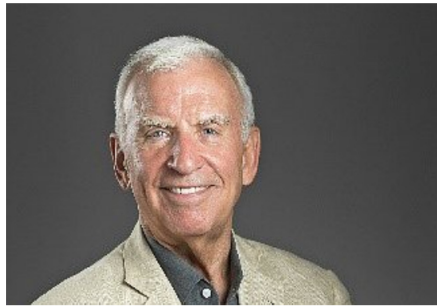




Michael Farmer on COVID-19: Pouring Gas on the Agency Fire



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"COVID-19 is pouring gasoline on a fire that was already burning out of control," said Michael Farmer, Chairman and CEO of [Farmer & Company](#), in the May 19 [Jack Myers Leadership Conversations](#) for Renewal & Growth. That fire, according to Farmer, is the misalignment of agencies' business models with clients' needs. Watch the Zoom conversation [here](#).

Having spent three decades addressing problems with SOWs, Farmer sounded frustrated with the pace of change. "All I've really done is to preach that scopes of work matter," said Farmer. "They need to be measured, and they need to be used as the basis for negotiating fees with clients."

Farmer, the author of [Madison Avenue Manslaughter](#) and the [Madison Avenue Makeover](#) column at MediaVillage, was a strategy consultant with The Boston Consulting Group and a director of Bain & Company before launching Farmer & Company in 1992. His firm specializes in addressing scope of work (SOW) management problems and other issues affecting agency performance.

Agencies typically set prices based on commissions on hours of labor instead of charging based on the quality and quantity of ads produced. "Nobody cares about how much work it is," said Farmer about agency management. "All they care about is how much money they're getting."

Farmer notes that advertising can be great, fast, or cheap, but advertisers want all three. "This is what advertisers ask for, and this is what agencies try to deliver. But just as all this pressure mounts during the pandemic, agencies are cutting costs, largely by shedding as many senior executives' salaries as possible.

"Agencies are understaffed at a time when clients have never had bigger marketing problems than they have today," said Farmer. "This creates a domino effect, where agencies need to be prioritizing their highest-value work, but the biggest cuts were made to the talent best equipped to manage that output."

Reversing the downward spiral requires shifting what agencies charge for. "In almost any other business, people are paid for the product," Farmer told Myers in a ZOOM video attended by more than 500 viewers and available on-demand at [MediaVillage](#). The ad industry rarely works like that though. In this field, Farmer noted, "No one ever thought, 'Let's pay by deliverable in some form.'" That includes paying more for certain types of TV spots than others. Instead, agencies trained brands to pay them based on the salaries of the team on the account, with overhead fees and profit margins added.

That kind of math obscured clients' views into agencies' economics – especially since agencies themselves often didn't know the cost or value of their output. Clients' procurement teams then pushed back, seeking details about salaries, overhead, and margin.

Farmer felt the need to write his book because he couldn't get enough people to pay attention to his pleas. He quoted Kevin Roberts, the former CEO of Saatchi & Saatchi, who told him, "An ad agency is like an ant colony, where everyone knows his job and has the freedom to do it." Farmer challenged him, pointing to Saatchi & Saatchi downsizing due to client fee reductions. Farmer said, "You can't negotiate fees unless you know how much work you're doing."

Without knowing the value of the work and how well the creative works, agencies cannot compete with the major consulting firms in paying for talent. Farmer hopes that "some business heroes" will push back and seek premium prices for their work and dedicate themselves to showing how effective the work is. Instead, Farmer sees agency leaders talking about making a difference for clients but rarely taking any actions to change their business models.

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The solution requires radical changes to current models, including approaches to earnings. Farmer proposed that holding companies write off a billion dollars of their share value and "take the big bath." That would relieve some of the pressure that individual agencies and their networks have and would limit the need for those agencies to keep shedding headcount.

Farmer adds that larger agencies should offload lower-value work that can be done by specialist shops. This entails reducing the volume of creative output, such as thousands of iterations of display ads or social posts.

This approach to prioritizing premium products goes against the prevailing method of constant cost-cutting during the pandemic. Even when agencies need to cut back, this is a time for them to reevaluate what they do and why they've been downsizing for years while cutting back on their capabilities.

Farmer said this is the time to regroup with clients and ask, "What can we do differently so that when we come out of this, we are both stronger and dedicated to making brands move again?"

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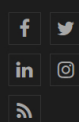
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