

## **Marketing agency/client service-for-service provision in an age of digital transformation**

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### **Structured Abstract**

**Purpose:** To explore changes in agency/client value co-creation, at a time when digital transformation is having a major impact on the marketing communications process. The theoretical framework of the research relates to value co-creation in service-for-service provision, a fundamental aspect of Service-Dominant Logic (S-D Logic) theory.

**Methodology/approach:** The research was exploratory, primarily using qualitative methods. In addition, some quantitative survey data has also been included to demonstrate greater generalizability on certain key questions. Building on dyadic research with clients and their agencies, the current research includes a survey of agencies; interviews with clients and a follow up survey with clients.

**Findings:** The nature of service-for-service provision between clients and agencies is outlined. Many aspects of service are equally likely to be internally or externally provided. This high crossover particularly relates to supporting aspects of digital marketing. While much digital marketing appears to have initially been provided externally there seems to be a trend to bring these aspects of service in-house. The views of clients and agencies on their relationship, as being either transactional or a partnership, appears to be related to the degree of service required and provided.

**Research implications:** A service-for-service perspective is instructive in considering how changes in the external environment are impacting on what is done by agencies and what is done by clients. This new approach has potential to enhance existing relationship based research in this context. The services required by clients depend on the resources that they

already possess. Therefore, it is the absence of an operant resource that leads to the need for external service provision and in turn requires co-creation.

Practical implications: There are no hard and fast rules on what is provided by the agency and what is provided in-house. This relates particularly to digital aspects of marketing and suggests that the level of crossover is higher than historically. With digital media becoming such an important aspect of communicating with customers, this is particularly significant in considering the nature of the relationship between agency and client and whether it is seen as a partnership or transactional.

Originality/value/contribution: Historically, the dominant approach to analysing agency/clients has been to focus on relationships. Taking a service-for-service approach is novel and relevant in analysing a context in which digitisation and media fragmentation has caused significant changes and where the perspectives of S-D Logic has the potential to provide new insights, explaining aspects that are not covered by taking purely a relationship approach. The contribution to S-D Logic is at the level of midrange theory development, through applying ideas from S-D –Logic in the context of application, helping to refine and add to the credibility of the theory. This exploration of the co-creation of value between clients and their agencies demonstrates the applicability of a framework from S-D Logic in a context that is an important part of marketing management.

## **Keywords**

**Co-creation of value; Service-Dominant Logic; Client/agency relationships**

# **Marketing agency/client service-for-service provision in an age of digital transformation**

## **Introduction**

Digital transformation refers to adapting business to operate in a digitally empowered world. Organisations have established ways of operating that have served them well in the past, but the rapid and widespread developments in digital technology requires organisations to respond in new ways (Perkin, 2017). The purpose of the paper is to explore changes in agency/client value co-creation, at a time when digital transformation is having a major impact on the marketing communications process. The theoretical framework of the research relates to value co-creation in service-for-service provision, a fundamental aspect of Service-Dominant Logic (S-D Logic) theory (Vargo and Lusch, 2004, 2016). S-D Logic and the co-creation of value is one of the most interesting avenues of marketing scholarship, as witnessed by the sustained discussion it has stimulated over the last 14 years. The article will examine the application of the latest ideas from S-D Logic in the context of the working relationship between clients and their marketing agencies. This context was chosen for the study because it represents a Business-to-Business (B2B) ecosystem in which a co-creative relationship between client and agency is particularly important and it is at the centre of the marketing communications process. Historically, the dominant approach to agency/clients has been to focus on relationships. Taking a service-for-service approach is novel and relevant in analysing a context in which digitisation and media fragmentation has caused significant changes and where the perspectives of S-D Logic has the potential to provide new insights, both theoretically and practically.

Following a discussion on S-D Logic and the existing literature on agency/client relationships three research questions (RQs) will be posed: RQ1 what service is provided between marketing agencies and their clients? RQ2 How is digital transformation affecting service

provision between clients and agencies? RQ3 How does the nature of service provision impact on the actors' perception of the relationship between agency and client? The research questions will be considered in the light of four stages of research: dyadic interviews of clients and their agencies; an agency survey; client interviews and a client survey. Implications for both theory and practice will then be discussed.

## **Literature**

### *Theoretical framework*

The body of work on Service-Dominant Logic was stimulated by Vargo and Lusch's (2004) original paper and has resulted in a review of some of the basic assumptions of marketing. Vargo and Lusch (2004) challenged the prevailing view that value is created in the exchange of a product or service. Rather, value is co-created *in use* through service-for-service exchange. Initially, S-D Logic focused on customer and supplier, as co-creators of value; however consideration of B2B situations has led to a wider view of value being seen as co-created between generic actors (Vargo and Lusch, 2011). From the beginning, Vargo and Lusch (2004) emphasised service as the fundamental unit of exchange. The provision of service means the process of using resources for the benefit of another entity (Vargo and Lusch, 2008). "The purpose of interaction, and thus relationship, is value co-creation through mutual service provision" (Vargo, 2009, p378). The centrality of service-for-service to SD-Logic has been maintained throughout the development of the discussions over a prolonged period and was reinforced as Axiom 1 (Service is the fundamental basis of exchange) in Vargo and Lusch's (2014) restatement of the core ideas.

Service exchange is closely related to resource integration. Service cannot take place without using resources for the benefits of others. In human action the most important resources are operant. These are the intangible resources, such as knowledge and skills (Vargo and Lusch,

2004; Arnould et al. 2006; King and Grace 2008; Layton 2008) that create value and in co-creation people integrate these operant resources with those of other people (Löbler, 2011). Vargo and Lusch (2014) recognise the central importance of this in their restatement of the principles of S-D Logic with Axiom 3: “All economic and social actors are resource integrators”. Value for a business customer is said to emerge from supplier–customer interactions that support a successful use of operant resources (Grönroos, 2011). The involvement of the actors may be at different levels (Löbler, 2013) and depends on the competences of the actors (Waseem, Biggemann and Garry, 2017).

