

Scope of Work

Revenue Driver

and

Profitability Enhancer

January 23, 2011

Expanding Our Vocabulary

> Yes

> Yes, but...

> No

Michael Farmer: “It’s a Mess!”

Current SOW practices are diverse

- > Average quality is poor
- > Contracts are ambivalent
- > Documentation is sketchy
- > Metrics non-existent
- > SOW process is delayed
- > Scope creep procedures unclear

Marketing wishes to retain “flexibility”

Agencies biased to be reactive (service-oriented)

Major Misalignments

Strategic misalignment

- > Ad hoc SOWs are disappointing
- > Too much “maintenance” expenditure; too little strategy

Fee misalignment

- > Fees are agreed in a whimsical way
- > Related to resources, unrelated to SOW and actual work

Workload and resource misalignment

- > Workloads grow and exceed agreed resources
- > Agencies stretch creative resources – high output, few people
- > Quality is becoming a genuine problem

Agenda

Purpose of the Scope of Work (SOW)

Value of the SOW

Key Challenges

- > Develop Detailed SOW
- > Determine Staffing to Service SOW
- > Managing to SOW

Summary – Key Takeaways

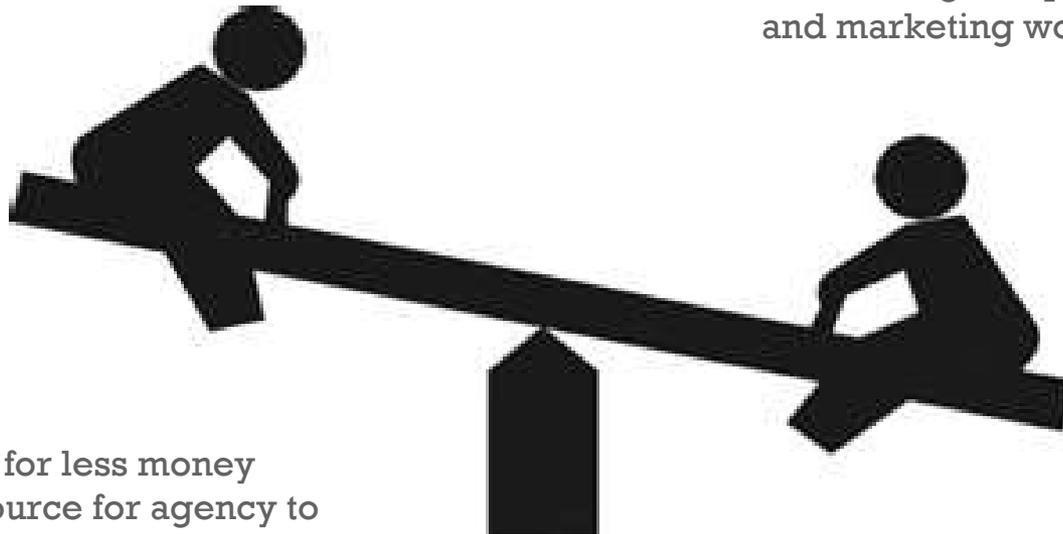
Purpose of the SOW



Competing Priorities

Agencies

- Holding company profit demands
- Escalating talent cost
- Increasing complexity of media and marketing world

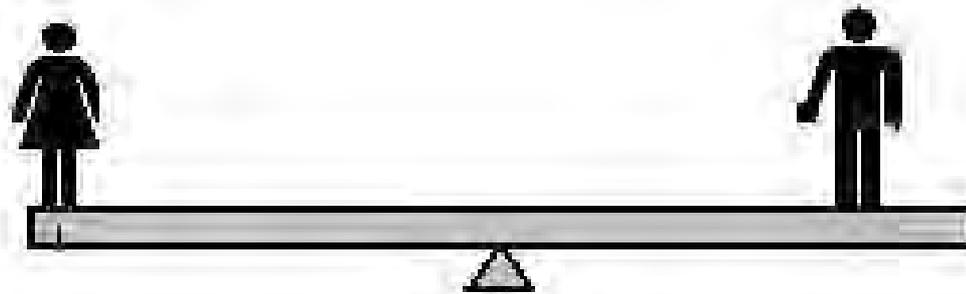


Clients

- Want more scope for less money
- Less staff and resource for agency to work with, increased admin burden passed to agencies
- Process inefficiencies

Balancing Act

SOW management can help balance...



