

Why Purchasing

Stalks Marketing

for Agency Control

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Richmond, VA – A specter is stalking the advertising industry, one more fearsome than Freddy Krueger. It's corporate purchasing. At a growing number of client companies, the procurement officer is supplanting the chief marketing officer (CMO) when it comes to choosing an advertising or public relations agency. Why has this happened? What is to be done?

It began with corporate belt-tightening, where clients were less willing to put their faith in long-term returns and more interested in immediate bang for the buck. As a result, clients are now seeking tangible ROI (return on investment) and scrutinizing the agency's bottom line — disregarding other less tangible aspects that agencies argue are indispensable to successful advertising and publicity.

As corporate leaders peer at all elements of their business with an eye toward cutting costs, is it any wonder that advertising and marketing expenditures are coming under the microscope as well? These bottom line concerns have been the driving force behind the new trend for procurement's involvement in advertising and agency selections. In a world saturated with advertising and where the effectiveness of advertising campaigns is increasingly being called into question, it was inevitable that top managers would demand accountability for dollars spent.

More and more, measuring that accountability has been taken from marketing and assigned to procurement. In many businesses, corporate leaders have called in procurement (aka purchasing or sourcing) to leverage and in some cases manage the agency selection process. Until recently, this shift has been defended by marketing and agency personnel as little more than bean counters seeking to drive down the cost of something difficult to quantify. Although advertising has been the exclusive domain of corporate marketing managers for years, that is changing. Despite anyone's opinion of the trend, one thing is certain—the involvement of procurement represents a major sea change for the advertising industry and a challenge to CMOs. Those who fail to harness this wave are sure to be left in the wake.

Define the Problem; Resolve the Problem:

Much has been written lately about the conflicts that occur when a procurement department leads the search for an agency. But little has been said about how to resolve this issue. Do agencies have to resign themselves to clients who micro-manage? What are the risks for clients who insist on formalizing the art of advertising? In this special executive report, we'll address some of these concerns and identify potential solutions.

In several recent cases, advertisers looking to save money have requested information that many agency executives considered inappropriate. One example illustrates this danger especially well. Within the framework of an existing relationship, but after a yearlong compensation negotiation between Deutsch (the agency) and Pfizer (the client), Deutsch pulled out due to what it saw as improper requests for information. In a much-hyped episode, the agency was reportedly asked to reveal the salaries of employees working on various campaigns and the profit margins on other accounts, according to sources. While Pfizer denied these claims, this type of scenario is becoming increasingly more common in the sensitive world of client/agency negotiations. How could both sides have avoided such a debacle? Perhaps a more careful, early evaluation of the client's criteria would have revealed fissures that could have been addressed as part of the negotiation. An early diagnosis of the problem also could have lead to the decision that the relationship was irreparably flawed—a conclusion that in hindsight would have been preferable to the public falling out.

The probing questions asked by Pfizer would not fly at IPG's Martin Agency in Richmond, Virginia, according to Chris Shumaker, the agency's senior vice president and director of development. He said no client has ever asked for agency employee salary levels and he would consider a request for that type of information inappropriate.

"Some of that information is very personal. It's none of their business," Shumaker said. "That's like asking someone about their mortgage payment."

It does seem clear that advertisers are taking an increased interest in all aspects of their agency's business, but it remains to be seen whether they are asking the right questions at the right time.

In another example, the recent procurement-managed E.I. DuPont de Nemours agency review included an unusual request. Twenty-two invited agencies were asked to submit details on their procedures, if any, for conducting employee criminal background checks. It was suggested that Dupont's use of dangerous chemicals prompted the need for this information, but asking the question at the outset was out of character. While surprising, this type of forward thinking may have saved DuPont time and money by avoiding negotiations with unqualified agencies.

