Agency Relations

ANA Insight Brief

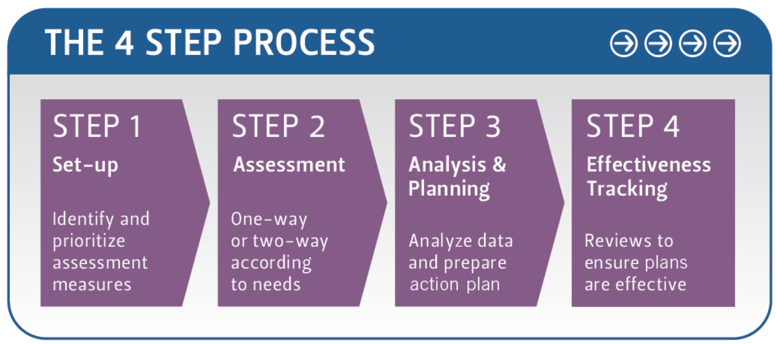
Building an Agency Performance Management Program

By Richard Benyon, CEO, Decideware, and Steven Wales, Business Director, Decideware

What's Inside?

Overview: Why Build an Agency Performance Management Program?

Agency performance management is recognized by major advertisers as an industry best practice, with formal evaluations being the cornerstone of this type of program. The agency performance management process consists of four parts:



Source: Decideware, 2011.

The fundamental reason for running agency performance management programs is to create and reinforce **focused and sustained process improvement**, **skills development, and behavioral changes** at both the agency and client. Doing this can directly affect key business drivers within the marketing domain, including:

- Top-line value, or increased sales and shareholder value through long-term brand equity.
- Bottom-line savings, i.e., gains in client/agency efficiency and spend optimization.
- Risk mitigation, or reducing the likelihood of agency turnover ("churn") and improving agency governance.

Agency performance management programs can help inform marketers' decision-making by:

- Determining how well agencies are meeting marketing goals.
- Identifying important strengths that can be leveraged across the entire marketing portfolio.
- Discovering opportunities for improvement at individual agencies.
- Creating and tracking action plans for each agency account.

- Providing a simple framework for incentive compensation.
- Helping to make key decisions about when it is time to conduct an agency review.
- Identifying joint cost-reduction initiatives where savings can be re-deployed to growth activities.
- Protecting the organization against governance-related issues (such as Sarbanes-Oxley regulations).

Clarifying the Purpose of Your Program

Best-practice evaluation programs should have a clear purpose because they produce outcomes that have value for all stakeholders. Identify the objectives of the program and make sure that these are clearly communicated to and understood by all client-side and agency stakeholders.

According to the **2009 ANA Research Report Evaluating Agency Performance**, 92% of the advertisers surveyed cited "identify and improve under-performing agency relationships" as a critical benefit of evaluating their agencies, closely followed by "identify and recognize high-performing agency relationships" at 85%. To get started with an agency performance management program, marketers should first ask their team, "What is the purpose of our agency evaluation program?" Also ask:

- Is the program solely focused on identifying the strengths and weaknesses of our agency in order to improve their performance and our satisfaction with their performance? Or are other issues involved as well (e.g., the calculation of incentive compensation payments)?
- Is the key purpose to help us understand how the agency could do better (i.e., a one-way review), or do we also want to know how we could better manage the agency (i.e., implementing a 360° review)?
- What actions do we intend to take at the end of each review? For example, do we want to schedule a meeting between the senior management from the client and the agency? Do we intend to develop an action plan to direct the next steps? Will we monitor that action plan between the formal evaluations?

"Agencies have a critical role in driving value, so as an agency management practitioner, understand what's important to your marketing stakeholders."

Sandra Colon
Manager, Global Marketing Procurement
Burger King

Building an Agency "Scorecard"

The agency scorecard contains the criteria and questions by which the agency's performance will be measured. Often the criteria are grouped into sections (also referred to as "buckets"). Ensure you get stakeholder buy-in when building the survey scorecards, and also make sure that it measures what's important in the relationship. This may include weighting the importance of different sections or questions on the scorecard. Other best practices for building a scorecard include:

- Ensure that every question has direct relevance to driving additional value. Top evaluation programs are based on scorecards that address business needs.
- Make sure that the scorecards are developed collaboratively with input from all key stakeholders, such as marketing, advertising, finance, procurement, and the agency.
- Best-practice scorecards are generally composed of 15 to 25 evaluation criteria. This allows an accurate picture of the relationship to emerge, without deterring participation and creating "survey fatigue."