Client Requirement

Agency Resources &
Compensation

For the Agency...

Clearly state Client's **business objectives** and expectations of the Agency
[While sometimes challenging, success metrics must be included here.]

Outline Agency **services** required to achieve objectives and meet expectations
[Specify marketing discipline, capabilities, media channels, partner agencies, key third-parties, etc.]

Detail all **projects and components** included in the engagement
[Include tactics, deliverables, milestones, review / approvals process, etc.]

Specify Agency **resources** required to deliver the full engagement
[List resource type, level, allocation, and associated costs; aggregating by resource type unless otherwise required.]

Explain how **incremental opportunities** will be managed
[Clearly explain change orders as a way for additional resources, time and costs to cover unanticipated needs as they arise.]

For the Clients...

Recognize that the Agency understand the Client's business need
[And, their expectations of a marketing communications partner]

Appreciate the exact nature of the program(s) the Agency will deliver
[Along with the specific tactics and deliverables, to achieve measurable success]

Acknowledge who and what the Agency's fee will include
[A diverse team to deliver this overall program within the specified time period]

Realize how to manage any unplanned events that may affect the overall engagement
[How to ensure that evolving business needs are addressed in the spirit of partnership]

Value of the SOW



Client-Agency Relationship

Mutual clarity of purpose and objectives at the outset of an engagement

- > Sets the tone and foundation for a **strong partnership**
- > Ensures true alignment of Agency and Client **expectations**
- > Levels the relationship founded on **common understandings**
- > Recognizes the **effort** and corresponding **value** of the work
- > **Removes ambiguity** or room for misinterpretation

The best Agency – Client relationships are almost always those with mutually developed and clearly established SOW

Transparency vs. Ambiguity

Lack of transparency is almost always at the heart of difficult Client – Agency relationships

Ambiguity inevitably damages relationships

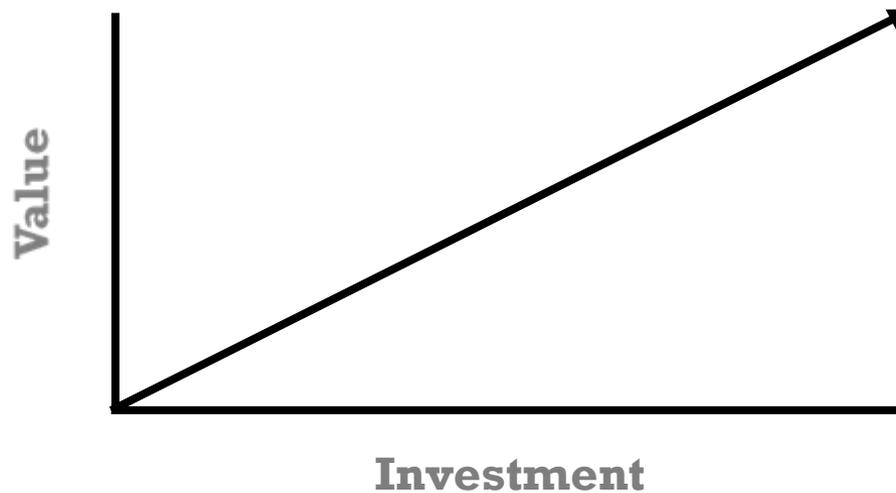
- > Expectations begin to skew
- > Objectives become unclear
- > Resources function inefficiently
- > Financial disputes arise

Developing SOWs together is an excellent, mutually-beneficial opportunity to ensure greater transparency

Critical Link

Establishes critical link between

- > **Value** (Scope of Benefit and Scope of Work)
- > **Investment** (Agency Remuneration)



Key Challenges



Key Challenges

Arguably the greatest challenges Agencies face today, and some of the most critical success factors

1. Negotiating sufficiently **detailed and comprehensive** SOWs
2. Agreeing on proper **resources, costs and timelines** to deliver the work
3. **Actively managing** to SOW & staffing plan throughout the engagement

Proactive Measures

While New Business and executive management are typically involved in significant opportunities (net new or organic), their ongoing engagement will evolve over time.

