

Market Intelligence Report:

Digital Advertising Agencies 2014:

A Buyer's Guide



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Scope and Methodology

This report was written for marketers and advertisers who are looking for an agency to manage some or all of their digital marketing initiatives. The goal is to help the audience navigate the many choices available and make a more informed decision within the current agency market, including what digital advertising capabilities and services are most important to their organizations. This report answers the following questions:

- What trends are influencing the digital agency landscape?
- How can I determine if my company needs a digital agency?
- What type of agency is the best fit for my organization?
- What is the process for choosing a digital agency?
- What questions do I need to include in an RFI or an RFP?

The report draws from Wikipedia's definition of an interactive agency to define digital agencies as companies that provide specialized advertising and marketing services for the digital space. They are independent from the client and provide an outside point of view to the effort of selling the client's products or services.

Digital agencies may provide some or all of the following capabilities: digital lead generation, digital brand development, interactive marketing and communications strategy, rich media campaigns, interactive video brand experiences, website design and development, e-learning tools, email marketing, public relations, SEO/PPC services, social media marketing, mobile campaign development and management, content creation and management services, and data mining and ROI assessments.

Many digital agencies that currently offer a broad array of digital capabilities began in search advertising, which is still considered the foundation of digital advertising as evidenced by search's predominant share of digital advertising dollars spent.

If you are considering hiring an agency for one or more digital channels, this report will help you decide whether or not you need to. This report has been completely updated since its December 2012 publication to include the latest industry statistics, developing market trends, and new recommended steps for choosing an agency partner.

The report was prepared by conducting in-depth interviews with leading digital agency executives, advertisers, and industry experts in October and November 2013. These interviews, in addition to third-party research, form the basis for this report. In particular, Digital Marketing Depot would like to thank the following industry executives for their time and professional insights:

Rhea Drysdale, CEO, Outspoken Media
George Gallate, CEO, RKG
Rob Garner, Chief Strategy Officer, Advice Interactive
Jeff Johnson, SVP, Managing Director, Covario
Kevin Lee, CEO, Didit
Jason Tabeling, Partner, Rosetta

November 2013

Research/Writer: Karen Burka, Senior Research Consultant

Editor: Claire Schoen, VP, Marketing Services, Digital Marketing Depot (<http://digitalmarketingdepot.com>)

Digital Advertising Agencies: Types and Services

Digital agencies are as varied as the needs of the advertisers and marketers who hire them. At the high end, for global enterprises, are the agency holding companies with hundreds of full-service digital agencies around the world. There are also boutique and specialty agencies (two terms that are used interchangeably in this report) that provide channel-specific digital marketing services such as mobile messaging programs, social media marketing, or SEO link-building campaigns. And there are agencies that focus on strategy and professional services, such as branding or web design. Like any organization, each type of agency has its own strengths, weaknesses, and culture.

Agencies owned by large media or holding companies can provide the following benefits to their clients:

- Diversity of capabilities from co-owned agency properties;
- Built-in sister agency relationships and priority referrals; and
- In-network efficiencies and pricing.

Most full-service digital agencies manage a brand's presence on many channels, manage a brand's advertising technology/analytics platforms, and provide professional services. Technology offered to clients, such as bid management software or social media listening tools, is usually sourced from third parties. Client account management and support are largely based on client size and spend. Agencies owned by holding companies generally require minimum monthly spends in the six-to-eight figure range. That level of investment typically buys a dedicated account staff; an "agency-within-an agency" that can manage the brand across the entire holding company.

Working with a specialty or boutique agency offers unique benefits as well, including:

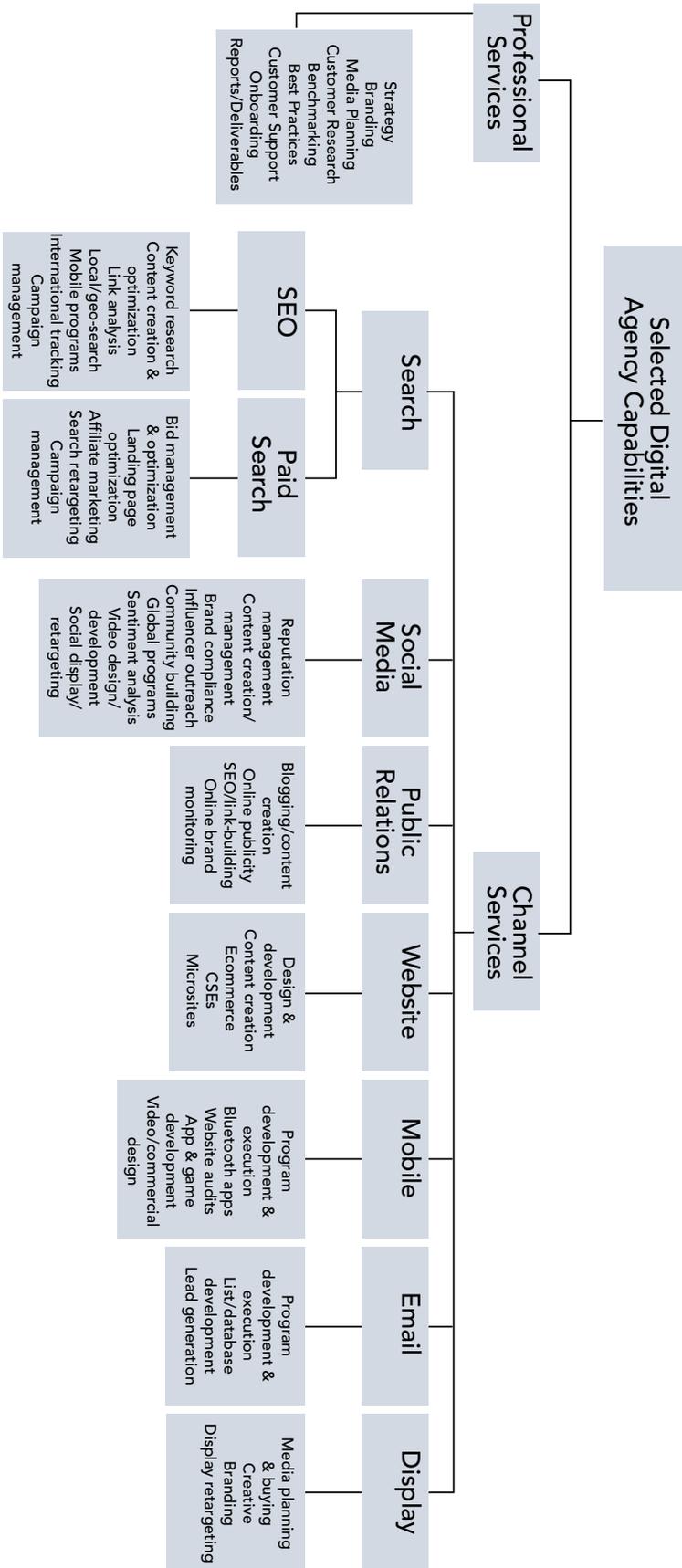
- More granular channel strategy and tactical expertise;
- Client access to agency decision makers and executive personnel; and
- Lower spending minimums.

Specialty agencies offer a subset of the services provided by full-service agencies. These services may be channel specific, such as social media or SEO, or media specific such as display advertising or email marketing programs. Dozens of specialty agencies have launched over the past five years, a market dynamic called the "agency long tail" by some industry executives. Prompted by the mid-market opportunity created by holding company agencies with huge minimum spends, and wireless technologies that have made it easier to start up small businesses, many large agency executives with strong client relationships have left their firms after an acquisition and opened specialty agencies.

Dozens of specialty agencies have launched over the past five years, a market dynamic called the "agency long tail" by some industry executives.

