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ISBA | Observatory International

Agency performance evaluation
Best practice guide

workingtogether

Introduction

The last couple of years have been a turbulent time for marketers. At a fundamental level the pandemic and its aftermath has impacted consumer behaviour and attitudes. It's caused every marketer and agency to think differently, producing opportunities for some but also considerable tension and disruption for others. Several trends have emerged that are impacting both marketing outputs and the processes, behaviours and attitudes of how marketing is done. In short, marketing has never been more complex. Simplifying, understanding and making sense of this complexity is key to helping teams work at their best and deliver brand growth.

Marketing budgets are at their lowest level in recent times, according to Gartner at just 6.4% of company revenue. Within those reduced budgets digital spend dominates and is likely to remain that way. Whilst marketing expenditure has started its return to pre-pandemic levels, the change is gradual and slow. And yet, whilst marketing is increasingly seen as a vehicle to drive brand growth, according to McKinsey only 23% of CEOs feel their marketing organisation is delivering on the growth agenda. Proving its worth and ensuring marketing is delivering on both efficiency and effectiveness must be high on marketers' agendas.

The convergence of media and creative has been apparent for several years, and in part accounts for the progressive integration of agency Holding Companies since 2018. With the recognition of the increased need for the production and management of content, particularly digital content, convergence is now extending to content production and its natural partners of technology and data. This is apparent in the agency ecosystem where agencies have been absorbing and integrating these additional capabilities. Marketing functions also have had to change, with brands having to adapt their strategy, creative, media and content production into a more symbiotic relationship. Brands have been structuring themselves and their ways of working, including how and which agencies they work with. The inevitable evolution of this has been several agency pitches undertaken with the aim of realising the benefits of integration and convergence. Notable high-profile examples of this are the recent pitches for Mercedes-Benz Group, Cola-Cola, Walgreens Boots Alliance and Mondelez. Ensuring these high-stake, high-impact relationships deliver, and are seen to deliver, on their promise will be key.

Whatever the size of their company, marketers are faced with ever greater complexity and responsibility:

- The scope and remit of the Marketing function is expanding beyond its traditional boundaries into Sales, D2C and Customer Service
- The proliferation of channels and personalisation at scale has dramatically changed the requirements for content
- More tools and technology should make life easier, but for some marketers they can add to stress and be difficult to navigate or fully optimise
- And the exponential growth in data whilst offering the benefits of greater insight and optimisation, can lead some to feel that they are drowning

Navigating this environment requires new skills and capabilities for marketing teams in terms of media, data management and interpretation, workflow and project management, deep consumer experience and journey planning right through to ecommerce.

Coinciding with this skills and capabilities challenge, in the aftermath of the pandemic, brand teams and agencies are both experiencing talent scarcity and burn-out. This is impacting all sectors and industries.

Overlaid on all of this is the most fundamental trend – the response of society, consumers and employees to climate, inclusivity and diversity responsibilities.

Against this complex and demanding context the need for strong and constructive client and agency relationship to enable and deliver brand growth is more important than ever. Performance Evaluation is just one of a number of tools to keep those relationships on track.

This guide tackles the key areas of Agency Performance Evaluation, why it's important, and best practice guidance to enable it.

We hope you find it helpful in developing optimum solutions for all stakeholders involved, be they marketing, procurement or the agencies they partner with.

Chapter

Context

How do marketing organisations identify what truly matters in an age of complexity?

As we noted in the ISBA 2020 Best Practice Guide to Agency Relationship Management 80% of marketers believe a long-term relationship with their agency is either important, very important or essential in producing great work to drive brand growth.

To create effective agency relationships brands need efficient deployment of resource, smoother operating practices and rigorous evaluation and measurement as conditions to drive success. Rigorous measurement enables accountability for driving successful business outcomes, and ensuring resources and processes are working in harmony.

Agency performance evaluation should not be discretionary – it's a valuable investment to ensure that marketing expenditure and resource commitment is working at its best. It's the responsible thing to do and brings marketing in-line with many other functions in the organisation where evaluation and quality checking are part of the normal drum beat of activity.