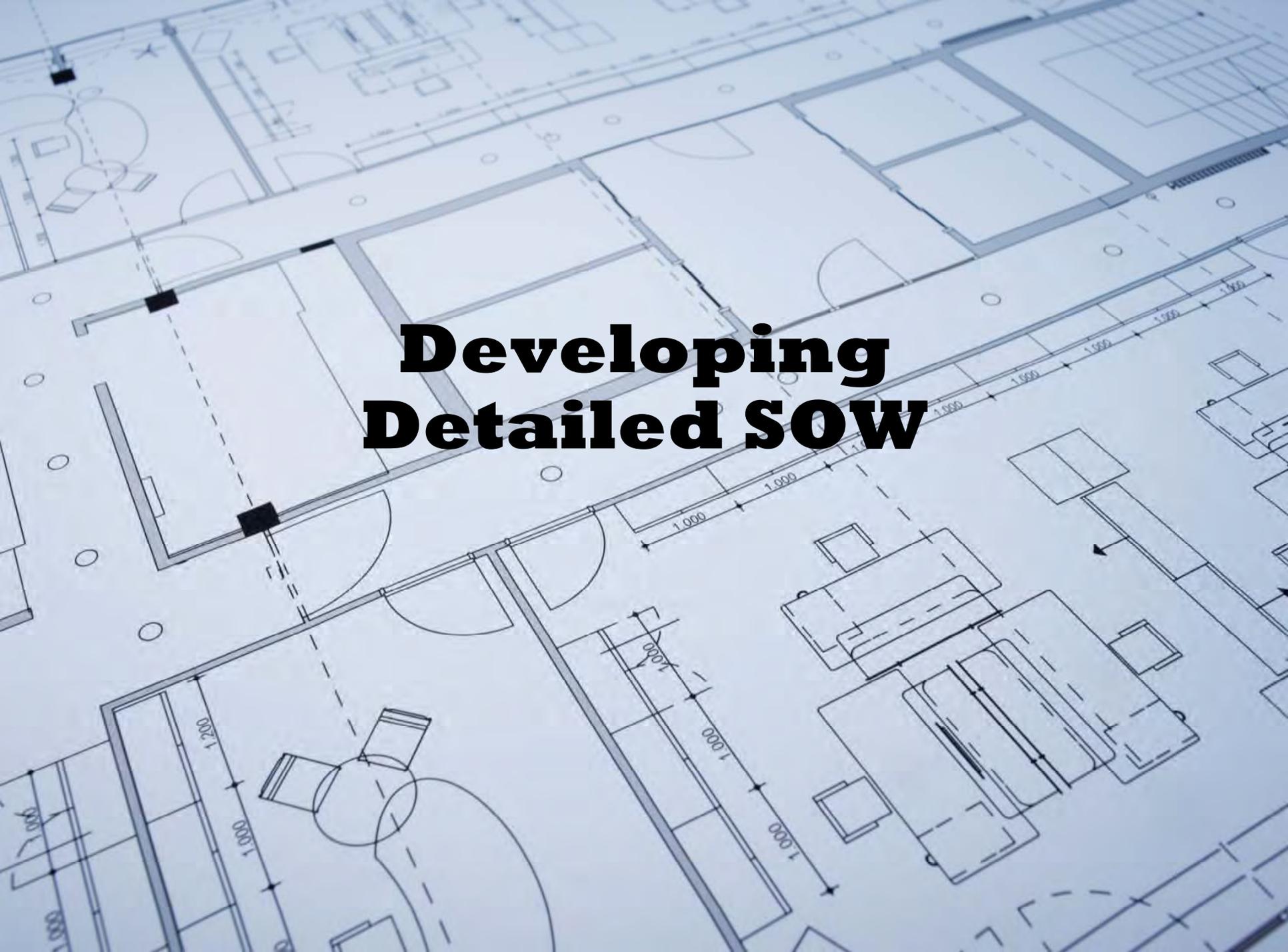
The best way that Agencies can protect themselves throughout this process is to have the right participants at the table.