The DuPont review also highlights the procurement-driven trend for consolidation. This \$70 million review, won by New York's WPP Group agency Ogilvy & Mather, was engineered to reduce the number of agencies and the potential for work duplication, in effort and expense, that occurs when multiple agencies are assisting the same client. With larger, more diverse advertising accounts on the loose, clients will be challenged to find appropriate agencies for the job.

Protecting the Corporate Advertising Investment

Aside from squeezing agencies in the area of costs, how can clients protect and safeguard their advertising investments? How do a procurement and/or client marketing executive define their criteria and find suitable agencies when conducting an agency review? They're faced with one major challenge due in part to the overwhelming number of agencies. In the U.S. alone, in SIC 7311 (Advertising Agencies & Counselors), there are more than 28,700 ad agencies. In SIC 8743 (Public Relations), there are another 17,000 firms.* To conduct an effective search to locate a manageable pool of prospects, there must be some way to identify that small handful that possess the category experience *and* offer the

services, skills, talent, staffing, office locations and personalities that will lead to an effective marketing partnership.

Defining The Perfect Agency Model

If marketing and purchasing managers on the client side, along with ad agency and pr executives on the other side, were challenged to come together to create a process for defining and finding the perfect agency, they would start by compiling a list of agency *elements* (criteria). Then, to reduce the size of a group of agency candidates, clients agree there is no better place to start than to look for those with experience in "our" business category. That list of *vertical markets* would exceed 150.

Then they would list agency *services* like account management or account planning, brand equity development, creative services, media buying, public relations, strategic planning and development and many more. That count could approach 100.

Advertising and publicity messages created by each agency are meant for specific "recipients," as in *market specialization* — consumer-types or business-to-business types. Each agency should mark those where they have previous experience. This list would include demographics such as male, female, affluent, religious, African-American, Hispanic, urban, international, dealer/distributor organizations and more. This list might exceed 25.

A remaining but elusive variable is *chemistry* or personality. Chemistry surfaces in early conversations and later in face-to-face meetings, and is often credited as the real reason an agency gets selected. But it would be nice to spot "good-verses-poor" earlier than that. Each agency could write short essays about themselves working from standardized topics. By reading these essays, clients could sense the potential for great *chemistry*, based on the fact that in business, "birds of a feather *do* flock together!"

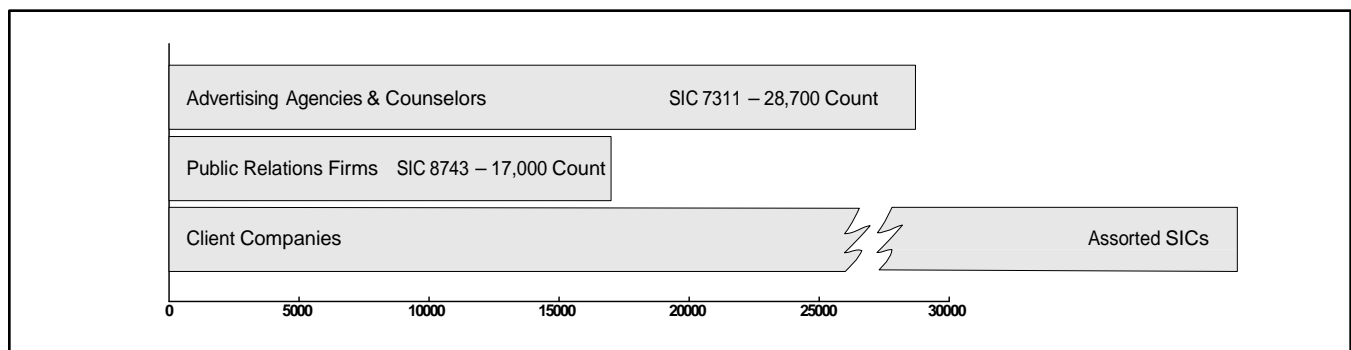


Figure 1 (Source: BPI 2003)

After completing this aggregating process, this client and agency team would find that their work to define the “perfect” agency included 400 to 500 attributes, and would serve as the foundation for an interactive database. Searchers using this database would need a menu or *template* to define their requirements — which could be these same agency attributes presented to the searcher, but in reverse. Finally, they would build search-engine algorithms that would allow clients to find agencies with attributes equal to or greater than their declared minimums.

