

To main contacts, CEOs, CFOs, COOs, new business contacts, Board of Directors, relevant committees, and SFNAs.

Management Matters | Surviving in this Challenging Economy

4A's members have asked the Association for guidance on steps to take in this challenging economic environment. In this bulletin, 4A's Management Services Division shares a few tips, tools and tactics that you may want to consider as you evolve your 2009 plans:

- Business Development
- Client Spending Commitments
- Client Compensation
- Vendor Liability and Payment Terms
- Talent Retention and Motivation
- Fundamental Blocking and Tackling.

1) Business Development

The 4A's would like to share several timely business development recommendations from a few noted industry experts:

Steve Boehler – Mercer Island Group

Steve Boehler of the Mercer Island Group recommends that agencies “Turn New Business Efforts Upside Down.” Boehler notes that agencies everywhere are finding new business development to be a greater and greater challenge. He highlights the challenges inherent in the “traditional” credentials/short list-pitch process:

- Cold calling experiences are generally unsuccessful and de-motivating
- The investment required and the low odds of winning pitches is debilitating
- There is too much reliance placed on a small group of senior “sellers”
- The difficulty of “standing out” in pitches leads to expensive, wasteful theatrics.

Boehler believes that there is an opportunity to re-invent industry's business development strategies. Instead of the classic priority order of 1) Reviews; 2) Prospecting existing relationships; and 3) Hoping for organic growth and praying you don't lose accounts – turn it around and re-invent your approach to each strategy:

1. Avoid account losses and drive organic, current client growth by loving your current clients the way clients want to be loved. Evaluate each other and bond over the improvement opportunities.
2. Learn to sell. Boehler doesn't mean giving theatrical presentations. He refers to asking the right questions and developing solutions to a client's business problem – and then go get the accounts that you really want.

Boehler predicts that "if you start today, you may salvage 2009. If you don't, you likely won't."

Tim Williams – Ignition Consulting Group

Tim Williams, author of "Take a Stand for Your Brand," recommends that you end "cold calling" because cold calling has always produced only modest results, and today's avoidance-enabling technologies only make it easier for prospects to hide from your phone calls and ignore your e-mails.

In lieu of cold calling, Williams suggests that the way to grow your business is to spend more time and energy on making and marketing a relevant, differentiated "product." Williams notes, ironically, that most of the agencies that constantly kick themselves for not devoting enough effort to "prospecting" are the same ones that have devoted below-average resources to marketing their own brand.

Williams suggest that you need a multi-dimensional publicity plan ... The only limit is the amount of creativity you apply to marketing your own brand. Start with how the product (your agency) is positioned in the marketplace.

Dave Beals – Jones Lundin Beals

Beals notes that it is a difficult environment for negotiating RFPs right now, so agencies need to do a better job of articulating their value and supporting their pricing rationale. A few of Beals' recommendations include:

1. Preparation is 90 percent of the battle.
 - Determine your "gotta haves" and "deal-breakers" in advance
 - Ask the right questions of the client up front (The [4A's Standardized Marketer Questionnaire](#) is a good starting point)
 - Make sure you have sufficient credible information to develop a relevant proposal.

2. When developing a proposal, focus on the client's goals (not just the agency's cost), and be clear about what is included in the scope of the proposal and what is excluded.
3. Develop a negotiating strategy in advance – keep the negotiation focused on the client's goals and the agency's requirements. When negotiating: Be creative and solution-minded. Stay objective.
4. Establish a formal after-action review plan that allows you to check original assumptions and estimates, monitor scope changes and communicate value-added contributions and cost efficiencies that benefit the client.

Beals notes that today's environment demands that agencies put as much discipline, thought and communication into pricing proposals as you do with your client campaigns.

Tom Finneran – 4A's Management Services

The ultimate mechanism for agencies to regain control over business growth, pricing and margins is via independently developing and monetizing agency-owned and controlled IP – now is precisely the right time to restructure your agency's business development mindset and rekindle your organizations entrepreneurial culture

If you are interested in additional insights from Steve Boehler, Dave Beals, Tim Williams, Nancy Hill and other industry and 4A's community thought leaders, visit the 4A's Business Development blog at www.aaaa.org. (Log in and click on the "Blogs" link on the upper-right-hand corner of the homepage).

2) Client Spending Commitments—Metrics Are the Key

Some clients will become more tentative in their marketing aggressiveness or seek to moderate their level of advertising investment in a recessionary economic climate; however, there are a greater number of first-tier marketers that will use a soft marketplace to drive long-term growth, exploit competitive advantage and build a stronger bond with their consumer. This dynamic is dimensionalized in poll results from the October 2008 ANA Annual Conference, which indicated that 67 percent of marketers would either increase their marketing investment or hold it constant (only 33 percent indicated that they planned to reduce spending).

