

Transcription details:

Host: Bill Coppel, Managing Director and Chief Client Growth Officer at First Clearing

Guest: Drew McLellan, Owner of the McLellan Marketing Group and the Agency Management Institute

OUTRO [music] Welcome to the Next Frontier, where we examine what the role of the financial advisor will be in a world that's being disrupted by artificial intelligence and algorithms. Our mission is to spark new conversations that create stronger connections and build greater client confidence. Join us as we look at our industry and others through a new lens and explore the opportunities emerging at the intersection of high tech and high touch. It's time for a new conversation. Are you ready?

BILL COPPEL Hi, this is Bill Coppel, and welcome to the Next Frontier. Today, we have Drew McLellan with us to share some insights on how business owners can respond to the changing sentiments and expectations of clients brought about by, what I call, this digital tsunami we're all experiencing. I think we can learn a lot from him on how expanding beyond our core offerings can be an effective way to change the conversation with your clients and really add value. Let me tell you a little bit about Drew's background. He's worked in advertising for more than 30 years, starting with a stint as a copywriter and then an account strategist at the advertising agency, Young & Rubicam. And for more than 23 years, he's owned and operated his own agency, the McLellan Marketing Group. He also owns and runs the Agency Management Institute, a consultancy that's been helping owners of small to medium-size ad agencies grow their business since the early '90s. And Drew is also the host of the podcast, Build a Better Agency. He's written two books and been featured in the New York Times, Forbes, Entrepreneur Magazine, and Fortune Small Business. Drew, welcome to the Next Frontier. It's an honor to have you with us today.

DREW MCLELLAN Thanks for having me. I'm excited to have the conversation.

BILL COPPEL Oh, thanks for joining us. Hey, I want to start with a great article I read just recently that I think you published back in October of last year, entitled, Five Ways Agencies Can Prove Their Value. That first sentence reads, "To agencies operating in the Mad Men era, marketing today would almost be unrecognizable."

DREW MCLELLAN Right.

BILL COPPEL Expand on that. Tell us where you're going with that statement.

DREW MCLELLAN Well, when advertising started, the way agencies served clients and were compensated is completely different than how it is today. So back in that day, A, there weren't a lot of agencies, and B, they only served big consumer brands. And so the way they were compensated was they didn't charge anything for their service. They didn't charge anything for their ideas. They didn't charge anything for all of the time they spent putting together the TV spots, or the radio, or print ads. All they charged the clients for was their out-of-pocket costs, their hard costs to produce those things. And then all the money they made came in on media commissions. But back then, there were three options, right? There was television, there was radio, and there was print. And so the model was pretty simple, and the deliverables were very simple. And today, fast forward that and there were plenty of changes along the way,

but fast forward that. Today, most agencies don't produce a lot of television, radio, and print. Most media outlets have completely butchered the commission structure. Clients are pressing on the commission structure. And so now agencies are being forced because of just the economic change and the deliverable change to actually charge for their time, their ideas, their strategies, the time they spend putting together the stuff, making the stuff for their clients. So all of a sudden, there's a lot more pressure. Back in the old days, you would just say, "Well, we'll make this television commercial for you and the out-of-pocket will be \$10,000." Now today an agency would say, "Well, the out-of-pocket is 10, but our agency time is about 30." And so the clients are going, "Okay. I'm sorry. It's \$30,000. Whoa." And apply that same model against everything an agency does whether it's social media monitoring, helping clients get ratings and reviews, getting them ready for a trade show. Now we sell our time like a lawyer or an accountant. And so there's a lot more pressure on us to be able to demonstrate the value for what we charge.

BILL COPPEL

So that's really interesting. So if I heard you correctly, essentially the core of the talent that comes out of an agency, which is their creativity, for the better part of the last 30 years or so, you weren't even getting paid for that?

