Pay-On-Performance^{SM}: The Evolving Revenue Model for PR Firms

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I wholeheartedly agree and practice the concept of PR agencies showing how their efforts equate to a business value for their clients. But why, then, do PR firms still operate on a retainer model instead of aligning its fees to its ability to perform? This seems outdated to me in an era where agencies can measure the effectiveness of their initiatives in near real time.

PR firms will need to consider operating on a Pay-On-Performance^{SM} rate structure as our industry continues to evolve. This model is one that aligns a significant portion of a client's fees to actual results, such as securing article placement or speaking opportunities, industry award recognition or sales lead generation.

How Pay-On-Performance Works

Here's how it would work. A PR firm currently charges a contracted hourly rate – say $175 – against a monthly retainer – again say $15,000 – for a certain period. In this example, the client receives 85 hours of dedicated time by the agency each month, and pays the retainer regardless of the results achieved. Misunderstanding and animosity build between the client and the PR firm, as today's dominant result metric, quantify the ad equivalency of a recent news article placement, is largely academic.

Under a Pay-On-Performance model, this same agency should cut their hourly rate to $100, charging only for the amount of time expended while capping the maximum amount of hours charged at 85 per month. The remaining budget should then be structured in performance fees. The ROI is embedded in this structure, and PR firms will be more focused on pursuing viable opportunities for their clients, not simply billable hours.

The Benefits of Pay-On-Performance

Agencies that operate on a Pay-On-Performance model will see their new business pipeline grow significantly, as prospects can quickly and clearly see how a PR firm will ensure that their money is well spent. Secondly, customer satisfaction will rise, since clients understand month after month the value their agency brings to them.

Moreover, client retention rates increase under this new fee structure, as the ill will expressed by clients who fail to recognize the PR firm's benefits to them is reduced. Agencies can then focus their new business initiatives on growth and not "revenue preservation," or the need to sign new clients to replace the ones just lost from typical client churn. PR firms will see also referral rates rise, which means their new business sales cycles could shorten significantly.

Pay-On-Performance Operational Requirements

The Pay-On-Performance business model requires that agencies keep fixed costs low. While employees should continue to be paid according to their worth, high-priced office property and company cars are two big "no-no's." Hiring the right PR people who thrive on generating results will also be important for agencies operating in a Pay-On-Performance model. Giving account teams a percentage of their client's performance fees as compensation also ensures that they enjoy the fruits of their direct labor. Lastly, PR firms must have the ear of their clients' management team, or face working from a less than strategic position.

I see more and more clients asking for their PR firms to share the burden of generating results ever day, and I firmly believe the Pay-On-Performance model will evolve as the standard for our industry in the next ten years.

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