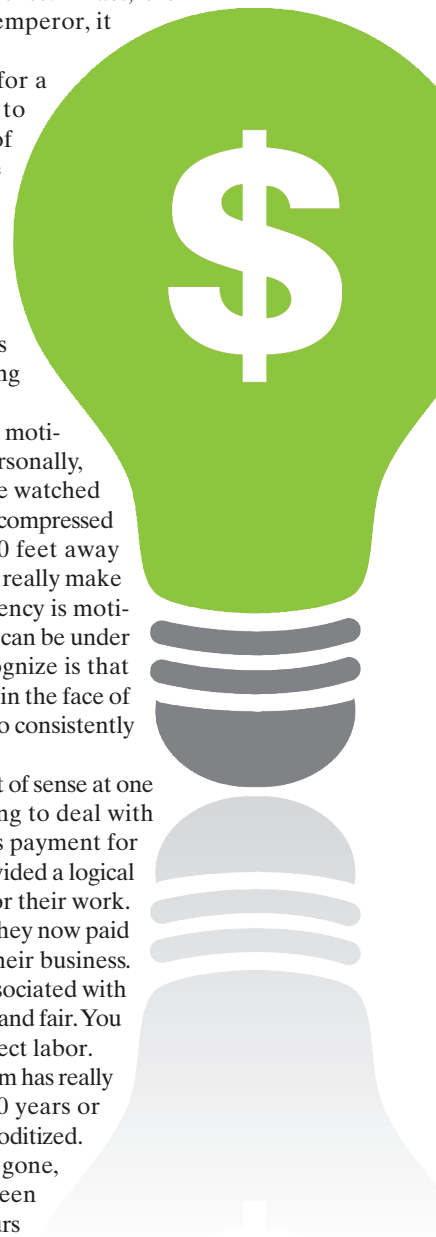
The hourly rate compensation model used to pay agencies for their services doesn't make any sense. In fact, it is counterintuitive. If it were the emperor, it would be as naked as a newborn.

The multimillion dollar idea for a client is really worth no more to an agency than the 15 minutes of coded time that it took to come up with, the pride associated with its creation, and any associated recognition that might come, too. Sounds like a great value for clients on one hand, but on the other, it sends the wrong message and has the potential to motivate the wrong type of behavior.

The hourly rate system actually motivates agencies to work slowly. Personally, I've never seen it happen and I've watched as timelines seem to become more compressed than ever. But look at it from 50 feet away and ask yourself, does this system really make sense? It's easy to see that an agency is motivated to be less efficient than they can be under this model. More painful to recognize is that the very nature of the system flies in the face of agencies challenging themselves to consistently improve efficiency.

To be fair, it probably made a lot of sense at one point. As agencies were struggling to deal with the loss of media commissions as payment for services, billing like attorneys provided a logical system to compensate agencies for their work. Clients flocked to it over time, as they now paid only for time spent working on their business. There were no more questions associated with commissions. It just seemed better and fair. You paid for what you received in direct labor.

Over time—and this whole system has really only been this way for the last 20 years or so—hourly rates have been commoditized. Cost-plus structures have come, gone, and come again. Ceilings have been put in place for the amount of hours



that a person can work. And endless amounts of time have been spent managing, recording and auditing time itself.

To combat the potential for abuse, procurement departments gained strength and influence. All well-meaning and mostly reasonable, these groups have built norms around hours worked per year, the range of reasonable costs for specific types of assignments, hourly rate ranges and pretty much anything else that can prevent the inherent potential abuse in this system.


While the efforts of procurement groups have surely addressed abuse, they still haven't addressed the problem. The emperor isn't wearing any clothes here. The system is backward. All of this may make perfect sense at some level, but this system has created a whole generation of marketers focused more on doing things efficiently than on doing them right. It has enabled many to lose sight of what's really important in this business—ideas.


Scopes of work have shrunk in recent years. The range of projects continues to adjust itself as well. These are all good steps to get to more cost-effective marketing efforts for brands. We can't be naked, but we don't want to be overdressed either.