The purpose of service provision is to create value and value is a perception that is relative and individual, as stated in Axiom 4 (Vargo and Lusch, 2014): “Value is always uniquely and phenomenologically determined by the beneficiary”. Value is a customer perception and is a function of human experience (Ramaswamy, 2011) and can be seen to be an evaluative judgement of individual actors (Gummerus, 2013). In view of the perspective that value is co-created between generic actors it will be perceived uniquely by the actors involved (Ballantyne et al., 2011; Ford, 2011). If value can be co-created, it should also be recognized that value can also be co-destroyed (Ple', and Chumpitaz Ca'ceres, 2010). Value co-destruction has emerged as an important way to conceptualize non-positive outcomes from actor-to-actor interactions (Prior, and Marcos-Cuevas, 2016). Deffective co-creation can occur when the actors fail to input resources of sufficient quality or quantity to facilitate value co-creation (Greer, 2015) or when role conflicts occur (Chowdhury, Gruber and Zolkiewski, 2016). Others have suggested that ‘value co-destruction’ may be too strong, as a blanket description for interaction that results in value reduction, but that, in many instances, ‘value diminution’ may be more appropriate (Vafeas, Hughes and Hilton, 2016). Value co-creation is therefore one of the fundamental ideas of S-D Logic (Vargo and Lusch, 2004) and

S-D Logic has created new perspectives on co-creation that can be usefully applied to co-creative contexts.

### *The client/agency context*

The working relationship between clients and marketing provides the co-creative context for this study. Clients co-create advertising, promotions, digital and other content through collaborating with creative, account management and other staff from agencies (Wageman and Gordon, 2005). In knowledge intensive business services, such as marketing agencies: “Customers may influence the value proposition by adopting the roles of co-diagnoser, co-designer, co-producer, and co-implementor” (Aarikka-Stenroos and Jaakkola, 2012, p 23). The importance of combining both client and agency resources in this process has long been acknowledged (Koslow et al. 2006). However, there is a gap in knowledge with regard to the level and type of service provision between clients and their agencies. While some clients are very keen to engage their agency in all aspects of their business, others want minimal involvement (Haytko, 2004). Also the nature of the contribution from the client to the agency creative process has been described as ambiguous, with a lack of clarity for clients on how and when they should be involved (Beard, 1996; Koslow, Sasser and Riordan, 2006; Zolkiewski, Burton and Stratoudaki. 2008). S-D Logic with its emphasis on co-creation of value (Vargo and Lusch, 2004; 2016) provides an opportunity to bring new perspectives to the agency/client context. In particular, Vargo and Lusch (2008, 2017) emphasise service-for-service exchange as a way of talking about value co-creation and hence the research questions outlined below all relate to service provision between clients and agencies.

The use of marketing agencies is highly significant in many forms of business communications. While the client may often be a marketing professional there are many instances where agencies deal with other business professionals. In particular, with the

emergence of digital communications, small businesses and a range of types of organisations have to deal with marketing agencies (Karjaluoto, Mustonen and Ulkuniemi, 2015; Keller, 2016).

There are some clues about clients' expectations of agency service provision and competencies. Clients are looking for creativity from their agencies (West, 1999; Hill and Johnson, 2003; West, Kover and Caruana, 2008). But creativity in advertising is a balancing act. Marketers say they want greater creativity, yet their agencies feel that these clients reject cutting-edge work and fail to adopt risky campaigns (Sasser, Koslow and Kilgour, 2013). In selecting agencies, experience of working on competitive brands has been found to be a significant factor (Henke 1995). In overseas markets, clients seem to expect an agency to provide local market knowledge and category experience (Turnbull and Wheeler, 2016). However, the nature of the service provided by each side has not been investigated in depth. Hence RQ1: What service is provided between marketing agencies and their clients?

A key point about the client/agency context is that in recent years, the emergence of websites, and digital commerce (Keller, 2009), alongside social media and blogging (Kietzmann et al. 2011; Valos et al. 2016) has fundamentally changed decision making in the marketing communications environment (Keller, 2009; Karjaluoto, Mustonen and Pauliina, 2015; Keller, 2016). In 2015, digital marketing was responsible for 41.3% of U.S. agency revenue (Johnson, 2016). The need for more integrated marketing communications has long been recognised (Nowak and Phelps, 1994) and with the growth of digital channels, coordination of multiple channels and methods of communication has become a strategic issue for organisations (Hughes, 2006; Holm, 2006). The agency/client eco-system has been impacted in a major way by the changing the nature of communications with customers (Hennig-Thurau, et al. 2010). This is true of both B2C and B2B markets, with the fragmentation of the



media landscape (Karjaluoto, Mustonen and Ulkuniemi, 2015). Hence RQ2: How is digital transformation affecting service provision between clients and agencies?

The extant research on marketing agencies and clients has historically focussed on the relationship between the two parties. There has been much research on how to improve the relationship between an agency and client (LaBahn and Kohli, 1997; Davies and Prince, 1999; Beverland et al. 2007); the stages of relationships building (Wackman and Salmon 1986; Halinen, 1997; Duhan and Sandvik, 2009); how clients need to manage the relationship to get good results (Koslow, Sasser, and Riordan, 2006) and how agencies can improve client loyalty (Michell and Sanders, 1995). There has also been research into interpersonal relationship building between individuals across agency and client (Ewing et al. 2001; Haytko, 2004; Vafeas, 2010). Therefore, taking into account this literature stream, RQ 3 addresses the question: How does the nature of service provision impact on the actors' perception of the relationship between agency and client?

In summary, the literature on agencies and clients has recognised that the contribution of both agency and client is important in creating the end result, but this has not been addressed specifically as an example of co-creation of value. In an extensive review of the agency/client literature, Keegan, Rowley and Tonge (2017) identify an agenda for future research which includes co-creation, as a promising new direction. Keegan, Rowley and Tonge (2017) specifically mention the work on S-D Logic, as significant to this agenda. This article responds to this call in the light of the knowledge gap discussed above.

