

# How A Forensic Market Audit Can Help Uncover Inefficiencies In Your Ad Agency's Costing And Production Turnaround

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## INTRODUCTION

Forensic competitive intelligence can be as effective in surfacing inefficiencies in your ad agency's cost and production turnaround as it is in uncovering competitive threats. "Forensic" translates to investigation, including sifting through databases, carrying out microanalysis and working backward to reconstruct key components. Whether you are a forensic accountant, forensic pathologist or CI analyst, meticulous investigation and analysis is what drives you to achieve results. The same tools employed to pinpoint and assess a competitor threat can be applied to detecting errors in how your agency invoices your account or mishandles an ad campaign. In other words, the goal of CI is to guide you to the real issues that should be addressed.

## WHY INVESTIGATE INVOICING?

Errors in invoicing that remain undetected will bleed out your budget and create distrust. Even if the errors are unintentional, the onus falls on *you* to track them down and to come up with a strategy to eliminate them.

## WHY CONDUCT CI ON ADVERTISING IMPACT?

It can be difficult, if not impossible, to directly correlate sales performance to advertising impact. Hence, it is appropriate to use a precision tool such as Forensic CI to help assess advertising performance.

## EXAMPLES

The following examples illustrate how Forensic CI could have been used to uncover unsuspected problems:

## FAILING TO ADDRESS THE REAL PROBLEM

If an auto manufacturer signs off on a \$1,000,000 point-of-purchase program to stimulate sales at 8 Calgary dealerships, did the agency really investigate why sales are sluggish instead of assuming that impactful POS material will generate additional sales? What if the **real** reason for sluggish sales is because the sales reps have not been trained to sales effectively. They make no effort to greet a prospective customer, assess the customer's needs, take the necessary time to explain the car's features and benefits, invite the customer for a test drive or make any effort to follow up. Regardless of how much \$ is invested in store merchandising, if your sales support is flat, your sales will remain so as well. Spending the \$1,000,000 on store advertising ends up only being a band aid solution.

## SPENDING MORE \$ THAN NECESSARY TO ACHIEVE THE REACH AND FREQUENCY OBJECTIVES

Assume that the goal of your upcoming newspaper campaign is to reach 75% of the population. According to your agency, \$505,000 is needed for the media spend. Had the agency taken the time to thoroughly cost out the program (including reviewing the previous year's spending and performance), they would have realized that the \$505,000 for media insertions will result in 90% reach or 15% more than what is necessary. \$20,000 (\$505,000 - \$485,000) will be spent unnecessarily.

## TAKING CREDIT FOR RESULTS THAT HAVE VERY LITTLE TO DO WITH ADVERTISING

Assume sales were very high in July. The agency believes the main reason for the high sales is due to their new ad creative. If, however, you were to call Environment Canada, you would learn that July had the greatest number of sunny days on record. If you then contacted your competitors, you would also learn that they enjoyed extremely strong sales during the summer. And if you spoke to their ad agencies, you would discover that some competitors had even cut back on their summer ad spending, because of the weather driving in enough business.

## ROUNDING OFF EXPENDITURES

Whether it is an estimate or the actual billing, dollar amounts are frequently rounded off. Two questions to consider:

- With hundreds of expenditures that can be incurred in an ad campaign, are these expenses rounded off?
- And if they are, are they rounded off in favor of the agency?

## FAILING TO SECURE A CORPORATE DISCOUNT

Agencies frequently arrange for corporate buys, whereby they will purchase a block of time on TV and run commercials for different clients. In return the agency is rewarded with a purchase discount by the station. Two questions to consider:

- How many times does the agency pass the discount to their clients?
- Does the agency try to get discounts for corporate buys?

# Checklist to Pinpoint Inefficiencies of Your Agency

1. Does the agency's qualifications include company names for references?
2. Is there clear indication that the agency has or will be hiring experienced personnel to service your account?
3. Are you sure that the agency will forward you creative and media briefs before they are acted upon?
4. Are you receiving media buy discounts from the volume purchases by the agency?
5. Is the font size in the estimates large enough for you to read, or are they trying to hide something?
6. Is your agency spending your budget on what the actual job cost versus the estimated amount?
7. Are all expenses consistent with their decimals (or are some in round numbers and others not)?
8. Do management fees account for a proportionate % of total expenditures?
9. Are you rebated for any errors in the media buy?
10. Does the Account Supervisor check statements, before they're sent out?
11. Are explanations provided when actual spending is 10% more than estimated?
12. Are invoices being sent with a cover letter from account services?
13. Are details given regarding the hourly rates charged by Account Directors, Managers and Coordinators?
14. Do all billing statements include year to date spending?
15. Does your agency break out the invoice according to the various products that you advertise?
16. Does agency reconcile performance against specific advertising objectives?
17. Does the agency avoid over-purchasing TV spots and over-delivering in GRP's (reach x frequency)?
18. Does the account manager email you a summary of each meeting you have with him/her?
19. Do you receive the contact report within 24 hours of the meeting?

Does the agency survey you for feedback on how satisfied you are with their servicing?

