



# DEMYSTIFYING AGENCY OVERHEAD

# Participants

- **117** survey participants
- **All ANA members**

# Participating Companies

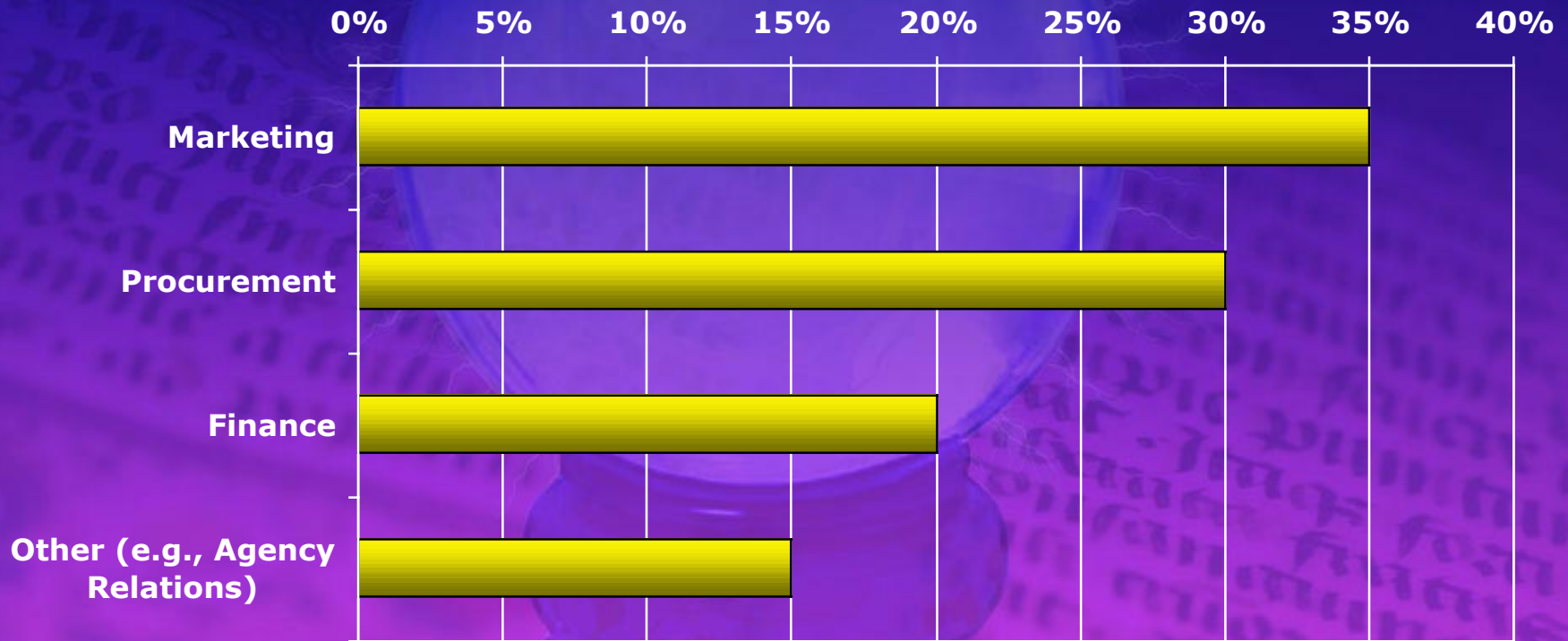
(who agreed to be identified)

Alcoa  
Amgen  
Anheuser-Busch  
AstraZeneca  
Aventis  
BP  
Burger King  
Cisco Systems  
Coca-Cola  
Coors Brewing  
Corn Products  
Daimler Chrysler  
Dow Chemical  
Dow Corning  
Dupont  
Eastman Kodak  
El Pollo Loco  
Eli Lilly  
ExxonMobil

Ford Motor  
General Mills  
General Motors  
Gillette  
GlaxoSmithKline  
Hewlett Packard  
Intel  
Johnson & Johnson  
Limited Brands  
Masterfoods  
Merck  
Motorola  
Nationwide Insurance  
Nestle Purina Petcare  
Nestlé  
Nissan  
Nortel Networks  
Northwestern Mutual  
Novartis

Oppenheimer Funds  
Oracle  
Procter & Gamble  
Schering-Plough  
ServiceMaster  
TIAA-CREF  
United States Postal Service  
Verizon  
Volkswagen  
Wachovia  
Warner Bros.  
Whirlpool / KitchenAid  
William Wrigley Company  
United Airlines

# Role of Respondents



# About the Respondents

- **Two-thirds are \$100 million+ advertisers**
- **Two-thirds use cost based compensation**
- **Half negotiate overhead**
- **40+% have agencies that disclose actual overhead costs**

# Where Clients Agree – Knowledge & Proactivity Are Necessary

- I care what my agency's overhead rate is.
- Overhead should be more transparent.
- Agency profitability is a concern for us, the client.
- If an agency is not attentive to internal cost management, an advertiser should facilitate overhead cost control / reduction opportunities with them.

# Where Clients Have Varying Positions

- My fees should cover all costs of an agency.

# Where Clients Face Hurdles With Their Agencies – Transparency & Rationale

- Agencies generally define their overhead costs clearly.
- Agencies generally demonstrate that their overhead costs are reasonable.
- My agency is attentive to internal cost management.

# What Clients Are Saying

- **Lack of transparency as to what is in overhead.**
- **Difficult to get clear definitions**
  - “They all define overhead differently, which leads to the confusion”

# What About Standards? Mixed Reactions

- There should be a standard overhead rate for all clients / agencies.
- For any specific agency, there should be a standard overhead rate for all its clients
- For any specific client, there should be a standard overhead rate for each of its agencies

**DISAGREE**

**NOT SURE**

**DISAGREE**

# The Bottom Line

- **Lack of transparency ... “it’s a black box”**
- **Need agreement on definitions, allowable / unallowable expenses**
- **Agencies / clients need to sit down to discuss**
  - only 45% of clients have done this



# DEMYSTIFYING AGENCY OVERHEAD