

Ad Sourcing Reaps Harvest of State Savings

By David Yarkin

While a number of stories have been written in recent months about strategic sourcing at the abstract level, few provide the tactics involved in sourcing a specific commodity.

"Sourcing in the States", a *Government Procurement* column by David Yarkin, covers state and local strategic sourcing methodologies. Until recently, Yarkin served as Deputy Secretary for Procurement in Pennsylvania's Department of General Services and led the state's successful strategic sourcing initiative.

In each issue, Yarkin will detail how his colleagues in other governments have generated value for their taxpayers through an individual sourcing project. This month, "Sourcing in the States" explores Pennsylvania's procurement of advertising services.

If your government has taken a particularly innovative approach to strategic sourcing, e-mail Yarkin at dyarkin@govsourcing.com.

To read archived "Sourcing in the States" columns or watch an archived webcast about strategic sourcing, go to www.govpro.com.

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When Ed Rendell took office as Governor of Pennsylvania in 2003, he inherited what officials in the Commonwealth describe as two deficits: a \$2 billion plus structural deficit and an "opportunity deficit" where only 2 percent of state contract dollars went to minority and women business enterprises (MWBs). Rendell sought to close both deficits in part by employing strategic sourcing, using the state's buying power to get lower prices and encourage more contracting, either as prime contractors or sub-contractors, with small disadvantaged businesses.

The Commonwealth had big ambitions—to generate more than \$100 million in annual savings—and wanted to tackle as many goods and services commodities as possible as quickly as possible. It elected to break its sourcing initiative into two waves, sourcing ten commodities in each wave with the help of the consulting firm Accenture.

"We started with the low hanging fruit which were the goods and materials that were easier to specify and compete on an aggregated basis," said Curt Topper, manager of the strategic sourcing initiative and now Deputy Secretary for Procurement with the Pennsylvania Department of General Services (DGS). With the first wave of sourcing projects completed and some

TV Campaign Ripens Awareness of Pennsylvania Agriculture

The Neiman Group deployed these friendly fruits and vegetables as part of a Pennsylvania produce promotional campaign for the State Department of Agriculture. The 2005 campaign was one of Neiman Group's first under Pennsylvania's historic strategically sourced marketing contract.



wind behind their backs, DGS looked to take on more complex commodities in a second wave of sourcing projects.

While sourcing mainstays like maintenance, repair and operational (MRO) supplies and auto parts were on the list, there was a surprising category put forward: advertising. Procuring advertising services had long been the job of marketing staff in Commonwealth agencies. Many of the fundamentals principles of sound procurement processes were rarely applied.

“Advertising was an area of significant spend,” said Topper. “We saw an opportunity to both achieve savings and to drive consistency in the message the administration was trying to deliver across multiple program areas.”

Historically, the state bought advertising in much the same way it bought most categories of goods and services before the advent of strategic sourcing. Agencies bought advertising services from a large number of suppliers, rarely using the buying power of multiple agencies to increase the state’s buying power and use that leverage to reduce cost, increase supplier diversity rates, or improve the quality of the personnel working on their accounts.

Saving With Disaggregation

Just as it had in sourcing office supplies and personal computers, the Commonwealth’s sourcing strat-



Pennsylvania Governor Edward Rendell’s savings initiatives have reduced spending on the administrative side of government—not the program and service side.

egy involved aggregating the volume of multiple agencies. However, Topper stated that the major innovation in the procurement was disaggregation.

In the past, state agencies utilized full service advertising agencies. Like their names imply, these agencies performed the full range of services within the scope of the advertising sourcing project. They developed creative advertising campaigns, conducted marketing research, performed public relations services, and bought media.

Looking closely

The Commonwealth’s sourcing strategy paid dividends—saving roughly \$1 million annually on media buying by reducing the commission it paid by 57 percent to just 3.75 percent. On the creative side, the hourly rates were reduced by some 32 percent, saving \$1.6 million annually.

at this practice, the Commonwealth saw that it could break off media buying and get significant savings. When full service agencies bought media it was customary to markup the actual cost of the television or radio spots or newspaper placements far above market rates. The Commonwealth estimated that its full service agencies made upwards of 11 to 15 percent commission on its media buying. By sourcing media buying separately and appealing to firms that specialized in media buying who were accustomed to operating under much thinner margins, the Commonwealth hoped to cut the commission rate dramatically.