To make this service available to clients and agencies everywhere and at any time, this would be an Internet offering, with quick and easy on-line registration and data entry for every ad agency, pr firm and marketing company worthy of being hired by serious clients.

Agency Accreditation

In our “perfect agency” scenario, agency searches would not be hit-or-miss or based on well-meant references from media reps or client colleagues. Agencies would be held accountable for their claims by an accrediting body that would verify or *certify* the agency’s credentials. This raises the question, is there such a body or service? Most major industries require some form of accreditation. Doctors are licensed by

the state, attorneys pass the bar, teachers must be certified, and realtors must possess a license to do business.

According to the National Association of Realtors (NARs), a real estate professional may only call him or herself a “Realtor®” when he or she is a registered member of the association and subscribes to its strict code of ethics. But first, each Realtor® has already passed a battery of tests and examinations.

Shouldn’t clients who spend millions on advertising and marketing have similar assurances about the accreditation and professionalism of their advertising or public relations agency?

At present, the oldest and largest professional advertising membership organization is the American Association of Advertising Agencies or 4As. 4A members are meant to abide by a series of requirements stated in *Qualifications for AAAA Membership*, which among other things speaks of independent ownership, objectivity, adequate staffing and fiscal responsibility. But unlike NARs, there is no requirement that members demonstrate their qualifications through a battery of tests with subsequent licensing or certification. Clients are forced to make a leap of faith, hoping that each agency honestly represents itself.

