

The Agency Edge

RESEARCH SERIES



2015 Agency Hiring and Firing Insights

Presented by





Introduction

On the heels of their 2014 Agency Insight study, Agency Management Institute and Audience Audit conducted new quantitative attitudinal segmentation research with over 500 marketing decision-makers to better understand the circumstances and motivations behind the hiring and firing of advertising and marketing agencies.

We partnered with Research Now, a leading global online sampling and data collection company with over 6.5 million panelists in 39 countries, to ensure that we had verified respondents with decision-making status with regard to marketing activities.

Respondents in the study met the following criteria:

- They are engaged in decision-level marketing roles within their organizations – Marketing Directors, Vice Presidents, CMOs, Presidents or owners;
- They are responsible for final approval with regard to marketing strategies and expenditures for their organizations;
- They have hired advertising or marketing agencies within the last two years;
- Their organizations have marketing budgets between \$500,000 and \$10 million this year, and gross revenue between \$1 million and \$200 million.



The Respondents

Respondents from 500 organizations participated in the study, from across the country.

They reflected a range of job titles, with 28% saying they are Marketing Directors, 22% Vice Presidents, 26% Owners and 24% CMOs or Presidents.



500 organizations participated in the study

62% say they are solely responsible for final approval with regard to marketing strategies and expenditures for their organizations, with the remaining 38% part of a group that is responsible for those approvals.

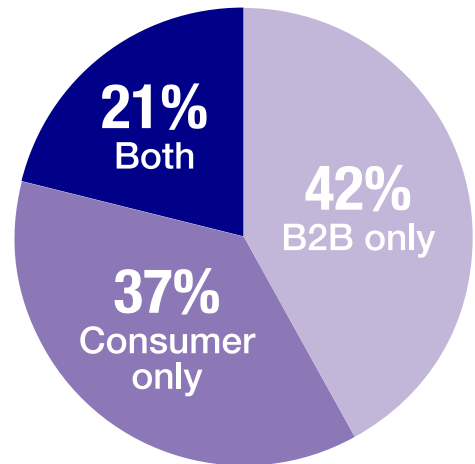


The Organizations

42% of the respondents' organizations are B2B only, and 37% serve only consumers. 21% are both B2B and B2C sellers. A handful also serve government clients along with their B2B or B2C targets.

They reflect a wide range of revenue levels. The majority reported revenue levels between \$1 million and \$50 million. (3% have under \$1 million in revenue, but were allowed to participate because their marketing budgets were at least \$500,000.)

The majority of respondents, 57%, say their annual marketing budget for 2015 (not including personnel costs) is between \$500,000 and \$1 million. 29% are between \$1 million and \$4 million, and 14% are over \$4 million.



The Segments

A series of attitudinal questions were evaluated to identify distinct groups within the respondent population. (See more about our study methodology at the end of this report.) Each of the segments has a very different perspective with regard to how they approach the agency search and selection process.





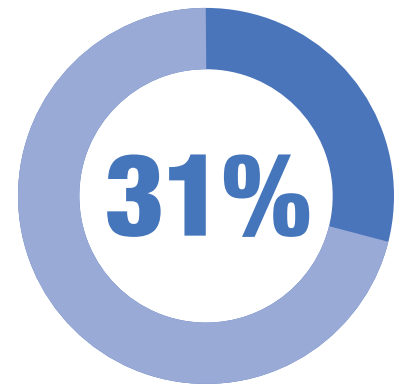
Segment 1: Kindred Spirits (31% of respondents)

“Kindred Spirits” are looking for a personal connection with their agency partners. For them, meeting agencies face-to-face is a critical step in choosing the right agency.

They expect agencies to bring the same people to the pitch as will be working on their business day-to-day.

They also expect the agencies they’re considering to know their industry well. They hire for expertise and plan to follow their agency’s recommendations, so expect to see use of data in driving agency recommendations and examples of specific results achieved for clients.

“Kindred Spirits” have a favorable opinion of agencies overall. They believe that most genuinely want to understand their customers and their business, and they are the most likely to say their process for identifying and hiring agencies is extremely fair to all participants.



