

## Marketing & Advertising Cost Reduction Project Case Study

### Key Figures

**Expenditure:** \$32.1 mm

**Savings Achieved:** \$2.9 mm

**Percent Savings** (9%)

### Advertising Agency Fees

#### Objectives:

Review agency fee structure and reduce excessive costs while ensuring that:

- √ Client's quality requirements are maintained or exceeded
- √ Agencies profit from their relationship with the Client while ensuring that costs are competitive with market prices
- √ Product Managers utilize Purchasing and Finance support to challenge Agency fee structures and reduce the Out Of Pocket (OOP) costs and fee hours
- √ A financial review process is developed that compares budget estimates against actuals to monitor and track expenditures and benchmark cost of deliverables

#### Situation Overview:

- √ Significant rate increases have occurred
- √ Out of pocket expenses (OOP's) are usually handled by the Agencies with low involvement from the Client. Costs are often excessive and are commonly marked up by the Agencies
- √ Based on Industry benchmark, CAD rates appeared to be 10% - 20% too high



## **General Strategy:**

- √ Identify major cost components in agency fee structure:
  - ◆ Request for information (RFI) forwarded to all agencies of record
  - ◆ Each Product Manager provided 5-10 jobs for the team to benchmark
  - ◆ Each agency provided detailed backup of fee hours and OOP charges on a per job basis
  
- √ Review the RFI data from each agency to identify:
  - ◆ Agency fee hours (are they commensurate with the work performed and the final product?)
  - ◆ Excessive OOP charges and OOP's that could be impacted by better financial oversight

## **Findings:**

- √ Agency hourly rates are competitive; fee hours are excessive.
  
- √ Rate increases are excessive. Agencies must be challenged to justify requests for rate increases.
  
- √ OOP fees must be better managed and controlled. Messenger costs, printing charges, stock art, studio work fees, travel charges and all outsourced services/costs should be benchmarked to identify if OOP's are billed at cost or have built in markups.
  
- √ CAD rates can be standardized. Client can also reduce CAD hours by completing some revisions in-house.

## Results Summary:

| Savings Area:                          | \$ Savings         |
|--|--------------------|
| Fee Negotiations                       | \$949,180          |
| Internal Revisions - Post Review Board | \$910,295          |
| CAD Rate Reductions                    | \$510,118          |
| OOP's                                  | \$500,000          |
| Media Buying Savings                   | \$16,520           |
| <b>TOTAL</b>                           | <b>\$2,886,113</b> |

### √ OOP Reductions Results:

- ◆ Printing savings – identified by benchmarking color and b/w charges and setting page rate copy charges.
- ◆ Messenger savings – agencies must use a twice a day messenger service that visits all agencies before arriving at clients.

### √ Hourly Fee Results:

- ◆ Reduced original hourly rates by 10% through negotiations

### √ Internal Review Board Efficiencies Results:

- ◆ Team was able to significantly reduce the total number of CAD hours provided by agencies by managing the internal review board process and making some of the necessary changes in house.

### √ CAD Rate Reductions Results:

- ◆ Team negotiated more competitive rates for CAD design work