

# WHITE PAPER

## The Dynamics of Marketing Procurement Introductory Concepts and Opportunity



- Michael Kleha

### Abstract

You have heard all of the excuses before – marketing is different than other areas

- Our relationships with our agencies is special
- This is the life blood of the company
- The procurement folks ‘just don’t get it’?
- How do you put a price on an idea?
- Etc., Etc., Etc.

Whereas procurement had made tremendous headway in becoming a true business partner to the areas in which they support. In many companies, marketing is still the last holdout area for engagement with procurement. Why is that? Is marketing really that different from other business areas? What does it take to become a true business partner to your marketing colleagues? This paper will examine the dynamics of marketing procurement and offer some suggestions about how a procurement organization can provide effective support to marketing areas and, at the same time, significantly reduce expenditures in support of promotional activity.



## Marketing Procurement – A Retrospective

While indirect procurement has been around for a while, the support for marketing areas by procurement organizations is a relatively recent phenomenon. While it is safe to say that it was being done earlier, the real impetus for involvement of procurement in the marketing area was spurred by the pharmaceutical industry in the middle to late 1990s. When the Food & Drug Administration changed regulations to allow pharmaceutical manufacturers to promote directly to consumers, the marketing budgets for drug companies grew exponentially. The scientifically oriented and extremely analytical pharmaceutical industry was not content to simply hand over substantial dollars on the 'good faith' that those dollars were

returning the results they were promised. As a result, the return on investment analysis and the involvement of (hitherto uninvolved) procurement organizations became commonplace in the interactions between pharmaceutical marketers and their promotional partners. As this trend caught on, and continued to grow and expand, the results became quite obvious – marketing is an area of significant cost optimization opportunity.

These results should not be surprising; many untapped areas show significant reductions upon being subjected to rigorous, professional procurement involvement. But why was marketing left untouched for so long? Well, one reason has to do with the supply base itself. Unlike many other areas where the end

users have significant experience in the supply area (i.e. facilities or Information Technology), the advertising, media, and marketing companies tout the aura of 'mystery' that surrounds their offerings. It is far less common for a client end user to come out of the supply side than in other industries. It is often the case that the end users get their knowledge from their own suppliers, so true 'behind the scenes' insight is not often present in marketing applications.

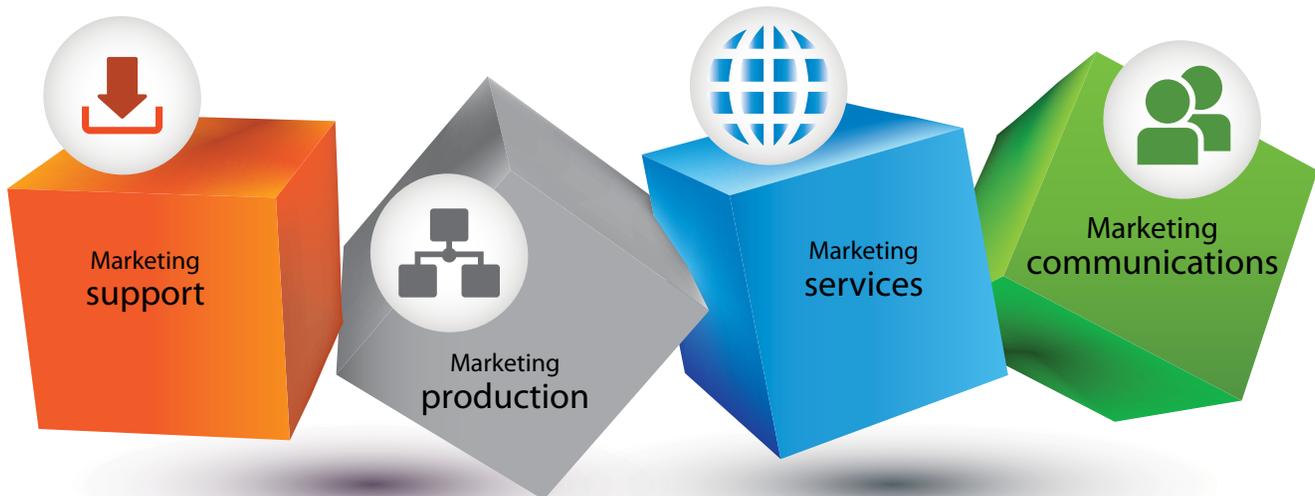
Another reason lies in the perceived uniqueness of the marketing offerings. While most campaigns are in fact unique, the process through which such campaigns are developed is not. We will get into how to de-construct the marketing service offerings in a later section.

