

Marketing Procurement — similar but different?

How procurement executives can
help manage marketing spend



agency lifecycle experts
select.scope.brief.produce.evaluate

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Introduction

Most senior executives are familiar with the invaluable role that procurement plays in the supply categories that directly contribute to the manufacturing of their product or the provision of their services. Procurement has delivered measurable benefits in helping companies obtain the most appropriate materials at the best cost available, assisting with the engagement of logistics providers for the distribution of their products, and help with the sourcing of services for the business to run as efficiently as possible.

It is in the area of professional services, and more specifically the relationship with marketing and advertising agencies, that there has been significant misalignment. This is evidenced by the ANA Marketing Procurement survey "Procurement: The Good, the Bad, and the Ugly" which showed a significant level of both marketer and agency discontent with procurement practices.

While companies have encouraged procurement to become more engaged in managing marketing

spend, often procurement has simply used the same tools and techniques as they would to manage their other direct and indirect suppliers. At best, this is somewhat detrimental to the company's marketing, at worst, it can have a distinctly negative impact on the performance of its entire advertising spend.

There are many voices that dismiss the role of marketing procurement, accusing practitioners of acting like glorified "paperclip buyers". Their argument is that agencies are so different to other forms of supply that procurement techniques should not be used at all, and only serve to damage the unique relationship that exists between marketers and their agencies.

Though we certainly recognize that agencies are distinctly different to many other types of supply, we also argue that many of the techniques that have been developed in the more advanced areas of procurement (specifically Strategic Sourcing and Supplier Relationship Management) can be applied effectively in the marketing services area. They must, however, be applied with care and recognize the sensitivities of high-value professional services.

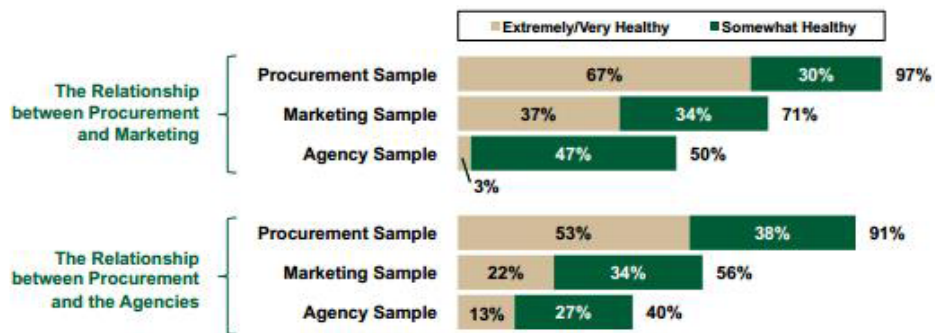
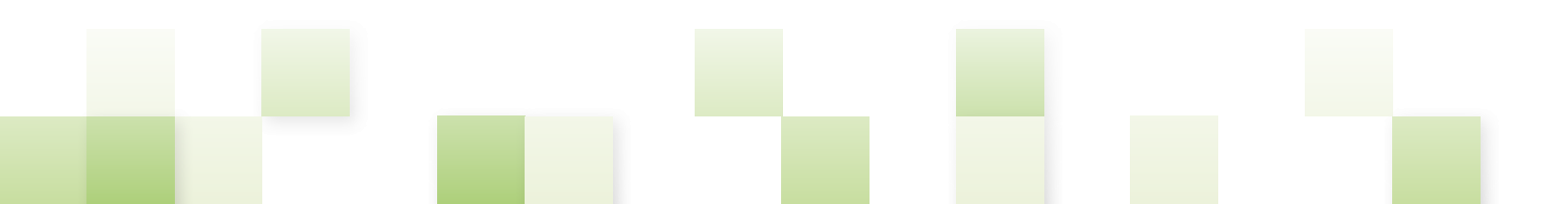


Chart 1 indicates the level of health in the relationship between procurement and marketers/agencies

Source: ANA, 2013



Buying Less for Less

In their groundbreaking book "Buying Less for Less", Jerry Preece and Russel Wohlworth lay out a convincing argument that marketing should be viewed as an investment and not a cost center. It is the job of marketing procurement to obtain optimum value from their organization's portfolio of agencies, delivering the best "Return on Investment" for every dollar spent. It is this point which largely distinguishes marketing from other spend categories, and requires application of specific tools and techniques.

The question then, is how can procurement best contribute with managing marketing spend, but at the same time not negatively impact on the creative outcomes that their marketing colleagues seek?

Agency Lifecycle Management

This paper looks at five key stages in the lifecycle that marketers have with their agencies.



