25 – Agencies

AD MAN: ADVERTISING IS DEAD AND I DON'T CARE

Ryan Moede, The Denver EgotistAUG. 6, 2013, 5:24 PM1,088

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Facebook Will Now Punish You For Being Boring

Wait — don't go anywhere just yet. This isn't going to be yet another article about the death of advertising, which, if you were to believe the pundits (and good lord, why on earth would you do that?) has steadily been dying for the last decade.

Fast Company published yet another article on the end of advertising, and while it made some good points in addressing technology's disruptive role in advertising and marketing, it sparked the same debate and vitriol the industry has been spouting in the war to define the future of advertising.

Personally, I just don't care about that debate — and I'm in advertising — it's the wrong conversation. The future of advertising is not talking about the future of advertising. I care less about the endless debate over platforms, mediums, channels or how many degrees of 360 your campaign touches. I care more about simply doing good work that gets results.

When Steve Jobs passed on the reigns of Apple to Tim Cook, his only advice was to, 'do what's right.'

It's easy to overcomplicate the business world. We love to feed our egos with buzzwords, weighty PowerPoint decks and general douche-baggery of the latest digital toy.

But it's much simpler than we make it out to be.

- *Know your product.*
- *Know your customers.*
- *Know how to serve them.*

Yes, the technology landscape is charging like a tsunami with little regard for the businesses currently standing in its path. We've already seen yesterday's untouchables fall hard and fast — Kodak, Blockbuster, Borders — each replaced by a company thinking about how to create a better product that understands how to better serve their customers and tells an engaging story that captivates them.

Instagram, Netflix and Amazon. The list could go on.

But in the midst of these changes, the foundational question is — do you see a problem, or an opportunity?

Advertisers should worry less about the supposed death of the sixty-second spot, and focus more on bringing their creativity to help clients identify how their brand doesn't become the next Blackberry. Smart brands like Nike, Red Bull and Burberry are only going to continue launching world-class digital experiences and services, and agencies have a huge opportunity to identify, shape and build those experiences.

This is an immense challenge. But it begins with understanding your product, knowing your customers and zealously striving to deliver an experience for them keeps your focus where it should be — *just doing what is right*.

Ryan Moede is Director of Client Strategy @14Four focused on building useful digital experiences with ad agencies. Drinker of coffee. And wine. Oh, and good beer, too.

Inside the Playbook of How WPP Will Go After Its Soon-To-Be-Bigger Rival

Will Martin Sorrell's Team Approach Reshape Adland?

By:
Rupal Parekh
Published: August 19, 2013

Even before his longtime rivals Maurice Levy and John Wren publicly announced they were merging their companies, Publicis Groupe and Omnicom Group, Martin Sorrell was plotting his next move.

The chief executive of WPP sent a flurry of code-red notes commanding senior agency leaders to do a "conflict analysis" to identify any accounts the merger could render vulnerable. Execs were instructed to quickly formulate plans to position WPP as the best alternative for clients worried about conflicts.

Photo by Christopher Lane for Ad Age

Martin Sorrell

Mr. Sorrell says he's not interested in competing by gobbling up an ad conglomerate like Interpublic, Havas or MDC. Rather, he plans to pick off accounts while Messrs. Levy and Wren spend the next several months figuring out how to fuse their operations into a single ad beast with a $35 billion market cap.

To do that, he'll lean on his well-worn "agency team" concept. The pitch: Why have an off-the-rack suit from Men's Wearhouse when you can buy a bespoke three-piece from Savile Row?

HEAD OF THE LEAGUE

In a team scenario, instead of pitching a single brand like Ogilvy & Mather or AKQA or Wunderman, WPP promises a client an integrated marketing unit tailored with talent from across its agencies.

From a revenue perspective, it's tough to dispute the success of that tactic. In 2010, the company attributed $2 billion of its $14 billion in overall revenue, or about 14%, to such teams. WPP claims that figure ballooned to $7 billion in 2012 -- more than 40% of the holding company's $17 billion in revenue.

Over the past 18 months, a sluggish period for new business, the team approach helped WPP reel in lucrative accounts including GlaxoSmithKline, Samsung, Bank of America, Chinese telecom Huawei and luxury fashion brand Chanel. The teams range in size and structure; some are merely partnerships between a couple of WPP shops, but others are amalgamations of staff from numerous agencies, with their own offices, websites and monikers like Hudson Rouge, for Lincoln; Cavalry, for MillerCoors; and Red Fuse, for Colgate. WPP says there are now more than 30 of these teams.

The acceleration of the team approach is no coincidence. WPP has over the past few years grown more proactive with its model; it doesn't wait for business to come its way. It spots and approaches big clients with sketches for what a potential team could look like.

Mr. Sorrell serves as the undisputed head of the league, but he's got a lineup of big-time coaches, too. Among them, Satish Korde, president-CEO of Team Detroit -- the shop built in 2006 for Ford that's widely regarded as the most successful example of the dedicated agency model. Previously, Mr. Korde was a global client director at WPP charged with replicating such teams for many of its largest clients, including Allianz, Shell and Kimberly-Clark. There's also George Rogers, director of global business development at WPP and former head of Team Detroit. Together, they're scheduling client meetings and dialing-for-dollars any prospects who'll listen.

TRACK RECORD

One of WPP's early efforts dates to 2004, when it set up an agency team for HSBC. That kind of track record will likely be its best ammunition when going up against its soon-to-be-much-bigger rival, Publicis Omnicom Group.

"Most of our competitors at that time pooh-poohed the idea of putting together teams," said Mr. Sorrell in an interview. He said that he's never shied from being hands-on with clients and rearranging WPP's resources in order to win business, while his competitors have preferred to step back and let the agencies handle bringing in accounts.

Mr. Sorrell uses a jargony term to describe the team concept: "horizontality." Whatever you call it, custom-crafted agencies will be critical to WPP's positioning in the days ahead, and form the backbone of discussions with potential clients.

Single-client agency structures are a controversial topic in adland, with critics pointing out that the best talent, creatives especially, prefer to work on a range of accounts, not just one client. Plus, siphoning off staffers into a new unit can be a major distraction to shops.

TIPPING POINT

The question is what happens as the proliferation continues. Is there such a thing as too many agency teams? Could we reach a tipping point where the approach threatens the most storied brands on Madison Avenue?

One CMO, who requested anonymity so as to avoid disparaging the shops currently working on his account, said he thinks that in five years agency networks like BBDO, McCann, Y&R and Saatchi & Saatchi will matter less. "The agency model is really dead. I don't need all these different agencies working for me. I don't want it to be about [agency brands]. I just need less overhead and more efficiency."

It's this sort of mentality that's most worrisome to some agency folks, particularly within WPP's walls.

TEAM PLAYERS

10 examples

WPP has formed more single-client agency teams than any other agency holding company, but some competitors—especially Interpublic—are also adopting the business tactic. Here's a sampling of several such teams.

HOLDING CO.	TEAM NAME	MONTH FORMED
FORD		
WPP	Team Detroit	December 2006
MAZDA		
WPP	Team Mazda	June 2010
CHEVROLET		
IPG*	Commonwealth	March 2012
MILLERCOORS		
WPP	Cavalry	June 2012
BANK OF AMERICA		
WPP	Team Bank of America	May 2012
COLGATE		
WPP	Red Fuse	September 2012
LINCOLN		
WPP	Hudson Rouge	December 2012
GLAXOSMITHKLINE		
WPP	Team GSK	December 2012
MASTERCARD		
Interpublic	McCann XBC	December 2012
CADILLAC		
Interpublic	Rogue	June 2013

*FORMERLY A JV BETWEEN OMNICOM AND INTERPUBLIC

While the team model is touted as a boon to their parent company, numerous staffers at shops like Ogilvy & Mather, JWT and Grey fear the value of their agencies' rich heritage and unique philosophies is fading. Said one senior agency insider: "If it continues to go down this path, and clients go directly to [Mr. Sorrell] for solutions rather than the heads of agencies, it's absolutely going to start tarnishing the brands."

Mr. Sorrell's take? Get over it.

He likens the debate over teams to adland's reaction some years back when it unbundled media from creative. Agencies argued they wanted to keep media-buying and planning in house rather than see it spun off into a specialty shop.

"The market moved and clients wanted specialization in media ... not media subservient to full-service creative," said Mr. Sorrell. "We at WPP only reacted to a change in the marketplace and what's happening with teams is in my view exactly the same." He added: Execs inside WPP and out who don't grasp the need to service that demand "need to get their heads examined."

Industry observers aren't ready to ring the death knell for agency brands just yet, but note that an upsurge in teams -- particularly if WPP's competitors ramp up similar strategies -- could bring about major change.

"There's going to be continued interest in exploring these models because client resources are getting stretched more than ever, so managing multiple agencies is harder," said David Beals, president of advertising consultancy R3:JLB. "We'll definitely continue to see more experimentation."

THE SUPERPITCH

The holding company pitch, or "superpitch," was popularized about a decade ago. Previously, only big multinationals used them, but now they're held by midsize marketers and sometimes a single marketing discipline, as opposed to an integrated account. For example, a couple of years ago, Italian confectioner Ferrero Rocher held a holding-company pitch, and more recently, J.P. Morgan called one for only its digital-marketing business.

The most cynical view of why teams interest marketers is that some clients have become lazy. Observers say many CMOs would outsource the cherry-picking of best-in-class shops, and have a comprehensive marketing solution presented to them. In a world where new digital, mobile and other types of shops are constantly cropping up, observers say some CMOs aren't well educated when it comes to the agency landscape.

Another reason could simply be that CMOs are spread too thin.

"A lot depends on the clients' organizational structure," said Mr. Beals. "Smaller marketers that have less staff may benefit more from it than the larger companies that have enough bandwidth to have someone managing multiple agencies."

The team model is favored by client procurement departments, too, which get more of a say during reviews these days. The thinking is they can squeeze more efficiency out of agencies and have more leverage negotiating fees when buying a volume of services from a holding company. Still, WPP has so far managed to expand its overall operating margin while relying on the team approach, from 13.2% in 2010 to 14.8% in 2012.

Said Mr. Sorrell: "There are clients who don't want [teams]. They want to do the coordination function, whereas with a team the agency does the coordination function. But in a world where finance and procurement are becoming more powerful, the trend is that the clients spend more time looking at their supply chain."

BREAKING EGGS

History is littered with examples of failed teams, the most prominent being the 2009 collapse of Enfatico, an agency WPP built for Dell. It proved to be too ambitious, attempting to scale up to 1,000 staffers in a year, and the marketers who championed the idea left Dell before Enfatico was up and running. It was quickly folded into WPP's Y&R.

