

'fear factor' for agencies in asia

Every month our firm, R3, tracks new business wins and losses in the region. Come December 2004, we tracked no fewer than 875 account moves among the eight lead media agencies in Asia, with business of over US\$1.9 billion changing hands.

There are two messages here—one is that the media agency category in Asia, less than a decade old, is now taken very seriously by marketers—more than 75% of Asian marketers have now unbundled their media. The other is that, with an average of 16 accounts a week changing hands somewhere in the region, there is a palpable “fear factor” for agencies (and their clients) in developing a marriage together. As an industry analyst, we would like to make some suggestions to both sides on how to build a better and more mutually rewarding partnership.

migration to performance-based remuneration

Too many Asian media agency relationships are still commission-based, with most pitches taking on the guise of a limbo dance—the client constantly lowering the bar, agencies continuing to dance under it. This all came to a head last year when a Taiwan agency publicly accepted a piece of business for MINUS 23% commission (the other competing agencies were also negative, just not as low). To be clear, this means you give me \$100, I will buy your media and give you back \$23—good business if you overslept and woke up with a hangover. Smart media agencies and clients are demanding mutual transparency and moving instead to net media, a fee based on labor and a bonus based on performance. We recently helped Johnson and Johnson in 14 countries in this exercise—the media agency will get paid very well—if they perform. Still less than 30% of Asian marketers pay their agency in this way.

“More than 75% of Asian marketers have now unbundled their media.”

ongoing benchmarking

With this type of compensation approach, independent analysis and benchmarking of the media agency become important. Media auditing is very new in Asia. There’s been lots of talk (for close to ten years) and the infrequent assignment for London-based auditors, but it’s only now with the improved levels of professionalism and need for accountability on both sides that media auditing is becoming more prevalent. We are firm advocates though not only of the pool or rate comparisons done in Europe, but much more of the process of the way the two

parties are working. One recent analysis showed a multinational marketer was losing 10% media value by giving its approvals far too late for the agency to purchase the planned inventory. Within five years, most serious marketers in Asia will use some form of external benchmarking for their agency services.

china as the center of gravity

There is no other market on earth with as much focus—or as many challenges for the media buyer. Where else in one country can you get the chance to deal with 20%–25% media inflation, shrinking inventory,



B Y G R E G P A U L L

and 2,000+ TV stations all effectively owned by the same “company”? It’s like you woke up in the middle of a bad dream where Rupert Murdoch was allowed to run a monopoly. Mindshare is the market leader in China—and the agency has around 4% of the total TV market (compare this with India where GroupM has close to 35%) so this gives a sense of the fragmentation. China will require patience and tolerance for some time from agency heads and their clients—yet it is too important to rely on anyone but your best people to drive and train up local talent.

**new skills,
new competition**

As media agencies stake their turf, increasingly they are playing new roles. We recently helped a marketer restructure its agency resources to have the media agency as primary contact. In markets like Australia, increasingly the media agency is leading channel selection before any creative work is developed—Coca-Cola recently awarded the startup Naked its media planning business there. This begs the question—“who’s in charge?” Our view is that it’s only with the “holy trinity” of marketer, creative, and media agency working as a single team that the best work can flourish.

take a pulse

Because of this constant “fear factor,” too many agencies are too frightened to confront their clients on issues—in case they join the list of 875 statistics shown in the above chart. Yet any good marriage seeks guidance and evaluates itself regularly. The best marketers in Asia have invested either internally, or externally with a consultant, on ongoing relationship tracking. Unlike benchmarking, this often is more of a qualitative snapshot—but it’s still essential to resolve molehills before they become mountains. Once every six months, a simple formal two-way assessment can lay the foundations not only for appropriate incentives (or penalties) but will hopefully stop marketers

on the move

2004 MEDIA ACCOUNT SHIFTS IN ASIA

market	billings <small>US\$ in millions</small>	number	largest account
China	534	92	McDonald’s
Australia	352	154	News Limited
Global/regional	197	15	HSBC
Japan	175	120	Diageo
India	144	63	Danone/Britainnia
Thailand	139	55	DTAC
Others	391	376	
T O T A L	1,932	875	

Source: R3

“Once akin to a client-vendor structure, the agency should become more like a classic employer-employee construct.”

in the region changing agencies faster than they change their mobile phones.

As more agencies globally—and now in Asia—are migrating from volume-based compensation (commissions) to those that are input-based (fees) with output rewards (bonuses), the nature of the relationship changes. Once akin to a client-vendor structure, the agency should become more like a classic employer-employee construct. With this analogy, the need to overcome the “fear of being fired,” the process of developing incentives, and the need for ongoing benchmarking and assessment become fundamental.

Asia’s best marketers are getting there already—when will the others join? ●

Greg Paull is principal of R3 (www.rthree.com), the Asian arm of a global consulting group focused on agency relationships and performance.