

# AGENCY PITCHES in need of an umpire

BY TAREN GROM

**In one dugout** are the healthcare advertising agency executives, who are facing escalating costs, client mistrust, lack of understanding for their processes, client consolidation, and declining profit margins.

**In the other** dugout are the pharmaceutical clients, who are facing greater accountability to maintain the bottom line, internal management issues, time constraints, and cost pressures.

## THE STARTING LINE-UP ...

**RYAN ABBATE.** President and managing director, Pacific Communications, Costa Mesa, Calif.

**ARTHUR ANDERSON.** Managing principal, Morgan Anderson Consulting, New York

**SCOTT COTHERMAN.** President and CEO, Corbett Healthcare Group, Chicago

**ROD HANLON.** Chairman, Wanamaker Associates, Atlanta

**RICH LEVY.** President and chief operating officer, Adair-Greene Inc., Atlanta

**CARLEEN NIEMIEC.** Senior VP, creative director, Dudnyk Healthcare Group, Horsham, Pa.

**BLANE WALTER.** Chairman and CEO, Gerbig, Snell/Weisheimer & Associates Inc., Columbus, Ohio

## IN THE BULLPEN ...

We interviewed current and former company executives at Eli Lilly & Co., AstraZeneca, and a third pharmaceutical company. Because of the proprietary nature of their comments, we are respecting their request for anonymity and their company affiliation and have assigned them the pseudonyms of **BROWN, SMITH, and JONES.**

Behind the plate is the consultant, who is being called upon to umpire the agency-client relationship. Third-party independent consultants are being called upon to manage myriad functions, including agency selection, the pitch process, and fee compensation.

Agency presidents debate whether third-party consultants bring real value to the relationship. Nevertheless, increasingly clients are relying on these independent sources as a way to manage costs and ease the work load. For better or worse, management consultants are now firmly entrenched in the agency-client equation.

For the agency, a consultant can level the playing field. For the client, a consultant can bring expertise to an area where the company lacks the knowledge, experience, data, or time needed to manage the agency process efficiently.

## Calling the game

**HANLON.** In general terms we tell our pharmaceutical clients that we bring two major components to their marketing/communications programs: accountability and efficiency. Accountability is really what has been lacking most. The "making money hand over fist free spending environment" that the industry has experienced in the past 8 or 10 years is over. Suddenly, there is a call for efficiency and the only way to achieve efficiency is to bring accountability to the people charged with controlling the budgets and the resources utilized.

**ANDERSON.** The one thing clients do not have are databases on agency economics. Clients are forced to accept what the agency says. We're able to evaluate whether the agency numbers are what they should be. There is

pressure on pharma company profit margins, and the role of the pharma companies' finance and purchasing organizations is becoming increasingly more important.

**BROWN.** As a global sourcing manager, I'll bring in a consultant when it is the most efficient way to get a deal negotiated and a contract in place so that a brand can go on. I'll hire a consultant as my agent often because our hands are full. We brought in a consultant a couple of years ago to help us source down to a more manageable number of

**COTHERMAN.** If anyone is change adverse, then they better get off the merry-go-round, because the industry is going to spin out of control real fast. This industry is going to continue to consolidate at a rapid pace. More pricing pressures will be put on the industry, clients are going to be asking more from their suppliers in terms of concessions and reduced profitability. If that makes anybody queasy or uneasy, they better just get out of the game and go into the dry-cleaning business.

agencies. The consultant helped us set this up by talking with internal management at all levels and talking with the agencies we were using. As an independent outside source they told us that we weren't using our agencies as strategic partners. Our consultant allowed us to get that moose on the table. The area of strategic sourcing or procurement at our company has grown considerably in the last three to four years and continues to grow stronger. We may have people with less experience or who are new to a team and don't know where to turn. That's when we get involved.



