2014 CMO Insight Research Report

Presented by

AMI Agency Management Institute

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Introduction

The agency business is tough, and getting tougher. Agencies face many challenges, including:

- The direct access to many of the new DIY technologies that strip some of the magic from agency work
- The explosion of analytics, which often leads to clients measuring the wrong metrics for the wrong reasons and often setting unrealistic expectations
- The challenge of hiring well – both to serve the agency and the clients' needs and often competing with client organizations for that talent
- The demand for accountability despite the client's ability to provide proper metrics for their prospecting, sales and customer value
- Shrinking budgets but escalating expectations
- The revolving CMO door, meaning many agencies have to survive several new points of contact

All of this combines to create a very difficult environment in which agencies must identify, connect with and earn the trust of their prospects, while working equally hard at retaining their current clients.

In the summer of 2014, Agency Management Institute, a consultancy that helps marketing, PR, digital and advertising agencies be more successful, partnered with Audience Audit, specialists in audience research, to conduct an original study exploring the reasons that organizations hire agencies, what they're looking for and how agencies can position themselves for relevance with their target customers.

Because we wanted a statistically reliable study, rather than the opinions of a few agency owners in a focus group, we elected to conduct a custom quantitative attitudinal segmentation study. Our goal was to understand the key attitudes driving substantially sized groups of marketing services purchasers and to identify those groups by shared needs, beliefs and behaviors. We also wanted to understand the differences between those groups, so prospects could be categorized accurately.

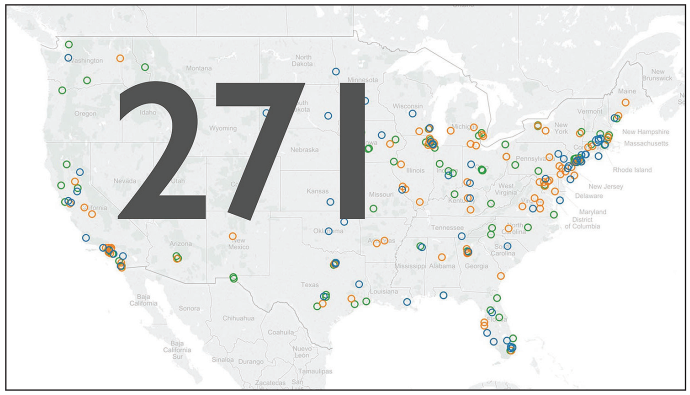
Ultimately, we wanted to understand what agency prospects valued and needed and how they chose to meet those needs, so that agencies can determine their best prospects and how best to reach and resonate with them.

To achieve a sizable respondent sample, we turned to Luth Research, which specializes in providing carefully curated respondent panels for research. Luth offered a panel of over 250 U.S.-based respondents who met our criteria:

- Their organizations have annual marketing budgets of $1 million or less;
- They are decision-makers with respect to hiring marketing service providers;
- They have in the past, are considering, or are currently working with a marketing, branding or advertising agency.

The Respondents

Respondents from 271 organizations participated in the study. While we were not specifically attempting to establish a nationally representative sample, respondents came from across the U.S.



271 organizations participated in the study

61% of the respondents indicated that they are the final decision maker when it comes to hiring marketing service providers, while 39% said they are very influential in the decision.

48% of respondents said they serve in an executive or administrative role in their organization, which 19% are in IT or technology and 9% are in a marketing role.

The sample is split almost perfectly in half by gender, with 51% male and 49% female. 50% of respondents are age 34-49, while 21% are under 34 and 29% are age 50 or older.

The Organizations

Respondents' organizations span a wide range of industries, size and revenue levels. 22% are in business services and 16% are in consumer services, with a range of other industries cited by the remaining 62%.

Organizations ranged in size from one employee to 100 or more, and 64% of them have been in business for more than ten years.

Revenue levels varied widely — 9% say their company generates less than $50,000 a year, while 21% generate over $5 million. Annual marketing budgets range from less than $20,000 to $1 million a year.

42% of respondents said their organization has a dedicated marketing staff of 3 people or fewer; 17% have a staff size greater than 10.

The Segments

Responses to a series of attitudinal questions revealed three segments within the marketing decision-makers in our survey. Each has a very different perspective on the role they want their agencies to play, how they choose the agencies they work with, and the aspects of agencies they find most valuable (and most frustrating).

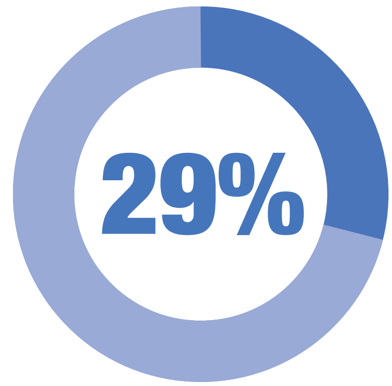
One of the fascinating insights of this study is that, despite their different attitudes about agencies, their demographics are very much alike. There is no difference between the segments in industry, maturity, size or annual revenue.

