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MAKING YOUR MARKETING DOLLARS WORK HARDER

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In the face of relentless competition for the attention of existing and potential customers, companies are engaged in an ever more expensive advertising and marketing arms race. Marketing budgets rose from 8 percent of revenues in early 2012 to 11 percent in late 2012.[1] Yet since the 2008 financial crisis, chief marketing officers (CMOs) have been under acute pressure to demonstrate the value of every marketing dollar they spend. A recent survey revealed that 84 percent of marketers have been asked to control costs, an increase of 7 percentage points over the previous year.[2] As a result, marketing and procurement executives are seeking new ways to achieve big improvements in the efficiency and effectiveness of their marketing efforts.

New digital marketing technologies will surely help in this effort and will likely have enormous implications in the coming years. But for now, digital remains a relatively small portion of most companies' overall marketing budgets—less than 25 percent or so.[3] So making a real dent in marketing costs, and boosting the return on all your marketing investments, still require going back to basics—optimizing the number of outside agencies you work with, maximizing the value of your spending on marketing, and rethinking your internal marketing strategies and processes. (See Exhibit 1.) By addressing these issues holistically, executives can take bold steps to obtain better value for their marketing dollar.

Consolidating the Agency Roster

Large companies have the ability to take advantage of their size and scale in determining how to work with partners, suppliers, and vendors—including advertising agencies. Still, when Procter & Gamble executives found to their surprise that their global agency-partnership roster had ballooned past 1,000, their experience was far from unique. The globalization of business has led to the globalization of advertising as well. In the past, decentralized companies depended on individual locations and business units to market their goods and services, but many such

Exhibit 1 | Improving Marketing Effectiveness Means Going Back to Basics

	Consolidating the agency roster	Maximizing value from agency partners	Rethinking ways of working
Challenge	Rapid growth in agency count driven by: • Globalization of business • Growth of channel-specific agencies • Disaggregated authority in the choice of agency partners	Lack of clarity and fair rates in agency costs: • Varying compensation models • Unclear agency-contract components: staff, departments, hours, and rates	Inconsistency in marketing processes: • Weak brand strategies • Unclear decision rights on copy creation • Unstructured agency engagement • Poor briefing practices
Impact	• Consolidated agency spending and better rates • Fewer brand handoffs and greater advertising consistency • Greater transparency of spending levels	• Improved value from agency spending without compromising quality • Greater transparency into spending and its components • Data-driven negotiation	• Efficient processes across marketing • Marketing leaders share the same language • Consistent approach across brands

Source: BCG analysis.

companies are now trying to take a more consistent, global approach. Until recently, however, few agencies had a fully developed global footprint capable of meeting the needs of companies like P&G. As a result, companies still tend to turn to small, local agencies for marketing outside the U.S., vastly multiplying the number of agencies they have to manage.

Dramatic changes in patterns of media consumption by consumers have also contributed to the exploding number of agencies. Of the total time that consumers spend with various media, the share devoted to online and mobile media rose from 27 percent in 2009 to 37 percent in 2012, while radio, print, and TV account for much less of consumers' time.[4] Companies are shifting their advertising budgets accordingly, with the most sophisticated crafting specific messages for every media channel based on their understanding of the consumers that use each one. To do this, they turn to an ever-increasing number of channel-specific agencies, even as they try to ensure that every message in every channel communicates the overarching brand strategy.

By reducing the number of agencies they work with—relying on fewer but more strategic partners—large companies can consolidate their spending and reduce their total agency fees while improving quality, focus, and service. For example, by rationalizing its choice of agencies and how it used them, P&G succeeded in reducing its overall agency count by more than 50 percent, yielding material savings.

But it isn't easy. Senior executives often do not know exactly how many agencies the company works with. The challenge is particularly acute for consumer products companies with extensive brand portfolios, where individual brand managers often select agencies in isolation. The added layer of more-specialized vendors, such as production companies, that support the agencies compounds the complexity.

The first step in regaining control is simply to create an agency roster, organizing count and spending by agency and agency type. Together with input from brand managers and the results of annual agency evaluations, this gives executives the data they need to determine the appropriate number of agency partners and to eliminate those that are not essential. Many executives also use this exercise to assess whether the work they do with each agency is truly necessary.

