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Agency contracts were built for people and hours, but AI is breaking both

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As automation reaches production, reporting and adaptations, advertisers and agencies are confronting who keeps the savings and what should replace the billable-hour model

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New Delhi: Let us call the CMO of a large FMCG company Ms X.

Ms X is preparing for the brand's biggest campaign of the year. One idea must work across media, languages and formats, with room for personalisation.

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Across the table sits Ms Y, the chief executive of the brand's advertising agency, with what sounds like a way out.

The agency's new AI platform, she says, can multiply that idea into hundreds of assets. Work that once occupied a sizeable team for weeks can now be completed in days.

For Ms X, the proposal appears to solve the campaign problem. The agency can deliver more work, in more formats and in less time.

The commercial discussion, however, is less straightforward.

The retainer remains where it was. The account team is broadly unchanged. The AI platform comes with an additional charge of its own.

That is when procurement enters the room and asks the question that hangs over the entire arrangement: if the technology is doing in days what once took weeks, how should that change what the brand pays?

Ms X and Ms Y may be fictional, but versions of this negotiation are beginning to play out across the industry.

The promise of AI is easy to appreciate when it is measured in speed, scale and personalisation. Its economics are far harder to settle.

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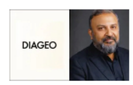

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Most agency contracts measure effort through people and time. AI unsettles that logic. The advertiser wants its share of the saving; the agency wants room to fund the technology and talent that created it.

The friction grows when an AI platform fee is added to an existing retainer. The issue is whether the revised fee reflects both the efficiency created and the cost of building the capability.

This investigation grew out of an earlier BestMediaInfo examination of what advertisers should establish before paying for an agency AI platform. It led to a larger question: are agreements being rewritten for AI, or is the technology changing the work while the commercial model remains largely untouched?

Read here: What should advertisers ask before paying for an agency AI platform?

Also read: As agencies become AI vendors, what are brands really paying for?

Conversations with agency leaders, global consultants and AI specialists suggest there is no wholesale rewrite. AI is entering through addenda, revised scopes, fee reviews and separate specialist mandates. Several advertisers and the Indian Society of Advertisers declined to discuss their arrangements on record.

The contract is moving at two speeds

Ishan Chatterjee

Ishan Chatterjee, Vice-President, Growth, at MediaSense, said most advertisers were using pitches and renewals to revisit agency terms, although some had begun adding AI-specific provisions to live contracts.

“Most brands are waiting for the next pitch or renewal to reset terms, especially those making significant transformations in their workflows, tech stacks or agency partners – as that moment brings the right leverage. Some forward-thinking advertisers are incorporating AI addendums onto live contracts now – but usually the addendums address specific pain points rather than a complete overhaul of their contract,” he said.

Darren Woolley

Darren Woolley, Founder and CEO of Australia-based consultancy TrinityP3, called it a "two-speed reality".

"We have officially moved past the speculative phase, though we are not seeing a sudden, wholesale tearing up of master service agreements overnight," he said.

The first scopes to reopen are measurable, high-volume jobs such as localisation, adaptations and reporting. Deeper fee changes remain more likely during a renewal or RFP.

"Procurement teams are showing up to mid-term check-ins armed with benchmarked efficiency expectations, directly asking agencies to demonstrate where AI-driven time savings are reflected in their rate cards," Woolley said.

Explaining how such arrangements work at dentsu, Amit Wadhwa, CEO, Dentsu Creative and Media Brands, South Asia, said existing agreements already contain protections covering copyright, intellectual property and responsibility. However, a specific AI tool or service requires an additional agreement.

"When an agency introduces an AI tool or a separate AI-led service for a client, there has to be an additional agreement, addendum or separate contract covering that usage," he said.

Prerak Manish Shah

Prerak Manish Shah, Co-founder and Technology Lead in Data Infrastructure and AI at Cogniify.ai, said traditional agency agreements were drafted before generative AI entered the creative process and may not adequately cover AI-generated content, ownership, data use, confidentiality and liability.

"AI advances at such a pace that contracts cannot solely depend on either vague terms or an inflexible listing of allowed technologies. A balanced approach is preferable," Shah said.

He suggested defining AI broadly in the main agreement while separately identifying the approved technologies and use cases. New systems could then be added through an agreed governance process instead of rewriting the entire contract.

These agreements are mainly about risk: what technology may be used and where responsibility lies.

“Those conversations have not reached that stage yet,” Wadhwa said when asked whether they also accounted for labour replaced, additional output or remuneration.

The guardrails are being drafted. However, the argument over money is only beginning.

Who keeps the productivity dividend?

The advertiser’s case is straightforward: work that no longer needs a large team should not carry a fee calculated around one.

The agency has a case too. It has paid for tools, training, specialists and safeguards, and remains accountable for output that can still go wrong.

Woolley said the productivity dividend should not become a zero-sum prize. If clients seize every saving, agencies may lose the capital needed to invest. If agencies keep the entire gain while billing through legacy hourly structures, they will erode trust.

