Hidden Costs of Changing Partners

Report reveals how to prevent astronomical costs of an agency review

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In business as in life, changing partners always costs more than expected. Divorces in the U.S. average $15,000 to $20,000, with more complex cases costing far more. Similarly, the cost of changing a brand's agency partners can be significant. This is one key takeaway from The Cost of the Pitch, a recently released report issued by the Association of National Advertisers (ANA) and the American Association of Advertising Agencies (4As). The report shows both brand advertisers and incumbent agencies spend roughly $400,000 to review and defend the account, respectively. This may explain why 25% of incumbents decline to participate, especially with the low odds of keeping the account -- between 25%-30% in my experience.

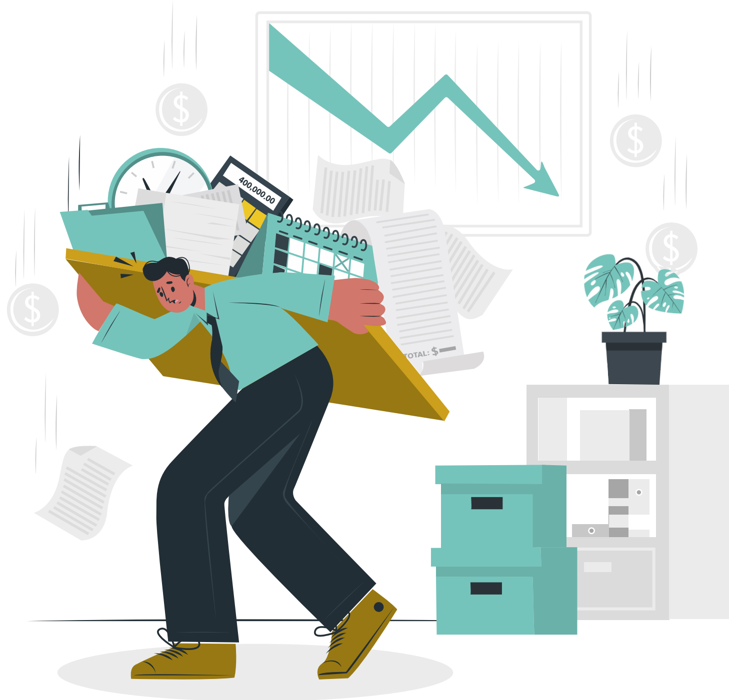
Key findings reveal the time-consuming and costly process

If you have participated in a review/pitch, you know finding and selecting a new partner is highly demanding and resource-intensive. It also can be hugely distracting.

This report estimates actual costs based on the typical number of hours it takes, travel and research expenses, and optional use of external consultants for a brand. Agency costs are also significant -- averaging between $200,000 for potential agencies and $400,000 to defend an account. With industry practices dictating the involvement of three or more agencies, research shows the average review cost exceeds $1 million. It's significant, especially when Chief Marketing Officers (CMOs) need every dollar to drive organizational growth.

What are the hidden costs?

The report's estimate includes hard-to-quantify costs related to disruption in assignments, responsibilities and other work priorities, which I believe are far underestimated. In this study, 34% of brand advertisers reported major disruption in daily tasks, while others mentioned delays, declines in brand/product awareness, loss of revenue, and more. In the fast-paced, highly competitive business landscape, companies cannot afford this distraction. The marketplace demands agility, innovation, and constant evolution to remain relevant and maintain a competitive edge.



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Distractions and rising tension between clients and agencies can hinder progress and prevent the organization from capitalizing on emerging opportunities. To thrive and grow, companies must foster a culture of unwavering focus, strategic decision-making, and continuous improvement. When initiating a review, brands risk immediate deterioration of their agency relationship. Demotivated agency staff, with an acute sense of the fragility of the relationship, may be so worried about avoiding missteps that they are more likely to stumble. No one likes working with constant fear of losing their account. Although difficult to quantify, these consequences can be far more costly than the review itself.

If it's so costly, can we prevent it?

The agency search process is complex and painful for brands and agencies. The report exposes that many incumbent agencies opt out due to excessive "staff fatigue". One-third of agencies decline to participate in agency reviews. Reasons for declining, as an incumbent or a potential partner vary. Agencies typically participate in a large brand review because the potential benefits are high. In difficult economic times, an agency often cannot afford to voluntarily opt out, no matter the investment or risks. Independent agencies seem to be more flexible than those that are part of publicly traded giants such as WPP, Publicis, Omnicom, IPG, Dentsu, etc. They also often allocate their best talent and invest heavily to impress a prospective client. In their shoes, wouldn't you? However, I've noticed that agencies are rightly becoming more diligent about relationships they want to pursue before investing their time, staff and efforts. If it is not the right culture or fit, they may say no. For example, agencies under the Clean Creatives banner pledge not to work for or pitch fossil fuel clients.

The Cost of the Pitch follows up on last year's Agency Search Simplification Report, which invites both parties to use a more concise, transparent, standardized methodology to expedite and improve the review. When carefully orchestrated, reviews can be finalized in weeks, not months.