During his 4A's Webinar presentation on new business planning, Brian Martin of Source Martin noted that "Good ideas are getting funded – especially if they deliver data."

If your agency has developed marketing accountability systems with your clients and if you include business, consumer, audience and behavioral metrics as part of your core service offering, you are in a great position to help lead your clients through this soft economic cycle. Use your accountability toolkit to help convince clients of the wisdom and opportunity of spending on measurable programs.

If your agency has not developed marketing accountability systems with your clients, it's time to get cracking – lay out a measurement game plan for your key clients and immediately begin testing program results so that the client has data to support their judgment when considering whether to keep spending or to pull back. Navigating a tricky economy takes more than passion and great ideas – it requires the confidence and commitment that only can be derived from measurable repeatable results.

3) Client Compensation

The current economic uncertainty is leading clients to re-evaluate past practices, reduce fixed expenditures and drive costs out of the marketing supply chain. The procurement led attack on traditional agency cost-based compensation arrangements will likely feature a combination of aggressive tactics including: 1) Client mandates to reduce service redundancies and staffing layers (across disciplines as well as within disciplines); 2) Unilateral cuts to agency overhead and profit margin multipliers; and 3) Increased competitive bidding and project cancellations along with hellish scope changes as clients react to shorter term changes in the market place.

This economic environment requires agencies to get out in front of the compensation conundrum. Agencies will be well served to consider alternative revenue approaches at this time including:

- 1) Offer the client a reduced rate or fractional fee in return for a multi-year agreement with real, meaningful performance incentive provisions (Think reward to risk ratios of 4:1 and 5:1);
- 2) Use the tentative economic environment to increase your share of wallet, perhaps by re-configuring a more integrated service offering and demonstrating to clients how they can save money and improve performance by consolidating more of their business with you;
- 3) Aggressively help clients drive costs out of the marketing supply chain (in areas like production, printing, talent, media bleed charges, network integration fees, creative re-work, etc) but de-couple agency compensation/profit from costs so that as costs are reduced, the agency profit margin isn't compromised (Consider indexing agency profit to the client's sales rather than to the agency's costs);

- 4) When confronted with a reduction in agency compensation, counter with limitations on assignment of rights so that the client has exclusive usage rights in their category but the agency retains rights to re-purpose design elements or software code/applications in non-competitive arenas;
- 5) Pitch more selectively and pitch more efficiently – Target a 20 percent to 30 percent expense reduction – invest part of the savings in developing agency-owned and controlled IP.

4) Vendor Liability and Payment Terms

The 4A's encourages members to protect against client payment disruptions as well as to guard against non-payment by any intermediaries that operate in-between the agency and the media or any of your other vendors (For example, ad brokers or ad networks).

If your client is encountering financial difficulty (or if you cannot readily ascertain the fiscal resources of the advertiser), consider requiring the client to pay in advance of the agency making any material commitments. You may also want to consider structuring vendor arrangements so that the vendor invoices the client directly or alternatively route vendor invoices and client payments through an escrow account.

The 4A's recommended purchase orders, production agreements and media agreements contain sequential liability language wherein the agency obligation to pay the vendor is predicated on the client paying the agency. The specific wording adopted by the 4A's Board of Directors and reflected in 4A's Standard Media Contract forms is:

The agency shall be solely liable for payment of all media invoices if the agency has been paid for those invoices by the advertiser. Prior to payment to the agency, the advertiser shall be solely liable.

Over time, 4A's members have evolved and utilized alternative wording in their sequential liability clauses. The wording variations may merely reflect drafting preferences, while in other instances the sequential liability language may accommodate technical contingencies. For example, the language below stipulates an understanding in the event of a U.S. Bankruptcy Code preference claim situation (which in today's environment could be a meaningful consideration):

We are acting as an agent on behalf of our advertiser client, a disclosed principal, either named hereon or otherwise identified to you. We will only be liable for the cost of the advertising purchased and other obligations to you to the extent we have been paid by our client for any amount payable to you. If pursuant to a court order issued as a result of a preference claim under the U.S. Bankruptcy Code, we return to advertiser or its estate any such amount paid to us, then you will similarly repay us such amount. We agree that we will defend any such preference claim in good faith. Any terms in your invoices, documents or rate cards to the contrary, and any modifications you make to this form, are of no force or effect.

Sequential liability works when everyone in the chain agrees to abide by a sequential liability sequence.

Agencies must be on guard to make sure that your agency's media liability procedures clarify the agency's media liability terms (as well as those of the advertiser) in the event of non-payment anywhere in the payment chain.