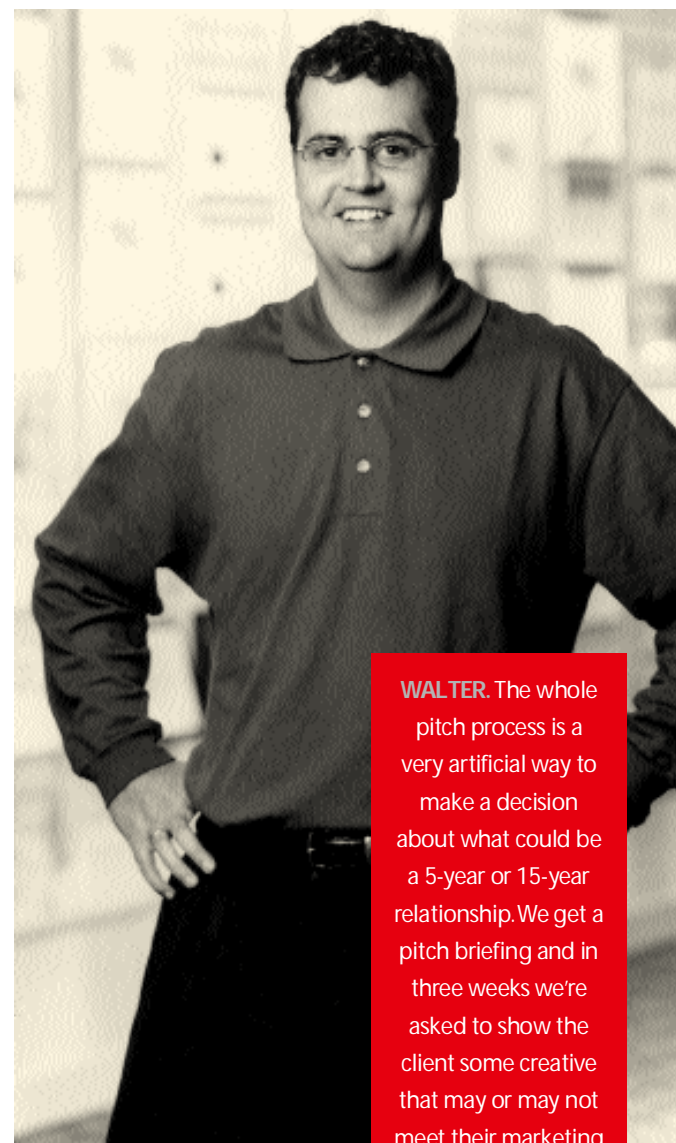
**HANLON.** I'm working with more major pharmaceutical companies now than I have in the past. Companies are realizing that there is some value to outside counsel. Sometimes we act very much like a marriage counselor. What we're trying to do is make that client-agency relationship as healthy as it can be on an ongoing basis. We identify opportunities for improvement or problems where they exist and make sure that everybody is addressing them and taking advantage of improvement opportunities. We work with clients through the entire spectrum of their relationships with

their marketing/communications resources. We do a lot of contract and compensation design and negotiation, helping our pharmaceutical clients establish the parameters of their working relationships.

**JONES.** If the client has somebody who knows all the agencies, knows how to work on inclusion and exclusion criteria, and has the experience and the knowledge and is not biased, that's wonderful, but that person is not found in many organizations. The reality is, a lot of procurement departments or purchasing departments are popping up at companies and are contracting directly with the agency. They are the ones that can actually squeeze the agencies even more. The third-party or the consultant has a point of perspective. Consultants work with many pharmaceutical companies and a variety of agencies and know rates across the board. One person in a purchasing department in one company only sees that silo. Having as broad a perspective as possible is helpful, because that's the way to evaluate what's good or bad.

**ANDERSON.** We help clients get their arms around the agency price-value equation, the quantitative aspects of the hourly rate or other compensation methods, and the qualitative aspects of the relationship. We develop best practices to help the client. An example of a best practice would be to have a minimum number of layers of approval for the agency's deliverables. If there are eight layers of approval instead of two, that's inefficient. Not only is it inefficient and costs more in billable time, it also invariably results in a poorer work product. The functional areas we look at are agency scope of work and staffing plans. We look at the compensation methodology and the agency contract. We make sure that the contract has the provisions that a client needs to make its agency accountable and provides transparency on the agency's staffing and economics. We benchmark all of those and give them an industry parameter. We look at the organizational aspects of a client to agency structure and process.

**ABBATE.** I don't see where a consultant is going to truly add value to the review process. For instance, most clients are savvy enough, understand their own needs enough, and have had enough experience to be able to conduct the agency review. It isn't rocket science, it's a matter of the best experience, the right credentials, and having a good chemistry match. A



**WALTER.** The whole pitch process is a very artificial way to make a decision about what could be a 5-year or 15-year relationship. We get a pitch briefing and in three weeks we're asked to show the client some creative that may or may not meet their marketing strategies, and then they make their selection.

consultant, could probably if nothing else, help a client source the right agencies upfront if the client didn't have the time. But there is enough information out there that, with very little due diligence, a client could figure it out on their own.

### Creating a level playing field

**HANLON.** I get assurances from my clients that there is indeed a level playing field. I'm not in the business to be a shill for somebody, to justify a preconceived decision. I have obligations to the agencies, even though I'm being paid by the client. Without the agencies trusting me I'm out of business. There aren't many more than 30 agencies that could legitimately compete for some of the global business. If a substantial number of those 30 agencies decide they don't want to work with me I'm out of business. I have an obligation to the agencies to be sure that the playing field is level and that everybody has an opportunity walking in the door.



**ANDERSON.** We help the client get their arms around the agency price-value equation, the quantitative aspects of the hourly rate or other compensation methods, and the qualitative aspects of the relationship.

**JONES.** The biggest thing in working with agencies is to make the selection fair and consistent. Agencies care about having an equal shot. If clients already know which agency is going to get the job, they should not bother asking the other agencies to do a pitch, they should not play favorites. It's a lot of work to put a pitch together. Clients should try very hard to make the hiring of an agency as objective and as fair as possible. It's a small industry. The people we see at one agency today may be with another agency tomorrow. And they will remember.

**LEVY.** Consultants make the playing ground a lot more level, they have no bias. Consultants take some of the politics out of the pitch process. Because of the exorbitant cost, when we go into pitch we want to make sure that there's an even score card. Clients should not invite three or four agencies to pitch just because they feel they have to, especially when they pretty much know which agency the assignment is going to go to. Also, consultants, in my experience, have been beneficial helping with fee negotiations.