1. **SELECT** — We look at the selection and on-boarding process.
2. **SCOPE** — Then we review the way in which clients engage with and budget for their agency services.
3. **BRIEF** — Next we look at processes marketers use to define the work product for their agencies.
4. **PRODUCE** — We also need to understand how the actual advertising deliverables are produced.
5. **EVALUATE** — And finally we need to measure agency performance and compensate agencies appropriately.

Phase 1 — Select

The goal of every major procurement department is to ensure that they have the best portfolio of strategic suppliers working on their stakeholders' business, and at the best price possible. In the direct supply categories many companies use refined techniques such as having approved panels of suppliers and consistent Request for Proposal (RFP) processes. For price-sensitive decisions they use tools such as Reverse Auctions to deliver the lowest cost to their organization.

Interestingly the marketing department has identical goals, just applied to its own unique domain. They want to ensure that they have the most appropriate agencies working on each brand, and that they are spending an appropriate amount for the work delivered.

A recent ANA/4A's white paper "Agency Selection Briefing Guidance" identified a set of best-practices that advertisers should use when selecting an agency. It suggests that many of the same RFX processes can be used with agencies, but applied in a slightly different way. Appropriate use of a Request for

Information (RFI) is one of the most useful tools marketing procurement can utilize. What is important to recognize is that apart from common information, like the size and location of the business, the information captured is quite different to materials purchasing. This data typically includes:

- whether they are affiliated with the network or holding company,
- primary and secondary capabilities (i.e. the services that they provide such as creative, digital, media planning / buying, public relations, outdoor),
- the areas that they specialize in (e.g. multi-cultural, segment-specific, social, email marketing)
- Existing brands they work on,
- whether they have any competitive conflicts.

It is important that the technology the organization utilizes to manage the selection and on-boarding process has the ability to store and segment on this critical information. It should have the ability to collect this information from both agencies that it's currently working with, as well as new agencies it might potentially work with. Utilizing Excel/Word and manual email to capture and store this information is extremely laborious and inefficient. Generally this information needs to be collected from multiple agencies, in dispersed geographic locations, so the Internet provides a perfect vehicle to request and collect this critical information. Some companies turn to more generalized supply management applications to undertake this collection, but often find that these tools are geared to collecting information about general suppliers and cannot handle the nuances that marketers and marketing procurement require.

Phase 2 — Scope

Once a supplier has been selected, the next job for procurement is to formally engage with that organization, specifically looking at the product, budget and costs associated with what needs to be delivered. In direct supply this often revolves around specifications, parts catalogs and price lists. The more generic the type of supply being provided, the easier it is for clients to engage with that particular supplier.

Marketing is at the other end of the spectrum and probably the most complex category of supply. It involves concepts, ideas, research, creative talent and interdependent channels, all of which involve a high level of qualitative decision-making. The primary mode for budgeting (and payment) revolves around labor fee model. In a recent ANA compensation survey "2013 ANA Trends in Agency Compensation, 16th Edition Survey Results" 81% of all major advertisers surveyed use a fee-based model for remunerating their agencies. For larger advertisers, those with a spend in excess of \$500 Million, this figure jumps to 94%.

To handle these "fee-based" agency budgets, which can annually run in the tens or hundreds of millions of dollars, most major advertisers now have a disciplined Scope of Work (SOW) process in place. Each SOW generally defines the major buckets of work that the advertiser is looking for, and allows the agency to provide a staffing plan that it will use across the year to fulfill this work. Many advertisers are increasing their level of definition, listing individual deliverables that they will ask the agency to provide. This level of granularity allows the agency to accurately review what work needs to be undertaken to provide accurate costs.



