

# The End of 15%

## How Advertising Agency Compensation Turned Away from Commissions

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**Abstract:** This paper examines the longstanding practice of compensating advertising agencies with a fixed commission on media billings, and empirically shows what eventually led to its demise. Using a combination of archival research and a unique longitudinal dataset we assembled, we first document a collusive arrangement between agencies and publishers that sustained the practice for much of the 20<sup>th</sup> century, and then show how the collusion unraveled. Our data shows that during the 1970s and 1980s, the collusive arrangement was gradually weakening due to increased transparency and price pressure. However, while various “sliding scale” and “discount” contracts emerged at this time, these were still expressed as a percentage of media commission. The core institution of compensating agencies based on commission on media billings only disappeared (in favor of fee-based contracts) after the entry of a new type of agency player—the media house—led to widespread unbundling of the creative work and media buying in the 1990s. Our analysis has implications for analysis of cartels, as well as for understanding the compensation methods currently evolving in the digital advertising market.

Keywords: Advertising, Advertising Agencies, Media, Commissions, Anti-Trust, Cartel