Alternatively, an increasingly larger number of brands bypass the formal search and review process, bringing in new agencies on a project basis as a test. Brands give them real assignments to assess their skills and fit. Although vendor onboarding can tax internal resources such as procurement and legal, this method allows a more programmatic, reliable way to evaluate the agency's ability to deliver.

Improved guidance to conduct responsible, effective reviews

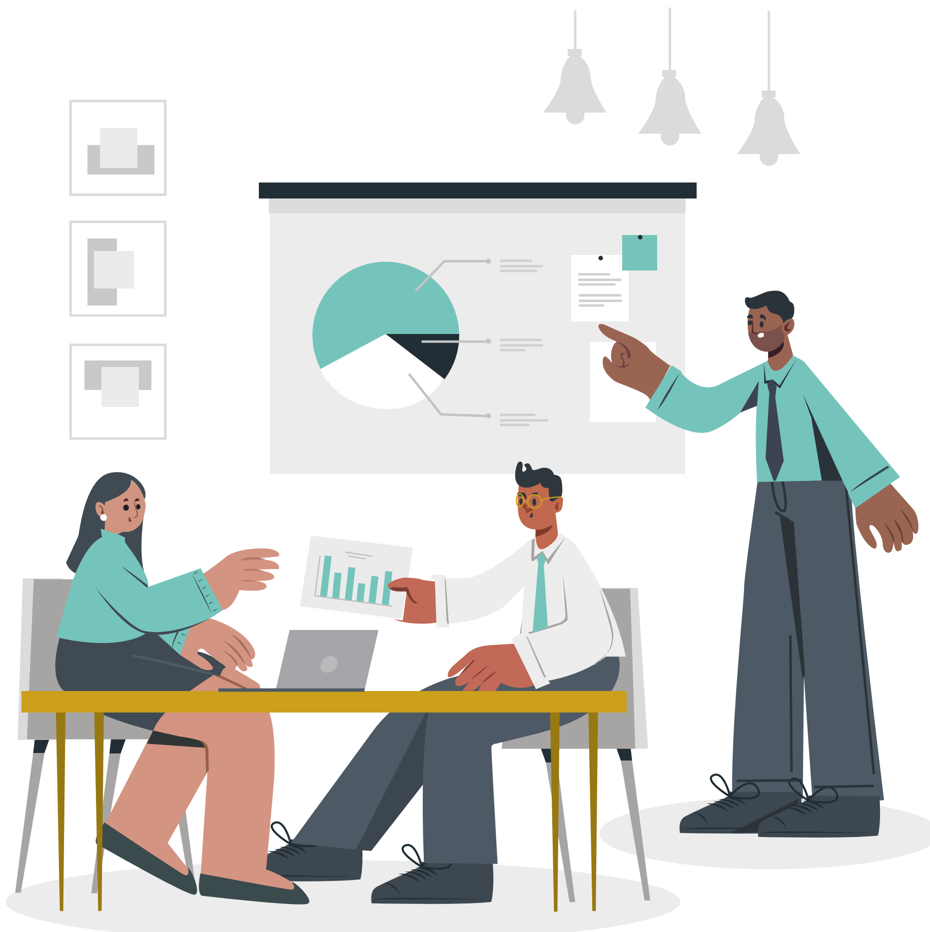
Although performance issues are the primary reason for brands initiating a review, sometimes it's out of everyone's hands. For example, a policy might require periodic partner reviews, or a new CMO is hired and wants to reset relationships.

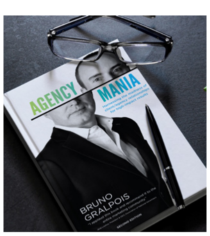
However, when performance is an issue, it's tempting to start a search/review to replace a partner. When relationships are beyond repair, it's a necessity. Yet too often, efforts would be better invested in course correction, mutual accountability and concerted efforts to strengthen the partnership. It's a two-way street. Client behavior, such as poor guidance or communication, can lead to agency performance issues. Striving to be the best client is an effective way to avoid costly reviews.

Most advertisers have a formal 360-degree client/agency performance evaluation program to drive continuous partnership improvement. Despite this, one or both parties may fail to address early signs of misalignment, leading to costly agency reviews. Brand advertisers should set up a robust performance evaluation that drives better insight into improvement areas and their cause and recommend specific, targeted recommendations for both sides. Coupled with a streamlined process to distribute, track and report on action plans, both agencies and clients have a roadmap to follow.

With the right focus on improving the client/agency relationship, the risks and costs of the traditional review can be mitigated.

Striving to be the best client is an effective way to avoid costly reviews.





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Bruno Gralpois is the Co-Founder of Agency Mania Solutions, a premier service and technology firm specialized in helping companies realize the transformational value of managed partnerships. Bruno is the author of best-seller "Agency Mania" and the former chair of the Association of National Advertisers (ANA) Client/Agency Committee and a faculty member of the ANA School of Marketing.

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