



Buying creativity

Roy Carlisle of Pharma Solutions asks if procurement is really your cup of tea?

It all began on a Monday morning at the tea machine as I selected 'English Breakfast.' I knew something was brewing when my marketing director cornered me and asked how my weekend had been, although I guessed correctly that his reason for engaging me in conversation was not to receive a blow-by-blow account of my social life.

Indeed, it transpired that he had 'nominated' me as the senior marketer for a project called 'Best Practice Marketing Purchasing,' to work with colleagues from the purchasing department.

Despite suggesting that this was not my cup of tea, I was reassured that my contribution would be invaluable and I was left with my beverage in one hand and a note of the meeting room in the other.

Why were we giving agencies ongoing business instead of routinely looking for alternative suppliers? If we needed advertising, surely we could buy it from any advertising supplier? Why were we accepting the rates invoiced?

The project team's remit was to review the buying of agency services, including public relations, medical education, advertising and market research in order to 'leverage efficiencies in the purchasing process.'

Up until this point we had appointed agencies, agreed a price and got on with it, while monitoring performance against jointly agreed

criteria and awarding bonuses for excellent work. In that first meeting, purchasing immediately cut to the chase, firing questions at the marketing delegates thick and fast as they trawled through masses of historical purchase orders and invoices.

Firstly, did we make agencies pitch for new business and, if so, what were the criteria?

Our answers convinced purchasing that the pitching criteria were good, with the exception that they needed to be involved in future to 'tighten the financial scrutiny.'

Secondly, we moved onto existing suppliers and it became clear that our colleagues seemed only to be concerned with the functionality of agency service. A plethora of questions followed. Why were we giving agencies ongoing business instead of routinely looking for alternative suppliers? If we needed advertising, surely we could buy it from any advertising supplier? Why were we accepting the rates invoiced? Why does one public relations agency charge more for a press release, an advisory board or a creative concept than an alternative supplier?

We conceded that marketing could be more proactive in 'costing out' campaign budgets and that agencies could be more transparent with their charge out rates, but this was not the full picture. Purchasing brows were furrowed when we pointed out that, rather than cost, highest on the list for marketing was added-value relationships with the best agencies capable of driving the business. This in turn led to greater input into brand strategy and delivery of appropriately targeted campaigns.

Interestingly, a recent *PharmaTimes* survey¹ of twenty-five product managers showed that, in a pitch, they looked for the following agency attributes: creativity (first), personal chemistry (second), therapy area experience (third) and cost (fourth). So we can conclude that marketers' needs and desires have remained pretty constant over time? However, the role of purchasing has not remained constant and has evolved into the more commonly used term of 'procurement.' Indeed, most companies now claim that marketing and procurement work together to evaluate and then procure at the right cost the most appropriate agencies that will add value to the business.

This is reflected in Richard Darley's recent article in *PharmaTimes Magazine*², which used the example of procuring recruitment services. Richard used a courtship model to illustrate how buyer/supplier relationships can deepen as the strategic need (or the passion) intensifies over time, from 'one-nightstand,' through boyfriend/girlfriend, fiancé(e) and finally marriage.

