

# Advertising Age®

## Punching Out: Crispin and Co. Ditch Time Clock

### Compensation: Hot Shops Take Equity Stakes in Return for Their Work

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Five or so years ago, Crispin Porter & Bogusky did the unthinkable: It ditched timesheets and stopped tracking the hours spent on its accounts.



Crispin Porter & Bogusky CEO Jeff Hicks emphasizes 'we're in the intellectual property business,' not the time-keeping business.

In their place, it has made a variety of agreements with marketers, notably a recent one struck with Haggard Clothing Co. that has Crispin getting a minority equity position with the slacks-supplier as part of its compensation for handling a wide range of marketing services and business and product development. Crispin has a similar equity agreement with Method, a company that makes environmentally friendly household cleaning products.

"We don't believe we sell time," said Partner-CEO Jeff Hicks. "We're in the intellectual property business. Most of the hourly setups are tied to a clear set of deliverables. We do brand thinking across a range of different media."

That notion of selling time is one of the ad industry's most long-running vexing problems. It represents the most common way ad agencies get paid, the "cost-plus" model, routinely vilified as throwing a financial and psychological one-two that both eats into margins and commodifies agencies' work. It's anathema to any agency seeking a way to buffet profits and own its intellectual property.

As a result, experiments with innovative models now abound, such as independent Anomaly's refusal to work under time-based compensation agreements.

DDB Canada Chairman-CEO Frank Palmer has set up a company called Zygo to explore nontraditional methods of compensation and non-advertising business opportunities. For instance, it's working to develop games to be licensed free to a mobile-phone carrier. Users pay with cellphone minutes, a stream the agency would get a chunk of.

Zygo has also taken stock in cosmetic-maker SmartBrands. Its value has increased four or five times since the deal was done. Mr. Palmer said that while Zygo, an Omnicom unit, has made strides, innovation is likely to come from independent shops.

"They have freedom to take risks," he said. "Or there will be agencies like Zygo created to do this. The existing model we work under won't allow for that."

Getting out of that requires nothing less than "a paradigm shift," according to Tim Williams, founder-president of Ignition Group. Mr. Williams advocates value-based pricing, which involves "price-led costing. ... You start with the question of what your work is worth to the client."

Others, however, have more revolutionary zeal. To them, models that still operate within that cost-plus box, in which marketers and procurement groups dig into agencies' salaries, rent and other overhead, are flawed. Even if they reward solid performance, they also ensure that ad agencies that come up with brilliant ideas are compensated in roughly the same manner as a plumber unclogging a drain-by man-hours. And hours that produce breakthrough work are worth the same as those that produce run-of-the-mill spots or worse.

Finding a solution without falling back on costs isn't easy, and, to the minds of some compensation experts, agencies wouldn't always like the answer. "I'd be all for the value-based pricing if it wouldn't put the majority of agencies out of business in a month's time," said Beekman Associates Partner Bob Cauley.

Marketers are increasingly interested in giving agencies the chance to augment fees with incentive clauses, in which hitting sales or other targets increases payment.

Mr. Cauley said 70% to 80% of his clients have those arrangements, up significantly over the past two or three years. Another, Jones Lundin Beals, found in a 2004 survey for the Association of National Advertisers that nearly 40% of marketers have incentive arrangements and that trend, said President-CEO David Beals, is expected to continue.

One of the most famous proponents of sales-based agency compensation arrangements is Procter & Gamble Co.

"The trend emerging out of all this mishmash is a clear focus on performance," said Mr. Beals. "Agencies are going to reflect what clients want, and what clients want is measurement and accountability."

Some see it as a step forward for the agency world because it signals a system where not only costs and profit are covered, but one in which agencies are also rewarded for their successes in ginning up crucial marketing and business metrics.

Incentives alone, however, don't mean that the issue's going to go away. Said consultant Richard Roth, founder-president of Roth Associates, "I think that incentives could be bigger, and some of this talk about unusual forms of compensation would be less of cause celebre because there would be more opportunities to earn more under the current structures."

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