**SMITH.** We've used consultants to help us run the agency selection process to make sure that we're considering everyone and that there is a fair and unbiased process.

**ANDERSON.** Our clients want a level playing field. Everyone at a client has preferences for agencies. But the question is not who is right, but what's right. That's important, otherwise there are political nightmares.

**COTHERMAN.** Let's call a spade a spade. Consultants are part of the agency compensation game too, not just to improve or to facilitate the pitch, or to improve the working relationship with the agency. Their procurement is very much a part of the whole process. Even when we aren't pitching, we are merely trying to survive, when consultants get involved.

### Training camp

**JONES.** When I was first put into a marketing position, I didn't understand what an agency could bring to the table. Only after years of working with agencies and developing relationships with them did I develop an understanding of what they can do. People who are brand new to the company or to a marketing position don't understand the whole marketing process, let alone what an agency can bring. I know how frustrating this is from the agency perspective. As clients, we need a better understanding and appreciation of what an agency can do for us. Clients need to be trained and the company has to provide that training. The problem is there are not a lot of people within the organization who have the time or experience to provide that training. That's why clients are starting to look more and more to the outside for help.

**HANLON.** Everyone in our firm has been on both the client side and the agency side. We are intimately aware and sympathetic to the problems of the client and the agency. It's true

that the clients don't understand how the agency business works, but if agencies are secretive about their compensation and how it's developed and why it is what it is, I can assure you that clients suspect the worst. Clients think they are paying too much. They think the agency guys are all driving Rolls-Royces and weekending in Europe. Clearly that's not true. It is tough to make money in the agency business these days, but it's possible. The best solution is to get everything out on the table, see how rates are built, and let the client decide whether or not they want to buy what the agency is selling at the prices they have to charge.

**JONES.** One of the things that an agency could do to help, and I'm not saying this is a cure, is to give an orientation to the pharmaceutical company about their processes. How does a job move through the agency organization? Most company people think that once they hand off a job to the agency, it's looked at by two or three people, when in fact one job could go through 10 or 15 different people's hands. Clients don't understand the whole agency process.

**ABBATE.** A typical marketing manager has no idea what a month's worth of work costs within an agency environment. We can say we interviewed four people and we did a focus group and we did this and we did that. They think wow that's very impressive, but they don't have any idea what the tangible costs are for all that's been done. Most clients don't understand a service structure, they understand the manufacturing structure. We sell hours, that's all we have to sell. Every hour has an associated cost, and those hours stack up.

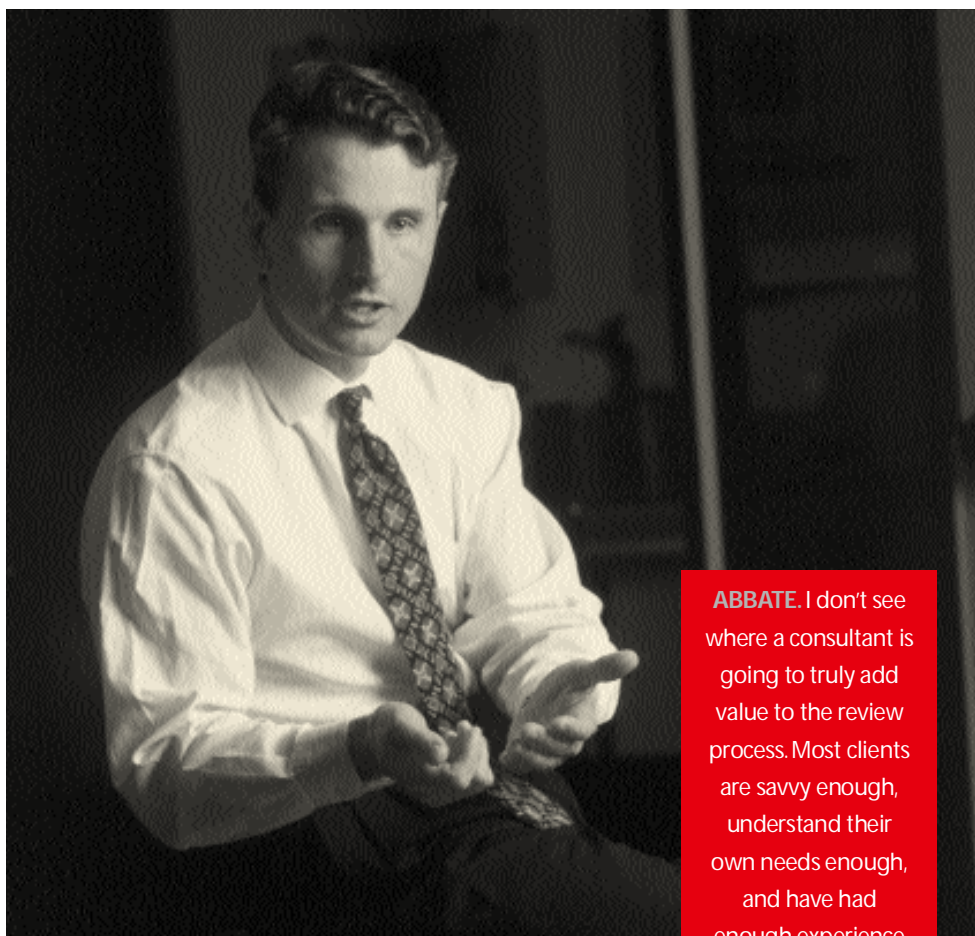
**JONES.** A lot of pharmaceutical companies have gone to team-based product teams. The hierarchy is gone. The team is made up of people from different departments. There is a lack of clear understanding as to whose role and responsibility it is to manage the agency. For example, one part of the team is responsible for the medical education. Another is responsible for personal and nonpersonal promotion, another is responsible for direct-to-consumer, and another for public relations. There may