It is also critical to establish processes for managing the agency roster on an ongoing basis and maintaining transparency into how and where advertising dollars are spent. Regular, standardized reports on roster count and spending are a must, but the process can be challenging because it requires coordination among marketing, finance, and procurement. The marketing department, of course, is central to selecting the agencies, while finance typically provides information about agency spending levels. Procurement is needed to qualify new agencies and structure the necessary statements of work. By bringing these functions together in a standard quarterly reporting process, CMOs can gain control over their agency rosters and manage them more actively.

In addition to bringing cost savings, consolidating and better managing the agency roster can improve the effectiveness of the advertising itself. With fewer agencies, companies can strengthen their partnerships with the most talented and critical ones, reduce the number of interagency handoffs around the world, and increase the consistency of the overall brand message. And marketers can spend less time managing agencies and more time managing their brands.

Maximizing Value from Agency Partners

No topic is of greater interest and concern to marketing executives than agency compensation. The stakes are high, not just in terms of the total expenditures but also because of the resulting agreement's potential impact on the brand. Marketing executives often worry that if they push too hard to get the best deal possible, they will compromise the quality of the agency's creative efforts. But if they don't push hard enough, they will be spending unnecessary dollars. How can they be sure they are getting fair value for the money they spend?

The companies that manage their agencies most effectively typically follow a common process. They make sure they have a highly detailed understanding of how much they spend globally and under what types of contracts. Once they define a baseline of typical costs for agencies in different locations, they evaluate how much comparable companies pay. And finally, they determine which levers they can pull to ensure that they get the greatest value for their spending without compromising quality. Taken together, this information can save companies as much as 20 percent or more on their agency fees, enabling them to reallocate more money to media or the bottom line.

In the past, the standard compensation model around the world was based on commissions, with fees set as a percentage of the company's net revenues. Now, however, this practice is confined mostly to the developing world (in Brazil, in fact, it is legally mandated). Sometimes companies arrange fixed-fee agreements, under which a flat rate is negotiated for additional work not captured in the statement of work. But the most common model for agency compensation in the developed world is now based on the staff list. Companies and agencies agree on a statement of work (SOW) for the year and on the resources required to deliver that work.

To evaluate agreements based on staff lists, companies must know precisely which employees are working on their brands—their department, the number of hours allocated to the account, and their hourly rates. These components are usually included in the SOW but can also be obtained by sending a request for information to the agency.

The hourly rate is typically based on a cost-plus framework called a multiplier. The multiplier comprises the agency's direct-labor costs, overhead and benefits, and profit margin. By disaggregating and benchmarking the components of the multiplier, marketing executives can evaluate whether they are paying a fair rate for each SOW. The multiplier approach should provide the data needed to answer such questions as whether the agency is charging reasonable overhead rates, whether its labor rates are too high for each position

involved, and whether its profit margin is reasonable and appropriate.

Once the multiplier has been determined, the CMO should establish the SOW. The SOW will affect the mix and seniority of employees working on the account—primary factors in getting the highest-quality content possible. It is essential that marketers compare the prior and current year's staffing lists in order to make sure that the staffing mix will not materially change for comparable work—and that the quality of the work will not be compromised.

Marketing executives who arm themselves with all the information at their disposal will be able to negotiate with their agencies from the strongest position possible—one grounded in data, not emotion.

Rethinking Ways of Working

Efforts to get better value for the marketing dollars that companies spend tend to be externally focused, since it is often easier to gain benefits that way. But companies looking to achieve material savings also need to take a hard look at their internal operations. How efficiently a company operates will inevitably affect its agencies' costs as well; inefficient marketing processes are ultimately reflected in the rates that companies pay their agencies. Internal cost-cutting opportunities, however, can be particularly challenging to reap, as they involve changing not just existing company processes but employee behavior and mindsets as well. Yet the savings can be significant.

The 1997 merger of beverage giants Guinness and Grand Metropolitan saddled the new company, Diageo, with two very different sets of marketing structures and processes. But Diageo took this as an opportunity to redefine how it could best build and maintain its current and future brands. From two businesses essentially led by the finance function, the new company transformed itself through the "Diageo Way of Brand Building." Thanks to strong support from senior leaders, Diageo defined a common approach to marketing, ranging from consumer-driven strategy formation all the way to media execution, and made sure all its marketing people were trained in and carried out the new approach.

