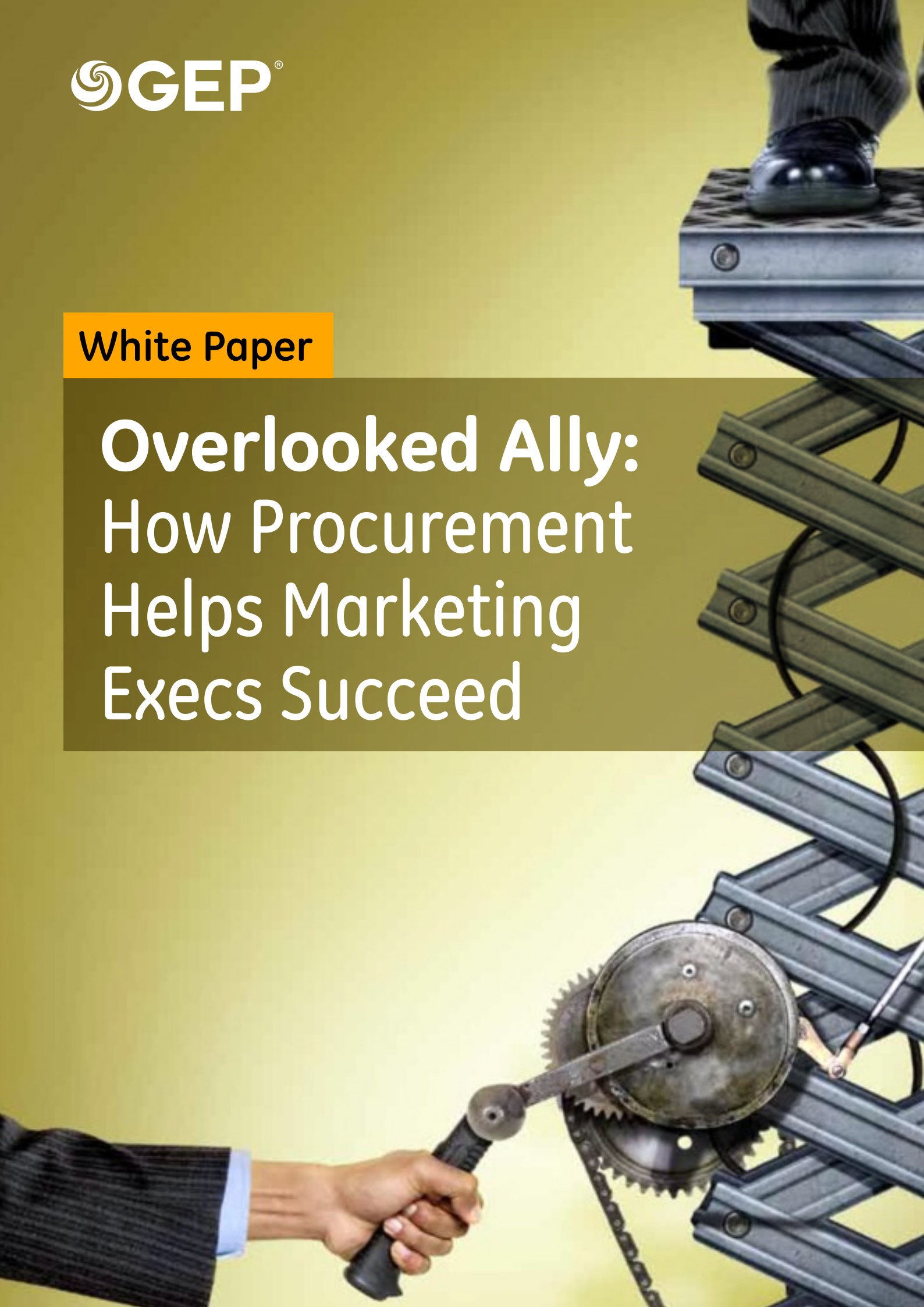




White Paper

Overlooked Ally: How Procurement Helps Marketing Execs Succeed





Executive Summary

As a former CMO, I know first-hand the tension that can sometimes exist between marketing and procurement. But is it really as simple as bean-counters vs. spendthrifts? Not if you take a good, honest look.

Truth is major global enterprises benefit from excellence in both disciplines. But a lack of knowledge and understanding can yield confusion, discomfort and hesitancy on everyone's part.

CMOs know that marketing programs are not bought by the pound. They fear decisions solely made on a cost basis, treating all goods and services as commodities, without the crucial understanding of what makes one deliverable more valuable than another.

Procurement, on the other hand, may view marketing as resistant to cost accountability or any attempt to applying meaningful financial metrics to their promotional activities.

This mutual suspicion is highly ironic.

