PITCHING IN DECLINE: LONGER PAYMENT TERMS, POORLY RUN PROCESSES, MANAGEMENT OVERREACH & TERRIBLE COMMS IS CREATING A 'FALSE ECONOMY'


Arvind Hickman
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TrinityP3's second State of the Pitch report makes for grim reading as clients and agencies are being squeezed on both sides.

Companies looking to cut costs and stretch budgets are pitching to get more "bang for the buck", but this is leading to poorly run pitch processes, principal media arbitrage and agencies struggling to make ends meet. There are good pitches and well-run processes, but the report finds these are in gradual decline, partly due to the tough economic environment.

ADVERTISING


The **State of the Pitch** report surveyed agencies involved in 70 creative and media pitches out of the estimated 300 pitches that occur in Australia each year. This year's report has a heavier skew towards creative pitches than last year, and B&T has report has a heavier skew towards creative pitches than last year, and B&T has adjusted its analysis to reflect this.

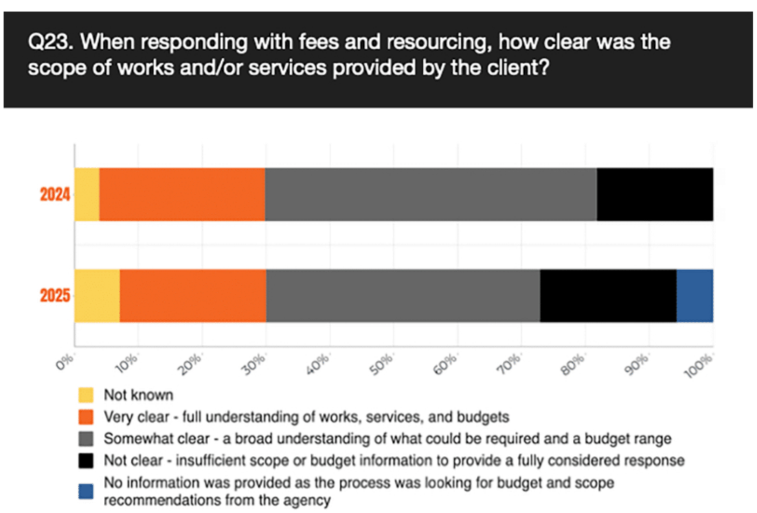
It covers 24 categories of advertisers with the majority (76 per cent) national accounts and agency fees ranging from $50,000 to $10 million.

There are a few key findings. Firstly, the quality of the pitch process has dropped from a score of 3.13 to 2.99 in the space of a year. That might sound negligible but in reality it reflects the fact that far more pitches were being marked between 1-3 than in the past year.

Pitch response times are shortening but the process is dragging on for longer, leaving agencies more squeezed throughout the process. Payment terms are stretching leaving smaller agencies out of pocket, while communication and feedback continues to be a concern.

Another key trend is the rise of 'local-global' pitches, where the scope is local but regional or global managers are influencing the outcome, often entering the process at a late stage. This creates a disconnect between what local marketer may want from a pitch process and what outcomes are delivered.

There has also been a notable perception that procurement professionals and marketers involved in the process have less category-specific experience. This could be down to the fact that marketing teams at many businesses are being cut and senior marketers have more pressing business issues to worry about than which agencies support them.



'A sense of desperation'

TrinityP3 founder and global CEO Darren Woolley told B&T there is nothing to celebrate in this year's report.

"Last year, I personally had more agencies contacting me about new business opportunities than ever before with a sense of desperation," he said.

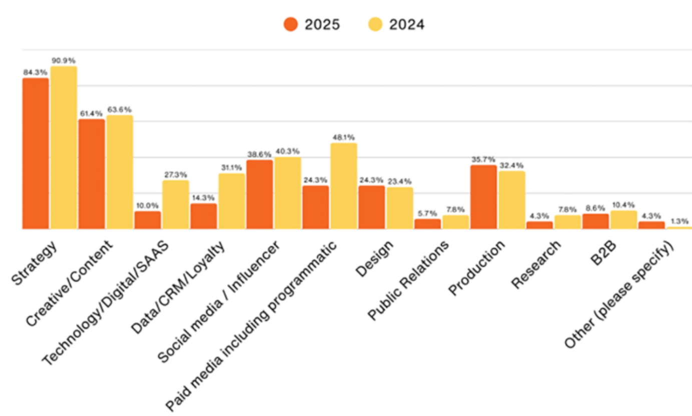
"They're getting their existing clients say 'we're cutting budgets from last year', and that's just going to get worse with the increased uncertainty that we're seeing in the global economy, let alone the local economy.

"The whole industry is under pressure. It's no wonder that we see the holdcos on the media side playing to principle based trading as a way of supporting their revenue on profits. But the indies don't all have that ability.

"There was a pitch recently where the senior management got involved late in the process and while the marketers were looking for a medium sized indie agency, the senior management kept talking about, 'why aren't we going for the big end of town', meaning the big network agency. That's causing some disruption to that process, because often they'll have a different agenda to the marketers.