It’s not until we drilled down to their beliefs, what they valued and how they behaved that we could create useful segments that truly differentiated them from one another.

All of the segments generally agree that a key value of agencies is to conduct marketing activities their own staff doesn’t have time to tackle, that the best agencies need to specialize in a particular aspect of marketing, and that finding the right agency is mostly about a good personality fit.

Segment 1: Looking for Love (29% of respondents)

Respondents in the **"Looking for Love"** segment value agencies as a critical partner for business success. For this group, agencies are a key participant in strategic planning efforts, a trusted source of new ideas and insights about marketing trends, and a tactical partner across a wide range of marketing services and expertise. They feel it's important to develop a long-term relationship with an agency, and expect that if their agency doesn't have an answer they'll know where to find it.



Looking for Love

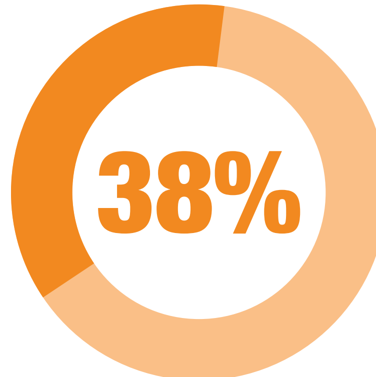
This segment believes that agencies are the best resource for strong marketing strategy and that they need agencies to provide an unbiased outside opinion about their needs. They go further and say that they believe an agency is a critical partner for their business success.

This group feels it's important to engage with their agency even when they aren't working on a specific initiative, prefer smaller agencies for talent, and prefer working with a single agency vs. a collection of individual specialists.

While our respondent group was almost evenly split between men and women, **"Looking for Love"** segment members are statistically more likely to be women (62%) than are the other two segments.

Segment 2: Playing the Field (38% of respondents)

This group sees hiring a marketing or advertising agency as a necessary evil to gain specialized expertise. They prefer to work with subject matter experts, and feel it's important to change agencies periodically even if they're doing a good job.



Playing the Field

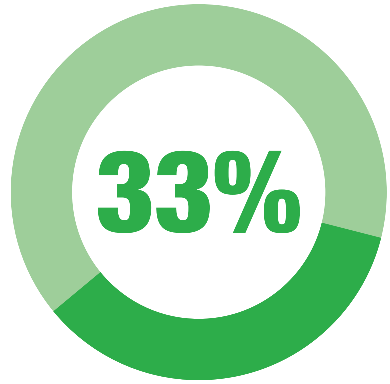
They prioritize youth and enthusiasm over age and experience, and believe that larger agencies have the best talent. They do, however, believe that smaller agencies are more focused on the needs of their clients.

This segment has the highest marketing budgets of all three segments and prefers to spend it with agencies with specialty niche expertise.

Respondents in this group are much more likely to engage agencies only when they have a specific activity in mind. They want to buy tactical expertise.

Segment 3: Single and Satisfied (33% of respondents)

Respondents in this segment feel their organizations are fairly self-sufficient when it comes to marketing. They believe that they have clear marketing plans and know exactly what they want. When they do use agencies for strategy, it’s as a source of ideas that can be executed by the organization in-house.



Single and Satisfied

They are the least likely to feel that agencies are the best resource for marketing strategy, innovative ideas, digital marketing or tactical execution.

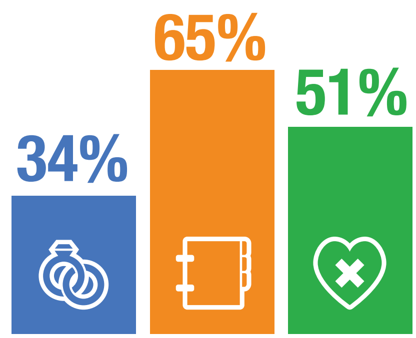
They are the most likely to have multiple agencies but they’re also likely to work with all of these agencies for 3+ years.

Marketing Activity/Spend

While revenue is very consistent across segments, marketing spend isn't. **"Looking for Love"** segment members report much lower marketing spending, even at comparable revenue levels to the other segments. They are also the least likely to have a dedicated marketing staff.