Digital Agency Capabilities

Table 1 illustrates the broad range of services that digital agencies can provide. A full-service agency offers breadth of professional and channel services, while specialty agencies can provide depth within a channel, including proprietary PPC or SEO platforms and extensive client training in software use, integration, and customization.



Source: Third Door Media



Professional Services vs. Proprietary Technology

Digital agencies also can be differentiated by their focus on professional services versus proprietary technology platforms. Agencies that emphasize their professional services capabilities recommend and use third-party technology such as PPC campaign management platforms, SEO tools, and social media management platforms to manage their clients' data and digital campaigns. These agencies view their role as strategists that can analyze and interpret data to provide actionable results and achieve their clients' goals.

Agencies that develop and offer proprietary tools view their platforms as a competitive advantage over third-party toolsets that are widely available. The plethora of digital channels has left many advertisers drowning in data. By providing technology platforms that are built and customized to client needs, these agencies believe they are providing unique and critical automation tools that collect, analyze, and optimize data for their clients.

Ultimately, agency and brand executives agree that it takes "smart people to run smart technology." Attribution models, for example, can include highly sophisticated algorithms. But scoring each of the many touch points in the conversion path must be done by marketers or analysts with keen insight and understanding into the value of each channel for individual customers.

Lines Blur between Paid, Owned, and Earned Media

Many agencies are adapting their service offerings to meet client demand for integrated campaigns that cut across previously accepted lines between paid, owned, and earned media. Advertisers and agencies have traditionally classified media as either paid, owned, or earned. Paid media refers to advertising that is purchased, such as print, web, or broadcast advertising. Owned media belongs to the brand, such as print brochures or website content, while earned media encompasses public relations and reputation management.

Driven largely by social media and user-generated content, these media distinctions are no longer clear (see Table 2). For example, Twitter is a social media channel, which can be considered owned media, but the brand bounce that occurs from retweeting becomes earned media because it furthers brand awareness. Paid media now includes content marketing campaigns or sponsored messages on social media channels -- as well as the more traditional display or PPC advertising. Social strategy and mobile programs are closely linked, as are website and social or mobile app creative development. The media are converging.

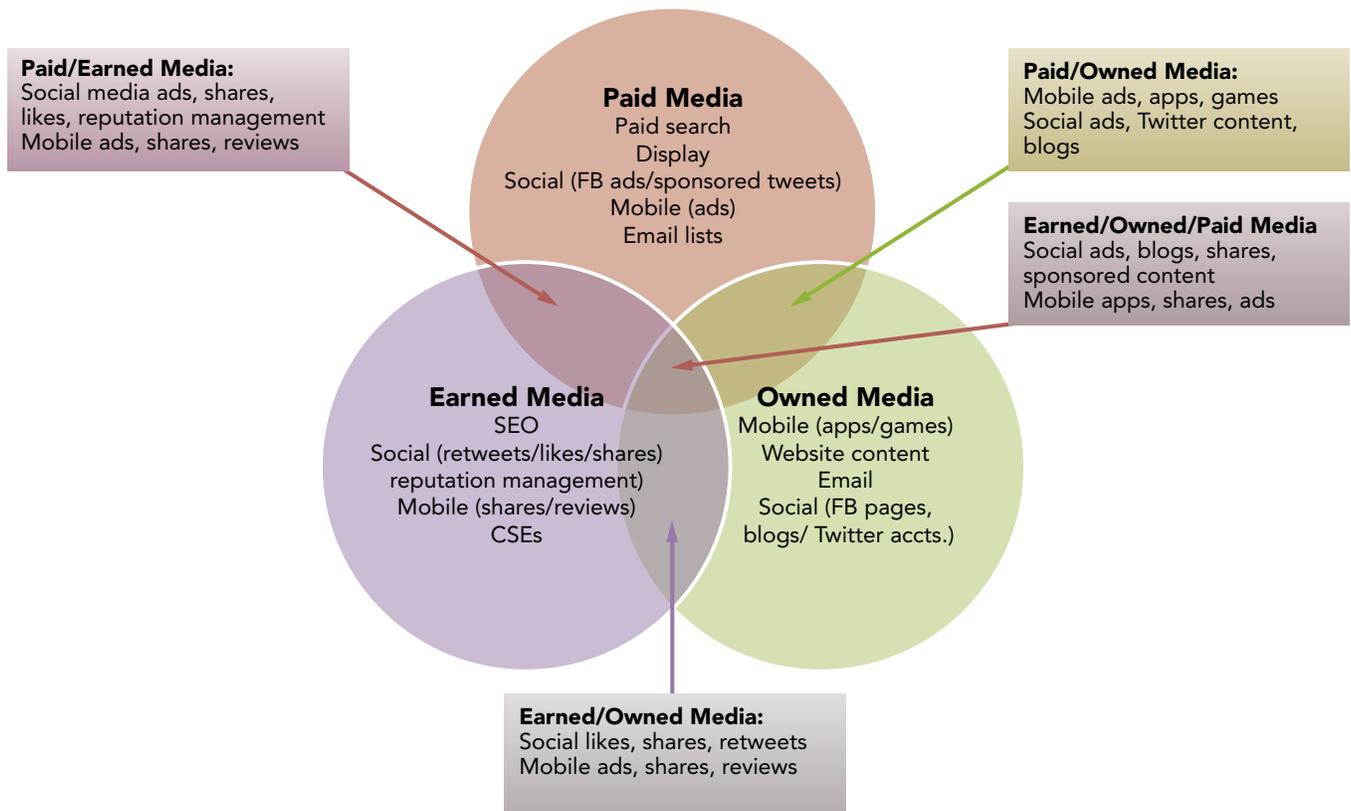
The result is that the lines are blurring for agencies and their clients, as well. Search advertising models of pay-per-click are now available on social media networks. Whereas social marketing once meant a Facebook brand page, advertisers are now allocating budget among a growing array of major social media including Pinterest, LinkedIn, Google+, YouTube, and Twitter.

SEO has spawned a new channel of content marketing, as marketers compete to generate traffic and attract customers. Digital maps and applications for local markets such as Yelp or Foursquare have changed marketing at the local level, both for small companies and national brands. Mobile marketing has become its own discipline, with unique design, development, and distribution requirements.

Many agencies are adapting their service offerings to meet client demand for integrated campaigns that cut across previously accepted lines between paid, owned, and earned media.



Table 2: The Lines Blur Between Paid, Owned, and Earned Media



Google's July 2013 transition to 'enhanced campaigns' introduced a whole new set of rules for paid search advertising; for advertisers, this meant allocating resources to better understand and run campaigns under the new system.

In addition to changes in media and channels, marketers must keep up with changes in how media is being consumed. The rapid growth in tablet and smartphone use continues to impact the advertising business; one outcome in 2013 was the increased use of responsive web design to optimize how content and ads are delivered.

Faced with this ever-changing digital marketing landscape, limited resources, and higher C-level expectations, advertisers and marketers are increasingly turning to digital agencies for their expertise.

Digital Agency Market Trends

The growth and evolution of the digital agency market is being driven by several important trends, including:

1. M&A Continues to Reshape the Agency Landscape as Digital's Share Grows
2. Mobile Drives Gains in Internet Ad Revenues.
3. The Increasing Complexity of the Client/Agency Ecosystem.

The following section discusses each of these trends in more detail.



Trend #1: M&A Continues to Reshape the Agency Landscape as Digital's Share Grows

Mergers and acquisitions (M&A) continue to have a dramatic impact on the size and scope of the digital agency landscape, both for large holding companies as well as smaller, specialty agencies.

International agency holding companies such as Japan's Dentsu and London's WPP spent billions on acquisitions over the past two years in an effort to create worldwide, full-service networks that provide a broad spectrum of digital marketing capabilities and services (see Table 3). Dentsu completed its nearly \$5 billion deal to buy Aegis Group in March 2013 and announced the creation of Dentsu Aegis Network, a global operating unit based in London. The new unit will manage all of Dentsu's global business operations outside Japan, as well as Aegis Media's operations worldwide.