DREW MCLELLAN

Well, you were. But it was all paid on media commissions because your clients were spending a lot of money in media. So back in the day, everybody got 15% off of all the media. And so when you're placing a half a million dollar buy or a million dollar buy, that's a pretty good payday. Agencies were always being compensated, but they didn't have to justify or even talk about to their client. The clients didn't care how much time it took or what it cost because to the client, the client was going to pay the media the same dollar amount. That was the value proposition. "Look, the TV station's going to charge you a million dollars whether they give us our 15% or not." So, "Hey, client, it's not costing you anything more to have us professionals do this for you than to have you to do it yourself. So why wouldn't you have that?" So imagine going from-- saying to the client basically, "Look. We're kind of free because you're paying for it anyway," to, "Hey, we're \$150 an hour." That's a huge shift for us in terms of being able to really demonstrate our value. And combine that with the fact that there might have been a few hundred agencies back then, and now there are 30 or 40 thousand just in the U.S. alone. It's a completely different game.

BILL COPPEL

Wow. So if I think about that, what jumps to mind to me is, say, a profession like the financial services profession which is under a lot of pressure today. Technology has come in and it has kind of remapped how folks, how people, clients-- in your case, an advertising client-- they can access media directly. The public can access the markets directly. Where you acted in some respects as a gatekeeper, as do the markets. Today, that information is freely available and access is free. There's a lot of similarities. Talk to me a little bit about your experience in that journey from having control and watching that control kind of erode over time and how you had to refocus your lens on continuing to sell your value.

DREW MCLELLAN

So by the time I got into the business-- which would have been in the late '80s. By the time I got into the business, and by the time I started my own agency in the early '90s, already there had been quite of an evolution. So by then, agencies were charging for their time in a much more holistic way than they were back in the Mad Men days because, all of a sudden, advertising agencies started doing things outside of advertising. So, for example, in the beginning, I wouldn't have helped your company put together a trade show booth or a trade show strategy. So I didn't have to worry about how I got paid. But as agencies got more in their clients' business, and as advertising agencies really became marketing and sales partners to their clients, all of a sudden the things that we were doing, whether it's placing PR stories, or building

websites, or things like that, there was no commission structure to compensate us for that. So already we were having to sort of place our value. But I will tell you that the change even from the late '80s to now has been equally dramatic because what the Internet did, and what it continues to do for every industry, is it gives our clients and our prospects choices they never had before.

DREW MCLELLAN

So back when I started my agency, my clients could not access the Internet easily and just go to a freelance source, or Fiverr, or you name the millions of sources. They couldn't go to 99designs and buy a logo for \$300. Well, today they can. So now, all of a sudden, we can't be about being the cheapest. We have to really be able to, for our clients, demonstrate that what we do for them is far superior to what they can just buy off the free market, if you will. And that part of what we do is the intangible of service, and part of what we do is the intangible of really digging deep into their business and understanding their business like they do, which a freelancer that you find online is not going to be that. But it's challenging, absolutely. Back in the Mad Men days, remember, there were three channels, right? There was television, and by the way, that was just the three network channels, right? There was television, radio, and print. Today, think about the media channels that we're exposed to every single day, both offline and online. So flip on the TV alone, there's 500 channels. And you know what? I can buy you an ad on any one of those channels. So now I have to be an expert in all of that. Flip on your computer and look at the channels there in terms of the web, and digital ads, and all the different social platforms. And I have to be able to be a guide for you there. Think about all the ratings and review places now, where people go to decide if they're ever going to do business with us before we even know they're considering us. I now have to be influential on your behalf there. So our job has gotten very, very complicated. And yet, we still have to prove our value every day because somebody else out there can always do it cheaper.

BILL COPPEL

So let me ask this question. I want to back up to the trade show. As you kind of-- as being in the business as long as you've had and you've watched this evolution, was your travels into expanding your services to, say, include a trade booth-- how did that come about? Was that an opportunity you saw or did the client come to you? Because what I think I heard you describe to me is a set of sort of stair steps as you begin to do more and more and more because of the sort of collapsing side of the whole media buy model.

