

# Managing client-agency relationships

R3 aims to help companies obtain better returns on investment from marketing decisions

BY DARYL LOO |

During the height of the dotcom boom not so long ago, obscure Internet start-ups like Lifeminders.com, OnMoney.com and OurBeginning.com were willing to pay as much as US\$3 million (S\$5.2 million) for a 30-second advertising slot during the telecast of the American football championship, the Super Bowl. In some cases, the bill for the one-off commercial spots came up to several times the company's annual revenue.

The years of irrational advertising budgets such as these are unlikely to be repeated anytime soon. With the economy in the doldrums, and companies more concerned over the bottom line than how many people watch their commercials, it's inevitable that advertising and promotions budgets are shrinking.

Companies are paying much more attention to how their advertising dollars are being spent, and whether they are getting the best value for them. However, unlike returns from investment in property, for example, that from advertisements is difficult to quantify since consumer reaction is an intangible.

This is where R3 Asia Pacific, a consultancy set up last August, comes in. R3 — which stands for agency relationships, remuneration and reviews — wants to help its clients to find the advertising agency that best suits their needs, decide how much to pay it for its work and to review the quality of its work.

"We see that Asian marketers have a real need for help in the appointing of their advertising agencies," says Greg Paull, one of the two principals of R3. "In the last five to 10 years, many major advertising agencies have gone public and thus have become more beholden to the market than to their clients."

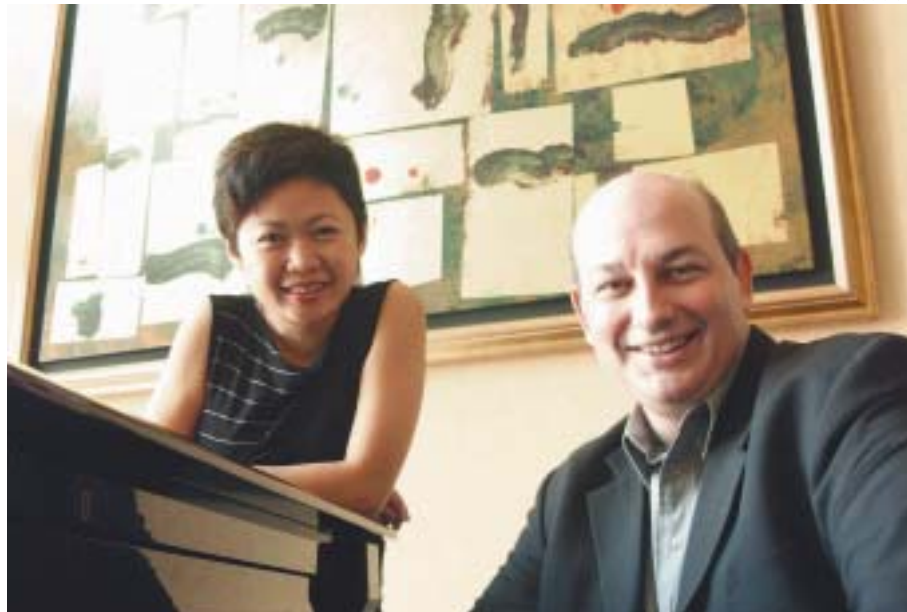
Goh Shu Fen, the other principal, adds, "When this happened, agencies became more internally business-focused, rather than client-focused. This is bad for the clients because they have needs beyond just having the agencies produce ads for them. Thus, a strong client-agency relationship needs to be cultivated."

With almost three decades of advertising industry experience between them, Goh and Paull feel that they are in a good position to advise their clients. Paull has 18 years of agency experience in Asia, having worked on brands such as Nokia, Audi, Microsoft and American Express. He was most recently the Asia-Pacific head of integrated marketing agency DraftWorldwide.

Goh has 10 years of agency experience with local and regional clients from a Singapore base, and was most recently the new business director of M&C Saatchi Singapore, winning clients such as BMW Asia, Coca-Cola and M1.

With offices in Singapore and Hong Kong, R3 plans to start off by focusing on clients in Singapore, Malaysia and Hong Kong. It is working in affiliation with Jones Lundin Beals (JLB), a US-based client-agency relationship consultancy, whereby it will have access to proprietary JLB agency search, compensation and relationship tools. In return, JLB, which was established in 1972, has taken a majority stake in R3.

In agency remuneration, JLB has developed tools that can assist the client in areas such as compensation negotiation for new



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agency relationships, analysis of existing relationships and the evaluation of performance incentives remuneration. For agency relationships, it uses relationship management tools such as the Client Agency Performance Evaluation toolkit, which is designed to provide feedback and diagnostics on all aspects of the productivity of the relationship.

"With these tools, we will be able to provide insights to our clients that can help marketers find the right agency, pay the right amount to them and keep these agencies for the long term," says Goh.

R3 also believes that it will become a trend for more companies to move towards paying their agencies fees for their work, rather than a commission. Currently, most companies in Singapore are practising the latter.

The main difference between the two modes of payments is that the former is based on the size of the campaign (usually referring to the number of media where the campaign is run), while the latter is directly related to the labour that is put into it.

"The problem with paying commissions instead of fees is that there is a lack of transparency as to what the agency is getting," says Paull. "In some cases, agencies are getting a windfall, but only the agencies know whether they're getting more than they should be."

R3 recently paid market research firm Saffron Hill to conduct an Asian Agency Compensation Research, surveying 105 of the top marketers in the region, 36 of which were from Singapore. The survey found that 26 per cent of Singapore advertisers pay their agency on a fee basis, compared to the US, where the number was 68 per cent when the survey was last done in 2000. However, Paull feels more companies here are beginning to adopt the payment methods of those in the US.

R3 is mainly targeting clients with sophisticated marketing strategies such as multinational corporations as well as government agencies. Thus far, it has worked with global brands such as Coca-Cola, Heineken, Microsoft, Kellogg's and BMW. For example, it was tasked by F&N Coca-Cola (which manages the Coca-Cola brand in Singapore) to help identify an advertising agency.

"We went out and we met with 10 different agencies that we thought could be a good match for the client, and then we came up with our recommendations as well as helped with the final evaluation," says Paull.

to work on an exercise, and then evaluate how much chemistry they have working together."

This is usually done during the final round of the agency search and involves the last two agencies pitching for the account. "It is very critical for the client to make the right decision here because these client-agency relationships could last from five to 10 years," says Goh.

R3 also aims to hold marketing training seminars where it can impart its client-agency relationship expertise. According to Goh, R3 spent 1½ days training senior- and mid-level Kellogg's marketing executives on how to obtain greater returns from their

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For R3, this job scope falls under the area of agency review, which it implements using a four-stage process:

- i) identification — where key issues and expectations are agreed upon;
- ii) assessment — where agencies are initially evaluated and short-listed;
- iii) assurance — where the preferred partner is identified; and
- iv) conformity/accountability — where the compensation and relationship terms are agreed upon.

"An important part of our evaluation is to conduct a chemistry test for the client and an agency under review," says Paull. "We leave the two parties together for two hours

marketing investments, as well as giving them a better idea about how the advertising industry works, and the trends that are affecting it.

R3 charges between S\$30,000 and S\$50,000 for each pitch that it handles for a client, depending on the size of the pitch. According to Paull, this is a small amount for a company to pay compared with the savings that R3 could bring. "It could cost a client as much as S\$100,000 in man-hours to handle a major pitch, where they typically meet about 10 agencies," says Paull. "We're able to help our clients narrow down the agency pitches to three or four, streamline the entire process and help them control their costs." ■