

A New World for Public Relations Are Retainers On the Way Out?

By George Schildge

In a world of economic uncertainty and shrinking budgets, public relations (PR) firms and internal PR departments are being required to demonstrate and prove the value of PR investments. The way PR effectiveness is measured in a retainer relationship is murky at best. It can be inadequate, misguided or ineffective and does not hold the agency accountable. The traditional retainer-based public relations model is being called into question more and more. It has often leads to dishonesty, unethical behavior and over charges. This is not the case with every firm, but recent events in the media provide evidence that some public relations agencies have been caught with less than ethical conduct. So what is causing this?

Supporting Cases

Why do some agency executives think it is legal to forecast a client's billings and then secretly adjust those bills upward to meet the forecast when less work was performed than predicted? Two recent cases dramatically demonstrate the problems inherent in a retainer model. The city of Los Angeles and the White House both took issue with over billing problems with their PR agency. In both cases, the respective individuals were indicted for their part in fraudulent bills leading to over-billing the clients for media campaigns. These cases provide evidence of what could happen as the result of poor tracking and a lack of ability to show documentation supporting the billing figures. So why do it this way?

Public relations have evolved from a discretionary part of the marketing mix to a critical component of most company communications programs. This evolution has been driven by several factors, including the opinion that PR is an effective complement to advertising, direct marketing and other marketing tactics. The payment model is shifting to meet changing market expectations, which is giving hope to companies that want to employ an agency and a business

model that is fair. This is evidenced by the performance-based model that is common in other areas of business today. Consumers pay per hour for the use of computing time, virtual office space is now available on a pay-per-use model, and many people's compensation is based on performance. So why not use this model for the public relations industry?

Accountability is the key issue facing the public relations industry today. Measurement of public relations value has never been more important. For public relations departments, the ability to prove value and return on PR investment may be the difference between getting budget approval or not. For agencies, the ability to attract, retain and grow clients may depend on the ability to prove the value of their work. The challenge and opportunity exists to evolve beyond the traditional retainer based model to a new model that offers accountability and results.

Who Pays For Non-Performance?

Traditional public relations agencies have historically relied on a 'leap of faith' somewhere along the way to prove the worth of their efforts. In the retainer model, the agency is paid whether results were produced or not. This payment structure leaves the client company to bear the burden of non-performance. Furthermore, the model lends itself to errors, inconsistencies and the temptation to milk an account for every billable hour. For example, some agencies will bill you a full hour for 15 minutes of work, similar to the mobile phone services where they bill a client a full minute for a 15 second call. In addition, management often places undue pressure on agency staffers to maintain a very aggressive level of billable hours. This type of practice opens up the risk for fraud and errors, and ultimately over-billing.

A performance-based pay structure is seen in many industries and individuals compensation packages. For example, only about 20 percent of a CEO's pay is base salary the rest is made up of incentives based on the company's performance. The rationale is that if the company is performing well and the shareholders are making money, then the CEO should share in that success. In the same spirit, with the pay-for-performance PR model, the agency is paid for results, not activity.

Case in Point

When CenterStone Technologies, a Denver based software firm, wanted to launch their

new sales order management application, they knew exactly what they wanted from a public relations agency - national trade media exposure. But PR firms only quoted monthly retainer fees of up to \$10,000 for a broad package of services -- and none would guarantee results. That's when Peter O'Neil, executive vice president of sales and marketing found Matrix Marketing Group. "Matrix Marketing Group's Pay-for-Performance program is a great tool for us right now. Their unbundled services offer us more flexibility and provide us the highly qualified expertise we are looking for, said O'Neil. Plus, we are a results-oriented company and with this program we only pay when Matrix Marketing Group delivers results."

Is There Another Way?

Buyers want to pay for only what they want and need and nothing more. It's a "have it your way" society. Google and Yahoo's Overture changed the Internet advertising model with unbundled, results-based pricing, called pay-per-click advertising. Now it's moving into the PR industry. The pay-for-performance public relations programs offer companies a much better way to quantify and demonstrate the outcomes of their PR investment because they only pay for the results.

The pay-for-performance model is worth careful consideration. Clients only pay for the results after they are achieved. The retainer-based and pay-for-performance models are on opposite end of the spectrum. While there is room for a hybrid model that offers both fixed-fee and performance-based fees, PR professionals not already comfortable with the concept of a performance-based model should get comfortable soon.

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