DREW MCLELLAN

Yeah. I'm sure it was sort of both a chicken and egg, right? I'm sure part of it was agencies going, "We have to find new ways to be compensated because the media commission structure is starting to collapse on us." And really that collapse I will say-- some agencies still get 15% today depending on what they're doing. But like a Proctor & Gamble, for example, they've negotiated their media down to probably 7%, right? So part of it is the savviness and the buying power of the clients. But honestly, I think the evolution came from agencies sitting down at the table and being very invested in helping their clients be successful. And so, when you sit around the table and you actually start thinking about the business from the clients' perspective-- so now I have, if anything, sort of my consultant hat on, and I'm saying, "Well, I know you're going to that trade show. What are people going to see when they walk up to the booth?" And the client goes, "Oh, well, we're just going to put a tablecloth on a table and hand out candy." And the agency goes, "Well, you know what? What if we told them a little bit about you? What if we were able to surround you with your company's story?" And the client goes, "Oh, well, I kind of like that. How would we do that?" So I actually think most of what we do today-- and agencies do a wide variety of things for clients today. And honestly, I can't think of a thing that the client asked us to ever do-- I mean, we literally have in the middle of the night-- we were working for a financial institution and, in the middle of the night, we stuck messages in wallets

and we'd walk through downtown at 2:00 AM hiding the wallets so people would find them, and open it up trying to see whose wallet it was, and find the URL, and go to that URL to learn about this new promotion. So agencies do crazy stuff all the time.

DREW MCLELLAN

I honestly believe if they're a good agency-- and if they survived the recession, they're probably a good agency. If they're a good agency, it's actually born out of just trying to help the client advance their business. And then, quite honestly, a lot of times I've suggested things to clients, and they've said, "Yes. Let's do that." And then I have to go, "Shoot. How am I going to charge for that? How am I going to get paid for that?" Because that wasn't my motivation at all. It was just like, "Oh, we should do this." And then now I've got to figure out how we are going to get fairly compensated.

BILL COPPEL

That's a great point. So what I heard you say, I think, is as you saw these changes coming, you instinctively began to say, "Well, maybe I need to broaden sort of my lens on the relationship and get more involved with my client to learn more about what's important to them, and then begin to go into, sort of, uncharted territory."

DREW MCLELLAN

Yeah. With them, right? I think that's the great-- that's the key to a great agency relationship is a lot of times, without a doubt, part of what we have to do with our clients, especially today-- every time I turn around, there's a new social media channel, or a new Snapchat, or a new something. And so part of being an agency today is being able to say to your clients, "You know what? Let's experiment with this. Let's try this. I don't know if it's going to work or not, but it's an interesting idea. And if it works, and we can really connect to your audience there, it'll pay off." So part of being an agency is - you're right - absolutely being more consultative, really digging deeper into their business to sort of solve their problems, but it's also being willing to acknowledge that you don't know it all. And it's part exploration on both your part.

BILL COPPEL

When you started to think about going into other aspects of your client's business, how comfortable did that make you feel? You're going into areas that, as you said earlier, that I don't know how I'm going to-- I'm not sure how I'm going to do that. Not to mention how I'm going to charge for it, capture the value for that.

DREW MCLELLAN

Yeah, one of the things that is true about most agency owners is they-- they're sort of scrappy, and they're sort of used to figuring things out on the fly if they have to. And I'm sure this is true for any professional, no day with a client goes exactly the way you think it's going to. So you have to be pretty ready to pivot at any moment in time. But for me, it wasn't about how we're going to get it done because I was confident we could figure out a way. But sometimes it was, and this is sort of proof of the evolution of the model in general. Sometimes it was how do we fairly get compensated for that, and how do we talk about that compensation in a way that the client is going to perceive the value. So it was never really about how do I make more money? But it certainly was, "We're going to invest a lot of time in this." And in an agency's world, like many service businesses, what we have to offer, our inventory, are our ideas, and creativity, and our time. And so it was really more about that and actually interestingly one of the shifts that is coming down the pike today and many agencies are doing this already is, they're not really pricing by the hour anymore. So the natural evolution out of commission was, "Okay, we're going to charge \$100 or \$200 an hour for our time." But the reality is that now agencies are really trying to put together more project pricing based on the value that they and the client agree upon that, "This thing we're doing is worth \$15,000 to you client. Do you agree that that is true?" "Yup, I agree. I would be happy to pay \$15,000 for that because the outcome for me is going to be worth so much more." So agencies are less about the billable hour today, and it really is more about kind of value pricing, but I would call it value pricing light. I don't think it's as-- I don't think you're negotiating-- most agencies aren't saying to

their clients, "Okay, so if you have a great trade show and you sell one client one of your whiz, bang, new toys, that's going to net you a million dollars." So is it fair that we get 20% of that million dollars? Most agencies aren't going that far down that discussion.

