



Procurement Professionals Q&A: Advancing The Working Relationship with Public Relations Firms

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In selecting a public relations firm, communications and public relations clients want to enter into a relationship that will be lasting and productive; clients have long employed procurement professionals who bring a strong, cost-focused approach to structuring the financial aspect of the client/agency relationship. Interviews with public relations firm and procurement executives has revealed that more information and understanding on both sides could facilitate and improve negotiations between firms and client organizations, resulting in stronger, more enduring relationships. During extensive follow-up discussions with a number of leading procurement professionals and firm CFOs, the Council of Public Relations Firms, the U.S. trade association for the industry, has identified several common areas of confusion. The following discussion may be useful for procurement professionals when assessing contracts with public relations firms. Special thanks to Jim Akers, Global Lead, Marketing & Sales Sourcing, Worldwide Procurement for Pfizer; Lisa Figel, Group Category Manager, U.S. Agency Procurement at Johnson & Johnson and Mike Thyen, Director, Marketing & Sales Procurement, Eli Lilly & Company, for their input and guidance.

Q. What is the goal of the financial negotiation between the client organization and the public relations firm?

A. The goal of a PR firm search is to find the right firm for a given organizational need or challenge; the communications client wants to select a firm he/she is confident in and comfortable working with. With regard to the financial negotiation, there should be a short term and a longer term goal. Immediately, the client organization should communicate the reason for retaining the public relations firm and how the firm's success will be evaluated. Longer term the focus should be on relationship management based on the scope of work, benchmarks against goals and appropriate compensation. Each party should make the other aware of what it is seeking to achieve in the relationship. The most successful and productive long term relationships are based on mutual respect and open dialogue.

Q. What kinds of compensation models can we use with public relations firms? Aren't these models the same as the ones used in contracts with advertising agencies?

A. Public relations firms, like law firms and management consultants, often provide strategic "counsel," not necessarily a product, as advertising agencies do. Public relations firms have traditionally followed other consulting firms in using a revenue-based or top-down model to measure financial performance, with costs calculated as a percent of revenues. By contrast, advertising agencies typically employ a cost-based or bottom-up model, which



takes direct labor costs, adds in indirect overhead costs (which are primarily general & administrative costs), and then assigns the agency a “reasonable” profit. Whereas public relations firms normally don’t build administrative costs into its direct labor component of their service model, advertising agencies generally do. This is a primary point of differentiation between a production-oriented service and a consultative arrangement. When procurement uses advertising as the benchmark for public relations rates, the rate picture is distorted, because advertising agencies tend to have a lower overhead rate given the model they employ. Ultimately, this is why public relations’ rates and advertising’s rates don’t necessarily reflect the same elements of client service.

Q. When it comes to the rate card, aren’t all public relations firms the same? Can’t we just apply a single standardized cost model when negotiating rates?

A. Firms are not at all the same. Salary and productivity levels typically vary with the size of the firms and specialty areas. Every agency has a different cost structure, which is why clients typically have multiple agencies working on a given piece of business. One firm we know of, for instance, has a senior based model and a flatter organization than is common. At this firm, rates comprise just one part of the equation, since it might take fewer hours at a higher rate to do the same work. It is recommended that procurement take into account the total cost component and scrutinize on a firm-by-firm basis the number of hours it takes to do a certain job. It’s not easy to benchmark hourly rates for public relations work; titles and staff experience differs. When comparing account executives at one agency with associates at another, one might find wide swings in relevant experience, aptitude and know-how to complete the tasks. Getting pricing right means walking together through a detailed exercise, establishing where a given firm’s skill levels fit in with common industry titles.

Q. When it comes down to it, do public relations firms sell a commodity? Should we bargain with them like we do other vendors to bring down cost?

A. Most services provided by public relations firms are not commodities. Public relations is not a monolithic discipline but a collection of sub-specialties, such as social media, crisis management, media relations, reputation management, influencer outreach, and so on, some of which require very specific expertise. Within these sub-specialties, the value delivered by an agency can vary in complexity depending on the client need. Sometimes clients request that public relations firms perform common tasks (i.e. media monitoring) as well as provide counsel on major, ill-defined issues or highly complex, technical challenges with which clients have little or no experience. In the latter cases, public relations firms provide state of the art theory and rigorous empirical analysis whose quality depends on the talent on hand.

What marketing and other clients are really buying is this experience and know-how, which varies greatly across firms. To build a productive, long-term relationship, and to assess the true value proposition, it’s worthwhile to develop an understanding of public relations disciplines and how they contribute to the organization’s goals; one should also account for the complexity of the marketing tasks assigned to the firm. This is, of course, easiest done when a prior relationship already exists with the marketing client. One head of procurement for a pharmaceutical company puts it well: “Public relations is so much more than a rate card. We in procurement need to ask: Who are these people? What are they doing? How can we assign value to their strategic contribu-



tions? It's vital that we understand the make up of the value that PR agencies are providing as well as the nuts and bolts of each public relations sub-specialty. How do we value a certain public relations tactic or program? Given the current lack of proper benchmarking out there, this is a wide open space.”

