McKinsey&Company

Cody Butt

Maximizing marketing value through smarter procurement

Operations August 2016

Now more than ever, marketing stars need a strong band behind them.

*"**How come** you ain't ever tried this kind of pickin', Luther?" asks the musician and songwriter Waylon Jennings in the 2005 Johnny Cash biopic,* Walk the Line*.*

"Well, Waylon," answers guitarist Luther Perkins, "whatever it is you're lookin' for, I've already found."

In an environment undergoing continual transformation, companies are searching for new ways to assess, increase, and monitor the efficiency and effectiveness of their marketing dollars. But like Cash's legendary, laconic guitarist, procurement might already have found what marketing is looking for.

These are turbulent times for marketers. The digital revolution is transforming the consumption of media. People under 35 watch as much video content as their parents do, but less than half of it is live television. In the United States, more than a third of all video content is now viewed online, much of it on mobile devices. Millennials spend 15 hours a week on their smartphones, and 89 percent check their work email outside of normal working hours. They are likely to trust the views of their peers and social-network connections over those of media professionals.

For marketers, the proliferation of digital media creates exciting new opportunities to engage with consumers, but ferocious complexity too. Marketers know they must offer an integrated brand experience across both traditional media and the fast-changing ecosystem of digital devices and channels that their customers use. They want to make better use of digital resources, such as real-time feedback on customer preferences and the ability to tailor and target messages more precisely than ever before. And marketers want to innovate by making the most of new approaches as they emerge—without losing sight of the proven value of established, traditional marketing efforts.

To achieve these ambitions, marketers need to make the right choices about what they buy, how they buy, and whom they work with. Those choices aren't easy. Human eyes view less than half of all digital ads, for example, and programmatic buying through automated-bidding systems has transformed the traditional relationship between advertisers and media owners. Complexity and rapid change make the right agency partnerships all the more important.

In this environment, big advertisers are going to the market in unprecedented numbers. In 2015, an estimated $30 billion in marketing spend was up for grabs in the so-called mediapalooza as many of the world's biggest advertisers reevaluated the capabilities, fit, and economics of their agency relationships.

Where's purchasing?

To meet today's challenges, marketers need new capabilities. They need sharp analytical skills to pull useful insights from big digital data sets. They need to evaluate the potential of new channels and new service providers. And they need new ways to measure how efficiently and effectively they use budgets that must now stretch across far more categories.

On the face of it, marketing needs precisely the robust, fact-based analysis and decision-making capabilities that a high-performing procurement function provides. And since marketing is the largest indirect-spending category in many businesses, procurement experts should relish the opportunity to help it find new sources of value.

In many companies, however, this kind of mutually beneficial partnership just isn't emerging—the relationship between marketing and procurement is often cool if not downright antagonistic. Last year, one major global consumer-packaged-goods (CPG) company even announced that it was shuttering its marketing-procurement function altogether.

What's going wrong? As with any problematic relationship, much of the difficulty stems from mutual misunderstandings. Marketers don't always recognize how their colleagues in procurement can best assist them, so they tend to relegate its input to the final negotiating and contracting stages of the purchasing process, when there's less opportunity to add value. Procurement doesn't always communicate its capabilities clearly, so it is perceived as a barrier rather than an enabler. Sometimes, the lack of a common language even makes it difficult for marketing and procurement to understand each other's aims and intentions (see sidebar, "Singing from the same songbook"). And the two functions haven't found processes that allow them to work together effectively and make the most of their individual strengths.

Singing from the same songbook

In McKinsey's experience with both marketing and procurement, we've found that some tensions arise simply because the two functions use different terms for the same things. A translation can foster collaboration by creating a common understanding.

Here are some examples:

When a marketer says …	… the meaning is this in procurement
Agency capabilities	*Supplier services*
Competitive pitch	*Request for proposal*
Efficiency assessment	*Bidsheet*
Last year's budget	*Spend cube*
Make our money go further	*Capture or reinvest savings*
Get the highest MROI[1]	*Manage demand effectively*

[1] Marketing return on investment.

Time for a new start

Companies need to reevaluate the role of procurement in marketing. Critical strategic decisions, such as the selection of partner agencies and the design of campaigns, must remain firmly in the hands of the marketing function. Marketers know their customers' preferences, and with the right information they can identify the best partners to help them attract their target consumers. But just as Johnny Cash's unique sound relied on the guitar skills of Luther Perkins, so marketers need the right support around them.

Building that support should begin with a clear understanding of the ways a high-performing procurement function can help fulfill key marketing needs. We have identified six areas of focus, from well-established purchasing capabilities that marketers already know to a few that call for the advanced skills of a mature, high-performing procurement function:

- Manage suppliers. Marketers need to verify that suppliers (agencies, in many instances) are financially viable. They need to negotiate competitive rates and robust contracts, to ensure that suppliers deliver what they promised, and to see that they get paid on time. These activities are what the procurement function does every day across all categories.

