The Myth of the Working vs Non-Working Ratio

A Guidance Directive from the American Association of Advertising Agencies

Client marketers and consultants from time-to-time reference the ratio of working vs non-working marketing budget allocations … resultantly … agencies often ask 4A's for information on working vs. non-working benchmarks.

The marketers that refer to non-working expenses often only include paid media in the "working media" category. They inadvertently include earned media, owned media, web content, web videos, social media curation and targeted message executions that are not sourced from paid media publishers' in the non-working category of expenses. They may also include agency fees, production, research and other "non-paid" media as non-working.

- The implication that earned media, social media , targeted messaging, agency fees, production, analytics and research cost do not add value, and that only paid media dollars do add value, is fundamentally misguided in today's complex and rapidly changing media environment

- The allocation, effectiveness and efficiency of paid media, earned media, client-owned media, production, agency fees and other marketing expenditures varies dramatically from client to client, brand to brand and period to period, depending upon the mix of marketing elements, including message relevance and communications targeting, in concert with the diversity of media channel selection.

- Since the very notion of a credible "working to non-working" marketing spend ratio is rooted in misconception, in fact there are no such benchmarks.

Background

The working, non-working media concept is rooted in the past. Long before the advent of digital, social and mobile marketing, client marketers began to unbundle marketing services in order to secure access to more specialized resources, identify synergies and efficiencies, and accommodate their unique marketing challenges and operating preferences. The result of this unbundling has been the decentralization of the marketing services ecosystem and the expansion of the number and types of agencies and marketing communications disciplines that comprise a client's agency roster. These include strategy, creative and media agencies, research firms, PR firms, B-to-B and B-to-C agencies, sales promotion and DM agencies and category specialists. The proliferation of marketing services disciplines and partners in conjunction with dramatic differences in scope of deliverables, service level expectations, and spending scale invalidate the benchmarking of agency fees to paid media spend.

Over the past twenty years, with the evolution of the worldwide web, mobile technology and social media dynamics, the proliferation of marketing services agencies continues to accelerate. In this media environment production is typically a significantly larger percentage of the client's budget, and much of the production is now done at "agencies" instead of production companies, which will also affects the ratio of agency fees to client spend. Furthermore, there has been an incredible proliferation of owned and earned media, which in many cases are as important as paid media. The concept of working versus non-working marketing spend is truly not relevant and in fact may lead to strategically incorrect decisions Efforts to monitor the ratio of working vs non-working expenditures cannot be accurately benchmarked.

Considerations

When knowledgeable marketers think about the dynamics associated with contemporary marketing activities there are a host of considerations that clearly demonstrate why benchmarking a ratio of agency fees or production costs to the level of paid media is not advisable:

- Media, paid or unpaid, is only as good (effective) as the relevance and persuasiveness of the commercial message. That relevance and persuasiveness is driven in large part by the strategic and creative ideation and execution supported by agency fees.

- Paid media that delivers commercial messaging that is off strategy, off-putting to the intended target audience, or placed in a suboptimal or inappropriate content environment should, in fact, be classified as ineffective, i.e. non-working.

- Clients are shifting spending allocations away from mass reach paid advertising platforms toward targeted media and web platforms. The cost of developing, producing, planning, buying, analyzing and stewarding an expanded array of targeted advertising messages results in improved overall return on marketing investment. However the ratio of agency fees and production costs to paid media may well increase.

- Social media and influencer marketing is a rapidly growing component of marketing activity. Social media efforts often have modest paid media components and extensive earned and owned media, content marketing and social conversation curation agency activities. The relationship of agency fees to paid media spend will index higher for social media than for traditional mass media. This does not inherently mean that social marketing adds less value simply due to this higher ratio of agency fee to paid media expenditure.

- Web and mobile videos are another growth segment of the marketing mix. Client marketers are paying hosts of agencies, content providers, entertainment firms and media placement agencies to generate an ever increasing array of web and mobile videos in the hope that some of the videos will "go viral". More video means more production costs and more fees to agencies and content providers. Often the paid media cost, if any, relative to the cost of developing the video content is relatively low.

- Earned media, which is generally defined as media that is not paid for, has real value. There are costs associated with creating and producing appealing content that attracts earned media viewership. It is illogical to define payments to publishers and broadcasters that create viewership content as working while defining payments to agencies and production companies that create appealing viewership content as non-working.

- Client owned media, for example: company, brand or interest-based websites and apps, also has real value. Content drives consumer engagement of owned media. The fees paid to content developers, UX designers, agency strategists, app developers and other owned media implementation experts are working media.

- Clients are investing significant resources into innovation to drive their businesses, data to advance more precise targeting of paid media, and analytics systems to calibrate the measurement of marketing return on investment. It is unlikely that any sophisticated marketer would view these expenditures as wasteful or unnecessary activities however these critical investments could be inaccurately described by some marketers as “non-working” activities.

Why this Matters?
Some clients and consultants claim to have benchmarks of working vs. non-working marketing spending ratios. The premise of working vs. non-working benchmarking implies that all paid media is working (i.e. adds value) and that all other marketing expenditures are non-working (i.e. do not add value). The marketing industry needs to elevate public debate about working/non-working benchmarking. Without case specific ratio definitions, calculation methodology, data sources, calibration of spending scale or mechanism for standardizing services and marketing mix to determine which elements of marketing expenditures are in fact most effective and efficient, references to working vs. non-working benchmarks are troubling because the theory, at its foundation, is invalid.

It is possible that the working/non-working ratio benchmarkers either do not understand the dynamics of contemporary marketing or they are inappropriately trying to establish an artificial framework that suits their interests.

Several years ago, in a 4A's Benchmarks & Barometers survey, the association endeavored to gather information related to the Ratio of Agency Gross Income to Client Spend. The survey report notes: "*given the range of the types of services provided (along with the level of service activity and the scale of client spend) there is no meaningful “standard” ratio of agency gross income to client spend.*"

An Ad Age article from 2012 discussed why working/non-working is an illusion. The article quotes respected consultant Dave Beals: *"The whole descriptor itself is ridiculous,"* Mr. Beals said*. "The whole idea that the agency-fee dollars are nonworking and the media is working just doesn't make sense."*

In order to underscore the fallacy of attempts to benchmark "working/non-working" allocations, Bryan Wiener, CEO of 360i, made a presentation at the May 2013 ANA Procurement Conference on

why the "working/non-working" ratio is not useful. He noted that *"the upside to replacing the working vs non-working ratio metric will lead to an increase in great work outside of the traditional box of paid media"* and the inverse is also true *"the downside of not replacing the working vs non-working metric will lead to an increase in work that does not work well".*

Guidance Summary

The notion of effectively controlling marketing costs by capping agency and production spending and any other "non-working" expenditures to invest in working media dollars may in fact be penny wise and pound foolish, given the dynamics associated with today's marketing environment. Marketing analytics specialist firm Ebquity posted an opinion on their blog "Non-working marketing spend-A story every CFO should read" which comments that the use of working vs non-working ratio is *"arbitrary, simplistic and reflects a view of marketing that has no place in 21st century marketing"* and cautions that *"wrong decisions are being made for the wrong reasons".*

Benchmarking of so called "working/non-working" allocation is not a meaningful metric in today's marketing environment.

The 4A's finance committees recommend that clients and their agencies actively discuss business growth drivers and marketing return on investment. The mix of marketing related expenditures should be evaluated individually and in aggregate in order to derive an accurate assessment of the components that are working hardest and contributing demonstrably to optimal marketing ROI. Some clients may be surprised to find out that agency fees and production executions are their most productive and leverage-able investments.