



OPTIMIZING PROCUREMENT FOR MARKETING

An R3 Report

PROCUREMENT - MARKETING'S FIRST LINE OF DEFENSE

Procurement has seen tremendous advancement in the last decade. From being managed by each line of business without much visibility across other departments to functioning as advisors to the C-suite, procurement teams have had to shift from doing tactical work to delivering strategic insight.

In marketing, procurement is growing into its role as marketing's "first line of defense," and this has made it more present and valued as a central part of any successful marketing operation. Transparency, data privacy, ownership and talent costs can impact brand reputation and operations, and as a result, procurement's responsibilities include protecting marketing from increasing instances of fraud in digital and media buying; ensuring contracts are aligned on scope and requirements; assuring transparency in vendor selection; and finding ways for savings to be cycled back into marketing initiatives.

In our experience working with marketing and procurement teams, we have seen that a mutually supportive relationship between both parties cannot be underestimated. Alone, procurement might have a stronger focus on cost, risk and process, while marketing looks to deliver on sales and brand. Together, they drive overall brand innovation, performance and intelligence. Achieving this requires collaboration, clear lines of communication, accessibility to new technologies, and joint goals - for without a common purpose true integration is not possible.

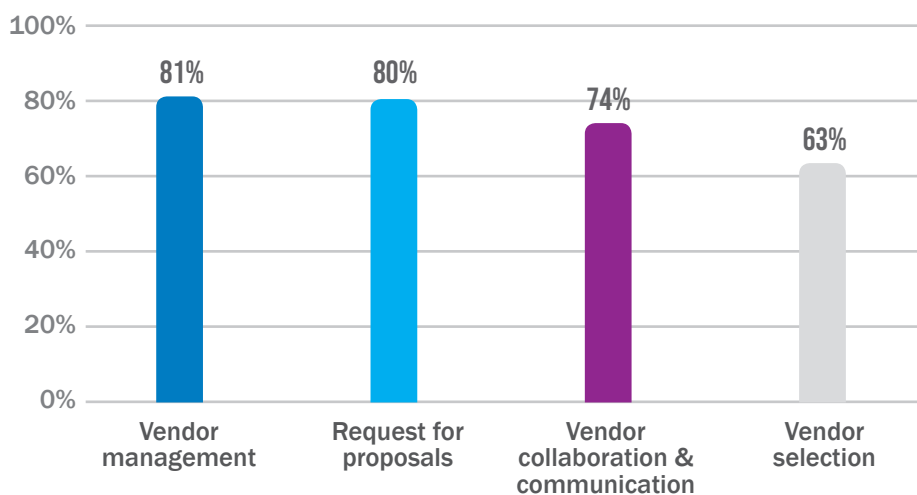
This white paper provides some key insights, case studies and recommendations for best practice to help marketing and procurement teams have better collaborative partnerships. We hope you find it useful.

IMPROVED PERCEPTION, GREATER INVOLVEMENT

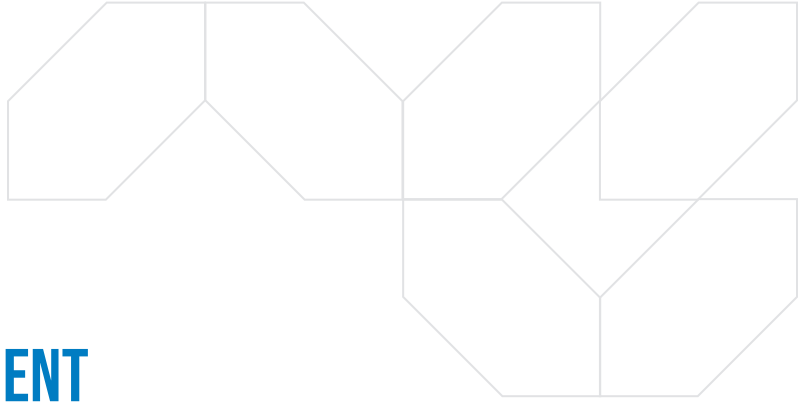
The most visible evidence of the improved perception and value of procurement within organizations is in the growing number of procurement professionals. In the US, positions in purchasing and supply chain management increased almost 38% from 2001 to 2015, according to the Chartered Institute of Purchasing & Supply (CIPS). Overall drive for greater corporate sustainability, transparency and best practice have driven much of this growth, though policy-related issues like GDPR and geopolitical uncertainty have also contributed to demand.