### **Research methodology**

The research was exploratory, using primarily qualitative methods. This is appropriate for capturing in-depth data about a complex subject (Blaikie, 2000) and takes its validity from accessing knowledgeable interviewees (Rubin and Rubin, 1995), who have relevant insight

and understanding (Silverman and Marvasti, 2008). In addition, some quantitative survey data has also been included to demonstrate greater generalizability, within the context, on certain key questions. The study context is the relationship between clients and their marketing agencies. The agencies usually consist of the two core functions of creative services and client services (or account management). Account managers are boundary spanners (Walter, 1999). Clients of marketing agencies are generally marketing practitioners such as marketing directors, marketing managers and marketing executives. However, the client may sometimes be a non-marketing specialist, for example in small companies it might be the CEO.

The research for this article builds on dyadic qualitative research on agencies and clients; a survey of agencies; interviews with clients and a follow up survey with clients.

A major challenge in managerial research is in getting access to senior managers, who are prepared to be interviewed in-depth or to fill in a survey. A strength of this research was the ability of the authors' to get access to significant numbers of relevant managers. There were a total of 332 respondents across the 4 stages. In addition, the authors presented the results of each stage to practitioner audiences and also held frequent workshops with practitioners. The authors engaged with over 500 practitioners (in addition to the research respondents) in disseminating and discussing all the stages of the research findings. The advantage of this is that it has given the authors extensive feedback throughout the research and a range of perspectives in interpreting the research.

#### *Dyadic interviews*

Using a database of firms that purchase advertising and design services, 150 marketing directors and marketing managers were approached. The sample was limited to the south of the UK. Positive responses were received from firms with turnovers from £25m to £800m

that had maintained relationships with agencies over a range of periods from 18 months to 10 years. Once the client agreed to take part their agency was approached to form dyads of clients and agencies. Twenty five interviews were conducted in total with seven clients and eighteen agency executives. Each interview was conducted individually and the replies of the client and agency were not shared between each other. This was considered to be essential in order to get open and honest answers. The interviews were one-to-one and used separate semi-structured topic guides for client and agency interviewees. The interviews averaged 60 minutes in length and all interviews were conducted, recorded, transcribed, and analysed, by the researchers.

#### *Agency survey*

The findings from the previously published dyadic interviews (Vafeas and Hughes, 2016; Vafeas, Hughes and Hilton, 2016) were used to develop a questionnaire for the agency survey, conducted in July 2015. The questionnaire was drafted, pre-tested, and then refined. Questionnaires were handed out to delegates at agency workshops, led by the authors, in Bristol. There was a 70% response rate with 84 usable responses. The response format was a five-point Likert scale (strongly disagree to strongly agree).

#### *Client interviews*

The engagement with practitioners raised a lot of questions relating to how agencies could continue to add value in the contemporary market place, where budgets are under severe pressure and technology is driving rapid change in the way clients operate. In response, the authors decided that a further stage of depth interviews was required. This consisted of interviews with clients from across a range of organisations of different sizes, as illustrated in Tables 1 and 2.

## **Insert Tables 1 and 2**

A convenience sample was used with the main criteria of being able to obtain access to appropriate informants with first-hand experience of working with agencies and managing the relationship with agencies. As illustrated in Tables 1) and 2), the organisations included came from a wide range of sectors and were spread across different sizes from small to medium operations with less than 250 employees, through to global corporations.

Snowballing was used through networks and contacts to engage potential interviewees.

Interviews were conducted either face-to-face or over a telephone. Conducting a pre-booked telephone interview was the preferred option for some senior interviewees and also saved on travelling time. The interviews averaged 45 minutes and all interviews were recorded transcribed and analysed by the authors using NVIVO.

### *Client survey*

The findings from the interviews were used to develop a questionnaire for a quantitative stage of the client research, conducted in June 2017. For example, the client interviews raised issues about how far their agency valued the relationship with the client and these translated into scales in relation to the area of client care with statements such as: “My agency is attentive”, “I feel valued by my agency”, “My agency works hard to help me meet my goals”.

The questionnaire was drafted, pre-tested, and then refined. A link to the online questionnaire was emailed to a purchased database of 2147 senior marketing managers in the UK, across a range of sectors including financial services, hospitality, food and drink, and travel.

Respondents were asked to answer the questions in relation to their lead agency. From 1956 delivered e-mails 21 responses were received from managers to say that they were ineligible and would not complete the questionnaire because they did not use external agencies. From the remaining 1935, there were 256 responses representing a response rate of 13.2 percent. Of

these, 48 responses were incomplete. These were discarded, leaving 208 completed (a response rate of 10.6 percent).

## **Findings and discussion**

*What service is provided between marketing agencies and their clients?*

The findings on service exchange are mainly derived from the client interviews which concentrated on discussing the client viewpoint of the service they require and how they are provided. Clients have an overview of what service they need, how these are served by different agencies and what is provided in-house.

Table 3 lists the categories of service mentioned in the interviews and whether these are provided by the client (internal) or an agency (external). Illustrative quotes are provided from the interviews.

### **Insert Table 3**

The main aspects of service mentioned include the traditional creative and production service associated with advertising and promotion. They also include those related to new technology, such as the development of digital and social media content, building and managing websites and data analysis. What is particularly interesting is that many of the service aspects associated with new technology are featured in both columns, meaning they are mentioned as provided internally in some cases and externally in others. This leads on to consideration of the second research question.

*How is digital transformation affecting service provision between clients and agencies?*

Table 4 provides a summary of the analysis of whether service is likely to be input from agency or client. For many aspects of service the data showed that they were equally likely to

be internally or externally provided. The middle column illustrates the high crossover. Many of the aspects of service, in this middle area, relate to supporting aspects of digital marketing. While much digital marketing appears to have initially been provided externally there seems to be a trend to bring these aspects of service in-house.