### Identical hourly rates are NOT equal

**(What is "Value"?)**

	Example	
	Agency A	Agency B
<b>"Blended" hourly rate (identical)</b>	<b>\$110</b>	<b>\$110</b>
Salary % (different)	33% ← → 45%	45%
Overhead %	42% ← → 40%	40%
Overhead ratio (different)	127% overhead ratio	89% overhead ratio
Profit %	25% ← → 15%	15%
Total	100%	100%
Performance assessed by client *	2.7* ← → 4.0*	4.0*
<b>"Value"</b>	<b>Poor</b>	<b>High</b>

\*Scale of 1.0 (low), 5.0 (high) — as assessed by client  
Source: Morgan Anderson Consulting, New York



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be people responsible for the marketing strategy, which is totally separate. Then there are the product managers. All those people are all on the same team, but they report to six different people, who report to others. Who is responsible for managing the agency?

**COTHERMAN.** The hardest thing about working with clients is a general lack of understanding about how agencies work and where the agency's priorities are and what the agency is trying to do. It's fascinating to me that clients continue to bring in management consulting firms to act as intermediates between their agencies. Clients could probably get a hell of a lot more useful information by just picking up the phone and calling me and asking my opinion. Or schedule an all day meeting, at which point we can say here's the real deal, guys, here's what's important to us, here's what we think is important to you. We can make sure we align our interests accordingly instead of bringing in a third-party intermediary who may or may not actually tell clients the "truth" about agencies.

## The scouting report

**HANLON.** We like to take key team members to visit each of the agency semi-finalists. There's a lot to be learned. The agencies are all different, and the client can get a very good

feel for the culture and the chemistry. We ask the agency to put on a capabilities presentation so we get a first look at their broad creative capabilities. The client has an opportunity to interact and ask questions and see how the strategy was developed and how the tactical execution and the creative came out of that.

**JONES.** Hiring an agency is one of the biggest investments a client is going to make, in time and in money. If we hire the right agency over a 5-year or 10-year span, we're spending \$20 million to \$30 million or more. I certainly think a site visit is worth a couple of days of assessment.

**WALTER.** I encourage all our clients to do a site visit. I'm a big believer that there are two things that a client buys when selecting an agency. One, the knowledge and content that the agency has about a client's marketing problem. Two, chemistry. One of the best ways to understand chemistry is to actually spend some time at the agency.

**ABBATE.** We think it is important for clients to visit. If the clients saw how little there is at some agencies versus what they are purporting to have, they would be startled. We would

love in every pitch opportunity to have our clients traipse through our building to see what we have. There are so many agencies that are just a shell of a structure. Because of their link to major networks, they are perceived as being much bigger than what they really are.

## Determining the line-up

**WALTER.** I advocate interviewing five to seven agencies through a capabilities presentation, and then I suggest clients evaluate two agencies as opposed to four or five. Clients would save a lot of agencies a lot of money. I think if someone invested the time to make those narrowing decisions earlier in the process, clients would get better quality pitches and more insight. Clients should still start broad with seven, eight, or nine agencies, go through some interview process, but get that number down to no more than three before asking agencies to spend the kind of money necessary to make the client understand how they work and what they do.

**HANLON.** Based on site visits, we'll help the client narrow their selection down to three finalists, no more than four. Those finalists are brought in and are thoroughly briefed. They are given an assignment and have four or five weeks to come back and make a presentation. Many agencies are surprised to find that the ultimate decision is largely based on what the client sees in that final presentation.

**BROWN.** Four years ago we went through an exercise of business planning. We had more than 10 agencies, every brand had its own agency. That didn't make sense. We went through a sourcing process with a consultant, hoping to go down to two to three agencies. As a result of the sourcing process, all of the brand teams ended up picking one agency. As a result we have been able to realize many improvements in efficiency, operations, synergy, as well as strategy. We started with a list of 25 and had requests for information filled out by 15 agencies. This list was selected down to the four agencies we invited to come in and pitch. There were many things that we looked for, not only creative but overall capabilities and experience, capacity, agency processes, and how they come up with creative and strategy.