"It's not to say that when you make an omelet you don't break some eggs," said Mr. Sorrell.

One of the pitfalls WPP claims to have overcome is earning buy-in for the team concept beyond the marketing suite, from the very top of companies. (In the case of Bank of America's pitch, CEO Brian Moynihan was on board.)

"What is a necessity is that the CEO believes in the model and gives the CMO the authority to get it done," said Mr. Sorrell.

WPP has been by far the most aggressive in promoting the team approach, but it's hardly alone and other agency-holding companies are showing increased interest.

Less than a year ago, Interpublic Group of Cos. built a unit to serve MasterCard under McCann, and in May, Interpublic won a holding-company review for Zurich Insurance. It was also a team pitch -- with Interpublic CEO Michael Roth taking part in client presentations -- that convinced General Motors to hand all Cadillac brand marketing to Interpublic.

MDC Partners seems eager to dabble, too. Last month, it hired an analytics guru to sit at the holding company level to be tapped for new-business pitches. "While the majority of pitches are individual-agency-led, MDC will continue to provide that synergistic approach when an integrated solution is best for the client," CEO Miles Nadal said at the time.

Mr. Sorrell says they can try, but competitors can't beat his team machine. Besides having executives like Messrs. Rogers and Korde, he also claims he's worked out the kinks.

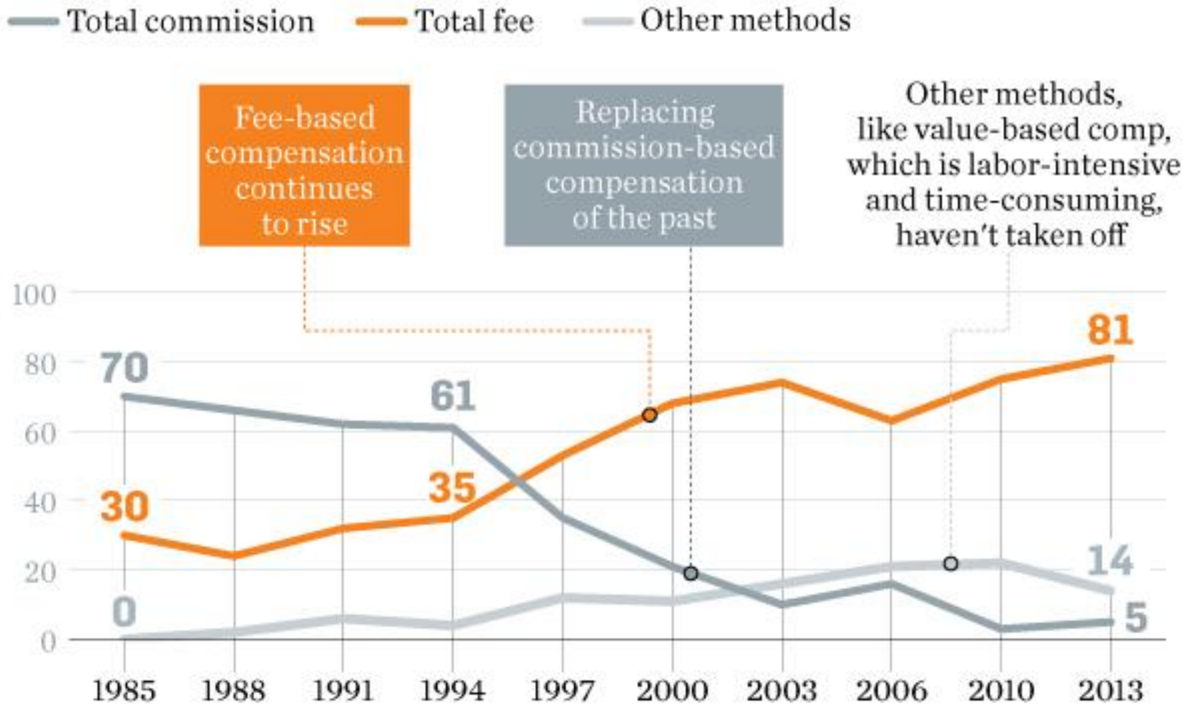
"We have always believed in the power of bringing resources together," he said. "The most difficult thing in an organization is to get everyone inside the company to understand strategic and cultural change. We are an industry where turf, territory and ego historically was important. But with the evolution from mad men to maths men, as we call it, it means increasingly looking for ways to integrate."

Clear Channel working with IPG on automated buying exchange, report says. Clear Channel is among the media companies that are working with ad agency conglomerate Interpublic Group as it builds and tests an automated advertising buying system. The Wall Street Journal reports IPG agencies could be using the platform to make radio and television buys within the next six months. Besides Clear Channel, IPG has already brought Cablevision, Tribune and A&E Networks into the fold. It hopes to integrate other media outlets by launch date. The system would essentially allow agency buyers to log in and see what inventory is available across a wide array of media outlets and then place the buy. It removes the need for large media sales teams and has the prospect of saving radio and TV companies overhead costs. But some media executives worry automated buying will depress prices. Clear Channel president of national sales and marketing Tim Castelli thinks that can be avoided. “If you have the right targeting and the right data then I think you can drive yield and this doesn’t have to be a race to the bottom,” he tells the Journal. IPG’s platform would reportedly not use an auction model, but rather companies will plug their rates into the system. The hope is that’ll help maintain rate integrity. Media companies also think it will work to even the playing field between traditional and online media vendors in the eyes of buyers. Automated buying is already more common in digital media but it’s spreading to traditional media. IPG rival WPP has already launched its buying platform Xaxis, which teamed with Triton Digital in January to create Xaxis Radio to sell streaming audio commercials. The list of radio groups now using the exchange has blossomed to include Alpha Broadcasting, CBS Radio, Delmarva Broadcasting, Entercom, Greater Media, Guyann Broadcasting, LKCM, Mapleton Communications, Midwest Television, Results Radio, Simmons Media, Wilks Broadcasting and Univision Radio.

Gone are the days when agencies could milk marketers for all their worth. Marketers are demanding more of their agencies, as the ANA's newest Trends in Agency Compensation survey shows. In its 16th year, the survey tracked its members' use of compensation methods. Fee-based compensation continues to rise unabated, representing fully 81 percent of comp agreements in 2013 (the practice becomes more prevalent among bigger advertisers). The use of risk-reward structures, where agencies risk a downside if they underperform, has risen sharply over the past three years. Tellingly, there's been a huge jump in the involvement of procurement teams in agency compensation reviews, to 82 percent from 56 percent over the past three years.

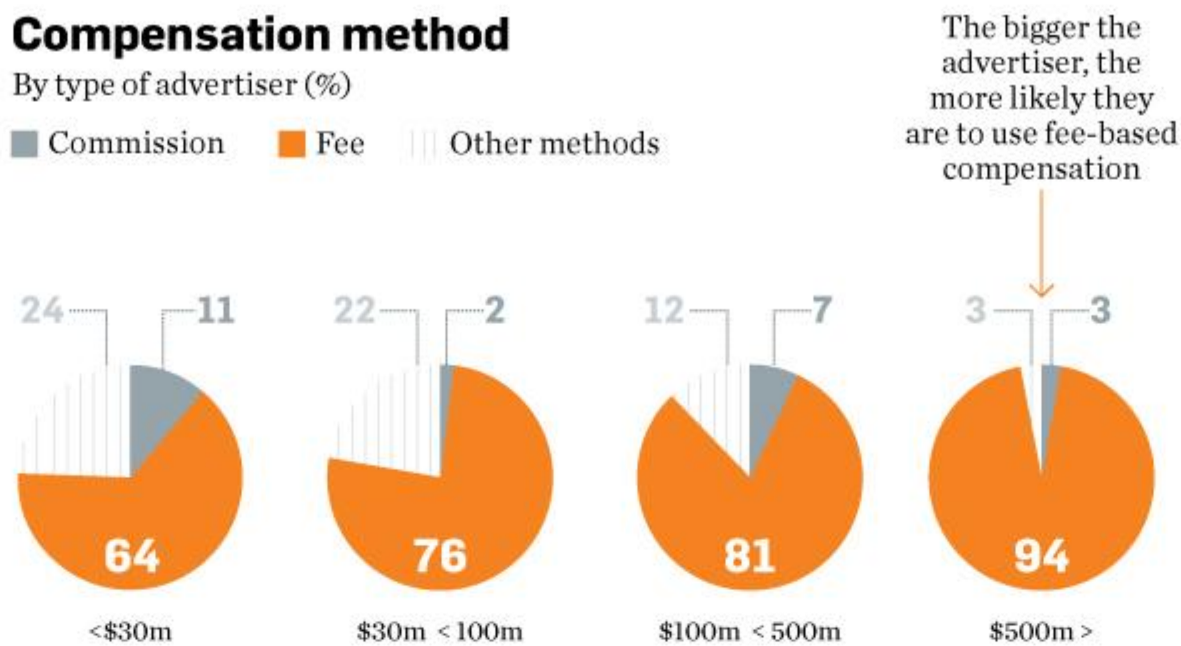
Fee-based compensation dominates

By form of agreement (%)



Compensation method

By type of advertiser (%)



Use of performance incentives has increased

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IPG teaming with CCME, networks to automate sales

By cmarcucci on Aug, 20 2013 with Comments 0

Media companies have plenty of experience automating programming and traffic functions, but it looks like sales is next—and that includes Clear Channel Media and Entertainment, per a Wall Street Journal story. Agency giant Interpublic says the system could be up and running in six months.

IPG is teaming up with TV and radio companies, including A&E Networks, Clear Channel, Tribune and Cablevision Systems to build and test an automated ad-buying system for television and radio ads, the companies say.

Others, such as NBCUniversal, are in discussions with the group but haven't yet agreed to join.

The system comes as television faces growing competition from online media, where automated systems have long been used for search ads and increasingly online display. Executives on both the buying and selling side of advertising say that automated systems make it possible for advertisers to use data about consumer habits to better target their ads at the people they want to reach.

"There is so much intelligence and data out there, we have to capitalize on that and it cannot be restricted to digital media," Matt Seiler, IPG Mediabrands CEO, the Interpublic division building the system, told the paper. "Digital has paved the way for the reinvention of the rest of the media."

Having an automated system that can allow for more data to be used in media buying in traditional media will put traditional "media companies on a level playing field" with the digital media outlets, said Mel Berning, president of ad sales at A&E Networks.

OMD's US Director, National Audio Investment Natalie Swed Stone tells RBR-TVBR that streamlining the buying process "has to come from technology. It has to come from the partners holding up their end on technology, and working with us on systems and data flow. One of the things we've been talking to the networks about is streamlining their product offering. Right now there are hundreds of networks. We have the same number of radio stations as we've always had. But, it is the way that we purchase them that has become much more difficult and labor intensive. We are impressing upon them the need to simplify. I don't know how much of that becomes trading. At the end of the day, you do what Google audio was doing and then with better research extend to programmatic. Much of how we transact can become automated."