#### **Insert Table 4**

The aspects of service in the left hand column, in Table 4, were exclusively reported to be provided internally by the interviewees. These relate to provision of a brief and management of the marketing plan and the agency. Those in the right hand column were mentioned as most likely to be provided by the agency and relate to more specialist creative and specialist functions. A recurring theme was that the core service wanted from agencies is that of creativity and that this is seen as something that is lacking from in-house studios.

The middle column illustrates the high crossover of service that may be either internally or externally provided. Many of the aspects of service in this middle area relate to supporting aspects of digital marketing, such as building websites, development of social media content and data analysis. The development of digital marketing has created a situation where clients and agencies are manoeuvring to find the best way to organise the provision of services around digital channels:

“Everybody is trying to figure out how to organise themselves in the new environment. You’ve got to experiment and optimise.....The problem we now have is the blurring of agency responsibility. Where does content start and stop, where does search start and stop, where does advertising start and stop and who is responsible for the creative? Boundaries of responsibility are more complex. Everyone is trying to figure out what the core capabilities need to be within their agency, where

can they add value, what's their unique offer and how far can they spread their footprint." Case 20

In this challenging situation of a changed environment it is interesting that the clients surveyed for this research give a reasonably positive rating for the service provided by their main agency, as illustrated in Table 5. Mean scores were over 5 out of 7 for service provision in relation to a number of questions.

#### **Insert Table 5**

In contrast, in our separate survey of agencies a number of areas of dissatisfaction with the service provided by the client, as displayed in Table 6. For example, the high mean score in the response to the statement "We often have to begin projects with insufficient information from the client" of 3.94 out of 5 and the relatively low score on "Clients are good at writing the brief".

#### **Insert Table 6**

In summary, the service-for-service provision between agencies and clients varies significantly, as to what is provided externally by an agency and what is provided internally by the client. There are some aspects of service, such as creativity, that are more likely to be externally provided and others that are more likely to be internal, but many services, particularly in the digital arena, that are highly variable. In this situation, clients appear to be more satisfied with agency service provision than agencies are with the service from their clients. This leads to consideration of RQ3 concerning how the changing nature of service provision impacts on relationships.

*How does the nature of service provision impact on the actors' perception of the relationship between agency and client?*

The client interviews covered the question of how they viewed the relationship with their agencies and the relative level of external resource used for their marketing, as summarised in Table 7.

### **Insert Table 7**

A significant difference between clients is whether they see the relationship as a partnership or as more transactional supplier/buyer. Those seeking a partnership expect the agency to provide added value:

“If you choose the right agency they bring you more you know sometimes a creative spark that’s often what we’re looking for.” Stage 3 Case 8

This involves the agency investing time and energy in understanding the client’s business:

“They need to understand how we work internally and what we are trying to achieve. We’re trying to generate traffic, enquiries, and prospects.” Stage 3 Case 13

Problems may occur when expectations are out of line with the relationship approach, as illustrated in this quote from case 18 where the client has a transactional view of using agencies, but still expects the agency to invest extra time into the client:

“Also, you seem to get charged for everything. There’s a big disconnect between my expectations and the final bill.” Case 18

A high level of reliance on agency resources seems to be associated with clients being more likely to view the relationship as a partnership, as in Cases 6,12,20,21. Conversely a low level of reliance on agency resources is associated with a more transactional view of the relationship, as in Cases 1,3,5,17,18.



The survey of clients suggests a broadly positive response in relation to their view of their relationship with their main agency (Table 8). However, the relatively low score on the answer to the question “I would feel guilty were I to switch agency” stands out, suggesting that most clients would not think twice about moving if the agency is not performing to expectations.

### **Insert Table 8**

Table 9 covers agency views on their relationship with their clients. It suggests a measure of agreement with the statement “Clients treat us as a partner rather than a supplier”, but also some agreement that complacency can set in during long term relationships.

### **Insert Table 9**

## **Theoretical and practical implications**

Two themes emerge strongly from the research. The first theme relates to the high level of crossover of service. There are no hard and fast rules on what is provided by the agency and what is provided in-house. This relates particularly to digital aspects of marketing and suggests that the level of crossover is higher than historically, when a larger proportion of budget was spent on traditional media in which the agency took the main role. With digital media becoming such an important aspect of communicating with customers, this is particularly significant in considering the second theme which is the nature of the relationship between agency and client and whether it is seen as a partnership or transactional.

As discussed earlier, the literature on agencies and clients has focussed on taking a relationship approach to analysing the way they work together (LaBahn and Kohli, 1997; Davies and Prince, 1999; Beverland et al. 2007; Ewing et al. 2001; Haytko, 2004; Halinen, 1997; Duhan and Sandvik, 2009). S-D Logic and co-creation, through service-for-service

provision, focusses on what clients and agencies contribute to co-creating the outputs from the relationship; an area of ambiguity in the extant literature (Beard, 1996; Haytko 2004; Hill and Johnson 2004; Zolkiewski, Burton and Stratoudaki. 2008; Turnbull and Wheeler, 2017). The level and type of service required from the agency will impact on the nature of the relationship. An agency supplying a one-off service, such as building a website is more likely to have a transactional relationship with the client, whereas an agency involved in interacting with the client's customers on an ongoing basis is likely to have a far closer relationship with the client.

S-D Logic connects service provision closely to resources. Service cannot take place without using resources for the benefits of others (Vargo and Lusch, 2004). The importance of the operant resources (knowledge and skills) and the ways that they are integrated by the actors, in the course of co-creation, is illustrated. Successful co-creation requires appropriate resources to be supplied by the actors. The survey of agencies suggests that the brief often falls short of what is needed by the agency and that agencies will tend to put their own resources into developing and supplementing the brief in order to allow them to move on to the next stage. This raises questions about the role of motivation and also about the role of power structures in co-creation. Clients are usually in a position of power, in that they decide whether to employ a particular agency and the agency is strongly motivated to ensure that co-creation is effective. However, in many of the cases of the small to medium companies in the client interviews, the clients complained about the lack of commitment and low level of collaboration from their agencies. This suggests that the value of the business opportunity offered by smaller clients was defining the access to resources offered by their agencies (Maglio and Spohrer, 2013). Further research into motivation and power in other empirical contexts would add to our knowledge about these important aspects of co-creation.