BILL COPPEL Let me ask this question. You had mentioned when you started down this path, you have to have that conversation about what it's worth.

DREW MCLELLAN Right.

BILL COPPEL How would you guide someone who's new to that kind of a conversation on exactly how to broach that subject, how to get that kind of a conversation going? What would you advise them to think about?

DREW MCLELLAN I've never met anybody who's excited to talk about pricing with their client. I don't care what industry they're in. Everybody's a little anxious about it. So I think you have to think about it from the client's perspective which is, "Hey, client. Here are the seven things we're going to do for you, here are the outcomes you're going to get, and this is what it's going to take for us to do that work," and really position it in a way that it is about the value the client gets, what they get. So I think sometimes agencies, in particular, get caught up in talking about the stuff we make as opposed to what the client's going to get when they have the stuff that they can use. So for example, talking about ratings and reviews. If I am helping a client solicit ratings from their happy customers and also monitor and manage unhappy customer ratings or reviews, rather than talking about the number of hours or how many ratings and reviews we're going to get, what we should be talking to them about is the impact that a four-plus star rating does for a business, and that our goal is to get their 3.2 rating up to at least a 4.1. Because most people if they don't see at least four stars, just completely decide that that's not a business they want to work with. All of a sudden when you start talking in that kind of language, it's a lot easier and more comfortable for the person asking for the money to ask for the money. I think when we have to justify how long it takes us to do something, that's when it gets uncomfortable. So part of it is really talking about it from the client's perspective, rather than our own. We're not a factory, you know? And it's not about, we have to have four guys on the line, and it takes them three hours to go from nothing to a car, or whatever that would be. That's not the way we work, but, for many years, that's how our industry talked about the business, is we talked by the billable hour, like we were a factory. And so I think now people have gotten more sophisticated and are really talking about the value provided, as opposed to the number of hours it takes to get a job done.

BILL COPPEL So it sounds to me like you start at the outcome, at the end of the story, where you create a picture or an image and kind of work backwards from there in order to begin to change the conversation away from sort of the activities and activity-based pricing, much more to outcome-based pricing.

DREW MCLELLAN Yeah. When you think about it, it's how we're used to, for example, buying plane tickets, right? So I'm on a couple hundred planes a year, so the first thing I do is I go online and I go, "I have to go to Phoenix." That's my outcome. I need to be in Phoenix by next Tuesday. Then the website shows me the choices, right? And I can get there-- but no one says to me, "Well, that's going to take four flight attendants, and two pilots, and 12 gallons of gas, and this and that, and the ground crew," right? Nobody delineates that out for me. They just go, "Do you want to--" the outcome is true, "Do you want to be in Phoenix on Tuesday?" "Yes." "Is it worth it to you to spend \$600 to be in Phoenix on Tuesday?" "Yes." "Okay, great. Then buy your ticket." So that's how

we have to start talking. That's how we have to start framing up our pricing conversations with clients. It's about the outcome.

BILL COPPEL

Great. Thank you. Let me just change direction a little bit here, and kind of go back to some fundamentals. If you're in a profession that you've been doing what you do the same way for quite some time, how you got into those first conversations about beginning to expand your offering, change the way you view yourself, and try to get your clients to begin to look at you differently. I would imagine that would have been not an easy task.

