



ARE YOUR MARKETING EFFORTS YIELDING TRUE ROI?

The Right Agency Contract Compliance Audits Enhance Marketing Effectiveness

In today's hyper-competitive and fast-paced business environment, C-level executives need to ensure that their marketing spend is managed effectively.

The prospect of an emerging competitor completely upending an industry is the new reality of business. As a result, staying one step ahead is vital for both business survival and prosperity.

Marketing is a key driver for this success. It is the foundation for enhancing overall brand awareness and lead generation. When done right, it can showcase true differentiation, creativity, and thought leadership by establishing a company as a category leader, or helping to maintain top positioning in the marketplace.

Effective marketing efforts often require a complex integration of services, which include media buying, creative development, advertising, web design, public relations, content marketing, social media, merchandise, events, promotions, and much more.

Many of these specializations often involve assistance from outside agencies, which are managed by the CMO and the internal marketing team.

In addition, since these marketing elements come with a hefty price tag, agency contract compliance audits are critical. You need to know if your agencies are performing on task, and are fully abiding by the terms of their contracts and scopes of work.

In other words, is your marketing group effectively maximizing the company's marketing budget? Senior marketing executives often provide the necessary reporting for justifying vendor and agency contracts. But, is it enough?

THE EXTERNAL AGENCY AUDIT

Marketing agencies should be subjected to periodic contract audits, just like many other categories of spend with external suppliers. Of course, there can be natural tension between the finance organization and marketing. Finance is often tasked with reducing costs, and marketing's mission is to generate sales leads, which requires an upfront investment. Both are critical to an organization's success.

As such, all stakeholders may not initially embrace the prospect of an agency audit. However, if performed correctly, agency audits can increase transparency, maximize effectiveness, and strengthen relationships with agencies.

As any CMO knows, agency contracts can be very intricate. Compensation methodologies vary depending on the agency. Hourly rates of personnel differ, as do how firms account for the time spent on various projects and programs. Some expenses are paid prior to the agency incurring the cost to promote speed-to-market and offset the agency's float. Commissions can be charged on media buys and mark-ups on other services such as production. These are only a handful of the many requirements and compensation arrangements.

Given the number of moving pieces and the stakeholder's focus on executing excellent campaigns that drive sales, an independent agency review can uncover unused or unspent funds. If agency reviews are being conducted regularly, the return on investment (ROI) on marketing investments will increase.

The intent of an agency audit is to ensure that both parties are complying with the terms of the agreement, determine if the operating procedures are working as desired, and promote best practices.

THE RIGHT AGENCY AUDITS YIELD DEEPER INSIGHTS

Elements of an agency audit go beyond traditional marketing reporting and uncover true insights. These include:

- Tracking and measuring performance achievements versus goals (both quantitative and qualitative).
- Verifying compliance with the media plan/buying guidelines.
- Identifying and comparing both financial and marketing impact – and deviations (positive and negative).
- Providing the necessary documentation to obtain compensation for discrepancies and shortfalls.
- Offering key findings and identifying areas to improve efficiencies.

Areas often evaluated during an agency audit include a detailed review of the agency's compensation, timing of invoices and payments, and float and pass-through practices/expenses for creative, production, media buying, events, and promotional spend. The areas reviewed are specific to the company/agency relationship and can include:

- Fees and commissions
- Discounts and rebates owed to the client
- Agency expenses billed to the client
- Advertising production charges
- Independent contractor costs
- Ad placement confirmation
- Tracking budgets versus actual charges

Many companies rely on their agencies to self-report and comply with the terms and conditions set forth in their contracts, as well as provide status updates on meeting performance goals. Audits can validate current efforts, or align the client and the agency towards innovating best practices. This includes improved financial and operational processes within the internal marketing group, and enhanced accuracy within the marketing agency.

SELECTING AN EXPERIENCED AGENCY AUDITOR

When selecting an auditor, the decision should be treated the same as when hiring any other professional services provider. Given the complexities of vendor/agency relationships, and service contracts, be sure to look for subject area expertise.

Another important factor to consider is how well the auditor will work with the agency. Agency relationships are often developed over many years, and at the highest levels of the company. The job of the auditor requires candor, while also maintaining a respectful, professional relationship.

Once the auditor is retained, the agency should be given sufficient notice to prepare and allocate resources. When executed properly, an agency review should not overwhelm already taxed resources. It is critical that the review not impact day-to-day operations.

POSITIVE OUTCOMES

The auditor should provide transparency, clarification, as well as the opportunity for all stakeholders to ask questions and give feedback. If the agency audit identifies areas for development, the CMO, the internal marketing team, and the auditor should collaborate on determining and defining action items.

At the end of the agency audit, your CMO will be able to demonstrate the effectiveness of internal controls and contracts supporting marketing initiatives. There will also be a greater understanding and a new appreciation of what agencies offer their clients.

An agency review is a proactive best practice that increases transparency, validates compliance, and enhances ROI.

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