Kindred Spirits

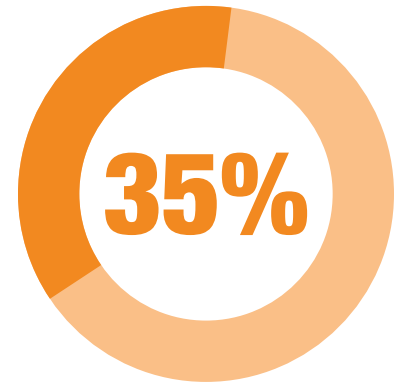


Segment 2: Arm's Length (35% of respondents)

“Arm's Length” respondents are often required by their organizations to review multiple agencies even if they've already identified the one they want to hire, and to review agencies frequently, even if they're happy with their work.

As a result, they are less emotionally engaged in the agency hiring process than other segments, doing less research on prospective agencies and relying more on characteristics such as agency visibility and prestige, awards, media coverage and offices.

“Arm's Length” organizations are comfortable setting marketing strategy, and are more likely to say they just need agencies to execute those ideas. They expect their agencies to know more about their industry and opportunities than they do, but are comfortable hiring an agency that doesn't know their business as long as they're willing to learn.



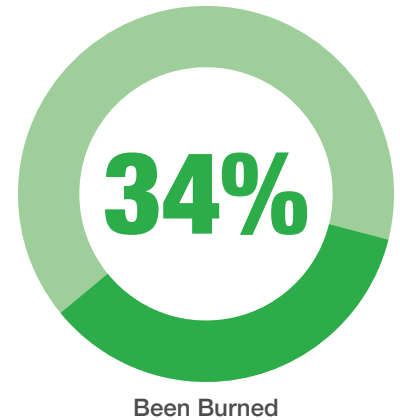
Arm's Length



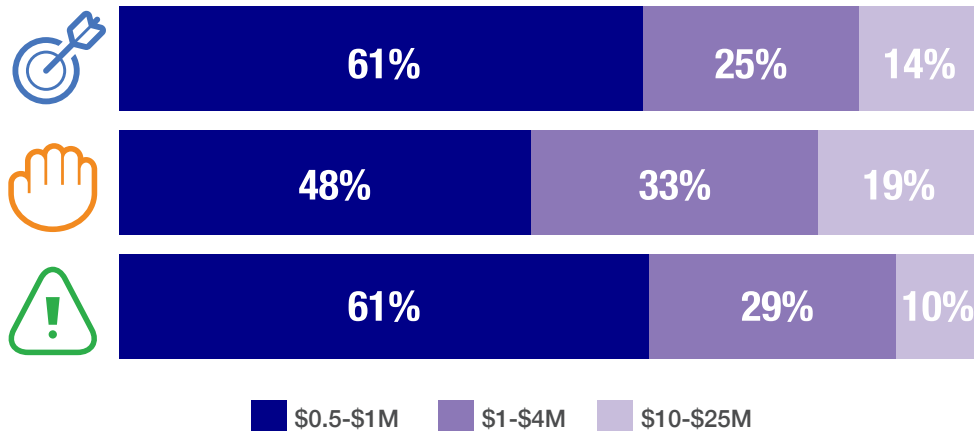
Segment 3: Been Burned (34% of respondents)

“**Been Burned**” segment members are much more skeptical about agencies than the other two groups. They believe most agencies pretend to know more about their industry and their business than they really do, and that agencies usually don’t give their company’s needs the level of attention they should.

They are more concerned about an agency’s performance than about them being a good personality fit, and are comfortable with an agency using less senior staff for day-to-day activities on their business as long as senior agency personnel are overseeing their account.



