LiSTNR AdTech Hub. MAXIMISE RESULTS NOW

Sydney L!VE - Nuking the time-based agency fee model

By Jason Pollock | 26 June 2024 0 Comments

Darren Woolley.

Agencies will be among the biggest losers when it comes to AI unless they move quickly to a more output-based fee structure, which avoids AI's ability to "nuke the hourly based fee model", according to Trinity P3's Darren Woolley.

Speaking at the AdNews L!VE: AI Winners & Losers event, Woolley said that the industry is missing a clear and present existential financial question, with many of the discussions on AI and advertising either focusing on the concern for the individual loss of jobs or the more positive expansion of opportunities for generative AI at scale.

"The issue that both marketers and their agencies must embrace is that if they value a sustainable and healthy creative industry, AI will erode the current agency fee model based on payment for time as it reduces creative and production time to market," he told the audience.

"In the process, it has the potential to dramatically accelerate the existing race to the bottom on agency fees to levels as yet unseen or unfathomable even five years ago."

Woolley said that the past 20 years has seen marketers' requirements of their agencies expand exponentially, primarily due to the expansion of digital channels – a growth to 16 in 2020 from six in 2005 - and the effective churn in content to feed those channels.

"Marketers have also seen budgets remain static in real terms, forcing them to look to their agencies to create more with less," he said.

"The traditional agency approach - based on selling hours - was never scalable to the level required, and while many are selling AI as the solution to the advertising productivity problem, a race to lower costs will harm an industry already suffering from chronic under-investment in the future."

Calculating the agency fee as 'Time x Salary Costs x Overhead x Profit Margin', Woolley calculated that at 1,650 hours x $75 x 80% x 15% mark-up would equal $256,163.

Divided by the 2,000 deliverables per brand that he says are now required would result in an output fee/deliverable price without AI of $128 each, netting a $17 profit margin when taking into account an underlying cost of $111.

Comparing this to the impact of using AI for generating the same fee, he said that 825 hours x $100 x 50% x 15% mark-up would result in $132,825.

Divided by those same 2,000 brand deliverables, this raises the profit margin to $66 each, as the underlying cost is then reduced to $62.

Woolley said that selling creative and strategic problem solving based on time has always been flawed.

"After all, how long does it take to come up with a billion-dollar idea? But in the absence of a popular alternative, agencies continue to cling to the hour rates as a security blanket," he told the audience.

"There is no future in selling time. The alternative is to start selling deliverables and output."

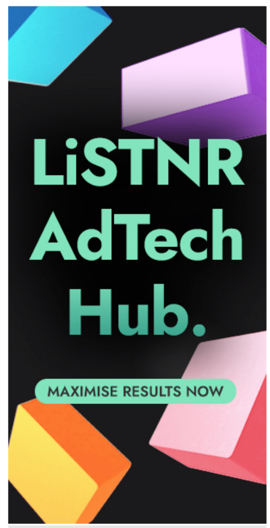
Thank you to our supporting partners: Blis, Mamamia, Meta, Ryvalmedia. Associate partners: nexxen, Quantcast. And friend of AdNews: IMAA.

Have something to say on this? Share your views in the comments section below. Or if you have a news story or tip-off, drop us a line at adnews@yaffa.com.au

Sign up to the AdNews newsletter, like us on Facebook or follow us on Twitter for breaking stories and campaigns throughout the day.

Read more about these related brands, agencies and people

Sydney L!VE



AdNews Newsletter

The AdNews enewsletter, brings you the latest advertising and media news direct to your inbox! Become a member and get the weekly newsletter free!

