



## “Best Practices in Bridging the Advertising/Procurement Gap”

*Excerpted From: Ad Club of New York Panel – September 30, 2009*

*In a downturn, more and more companies are looking to cut costs and spend more effectively. The CMO continues to focus on integrated marketing strategies and communications while the CPO is working to add value and strategic source service providers to help the CMO achieve success. All the more, it's time for agencies to embrace rather than resist procurement.*

**Moderator:** Alan Krinsky, Principal, Alan Krinsky Associates

**Panelists:** Agostino Colotti, Chief Financial Officer, Avrett Free Ginsberg Advertising; David Kohl, Director, Entertainment Advisory Practice, PricewaterhouseCoopers; Bill Mines, Senior Vice President of Finance, Diageo America's Supply Chain; Gunther Schumacher, Chief Operating Officer, Ogilvy Group and **Arthur Anderson, Managing Principal, MorganAnderson Consulting.**

### TOPIC:

#### **The evolving role of marketer procurement personnel in the selection and compensation of marketing services providers**

**Bill Mines:** There is a view that over the past several years, procurement has gone from being seen as a nuisance, to being tolerated and now needed. If you went back five years, procurement had no seat at the table. Now there is a three-way relationship consisting of procurement, the brand team at client and the agency.

**Gunther Schumacher:** Procurement people often suffer from the notion that they are nasty and insufferable. But they're not. They just have a very specific assignment: get me more value for the same price, or the same value for less money. It's as simple as that.

**David Kohl:** I think education in particular on the procurement side is needed. I don't want sound like I'm blaming procurement. There are some highly sophisticated individuals we've dealt with in procurement. Being able to raise the bar in understanding in procurement what it is they are procuring would help. You can't buy bottled water and marketing services the same way.

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**TOPIC:**

**Barriers to success when procurement, client brand/marketing & agency converge**

**Bill Mines:** Inevitably, with procurement and an agency, what you see on the surface is there are two competing goals. One party looking to grow income and the other is looking to extract value and drive cost down, so that can lead to tension. I think that education all around is important because what that leads to is alignment. If you have all the parties aligned on what the goals and objectives are, you're going to find it a lot easier as an agency to explain to the client what value you can bring. If you've got alignment, that's indicative of a very good relationship.

**Agostino Colloti:** I would like to see more involvement between procurement on the client side and the brand or marketing team on the client side. I feel sometimes it's better than it was years ago, but sometimes you are still arguing with two different people even though they should be on the same page when they're talking to you as the agency. You may come to an agreement with one group, and then they go talk to the other group and come back and say, "Well, now that we've spoken to them, we have an issue." Or vice versa, you can finally nail it with procurement, and then marketing changes something in the scope of work or whatever. From the agency perspective, it would make the whole process—you already have that tension going in—a lot easier if on the client side they were all on the same page.

**Bill Mines:** Quality is a big driver. One very good example I saw at Diageo is when our marketing organization decided to get into NASCAR in a big way. In the initial days, we didn't know anything about NASCAR but were relying on other people to help us understand what we should do, how to optimize the money, what are the options. I look back at our team and I can say I could not tell the difference between who were the brand people and who were the procurement people. We had a couple of procurement people who really understood what the other different perspectives were—the marketing agencies, the brand goals. They were an equal partner in every conversation. You really have to work on building that seamless relationship between all the different parties.

**TOPIC:**

**Agency Transparency**

**Bill Mines:** I think our procurement people would say they believe they have pretty good transparency over the cost of what our agencies are providing, up to the point where you talk about the fixed overhead. Then the perception would be that it's something of unknown area, that we don't have visibility into what drives that. We're moving forward...it's better than it was three years ago.

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**Agostino Colotti:** When you talk about transparency, there are certain things we will say to a client. We will talk to you about anything, but we won't talk to you about peoples' individual salaries. You came to us because you like our creative, and if you want that creative, you're going to have to pay for it.