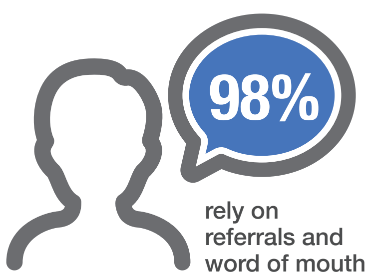
34% of **"Looking for Love"** respondents say their organization spends less than $10,000/year on marketing, while only 12% and 19% of **"Playing the Field"** and **"Single and Satisfied"**, respectively, spend that amount. This gap exists even among those organizations generating the highest revenue: Among organizations with revenue of at least $500,000/year, 22% of **"Looking for Love"** respondents say they spend less than $10,000 on marketing, while those numbers are below 5% for the other two segments.

"Looking for Love" segment members are also the least likely to have a dedicated marketing staff — only 34%, compared to 65% of **"Playing the Field"** segment members and 51% of **"Single and Satisfied"** respondents. Even when they do have a staff, **"Looking for Love"** respondents have a much smaller staff — nearly two-thirds report a marketing staff of three people or fewer. Among organizations with annual revenue of $500,000 or more, nearly 2/3 of **"Looking for Love"** respondents who have a dedicated staff say it's only 3 people or fewer.



% with dedicated marketing staff

Most respondents use analytics to some degree, but only 22% say they use them "all the time" to make business decisions. **"Looking for Love"** respondents are more likely to say they use them only "sometimes".



"Looking for Love" respondents are much more likely to depend on customer referrals and word of mouth - 98% cite this as a regularly used marketing tactic. They are also using website development, networking and email to their list frequently.

"Playing the Field" respondents are less likely to use any of these tactics than the other two segments. Only 33% say they are regularly emailing to their own list, while a similar percentage say they regularly email to rented or purchased lists. This segment is more likely than the others to have tried a wide range of marketing tactics.

Challenges Facing the Segments

Respondents cited "understanding which marketing tactics make the most sense for us" and "converting prospects into customers" as their biggest challenges. However, every item on our list was rated as a challenge for agencies to some extent.

Segment 1, **"Looking for Love"**, cited understanding which tactics to use, developing processes to streamline marketing and finding the right marketing partners as greater challenges than do the other segments. They appear to feel less challenged with regard to understanding their best target customers and creating content.

For Segment 2, **"Playing the Field"**, understanding their best target customers is a greater challenge than for the other segments. They also struggle with creating content and developing a functional database of customers and prospects to a greater extent than the other segments.

Segment 3, **"Single and Satisfied"**, appears to feel less challenged overall than the other segments, although their scores still fall to the right of the "neutral" line.

"Looking for Love" respondents are the most likely to believe that an agency can "definitely" solve their marketing challenges (38%).

Agency Relationships

42% of respondents say they have an agency now, or are in the process of hiring one. 25% have never had an agency but are considering it, and 34% say they have used an agency in the past but don't have one currently. These figures are fairly consistent across segments.

Among those with an agency, slightly more than half say they have a relationship with only one. This figure is highest among **"Looking for Love"** respondents (69%) and lowest among **"Single and Satisfied"** (56% of whom have more than one agency).

Almost a third of each segment have a relationship with two agencies and 5% of the **"Playing the Field"** segment report relationships with five or more agencies.

"Looking for Love" segment members also report working with smaller agencies — nearly 60% work with agencies having 20 or fewer employees, while this figure is about 45% for the other two segments.

Most respondents say they have had a relationship with their primary agency for at least 3 years.

Of those with an agency currently, 47% report being "extremely satisfied" and 52% report being "somewhat satisfied".

Why No Agency?

Among the 34% of respondents who have had an agency in the past but don't have one currently, reasons vary significantly as to why that is the case. Among **"Looking for Love"** respondents, 52% say they simply haven't found the right agency. Among **"Single and Satisfied"** respondents, nearly half say their in-house marketing team can handle the work required.

Among the 25% of respondents who have never had an agency but are now considering it, just over 1/3 say they don't have the budget to work with an agency, and another 1/3 say the don't know what they need, so they don't know who to hire. This latter rational is particularly prevalent among **"Playing the Field"** respondents, half of whom say this is the reason they don't have an agency. 27% of **"Looking for Love"** segment members who have never had an agency say they haven't engaged in any marketing activities.

57% of respondents say they have worked with marketing freelancers in the past, a figure that is consistent across segments.

Compensation

The majority of respondents - 69% - report paying their agencies on a project billing basis. 38% report hourly billing with their agency. **“Playing the Field”** respondents are less likely than the other segments to engage in project billing, and more likely to use hourly billing. **“Single and Satisfied”** respondents are the most likely to report having a retainer relationship with their agency (39%).

Hourly billing

Project billing

Only 21% of respondents report a “pay for performance” relationship with their agency, a level that is consistent across segments. 18% report paying based on media commissions.

Retainer

Finding and Hiring Agencies

Doing research online and asking colleagues in their industry are the two most valuable resources for learning about agencies. 64% of respondents listed online research as their most favored method with 58% saying they seek the input of colleagues, current vendors and partners.