The resources available to clients will impact on the services that they require from agencies. Table 5 illustrates a list of agency services showing that most of these can be provided by the client if they have sufficient resources. Many of these services are new, relating to digital communications. The emergence of digital has therefore created a large area of crossover, where clients may choose to provide resources in-house or may choose for a high level of external provision or somewhere in between these two extremes. Given that the digital revolution is fundamentally changing the marketing communications environment (Keller, 2009; Kietzmann et al. 2011; Valos et al. 2016) a service-for-service perspective is instructive in considering how changes in the external environment are impacting on what is done by agencies and what is done by clients. Further research into the resources and services supplied by clients themselves and those supplied by agencies would extend understanding of how technological change is impacting on the way agencies and clients work together, explaining aspects that are not covered by taking purely a relationship approach.

The research shows some interesting aspects of the relationship between resource integration and service-for-service provision. The services required by clients depend on the resources that they possess. Many of the services supplied by agencies are undertaken by clients in-house, whether through developing their own staff or through employing new staff with relevant capabilities. Therefore, it is the absence of an operant resource that leads to the need for external service provision and in turn requires co-creation. It is crucial that agencies recognise the operant resource needs of their clients and the scope and types of operant resources that their agency can offer to win and retain clients. This often means integrating clients' external and internal data and in turn, involves the need for agencies to collaborate more closely with a number of internal departments in client organisations and to connect with client internal systems. This finding is in line with Skjølsvik's (2017) research on professional services. Skjølsvik concludes that service providers need to reconsider their

extensive focus on relationships and rather consider the degree to which their relationships give access to knowledge about clients and their needs.

S-D Logic stresses that value is phenomenological and this is useful in understanding the different perceptions of value amongst the agency and client actors (Tables 5, 6, 8 and 9). In particular, digital communications brings in specialist actors (with digital skills) from different backgrounds to those with traditional creative and business schools. Further research is required to understand the way that changes in the technological environment are impacting on perceptions of value within the client/agency eco-system and the actors within it. The research in this paper illustrates how actors with different professional backgrounds come together to create value. Indeed, it is the very existence of actors from a creative background combining with those with a business background that creates the value of the eco-system, in bringing together their very different resources. Further research is needed to explore the relationship between the inclusion of actors with different institutional logics and affiliations and the relationship with effective co-creation. This would be particularly interesting in relation to innovation and how to combine actors from different backgrounds effectively.

## **Conclusion**

The development of midrange theory development involves bridging between meta-theory and application to context (Vargo and Lusch, 2017). The contribution to midrange theory in this article comes from applying S-D Logic theory to the context of application of agencies and clients, helping to refine and add to the credibility of the theory. This exploration of the co-creation of value between clients and their agencies demonstrates the applicability of a framework from S-D Logic in a context that is an important part of marketing management. Good theory should inform practice and there is much for both clients and agencies to learn

from thinking about service-for-service provision between the two. The key to success for agencies is to recognise client resource shortfalls and match client needs with agency resources.

The ability to align an agency's service offering with the needs of their clients is a very practical issue for agency executives within a rapidly changing business environment. Indeed, one of the motivating factors for this research was that in workshops, previously run with agencies, the authors discovered that agency executives were particularly interested in finding out how clients perceived the agency/client relationship to be changing and to understand what clients want in the future. For example, most businesses and organisations now have web presence and social media, but would not necessarily have invested in marketing communications in the past. New agencies have emerged catering specifically for various aspects of digital media, but also clients are recognising that they have the option to provide resources in-house.

The client respondents all confirmed that technology has changed marketing communications significantly and in turn, this has had implications for working with agencies. In the short term, technological change, leading to media fragmentation, has been disruptive to the traditional client/agency model. In particular, there has been a growth of specialist agencies in the digital area. However, the evidence from the research interviews suggests that, as digital matures; more companies are supporting this with in-house resources. The reason for this is that more and more employees are digitally savvy. More expertise exists in-house and technology has become more user-friendly. Also for some clients the need to respond quickly to customers digitally means that this needs to be in-house.

In the new world of marketing communications, where digital marketing plays a significant role, it is crucial that agencies recognise the resource needs of their clients and the scope and

types of resources that their agency can offer to win and retain clients. High cross-over between what is done internally by the client and externally by agencies (see Table 5) means agencies need to understand what resources are better provided by the client and where the agency can add value by providing resources. This will vary client by client. Agencies need to be aware of what aspects the client will value. There are particular opportunities relating to the resources that agencies offer that are less likely to be available in-house (creative skills; ability to bring in cross sector expertise; a new viewpoint etc.).

It comes back to agencies planning their own marketing strategically in setting their priorities and using their own resources most effectively. Specialist agencies that have emerged in recent years to serve the digital space may be particularly vulnerable to clients taking more aspects of digital marketing in-house. These agencies may well benefit from reviewing what types of projects and clients they want to target in order to be in a position to add value. This means being very clear about the agency's proposition and how it fits with the needs of current clients. It also means targeting new clients that have the potential to benefit most from the agency's proposition and demonstrating to existing and potential target clients how the agency can add value. All this is basic B2B marketing. However, on the basis of the authors' experience in running workshops with hundreds of agency executives this is often not practised. Agencies work in a fast moving environment and often the emphasis is on reacting to client needs, rather than being proactive in planning their own business direction.