The largest merger of agency holding companies occurred in July 2013 when Publicis Groupe and Omnicom Group announced a \$35 billion agreement to merge the two holding companies – representing more than 250 agency brands between them, including BBDO, Ketchum, Razorfish, DigitasLBi, Leo Burnett, Starcom MediaVest, and Saatchi & Saatchi.

Table 3: Selected Agency Holding Company Mergers and Acquisitions, 2012-2013

Acquirer	Acquired/Merged	Date	Notes
Aegis Group plc	Communicate 2 I Spy Marketing Catch Stone Roundarch	August 2012 August 2012 July 2012 February 2012	India-based search agency U.K.-based digital agency Chinese digital agency bought for \$86MM Purchased for \$125MM
Dentsu	Aegis Group plc	July 2012	\$4.9 billion purchase price
Interpublic Group	FUSE Nicole Weber Comms.	January 2012 January 2012	Bought U.K.-based digital agency Acquired leading German PR agency
Omnicom Group	Publicis Groupe	July 2013	\$35 billion merger
Publicis Groupe	Poke Media Engauge Marketing LBi International Bartle Bogle Hegarty	September 2013 August 2013 January 2013 July 2012	Estimated \$20 million acquisition of London-based social media/mobile agency Acquired Ohio-based digital agency for undisclosed sum \$591 million purchase of Netherlands-based digital technology agency Purchased remaining 51% share of London- based agency
WPP	John St. C-Section Okam Ltd. CM Interactive (Crossmedia) Hungama Digital Services Fortune Cookie AKQA DTDigital	March 2013 February 2013 January 2013 December 2012 June 2012 August 2012 June 2012 January 2012	Bought Toronto-based digital agency Acquired Istanbul-based digital agency Acquired holding company of London- based Salmon Group of digital agency services Majority stake of Mexican digital agency acquired by WPP subsidiary Wunderman India-based digital agency purchased by JWT Acquired by WPP agency Possible Worldwide. \$550MM purchase price WPP subsidiary Ogilvy bought 33.3% stake in Australian digital agency

Source: Third Door Media



For specialty agencies, acquisitions can bring access to a new software tool, or add new services to solidify an existing strength. For example, SEM specialty agency Didit purchased a majority stake in Harrison Leifer DeMarco (HLD) in March 2013 to add social marketing and reputation management to its existing suite of proprietary search tools and services. In August 2012, Didit acquired Inceptor, a wholly owned subsidiary of SuperMedia that provides SEO, CSE, and social marketing capabilities.

In May 2013, RKG acquired Nine by Blue, an SEO software and consulting company founded by ex-Google executive Vanessa Fox. The acquisition included Nine by Blue's proprietary search analytics and diagnostic software, Blueprint, which will become part of RKG's SEO toolset.

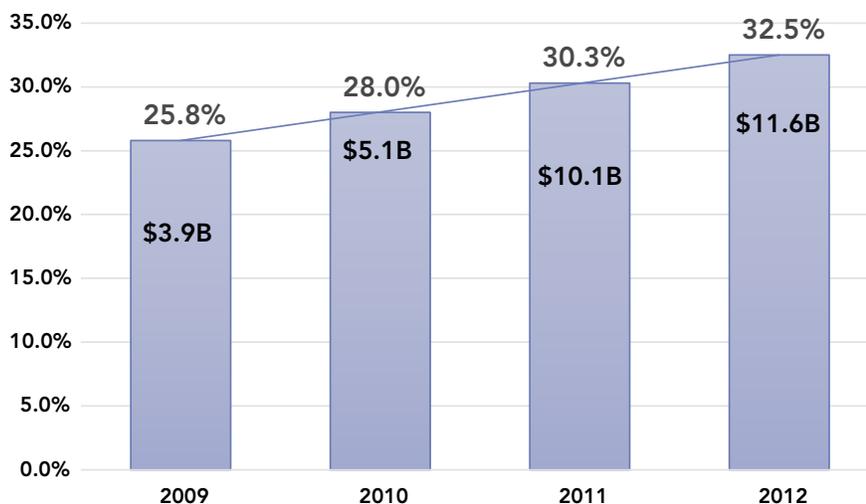
International consulting firms such as Deloitte and Accenture are also jumping into the digital agency fray to be able to service their clients' digital advertising needs in house. In January 2012, Deloitte bought Seattle-based mobile agency Ubermind, and launched Deloitte Digital several months later. Deloitte acquired another Seattle-based digital agency, Banyan Branch, in October 2013. Accenture purchased London-based digital design agency Fjord in May 2013, adding to its October 2012 acquisition of digital production agency AvVenta.

All of these acquirers expect to reap bottom-line rewards for their efforts to expand the breadth and depth of their digital offerings, as digital's slice of the agency revenue pie continues to grow.

Digital's Share of Ad Revenue Continues to Grow

Digital revenue increased 6.9% in 2012 to reach \$11.6 billion, according to Ad Age's DataCenter, which compiles data on nearly 1,000 agencies and agency networks (see Table 4). Digital's share of overall agency revenue has grown from 25.8% in 2009 to 32.5% in 2012. Digital revenue growth outpaced general advertising revenue growth by more than two percentage points in 2012.

Table 4: Digital Services Share of Overall Agency Revenue, 2009-2012



Note: Totals include pure-play digital agency revenues as well as digital revenues for all ad agencies tracked.
Source: Ad Age DataCenter

Trend #2: Mobile Drives Gains in Digital Ad Revenues

Led by triple-digit increases in mobile, advertiser adoption of digital media is driving record revenues for online publishers and ad networks, according to the Internet Advertising Bureau (IAB).

For the first half of 2013, U.S. Internet ad revenues surged to \$20.1 billion, a 17.8% increase over \$17.0 billion for the first half of 2012 (see Table 5). Mobile revenues grew from \$1.2 billion in the first half of 2012 to \$3.0 billion for the same 2013 time period, a 144.6% increase. Mobile's gains led its share of the Internet advertising market to grow from 7% to 15% (see Table 6). As an advertising category, mobile is inching closer to banner ads, which grew only 4.4% in 2012.

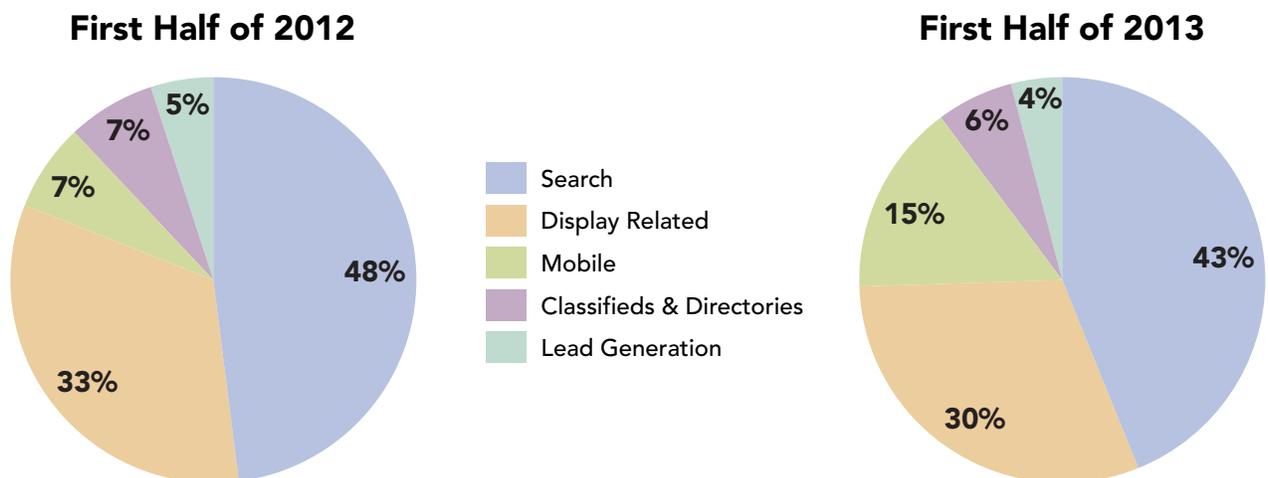


Table 5: Internet Advertising Revenues (in \$M) First Half of 2012 vs. First Half of 2013

