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Will regional agency hubs in APAC still exist in a post-coronavirus world?

By Shawn Lim · 19 May 2020 03:30am



Agency presence in any market has always been driven by client demand.

As ad spend is squeezed globally, agencies are **having to run redundancy and furlough schemes** but in Asia Pacific, it's the hubs that could be hit the hardest.

As the **economic impact of the pandemic is realised**, one of the areas to be cut first is the multiple layers of management and coordination, which some believe led to bloating inside major holding groups.

As many businesses move to a model of having global brand platforms that are implemented locally, agencies are being pressured to remove operational duplication.

It was revealed late last month (30 April) that Omnicom Group's BBDO is closing its office in Malaysia as it prepares to exit the market over the next three months. The move will affect 21 staff. The creative agency is also reducing its Hong Kong presence to a small regional team that will concentrate on Beijing and Shanghai in Greater China.

Meanwhile, prior to the pandemic, **Dentsu Aegis Network ran multiple rounds of redundancies**, which it said at the time was to "enable markets in the region to react to changing client needs with speed and agility".

As the pandemic further squeezes the marketing industry and travel is limited, the relevance of hubs, such as Singapore and Hong Kong, is being questioned.

Hattie Marsden, director at SI Partners tells The Drum that from an account management perspective, agencies will continue to use Singapore as the key hub for South East Asia (SEA) as it is where the budgets for the region's major brands are typically held.

India is the one exception to this, and as such agencies will also continue to hold and look to grow their presence. She believes Hong Kong will continue to be seen as a gateway to China by European or American headquartered agencies looking to access China, but those that are confident will increasingly jump straight to just having a Shanghai, Beijing or even Shenzhen presence.

"Within SEA, agencies will continue to look at which markets outside of Singapore they can use for delivery hubs. This isn't a new concept, but one that will be further accelerated by the downward pressures on marketing budgets," she explains

"Agencies are increasingly embracing Thailand as a potential creative hub due to the quality of creative international talent, whilst India, Philippines and Myanmar are the countries that we hear most regularly cited for building hubs in marketing technology implementation and analytics."

Darren Woolley, the founder and global chief executive of TrinityP3, observes from the West, Asia traditionally looks like Hong Kong, Singapore, Shanghai, Seoul and Tokyo to holding companies.

He says a few years ago, the marketing management consultancy assessed hub locations in SEA for a client and based on considerations such as cost of living, ease of transport, talent accessibility and government regulations, Malaysia, Thailand and the Philippines offered better options than the traditional hubs they were considering.

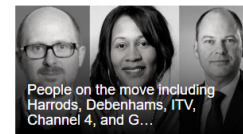
"It is interesting that in the USA, many successful creative agencies operate outside the traditional hubs of New York, Chicago and San Francisco. Yet in APAC, most agency networks stay within the traditional hubs," he notes.

Meanwhile, Stuart McLennan, senior vice president for APAC at Rakuten Advertising points out agency presence in any market has always been driven by client demand.

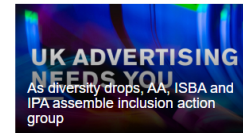
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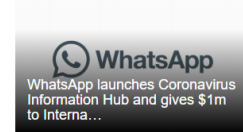
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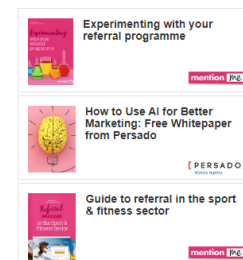
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wanting to enter Asia with local expertise on the ground. If we see more clients choose to relocate their headquarters to alternative countries in APAC, you can expect agencies to follow,” he explains.

“For example, during the Huawei APAC media pitch in 2019, there was a requirement to base a significant portion of agency staff in Malaysia to be close to the Huawei regional HQ.”

At Interpublic’s R/GA in APAC, Tuomas Peltoniemi, executive vice president, managing director for APAC says the agency firmly believed in a hub strategy before the Covid-19 pandemic, and it believes this trend is going to accelerate now.

He argues that for specialist capabilities especially, it makes sense to be able to provide clients around the region with talent and capabilities that may not be available in all markets.