"It causes a couple of problems. The first is there is usually a delay while they review where the pitch has gotten to. And then there can often be a change of priorities, which can then undo much of the work that's done to date. It also feels unfair to the existing agencies who have been participating up to that point.

"To fix this, management needs to be involved from the get go, not jumping in halfway."



More projects, less profit

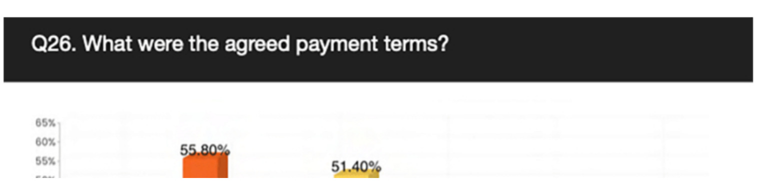
Unsurprisingly–given the economic downturn–there has been a rise in the pitches being called for cost reasons. The report found that the majority of pitches offered a first year fee of under $1 million with 72 per cent of national pitches in the $50,000 to $1 million range. Just under half of local and state based pitches offered fees between $50,000 and $250,000.

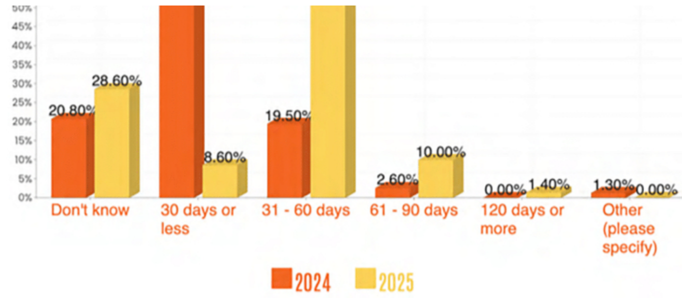
When you strip out the average cost to pitch at between $40,000 and $150,000, with higher level pitches ranging up to $250,000, that almost wipes out agency profit in the first year.

There has been a notable rise in project fees (up from 30.3 per cent to 35.7 per cent) and reduction of retainer based fees (down from 17.6 per cent to 20 per cent).

This may partly be due to the fact there were fewer media agencies surveyed compared with the report last year, but it also throws light on anecdotal evidence in the market that there has been a rise in projects.

Short-term thinking and stretched budgets are common during downturns, so too is another alarming development – longer payment terms.
In the space of a year, payment terms almost doubled for the majority of briefs from 30 days or less (55.8 per cent a year ago) to 31-60 days (51.4 per cent in the past year).





Payment-term pain

Such a drastic shift harms smaller agencies. B&T spoke to three agencies, under the condition of anonymity, who explained how this hurts their business models.

"More and more, procurement teams–such as Ariba, Coupa, Amazon Payee Central–rather than marketers are running the show. They're outsourced and trained to squeeze costs, stretch payment terms and treat agency services like commodities. Creativity and relationships are secondary to savings on the spreadsheet. Not happy," a CFO of a mid-sized independent agency said.

"Big corporates are sitting on huge cash reserves and using us as their unofficial banks. Pushing payment terms from 30 to 90-plus days frees up working capital and their balance sheet looks great, but we sweat it out trying to make payroll."

Another agency boss also called out payment terms as the silent killer of agencies.

"One of the biggest shifts in agency pitching isn't just the competition—it's the increasingly unreasonable payment terms," she said. "Over the past year, we've seen clients double payment windows, forcing agencies to shoulder financial strain while still delivering exceptional work. It's unsustainable.

"Agencies need to push back, set clearer boundaries, and demand fairer terms. Great work comes from strong partnerships, not one-sided deals that put agencies at risk."

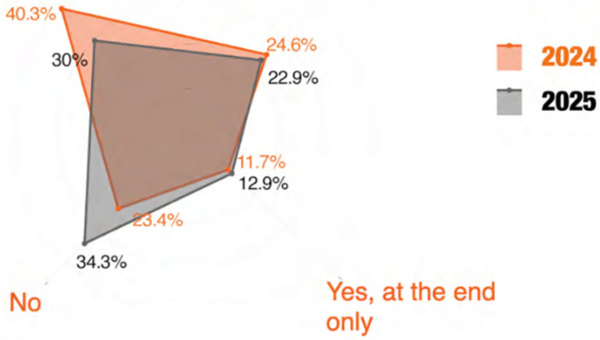
A creative agency boss told B&T: "Unlike the CMFEU, creative services don't have much collective bargaining or advocacy. So, when one big client starts pushing terms, others follow suit because there are no real consequences. It's short-term thinking on the clients' part. Creativity is not a commodity. You can't demand strategic thinking, creative excellence, and senior talent while treating agencies like a bank."

TrinityP3's Woolley said that the buy side of creative and media services are looking for ways to extend 'value', by putting a squeeze on agencies and that this was a "false economy" because it often leads to less experienced account teams and more opaque media buying practices.

