ARTICLE

# What's Your Risk Profile?

## How much risk brand advertisers are willing to take with their agency partners, and what impact it has on their overall performance.

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**From choosing what stock or bond to purchase to deciding whether you should travel or shake hands during the Coronavirus epidemic,** the everyday decisions we make are based on our individual risk profiles, or what is often referred to as risk tolerance. Financial institutions have mastered the artform of asking customers a battery of questions that will force them into one of many risk profiles – from most conservative (aka risk-averse) to most aggressive (aka risk-taking) to neutral – to determine what financial solutions are best suited for them.

The concept is quite simple: high risk profiles are known to generate potentially greater return than average but with much higher stakes. Conversely, low-risk profiles are known to generate potentially lower return but are far less risky. There is no right or wrong here. Just preferences, choices, and consequences.

The concept of risk profiles goes beyond health or financial decisions. It can also be applied to how brands work with agencies. Advertisers get to decide the level of risk they are willing to live with to get maximal value from their agency partnerships. They make such decisions across a wide range of responsibilities – from the type of agency they choose to the way they remunerate them.

Here are some of the most common decisions brand advertisers make and what impact those decisions have on their performance:

## Risk profile #1: Agency choice

*There are several risk considerations when selecting a new agency partner. For example:*

• **New vs. established agencies:** if the agency is relatively new, the risk for the brand is far greater than if the agency has been around for a while. A new agency is more likely to be less consistent or predictable in the way it delivers. But it might be cheaper. Or offer new competencies or talent. Or be willing to go the extra mile. If you are risk-averse, go with established agencies with proven experience. If a client is in a highly regulated industry or one that requires a certain depth of industry knowledge, an agency with extensive experience in a vertical like health care or financial services may prove to be a much safer bet than a generalist. If you are willing to take chances in the hope to get a better return, you may want to pick that new, promising agency.

• **Small, independent vs. large agencies:** Small, independent agencies may also be higher risk for a brand because of their limited resources or cash flow. For example, it's far more difficult for small agencies to afford top talent or invest ahead of revenue, something that large agencies, especially those that are affiliated with a larger network or holding company, can do. Small, independent, and generalist agencies have their own benefits over larger, established, or specialized agencies; brands must weigh the pros and cons, including risk tolerance.

## Risk profile #2: Compensation type

*There are several risk considerations when choosing and implementing the right agency compensation agreement. For example:*

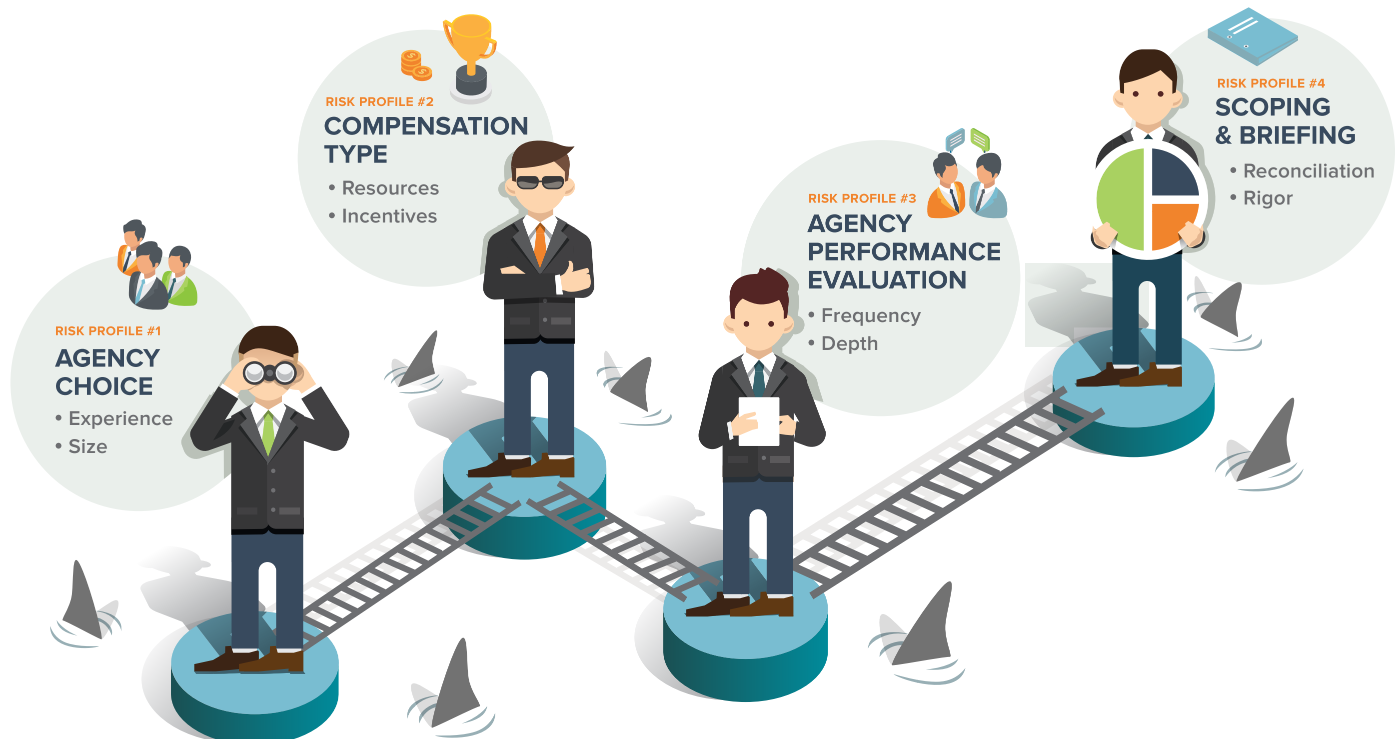
• **All retained vs. all project:** Retainer-based relationships are less risky as they ensure that the agency will be adequately staffed to handle the work volume and have the right resources available when they are needed to carry out the work. Project-based relationships offer some benefits to brands (flexibility, less overhead, etc.) but they also present greater risks: the agency may not have the ideal resources available to assign to a given project.