Once in-place the agency needs to recognise that the client's resource/service requirements and hence the value offered by the agency will not be static. Attention to understanding the context and closer interaction and communication will help the agency to flexibly adapt its offer. Clients play an equally important role in getting the best fit of resources/services with their agencies. A client needs to understand where the agency can add value and where it is better to use an in-house resource. Therefore, an important client resource is the knowledge

and experience to know how to unlock and access the appropriate resources offered by agencies. If the client has an imprecise understanding of their resource needs they are unlikely to benefit fully from the potential value offered by agencies.

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## **Implications for Business Marketing Practice**

### ***Introduction***

Organisations often develop their advertising, promotions, digital and other communications through collaborating with marketing agencies. This is an important part of marketing communications management and is not confined to large organisations. With the emergence of digital communications, small businesses and a range of types of organisations often have to deal with marketing agencies. This research looks at what services are typically provided by the agency and what are provided in-house. It also considers the relationship between the services provided externally and the relationship between client and agency.

### ***The findings***

Table 3 shows the main areas of service, while Table 4 shows that most of these can be provided by the client if they have sufficient resources. The emergence of digital communications has created a large area of crossover, where clients may choose to provide resources in-house or may choose for a high level of external provision or somewhere in between these two extremes. The emergence of digital has implications for the way clients work with agencies with a move away from the historical position when a larger proportion of budget was spent on traditional media in which the agency took the main role. This is

particularly significant in considering the nature of the relationship between agency and client and whether it is seen as a partnership or transactional. The level and type of service required from the agency will impact on the nature of the relationship. An agency supplying a one-off service, such as building a website is more likely to have a transactional relationship with the client, whereas an agency involved in interacting with the client's customers on an ongoing basis is likely to have a far closer relationship with the client.

### ***Implications for clients***

The client respondents in the research all confirmed that technology has changed marketing communications significantly and in turn, this has had implications for working with agencies. In the short term, technological change, leading to media fragmentation, has been disruptive to the traditional client/agency model. In particular, there has been a growth of specialist agencies in the digital area. However, the evidence from the research interviews suggests that, as digital matures; more companies are supporting this with in-house resources. The reason for this is that more and more employees are digitally savvy. More expertise exists in-house and technology has become more user-friendly. Also for some clients the need to respond quickly to customers digitally means that support for this is better situated in-house. In this rapidly changing environment an important question for clients is to consider what resources and capabilities they want to have in-house and what they want to bring in from agencies. This also requires clients to consider what kind of relationship they want with their agencies. Agency creativity is highly valued by clients and is one of the main reasons for seeking outside support. Where an agency is providing a high level of marketing services to the client creativity can be paid for within the overall budget. The agency is motivated to provide their creative resources as part of a mutually beneficial partnership. However, in many of the cases of the small to medium companies in the client interviews, the clients complained about the lack of commitment and low level of collaboration from their agencies.

This suggests that the business opportunity offered by smaller clients was defining the access to resources offered by their agencies. Clients need to consider the best mix of service provision and the nature of the overall relationship they want with their agencies. A client needs to understand where the agency can add value and where it is better to use an in-house resource. Therefore, an important client resource is the knowledge and experience to know how to unlock and access the appropriate resources offered by agencies. If the client has an imprecise understanding of their resource needs they are unlikely to benefit fully from the potential value offered by agencies.

### ***Implication for agencies***

The current environment is very challenging for marketing agencies. Marketing budgets are scrutinised very carefully and media fragmentation has meant that a proportion of the expenditure on mainstream media has been diverted to new areas. At the same time, the emergence of new media has created new opportunities. For example, most businesses and organisations now have web presence and social media, but would not necessarily have invested in marketing communications in the past and new agencies have emerged catering specifically for various aspects of digital media. One of the motivating factors for this research was that in workshops, previously run with agencies, the authors discovered that agency executives were particularly interested in finding out how clients perceived the agency/client relationship to be changing and to understand what clients want in the future. The research reviews aspects of the service supplied by marketing agencies to their clients and highlights many areas where the service may be undertaken by clients in-house, whether through developing their own staff or through employing new staff with relevant capabilities. Clients will only seek external service provision where they do not have their own resources or believe that the service could be provided more effectively by an external agency. It is therefore crucial that agencies recognise the needs of their clients and the scope and types of

resources that their agency can offer to win and retain clients. This will vary client by client. Agencies need to be aware of what aspects the client will value. There are particular opportunities relating to the resources that agencies offer that are less likely to be available in-house (creative skills; ability to bring in cross sector expertise; a new viewpoint etc.). Historically, it has been recognized that agencies need to develop strong relationships with their clients to build trust and loyalty. This is undoubtedly still true, but it is not necessarily enough on its own. Agencies need to build a superior understanding of their clients' needs in order to serve their needs as they emerge. For example, this often means integrating clients' external and internal data and involves the need for agencies to collaborate more closely with a number of their clients' internal departments and connecting with their internal systems. It comes back to agencies planning their own marketing strategically in setting their priorities and using their own resources most effectively. Specialist agencies that have emerged in recent years to serve the digital space may be particularly vulnerable to clients taking more aspects of digital marketing in-house. These agencies may well benefit from reviewing what types of projects and clients they want to target in order to be in a position to add value. This means being very clear about the agency's proposition and how it fits with the needs of current clients. It also means targeting new clients that have the potential to benefit most from the agency's proposition and demonstrating to existing and potential target clients how the agency can add value. All this is basic B2B marketing. However, on the basis of the authors' experience in running workshops with hundreds of agency executives this is often not practised. Agencies work in a fast moving environment and often the emphasis is on reacting to client needs, rather than being proactive in planning their own business direction. Once in-place the agency needs to recognise that the client's resource/service requirements and hence the value offered by the agency will not be static. Attention to understanding the context and closer interaction and communication will help the agency to flexibly adapt its



offer.

