Organizing For an Agency Search

By Brian Goodall, General Manager, R3:JLB New York

What's Inside?

Overview: Look Before You Leap

Deciding whether or not to conduct an agency search is no small challenge for a marketer. Marketers should use caution before entering into an agency search, as it is, without exception, a time-consuming and potentially disruptive process.

Many factors have to be taken into consideration before a search can commence: costs to the marketer, interruption of marketing communications, the potential of jumping into a search process and ignoring the underlying problems that precipitated the search, potential damage to the marketer's reputation, whether to hire a professional search consultant or not, identifying and freeing up the time of an agency search team, establishing a search architecture and timetable, thinking through the marketing budget and agency compensation parameters, formulating a tight agency scope of work, establishing precise agency screening and selection criteria, and working out internal and external communication strategies as they relate to the search process.

All these matters must be sorted through before a search process can commence and before there can be any outreach to potential agency contenders.

The First Order of Business: Establishing the Team

To begin the search process, a committee or a team of client executives who will be responsible for the process need to be identified. Typically, this is a team of as few as three or as many as eight or so individuals who will have a stake in the future agency relationship. They are generally selected because they have some particular expertise that will be helpful to the process. These individuals also need to have the time and commitment required to actively participate in the process (which can take four to six months). As for the size of the team, good judgment should prevail. It is critical to have the participation of all key internal constituents who will interact with the new agency. However, when it comes to committees, bigger is not necessarily better. Of course, there is always an exception to every rule.

Industry Case Study

Several years ago, R3:JLB conducted a search for a trade association with 25 board members from across the country. By necessity, all 25 board members were designated as search team members. While this would typically be an unwieldy number, the process worked beautifully. It benefitted from search team members who took their responsibilities seriously, a search team leader who had a firm hand on the tiller, and a very disciplined, consultant-led process.

Once established, the search team will need to select a leader or point person to oversee the entire process. This person will lead the search, call and chair the meetings, document the decision-making, report on progress to senior management, define individual team member roles, manage the timetable, and field agency and press inquiries.

The team leader could be the person who originally championed the decision to conduct the agency search and/or the person who is best qualified to oversee the process. This could be a vice president of marketing or advertising, a procurement executive who has responsibility for sourcing agency partners, or a senior brand person who will be the agency's primary point of contact. If the decision was made to hire a professional search consultant to assist with the search, then the consultant could also potentially serve as the team leader.

Typically this agency search committee is expanded in the last stage of the search to become the agency selection committee that will make the ultimate decision after the finalist agency presentations are made. This expanded committee generally includes the entire search team plus a handful of senior client executives such as division heads, the company president, the COO, senior procurement personnel, etc.

Establishing a Budget and Compensation Parameters

When agencies are approached for consideration, one of the first questions they will ask is: "What's the budget?" It may seem unseemly for an agency to kick off the dialogue with that question, but it's a fair question because the budget immediately signals to an agency if this is a "big" opportunity or a "small" opportunity. A big opportunity is likely to be visible and generate substantial revenue for the agency. A small opportunity will be less visible (i.e., less of an opportunity to do work that will showcase the agency's talents) and less of a revenue generator.

These are legitimate business considerations for an agency when deciding whether or not to participate in a review. Unless the marketer's business is incredibly prestigious for one reason or another, all agencies are going to want to know what the client's general budget is before they commit to participating in a search. The client's answer regarding the budget will trigger a host of questions that the agency must ask itself, including:

- Can we afford to handle a business of this size?
- Do we have the resources to handle a business of this size?
- Will we have to staff up to handle the business, or can the business be handled with existing personnel?
- Is this an opportunity to do such strong, showcase work that the budget is secondary?
- Does this budget suggest that the client is serious about marketing?
- Does this client value the contributions that we can make?
- Is this client's budget consistent with our business priorities?
- Can we afford to pitch this business with our current resources?
- Is this business likely to be a growth opportunity for us?

Therefore, marketers need to provide agencies with some general, realistic budget parameters that will define the overall scope of the agency assignment. Refusing to provide budget parameters will cause some agencies to decline to participate.

Also related to the budget is the question of how the agency will be compensated. This information advances the ball potentially beyond “client budget” to “agency revenue opportunity.” A large marketing budget does not necessarily translate into a large agency revenue opportunity, and conversely, a small budget does not necessarily dictate that the agency hired will be paid poorly. It’s the client’s agency compensation policies that will determine the revenue opportunity for the agency. And it’s fair for agencies competing in a search process to have a sense of the marketer’s policies and preferences at the start of the search process.