DREW MCLELLAN

Yeah, it's interesting. And this is, again, true for all industries. Once clients have labeled us, "Oh, you're my checking account guy," or, "Oh, you're my print ad guy," or, "You're my newsletter guy," or, "You're the guy that repairs my car," all of a sudden, we're sort of slotted in in people's minds. And it's important for us to keep reminding them, "Yeah, I do repair your car, but you know what? I can do oil changes, too. And by the way, we detail cars." So there's a lot of that. And I think especially today-- one of the other big shifts that we haven't even talked about is when I started in the business, advertising was, "I have you captured." You're watching television, or you're reading the newspaper or a magazine, or you're listening to the radio, and you have no choice. You have to listen to my ad. And now, today, it's all consumer controlled, right? So if you don't want to see me on Facebook, you just block me on Facebook. If you don't want to listen to ads, you listen to Spotify and you can skip some of that stuff. The DVR allows us all to skip right past television ads. So really, I think the way we sell in more services, and the way we help our clients understand that we offer a wider depth and breadth of services is, again-- and this is sort of thematic to our conversation, it really is about leaning into their business, and asking them questions, and talking to them about aspects of their business that they may not think we're qualified to talk about. And when we talk about that in a way that's helpful to them, then all of a sudden they go, "Oh, you're not just my newsletter guy. You could also be my website guy. Oh, I didn't know you guys did that." I can't tell you-- I mean, I've been in business-- I've owned my own agency for almost 25 years, and a lot of our clients have been around for 20 years. And I cannot tell you how often they'll go, "I didn't know you did that." And I think, "Oh my gosh. How many times have we talked about that?" But they weren't ready to buy it, so it wasn't on their radar screen.

DREW MCLELLAN

So I think part of it is constantly sharing best practices, case studies, things like that. But honestly, the bigger part of it is just helping them grow their business and being as holistic in your viewpoint around that as possible. And then they go, "Okay. Yup, you're right. I do want to do that. Can you help me with that?" "Well, yeah, of course, we can help you with that. We've done that for lots of other clients. Let me tell you how that works." So I think the trick, again, is starting at the outcome, which is, "I want my client to be able to sell more fill-in-the-blanks, and I have some ideas of how that can be." And so I think the best agency owners and the best agency principals or leaders are people who really think of themselves as an extension of their clients' business, and their clients' goals are their goals. And that sounds a little Pollyannaesque in terms of, "Well, but you don't work for the client, and you have to get paid." And I will say that, in my experience, when I care about my clients' business, I always get paid. I always make money. My business is always profitable. When I worry about selling someone's stuff because things are quiet, or slow, or we're launching a new thing - we've never done a website before, and now we want to practice one, so we're desperately trying to sell one - that's when we don't make money, honestly.

BILL COPPEL

Great. Thanks. Now I want you to put your consultancy hat on for a moment. I'm going to challenge you and maybe get you to broaden your view a little bit. If you

were to give advice to, say, a lawyer, or an accountant-- accountants today, most of us can do our taxes on TurboTax, right?

DREW MCLELLAN

Right.

BILL COPPEL

Or a financial advisor, where you can go to one of many, many different organizations and get quality advice relative to your portfolio. Thinking about those kinds of examples-- or even doctors, right, when you can go online to WebMD and self-diagnose. And now that artificial intelligence has gotten involved with medicine, they're actually using that as a better tool to diagnose disease. These are major disruptors to those tried-and-true age-old professions. If you think about what you've experienced with your consultancy hat on, give me one or two ideas as to how folks in those positions should begin to think about expanding beyond what their core "offering" traditionally would be.

DREW MCLELLAN

Well, I'm going to argue that they have to do a couple things first. So first of all, so let's say I'm a financial advisor, and I'm on a street, and there are 10 other financial advisors on the same street. So the first thing I have to do is I have to have a rock-solid brand that defines for people how and why I'm different. So whether it's my experience level, whether it's that I'm super casual and I come to your house, whether it's the fact that I spent 20 years on Wall Street, whatever it is, I have to understand how I'm different from my competitors and why you would care about that. Brand becomes more and more important as everything we do becomes more commoditized, right? So that's number one.