In the area of marketing, diverse agency models, programmatic media buying, and issues of transparency and ad fraud have put the spotlight on the value added by procurement. With the growing importance of corporate sustainability, procurement informs suppliers of requirements derived from corporate values, and consequently these suppliers will inform their suppliers, creating a compound effect throughout the supply chain.

WHERE DO YOU SEE THE GREATEST OPPORTUNITY FOR INCREASED PROCUREMENT EFFICIENCY AND COST SAVINGS THROUGH DIGITIZATION?



n= 101, multiple responses possible
Source: Globability



HOW MARKETING PROCUREMENT IS DIFFERENT

It is very important to articulate the ways in which marketing procurement is unique. Techniques applied in direct procurement functions do not work in vendor negotiations with agencies, nor can stock standard approaches be beneficial in measuring the performance and ROI of media buying.

METRICS THAT MATTER



IMPORTANT TO MARKETING



IMPORTANT TO PROCUREMENT

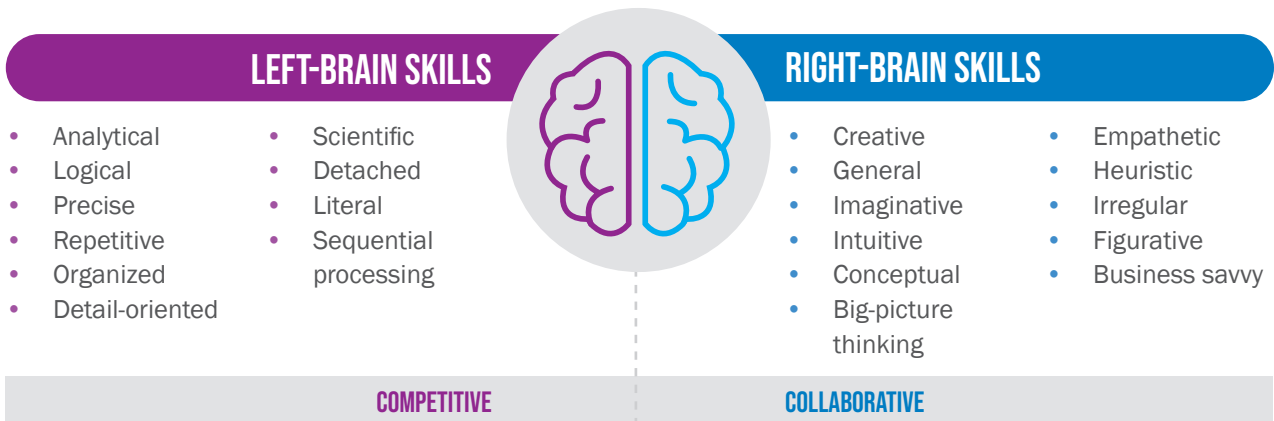


IMPORTANT TO MARKETING AND PROCUREMENT

Sales/Market share increases	Cost reduction	Innovation
Improve marketing ROI	Risk mitigation	Agency/supplier performance
Improve brand health metrics	Cost avoidance	Internal stakeholder satisfaction
	Process improvements	Industry intelligence

Source: SpendMatters

One might say that marketing procurement requires both a competitive and collaborative mindset.



Source: A.T. Kearney

THE MARKETING PROCUREMENT MANDATE



DRIVING ROI

When a company invests in marketing activity, the intent is to drive sales and there is an expected return on marketing investments. As a result, the goal of marketing procurement as strategic sourcing is to deliver the greatest value rather than always driving to the lowest cost. Marketing outputs which are produced for the lowest possible cost but then fail to deliver marketplace impact may negatively affect revenue and/or ROI.



