

PROCURE ME THIS, BATMAN

Make no mistake, the fastest growing trend in the client-agency relationship is that of procurement and their involvement in agency selection and fees. The purchasing and sourcing / procurement department of most companies has expanded significantly over the last ten years. Today in the US, 55% of all the agency reviews we manage involve someone from this group, along with the marketing and brand people.

In Asia several large multinationals maintain active procurement departments that get involved in marketing 'costs.' Right now, a major IT company is reviewing their Asian agency in just this way. Everyone has their 'horror stories of 'procurement gone wrong' – recently two high profile cases in the US received global coverage. Last year, Pfizer's procurement people and their auditors asked all their agencies for individual salaries – most agreed, but Deutsch, an Interpublic agency, said no, and resigned their \$150m client immediately. Also, Dupont last year initiated one of the first global reverse auctions for advertising services – where the final seven agencies were invited into a chat room to conduct a 'reverse eBay' for their services. Ogilvy won the account.

The stories that are not told, however, are those of the more savvy procurement people listening and trying to improve agency value, not merely reduce agency costs. We've worked with a number in Asia – and because they are learning, they are very open to explanation and reasoning from people like us, and from agencies.

So how should marketing departments and agencies in Asia cope with this increasing growth and importance in role.

- 1. Accept – and embrace it.** Procurement of agency services is not going to go away – the smarter agencies are planning for it and using it as a 'necessary evil'. One agency in London has hired a Procurement Services Director as a liaison point. Others have sent their finance teams on courses.
- 2. Think of their mindset.** Purchasing people deal in *hard* values – data, prices, terms guarantees. Advertising people deal in *soft* values such as creativity

that cannot be measured. Recognise this gap and find ways to quantify the output and value of your work.

3. Train them up. The best procurement people we've worked with are open. They are willing to improve their skills and knowledge of the marketing sector. They know very well that buying advertising is not like buying widgets, photocopiers and pencils. So when you meet people of this calibre, help them understand your own business challenges.

4. Reward quality. We are firm believers that when an agency can prove their worth, they should be very very well paid. The profit an agency makes on a typical client is around 2-3% of the total marketing budget. And usually less than 0.5% of total sales. So where their great creativity and ideas can make a difference and driver preferences and sales, there should be a PBR scheme agreed with their client and their procurement people so that they can be well rewarded.

Like it or lump it, procurement policies and approaches will only play an increased role in the way marketers and their agencies connect. Rather than only the paranoid surviving, we think only the professional ones will .

Greg Paull is principal of R3 Asia Pacific, (www.rthree.com), the Asian arm of a global consulting group specialising in agency compensation and relationships.