**ABBATE.** I know many agencies are drawing the line now, and not even participating in speculative pitches unless there are certain things offered upfront, for example a signifi-

## Pharmaceutical agency billing rates by function

	1999 Average hourly rate	2000 Average hourly rate	% increase
<b>VP, MANAGEMENT DIRECTOR</b>	\$211.00	\$273.91	29.8%
<b>VP, ACCOUNT GROUP SUPERVISOR</b>	194.87	239.92	23.1
<b>ACCOUNT SUPERVISOR</b>	167.53	179.31	7.0
<b>ACCOUNT EXECUTIVE</b>	142.00	133.13	(6.2)
<b>ACCOUNT COORDINATOR</b>	98.00	123.00	25.5
<b>TRAFFIC</b>	87.69	87.55	(0.2)
<b>VP, CREATIVE DIRECTOR</b>	210.38	247.00	17.4
<b>CREATIVE DIRECTOR, COPY</b>	144.67	243.22	68.1
<b>CREATIVE DIRECTOR, ART</b>	144.67	219.82	51.9
<b>COPY SUPERVISOR</b>	138.85	160.00	15.2
<b>COPYWRITER</b>	123.67	132.18	6.9
<b>ART DIRECTOR</b>	120.93	141.83	17.3
<b>PRODUCTION MANAGER</b>	101.79	106.92	5.0
<b>CLERICAL/ADMINISTRATION</b>	76.67	81.81	6.7
<b>EDITORIAL AND PROOFREADING</b>	91.80	105.18	14.6
<b>STUDIO (CAD)</b>	148.45	143.36	(3.4)
<b>STRATEGIC PLANNING</b>	214.62	203.00	(5.4)
<b>MEDICAL DIRECTOR</b>	231.25	204.70	(11.5)
<b>QUOTED BLENDED RATE</b>	<b>\$134.25</b>	<b>\$146.79</b>	<b>9.3%</b>

Source: Wanamaker Associates, Atlanta

cant budget. So many agencies have been burned by potential clients who are doing nothing more than kicking tires and think nothing of asking an agency to do a speculative pitch. The agency may find out later that the pitch itself has little or no bearing on the ultimate decision.

### The pitch

**WALTER.** The whole pitch process is a very artificial way to make a decision about what could be a 5-year or 15-year relationship. We get a pitch briefing and in three weeks we're asked to show the client creative that may or may not meet their marketing strategies, and then they make their selection. Often there is a lack of clarity between what the client is asking for in a pitch and what they would like to see. It's difficult to try and decipher what people are truly looking for. Clients should be asking who's really working on the business, how is the agency going to ramp up, and what systems does the agency have in place. It's very difficult for agencies that have different types of services to communicate that information in a pitch setting.

**JONES.** It's hard to put a dollar value on a pitch. One way to do this is to ask the question of how many hours does it take to put together a pitch. Then put a rate on that. We wouldn't put a cost limit on a pitch, what we would do is put a limit on the creative that could be produced. A lot of agencies like to come in and plaster the walls with art work. I have found that inexperienced people can be swayed by the beautiful pictures. And then the client hires an agency because of the great creative they do. All the agencies can do great creative, that's why they are in business. But what's the strategy behind that great creative? I want to make sure that the strategy the agency comes up with can be executed creatively. We ask for enough creative executions to show us the strategy. Creative is the biggest expense, so if an agency limits the creative then in essence they are limiting the expense.

**COTHERMAN.** From a cost standpoint we have often spent \$300,000 to \$400,000 on a pitch, and that's just out-of-pocket expenses. When we start talking about lost billable opportunities and taking away resources that are currently servicing other clients, the actual cost to the agency can be very substantial. For a recent new business pitch we spent about \$750,000 pursuing a very large opportunity and ended

up not winning the assignment. That is a very large financial impact on the agency overall. At the end of the day, very little of what is involved in the pitch ever sees the light of day. So how valuable really is the pitch process? For both the client and the agency a pitch does not seem to be a real good investment of time, effort, or money.

**BROWN.** I had 18 years of marketing before I went into procurement. That's business, that's competition. Agencies have to earn their keep everyday. They always have the right, at least with our company, not to pitch. If anyone ever asks me, 'I think so and so is a shoe in, why am I going through this?' — and wants to pull out because they really think it's going to be a waste of money, I respect that.

**ABBATE.** What a client sees in a spec presentation has little to do with an agency's true capabilities. Whereas a more simple form of a

pitch with credentials, a case study pertinent to what the client is looking for, and an introduction of a specific team, is as representative as a spec pitch without as much work. The problem is clients have no idea how much time and money are spent on the pitch. I think if they did, they might approach agencies with a more truncated process in the hopes of recouping that money in the long term. Most agencies will try to make up a portion of what they do in the pitch eventually with the client. It's not out of the question anymore for agencies to spend \$250,000 on a pitch. When an agency does three, four, or more of these types of pitches a year, there is a huge impact on an agency's cost structure at a time when clients are asking agencies to reduce costs. I don't think there's any malice involved here, I just don't think there's an awareness by the client as to how expensive, extensive, and complicated pitches are to prepare.

**SMITH.** We don't put a cost limit on pitches. That's the agency's business decision. We don't want to dictate to them how they get ready for a pitch, whom they use. We do dictate that we want to see the team that is working on the account.

