

## Sourcing and Managing Marketing Agency Spend

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**Abstract.** Marketing agency relationships and supplier decision making process are still largely owned by marketing professionals rather than procurement. However, some procurement organizations have started influencing marketing decision-makers and impacting direction for supplier selection and cost. This requires a careful analysis of spend and supply base, organization, roles and responsibilities, understanding marketing stakeholders needs and goals and communication messages that are not too focused on cost reduction. Some of the tools that can be used are:

- Stakeholder mapping
- Spend and supplier analysis, first tier and second tier
- Market analysis: Porters 5 forces, supplier preferencing, SWOT
- Opportunity analysis: options generation
- Case studies, best practices and success stories

Once marketing has bought into the idea of procurement involvement, there are multiple ways of sourcing marketing and agencies spend. An opportunity analysis typically outlines the impact and difficulty of certain commodities, and this information can be used for creating project, commodity and source plans for marketing spend. It is also important to break spend down to manageable buckets that are easy for marketing stakeholders to understand. Competitive bidding is a good way to drive cost reduction and consolidate supply base, but there are other methods to reduce cost such as putting rate cards in place with key suppliers, negotiating payment terms, agreeing how to handle pass-through costs and rebates and capping travel and entertainment related expenses.

There are also various tools for managing suppliers once supply base is consolidated. It is important to focus on managing leverage across the organization by improving business processes transparency, providing training for marketers and suppliers and ensuring that tools and templates provided are available across the organization. Relationships with the suppliers can be managed, outside day to day efforts, through supplier rating systems, quarterly business reviews and commodity councils. Post-transactional audits are another tool for managing supplier compliance to agreed terms and conditions.

**Selling Procurement Value Proposition.** The first important step in selling procurement value proposition to marketing organization is to understand their business. Marketing has very different goals than procurement, so selling the idea of cost reduction does not necessarily resonate with marketers. Procurement needs to learn marketing language, understand their challenges and goals, organization and interdependencies and build a business case for

involvement that will support those goals. For instance, marketing organizations typically have challenges in managing their suppliers, so building processes around supplier management and procure to pay process would be considered value adding by marketers.

It is important to start off with a stakeholder map. It is critical to understand roles and responsibilities within marketing organization in order to influence the right decision makers. Facts and data are valuable tools when influencing internal stakeholders and that is also true in marketing. Spend and supplier analysis combined with market analysis (Porters 5 forces, supplier preferencing, SWOT, market trends) gives bigger picture understanding to different teams. Practical examples of how procurement can contribute are also useful as marketers sometimes struggle to understand how and when to use procurement. Opportunity analysis and options generation should not be focused on cost reduction but rather on business process improvement, training and education, creating leverage by consolidating supply base and supplier performance management. Cost savings will be realized through these efforts. It is important to assure marketers that cost reduction does not necessarily reduce their budgets but creates more “bang for their buck” without jeopardizing the quality of creative content.

Once there is buy-in to the plans, regular reviews and reinforcing messages are critical. These activities are not necessarily key priority to marketing, so they need to be reminded and educated every step of the way. Procurement needs to be responsible for communicating the message on every level of the organization, and persistency typically pays off.

**Sourcing Marketing Agencies.** Marketers are typically comfortable with procurement sourcing non-strategic spend areas such as promotional items, collateral, web development, tools, training and any non-creative work. This is a challenge for procurement, as the largest spend is typically with agencies responsible for creative work. Marketing agencies can be grouped in following categories:

- Creative (agency of record)
- Media
- PR
- Interactive
- Sports and entertainment
- Event management
- Research
- Brand

This categorization can be used for sourcing and managing suppliers. Typically different marketing organizations within corporations are using their preferred agencies depending on the business unit, region or country. Supplier selection process is very relationship driven and these relationships typically follow marketers from one company to another. Internal survey of agency satisfaction among marketers helps understand the relationships and level of satisfaction with each of the agencies. Survey can also help uncover situations where certain agencies have not been used in a while and others that marketers no longer want to use.

Creating an agency council with cross-functional participation (Finance, Legal, Procurement, and Marketing) can facilitate decision making around which incumbent agencies to use, which areas could be bid out and which agencies to delete from the roster. Roles and responsibilities within council should be agreed up front using for instance RACI methodology.

