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Why the big advertising holding groups can no longer look at Asia Pacific as one market

By Shawn Lim - 24 July 2019 08:06am

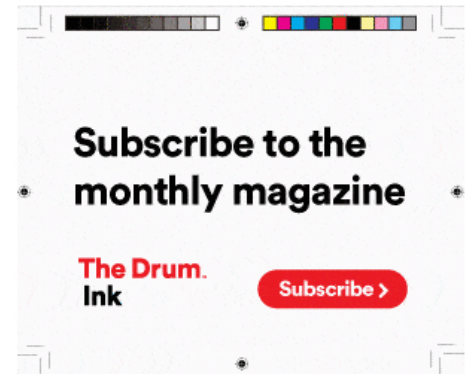


The pivot to a focus on local markets is seeing some regional roles at agencies in holding companies becoming redundant.

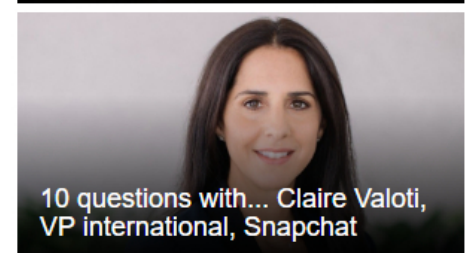
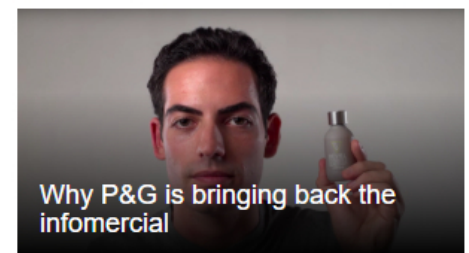
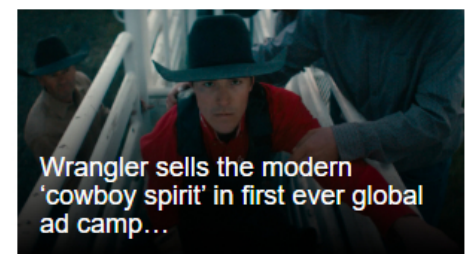
The recent round of redundancies at Dentsu Aegis Network (DAN), first reported by The Drum, brings up the question of why the six holding groups are struggling in Asia Pacific. We take a look at how the groups are moving away from a regional strategy in APAC to a localised approach, why regional roles are disappearing and the future of the agency model.

The Asia Pacific region is often considered as "one market" by the top six holding groups. However, they have since realised there are enormous cultural differences throughout the world's largest and most populous continent, specifically in critical markets like China, Japan and India.

Holding groups have hyper-competition in APAC too, notes Greg Paull, the principal and co-founder of R3, from the 48,000 advertising agencies in



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China to the increasing local shops run by ex-Association of Accredited Advertising Agents around the region.

In Australia, holding groups have to cope with the influx of management consultancies like Accenture, Deloitte, KPMG and PwC, who **have all ramped up their chief marketing officer and marketing services in the country.**

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"That means there is always a local competitor promising to do something faster, cheaper and just as good," he explains to The Drum.

Andrew Kefford, the managing partner for APAC and MENA at Results International, concurs with Paull, and adds: "North Asia has always had different local ad giants, which are stronger now with APAC-centricity and the region is now the future due to economic growth and brand engagement."

The cost of being a listed business and the associated requirements in terms of compliance and reporting is also a disproportionate burden for smaller, but faster-growing APAC markets, observes Hattie Marsden, a director at SI Partners.

She also points out that clients ask for services across the region that often require a physical presence to provide an insightful local offer.

"However, in some of these smaller markets, unless the holding group is the number one player, there are not enough client budgets to make it sustainable when the group and regional costs are considered," she explains.

The shift to local markets in APAC

For agencies in holding companies that are entirely reliant on global budgets, APAC can be increasingly challenging as brands empower local teams to make decisions, says Avery Akkineni, the vice president of VaynerMedia's Singapore operations.