Ad Category	First Half 2012	First Half 2013	% Change
Search	\$8,128	\$8,728	7.4%
Display Related	\$5,586	\$6,078	8.8%
Banner Ads	\$3,622	\$3,780	4.4%
Digital Video Comms	\$1,053	\$1,307	24.1%
Rich Media	\$495	\$640	29.3%
Sponsorships	\$416	\$351	-15.6%
Mobile	\$1,242	\$3,038	144.6%
Classifieds & Directories	\$1,160	\$1,291	11.3%
Lead Generation	\$834	\$853	2.3%
Email	\$78	\$78	--
Total	\$17,028	\$20,066	17.8%

Note: Display Related includes banner ads, digital video commercials, rich media, and sponsorships.
 Source: Internet Advertising Bureau

Table 6: Internet Advertising Market Share, First Half 2012 vs. First Half 2013



Notes: Display Related includes banner ads, digital video commercials, rich media, and sponsorships.
 Email market share is calculated to be 0% and therefore not represented in chart.
 Source: Internet Advertising Bureau.

Digital video commercials, rich media, and classifieds and directories all experienced double-digit growth in the first half of 2013. Digital sponsorship was the only Internet advertising category to see revenue decline in the first half of 2013. The IAB's totals include revenues from websites, ad networks, commercial online services, mobile devices, email providers, and other companies selling online advertising. These numbers represent a subset of all media services provided by agencies, but demonstrate just how quickly digital advertising continues to grow.

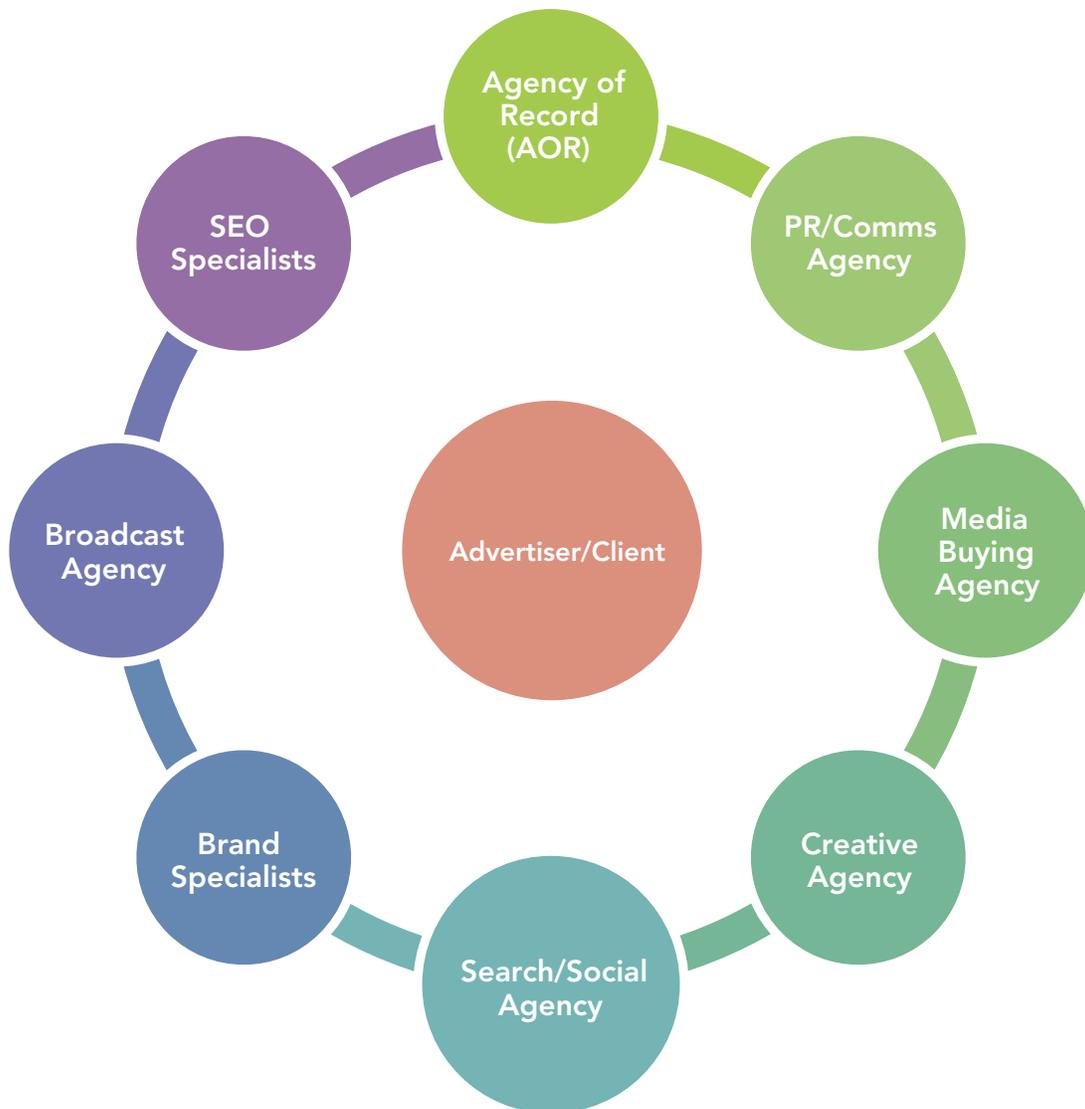
For the full-year 2012, the IAB found that overall U.S. Internet advertising revenue reached \$36.6 billion in 2012, a 15.2% increase over \$31.7 billion in 2011.

Trend #3: The Increasing Complexity of the Client/Agency Ecosystem

Advertisers' combined demands for both best-of-breed channel expertise and a more holistic, integrated digital strategy is expanding the size and complexity of the client/agency ecosystem. Enterprise marketers, in particular, are looking for an omnichannel approach that provides a 360-degree view of marketing and advertising campaigns – both digital and offline – as well as customer behavior, lifecycles, and lifetime value.

To achieve these goals, enterprise clients are hiring more agencies and then expecting those agencies to collaborate and work together more closely to align data collection, use, optimization, and campaign management. The client/agency ecosystem increasingly includes an agency of record (AOR) as well as public relations, PPC, SEO, social, creative, strategy, and media buying agencies (see Table 7). At the same time, C-suite executives are getting more involved in agency relationships to ensure accountability and cooperation in light of bigger digital budgets and more partners.