## SCORING

- If you answer 'yes' to all 20 questions, your agency is managing your business the way they should be.
- If you answer 'yes' to 15 -19 questions, make sure your agency makes every effort to address those questions that were answered with a 'no'.
- If you answer 'yes' to 10 -14 questions, warn your agency that unless cost and production turnaround is improved, you will cut back on the amount of work you give them.
- If you answered 'yes' to 9 questions or less, consider changing your agency

## CONCLUSION

Whether it means unearthing skeletal remains to determine the true cause of death or sifting through old media estimates and actual buys to pinpoint overspending, the role of forensic investigation is to uncover hidden information and then consolidate this data into meaningful results. And whether you use CI to evaluate new market opportunities, monitor competitor initiatives, benchmark competitor best practices or audit your agency's invoicing procedures, the role of CI is to help level your playing field.

As the case study demonstrates, an understanding of forensic CI can help make your ad agency more accountable in eliminating both invoicing errors and performance inefficiencies, which could otherwise go undetected.

# Case Study

Assume you work for a telecom and have been asked to recommend whether to renew the contract with your agency. Your boss questions the agency's due diligence in running cost efficient, impactful advertising.

You develop the following objectives to guide the investigation:

1. Pinpoint cost and production turnaround inefficiencies by the ad agency.
2. Demonstrate how these inefficiencies negatively impact profit.
3. Benchmark fee structures from a sample of agencies servicing competitors.
4. Benchmark programs by competitors to insure that key deliverables (i.e. time lines, response rate, etc.) are met.

You then carry out the study and summarize your findings according to six sources:

IN-HOUSE AUDIT	BUYER SURVEYS	AGENCY SURVEYS	ARTICLE	FOCUS GROUP SURVEYS	FOCUS GROUP TRANSCRIPT
(4 agency documents assessed (Procedure timing guidelines, agency evaluation process, media estimates letter of agreement)	16 surveys with in house advertising mgrs. (5 banks, 4 telecoms, 4 courier companies and 3 insurance companies)	7 surveys with ad agency account directors (MacLaren, JWT, Cossette, Ogilvy Mather, FCB, Vickers Benson and Calaxis)	Explains how a company successfully implemented tools to manage their ad-related costs.  Director of Purchasing at the company, featured in the article, was interviewed.	8 participants each completed 3 mini surveys.  Participants work in marketing and advertising for companies who yearly spend \$2lmm+ in advertising.	Discussion focused on strengths and weaknesses of participants' respective agency. Cost efficiencies and meeting deadlines were addressed.
OBSERVATIONS	OBSERVATIONS	OBSERVATIONS	OBSERVATIONS	OBSERVATIONS	OBSERVATIONS
Agency documentation is "boiler plate". Terms are not customized to Client's needs.  Accountability and performance measurement is frequently absent.  The focus of the material is on the agency. Little emphasis given to the client.	Quality and meeting commitments are critical factors.  Pricing and fee breaks were not cited as prime drivers.  Two success factors: careful identification of program's requirements and detailed project planning.	Agencies believe they are diligent in preparing accurate estimates, controlling project costs, and providing detailed invoices.  Clients can leverage this belief to impose their requirements on planning, managing and reporting on direct mail programs.	Co. carried out the study by tearing apart <u>every</u> aspect of their advertising to understand who was buying what services.  They took back everything their agency did not specialize in, and by controlling those tasks, avoided agency mark-ups.	Client dissatisfaction with their agency performance is attributed to poor planning by the agency, cost overrides, delays, and strategic disconnect. (i.e., agency would develop creative/campaigns more from their perspective than from the client's).	Agencies are generally poor at providing clients with program response rates and analysis based on an audit of each ad initiative.  They tend to be too rigid in their thinking, by frequently relying upon predefined concepts and approaches in designing ad programs.

SUGGESTION	SUGGESTION	SUGGESTION	SUGGESTION	SUGGESTION	SUGGESTION
<p>Take control of project monitoring by implementing review procedures to follow.</p> <p>A window of opportunity exists for the Client to negotiate more favorable terms and fees with the agency.</p> <p>Insist that the agency makes an effort to standardize documentation and to ensure that estimates are detailed, accurate and customized.</p>	<p>Advise your agency what reporting procedures are needed.</p> <p>Carefully review and sign off on all aspects of a project <u>before</u> any work commences.</p> <p>Strive to understand all aspect of their ad programs</p>	<p>Insist on detailed reviews that compare actual to planned costs.</p> <p>Work with your agency to identify options so they keep within budget when overrides occur.</p> <p>Instruct your agency on the type of billing documentation that best suits your needs.</p>	<p>Cos. should analyze their own needs and buying patterns to determine what can be produced most efficiently internally and what can be obtained most effectively by the agency.</p> <p>Leverage corporate purchasing power.</p> <p>Identify a principal agency for core services &amp; preferred supplier for niche services.</p>	<p>Ensure that your agency conducts a needs assessment at project outset and this understanding is reflected in the critical path planning.</p> <p>Insist upon Immediate notification of any changes in planned costs. Get copies of invoices from subcontractors and a breakdown of project costs by category.</p>	<p>Insist that your agency not only quantifies feedback on the success rates achieved, but translates this into a measurable return on investment for each project.</p> <p>Provide direction to your ad agency.</p> <p>Manage the project closely.</p>