If an intermediary is involved (e.g., online ad networks, brokers, etc.), agencies should ascertain the terms under which any intermediaries contract with the media (vendor). The 4A's wants to encourage all members to make sure that their media liability terms and procedures extend to arrangements that include intermediaries such as ad networks, media brokers or buying aggregators.

5) Talent Retention and Motivation

Over the past two to three years, the most frequently cited industry challenge that has been referenced by both agencies and marketers has been talent. The 2006–2008 talent challenge has been an outgrowth of rapidly evolving digital technology exacerbated by the shortage of mid-level managers that resulted from industry layoffs in 2001–2002. Unless you have a game plan to retain your talented personnel, there is a real risk that history will repeat itself and as an economic recovery gains traction, the industry will again face a critical talent deficit.

We offer a few thoughts for your consideration:

Training

- Maintain a commitment to training. In the last economic downturn, training programs were often slashed. This was a mistake then and is a mistake in the current environment.
- Prioritize your training investment.
- Assess e-learning programs, which are efficient, affordable and have improved dramatically over the past few years.
- Consider low-cost in-house training programs (For example, lunch and learn sessions).

- Most importantly, agency management should communicate the organization's commitment to employee education and training.

Culture and Communications

Your employees are likely unsettled by the current economic turmoil. They read the news and they think about the impact that a downward business spiral may have on their careers, earnings potential and their ability to provide for their families:

- Keep employees informed. It is important for agency management to openly communicate with the organization on a regular basis.
- Frankly discuss the health of your business and your action plans. It is important for the organization to see that management is confident and that there is a plan.
- Make it clear what you want and expect from them.

People are less fearful and happier when they know what is going on. So, give each of your employees a clear sense of mission and purpose.

Employee Recognition and Development

There is a host of high-impact/low-cost ways to individually and collectively motivate your talent pool:

Recognize employee contributions. Constructive recognition is timely, personal and specific. Celebrate success and highlight positive employee initiatives. Peer recognition reinforces that "we belong" and "we are contributing" to something worthwhile.

Re-commit to your employee career development and performance assessment process.

Evolve legitimate and functional team-building programs to activate your organization and provide your people with vehicles to positive, affecting agency services and outcomes

Listen. People feel that they are not valued when management does not solicit their opinions or – worse – fails to listen to their suggestions.

If our employees are our most valuable assets, we can't afford to neglect our people or take them for granted. Open communications, management commitment and clear direction (e.g., organizational leadership) can and will inspire elevated levels of employee commitment and performance – which is exactly what is needed in these difficult times.

6) Fundamental Blocking and Tackling

Fundamentals need to be re-emphasized in this challenging environment. The 4A's would like to remind you of a few basic blocking and tackling operating procedures that you may want to keep in mind:

- In this economic environment clients are more apt to scale back projects to “base” levels or to authorize work in phases. These techniques can make it challenging for an agency to calibrate scope of work activities with client authorizations. Agencies should make sure that “base” barebones project authorizations include a change order provision documenting a client-agreed-upon process for compensating the agency if/when scope of work expands.
- Speaking of client authorizations – in an unsettled environment the risk of projects being delayed or aborted increases. Concurrent with initial discussions about a project brief, gather information from the client about: 1) Expected agency deliverables; 2) Client budget parameters (including an approximate budget for agency fees); and 3) the program funding authorization process and timeline. Carefully monitor (limit) the amount “start work” activity and out-of-pocket costs that the agency incurs prior to obtaining formal client authorization.
- At the risk of stating the obvious – timely client billing and accounts receivable collections are essential in this business climate. Review key client contracts and follow through on timely compliance.
- Regularly monitor client credit ratings and develop a good working relationship with your client’s financial staff. Client finance can be a valuable resource that can assist you in identifying payment roadblocks and suggesting techniques for avoiding payment delays.
- Expense management is an imperative and in this environment it may also represent an opportunity. Put on your “procurement hat” and aggressively explore opportunities to re-negotiate terms with agency suppliers.
- Once you are satisfied that you are purchasing efficiently, take the next steps and make sure that you are optimizing the business impact of your expenditures. For example, if you are investing in data systems or research information, make sure that the access to and use of these resources are being fully exploited by the entire agency.
- Prioritize the agencies commitments and expenses. Client servicing-related expenses and employee retention/motivation investment should be at the top of the priority list. Nice-to-do expenditures and discretionary T&E can and should be deferred.

Parting Thoughts

The economic news has indeed been grim; however, there are a broad range of growth initiatives, servicing improvements, talent enhancements and efficiency steps that you can take to weather this dark period. Agencies that lean forward, pro-actively explore new possibilities and remain aggressive have the opportunity to come through this downturn in a stronger competitive position than those businesses that sit back, slash and cut or are too afraid to change.

As we enter the New Year, remember that it is always darkest just before dawn.

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