“The process of choosing and placing television advertising is labor intensive, very complicated, expensive, and challenging and not very user friendly,” Tad Smith, Cablevision’s president of local media told WSJ. “It’s truly brutal,” he added.

Executives involved in the IPG plan say a more automated system will allow a media buyer to go into a computer system to see what inventory each TV or radio outlet has available and select the best ad placements based on data that the ad buyer has on its customers and their media habits.

IPG, the fourth biggest ad holding company, buys roughly $36 billion in ad time annually across the globe on behalf of marketers such as Johnson & Johnson, Chrysler Group LLC and Sony Corp. Roughly 65% of the money goes to TV and radio ads.

Seiler told WSJ he expects to have at least 50% of IPG’s clients buying done in an automated fashion by 2016. IPG Mediabrands said it is building the platform with the help of several technology companies including Adap.tv, which earlier this month agreed to be bought by AOL

SPARKING INNOVATION: A CONVERSATION WITH Y&R'S DAVID SABLE

by Ellen Oppenheim, Yesterday, 2:25 PM

David Sable, global CEO at Y&R, brings multi-disciplinary expertise to addressing the challenges of digital disruption with experience at general, direct and public relations agencies, as well as on the client side. As part of his efforts to keep Y&R ahead of the digital curve, he has created an innovation unit, Spark Plug, and brought back channel planning. The following are some of the highlights of a recent conversation I had with him about the implications of managing a major agency amid such change.

ELLEN OPPENHEIM: Do you think the line between creative and media agencies is blurring, and, if so, how do you feel about this?

DAVID SABLE: People talk about it blurring. I don’t agree.

Some of the media agencies are developing content units. Do they tell the clients’ stories? No, they don’t put in the storytelling, the advertising. They can integrate the client’s product into the story, but what people don’t think about is what drives the customer to the client’s product.

I don’t worry about them being competitive with me. The story the client needs to tell to put into content, that’s mine.

OPPENHEIM: What are the most important lessons you are learning from your innovation incubator, Spark Plug?

SABLE: I wanted to infuse risk-taking here. Now, we can go to a client and offer ways to experiment, to learn, even though it may not be the "be all, end all, solution."

Spark Plug can help us to think in different ways. For example, Marc Fischman, CEO of hyperactivate [one of Spark Plug's members] said, "I sit next to new biz team, so every time they work on new business we talk."

OPPENHEIM: Has the growth of digital media affected your view on whether it was wise for media and creative agencies to be unbundled? Why?

SABLE: I believe strongly that the move to consolidate media was smart. Buying media in aggregation is more powerful than buying it alone. And today, having scale with data is critical.

What's interesting is that the channel planning piece didn't have to leave. It needs to be part of creative agencies. We need someone to think in broad strokes about media – not about specific placement; a lot today gets bought with engines. We need to understand target audience, e.g., they may be digital, but they still get Parade and FSIs on Sunday. Or an older audience is very active online in certain areas. How can you be creative without that?

OPPENHEIM: Y&R has arranged for a Mediaedge employee, Sue Kaufman, to work in your offices regularly. Why did you do that, what role does she play, and what are the implications?

SABLE: Other agencies complain about the separation of media and creative. It's done, finished. You'd have to have your head examined to buy media now. When I was at Wunderman, I engineered the exit of the media business to GroupM. We couldn't compete any more.

It's not just about channel planning, but also understanding media today. Sue arranges meetings with lots of media outlets so we can see what are they are thinking about, how they can help.

The digital opportunities are amazing. So many people don't take advantage of it, but part of the joke is that Google and Microsoft place ads in newspapers. Apple buys a ton of print and outdoor. They don't agonize over what to do. The key is not being locked into any one thing.

OPPENHEIM: How is digital technology changing how you think about opportunities?

SABLE: We have the concept of "digital exponential." Mobile is "digital exponential." You can be out and find a restaurant, read a menu, look at pricing, read a movie review, buy tickets and go to movie.

People thought 10 years ago we'd live in caves – there'd be the death of retail stores and movie theaters. The reality is that mobile is helping with the explosion of small retail stores all over the world. You see it here in Brooklyn, Soho, midtown. You can find these small stores because of digital, not in spite of it.

Also, [with mobile] you don't have to worry about what you miss when you are out. You're not tethered. You can go to nice stores, eat in good restaurants and still be connected.

OPPENHEIM: Given ongoing changes in digital technology, how do you think the structure of a creative agency will be different in five years?

SABLE: At the beginning of the last century we had print designers and copywriters. With radio we went from newspaper copy to scripts, so we got scriptwriters. With TV we needed scripts, but also those who understood the visual impact of the screen, so we added producers.

Today we have copywriters, designers and producers, but we need people who understand CRM and interactivity. On our planning side we will have more data people – not just insights people. It's not one or the other; we need to marry insights with behavior to do better work.

By Aaron Paquette

Advertising giants Omnicom and Publicis rocked the industry last week with their announcement of a planned merger. The alliance will create the world's largest advertising company with $23 billion in revenue, toppling current market leader WPP plc.

Much of the conversation about the surprise megamerger surrounds its possible impact on the advertising industry, their clients and campaign creativity. But, if you want to know what's on the horizon in marketing, look no further than this merger.

Here are five marketing trends that the deal highlights:

1. **Digital advertising will reign**

During a live Q&A teleconference, both Publicis CEO Maurice Levy and Omnicom CEO John Wren repeatedly mentioned the growing influence of digital media in marketing.

"We will be in a position to better partner with them," Levy said when talking about digital media giants such as Google and Amazon. Wren added, "Anything worth having three years from now is going to be digital because the whole marketplace is moving that way, even billboards these days."

It's not surprising that both CEOs mentioned digital. While ad agencies traditionally have been about TV, radio,and print, stats show that digital is growing very quickly.

At $66.35 billion, TV ad spending this year is still ahead of digital, but it is growing at a slower pace. Online technologies will continue to disrupt industries, and signs point to digital ad spending eventually taking over TV.

2. **More consolidation**

The Publicis Omnicom merger is part of a larger consolidation trend. In the TV industry, several conglomerates own most cable networks, while local-market TV stations are also starting to join forces. In retail, Hudson's Bay Company recently acquired Saks. Talks about mergers and acquisitions are daily news in technology, finance and food industries.

In the advertising business, consolidation offers some attractive advantages. Creativity and economies of scale are two obvious reasons to merge, but there's more. Scale provides big agencies better negotiating power. Controlling 40 percent of ad spending in the world, the proposed Publicis Omnicom Group can leverage its size when talking to media companies and publishers. From the clients' perspective, having an agency this big will make it more difficult to negotiate fees.

Clearly, the merger mania is making a comeback. Look for the Publicis Omnicom deal to spark a new wave of consolidation on Madison Avenue.

3. **Data is the name of the game**

During the announcement of the merger, Levy was quick to use the "big data" buzzword. In the press release, Publicis Groupe CEO Lévy said, "The communication and marketing landscape has undergone dramatic changes in recent years, including the exponential development of new media giants, the explosion of Big Data, blurring of the roles of all players and profound changes in consumer behavior."

Access to consumer data will benefit the Publicis Omnicom Group, but it is also potentially a good deal for clients. At least in theory, with more data, the group can provide smarter decisions to advertisers. But, not everyone is convinced that the merger will result in better data capabilities. Clients generally own the rights to consumer data, so merging two ad agencies will not necessarily result in more data sharing. Furthermore, agencies don't need scale to extract value from big data.

In any case, the fact that data is part of the conversation about this deal highlights the growing importance of collecting, managing, and making sense of consumer data. It's starting to happen now, but in the future, companies that provide a platform for data collection will rule the business world.

4. **More personalized advertising**

The Publicis Omnicom deal demonstrates how the business of marketing is becoming more personalized. Traditionally tasked with campaigns that have mass appeal, most agencies are not equipped to enable personalized advertising. However, with more data, the Publicis Omnicom Group can potentially become a bigger player in this trend.

The personalization of ads is just getting started. While the use of cookies has been in place for a while now, how advertisers utilize the data is becoming more sophisticated. A small number of advertisers now use fast-paced, algorithmic bidding systems to deliver relevant display ads within seconds.

Consumers can expect to see ads targeted more specifically at them. As more companies collect and use data, advertisers will deliver more personalized content based on information that consumers share through loyalty cards, social media activity and credit card histories. While the advertising of the past was more about clever catchphrases, the advertising of the future will focus on timely and personalized content.

5. **Consumer feedback will be integral**

With big data comes big research opportunities. Right now, we are in the "Wild West" days of big data research, with most companies collecting huge amounts of data without a concrete strategy in place.

As advertisers experiment more with personalized advertising, research needs to become more strategic. Smart companies will inject consumer insights back into the research practice. Big data allows companies to measure behavioral and transactional data, but it doesn't reveal attitudinal data. To deliver relevant ads that people will actually like, companies will need to better understand why people do what they do, and they can only achieve this by talking to their customers.

Consumers will also be integral in crafting creative content. As agency veteran David Droga pointed out in a New York Times article, technology is an enabler in advertising, but it doesn't completely replace storytellers. Advertisements will only resonate with consumers if they reflect a story that is relevant and relatable.

Finally, consumer insights play an integral role in the small but growing pressure to restrict access to big data. Eight out of 10 Americans, Canadians,and Britons are already opposed to private companies using web data, and concerns about data privacy legislation are emerging in some countries. Consumers want to get heard, but increasingly they want companies to ask for permission first before using their data. If companies want to continue to gather consumer data, they need to do a better job of inviting people into the conversation through social media, insight communities and other online platforms.

The most successful marketers usually accurately predict the future. They have a grasp of how technology will disrupt industries. More importantly, they have insights on what consumers need in the future. Only time will tell if the Publicis Omnicom merger will benefit the advertising industry, advertisers and consumers. For now though, the news about the deal highlights some of the issues that marketers will need to contend with in the age of the consumer

There's an ongoing conversation about the quality and success of mobile advertising

BOLD MOVE BY PUBLICIS AND OMNICOM – THE DRIVE TOWARDS ACCELERATED MARKETING

By Jeff Dachis *Tuesday, July 30, 2013 @ 1:30 am UTC*

It seemed like the entirety of the marketing landscape shifted dramatically over the weekend as two of the largest agency holding companies in the world, Publicis and Omnicom, announced a mega-merger to create what is to be the largest marketing services company in the world.

