Managing Advertising Spending Across the Globe

Some of the world's largest companies could save 10% to 20% of advertising costs with a systematic review of processes, according to Harish Hemmige, a principal in the Chicago office of the Boston Consulting Group. The biggest companies can operate across 50-100 or more countries, and deal with 1,000 outside agencies. It seems almost certain that some inefficiency will creep in. But how do you harmonize the many parts? In this interview, Hemmige explains how largest firms tend to suffer from agency proliferation, rate creep and other inefficiencies that burn through cash that could otherwise fuel extra media buys.

An edited transcript follows:

Knowledge@Wharton: Welcome to Knowledge@ Wharton for this interview with Harish Hemmige, a principal in the Chicago office of the Boston Consulting Group. We are going to discuss a challenge many big companies face in an age of global advertising and marketing: If you're a big company operating across 50 or 100 countries, and dealing with perhaps 1,000 outside agencies, how do you harmonize it all? How do you ensure you're getting the most efficiency out of your spending? And how do you get the clearest messages across to customers?

Harish, thank you for joining us.

Harish Hemmige: It's my pleasure, thank you.

Knowledge@Wharton: Anytime a company works with hundreds — or even thousands — of suppliers, it's inevitable that some inefficiency will creep into the supply chain.

Hemmige: Absolutely.

Knowledge@Wharton: So, there's no reason that marketing or advertising would be different. I know you've looked at this problem closely and worked with companies — would you give us an overview of what the problem is and ways to think about improving the situation?

Hemmige: This has certainly been a topic top of mind for a lot of senior executives, especially in the consumer products areas. The challenge is that marketing budgets have become upwards of 10% of revenues for a lot of big consumer product companies. That is billions of dollars of spending.

Within that, more and more in analyst calls investors are pushing to make sure that companies are getting value for that scale. But the challenge is that with scale comes complexity and a lack of transparency because you're going from an environment where you had a single market, single-brand kind of businesses to 50-plus global markets managing multi-brand portfolios.

The ability to manage that as a CMO is really challenging, and the procurement function is part of that role in order to help manage some of that spend. We've worked with many of the largest consumer products companies in the world — over $50 billion in size. Some of the key themes we hear are that people are under more pressure to deliver value and to show that they're improving.

Some of the biggest sources of inefficiency that we've seen are around three areas. One is agency proliferation — the number of agencies that they're working with and the rapid expansion of that, and being able to help manage some of that.

The second is getting an understanding of what value they're getting for what they're spending with those agencies. Are they getting market-competitive rates? Are they getting the right service levels that they need to be able to deliver the highest quality product?

And finally, and the most valuable — but most challenging — is the fundamental approach to brand building. We call it "ways of working" — what are the approaches in terms of the efficiencies and ways in which the marketers operate to be able to root out the core inefficiencies?

Knowledge@Wharton: Could you give an example of what this looks like on the ground, in real life, with the kind of problems that companies are facing?

Hemmige: One simple example is the agency briefing process. You would think being able to inform an [advertising] company about how they're going to do the marketing campaign, what the [the client is] looking for — say, a TV ad [would be straightforward]. But we've heard examples from people on the agency side that sometimes they'll get a call from a marketer, who's on the subway, giving them the brief for a million-dollar ad campaign. That generates a week's worth of work, and then [the client company] comes back and realizes, "Oh, that's not exactly what I was looking for." So, a lack of clarity not only increases costs for the agency, but it also increases frustration over the ability to get the best talent from the agency itself.

We have found that within different agency teams, or within the different brand teams [from] the consumer products side, companies sometimes don't have consistency in terms of how they're briefing the agencies. By having greater consistency in how you brief the agency — the information are you trying to capture, the metrics you will use, and being very clear about what those components are — you can eliminate a lot of the inefficacy and a lot of the cost.

Knowledge@Wharton: Why are companies getting questions from analysts now about this? We've had globalized advertising for some time.

Hemmige: The total dollars of spend has continued to increase — on an absolute basis, it continues to grow. And the second piece is that the proliferation and fragmentation of media has resulted in a proliferation [in the number] of agencies people are using. The agency rosters have drastically expanded over the years to be able to have specific types of agencies for each type of media. As a result, you're getting less and less clarity in terms of who you're operating with — who you're working with — and there are more brand hand-offs over time.

This big bucket of spending around advertising and marketing is becoming a big deal because there's basically an arms race among consumer products companies over who can get their message in front of more consumers. One of the key things — the metrics that we typically look at — is around working-to-non-working spend.

Working [spend] is the dollars of marketing that you spend that gets in front of consumers versus the non-working side, which is the money that you're spending to create that advertising. What we're seeing is that analysts and investors are becoming more attuned and more astute about those different components, and are pressuring companies to make sure that they are getting their brands in front of consumers more, because if you're not, your competitors are.

Knowledge@Wharton: To what extend is the digital world driving this?

Hemmige: It's probably increasingly important. For some large companies, digital can compose 20% to 25% of their total marketing budgets but it's not actually the biggest driver. The biggest driver is still traditional media and traditional television, that's where the dollars are.

But as digital becomes an increasingly large component of the business, those working-to-non-working ratios for digital, typically, look a little bit worse, because the CPM [cost per impression] rates are not all that high for a lot of those online properties, versus the cost to produce the content. That makes it even more important for a company to be diligent in terms of how they manage that spend, so that they can continue to make sure that they're getting what they need. Also, regarding what they need in the agencies: Initially the belief was that you had to go through these boutique agencies to be able to get those niche-specific digital capabilities. That may not be the case anymore.

