



**American Marketing Association - Toronto Chapter
Roundtable - June 20, 2001**

**"Client and Agency Friction: RIP?"
What do we need to do to align our goals?**

Introduction

On June 20, 2001, the AMA assembled a panel of industry leaders (see last page) to discuss how to address client and agency friction.

Using a roundtable discussion format, participants covered a wide range of topics. These topics have been organized and condensed into the following key categories:

1. How to align goals between agencies and clients;
2. How to change the structure and philosophy of agencies;
3. How to weigh the option of adopting Payment-by-Results (PBR).

Each category states a general issue/problem. A set of standardized subheadings explores each problem/issue in greater depth. The subheadings ask why solving the problem is important, what overall themes emerged, what key insights within each theme emerged, and finally what further discussion/debate is linked to these insights.

1. How to align goals between agencies and clients.

Agencies and clients agree that goal alignment is crucial to future success. For relationships currently fraught with tension and suspicion, there will have to be a transformation based on trust and mutual disclosure. Senior management will play a pivotal role in this change.

Why solving this problem is important

To remain competitive, clients have to constantly look for ways to improve cost-effectiveness [plus maximize the quality of supplier relationships] in all areas of their business, including advertising. Clients are not necessarily looking to spend less money on advertising; they just want to spend better. If some fundamental goals are agreed upon from the outset, there is far less waste and friction between the client and agency; advertising campaigns are more coherent and focused on growing the client's business; money is more wisely spent.

Overall themes that emerged

1. Clients have to present a more integrated front/message to the agency.

Key Insights:

- As a key partner, the agency must take part in the strategy session about the brand.
- Friction can be [greatly relieved] if the client provides the agency with a coherent message. A muddled message is a recipe for disaster.
- Some parts of companies are notoriously horrible at briefing the rest of the organization. For example, the product development team may work as a unit in-and-of-itself and does not share information with the rest of the client organization. It seems odd that such an organization would then expect the agency to understand everything, when parts of the client organization don't even understand.
- High levels of friction in projects stem from a feeling of not knowing where the project is heading, what its goal is or what it is going to achieve.

2. In the present economic climate, advertising must demonstrate to management an effect on the bottom line.

Key Insights:

- Agencies should take the view that profitable sales for the client matter more than simply sales.
- Cost management is increasing in priority as companies are driven by shareholder value and operating profit is still a key measure.
- An agency's reward system has to be based on the client's business goals.

3. Agencies must be more flexible and proactive towards the forces driving their client's business.

Key Insights:

- Agencies do a marvellous job at creating the impression that they are on the edge of creativity, but as organizations go, they are quite reactive.
- The agency must educate itself on the economic realities of the client. For example, how many agencies understand the meaning of churn and the effect of churn on a Telco business?

4. Both agencies and clients have to work harder to manage expectations in this new business environment.

Key Insights:

- In the last few years, the landscape of advertising has experienced some seismic shifts. In the past, an agency's clients were mainly packaged goods companies. Nowadays, financial services and telcos are increasingly relying on advertising. Agencies have to adapt to new business cultures.

- The client has to set expectations at the outset of the project through extensive briefings. Clients often do not instil discipline within the relationship. Still, they expect the agency to jump through hoops.
- Agencies are expected to exceed expectations all the time but agencies haven't been able to reengineer in order to deliver faster. It becomes very disappointing to clients when an agency can't deliver at the required speed to some clients.

5. Top client and agency management on has a very important role to play in the alignment effort.

Key Insights:

- Senior management should play a pivotal role at the business relationship strategy setting stage.
- Related industry associations on both sides have to work together. The impetus for this collaboration has to come from senior management from both client and agency organizations.
- Senior management on both sides has to understand the client's business strategic plan and articulate definitive goals to marketing and agency employees.
- The emergence of the Chief Marketing Officer is a good sign in many organizations; a key role of the CMO is to champion alignment and integration.

What further discussion is linked to these insights?

There are many prerequisites to goal alignment. As mentioned above, a client cannot reasonably expect an agency to align itself to the client's goals if the client is in strategic or organizational disarray. The impetus and logic for goal alignment has to emanate from the client. A client has to deal with its own silo issues before it can engage the agency in a meaningful partnership.

Senior management needs to isolate and seriously discuss possible organizational or structural impediments to agency/client alignment.

2. How to change the structure and philosophy of agencies.

Historically speaking, agencies and clients have been structured very differently. Agencies evolved into very top-line driven organizations while clients became more and more bottom-line driven. Agencies have continued this trend, and have not seen any need for reorganization.

Why solving this problem is important

The market has changed dramatically over the last 20 years: consumer packaged goods are no longer the agency's sole clients. The agency's newer clients have much more complex needs.