## Overview of Marketing Procurement

For the sake of this article, we can divide marketing procurement into four major sections:

Marketing services	Marketing communications	Marketing production	Marketing support
<ul style="list-style-type: none"> <li>• Advertising agencies</li> <li>• Media agencies</li> <li>• Public affairs agencies</li> <li>• Direct marketing agencies</li> <li>• Market research services</li> <li>• Meetings / Conferences</li> <li>• Miscellaneous marketing services</li> </ul>	<ul style="list-style-type: none"> <li>• Broadcast media</li> <li>• Print media</li> <li>• Digital / Internet</li> <li>• Direct marketing</li> <li>• OOH, social media</li> </ul>	<ul style="list-style-type: none"> <li>• Collateral material (print)</li> <li>• Collateral material (digital)</li> <li>• Meetings / Conferences display</li> <li>• Pass through costs</li> <li>• Decoupling</li> </ul>	<ul style="list-style-type: none"> <li>• Fulfillment</li> <li>• Printing</li> <li>• Promotional items</li> <li>• CRM</li> <li>• Reports / Data analysis</li> </ul>

As a general rule, it is easier (and less intrusive to marketing operations) to address the areas in which people services are not being provided. The author would rank the ease of supporting the four areas as follows;



The reasons for this are as follows:

### 1. Marketing support – Lowest hanging fruit

As a general rule, these areas tend to be more mature and established than the others. The services provided are more commoditized in nature. As a result, there tends to be more inherent competition in these areas, and pricing becomes somewhat self-regulated. This is not to say that there is no opportunity. From past

experience, even in the most mature areas like print, savings ranging from 5 to 15% are achievable by application of proper commodity management techniques. These are also prime areas for innovative procurement technologies such as eCatalogs or Reverse Auctions.

Figure 1 illustrates an example of some standard sourcing and category management opportunities that exist in a prototypical marketing support area (i.e. printing)

