

Marketing and Procurement

**Unlocking the Door
to a More Profitable
Partnership**



Procurement and marketing are both critical to an organization's success. But the metrics and the objectives used by each department are often completely different. Marketers look for ways to execute effective tactics and campaigns and may not use the same definition of "value" as the procurement department, which tends to focus on bottom-line savings.

But strategic collaboration on both sides will only strengthen the internal relationship between marketing and procurement, making them both more effective in the long run. Procurement's expertise with purchase planning, supplier research, value analysis, and contract negotiation would surely benefit marketers' purchasing behaviors. By increasing the harmony between these departments, you can build identification and trust among your marketing and advertising team's external agencies and suppliers.

Increase the harmony. Build Trust.



Connecting with In-House Creatives

In these times of accelerated change, it's critical that marketing makes good decisions about what they're buying, how they buy it, and from whom. These decisions can be very difficult and very expensive, and they present potential contract-management pitfalls. Procurement professionals can help marketing teams answer and manage these questions, but it's up to them to make their value clear. CPOs and their teams will reap the rewards of strengthening the connections with their marketing teammates and gain a thorough understanding of their goals and objectives—ask questions of the marketing team before offering service.

- ❑ What do they buy, and how do they buy it?
- ❑ Who is helping with their current and long-term needs and challenges, both internally and externally?
- ❑ Can procurement expertise be brought to bear when it comes to ad buys, agencies, printers, and other marketing suppliers?
- ❑ Do their contract terms address those potential third-party risks and include language to mitigate them to the best extent possible?
- ❑ How robust are their audit rights?
- ❑ What information will or will not be afforded to them in the event of an audit?
- ❑ What is the record retention policy and who owns the data that's related to their business?

**Strengthen the
connection.**



It's up to CPOs and their teams to clearly communicate how procurement can help marketers be more agile and strategic in their purchasing. Marketing teams may not be utilizing data visualization or business intelligence tools, evaluating potential relationships and collaborators' capabilities, managing agencies and monitoring their performance through KPI scorecards and audits. Your procurement team can explain how you can control the third-party risks that are associated with marketing work.

For example, by having access to new or current marketing campaign data, procurement can monitor agency performance in real time and analyze how the campaign may be impacting sourcing and suppliers throughout the supply chain. These insights can be used to proactively make adjustments to optimize the value of purchases.

Don't limit discussions to simply pricing and contract negotiations. You can establish a mutually agreed-upon playbook to show how marketing and procurement stakeholders will work together throughout the entire purchasing and agency management lifecycle. Monthly or quarterly internal reviews between the marketing and procurement teams can ensure that communication and collaboration evolves over the course of time.

Procurement professionals can also help design and manage contracts that guard marketing teams against the possible agency risks.

- ❑ Undisclosed incentives or rebates that aren't passed on to advertisers
- ❑ Principal transactions, bid rigging, and undisclosed use of related parties
- ❑ Excessive profit from undisclosed markups or unreconciled (prepaid) out of scope projects
- ❑ Under-delivery of staffing plan commitments

In short, they can make a marketing team smarter, more agile, and more competitive in negotiations. But that's not the only time they can be helpful.

Working with Outside Creative Agencies

Many organizations outsource aspects of their marketing work to creative agencies. The creative field is extremely relationship-driven, even though the value of the work is subjective. Top agencies command a premium, but ROI is hard, if not impossible, to guarantee.

Media is the crux of any marketing campaign: Finding the right audience in the right domain is essential, and every company wants to maximize value regardless of the size of their media buy. For global or national advertisers, the cost of media is often far and away the bulk of their marketing and advertising budget. This where the bulk of the money is spent. For all the reasons outlined above, marketing teams can draw on the skill sets and capabilities of procurement professionals to make these ad buys more successful. So why does the relationship between these two departments often devolve?

The right audience.
The right domain.



Consolidation occurs in every industry, and the marketing and advertising industry has used Agency Holding Companies (AHCs) to achieve vertical and horizontal integration. These conglomerate entities capture all phases of the marketing and advertising process from research to creative to production and media buying. And they pull many agencies under one corporate umbrella to mitigate potential conflicts between clients and expand expertise into new geographies, industries, and media types.

Each company within an AHC operates “independently” to different degrees. Some of these companies will be in the same buildings and floors. But none of them are truly independent from the parent company. This structure makes it very easy for the holding company to manage advertiser relationships at the agency level, while managing media supplier relationships at the group or holding company level. Theoretically, this model can maximize the value extracted in all relationships, which could then accrue to advertisers. But the complexity of AHCs’ tiered structures can make it hard for global advertisers to even understand where media buys are occurring.