But how about taking it one step further? Let's toss the current system out the window and pay for the idea(s) instead of the time it took to create them. Timelines, deadlines and budgets would still exist, but take the focus off of hours and rates and place it on the essence of the work itself. This system makes results the king. In fact, if you pay for the idea(s), we'll give the 239 or so forms of execution away altogether or at some bulk price. Ironically, I've proposed this a few times in the last few years to several individuals. The biggest issue brought back to me always surrounds reconciliation.


Forgive me, but this business that we all know and love is about brands being brought to life to help people. Financial accountability is critical, but it's not why we're here. It's a guardrail for the system. It shouldn't be the system.

So, if I'm not considered a pariah yet, here's how I believe an idea-centric system could work:


 Client and agency work to define what needs to be done. A SWAG (scientific – wild – ass – guess) won't cut it here. Based on current need – based on prior work experiences together – outline what needs to be done and by when. Getting this step done right will take time, but the effort will pay off for everyone involved


 Client and agency sit down to come up with a budget based on what needs to be completed for the next year, project, etc. This is largely driven by client resources. Working together can help both parties obtain a clear sense of fiscal constraints, and may generate ideas on how to cut costs without cutting quality


 Work out a budget that's based on client resources and expected effort required by the agency to complete the task(s). Take a look at the value. Take a look at what's been paid in the past. Use hours to estimate the amount of work required to get it all done if needed


 Agree on a price using the approaches outlined above as reference points. Coca-Cola just took this to a new level by saying costs will be covered for agencies, but margin is entirely dependent upon results. Note: What results and how to


measure them is still not entirely clear. But just as Coke wouldn't want to have their prices set—without having any say—based on the amount of thirst refreshment their products provided; it's important that both agencies and clients have a voice in the pricing dialogue


 Agree on a timeline. Project deadlines will take on a more vital role in the evolved approach to working together. Agencies need to remain diligent to not let things slip due to other priorities. Clients need to be cognizant of the fact that work on their behalf—when tied to a fixed-cost structure—cannot be allowed to expand and continue on in perpetuity unless the budget is changed as this will impact an agency's ability to remain profitable

 Include all of the currently utilized language around quality, indemnity and responsibilities. While I'm advocating a change of philosophy, I'm not advocating a change in accountability for all parties involved

 Get going. But, get going a bit differently. Take the time and energy previously used to discuss and manage finances to now focus more on the brand problem, opportunity and solutions. By time no longer being a key driver, the work itself can benefit from newfound time (say that six times fast)

 Don't focus on hourly rates. Heck, don't focus on hours at all except for those creeping up on you as you get closer to your deadlines. Focus, focus, focus on the assignment itself. Continuing to relate back to hourly benchmarks will only take time away from focusing on the work itself whose evolved emphasis is the true benefit of this new approach

 Don't worry about the number of hours per person working—on the project, per month, per year or lifetime. This level of detail is no longer necessary and frankly wasn't ever material to the quality of the work being completed

 Focus on the end product, which should be work that builds brands and helps get them into the hands of patients who will benefit from them. Focus on agency results. Focus on the journey—the work to get the work done—the insights, strategies and executions that can make a brand successful

This system will motivate innovation. It will spark creativity at agencies on multiple levels. It will create accountability. It's a fee-for-service system that rewards an agency for efficiency. It's liberating for everyone involved. The focus is on the work, not on what it takes to get it done. Ideas have become king again, and brands will benefit from this evolved approach.

Radical in some ways. Makes perfect sense in others. I'm not kidding, though. Call me. Call your agency. I know I'd discuss it. I'm willing to bet that others would, too.

In the story, I'm sure that the emperor didn't like learning that he was walking around in the buff. But all of us can benefit by trying new things and being willing to adjust based on feedback. Although the story never tells us, I'd wager that the emperor went and got dressed. Anyone else out there willing to adjust their approach? ■

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