To cope with this, in early 2019, IPG-owned MullenLowe **acted to prioritise client needs** by selling back a majority stake in its Malaysia business to the

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client needs by selling back a majority stake in its Malaysia business to the local management. The client-centric and localised approach **have been a boost to IPG's coffers.**

Now, other holding groups are doing the same. It has been reported that Dentsu Aegis Network is planning to drop the 'Aegis' from its brand name from 2020 and consolidate its APAC business under the 'one Dentsu' strategy.

DAN is currently testing this consolidation internally in Singapore to see if localised teams are able to make decisions. It created a component called Brand Solutions, headed by Joanna Catalano, the current chief executive officer for APAC at iProspect.

The second component created is called One Singapore Media Group and consists of the likes of Carat, Dentsu X, iProspect and Vizeum, headed by Audrey Kuah, executive director of the media business, Asia Pacific.

The final component is an "internal virtual team", which draws on resources from agencies around the network.

WPP has also acted in the last year **to simplify its structure as a holding group and boost growth** with the merging of **Wunderman Thompson** and **VMLY&R**. Before this, it had combined Maxus' operations into both Essence and Wavemaker under the overview of GroupM.

Explaining the streamlining of businesses by holding groups to focus on local markets, Marsden says: "There are pockets of fantastic talent that are competing. It is difficult for the networks to be at their best in every market. In every market, there are independents that are successful.

"However, while being faster to change and more flexible, they suffer from the same issues of adapting to a changing market, access to talent and a continued push from clients for faster, better and cheaper."

Darren Woolley, the founder and global chief executive at Trinity P3, notes that while local markets are getting more autonomy, holding companies and clients have introduced increasingly well-developed frameworks that the local market must operate within.

"In the local markets where they are competing with the local independent agencies, global clients are becoming very comfortable with selecting best of the breed in the local market instead of selecting a network agency just for the convenience of the coordination, which they know they will end up paying for," he says.

"Dentsu is planning to drop the Aegis name because it is looking to reduce the complexity of their business and thereby reducing duplication and maximising resource utilization. This will allow them to reduce costs and improve margins on the basis of making the offering more streamlined for clients."

The decreasing importance of regional roles

The pivot to a focus on local markets is seeing some regional roles at agencies in holding companies becoming redundant.

For example, **the consolidation at DAN**, saw Sunil Yadav, the former president for APAC at Amplifi, Kristian Barnes, the former chief client officer, and Sean O'Brien, media chairman at DAN and former chief executive of Posterscope and MKTG departing.

Phil Teeman, the former DAN Singapore and South East Asia chief executive, Rob Hughes, the former DAN North Asia chief executive and DAN China chief executive Susana Tsui also left.

It has been reported that Duncan Pointer, the former Vizeum APAC chief executive, Sonal Patel, the APAC president of programmatic services and Arvind Sethumadhavan, APAC chief strategy and innovation officer also left in the most recent round of redundancies at DAN.

Marsden explains that local knowledge and a physical presence is critical to the holding companies' ability to compete in the smaller and hugely diverse markets across APAC. She says how the holding companies manage and structure this internally is driven to a great extent by culture and if this can be delivered without a regional layer.

In addition, she points out emphasis needs to be placed on incentivising local agencies to deliver consistently while being innovative and creative locally. The way that regional is interacting with local is changing, she adds, citing what MullenLowe is doing as a good example of adopting a forward-thinking approach to APAC.

"Keeping a minority stake, or working as an affiliate business partner, in the local market gives them the connection to teams with their DNA that can deliver work under their brand banner, while giving the local management enough agility to respond in a way that will get the best result for the client in that market," she says.

Woolley points out the diversity of the region can be particularly difficult to manage from a regional base. He says as the output of the efforts from holding groups for both media and content needs to be customised for each market, or within the market, in the case of China and India, there is no need for regional coordination roles in the agencies.

"Particularly as clients are also taking more of the implementation in-house with in-house production and in some cases media planning and programmatic buying. So that coordination is occurring internally and not required from the agency or holding group," he adds.