Many say they include local agencies and encounter agencies at conferences.

“Playing the Field” respondents are less likely to cite most approaches for finding agencies.

Social media, overall, fell somewhat lower on the list in terms of value in this area. But if an agency has a blog that delves into their area of expertise, it can still be of value, especially to **“Playing the Field”** respondents who are the most likely to consider LinkedIn, Facebook and Twitter valuable in this effort.

Most respondents say they consider 2-3 agencies when in hiring mode (63%). 19% consider only a single agency.

How They Feel About Agencies

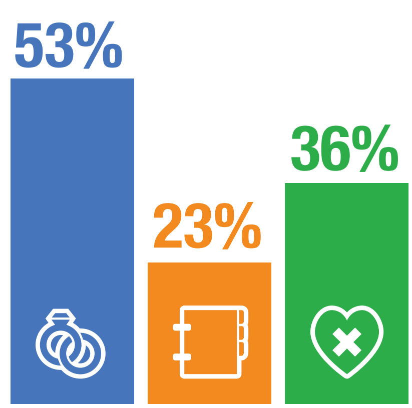
Overall, agencies are clearly favored relative to freelancers with regard to qualities such as "strategic", "expert", "reliable", "client-focused", and more. This is particularly true among those respondents currently using an agency, but can also be seen among those who have had an agency in the past and those who have never had an agency but are considering one.

Among those respondents who currently have an agency or have worked with one in the past, **"Playing the Field"** segment members are most favorable with regard to agencies vs. freelancers. They are more likely to feel agencies are responsive, reliable, are a better value, have more expertise and are more fun to work with.

Despite their reliance on agencies, **"Looking for Love"** respondents are more likely to rate agencies as being comparable to freelancers when it comes to value and being fun to work with.

How They Work With Agencies

"Looking for Love" respondents are much more likely to report engaging their agency throughout marketing planning and execution activities — 69%, vs. roughly 40% for of respondents in the other two segments. They are also more likely to bring in their agency when they have a specific element that requires their help (53%, vs. 23% for **"Playing the Field"** and 36% for **"Single and Satisfied"** respondents).

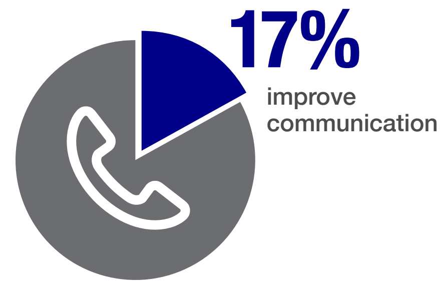


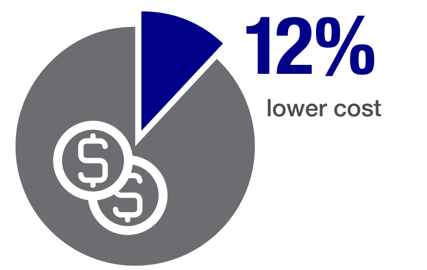
% that will bring in an agency for specific elements

What Agencies Should Start Doing

In an open-ended question, respondents were asked to identify the one thing they wish agencies would start doing. These responses were categorized, and are distributed across a wide range of topics. The most consistently referenced are improved communication (17%) and lower cost (12%), although issues such as responsiveness, collaboration, and understanding show up as well, and could certainly be considered under a larger "communication" umbrella.

Interestingly, there was no significant difference between the segments on this question. They were all of one mind on wanting better and more communication and more transparency and control over their costs.



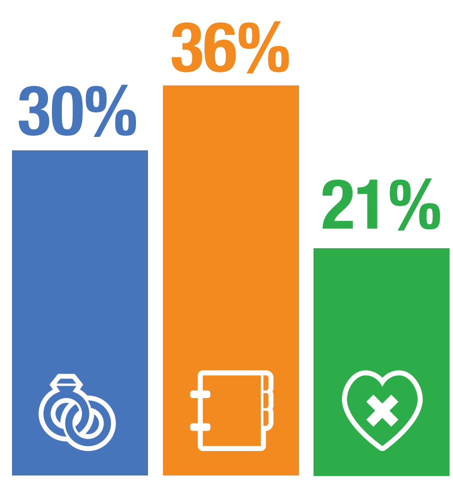


What Agencies Should Stop Doing

If the segments were aligned in what agencies should start doing, they were absolutely on the same page when it came to what agencies should stop doing.

Also an open-ended question, the responses on this topic clustered dramatically in one area - being pushy. 30% of **"Looking for Love"** respondents, 36% of **"Playing the Field"** and 21% of **"Single and Satisfied"** segment members cited suggestions in this category.

Cost was referenced significantly less often, at 17% of responses.



% who say agencies should stop being pushy