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The business importance of financial empathy

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New research suggests that the savings made by cutting on agency fees are not worth the long-term strain on the relationship – Aprais' Kim Walker has more on why financially sensitive clients see better results.

The relentless drive to reduce agency costs is often seen as a hallmark of marketing procurement success. But, in actual fact, research of more than 21,000 client-agency evaluations (where both parties rate the other's performance), shows that this hack and slash financially cold mindset is far from nourishing for the long-term health of and agency-client relationship.

Something that has become vitally important in the current Coronavirus crisis when clients are considering, or are already, cutting budgets. (Don't worry, that's it for the C-virus mentions now, but I thought it'd be remiss of me not include one).

In fact, what the research shows is, one of the keys to nurturing increased long-term agency performance across a host of key disciplines is to be empathetic to the agency's own financial situation – being fair, transparent and paying promptly delivers much better success than continually asking for more, for less.

Clients who are rated by agencies to be in the top 10% for their sensitivity to their agency's finances achieve better creative performance (16% better, in fact) and get better quality teams on their account, compared to those rated in the bottom 10%.

Being considerate of an agency's financial situation also shows significant improvement in those specific agency disciplines that are at the heart of a successful agency performance; with digital (15.4), media buying (11.5), media planning (11.2), strategy (15.6) and production (15.5%) all seeing performance increases.

Key out-takes for marketers

Obviously, this financial empathy doesn't just appear by magic. However, there are some key strategies marketers can put in place at the beginning of their agency relationships that can act has a little magic dust on the chances of this happening.

Firstly, marketers need to decide what the required involvement of the agency is compared to its other marcomms partners - including scope of work as well as the expectations of the agency's senior management. Only once the scope and role are clearly understood can the client-agency negotiation take place.

Once the negotiation stage is finished and the relationship is underway, there are four rules for marketers to follow;

1. Be fair and transparent. Bad deals kill relationships.
2. Hold regular updates around the scope of work. Mission creep will eventually catch up with you.
3. Ensure you have reasonable and prompt payment terms and timings. The negative potential for finance departments to hamper good work is huge.
4. Make sure you have timely provision of business metrics that impact the Agency's compensation. Performance reviews of any kind need to be 'of the moment'.

In the client-agency dynamic, the client is obviously the buyer and therefore in the stronger position to lead the relationship and to drive change, and therefore perfectly right to seek cost savings from their agency. However, these should be achieved through the optimization of work processes and reducing the number of stakeholders, rather than by reducing the input of key staff.

But of course, agencies also have their role to play. They have come under huge scrutiny and criticism in recent years for their lack of transparency, particularly in the media area. So, agencies must also be fair and transparent.

They should be prepared to have tough conversations about the link between fees and the resources they buy – including, but not limited to, the access to senior-level agency personnel.

Agencies should ensure that their negotiating team contains at least one trained and experienced negotiator. They should not confuse the skills of ‘selling’ and ‘negotiating’.

As in so many negotiations and relationships, this analysis of financial empathy demonstrates that a ‘Win-win’ strategy works best. Not only will this provide value benefits to both client and agency, but it will minimise emotional stress leading to a healthier work life.

Get it wrong and the relationship will suffer and with it, the work.

Methodology

We came to these conclusions by analysing more than 21,000 client-agency evaluations. These are categorised as responses (on a 100-point scale) to carefully structured set of questions about team behaviour, involving multiple members of marketer and agency teams involved in a brand and tracked over time.

First, it was vital to distinguish between marketers who felt their agency provides *good quality and depth of resource* to their business from those who do not, and then to see how this affected their rating of the agency’s overall performance.

This meant selecting questions that related specifically to staff allocation, isolating more than 10,000 questions. Correlation analysis confirmed that across all disciplines, the evaluation of ‘quality and depth of resource’ was moderately or strongly correlated with overall agency scores and the key agency disciplines. Ranging from 0.6 for digital to 0.88 for creative (where 1 equals perfect correlation).

Having established this, we sought to determine whether a marketers' empathy for its agency's remuneration has a positive impact on the service the agency delivers.