Overall themes that emerged

1. Agencies must alleviate structural tensions and practice aligning their business model with that of the client's.

Key Insights:

- What happens when a business system isn't working for a client? They go back and examine the fundamentals. Agencies have resisted this trend and accept the loss of clients as a part of the business.

2. Agencies can no longer approach new clients with the assumption that the client has little or no advertising or marketing expertise.

Key Insights:

- Clients have advertising and marketing savvy, and understand the creative process. Agencies should not be afraid of good ideas coming from the client. There should be no monopoly on creative: everyone should share ownership.
- There is also more choice in terms of how one can deliver an advertising message and agencies have not come to terms with this fact.

3. Agencies have to take the issue of culture into account.

Key Insights:

- An agency's clients range from consumer packaged goods to software companies that are run by engineers. Each company has a different culture and will respond differently to an agency's ideas.
- Agencies have to be more flexible and adaptable to different business contexts.

4. Agencies have not organized their structures to reflect flatter, less hierarchical clients.

Key Insights:

- Agencies will still have five levels of management when a client may have only two or three.

What further discussion is linked to these insights?

If there is to be widespread structural change in the industry, agencies need to start talking to each other. The fact that advertising is a very competitive industry all too often gets in the way. A pan-agency community that shares information and ideas would help the industry through this transformation period.

3. How to weigh the option of adopting Payment-by-Results (PBR)

For some time now, advertisers have been dissatisfied with the traditional forms of payment in the advertising industry. Many advertisers have begun to experiment successfully with or at least show an interest in Payment-by-Results, a system of agency compensation where financial reward is tied to certain determined targets being met or exceeded.

Why solving this problem is important

Our current economic climate demands that companies be more flexible and collaborative, and improve communication, quality control and accountability. For this reason, many clients now view conventional commission and fee-based compensations as antiquated.

Overall themes that emerged

1. While PBR may be a relatively new concept in marketing communications, paying for performance is a well-established business practice in other disciplines.

Key Insights:

- Bonuses are instituted to influence some type of employee behaviour and reward people for displaying that behaviour. The argument should revolve around payment by bonussing to influence agency behaviour.
- Bonussing must still be linked to financial results, has to be linked to a specific period of time and must be clearly defined. Items such as market share must be measurable and included as a part of the results.

2. Using PBR and becoming results-oriented would serve to heighten interest in the business results of a campaign.

Key Insights:

- Everyone has to understand what results are important to the client.
- Results have to always be relevant to the client's business goals. If the results are fuzzy, obscure or remote to the client, the agency and the client will experience some friction.

3. Companies cannot base agency compensation entirely on results.

Key Insights:

- Since compensation is based on fixed fee plus bonuses, perhaps 'Bonussing-by-Results' is a better term than Payment-by-Results. Payments-by-Results gives the impression that compensation is entirely based on results.
- The system should be based on incentives over and above agreed fees.
- Both clients and agencies should be prepared to give up a little of the fixed for a bit more variable.

4. Agencies still have to make money.

- Key Insights:*
- A PBR system requires higher maintenance; it therefore has to be lucrative for agencies to take the time to manage this process.

5. The stimulus for PBR has to come from senior management.

- Key Insights:*
- When the head of a company takes part in the relationship, it sends a signal to both the agency and the client organization: advertising is no longer on the periphery.
 - The client CEO has to build respect into the relationship at the executive level.
 - The agency President has to articulate the expectations of the agency to client. The President must be able to walk the talk, parachute in when there is trouble, and be an objective listener. He/she must deeply understand how the client's business works and how they make money.
 - A VP or Chief of Marketing is required to create an environment where the agency is encouraged to develop and create good work.
 - A VP or Chief of Marketing should work hard to create an environment where there is a low staff turnover. The aim is to keep the best creative on the business. Making sure the agency happy is therefore crucial.

What further discussion is linked to these insights?

The problem of what measurements to use requires further thought and discussion. One roundtable participant felt that most companies were not at a stage where they could agree on a fair system of measurement since the best measures have not yet been created.

Another participant was more optimistic and argued that there has been some progress recently with modeling and awareness levels. And while no one has been able to establish linear links with measurement models, the links are there to be discovered. Companies have yet to be pushed into finding the links.

Conclusion

While there was disagreement on key elements of this discussion, it was clear that structural change in client/agency relationships was a high priority. Participants agreed that agencies and clients would have to work harder towards the kind of alignment required in contemporary client/supplier relationships.

Our thanks go to our panellists (and the audience) for their contributions.

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The AMA Toronto Chapter is a not-for-profit association founded in 1937. The AMA is the world's largest and most comprehensive professional society of marketers, comprising 50,000 members in 92 countries and 500 chapters. ama-tor@netcom.ca

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