RECONSIDERING THE ADVERTISING INDUSTRY

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Reconsidering the Advertising Industry

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Additional Information

We offer our special thanks to Management Centre Europe for acting as a co-sponsor to this report (for more info, see page 50):

MCE
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Why This Report Exists

With negative US ad-spend growth predictions of -1% to -10% the going will get tough in agency land. Only those agencies which have strong customer relationships and a unique position will thrive in this climate.

But unfortunately most aren't that lucky.   As a whole, agencies score a dismal NPS of -21% (see next page).   This is indicative of the growing disconnect between what advertising agencies offer, and what their clients are looking for. We believe the industry is at a breaking point.

That is where this report comes in. While we are told we could sell it for a price between €300 and € 500, we decided against this, as:

1. We want to start a conversation on the future of marketing in general, and the advertising industry in specific. For that we need to reach as many people as we can. Price-barriers do not fit that picture.

2. We genuinely believe information should be free. And while we started with a traditional *sales* model it didn't feel right. Sharing what we know, feels much more natural.

3. We hope, in the spirit of our own beliefs, that by demonstrating our understanding and insight in the advertising business, some of you will pick up the phone to sollicit our services .   Which in turn would make the production of this type of documents economically viable.

Either way, what ever our reasons. We hope this report can play the part of an Italian ristretto. To be a slightly bitter, but very potent wake-up call that offers encouragement to those agencies that are ready to embrace the new marketing realities.

It's time to change the industry.

Comparative Estimates: US Total Media Advertising Spending Growth, 2009
(% change vs prior year)

Wachovia:	- 0.8%
BMO Capital Markets:	- 1.9%
Collins Stewart LLC:	- 2.0%
GroupM:	- 3.2%
Citi Investment Research:	- 3.6%
MAGNA:	- 4.5%
Morgan Stanley:	- 5.0%
ThinkPanmure LLC:	- 5.0%
UBS:	- 6.0%
ZenithOptimedia:	- 6.2%
Myers Publishing LLC:	- 6.7%
Barclays Capital:	-10.0%

Source:
Seven Predictions for 2009, eMarketer, January 2009

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Why This Report Exists

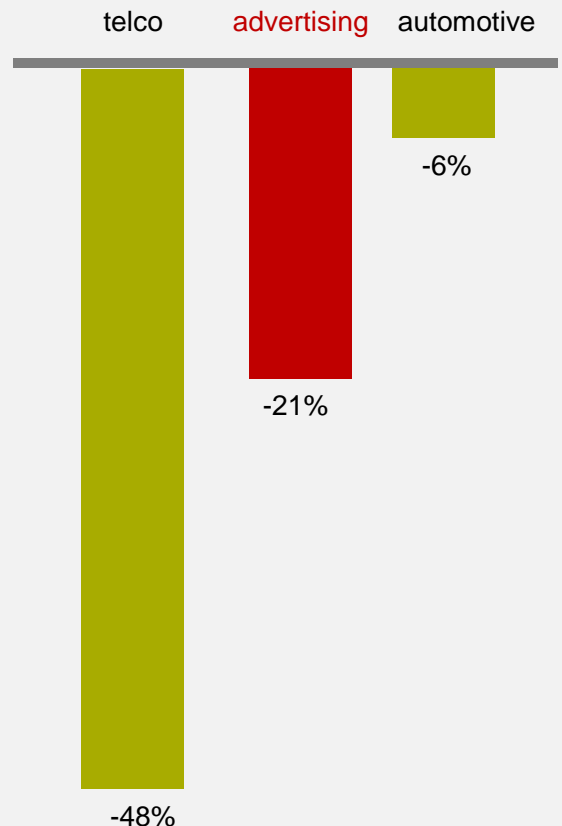**Not All is as it Should Be in the Wonderful World of Advertising**

In 2007, Marketers gave their collective agencies a Net Promoter Score™ of minus 21%.

As NPS is a comparative measure, this may not pose a competitive disadvantage for some.

But as an industry, it means trouble. The more customers agencies touch, the more detractors they create.

In a world where word-of-mouth rules, the majority of agencies cannot even get their own customers to recommend their agency's services to a friend or colleague

Net Promoter Score™ by Industry

telco   advertising   automotive

-6%

-21%

-48%

Data Sources:
- NPS Score: Advertising Agencies: Help Wanted: The 21st Century Agency, by Peter Kim, Forrester Research, February 2007 (this report can be purchased on www.forrester.com)
- NPS Score: Automotive & Telecoms: Joseph Mann, Lousy Customer Satisfaction, It's a global Phenomenon (link: http://tinyurl.com/6eo5j9)

For more information on the Net Promoter Score, we recommend the book "The Ultimate Question" by Fred Reichheld. Also, on the website http://www.netpromoter.com/ additional insights can be found.
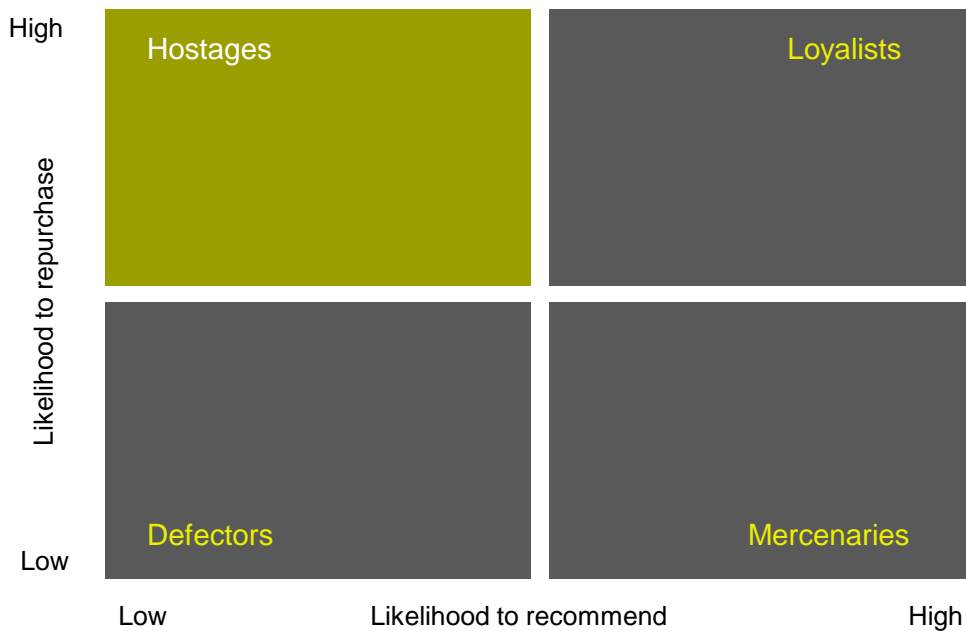
The Net Promoter Score ™ is a registered trademark of Bain, Satmetrix and Fred Reichheld

Why This Report Exists

Are Marketers Held Hostage by the Advertising Industry?

While clients are unhappy about the low customer satisfaction ratings, they feel only few alternatives exist. Some agencies are considered to be "better" than others. But the overall sentiment among marketers is one of dissatisfaction.

Just like consumers in a host of telecommunications or aviation markets, many marketers are held "hostage" by the advertising industry. Clients are dissatisfied yet keep buying. After all, there is little that can be done about it.

High

Hostages   Loyalists

Likelihood to repurchase

Defectors   Mercenaries

Low

Low   Likelihood to recommend   High

For a more extensive discussion of the various types of customers decribed in the matrix on this slide, we recommend the following article on the CustomerSat website. http://ecem1.com/Resources/Newsletter/Q4_2006/Monica.htm

Why This Report Exists

Do Agencies Overestimate Their Impact on the Client's Success?

In spite of low NPS scores, almost all agencies (93%) are of the opinion that they drive the client's marketing success. But when asked only two thirds of those clients (63%) agree. And as the previous data shows, there is still a difference between agreeing and wholeheartedly embracing (*).

But even put in the most generous of terms, in one of three cases agencies overestimate the impact they are having on the client's results. At least when measured against client perception – which is the only parameter that matters.

This report will dig into the root causes of this disconnect and offer remedies which bold agencies can administer to tilt the balance of client trust.

93% of agencies are of the opinion they drive the client's market success.

63% of clients agree.

A MOMENT OF REFLECTION

Before diving into the details of this report, we invite you to take a minute to review how the above translates for your agency. In specific:

- Would your customers recommend you to their friends and colleagues as an agency that truly makes a difference? Do you even know?

