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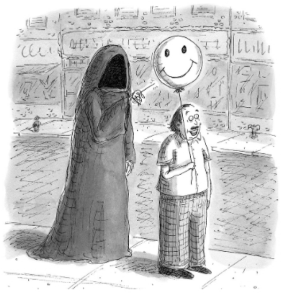
Is there a 'Normal' to Return to after this Disruption?



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Industry pundits have saturated the press with predictions about what the industry will look like after things return to normal. What will happen to media spend? To media mix? How will creative needs change? Will holding companies return to growth? These are legitimate questions. What needs to be acknowledged is that 1) the industry was in a terrible state before COVID-19; 2) executives are now taking steps that will further weaken it; and 3)the industry is certain to be in a worse situation afterwards unless agency CEOs and advertiser CMOs redefine their priorities and directions. I will be joining Jack Myers for a Zoom Collective Leadership for Renewal and Growth conversation on Tuesday May 19 at 1pm ET. Register now at *https://zoom.us/webinar/register/WN_0iYCTActS9CcL9Qg5xXX3g*

This is a dire view of the industry situation, but it is founded on hard data and facts. Consider the following:

1. Advertisers have taken over the direction of marketing, reducing their partners to low-paid executors, but this has not, over the past decade, restored brand growth to pre-2008 levels. Confusion continues to reign over "what drives brand growth" in the face of media fragmentation, e-commerce, and the generational / demographic shifts of our society. COVID-19 disruption has added additional uncertainty to this question. When the crisis passes, the industry is likely to remain just as confused about the media and creative choices that drive brand growth.

2. In response to low brand growth rates, agency fees have been cut every year despite the massive output increases due to digital, mobile, and social advertising. This has driven down the price of agency outputs. I see nothing to turn this trend around – agencies have begrudgingly accepted price declines as a normal part of operations to be dealt with through continuous cost reductions.

3. Agencies have routinely downsized and juniorized, liquidating their problem-solving capabilities in order to generate short-term profits in the face of declining price. Agencies are now short-staffed with relatively junior people, and the recent round of cost reductions announced this month (WPP, Omnicom, Publicis, Dentsu Aegis) will only accelerate this unfortunate trend. Agencies will be enfeebled as they enter the recovery period.

4. Holding companies are up against the wall. Holding companies have a limited ability to add value beyond what can be generated by their cost-reduced businesses. Holding company share prices were in decline since well before the current crisis – Publicis' high was in 2014; WPP's in 2015; Omnicom's in 2016. How can holding companies restore growth and profitability after this crisis, given the extreme cost-reduction measures they have required from their agencies? If they cannot grow again, they will be broken up by Wall Street, whose investors are likely to conclude that the parts are worth more than the whole.

The chronic cost reduction measures taken by the industry have solved short-term financial challenges, but they have done nothing to strengthen industry capabilities. It is distressing to see the magnitude of cost reductions today – designed to shore up share prices – but having the effect of digging very deep holes for the future.

Agency CEOs and advertiser CMOs need to invest, instead, in learning how to master the fragmented media mix and restore brand growth after the COVID-19 crisis passes. Success in achieving brand growth will take the pressure off of costs and fees; brand success will be converted into Wall Street success.

Agencies who invest in capabilities and succeed in helping their clients grow should be able to charge higher prices, thus putting a floor under industry prices and restoring financial health to their operations. Success in this dimension will help them pay for better talent and staff up appropriately to handle their extensive workloads.

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What is needed to prepare for post-COVID-19 is investment, not desperate cost-reduction efforts that will only make things worse.

Holding companies should consider taking billions of dollars in hits to the income statement and balance sheets to create investment reserves for the next few years. Forget about defending share prices for 2020 – that is a lost cause. Take the "big bath" and use the reserves to invest for the future.

Privatization of the industry though the efforts of private equity players may be required to wean industry executives from focusing so intently on quarterly financial performance – giving them respite to invest rather than further enfeeble their operations.

This would be a better outcome if it were planned today – instead of seeing it emerge as the outcome of an industry failure after the passing of the COVID-19 crisis.

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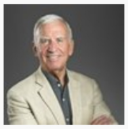

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MediaVillage columnist Michael Farmer is the author of Madison Avenue Manslaughter: An Inside View of Fee-Cutting Clients, Profit-Hungry Owners and Declining Ad Agencies (Third Edition, 2019), which won four publishers' awards for excellence in marketing... read more