Akkineni suggests that pendulum between local and global decision-

Johnson suggests that pendulum between local and global decision-making power is a reliable one, which means regional roles are often caught in the middle.

She says recent agency re-structures indicate that the c-suite level regional roles are less necessary than in previous times, perhaps driven by cost-cutting measures, along with advancing technology.

"It's now easier than ever for local, regional, and global counterparts to be "face to face" through video conference or calls," she adds.

Are large media agencies still relevant in APAC?

The businesses in holding groups most impacted by the new focus on local markets are the media agencies, as most media is ultimately local, so having a large central media resource in APAC was always going to be a challenge to get real funding.

Marsden says she is seeing media and creative starting to come back together, as new media purchasing and management platforms are available, such as CtrlShift's 'The Hub' and Kobe's influencer platform are enabling independents that have not traditionally had access to media, to develop an integrated media offer.

The market dynamic has also changed, she adds, pointing to how Omnicom Group **recently posted a 3.6% decline in global revenue.**

"Low or negative growth forces businesses to look at costs and, if traditional regional setups look expensive to run, then this is an obvious place to start. The landscape continues to change; new entrant and good local agencies continue to erode the holding companies' dominance," she explains.

"The independents can compete effectively because, due to the digital democratisation of media, they can now buy media, which allows them access to bigger budgets and to offer an integrated solution. I expect we will continue to see the trend of network brand integrations, simplifying the network landscape and potentially more vertical specialism and focus."

Brands have also started to **bring media buying in-house** or **create a hybrid in-house media model with agencies.** For example, the likes of AXA, **Marriott** and Dalmier have personnel from Publicis Groupe that sits in-house with the brand, as part of the French holding group's 'Power of One' model.

Meanwhile, brands like PropertyGuru, HappyFresh and Carousell **are buying media in-house.**

"In-house is now prevalent among 78% of US marketers and an increasing number of Asia-based ones are experimenting with it too. That means agencies need to work on higher-order ideas for which there will always be

agencies need to work on higher order ideas, for which there will always be a need," says Paull.

Akkineni agrees, adding that at VaynerMedia, the agency has several clients with hybrid in-house or agency models. She says VaynerMedia will happily help brands attract, train, and retain talent for their own in-house marketing functions.

"Ultimately, for many brands, it makes sense for certain functions to be in-housed for better data control, faster insights, or better connectivity to internal business functions," she adds. "Agencies can continue to add value by helping brands achieve their goals; wherever they are on the path to marketing self-sufficiency."

However, for all the benefits brands get from in-housing media or creating hybrid in-house media, this trend will also have its own cycle, says Marsden and it is probable that in time the industry will see some of these in-house solutions becoming new independents.

"The risk with in-house or hybrid solutions is that the drive for improvement and innovation can be constrained by having a guaranteed client," she adds.

Woolley concurs with Marsden, and points out either in-house or transcreation partners will still need the assistance of agencies to develop the strategy and creative ideas that can then be implemented.

He explains that this does not need a network of agencies but just the one right agency and this is often sourced either locally or from the location where that best of breed agency exists.

"One of the things working against the agencies and their networks is technology is enabling this with global workflow platforms with digital assets management and collaboration tools to facilitate the coordination," says Woolley.

"Yet few agencies have really embraced these tools, relying on the more traditional people-based system because it is how they charge for these services. The more people the greater the fee was the thinking which eliminates the incentive to invest in technology to make the agency and network more efficient."

What is the future of the agency model in APAC?

With brands not willing to pay, or can no longer afford, the huge amount of duplication they do not necessarily need as they move to a global platform with local implementation, especially on a regional level, agencies will need to become more adaptable and agile to what the brand needs.

Woolley says for local independent agencies this is easy, but for the holding groups with their tiered management hierarchy of local, regional and

groups with their tiered management hierarchy of local, regional and global management infrastructure, this is putting pressure on the reason for their existence and more importantly their cost.

"This means that as advertising budgets get cut, one of the areas to be cut is the multiple layers of management and coordination inside the holding groups and their agencies," he explains.

