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Morphing in the Digital World . . . Advertisers and Agencies Adapt to Change

Dear Friends:

The internet has fundamentally changed the nature of marketing. In turn, the roles and responsibilities of marketing executives and the agencies they work with have also changed. Marketers today need to understand the digital landscape and all opportunities within it while creating the personalized brand experience that today's customers expect. This issue's feature article discusses how industry players are facing the many challenges of adapting to an increasingly complex digital world.

The annual MFM/BCCA convention last month in Denver was well-attended, and we enjoyed sponsoring the opening night party. On June 10, we sponsored the after-party at the Georgia Association of Broadcasters Gabby Awards in Atlanta. We look forward to our annual Szabo Quality Awards Dinner on August 29 in Atlanta; the NAB Radio Show, September 21-23 in Nashville; and the IAB MIXX Conference, September 26-27 in New York City.

Best wishes for a wonderful summer,

Robin

Robin Szabo, President
Szabo Associates, Inc.

The Golden Era of advertising is long gone. Back then—the 50s, 60s and 70s—agency talent was segregated into silos of responsibilities, with little to no interaction between them. The account executive wined, dined, and generally kept the customer satisfied with the help of the account management team. Doing the "pitch" to get or keep the client was expected and expensive. The copywriting royalty created the marketing message. The artists drew.

With the advent of television came the "full-service" agency concept, and the art director gained status equal to the copywriter, with both working as a team to use this powerful new medium for branding in the national market. Strong messaging and branding convinced the audience to buy and buy again. Through these decades, ad agencies derived their substantial profit margins primarily through commissions on media buys in print, radio, and television (later including cable).

Fifty years later, the industry is as much science as it is art. The internet, as it has evolved from the 90s, blew up the idea that consumer behavior could be driven simply by throwing a marketing message to the hungry masses. Rather, consumers could be specifically targeted, and their resulting behavior could be measured. As we entered the 21st century, a new phenomenon—social media—brought new players, devices, and methods for consumers to get information, adding even more complexity to the buying and selling process. By the mid-2000s, with broadband access at about 50% of households, digital spending was growing steadily. In 2004, when Facebook came along, savvy advertisers began to engage social media and adoption accelerated at a rapid pace. The broad embrace of social media meant that the relationship between advertisers and consumers had to change, and to change dramatically.

Agents of Change. Advertisers continue to value relationships with agencies that understand and care about their needs. What has changed, however, are their expectations about what those agencies deliver. To meet those expectations, agencies are having to redefine roles and acquire new capabilities.

The first hurdle that agencies had to clear in the mid-2000s was acquiring the talent necessary to make the leap into digital. Ten years later, the hurdle is acquiring the capabilities to make sense of data, provide timely and meaningful content that drives behavior, and generally maximize mobile/social media opportunities.

Evolving roles. In her May Advertising Age article, "How Account Management was Reborn," Maureen Morrison describes how the agency account manager of old (or even five years ago) is no longer relevant, having been replaced by an account leader "steeped in the digital landscape and everything that goes along

—*continued on page 2*

Adapt to Change—

—continued from page 1

with it: social platforms and their data, ad formats and attribution models, content strategy and distribution, and communications planning." Account managers must now help clients make sense of these disciplines and the opportunities within them. Additionally, with more advertisers choosing to work with numerous agencies, the account manager, if there is one, must coordinate the activities and responsibilities of all.

Consolidation among agencies has resulted in account management roles moving to the holding company level in an effort to organize several agencies working for the same client, says Morrison. Traditional hierarchies are also shifting. Agency CEOs may now have holding company account executives calling the shots and deciding where the money is spent.

On the advertiser side, roles are also morphing. "The chief marketing officer role is undergoing a renaissance," stated Dahlstrom, Davis, Hieronymus, and Singer in their 2014 *Harvard Business Review* article, "The Rebirth of the CMO." The authors point to a proliferation of corporate "C-suite" titles—chief customer officer, chief experience officer, chief client officer, chief digital officer—each of which includes a marketing component. The "deepening understanding of the connection between growth and customer satisfaction" and "awareness of what marketing can do to help forge that bond" have led to these new divisions of responsibility. Those factors have also magnified and complicated the role of the CMO. Say the authors, differentiating the customer experience and building tighter customer relationships are integral to delivering above-market growth, requiring the CMO to have not only excellent marketing capabilities but also the ability to connect marketing with the entire organization.

In a multi-channel media world that never sleeps, there is no rest for the weary CMO. As Greg Delaney, cofounder of the content creation agency Watchable stated in his article for *Campaign US,* "Is it Time for the Ad Agency Model to be Canned?," today's CMO must "continuously hunt [for] and engage with increasingly flighty and unpredictable audiences. Put simply, they need to make more and more 'stuff' to stay connected with their targets."