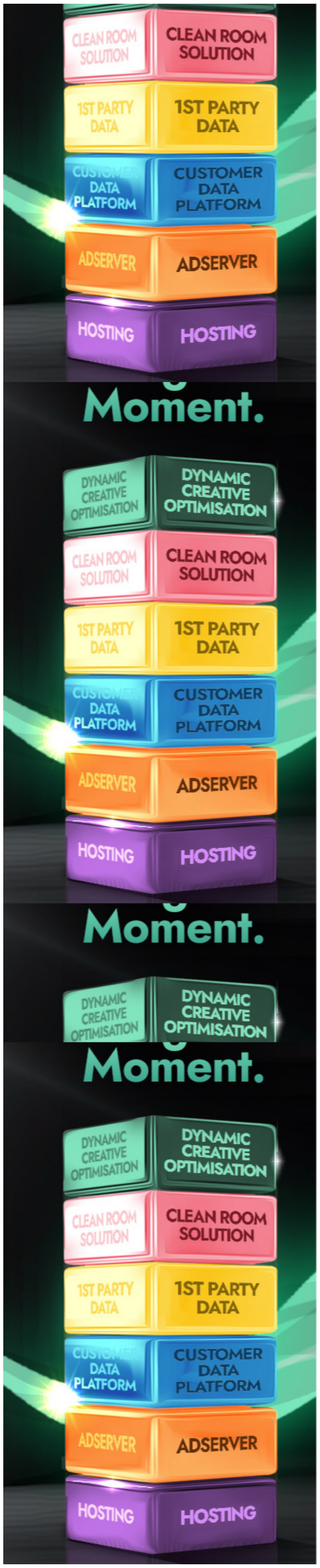
Subscribe

AdNews Magazine

Subscribe

Editor's Picks

- Australia might be experiencing an advertising recession
- Advertising wizard Mark Green's yellow brick road
- Long Read: Print advertising strikes back



0 Comments

Login

G

Start the discussion...

LOG IN WITH

OR SIGN UP WITH DISQUS

Name

Share

Best Newest Oldest

Be the first to comment.

Subscribe Privacy Do Not Sell My Data

DISQUS

“Meta tools help with discoverability during mega sales moments.”

Meta

AdNews Social

Latest Comments

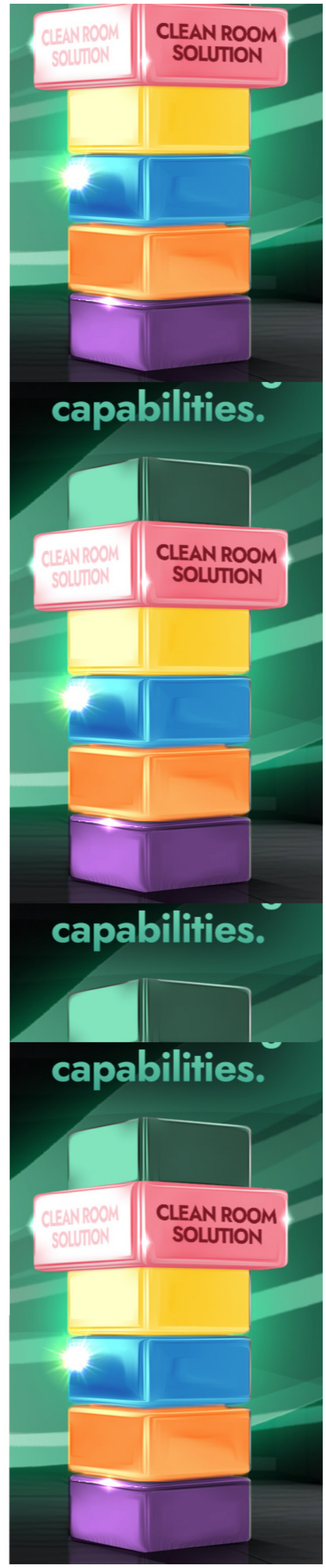
5:48 PM Hi, can you tell me the name of the guy in the ad? I can't find any details anywhere? Curious about ...
Jane Elizabeth Herridge Ryan on AJF wins Weber pitch and feeds Qâ ºriosity

10:38 AM Congrats team!
peppe on Mutinex raises $17.5 million

10:23 PM I have not said in my earlier comment on Chris Pash's piece that I had been elected to the boar...
Matthew Ricketson on A bare knuckle fight for a seat at the copyright table

6:28 PM This is your first Copyright Agency ballot. You were appointed by tghe Board of Directors previously...
Chris Pash on A bare knuckle fight for a seat at the copyright table

12:52 PM My name is Matthew Ricketson and I am one of the candidates for the author position on the Copyright...
Matthew Ricketson on A bare knuckle fight for a seat at the copyright table



We acknowledge the Traditional Custodians of country throughout Australia and their connections to land, sea and community. We pay our respect to Elders past and present and extend that respect to all Aboriginal and Torres Strait Islander peoples.

100 yaffa 1925 - 2025 daemon bespoke web development