**LEVY.** Big casting calls are a waste. When clients send out 10, 15, or 20 requests for proposals and see seven or eight agencies for a pitch, that's just a cattle call. Pitch invites should be narrowed down to four agencies, and that's a lot. What we are starting to find more often is that there might be four or five agencies called in to do a general capabilities presentation. Then usually the client invites two or three agencies back. Three seems to be the best number for a full creative and strategic presentation. Being one of three is fine, but when we are one of five or six agencies called for a big blown out pitch, this is too much. I don't know if there should be so much a cost limit on pitches, but there should be some definitive parameters that every agency has to adhere to. I believe this is an area where consultants can help. We have had consultants tell us if we didn't adhere to certain things we would lose points rather than gain points. I don't think the agency that comes in with the glitziest show and spends the most money should necessarily get the business. The client is hiring the agency as an extension of the marketing team, in one respect. Clients hire an agency for diversity of talent, strategic thinking, and execution. That's what a client should really be evaluating an agency on.

**SMITH.** The creative to an individual sitting in the audience doesn't really matter that much unless that creative represents the target market segment that we are going after. So while we want to see the creative, that's really a proxy for the agency's processes, their reputation, their ability.

## The salary cap

**HANLON.** I could point to agencies that have been making an unreasonably high-profit margin for an extended period of time. We do surveys on agency rates and I know what agencies are charging both by industry and by geographic region for their functions. When I look at an agency's rate schedule or its blended rates by function I know whether the rates are high or low, and I can tell my client whether those rates are reasonable and how those rates were constructed. We believe the client's responsibility is to provide the agency with an adequate, fair level of compensation. The agency's responsibility is to then take that level of compensation and manage for profit. We are not interested in micromanaging the agency's business. If the agency can't earn a reasonable profit out of that fair level of compensation that's not the client's problem.

**WALTER.** Pharmaceutical companies are trying to make sure they get value by not only making sure they are keyed up with the people that are best at business but also who are efficient at what they do. In the past 12 months we had consultants, on the behalf of clients, ask us to provide information that we never had been asked for before. We've responded to some requests, and others we've not responded to. I don't think having the client have a better understanding of our cost structure is necessarily a bad thing. Sometimes we get asked to provide work at rates where it's not worth the reputational risk.

**LEVY.** One of the things that agencies have to do is take away the fear from companies that they are paying too much money and don't know what they're paying for. We've got to show them. With our clients, we do a monthly fee reconciliation to show exactly what the hours are. We don't ever want a client to feel like they are getting ripped off or paying too much. Clients can become disgruntled and the cost of getting a client is so phenomenal right now that once we get them we sure in heck don't want to lose them.

**ANDERSON.** Agencies are in the business of making money and they should make money. In fact, the better they do the more money they should make. But, there are a lot of ways that agencies can hide or not disclose profit. When an independent verification shows that there's profit hidden in overhead, this is probably the most difficult situation. For example, payments to parent holding companies for services that really aren't rendered. There's nothing wrong with high profit, in fact it's a good thing, but clients want to pay high fees when they are getting accountability and getting performance.

**ABBATE.** I'm not sure where the consultant adds value. Are consultants helping grind the agencies down in negotiating the rates after the fact? If they are, I think that's a bad trend. Again, there are industry benchmarks that clients can use to negotiate rates. Rates are based on very specific areas of agency operations that can be viewed and reconciled between a client and a potential agency. There's not as much hidden as people may think, especially now. This isn't the 70s anymore, when agencies had huge margins. We are being ground down to where the margins are so insignificant that it is not embarrassing to share them with clients anymore.

**SMITH.** Transparent discussions of how any agency makes its money are important. What are we getting for our money? I'm open to discussing that at any time. If an agency says here's what these bells and whistles cost, we can decide and understand whether that's true or not.

**WALTER.** If clients really want experience and depth, that experience and depth cost money. Those people cost more; sometimes providing that information to independent consultants reduces the perception that agencies are making more money than they should or are. I guess what I'm saying is that I don't think it's bad. Consultants are in business too, they understand for us to be viable we've got to cover our costs and make a profit just like everybody else. We've had some situations when providing this information has made negotiating more difficult, but we've also had situations where this information has helped open some people's eyes — great talent costs money.

**ANDERSON.** Some agencies relish the opportunity to tell it like it is. They would rather have the client know going in what the agen-

cy's economics are rather than the client become unhappy after the relationship has been established. This requires transparency and the disclosure of information, which pharmaceutical agencies in the past have not had to do. Hourly rates were opaque, a client either liked the rates or didn't. We've come up with true hourly rates, rates based on the agency's actual economics not on some number that the agency wants. Agency salary rates are kept confidential; they are not released to the client.

**COTHERMAN.** Our policy has been not to release salary information. We believe this is proprietary and confidential information. We have had to eliminate ourselves from consideration as a result of not disclosing that information. This often results in us having more pressure to try and meet our growth objectives through other means. It's not an easy thing to do, but we have a philosophy that we believe the agency's business is the agency's business. It's becoming very difficult in today's environment to try and abide by that philosophy and a lot of it quite frankly is a result of more of the consumer marketing mentality. I've said all along if anyone really wants to know what's going to happen in our segment of the business all they have to do is review what went on in the consumer agency part of the business three years ago — that will foretell exactly what's going to happen in the pharma business in the future. The management consultants that are so much a part of our business today are here because they've moved through all of the other agency disciplines. Consultants are changing our business.