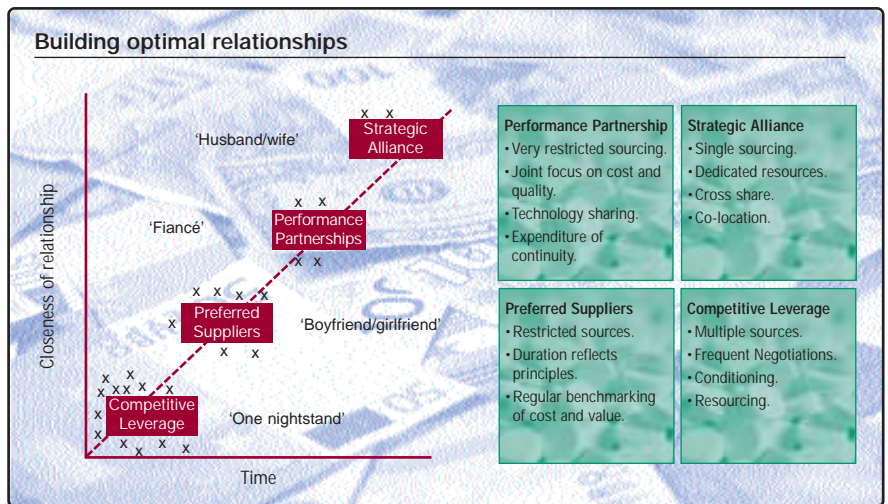
Ménage à trois

To take Richard's courtship model further, there seems in fact to be a 'ménage à trois' between agency, marketing and procurement. However, while Richard's process represents best practice procurement in terms of building relationships, is this typical of other company/agency interfaces?

Like brands, all relationships have emotional and rational sides. So, from an emotional perspective, what does it feel like as a supplier or a marketing client to be involved in a modern procurement process? How important are the emotional links between agencies and clients? Will clients pay more for a service that includes an understanding of how added value, strategic insight, operational excellence and creativity can impact on the bottom line? Or is it still a case of, as Sergio Zyman has said³: 'Too many executives think that advertising people are always net spenders than people who grow the business.' If we are being rational about the benefits of appropriate procurement, how many people would agree with Zyman when he says that advertising should move from being classed as an expense to being classed an investment?

Stuart Raper, a marketer at Pharmacia, supports the need for good relationships but says a rational cost-driven approach is important to some companies, adding: 'Procurement is now a critical element in pharmaceutical companies remaining as profitable as possible.' Indeed, Stuart sees it as a 'just-in-time' management process which saves the company money by not tying up resources that could be earning the company interest elsewhere. However, Stuart was also sensitive to the agency perspective: 'We have to be fair and think about their cash flow too.'

Gary Johnson, managing director of pricing and forecasting firm, InPharmation, agrees that scrutinising costs so that you 'know what you are getting' is important. He cited a pharmaceutical market research conference where the speaker was asked whether or not a joint analysis was worth the extra purchase price of simpler methods. When the speaker replied that it wasn't about costs, it was about making adequate budgetary provision, the audience of pharmaceutical delegates applauded, even though no mention was made of the need to appraise whether or not the technique being procured was relevant or added value.



• Extract from Richard Darley's article, *PharmaTimes Magazine* June 2003

'You might as well applaud the notion that breathing isn't important,' says Gary.

But how does procurement work within client companies when internal experts, such as corporate affairs, know exactly what they want? Gill Markham, corporate affairs director at Wyeth, has put in place a number of steps over the last two years to ensure that the procurement process for appointing new agencies delivers the right results.

'Wyeth uses a credentials process to make a suitable shortlist of agencies and then initiates a four-way pitch scoring each agency programme and team against set criteria. The whole internal team, including procurement, is involved in the process.'

Indeed, *PharmaTimes*' recent PM Panel survey¹ showed that procurement professionals attended pitches at 63% of companies, with 36% being 'very involved.'

However, at Wyeth, when it comes to making the appointment, the final decision-makers are those who need the agency service, such as corporate affairs. 'I think our understanding of how the PR agency world works is the key to getting maximum value from PR programmes and containing costs,' says Gill.

Gill supports the need for deployment of 'internal experts,' including procurement, to ensure that rational marketing and procurement pitching criteria are applied consistently. However, she points out that the rational assessment of agency capability, plus the emotional aspect of finding the 'right chemistry,' should be the remit of those who understand the objectives of the proposed programmes. 'I believe that it's more effective than relying on the sometimes rather inflexible structures of the procurement department. It's more likely to get that all-important working relationship off to a good start too,' says Gill.