If the marketer has a preferred compensation methodology, it is best to disclose that information upfront. Or, if the marketer has a finite amount of money they are willing or able to pay their agency, that number should be revealed. Again, this input will automatically qualify and disqualify agencies in terms of their interest.

Often marketers are not locked into a compensation methodology. They will want the finalist agencies to make proposals based on their own preferred methodologies. This can signal to agencies that the marketer is flexible and open-minded on the subject of agency compensation—traits which most agencies will find appealing.

It is very important for the marketer to think through budget and compensation parameters before there is any agency outreach. It’s better to air this fundamental information early on in the process, rather than have it come up late and result in agencies dropping out at the eleventh hour.

Formulating the Statement of Work

The agency statement of work (SOW) is a tight, detailed description of what the agency has to do for their client during the course of the marketing year. For the purposes of the review, the SOW should describe what the agency needs to deliver during the first year of a new client/agency relationship.

The SOW is a critical document because:

- It creates consensus in the client organization about the role of the agency.
- It manages competing agencies’ expectations about the client’s needs.
- It is the document that the finalist agencies will use to develop their compensation proposals; i.e., they will price the SOW.
- It may become the basis for the agency’s annual performance evaluation. (For example, did the agency deliver on the SOW?)

> “There is no way we could have successful relationships with our agencies without tight SOWs in place that articulate what we expect from our agencies. The SOW becomes the basis for how we compensate our agencies and how we ultimately evaluate them, and it’s a critical tool we use to vet agencies when we conduct a search. We take the SOW very seriously.”
>
> **Steve Roesel**
> **Director, North American Procurement**
> **GlaxoSmithKline**

Most clients produce an annual SOW document for each of their agencies. However, if the client does not have one in place, it must be created for the purpose of soliciting compensation proposals from the finalist agencies in the review. Without the SOW, the client has no basis for comparing the competing agencies' compensation proposals.

The compensation proposals received from the agencies will be as reliable as the SOW they are given. Err on the side of detail when creating the SOW by including:

- A summary statement of how the marketer views the role of the agency, and the marketer's expectations for how the agency can add value to the client's business.
- Agency departmental/discipline service deliverables, such as account management support, creative development, account planning, research services, traditional media planning, traditional media buying, digital media planning, digital media buying, digital metrics and accountability, SEO, social marketing, etc.
- Expectations for the level of senior management involvement.
- To the extent possible, indicate any mandatory staffing deliverables by each discipline, such as one full-time senior account manager, one full-time account supervisor, 50% of two junior account executives, 50% of one senior planner, etc.
- Identify all known first-year agency deliverables. For example, this might include an updated consumer segmentation study or a brand's quarterly tracking study, four consumer focus groups, the annual marketing plan document due on March 1, or four TV commercials. No amount of detail is too much. Knowing the timing for each deliverable will be helpful as the means of calculating the ebb and flow of required agency service/staffing.

Establishing the Search Timetable

The timetable is critical, as it will determine what can and cannot be accomplished during the course of the review process and which agencies will be able to participate.

The timetable is typically dictated by some important milestone that looms on the horizon, such as the annual sales meeting where the new agency needs to be introduced or the commencement of the annual marketing planning process that requires the agency's involvement.

Ideally the marketer will allow 14 to 16 weeks for a thorough search process to take place. The timing for that might look like this:

Organizing for the Review	2 weeks
Defining the Agency Screening Criteria	2 weeks
Researching Potential Agency Candidates	3 weeks
The Agency Credentials Meetings	3 weeks
Finalist Agency Challenge and Selection	6 weeks
Total:	**16 weeks**

Resolving the Knotty Issue of Ownership

If a marketer is asking the agencies participating in a search to present speculative creative, a decision will need to be made about who owns the work presented during the course of the search. In almost all cases, the marketer chooses the winning agency, and the losing agencies go home with the work they presented. However, occasionally a marketer will stipulate that it owns the work presented by all of the agencies that participated. The marketer's rationale for doing this is that the agencies have been given confidential client information on which their work was based, and the marketer doesn't want that work presented to a competitor. Also, since different agencies will sometimes present similar work, the marketer needs to be protected against accusations of "stealing" a non-winning agency's work.