They are the business leads ultimately accountable for overall client satisfaction and continuous revenue **growth**. They are responsible for conveying the client's objectives and success metrics to all appropriate Agency teams, so that discipline leads understand client expectations can define the resources necessary to deliver outstanding products.



They are operational leads ultimately accountable for delivering the overall engagement with the designated internal teams, on scope, on time and on budget – in essence, they are charge with protecting the Agency's **profitability**. They are equally responsible for ensuring that a clearly defined SOW is in place and executing according to these terms.

They are the guardians of the Agency's **commercial interests** and ultimately accountable for providing accurate, timely information so that internal and Client teams can make educated decisions that support the long-term health of the relationship.

The background is a detailed architectural floor plan of a building. It shows various rooms, corridors, and structural elements. Dimensions are marked throughout the plan, such as 1,000, 1,200, and 1,500. There are also some circular symbols and dashed lines indicating specific features or boundaries. The overall color scheme is a light blue/gray.

Developing Detailed SOW



These are NOT Scopes of Work

If...then...

If the SOW has insufficient detail, then both parties lose

Agency loses

- > Poorly defined goals, objectives & SOW
- > Not paid for work done, lower profitability, even less resources available
- > Damaged Client relationships and work quality

Client ultimately loses

- > Poorly defined goals, objectives & SOW
- > Reduced service and potentially quality of work
- > Pricing disputes or service level issues
- > Ultimately a weaker advertising industry, unable to attract good talent

Some Clients perceive an economic benefit in a poorly defined SOW ...

... but ultimately “you get what you pay for” ...

Difficulties on Both Sides

Agencies may be unprepared:

- >Insufficient Agency process, training or tools to develop SOWs
- >Inadequate information from the Client to develop detailed SOW
- >Do not recognize the importance and level of effort required
- >Not in “DNA” to push beyond ambiguity
- >Lack proper negotiation skills

Clients are equally unprepared:

- >Too many clients do not recognize the value or benefit of a detailed SOW, seeing process as administrative and non-value added task
- >Some Clients adopt a “procurement” approach, using ambiguity as a negotiating tactic
- >Client teams do not have all necessary information (objectives, success metrics, budgets, timelines, etc.), but their process requires “locking in”
- >Procurement teams are often inexperienced in marketing communications / professional services “commodities”

Compensation Dialogue Process

1. Goals & Objectives (Scope of Benefit)



2. Scope of Services & Scope of Work



3. Agency Remuneration (Methodology & Amounts)

At the least...

Detailed SOWs include the following sections:

- > Business goals & objectives, including success metrics
- > List of services the Agency will provide during the engagement
- > Scope of actual work effort and specific deliverables, including rounds and reviews
- > List of resources providing these services and deliverables
- > High-level milestones and timelines for the engagement
- > Assumptions based on all related criteria and conditions
- > Expectations of the Client's role in the engagement
- > Requirements to collaborate with any 3rd parties
- > Change order process to manage incremental opportunities not explicitly included in this SOW

No SOW is complete without a clear understanding of what services or deliverables are NOT included in the SOW

Illustrative Samples

[Media SOWs \(both traditional and digital\)](#)

[Digital SOWs](#)

[General SOWs](#)

Click links above to download ZIP files with samples.