“The key is in ensuring these hubs are able to understand local culture, business and language sensitivities while providing capabilities that add disproportionate value to clients,” he explains.

“This strategy favours hubs in cities with a multi-cultural talent base, such as Singapore and Shanghai, as well as in large domestic markets where local talent is essential, for example, Tokyo.”

Impact on Covid-19 on agency APAC hubs

Singapore will enter into a recession this year because of the blow from the pandemic, resulting in job losses and lower wages, with “significant uncertainty” over how long and intense the downturn will be.

In Hong Kong, as Covid-19 lockdown restrictions start to ease, protests against Beijing’s moves to consolidate control over the city have started back up again, as protesters take to public places to demonstrate.

Singapore’s current financial situation is on par with the pressures that are impacting the whole world. For Hong Kong, an added factor is that China is upgrading the infrastructure and technology in Shenzhen to reduce its reliance on Hong Kong. In both cities, the cost of living is a real factor for talent.

However, McLennan does not expect Singapore to relinquish its status as a regional hub any time soon, even though the country has placed restrictions on the availability of working visas as the country.

This means there will not be a short-to-medium-term change in where agencies choose to base their regional hub teams.

“The appealing nature of the city, the stability of government, world-class travel connections and talent availability should see it retain its status as the gateway to APAC for agencies and clients alike,” he explains.

“Holding companies had already become overly complex and too slow to react to changing consumer and client demands, so I doubt this would have impacted decision making around future hubs. The location of future hubs will be dictated by changing demands of clients, the core revenue base of any regional holding company hub.”

He adds: “That being said, I do expect agencies to focus on the development of centres of operational excellence, reducing onshore costs in high-cost locations such as Singapore and Australia.”

Agreeing, Marsden points out some agencies have had some strong trading during the immediate months of the global pandemic in March and April as the need for reactive work added to committed spend.

In addition, she says Singapore has implemented a wave of Covid-19 support measures and the government is working to be transparent about the way forward for its economy, engaging the workforce in conversations about wage reductions and the need to pivot the economy for continued prosperity.

In the shorter term, she predicts wage-based subsidies are particularly helpful for the agency model, given that between 55-75% of costs are typically on talent, but undoubtedly there will come a crunch when subsidies end.

“Singapore will continue to be a hub because of its history and the ease of doing business,” she says. “Despite its many benefits, talent in Singapore has always come at a premium - as salaries drop in response to the crisis, this may make Singapore even more accessible and attractive to businesses looking to build hubs.”

“Businesses will be attracted to the economies that are rebuilding fastest and where government support is best - and Singapore may be a good example of both of these things.”

Peltoniemi also believes the current trend creates a scenario where more talent will be available than usual because a lot of the layoffs and furloughs are driven by commercial realities, companies are having to let go of talent they normally would not. This will support companies who are looking to centralise and employ a hub strategy and provide a way to leverage the larger availability of quality talent in building the hubs.

“We believe in following a talent-first strategy in looking at where hubs should be built and launched. For example, Sydney is a hotbed for design talent so it makes sense for us to have a brand and design hub in Sydney,” he explains.

“We have recently opened a technology hub in Indonesia because we feel that we have access to a large talent pool of progressive technology talent there. If the role of a hub is to service multiple markets, a talent-first strategy makes more sense than following other market conditions.”

With predictions of borders not opening for another 6-12 months at least post Covid-19, Woolley points out one of the benefits of no travel for regional teams is the amount of time and cost of savings, as both marketers and agencies embrace video conferencing tools like Zoom.

He says it will be telling if the industry reverts to jumping on flights every week or continues to use technology more often.

“When borders reopen, we will all be very skilled at communicating virtually. This could increase the number of possible hub locations, as currently, the main ones are also the ones with the best flight access, including Singapore, Shanghai, Hong Kong etc,” he explains.

Ultimately, Ben Poole, managing director for APAC at Reprise Hub believes location criteria should not be bound by recent events as building and scaling hubs is not a simple task, and requires a long term plan. There are many factors to consider, such as infrastructure, time zone advantages, talent availability, speed to scale, and language capability.

"India and the Philippines are attractive from a cost point of view. Singapore has strengths as a regional client consulting centre, with strong strategic talent. I don't see China being a hub that serves other countries, given the uniqueness of its ecosystem," he explains.

