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Is procurement standing in the way of independent agencies winning bigger clients?

By **Darren Woolley** - 18 September 2020 11:30am



No-one wants to appoint a new supplier, only to have them slide into receivership or insolvency.

TrinityP3's Darren Woolley says procurement's approach to risk mitigation is proving an obstacle to small, independents winning larger corporate clients.

There is a trend that has been on the rise for more than a year, but appeared to accelerate during the Covid-19 pandemic. That is, an advertiser preference for smaller, independent agencies over their larger, global network competitors. While we have noticed a trend in marketers being more open to considering independent alternatives when going to market, the fact is that larger clients are not ending up with more independent agency partners at this stage. Part of the problem appears to be the involvement of procurement in the tendering process. Particularly for those larger, corporate advertisers.

It is fair to say that the larger the corporation, the more likely it is to have a procurement function. Smaller organisations may have procurement functions, but the procurement team is usually focused on direct sourcing rather than indirect. And with larger organisations with small media spends, often the procurement team will focus its resources on areas where it can have maximum impact. Therefore, where we have corporate organisations with significant media spends, it is likely that procurement will be involved in the process of selecting a supplier.

While the industry focused around the impact procurement has had on agency fees, the fact is that procurement also have other agendas. These include ethical and sustainable sourcing and risk mitigation. It is this last consideration that appears to be working against smaller, independent agencies. One of the most common, and easiest, ways of assessing supplier risk is looking at the financial size of the supplier. This includes financial performance data from the past three to five years. Data including turnover, margins and profit. It can include providing P&L and balance sheet to identify debts and liabilities. It may include getting an independent auditor's letter to prove you are a going concern. And it may require the directors to sign a statutory declaration that all of the information provided is true and correct.

Why? Why the intrusion into what is often confidentially and sensitive information for a private company?

Because, no one wants to appoint a new supplier only to have them slide into receivership or insolvency. Therefore, a financial proctological examination is required to ensure the financial health of the supplier.

But like most sensitive information, it can be misused. We have regularly seen procurement assess independent agencies as high risk, compared to their network competitors. The comparison of the contract value to the total turnover is a common calculation. It provides a quantified indicator of the size the client represents to the total agency size. For an independent, this means the turnover size of the company that is the agency. For a network agency, this can be their turnover in market, across affiliated companies or the holding company turnover. The ratio is invariably much smaller for a network agency. And, therefore, the risk is considered much smaller.

Procurement could, of course look at other factors, such as management stability, financial performance over several years and other factors that would mitigate this perception of risk.

This type of assessment works against smaller, independent agencies. It is particularly impactful in media, where the contract value can be relatively high. But then the agency margin is relatively low, as most of this spend is managed by the agency to place the spend with the third-party media owners. It therefore becomes a convenient way to eliminate options.

You may think that as procurement gets more sophisticated and media spends get more fragmented, that this would be less of an obstacle to small, independents winning larger corporate clients. But in fact, during this time of uncertainty, and with a global recession knocking at the door, risk mitigation is on the rise. How can procurement really know if the agency is financially viable? Look at the number of businesses that are being maintained through government financial programs. Look at the number of categories, such

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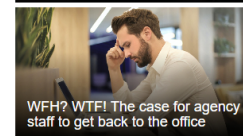
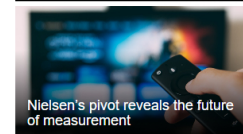
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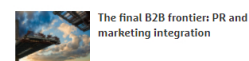
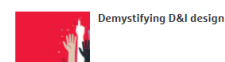
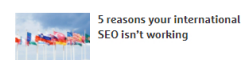
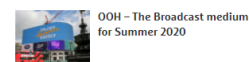
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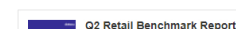


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as travel, dining and entertainment hit hard by the global pandemic. How many of these larger businesses will ultimately fail? In the process, how many of their suppliers will be impacted by this failure and themselves drawn into insolvency.


The irony is the risk sits more with the agency than the advertiser. Agencies buy media on behalf of their clients and often only get paid after the media has run. If the advertisers become insolvent, they will often leave their agencies holding the debt. Perhaps instead, procurement should be looking at the financial viability of the agency's other clients?


While there is a definite need to mitigate risk, the broad-brush stroke approach we have seen assumes that larger network agencies are more likely to weather the economic storm ahead. But at what cost? If smaller, independent agencies are going to have an opportunity to prove the value they can deliver advertisers, then we need to stop applying a cookie cutter approach to their assessment. There are other more nuanced ways of assessing financial risk.


Darren Woolley is founder and global chief executive of TrinityP3.

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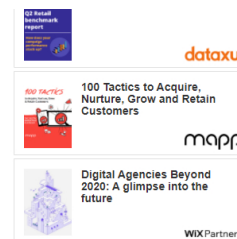


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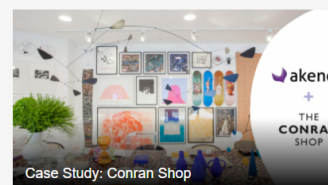
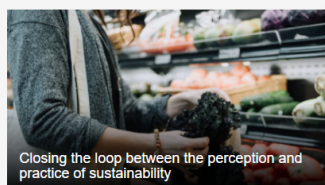
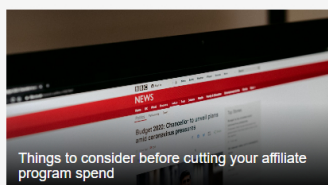
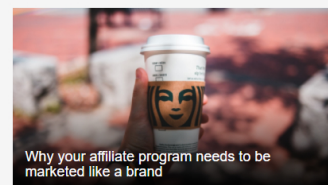
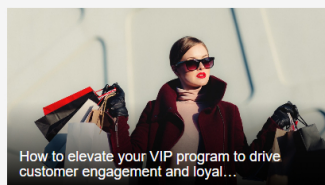
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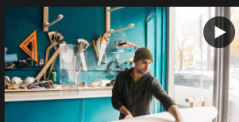
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