

Procurement and Marketing

Marketing is one of the areas of services in which procurement is increasingly having an influence. Peter Hunt summarises some of the issues for procurement professionals.

Procurement's involvement in marketing has followed the path of many other service categories such as travel and HR. It's just that progress has been slower.

Initially, in the 1990s, involvement was limited to order placement or a compliance role. Now, certainly in more enlightened organisations, there is a more balanced business approach to developing sourcing strategy for marketing expenditure.

My experience is that there is often an almost default response from marketers of mistrust and scepticism about procurement's motives and agenda, and that this response is often reinforced as a result of inappropriate behaviour and/or misaligned objectives on the part of procurement.

For example, marketers are acutely aware of the importance and impact of language. It is frequently at the heart of what they are trying to do, that is to say, communicate to a defined audience.

If we can demonstrate that we speak the same language as the marketer, it conveys understanding and credibility: "We can communicate with these people"; "They understand our business". If, however, we speak a different language, they may have a



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reason to doubt our capability to help them.

In many instances the typical performance objectives and targets for procurement (which tend to operate on a relatively short-term time horizon), can cause conflict. The starkest example is cost reduction targets versus long-term marketing objectives to build brand equity. Clearly it is essential to adopt a framework within which business needs can be objectively determined and used as the basis for developing a sourcing and contracting strategy.

It is essential to adopt appropriate behaviours. We will probably be engaging with intelligent and creative people who will respond far better to someone who can develop and take their needs and translate them into a tailored sourcing and contracting strategy based upon the use of rationale, objective (non intuitive) concepts and models, than to someone who attempts to apply a standard template to what they do.

What does good look like in the marketing services space? Given that some of the more obvious barriers can be overcome, then it is essential to adopt a structured methodology to address the spend.

To be effective the sourcing methodology must involve the budget holder (marketing), procurement and other stakeholders. There will be a number of discrete phases to the methodology, including:

- Category profiling and needs definition – to understand the value and concentration of spend and past/future trends, market conditions, the sourcing history and, critically, business needs.
- Data gathering and analysis – to understand the impact and implications of cost and cost drivers, market structure, key players, market influence, technology trends and supplier selection criteria.
- Option generation and evaluation – to identify all options for sourcing,

contracting and supplier management and then evaluate these against the defined business needs.

- Strategy implementation - to plan how to approach the market and the timing.
- Category/supplier governance - to plan how to ensure required performance levels are achieved and how changing business needs will be reflected in supplier performance.

Applying the above methodology and ensuring the customer is part of a category team will foster consensus and convergent thinking. In particular early and rigorous definition of business needs and associated agency capability will naturally develop a focus on a common agenda. It is critical not to overcomplicate this stage of the process, but it is essential, following open challenge and debate, to understand the business needs clearly:

- What we are buying
- Why we are buying it
- What its purpose is and what we want to achieve

The answers to these questions will inform sourcing and contracting options, supplier selection criteria and key performance indicators.

Further, skilful application of the tools and analyses embedded in the process as described above, will demonstrably add value and help engage and expose the marketers to insights which they may not be aware of and which will directly support the sourcing strategy development.

Another feature of procurement's involvement in this expenditure area in recent years is the growing move towards more cost- and performance-based fee mechanisms, whereby the agency fees are linked to their costs and/or performance achieved against defined targets or outcomes, for example the level of favourable media comment, brand awareness and cost per lead generated.

Other market trends provide more evidence of the influence of procurement, with, according to the Paying for Advertising Survey published

by The Incorporated Society of British Advertisers, payment by results to creative and media agencies almost doubling since 1997 and the incidence of media being bought by the creative agency falling from 33 per cent to 6 per cent since 1997.

One area of concern remains with this shift towards payment by results. For such agreements to be effective it is essential to achieve high levels of cost transparency. Interestingly, the survey quoted above suggests only a 34 per cent buyer satisfaction level with agency cost transparency - virtually no change since 1997. This should be a prime area for the use of procurement's expertise.

Appropriate performance measurement and management, linked to effective relationship management, is another example of an area where procurement expertise can yield improved results. This whole area however, needs to be focused on business needs. The outputs of performance measurements in particular must generate action that leads to improvements by both the agency and the buyer. Truly effective performance and relationship management, however, can consume considerable levels of resource. Activity in this area, by both marketing and procurement, therefore, needs to be based upon a proper cost-benefit analysis.

Finally, the initial approach to the marketing community is likely to be critical, so it should be carefully planned.

Here are some of the early challenges likely to be faced and some options for handling them.

Gaining entry

- Second a procurement person with the right behaviour and capability into a marketing role for 6-12 months - to understand the needs/priorities, learn the language and develop relationships
- Align and secure support from the marketing financial controller
- Identify marketing's "pain" and focus on it. For example, budget pressure, market pressure and agency performance

- Define clear and appropriate objectives as a discussion document
- Propose a pilot project - through an internal network or based on demonstrated good performance elsewhere
- Secure support - complete or conditional - from a business sponsor

Existing relationships and agency dependency

- Assess agency performance against defined business needs
- Develop joint key performance indicators to create a vision of excellent performance
- Secure agreement to a relationship management mechanism to locate and realise value
- Establish a two-way review and targeting forum
- Identify and compare industry benchmarks and trends reflecting good practice and performance

Category definition and expenditure analysis

- Outsource data analysis:
- Utilise data mining tools to interrogate accounts payable data bases
- Student support
- Budget analysis
- Accounts payable data base sample analysis
- Invoice sample analysis
- Supplier provided data
- Address top 50 per cent - 70 per cent first
- Visit key agencies and ask them to define their scope and how it's delivered internally and externally

The route taken to start to address this important area of spend will depend upon the culture and the situation of the company. However, whatever route is used, it is paramount that at the heart of the strategy developed is a clear linkage to business needs and objectives.

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