DREW MCLELLAN

And number two, I think it's about understanding the value you actually bring to a client. So I'm going to argue that while a financial advisor sells me investments, the reality is what they really sell me is peace of mind because I don't know enough about investing that I'm not going to mess it up. And so what they really sell me is they sell me confidence that I'm going to have enough money that I can retire someday. Then if I think about that, then I can go, "Okay. Well, what else does my client not have confidence around?" I don't sell life insurance, but you know what? I could find a strategic partner where I make a commission or a referral fee off of that referral, and I could give my clients peace of mind there. You know what? I bet my clients don't have a strategy for downsizing their house and taking both advantage of the capital gains, but also really understanding the kind of house they're going to want to live in when they're 80 and their knees are sore. But you know what? I don't sell houses. But you know what? I could have a trusted advisor where I, again, make a referral fee. So I think it's also about-- and again, listen to what I was saying. What does my client actually need? Not what do I sell, what do I have to sell? What can I do that actually expands the value and the relationship that I have with them? And I will figure out a way to get it done. In some cases, I can probably do it myself. I could get my license to sell insurance. But I probably am not going to get my real estate license. So in some cases, I'm going to expand upon my own internal offerings. In other cases, in today's connected economy, I think one of the best things that we can offer our clients is connections and introductions to other people who can also serve them the way that we do.

BILL COPPEL

I heard something that I've never heard before, and I thought the way you characterized it was quite insightful. This notion of confidence. Looking for ways or looking for things that people aren't confident in and filling that gap. And to me, that is very insightful because that sort of puts you on a path in an alignment with that client to begin to solve more of their "needs" as opposed to what you might be totally focused on.

DREW MCLELLAN Yeah, absolutely. And again, some of those you're going to be compensated for monetarily. But I think we also have to broaden our definition of compensation. So, for example, if a client calls me and asks me, "Hey, do you know somebody who can do XYZ?" And I do, and I make that connection, and that's a good relationship for them, my compensation in that is increased trust from that client. And we know that no matter what somebody buys, from toothpaste to a car to an ad agency, that whatever it is, they have to know who we are, they have to like who we are, and they have to trust us. So quite honestly, one of the most important currencies that we have to get from our clients on a regular basis is their increased trust because then selling them stuff and the services we do, much easier. Because they don't even question our pricing or our deliverable model or methodology because they have confidence that we have their best interest in mind and that we're going to take good care of them. And so now all of a sudden, it's pretty easy to sell them more stuff because we really are trying to give them things that will help them grow. So we're not just putting our hand in their pocket. We really are trying to serve them. They know that. All of a sudden, that relationship, super healthy in sort of a 360 way because everybody's getting what they need from the relationship.

BILL COPPEL Drew, to succeed in today's marketplace, and you're thinking about this, what are the two or three things you'd share with our listeners about what it really is going to take to succeed in the next frontier?

DREW MCLELLAN I think to succeed today and in the next decade or so, I think we have to-- as service providers, regardless of what industry we're in, I think we have to be mindful of a couple of things. Number one, we are no longer in control of the conversation. So whoever our audience is, they have the opportunity to shut us down at any point in time, and in fact, oftentimes, have to choose to even open the conversation. So if we're talking about ourselves, and we're trying to sell, odds are that's not going to be a very successful combination. So we have to, from the very get-go, understand that marketing is permission-based today. And every conversation we have, we have to get the listener's permission to continue the conversation. So if I'm not being helpful, if I'm not being interesting, if I'm not being engaging, odds are there's somebody else who's talking about the same topic who is being helpful and interesting and engaging, so I'm going to lose that audience member. So that's number one. Number two, I think the way we sell today has to be very different. I think it has to be about outcomes and value from the buyer's perspective as opposed to features and benefits which is what we're used to selling. We immediately have to get to the bullet-pointed list of here's the stuff you get as opposed to the outcome that we're trying to help that client or customer get to. And number three, I think it requires-- in a world of commoditization, I think if you don't have a strong brand, if there's not a discernable difference in how it is to work with me versus some other ad agency, or you and some other accountant's firm, or whatever business you're in, if you can't differentiate, then the only thing left to compete on is price. And nobody wants to be in a position when you have to compete on price. So those to me are the big three things sort of the core tenants of how we have to think about our business differently in today's economy.

BILL COPPEL Great. Thanks very much, Drew. I appreciate your time today in joining us here at the Next Frontier.

DREW MCLELLAN You bet, my pleasure. Thanks for having me.

BILL COPPEL If you would like to connect with Drew and learn more about what he does, or listen to his podcast, Build a Better Agency, visit his website agencymanagementinstitute.com.

OUTRO

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CAR-0122-00378