Category Cost Drivers		Value Drivers Examples From Commercial Printing Experience	
		Sourcing	Category Management
<b>Resource &amp; Rates</b> (Fees charged by vendor)	Machine Rates (exclusive of materials)	<ul style="list-style-type: none"> <li>Competitive, consistent 'capped' fees categorized by machine type (i.e. 6C Heidelberg Sheet fed, die cutter, folder, etc.)</li> </ul>	<ul style="list-style-type: none"> <li>Competitive bidding to drive costs below 'capped' fees (award based on fees + past performance)</li> <li>Paper &amp; pre-press bought directly by client from third party provider</li> </ul>
	Time & Materials	<ul style="list-style-type: none"> <li>Machine rate (above) with paper, pre-press purchased from printer</li> </ul>	<ul style="list-style-type: none"> <li>Measure projects against resource mix targets</li> <li>Use resources from 'high-performing' vendors</li> <li>Benefit from economies of skill</li> </ul>
	Fixed fees	<ul style="list-style-type: none"> <li>Stratification of projects into discrete pieces. Printers quote on each piece (i.e. 6C brochure, 4C slim – Jim, 4C Wall poster, etc.)</li> </ul>	<ul style="list-style-type: none"> <li>Competitive bidding to drive costs below 'capped' fees</li> <li>Applies to apples comparison of capabilities</li> <li>Well defined project deliverables</li> </ul>
	Discounts	<ul style="list-style-type: none"> <li>Discounts where vendor benefits from increased volume &amp; run size</li> </ul>	<ul style="list-style-type: none"> <li>Drive volume to preferred suppliers</li> <li>Tier discount structure to drive greater efficiencies</li> </ul>
	Incentives	<ul style="list-style-type: none"> <li>Consistent incentive structure</li> </ul>	<ul style="list-style-type: none"> <li>Application by SoW &amp; track performance</li> </ul>
<b>Demand Management</b> (Volume of services procured)	Stratification based on delivery requirements	<ul style="list-style-type: none"> <li>Direct work based on required equipment requirements (i.e. 6C job on 8C press vs. double pass on 4C press)</li> </ul>	<ul style="list-style-type: none"> <li>Places demand on supplier to be efficient</li> <li>Can increase turnaround time and reduce costs through improved utilization of contracted equipment</li> </ul>
	Stratification based on type of work (i.e. web vs. sheet fed)	<ul style="list-style-type: none"> <li>Contracts with preferred suppliers specific to the types of equipment which will be utilized to complete the work</li> </ul>	<ul style="list-style-type: none"> <li>Compliance with contract stipulations regarding type of equipment</li> </ul>
<b>Disbursements</b> (Non-value add costs passed through to BoA)	Paper	<ul style="list-style-type: none"> <li>Selection of brokers for supply and storage</li> </ul>	<ul style="list-style-type: none"> <li>Standardization of paper specs across job types</li> </ul>
	Prepress	<ul style="list-style-type: none"> <li>Selection of 'Hub' supplier</li> </ul>	<ul style="list-style-type: none"> <li>Efficient utilization of client images</li> </ul>
	Ink	<ul style="list-style-type: none"> <li>Directive on Soy / Green inks</li> </ul>	<ul style="list-style-type: none"> <li>Corporate environment / compliance initiatives</li> </ul>
<b>3rd Party Partners</b>	Agencies	<ul style="list-style-type: none"> <li>Direct agency work through contracted, print, paper, pre-press suppliers</li> </ul>	<ul style="list-style-type: none"> <li>Direct reduction of agency out of pocket costs</li> <li>Mandatory as part of agency agreement with client</li> </ul>

Figure 1

## 2. Marketing production – BPO target

Marketing production is a significant area of opportunity and probably the area that is most amenable to a consolidation strategy and apt for an outsourcing / offshoring model. In fact, there are currently several major companies who are effectively offshoring this aspect of their marketing operations.

Suppliers in this area tend to be affiliates of larger holding companies. Efforts related to decoupling of services, identification of preferred third party providers, and outsourcing / offshoring are fairly common in attempting to manage spend in this area. While there are many opportunities related to contracting efficiencies, by far the biggest prospect relates to outsourcing of this activity

This work is evaluated against the following criteria (Figure 2) used to evaluate success.

It should be noted that, while outsourcing can yield significant savings, it requires effective change management and rigorous commitment from the client teams.