- Do you build a level of loyalty with your clients that assures you of their continued business for years to come? Even if your client contact changes jobs?

- Have your clients and your people a realistic perspective on the value each adds to the marketing success of the client's brand? How do you measure this?

And if you don't have the answers to the questions above, what is your agency action plan to get them?

(*) Advertising Agencies: Help Wanted: The 21st Century Agency, by Peter Kim, Forrester Research, February 2007 (this report can be purchased on www.forrester.com)

Chapter 1

Situational Analysis: Agency Challenges 2009

In this first chapter, we will describe the key challenges agencies face today. We will look at:

- The client needs that are ignored by many agencies

- The areas where many agencies are "out of synch" with commercial reality

- The gaps in authenticity which some agencies display

It is understood that not all challenges apply to all agencies. What follows is a summary of the various aspects we have encountered shaping client perception. You are your own best judge to assess which ones apply to you.

Agency Challenges 2009

- **7 Needs Many Agencies Ignore**

- 3 Areas Where Agencies Are Out of Synch

- 4 Gaps in Agency Authenticity

#1 Solutions in stead of products

<u>Client Need #1:</u>
A Truly Tailored Approach

Rainmaker Consulting (*) found that 75% of senior brand decision makers that approach a communication agency seek to buy *solutions* for their business problems.

In fact, the absolute number one criterium for agency selection is to have a clear insight in the business of the client (and the associated ability to respond to this). This comes before chemistry, creativity, service levels or even costs.

Dropping the ball on this front can be costly to agencies. The same survey found that 93% of decision makers said that if they noticed a lack of strategic thinking, this would cause a review of the agency.

<u>Agency Response #1:</u>
Services that Fit the Model

Providing *solutions* requires a holistic approach, driven by insight in the client's business. It also requires agency executives to let go of preconceived ideas and ways of working. To start with a fresh perspective for every new customer.

Many agencies don't do this. Instead of taking a white sheet approach, they listen to the client's request for a solution and come back with an answer that fits their in-house capabilities and compensation model. As a result, advertising agencies come with TV and print campaigns. PR agencies focus on press coverage. Digital agencies offer online solutions, etcetera.

In addition, most agencies attempt to work within the parameters set by the client rather than challenge these where they don't make sense. This means initiatives are downgraded to "fit the budget", even if this takes matters to a level that has insufficient impact. Work gets sized to the compensation level available, rather than challenge the compensation level and insist on doing a "good job".

This has prompted one interviewee for this survey to quip: *Dealing with agencies is like buying a car from Henry Ford. You can have every colour, as long as it's black. »*

A MOMENT OF REFLECTION

How do your people listen to your client briefings? Do they ask questions which already play to your agency's strengths? Or are they genuinely probing for the client's business issues and the way you can contribute to addressing this?

And when the client talks, do they (unconsciously) filter out the information that doesn't fit your mould? If this happens, what do *you* do?

(*) Rainmaker Consulting, The Intelligent New Business Survey, 2007 (you can read the full report on: http://tinyurl.com/59dkff)

#2 Return on Investment

Client Need #2:
Show me the ROI

CMO's are under increasing pressure to prove that if a million is spent, more than a million is made by the business. And agencies need to provide support with this analysis. They need to cater for two types of clients:

- A minority who are already sophisticated in their use of ROI or profitability measures. These clients' know-how needs to be matched by the agency, in which modest suggestions for improvement are continuously offered.

- A majority which do not sufficiently apply ROI or profitability measures to their marketing investments. These clients need to be offered suggestions and guidance in measuring and analysing the results achieved.

The second group is by far the largest. According to Forrester(*), only 24% of marketers measure the ROI of their lead agency relationship. Of those that don't, the majority think it is simply too difficult to do. When it comes to initiative ROI the same applies. A 2007 WARC (*2) study found that of 880, mainly UK, cases reviewed only 39 (4%) had validated ROI measures. In fact, 35% had no campaign objectives specified at all.

Agency Response #2:
We Are Very Creative … and Big …

Most agencies still respond to the ROI language by emphasizing their creativity. Creative awards are often used as highlights in this approach.

According to Rainmaker(*3, there is a basis for this. Creative work does score high as an agency selection criterium for brands. But it needs to be seen in combination with the need for insight in the client business.

In other words, creativity matters but should be focused on CURRENT work being proposed to the client, not the past work delivered to others.

At the same time, agencies like to emphasize their size (as well as that of their clients). This while client research indicates that both agency size and client lists are hardly significant when it comes to selection.

A MOMENT OF REFLECTION

How many of your agency's contributions can be expressed in terms of *money made for the client*? How *hard* are the metrics that are used?

And if they're fairly soft, is that because your people don't know how to firm them up? Or is it because this lack of accountability is considered as convenient?

Either way, as all marketing initiatives will have to earn their keep, what will you do about it?

Sources:
(*)   Advertising Agencies: Help Wanted: The 21st Century Agency, by Peter Kim, Forrester Research, February 2007 (this report can be purchased on www.forrester.com)
(*2) Marketing in the Era of Accountability. Les Binet, DDB Matrix & Peter Field, Marketing Consultant. Published by IPA dataMINE, WARC, 2007
(*3) Rainmaker Consulting, The Intelligent New Business Survey, 2007 (read the report on: http://tinyurl.com/59dkff)

#3 Trust & Transparency

<u>Client Need #3:</u>
Be a Trusted Media Partner

At best, the advertising and media industry, can be called *intransparent*. This is causing brands world-wide to request more transparency and clarity in their agency dealings. Especially on the media front.

In a 2005 landmark study, media-auditors EMM found that a vast majority of the world's largest advertisers held the conviction that "under the table deals" were a reality when it came to media-work.

This call for transparency, and objective media recommendations, will become ever more important as media consumption fragments. Brands need to move to media-neutral (or as others say *media-agnostic*) planning methods.

The people who advise them on these matters, need to be above reproach.

Of the 50 largest advertisers in the world ... (*)

- 91% Consider the Media Buying Process to Be insufficienty transparent.

- 85% are convinced their media agency had *deals* outside the client agreement.

- 74% opined that these deals caused *bias* in the choice of media and recommendations.

<u>Agency Response #3:</u>
Bad Apples

While pressure mounts, the industry is not easing the minds of brand leaders.

<u>Continued intransparency</u>:
Currently about US$110 billion in media funds are being audited each year. This means that about four in every five marketing dollars spent are still "unaudited" (**). Especially outside the UK and Europe, brands just need to "take the agency's word" that everything is in good order.

<u>Underperformance & creative math</u>:
Confidential interviews with media auditors in Western and Eastern Europe show us that even today "creative" arrangements are made in many agencies. GRP's are "forgotten" to be delivered. Free airtime doesn't get passed on to clients that paid for it, yet resold to others. Media bills get "topped up".

<u>The occasional scandal</u>:
Sometimes things get out of hand. In 2006 Aegis Carat 's Central European CEO, Aleksander Ruzicka was arrested for allegedly diverting millions by reselling "free advertising minutes" for his own account.

While this alledgedly was an initiative for personal enrichment, it has raised questions among German advertisers.

In the words of a recently retired Sr. agency exec: "*Every [media agency] sold free minutes and pocketed the cash. It's the normal way of business. Everyone denies it but Alex wasn't doing anything others weren't (aren't?) doing. He was just stupid to fill his own pockets.*"

A MOMENT OF REFLECTION
Do your people *cream off* the top? Are you sure? Considering it's just a matter of time before the auditors come, what is your action plan to make things right?

(*) Marx, Anne. Von TV-Modellen, Transparanz und Vertrauen, Media Spectrum, February 2008
(**) Source: Accenture Marketing Sciences Website, 2008 - http://tinyurl.com/6hma9d

#4 Engagement Instead of Noise

<u>Client Need #4:</u>
Engage Our Audience

Brands want and need to engage with their customers. They need to conduct conversations. Build communities. Create a dialogue. This means that they need to develop marketing messages which their customers WANT to hear rather than forcing them upon them.

Brands need to build means to interact with customers (as individuals) rather than establish "one-way communication mechanisms". They need to fragment their messages to the places where their consumers can be found, rather than assume they will all sit in front of the TV at 20:15 on a Thursday evening.

In short, brands need totally neutral transmedia planning which delivers the relevant message, at the relevant time to the relevant individual. Ideally in a way that this individual will *seek out* the information, rather than have it blasted at him.

A MOMENT OF REFLECTION

How many of your agency's projects truly engage with client customers?

How many take an undifferentiated mass-media approach? Or chase creative awards, rather than move customers?