Even with areas of public relations that require less sophisticated skill sets, arriving at low hourly rates isn't always so easy. Clients often want public relations personnel to reside close by so that they can access them quickly for high-skill services, regardless of whether it costs agencies considerably more to provide these low-skill services. For this reason, it's not always easy in practice to separate out for pricing purposes the relatively low- and high-skill services agencies provide. Understanding how all the different tasks fit together and impact one another can help procurement go beyond raw cost containment to arrive at realistic assessments of value-for-the-dollar.

In the end, we all should be concerned with one thing: Maximizing value. Focusing on bringing down numbers on a rate card can distract us from the real question, which is how to get the right expertise working on client business. As Marty Franken, CFO of IPG's Constituency Management Group explains, “Some work requires more value, in the sense of higher priced, more senior talent contributing their wisdom and expertise. Procurement and firms need to look closely at the appropriate mix of talent required for particular tasks. Together, we need to figure out how to bring the best resources to the table, not just find a labor model that bottoms out at the lowest cost.” A bargain-basement rate card with the lowest possible value mix of talent doesn't benefit anybody, least of all the marketing client.

Q. How do we align the public relations client, procurement and the PR firm's objectives to make the process more of a win-win for all?

- A. The PR client, procurement and PR firms are more aligned in their objectives than you might think. Precisely because public relations firms are not simply purveyors of a commodity, they're in a position to maximize the value they provide to the marketing client, and other internal stakeholders. Public relations firms seek to build a strong, stable client relationship and so want marketing clients and procurement to hold them accountable for maximizing value. In the end, the goals should be the same: To create a program that provides the best business results for the client organization over the long term; the focus should be on business outcomes. Only when there is a narrow cost-cutting approach, without regard for value, do the interests of the procurement and the public relations firms seem misaligned. Price is important, but many other elements within the whole relationship determine the success of a public relations program.

Q. If procurement shouldn't focus primarily on cost cutting, how can it best contribute to the negotiation process?

- A. Procurement can join firms in defining the business results these firms are hired to provide as well as measurements of success. Porter Novelli's Global President and COO/CFO Anthony Viceroy remarks: “Procurement can add a sense of business acumen to the mix. Some marketing people are focused on their brand, on consumer insight; they're not always as engaged with the business and how to define financial success. That's where procurement becomes a real strategic asset. In the end, public relations firms want accountability, but



we want the right kind of accountability, one focused on the results we can bring and that takes into account the real value we're providing. We need procurement's help. We want to work together to define value and also establish new and more effective ways of measuring success. Can we figure out ways to tie incentives to performance objective? Then it becomes a real win-win. We want more contact with procurement, not less. Give us an annual review to revisit milestones, work with us to really hone the scope of work. We want that constant dialogue and communication."

Q. So where do we go from here?

- A. We at the Council of Public Relations Firms plan to develop other educational materials that will continue the efforts begun in this white paper. Public relations firms can also help by opening the agency's doors a bit wider so that newer procurement professionals can study and understand what they do. In the same spirit, public relations firms should better understand the priorities and needs of all relevant client contacts, in pursuit of the client's goals. A global procurement & operations executive at another pharmaceutical company summed it up well, "A brand new marketing procurement person should ideally have a period of time physically sitting with the PR team on the client side, shadowing, interning, performing some tasks. And wouldn't it be great, too, if that person spent a week at a public relations firm? We need to absorb the energy of the agency so that we know what we're buying, and so that public relations firms understand us—that we're not simply about cost and about policing performance issues."

Education is only part of the solution. We advocate much more extensive, ongoing communication among "the party of four" as articulated by Porter Novelli's Anthony Viceroy: Procurement, the PR firm account management, PR firm finance, and the marketing client. Ideally this communication would take multiple forms, including formal quarterly meetings to assess and track performance as well as informal chats to keep the whole team in the loop on performance, value added, and costs. PR firms know they won't get everything they want from procurement by simply maintaining strong communication with them. But talking regularly can at least help define and clarify everyone's point of view. We can build more trust by working together to frame clear business goals and monitoring them together over time. A regular four-party conversation really should be an industry best practice. One procurement executive agrees, reporting that, "we have an agency relationship management program for advertising. As part of the program, we have quarterly check ins about the scope of work, assess how the marketing team feels things are going, 360 reviews, and more. We haven't had a public relations agency in this program, so it's about time. It could be hugely important."

Finally, it's important to generate clear and transparent communication between the firm and client organization early in the pitch process. Procurement, based on the company policy, may actively participate in pitches, and firms should spend some time talking about finance and operations during the pitch, so that procurement understands both what the marketing client or other stakeholder is asking of the PR firm and an initial overview of the firm's cost structure. In exchange, procurement should promote a clear process for working together and provide defined goals for success.

The Council of Public Relations Firms is the trade association representing more than 100 PR firms in the U.S. Please use our free resources including RFP Builder, "Find-a-Firm" searchable database and publications at www.prfirms.org or call us at 1-877-PR-FIRMS.