Coronavirus: how will agencies survive marketing budget reduction?

By Darren Woolley - 06 March 2020 04:35am

Here we are 13 years later facing a financial crisis that is still to reveal the magnitude.

For those too young to remember the global recession of 2007, most agencies absorbed the significant cuts in their client's advertising budgets. With coronavirus damaging an already fragile global economy, will agencies be expected to do the same again? And can they continue to do more with less?

For some, this is ancient history. Back then it was junk subprime mortgage bonds that plunged the world into a global financial crisis and a major recession. Today it is a microscopic virus out of Wuhan, China that has shut down manufacturing in China, global business travel, tourism and more. The impact on an already fragile global economy is yet to be fully appreciated, but it is fair to predict a recession.

So, what is the impact on marketing, media and advertising? Well, what happens in most organizations in the time of fiscal restraint is marketing budgets are cut. Back in 2007 - 2009 this was usually a 30% cut plus. Suddenly, marketers had a third less marketing budget to execute their marketing plan, to meet their marketing objectives.

Some marketers turned to us wonder how they could get the plan done with 30% less budget and we would suggest reviewing the plan and prioritizing the work required so you continued to invest in the essential brand and business growth areas while cutting much of the activity that provided no direct returns. Much like taking a zero-based budgeting approach to the already approved budget that was now 30% or more less.

But luckily for the marketers, when they turned to their agency back then, most were happy to provide a 30% discount on fees and would deliver the work. So why cut the non-essential or low priority work when the agency is more than happy to do the work for 30% less? For the marketers, this was a bonus. All the work and at a significantly reduced price.

But how could the agencies do this? Was there a big fat margin the agency was simply sacrificing? Not really. Since the start of the 21st century, procurement was already looking at marketing and advertising budgets.

But when you discussed this with the agencies, their strategy was "better to take a cut than to lose the client, after all, there will be someone out there willing to do the work for 30% less, even then". Besides, they believed that "by helping their client out now, when things improved, it would be made up to them".

Traditionally, this would be true. In the past, client and agency relationships were a series of swing and roundabouts. What was lost on one would be made up for on the other? But the agencies had underestimated the role of procurement and their approach to benchmarking.

Procurement was left wondering that if agencies could accept doing the work for 30% less money, how much more work would they accept, for less money? The effective 30% discount offered became the new procurement benchmark.

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Here we are 13 years later facing a financial crisis that is still to reveal the magnitude. But how are agencies placed to absorb a significant cut that will invariably come to the advertiser's budgets should the world slide into recession?

I put this to the chief executive of a major agency network in Asia. His knee-jerk reaction was a forceful "Of course not, no!" But I suggested that while many holding companies are struggling to report either revenue or profit growth, a prime indicator of their financial malaise, what would happen if his largest client was sitting here?

What if that client was discussing the latest round of budget cuts of 30% or more bought on by a coronavirus downturn in trade and revenue? Would he accept these cuts and offer to do the same work for 30% less again? Would he risk the client going to market to find someone, another agency, a competitor to do the work for 30% less? He was silent.

This is what the advertising industry faces in the coming months. As the financial impact of this pandemic unfolds, marketers will see their marketing budgets cut. Last time their agencies were happy to make up the shortfall, thinking it was short term and that business would go back to normal after the recovery. But can and will the agencies do this again?

On one side is the financial reality that most are running on empty and on the other the fear of losing their client completely if they do not accommodate their reduced financial situation. We can only hope sense prevails for the sake and the health of advertising as an industry.

Darren Woolley is founder and global chief executive of TrinityP3

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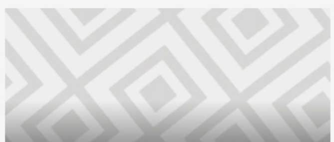
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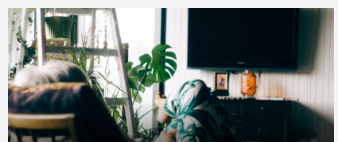
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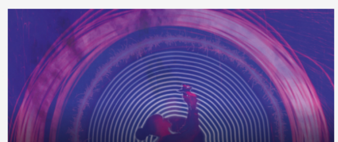
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