- Some clients believe that a single unified scorecard template provides better consistency and benchmarking, while others create different scorecard templates for different agency types, such as creative, digital, media, PR, etc.
- If multiple scorecard templates are used, try to make the section headings within the questionnaires consistent across all agency types, in order to facilitate deeper cross-comparison and benchmarking of outcomes.

"A structured and balanced scorecard, which is understood by the agency and client stakeholders, can eliminate subjectivity and increase transparency in the contractual relationship. It can serve as objective criteria for bonus remuneration as well as a diagnostic tool to identify gaps in performance expectations if used more frequently."

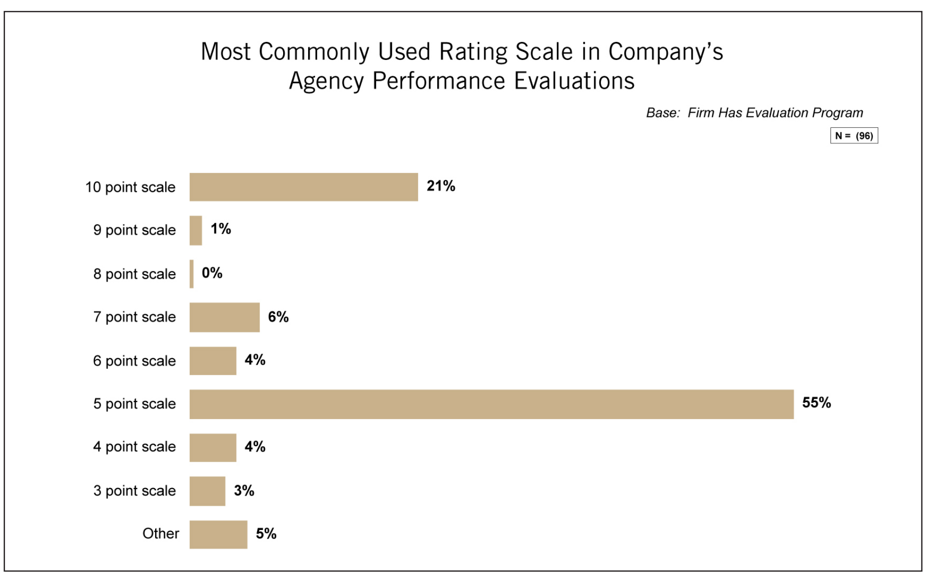
kraft foods

George Dan
Global Media Sourcing Strategies
Kraft Foods

Make it Easy

Design and structure the relationship evaluation program to be as intuitive and user-friendly as possible for the assessors. Strive for maximum levels of participation by all evaluators in the program (cross-functional and geographic). High levels of survey response ensure a richer data set for action planning, leading to more robust business outcomes, and, in turn, heightening the credibility of the program. Additionally, marketers should:

- Ensure that the program is designed to be "bottom-up." For example, large advertisers often evaluate local brand relationships and then roll these up to get a total country outcome, then a regional outcome, and finally a global outcome. Evaluating from a local level and up means that every assessor has a real and meaningful reason to participate.
- Make the survey user-friendly by limiting the number of questions and using appropriate technology.
- Make the assessment process intuitive. Provide guides, instructions, and training within the process, or participation rates will fall.
- Use a simple, meaningful rating scale. The most widely used type is a five-point rating scale (one to five) with "meets expectation" as the mid-point. Some companies align their scale with their internal HR performance management scale. According to the **2009 ANA Research Report Evaluating Agency Performance**, "the measurement device used in a majority of companies surveyed (55%) is a five-point rating scale."



Source: ANA, 2009.

