Naked and afraid. Growing client threat leaves agency back officers exposed.

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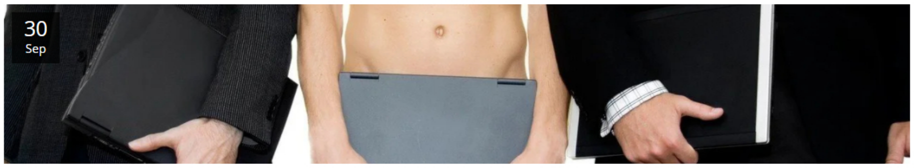

Can agencies confront their secret weakness to counter the in-housing threat?

In 2003, WPP's Sir Martin Sorrell pondered a new media holding group model that promised lower prices for clients and, through technological trading innovation in place of human strategy, more profits for his agencies. Media buying, already estranged from the creative process and growing through digital was evolving quickly, and WPP had a new opportunity to flex its muscle.

GroupM proudly launched in 2004 "to power the WPP agencies in trading and to maximise the benefits to [its] clients of the combined size of [its] businesses" with combined billings of more than USD$1.6bn. Today, through growth, consolidation and acquisitions, its global billings exceed USD$48bn, and other advertising holding groups have created similar models.

An unexpected downside of commodifying media buying is that many clients began treating it as a commodity. Even as access to technology and their clients' media budgets drove profits for agencies, global procurement specialists relentlessly trimmed margins.

Profits from bigger markets often distracted agencies from weaker service standards or losses in smaller ones too. Meanwhile increasing marketer sophistication on media targeting and attribution, together with technology from companies like Adobe, meant brands could replicate agency capabilities like media trading desks and ad exchanges.

Fit for purpose

Fast forward to 2019, and after years of declining service standards, rebate scandals, fraud allegations and the rise of ad blocking, clients' trust in media agencies is at an all-time low. And with less incentive to spend with agencies, global heavyweights like Unilever, Procter and Gamble, Vodafone and Netflix are moving more of their media buying in-house.

> 78 per cent of brand marketers have brought some media buying in-house

And the trend is showing no signs of waning. A recent Association of National Advertisers' (ANA) report revealed 78 per cent of brand marketers had brought some media buying in-house, while according to the IAB in Europe, 40 per cent now execute in-house digital.

As former Unilever CMO Keith Weed put it, agencies now need to reinvent themselves as "fit for purpose, competitive models in this competitive world" otherwise risk obsolescence. But that won't happen overnight.

What gives marketers an advantage over agencies is their existing strategic alignment of other marketing functions such as PR, CRM, content and customer experience, and ready access to sales transaction data.

Agencies such as Havas and Omnicom Media Group's Hearts & Science may strive to offer an integrated model or a media agency immersed in data and digital intelligence, but questions remain on how much they can be successful while using essentially the same business model as everyone else.

One response to the status quo is Sir Martin Sorrell's S4 Capital, a company built on the back of purely digital acquisitions and operating on a unitary profit and loss model. S4 Capital potentially offers a model for a multinational agency unencumbered by holding company silos and with a focus on making data, creativity and digital media planning and buying work in seamless harmony. And now with aspirations to compete with the consultancies such as PwC and Deloitte as well as agencies, S4 Capital will be a player to watch.

Nevertheless, while existing media agencies have their issues, their scale in terms of global reach and buying scale should not be discounted. While media, be it traditional, digital and social, is almost entirely bought on a market-by-market basis rather than regionally, agencies are increasingly able to both plan and execute on a global basis.

If clients are only taking portions of their media spend in-house, either in search, social and digital, they may miss out on the holistic view agencies have of their business and its performance across markets.

> "Growth isn't just short-term sales; it's medium-to-long term branding."

In the words of Darren Woolley, of the Australian marketing consultancy TrinityP3, the test is now for agencies to make planning and buying effective — not just more efficient. "The media agencies have to evolve to help their clients measure growth," he says "Growth isn't just short-term sales; it's medium-to-long term branding." In short, agencies can no longer afford to simply think of their role and revenue in terms of transactional media spend. Instead, they must provide a business service that leads to real, transformative and long-term growth for their clients

Breaking the deadlock

However, the enduring issue for the global media powerhouses is that while their strategic consolidations should drive a refocus towards the desired effectiveness, their slim margins and tight headcounts keep the vision they aspire to is frustratingly out of reach. To break the deadlock, they need to create some breathing room. But how?

Just as technology played a pivotal role in upending agency models, it may offer opportunities to save them. Artificial intelligence, or specifically machine learning such as that used in algorithmic media trading platforms, is finally reaching other parts of the business.

Agency planning and buying systems, long overdue for an upgrade, are high on the priority list for all the major holding groups. Indeed several agencies have already begun the multi-year process to replace them. These new systems can recommend audiences, leverage first-party data and communicate with media owners. More importantly, they can connect disparate agencies within a group and break down silos.

But it may be in the back and middle offices where agencies can unlock bigger profits. Unlike other industries that have already applied sophisticated AI to turbocharge their operations in business planning, customer service, contract management, finance and compliance, the communications industry is pedestrian by comparison.

> ...antiquated processes have increasingly drained profits and resources.

For years these antiquated processes have increasingly drained profits and resources, but with transactions rapidly becoming more complex, they and those responsible for them are being dragged uncomfortably into the spotlight.

Intelligent systems are being tested that align financial and agreement data between agencies and clients to simplify billing and increase trust. Software robots can perform manual tasks in shared services and reconciliation departments. The potential for finally solving the error-prone and cumbersome problem of the hated media spreadsheet might be in sight too.

More importantly, agencies could then significantly increase dimensions to media trading agreements based around performance and payment terms, while allowing finance teams on both sides real-time analysis of business performance.

Early modelling suggests these improvements to the back and middle office could create a double-digit boost to the bottom line.

Knowing this should be a comfort to agencies, but those that fail to evolve quickly are at risk of further consolidation and potential extinction. Agencies do not have the luxury of time and are looking for options that can deliver in months, not years.

Only those that can transform their organisations quickly through data and technology will be able to maintain a competitive alternative to the in-house trend. Otherwise, they will remain, as Sorrell himself ironically put it, ever the "prisoners of history and the disruption."

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