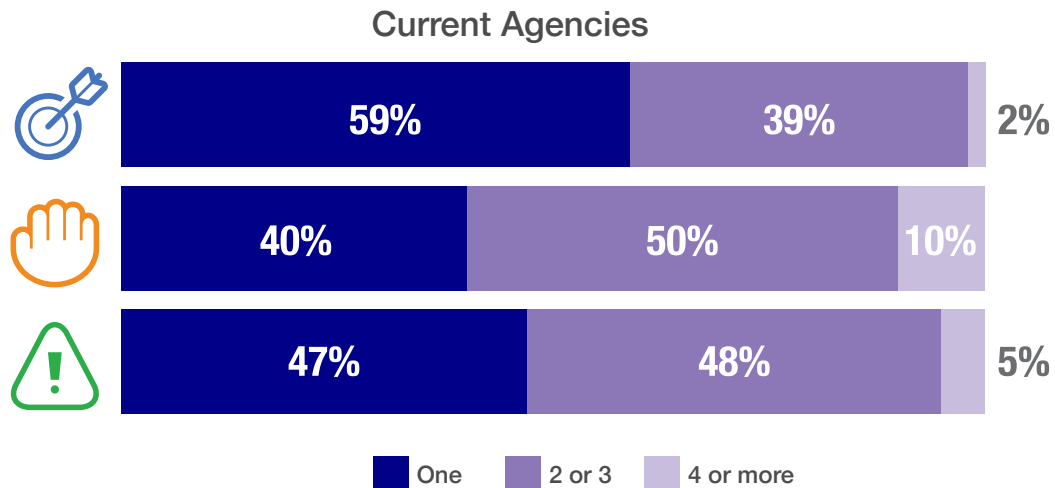
Marketing Budget





Current Agency Relationships

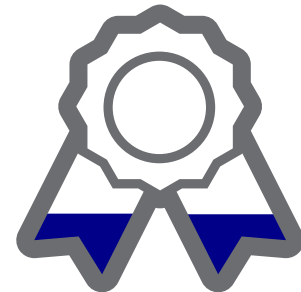
Half of respondents have more than one agency. **“Kindred Spirits”** are the most likely to have only one, at 59%.



While number of agencies doesn't vary by company revenue, the organizations with the largest marketing budgets are more likely to have multiple agencies.

44% of respondents say they use an agency regularly for project work – **“Arm's Length”** respondents are less likely to say this is the case (38%). **“Kindred Spirits”** are more likely to say an agency is instrumental in their annual marketing planning, at 42% (compared to 31% of **“Arm's Length”** and 27% of **“Been Burned”** respondents).

“Kindred Spirits” are more likely to give their current agencies credit for having a wide range of expertise. Marketing strategy, digital marketing and creative development top the list.



Only 20% of respondents report having an Agency of Record.



Marketing Budgets

All segments have similar revenue ranges.

“Arm’s Length” organizations have slightly larger marketing budgets, even compared to organizations in the other segments with comparable revenue.

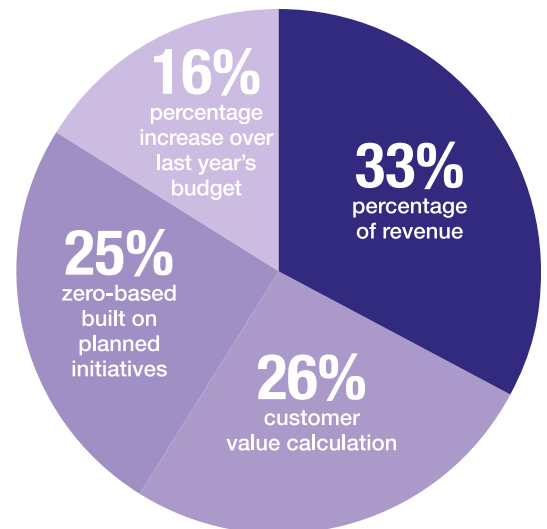
Marketing budgets are established using a variety of approaches. 33% of respondents say that a percentage of anticipated revenue is allocated for marketing, ranging from 5% or less of revenue to more than 20%. **“Arm’s Length”** respondents are more likely to allocate more than 20% of revenue if using this approach to budgeting.

25% of respondents use a zero-based budget built based on planned initiatives, and 16% say a simple percentage increase is applied to last year’s marketing budget (typically 15% of last year’s budget or less).

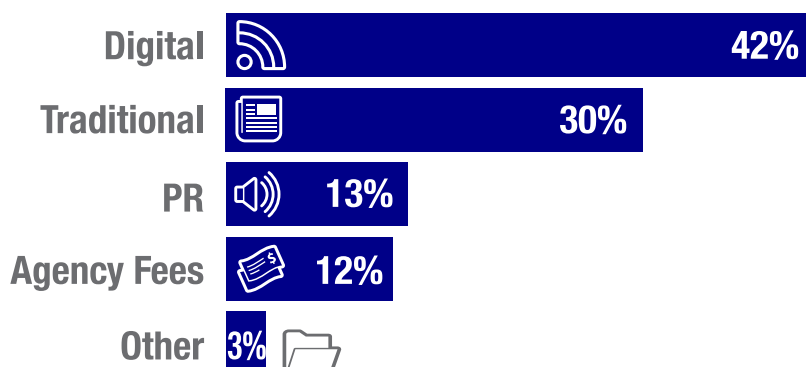
Regardless of segment, all respondents report similar marketing budget allocations by category. Digital media and activities get 42% of the marketing budget, on average, while traditional marketing gets 30%. PR and agencies fees are both under 15% of budget.