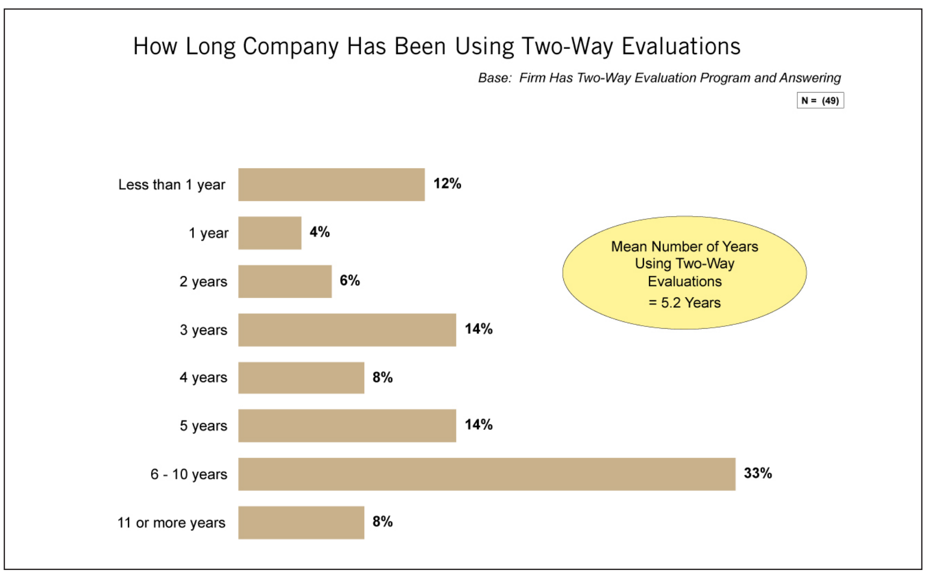
- A key goal of a best-practice evaluation program is to understand why something is happening. Let assessors add comments alongside their ratings. Comments are especially important if the ratings are extreme, either very good or very bad.

Evaluate the Agency *and* the Client

It's also important to have the agency participate in the program to the fullest extent. This can include everything from the scorecard definitions through the assessment process and action planning. It is critical that marketers do this because:

- It can uncover gaps in perception. A common problem that arises in unraveling client/agency relationships is that the agency is unaware of a problem, because they think they are performing well in a particular area while the client is extremely dissatisfied (the classic "blind spot").
- The act of having to prepare a self-assessment should be a process of discovery for the agency. Being reminded about the expectations of the relationship—and reflecting upon their performance in a disciplined manner—can only be helpful for the agency.
- It demonstrates fairness. By giving the agency its opportunity to provide input, the client demonstrates even-handedness and shows a spirit of trust and partnership.

If the client decides to allow the agency to provide feedback on their performance, this signals that they are committed to making performance improvements on both sides of the relationship. According to the **2009 ANA Research Report Evaluating Agency Performance**, "two-way or 360° evaluations are conducted in more than half of firms" surveyed.



Source: ANA, 2009.

If the agency is going to evaluate the client, it is important that:

- The agency trusts that the client will use the feedback in a constructive manner. The agency needs to feel that the client's organization is committed to improving the relationship for the mutual benefit of both parties.
- The client-side marketing stakeholders must trust that their agencies are approaching the process with the objective of improving the relationship, not just to release pent-up frustration.
- The client-side marketing stakeholders must trust that senior management will use the findings in a positive way, and should thus not view it as a threat.

What should be measured when evaluating the client's performance? Best practice 360° feedback questionnaires often focus exclusively on enabling processes and behaviors, i.e., factors at the client which help the agency perform its designated role. The agency should not be asked to comment on the client's marketing/advertising skills!

> "Two-way reviews have helped us identify obstacles both in our organization and at the agency, avoiding challenges that can get in the way of the work."
>
> TARGET
>
> **Edward McFadden**
> **Group Manager, Partner Management Group**
> **Target**

Transparency and Immediacy Are Essential

Ensuring that the program is transparent and delivers immediate results will build confidence in the program, making it more valued. Do this by:

- Making the prioritized scorecard and its objectives available to participants in the program at all times.
- Presenting participants with the results of the survey directly after the rating process, so they understand the results of their efforts. This encourages future participation and builds confidence that their feedback is being incorporated.
- Making sure that reports are valuable and easily accessible by line managers. Work out which reports the managers find useful ahead of implementing the program, and then make sure that those reports are produced and made available to managers directly after the survey phase closes.
- Considering running the program twice a year (the mid-year survey should be considered a "pulse check").
- Ensuring that historical evaluation data is easily accessible. The program should constitute a transparent "audit" of the relationship and be available for reference.