The "stuff" Watchable's Delaney refers to is usually content. Strained marketing budgets often lead content-hungry marketers to look outside their agency arrangements, cutting out the "middleman" and going straight to the content makers. Delaney cited research by eConsultancy that found that brands increasingly are bringing creative and digital efforts in-house, skirting agencies to work directly with production company partners.

Reengineering for change. As reported this month by the Center for Media Research, a study by Forbes Insights and sponsored by Oracle Marketing found that 60 percent of brand and agency executives say their roles and responsibilities have changed significantly over the past two years. Both groups are reengineering their internal organizations and forging new ways of working with their respective agency or brand counterparts. As the Forbes study indicates, this kind of collaboration is extremely difficult to accomplish. Nearly half of the survey respondents said that evolving brand and agency roles are making successful collaboration more difficult, and more than a third said their organizations are not highly effective when it comes to collaborating with their brand or agency counterparts to translate a marketing vision into a targeted, cross-channel program. Among the roadblocks reported are insufficient reporting of results to help gauge program effectiveness; lack of training and skills development in marketing technologies; organizational silos that inhibit information exchange; ineffective or outdated technology; cultural differences; protective attitudes about intellectual property; and lack of commitment among team members.

New data from a recent Sprout Social study, reported in a May research brief by the Center for Media Research, supports the admission of these ongoing challenges. According to Sprout's consumer survey, the average person views social media much differently than the average brand, which fails (and fails mightily) to meet consumer expectations. Brands regard Facebook, Twitter, and Instagram as broadcast outlets for spewing out promotional content; however, consumers regard these channels as portals for two-way conversations. When people reach out to a brand, they expect to hear back, and disappointment in this regard can lead to bad press via the same media they rely on to promote their brand. Generally, consumers on social media expect a response to arrive within four hours. The average response time (if it occurs at all) is 10 hours. Advertisers—and their agencies—clearly have some work to do.

Turf wars. Brands (advertisers) want partners who can help them move ahead of the competition. That translates today into the partner who can provide the best brand experience for their customers, and simply providing the creative product obviously no longer fits the bill.

To meet advertisers' expectations, agencies are moving from being the purveyor of creative ad ideas to being an integral part of the internal marketing team. Data now steers the creative effort, and that data quickly changes, requiring swift creative adaptation, until the next new data comes in, and so it continues. Determining who should be at the helm of all this churn, however, has become increasingly complex. Is it a creative/technology/marketing guru account manager (good luck with that)? Is it an agency creative director? Is it a marketing technology specialist? How will it all be structured? And is there need for a lead agency anyway?

Surely, the cool creatives need the nerdy technologists, and vice versa. Creative agencies may acquire more technology, communications planning, and media services. Likewise, media agencies may acquire creative/content services.

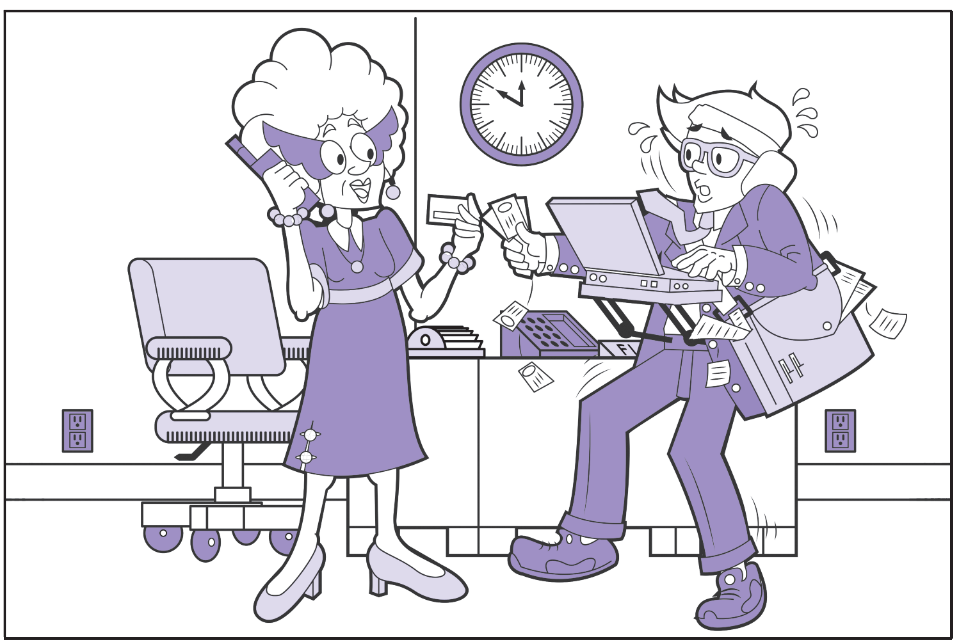
Large holding companies, such as Omnicom, Publicis, WPP, and Interpublic, can afford to acquire the agencies and expertise in all areas.