The business case for agency evaluation is strong, it delivers a good return on investment:

- It helps sustain long-term relationships between client and agencies – and long-term relationships deliver better work
- It enables an early identification and resolution of issues and helps avoid pitches – which can be costly in time and effort and distracting to the day-to-day priorities
- It identifies areas for improvement so that the whole cycle of the communications development process and ways of working can be made more efficient, effective, and importantly pleasurable
- And if managed well should increase trust, transparency and collaboration between client and agency teams which optimises ways of working. The converse is also true – a badly run and unfair performance evaluation programme can damage trust and undermine the relationship.

This report tackles three key pillars of best practice agency performance evaluation:

- The quantitative and qualitative metrics to consider
- How to manage performance evaluation programmes
- And how performance evaluation can underpin remuneration

Qualitative and Quantitative Measures

Why are they important

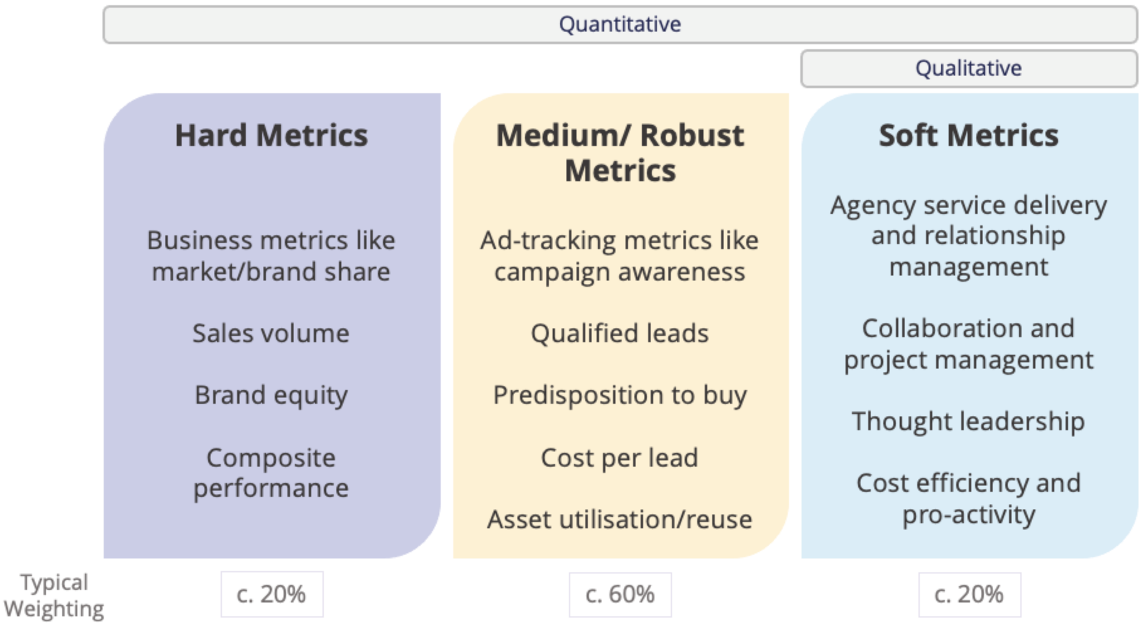
The best approach to measuring agency performance is collecting regular feedback from relevant stakeholders, using an agreed blend of quantitative and qualitative metrics.

Quantitative metrics often have large amounts of money riding on them through Payment by Results mechanisms, so it is really important to have robust and appropriate metrics and measurement.

Qualitative metrics although less tangible are equally important. They provide rich insights and context behind the pure numbers – ensuring any issues can be understood and responded to, and also allows good practice to be called out and shared.

Best practice

Agency performance evaluation metrics ideally sit in three dimensions – hard metrics, medium or robust metrics and soft metrics, for example:



The Hard metrics should be qualitative and focused on macro business and sales measures – such as sales volume and market share. Agencies can only contribute in part to these metrics as they can be influenced by factors outside the agencies control, for example, economic conditions and the quality and competitiveness of the brand's products or services.