Table 7: Increasing Complexity of the Client/Agency Ecosystem



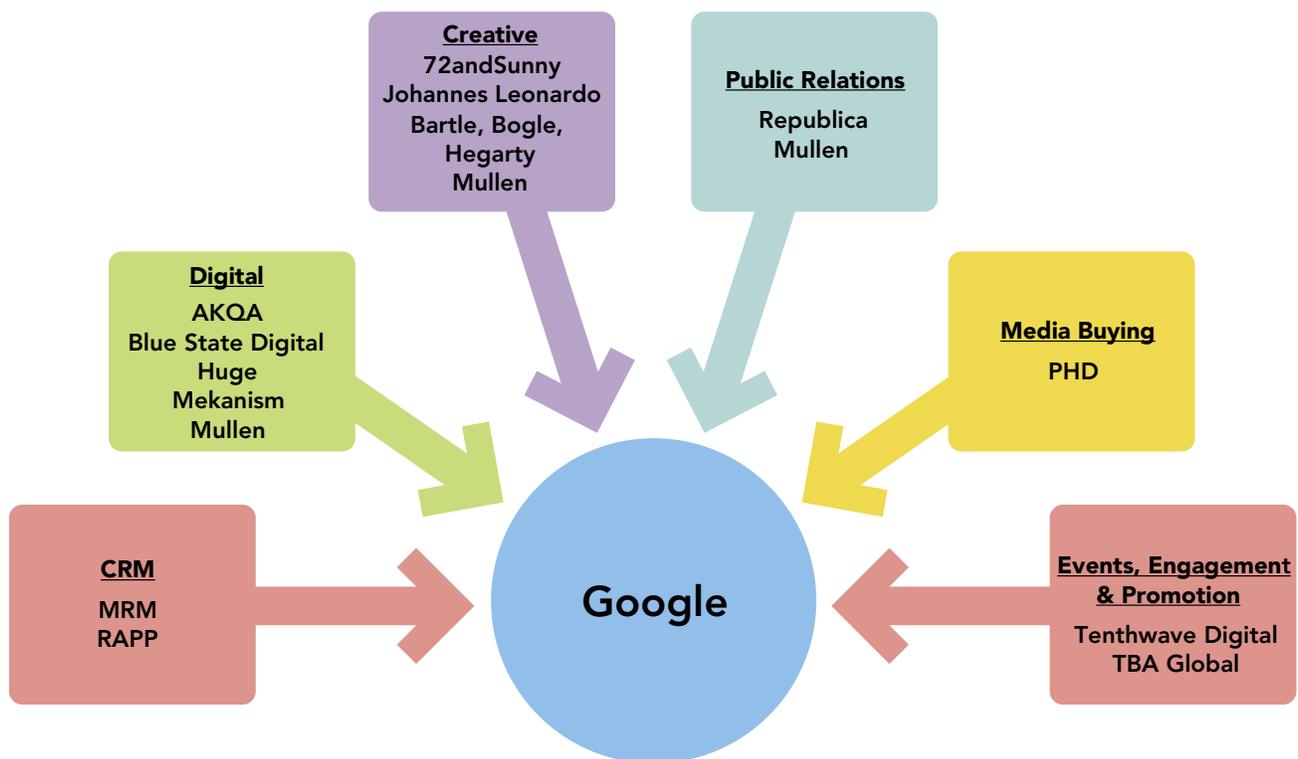
Source: Third Door Media

A look at Ad Age's 100 Leading National Advertisers shows that the majority of national advertisers have multiple agency relationships and, in many cases, several agencies managing the same channels including digital, social, and creative. Table 8 illustrates a selected number of Google's agency relationships for its corporate advertising work.

These more complex client/agency ecosystems have brought with them a number of data management issues, including questions around data access, sharing, interpretation, and transparency. Client/agency contracts include more iron-clad agreements about what data can or cannot be shared within the ecosystem. The flow of data to and from the client with disparate agencies is often managed by internal marketing staff. Even when legally cleared, however, data sharing across agencies or channels often results in data gaps and poor data hygiene, which can compromise results.

In most cases, digital technology platforms are managed by the agency "closest to the technology" or executing the marketing programs within the discipline (i.e. search or mobile). However, industry executives agree that there are no clear data-sharing rules or guidelines. It will take time before comprehensive best practices emerge to help clients and agencies sort through these critical issues.

Table 8: Selected Google Corporate Advertising Agency Relationships



Source: Ad Age DataCenter, Third Door Media

Choosing a Digital Agency

Ultimately, the decision to hire a digital agency is a significant investment that requires a rigorous evaluation of your business's and any potential agency partner's needs, resources, and cultures. The following sections discuss five steps involved in making a more informed and successful choice.

Step One: Company Self-Assessment – Do You Need a Digital Agency?

Deciding whether or not your company needs to hire a digital agency calls for the same evaluative steps involved in any significant investment, including a comprehensive self-assessment of your organization's internal strengths, challenges, and needs from a business, staffing, and technology perspective. This includes answering questions such as:

- **What are the primary objectives we want to achieve?** Working with an agency can help advertisers that are looking to scale their digital initiatives but lack enough in-house resources to do so. Find clarity and consensus on what you're looking to achieve. If your digital programs are falling short of management's ROI goals, an agency's expertise may be able to help you improve campaign or channel results.
- **Do we need a full-service agency or specialist?** Traditionally, advertisers have hired an AOR to handle all of their advertising needs. But one-stop advertising shops may not represent best-of-breed expertise in every digital channel. Many advertisers hire both AORs and boutique agencies with expertise in SEO or social media, for example. If managing multiple agencies is too cumbersome or expensive, a full-service digital agency may be the right choice.
- **Who will manage the agency relationship?** Every successful partnership needs a champion who is invested in that partnership's success and can pull together the disparate groups that have a stake in the outcome or a role to play. For example, marketers may voice different wants and needs than an IT department, but both may be important to campaign development and execution. By designating a "point person" within the business even before you send out an RFP, you will ensure the steady flow of information throughout the process so that expectations are met.

It is also vital to assess your own business's culture and priorities before beginning the selection process. For example, is good creative more important than reporting capabilities? If so, you'll need to target agencies with those strengths. If not, you'll want to speak to more agencies with strong or proprietary analytical tools or capabilities. Here are several other factors to consider:

Accountability: Digital campaigns have many moving parts, and in-house marketers can often be too busy to micromanage every detail. Think about how much you'll need to rely on your agency to stay on top of every deliverable and how proactive you'll want them to be regarding any campaigns that aren't going according to plan.

Flexibility: How flexible and accommodating do you need an agency to be? In-house marketing teams often experience scope creep, which can create missed deadlines and budget overruns for their agencies. Not all agencies have the staff or inclination to switch gears mid-campaign when clients request changes. If it's important to you that an agency accommodates your wishes, even if it costs time and money, make sure to say so up front.

Communication: How much communication do you want or need? How important is the geographic location of your agency? You may be the type to ask a lot of questions or want to have periodic in-person meetings. If so, look for an agency that has an office close to your location and welcomes the frequent interaction. If you're looking for a more turn-key relationship, location won't be as important as the confidence and skill of the account team managing your business.



Step Two: Understand Agency Fee Structures

Agency free structures vary widely, even within client accounts. It is not uncommon for a client to compensate their agency using different fee structures for different types of media campaigns. For example, a common agency fee model for paid media work is percentage of spend. Typically, an agency will be paid 10-20% of a client's digital media spend on paid search or display advertising campaigns. Smaller clients may pay a higher percentage, while enterprise clients may pay a smaller percentage due to the larger dollar volume of their accounts.

Fee-based or retainer-based models are quickly gaining traction, most often at the expense of commission-based compensation among large brands and their agencies. The Association of National Advertisers' 2013 *Trends in Agency Compensation Survey* found that fee-based agreements have grown to 81% of all compensation agreements, while commission-based compensation has fallen to just 5% of all compensation agreements. The two compensation models have been on opposite trajectories since 1994, according to the ANA survey, when commission-based models represented 61% of all agreements, and fee-based models accounted for 35% of agency compensation agreements.

Fee-based models have become more attractive because they provide predictable expenses for marketers and advertisers, particularly on long-term accounts that require ongoing maintenance, such as monitoring SEO rankings or social media content. Retainers may also encourage agencies to test new campaign strategies and tactics, knowing that they will be compensated for their time regardless of results.