## Tables

**Table 1 Clients interviewed**

Client	Size
Case 1:Legal services	Small/medium
Case 2:TELCO	Very large
Case 3:Media company	Medium
Case 4:Property company	Medium
Case 5:Legal services	Small/medium
Case 6:Insurance and investment services	Very large
Case 7:Not for profit services	Medium
Case 8:Digital technology	Very large
Case 9:Legal services	Small/Medium
Case 10:University	Medium
Case 11:Global professional services	Very large
Case 12:Utility company	Medium
Case 13:House builder	Large
Case 14:B2B testing services	Large
Case 15:Financial services	Large
Case 16:Banking and home loans	Large
Case 17:Utility	Medium
Case 18:Legal services	Medium
Case 19:Accountancy services	Small/Medium
Case 20:Utility	Large
Case 21: Accountancy services	Large

**Table 2 Size of organisations of client interviewees**

Company size	Criteria	Number of cases
Small/Medium	Up to 250 employees	4
Medium	250 plus employees, regional operation	7
Large	250 plus employees, national operation	6
Very large	250 plus employees, global operation	4

**Table 3 Internal (in-house) and external (agency) service provision**

Service	Internal (example statements)	External (example statements)
Managing customer contact	<p>“Our customers use social media to ask questions. An agency would have to ask us what to respond, so given the management time involved in that, it makes sense to have dedicated resource in house. It’s more efficient. It’s all about immediacy.” Case 13</p>	<p>“We work with an agency ..... which is an in-house model so they’re really like an extension of our team and they have people on site, they have some here and in most of our big sites, where we have our business operations there is an agency team there and they are working to do real time live updating of content within our website they’d be working on creating email campaigns, it’s a very responsive direct marketing activity.” Case 6</p>
Creativity	<p>“The problem in house is that you end up with a stagnant creative pool..... But no, it can’t be as creative as an external agency. Agile yes, totally. Our in-house studio can respond very quickly but that’s because we tend to be very prescriptive as a client, a bad client...death by a thousand cuts for a lot of creative work..... You need distance in my view to get creativity.” Case 16</p>	<p>“So I think creative, you know certain types of creative are best, still best with agencies because they have really good ideas and better ideas than clients have.” Case 7</p>

<p>Development of digital and social media content</p>	<p>“We have a digital team that looks after social media. Obviously there’s an overlap there with PR so we sit down and talk. It is a lot easier. We’re nimble and quick. I can push something through instantly if I need to. It’s much easier to do when it’s in house.” Case 19</p> <p>“It wasn’t the same as an internal voice putting out those messages. So we brought social media in-house for that reason and it made a huge difference to the success of our social media.” Case 7</p>	<p>“We’re very focussed on using social media to reach out to customers, and um our agency, sometimes we do it in-house and sometimes we do it with them.” Case 2</p> <p>“On PPC we have six accounts running at any one time so it would be an enormous task to bring that in house.” Case 13</p>
<p>Building and managing websites</p>	<p>“So we have a team of people who are expert in building our programmes and they go out and generate demands through you know digital channels.” Case 8</p>	<p>“When the new website was done, it was before I came, they (the agency) built it on their own content management system which is very problematic.” Case 9</p>
<p>Data analysis</p>	<p>“I suppose it shows how much we bring in-house actually, so before I started, the agency that was used did that kind of analysis, not the creative agency but the marketing agency, but now that’s done by us in-house.” Case 1</p> <p>“That’s the beauty of marketing information you can have 100’s of campaigns running at the same time, you can have automated follow up campaigns running so with marketing, we had to change the way we worked, we brought marketing automation in.” Case 2</p>	<p>“There are some data sources that are collected internally and some data sources that an agency might collect in and it’s about making sense of all that data.” Case 7</p>
<p>Media buying</p>	<p>“In the past we’ve outsourced agencies, but we’ve now pulled media buying, marketing automation, platform management, data management in-house.” Case 8</p>	<p>“You know I moved my media buying from in-house to an agency because it was going to save me hundreds of thousands of pounds a year you know because the economies of scale are greater through an agency and they have the latest technology for measurements, for you know for buying, for planning.” Case 7</p>
<p>Copywriting, design and</p>	<p>“So we’ve got designers, in-house people who do marketing work.... so</p>	<p>“We have an external design capability that to be honest just</p>

production	<p>we've got design team in-house and on occasion we do brochures in-house." Case 4</p> <p>"We used to have an in-house designer. There are pros and cons to that. On the plus side, it is convenient having someone sat in the building and who fully understands your business." Case 14</p>	<p>works within templates, but they do it quite effectively and they do it much quicker than us." Case 5</p> <p>"But if anything needs just that extra bit of skill like re-designing a leaflet, I would then send that to (name of agency) to do if it was really important work." Case 11</p>
Provision of a brief	<p>"So I'm trying to get them (<i>the client direct reports</i>) to learn how to write briefs and things like that, but they're not experienced at that yet, so I think they've got a long way to go. So therefore, I'll have a look at a brief and then I'll kind of add lots more to it." Case 12</p> <p>"What do you expect from agencies? I expect them to listen hard and to work to my brief, not their own." Case 15</p>	
Development of marketing strategy	<p>"They've (<i>agencies</i>) got to have the right skills to be able to deliver against the brief but they're not setting that strategy they need to be instructed very clearly on the strategy." Case 6</p>	<p>"What an agency planner offers is a different lens. They're not embedded in the organization and not shackled; it's a different type of thinking. They can challenge ideas or amplify them. An external perspective is important." Case 16</p>
Branding development		<p>"And so we do still need to use agencies on occasion and we will use them for a number of different things, we'll use them for brand work. We've just refreshed our visual identity so we've been working with a brand agency for the last twelve months to do that." Case 11</p> <p>"However, when it comes to creating new ideas, while I have a member of the team who is very creative, we wouldn't be able to see the wood for the trees because we can't separate ourselves from the business..... So when it comes to a brand refresh, I would always go outside. We couldn't come up with the same level</p>