The need to constantly examine and redefine marketing practices and processes is just as critical for companies that haven't undergone such a radical transformation. A formal approach to brand building not only builds better marketing leaders who speak the same language; it also enables more effective business operations. Unclear and inconsistent processes are expensive, costing money that could be better deployed toward more effective consumer-facing activities. Common sources of inefficiency include unclear brand strategies, vague and poorly developed decision rights regarding content creation, unstructured agency-engagement processes, and poor briefing practices. (See Exhibit 2.)

Strategy. Many companies do not articulate their brand strategies in a clear, standardized manner, which results in conflicting messages to agencies and inconsistent content. Creating powerful brand strategies demands that marketers articulate a clear business objective for each brand—expanding the consumer base by increasing trials, for example. Based on those objectives, they develop the deep insights needed to identify the consumer behavior they want to change. Finally, they form specific execution plans to bring about the desired change.

The highest-performing companies make sure that every brand and message reinforces an overall brand strategy and does so in a regular, consistent manner, using a formal process that allows senior leaders to evaluate all the company's brands holistically. Once the strategies have been reviewed, senior executives should establish a process for explicitly evaluating each brand and location in terms of potential value and then prioritizing them to better allocate marketing resources.

Content Creation. One of the biggest and most common sources of inefficiency is a lack of clear decision rights regarding the

Exhibit 2 | Internal Marketing Inefficiencies Should Be Addressed Through Standardized Ways of Working

Unclear brand strategies	Consistent approach to setting brand strategies • Clear business objectives for each brand • Based on objective consumer insight to drive desired change • Specific activation plans
Too much new-content creation	Clear decision rights regarding new-content creation, particularly TV • Established guidelines regarding who can create new content and under what conditions • Processes for adapted or adopted content for small brands and markets
Lax agency engagement	Standardized approach to agency engagement • Approved statement of work with clear budgets before work begins • Annual statement-of-work process for major agencies coordinated with budget cycle
Poor agency briefing	Established agency-briefing process • Clear statement of the company's overall brand strategy • Description of the target consumer and desired behavior change • Metrics for measuring success

Source: BCG analysis.

creation of new content, especially for TV, which is typically the most expensive. Part of the problem comes from the marketing culture at many companies, where brand managers who create content are seen as heroes. This tendency can encourage managers of small brands or markets to create their own new content, rather than adapting or adopting global copy to meet their needs. In such cases, the size of the media buy is unlikely to justify the cost of producing the ads. By establishing specific guidelines and decision rights about who can create content and when, companies can more effectively prioritize their marketing resources and manage their spending more efficiently.

Agency Engagement. Before brand managers start on an external project, they should insist on working out a signed and approved SOW with the chosen agency. Countless CMOs have been shocked to receive huge agency bills because the brand manager never negotiated an SOW. A clear, agreed-on SOW eliminates any misunderstandings with the agency regarding the project budget and ensures that the company gets real value for its money. The most effective companies typically coordinate the annual SOW process for their major agencies with their budget cycles.

Agency Briefing. When an agency is expected to create new content, it is critical for brand managers to put together a clear and effective brief. Poor briefings typically result in the agency's having to rework content, driving up costs and fees.

To ensure consistency in brand messaging, the cornerstone of every brief should be a clear statement of the company's overall brand strategy. This should be augmented by a clear description of the target consumer, the behavior that the brand manager is trying to trigger or change, and clear guidelines regarding the metrics that will be used to measure the ad's effectiveness. Once the brief has been finalized internally, the brand manager and other key decisionmakers should discuss it with the agency's creative team. Providing input to the agency on which channels might be the most appropriate for connecting with the desired consumers and reaching the ad's goals can further increase the campaign's return on investment.

MAKING YOUR MARKETING dollars work harder involves disciplined management of both external agency partners and internal marketing practices. It is critical that companies view the effort holistically—the internal and the external are tightly interconnected and must be worked out in concert. Companies that succeed at rationalizing their agency rosters, understanding what they're spending with agencies and why, and clarifying their internal marketing processes can reap greater returns on their marketing spending and put the money they save toward consumer-facing activities.

NOTES

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3. "Global Internet Ad Spend Hit $99 Billion in 2012," GroupM, March 27, 2013, http://www.groupm.com/pressandnews/details/890.
4. "Consumers Spending More Time with Mobile as Growth Slows for Time Online," *eMarketer,* Oct. 22, 2012, http://www.emarketer.com/newsroom/index.php/consumers-spending-time-mobile-growth-time-online-slows/.

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