

The often-hidden costs of in-house agencies

by Darren Woolley
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The founder and CEO of marketing consultancy TrinityP3 uses a side-by-side comparison to dig into the costs you might not have considered.



The industry conversation about in-housing agency services continues, with the protagonists proposing the pros and cons of the move to take agency services into the client organisation. The discussion focuses on brand control, creative excellence, speed to market, greater agility and the like. The topic that is not being discussed is the reduced cost. This is either because the pro-in-house group doesn't want to position inhousing as a cost-reduction process or doesn't want to upset the agencies, whose lunches they are invariably cutting.

But how much would you really save taking agency services in-house? Let's lay it out as clearly as we can.

To remain objective, we'll start by making a huge assumption that the resources and therefore the quality of the in-house agency services would reflect those currently provided by the outsourced agency. In reality, this assumption is rarely true because one of the issues that in-house agencies will struggle with is attracting key personnel in strategy, creativity and other pivotal areas that will define the quality of the service deliverables and outputs of those relationships.

Also, because the funding of the in-house agency will be fixed for the year as part of the marketing budget process, we will assume that the outsourced agency is retained on a full annual retainer for a like-for-like set of resources. That is, the in-house and outsourced agency will have the same number of people or the same or identical mix of capabilities, expertise, experience and direct salary costs, commensurate with their market value. We'll also assume that both costs will be based on a fee being calculated and agreed on an annual basis.

On this basis, let's compare the pair.

Category	In-house agency	Outsourced agency
Recruitment	Assuming on day one you will need to recruit the entire agency resource, there are significant costs associated with this as an initial one-off cost. However, assuming an industry average of a 25% staff churn rate, this would be considerably reduced in the next and subsequent years, but will still be an ongoing cost to the business with a need to replace the entire agency every four years.	The outsourced agency exists, but the industry does have a reasonable churn rate and therefore recruitment costs are built into the overhead for the agency used to calculate the retainer. This will often contribute less than 10% to the overhead.
Cost	Assuming like-for-like between the two, this includes mandatory superannuation (or pension) contributions as well as payroll tax and other costs associated with employment.	Of course agencies are required to pay mandatory superannuation (or pension) contributions, but depending on the

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		payroll size, some agencies are exempt from additional charges such as payroll tax and other fees. But these fees are also included in the agency overhead fees.
Real estate and utilities	The additional employees will require space to work and therefore there will be the cost of providing this real estate and the associated utility costs such as power, heating, air conditioning, internet, and so on. This would be based on the company's average cost per employee.	These are included in the agency overhead fees. These often contribute 30% to 45% of the overhead.
Plant and equipment	Depending on the services provided by the in-house agency, this would include, at a minimum, computers, servers and graphic printers. But it may also include video shooting and editing, audio recording and mixing and more. This equipment is usually leased for tax purposes and to overcome capital-expenditure considerations.	All requirements are supplied under the overhead fees, unless specifically charged out on an agreed rate card. This will contribute approximately 30% of the overhead.
Software licences and subscriptions	This is a particularly onerous cost for in-house media agencies, with the significant cost of industry research subscriptions and software licences. But it applies to content to a lesser extent. And without multiple offices or multiple clients it becomes a significant cost to carry.	Media agencies will often have significant costs tied up in industry research subscriptions and software licences required to plan and buy media. But most will amortise this cost across clients in the overhead or negotiate reduced rates across multiple offices.
Holidays and sick leave	The in-house agency will need to manage the resources within the workload expectations during times when employees will be taking annual leave and extended sick leave or parental leave. This contributes approximately 14% to the salary costs. The more expensive cost of short-term freelancers will need to be factored into the annual cost.	The agency will draw on the broader agency employee base to make up for resources shortfalls due to leave. If the agency does require additional freelance staff, then the cost of these is usually absorbed within the agreed retainer fee.
Professional development and training	This is particularly important for staff retention and development. It is also important in key technical skills such as programmatic media, data analytics and marketing automation and therefore would need to be budgeted into the ongoing cost.	Outsourced agencies offer this as a way to retain important key staff and to keep them up-to-date with industry developments. The cost is covered by the overhead cost. This will contribute less than 10% of the overhead.
Employee underutilisation	With a fixed number of employees, underutilisation is a hidden cost in situations where workloads decrease either seasonally or due to unforeseen economic impacts.	The agency will typically run under the expected resource requirement, even with a retainer, and deploy the resources to another paying account if the workload drops, either expectedly or not.
Additional management cost	Additional employees will add additional costs outside the in-house agency to the management areas across the business including human resources, finance, legal, marketing and management in the day-to-day operations.	These are included in the agency overhead fees. These often contribute approximately 20% of the overhead.
Redundancy	If it is decided either through a change of leadership or perceived underperformance that the in-house agency be terminated, as has happened with companies such as Intel, then the cost of redundancy needs to be factored in as a one-off cost.	When you terminate an outsourced agency, the agency will minimise redundancies and cover the cost of essential redundancies within their existing fee.

When comparing the two options like this, it is clear that the cost of setting up an in-house agency is significant. It would need to be a medium to a long-term strategy to recover the initial setup costs. And you would need to carefully consider any future cancellation of the strategy due to the significant termination costs.

While some have reported that the in-house agency can save up to half the cost of their outsourced agency, it is highly unlikely this represents a like-for-like comparison. Or it could be the cost analysis has overlooked the setup cost and the often-unseen operating costs, let alone allowed for termination costs in future operational cost projections. Either way, if setting up an in-house agency is driven by a desire to reduce costs, this will need to be achieved by recruiting lower-cost resources and therefore it is fair to assume less capable or experienced resources with lower market costs.

This may be acceptable for the work of the in-house agency. But if cost-reduction is the objective, it may be easier to either outsource a lower-cost external agency or even outsource an external supplier to implant an external agency into your operation and take on all of the responsibilities for the same.

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