This is exciting news. I need to offer congratulations and hats off to John Wren and Maurice Levy on a brilliant strategic move and an exciting future. It's hard not to be impressed – I know I am.

But while this represents a huge transformation for these giants, the reality is that the marketing landscape had already shifted some time ago and the new Publicis Omnicom Group is a realization and a recognition that this shift is a fast-moving permanent one.

This merger is just one more manifestation of the digital revolution that has been underway for the last 19 years. They were already doing it, but it's no surprise that these large marketing services companies have had to reinvigorate themselves to innovate in a technology driven marketing world that is moving incredibly fast and changing in real-time.

Everything is shifting -

People have become ubiquitously connected, mobile, social creators and consumers of culture. Something as silly (and amazingly tasty) as a cronut can go from local phenomenon to global treat in a matter of days. We've moved from 'mass communications' to becoming a 'mass of communicators' and renting an audience in mass media when you can engage with a customer in real-time where they already are is just not an effective way to drive pre-purchase consideration anymore. Technology is enabling more content to be produced and consumed by us, and we are making our buying decisions in different ways too. People now trust the opinions, ideas, and reviews about where to shop and what to buy from friends, family and even complete strangers more than they trust the marketing copy created by brands and their agencies. This is an undeniable fact and something has to give.

Marketing as a discipline is being forced to change accordingly, and like it or not, this merger is in some form, evidence of this. Planning cycles are accelerating from quarterly to monthly, weekly, daily and in many cases in real-time. This transformation is unbelievably demanding for brands. They need to re-organize to keep up with the breakneck pace and they need agency and technology partners ready to help them do so.

Publicis realized this a while ago and as the WSJ put it "has been particularly aggressive in acquiring digital ad firms, such as Razorfish, Digitas and LBI, giving it a strong presence in that sector." This merger is an extension of that vision and is going to give the combined companies "greater resources to compete in digital."

If big data is absolutely the key, real-time is absolutely the door.

New tools and methodologies for targeting, decision-making, and measurement are being built on the back of the latest in big data technology. Publicis CEO, Maurice Levy, endorsed this line of thinking in his comments to the New York Times: "the "billions of people" who are now online and providing data to companies offer an opportunity to use advertising technologies to crunch billions of pieces of data "in order to come with a message which is relevant to a very narrow audience."

To understand the drastic transformation brands are preparing for, look no further than this year's Super Bowl. Consider Oreo's now famous tweet from the blackout. Ignore the specifics, and focus instead on the fact that it was by far the most discussed and memorable marketing activity from the entire event. Despite the more than $200,000,000 spent on Super Bowl advertising, the best bit of marketing was a tweet cooked up by a bunch of smart people (Hat tip Bonin) in a room in a matter of minutes, and to "Oreo" your campaign has now become an adverb (no pun intended).

A real-time marketing tweet delivers as much value or more than a $4,000,000 commercial.

These are the times we live in.

Brands and agencies that can attach to, engage, and help drive the conversation in an authentic, participatory, valuable and interesting way are positioned to open up entire new channels of brand building opportunity for purchase consideration and down stream conversions. Do it right and you will be welcomed into the zeitgeist of the moment and earn more attention and earned media than you could ever buy from a billboard or magazine or TV commercial.

Super Bowl sized audiences are now congregating online at every single moment of every single day around news, topical content, memes and social trends. At any given time there is an audience segment equivalent to a major news event discussing almost everything you can imagine. And, for the first time Big Data allows us to target the conversations and the most influential conversation participants marketers should care about most – in real-time, because these trends/topics/conversations are happening every single day, and this is where your audiences are.

Are your brands involved?

Madison Avenue is quickly morphing into Digital Drive.

Technological advances have changed everything from where consumers watch TV to how they buy holiday gifts. In turn, ad agencies have revamped their hiring practices, commercial buying models and even their mind-sets on whether other firms in their field should be considered friends, rivals or a mixture of the two.

Sunday's news of a merger between Omnicom Group and Publicis Groupe was a prime example of how traditional ad firms are evolving to better compete in this increasingly digital landscape. The two holding companies announced a merger to form the world's largest ad company, called Publicis Omnicom Group.

That combination will "benefit our clients by bringing together the most comprehensive offering of analog and digital services," Publicis CEO Maurice Levy said in a statement. He and Omnicom CEO John Wren will be co-CEOs of the merged company.

MICHAEL WOLFF: Automated ad selling's future

That's a grand example of how the ad industry is changing. But there are countless others. For instance:

• Consumers are willingly leaving digital trails of their consumption habits and agencies will risk losing clients if they're unable to tailor campaigns that reflect targeted demographics.

• "Creative types" typically need to back up their super buzzy Super Bowl commercial ideas with a digital or social-media plan that will have measurable results.

• Those who buy ads on digital platforms no longer need to be adept at verbal wheeling and dealing — instead, they need to know how to use automated trading systems that simply take the highest bid.

"The digitization of the world has had a tremendous impact on advertising strategy, the advertising business and relationships in advertising," says Steve Farella, a 30-year ad industry veteran who is now CEO of media company holding group Maxxcom Global Media.

In the 1950s and 1960s, "you needed to be a creative person" to make it in this business, he says. And while creativity is still incredibly important, he adds that "today, you need to be a technology person."

Rarely do marketers run a campaign that only uses TV, radio or print. They now want integrated multimedia efforts that can include buying strategic search terms or creating a wider Internet-based marketing effort.

As clients demand more measurable and sophisticated campaigns, ad agencies are doing all they can to oblige.

That means hiring engineers who can create a logical yet eye-appealing "user experience" for a client's Web page.

It also means ramping up on digital investments — cited by Publicis Omnicom as a primary motive for their marriage.

"Instead of spending twice as much money (on future digital investments), we can maybe spend 100% or 125% of what we'd be spending and get the greatest and best thing on the planet," says Wren, referring to digital ads.

As an example, Wren pointed to Omnicom's trading desks — where digital ads are bought and sold quickly on exchanges — as examples of its digital expansion and vowed to push their investment in technology.

"We can offer it to as many markets as appropriate," says Wren, who will be co-CEO of the merged firm.

The combined companies will now have more data analysts working together to process information and pull out learning points, says Wren. "The real value is how many analysts we have that can process and turn data and into meaningful analysis," he says.

Driven by shared services and products and cost-cutting, the combined company will likely save about $500 million, estimates Patrick Kirby, an analyst at Deutsche Bank.

The digital revolution for the ad industry also means making friends with a company that could also be considered a competitor.

WPP Group CEO Martin Sorrell once labeled Google as a "frenemy," and the U.K.-based firm's spending on Google rose 20% last year to hit $2 billion.

Mirroring the tactics and strategies of Google, Facebook and other tech companies, ad agencies want to work hand-in-hand with their clients to deliver similar types of services that come from mining their own data and delivering ads in the media outlets that can deliver the best bang for their buck.

GROWING DIGITAL ADS

The ad industry changes come as these firms try to grab their share of burgeoning expenditures in the digital media space.

Internet advertising is expected to increase by an average of 15% a year between 2012 and 2015, according to the latest advertising expenditure forecast from ZenithOptimedia.

Mobile is the fastest-growing segment of Internet advertising, with a 67% growth anticipated this year. Facebook last week impressed Wall Street with its strong performance attracting mobile ads.

In comparison, the global advertising market as a whole is estimated to grow 3.5% to $505 billion this year.

While there are business advantages to the digital explosion, it also makes for "a confusing landscape," says Clark Fredricksen, a vice president at research company eMarketer.

"Marketers face a very complex array of ad technologies, middlemen, acronyms that all represent roadblocks for them in talking to consumers. You're going to buy a mix of media — TV, mobile or what have you," he says. "In order to do that well in targeted fashion, it's very difficult. It just requires a lot of work."

The Omnicom-Publicis deal only underscores the industry players' attempt to get a handle on and beat competitors in tackling the complexities.

"The new group will, with WPP (previously the largest ad holding company in the world), dominate the industry and will have the means to set the norms — something the market badly needs," wrote Charles Bedouelle, an analyst at Exane BNP Paribas, in a report.

But at least one competitor says joining forces won't make the firms more digitally powerful or technologically savvy.

"The industry's obsession with mergers and acquisitions still amazes me, particularly in a world where digital and technology have made scale irrelevant," says David Jones, global chief executive officer at ad firm Havas, noting that Instagram has just 32 employees yet has 140 million users.

He also points out that it's the technology that matters, not a vast amount of people or resources behind that technology.

"Clients today want us to be faster, more agile, more nimble and more entrepreneurial not bigger and more bureaucratic and more complex," he said in that e-mailed statement. "I doubt you'll find a single client who said, 'We wish you were bigger and we were less important to you.' "

Larger ad agencies' efforts to compete with the likes of Google, Facebook and Salesforce in emerging advertising technologies and data mining could be an exercise in futility, says Bob Vallee, CEO of Project: WorldWide, a network of ad agencies.

"That the combination (of Omnicom and Publicis) is going to place them in the center of the revolution is a little far-fetched," he says. "Advances in ad technologies by companies like Google and Salesforce will accelerate much faster than (Omnicom-Publicis).

Ad agencies' competitive strength will continue to be creative ideas and content message, he says.

"The content that's placed has to be extremely creative," Vallee says. "It doesn't matter how good their digital chops are. We're going to get beat by Google and Salesforce (in technology). Where and how it's placed is important, but tech companies will control more of that. Let's work with tech companies and decide how to get it to the people. We should focus on ideas, the intent."

Contributing: Rebecca Castagna

DID NOT CUT AND PASTE- SHOULD GOOGLE AND FACEBOOK BE WORRIED ABOUT THE WORLD'S BIGGEST ADVERTISING COMPANY?

In a $35 billion move, two of the biggest advertising firms are merging. In the race for consumer data, what does this mean for tech giants?

By: Kit Eaton
4 COMMENTS
EMAIL

Print

American-based Omnicom Group and French firm Publicis Groupe SA said on Sunday that they have agreed to the terms of a merger, forming Publicis Omnicom Group. The two company CEOs will remain co-CEOs for 30 months, presumably to oversee the stitching together of their two firms--then Publicis's Maurice Lévy will step aside and join the board as nonexecutive chairman.

The merger, which creates a company worth over $35 billion, is all about competing with digital ad giants and new industry players like Google, Salesforce.com, and Adobe. These companies have radically changed the advertising industry, where traditional firms like Omnicom and Publicis used to hold sway.

The *Wall Street Journal* suggest one motivation behind the merger is big data. Digital ad markets set up by firms like Google (a company that's expected to take in 50% of revenues in mobile ads worldwide) have a better chance of hitting target demographics, which challenges more traditional ad firms. Google's giant server farms and expertise at algorithmic big data crunching mean it can process more and deeper data on the effectiveness of ads than traditional firms can manage. Facebook is also making gains in mobile advertising.