Do your people even know? Do they care?

And before getting into a philosophical debate, would your business model and organisation structure support a neutral, transmedia approach at all?

<u>Agency Response #4:</u>
Saturation Bombing

In spite of all the talk at conferences and events, many agencies are still in the business of "saturation bombing". Make one message as efficiently as possible and blast it through as narrow a number of channels as possible. Brands still receive the recommendation to make sure they have "enough GRPs to break through the clutter" and they shouldn't let their *Share of Voice* slip.

While in certain cases these can be perfectly valid strategies, many agencies apply them as a rule. They are driven by habit but also by the industry's business model. The "higher the budget" and the "higher the level of efficiency in spending it", the more money the agency makes.

But even a cursory look at media consumption patterns demonstrates this *brute force* approach is unsustainable. Consumers *are* tuning out of traditional advertising. And the ads they cannot zap or ignore irritate them. As a result, B-52 style agencies find themselves at odds with advertisers who desperately want to build a relationship based on respect, insight and passion.

#5 Walk the Digital Talk

Client Need #5:
Walk Digital

With consumers massively shifting online, marketing budgets are following suit. As a result, brands need their agencies to deploy digital media with the same facility as traditional media outlets. But somehow this need is not being met.

This was nicely summarized in a 2008 Sapient survey. Here over 200 CMO's and senior marketers, responsible for digital marketing, were asked about the elements they were looking for in an agency.

While Sapient – as an interactive agency – may have a vested interest in highlighting those aspects which benefit its own business, the numbers are hard to dispute. Clients want their agencies to understand the online realities and "walk the digital talk".

What marketing leaders want from their agencies when it comes to digital (*)

Leverage virtual communities	94%
Use technology the agency recommends	92%
More use of pull (social & interactive) media	90%
Interactive/Digital Skills	79%
Demonstrate strategic thinking	77%
Understand consumer behaviour	76%
Creative capabilities	76%
Branding capabilities	67%
Ability to measure success	65%
Be Web2.0 and social media savvy	63%
Have a Chief Digital Officer	43%

(*) Sapient via The Web Guild: http://tinyurl.com/5jwdpf
(**) Inspired by: Bruce Nussbaum, Business Week, Are Big Ad Agencies So Clueless That Corporations Should Avoid Them? (http://tinyurl.com/35g644)

Agency Response #5:
Talk Digital

Most agencies "talk digital" at conferences and events, but this doesn't always reflect their real capabilities. The problem is twofold:

- Traditional agencies "talk digital" yet often fall short when it comes to acting. In some agencies, key creative positions are held by individuals from the *pre-digital era*. In others, processes and organisational walls keep the right people from doing what it takes. And for some agencies *digital* is simply considered less profitable.

- Digital Agencies often miss depth in communication and strategy (**) Many "new media" agencies outskill and outthink traditional houses on the digital front. But they often lack the broader perspective that comes with true 360°, ROI based thinking. As a result, their work doesn't *cut it* either.

To make matters worse, both of the above *chase the technology* rather than look at the end customer's actual media consumption. And all think of *digital campaigns* rather than using digital as a platform for relationship building.

Whether the people they target actually appreciate this approach, is less relevant.

A MOMENT OF REFLECTION

Have your people really embraced the digital – customer in control – reality, or do they just talk about it?

And if they haven't, how will you ensure their mindset evolves with the shifting market realities?

#6 Think of the Shopper

Client Need #6:
Shopper Marketing

Brands have realised some time ago that there is a difference between those who consume, those who buy, and those who influence the two above. Recent research in word-of-mouth has only re-emphasised the importance of these influencers and consumers on the actual purchasing decision. This puts shoppers at the centre of the marketer's agenda.

In fact, a 2007 study by Deloitte declares Shopper Marketing as the fastest growing element in the branded manufacturer's marketing mix. These numbers are even more extreme among retailers where shopper marketing activities are expected to display 26% growth in the period 2004-2010 versus 9% on the internet. As a comparison, the overall marketing CAGR is 2%.

This increased attention for Shopper Marketing makes brands look well beyond the above/below divide. Instead they seek to truly integrated initiatives. In this *integrated* is not to be seen as "the same across all media". It is to be seen as the ability to provide relevant impulses at various stages of the customer, shopper and influencer journey.

Rather than *one big idea* this means agencies need to start looking for *a hundred little ones* which address influencers and buyers in different ways. They need to provide input and advice on retail dynamics, shopping behaviour, store staff engagement... In short, they need to do more than bring possible consumers to the front door of the shop.

They also need to make them buy.

Agency Response #6:
Silo-based Thinking

Shopper marketing is where the communications rubber hits the road. All brand impulses blend into a few seconds of the decision making process. And they all need to re-enforce each other or the customer will pick brand B.

But many agencies find this type of integrated thinking hard. Shopper insights are typically located in specialist agencies or underserved parts of larger groups. As a result:

• Traditional agencies have a (too) limited understanding of retail realities. They start with the brand, and what it brand wants to say.

• POP or In-store agencies lack the capabilities to truly think beyond the next display (or *narrowcasting* solution). And those that do, often face the uphill battle of being taken seriously by mass-media agency execs that place premium on glitzy brand expressions in magazines, on the web or on TV.

This disintegrated approach – even within agency groups – puts a heavy burden on marketers to co-ordinate the efforts of their various vendors.

Especially as many marketers do not have hands-on retail or sales experience themselves.

CAGR by Marketing Mix Element
Manufacturers (2004-2010 Est.)

Marketing Mix Element	CAGR
Shopper Marketing	21%
Internet	15%
Co-marketing	6%
Traditional	1%
Trade Promotions	-1%
Consumer Promotions	-1%

Source: Deloitte, 2007

A MOMENT OF REFLECTION
Are your people in the shopper game? Do they understand how retail works? At all?

#7 C-Suite Credibility

Client Need #7:
Help me into the C-suite

It is an unfortunate reality that many marketers struggle to be taken seriously in the boardroom. Marketing is seen by other parts of the business as a *frivolous* and *unaccountable money spending department*.

Having interacted with over 1,000 marketers across Europe on this topic, we have found that half this problem is due to presentation issues.

The predominantly right brain inclination of the communication trade means that marketing departments and their vendors *speak and think in a different language than their colleagues* in finance, sales, operations or the C-Suite. As a result, even good work gets swept under the table.

Clients therefore need agency support in talking C-suite/Executive language. They need strategies, left-brain argumentations, numbers and facts, rational & analytical approaches that match the traditional way businesses operate.

The benefit of this approach is that not only marketing initiatives will *sound better* in the client boardroom. They will also be of a higher quality as the required thinking has taken place.

Agency Response #7:
Look how cool and fun we are ...

Communication agencies have always surrounded themselves with an air of creativity and cool.

This approach has clear benefits. It creates an environment for ideas to flourish. It makes the workplace agreeable. It attracts and retains creative talent which does not like being constrained by too many rules. And marketers typically appreciate a good laugh and a glitzy brainstorm room.

Yet many agencies also apply this creative/cool communication style when they encounter other parts of the client brand's organisation. This means that rather than change the behaviour and presentation style according to each stakeholders preferences and needs, it remains constant.

To non-marketing parts of the business this behaviour confirms the stereotypes. Informal style, the lack of (financial) data underpinning creative ideas, esoteric language, yes even the way agency people dress often detract from, rather than contribute to the credibility of marketers.

A tell tale sign is that while 48% of CEO's are involved in the final selection of an agency most agencies do not regain access to the C-suite after they've been selected (if they get access to it at all).   (*)

A MOMENT OF REFLECTION

Do your people regularly talk to people outside the client's marketing department? And if they were invited, would they have the stature and knowledge to have the right conversation?

Would they be able to help the marketing team gain support from the rest of the business?   Would the rest of the business even care?

(*) "Agency Search – What Matters? Winning Strategies for Ad Agencies" – full report, MillWard Brown, April 2007

Agency Challenges 2009

- 7 Needs Many Agencies Ignore

- **3 Areas Where Agencies Are Out of Synch**

- 4 Gaps in Agency Authenticity

#1 Insufficient Customer Focus

Most Large Agencies are Mass Production Factories …

Agencies have become ever more specialised in order to streamline their operations. They have become factories that make advertisements, produce brochures, create press campaigns, do online. Efficiency drives have made them leaner and leaner. Sometimes to the point of anorexia.

And to be fair, this model has worked well in a world where mass-communication ruled. After all, when GRP's are traded as commodities and creative expression is the only real variable, price-efficiency is the way to go.