"Long payment terms punish independent agencies, because they often don't have the scale to be able to absorb those, or the ability to play with things like foreign exchange accounts or access credit at a competitive rate," he added.

"It's not being driven just by procurement. I think we have to start acknowledging that often marketers are feeling the pinch as well. They've got more to do than ever before, but often not a similar increase in budget, and so marketers themselves are looking for ways of extending their budgets."

Q19. Was open and constructive feedback provided by the client as part of the pitch process?



Relationships under strain

On the point about marketers, the State of the Pitch report found that less experienced marketers are now running pitches and that the process is being hindered by a lack of experience.

Pitches are increasingly being called to review relationships with incumbents, and slash costs, which does not bode well for an effective client-agency partnership.

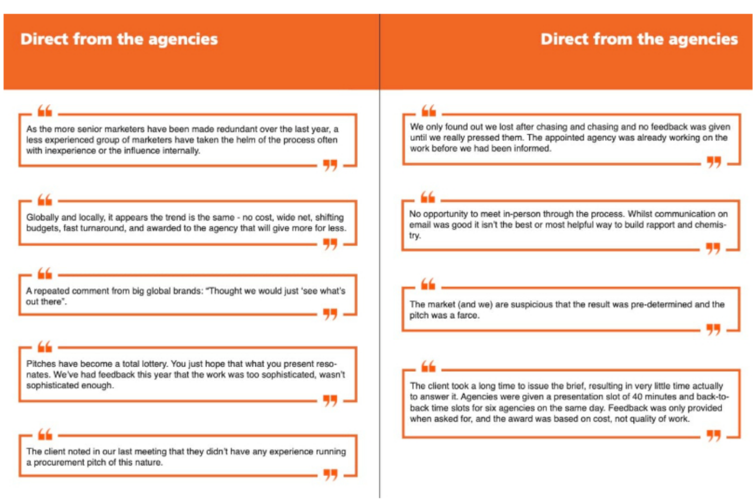
"What we're seeing here is senior marketers are being more and more involved in bigger responsibilities inside the organisation, meaning that a lot of these pitches are falling to middle management within the marketing team. Often they're very focused on getting a result, rather than necessarily nurturing the existing relationships.

"We've seen for a number of years clients using a pitch as a way of reviewing an incumbent, which is not ideal. The best way of reviewing an incumbent is not taking them to market, because that totally undermines loyalty. So this is just an ongoing trend that is making the whole thing more transactional.

"That's why we're seeing clients change agencies every two to three years, rather than the long term, highly productive relationships of the past."
Woolley offers marketers and agencies two bits of advice to try and improve the situation.

He urges marketers to be far more strategic in their thinking ahead of calling a pitch and when they go to market.

"A pitch is a potential huge disruption and marketers need to be very cautious in the way they apply that. They need to think hard about what they're trying to achieve and whether that's the best way to achieve it. It's not so much about how you run the pitch, it's about all of the thinking that happens before you even make a decision to go to pitch for agencies."



Direct from the agencies

"As the more senior marketers have been made redundant over the last year, a less experienced group of marketers have taken the helm of the process often with inexperience or the influence internally."

"Globally and locally, it appears the trend is the same - no cost, wide net, shifting budgets, fast turnaround, and awarded to the agency that will give more for less."

"A repeated comment from big global brands: "Thought we would just 'see what's out there"."

"Pitches have become a total lottery. You just hope that what you present resonates. We've had feedback this year that the work was too sophisticated, wasn't sophisticated enough."

"The client noted in our last meeting that they didn't have any experience running a procurement pitch of this nature."

Direct from the agencies

"We only found out we lost after chasing and chasing and no feedback was given until we really pressed them. The appointed agency was already working on the work before we had been informed."

"No opportunity to meet in-person through the process. Whilst communication on email was good it isn't the best or most helpful way to build rapport and chemistry."

"The market (and we) are suspicious that the result was pre-determined and the pitch was a farce."

"The client took a long time to issue the brief, resulting in very little time actually to answer it. Agencies were given a presentation slot of 40 minutes and back-to-back time slots for six agencies on the same day. Feedback was only provided when asked for, and the award was based on cost, not quality of work."

For agencies it's a matter of being far more selective in which pitch opportunities they go for.

"Don't take every opportunity that's offered to you at face value. It is an invitation to tender or an invitation to pitch. Like any invitation, you want to know what you're in for before you actually agree to it. We are starting to see, particularly some of the indies, saying 'no' to an opportunity when it doesn't fit the business.

"A lot of marketers will say 'Does it really matter? Because when I go to pitch in three years time, all the agencies will come running.'

"But I've been hearing agency bosses who won't ever be doing business with a client again that are deceptive in claiming that the relationship is what matters when it clearly doesn't. They have said they will be blacklisting all of the senior executives and procurement that they encountered who were deceptive and unethical.

"Now here's the interesting thing, the bad reputation doesn't necessarily sit with the brand as much as it does with the people involved."

In other words, it's a small industry and running a poor pitch process without transparency, communication and care for those involved is a risky, short-term business.

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