Each fee structure has advantages and challenges for different types of media (see Table 8). Many agencies use time-based pricing, which is based on a set hourly fee to track all time spent on a client's earned and owned media accounts such as SEO or social. In these types of arrangements, it is important for the client and agency to discuss and negotiate minimums and perhaps maximums to facilitate budget planning. Clients must also be vigilant about agency staff efficiency, since the agency is paid for an agreed-upon number of hours, regardless of how much work is accomplished.

Table 8: Selected Digital Agency Fee Structures

Fee Model	Most Appropriate Media	Advantages	Challenges
Percentage of spend	Paid media (PPC, display)	Expense predictability.	Agency goal to increase spending and media buys may result in higher costs but depress ROI.
Time based	Earned and owned media (SEO, social, mobile)	Negotiated hourly fee assures client is only paying for actual time put into account work.	Less predictable expenses that depend on campaigns being run on time or in a particular time frame. Questions may emerge about whether account staff is working efficiently.
Fee-based or Retainer	Owned and earned (SEO, social, mobile)	Consistent, predictable expenses. May encourage more long-term, strategic thinking because agency is paid regardless of results.	Large spending or budget changes may necessitate renegotiating fees. Questions may emerge about whether account staff is working efficiently or enough hours.
Performance-based	Paid and earned media (Paid search, display, some social)	Agency shares risk with the client on campaign performance.	Frequent renegotiating due to over- or underperforming campaigns. Agency may stick to "tried and true" tactics to guarantee revenue, rather than look at long-term results or strategy.

Source: Third Door Media

Performance-based hybrids that include a time-based, fixed-fee, or percentage-of-spend rate, as well as a smaller performance-based component for paid media work are generating mixed results for both agencies and advertisers. The goal is for clients and agencies to share the risk when trying new campaign strategies or tactics, yet fairly compensate the agency for its time and work. This model also works as a way for agencies to become more competitive in their base pricing; by adding in bonuses based on performance levels, the initial agency fee may be lowered.

However, some industry experts caution that performance-based models can actually discourage innovation precisely because of the risks involved. Some agencies may not feel comfortable with taking on extra work with no guaranteed reward. Other agencies and advertisers cite frequently renegotiating contracts when bonuses are met as another drawback. Successful performance-based compensation arrangements that benefit both agency and client require trust, negotiation, and clarity about campaign rules and ownership. For example, an agency might require implementation of all agency-recommended landing page changes or updates within a certain time frame to ensure the types of results needed to kick in the performance bonus.

Potential Add-on Fees

Third-party software and campaign set-up fees are common agency add-on charges. Setting up digital marketing campaigns can be time consuming. Once an advertiser's goals are understood, an agency should openly discuss with the advertiser how long a campaign will take to set up. Depending on the complexity of this set up, an advertiser may be charged a one-time fee or monthly installments.

Some agencies will roll third-party software fees into a monthly management fee, making them less transparent. It is important for advertisers to understand what an agency is doing in house and what it is outsourcing, including why the function is being outsourced and what are the costs associated with the software. In some instances, agencies provide excellent services but do not have the development team to write their own applications. Conversely, there are some excellent software solutions that do not offer agency services and focus on providing the best software possible. The match of these two different teams can provide a complete solution to meet all of an advertiser's needs. (Note: Many agencies also develop and provide proprietary software solutions in addition to their agency services.)

Step Three: Begin the Selection Process: Phone Calls, RFIs, and RFPs

Once you've decided to hire a digital agency, the next step is to develop a list of potential agency partners to contact – whether by phone, request for information (RFI), or request for proposal (RFP).

Many digital agency executives report that the majority of their new business comes from referrals rather than RFPs. Agencies today are becoming more selective about managing their resources and investing their time and talent to pursue new opportunities, according to the American Association of Advertising Agencies (4A's) and the Association of National Advertisers.

Search Agency Fee Structures

In addition to the more general digital agency billing options, search marketing agencies may offer the following fee models to potential PPC clients:

1. **Number of Keywords under Management.** Now becoming less popular, many search agencies charge clients for the number of keywords being managed and how many times per day the keywords are updated. If you are an advertiser being charged by keyword, the 'long tail' keywords are generally unprofitable. While the long tail may not normally be the majority of your sales, in this pricing model, there is less experimentation that can be profitably implemented.
2. **Charge Per Click.** In the early days of PPC, click costs could vary dramatically. Advertisers would see their clicks remain constant and yet their bills continued to rise. The price-per-click billing model evolved from advertisers looking to ensure that their agencies were doing enough keyword research to ensure that higher click volume didn't lower conversion. The key to this billing method is ensuring that all clicks, if not equal, are relevant.



Therefore, before – or instead of – initiating a more formal RFP process, you may want to begin by contacting some of your marketing peers to find out which agencies they are using and why they chose the partners they did. Then call any recommended agencies to discuss your business needs and whether or not they might be an appropriate fit. This step serves three purposes:

- 1) It allows any agency that doesn't want to respond to your RFP to opt out of the process right away.
- 2) It enables you to speak directly to an appropriate individual at the agency and establish a rapport.
- 3) It assures that you will be sending your RFP to the right person at the agency.

Some advertisers begin the selection process using a broad-based RFI to cast a wide net to between ten and 15 agencies before homing in on a more targeted group of potential partners through an RFP. The RFI should query agencies about their size, management team, organizational and operating structures, target customer, and digital capabilities. Include key business terms upfront, for example, competitive conflicts or non-compete requirements, travel policies, and minority hiring and sustainability commitments. The result should be a streamlined two-page document with a deadline of two to three weeks for agency responses.

An RFP follows through on the process to gather and assess targeted information from the agencies that seem most interested in your business and would be the best fit for your advertising needs and culture. It should include tangible factors such as the agency's ability to provide scalability, proven results, and an acceptable pricing model; as well as intangibles such as common goals, cultural fit, and chemistry. Industry experts recommend sending out no fewer than three and no more than six to eight RFPs with a two-to-three week deadline for responses. (For more detailed information about developing successful digital agency RFPs, see Appendix A.)

Step Four: Choosing the Right Agency

When you have received your RFP responses or conducted in-depth phone interviews with recommended agencies, arrange for face-to-face presentations from each of the "finalists." During these meetings, consider quantitative factors including pricing, channel expertise, and analytics/reporting capabilities; as well as qualitative – or intuitive – considerations such as the agency's culture, and the chemistry between your staff and the agency's team. The following section discusses some of these considerations in more depth.

- **Brand/Reputation:** Agency brands are important and provide a sense of the agency's history and values. How long has the agency been in business? Is it profitable? Does it have a business plan? Funding? What kind of employee turnover does it have? How about client retention? These are questions you must have answers to. They will also provide clues to the agency's future and its vision.
- **Channel Specialist or One-Stop Shop:** Step One of the digital agency selection process was to do a thorough self-evaluation of your business's needs. Now it is time to decide: Is the right agency a channel specialist or a full-service shop that can service all of your digital advertising needs? If you choose a specialist because the bulk of your digital work is in SEO and email marketing, for example, can the agency service any future social marketing or PPC campaigns that you begin? Similarly, as your business grows, can a boutique or specialist handle larger, more complex campaigns? On the other hand, a full-service agency may offer a broad swath of channel services, but not have the depth of experience in SEO or PPC that your business requires. Many times such agencies will be very strong in one area, and only moderately knowledgeable in others.
- **Vertical Market Expertise:** Do the finalists know your industry? Is that important to you? Some industry experts argue that channel expertise is more valuable than vertical market experience. In other words, it is easier to get up to speed on retail, travel, or healthcare digital success strategies than it is to learn how to run an effective Twitter campaign. However, many advertisers believe that strong vertical knowledge is an advantage for their campaign work. If that is the case, find out if the agency follows your vertical industry's best practices to decide which strategic and tactical activities to undertake.