> **A MOMENT OF REFLECTION**
>
> What would happen to your agency if it suddenly adopted a write-once-read-many-mindset?
>
> Could you switch to all the relevant media? Can you create 200 small ideas in stead of *one big one*? And still make them all make sense?

… While the World Needs Multi-Disciplinary Boutiques

Part three of this report will show there is still room for factories in tomorrow's market, but only in specific situations. The rest of the world seeks something else:

- Rather than efficiency, brands seek effectiveness and impact (and may even be willing to *pay more* if they get it).

- Rather than specialisation in one function or another, brands seek multi-disciplinary teams which can look at all aspects of the marketing and communication mix.

- Rather than streamlined systems to purchase GRP's and produce great creative, brands want to engage the right people with the right message.

In short, while agencies are structured as specialist factories which work in a "Write-Once-Read-Many" paradigm(*), the world wants generalist advisory boutiques that can manage a "Write-Many-Read-Once" reality. Agencies need to be chameleons which can be what ever the client requires them to be. Not what they happen to be good at.

"Agencies have optimised their business for themselves. Not for their customers."

Kris Hoet, EMEA Digital Media Communications Manager, Microsoft

(*) Additional reading: More on this topic, please also refer to Kevin Lee's book "*The Eyes Have It: How to Market in an Age of Divergent Consumers, Media Chaos and Advertising Anarchy*". Easton Studio Press, October 2007.

#2 Mass Media Age Infrastructure

Most Agencies are Multi-Local with High Levels of Duplication...

Most agencies have a local focus. A group of people are brought together in one location to service local clients and projects.

International agency groups add a multi-country coordination layer to this. But on a structural level, little real integration happens. This approach has its drawbacks:

- Agency co-operation across markets can be a testing experience.
  International clients are often confronted with local agenda's, strategies, structures and practices that get in the way of true integration. Even in international agency networks, the multi-local structure means that loyalty to the local market often supersedes the loyalty to the network.

- Suboptimal quality of work: Creativity is a team sport. While one person with an answer to a client challenge may sit in Tokyo, the best person to execute may sit in Sao Paolo. Agencies typically don't allocate work to the "best person for the job", but give it to the person who works (closest) to the local office. As a result, solutions offered to clients are limited by the skills, organisational abilities and strengths of a small group of individuals.

- Duplication of cost: Most local agencies have a *fully loaded* organisational structure. This means it has teams for account management, creative work, research, planning, etc. while in some multi-cultural regions there may be a partial justification for this (e.g. German creative in the UK can be wrong) this creates a needless duplication of costs.

... while Today's World is Global and Highly Interconnected

The local organisation of agencies made absolute sense in the market/country segmented reality of 10-15 years ago.

But this digital communication tools and a more global market place have changed this reality.

Today:

- Clients are less concerned about location than their agencies. According to Rainmaker, the majority of US clients (83%) doesn't feel geographical location is an issue. In Europe, we feel only plays for account management. Local bells and whistles aren't required for backroom execution. Especially for international clients limited local decision power.

- Communication technology can leverage international know how.
  There is no reason why every agency cannot virtually involve its best global resources to work on every account. Information, communication and telepresence technology (see image) mean that creative and strategy staff do not need to be located in every agency any more. Cases can be leveraged across markets. Research can be pooled.

- Production pooling can increase value
  Outside of marketing, brands have been centralising procurement and project co-ordination for decades. But many agencies still apply local sourcing for initiatives. While this sometimes makes sense, international pooling and purchasing of marketing materials can deliver great cost savings to the client.

A MOMENT OF REFLECTION
If you look at your agency in this light, what could you do to become more effective/efficient?

FUTURELAB

#3 Competitive Myopia

Agencies Compete with "Their Crowd" ...

When asked, agencies typically look at each other for competition. They keep score by tracking accounts won. Awards on the shelf. Billings. In short, they try to differentiate themselves on comparable terms. *We're more creative*. *We're a better factory*. *We're an ideas house*. *We're cheaper. We have better people.*

Functional specialisation only amplifies this behaviour. Specialised agencies focus their attention on agencies "like them". Advertising agencies track advertising agencies. PR agents compete with other PR firms. Online agencies battle each other over websites. Etcetera.

This has created a universe where everyone carefully tracks the movements of a small group of individuals courting an even smaller group of clients. Everyone is using similar tactics to run in the same race.
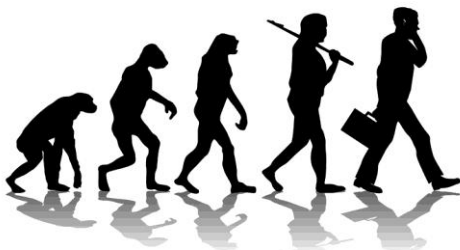
A MOMENT OF REFLECTION

How actively do your people watch and absorb best practices from outside the "advertising industry"? Is there a regular infusion of hard, analytical talent? Digital minds? Psychologists? Antropologists? Mathematicians?

Have *you* scenario planned your agency's future?

... while the Competition is Transforming

When incumbents get weak, new challengers emerge. Also in the agency business. While agencies originally competed with a small group of similar players, they can now be facing very different opponents. And these may have very different rules of engagement. Three main trends can be distinguished:

- Non-traditional agencies go mainstream: Marketing is a customer contact sport. This causes PR, online, or instore agencies to retool themselves. They become *engagement*, *community* and *shopper marketing* boutiques. As the role of customers is rapidly being confirmed as *the most important medium around,* these niche players become a serious threat. Already, major accounts have shifted from traditional agencies to these newcomers.

- The consulting machines are coming: McKinsey, Accenture, Bain, IBM all have marketing specialists. When faced with unaccountable agency behaviour, they don't take prisoners. In fact, their analytical mindset and access to the C-suite puts them in a perfect position to capture premium strategy work which today still goes to agencies. As they are media and creative agnostics, their interventions are seen as neutral and efficient.

- Substitute offers: Internet-based advertising auctions, creative market places, crowdsourcing platforms and of course Google will slowly substitute core activities of traditional agencies. By simply eliminating the need for these functions, the business models underpinning them also disappear.

Agency Challenges 2009

- 7 Needs Many Agencies Ignore

- 3 Areas Where Agencies Are Out of Synch

- **4 Gaps in Agency Authenticity**

#1 Diffuse Identity

Agencies recommend their customers to create a clear and differentiated position to their competitors.

But when it comes to comparing the different agencies, only a limited number manage to achieve this for themselves. All agencies are creative. All agencies are large. All understand their customers. All look the same. Only notable exceptions stand out from the crowd with clear beliefs, promises and distinct identities.

This makes many brand executives privately question the integrity and "beliefs" of the people advising. After all, if you don't practice what you preach, have you got the right to preach at all?

A MOMENT OF REFLECTION

How differentiated is your agency really?

If someone asked your customers, would they be able to articulate this difference? Would your own people?

And how much of this difference is engrained in your business DNA?

How much of it depends on personal relationships with people just happen to be on your payroll today?

Self-test: Spot the Difference

Everyone claims (and probably has) a large size, great ideas, a lot of creative awards, a fair share of "smart people", and - recently – an ear for what people *want* to hear. So discounting these claims as differentiators, can you tell what makes each of these agency brands truly unique and easy to choose from depending on your needs?

SAATCHI & SAATCHI	Leo Burnett	JWT
BBDO	Ogilvy	GREY
DRAFTFCB	LOWE	DDB

#2 Oversensitivity to Trends

Advertising and marketing agencies love trends. Yesterday's digital is today's social. Yesterday's loyalty is now called word-of-mouth (which BTW also existed last week). Yesterday's product placement is now called branded entertainment.

Part of this attitude can be explained by client demands. Many marketers also chase trend upon trend in the desire to differentiate their brand. And if you want to appear "in the know" as an agency, you need to know the right language.

But at the same time, the key elements of good communication have remained the same for decades, if not millennia. But the chase for trends and hipness can raise questions around the "depth of commitment" which agencies have towards the techniques they deploy.

This damages the industry's reputation as a whole.

After all:

*   the latest communication tools applied in the wrong way may not yield the highest results, on the contrary. This leads to client disappointment and the claim that *agencies don't get it.* And even worse, it may turn a client away from potential solutions that could save his brand in the future.

*   publicly disowning past work and tactics more than once makes clients worry about the sincerity with which the *next new thing* is embraced.

"Twitter is so 5 minutes ago, we're telling our clients to look well beyond that..."

