



Who Killed The Timesheet?

Five principles to make the most effective use of agency talent.

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Before we start joyfully pointing the finger at anyone, we must ask ourselves the question: “Why did time sheets exist in the first place?” As advertisers moved swiftly from commission-based agreements in the late 1990s and early 2000s to labor-based agreements and agency retainers, time sheets became vital to agencies and clients: Agencies would commit to completing time sheets to keep an eye on their client billing ratio. No agency CFO wants to see an excessive amount of non-billable agency personnel on their books. And brand advertisers would review time sheets to ensure the effective use of the agency resources they committed to. No client CMO wants to commit massive retainer budgets to an agency without having a mechanism to show they’re a responsible budget steward and that they honor their fiscal responsibilities to their organization.

Fee-based compensation: still king in the advertiser’s kingdom

According to the ANA’s 2017 (17th edition) Trends in Agency Compensation, fee-based compensation remains the most-

used method by over two-thirds of brand advertisers. The annual study confirmed that the greater the advertiser’s spending, the more likely it is to rely on fees as the primary compensation method, no matter the type of marketing services provided. As a brief reminder, in labor based agreements, the agency fee is determined by the amount and type of labor required, and is calculated using a negotiated labor hourly rate (by a job title or function, usually blended). Once the retainer is agreed upon, advertisers are expected to fully utilize the projected annual agency resources that have been committed to the account and keep those aligned with the type and volume of work they require throughout the year. It implies that clients can articulate with some precision what work they need the agency to produce, and the agency has some way to accurately estimate what it will take for the work to be completed. Because this is far from being a science, and the degree of accuracy is strongly subject to the client and agency’s abilities to forecast, regularly reviewing the burn rate, i.e. how many hours or the equivalent retainer value are effectively used against the allocated budget, becomes a common-sense activity.

Time sheets under attack

In an article titled “Agencies: To Improve Your Business, Get Rid of Time Sheets,” Kerry Graham declared having the most profitable year ever after getting rid of time sheets at his agency: “We’re not lawyers or accountants. We are creative people. We need to assert the principles of partnership. To do away with time sheets means we have to radically change our traditional agency philosophy of work to revolutionize, improve, and invigorate the way business is done today.”

Sure enough, I have yet to meet someone at an agency who likes doing time sheets. In his article “F***ing Time Sheets,” Rick Webb, angel investor, consultant, co-founder of The Barbarian Group, call them “a joke”, “an outright lie,” and “a massive fraud, contentedly performed and affirmed by all parties in the ecosystem,” also accusing them of killing creativity. Providing a more balanced perspective, Marc Brownstein, the CEO of Philadelphia-based Brownstein Group, highlighted the upside and downside of timesheets in an article titled, “Timesheets: Necessary? Evil? Or Both?” He pointed out a commonly stated downside: “Garbage in, garbage out. Too many people fill out timesheets with a broad, inaccurate stroke. No one benefits from that.”

So, timesheets are far from being a perfect tool on either side. But are timesheets dead? If time sheets aren’t quite dead, they are seriously injured. Non-conformist but highly-publicized agencies like MDC Partners’ shops Anomaly and CB&P are known to challenge clients who ask for timesheets, claiming that there is a better way to serve clients than keeping an eye on the clock. Instead, they advocate focusing on measurable business and marketing objectives to evaluate whether they delivered to the client’s satisfaction, and they tie compensation to their performance whenever possible. Most agencies would agree. But incentive-based compensation typically represents a small portion of the total

retainer, so the need for time tracking and reporting is not completely obsolete.

Deliverable-based compensation, the ultimate timesheet killer

An increasing number of advertisers have moved to deliverable-based compensation, committing themselves to a number and type of deliverables as part of their scope of work process. In this instance, the advertiser may not see the staffing plans and resource allocations made by the agency to support the work, therefore lessening the need for clients to rely on timesheets to ensure their budgets are used wisely. Instead, the focus is on estimating deliverables and allocating budgets to support these output-based requirements.