Compensation Agreements by Form of Agreement

Base: Sum of All Agency Agreements Among Total Sample

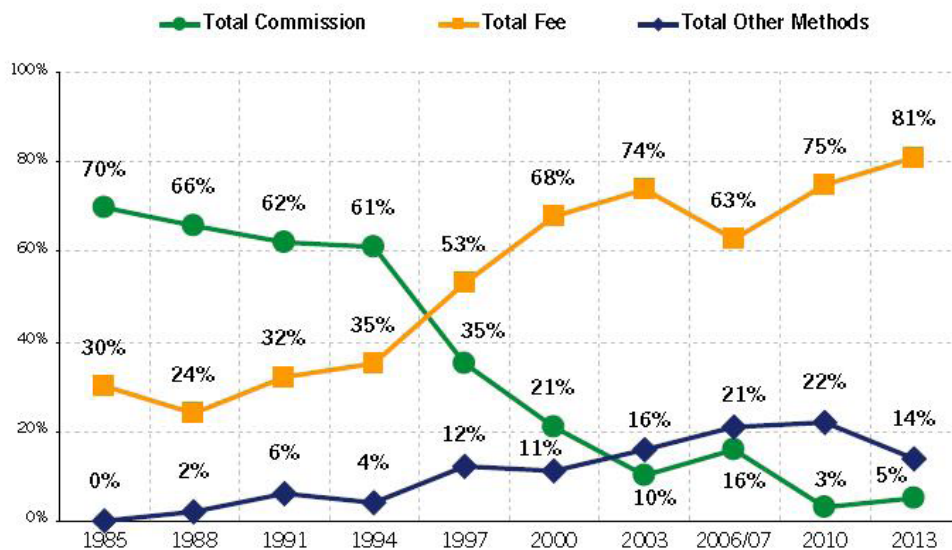


Chart 2 highlights the dominance of fee-based compensation agreements

Source: ANA, 2013

Rather than product price lists, advertisers also utilize ratecards. They ask their agencies to provide rates for specific roles, or fixed costs for defined outputs. Capturing this role based information allows the advertiser to ensure that the appropriate staffing mix has been applied to the deliverables it requires. It is really important to note that because marketing is an investment, it's not necessarily the "cheapest" mix of staff that should be requested. High-complexity, high-value deliverables will often require senior talent to be deployed in order to achieve outstanding marketing results.

The technology needed to drive the Scope of Work process needs to be able to handle the complexities associated with the entire "marketing mix". Users need to be able to define, track and benchmark deliverables (such as 30-second TV spots, websites, radio ads). They need to understand the cost of specific campaigns, have the ability to review the seniority and experience of the talent working on their business; and they need to ensure that approvals are done rapidly and in compliance with corporate policy.

Phase 3 — Brief

One of the fundamental differences between direct supply and marketing supply is found in the work itself. More often than not direct supply is dealing with a tangible product. This means that clear specifications and engineering techniques can be applied to define the work product, and suppliers have a very clear understanding of what it is that needs to be delivered. If a group of suppliers can deliver a product to specification, then generally price is going to be a major differentiator in the selection process.

Marketing, however, faces a unique set of challenges. The work product in its initial phases is almost entirely intangible. It is based around ideas and creative concepts. Although it is not possible to generate an exact specification for “the product”, there are important techniques that we can utilize to communicate with our agencies to help them understand what needs to be delivered. This is the role of the Creative or Assignment Brief. The goal of the Brief is to share with our agencies critical information such as the outcomes that we are looking for, a background of the target audience, the core message, along with guidelines on how we would like the agency to get there. We are looking for the highest quality of advertising, with the lowest amount of waste.

The technology utilized for the briefing process should help marketers create the best brief possible. Organizations need to be able to build best-practice templates in order to give marketers clear guidance as to what needs to be captured in each brief. One of the largest hidden costs in the marketing process is re-work (some estimate up to 30% wastage in agency fees). If we can cut back on the number of revisions during the creative and production stages,

it has an enormous impact on the overall cost of the campaign. It’s also important to understand the workflow processes that need to occur between client and agency, looking to get briefs approved in a timely manner.

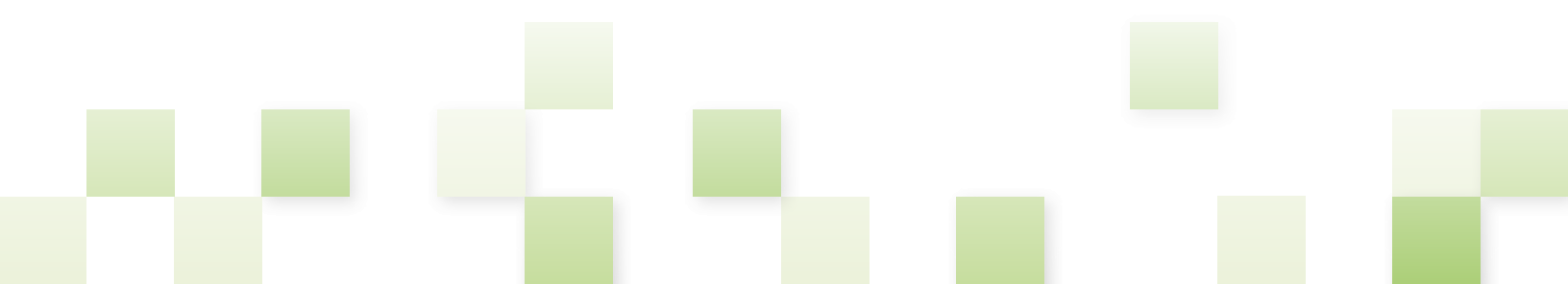
Phase 4 — Produce

Procurement is often involved in the purchasing of the machinery utilized to manufacture products. An automotive production line is an impressive feat of engineering excellence, where advanced robotics produces high-quality cars at an incredibly rapid rate.

The creation of advertisements is an equally complex task with a huge number of elements needed to plan for and track; this includes people (e.g. director, producer, cinematographer etc.), locations, sets, sound, lighting, preproduction, CGI etc.