Research Director
of agency you know
August 2008

A MOMENT OF REFLECTION

How trend sensitive is your agency?

Are our people chasing technology, or are they really looking at the ways they can facilitate branded conversations and relationship building *using* technology?

And are you consistent in your beliefs? If you chased virtual worlds and podcasts a few years ago, are you still in this game? Or have you moved on the next thing?

Is your current commitment to Twitter a fad or a true belief in a new way of customer engagement?

And if you do switch around, are you sure your clients are OK with this type of media promiscuity?

#3 Undue Compliance

Advertising agencies are professional service firms. This means that they provide services, but are also expected to advise their clients on what works and what doesn't.

However, agencies regularly *execute client demands* without questioning or challenging them, even if they don't make sense.

Part of the explanation is that many agencies have insufficient strategy & research resources to recognise the wrong strategy.

Also, they may lack the skills and knowledge to be sufficiently convincing to the client.   And a final – sad – reality is that competitive pressures make it more convenient for some to *look the other way.*

While clients remain the final decision makers, this lack of debate and *the best possible advice* makes brand investments less effective and gradually any respect a real marketer may have for his advisors. After all, only weak executives hire yes-men.

A MOMENT OF REFLECTION

Do your people really fight for the strategy they believe is the right one for the client? Or do they back off when the client turns on the heat?

Do they support their cases with irrefutable evidence? Inescapable logic? Or do they just go with an idea because they like it?

And when push comes to shove, do you go for the money or do you go for what you believe in?

After all, principles are only worth something if you're prepared to pay for them.

"We knew that it wouldn't work, but the client wanted it.   So we made it happen. After all, under all the gloss, we must accept that we are prostitutes."

Head of Business Development commenting on modifications to a global campaign you know.

#4 Some Questionable Motivations

We hate to say it, but it reflects a reality we have encountered more often than we would like. There are agency executives that do not have their client's best interest at heart.

Whether this is driven by cynicism, questionable motivations or competitive pressures is hard to assess. But the behaviour exists and reflects badly on the industry as a whole.

The saddest illustration of this is the large number of "truth in advertising/adsales/..." clips which can be found on the internet.

While their comic nature understandably exaggerates real life, we still need to meet the first agency executive which categorically denies their accuracy.

Video Tips
• Truth in Adsales: http://tinyurl.com/6njgnw

• Truth in Advertising: http://tinyurl.com/29emdt

• Truth in Advertising II: http://tinyurl.com/5f2yfh

A MOMENT OF REFLECTION

The videos above are a caricature, but humour only works if there is an element of recognition.

Do you recognise some of the displayed behaviour in your people? In yourself?

Do you allow it? If so, why?

"I don't care about making money for my clients. I just want another award before I jump this ship. "
Agency CEO of an A-list mediterranean agency

"Listen, we know that spending x million in above won't fix the issue, but they're going to spend it anyway. We can just as well try to grab as much as possible."

Pitch team on an international account

If a client thinks a brand is great, but you find out his consumers disagree, you'd only tell him if you'd get more business out it. Otherwise, best to leave these things untouched.

Major agency creative director instructing a recent recruit over lunch

Source: Quotes are first hand accounts of Futurelab associates and partners from conversations with major agency executives soliciting or using our services. We didn't pursue any further business relations with either of them.

Chapter Two
12 Remedies to Set Things Right

#1 Become a Solutions House

Agencies that truly want to match client needs, must become solution houses. They need to do *whatever it takes* to help CMO's achieve the strategic objectives in their business. Even if this takes them far away from their comfort zone. Agency leaders need to:

- <u>Focus their people on the business issue, not the campaign</u>. The size of a client's budget is less relevant than the amount of money he's trying to make. Agencies need to focus on the business goals of a marketing initiative and only propose initiatives that measurably contribute to them. Recently proven tools such as NPS and Thales make this possible.

- <u>Implement *solution* sourcing</u>. People need to do *what is needed* rather than what the agency structure and capabilities prescribe. That is why agency leaders need to abolish the fixed costs of the communication *production belt*. Creative, media and production specialists should be activated *as needed.* And *deactivated* when their services are not required.

- <u>Renegotiate compensation</u>. Traditional agency compensation methods force agencies to sell the services they have available, rather than those the customer needs. Agency leaders need to explain this dilemma to their clients so that the way they get paid connects to the business deliverables.

As agencies taking this path become network orchestrators, in-house production or even creative work will be outsourced. Analytical, project management and strategic advice functions are upgraded. Processes, habits & systems changed

Would your people say the following?

"Our recommendation is not to proceed with any above-the-line campaign in the coming year.

In stead, it is better to upgrade call-centre training and accelerate the go-to-market processes so they coincide with the consumer shopping cycle.

Obviously we are happy to assist in these areas."

ACT NOW
Many of these remedies take time. Below some suggestions for instant action.

- Build solution awareness: start showing your people what real solutions look like.

- For each project ask the question *"will this initiative completely solve the business issue of the customer? If not, has the client got everything else in place to do so?"*

- Establish a solutions team. Don't change too much of your business yet isolate 2 or 3 people in your agency and give them *carte blanche* to do what is right.

- Pick a case client. Sit down with him and explain your intentions. Ask for support and don't worry too much about client profitability. Make sure you get it right.

#2 ... Or not

Not all agencies will be able to make the jump to becoming a solutions house. Mindsets may get in the way. Processes may be too complex to modify. The holding company may object.

This doesn't mean that the game is over. But to avoid the price & business pressures that come with being *stuck in the middle* these agencies need to make one of a number of choices (also see Chapter 3):

- **Become a premium *specialist* :**
  Solution-driven agencies will be generalists. This means they will need specialist "support agencies" working for them. By selecting a very clear niche these subcontractors can request premium rates based on unique capabilities. The more specialised and in demand these skills are, the higher the rates they can command.

- **A price leadership position:**
  Just like in any market there will be solution-seekers and price-buyers. While the first group pays premium, the second will just want advertising, print work or PR at the lowest possible rate. This should allow a limited number of agencies to build a viable position at the lowest price end of the market.

Just like the solutions route, these avenues have their challenges. The organisation needs to be streamlined. Focus on the one thing it can do best. The people who don't fit that picture will need to be let go. Those that do fit need to be loyalised so they can become part of the agency's backbone.

ACT NOW
Many of these remedies take time. Below some suggestions for instant action.

- Do an honest assessment of your business and look at all the options. Evaluate your competitive position. Your people. Your processes. Have honest conversations and take your time. Yet make a choice of what you want your agency to become.

- Life is not about black & white, and every agency portfolio is composed of strategic and more operational tasks. Rather than *getting stuck in the middle* you can consider "splitting your business". This allows you to pursue mutiple strategies simultaneously.

#3 Talk Money

Agencies need to be in the game of *making money* rather than *spending it.* Agency leaders need to ensure their business:

- **Is driven by the right numbers:**
Most agencies ask: *What is the budget?* This should become: *How much money are you trying to make?* This forces an in-depth conversation about results before discussing media or creative.

- **Supports clients in ROI thinking:**
Not all clients are ready to *talk money.* Agencies need to pro-actively help clients allocate their budget for the highest return. And challenge activities that don't make financial sense.

- **Addresses forgotten areas:**
Many marketing initiatives disintegrate as they get to the market. A key cause is misalignment between marketing, sales and service at the client side. Agencies that are serious about generating money for their clients, help their CMO ensure all parties *are* aligned.

Think of the people

Talking money takes more than words on a PowerPoint slide. Agency leaders need to *shift the mindset* of their people. This means developing:

- The skills, systems and mindset to look at ROI.

   This is developed through training or bringing in new talent from outside the advertising industry.

- Revised compensation systems.

   Budget percentages or billable hours *drive up* budgets (and thus reduce ROI). They need to be replaced by retainer and performance based arrangements.

- A mindset where "everyone is a creative".

   Solving business issues is done by multi-functional teams. Not creatives locked in a room. This means egos and systems need to be managed so every agency employee can contribute.

ACT NOW
Many of these remedies take time. Below some suggestions for instant action.

- Include basic commercial targets in the agency briefing template. Even if ROI isn't achievable force a conversation about effectiveness. About money.

- Ask everyone you run into (client or staff): *How will this initiative make money?*

- Institute a simple risk prevention methodology to check with clients where initiatives could break down for insufficient alignment. Offer to help in securing this.

#4 Media Neutrality & Transparency

Communication advisors need to revise the way they plan and buy media. Three major steps need to be taken.