Knowledge@Wharton: Where do you find the biggest inefficiencies?

Hemmige: It's certainly, at its core, in the marketing processes of the organization: being able to set brand strategies in a consistent way; making sure you're very diligent about who has the decision rights to do advertising copy; the briefing process ... and then, more simply, around the agency engagement process. Who can actually sign up an agency? Who has the authority to do that? So, decision rights.

And I'll dive in a little bit around ad copy. One of the biggest spends is around ad production and advertising copy, so that's really what drives a lot of that. Being able to be smart about: What is the size of the business that you need? What is the size of the potential media that you're going to spend against it? How does that inform the budget you need to have to create the copy?

If you're a brand manager in a small market, your incentive is to want to create the best possible ad copy, and you want to get awards for it and you want to go Cannes and be part of that festivity because you created the best ad. It is a great goal. But from a business standpoint, it may or may not make sense, because the size of the market needs to dictate what the value is and how much you spend for that. There are times where maybe you should create new ads if you're in a major market, or if it's going to be cutting across markets, versus times when there is an ad run in an adjacent country that you can potentially adapt to save costs.

Knowledge@Wharton: How much is the potential savings?

Hemmige: In terms of resetting agency negotiations through consolidation, we've seen [savings of] upwards of 10% to 20% of the advertising agency expenses.... It's upwards of 20% of the non-working spend. So, it's very material.

Knowledge@Wharton: What are the potential pitfalls? What do people have to be careful about?

Hemmige: When we've done this with other companies ... the key to success is getting senior management buy in and being able to make it cross-functional. The efforts where it was procurement-led, where people had the perception that there is a procurement hammer coming to try to hammer out the best rates — those were the least effective. That's the traditional way that people have thought about it.

We've innovated in how we think about that approach, because by being able to make it a marketing-led effort, with the engagement and support of procurement, you change that dynamic quite a bit. Being able to get the right people in the room, and be able to have the people who are going to be owning the business long-term helping to drive some of those changes, those are some of the biggest value adds we've seen.

Knowledge@Wharton: What are the most important factors for success in the consolidation process?

Hemmige: Being able to be very clear in terms of having transparency about who you work with and getting a base line for that first. You'd be surprised how many companies that we've met that don't have visibility into how many agencies they're working with. The first step is actually getting transparency into that, creating a roster and from there, as a senior leadership team in the marketing function, being able to work with procurement and finance to understand: Which are the priority agencies? What are the key capabilities that we need going forward? How do we focus our efforts to be able to get those agencies aligned?

And it's certainly an emotional process because a lot of times there are specific people who may have affinity with a specific agency for a type of work. But ultimately, we found that the places that are most effective in being able to do this do it in a very fact-based way. [They determine] the results that they need to get, the teams that are going to be able to deliver that, then they ... make sure they are aligning people in the process to get to the results.

Knowledge@Wharton: What metrics do you find most valuable as you go through this process?

Hemmige: Sometimes the first simple one is this working-to-non-working ratio: getting an understanding of what percent of your marketing spend is going in front of consumers as advertising. [That includes] things like ... sponsoring sports teams and getting your brands in front of consumers. We typically expect that to be about 80% of what consumer companies are spending. It varies based on the type of media you use but that's generally a rough rule of thumb.

The remaining 20% is around the non-working side. You've got your agency expenses and all of your data needs and things like that to be able to support the business. We use that as a first cut or metric to be able to understand — are we being efficient in terms of how we are spending that money? The second is a simple one — how many agencies are we actually working with and what are we spending with them? That helps get an assessment of whether this is the right number for our organization.

Ultimately, we will mirror our suppliers. If we have a highly fragmented supplier base that is taking up a lot of our time, our marketers are going to be spending more time managing the suppliers than they are managing the brands.

Knowledge@Wharton: Which companies benefit most by looking at non-working spending?

Hemmige: It's really any company that has a material marketing spend. The companies that have been at the forefront are very much on the consumer product side. They have been really pushing it. You can see it in a lot of the investor relations and public reports of CEOs and CFOs of big, global consumer products companies that are talking about this issue. But that being said, in the past six months to nine months we've been getting more and more calls from clients in the pharmaceuticals space, from financial services, from retail, as they start to think — "we are really spending a lot of money on this."

The procurement functions, particularly in a place like financial services, have not historically been as robust.... Being able to get people to start thinking about this to get better efficiency has certainly been a big opportunity for them to unlock value.

Knowledge@Wharton: Overall, what's the best way for companies to think about this problem and how to begin to tackle it?

Hemmige: The playbook that I would probably think about for most companies would be around really three levers.

The first is getting a very clear assessment of the agencies that you work with and what that roster looks like, and making very strategic choices around who you want to work with and what that supplier profile should look like.

The second is around what you're actually paying and the rates that you're getting for those agencies. Over time, the rates that you're paying across most of these agencies can deviate from benchmark and best-in-class. How do you make sure you're resetting it to get the value that you'd expect?

Third, the biggest value driver is taking a very clear approach to your ways of working in marketing itself, to root out the inefficiencies that drive costs. [That means] being very disciplined in creating a set of approaches on how you want to operate as a marketing organization [such as setting] clear decision rights ... and being able to have a single approach to how you do brand building within an organization, which can unlock upwards of 20% of savings.

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