Determine Staffing to Service SOW



Best Case / Worst Case

With a sufficiently detailed SOW, Agencies can develop a staff plan with the right mix of discipline and levels

- > Client – Agency teams review the plan together
- > Typical negotiation points include rates, seniority of resources, duration of tasks, and level of effort
- > Once agreed, these details are included in the final SOW

When there is debate about overall fees, Clients often employ the following arguments – all while assuming originally committed services, timelines and deliverables

- > Use less / less expensive resources
- > Shorten durations
- > All of these will jeopardize the Agency's ability to achieve objectives and high quality of work

If SOW content remains the same, Clients then resort to challenging hourly rates and overhead costs / multiplier

Common Mistakes in Resourcing

Agencies:

- > Staff to a number rather than to the agreed upon SOW
- > Adjust resource levels to hit a particular number without adjusting scope of services or deliverables
- > Fail to include all relevant discipline and functional leads in discussing the scope, so staffing plan is not designed effectively
- > Define staff plans independent of discussion with functional leads or specialists
- > Do not refer back to historical performance or staffing plans for similar SOWs
- > Finance is not involved in developing a Client estimate, so risk-reward is not clear or in the appropriate context
- > Underestimate or overlook the time required to manage 3rd parties or vendors

Clients:

- > See a specific budget or savings target to define the engagement rather than a clear SOW with business objectives
- > Try to dictate resources or staffing levels
- > Apply “benchmarks” for Agency staffing that are not relevant to the SOW
- > Assume that Agencies can do the same amount of work with less
- > Assume junior resources can deliver on all aspects of the SOW
- > Assume that shortening durations result in lower fees
- > Do not consider the impact that Client-required 3rd parties will impact Agency resources

Historical Knowledge

Examples of attempts to build such “historical databases” for use in determining staffing and remuneration

- > Coca-Cola “Value Based Compensation” model
- > Farmer standards (FSU)
- > Project Rate Cards



Managing to SOW

Establishing a Foundation

Tremendous value in establishing a foundation for active SOW management

- > Brief all discipline leads and functional teams on SOW details, approved resource allocations, and change order protocols
- > Establish clear time-tracking protocols (job numbers, review / approvals, etc.)
- > Implement tools to track the progress of deliverables in the SOW
- > Define regular reporting and review of actuals vs. estimates (at individual resource and functional discipline levels)
- > Meet regularly with internal cross-functional team to address any unexpected shifts in workload, actuals or timelines
- > Establish regular Client meetings to review progress against SOW deliverables and actively manage expectations

Ongoing Vigilance: Tools

Once the baselines and processes are in place, ongoing vigilance is the only way to actively manage Agency resources and Client expectations

Arsenal should include:

- > Job detail reports, time sheets & department utilization reports
- > Scope tracking tool to monitor all deliverables in the engagement
- > Detailed project plans and timelines to track individual progress of deliverables, resource effort and percent complete
- > Comprehensive change order process (for cancelled deliverables, swapping elements, additional revisions, etc.)
- > Summary status to use with Client and 3rd party briefings