Re-establish total media neutrality.
Media planners should be completely separated from the buyers . They should do their work with a media neutral /agnostic mindset. Become a sparring partner for the strategy, creative and client teams. Only when a customer-centric communication plan has been devised, buying should become a topic.

Further automate buying operations.
Media neutral planning will create highly fragmented buying plans. To keep costs under control, media purchasing needs to be even more automated than it is today. Whether organised as an auction, a stockmarket or relationship network, buyers need to become like commodity traders. Always on the lookout for an opportunity. Negotiating hard. Moving fast.

Force transparency.
Even if nothing inappropriate happens, clients are wary of media-deals. Agencies have to pro-actively invite media-auditors to the table. In 2005, about 60 to 65% of all media bought in the UK were audited. In European markets this was ca. 20%. In the US or Japan, it was close to 2% (*). Pro-actively opening up the media planning and buying activities to independent verification is the best way for agencies to demonstrate they have nothing to hide.

(*) EMM International, August 2005

ACT NOW
Many of these remedies take time. Below some suggestions for instant action.

Establishing neutrality can be a challenging task and - if managed wrong – can cause bad feelings. Also, the implications aren't always clear at the outset of the journey.   That is why we recommend to first conduct a *media-neutrality audit* on your agency and its people.

Ask an external party (auditor or other) to review the state of affairs in your business and describe its causes.   Based on these findings, you can then determine next steps, if any.

#5 Replace Noise with Engagement

Brands, media and agencies complain that consumers are rapidly tuning out of their messages. Yet at the same time media like Harry Potter, The Matrix and American Idol are devoured by millions of consumers across every possible medium.

In fact, Hollywood can get whole crowds to actively *seek out* more information, *engage* in online and real life conversations, *create* their own content and even *protest* if their favourite content disappears.

To achieve results, agencies need to "engage" consumers in a similar way. They need to:

- **Craft messages consumers want to hear.**
  Most brand campaigns are based on what the client wants to say. Engagement is about giving consumers what they want to hear. Once they willingly give their attention, there is room for a more commercial dialogue.

- **Deliver them in a relevant manner.**
  Most traditional advertising irritates because it is delivered at an inappropriate time or in an inappropriate format. Yet when the time and delivery format matches the customer's need, he actually embraces the information that is given. Agencies need to specialise in identifying that time of receptiveness as well as the best format.

- **Add social value.**
  Brands are owned by those that buy their products. Agencies must encourage their clients to accept this reality. This means connecting customers, encouraging them to comment on the brand and even create their own versions of it.

ACT NOW
Many of these remedies take time. Below some suggestions for instant action.

- Ask everyone to start their client presentations with a review of the media/message interests of the customers that are being targeted

- Obtain more detailed audience data from media and ensure this gets used in the planning stage (+ check that it gets delivered as promised)

- Force the social conversation by asking for each initiative your people propose *"And how will the customer talk back to us and to each other?"*

#6 Be Digital

As advisors, agencies need a better knowledge of the digital realities than their clients. This means they need to be *digital natives* while recognising real world business realities*.* Agency leaders need to:

- **Establish a digital mindset at the top.**
Leaders need to ensure that enough digital natives hold key decision making positions in the agency to ensure their voice is clearly heard by the customer.   If current skills are insufficiently developed to achieve this, they need to be upgraded through people development, recruitment and/or the purchase of a digital agency.

- **Integrate traditional advertising people with digital natives.**
Digital natives have a solid understanding of the digital realities. Old agency hands understand brands and storytelling. These profiles need to be joined in transmedia teams where each respects the other's strenghts.

- **Be level-headed pioneers:**
Only a very small elite of consumers actually use the latest technologies. But as no one knows where the next big thing comes from, agencies need to stay up-to-date on their workings and application. This typically means encouraging their clients to experiment, while at the same time maintaining a mindset that many of the experiments may never come to fruition. Not in a separate "lab" but throughout the whole business.

ACT NOW
Many of these remedies take time. Below some suggestions for instant action.

- Review whether your agency allows and encourages the use of all social and digital media tools at work (you'd be surprised). Encourage this.

- Make sure client teams are composed of both digital natives and immigrants. Ensure both are heard equally.

- Establish (or participate in) *future media labs.* Give your people a playground where they can learn and experiment.

#7 Think of the Shopper

Regardless which theory a marketer adheres to, the only time real money gets made is when someone buys a product. In consumer markets this is typically when the shopper pays at the cash register.

Agencies need to grasp this better than today. They need to:

- **Build a strong understanding of shopping behaviour and retail realities.**
  Most agency staff have never worked in a retail store, or sold a product to a consumer. As such they don't really know how consumers make decisions. Agencies need to rapidly upgrade the retail & trade skills of their people to ensure they can talk from experience, rather than from reports.

- **Introduce retail metrics in the agency initiatives.**
  Especially business minded agencies will appreciate the introduction of retail rather than traditional marketing metrics. In stead of awareness, they look at store traffic. In stead of propensity to buy, they look at sell-through. Instead of money spent, look at margin made.

- **Pro-actively connect client marketing & sales departments.**
  Shopper marketing initiatives usually fail because of a disconnect between the client's sales & marketing department and the retailer they target. Agencies that are concerned with the end result need to make the alignment of these parties a part of their business.

ACT NOW
Many of these remedies take time. Below some suggestions for instant action.

- Build shopper and retail awareness. Make your creatives talk to customers when they come up with a new campaign. Have your people fill racks with client products, or act as field promotion teams. Ensure they know what it's really all about.

- Ask for every initiative *"How will we close the sale?"* Whether this is done by your agency, the client, or someone else is irrelevant. The answer should be clear.

- Start building relationships with major retailers, regardless whether you do business with them. Listen and learn.

#8 Get a Makeover

Most marketing executives understand that agency people are unconventional. Yet their colleagues in other departments may not share this understanding.

Agency leaders must ensure their people behave in a C-suite manner. This is not about pin-striped suits and ties. It is about acting like a business person intent on making his customer money. This means:

- **Only the most senior people act as account lead.**
  C-suite conversations are about challenging in a respectful way. Talking money. Seeing and understanding various points of view. Finding solutions on the spot. Jr. account managers are incapable of doing this in a credible way. That is why seniors should be at the table throughout the client relationship - not only during pitch and review stage.

- **Presentations are 50% analytical and 50% creative.**
  Many agencies still rely on a "big idea" to capture the heart of the client. Yet it is maybe more profitable for the client to have a smaller idea that is "right" for his bottom line. When agencies present their thoughts, these have to be deeply rooted in an analytical (money) view of the client's business. This should be the foundation of a truly great creative.

- **Meet the right people.**
  It is impossible to plan an effective sell-through drive without a meeting with the head of sales. It is impossible to increase loyalty without talking to the head of service. C-focused agencies talk to all stakeholders to make a communication initiative a success, not just the marketing department.

ACT NOW

Many of these remedies take time. Below some suggestions for instant action.

- Set the example. Pick an account and initiate a broader conversation in which you speak to various parts of a client business. Act like a corporate player for your team to emulate.

- Establish presentation parameters. They will feel artificial, yet by clearly outlining that presentations need to incorporate factual elements, numbers, business strategy considerations. Then see where people get stuck and provide support.

- Eliminate marketing speak from your agency. Not everyone appreciates the finer aspects of communication theory. Talk language the rest of the world understands.

#9 Synch to Global Reality

Whether independent or as part of a network, no agency will be able to keep up with all developments that are of relevance to every client's market.

Rather than rely on a council of wise men for creative ideas, agencies have to *virtualise*. Embed themselves in a global community of *on-demand* creatives, researchers and analysts that collaborate on projects as needed, and then disband.

This approach has a number of benefits:

- **Cost reduction**
  Structuring an organic network in an efficient manner, allows agencies to focus its *fixed* operations on analysis, strategy, account management and co-ordination. This reduces the agency's costs and increases flexibility.

- **Increased Specialisation**
  Truly international networks allow agency groups to establish highly specialised centres of excellence on an international scale. These centres can service multi-country markets and outflank any local competitors (i.e. a Skandinavian network member could easily do mobile for the whole of Northern Europe).

- **Purchase pools**
  In addition to internal cost efficiencies of having less people on staff, international pooling of other purchases than media (print, video, audio, ...) can create further cost efficiencies for clients and thus increase the added value of the agency.

ACT NOW
Many of these remedies take time. Below some suggestions for instant action.

- Set up an open creativity and innovation platform in which it is less relevant *where* an idea comes from than that it exists.   Throw all your client briefings into this.