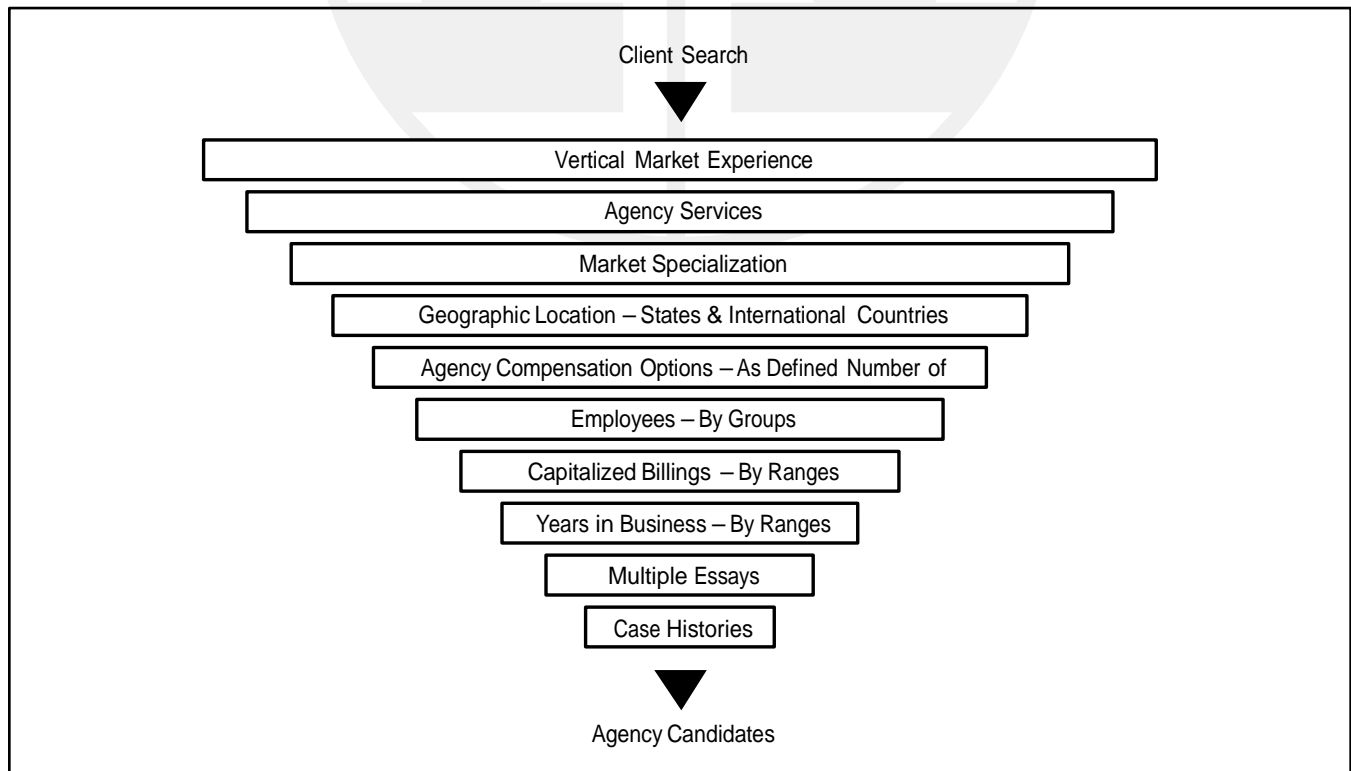


Figure 2 (Source: BPI 2003)

There was a time when 4A membership was considered a valuable and respected *Seal of Approval*, but unfortunately that is no longer universally accepted. And in an interesting twist of credential setting, the 4As did create a definitive set of criteria entitled “Rules of the Road for Agency Search Consultants” as published and posted on their web site. Ironically, agency search consultants are excluded from holding 4A membership, can-not pay dues, can-not vote or voice an official opinion, but are involuntarily held to standards set by an organization whose members ultimately benefit from recommendations made by those consultants.

As a trade association, the 4As is primarily an advocacy group, frequently lobbying to protect member agencies from restrictive changes in advertising regulations. Yet it appears it has not protected its members from the greatest looming danger — client doubt and distrust.

“The Fall of Advertising & The Rise of PR”

Al Ries, marketing strategist and co-author of the book “The Fall of Advertising & The Rise of PR,” argues that advertising does not have much credibility with consumers today. He believes that the power and involvement of procurement departments will only increase as businesses look for ways to save money.

In his book, Ries tells a story that reveals how people feel about different professions. He recounts the story of four nurses from New York City who died after driving off the top

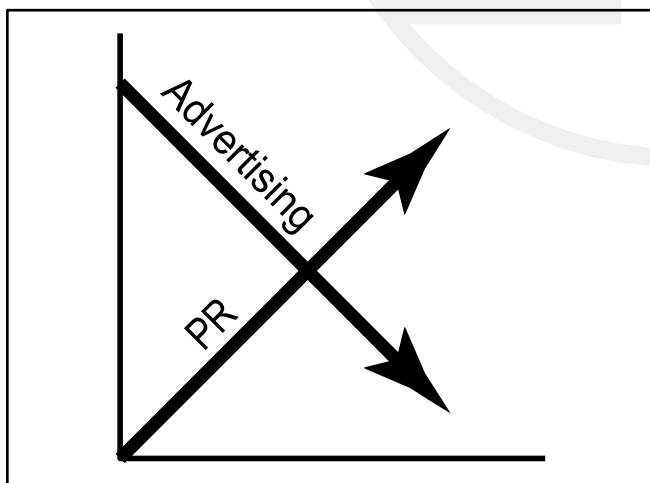


Figure 3 (Source: BPI 2003)

of a five-story hotel parking lot in Virginia Beach, Virginia. He notes that people were universally saddened by this story and that a headline in a newspaper about the funeral stated, “Angels Take Wing As 1,600 Say Goodbye.” He then asks how the public would have reacted if four advertising execu-

tives had died in a car crash. He suggests the headline, “Hucksters Go to Hell in a Honda.” He may not be far from the truth. According to a Gallup poll, advertising practitioners rank just below insurance salespersons and just above automobile salespersons in the public’s perception of honesty. As a result of this distrust, “top managers are taking a dim view of advertising,” Ries said. “They are questioning whether they should be spending all that money.”