The *WSJ* notes that Omnicom's head of digital ops was speaking recently about the company's plans, and noted that his firm is "borrowing black-box trading techniques out of Wall Street; we are looking at genetic algorithms; we are looking at artificial intelligence; we are looking at predictive models; we are looking for anything that might give marketers an edge."

[*Image: Flickr user Chad Kainz*]

4 Comments
Email

THE world of advertising has a new top dog. The $35-billion merger announced on July 27th of Omnicom, the American owner of businesses such as BBDO and Fleishman Hillard, with Publicis of France (Leo Burnett, BBH, Saatchi & Saatchi), will produce a combined firm with more revenue than the current number one, WPP. It may not have bragging rights for long: given his track record, it will be no surprise if Martin Sorrell, WPP's boss, soon pulls another deal out of his hat to return his firm to the top of the "Mad Men" league.

The creation of the new combined firm, Publicis Omnicom, came as a surprise both to rivals and clients, some of which grumbled privately that they had not been consulted. Keeping both PepsiCo and Coca-Cola happy within the same firm will be one of the many problems it has to deal with. Still, given the long history in advertising of growth by consolidation, the surprise was mild rather than deeply shocking. Indeed, there had been some speculation that Publicis would buy Interpublic, another big agency, not least to recruit a successor to its veteran French boss, Maurice Lévy (pictured, left), who—although still on top of his game—is now 71.

If the merger goes through, the successor will in theory be Omnicom's younger boss, John Wren, who will first work as co-chief executive with Mr Lévy. Yet some industry experts wonder if he is up to the task, having had mixed reviews inside and outside the firm for his handling of Omnicom while telecommuting to New York from his home in Florida. "I wouldn't count Lévy out," confides the boss of a rival firm. "He's better than Wren with clients, much better and politically more astute. It's going to be interesting."

The merger has been styled as a marriage of equals. Yet as Omnicom is the bigger firm, it seems that it had to give up more than its new spouse to get an "I do". Its returns to shareholders have lagged those of its peers. And whereas Publicis has invested heavily in keeping at the front of the technology trends changing the advertising industry, buying hip firms such as Razorfish and Digitas, Omnicom's largely homegrown technology platform looks rather lackluster.

As with any big merger, combining two firms, scores of sub-brands and lots of employees (130,000 or so at the last count) will bring culture clashes. The C-suite at Publicis has a quintessentially European flavour, whereas Omnicom's is in the grip of Madison Avenue. The boss of a rival firm expects a repeat of the disastrous merger in 1986 of Saatchi & Saatchi with Ted Bates, which produced the world's then largest ad agency and more than a decade of feuding before an eventual divorce.

"I'm not sure this is in the best interests of their clients or their talent," says David Jones, the boss of Havas, a rival agency. "My whole focus at Havas is to get us to behave like a smaller company not a bigger one. I doubt you'll find a single client who says, 'we wish you were bigger and we were less important to you'." Quite so. Plenty of top talent has defected over the years from holding companies such as WPP and Publicis to strike out on their own, not least because they disliked working for an impersonal behemoth. Such distaste will probably be widespread at Omnicom, whose constituent agencies pride themselves on their independence. Nor will realising synergies from the merger, which are estimated at $500m and mainly come down to job cuts, improve the mood.

However, as Messrs Lévy and Wren argue, Publicis Omnicom should be better able to counter the rapidly growing power of Google, Facebook and other social media firms, which are collecting an ever bigger share of advertising profits. Indeed, if the combined firm can retain its current clients, it will control more than one-third of spending on ads in media outlets, and over 40% in some countries. That should set alarm bells ringing at any firm—a television network, for example, or a magazine publisher—that relies on advertisers for a big chunk of its revenues. Indeed, they should probably be considering making a complaint to the antitrust authorities in a bid to stop this transatlantic marriage being consummated.

Correction: A previous version of this article wrongly stated that the combined firm would control more than one-third of advertising spending worldwide.

IPG TO AUTOMATE 50% OF MEDIA BUYING, EXPAND PROGRAMMATIC

by David Goetzl, 11 hours ago

Interpublic's media operations are working to automate all transactions within the next three years, while looking to expand programmatic buying into the TV arena, according to a top Magna Global executive.

Programmatic buying will be a subset of the automation movement, but Magna Executive Vice President Todd Gordon said there is a need to bring the tactic to buying national and local, radio, display and most media.

“The demands of the data require a technological platform to secure the inventory,” he said at an industry event on Wednesday. Gordon also addressed the need for improved cross-platform metrics, saying: “We’d like them to be stronger and more robust.”

Nielsen’s Randall Beard joined Gordon on a panel at the event and said his company is looking for ways not just to quantify viewing across screens, but offer insight into differing resonance. For example, he said research shows the same ad brings 40% higher breakthrough when seen online versus linear TV.

Horizon Media’s John Marson said in that realm, research done with ESPN involving a liquor client showed that smartphones or other digital platforms did not “take away from any other screen, it [brought] actually an additive effect.”

He said one way to bolster cross-platform measurement would be more “respondent level” data that helps understand consumption on an individualized basis for various media. However, privacy concerns are a hurdle.

Also appearing at the event was ESPN Vice President Barbara Singer, who offered some insight into creative effectiveness. Research shows that very entertaining ads will help with brand likability. But ads that prove to be a turnoff don’t necessarily have a viewer turning off.

“We found that very annoying commercials get remembered,” she said

The Changing Role Of Media Planner In A Digital World

August 9th, 2010 - 10:53 amBy Ad Traders

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"Ad Agents" is a column focused on the agency-side of the digital media community.

Matt Greitzer is the Co-Founder of Accordant Media, a media buying and optimization company.

"What do agencies do, anyway?" In my twelve years in the agency business I never heard this phrase posed to me directly (though I often felt it left unsaid). Three months out of my agency shoes, I’ve now heard untold themes and variations of this question, sometimes asked in earnest, sometimes in sheer exasperation, and sometimes in spite. Many in the tech-centric circles of Silicon Valley and New York deem the agency obsolete, a relic of a bygone era soon to be extinct, replaced by SaaS software and predictive models. This view is naive. As long as vendors seek to part advertisers from their dollars, there exists the need for a neutral party to filter and vet the crowded landscape of publishers, technology and marketing service providers. Beyond that, agencies provide the vital service of historical memory for large corporations. Client-side marketing managers may change roles every twelve to eighteen months. But senior agency leaders can spend a career focused on one client, and one client only. The institutional capital agencies provide to longstanding clients and their marketing teams is impossible to replicate. In their best incarnations, agency partners synthesize this deep understanding of clients’ business objectives with a broad view of the marketing vehicles available for achieving these objectives.

Synthesizing strategy and execution to achieve clients' objectives is where agencies lend true value. So despite the doubters and detractors, the need for agency partners is not likely to falter. But while the need for agencies services remains, the *role* the agency plays in a digital marketing world is less certain. And the changing needs and expectations of this role are no better represented than in the role of Media Planner.

For a hundred years or more the media planning discipline has been preoccupied with the question of "where." The role of the Media Planner was to seek out the most relevant opportunities to reach an advertiser's target audience through paid media. And thus the skills, training and toolsets that drove media planning focused on finding and buying content that best attracted those audiences. When content was the only variable, this approach made sense. But in a marketing landscape increasingly dominated by technology and data, knowing *where* to run relevant advertising is no longer an adequate solution. Effective media planning needs to also address *how* to run relevant advertising, as in what technology and data strategy is required to deliver a relevant, targeted ad to the right audience with minimal waste. Yet Media Planners are woefully undertrained to deliver against this requirement.

It's no wonder advertising technology vendors dread selling to agencies. Media Planners, the only true holders of agency purse strings, have neither the training nor the mandate to purchase ad technology solutions such as dynamic creative delivery, audience data warehouses, demand side platforms, business intelligence platforms, or any of the other powerful technical innovations that blossomed over the last five years. And this list doesn't even entertain social media and the flurry of innovations filling that category. Not that Media Planners are uninterested in these innovations, they are, but their training and mandate remains squarely focused on the placement of media. The agency community has not yet accepted that the technical components that determine *how* media is placed are every bit as important – maybe more so – than *where* that media runs. Put another way, the diversity of skills and expertise required today to execute an effective digital media campaign are far too vast for the modern Media Planner to successfully navigate. Perhaps it's time for the role of the media planner to evolve and embrace this reality.

The Modern Media Planning Org

A modern media planning organization might look something like this: At the helm, sits a Media Strategist. This person is a central client contact with a deep understanding of client objectives, and a broad understanding of digital media opportunities. The Media Strategist sets the high level strategy for achieving client objectives using all available message distribution opportunities (including content, technology, data, etc.). For example, the Media Strategist may determine that a client whose business is driven by repeat customers needs a central customer data management platform to supercharge their remarketing efforts -or, that another client, launching a new product to a niche market, is best served with custom sponsorships on niche content sites and word-of-mouth marketing on message boards and blogs.

The Media Strategist would call upon three distinct teams of specialists to execute their strategy: one team for integrated sponsorships, one for social media, and one for biddable, "algorithmic" media. The first would be dedicated to high-end, custom sponsorships and strategic partnerships with key publishers. The second, focused on using social media for customer acquisition, retention, and customer feedback. And the third focused on the integration of technology, data and expertise to drive efficiency, targeted reach and reach extension through automated, biddable media. Each of these teams would have deep category expertise in their field, and would be called upon to greater or lesser extent depending on their relevance for a given client's needs. The role of the Media Strategist as orchestrator of these three disciplines would be central to any digital marketing agency and core to their business. While the three tactical arms of integrated sponsorships, social media and algorithmic media could either be built and maintained in-house, or outsourced to specialists. Large agencies would likely build these tactical arms in-house, while small and mid-sized agencies would choose to outsource and focus on building their core strategic expertise.

A media organization built in this manner reconciles the need for high-level strategic coordination of digital marketing efforts with the requirement of deep tactical expertise in disparate areas of online marketing. And not that it's incumbent on agencies to address skeptical vendors, but this type of organization also clearly answers the question, "what do agencies do?" In this new model they provide high-level digital marketing strategy and guidance, and marshal the appropriate tactical resources to achieve their objectives. A clear delineation between strategic guidance and tactical expertise should allow agencies to deliver each more effectively. Moreover, a realignment of media planning roles and responsibilities updates a century old organizational model developed for an analogue media landscape and makes it relevant for a digital marketing world.