- Call up other agencies (in of outside your network) and see if there are small practical ways in which you can already start pooling your orders.

- Map all the media that exist and assess your capabilities. Then go and find freelance or other agency specialists for the areas where you're not *the best in the game.*

#10 A Clear & Differentiated Position

Agencies must start doing what they advise their clients. This means:

- Establishing a clear value proposition which connects to their target customers in a way no other agency can.

- Connect every aspect of the agency experience to this positioning.

- And once the brand promise is made, live and die by the sword they forged.

Each agency needs to choose it's own position, but it should be clear and unique. Clients should know within seven seconds what an agency promises. Why they should listen to the way this promise gets filled in. Why they should even spend time with this agency *at all*.

This also means that agencies need to do the one thing which will probably hurt most. Walk away from those accounts or clients which are not aligned with the market promise they make.

Dilemma

Would you discontinue a client if you felt the strategy he pursued didn't fit the position you carved for yourself?

If so, when was the last time you did it?

ACT NOW

There are no shortcuts when it comes to your own identity. But there are first steps to take:

- Do a reality check. Can you formulate your agency's promise in 7 seconds? Is it differentiated enough to stand out in the agency crowd? Do your customers agree?

- Sharpen your pitch. Lock yourself into a room and do for your agency what you (should) do for your clients. Don't let anyone out until you have a clearly differentiated position which you truly believe in.

- Live it.   Look at every aspect of the customer experience your agency offers. Compare it to your promise. If needed take decisive action to demonstrate you mean business.

#11 Align The Good, Loose the Bad

The agency business is a people business. That is why agency leaders need to look beyond *strategies* and *positions*. They need to ensure the people in their organisation are willing, skilled and able to act on these strategies. Agency leaders need to consider all six behavioural drivers described in the Management Centre Europe (MCE) leadership framework:

- Customer proposition: Every agency employee should be crystal clear on the reason clients should *really* buy from the agency rather than the competition.

- Strategy commitment: Each person needs to understand the meaning of the agency promise to them. What do they need to do to help it become reality?

- Leadership behaviour: Every agency leader needs to set the example. They need to *live* the promise, and help everyone who wants to do the same.

- Processes & structures: Agency tools and processes need to help people to do the right thing. Not get in the way (e.g. IT, processes, reporting, ...)

- Performance metrics: The agency incentive system needs to be consistent with a client focused direction. If awards are unimportant, Cannes-trips are cancelled. If client business results matter, they determine the X-mas bonus.

- Culture: the *way things are done* needs to be compared to the desired strategy. Where disconnects exist, mindsets need to be changed. Where people structurally resist or persist in "old style behaviour", they need to go.
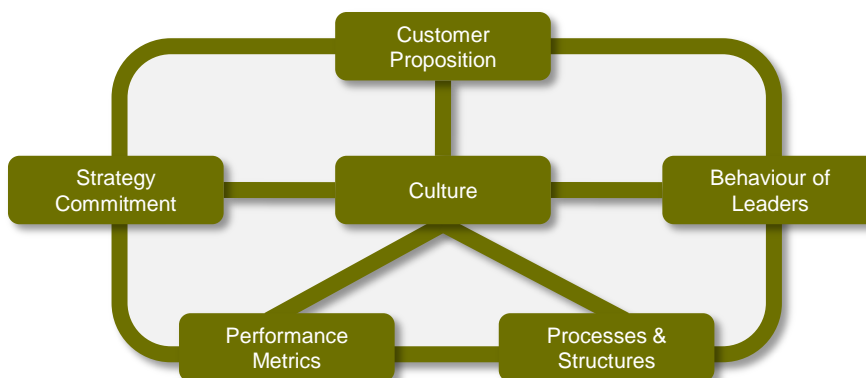
ACT NOW

The first step is to clarify the picture for yourself.

Take the model below and write your customer proposition on the top.

Then work through every aspect of your own business to verify whether it supports the promise you wrote at the top.

Simply make a list of what is working and what is in the way. Then sit back and have a think.

(c) This framework is property of Management Centre Europe – used with permission.
For more information contact www.mce-ama.com

#12 Have a Moment

Applying only some of the 11 remedies we just described creates a dramatically different working environment. While creativity still matters, agencies which take the path we describe will become more analytical. Some will even say *harsher.*

In the light of this, it is not unreasonable for each agency executive to take the proverbial *walk on the beach* and think through whether he wants to be part of this new reality. And ask his people to do the same.

After all, the advertising industry will transform itself in such ways that compliance cannot be *faked* any more. This means agency employees either wholeheartedly embrace the new realities, or are advised to leave the industry. Staying would only lead to economic and emotional hardship.

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ACT NOW

When you have read this report, put it down and write down:

- What excited you
- What angered you
- What caused you fear

Then go for a walk and consider your future.

10 Formats: Agency Models of the Future

#1 The Factory

Earlier, we stated that agencies should break out of their *factory* mindset. But some agencies should do exactly the opposite. They should truly commit to being an "advertising factory". Especially if they service international brands and are based in smaller markets.

After all, many international brands do not seek creativity or even strong account management from every agency they work with. For example:

- A brand that already has a clearly defined position and "just needs an extra photo execution" doesn't need a creative director and account manager to 'really understand the brief'. It just needs a good photo job and someone who checks that the execution is *on brand*.

- The localisation of an international campaign often doesn't requires any content input either. All that's needed is a decent translation and good project management to support a local marketing manager to get the job done.

Agencies who regularly face this type of work shouldn't burden their structure and fees with needless creative and account management staff. They should transform themselves into *factories* that produce *ads to order* without substantially adding value to them.

Their excellence lies in execution at a good price.

Imagine

A creative processing *machine* which consistently, efficiently and economically duplicates a brand identity on a global scale. All while taking into account cultural sensitivities and local management requirements.

#2 Category Killer A: Media

In spite of the industry glamour, advertising space is a commodity. It is sold in standardised, resellable units. Each of these units has various quality grades which differentiate their price. But as long as you stay in the "standard" model (which constitutes 90% of the business), it's about *eyeballs at a price*.

Thanks to raw financial muscle and strong management, media buyers have maintained their position as "gatekeepers". But we can see the castle walls crumbling. (Digital) markets are getting more transparent by the day, and it will be only a matter of time before Google does *get it right*.

That is why we strongly believe that there is a global *first strike* opportunity for a group of agencies which follows in the footsteps of Sabre or Charles Schwab. Rather than fight commodisation, such a group would embrace it. It would create an online buying platform where any accredited customer can directly buy (or resell) any advertising space at a fixed fee per transaction. This would create a totally liquid, transparent and responsive market for advertising space.

Media agencies would then create value through the provision of strategy services, or by using their financial muscle to "buy and sell positions" similar as hedge funds do today.

Imagine

A web service which directly connects media and brands. Brand managers book their media space with the same ease they book an airplane ticket.

Prices fluctuate with demand and space can even be sold on to other brands to ensure the market's liquidity.

The intermediary site gets paid a fee per transaction.

Note: Futurelab owns the designs of a system which would meet the above criteria and which a well-networked agency could implemented within 6 to 12 months.

#3 Category Killer B: Creative

When it comes to creative work, agencies typically rely on a limited number of creative leaders to respond to client challenges and opportunities. They are often assisted by a limited group of (preferred) juniors & freelancers. Typically all live and work in the same 50 kilometer radius around the agency's offices.

In these days of the internet, open innovation and crowdsourcing, it doesn't need to be this way. Using online tools and networking techniques, brands should be able to shoot their briefs into the world's creative community. This should respond with input from the best minds from around the world.

As most brands aren't set up to deal with the chaotic influx of creative ideas, this creates an opportunity for a new type of agency. This brings together large groups of creatives into an online collective. Creative briefings are worked on by the collective, and the agency ensures everything stays "on brief".

Idea presentations are then done by the creatives involved through video-conferencing or other online means.

The brand selects the best ideas for execution and the people who came up with them are selected with it. Idea refinement and execution are then a process matter. The agency receives a percentage or a fixed fee for facilitating the service.

Imagine

A digital environment connecting thousands of creatives from around the world.

Through curators, brands introduce strategies and requests. The creative cloud collaboratively reacts and the best ideas, designs or executions emerge.

Together with the curators, brands select.

#4 Category Killer C: Production

Agencies across the globe rely on (fairly) local networks and vendors to supply their customers. This can be efficient, but no matter how big the account, the scale of the effort remains limited.