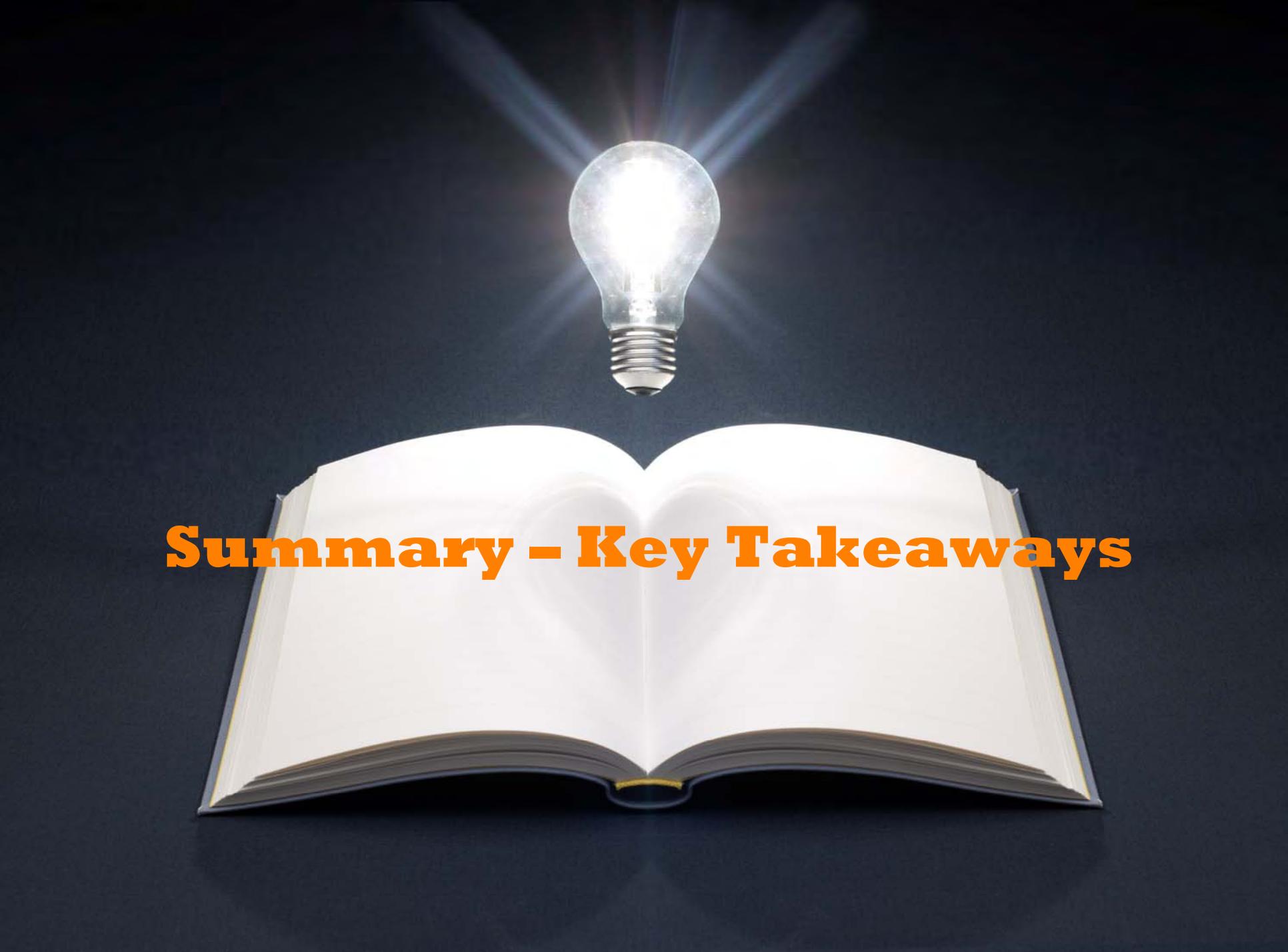
Data captured in these tools can contribute to a historical archive of performance on specific project types – allowing Agencies to develop validated benchmarks for future negotiations and engagements

Note that these practices are relevant and critical – regardless of remuneration methodology used to pay Agency

Developing Key Agency Skills

Regardless of whom within the Agency ultimately performs these tasks, anyone in a position to define Client SOWs should have these key skills

- > Basic commercial acumen
 - Full understanding of Agency economics
 - Recognition that Agency's own business requirements are as valid as the Client's
- > Project and delivery management
- > Resource allocation and management
- > Negotiation
- > Escalation and conflict resolution

A glowing lightbulb is positioned above an open book. The lightbulb is illuminated, casting a bright glow and several rays of light downwards. The book is open, showing two blank white pages. The background is dark, making the lightbulb and the pages stand out.

Summary - Key Takeaways

1. Typical SOW process needs significant improvement
2. Result is misalignment, damaging to Agency profitability and client-agency relationships
3. Mutual development of an effective SOW is a critical step in linking value to client investment, aligning agency resources with client requirements.
4. Increased transparency will lead to better client-agency relationships, better work and stronger agencies
5. Managing to the SOW requires an investment in the right discipline, tools and skill sets ... but the payoff can be significant!