Publicis Omnicom Groupe: Impact on Media Owners and Ad Tech

The combination of Publicis and Omnicom has negative implications on media owners whose revenue base is skewed towards advertising and especially those whose advertiser base skews towards large brands. The impact of the transaction on the media industry will likely be profound in ways that many observers have not fully considered as of yet. This is because of the ways in which we think the entity may change its media buying practices and the follow-on impact on the rest of the eco-system.

The timing of such changes would not be imminent - and may not be evident for several years if it occurs - but the surprising merger means that a wide range of consequences should be newly considered when assessing terminal growth rates and risks for media owners with skews towards advertising and the large brands serviced by holding companies including CBS, Discovery, Scripps, AOL, Yahoo, and Meredith. Most of these considerations will be incrementally negative.

It's also worth noting that the combined entities will now also be better positioned to pick winners and losers in ad tech. Between Publicis Omnicom Groupe and WPP, the two entities will have a disproportionate degree of influence in picking winning technologies in ad tech - platforms such as DSPs, bid management systems, book-bill pay systems, etc - will all now have two big customers accounting for the bulk of activity in some verticals, making a shake-out more likely.

In this special edition of Madison & Wall, we provide further details on our views of how the transaction impacts media owners and ad tech alike.

REPORT INCLUDING DISCLOSURES CAN BE FOUND HERE: Madison & Wall Special 7-28-13.pdf

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Publicis Omnicom Groupe: Impact on Media Owners and Ad Tech

Following on this weekend's surprising news regarding the creation of the Publicis Omnicom Groupe (we'll call it "POG" from here), we see a newly realistic threat to many media owners. In short, a combined POG and WPP's GroupM could account for as much as 70% of a given broadcast TV network's revenue base, and perhaps a plurality of revenues for many online media properties. The agencies can argue, correctly, that their spending amounts to less than 20% of global media budgets (and an even smaller share of total marketing expenditures), and that more importantly, POG agencies will negotiate autonomously, at least initially. However, the vantage points of individual media owners will be somewhat different, we suspect.

With this scale, if POG mirrors GroupM's buying strategies, both entities will be positioned to jointly drive media prices down in a manner that was much less likely with any other combination of media agencies. Why we believe this is the case is rooted in our experience with how the notion and practice of "clout" has evolved and how the large media agencies approach negotiations with media owners.

- **Scale does not necessarily lead to negotiating clout.** In 2001, Interpublic (IPG, Buy) formed Magna Global, which was formed at least in part in response to concerns related to the newly large scale of the parent companies of CBS, NBC, ABC and others by that point in time. IPG's media agencies then had the largest share of the market for media buying at around 25% of the industry. As is by now well known, "clout" did not come to fruition as it was originally intended as Magna did not have command and control over its affiliated agencies. Each agency maintained control of its buying, and agencies did not generally push back on clients to allow Magna to operate in a manner which would allow for optimal negotiating strategies (i.e. buyers only rarely had credible ability to walk away from negotiations).

- **GroupM's media negotiating tactics were new and refined how media agencies could apply clout.** By 2003, WPP formed GroupM, which came to include what are now Mediacom, MEC, Mindshare and Maxus, among other entities. With Irwin Gotlieb as its key architect, GroupM had oversight of its affiliated agencies from the outset. It asserted control over buying strategies and, per our understanding, often negotiating volume deals first and then sought to fit the media inventory into client plans, balancing client interests in containing pricing with their media goals. This top-down approach to buying allowed GroupM to optimize its negotiating strategies and, arguably, pay less for like-for-like inventory than its competitors. The trade off, in the view of marketers, was always the degree to which you accepted low prices vs. (for lack of better word) customized solutions.
- **Other agencies did not adopt this approach to negotiating, and thus the impact of GroupM's approach has been somewhat limited across the broader industry.** Within the other holding companies, there are varying degrees of co-operation, but only a limited degree of bulk buying. Our understanding is that inside of Omnicom, OMD and PHD might share information, although negotiate separately. Inside of Publicis, Starcom and Mediavest share information and sometimes negotiate together; but while Zenith and Optimedia share information, the combined ZO and SMG units do not typically work together.
- **But we think that marketer procurement teams are driving changes that will make the GroupM model more common, and the combined POG will be well-positioned to emulate it over time.** While agencies outside of GroupM have been able to argue to marketers that their approach to buying is customized to clients and therefore more client-centric, procurement teams inside of marketing groups have gained influence over the years and increasingly require proof that an agency beat certain benchmarks, or otherwise has to supply pricing, which in turn may be compared with prices that other agencies indicate they have secured. Our understanding is that often, procurement teams want agencies to make guarantees that they will beat those benchmarks, or otherwise waive any bonus or even take a cut in compensation. Given the ascendancy of procurement in modern marketing, and the ongoing focus on total resources that marketers expend, the GroupM model seems to us the most advantageous model in the long-run. It could have persisted as a unique entity for some time had the industry structure stayed the same or iterated slightly. However, we think that over time more agencies will embrace it (if often reluctantly, as many of their clients and the professionals who work with them would prefer status quo arrangements). We think this transaction made such strategies more likely to occur because with POG's new scale, the benefits for POG agencies adopting the GroupM approach will be materially greater. More importantly, the risks (i.e. client defections) of undertaking this strategy are materially lower than if such a merger had occurred with an agency owner who was smaller than Omnicom, because few marketers will credibly consider leaving.
- **Supporting this trend is the increased degree of fragmentation of media, which in turn makes the selection of a medium and audiences increasingly important vs. the precise content around which a brand appears** (literally an illustration of "the medium is the message"). This is most pronounced in network TV specifically and TV in general, which has become so fragmented, that advertisers are becoming incrementally indifferent about what programs their commercials run up against (certainly every marketer who uses national TV will require some precision in selecting some programs, but when ratings approach or fall below levels such as 1.0s, the impact of brands associating with specific programs becomes harder and harder to assess). We have already begun to see this indifference in online advertising, where the large brands who dominated advertising on portals have increasingly shifted their buying of digital media towards the buying of audiences, often through programmatic means.
- **It's also worth noting that the combined entities will now also be better positioned to pick winners and losers in ad tech.** Between Publicis Omnicom Groupe and WPP, the two entities will have a disproportionate degree of influence in picking winning technologies in ad tech - platforms such as DSPs, bid management systems, book-bill

pay systems, etc - will all now have two big customers accounting for the bulk of activity in some verticals, making a shake-out more likely.

Putting all of these points together, we think that a combined POG will eventually emulate GroupM. If two entities behaved in much the same way, we think that this will mean that spending representing the bulk of the market will be materially better positioned to play off media owners against each other, as they will each maintain a greater ability to walk away from negotiations than would otherwise be the case. There will still be unique media properties such as sports programming that are "must-have" and which specific clients want. But we see it getting incrementally harder for media owners to bundle those properties with inventory that marketers are going to be increasingly indifferent towards.

Of course, getting there will take time. While it may require management turnover or other internal disruptions that will make any transition bumpy, it seems hard to imagine that POG will not get there eventually. And when it does, they will be able to better serve the procurement teams who will have asserted more control into the media buying processes. Over the same time frame, marketers and the media agencies will also probably increasingly focus their customized client-centric activities on a wider range of media activities including those which are data-centric, experiential, social or location-based. Towards these ends, we see most marketers accepting this trend over time. As a consequence, growth will be curtailed for media owners who are dependent on spending from the largest advertisers serviced by large agencies.

While near-term results are unlikely to face any impact, investors with multi-year time horizons and positions in ad-supported media owners will want to be conscious of this trend, as it should incrementally impact terminal values negatively. Our guess at this time is that the most negatively impacted media owners will include CBS, Scripps and Discovery, where a majority of revenue comes from advertising, the bulk of which comes from larger brands serviced by agencies. AOL and Yahoo will also be negatively impacted, as both also collect a majority of revenue from advertising and have a large brand / large agency skew (certainly vs. Facebook (FB, Buy) and Google (GOOG, Hold)). Meredith is another media owner who generates the bulk of revenue from advertising and has large brand / large agency skews. Similar assessments may be made in other countries where incumbent TV owners are likely to be negatively impacted (although in some countries bulk deals may not be made because of laws or other industry conventions).

Publicis Omnicom Group: All the Facts You Need to Know

Our Handy Reference Sheet Outlines Merged Company

By:
Rupal Parekh
,

Proposed name: Publicis Omnicom Group

Top brass: The senior leadership is also rather senior in age. Maurice Levy, 71, and John Wren, 60, will serve as co-CEOs for the first two and a half years of the deal. After that, Mr. Levy will become non-executive chairman and Mr. Wren will continue as CEO. For the first year following closing of the transaction, Bruce Crawford, 84, currently Omnicom chairman, will be non-executive chairman of Publicis Omnicom Group. For the second year following the deal's closing, Mr. Crawford will be succeeded as non-executive chairman by Elisabeth Badinter, 69, currently chairperson of the Publicis Groupe supervisory board. Ms. Badinter, daughter of Publicis Groupe's founder, is Publicis Groupe's biggest shareholder with a 9.1% stake as of year-end 2012 (including her children's holdings). The company's board will have 16 members, consisting of the two co-CEOs and seven non-executive directors from each company.

Headquarters: The company will be headquartered in the Netherlands, with the group's operational offices still led from Paris and New York. The location choice is neutral and offers tax advantages.

Combined revenue as of 2012: $23 billion

Total number of employees: Over 130,000

Joint statement for the deal: "For many years, we have had great respect for one another as well as for the companies we each lead," said Messrs. Levy and Wren. "This respect has grown in the past few months as we have worked to make this combination a reality. We look forward to co-leading the combined company and are excited about what our people can achieve together for our clients and our shareholders."

Efficiency Goals: Aiming for $500 million realized due to operating synergies. That's likely going to require consolidation of real estate, companies and possible headcount elimination, but the execs declined to provide any detail around how those cost-savings will be achieved.

Stock information: Publicis Omnicom Group is expected to be listed on the NYSE and Euronext Paris, traded under the symbol OMC (Omnicom Group's current ticker), and to be included in the S&P 500 and the CAC 40, a French stock-market index. Omnicom shares closed Friday at $65.11, up 81 cents or 1.3%. Shares rose in after-hours trading to $67.15, approaching their July 18 all-time high ($67.43). Publicis stock closed Friday at 59.35 euros, up 1.5%; stock July 18 reached 60.44 euros, highest since 2000. The companies' combined market cap -- stock-market value -- was $32.5 billion as of Friday ($16.8 billion for Omnicom, the rest for Publicis). The deal was structured so shareholders of Omnicom Group and Publicis Groupe will each end up with about a 50% stake in Publicis Omnicom Group.