Still Ries maintains that advertising does have a legitimate use. While Ries understands that a business cannot afford to throw money away, he agrees, “that the procurement department tends to look at everything through the lens of cost. This may result in immediate dollar savings but it misses the purpose of advertising: to buy time and space in media to keep the product in the mind of the consumer. A less expensive agency may not always create effective and memorable advertising and/or it may not be the best agency for the client.”

Can Procurement and Marketing Really Work Together?

Part of getting these two on the same page is getting them to understand each other’s frame of reference. Procurement historically has solicited vendors for price and availability proposals for goods or services defined by people in other corporate departments. Those departments created their specifications and forwarded them to procurement. Because procurement looks at a proposal primarily from the standpoint of cost, it’s not surprising they have little experience, sensitivity or appreciation for detailed communication and creative needs. But these issues can be addressed with better dialogue between the departments and with additional outside encouragement from agencies that want the client’s business.

“You have to understand the mindset of the purchasing agent,” says Ries, “Purchasing people deal in *hard* values; data, especially prices, terms, guarantees, etc. Advertising people deal in *soft* values such as creativity which can’t be measured.”

Chuck Hatsis, president of Surge Consulting, is a procurement specialist who also understands the inner workings of marketing. He stresses the need for both sides to understand that they are on the same team.

“Neither can do it alone,” Hatsis said. “Procurement can’t buy advertising and make up for marketing analysis.” And marketing often lacks the patience to deal in dollars. “When you demonstrate you can speak both their languages, you earn some respect.”

One marketing executive with a major Midwestern reinsurance company said his organization was able to teach its purchasing people about advertising and how it works. After learning more about the topic, they were able to work effectively with the marketing staff.

“We had to educate our purchasing department on the difference between hiring a creative agency and purchasing supplies,” he said. “Once they understood this, they were able to work with us.”

Are Agencies Truthful?

Advertising agencies may possess creative genius, but according to many clients, they are not very forthcoming in assessing their strengths in an objective fashion. Most agencies talk about their values. One value frequently mentioned is “fun.” According to that Midwestern reinsurance company executive, fun is not an important value in the client/agency relationship.

“So many of them talk about fun,” he said. “I don't need another friend. I want them to do my work.”

Ries said that because agencies focus on creativity, they pay much less attention to objective measurement. “It's a creative business. They would rather focus on awards as opposed to measuring anything,” Ries said.

Evaluating an agency's credentials can be complicated by the fact that some agencies overstate their qualifications, according to Rosanne Miller, Global Brand Manager for DuPont's Corian & Zodiac Surfaces Division. While Miller understands that every agency likes to publish glad tidings, she said some overstate the importance of their role in an advertising campaign, make the false claim that they are the sole agency for a client when there are several agencies serving the client, and misrepresent their current client base.

“They represent themselves as the architect of a strategy while they only implemented the strategy,” Miller said. “Or they represent they are doing work for a client that they do not have as a current client.”

But not all the blame for communication breakdown rests with agencies, according to Miller. Clients and agencies sometimes fail to develop a beneficial working relationship because the client does not clearly communicate its needs.

“An agency is only as good as the direction given by the client,” Miller said. “If you don't have good dialogue, the agency plays a guessing game.”

Agencies Where Art Thou?