UNIQUE VENDOR REQUIREMENTS

Competitive sourcing is different in a marketing context. Often, what is being purchased is one of a kind and does not have reasonable substitutes. Each agency pitch is different and the creative content between agencies is not necessarily comparable. Likewise, a sponsorship opportunity is unique to a given property or event. As a result, there is less competitive leverage when negotiating these services.



AGILE RESPONSE & SOLUTIONS

Marketplace opportunities and challenges are fluid and often immediate. The need to respond to competitive threats or seize emerging business opportunities requires marketing procurement to be nimble and responsive. As a result, those accountable for supporting marketing must be creative in their approach. The procurement process must meet the needs of the business rather than being a static framework.



VARIABLE MARKET

With other types of indirect spend (such as office supplies), it is possible to forecast demand from year-to-year. This enables a methodical approach to sourcing and minimizes the impact of unknown influences. Marketing, on the other hand, can be highly variable year-over-year. Product modification, organizational changes, industry fluctuation, consumer shifts, economic conditions, and so on, create a dynamic environment requiring a high degree of internal connectivity and communication.

OVERCOMING THE CHALLENGES

There are four common challenges when integrating marketing and procurement functions:

- Articulating the role of procurement within marketing
- Embedding procurement within marketing
- Developing the right marketing procurement team
- Managing the agency dynamic



CHALLENGE: ARTICULATING THE ROLE OF PROCUREMENT WITHIN MARKETING



SOLUTION: DECIDE ON THE VALUE PROCUREMENT WILL BRING

Procurement has a holistic view of an organization which can lead to the breaking down of internal barriers and the reduction of duplication across the business. There are seven value adds that procurement can bring, depending on which type is chosen:

- Cost Reduction
- Positive Revenue Impact
- Cash Flow Improvement
- Return on Investment (ROI)
- Risk Mitigation
- Cost Avoidance
- Partnership

3 COMMON TYPES OF PROCUREMENT ACTIVITIES:



TACTICAL PROCUREMENT

This is all about cost reduction. This type of procurement is the process of looking for, finding and removing unwarranted expenses. There are times when it is appropriate to remove cost, however, in complex situations a full impact analysis should be completed.



TRADITIONAL PROCUREMENT

This type of procurement is about cost reduction, cost avoidance and risk mitigation.



STRATEGIC PROCUREMENT

This type of procurement includes the traditional areas plus ROI, partnership, cash flow and revenue increase. Value creation is a process which provides a sustainable competitive advantage. There are many ways of generating value which can be dependent on the situation, however, procurement is typically measured using these metrics.

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CHALLENGE: EMBEDDING PROCUREMENT WITHIN MARKETING

While most marketing leaders recognize the importance of partnering with procurement, they don't involve procurement teams at the onset. This is the result of a few factors, including the impression that procurement departments are still heavily focused on cutting costs from marketing spend. This exclusion usually leads to lack of clarity in the scope of work, without which, budgets and fees are not estimated correctly.



SOLUTION: SET MUTUAL GOALS AND KEY PERFORMANCE INDICATORS (KPIs)

How and where marketing procurement can most effectively add value is a question on the minds of procurement teams worldwide. According to a study conducted by WBR (2016), 52% of procurement teams were confident that they were able to add value consistently, while 41% felt that their contribution, while occurring more slowly, added value incrementally. Only 7% of respondents did not feel they were able to consistently demonstrate added value.



SOLUTION: DECIDE ON GOVERNANCE

Once goals and KPI's are established, the next step is to consider where governance sits. Some procurement teams opt to have a separate team of marketing specialists who have a background in procurement and strong financial management skills.

3

CHALLENGE: DEVELOPING THE RIGHT MARKETING PROCUREMENT TEAM



SOLUTION: DETERMINE THE BEST TEAM STRUCTURE FOR YOUR ORGANIZATION

While there are varying opinions of how best to structure marketing procurement, teams are often structured in one of the following ways:

- Centralized at a group level
- Decentralized at a country or company level
- Regional
- Local
- A mix with the group taking the lead on the main categories
- By category of spend
- By business unit

CREATING A HYBRID: CENTRALIZED AND LOCALIZED



Procurement typically divides up marketing spend into categories such as point of service (POS), Print, Production and Media and then appoints category managers for each different area. This matrix can be incredibly complicated for multi-market and multi-brand organizations as spend, the number of suppliers and the ability to source the service regionally or locally all vary significantly.