Again procurement can assist in this area; specifically helping the marketing department to select the best value services it needs to produce quality advertisements. Companies use tools such as detailed budget forms, triple-bidding and production consultants to get the best value they can. Decoupling is another technique that is used where rather than having their agency manage the production process, the client works directly with a production company, talent and/or suppliers.

The technology needed here must account for the many variables found in the commercial production environment, be this TV, radio, print, outdoor, digital etc. Many organizations use the Association of Independent Commercial Producers (AICP) to collect budget and actual costs. It is vital to be able to automate this cost-collection process and share information between client, agency, production companies and consultants.



Phase 5 — Evaluate

One of the fundamental roles of Supplier Relationship Management (SRM) is to measure the performance of suppliers. Most organizations will have a series of Service Level Agreements (SLA's) with their strategic suppliers and will often utilize scorecards to measure the performance on a range of metrics. Suppliers who do not meet their SLA's may need to provide appropriate rebates.

In many ways marketing leads its direct supply counterparts in the utilization of scorecards. Their agency scorecards started with one fundamental point of difference. Marketing has long recognized that along with quantitative measurement, there are a range of qualitative metrics which underpin all high-value relationships and build trust between the parties. It is thus important for major advertisers to measure their agencies not just on "hard" quantitative metrics, but also to understand at a much deeper level how both the clients feel about the agency as well, as the agency's perspective on their marketing clients. Pragmatically, in the "ANA Insight Brief" on Agency Evaluation, Richard Benyon of Decideware advises that agency performance evaluation should be utilized twice-yearly, have between 15 and 25 criteria and use a standard 5-point scale.

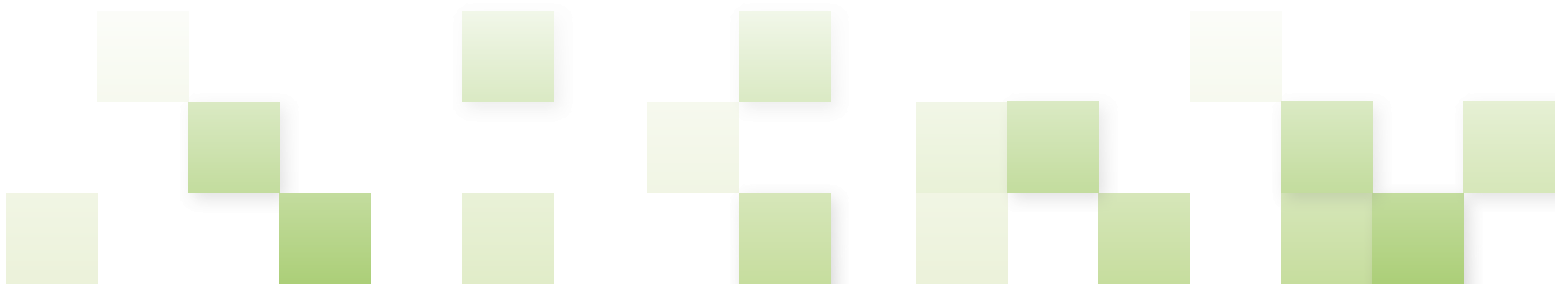
Agency Evaluation often underpins key incentive compensation programs. These are utilized to improve alignment between agencies and clients, often using a combination business and brand result to reward excellence. One difference between supplier and agency "SLA" programs is that agencies tend

to be only rewarded for outstanding performance, rather than being penalized for poor performance. This is changing somewhat as some advertisers are asking their agencies to put some "skin-in-the-game" in their pay-for-performance programs (i.e. risk some downside for an increased upside).

Technology needs to effectively support the evaluation process. It should allow one to quickly and effectively survey teams of stakeholders, as well as deliver reports to the "owners" of the agency relationship in a timely and digestible format. Because these people are often geographically distributed, work on different brands, and engage with many types of agencies, the software system needs to be highly scalable and be able to slice-and-dice the data on these different dimensions. It is also vital to be able to handle 360° evaluations, where agencies are provided a mechanism to provide feedback to the client.

Marketing procurement — similar but different!

In conclusion, we believe that the techniques and tools that marketing procurement should use for agencies and suppliers are similar, and yet different. This paper has looked at five critical stages in the lifecycle between client and agency. Each one of those areas has a range of proven strategic supply management techniques that you can utilize to get the most effective and efficient return on your marketing investment. And finally it is vital that the technology you utilize has the ability to handle the unique nuances of the marketing category of supply!



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About Decideware

Decideware provides major advertisers with the world's best agency lifecycle management platform.

We offer an integrated suite of solutions which help advertisers optimize their agency relationships and spend.

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