Medium, or robust metrics are where agencies typically have more influence, and therefore they tend to be the area to focus weightings on to incentive performance.

Soft metrics can be measured quantitatively and qualitatively. These metrics tend to be about the quality of the relationship between client and agency. These are therefore important metrics to ensure the relationship stays strong, mutually motivational and efficient.

The final section of this report covers how performance evaluation underpins remuneration. When hard, medium/robust and soft metrics are applied to payment-by-results mechanisms we recommend they are applied in the sort of proportions indicated in the chart above with the higher proportion applied to medium/robust metrics.

A fourth category of metrics that we expect to see increasingly used, and which will likely sit in the 'Robust' space, is sustainability and diversity, equality and inclusion measures. Brands will want to ensure their entire supply chain, which includes agencies, supports and contribute to their targets and commitments in these areas.

Watch outs

Key considerations, that often get overlooked when establishing metrics are:

- Can they be measured, and are there mechanisms in place to do so?
- What are the targets?

How to Manage Performance Evaluation Programmes

Why do it

Effective performance evaluation programmes are essential to maintain strong client and agency relationships.

Strong, long-term relationships are built on mutual trust and open communications – and are proven to deliver better work and improved ROI. But issues will crop up from time-to-time.

Having correct and effective evaluation and measurement in place is imperative to understanding the health of the client/agency relationship. It enables issues to be identified at an early stage – on both sides of the relationship – and can help stop issues escalating into big problems – but they should also recognise best practice.

The cost to change agencies can be significant – in terms of time, focus and the impact of transition - therefore there is a strong business case to maintain your agency at peak performance.

When to do

Typically there are some key triggers when agency performance evaluation is valuable:

- in the months following a new agency appointment to monitor how the agency is integrating, and to highlight when the 'honeymoon' period might be over
- as part of on-going management to keep the relationship on track
- to provide immediate feedback after critical meetings or campaign activity

The frequency and depth of the evaluations are also important considerations

	Light-touch	Deep-dive
Typical frequency	Quarterly ⇢ Biannual	Biannual ⇢ Annual
Survey completion time	< 5 min survey completion time	> 10 min survey completion time
Questions	4 – 10 questions	> 10 questions
Reporting	More standardised reporting	Bespoke reporting
Flexibility	Some flexibility	Highly flexible
Typical use	Relationship monitoring Post key events Input to PBR mechanisms	Relationship monitoring and diagnostics Input to PBR mechanisms

The ideal mix is a combination of both: light-touch to keep a 'finger on the pulse' of the relationship tracked over time; with deep-dive interviews to provide deeper investigation and analysis of particular areas or issues arising.

Best practice

It's important that agency performance evaluation is motivational and constructive for all parties so there are some key principles to enable that:

- A minimum of two-way evaluation – so both parties can provide input and feedback
- Appropriate frequency – too often, and too many questions, will create survey fatigue and mis-leading results. But they need to be undertaken sufficiently often to obtain meaningful results that can be acted upon. Ideally bi-annual, but quarterly if closer monitoring is required to resolve issues. Annual surveys do not provide time to remedy any issues if the evaluations are being used as part of payment-by-results mechanisms and are likely to reflect a 'moment in time' evaluation rather than the longer-term picture.
- Simple, easy to complete – recognising that busy marketers and agency team need to take time out of their working day to complete the surveys
- Benchmarks – to provide reference points to what 'good looks like'
- Marketing, procurement and the agency(s) aligned on the purpose and process of the evaluation
- Independently managed – is the ideal to reinforce impartiality, instil best practice, provide benchmarks and reference from other clients and sectors
- Qualitative and quantitative – in addition to quantitative scoring encourage verbatim comments to help provide context and insight to the scores, particularly where the scores are low
- Holistic – include members of the team at different levels in the organisation – they may have a different perspective of the relationship
- A stakeholder champion – to give credibility and weight to the evaluations and emphasising that they are not a 'tick box' exercise
- Action planning – this is essential, evaluations have little impact if they are just a monitoring device and participants will quickly lose motivation to complete the surveys if nothing happens as a result of their input. Following each survey period, timely follow up is needed between the client and agency teams to discuss the feedback and assign responsibilities and timings for issue resolution
- Consistency – maintain key questions over time so that trends can be identified, and the impact of action planning resolutions tracked
- Evolve and review – not a contradiction to the point above but a recognition that over time some questions may need to be added and the process reviewed to ensure the evaluations are relevant and appropriate