Many marketing sourcing teams have therefore looked to manage some categories centrally (sourcing creative agencies and design globally, for example), while running others from the local markets or regional hubs (such as Print or Media or Events).



SOLUTION: ENSURE THE TEAM UNDERSTANDS YOUR MARKETING STRATEGY AND OPERATIONS

Marketing sourcing team leaders need to understand the dynamics of the marketing industry as much as they do procurement processes. Digitalization, the growth of social media and adtech and martech technology have already started to affect marketing procurement spend. Teams that have professionals who understand the issues and complexities of working with agencies and vendors in these areas will be better able to strategically align with marketing.

PROCUREMENT ROLES THAT MIGRATE WELL



CATEGORY MANAGERS

Category Managers often have experience at event agencies, production houses or media buying agencies.



SUPPLY CHAIN MANAGERS

A lot of skills they have are transferable supply chain governance processes (e.g. HR suppliers, managing law firms) that can be applied to marketing agencies.



TACTICAL BUYERS

These buyers are typically e-sourcing or PO systems experts and can be brought in from indirect procurement.

4

CHALLENGE: MANAGING THE AGENCY DYNAMIC



SOLUTION: LEARN HOW AGENCIES REALLY WORK

Procurement departments often use many different agencies or suppliers. Managing these agency and supplier relationships is a core function for procurement teams and doing so successfully remains a significant challenge.

About 70% of procurement teams manage up to twenty agencies or suppliers, and 30% manage even more than that. In order to manage successfully, procurement teams need to have a robust strategy to manage and assess their suppliers and streamline the roster, if necessary.



SOLUTION: SCHEDULE AUDITS TO ENSURE FINANCIAL AND PROCESS TRANSPARENCY

Reducing the operational costs involved with working with a (potentially) large base of suppliers and agencies is an important objective for marketing procurement teams. Therefore, having a transparent financial relationship with agencies is vital.

Nearly 60% of procurement teams consider themselves to have true financial transparency in their agency and supplier relationships. Regular auditing is the key to understanding what agency and suppliers are doing and where your money is going. A professional financial audit every three years is recommended and gives all parties insight into their processes and helps evaluate agencies and suppliers on the question of value vs. price.

CASE STUDIES



STRATEGIC SOURCING



BACKGROUND

At Reckitt Benckiser, traditional touch points such as in-store point of sale terminals were important, but their significance in the digital age had decreased. Their marketing procurement team knew that if they wanted to drive growth and value, they needed to venture towards digital, focus budgets a little less on traditional touchpoints, and most importantly, find the right partner.



APPROACH

Reckitt Benckiser installed marketing and design studios, with permanent teams to operate them, in its offices around the world. They also used data analysis which enabled its brands to quantify the factors and results they were looking for (both projected and real) and wished to visualize.



RESULTS

Through sourcing data analysis, the Reckitt Benckiser team was able to quantify the impact of brand experience and design. They could list exactly which key touchpoints mattered for the consumer, what they were currently investing in, and overall ROI. This enabled data and the inhouse marketing and design teams to be aligned on objectives with each other, and with the greater organization as well.



SPEND VISIBILITY & TRANSPARENCY



BACKGROUND

Vodafone operates in more than 25 countries and has network partnerships in more than 49 others. It serves 470 million mobile customers and a further 14 million broadband customers. Vodafone was concerned that it lacked a desirable level of transparency in its procurement process execution and performance and was looking for a way to use digital technology to investigate the matter.



APPROACH

Vodafone implemented a new cloud-based platform - the "Intelligent Business Cloud" - which aimed to streamline operations through a technique called "Process Mining Technology." The technology relies on AI and machine learning to extract existing data from an organization's IT systems to construct a visual representation of how processes perform. The overview allows managers to spot and amend inefficiencies.



