



Beyond Cost and Rates – a practical guide to understanding value

Decideware Innovation Series

Introduction

One of the most common complaints that marketing procurement / marketing agency management professionals hear is that they are no different than “paperclip” buyers, obsessed with driving down costs to the potential detriment of the creative outcomes.

In fact the vast majority of professionals within mature marketing procurement / marketing agency management functions fully understand that unlike many other forms of supply, marketing is a revenue generating center; and that simply driving costs down to improve the bottom line will often have a disastrous effect on the top line.

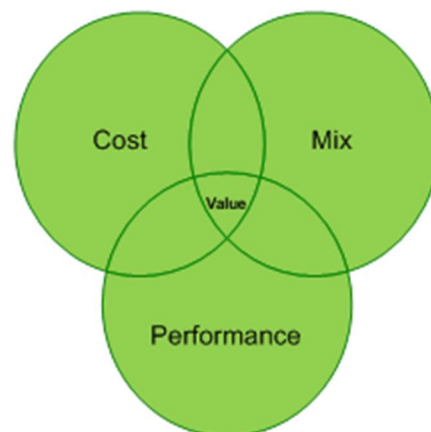
However, without access to three key pieces of information it is difficult to rise above the “Cost and Rate” discussion and thus many are missing out on understanding the true value within each agency relationship.

The Value Equation

A new way to view the overall value of each agency relationship has emerged that allows you to get a balanced understanding of the contributing factors.

Value is derived from balancing Cost, Mix and Performance

So in order to understand value we must not only have access to the *Cost / Rate* benchmarking data, but also to the *Resource Mix* (including seniority and complexity of work) and the current *Performance* of the agency team.



Scope of Work & Agency Evaluation

There are two key tools that can be used to gain access to the data needed for the Value Equation.

- **Cost** and **Mix** data come from a robust *Scope of Work & Resource Planning* process
- **Performance** information comes from a thorough *Agency Evaluation* process

Combining both these information feeds into a single view allows the agency procurement professional to fully review the true value for each agency relationship. This provides insights at three levels; Inputs, Outputs and Outcomes.

Outcomes	Outputs	Inputs
<i>i.e. Business & Agency Results</i> <ul style="list-style-type: none"> • Short term sales • Long term brand value 	<i>i.e. Strategy, Creative, Media</i> <ul style="list-style-type: none"> • Broad Initiatives • Specific Deliverables 	<i>i.e. Skilled & motivated people</i> <ul style="list-style-type: none"> • Broad Functional Areas • Specific Resources

Dimension 1: Cost

There are three elements to consider in this dimension; overall Cost, Rate and Time. Many clients are now looking to benchmark outputs (and specifically Deliverables), rather than the traditional, and much easier, inputs. Many professionals focus all their attention on benchmarking agency rates (\$ per hour) but because total cost is the combination of Rate and Time, simply benchmarking rates provides only half the picture.

Dimension 2: Mix

Resource mix is a fundamental driver of quality. Resource mix can be analyzed by the seniority of the role (position) and some clients also review the experience of the individual. If possible you could choose to capture both dimensions. The critical element to understand is how the resource mix compares with the complexity of the work that has been requested (e.g. Origination, Adaptation, Localization etc).

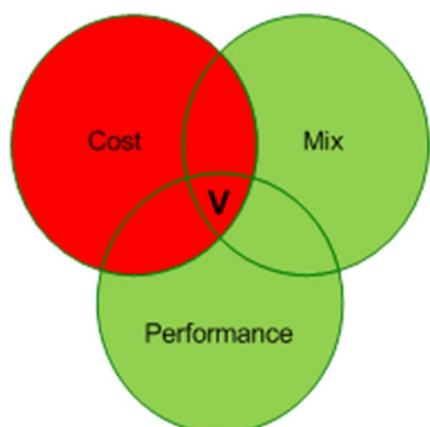
Dimension 3: Performance

A well-managed Agency Performance Evaluation program should give you access to the critical data you need about each brand-agency relationship. Many clients use a mix of criteria to score their agencies. These generally are assigned to one of three buckets.

- Business Measures (e.g. growth, market share)
- Agency Measures (e.g. brand awareness, website clicks)
- Qualitative Assessment (e.g. survey based)

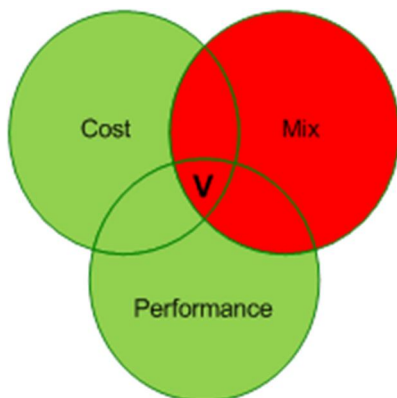
Red Flags

Access to this rich set of data will allow you to analyze and benchmark across the dimensions. Here are some examples of when elements of the Value equation are out of alignment.



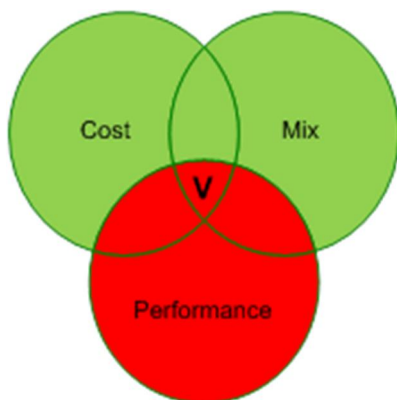
COST

- Rate benchmarks for specific roles seem well outside the high or low expectations
- Costs are provided for Deliverables where the total fee (i.e. Rate * Time) deviates substantially from the normal range



Mix

- Senior staff are allocated to simple services producing what should be low cost Deliverables
- Resources with little experience are allocated to important services and high impact Deliverables



Performance

- Relationships identified as underperforming through the qualitative agency evaluation process
- Brands results (i.e. quantitative metrics) indicate issues where business and agency measures are not meeting expectation

Action Steps

Look to build a comprehensive process that allows you to marry both **Scope of Work and Agency Evaluation** information.

This will provide your marketing professionals the data that they need to make informed decisions about agency fees, performance and long term brand development.

Rather than simply relying on benchmarked rate data, you will at last be able to apply a rigorous (and defensible) process to help your marketing stakeholders understand which agencies are delivering on their promise of delivering value – and importantly which are not.

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