**LEVY.** A lot of the drug companies, especially the big pharma companies, have either made us hold our hourly rates or have made us negotiate them down. A consultant can come in



**LEVY.** Consultants make the playing ground a lot more level, they have no bias. Consultants take some of the politics out of the pitch process. Because of the exorbitant cost, we want to make sure that we have an even chance and that clients are not inviting three or four agencies to come in especially when they know which agency the assignment is going to go to.

and say to the client this is a fair rate, you've got to pay them a fair rate so they can make some profit and stay in business.



**ABBATE.** The whole issue of cost is problematic, because clients are driving our cost structures down. They are counting every paper clip. They are grinding us all on costs and yet they want everything they've always wanted historically. They want to pay a project house rate structure, but they want strategic involvement, and there's a cost associated with that. We hire people who have significant amounts and types of experience. Those people don't come cheaply. Those people are here to add value, to become strategic partners with our client. If we were simply a project house, grinding out and executing marketing communications cost structures would be much lower. The client can't have it both ways. There has to come a point where clients acknowledge the value of an agency and understand that they are going to have to pay for that value.

**NIEMIEC.** The real underlying issue is the perception of value and the regard in which clients hold their agencies. More and more, I feel we're being viewed as mere vendors. We're brought in, paraded around, and asked to compete against each other to the extent that we are spending exorbitant amounts of money.

**JONES.** Without information, how do I know I'm getting whom and what I contracted for?

Am I getting them more or am I getting them less? How do I know? Without information, these little issues nag at people. They don't nag at the person who is working directly with the agency, he or she sees the people they are working with. The problem is a lot of the marketing now is done in teams, there are a lot of people who don't work directly with the agency who still have agency responsibilities. So how do these people know what's going on? Do they trust the marketing person who is working directly with the agency to keep them updated all the time? This is where consultants help in my opinion. That's why I'm finding objective, third-party data — exactly what the agency is doing compared with what we expected — are saving a lot of problems. With data come communication, with communication comes enhanced trust. That's one aspect that would help develop client-agency relationships a great deal.

**COTHERMAN.** The price appreciation from a fee standpoint in our business has not matched the pace of growth of our expenses. The agency's major expense line is its personnel costs. In this recent marketplace, salaries are not going down, we're not paying less for the same amount of talent we were years ago. In fact, we're having to pay X-plus to get these people in. And yet, the agency rates are not increasing commensurate with that. There is greater pressure on agency profitability than ever before.

**ANDERSON.** The ground rules have changed. It's just a different business environment. General agencies used to charge on a commission basis, no more. Only about 15% of agencies are on a commission basis, all the rest are on some kind of fee arrangement. Whether the fee is an hourly rate or an annual fixed fee, the fee has to have transparency. We start with the scope of work, what is it that the agency is to do, then look at the salary part, the overhead part, and the profit part. There's no other way to do it, except to pick a number out of the air. No one does business like that anymore. We all mourn the passing of eras. The good news is, according to all of our general advertising agency studies, as the trend has moved from commission arrangements to fee arrangements, the profit margin has gone up.

### Fielding the right team

**ANDERSON.** Ultimately, if an agency wants to build solid strategic relationships with its

pharma clients, the agency has to be an open book. Otherwise, when the going gets rough the agency is not going to have credibility with their client. By taking away the mystery, there is not such a black hole.

**COTHERMAN.** One of the things we're starting to talk to our clients about in a major way is not going through the wasted time and effort associated with pitches. But instead, having very high-level discussions with senior agency executives and senior client executives to discuss what it is the client is trying to achieve long term, especially as the client moves into a global marketing environment. Clients need to make sure that the agencies they are working with are aligned both from a vision standpoint as well as a commitment standpoint. This helps everyone understand very specifically what the expectations are of both parties in the relationship and then we can align resources accordingly. This is much more valuable and eliminates the game playing that goes on with clients trying to select agencies, or agencies trying to impress clients. A much more strategic relationship exists.

**BROWN.** There may be a disconnect as far as what an agency means by a strategic partner and what a client wants. For example, if we tell an agency that we have a problem, they either come back with solutions or say they can't come up with solutions. In some cases, an agency's solution has been to buy other agencies or other businesses and bring them in, because strategically, in 5 years or 10 years, they are still going to have the business. They need to come to us as a consultant rather than to just sell our services or products. Strategic partnering is how to make us better buyers and how to help us run our business better in the areas where we interface with the agency.

**JONES.** A strategic relationship is one in which we actually seek the agency out and include them into the thinking process so they can help develop the plan that we need to do. We don't just hand off 10 jobs, but involve our agency and ask for input as to what we should do, what we shouldn't do, and why. In other words, be a part of our team. The problem is if a client doesn't have a whole lot of money for the agency, how much can they be included?