Excellent marketing delivers competitive advantage, price premiums and revenue growth that create opportunities for investment in shared corporate competencies such as procurement.

Procurement by helping marketing achieve more value on marketing spend, contributes to what in effect is a larger marketing budget, which is a good way to think about marketing spend optimized by your procurement team.

Clearly, a little education, in both directions here will go a long way.

Open Minds, New Potentials

Working for a Fortune 500 media and entertainment company, I was asked to work with the corporate procurement department to help identify and realize savings in my activities and those of my peers in other divisions.

I admit that I had a severely limited understanding of their role and its relevance to me – they're the

department that bought supplies for the company, right? In this I was mistaken.

I did have enough horse sense, however, to try to understand what I could gain from them. Indeed, the budgets I managed were not increasing to keep up with media inflation, consumer media being the largest piece of my budget.

Procurement is an Ally

In a recent article in Advertising Age, a senior procurement executive said, "Ultimately we want to embrace a more strategic role in our companies and we want to align our metrics with the growth strategies of our organizations."

Indeed, according to a recent study, procurement executives say that "agency or supplier performance" should be the primary metric in evaluating outside marketing resources. Cost was number four on that list. So much for penny pinching.

And let's face it. Better deals can sometimes be had with absolutely no diminution of quality whatsoever. Fact is for whatever reasons – time crunches, relationships, you name it – we can find ourselves over spending.

A recent case in point, one tobacco giant routinely spent millions on print materials – in excess of \$10 million actually – direct mail pieces, point of purchase materials, magazine inserts and coupons.

Over time, marketing had used nearly two dozen different suppliers, as it was believed no one supplier could meet all of the company's specialized needs. As a result, there were no long-term contracts in place. All projects were purchased on a spot basis.



Working together, marketing and procurement identified this as an area of possible improvement. A competitive RFP process was put in place, but any potential supplier that either increased business risk or might compromise brand quality were immediately disqualified.

Printers were evaluated on experience with the category, financial strength, account service, technical capabilities, delivery times and capacity. The company eventually signed long-term agreements with a carefully vetted subset of selectees.

Bottom line was a 25% reduction in printing costs with improved SLAs, including faster guaranteed turnaround on critical jobs.

An “Aha” Moment



It's no secret that trade show booths are expensive to build, store and create. At my company, there were two groups that used these booths extensively – one group that used them for events within the United States and another group that used them for events around the globe. The group in the United States owned booths, which cost in excess of \$1 million, and spent a large amount on storage every year. Meanwhile, the global group spent additional monies on the rental or creation of booths for trade shows in 18 different countries.

Our procurement team reviewed our events marketing spend and suggested that the company would save a good deal of money if the booths were simply constructed differently. If made modular, they could easily be broken down and shipped to global trade shows. Instead of each team spending money on separate booths, the booths could be shared globally, thereby reducing costs. Seems obvious now, but the fact is we didn't think of it.

This solution saved the global team significantly on international events. The U.S. team benefited as well – booths that sat around in storage for long periods of time were now being used, saving them the cost of storage.

Our evaluation of trade show booth spend led to rebidding and contract negotiations with vendors that supported our events marketing activity. This ensured that we received the service we needed at the best possible prices and the best return on our expenditures. In fact, the global group was able to save 20% per year on its trade show budget.

After this initial success in reducing our events marketing costs, we looked to procurement for other areas to analyze and source. The entertainment industry spends an extraordinary amount of money on premiums and corporate gifts. After a review regarding quality of goods, we decided to consolidate our merchandise purchases across divisions. Not only did my team save 15-20% per year, but it freed up resources to fund other marketing programs. Our colleagues in procurement helped with budgeting, paying bills and conducting periodic reviews.

Marketing still selected the items we used, but selecting vendors, managing RFPs and negotiating prices was left to a team with more experience. With our procurement team's assistance, my marketing team was able to save money on major expenses and redirect our funds.

Media Spend

Optimizing advertising spending does not mean buying media placements on the cheap. Indeed, securing the lowest CPM may be completely the wrong strategy. The fact is that good media buying is often a mix of quality and quantity.

As a CMO, the largest portion of my marketing budget went to media buying. As my partnership with procurement deepened, I needed assurance that a consolidated buying process would serve my needs.

Marketing and procurement collaborated on a rigorous set of selection criteria. Once a prospective partner was identified, we tested the solution – in

part to satisfy the needs of my business would benefit from this new arrangement. After a successful test, we decide to move ahead with consolidated buying. After launch, procurement helped negotiate commission rates on an ongoing basis. This rate was based on media vehicles used, spend rate, and other variables.

Again, the bottom line – moving the company's collective media buying to a single source saved my unit alone 7-12% per year, a savings of tens of millions of dollars.