Almost without exception, a marketer that makes this ownership stipulation will be met with strong resistance from agencies, who will refuse to give away their intellectual capital without being compensated. And the marketer may become the subject of a barrage of critical trade press for making this stipulation a condition for participating in the review.

Case Study

In early 2011, a major national advertiser initiated a review for its $500 million advertising account, requiring all participating agencies—whether they won the business or not—to relinquish ownership of all materials and ideas presented in the review process. Four potential agency contenders that were invited to participate refused to meet this ownership stipulation and took themselves out of contention. These four agencies missed out on a major opportunity, and the advertiser lost four qualified contenders in what was probably already a narrow field given the size of the account.

Marketers who make this stipulation will likely lose potential agency contenders, so they should think twice before they make this a condition for participation. A possible solution is to pay all the agencies for participating in the review in return for ownership, or, after the fact, to negotiate with a losing agency to pay for a specific idea that was presented. However, it is unlikely that a marketer will pay the losing agencies enough to induce them to turn over their intellectual capital to the marketer.

Working Out a Communication Strategy for the Search

There are a number of communication considerations that need to be thought through before the search commences, including:

1. **The marketer needs to determine when the incumbent agency will be told that their business is going to be put into review.** This is not news that the agency should hear about through the grapevine or learn about on the Internet. And at the time the agency is informed, they should be told whether or not they are invited to defend the business by participating in the full review.
2. **The marketer should craft a concise statement that summarizes the reasons why the review is being conducted.** This statement should be concurrently and consistently disseminated to all constituents who are in a need-to-know position, including the incumbent agency, the client's internal constituencies, the client's other marketing agency partners, the press, and so on. The statement should also communicate when the review is going to commence, when it is expected to conclude, and whether or not the incumbent agency will be invited to participate. By disseminating one concise statement to all interested parties, the marketer will fend off unnecessary and time-consuming inquiries.

3. **The marketer should designate a spokesperson to which all inquiries should be directed regarding the decision to conduct the review and the particulars of the review process.** This person is typically a corporate communications executive, the designated search process team leader, or the search consultant. This person needs to be chosen carefully, as there could be literally hundreds of agency inquiries to be fielded.
4. **Ideally, precise agency screening criteria will have been established before the review is made public.** These criteria will be used to diplomatically and objectively inform agencies if they don't meet the screening criteria.

Establishing the Agency Screening Criteria

The development of precise agency screening criteria is one of the critical first steps in the search process. Without precise screening criteria, the marketer will waste a lot of time looking at agencies that don't qualify for the assignment, not to mention waste the time of countless unqualified agencies that have no likelihood of prevailing.

Marketers should take into account the following criteria when screening agencies for consideration:

1. **The nature of the agency relationship.** Is this to be an on-going, retained agency-of-record (AOR) relationship, or is this a project-only agency relationship for which the agency will be brought in and out on an as-needed basis? Is this an exclusive agency relationship or will the agency tasks be shared by more than one agency? The answers to these questions will influence who the marketer considers and which agencies will choose to participate.
2. **Disciplines required.** For a full-service advertising assignment, the disciplines required may include some combination of marketing counsel/account management, strategic planning, business analytics, account planning, research services, creative development, creative execution, media planning, media buying, promotion marketing, design, and interactive/digital marketing services, among others. For other types of agency assignment, the requirements will be different.

   Without internal consensus around the required disciplines, it is impossible to properly vet agencies for consideration.
3. **Agency ownership.** For most clients, agency ownership is not a critical selection criterion. As long as the agency can deliver on the client's service requirements, ownership is not typically an issue. However, a client should think about whether agency ownership matters, because:
   - Some clients value the perceived independence and entrepreneurial spirit of a privately held agency.
   - Some clients may have had a good or a bad experience working with an agency that is owned by one of the major holding companies.
   - A client may have limited marketing requirements from its agency right now, but may feel the need to hire an agency that can "grow;" a holding company agency may be the solution.
   - A client may not be comfortable working with an agency owned by a company that does business with its competitors.
4. **Geography.** Is this a global, national, regional, or local assignment in terms of the marketing geography? Do you need an agency with knowledge of a specific geography or do you need an agency whose marketing reach is national or global?

   Do you care where the agency's office is located? Is it important for your agency to service your business from an office in close proximity to your own, or is agency geography of no concern to you?
5. **Agency size.** One way or another, agency size is a matter of concern to most clients. Often there is a direct relationship between the size of an agency and the breadth and depth of that agency's resources. Therefore, the client's service requirements can drive the decision about whether to hire a large or a small agency. Size can also play an important psychological role in the client/agency relationship. Does the client prefer to be a small client in a well-resourced large agency, or does the client prefer to be a large, relatively important client in a smaller agency?