- Monitor efficiency. Marketers need to understand the performance of their agencies. The procurement function knows how to track and monitor the efficiency of both the agencies engaged and the media they place. It also knows how to lead supplier reviews. Supervising gross-rating-point/targeted-rating-point audits and holding agencies accountable for the findings should be second nature.

- Play the bad cop. When agencies perform poorly, the procurement function can lead the tough conversations, so that marketing teams maintain close and productive agency relationships.

- Find the right capabilities. Marketers must have agencies that can meet their current and expected needs—and bring them the best of the market by meeting needs they didn't know they had. For example, can an agency track if and where digital ads are viewable? What is the extent of its programmatic-buying capabilities? The procurement function can scan the industry for new competencies and develop processes to test the ability of partners to meet them.

- Create more value. Marketing efforts must focus both on quality (capabilities and fit) and on cost to deliver maximum value. Using marketing-return-on-investment (MROI) data, the procurement function can do all this by creating balanced scorecards that, for example, track both the efficiency of ad purchasing and the effectiveness of the resulting placements.

- Move quickly. Marketing is changing rapidly, and the digital revolution is a key driver. Marketing teams need to respond. Working closely with procurement allows them to develop rules of the road that permit flexibility and responsiveness while controlling risk.

In it together

To capture value of this kind—especially the more advanced opportunities, in the bottom half of the list above—marketing and procurement need a closer working relationship throughout the entire purchasing process. To show how such a relationship can work, let's consider the example of a large CPG company that recently conducted a comprehensive review of its agency ecosystem, starting with media-buying activities. As a result, the company not only found the most capable agency with the best cultural fit but also saved on media spend and fees. It reinvested half of the savings in additional media, helping to drive growth. The rest went straight to the bottom line.

The company had long-standing relationships with multiple media agencies. It wanted to consolidate its media purchasing and to ensure that it was getting the strongest capabilities and the best prices for its sizable media budget. To check all this, teams from marketing and procurement embarked on an intensely collaborative five-month competitive-pitch process.

In preparation for the event, procurement conducted a detailed analysis of the company's historical media outlays. Its team looked at more than 100,000 lines of traditional and digital media-spend data—for example, breaking down TV-ad purchases across nine key attributes (such as network, program, spot length, and dayparts) to create a representative basket of around 300 future media purchases that it would ask potential agencies to bid on. The team mapped the remaining traditional- and digital-media purchases onto the items in the basket so it could estimate the full media-buying cost from agency quotes.

Procurement then worked with marketing to understand exactly what the latter required from its media agencies. Next, procurement scanned the market for trends and for emerging capabilities to address them. With this information, the joint team identified a handful of potential agencies, including a mix of incumbents and new organizations. The selected agencies were invited to participate in a rigorous multistage pitch process, which included written assignments and multiple presentations to the marketing team.

While marketing assessed the capabilities and cultural fit of the agencies, procurement evaluated their detailed media-buying quotations for the items in the representative basket. Again, this was a multistage process, and agencies had an opportunity to adjust their pricing when it was out of line with that of their competitors.

Once the marketing team had chosen its preferred agencies, the two functions jointly entered into a detailed negotiation process. Procurement used clean-sheet techniques to evaluate agency bids for the cost of running the company's account against the actual cost of the personnel and resources required to do so. In this way, it encouraged the agencies to be clear about the cost assumptions underlying their bids. The negotiation process also included the development of a new incentive model to reward agencies for meeting the company's strategic objectives while controlling overall costs.

At the end of the process, the joint effort delivered remarkable results. Marketers from the company's multiple brands agreed on a single agency to consolidate their media-planning and media-buying activities. Yet the new agreements also reduced overall media costs by over 20 percent and agency fees by more than 10 percent.

The procurement team's initial analysis of those thousands of individual purchases continued to pay dividends, too. The company set price guardrails to help it ensure that the agency was achieving the promised discounts across all categories of media spend. And by comparing the cost of different media slots with their ability to meet strategic goals, the company also identified further potential savings by changing the media mix it bought. For example, it was able to shift spend to more efficient channels or cheaper dayparts that still delivered the right audience quality, reach, and frequency for its brands.

■ ■ ■

As the changing habits of customers force companies to transform their approach to marketing, they are looking for new tools to help maximize the value of those efforts. High-performing procurement functions have already found many such tools. The challenge for CPOs is to demonstrate to their marketing colleagues that procurement's contribution is not only useful but also vital and to forge new, intensely collaborative relationships capable of delivering that contribution in a dynamic, rapidly evolving environment. □

Cody Butt is an expert associate partner in McKinsey's Denver office.

The author wishes to thank Thomas Bauer and Jeff Jacobs for their contributions to this article.

Copyright © 2016 McKinsey & Company. All rights reserved.