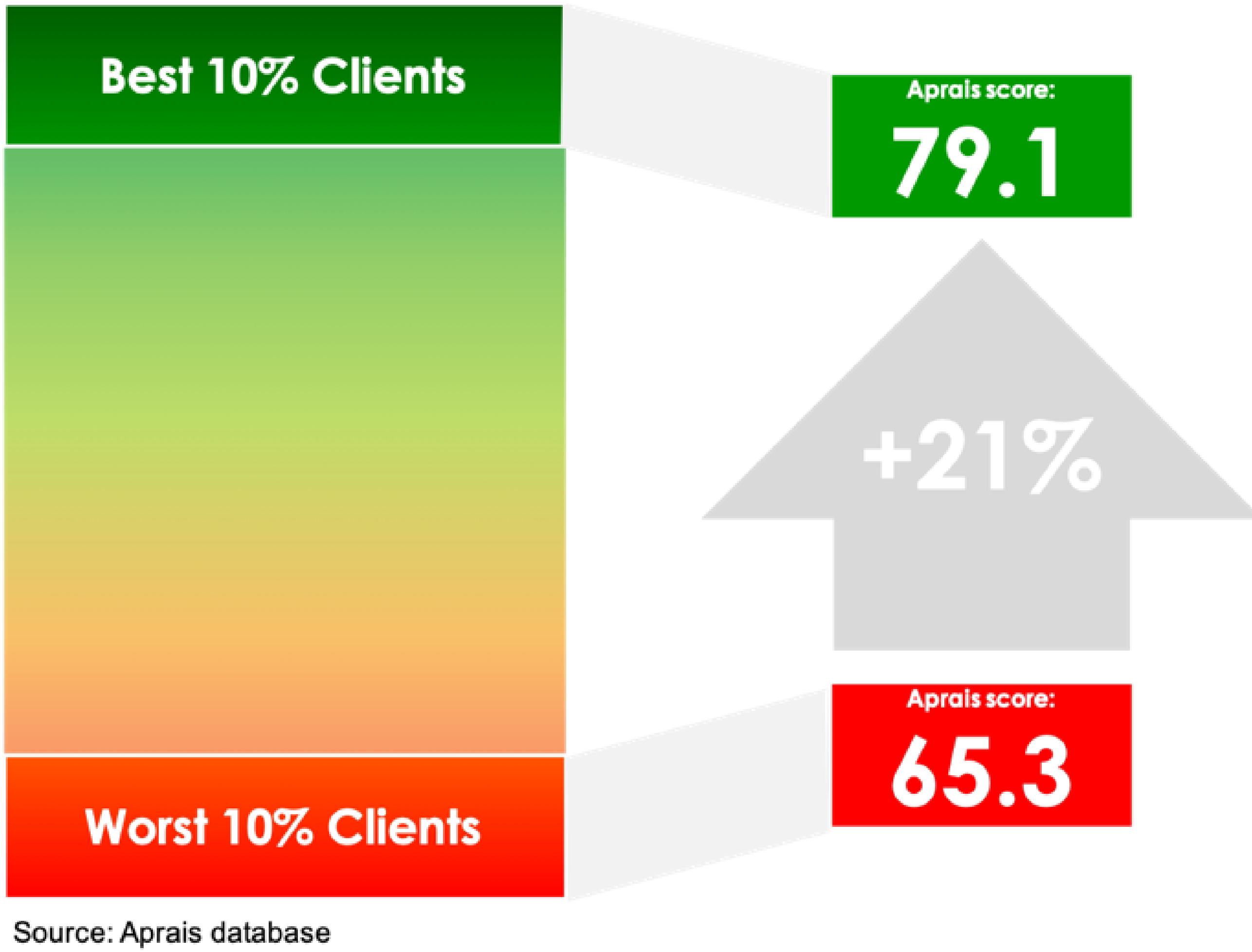
To achieve this, we selected the questions from our data bank to focus on those related to the financial health of the agency. These included issues such as:

- Acceptance that the agency needs fair compensation
- Regular reconciliation of fees against scope of work
- Timely provision of business metrics that impacts the agency's compensation

Having sorted the clients according to how the agencies view their financial empathy, we were then able to compare their scores with the marketers identified above - the ones that rated their agency's 'quality and depth of resource' performance scores during the identical evaluation. There were 440 instances we were able to directly compare this way.

While we observed a moderate correlation between *Client Financial Regard* questions and *Agency Staff Allocation* the more interesting observation is revealed by comparing the **Most** financially empathetic clients with the **Least** financially empathetic clients.

The graphic below shows that clients who score highly for financial empathy for their agency, score their agencies 21% higher for 'quality and depth of resource'. We interpret this as a measure of real or perceived value from the agency.



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