**LEVY.** My question is, are clients truly allowing the agency to do strategic work on their behalf? Clients want people working their account who have sat on their side of the desk,

who understand what they do everyday, and understand what strategy is. Everything has to start with strategy. Everything starts with a cohesive strategic plan and then bundles down to tactics. There are some clients who say they want strategy. We beat our heads against the wall and talk and talk strategy, and then the client says, we've got that covered just bring us a pretty picture.



**NIEMIEC.** The concepts of developing trust and relationships and an open understanding — a true partnership — have been thrown around so loosely, they've lost their meaning.

**ABBATE.** Clients are bringing consultants in to do a lot of the higher-end strategic work agencies have done. A lot of the value that agencies have added traditionally has been to isolate a positioning that becomes strategy and is ultimately tied to tactics. Many clients are bringing in consultants who are in essence a check and balance between the agency (what the agency is suggesting strategically) and the client. This almost suggest there's a distrust in the strategic input from the agency. Many agencies are dealing with many more of these types of consultants and feeling very threatened by them.

### Bringing in the aces

**COTHERMAN.** Every one of our senior executives has key account responsibilities, they are working hands on, day-to-day, in a strategic leadership capacity. All the clients want senior people to work on their business but are not willing to pay for this. If a client wants senior people to work on their business then they should be willing to pay the freight. If I am involved, I have clients that pay me a signifi-

cantly higher rate than what they would pay for a day-to-day account person. At the same time, there is no volume in that. On the agency side of the business we have expectations to grow our business by 10% or 15% a year. Who are the people most skilled at building that business? The senior agency executives. Who are the ones being paid to build the business? The senior agency executives. Enlightened clients understand senior agency executives have growth objectives and if they meet those growth objectives then everybody is happy. The best way to help agencies meet growth objectives is by not putting us through an artificial process of agency selection. Instead clients need to create strong relationships with senior agency people, make sure that the right resources are being put against the business, and as a result of good work, be given additional assignments. That's the way to create value and ownership among client-agency leaders. It's not a good use of my time or my senior people's time on business that doesn't help the agency grow. The reality is, clients want us to pitch, they force us to pitch. This is the only way of growing our business, so, we're going to take our best people and try to grow the business accordingly. Clients can't have their cake and eat it too.

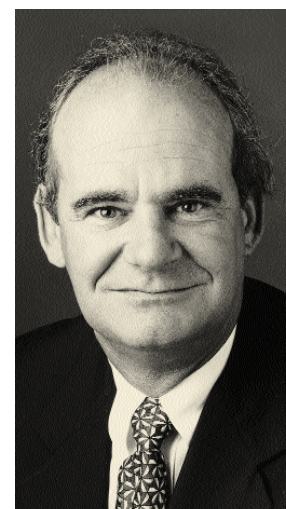
**LEVY.** Clients are demanding that more senior people work on their business. To get those people, our operating expenses are going way up and our fees our staying pretty much level. This is shrinking the heck out of our margin. Clients don't necessarily understand that. That goes back to the point of a consultant, it's important that the client gets good value and the agency gets a decent profit margin.

**NIEMIEC.** Clients want the big guns, they are impressed by these people, but unfortunately they don't always want to pay for that level of expertise.

### Can everyone win?

**HANLON.** I can give you a list of agencies as long as your arm that have been through the process and found that things really do get better. Relationships do get stronger. Probably our largest source of recommendations now come from agencies that have been through the process with other clients.

**NIEMIEC.** Third-party involvement hasn't hindered us. I don't see consultants cutting into our profit or becoming merely overhead for our



**HANLON.** I can give you a list of agencies as long as your arm that have been through the process and found that things really do get better, relationships get stronger.

clients. The truly credible consultants, those who come to the relationship between the agency and client with a nice base of experience — and without any personal agendas — can be very helpful. We have two very positive client relationships that we gained through such consultant.

**ANDERSON.** It is important that everyone has the same knowledge base — to be collaborative rather than adversarial. I am certainly not making the case that clients are ideal in how they communicate with their agencies. In fact, sometimes they don't do a good job at all because they "value the relationship". Of course clients value the relationship, but there is a need for stewards and fiduciaries and sometimes tough love is important in any kind of business relationship. A lot of the disconnect has to do with a lack of a common set of definitions and language. It's important when negotiating a financial arrangement that the same language is used so there is a true comparison of apples to apples rather than having a fruit salad. We can be that fiduciary or steward, which allows the client to focus on the day-to-day agency relationship. No one person can do everything. With staff being cut back by the pharma companies, somebody has to do it.

**JONES.** My biggest frustration is with those agencies that have a short-term view. They try to inflate their scope to make billings or don't understand our company. This is not the old-boy network, where you play a little golf, smoke a few cigars, and get \$4 million to do the account. That doesn't work here. The frustration is getting an agency to work through our entire organization and then believe and understand that we're looking for a long-term relationship that not only produces the creative but produces better efficiencies of doing business. ♦

PharmaVoice welcomes comments about this article. E-mail us at [feedback@pharmalinx.com](mailto:feedback@pharmalinx.com).