

markenartikel 12/2019

Why clients should not make false economies

Actually, it is a matter of fact: companies which reward their agencies adequately, get better performance from their agencies than poorly paying clients. A new study conducted by Aprais provides the respective figures and quantifies the negatives effects of these kind of false economies.

markenartikel: Aprais analyzed the influence of compensation on the performance of the agencies. It shows that clients which reimburse their agencies adequately receive much better service than clients which do not pay their agencies adequately. A wake-up call for the clients?

Michael Winkler: This analysis should of course not be a general appeal that advertisers should pay their agencies more money. Unfortunately, however clients need to be careful not to overplay their hand when trying to reduce agency fees and want to demonstrate which risks are involved if agencies are not adequately remunerated. The agency business is a people business.

markenartikel: How do you mean that?

Michael Winkler: When a client chooses an agency, in most cases there are certain key people whose skills the client team is convinced of. If on the other hand, procurement claims these senior employees are to be too expensive and consequently does not buy their time in sufficient quantity, the quality of the work is going to suffer. For advertisers it is important to have the best people of their agency being involved adequately for their key projects. Only then will the client will get the best agency performance.

markenartikel: Of course, however costs are always an issue ...

Michael Winkler: True. However, when looking at a typical marketing budget, in the end there are just about 7 – 10% related agency fees. If you save here, there is a significant risk that the client gets inferior agency performance in areas such as content development, production or media planning all areas which often represent a much higher proportion of the marketing budget. So setting the course might be wrong from the beginning. Only when the agencies are properly remunerated, they can provide the client with the appropriate senior people with sufficient capacity.

markenartikel: How can clients ensure this?

Michael Winkler: Usually it is more effective if marketing and procurement work together when negotiating with their agency. In the end the client does not purchase material goods but services which depend heavily on key people of the agency. Of course, an agency director of strategy is charged at very different hourly rates than junior employees. As a client you have to determine the optimal balance for your requirements. A client team has to take into account that the agency has got its profitability targets and staff allocation ultimately will be influenced by inadequate remuneration through the client.

markenartikel: Agencies have been complaining about clients demanding their brands to be serviced by senior staff while paying rates for junior staff for a while.

Michael Winkler: Yes, it is an obvious contradiction. With our analysis we can now provide the facts and figures. We have used the Aprais database (20.000 client-/agency-evaluations) to determine how significant the effect of adequate agency remuneration actually is on agency staff allocation. First, we determined whether agencies would receive a fair compensation. For this we included questions such as "Acceptance that the agency needs fair compensation", "Regular reconciliation of fees against scope of work", "Client pays invoices on time" and many more. Then we compared the ten percent of client teams which were rated best to those ten percent of client teams which were rated lowest by their agencies.

markenartikel: Which questions did you ask the respective client teams?

Michael Winkler: Client teams were asked customers if their agency provided them with sufficient resources and competent staff and also if the agency top management supported their teams adequately. On our scale from 0 to 100% (never, rarely, sometimes, mostly, always) they rated their agency teams.

markenartikel: Please tell us about the results.

Michael Winkler: Our analysis revealed that clients that were rated highest by agencies for their 'financial regard' (top10%) received a 21% better staff allocation by their agencies compared to the bottom10%. Specifically, these top10% client teams rate their agencies with 79 on our 0-to-100 scale for "good staff allocation" while the bottom10% client teams rate their agencies with a much lower score of 65. These are very significant differences.

markenartikel: Aprais has also analyzed how these client teams rated the competencies of their agencies, such as creative etc. You also saw huge differences in terms of performance.

Michael Winkler: That's correct. For example, the top10% client teams rate their agencies on our 0-to-100 scale at a very good 81 for "creative". For example, when asked whether the agency offers great creative solutions and unique concepts, these client teams confirm that their agency "always" do this. The bottom10% client teams on the other hand rate their agencies only with an average score of 64 for "creative". For the other agency disciplines we see similar results. The top10% client teams get significantly better agency performance in all key agency disciplines. On average, when we compared these "top 10% clients" across the core agency disciplines, they received a 22% better agency performance.

markenartikel: So what is your conclusion?

Michael Winkler: Client teams should be clear about which agency people are important to the success of their projects and ensure to “purchase” the respective capacities. For companies where this process is driven (too much) by procurement, the marketing director should discuss these capacity requirements with procurement and also demonstrate the possible negative consequences of too rigorous austerity measures. You simply will not get the best agency performance by making false economies.

markenartikel: The importance of procurement department has increased recently.

Michael Winkler: That's true. But it does not necessarily have to be bad. It is not illegitimate for a company that you aim to reduce costs. In this area however, one should rather look at the possibilities of working more efficiently. It is about how to optimize processes, for example, by providing better briefings or by reducing the number of stakeholders involved when it comes to the approval process. I would also advise the agencies involved to be more open about the consequences of (too) low agency remuneration during the negotiations.

markenartikel: Is this realistic?

Michael Winkler: Of course, it's hard to tell an important client that the hourly rates they're willing to pay are too low. But an agency is not a non-profit organization. So they need to be straight and say it clearly, "Dear client, accepting these low rates means that we have to allocate more juniors staff for project X or Y." Of course, as competition is fierce, especially for agencies which are less prominent, agencies may reluctantly support these (low) rates. However, our results clearly show that saving at the wrong place does not pay off. Those important, outstanding agency people will be charged at respective rates. Therefore, if you expect a top performance from your agency, you must not be too stingy.

Interview: Vanessa Göbel (editor-in-chief)