The size issue manifests itself in other ways as well. A large, well-resourced agency may not be a "good" agency or the "right" agency for a whole host of reasons. And while some smaller agencies may not have the resources of a larger one, some smaller agencies can be considered "best of breed" in terms of particular capabilities.

6. **Specific skill sets.** These may be as broad as the required marketing disciplines described above, or they could be as specific as expertise in new product introductions, brand positioning, shopper marketing, or retail capabilities. They may also include skills or capabilities that cut across various marketing functions, including quick turnaround on projects, out-of-the-box creativity, pro-activity on new business opportunities, or budget stewardship.

7. **Category experience.** Many marketers want their agency to bring specific category experience to the relationship. Banking clients may want prior financial services experience, food marketers might want consumer packaged goods experience, retailers may want retail marketing experience. Or the reverse may be true. Some marketers might want an agency that hasn't had experience in their category in the belief that it can bring fresh thinking to the company and the category.

"The process of thinking through our agency screening criteria was critical to the success of our search process. We spent a lot of time in the upfront thoroughly and specifically defining our criteria. The result was that we ended up seriously considering only four agencies. Each of them provided the capabilities we needed and we ended up threading the needle in terms of the agency we ultimately hired. We were able to both efficiently and effectively move through the search process, ensuring no one's time was wasted."

take care health systems

Heather Helle
COO
Take Care Health Systems

8. **Conflicts.** The matter of agency "conflict" is often tricky. It's in the self-interest of agencies to view the issue of client conflict liberally, while clients are likely to view it more strictly. There are no hard and fast guidelines for what constitutes an client/agency conflict. However, it's fair to say that if an agency's handling of another client or brand is going to make the client uncomfortable for any reason, then it will likely be considered a conflict and a reason for eliminating an agency from consideration.

   Client conflicts have become a bigger issue over time, given the significant consolidation of business on both the marketer and agency sides. As large corporations have become larger by acquiring new businesses and brands, and as agency holding companies have become larger through the acquisition of new agency brands, the potential for client conflict has increased.

   Almost without exception, a client will not allow its agency to handle business for a perceived competitor. What constitutes a competitor and what doesn't can be in dispute, but this is a dispute t hat the client always wins.

   With the above in mind, marketers should carefully consider what defines a competing product or service. Conflicts can be defined any number of ways:

   - Very tightly around a particular product, service, or category. For example, a juice marketer would obviously not want its agency to work for a competing juice company and brand.
   - More broadly defined by similar products or services. The same juice marketer from the previous point might choose not to work with an agency that handles other drinks that compete with juices.
   - Even more broadly. For example, if the juice marketer also markets other foods and beverages, it might choose to avoid an agency that handles another client that competes in any of the marketer's categories, even if the agency does not work on other juice products.

There are also other situations that can crop up to create a perceived conflict. For example, a product marketer might eliminate an agency because that agency handles a retailer that prominently features and/or supports a competitive product. Or, a health care client might choose to not work with an agency that handles a cigarette account.

The more broadly a marketer defines competitive conflict, the fewer the number of agencies there will be to choose from.

All the above considerations should be taken into account to compile a “job description” for the agency being sought. This can be a useful document to distribute to internal constituencies and even to the agencies under consideration. This job description describes the agency that will have ideally been hired at the end of the search process.

Conclusion: Think It through

In order to have a successful search process, the marketer’s search team will have to sort through a host of critical considerations before the search process can commence. “Sweat the details” before there is any agency outreach and you’ll be rewarded with a smooth process and an outcome that meets the precise objectives of the organization; pay short shrift to the details and you’ll pay a heavy price.

About the Author: Brian Goodall

R3:JLB is a client-agency relationship consultancy dedicated to helping marketers improve the value and performance of their agency relationships. The firm has 30 consultants located in Chicago, New York, Miami, Beijing, Singapore and Delhi. Their primary practice areas include agency compensation, agency search, and agency relationship management.

Goodall joined R3:JLB in 2004. During his 30-year advertising agency career he served in various Account Management and Senior Management positions in prominent Chicago and New York City agencies. He has served on the board of the American Association of Advertising Agencies and on the National Advertising Review Board.