“The only sustainable path forward is a balanced gain-sharing model,” he said.

Routine adaptations, transcreation and basic data work should become cheaper, he argued, while some of the saving is reinvested in strategy and specialist capability.

Chatterjee said MediaSense research showed that only 15% of brands changing their model were doing so to cut costs.

“The future-forward brands are now focusing investment on the senior resources for strategic or creative thinking or specialists, driving fee efficiencies through automation of repeatable work, and increasingly tying compensation to outcomes. Where AI is deployed, 58% expect to pay less, yet 61% still expect total fees to rise. Cheaper is not the point. Better is", he said.

Wadhwa cautioned against assuming every hour removed from production should disappear from the fee. Agencies are still investing in tools, infrastructure and quality control, while human intervention remains substantial.

“There are no direct conversations in which clients are saying, ‘You are using AI, so reduce your fee,’” he said.

Virat Tandon

Virat Tandon, Co-Founder of Curativity, said competitive pressure was nevertheless passing some production savings to advertisers.

“An agency cannot charge Rs 15 lakh for work when comparable output is available in the market for Rs 4 lakh or Rs 5 lakh,” he said, while stressing that quality must remain part of the comparison.

“There is a misconception that an agency can enter a prompt, immediately receive a finished video and publish it,” Tandon added.

An AI film can still require repeated generation, correction and supervision. A tool may shorten the process without removing judgement and craft.

AI can remove labour without removing work, but the contract must learn to price the difference.

Is the client paying twice?

The problem becomes harder to ignore when an agency adds a technology fee but leaves the team structure untouched.

The client then has reason to ask whether the platform is genuinely differentiated, what gains it has produced and whether production costs have been reassessed.

Woolley described this as one of the “thorniest friction points” in agency management.

“It is essential to interrogate whether the platform is genuinely custom intellectual property fine-tuned on specialised workflows, or merely a wrapped interface around an off-the-shelf third-party model,” he said.

“Crucially, if a separate technology line item is introduced, there must be a visible, proportional reduction in junior and mid-level production hours.”

Wadhwa distinguished between an agency using AI internally and building a client-specific product.

“An agency would not normally charge an existing client separately simply because it uses AI internally to improve its own processes,” he said. “However, when a new client asks for a specific AI-led solution, tool or service that requires additional investment, the agency can charge for it separately.”

Tandon argued that the client was not paying merely for software.

“The agency remains responsible for the final output, irrespective of whether it was created using AI or traditional methods. Clients are paying the agency for its judgement, quality control and ability to deliver the required result,” he said.

“Otherwise, a client could purchase the AI tool directly and would not need the agency.”

“If you can’t measure what the AI is optimising for, you can’t be sure it’s working for you rather than the agency’s margin,” Chatterjee said.

Shah said advertisers should have audit rights covering billing, data use, campaign performance and compliance with the agreed terms. Relevant records, including invoices, campaign information and performance reports, should also be retained for an agreed period.

“Transparency in the modern digital reality is not optional any more but vital for making correct business decisions,” he said.

The billable hour begins to crack

Ashish Bhasin

Ashish Bhasin, Founder of The Bhasin Consulting Group, believes the larger disruption lies beyond individual technology fees.

The once-sacrosanct 15% commission gave way to retainers, project fees and incentives. AI could force the next transition.

“Agencies cannot continue charging clients purely on the basis of bodies and hours when technology has fundamentally changed the effort required,” Bhasin said.

But if clients pay only for smaller teams, agencies may struggle to finance the technology and talent that produced the savings.

“Agency remuneration should become more output-based,” he said. “More importantly, agencies must begin demanding a stake in the intellectual property they create. The value contributed by an agency cannot be measured only by the number of hours spent producing the work.”

He argued that agencies are often paid once for ideas or solutions that continue to create value for years.

“Suppose an agency develops a solution that the client uses for 20 years or deploys 25,000 times. There should be a continuing payment linked to that use,” Bhasin said.

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“This could take the form of a usage fee, technology fee, licence fee or pay-per-use arrangement.”

That does not mean every brand asset should be co-owned. But a reusable workflow or specialised AI service may require payment beyond the hours spent building it.

“The client may have paid for the time spent creating it, but that does not necessarily compensate the agency for the long-term value of the intellectual property,” Bhasin said.

The agency must first prove it has created something worth licensing. As foundational models spread, the differentiator will be what it builds on top: brand knowledge, creative judgement, proprietary workflows and accountability.

“The agency should be compensated for the value of what it creates, not merely for the hours spent assembling it,” he said.

The incumbent may not get the AI mandate

Sandeep Goyal

Sandeep Goyal, Chairman of Rediffusion, questions the assumption that the mainline agency will automatically become the brand’s AI partner.

“The evolved clients are writing separate contracts for AI. It is presumptuous to believe that the mainline agency is also the AI partner,” he said.

Specialist work may be priced by assets, languages, formats, complexity and delivery cycles rather than headcount. Goyal described these as “‘creative at scale’ calculations”.

That could leave strategy with one partner, conventional creative