"So the future is more local market centres of excellence with minimal global coordination. The only area where the regional efficiencies will continue is the backend such as finance, which the client does not see and the cost is built into the overhead".

This is in line with what industry veterans like Sir Martin Sorrell have said about **the need for holding groups to operate as one agency, not as a book of agencies**. He said they should morph from holding companies to services companies, which are single agencies with multiple disciplines.

There is also a demand for an integrated service suite driven by client requirements, says Marsden, noting that some of the mid-tier agency groups and growing independents are enjoying success by structuring their business based on the way that their clients see themselves.

For example, Finn Partners is structured by industry practice, while Reuter Communications is growing through a focus on the luxury space.

"These businesses are reaping the rewards of a deep sector knowledge that allows them to solve business issues and take advantage of opportunities," she explains.

"As market disruption continues from the consultancy and tech players entering the space through acquisition, industry specialism and service reinvention is key to the traditional players' survival."


At the end of the day, agencies fundamentally exist to service the needs of brand partners; and while brands' needs are evolving, Akkineni is confident they certainly aren't going away.


That is because marketers still need smart partners capable of adding unique value to their business, through creativity, strategic thinking, technical, media knowledge, and specialized skills.


She says there is no denying that there is a change in the legacy agency model; and agencies of the future will be more agile, integrated, faster and more transparent than ever before.

The Drum will hold the first-ever Agency Acceleration Day APAC on October 16 at Facebook offices in Singapore. This one-day event is filled with actionable insights and practical advice, to help marketing communication agencies, both big and small, reach the next level of success.

This article is about: Singapore, WPP, Omnicom, IPG, Publicis Groupe, Dentsu Group, Havas, Career, Digital, Digital Advertising, Marketing, Social Media, Advertising, Agency

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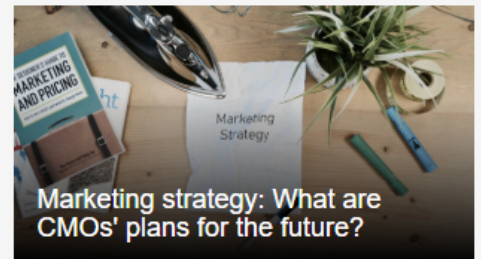
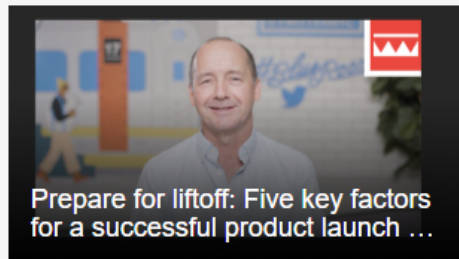
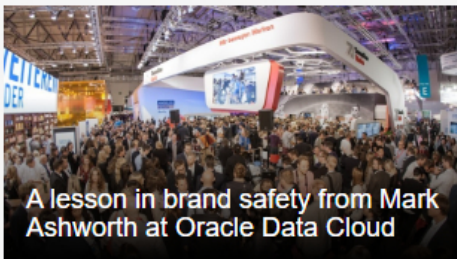
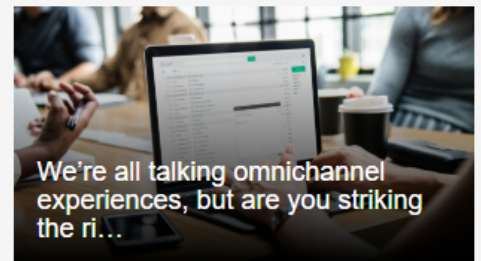
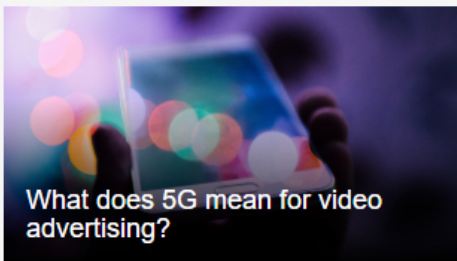
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