RESULTS

By deploying the new platform, Vodafone was able to discover several variations and inefficiencies in its procurement processes throughout the organization. After the AI went to work on the data, the issues were narrowed down to three likely sources. Vodafone implemented robotic process automation to reduce the possibility of human error when creating purchase orders and imputing source data. Additionally, it was able to establish best practice in its various procurement departments to make sure demand was bundled with desired vendors and more.



SUPPLIER MANAGEMENT



BACKGROUND

Pernod Ricard wanted to drive collaborative buying across their global businesses, with benefits in value and compliance while being mindful of their corporate social responsibility.



APPROACH

Procurement for branded marketing collateral items can be fragmented. Firms buying from traders who source from factories where items are made might not know where or how the goods are actually produced, leaving them in the dark about the conditions the workers in those factories face.

By using ProProcure, an eMarket platform, Pernod Ricard focused on using fewer suppliers for their items while seeking to increase the transparency of the operations of those suppliers.



RESULTS

Pernod Ricard was able to better understand the operations of the suppliers they were working with, and apply the right responsible standards. In turn, this created a collaborative buying process and increased the company's corporate social responsibility.



PROCESS IMPROVEMENTS



BACKGROUND

Pepsi wanted to improve creative processes and garner better work from its agencies. So, when the opportunity to create a commercial starring Beyoncé that will air in 70 countries came along, Pepsi didn't opt to give the assignment to either of its agencies. Instead, the project was entrusted to Omnicom Group with the hope that the flexibility of their agency model would improve efficiencies and generate great creative.



APPROACH

The idea behind this approach is to curate talented teams across the right projects as opposed to buying a whole infrastructure. The efficiency is demonstrated through curating the exact number of people at the exact seniority with the capabilities needed.



RESULTS

The goal was to get the best work possible from a variety of shops without running separate agency structures and to improve efficiency. Brad Jakeman, former President, Global Beverages at Pepsi, said that this agency model "generated some of the best work we have done on Pepsi, the most efficiently." Pepsi has utilized this new agency model further by assigning more projects for the brand.



AGENCY REVIEW



BACKGROUND

An airline was in the midst of a digital transformation and was looking at agency models that offered integrated solutions with cost efficiencies. The company was working with several different agencies which were not conducive to integrated data-back strategies. Some sense of complacency was observed in the agencies who were not challenging the status quo for creative thinking and media technologies.



APPROACH

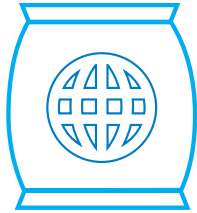
R3 understood the needs of the various stakeholders-management committee, working teams, marketing and various business units. We then developed an agency model that aligned to the future needs of the client and consolidated diverse scopes of work across varied business unites to develop an integrated scope of work. Doing so removed duplication and secured talent.

There was also sensitive handling of a large number of agencies and client stakeholders to ensure a smooth and efficient pitch process by constantly providing an independent point of view.



RESULTS

The airline appointed one integrated agency group for creative and media resulting in a 25% reduction in agency fees and 25% in media savings. There was also an integrated team structure with a focus on data and tech talent, KPI framework with emphasis on business outcomes.



REMUNERATION MODEL



BACKGROUND

A global CPG company was working with multiple agencies across its various brands and felt that there was inconsistent fee management across the board. There was high tension and time commitment in negotiating the fees. Conversely, agency performance management was inconsistently applied and was not considered motivating for agencies.



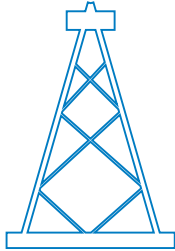
APPROACH

R3 held stakeholder and agency interviews to create strong engagement with all stakeholders across departments, brands and functions, to drive alignment. We then implemented a standardized methodology for data collection to be analyzed before the model implementation. A new model was rolled out across 100 brands in 60 countries, across 15+ agencies.



RESULTS

Through this independent assessment of current fee levels, R3 helped the client create a clear framework to be consistently applied across brands in determining fees and assessing the business outcomes achieved through world class communications, driving 13% (€65m) in savings.



