

RELATIONSHIP TIP #3

TEACHING ADVERTISING PROFESSIONALS HOW TO SPEAK PROCUREMENT

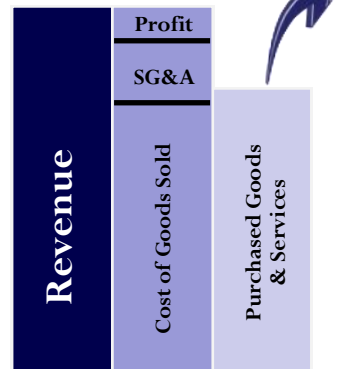
STOP IGNORING REALITY

Talk about what matters... and money usually matters.

Sure, it's fun to blog about how innovation and creativity are "priceless" and how the whole advertising universe is being destroyed by procurement. SLAPPPP!! OK, now that you've awoken to the real world where dollars and cents always matter, let's talk about wooing CEOs and procurement nerds alike.

It's not uncommon for product companies to expend 70-80% of their revenue on purchased goods & services. With low profit margins, small spending reductions have the equivalent financial effect of large revenue increases. This is reality for many CEOs.

TYPICAL COMPANY



Example: For a \$1B company that has a 5% profit margin and spends 70% of its revenue, \$10M procurement savings has the same relative impact as a \$200M revenue increase. Let's see... which is easier? Saving only 1.4% of current spending? Or, generating a 20% revenue increase?

Don't fight this reality... learn to use this to your full advantage in pitch conversations. It's one of the easiest ways to differentiate your company from your "status quo" competitors!

HOW TO SPEAK PROCUREMENT:

Learn to articulate the difference between "price" and "cost"

One of the most common themes in the debate against procurement is their seemingly incessant desire to drive *prices* down. However, what good procurement teams are really after is lowering total *cost*... not individual prices.

What's the difference? Well, it's pretty easy to reduce the price of an item or service... just cut quality, buy less, slow delivery, etc. However, that kind of strategy usually results in dissatisfied customers and lost revenue. In the long run, more work and effort may actually be required to win the business back. In other words, **short term price reductions may actually increase long term company costs.**

So what can you do? Concentrate on bringing truth & transparency into your relationship, because sustained cost innovation requires true collaboration & teamwork! **Focus on eliminating waste—not de-valuing your contributions.**

DISCUSS THE TRUTH!

Most clients have bad internal processes that generate pain, suffering and cost. E.g., slow approvals, late leadership involvement, incremental review cycles, etc. This waste generates unnecessary company costs and drains agency creativity.

- ◆ Most agencies avoid these conversations for fear of rejection
- ◆ But, trust me... these conversations are 'dang sexy' to procurement nerds—and CEOs.
- ◆ This strategy pulls your pricing out of the spotlight and focuses the conversation on shared processes where critical costs are being incurred... and leads to innovation!