One of our clients, a large packaged good company, deployed a global scope of work management system that invites all their marketers worldwide to scope the work they need, from the type of deliverable, the number of unique deliverables, and their complexity. Once the agencies have submitted their overall retainer proposal, the focus is on having the right cost per deliverable based on the value delivered, and making sure that those are on par and competitive. The actual staffing plans that support the work are secondary. If the agency requires more (or less) time than the equivalent budget value, it’s no longer the concern of the client as long as the work was scoped properly.

Reconciliation needed in a world of accountability

Both compensation approaches – from staffing- or deliverable-based to retainer budget planning and scope management— are commonly used among brand advertisers, as they each offer different benefits. No matter the type of agreement a client may choose, a regular actualization or reconciliation process to ensure the deliverables and/or the resources

5 PRINCIPLES TO ADDRESS THE TIMESHEET DILEMMA

- 1** DETERMINE YOUR COMPANY'S COMPENSATION APPROACH
- 2** UNDERSTAND YOUR AGENCY'S OPERATING PROCESS
- 3** REQUEST ACTUALS FROM YOUR AGENCIES
- 4** CONDUCT ONGOING RECONCILIATION REVIEWS
- 5** FOCUS PRIMARILY ON AGENCY RESULTS AND PERFORMANCE

assigned were effectively provided remains critical. It serves multiple purposes. First, as discussed previously, advertisers are held accountable internally (as they should be) and must show that they are good stewards of the budgets they are managing. Second, the reconciliation exercise may show low or high usage of agency resources or under- or over-delivery of deliverables relative to the original target. Understanding the nature of the variance and its origin allows both parties to course correct and make important, timely decisions.

Here are five principles advertisers should follow to address the timesheet dilemma and make the most effective use of their agency talent:

#1 Determine whether your company's compensation approach should be deliverable- or staffing-based.

Even if your approach is deliverable-based, ask for a staffing plan to understand how the agency is servicing your business. If your approach is staffing-based, ask for a list of deliverables to understand what the agency is producing on your behalf.

#2 Fully understand your agency's operating process:

If you have a staffing-based approach to compensation, ask your agency to share with you their timesheet process so you understand it fully when reading their reports.

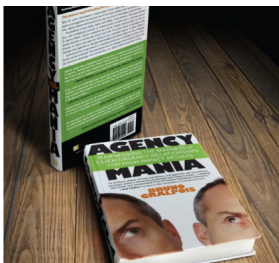
#3 Request actuals from your agencies: No matter the approach you choose, institutionalize a process by which the agency(ies) provide actuals (staffing or deliverables) on a predetermined scheduled, using a consistent format. The reconciliation should be conducted based on the type of compensation selected.

#4 Conduct ongoing reconciliation reviews: Review and compare staffing or deliverable actuals to projections on a regular basis, and figure out if any specific course correction is required. Look for outliers and discrepancies and use this time to make more informed decisions about resource allocations.

#5 Focus primarily on agency results and performance:

Consider setting aside a material portion of your retainer for incentive-based compensation, so everyone is focused on the right outcomes. Whether you are buying resources or outputs as a client, what truly matters is whether these resources are meeting expectations, or even exceeding them.

The timesheet may occasionally seem like a washed-up clown: a bit dated and slightly annoying at times. But timesheets serve a reasonable purpose when brand advertisers favor staffing-based compensation and must hold themselves and their agencies accountable for their budgets. If you are collecting data from your agency, make sure to collect the right type and take action, or, as a client, you are potentially wasting agency resources. Whether you like the idea of killing time sheets or you believe they're a necessary part of agency life, consider how some clients and agencies are making changes, but please don't shoot the messenger.



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Bruno Galpois is the co-founder of Agency Mania Solutions, a premier service and technology firm specialized in helping companies realize the transformational value of managed partnerships. Bruno is the author of best-seller "Agency Mania" and the former chair of the Association of National Advertisers (ANA) Client/Agency Committee and a faculty member of the ANA School of Marketing.

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