A second improvement to the state’s procurement strategy for advertising involved the compensation structure for its creative agency. Its legacy advertising contracts employed widely divergent ways of paying suppliers. Some contracts had a blended hourly rate for creative services where the customer

paid one hourly rate for services, regardless of the function performed or the skill level and experience of the individual doing the work. Other contracts had an hourly rate card where hourly rates were set for a number of different skill categories. Still other suppliers were paid

a monthly retainer, regardless of how much—or how little—work was actually done in a month.

The Commonwealth decided to standardize on a single payment structure. After analyzing and debating the pros and cons of the possible plans, it elected to utilize an hourly rate card. In the RFP, suppliers were asked to submit the hourly rate they would charge for the four major functions to be performed: general account services, public relations, research, and production.

“By breaking out the rates for each of these functions, we have visibility into what is being done with



The Neiman Group also created Pennsylvania’s television campaign to help prevent the sale of tobacco to minors.



the time and where our money is being spent,” said Jay Pagni, Executive Assistant to the Deputy Secretary and advertising sourcing lead. “In the past, our customers in the state agencies couldn’t see what they were getting for their money.”

Sourcing a Consistent, Quality Message

While driving down costs was clearly a key factor behind the decision to strategically source advertising, it was by no means the only one. Quality, consistency, and effectiveness of the advertising were equally important.

“The challenge was to give the creative firms the opportunity to demonstrate what they could do through the procurement process,” said Topper. “We did more than simply issue an RFP. We invited the creative firms to come in and give us an oral presentation, to develop an ad campaign aimed at tobacco cessation, and sell us the quality of their skills.”

The Commonwealth’s desire to reward the quality of creative services was apparent to the advertising agencies. Tim Reeves, President of the Harrisburg-based Neiman Group, said, “We knew that the Commonwealth wanted to drive to the lowest dollar, but it was evident that they wanted to drive quality-creative quality and strategic quality. Quality is important because at the end of the day, the return on investment is going to be measured by the effectiveness of the marketing. Great bodies of research show that marketing that is not strategic and is not highly creative won’t bring that return. That’s why most sophisticated marketers spend money on quality and creativity.”

Evaluating quality is so critical for states when awarding advertising contracts because of the complexity of the programs that states are marketing.

“You need a creative product that is emotionally connecting because so much of the state’s advertising is geared toward social behavior change,” said Reeves. “Anyone can

make an ad that says ‘50 percent Off Everything in the Store!’, but getting a population to give up a chemical addiction to nicotine is a whole different ballgame.”

By selecting a single supplier for its creative advertising services and another for its media buying needs, the Commonwealth sought to bring greater consistency and coordination in its advertising message and ad placements.

Previously, because every agency used different advertising firms, the messages they delivered to various constituencies were rarely in concert with one another, confusing the very constituencies they were trying to reach.

Today, because the Neiman Group produces advertisements for all of the Commonwealth’s social services agencies, messages in separate ad campaigns can reinforce one another.

Neiman Group’s Reeves cited one such example. The Department of Agriculture embarked on a marketing campaign to encourage Pennsylvanian’s to buy fruits and vegetables grown on Pennsylvania farms. At the same time, the Department of Health was planning an anti-obesity campaign. Because both programs were working with a single creative agency, the messages could be woven into complimentary campaigns and achieve the kind of synergies sought after by all advertisers.

Eliminating Intra-Governmental Competition

Coordination by a single firm is equally beneficial on the media buying side. In the past, when different state agencies hired different media buying companies, they often competed with one another to appear during highly sought after time slots, such as the top of the 6:00 p.m. news. This competition between state agencies actually drove up the price of the ads in the past. Now, with a single media buying firm placing all of the Commonwealth’s ads, those costly and inadvertent intra-governmental competitions are eliminated.

