

New Study Reveals Clients Lack Creative Ad Scoring Systems and Formalized Campaign Metrics; Just 9 Percent of Marketers Say Traditional Agencies Have Been Good at Migrating to Digital

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PALO ALTO, Calif. (Jan. 23, 2012) -- A milestone Chief Marketing Officer (CMO) Council report on client/agency effectiveness - dubbed "More Gain, Less Strain" - says the marketing shift to digital, social, and mobile channels is significantly impacting agency relationships, compensation models, and use of marketing technology and measurement systems.

Just 9 percent of senior marketers believe traditional ad agencies are doing a good job of evolving and extending their service capabilities in the digital age, in contrast to 22 percent who view their agencies as struggling to transition their business models and service offerings. Another 51 percent of the 250-plus senior marketers surveyed in the CMO Council study see their agencies as playing catch-up with regards to new technology, or acquiring but not integrating digital marketing capabilities.

The CMO Council's in-depth analysis of how its 6,000 global members are "optimizing marketing partner performance and value in a digital world" was conducted during the second half of 2011 with partner Ace Metrix, a leader in applying technology solutions and analytics to measure and improve advertising effectiveness. Included in the report are best-practice discussions with more than 20 leading brand advertisers. Among them were Colgate-Palmolive, Coca-Cola, Kia Motors, Safeway, The Hershey Company, Dunkin' Donuts,

Crayola, Allstate, Wyndham Worldwide, Ricoh, Ocean Spray, PepsiCo, L'Oreal, Best Buy, Weight Watchers, Welch's, The North Face, Farmers Insurance, Sports Authority, and Renault. A free summary of the study, along with a comprehensive report with both quantitative and qualitative findings, is available from the CMO Council website (www.cmo-council.org).

Only 44 percent of marketers surveyed report they have a formal scorecard for rating agency performance on an annual basis compared to 52 percent who do not. Even fewer marketers (23 percent) have solutions or hosted services to enable agency benchmarking and evaluation, and just 24 percent have developed best-practice models or formal guidelines for client/agency relationship management. More significantly, 65 percent do not employ any form of ad scoring or tracking services. This number is noteworthy, says the CMO Council, given the huge level of media and creative spend through agency partners. Compounding the problem, 38 percent of marketers rated their ability to extract optimal value and return from agency partnerships as poor or in need of improvement.

"There's an underlying level of frustration among senior corporate marketers worldwide when it comes to agency contributions to business value creation, strategic thinking, and digital marketing development," noted Donovan Neale-May, Executive Director of

the CMO Council, whose members control more than \$300 billion in aggregated marketing spend each year. "Our members report quite a bit of switching of digital marketing resources, as well as a view that big, global agencies don't have a truly integrated offering and capacity to execute in an effective, localized way in emerging markets."

As a result, many are turning to specialized boutiques in regional markets that have deep domain knowledge in specific geographies and vertical industry sectors.

Traditional agencies are likely to be challenged in their retention of client relationships, as 48 percent of "More Gain, Less Strain" survey respondents report they are hiring specialized digital marketing solution and service providers to implement new social, mobile, and interactive strategies. Another 47 percent plan to build internal capabilities and use incumbent agency services less. Furthermore, 45 percent are bringing in outside consultants to help set up and structure digital programs.

Relative to consolidation or change of global agency rosters, 49 percent of marketers report this will or may happen over the next 12 months, and another 15 percent are not sure. That leaves only 36 percent firmly committed to their agency relationships in 2012.

When it comes to new areas of outside service provisioning and agency use, those surveyed by the CMO Council are focused on the following priorities:

Mobile apps and mobile content (62 percent)

Social media engagement and buzz building (60 percent)

Multi-channel digital marketing, including email, mobile messaging, social, and web (52 percent)

Web design, development, and performance improvement (51 percent)

Search marketing optimization - paid and organic (51 percent)

Customer relationship marketing (47 percent)

So, what's contributing the most to stress and strain in client/agency relationships? Marketers responding to the CMO Council survey ranked the top five causes of pain and friction in their agency relationships:

An agreed-upon set of analytics and metrics that defines success and failure

Limited knowledge and comprehension of the client's business

Lack of value-added strategic thinking

Pricing and budgeting issues

Integration of marketing plans and services

Aside from points of discord, just 24 percent of marketers say they are satisfied with their current level of marketing automation and partner collaboration, while only half are comfortable with their agency or vendor procurement processes.

Given the challenge, complexity, and cost of evaluating advertising effectiveness, it is not surprising that 58 percent of marketers are unsatisfied with the current process; few have embraced new platforms and solutions in this area, and only 28 percent say they are comfortable with their current protocols. Interestingly, 53 percent of marketers stated that creative effectiveness measurement was a part of their agency evaluation process compared to 40 percent who did not address this area of agency performance.

"Marketing expenditures are under incredible pressure from both CFOs and CMOs in today's business environment. Objective, quantifiable measurement of creative effectiveness is a requirement - not just to address the concerns around accountability, but also to provide a platform for communication between the client and agency," noted Peter Daboll, CEO of Ace Metrix, a sponsor of the study. "It is critical for companies to adopt measurement tools and technologies that can be deployed broadly within and across organizations because the client/agency relationship is far broader in its organizational scope than at any time in the past."

The study highlights the move from agency retainer to project-based billing, which has been embraced by more than 40 percent of marketers. Notably, 36 percent are also requiring a wider range of services for the same monthly fee, placing even greater pressure on agency margins and efficiency. One-third of marketers are now linking agency compensation to performance outcomes, and 34 percent are requiring better financial controls and forecasting of agency spend. A tangible number (28 percent) say they are reducing or eliminating commissions, margins, and mark-ups. Clearly, agencies are under increased financial pressure and have a greater need for shared risk, business accountability, and mutual financial reward.

The CMO Council's extensive report on the state of client/agency relationships (www.cmocouncil.org/more-gain-less-strain) includes a 37-point audit that also provides revealing information about:

What's influencing the use of agency resources across the marketing mix

Where agencies are contributing the most value

Impact on agency relations relative to digital and social marketing

Measurements of advertising and media effectiveness

Use and consideration of new and different service providers worldwide

Plans to consolidate agency rosters and modify compensation plans

Strategies for improving client/agency relationships and performance

Factors contributing to agency change and review

Key stakeholders involved in agency selection and benchmarking

Criteria and sources for agency consideration

Critical areas of agency review and evaluation

New factors and complexities in the marketing procurement process

Embracing marketing effectiveness platforms, solutions, or hosted services

Best practice adoption and use of ad creative scorecards, models, and tools