When asked which budgets will be increased next year, respondents cited digital ads/media and other online marketing far more frequently than any other categories as slated for higher budgets. While many respondents say that budgets will stay fairly flat even for these categories, 37% said digital ad/media budgets will go up next year, and 45% said the same with regard to other online marketing.

Approaches to Budgeting



26% of respondents say their marketing budget is established based on a calculation of lifetime customer value, tolerable expenditures per customer gained, and annual sales targets.





Hiring Agencies

While agencies might prefer to believe that dread of the agency search process discourages organizations from moving to a new agency, most of our respondents feel otherwise. 57% of the group says they “like” or “love” the process of choosing an agency – more than 60% of “**Kindred Spirits**” and “**Arm’s Length**” respondents, and 48% of “**Been Burned**” respondents.

60% of “**Arm’s Length**” and 53% of “**Been Burned**” respondents say they consider at least two agencies when they’re searching, while only 41% of “**Kindred Spirits**” do.

There does not appear to be one “best” initial contact for agencies interested in being considered. 29% of our respondents chose VP of Marketing, 25% chose CMO, and 20% chose Director of Marketing. There is no substantial differences between the segments on this question.

While the VP of Marketing is the most frequently-cited source of the initial list of agencies as a search begins regardless of segment, “**Kindred Spirits**” are much more likely to include a broad swath of the organization in this process – Director of Marketing and CMO, the company’s President, CEO, and even VP of Sales. They are also more likely to include these roles, as well as CFO, in the process of reviewing prospective agencies.



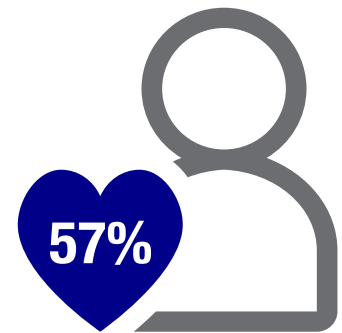
**Recommendations
are #1 source of
prospective agencies**

Recommendations by business contacts is the most-frequently cited source of prospective agency names when organizations are developing their initial list of agencies to consider. Industry experts are second, and recommendations by other vendors or service providers is mentioned by 45% of respondents. “**Arm’s Length**” organizations are less likely to cite many of these sources than other segments.

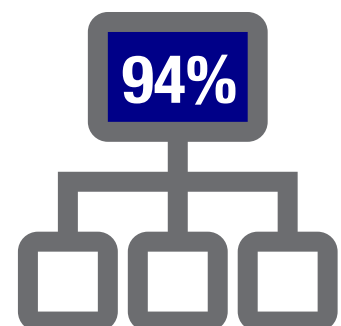
Respondents most frequently cite their CEO and President as making the final decision about hiring a new agency. “**Arm’s Length**” organizations are less likely than the other segments to involve anyone else in that decision.

49% of respondents say they typically take more than three months to choose an agency once they’ve decided to begin their search. “**Kindred Spirits**” are more likely to come to a decision more quickly.

A whopping 94% of respondents believe their search and selection process is effective in finding agencies that are a good fit for their organization. This is the case for 100% of “**Kindred Spirits**” in our study.



**“like” or “love” the
process of choosing
an agency**



**think their process is
effective**

We asked study participants if they believe their organization has a “special sauce” for finding the best agencies, and half say they do. The number is highest – 66% — among **“Arm’s Length”** respondents. When asked what that “special sauce” is, we saw a wide range of answers – from “gut” to “socializing with their clients” to “review by a variety of staff, not just the marketing department”.



say their company has a “special sauce” for finding the best agencies

“A sixth sense”

“All agencies are reviewed by a variety of staff, not just the marketing department.”