The Commonwealth built into its

RFP and resulting contract the mechanisms to measure the effectiveness of the ads developed by its creative ad agency and the placement of those ads by its media buying firm. By engaging the Gallup Organization, “We are now able to see if our ads are resonating with the public, if we are moving the needle,” said Jay Pagni. “If we don’t track the effectiveness of our ads, we could be continuing to spend great sums of money without positively influencing behavior. With data about the effectiveness of our ads and our message, we can adjust future advertising and marketing programs. This allows us to tweak messaging to learn how constituencies are reacting.”

The Commonwealth is also able to measure the bang it is getting for its media buying buck, added Pagni. “Our media buying firm is able to drive down the per unit cost of media by buying early and by buying in bulk. As a result, the price per eyeball goes down. We can measure this by tracking the ratings of the shows where our ads appear, the circulation of the newspapers where our print ads run, and the audience size of the radio programs with our radio spots.”

Committing to Supplier and Audience Diversity

As with many of the Commonwealth’s strategically sourced contracts, MWBE participation was a key evaluation factor in the award. Points were awarded in the RFP evaluation for firms that demonstrated a commitment to supplier diversity. The results were impressive. The media buying contract was won by Harmelin Media, a woman owned business located outside of Philadelphia. The creative services contract, won by Neiman, carried a 12.5 percent commitment to MWBEs.

Steven Neiman, CEO of the Neiman Group, explained why partnering with minority owned businesses made sense. “The overall marketing strategy has to translate to different income levels, different minority groups. It

was very clear that we needed to reach a Hispanic market, so we needed to bring in a Hispanic partner. Minority audiences are disproportionately affected so it is incumbent on us to develop the right message to reach those audiences. Our partnerships help us do that. But because an advertising agency is ultimately responsible for all of the content of the ads, they have a consistent theme.”

Budgeting for Ad Campaigns

The process the Commonwealth now uses to establish a budget for an advertising campaign is more methodical than in the past. Previously, a state agency would tell its advertising agency what its budget was and that is roughly how much it ended up costing, whether or not it needed to spend that much. Now, the Commonwealth employs zero-based budgeting, building the budget for an ad campaign based on the creative hours required and the number and types of spots it needs to buy.

“The firm doesn’t start work without a purchase order,” said Topper. “Work gets done with a clear plan at the outset of the campaign. It has compelled both the state agencies and ad agency to do business with more forethought and with more attention to incremental costs along the way.”

Sharing Successful Sourcing

The best measure of the quality of a contract is how widely it is adopted by those that are not compelled to use it. Temple University in Philadelphia has piggybacked on the Pennsylvania contract for a forthcoming marketing campaign.

“We have benefited enormously by piggybacking off the Commonwealth’s advertising program. On the creative side, Neiman has saved us approximately 50 percent over the fees we were paying pre-



Robert Friess is Accenture's project manager in the Commonwealth of Pennsylvania.

viously. In terms of media buys, Harmelin’s 3.75 percent commission rate was significantly below the commission we were paying previously,” said Greg Rost, Chief of Staff to the President of Temple. “It’s been a terrific win for

Temple. We have been enormously impressed by the creative energy of Tim Reeves and the Harmelin team.”

Robert Friess, Accenture’s project manager in Pennsylvania, lauded the advertising sourcing effort. “The Commonwealth of Pennsylvania accomplished a challenge that many private sector companies never overcome in truly leveraging their spend and creating a consistent message.”

After benchmarking rates from Accenture’s commercial clients, Friess concluded that, “Pennsylvania is receiving better rates than private sector companies with comparable spend.”

Although the subject matter is no doubt more complex and subjective than office supplies or copiers, the Rendell Administration proved that advertising services can in fact be strategically sourced. The beneficiaries include not only Pennsylvania’s taxpayers who are paying significantly less now for advertising, but also the multitude of state programs whose messages—consistent throughout government—now more effectively reach their audiences. □

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