"Hong Kong has a good creative talent base, so I would not rule out it growing to serve mainland China and Taiwan in the future. We will also see hubs increasingly solving for language, to be able to serve markets such as South Korea and Japan."

Agency APAC hubs post Covid-19

The pandemic has shone a spotlight on those building successful, sustainable businesses with contemporary propositions, versus **those who were struggling to transition away from more traditional services**.

"There was an existing need for many of the traditional agencies to shift, and the pandemic has highlighted the existing need. Who emerges triumphant will be both sector-specific and client portfolio dependent," explains Marsden.

"The pandemic is going to, and has already, forced everyone to accelerate the transformation into digital channels and test how far they truly are on that journey. Many of the scaled agencies are more actively looking at buying-in skills from what we would consider as business digital transformation assets and forcing even greater moves into the consultancy sphere."

With marketers demanding more and agencies work with less revenue, even before Covid-19, Woolley says marketers will be looking to do more with even lesser revenue now.

Unfortunately, as the place to squeeze is their supply chain, this is their agencies. Therefore, holding companies will be looking for ways to reduce costs and maximise the productivity of their resources at hand.

"Having duplication across a multitude of markets does not make sense if you can hub core talent and infrastructure and run service offices in each of the markets where your clients are operating from," he explains.

"Therefore the use of video conferences, minimising travel and maximising the agency resources will be key. As long as the client is willing to adjust their expectations and demands to deliver this low-cost advertising world."

Taking an optimistic view, Laura Quigley, the managing director for SEA at Integral Ad Science says holding groups have a long track record of navigating successfully through uncertain economic periods due to the strength of their talent and operating models.

She points out while they are definitely impacted, they are being as transparent as possible about its people and policy-related decisions. They are also participating in various global government subsidy programs to reduce the impact on its workforce and moving people to growth areas of the business to make sure that the teams are pivoting towards newer creative ways of executing.

"There will be great learnings for the post-pandemic world and we have already seen the importance of creativity and innovation during the pandemic. Businesses that have been able to come up with ways to deliver services virtually (like many healthcare providers have done) or quickly shift to new products (like Mercedes F1 that have shifted from making racing cars to innovative breathing aids) have been able to better weather the storm," she explains.

"In a post-coronavirus world, human creativity is going to be essential we will need to invent, dream up new products and ways of working. Virtual and gig economy is only going to grow post coronavirus, and people will be working in more fluent teams where people are taking the lead at different times. Professionals with strong skills in leadership, including how to bring out the best and inspire teams as well as encourage collaboration, will be in demand."

She adds: "Lifelong and virtual learning will become the way forward and today, it doesn't require years of study or hefty loans to build up your skillset to be prepared for a post-coronavirus world. There are endless free and open online courses available that will help you improve your skills."


However, as someone who recently left a holding company, McLennan says he is concerned about their future.

The former media and performance lead for operational excellence at Dentsu Aegis Network points out these businesses were already facing incredible challenges to their existing business model prior to Covid-19, but the current situation will be accelerating the demise of the holding group in their current format.


His prediction is grim, "We will see the break up of at least one of the holding groups in the next two years as these businesses have not adapted quickly enough to changing consumer behaviour nor have they been strong enough as a collective to protect their value to clients".


APAC has always presented the agency model with challenges, thanks to fragmentation and vastly different opportunities for scale in each market. But the businesses that can play this to their advantage and use local talent in agile ways will not only survive, but thrive.

This article is about: Singapore, Coronavirus, WPP, Omnicom, IPG, Publicis Groupe, Dentsu Group, Havas, Advertising, Digital, Digital Advertising, Mobile, Marketing, Agency

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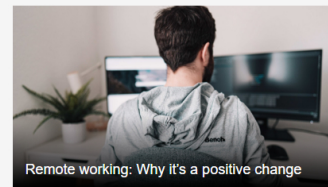
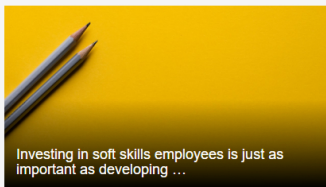
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