**Gunther Schumacher:** In terms of margin, I honestly think it's nobody's business. I honestly believe that. And I would challenge anybody to say if we agree that you want to buy something from me, and if we agree that the value of what you want to buy from is good enough to buy it from me, we can talk about cost and compare cost. It should be competitively priced. But if I make a profit of five, 10 or 40 percent, it shouldn't really bother you one way or another. If you have a way to establish that it's competitively priced, whether by the scope of work or some secondary or tertiary measurement, I don't see what margin has to do with it, the same way I don't see what it matters what any of us make or where we live. It's really about what does the work do for you as a client, and do feel that the comparative cost of the agency is fair. And we have clients, by the way, where I can read in their annual reports what their margins are, and I can tell you we're not anywhere close.

#### TOPIC:

#### Cost vs. Value

**David Kohl:** We like to break down the activities that agencies perform and separate them into two categories: commodities, or things where it is possible to push down the cost, and services from agencies that are of higher value and more creative. The first category I'll call below the line. These are transactional, like printing, shipping, buying research from third parties. With agent clients, we say, "Let's appeal to traditional procurement mindset of documenting that we're taking down these costs." Above the line, where there's more creative activity, let's build the dialogue and educate the client as to what drives value on a more discreet level. For example you might want to identify the value a particular illustrator brings to the creative process, or a particular film director, and define that in a way where you can show that even though you are now driving cost down, you are driving value up.

**Arthur Anderson:** We were very concerned about three to four years ago that everything became so cost-driven as procurement came into the picture. It was very hard to talk about anything but costs. So we saw ourselves as mediator to get the right kind of dialogue going. The way we did it, and it has been successful, was to get marketing involved with procurement. We tried to shift the discussion not solely away from cost, because that's important, but more into the objectives and the scope of work. And procurement has not been prepared to do this unless it's a very senior and experienced procurement person. As far as scope of work, a lot of clients are atrocious in this area. If we can bring meaning to the scope of work, then we can have a discussion on the resources needed, the quantity and the level of talent. We can take a best practice scope of work and through benchmarking independently attribute a staffing plan to that within certain parameters. All of this means we have a dialogue about things other than

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just cost. This approach raises the level of the discussion and brings the marketing and procurement people into alignment so there can be collaboration with the agency.

**Gunther Schumacher:** One of the problems with incentives is, let's be honest, that talent is expensive. The creative talent we deal with are rock stars. You don't get a rock star and say, "Here's your bill. Now, we're going to pay you a certain amount which is not very attractive, and you won't be able to pay your mortgage and send your kids to school, but you'll be able to buy a fast-food meal twice a day. And if you can prove that what you do is actually successful through some not very clear metrics, then you're going to get a bonus, and ultimately you're going to be rich." You're not going to get a single rock star to work for you. And you're certainly not going to get a very impactful creative person to work for you. We like incentive-based pay, but the key is what you measure it on and where you set the base bar. And if you set that bar painfully low at the outset, agencies should say, "It's not worth it to us."

#### TOPIC:

#### **Creatives and the creative process**

**Arthur Anderson:** The talent pools that agencies provide are unique. You can't find it any other place. There's absolutely a cost to that. The care and feeding of the talent has to be paid for, and that's the most value resource that the agency is going to provide.

**Gunther Schumacher:** The creative process is chaotic. It's like giving birth to something. It's painful. If you've ever worked on a global brand launch campaign, it's extremely painful, but it may be very rewarding and impactful. By the way, some people don't think creatives have a financial sense in their bodies, but they do. They want to feel that clients value them. But if we have a client negotiation and the client is really hard on you—"You should not make all this money, whatever 'all this money' is—then our creatives will get insulted and say, "If the client doesn't value me enough, I don't want to work on their business."

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Should you wish specifics of the study or to learn more, please email Lee Anne Morgan at [lamorgan@morgananderson.com](mailto:lamorgan@morgananderson.com) or Arthur Anderson at [aanderson@morgananderson.com](mailto:aanderson@morgananderson.com).

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