Antitrust issues: In the U.S., the two firms' combined revenue was $11.4 billion, twice that of the nearest competitor, WPP. Ad Age DataCenter estimates total 2012 U.S. agency revenue at $35.6 billion based on the sum of estimated revenue of nearly 1,000 agencies analyzed in Agency Report 2013. Omnicom and Publicis in 2012 together accounted for 31.5% of worldwide revenue among the 50 largest agency companies ranked by Ad Age, vs. 22.8% for WPP. The combined company accounted for 41.2% of 2012 revenue among the world's 10 largest media agencies, according to Ad Age estimates. Publicis Omnicom would own three of the world's five largest media agencies, including the four largest U.S. media agencies, according to Ad Age.

Approval process: The companies are hoping the deal will close by year-end 2013 or in the first quarter of 2014. Mr. Levy claims that so far the French government has been supportive of the deal and it will get past regulators, while Mr. Wren says advisers have "not raised any red flags."

Advisers on the deal: Moelis & Co. is financial adviser to Omnicom on the transaction. Rothschild is acting as financial adviser to Publicis Groupe. Legal advisers to Omnicom are Latham & Watkins LLP and De Brauw Blackstone Westbroek. Legal advisers to Publicis Groupe are Wachtell, Lipton, Rosen & Katz; Darrois Villey Maillot Brochier; and NautaDulith N.V. Jones Day provided counsel to Moelis & Co.

Biggest shared clients: McDonald's, Procter & Gamble, L'Oreal, AT&T

Potential for conflicts: Pepsi and Coca-Cola; AT&T and Verizon; Microsoft and Google

Impact on competing players in the ad business: WPP moves to No. 2, well behind the combined Publicis Omnicom. Dwarfed now are Interpublic, Dentsu Inc., Havas and MDC Partners. This deal could set off more acquisition activity as the remaining players look to remain competitive.

How Merged Publicis Omnicom Would Stack Up Against Rival Agency Companies

Figures Based on 2012 Revenue. Dollars in Billions.

Rank	Company	Worldwide Revenue	U.S. Revenue	Non-U.S. Revenue	% of Revenue from U.S.	Share of 50 Largest Agency Companies' Worldwide Revenue	Share of 50 Largest Agency Companies' U.S. Revenue
	PUBLICIS OMNICOM GROUP	$22.7	$11.4	$11.3	50.2%	31.5%	38.2%
1	WPP	16.5	5.3	11.2	31.9	22.8	17.6
2	Omnicom Group	14.2	7.4	6.9	51.8	19.7	24.7
3	Publicis Groupe	8.5	4.0	4.5	47.6	11.8	13.5
4	Interpublic Group of Cos.	7.0	3.8	3.2	54.7	9.6	12.7
5	Dentsu Inc.* 1	6.4	0.7	5.7	11.5	8.9	2.5
6	Havas	2.3	0.7	1.5	32.4	3.2	2.5

7	**Hakuhodo DY Holdings***	**2.2**	**0.0**	**2.2**	**0.0**	**3.0**	**0.0**
8	**Alliance Data Systems Corp.'s Epsilon* 2**	**1.2**	**1.2**	**0.1**	**94.8**	**1.7**	**3.9**
9	**MDC Partners**	**1.1**	**0.9**	**0.2**	**81.0**	**1.5**	**2.9**
10	**Experian's Experian Marketing Services**	**0.9**	**0.4**	**0.6**	**41.7**	**1.3**	**1.3**

Source: Ad Age DataCenter analysis based on 2012 data from Ad Age's Agency Report 2013. Numbers rounded. Asterisk indicates Ad Age estimate. Some U.S. figures reflect North American revenue. Estimated pro forma revenue including Aegis Group (acquired in March 2013) and Roundarch (acquired by Aegis in March 2012).

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0Reply

MICHAEL MCDONALDATLANTA, GA
1 - Jul 28, 2013 9:57 AM
If this merger passes muster with antitrust bodies,the fall-out from client conflicts will open up tremendous possibilities for IPG, particularly with Coca-Cola and GM. WPP will also stand to benefit while an independent like Weiden + Kennedy stands to be the biggest trophy catch of all.
They will be more attractive than ever for clients and talent because of their excellence and purity of structure. On the other hand, their increased desirability might provide W+Ks management with unprecedented leverage to monetize value.
Other creative independents and start-ups will also benefit as savvy clients and talent become increasingly wary of being lost in a corporate bureaucracy in what is essentially a business driven by the ideas of a talented few

BOTTOM LINE: We are raising our year-end price target on Interpublic to $21 from $16 previously and maintain our Buy rating. With news of Omnicom and Publicis merging, Interpublic will immediately be considered to be in play by investors. Our revised price target is determined by maintaining our business profile estimates but by applying the costs of capital embedded in our price target for the most likely acquiror, WPP. While we expect IPG to rise on the market open on Monday, as of this writing IPG is now our favorite stock given our price target vs. Friday's closing price.

Our view is that news of Omnicom and Publicis merging is incredibly favorable for Interpublic stock. The new entity and WPP will provide those companies with substantial advantages:

- With stewardship over the majority of media buying in certain key media such as national television and with most of the key media owners, those two entities will more-than-plausibly present themselves as most capable of **reducing the costs that marketers pay for media**.
- They can present themselves as the two agency groups most capable of applying scale to **technology** investments that are increasingly critical to the marketing industry.
- They will have the most scale for purposes of driving costs out of their businesses in order to provide services to marketers looking for a lower-cost agency solutions.
- **They will have the most scale to drive rebates out of media owners in countries where they are a standard form of compensation for the agency sector**, allowing them to provide services at lower costs or to generate more revenue to invest in the business.
- Account losses are likely to be modest. In the past, global marketers concerned about conflicts within one holding company could choose others who could provide comparable services. They will have far fewer now, and more importantly, most holding companies have been successfully demonstrating that they can produce structures that provide a sufficient degree of client confidentiality and walling-off competing accounts

All of these factors will place IPG at a significant competitive disadvantage. **However, Havas and Dentsu will find themselves facing similar circumstances.** But with the Bollore family's commitment to the industry, our guess is that Havas is more likely to be an acqiuror. And if Dentsu wants to be viable outside of Japan (where its dominance will remain unquestioned even after Publicis and Omnicom come together) it will need a stronger presence in the United States and Europe. Meanwhile, WPP - which previously would have considered itself as large as was possible, but which after Omnicom and Publicis come together will be the world's #2 player - will undoubtedly reconsider the limits to scale it may previously have assumed. All of this is to say that we now have as many as three potential acquirors for IPG, which offers the best solution for each of the companies who might want to buy it.

Of course, if our premise is wrong and it turns out that conflicts matter more than we are assuming, IPG is better positioned than any of its competitors to win new creative business from global accounts given its McCann WorldGroup, DraftFCB and Lowe networks, especially as these networks continue to improve their offerings. And Mediabrands agencies will probably be able to better position themselves as offering more customized, client-first media services at global scale. Heads they win, tails they win.

Consequently, we are modifying the cost of capital in our valuation of Interpublic. Historically we have applied significantly higher costs of capital for IPG, reflecting heightened risks in the company vs. peers. However, we think the market will now value IPG for the value it would have in the hands of an acquiror. We think WPP is now the best benchmark for a large-scale holding company, and also may be the most likely acquiror. Consequently, we are applying the capital costs incorporated in our WPP valuation. In our DCF-driven model, this translates into a $21 year-end 2013 price target, up from $16 previously. Although expensive when viewed against 2013 EPS estimates (at 27x), IPG is a company that is undergoing a turnaround, and one which should experience significant growth in cashflow and earnings. On our forecast, IPG's earnings will grow by 45% next year and 17% the following year. Consequently, $21 can be viewed as 19x 2014 multiples or 16x 2015, which may be easier to justify, not least as 19x matches the (admittedly same-year) multiple paid by Dentsu for Aegis last year. In our view, Aegis' ultimate growth profile would not have been meaningfully different than IPG's given their common exposure to similar underlying business trends.

VALUATION: Our valuation of IPG is derived using a DCF methodology (with a near-term discount rate of 7.9% and terminal value equating to 14x 2017 EV/FCF).

RISKS: 1) Failure to meet expectations around the company's ability to generate peer-level revenue or margin trends, 2) competition from adjacent industries (especially IT services firms), 3) continuing squeeze on like-for-like fees from legacy clients; 4) absence of competition among marketers.

CARAT HIRES CHIEF STRATEGY OFFICER FOR U.S.

Michael Epstein joins from MindshareBy Gabriel Beltrone

- June 6, 2013, 3:56 PM EDT
- Advertising & Branding
-

Carat chief strategy officer Michael Epstein

Carat has hired Michael Epstein, a 13-year veteran of Mindshare, to fill the position of chief strategy officer for the U.S., a new title.

Epstein, who started on May 28, will oversee communications planning, strategy and consumer insights, overseeing about 60 Carat employees. He will report to Doug Ray, who serves as Carat's president in the U.S. and globally.

The new role, though, is aimed at better connecting the dots between the agency's various research practices and developing media planning tools that will help all of its 900 U.S. employees serve clients, said Ray. Carat, part of the Dentsu-owned Aegis Media, works for marketers including GM, P&G, Diageo, Smucker's, Burberry and Mondelez.

"We've got the proprietary research that we do in field every year," explained Ray. "We've got client research, the syndicated studies that are out there, and obviously a lot of data that's coming through from a digital standpoint—whether that's social data, search data, client-side website data. All of that's now converging."

To that end, Carat has moved some of its data and analytics practice under the purview of Michelle Lynn, evp managing director of research and consumer insights. Lynn, previously reporting to Ray, will report to Epstein in his new role. Michael Vitti, Carat's head of data and analytics, will be moving into a still-undisclosed new role.

It's Epstein's first stint outside of WPP: In the late 90s, he worked in the media department at Ogilvy and Mather before joining the newly minted planning-and-buying standalone Mindshare in 2000, where he's stayed since. Over the years, he worked in a range of roles that included overseeing the company's Unilever business, on brands like Dove Men+Care, Magnum Ice Cream and Axe. In his most recent role at Mindshare, as a president of strategic resource and client services, Epstein was focused on developing the company's digital offering.

Why leave after so long? "I was impressed by the fact that [Carat is] actually paying attention to insights rather than information," said Epstein. "In a world where people like to talk about data all the time, it's a tricky thing to navigate."

Media Agencies Try to Navigate Choppy Waters

At Venice Festival, Shops Ponder Their Place in Increasingly Digital World

By:
Matthew Creamer
Published: April 21, 2008

VENICE, Italy (AdAge.com) -- If you went to the Venice Festival of Media this year, you couldn't help but think about profit margins. Not the slim ones of media agencies, but the presumably fat margins of the water taxis that are the fastest and most expensive way to zip around the collection of islands that make up this old city.