- **Culture:** The core values of an agency will foretell the kind of relationship you are likely to have. Choose an agency that is collaborative, innovative, and proactive. Avoid agencies that tolerate fiefdoms. If possible, do a tour of its office, which often will tell you a lot about its culture, efficiency, and stability. The mark of a good agency is often in the cheerfulness and energy in its corridors.
- **Staff/Talent:** One of the most important criteria in selecting an agency is the agency's talent – particularly of the staff that will manage your account. These people's skills, dedication, and passion for your business will determine the success of your digital campaigns. Make sure you understand who's going to be on your team, what their roles are, and how much time they will devote to your account. Agency turnover is a legitimate concern for clients. Ask to see the agency's turnover rate. Find out how the agency hires, promotes, and rewards its talent. How does the agency keep current with the rapidly changing landscape of digital marketing? Do staff go to seminars and conventions? Does the management encourage ongoing educational efforts? Find out what formal training agency personnel has received, and who specifically has been credentialed and trained.

Secondly, find out if the agency does all the work in-house or if it relies on subcontractors for key functions. The more of your work that gets farmed out, the less it is under the agency's control – and your control. Subcontracting arrangements can lead to serious execution problems including miscommunication, missed deadlines, and cost overruns.

- **Client References:** One of the best ways to get a true sense of an agency's capabilities is to speak to its clients and see case studies and samples of its work. Ask for and call agency references and ask specifically about their satisfaction with the agency relationship. Does the agency consistently meet timelines? Does it adhere to its quoted prices? Is the account staff easy to work with? What results have been achieved? Ask the agency to prepare sample work for you based on your website by the people who would be assigned the everyday tasks on your account. This isn't to get free advice, but rather to see the quality of the work that will be done on your account.
- **Client Support:** Most agencies work on a model of overlapping time, meaning you do not have a dedicated resource assigned to your account, despite what you might otherwise be told by an account representative. Your goal should be to understand how many hours will be applied each week to your account's work by actual subject matter experts (SMEs) in PPC, social media, or SEO. Make sure the agency is willing to assign a relationship manager to your business to serve as a conduit for communication.
- **Pricing:** You need to be comfortable with an agency's pricing model. If not, you'll second guess whether or not you're being overcharged or underserved. While pricing is important, it shouldn't be the most important factor in making your decision. Agencies are businesses hired to help your company achieve its goals on time and on budget. Make sure you understand and agree on a fee structure that will leave both client and agency feeling served and fairly compensated.
- **Deliverables:** Make sure that you and the agency you select define objectives and evaluation criteria *before* signing a contract. You don't want to be left wondering, month after month, whether the agency is producing results. Your agency should be able to show you analytics on a regular basis and make suggestions and adjustments on the fly. How can you know what's working and not working if you aren't analyzing reports on a consistent basis? Focus not only on statistics, but also on consumer sentiment. For example, what are fans of your brand saying and doing in relation to the social media campaign? This type of feedback will allow you to address concerns, initiate course corrections, and better estimate your next moves.



Creating a Decision Matrix

You may find it helpful to create a “decision matrix” to decide which of these factors are most important to your business goals. A decision matrix is a chart listing the attributes you are seeking in a digital agency, and includes a weighting factor for each attribute, a score from 0-10 for each attribute, and the weighted score (e.g., the score multiplied by the weighting factor). You will add the weighted scores together to arrive at a total score that can aid in differentiating some seemingly similar agency competitors (see Table 9).

Table 9: Sample Agency Decision Matrix

Attribute (Weighting factor)	Agency X Score	Agency X Weighted Score	Agency Y Score	Agency Y Weighted Score	Agency Z Score	Agency Z Weighted Score
Creative (2)	5	10	6	12	8	16
Deliverables (2)	8	16	6	12	7	14
Agency expertise (4)	8	32	7	28	7	28
Staff/Talent (3)	7	21	8	24	9	27
Client references (4)	7	28	7	28	5	5
Client support (3)	6	18	8	24	8	24
Pricing (1)	8	8	7	7	5	5
Total Weighted Score		133		135		142

Source: Stephan Spencer, Third Door Media

Step Five: Negotiate Contract Terms

Contract length can often be a sticking point in negotiations. Before signing any contract, you should clearly understand the pricing, contract length, and renewal status. Many advertisers want the flexibility of a month-to-month contract. However, agencies usually want longer contracts to ensure revenue flow. One factor to consider is that many digital campaigns, particularly PPC and SEO programs, take several months to build results. If an agency is offering bundled services with additional built-in costs (i.e., website design, domain name procurement, call-tracking numbers, etc.) then an annual contract may be necessary. Sometimes annual contracts can include a three-month opt-out provision.

Decide if you want an “evergreen” contract, also known as an auto-renewal contract. In this scenario, the initial contract is automatically renewed if neither party takes action. The benefit of an auto-renewal contract is that neither side has to do additional paperwork after the contract is signed. The downside is that it doesn’t force either side to periodically evaluate an account’s progress or performance. Signing a month-to-month contract also has advantages and disadvantages. The disadvantage is that there is additional paperwork each month for both the client and agency. The upside is that it enables advertisers to more frequently evaluate their agency relationship and campaign results.



Conclusion

Choosing a digital agency is a complicated process, with many options available. From agency holding companies with global networks to best-of-breed channel specialists to strategy oriented agencies with robust professional services, there is no "one size fits all" approach to hiring a digital agency partner.

Each advertiser's situation and needs are unique. The key to making a successful decision begins internally with a rigorous self-assessment of your organization's internal strengths, challenges, and needs from a business, staffing, and technology perspective. From there, you will begin to look outward and evaluate the type of agency or agencies that will provide the best fit, and then question and meet the agencies that fall into that category. Pricing is important, but shouldn't be the most important factor in making your decision.

Ultimately, an agency's core values, talent, and dedication to your business will determine the success of your relationship and your digital campaigns. Digital budgets and campaigns are getting bigger and playing a more integral role in overall advertising strategies. Making the right selection can signal the beginning of a long and prosperous relationship for both advertiser and agency, in which the client's digital advertising programs more efficiently scale and mature. ■



Appendix A: Guidelines for Developing an Effective RFP

Developing an effective RFP can be complicated and should include all relevant stakeholders within your business. Many enterprises must solicit bids through the RFP process due to accounting or procurement requirements. All staff from each relevant department should meet to develop the RFP and sign off on it before it is sent out. It will be frustrating for both the agencies involved and your staff to have to redo the RFP because a key individual on your end wasn't consulted, or you didn't ask the right questions or clearly identify your objectives and KPIs.

Some enterprise-level advertisers engage the services of a marketing management firm that can objectively guide them through the RFI and RFP process. These types of firms can help break down corporate silos, bring together the appropriate stakeholders within the business, and identify its digital advertising needs and strategic goals.

The most effective RFPs only request relevant information from the agency, and provide ample information about your business and its digital advertising needs. It should reflect high-level strategic goals and key performance indicators (KPIs), rather than drill-down data geared toward IT or procurement. For example, mention your company's most important KPIs and how you will evaluate the success of your digital campaigns. When written properly, an RFP will facilitate the sales process and ensure that everyone involved on both sides come to a shared understanding of the purpose, requirements, scope, and structure of the intended engagement. It will allow agencies to respond more effectively to the RFP questions and position you as a client that understands and respects the agency/client relationship.

Table A-1 illustrates some of the information that is most important to provide in an effective RFP to attract the types of responses that will enable you to make the right choice.

