



Pay for Agency Performance



**Sharing the risk – and rewards –
with your vendors**

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When Nils Lindblad had to beef up the U.S. Web site for his company, Bodum AG, a Swiss coffee, tea, and kitchenware retailer, he knew two things: The site needed a local developer who understood U.S. consumers, and he didn't have a budget large enough to cover what was needed to build the caliber of site he wanted.

"When I realized what we were talking about in investment, I could quickly see that this could be a problem," says Lindblad, the New York-based president of Bodum North America. But he didn't scale back. When he met with interactive agency i33 communications in 2003 to discuss his goals, he told them that they not only would have to come up with the ideas, but also a way he could afford it.

The solution? A pay-for-performance model, in which i33 would get a discounted upfront fee to cover Web site development costs, but would then earn commission for every online sale, plus a bonus for delivering over target goals. This revenue-sharing model essentially placed the business risk in both parties' hands, ensuring that the agency had a vested interest in increasing sales. i33 redesigned and now maintains Bodum's U.S. site, designs customer e-newsletters, and helps manage search-marketing campaigns. "We pay them a percentage of our growth, so they are very interested in making sure that we always

have the goods installed [to deliver] the right product and the right e-newsletters," Lindblad says.

Small-to-mid-sized companies in particular are eschewing the traditional fee- or retainer-based agency models, says Alex Konanykhin, CEO of Publicity Guaranteed, a pay-for-performance public-relations firm based in Washington, D.C. "Entrepreneurial



i33's e-commerce website redesign for Bodum integrated back-end systems, simplified navigation and showcased product design.

companies [can't afford] monthly retainers or hourly rates with no assurance of what kind of results they are getting," he says. Publicity Guaranteed charges \$285 for writing releases, and then charges for

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placement, depending on the circulation of the publication. Konanykhin says his idea to get paid based on performance was inspired by online advertising's pay-for-results models, and he believes public relations will follow suit. "I do think [pay-for-performance PR] is going to be a standard in the industry, because I feel the demand is there," he says.

Agencies that have embraced the results-based pay models say it motivates them in much the way incentive compensation spurs on salespeople. Online sales from Bodum's U.S. site grew 54 percent in 2005 over 2004, and in first-quarter 2006 were up 63 percent year-over-year—results from which i33 also reaps benefits. "We love the model, because the opportunity to generate revenue for [our

clients] means revenue for us," says David Levin, president of New York-based i33. "[Sharing risk] causes us to push and drive for every dollar."

In addition, risk-sharing changes the relationship between the vendor and client, Levin says, creating a partnership dynamic in which both parties are invested in the future. With Bodum, i33 evolved its duties, starting from front-end development to beefing up the back end to, most recently, developing the business-to-business part of the site. "[Risk-sharing] allows and empowers the agency to talk to you like a consultant, versus an order taker," he says. "They know that my revenue is on the line as well with every decision I'm making."

By Julia Chang

