How to really save money on production costs

By Leigh Andrews

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Angelika Kempe, executive consultant at AdOps Value, shares what to look out for when assessing production cost estimates, as well as the impact of the ANA's recent report that advertising agencies and their holding companies are less-than transparent regarding production costs and the risk associated with it.


Angelika Kempe

Simply put, Kempe says marketers need to take a long-term view of cutting production costs in the short-term. This is based on the Association of National Advertisers or ANA in the USA's finding, now being investigated by the Department of Justice's Antitrust Division, that transparency issues exist at multiple ad agencies and holding companies.

This lack of transparency is especially problematic when it comes to the production of commercials, music, events and other collateral, with many inflating bids from independent production houses so they can route jobs to their in-house production shops. And while the report is American, South African marketers should definitely take note. Here's why…

Business unusual

There's no denying that remuneration structures for creative agencies have changed, and while this is a definite step towards a clearer economic future, it comes with its own murky problems, particularly when you factor in in-house production units for channels that were previously independent and specialised.

On the need for marketing efficiency specialist agencies, Kempe says:

> *Clients don't know what production should cost. Some of the more experienced ones have an idea, but the moment the brief becomes more technical and the production more involved, they are at a loss.*

The result is that they delay sign off, because they're uncomfortable with the fact that they just don't understand the breakdown of the cost estimate, and eventually there's a 'gun to the head' by the agency to get sign off, so that production can begin.

Another factor is that agencies generally only present *their* cost, which tends to be inclusive of several third parties. And unless clients asks specifically, they don't get these. Even if they did, Kempe asks if they'd be empowered to question these if they don't have the experience to do so.

For example, if the client has a **retainer contract** with the agency, depending on what resource it covers, you could be paying twice – once on retainer and then again on production cost estimates for resources such as DTP-type services like typesetting, retouching, artwork retrieval; or on shoot supervision with aspects like production management.

The move to sophisticated costing

Explaining the impact of the move from commission-based payment to hourly rates and retainers, Kempe said that agencies used to get paid in a way that wasn't necessarily linked to output. A creative element like TV, radio or print would be flighted for years and the agency would get commission for it, even though they had not created anything new for the subsequent flightings. This form of remuneration is not linked to output.

Agencies also used to have much more money, so spoilt the clients more and could afford more members of staff. Now with retainers, clients often don't pay for CEOs or MDs, nor do they pay for staff they don't need that are not directly linked into output. They're also more discerning in who they pay for, with the positive impact on agencies that they now have guaranteed income that's not vulnerable to budget cuts in media and non-income from media communications. Payment by hour, either per project or retainer, is also directly linked to deliverables.

The most sophisticated remuneration model is the value-based model, which takes into account the complexity of the job when determining agency cost.

While Kempe doesn't believe local agencies falsify quotes from production houses to get work, the ANA study does present a fair competition problem as you're asking one party, which also provides a quote, to bid against itself with their competitors.

Guiding principles: Transparency and good governance

On how the study translates to the situation here in SA, Kempe says, "We have the same trend here – agencies have in-house production facilities." This means that AV production companies or event production companies sometimes have their own shoot facilities, so they don't just edit or manage the job – they actually have the facilities previously procured from another third party, and the client isn't aware of it as the entities tends to have their own branding and name.

Kempe says it's definitely happening in the field of **TV production, AV production and event management**, where agencies have subsidiaries that look like independent parties to the client but are in fact the same company. Agencies have had to go this route to generate more income and profit but often, as contractually between client and agency, the subsidiaries are not covered under the same clauses, so agencies now have a way to charge a higher mark-up and keep credits, without being considered fraudulent.

That's why Kempe says marketers need to keep the following in mind when procuring a new agency or sharing a new brief in cutting production costs in the short-term:

- Ask the agency to provide **three competitive quotes** and highlight if one is from a subsidiary for better ethical competitiveness. If the work can be done by the subsidiary at a reduced cost without compromising quality, this might be the best option. However, they also need to negotiate the costs considering the total value of the partnership and not only the cost of this particular project.
- **Shoot cleverly**, by questioning whether more than one script can be shot at the same time.
- Be clear up front about the usages needed so these can be **negotiated together** and not just when the need arises, as this will yield significant savings.
- Negotiate with **preferred suppliers**. If you know your scope of work for the year, pre-negotiate with an agreed number of preferred suppliers without fear of compromising the final product. This also ensures better **contract compliance** with the subsidiaries subject to commercial stipulations such as mark-ups, right for reconciliation, and hourly rate formulas.
- Allow **time to procure** the right costs, as bad planning can inflate costs substantially. Relationships with preferred suppliers also need less interaction or supervision to produce the work and meet the expectations.
- **Travel costs** are another important part of production costs. Clients should make the agency as well as its third parties compliant to the same travel policy, both locally and internationally, as marketers and procurement departments often don't think about this gap. It's important to include in contracts negotiated as it instils both guidelines and limitations in terms of the class of flight, cost of hotel, type of rental car and allowance per day they can charge to client.

At the end of the day, it's all about transparency and good governance, not quick fixes or doing it on the cheap. While that can be the right approach at times, it's not a very strategic one.

Click here to read the ANA report in full, here to visit the AdOps Value website, and here for more of Kempe's views.

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