Table A-1: Business Information to Provide in a Digital Agency RFP

Industry Overview	<ul style="list-style-type: none"> • Industry structure and stage (early vs. mature; fragmented vs. consolidated) • Market size (\$) • Customer/Buyer characteristics
Company Background	<ul style="list-style-type: none"> • Company size (number of employees and/or revenue) • Years in business, industry position • Product/service information including unique value propositions (USPs) • Sales/distribution channels and technology platforms
Objectives and Goals	<ul style="list-style-type: none"> • Scope of work: digital channels for which you are seeking work • Goals/KPIs: Higher conversion? More leads? Brand awareness? • Say whether you are looking for a short- or long-term relationship • If project oriented, detailed specs to enable more accurate bids
Technology	<ul style="list-style-type: none"> • Digital platforms installed, including SEO or PPC campaign management, social media management, etc. • Marketing automation or CRM systems installed and integrated with digital platforms • System and compatibility requirements
Decision Makers and Processes	<ul style="list-style-type: none"> • State who will be involved in the agency evaluation • Clarify the decision-making process • Mention the most important criteria. i.e., price, location • Say who will manage the relationship once a contract is signed
Deadlines and Legal	<ul style="list-style-type: none"> • Clear due date for a response (Two to three weeks is sufficient) • NDA or non-compete clauses • Legal terms/ownership of deliverables

Source: Third Door Media



Conversely, there are many questions that you'll need to ask an agency in an RFP. The key is to ask the right questions, and respect the agency's time and resources by avoiding questions that can be answered by a quick look at its website. If procurement has driven the RFP process or been integrally involved, make sure that the questions are relevant and appropriate for the advertising industry. While price is an important factor in making a decision about hiring an agency, it should not be the only factor. Focus on questions that are specific to your business situation and digital initiatives, with the goal of gathering the data you'll need to make the most informed decision possible. Table A-2 lists some of the relevant agency questions that are most appropriate in an RFP. Agencies that are truly interested in winning your business will take the time to answer these questions.

Table A-2: Questions to ask Digital Agencies in an RFP

Agency Background	<ul style="list-style-type: none"> • Agency history and expertise (years in business) • Agency size (number of employees and billings) • Specific vertical industry experience/expertise • Target customer (by \$ and vertical market)
Agency Staffing	<ul style="list-style-type: none"> • Biographies of key executives • Potential members of your account team and their experience • Internal resources vs. agency use of subcontractors or outsourcing • Employee churn rates and average tenure
Client References and Work	<ul style="list-style-type: none"> • Average tenure and retention rate of agency clients • Relevant client contact information • Case studies with results • Examples of the agency's work in vertical markets or digital channels
Pricing and Contract Terms	<ul style="list-style-type: none"> • Agency billing policies and terms • Pricing structure for the account (i.e., retainer, commission, time, spend, or performance based) • Add-on fees
Customer Support	<ul style="list-style-type: none"> • SLA terms and costs for technology platforms • Training and onboarding services included in fees • Availability of key personnel (24/7 vs. business hours) • Frequency of team phone calls, on-site visits, and reports

Source: Third Door Media

Table A-3 provides an outline for more specialized types of digital work, for example, SEO campaigns or display retargeting strategies. Details about timelines and technology are more important for these types of project or channel-specific engagements.

Table A-3: Sample SEO RFP Outline

I. Summary and Overview

- a. This is an "Executive Summary" of the highlights of the RFP – minus the technical details. Introduce the challenge your company is having and provide the agency with an overview of the rest of the RFP.

II. Technical Summary

- a. Provide key pieces of information relevant to your project, i.e., technical requirements, description of the project's technical issues, your site's current platform, etc. This section may originate from your IT department and targets the agency's programmers and delivery team.

III. Administration and Management

- a. Describe who will be involved in the project from your end and what the timeline is for completion. Finalize the framework of the project.

IV. Project Expectations and Delivery

- a. Outline the evaluation criteria, monthly deliverables, and training you expect to receive to assess your goals and KPIs. This will help the agency determine their cost to complete your work, as well as their suitability.

V. Deadlines and Budgets

- a. Provide projected deadlines and budgets to avoid confusion over when a project should be completed and how much it might cost.
- b. Assess your budget based on the "range" of services you'll need. For example, instead of saying the project absolutely has to cost "X" amount, you are willing to spend within a range from "\$X to \$Y".

Source: "How to Write a Killer RFP for Hiring an SEO Firm," by Stephan Spencer (www.searchengineland.com)



Appendix B: Resources

Blogs

B2B Marketing Blog/Webbiquity by Tom Pick. <http://webbiquity.com>
DigitalNext at www.adage.com
Small Agency Diary at www.adage.com

Websites

www.aaa.org
www.adage.com
www.digitalmarketingdepot.com
www.iab.net
www.marketingland.com

Reports and White Papers

[ANA/4A's Guidelines for Agency Search](http://www.aaa.org/news/bulletins/Documents/agency_search_white_paper.pdf). Published by the Association of National Advertisers and the American Association of Advertising Agencies. http://www.aaa.org/news/bulletins/Documents/agency_search_white_paper.pdf

[ANA/4A's Agency Selection Briefing Guidance](http://www.aaa.org/agency/compensation/management/Pages/ANA-4As-Agency-Selection-Briefing-Guidance.aspx?utm_source=homepage&utm_medium=PromoBox1&utm_campaign=AgencySelectBriefGuidance2013). Published by the Association of National Advertisers and the American Association of Advertising Agencies. http://www.aaa.org/agency/compensation/management/Pages/ANA-4As-Agency-Selection-Briefing-Guidance.aspx?utm_source=homepage&utm_medium=PromoBox1&utm_campaign=AgencySelectBriefGuidance2013

Articles

Accomplishments, Complaints & Predictions: The Ultimate 2012 Year-End List. Author Vic Drabicky, Founder, January Interactive. <http://marketingland.com/accomplishments-complaints-predictions-the-ultimate-2012-year-end-list-29644>

Five Ways to Get More Out of Your Digital Agency. Author David Murdico, Managing Partner, Supercool Creative. <http://adage.com/article/digitalnext/ways-digital-agency/232856/>

How to Choose a Marketing Agency. Author Tom Pick, Webbiquity blog. <http://webbiquity.com/outsourced-marketing-services/how-to-choose-a-marketing-agency-ad-agency/>

How to Select an Interactive Marketing Agency. Author Bradd Shorr, Director of Content & Social Media, Straight North. <http://www.techipedia.com/2012/interactive-marketing-agency-selection/>

How to Write an Ad Agency RFP. Author Tom Pick, Webbiquity blog. <http://webbiquity.com/outsourced-marketing-services/how-to-write-an-ad-agency-rfp/>

How to Write a Killer RFP for Hiring an SEO Firm. Author Stephan Spencer, Founder, NetConcepts. <http://searchengineland.com/how-to-write-a-killer-rfp-request-for-proposal-for-hiring-an-seo-firm-13417>

PPC Management Options – Are Your Fees In line With the Advertiser's Goals? Author Brad Geddes, Founder, Certified Knowledge. <http://searchengineland.com/ppc-management-options-are-your-fees-inline-with-the-advertisers-goals-14077>

Vetting an Agency: Protecting the Family Jewels. Author Duane Forrester, In-house SEM, Microsoft.
<http://searchengineland.com/vetting-an-agency-protecting-the-family-jewels-12219>

What to Expect From an SEO/SEM Agency. Author Duane Forrester, In-house SEM, Microsoft.
<http://searchengineland.com/what-to-expect-from-an-seosem-agency-40361>

What Matters Most When Selecting an Agency. Author Avi Dan, President, Avidan Strategies.
<http://adage.com/article/cmo-strategy/marketing-matters-selecting-agency/145554/>

Agency Resources:

Below is contact information for agencies that have advertised in this report.

Covario

<http://www.covario.com>
(858) 397-1500

RKG

<http://www.rimmkaufman.com>
(434) 970-1010

ymarketing

<http://www.ymarketing.com>
(877) 736-4321 x701