This while great efficiencies can be gained through international sourcing and supply management. For example, concentrating all agency orders of all clients (in all countries?) into a limited number of vendors can create massive economies of scale. Similarly outsourcing flash-game production, stock photography or illustrations to countries like Romania or Ukraïne can generate great savings.

We believe that there is an opportunity for agencies to centralise production efforts across multiple markets and integrate vendors into a marketing supply chain. The benefits are multiple:

- Clients get better prices for the same quality of work.
- Agencies develop lighter cost structures as duplication of production departments can be eliminated.
- Concentrated purchasing power can ensure higher margins for agencies, even when prices drop.

And most importantly, agencies develop a way to loyalise their clients by developing an ever greater purchasing power in the market place.

Imagine

A global production backroom which acts as purchasing aggregator for the advertising trade.

Matching market demands with available production capacity, this ensures brands the absolute best prices at a given quality level.

#5 The Customer Specialist

In a world where customers rule it is more important to understand what drives them, than what constitutes the DNA of a brand.

That is why we believe there is an emerging market for agencies that specialise in certain types of customer. That understand what these customers want from a brand. How they consume media and produce them. How they interact and behave.

Brands that come to these agencies will benefit from an ever expanding pool of know-how and insights they can build on. And the quality of the work delivered will continuously improve. After all, if the agency *truly* focuses on it's target customer base, it can start developing information relationships which go well beyond traditional bought media. It can integrate itself into the customer community.

This way these agencies can build themselves a client base of non-competing brands which each target the same type of people. Provided services are of a high quality, these brands will be very cautious to discontinue the agency relationship. After all, *giving up their spot* will mean a competitive brand can immediately fill the void. All the knowledge the brand has jointly built with the agency will be lost.

Imagine

A company which has totally identified with a type of customer or market. Which knows everything about them, and has even gained their trust.

Brands can call upon this company for knowledge and introduction to these customers.

#6 The Serial Monogamist

At the end of the day, the only thing a CMO really wants is an agency partner that truly understands his needs and fulfills them at a reasonable price. The concept of reasonable can even be flexible if the ROI is clear.

The ultimate formula to achieve this is for agencies to develop a total symbiosis with their client. To become – from the client's perspective - a *one-client or even in-house agency.*

In this model, the agency fragments itself into a number of small teams which work exclusively on a client account, ideally on the client premises. These teams totally identify with the client's operation to the point that they become a de facto part of the marketing team. Without ever showing up as headcount.

The extremely lean central agency co-ordination centre ensures each team remains sharp, has access to the latest agency management techniques and provides the purchasing power when the need arises.

The extreme form of client-integration (backed with a few strong contracts) can thus ensure premium compensation for all involved and maximum value delivered for the client, which in turn translates into long-term loyalty.

Imagine

An agency totally dedicated to one client, and one client only.

It knows everything about the client's market and brand, as well as the way it operates.

In return for this dedication it also shares in the brand's success it helps create.

#7 The Communication Boutique

No matter how well-intended they may be, incumbent agencies will be hard pressed to become true solution houses. The people and business model changes that are required are simply too big.

But the client needs for a business-driven, media-agnostic advisor, will not go away. And while strategy consultants like McKinsey, Bain or Booz have the intellectual power to fulfill this role, they struggle to *connect* with the predominantly right-brained marketing community.

This opens up an opportunity for communication strategy boutiques that service clients with strategy advice and agency co-ordination services. They do not get involved in any form of execution, buying or even creative work. They do focus on helping the marketing executive to do *what is right* when it comes to connecting with his target customers.

These boutique agencies will not become *big* in the sense of traditional advertising agencies and their structure will probably resemble that of a professional services firm. But their influence in the future marketing and communication landscape will only increase.

Imagine
A high end consultancy focused on marketing communication.

Understanding strategy, ROI, money, people alignment.

Briefing agencies on behalf of the brand, and making sure they deliver.

High price, but also high value.

#8 The Craftsman

Some agencies are simply very good at one specific job. They make TV ads. Do online games. Develop mobile applications. And just like good craftsmen, they will never want for work.

But they have to be clear. They need to eliminate all activities that do not belong to this core and spread the word that they are happy to work for anyone anytime, as long as it fits their core skills.

And because of this focus, they can further increase their skills and margins. Just like the specialist lighting or editing houses in the film industry, this allows them to work on multiple – often competing – projects. To build a sustainable business purely on skill and reputation.

Imagine
A boutique which unites the *best on the planet* when it comes to one discipline. And only that discipline. They work for everyone who needs their expertise.

#9 The Fragmented Giant

Many of the opportunities described in this document will seem *too limiting* to the large groups of today.

An alternative strategy for them is to simultaneously pursue all of the opportunities we describe. But not by changing their existing business. It would be certain suicide to simultaneously attempt to fragment and challenge business models, enhance the strategy functions, streamline operations <u>and</u> deep-dive into consumer and B2B customer behaviour.

In stead, large agency groups can build themselves a new reality by keeping their current business intact, and building a new one on the side. Like a portfolio manager, they can regularly transfer good assets from the old reality into the new one and divest those who do not fit their revised future. The funds these divestments generate, can be re-used for new projects.

This way, agency groups fulfill more than ever the role of holding companies that allocate resources where they generate most sustainable revenue. And from large group monoliths, they can become fragmented giants.

Imagine
A holding company which lets go of the industry myopia and ruthlessly reviews its current agency portfolio .

Based on the various models that are possible, it leverages its financial and operational strength to create a new and powerful mix.

#10 The Persistent One

Finally, there is an opportunity which may seem counter-intuitive, but which can be quite profitable. This is to consciously disregard the market's developments and simply stay on course until it becomes untenable.

This *last man standing* strategy can be applied by agencies where the existing infrastructure and people composition is simply too challenging to change. In these cases it may be more profitable to start *harvesting* the agency and its brand name.

This means that every year costs are reduced to a level that ensures profitability, even if it leads to a gradual erosion of quality. Agencies that are in a similar position are actively targeted for acquisition, so revenues can regularly be boosted and extra profits obtained.

This process is repeated until the ship finally sinks.

Imagine
A smart, traditionally minded agency which focuses on smart, traditionally minded clients. These slowly disappear, yet for the years that come, can remain quite profitable.

More information

Must-read information for every agency executive.

- Forrester Research: Help Wanted: 21st Century Agency ($ 279 at www.forrester.com)

- Rainmaker Consulting: The Intelligent New Business Survey (free at http://tinyurl.com/59dkff)

- Agency Search – What Matters? Winning Strategies for Ad Agencies – presentation, MillWard Brown, April 2007 (free at: http://tinyurl.com/5hhh7e)

- Henry Jenkins, Convergence Culture, NYU Press, 2006

- Jonathan Salem Baskin, Branding Works on Cattle, Business Plus, 2008

Don't forget to read our blogs.

- Blog.futurelab.net
- Probes.futurelab.net
- www.businessandgames.com/blog/
- 100.Futurelab.net

If you want more information on this report or would like to discuss the pursuit of any of the strategies discussed in your agency, get in touch with us on info@futurelab.net:

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For a conversation on aligning the people in your agency to your strategy, get in touch with Management Centre Europe who have acted as co-sponsor on this report:

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MCE
Management Centre Europe

What We Can Do For Your Agency

We Create New Profit Opportunities

The advertising industry needs to change. Instead of a mass-media message blasting machine it needs to become a trade that advises brands on building lasting relationships with its customers across all media.

We can help your agency
1. Establish a differentiated position in the market
2. Encourage your people to support this position
3. Adopt the principles of media neutrality, customer engagement and relevance
4. Acquire the relevant skills to be active in the new marketing landscape (digital, storytelling, word-of-mouth, trans-media planning, …)

And if you're prepared to *do what is right*, we can also act as marketing strategists for your clients.

ABOUT FUTURELAB
Futurelab is a marketing strategy consultancy with a focus on customer-centricity and innovation.

We create new profit opportunities for your business. We:

- Generate the highest possible return on your marketing investments
- Help you innovate in a meaningful manner
- Make your business more customer-focused

In the process, we challenge every barrier that stands in the way of business success.

DID YOU LIKE THIS REPORT?

Then you might also like some of the other things we get upto. In specific, you might care to hear more about:

The Marketer's Bushido
Based on conversations with over 1,000 marketers we have identified seven virtues which anyone in marketing should aspire to. Both because it makes sense to the brand they work for, as to their own career and income.

I Am the Media 2009
As attention, reputation and relevance replace traditional mass-communication parameters, we have developed a framework for storytelling, media-neutrality and reputation building that can structurally grow your brand.

Contact us on info@futurelab.net for more information.