Action Planning

The core goal of agency relationship evaluations is to optimize performance and satisfaction by addressing any identified issues (both positive and negative).

With best-practice relationship evaluation programs, the assessment phase of the program is followed by robust analysis and then action meetings with the agency. Therefore, the assessment phase is not an end in itself, but rather a means of gathering valuable information to facilitate action planning. This is accomplished through meetings with the agency, involving senior management from both the client and agency. These meetings should be held locally, regionally, and globally, as required. According to the **2009 ANA Research Report Evaluating Agency Performance**, 89% of marketers share agency evaluation results with their agency in face-to-face meetings.

The goal of these meetings is most often to review the findings from the assessment phase and progress to action plans that address weaknesses and build on strengths. The broad objectives of these meetings usually include:

- To understand the current state of the relationship using factual, reliable, and complete data.
- To allow for a two-way flow of information that will help uncover issues and also recognize excellence.
- To improve agency performance and seek to optimize costs.
- To ensure that the client is "enabling" the agency to work at maximum efficiency and effectiveness.

The action plan meetings should conclude by:

- Setting goals and expectations for the next evaluation period.
- Agreeing to a timetable for the next evaluation period.
- Discussing, if applicable, performance incentives.

> "We look to improve our own processes and skills just as much as the agency's."
>
> **Amy Beard**
> **Consultant, Global Marketing and Sales Procurement**
> **Eli Lilly and Company**

Program Methodology

Marketers need to ensure that they use an appropriate methodology to run their agency relationship evaluations. To determine if your methodology is correct, ask yourself two questions:

1. **What resources should we use to run the program?** The decision to use internal or external resources is often based on the company's size and whether it has the capability (or desire!) to manage agency relationships. Agency relationship consultants have unique skills that smaller advertisers find hard to replicate. The trend of outsourcing marketing agency administration functions is also growing, due to companies wanting to run lean and not require valuable internal staff to manage these processes. There are four commonly used resourcing options: procurement, marketing operations/services, an agency relationship consultant, and business process outsourcing.
2. **What technology should we use to run the program?** Most clients use one of the three options below:
    - Word/Excel tools.
    - Survey tools (in combination with Excel/Access or reporting software).
    - A specialized supplier/agency management software.

   The choice of appropriate technology often depends on the scope and complexity of the program. For larger or more complex organizations, Excel or simple survey tools do not provide the specialist functionality required for administration and reporting.

> "Review if marketing agency management is a core competency for your organization or one that is better outsourced."
>
> **Brad de Hart**
> **Global Practice Lead, Marketing Practice**
> **ICG Commerce**

Incentive Compensation

Consider incorporating quantitative objectives into the agency performance management program to provide a balanced view of the overall relationship. But avoid overloading the program with too many objectives. Instead, focus on critical business outcomes and stick to a few key measures directly related to creating value.

It is important to differentiate between business measures and agency measures:

- **Business measures** are typically sales-oriented, e.g., market share, growth, and sales.
- **Agency measures** are, as the name suggests, more under the agency's direct control and usually brand-related, e.g., brand awareness, website hits, response rates, and consumer research scores.

For incentive compensation calculations, a mix of qualitative survey measures, business measures, and agency measures can provide a balanced view of the relationship. These are often weighted for importance when calculating the contribution to the overall bonus, as seen in the following example:

Category	%	Definitions
Survey Assessment	50%	Qualitative assessment of strategy, creative, account management, etc.
Business Measures	25%	Quantitative data for total sales, market share, growth, etc.
Agency Measures	25%	Quantitative data for brand awareness, website traffic, etc.