		of creativity.” Case 19
Management of the marketing plan	“So in my role I have responsibility for the brand, so our group brand activity, our group marketing communications, digital activity.” Case 6	
Management of agencies	“We hold them to account, we manage the relationship. We have formal reviews with hard and soft metrics. These are twice a year.” Case 20	
Management of Public Relations	<p>“I think we have to appreciate that actually being able to offer comments and guidance from behind the scenes often, and sometimes not, well as ever with PR not necessarily being quoted but being the journalist favourite source of info will pay dividends when there’s something critical to be said.” Case 5</p> <p>“We used to work with a PR agency on a retained basis but we managed to pull away from that. It was very expensive and so we built up our own PR team in house, but we also still work with external agencies.” Case 17</p>	“The other PR agency that we relatively recently engaged but we’ve had them running now on two projects you know they’re actually exemplary I mean they are very proactive, not irritating, intelligent and not putting a junior person on the work.” Case 5
Market research	“We have a centralised marketing and customer insights group, really the guys who kind of look after data, manage the data, do research and also provide us with reporting and insights.” Case 8	“I’ve tended to use research agencies as a means of evaluating the potential creative performance before it goes live.” Case 7

**Table 4 Internal/external service continuum**

Service most likely to be internal	Service most likely to be either internal or external	Service most likely to be external
Provision of a brief	Managing customer contact	Creativity
Management of the marketing plan	Development of digital and social media content	Branding development
Management of agencies	Building and managing websites	
	Data analysis	
	Media buying	
	Copywriting, design and production	
	Development of marketing strategy	
	Management of Public Relations	
	Market research	

**Table 5 Clients' perceptions of agency service provision**

Question	Mean Score on 7 point scale (1= Strongly disagree, 7= Strongly agree)	Std. Deviation
My agency understands the market in which my firm operates	5.93	1.019
My agency understands my firm's objectives	5.79	1.105
My agency's creative ideas are novel	5.02	1.283
My agency's creative work is relevant to my market	5.50	1.004
My agency demonstrates that I benefit from its experience in other markets	5.06	1.283
My agency's work delivers value for money	5.40	1.284
My agency's billing is fair	5.38	1.308

**Table 6 Agencies’ perceptions of client service provision**

Question	Mean Score on 5 point scale (1= Strongly disagree, 5= Strongly agree)	Std. Deviation
Clients are good at writing the brief	2.31	.711
We often have to begin projects with insufficient information from the client	3.94	.827
Clients give us scope to push creative boundaries	3.33	.734
We are not given sufficient time to do a good job	3.48	.885
Clients force us to develop creative work we believe is wrong	2.68	.763

**Table 7 Clients’ perceptions of the relationship with their agencies**

Client	Client’s perception of the relationship with their agencies	Relative level of external resource
Case 1:Legal services	Sees agency as a good supplier, but would like to develop a closer relationship	Low-medium
Case 2:TELCO	Highly collaborative partnership with agencies	Medium
Case 3:Media company	Supplier relationship. Useful creative ideas, but lack of affinity with their brand	Low and irregular
Case 4:Property company	Sees agencies as suppliers using specialist agencies for specific jobs.	Medium, but ad-hoc
Case 5:Legal services	Low level of engagement from digital agencies, closer with PR agency.	Low-medium
Case 6:Insurance and investment services	Stresses importance of partnership model. Particularly close with lead agencies. But also encourages close partnerships at devolved level with many small specialist agencies.	High

Case 7:Not for profit services	Partnership working with emphasis on getting optimum mix between internal and external resources to achieve best value for money.	Medium
Case 8:Digital technology	Values working closely with agencies on strategic issues, but favours direct employment of internal resources for day-to-day work.	Medium
Case 9:Legal services	Client dependent on agency resources, but not satisfied with level of engagement	Medium
Case 10:University	Recognises dependence on the main advertising agency, but more ad hoc relationship with other agencies. Recognises need for more integration between agencies.	Medium
Case 11:Global professional services	Highly valued partnership with main agencies and more tactical use of specialist agencies	Medium
Case 12:Utility company	Very close partnership and reliance on main agency.	High
Case 13:House builder	Client recognises dependency on agency, but agency not providing value over and above day-to-day delivery	Medium
Case 14:B2B testing services	Partnership model, but some concerns about the proactivity of the main agency	Medium
Case 15:Financial services	Expectation of partnership with agency building their contextual knowledge and increasing their contribution over time.	Medium
Case 16:Banking and home loans	Partnership with main agencies. Currently reviewing external versus internal allocation of resources.	Medium
Case 17:Utility	Value mainly ad hoc, looking for fresh ideas from agencies.	Low-medium
Case 18:Legal services	Ad hoc use of agencies sees relationships as being mainly transactional.	Low
Case 19:Accountancy services	Recognises value of building partnerships, but concerns with quality of account management	Medium
Case 20:Utility	Partnerships with main agencies.	High
Case 21: Accountancy services	High reliance on PR agency	High



**Table 8 Client views of relationship with their main agency**

Question	Mean Score on 7 point scale (1= Strongly disagree, 7= Strongly agree)	Std. Deviation
My agency is attentive	5.62	1.224
I feel valued by my agency	5.67	1.242
My agency works hard to help me meet my goals	5.48	1.219
I feel emotionally attached to my agency	4.32	1.685
I would be very happy to continue the relationship for the long term	5.77	1.134
I would recommend my agency to a colleague	5.60	1.175
I would feel guilty were I to switch agency	3.30	1.697
It would be disruptive to switch	5.08	1.659

**Table 9 Agency views of relationship with clients**

Question	Mean Score on 5 point scale (1= Strongly disagree, 5= Strongly agree)	Std. Deviation
Clients treat us as a partner rather than a supplier	3.07	.788
Complacency is inevitable with clients we've worked with for several years	2.98	.931
Working with a client for many years leads to a lack of creative novelty	2.68	.853
We rotate staff from one account to another to maintain motivation and interest	2.77	.928