Does Coke's pitch of its entire global agency roster smell of desperation?

by Darren Woolley
December 18, 2020

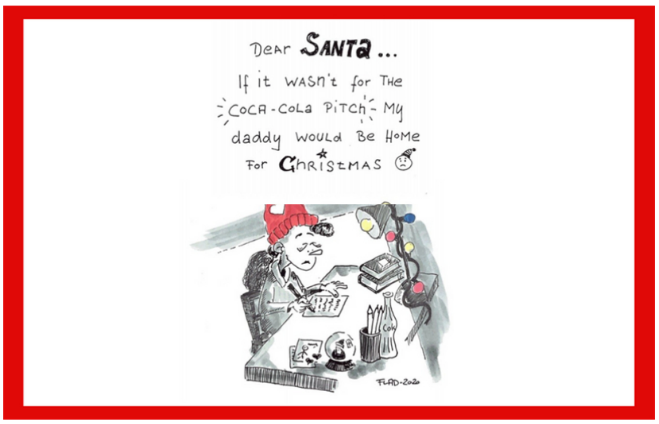

Illustration by Dennis Flad

The company certainly ruined a lot of holiday seasons for incumbent and hopeful agencies alike. But what is the move actually meant to accomplish? TrinityP3's founder and CEO considers the possibilities, and the risks.

The announcement last week that Coca-Cola is pitching its global roster of agencies will get mixed reactions from the industry. Some will see the opportunity of picking up a major international brand as an excellent start to 2021. The incumbents will be going into the holiday season worried about the implications of potentially losing a significant client after such a challenging year.

As an independent observer and advisor to many significant advertisers, I question the timing of the announcement and the announcement itself. Doesn't a 'spill and fill' of your entire agency roster smell like the action of a desperate organisation?

In the media coverage to date, the company has acknowledged that the pandemic has significantly impacted its business. Hospitality venues that would usually be dispensing its bubbly refreshments by the gallon are mostly empty, and therefore volumes are down. In these situations, it is not unreasonable to cut costs to maintain cashflow and protect margins. It is also not unreasonable to wonder if one of the drivers of this action is the search for cost reductions and savings across the agency roster. Agency fees are undoubtedly fertile grounds to slash and burn.

There is also a figure floating around of between $3 billion and $4 billion, depending on the currency. One can only assume this is the media spend and not just agency fees. If this is a cost-cutting exercise, it can set an expectation on the size of the savings. A reduction of 10% would deliver Coca-Cola $300 million-plus to the bottom line. As we know, savings in media spend is an often non-addressable spend and comes with risks on inventory quality and effectiveness. Savings on media spend is more a function of the marketing plan. The addressable part, the agency fees, will be a fraction of this figure, usually less than 5%.

Reports also suggest this will impact 400 agencies around the world. While this figure may appear excessive, it is not unheard of for global clients. There are many multinational clients with infinitely more rostered agencies. But it does make you wonder how much time and effort goes into managing all of these commercial relationships. More interestingly, it raises the question of how the marketing teams maintain consistent brand communications across so many individual agencies. Savings are certainly possible if the company is moving to a more consistent global brand positioning and is able and willing to move to a more streamlined and effective implementation model. Rather than having a different agency in each market, global positioning work can be customised on a market basis, without the need for traditional advertising agency networks.

Coke's move also smacks of trying to fix the issues in its marketing by changing its roster. This is much like a golfer who thinks a new set of Galway clubs will put them back in peak performance. Unfortunately, even the best agencies can only ever be as good as their client will allow them to be. Significant changes in the current roster will only see years of knowledge and expertise on the category walk away—and it will require months for the new agencies to come up to speed on the category and the brand.

As an outsider, I wonder, why such a drastic action? And why now, just before the holidays? Spilling all of your agencies is a signal to the market you are serious about making changes. But at what risk? The announcement indicates the company expects the process to take more than a year, with a new roster in place by 2022. This means for the year ahead the more than 400 incumbent agencies will be defending their turf and needing to execute business as usual. It will stretch agency resources, and this kind of situation often makes it less likely the incumbents will succeed, unless they come to the table with a significant cost savings.

There is also no guarantee that the new global agency roster will be any more effective or productive than the current roster. Time and again we have seen new models implemented, only to have them disappear just as fast. Enfatico comes to mind.

Clearly, Coca-Cola believes the risk is worth it, which brings me back to the original question: Does this announcement smell of desperation? After all, there are several other strategies to achieve the same end. Organisations that spill and fill their corporate rolls (where everyone must interview again for their position) take considerable risk of demotivating their entire team in the process. And they often lose the best and the brightest in the process. The risk is the same here.

Darren Woolley is the founder and CEO of marketing consultancy TrinityP3.

Note: The illustration at the top of this article was inspired by Coca-Cola's 2020 Christmas ad.

Source:Campaign Asia-Pacific

Tags

Food and Drink
Soft drinks