"We view our agencies as partners, and as such have established a compensation program that aligns agency deliverables and Merck's business results"

MERCK

Eliana Goncalves
Sourcing Analyst, Global Marketing Services Procurement
Merck

ANA Member Case Study: PharmaX

PharmaX, a leading pharmaceutical and ANA member company, recently decided to refresh their existing agency evaluation program. One of the key drivers was to ensure that their agencies focused on activities that drove increased brand value, as well as ensuring that the budget was being used in an optimal way.

All existing scorecards were reviewed, and a streamlined scorecard was created with a reduced number of questions (to reduce "assessor fatigue"). Each question on the scorecard was meant to imply a direct connection to improved value and/or efficiency. This ensured that the questions were also aligned to the senior marketing leadership goals.

In the past, only the team leaders at the agencies and the client provided a consolidated rating, but going forward all key marketing and agency stakeholders were asked to participate. And the agency was encouraged not only to join in a self-assessment, but also to provide frank feedback on how **PharmaX** acted as a client (360° feedback).

Though the evaluation program was facilitated by the marketing procurement department, for each agency relationship a team leader within the marketing department was designated to act as the "owner" for that relationship. Each "owner" was tasked to meet with their agency counterpart at the end of the evaluation to discuss the results, and, most importantly, build a concrete action plan.

A structured communication and change management plan was developed and implemented, specifically addressing the vital role of the "owners." This focused not only on the "how" but more importantly on the "why," in this case not only to improve client/agency performance, but also as a critical component of their incentive compensation calculation.

Using appropriate technology, they deployed the survey element of the program and dramatically shortened the data collection window. During the week following the close of the survey phase, the "owners" began to download reports and review the aggregate results. They used the scores and comments provided by their team to understand both where the agency could improve and where they were really adding value. Simultaneously, marketing procurement accessed reports to review the entire roster of agencies and worked with senior marketing leadership to isolate relationships in trouble, as well as those that deserved specific recognition.

Meetings were held as soon as possible after the reports were analyzed in order to make the "debrief" sessions meaningful and effective. Critical meetings had both marketing and procurement involved with a key outcome from each meeting being the creation of a formal action plan, clearly spelling out what needed to be done, by whom, and when.

Finally, senior management used the data collected and compiled via the head-office reports as a means to understand which agencies were delivering exceptional value (flagged as strategic partners) and those who needed immediate action to improve, and in some cases where business needed to be re-assigned. This visibility across brand, business unit, region, country, agency, and holding company allowed **PharmaX** to take a more strategic view of their portfolio, awarding work to the best performers and reducing waste with inefficient agencies.

Conclusion: Effectiveness and Efficiency

The most important element to remember in executing an agency performance management process is to focus on both the "why" and the "how." Therefore, an ideal program should be both:

- **Effective**, or aligned with the goals of the marketing organization and producing measurable data and meaningful actions.
- **Efficient**, or simple, fast, and without placing too onerous a burden on the participants and senior management.

With both these dimensions in place, there are few processes that can produce as much positive impact in the client/agency relationship as an agency performance management program.

Related Resources: Further Your Learning

Interested in learning more about agency performance management? Consider joining the ANA's Agency Relations Committee (www.ana.net/committees) to stay current on this hot topic.

Visit the ANA's Marketing Knowledge Center for more information on agency performance management (www.ana.net/agencyrelations).

To read other Insight Briefs on agency relations, please visit www.ana.net/insightbriefs.

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Richard Benyon, CEO of Decideware Inc, has an extensive background in the area of performance management, first in the human resources domain and more recently in the fast-growing discipline of supplier relationship management. Over the last five years he has used this specialized knowledge to help develop a leading software platform for agency evaluation and scope of work management.

Steven Wales, business director at Decideware Inc, honed his marketing agency management skills at **Mars Chocolate**, and provides insights from the client-side perspective. This background has provided him with a deep expertise on how best to enhance the relationship between client and agency.

About the ANA

The Association of National Advertisers leads the marketing community by providing its members with insights, collaboration, and advocacy. ANA's membership includes 400 companies with 9,000 brands that collectively spend over $250 billion in marketing communications and advertising. The ANA strives to communicate marketing best practices, lead industry initiatives, influence industry practices, manage industry affairs, and advance, promote, and protect all advertisers and marketers.

For more information, visit www.ana.net.

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