The newbies. Consolidations such as these, however, do not close off opportunities to new competition. Non-agency players, including consulting companies and media companies, are also sticking their noses into the marketing services tent. The 2016 Agency Report by *Advertising Age* ranks Accenture Interactive, IBM Interactive Experience, Deloitte Digital, and PwC Digital Services among the world's 10 largest digital networks and the top 15 of the world's largest agency companies. According to Alexandra Bruell in her May article in *Advertising Age,* "The Ad Agency of the Future. Are You Ready?," media companies are investing in content-creation services for brands that buy ads on their own media platforms, in addition to other sites. Publishing houses have been building content capabilities that previously have been within the purview of traditional services agencies.

With deep engagement with consumers as a primary brand differentiator, advertisers are increasingly seeking partners that can best drive that engagement. Content discovery platforms—Outbrain and Taboola are the two biggest players—match individual consumers with the most relevant content at the right time, placing sponsored links in or near content on Web publishers' sites. (You know those links under "You May Like" and "Recommended from the Web"? Content discovery platforms are behind those.) Outbrain and Taboola pay publishers for space on their site, and, in turn, advertisers pay Outbrain and Taboola when site users click on the advertisers' links. The concept behind content discovery platforms is to enable information to find people as opposed to people finding information via search engines.

In March, 10-year-old Outbrain launched "Outbrain for Chat," a service that enables publishers to launch applications (content bots) across leading messaging platforms in minutes. The result, says the company, is "a unique interactive content experience that allows publishers to marry editorial programming with true content personalization." The technology with chat bots "learns" over time, presenting users with the latest news and stories based on the individual's interests. Among the top-tier premium publications that currently leverage the Outbrain platform are ESPN, CNN, Le Monde, Fox News, The Guardian, and Time Inc.

Six-year-old Taboola also has a growing list of publisher partners, such as Microsoft's MSN, UK's Mirror Group, the New York Daily News, and global TV news network RT. In February, the company rolled out several new tools including Full Page Personalization (FPP), which enables publishers to customize users' on-site experience by adapting to different audience segments in real time. Another marketing tool, Native, serves native content that can reside on the publisher's website or anywhere on the Web. Using Native, a publisher can take a thousand pieces of advertiser-provided content and match each to the right audience.



"Boss, your 10 o'clock is here—Acme's account manager/creative director/marketing wizard/digital specialist/social media crackerjack/programmatic guru. Which part of him would you like to talk to first?"

About the Money.

As agencies cope with all the operational changes and restructuring necessary to meet the needs of their advertiser clients, they also must get accustomed to new compensation models. The commission model is a long-goner, in part because of inflated media costs and agency profits, but also because of the evolution of media and marketers' spending cuts in lean times. *Advertising Age* recently polled six top executives about payment models, and the results were reported by Alexandra Bruell in her article, "How the Agency of the Future will be Compensated." A number of industry executives predict that in 10 years agencies will be assuming more risk for more potential upside, receiving pay tied to key performance indicators such as sales rather than predetermined fees for labor. Some agencies are even entertaining the risky practice of buying ad inventory outright and reselling it to clients, often after adding in tech and service fees. While this principal-based buying practice, known as arbitrage, is common among trading desk programmatic buyers, agencies are now considering expanding the practice to non-programmatic buys.

—continued on page 4

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Adapt to Change—

—continued from page 3

For now and the near future, however, agencies may continue to work on an hourly basis with performance components. Additional components may enter the model as well. Scott Hagedorn, founder and CEO of Omnicom's new data-driven network, Hearts and Science, envisions a new media model that includes creating audiences out of behavior data and writing algorithms to bid on audiences, with the agency potentially receiving royalties for the intellectual property it creates.

Publicis Groupe's Razorfish Global is also making big investments in intellectual property (IP), specifically, marketing technology. As reported by Bruell in her article for *Advertising Age,* "Agencies Grow Intellectual Property Assets with Tech," the economics are working. Razorfish Global CEO Shannon Denton stated, "It's higher-margin than the traditional agency business of paying for bodies."

According to Bruell, IP investments will continue to rise as marketing technology (martech) companies such as Adobe and Salesforce are making it easier for agencies to build and sell products using their underlying technology. Agencies can then charge a monthly service or tech fee to their advertiser clients. The strategy works for both, as long as the agencies are not competing with the same products.

Hire, Acquire, or Expire.
Digital media have opened up a world of new opportunities and expectations, which agencies, advertisers, and media must accommodate or die. The business models will vary, but all must include the ability to access the talent and services to meet the requirements of the digital world.

Perhaps even the names will change. Agencies will become "partners." Advertisers will become "brands." Client teams, perhaps led by a multi-channel data specialist, will replace account managers. Maybe creative agencies will become smaller as technology such as artificial intelligence eliminates the need for certain roles. And perhaps new non-agency players that we cannot yet imagine will enter the arena.

What we know for sure is that brand-experience creation is the new name of the game. Consumers expect products and services to add personal value—entertain them, inform them, or otherwise improve their lives—and to do it immediately. And the players that identify their customers and maximize their experiences will have the winning hand. ♦