On the agency side, Brian Gunson, chairman of Munro & Forster Communications, welcomes the general environment of procurement because of its transparency, and says:

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'Why should we be surprised about the procurement process in today's economic climate?' In fact, Brian advocates another dimension to the ménage à trois and says the agency finance manager should meet with the client's procurement manager, particularly when the conversation turns to costs and hourly charge-out rates. 'This allows us to demonstrate to the procurement professionals what we can deliver as a team in terms of value for money, and enables us to understand what we have to do to meet the purchasing objectives.'

This approach to procurement has enabled Brian's team to win pitches on both creative and budgetary grounds, even when the cost may have been higher. Both procurement and marketing could satisfy their criteria for added value and could see the extra deliverables that the agency would bring to the brand. This must be the ultimate 'win-win' for both, but is it typical?

'Procurement eradicates good will which is the essence of a truly effective client-agency relationship...'

Stuart Rose, Elan

Stuart Rose, commercial director at Elan, doesn't think so, having seen first hand that some companies may understand procurement theory, but in practice are still utilising crude cost control. Stuart also cites many examples from a recent Healthcare Communications Association meeting, at which some agencies claimed that certain companies take scrutiny too far. For example, requiring details of agency staff charge-out rates and salaries to compare the difference and to decide whether or not the agencies' profit levels are 'appropriate.' It has even been suggested to one agency that if it moved out of London to a less attractive location, the lower cost of office rental could be passed onto the client!

Stuart suggests that, in such circumstances, 'procurement eradicates good will which is the essence of a truly effective client-agency relationship. In such circumstances the very act of diligent procurement process (with the emphasis very much on process) can, ironically, erode the value of that relationship.' It has also been suggested that ad agencies

may encounter such circumstances more often. So what is the specific ad agency experience – do client procurement teams understand how added value advertising communicates its proposition effectively or are they just buying pictures?

Kevin McGetrick, managing director at Roundhouse HealthAd, comments: 'It is curious how, as an industry, we acknowledge and understand the concept of premium brands, yet the procurement process can strip out many of the added value components and rationalise this down to a commodity-based decision.'

Ian Dorrian, client services director at Big Blue Communications, agrees and asks: 'Is the procurement process about benchmarking or is it just about driving costs down? Let's remember that creativity is not a commodity. If certain clients can't see the added value of creativity, why don't they buy some stock shots and get someone internally to write some copy?' Kevin agrees: 'I sometimes feel that the whole negotiating process can unwittingly set a new business relationship on the wrong footing. Surely in some instances a premium is justified and this should be reflected in the procurement process. After all, most purchasers will acknowledge that purchasing is not solely about cost.'

Clearly some differing and conflicting opinions have been uncovered relating to the practice of modern procurement. Which brings us back to the question at the start: Is procurement really your cup of tea? It's all a matter of taste, but given the feedback of some of our respondents, the debate surrounding procurement is more than a storm in a teacup.

In conclusion, it is fair to say that agencies do recognise and welcome the need for procurement as, when applied openly and fairly, it does provide an opportunity to justify the cost-benefit of the services offered. However, the emotional reaction from some respondents suggests that chemistry and goodwill also have an important role to play in the procurement process. It is in everyone's interests to make procurement work and we have seen some heartening examples of best practice.

Indeed, the best advice to all concerned may be to sit down and start decent, mutually respectful relationships by talking about real two-way 'Best Practice Marketing Purchasing/Procurement' over a nice cuppa. If we still need to remove bitterness from the procurement beverage, maybe we should just pass the sugar, which is perhaps what I should have said to my boss all those years ago! ▲

Contact: roy@pharmasolutionsltd.co.uk

References:

1. *PharmaTimes* PM Panel Survey 'Selecting an Advertising Agency', Feb 2003.
2. *PharmaTimes* Magazine June 2003
3. Zyman, Sergio: 'The End of Advertising As We Know It,' John Wiley, 2002