AGENCY MODEL CREATION



BACKGROUND

A global oil and gas company wanted to create the most effective and efficient agency model possible to support their future business and marketing objectives and consolidate the market-leading position. They also wanted to define new ways of working between themselves and future agency partners as well as populate the agency model with agencies that are the best fit for their objectives.



APPROACH

The agency model was developed across several phases. To start, R3 conducted a qualitative and quantitative needs assessment with stakeholders across multiple markets and proposed multiple bespoke solutions. Once key performance indicators were established, R3 held ongoing meetings that included extensive assessment of agency talent on a global scale. After an evaluation of agencies' suitability, and a media pricing and fee benchmarking analysis, R3 gave the client a final presentation of the pitches by shortlisted agencies which showcased their strategic capabilities.



RESULTS

A future-fit agency roster of best-in-class agencies that matched the clients' needs with a 17% (\$35m) in value and cost improvement.

BEST PRACTICE

A solid foundation needs to be laid to ensure that the relationship between Marketing and Procurement is one of mutual support.

1 DEFINE ROLES IN THE CONTEXT OF THE PARTNERSHIP

New roles need to be embraced by both departments if they are to see their work as being complementary. Procurement needs to regard itself as customer-solution oriented to help marketers solve issues regarding performance of suppliers, and Marketing need to see itself as a profit, instead of a cost center.

REFRAMING THE MARKETING-PROCUREMENT PARTNERSHIP



PROCUREMENT



MARKETING

PROCUREMENT		MARKETING	
OLD	NEW	OLD	NEW
Product-oriented	Customer-oriented Solutions	Target group of similar customers	Individual customer
Alignment with production and operations	Alignment with marketing	Demand generation	Service and solution logic
Supplier performance: Delivery of products	Supplier performance: Delivery of solutions	Product-focused	Solution-oriented
Distinctive department with its own objective, budgets and strategies	Strategic and integrated department	"Cost center"	Leader responsible for profitability
Reducing costs in transactions with suppliers	Supplier-buyer relationship		

2

DECIDE ON HOW TO MEASURE PERFORMANCE

A key challenge for marketing procurement is that there are no common KPIs that all partners can rally towards. Each team and every agency have a different set of KPIs, which makes it harder to align towards a business goal. By establishing a measurement framework that includes qualitative and quantitative data, marketing and procurement teams will be able to see where and how value is being generated, and what the financial impact is over time.



3

DEVELOP A MARKETING SPENDMAP

Having a clear and joint understanding of what the total spend is for marketers and where the budget is going will be beneficial for procurement to understand the needs and requirements of marketers, and for procurement to better understand where they can contribute expertise. Spendmaps can shed light on the efficiency of current agency models, cost benchmarking and contract compliance.

Creating a marketing spendmap provides clarity for both parties to questions like:

- Which vendors supply multiple business units?
- Which business units in the business might buy the same or similar goods and services?
- What portion of your spend is with the core suppliers (e.g., top 10)?
- What is the total number of one-off and small value transaction suppliers?
- How many transactions does your organization process?
- What are the associated administrative costs?

4

LEVERAGE DATA & ANALYTICS

Procurement teams can achieve up to 8% in cost savings by using statistical models and analytics to inform their decision-making. Surprisingly, many do not make use of such systems and miss out on opportunities to negotiate stronger positions and better contracts. Information is power and money in the case of marketing procurement, and employing expertise that is able bring people insights, process functions and the capability of technology together to serve a view of what is happening is a valuable long-term investment.

5

IMPLEMENT A VENDOR MANAGEMENT PROCESS

Vendors are not psychic. They require information to be effective. A healthy vendor-supplier relationship management framework minimizes risks and effort, and considers the impact of strategic, operational and tactical areas in driving organizational accountability and responsibility.

6

BRING IT BACK TO TOP OF LINE

Cost saving does not mean a decrease in overall budget. A key to successful fostering collaboration between Marketing and Procurement is to make sourcing about helping Marketing find additional funds for brand re-investment, and to measure the return, or savings, from these investments. Being efficient with spend means that Marketing can reallocate some of the savings generated by a sourcing program to put back into measurable top line-generating activities.



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