AHCs offer real benefits. For one, they are public enterprises subject to financial audits, IT audits, and regulatory oversight. They have robust ERP systems, mature processes and controls, and readily available data. Record-keeping in AHCs is frequently very strong, especially compared to smaller agencies. **But the risks are clear.**



The Association of National Advertisers (ANA) has published landmark reports on non-transparent practices by agency holding companies in the media space. They have also reported on non-transparent practices related to production. Most recently, in November 2018, the FBI announced an investigation into these practices and asked for any information from advertisers who have experienced these issues. New capacities like AI are rebuilding the marketing and advertising field at warp speed, as well. The current market for these services is a black box. The fact is that advertisers put a certain amount of money into the black box, and a much smaller amount comes out of the black box to the media supplier. There isn’t much accountability because there isn’t any transparency.

One of the key warning signs to look for is the percentage of agency spend that is going to AHC subsidiaries. If that spend rises disproportionately with related parties, something is going on.

The biggest and most common non-transparent practice among AHCs is rebates. Often, the amount of extra value received by the AHC is directly proportional to a value of media buys occurring with Media Company providing the extra value, usually but not always in cash. But your agency might not know about the rebate is because it occurs at the Group or AHC-level.

The AHC may also make undisclosed rebates that incentivize sub-optimal media buying decisions. Media suppliers might be chosen based on the level of rebate provided, rather than the level of value to the advertiser.

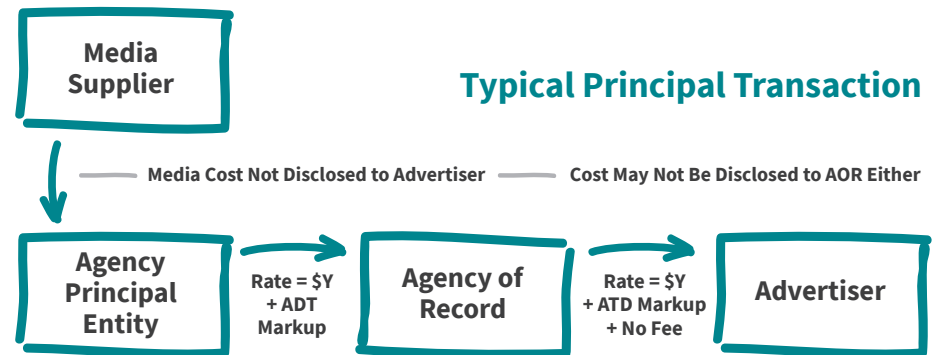
There are ways to recognize or avoid some of these obstacles and ensure a productive relationship with an AHC. First, understand the difference between an agent and principal. An agent acts in your interest to buy something on your behalf. A principal is selling you something they own. You wouldn't contract with a realtor to help you buy the home they own, and the same holds true in marketing. An agency operating as a principal has become a media supplier. A media supplier who also happens to have unique access to advertisers and media buyers. Don't allow these roles to overlap—and your marketing team can take an active role in preventing these kinds of hiccups, and in managing relationships with agencies and suppliers.

Understanding Agent vs. Principal

Typical Agent Transaction



Typical Principal Transaction



The fact is, too, that audits are a best practice and the best way to find out about practices and charges that you were unaware of. They are not a panacea or a replacement for sound business practices and internal control. They are, however, an excellent last line of defense as well as a potentially huge cost-savings tool. Audits might help you recover hundreds of thousands of dollars in miscalculated or wrongly spent funds, and even if they don't, they establish transparency and trust between collaborating companies.

When properly overseen, relationships with AHCs can be long-lasting and mutually beneficial for both the advertiser and the agency. But accountability is crucial for that, and AHCs are complex enough to warrant an outside expert to parse the situation—and protect your marketing stakeholders and dollars.

Long lasting relationships.



Making the Partnership Work

Whether your company has a fully in-house creative team or one that mostly engages third parties, they can benefit from a healthy relationship with your procurement team.

Through contract expertise, audits, and tactical purchasing, procurement professionals can bring much-needed clarity to the marketing and agency ecosystem. They can promote transparency and accountability with outside agencies. They can recover lost costs and enhance internal processes and controls. They also help support short and long-term marketing goals, from campaigns to broader assurance that the critical elements of your marketing strategy are aligned and moving in the right direction.

The sooner these efforts become intertwined and collaborative in your organization, the sooner your procurement expertise can help guide and protect value in your marketing initiatives.

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