What's Working is Working

None of the areas discussed above interfered with the ongoing relationship that my marketing team had with its key creative resource – in our case, an ad agency.

Frequently, these are strong, productive relationships that provide input on strategy as well as execution. As mentioned above, I had annual goals and our agency had skin in the game as well. Indeed, their continued relationship with the company was based on how well the business was doing.

But, this relationship did provide an opportunity for an incentive-based compensation structure. In these situations, procurement is best prepared and perhaps, best positioned as well, to negotiate these contracts.

Managing agency performance is one of the creative aspects of a marketing chief's job. It provides them with challenges that are quite different from pricing or collaborating with sales or managing a budget.

In a recent study, innovation and creativity were cited by 98% of the marketing leaders when asked about the most important criteria in selecting marketing agencies. Clear recognition of the importance of innovation by procurement too will give that team a leg up in working through cost issues with marketing counterparts.

Found Money

A leading consumer products company budgeted tens of millions annually for the production of television commercials. In light of this significant spend, the marketing and procurement teams began to explore potential ways to save some money without sacrificing the quality of the company's commercials.

The company's ad agencies were enlisted in an evaluation and selection process that would maintain or raise the quality of work, while still reducing the costs of the commercials.

Then the procurement team conducted an RFP process across the six major elements of commercial production – live action, animation,

production services, audio/sound, post-production and adaptation.

Again, the company's agencies were involved continually to ensure that procurement had captured and communicated all the specifications and requirements correctly.

Savings were realized in the form of the negotiation for volume discounts based on the quantity of work that would be generated. After this process concluded there was a pool of suppliers that could be used with pre-negotiated rates for their specialty.

Bottom line – Millions saved annually in production fees over 7 years and counting.

Share the Plan

Procurement too often gets involved only once a decision has been made by the head of the marketing department to begin the review process for a new agency or marketing resource.

This needs to change – the procurement team should be included while the decision making process takes place.

Studies have shown that the earlier in the process that procurement gets involved in discussions on the goals for the marketing spend for the year, the more it can prove to be an asset and be allowed to be proactive instead of just reactive.

My advice – once it's been approved by management, share the plan. This way procurement can understand “why” programs are going to be put in place for the year, and not simply “what” is being planned.

Consequently, they will be in a position to be fully informed when they are called upon to participate in managing the bidding process, contract negotiations, resource selection and other key activities.

If involved early on, the procurement team can help track and calculate a true gauge of ROI. If management can be shown that the marketing spend is having a positive impact on the bottom line, they are more likely to commit additional funds throughout the year, allowing for positive business performance. In this way, new programs can be added, or existing ones can be expanded.

And to keep them abreast of what's happening, the procurement team needs to be invited to periodic reviews of marketing program results.

Results Change Perceptions

Procurement's perceptions of marketing's ability to deliver ROI rises proportionally with its level of involvement in managing marketing spend categories. This is perhaps not surprising. Greater collaboration leads to better understanding and greater appreciation among the procurement professionals around the real value that marketing delivers – and vice versa.

At a recent conference sponsored by Advertising Age, Sopan Shah, global leader of advertising and marketing procurement at Nestle, discussed how his team had focused less on cost reduction and more on innovation.

His team moved from a role of reaction to proactive value creation, creating a relationship

between one of their beverage brands and a social media firm to more directly connect the brand with its users. This was accomplished with no appreciable cost.

With an increased understanding of the annual marketing plan, procurement can take the role of strategic partner and advocate, analyzing such issues as the bundling, or unbundling of marketing resources by the company. Depending on actual marketing spend, number of brands in the company, their use of outside resources, seasonality of business and other factors, there's a lot on the line. Procurement is in the ideal position to do the analysis and make recommendations that make sense for marketing and, by extension, the enterprise overall.



Here to Help Each Other

When the marketing and procurement teams collaborate, every stakeholder in the enterprise stands to benefit acutely. Some tips on helping this along:

- Marketing and procurement teams need to educate each other on exactly what they do and how they work. It's time well spent if ROI is your measure
- Marketing should clearly communicate the role of external partners in the successful completion of goals and programs for the year
- Procurement should shed the black box, explaining the benchmarking, analysis, RFP process, and ROI calculations that they make and why
- Procurement should understand their company's brands and their competitive positioning in their category
- Marketing needs to share their annual plan in advance of executing it. This gives procurement the chance to add value proactively
- Marketing and procurement teams need to know that, at the end of the day, their objectives are really the same

If the marketing and procurement teams in your enterprise can increase collaboration, I'm confident success – in the form of realized savings, great value for money and improved results – are practically unavoidable. Try it and see.



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