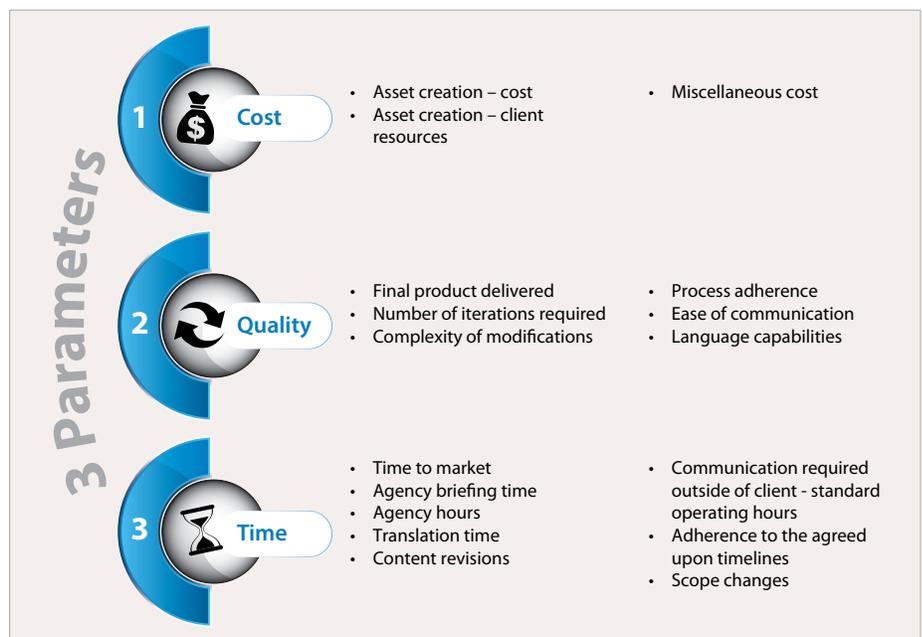


Figure 2

### 3. Marketing services - The Heart of Marketing

Now we are getting to the core of marketing procurement services. Marketing services (advertising agencies, media agencies, market research, etc.) represent the life blood of marketing organizations. The success of the marketing effort is often dependent on the end product of these service providers. As such, marketing end users are reluctant to expose their suppliers to anything less than a trusted partner who is highly skilled in negotiations of this nature. There are numerous pricing models utilized to manage cost in this area, but the most prevalent at this time appears to be some derivative of a cost plus methodology. Obviously, to build cost models of this sophistication, extensive insight is required into the financials of the supplier organization. That is why, close interaction is required by all involved parties when

undertaking a negotiation of this nature. When done correctly, the end result is a good one. The supplier has all fixed costs covered and is paid a guaranteed profit on top of cost for the time the supplier expends on behalf of the client. The client receives the 'right cost' and has complete transparency into what they are paying for. Once the fee is derived, the project can be managed through a number of different compensation models (i.e. hourly rate, fixed retainer, project basis, etc.).

### 4. Marketing communications - The Final Frontier

Perhaps the most complex area for procurement to influence is the area of marketing communications. The reason for this is that pricing for many of these offerings is complex and cannot be subjected to traditional cost modeling techniques (i.e. broadcast media). Areas such as magazines and online media can

be somewhat easier, due to the availability of inventory and competition within the industries. This is one of the core strategic functions of marketing, and requires sustained relationship with the client to be able to manage these services for them.

While the complexities are abundant, the rewards can be significant. With a larger consumer advertiser spending hundreds of millions of dollars in this space, it is easy to see how even a small percentage can result in substantial savings to the organization.

It is virtually impossible to post savings in the marketing communications space, without the deep involvement of the marketing communication agencies, as virtually all communication channels are purchased through these agencies. Figure 3 show some of the basic areas where agencies provide services in the marketing communications space.



Figure 3



## The Way Forward - Engaging in Marketing Procurement

### The consulting model

As we have discussed, working in the marketing space is all about gaining the trust and respect of both the marketing end users, as well as the suppliers. As procurement professionals, the objective of any client discussion is to uncover any potential client interests and needs. The best result of an initial conversation would be to gain acknowledgement from the client to engage in follow-up with the category leads in the marketing domain.

In general, the needs for marketing will be more prevalent in some types of clients more than others. Following is a general guideline as to which industries are more apt for marketing procurement outsourcing;

1. Media and entertainment
2. CSP / Telecom
3. Healthcare / Pharmaceutical
4. Hi-Tech / Software
5. Financial services
6. Manufacturing
7. Energy and utilities

This is based on the general nature of the business and the extent to which messaging to consumers is a required part of the business. Many of the lower entries on the list rely more on business-to-business communications as a primary marketing vehicle. Consumer messaging is more costly than business-to-business.

While the marketing area may initially be a tough nut to crack, you will find many rewards once you are able to gain access. Based on the level of prior procurement involvement, this area can be rich with potential optimization opportunities. The keys to success in the marketing procurement realm lie in the essential collaboration with the internal stakeholders and the deep understanding of the supplier marketplace. If you invest the time to develop each of these aspects, your organization will reap significant benefits.

## About the Author



### **Mike Kleha**

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Mike has 24 years of experience in the areas of marketing and marketing procurement. As a charter member of the marketing procurement effort at Merck & Co., Inc., he led the areas of media, agencies, print, paper, and digital marketing procurement. He also served as media director for several years. Mike also led the procurement effort for global outsourcing of marketing production as procurement director for AstraZeneca Pharmaceuticals. Mike resides with his wife and three children in Philadelphia, PA.

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