“We ask them to take a personality test”

“Speaking the same language and on the same wavelength”

“Taking a chance on someone totally out of the ordinary”

“We take a ‘Hunger Games’ approach”

“Solid verifiable examples of previous work”

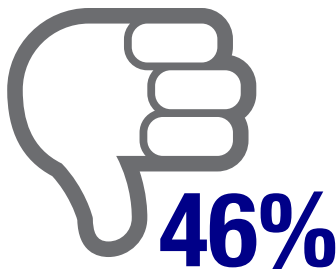
“Socializing with others who have already hired them”

“We hold joint full-day ideation meetings”

“We give them a mock project to do”

“Requesting from their clients a review of their success with the agency”

“We reach out to their former employees”



say there are factors that automatically disqualify agencies

Many also have identified factors that automatically disqualify an agency from participating in their search process. When asked to share them, respondents cited characteristics such as bad publicity or agency reputation, a poor website, a lack of integrity or experience, and personality conflicts.

“If their past clients didn’t increase their annual revenue we don’t work with them”

“Employees with a criminal history”

“Lack of prep. Talking too much and not probing for buying signals”

“If they advertise that they donate to causes I am diametrically opposed to”

“Too aggressive”

“If they’re not truthful about what they have to offer and what they can do”

“Typos in proposals”

“Competitive clients”

“Bad publicity”

“They think they can address our needs with little input from my team”

“No experience in my industry”

“Negative reviews from BBA”

“A lack of integrity”

“Discounting fees”

“Horrible website”

“Personality conflicts”

“Bad reputation”

When hiring agencies, respondents listed industry expertise, a recommendation from someone they trust, examples of specific results achieved for clients and use of research and data in driving recommendations as the most important features. Specialized expertise, a wide range of services offered, the reputation of key agency employees and case studies of work done for clients are also seen as valuable.

Multiple offices, media coverage, category exclusivity and awards were rated less important overall.

Segments rated the importance of these factors somewhat differently. **“Kindred Spirits”** rate expertise and examples of specific results as more important than other segments. **“Arm’s Length”** respondents were more interested in an agency’s engagement in social good activities, visibility at industry events, the prestige of the agency’s brand, awards received, media coverage, category exclusivity and multiple offices around the region or country.

“Been Burned” respondents are less interested in an agency’s social media activity or the prestige of their brand.

It is clear that contact and information from prospective agencies is seen as positive by the overwhelming majority of respondents. 75% say receiving information about agency clients and projects in their industry positively impacts their opinion of an agency, and 74% say receiving information about agency clients who have faced similar challenges to their own and overcome them does the same.



Firing Agencies

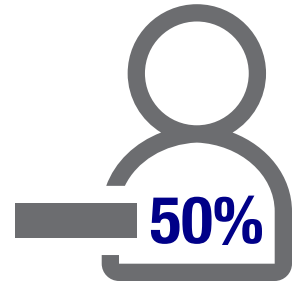
Half of our respondents say their organization has fired an agency in the last two years, regardless of segment.

The top reasons for firing agencies are that their work didn't achieve the desired results (46%) and not receiving the appropriate level of attention or responsiveness (31%). **"Kindred Spirits"** and **"Been Burned"** respondents are much more likely to cite a lack of results as a reason for firing their last agency.

When they do fire an agency, the majority of respondents say they discuss their concerns with their agency prior

to making the decision to fire them, and give the agency a specific timeframe in which to correct the situation and retain the business.

"Arm's Length" respondents are the most likely to say they don't actually notify the agency they're being fired.



of respondents
have fired an
agency in the
last 2 years



of **"Arms Length"** respondents
say they don't actually notify the
agency that they are being fired,
they just stop using them.



Implications

The results of the study are without judgment. No one segment is better than another but without a doubt, one segment might be a better fit for your agency.

In this section, we're stepping away from the actual facts and figures to use our expertise to help frame some of the implications that the data suggests.

At Agency Management Institute we firmly believe that agencies need to find ways to specialize/differentiate themselves from the hoards of other agencies out there.

Being very clear about which of these segments you could delight and grow versus the one/s that would really stretch you beyond either your capacity or focus is one of the most important aspects of doing new business prospecting well.

Hopefully this section of the report will help you identify which of these segments you should seek out and which ones you should avoid.



If you want to work with the companies that have budgets over \$4 million

Agencies who choose to pursue organizations with larger marketing budgets will have an easier time capturing this group's attention by being a well-known agency with a prestigious reputation, lots of impressive awards and a visible presence at industry events. But you also have to be comfortable knowing that you won't have them to yourself. These clients are more likely to have multiple agencies so they're willing to play the field but won't let you. They place a premium on exclusivity in their category.