• **Incentive-based compensation agreements vs. no incentive or poorly designed ones:** Incentive-based compensation agreements are set to reward (and potentially penalize) an agency based on their performance (or lack of). One may think that this type of agreement increases volatility in terms of budget management. However, rewarding an agency if, and only if, they perform above a pre-determined level is less risky, as it's proportional to the output. Poorly designed incentive-based compensation agreements can be risky as well. Choosing the right compensation agreement requires careful consideration: fairness, mutual accountability, scalability, and again, risk tolerance.

## Risk profile #3: Agency performance evaluation

*There are several risk considerations when designing and running an effective agency performance evaluation program in your organization. For example:*

• **Frequent survey/feedback (2x per year or more) vs. once a**



**year or less:** Brands that evaluate their agency performance twice a year (at year end and mid-year, typically) or more frequently (ad hoc throughout the year) are lowering risk because they are able to address performance issues more rapidly, ideally before those issues become irreparable. The longer it takes for these conversations to be held formally, the higher the risk that issues will be irreversible.

• **Depth/action-oriented vs. light/surface:** Brands that conduct more in-depth evaluations with a focus on driving actionable plans are reducing risks in the relationship because of their ability to more easily diagnose sub-optimal areas of their relationship and to act upon them with decisive, effective plans that improve them. Brands that are only touching the surface are at greater risk, because they are unable to drive meaningful actions and drive positive change.

## Risk profile #4: Scoping and briefing

*There are several risk considerations based on the way advertisers are approaching the scoping work and briefing of their agencies. For example:*

• **Rigorous vs. loose SOW and briefing process:** Brands that have institutionalized a rigorous process, defined their SOW with great precision, and provided comprehensive briefs, reduce the risks of confusion, misaligned expectations, or false starts.  Brands that are operating with a much-reduced level of visibility and transparency, coming short of providing clear guidance to their agencies, have a much higher risk profile due to the inefficiencies that result from it.

• **Reconciliation vs. no reconciliation:** Having access to timely reconciliation data enables brands to make better, more informed decisions about agency resources, such as redeploying them, or making sure that they are optimized throughout the year. Having a strong reconciliation process reduces the risk that these resources will be under-utilized or not assigned to the right priorities, as often happens when little or no reconciliation data is available from the agencies.

There are many other aspects of agency management capabilities such as agency training, agency RFPs or roster management (or lack thereof), and auditing that are also indicative of the risk profile of a given advertiser. For example, the higher the audit frequency (within reason), the lower the risk that out-of-compliance practices will occur, giving the brand and its agencies the ability to rectify them quickly.

***"I think that you always do average work and have average outcomes when you're in an environment grounded by fear."***

**Mike Messersmith**
*President, North America at Oatly*

There are times when taking calculated risks is justified and we must overcome our fears. For example, it might make sense for a brand team to opportunistically hire a new, hot agency for a given assignment, even though it's clearly riskier than using an existing partner.

At the recent ANA Brand Masters conference, Bob Liodice shared wise words from industry leaders like Mike Messersmith, president, North America at Oatly: *"I think that you always do average work and have average outcomes when you're in an environment grounded by fear."*

Yet, not every risk is worth taking. Excessive risk-taking can be reckless. Experience shows that when effective agency management programs are in place, they significantly reduce the risks of advertisers operating their agency relationships sub-optimally or missing out on the benefits of their important partnerships. So, ask yourself: what's my risk profile?

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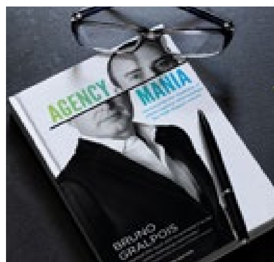


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**Bruno Gralpois** is the co-founder of Agency Mania Solutions, a premier service and technology firm specialized in helping companies realize the transformational value of managed partnerships. Bruno is the author of best-seller "Agency Mania" and the former chair of the Association of National Advertisers (ANA) Client/Agency Committee and a faculty member of the ANA School of Marketing.

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