Watch outs

Completion rates are an important consideration. The quality of agency performance evaluations is highly dependent on the input / output equation. Encouraging busy marketing teams and their agencies to break away from their ‘must-do’ work to complete a survey can be difficult. But for evaluation to be meaningful there needs to be sufficient responses to mitigate bias and provide sufficient evidence and context. To encourage participation:

- Consider getting a senior stakeholder to communicate the value and importance of the evaluation and why it is being done
- Send reminders to participants who have not completed the surveys
- Identify ‘serial offenders’ and discuss with them or their line managers to encourage participation, or understand if there is an issue
- But most importantly take action as a result of the surveys so people don’t feel they are responding into a vacuum

How Performance Evaluation Underpins Remuneration

Why it's important

Agency performance evaluation can make an important contribution to agency remuneration frameworks. In recent surveys conducted for both the WFA and ISBA many clients indicated that Full Time Equivalent (FTE) remuneration models are unsatisfactory and fewer companies are now using them. There's been an increase in FTE fee + Bonus remuneration models which makes the agency more accountable.

The increased use of first-party data, D2C and technology is enabling better tracking of success measures and accountability which enables payment-by-results models to be more effectively implemented.

A well-constructed KPI-based performance evaluation programme ensures both client and agency teams have a vested interest in the growth and success of the client's business.

Best practice

The appropriate construction of a performance-based remuneration programme is crucial. The most constructive arrangements are where agencies undertake a degree of risk by reducing margin but balanced against the potential to recover margin by hitting base KPI's plus the opportunity for additional reward beyond that for delivering exceptional performance. Merely removing agency margin with an opportunity to earn it back is more 'stick' than 'carrot'.

- Keep it simple – over-complicated mechanisms invariably cause problems in final calculation and subsequent disputes. Keep it simple and everyone is clear on expectations and expected time to calculate and determine the bonus due, or not
- Fair weighting of hard, medium/robust and soft metrics – we recommend that more weighting is given to medium/robust metrics – the area that agencies can truly influence. But the soft metrics are also important – ensuring the relationship remains strong and on track is ultimately essential to producing great work
- Realistic measurement – agree when and how to track each KPI metric to minimise complexity, and ensure it is feasible and not overly onerous
- Alignment – ensure all parties – marketing, procurement and agency are aligned on the KPIs and how and when they will be measured

Watch outs

In our experience clients often struggle to define KPIs, and tend to over-complicate the process. KPIs can take some time to get right so a recommendation is to start with a few measures and build from there. One factor that significantly influences the selection is whether it can be measured effectively and efficiently.

The focus should be on outcomes, not just inputs, and the remuneration packages and rewards structure should be aligned with your business objectives, to ultimately drive value.

About the Observatory International

The Observatory International is the leading global management consultancy dedicated to helping companies drive brand growth by transforming their marketing and communications resources.

We bring global and local perspectives to marketers and procurement along with the knowledge required to overcome the challenges associated with managing communications agencies in these dynamic times. With over 15 years of experience working with many of the world's leading brands and agencies, our casebook is full of best practice on how to get the best from your marketing resources.

To learn more, visit: observatoryinternational.com

For more info, please contact:

ISBA
12 Henrietta St
London
WC2E 8LH

T: 020 7291 9020
W: www.isba.org.uk

With thanks to
The Observatory International
90 High Holborn, London, WC1V 6LJ
T: (0)20 3883 1633
W: observatoryinternational.com
E: info@observatoryinternational.com