In preparing for her \$25 million search to consolidate from six agencies to one, Miller discovered an Internet and off-line consulting service specifically designed for client and agency matchmaking. Miller read about Agencyfinder.com, a service of Business Partnering International, Ltd. (BPI), headquartered in Richmond, Virginia. Charles G. Meyst, CEO of Sales Marketing Institute, whose firm taught up-scale new business development techniques to ad agencies and public relations firms, founded BPI in 1997.

Miller discovered that her Agencyfinder search included preliminary on-line consideration and selection from more than 4,000 *Certified* agency offices, and then continued with extensive off-line telephone follow-up and ongoing consultation with Agencyfinder staff. The service allows a client to conduct its own confidential review, and outlines a sequence of events that includes initial agency telephone interviews, then the examination of agency materials and relevant creative samples as evidence of work-product. Agencyfinder also advocates that the initial client/agency meeting include a handful of agency tours and capability presentations. Winning agency selection is determined after agency presentations take place at client headquarters where all corporate decision-makers should be in attendance.

“For me, it [Agencyfinder.com] was very helpful,” Miller said. “Because Chuck Meyst and his people are talking with leaders in the communication field every day and because he really knows the business, he (they) is up on the latest candidates, techniques and trends.” Beyond that, Miller said Agencyfinder saved her company time and money. Since the service is paid for by member agencies, clients and consultants search for *free*.

“A consulting service like this should help separate out past or current clients,” Miller said. “They can tell you if the agency is the head agency or the support agency on a certain project.”

Meyst recognizes Agencyfinder is unusual. “In 1997, we introduced a brand-new and still unique industry concept – a no-cost agency-search consulting service based on an Internet database of registered and subsequently *certified* agencies. Our powerful search algorithms empower clients so they can define and manage their own review, selecting from top-ranked agencies in North America, both industry leaders and rising stars. Although we were doing this long before the procurement people got involved, ironically and after more than 3,300 client searches, it seems to be rather precisely what procurement and marketing need today.”

Meyst is passionate about the fact that agency creative samples and the examination of work-product take place *only* after client and agency have held an exploratory phone conversation to clarify the assignment.

Meyst cautions against relying on Internet directories that offer no consulting assistance. “Even a single misstep or inappropriately defined criteria can result in agency candidates being markedly off-target. Contacting the wrong candidates not only wastes client and agency time, but also runs the risk of announcing the client’s confidential search to the business public,” said Meyst.

“The not-so-transparent practice of “leaking” news of a search to the press is neither a scientific or quantitative way to find qualified agency candidates,” said Meyst.

Procurement people want to consider other factors in addition to price, but they do not want subjective opinions; they want objective facts. Instead of just one element (such as agency fees), a service like Agencyfinder generates a bundle of objective facts and figures that can be used to make an agency selection.