R = Responsible  
A = Accountable  
C = Consult  
I = Inform

Depending on the competitive situation, several tools and techniques can be used in sourcing and/or managing agency spend. In case of competitive bidding eRFP's or eAuctions are viable tools even when bidding creative content. RFP typically addresses pricing, terms and conditions together with a description of creative content. Creative element is then further reviewed in presentations that few chosen suppliers are invited to give. It is critical to build a decision-making team and criteria matrix for proposal evaluation and documentation. The criteria could for instance be: cost, quality, flexibility, service and creative content. Once decision is made, it is important to consider how the results are communicated inside the company and what kind of mechanisms will be put in place to transact with the supplier. One approach could be putting together a Master Services Agreement (MSA) including rate cards, volume incentives, rebates and global terms and conditions. Rate cards outline hourly/daily rates per role. These rates can either be fully loaded, or broken down to a cost plus model. In cost plus model customers see all cost elements and agree on an administrative mark-up percentage and profit percentage.

It is critical to negotiate markups on pass-through costs, passing on second tier rebates and discounts, what is taxable and what is not, travel and entertainment limits/caps and payment terms. Some companies also negotiate incentive-based contracts with agencies. From legal perspective it is important to agree on IP and documentation ownership, confidentiality, competitor clauses and liabilities. Marketers also need to be aware of who is authorized to sign contracts on behalf of the company.

Individual projects can then be documented with Statements of Work (SOW) or signed quotes using agreed rate cards. Suppliers would then invoice based on each SOW. Another alternative is to set the agency on a (monthly) retainer, but that approach is typically not very transparent in terms of cost and work completed.

In case competitive bidding is not an option, MSA's together with rate cards can still be negotiated with incumbent suppliers. This enables faster transacting, leverage and transparency to work the agency is performing. Suppliers need to be educated on Procure to Pay process, significance of Purchase Orders (PO), invoice details and payment practices. Procurement can play a key role in managing leverage and compliance to agreed processes and preferred suppliers through PO process. Proactive reporting on leverage, spend and ongoing projects to the council will help increase marketers comfort level with Procurement and move agency management to a more objective direction.

**Supplier Management.** Once preferred suppliers have been selected, agency council needs to focus on managing supplier relationships and performance. First of all it is important to tier suppliers according to their strategic importance, criticality and spend. All supplier management activities should apply to tier 1 suppliers, selected activities to tier 2 and no activities for tier 3. These are some basic guidelines to manage main suppliers:

- Business reviews
- Supplier rating
- Measuring and reporting Key performance indicators (KPI's)
  - Supplier diversity spend
  - Quality
  - Service and flexibility
  - Creativity
- Post-transactional audits
- Contract reviews

It is important to agree supplier relationship managers for each of the key suppliers. Relationship manager needs to be responsible and accountable for organizing reviews, managing KPI's, ratings and reporting on supplier performance. Post-transactional audits are a good tool to manage compliance to contractual terms and conditions, improve business processes and recover possible overpayments. These audits can be organized either once or regularly and there are multiple audit agencies available on a contingency basis.

**Commodity Strategy.** When commodity team is comfortable with its role and basic work has been completed in organizing and managing spend, it is time to start looking into managing marketing and agency spend as a commodity long term. A strategy needs to be created for overall marketing expenditure and supply base focusing on all areas of spend. Issues that need to be addressed in commodity strategy depend on industry and company, but there are some general areas that all marketing commodity strategies need to address:

- What to buy direct and what to buy through agencies
  - Print
  - Media
  - Collateral
- Single or multiple sources; global, regional or local suppliers
- Where to build leverage and where give free reign to marketers
- Business process for engaging with suppliers end to end
- Short and long term supplier and cost management strategy
- Marketing strategy linkages to commodity strategy

It will take time and effort to introduce and implement the idea of commodity strategy within marketing. However, once done professionally, it will be a valuable tool in communicating the direction that has and will be taken with the supply base. Individual projects, proactive or reactive from procurement perspective, are then used to execute to the strategy and managed as a portfolio under the commodity strategy.

**Communication and Training.** It is critical to communicate new business processes, strategies, success stories and supplier performance metrics within the organization. This can be done in staff or team meetings, using newsletters and in marketing road shows. All new contracts and pricing information needs to be shared with relevant individuals worldwide to ensure leverage. Suppliers also need to be informed of the changes so that they can comply to and benefit from business process improvements.

Procurement staff needs to keep up to date with what is happening in advertising industry and within marketing department. Soft skills development is important to enhance staff's selling, persuasion and influencing skills together with marketing understanding. Procurement needs to stay flexible and respect the fact that marketing goals are typically very different from procurement goals. With collaboration, prioritization and flexibility both organizations goals can be met while bringing value and competitive advantage to corporations.

## **REFERENCES**

### **Web site references:**

[www.psc.executiveboard.com](http://www.psc.executiveboard.com)

Best practices in marketing sourcing from multiple companies including AMD Inc.