They value the use of research and data in driving recommendations to a greater extent than organizations with smaller budgets, and are more than twice as likely to budget based on more sophisticated methodologies – like lifetime customer value, expense per customer gained and sales goals.

Agencies courting these companies must be prepared to engage in these types of discussions and support their recommendations accordingly. Putting metrics in place at the inception of projects will provide data later to demonstrate agency impact and support future recommendations.

To get on this prospect's radar screen, be sure you are offering industry-specific case studies that demonstrate your numbers-based approach and measurements.



Kindred Spirits

These clients prioritize relationships and personality fit when assessing prospective agencies, and will expect to meet the same team in the pitch who will be working on their business day-to-day.

They think of agencies as their thinking partner, count on them for strategy and intend to follow their advice -- so their focus on the relationship aspect is understandable.

They typically have a wider group of participants involved in evaluating and choosing agencies – including sales, financial and IT executives — so prospective agencies will need to win over the entire team, not just the marketing contact.

Like the organizations with larger budgets, **“Kindred Spirits”** are more likely to use more sophisticated budgeting approaches and value research and data to support agency recommendations more than the other segments.

Fair warning -- these organizations are more likely to believe it's reasonable to expect prospective agencies to show initial creative concepts during the review process [add comma], so if you have a strict “no spec” creative rule these are not the prospects for you.

If you want to attract more **“Kindred Spirits”**, you're going to want to emphasize how you work alongside clients and partner with them throughout the entire process, starting with the strategies. Testimonials and longevity of your client relationships will be critical to spotlight.



Arm's Length

“Arm's Length” organizations are required to review multiple agencies, and to review them on a regular (often pre-determined schedule) – even if they're happy with their work.

They expect agencies to look good and by association make them look good. They like agencies with prestigious brands, nice offices with multiple locations, visibility at industry events and in both general and trade media, and awards. They believe that visiting agency offices is a key element in choosing the right agency because looks matter.

They are less likely to rely on recommendations from business contacts or current vendors, but value mentions by industry experts more than any other source of agencies for their initial list of agencies to consider.

They are the segment that's most likely to believe they have a “special sauce” for choosing the right agency, so agencies vying for their business must recognize that perspective and seek to understand how their selection process may be different from other organizations'. Don't be shy about asking.

These companies expect agencies to execute against marketing strategies developed by their in-house teams, and to learn their business if they don't know it already.

Agencies seeking **“Arm's Length”** clients may pay a price for pursuing these organizations – their regular agency churn suggests that even the best agencies should maintain a robust new business process for the inevitable time when their run with these clients is done.

One way to minimize this constant churn if you're going to pursue this group is to create multiple relationships within the organization and with different profit centers of the company. You may be able to move around the organization and replace lost income from one department with new income from another.



Been Burned

These organizations will come into the search process expecting agencies to lie about their expertise and capabilities, and to give them less-than-stellar attention once a deal is signed.

You can't pretend this attitude doesn't exist. Go at it head on. Agencies facing these prospects will need to recognize these attitudes, acknowledge them and focus on trust-building.

“Been Burned” respondents favor referrals by someone they trust, so maintaining good relationships with former clients and building a sizeable bank of testimonials can help. They're leery of the buying decision so remove as many of the objections as possible. You need to prove to them that you're a safe choice.

They also prioritize knowledge of their industry and customers, so agencies with history and data about those areas will have an advantage. Transparency in communications, excellent customer service, relevant expertise and demonstrable results will aid agencies vying for these organizations.



Study Methodology

Respondents were invited to take an anonymous 15-minute online survey, in which they were asked a range of questions about their roles, their organizations and their attitudes about agencies.

The segmentation itself was developed using a factor analysis of responses to a series of attitudinal questions that participants were asked to rate from “Disagree 100%” to “Agree 100%”. The segmentation analysis did not include demographics or any other information about respondents beyond their ratings on these attitudinal items. Neither the identifying characteristics of segments, nor the number of segments, were predetermined; segments, their characteristics and their members were revealed through the analysis.

Once segments were established and assigned to each respondent, additional characteristics were compared across segments. The total number of respondents to the survey yielded a 4.3% margin of error with a 95% confidence level.