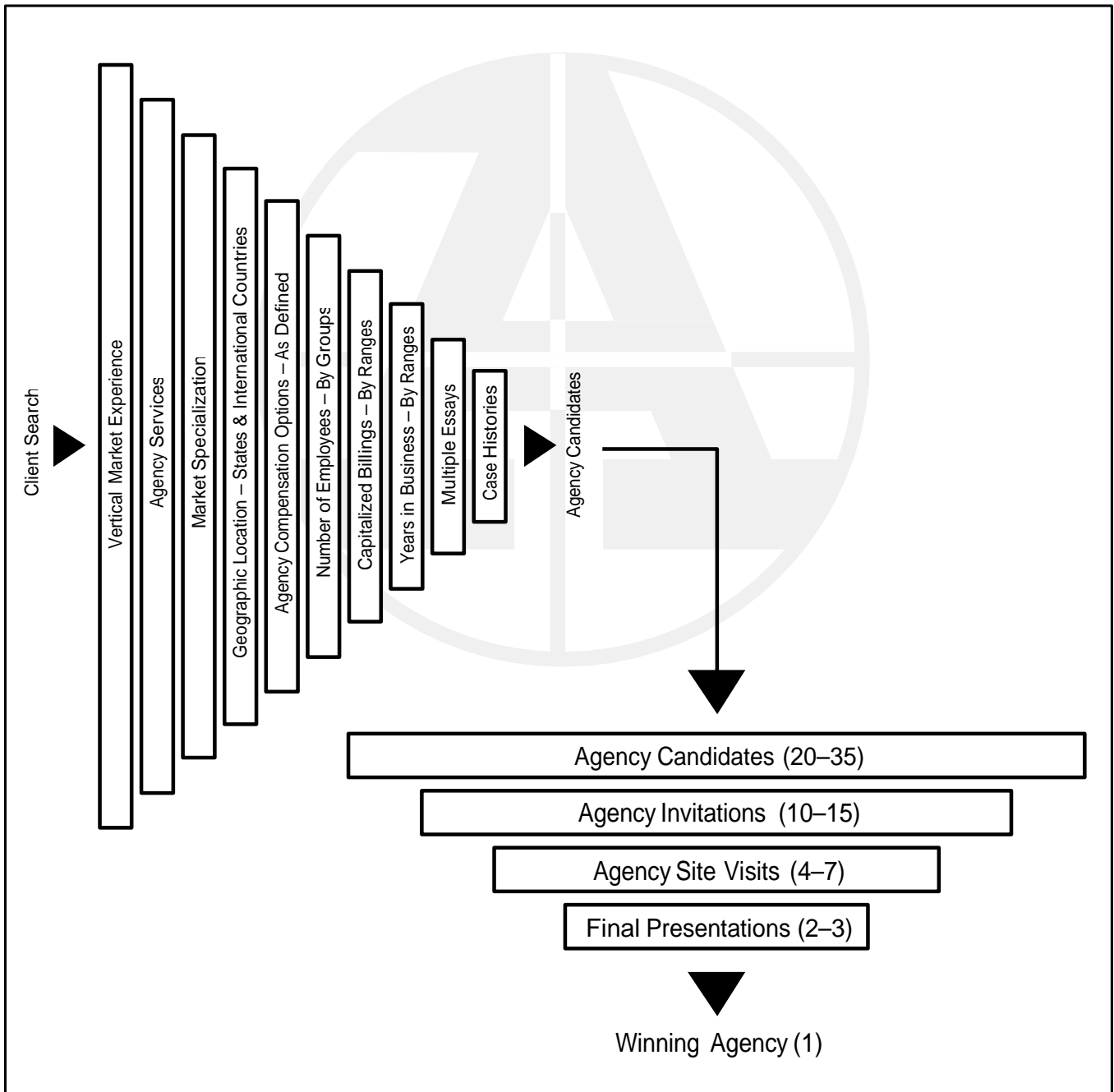


Figure 4 (Source: BPI 2003)

Show Them The Money!

While agencies may achieve a reputation for innovative advertising, procurement managers, with the backing of top executives, are still asking agencies to “show them the money.” They want to talk about value and market growth before they discuss innovation. Measuring these aspects is difficult and most advertisers admit that it is hard to quantify the impact of advertising and public relations; however, it is becoming increasingly important that agencies learn to speak the language of dollars and *sense*.

A Win For Everyone

As procurement takes control of agency selections and marketing expenditures, in-part to cut out waste in the agency selection process (in both time and effort), agencies need to

make their offerings clear and accessible. The best way is to subscribe to the most comprehensive search-system(s) in the market. But agencies will need to make the investment and take the time to enter detailed non-confidential information showcasing their experience, credentials, capacity and uniqueness. By using such systems, purchasing managers and their marketing colleagues can find the RIGHT agency at the RIGHT time and reduce the cost of the search in real money and lost opportunity costs.

Organizations where procurement and marketing butt heads will be the losers. As procurement challenges marketing for advertising and pr agency control, the industry is about to experience a major sea change. A damaging tidal wave can be avoided only if everyone has their oars deep in the water. Let it be a win/win for everyone.

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