Photo: Jonah Bloom

Now in its second year, the Venice Festival of Media is meant to be the media-buyer and -planner community's version of Cannes.

Related Photos:

Photos From the Venice Festival of Media
Faces From Around This Year's Confab

Even a short trip, say 15 or 20 minutes, could run as much as 100 euros -- or about $160 -- all for the privilege of a pitched, bouncy, herky-jerky ride that on a bleary morning might conjure stern memories of the previous night's bellinis. Propping up the taxi companies, which are the only option for harried visitors, is a basic economic principle: a scarcity of ways to get the job done.

No such luck for today's media agencies.

A predominant theme running through the presentations and panel discussions was that in today's advertising marketplace, there is no end to the competition for two roles the media agency is vying for: the seat at the right hand of the marketing team, directing its advertising spending, and the role of content czar (or "content jockeys," as Universal McCann CEO Nick Brien put it), managing the endless geyser of content big brands let loose today. The scrum includes parties as diverse as production houses cranking out branded content; consumers who have involved themselves in the branding process; and, of course, the ad agencies off of which media shops were spun -- perhaps mistakenly -- more than a decade ago.

Lingering insecurity

That question of whether the two agencies should be reunited, or rebundled, long a soapbox issue for creatives, got little truck with a crowd clearly reveling in its independence. But that doesn't mean the media agencies have worked out the inferiority complex that so often drives them to navel gazing at these events. One of the audience-poll questions asked whether media agencies are set up to become strategic leaders for brands -- a tee-up, you'd think, given the audience. Yet the crowd was divided just about evenly among the three possible answers: yes, no and not yet.

You could argue that a third wasn't a bad vote of confidence given that most of their agencies weren't even around 15 years ago. But somehow it's hard to escape the feeling that if you have to ask whether you're in power, then you're probably not.

That's where the Venice Festival of Media comes in. Now in its second year, the conference is meant to be the media-buyer and -planner community's version of Cannes, with the crumbling beauty of the palazzo-lined canals standing in for the crumbling beauty of La Croisette. The Venice event has a long way to go to match the liver-besieging week of the Cannes awards for decadence, scale or centrality in the industry. But it already rivals it for logistical nightmares. The 850 attendees -- twice last year's turnout -- were spread out among hotels on different land masses, putting large amounts of power in the hands of those sunburned water-taxi drivers and giving reason for griping. Venice very quickly emerges as a curious choice of venue for anyone working on anything resembling a schedule.

Nevertheless, most polled said they'd come back next year, even if they coupled their logistical complaints with a few quips about the dullness of much of the content. It's their event and, in a short time, a sense of ownership has developed, a cheering development for master of ceremonies Charlie Crowe, chief executive of festival owner and organizer C-Squared. In just a year's time, the buoyant, pocket-squared Mr. Crowe capitalized on the inaugural buzz and made the festival something approaching a must-attend, if more for the networking than the panels.

Talking to themselves

A clear challenge for the third installment will be to improve the content. Too much of this year's festival was dominated by stale discussions of media planning, hackneyed calls for more digital competence, and meditations on branded content that anyone who's picked up a trade magazine would know inside and out. The big names were there onstage -- Jack Klues, a thundering Alexander Schmidt-Vogel -- but they weren't challenged enough. Hot-button issues such as the rebates agencies receive in many parts of the world were given too-short shrift in light of how important they are to local buyers and sellers. And, typical of an ad conference, there was too much of the industry talking to itself.

The high point contentwise was most certainly a series of panels of media-agency CEOs. One British attendee describe the two-hour session as "a bit knockabout" on the way out, as good a descriptor as any, even if there weren't any major disputes. The panels offered a rare chance to see the people who control a massive chunk of the world's media spending on one stage, and it was a clear framing of the challenges facing media shops by the people who run them.

A major continuing challenge is the deep involvement of procurement executives in marketing processes putting downward pressure on the profitability of agencies of all kinds. For all the talk about strategic value and making investments in technology, said MindShare CEO Dominic Proctor, "five minutes later we're in a haggling match over whether it's a 1% or 2% [fee] on a service. That's a habit we have to break."

With that, Mr. Proctor hit on one of most difficult contradictions facing agencies. Just about everyone agrees the media world is increasingly confusing and requires smart strategists to navigate it. We also know that brands have never been so important to the C-suite. Yet the threat of agency commoditization looms as large as ever. While procurement is often the whipping boy in these situations, one agency CEO argued that corporate bean counters -- or, for that matter, clients and media sellers -- can't be blamed if media agencies don't continue their ascent.

"More than any other time in the last 20 years, our destiny is in our hands," said Steve King, worldwide CEO of ZenithOptimedia.

Digital Is Winning The Battle, But Is Advertising Losing The War?

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The major advertising holding companies just posted an uptick in organic revenue growth for Q1, 2013, on the heels of a modest growth in 2012, the slowest since the 2009 recession. With a wobbly U.S. recovery, a U.K. on the brink of a double-dip recession, and a Eurozone that's gasping for air, things seem quite bleak on Madison Avenue.

Its against this background that Ad Age points out in a recent article that advertising is increasingly becoming a dominated by digital agencies.

Digital agencies are growing 40% faster than ad agencies and now account for one third of all communications spending. They are adding to their workforce and hiring talent even faster than their revenue growth rate requires, anticipating more and more growth. Their workforce is growing 3 times as fast as ad agencies.

It's clear is that the digital agencies, like most "new" and entrepreneurial companies are in investment mode, hiring vigorously in anticipation of more work; and ad agencies are acting more like mature businesses do, minimizing investment in assets, their workforce.

The rejiggering of the agency scene and the growing predominance of digital agencies makes advertising more measurable and more accountable, as marketers have long demanded, but this also raises new challenges for the industry as a whole.

Digital work can be more labor-intensive and less profitable because it's more diverse and less standardized than traditional work done by the ad agencies. And many digital engagements are on a project-by-project basis, which are less lucrative than AOR assignments. The industry, which has been under a financial squeeze for a decade, is likely to face more headwind as "traditional" budgets shift to digital.

As the traditional advertising segment stops growing and eventually starts to contract it will face a share game, where one would have to take business from competitors in order to grow. Agencies will also have to rethink their business model, invest in business development, and seek new revenue streams.

With less profitable digital agencies dominating the makeup of the holding companies and with tepid growth in developed markets, the holding companies will be looking for new sources of revenue.

They are moving beyond the BRICS and acquiring agencies in lesser ad markets, in what Goldman Sachs termed "the Next-11", countries like Indonesia, Egypt, Turkey and Vietnam. They are also increasingly competing for consolidated accounts by drawing on resources across the holding company, in what is known as "holding company pitches." WPP WPP in particular is a strong proponent of this "team" approach.

However, holding company wins often require discounts to advertisers, and that can hurt profitability further.

The bottom line is that in years to come the advertising industry will need to become smarter about the bottom line. They will have to become more efficient, rethink its compensation approach, and experiment with different models of delivering value.

Avi Dan is the founder of Avidan Strategies, a marketing consulting firm that specializes in business and marketing advice, agency search, compensation, and advertising *strategy. He spent 30 years in senior management and board positions with leading global agencies*

CMO COUNCIL REPORT: MARKETING BUDGETS ON THE UPSWING

Execs eye big increases in digital spend, while TV growth could slowBy Anthony Crupi

- December 13 2012
- Television
-

While television should once again account for the lion's share of global marketing spend in 2013, a disproportionate number of executives report that search is a far more effective medium through which to generate consumer demand.

According to a new study from the Chief Marketing Officer Council, 27 percent of those surveyed said that TV was the most impactful medium through which to advertise one's brand, whereas 44 percent said that search was the superior vehicle.

Among the findings in the 55-page "State of Marketing 2012" report, executives are particularly enthused by search and social media but said that they are not satisfied with their current digital-marketing performance. Nearly half of the CMOs surveyed said that making over their digital strategy would be one of the most important challenges facing them in the New Year.

Despite this apparent mandate for change, 64 percent of marketers are still budgeting fewer than $500,000 for digital spend, and 46 percent report that this figure represents less than 10 percent of their overall marketing spend.

That said, marketers expect to increase their digital investments in the coming year. Per the CMO Council study, 47 percent said they planned to boost allocation to digital to 10-24 percent of their total marketing budgets, while 22 percent said digital would account for anywhere between 25 percent and 49 percent of their overall media mix.

In the U.S., TV accounts for roughly one third of all media spending. Analysts estimate that overall TV spend—a catch-all that includes national and local broadcast, network cable, syndication and Spanish-language channels—will add up to some $65 billion in 2013, out of a projected total media haul of $186 billion.

The CMO Council's report was culled from responses to an online survey of 550 senior marketing executives representing major media markets such as North America, Europe, Asia-Pacific and Africa.

According to Liz Miller, the CMO Council's vp of global programs and operations, Asia is lagging on the digital front, as some 37 percent of marketers in the region allocate less than 10 percent of their spend to digital platforms. "It's clear that marketers across the region are ready to run into a digital future, but as the hyper-connected digital consumer continues to evolve, marketers must invest in the people, processes and platforms that will better predict and prepare them for these engagement opportunities," Miller said.

All told, 54 percent of CMOs surveyed said they had increased their overall budgets in 2012, while 22 percent reported that they had made reductions in their marketing spend.

While social and search are expected to grow by leaps and bounds in the year ahead, most categories are expected to see more modest growth. The CMO Council report flagged only one significant backslider, as 31 percent of those surveyed said they would be slashing their newspaper budgets. Analysts expect stateside newspaper spending (national and local) will drop off by as much as 7 percent.

While still the king of the hill, TV spend could be hampered by imprecise performance metrics and rapid declines on the broadcast side of the ledger. Analysts believe national cable will be responsible for much of TV's modest gains, with revenues expected to increase by as much as 8 percent to some $30.5 billion. Broadcast gains are likely to be more modest, with sales on track to grow around 3 percent to a little under $14.5 billion.

Another finding culled from the survey should give media agencies pause. According to the report, 60 percent of respondents said they expect to make an agency change in 2013, with a need to improve their social-media expertise cited as a major reason for the shift.

Only 12 percent of respondents felt their agency partners were "extremely valuable."

A number of CMOs also said they planned to move previously outsourced services back in-house, particularly in areas like data analysis and research. This would be a reversal of the trend of a few years ago that saw many agencies radically reduce headcount in their research departments.

Advertising Agencies

Attitudes and Perceptions Among

1,498

Advertising Agency Employees

Compared to

Primary Shoppers

(people who do most of the shopping for their household)

Agency People Don't See/Hear Radio as Consumers Do

Comparing Agency Employees to Primary Household Shoppers:

The medium that most…

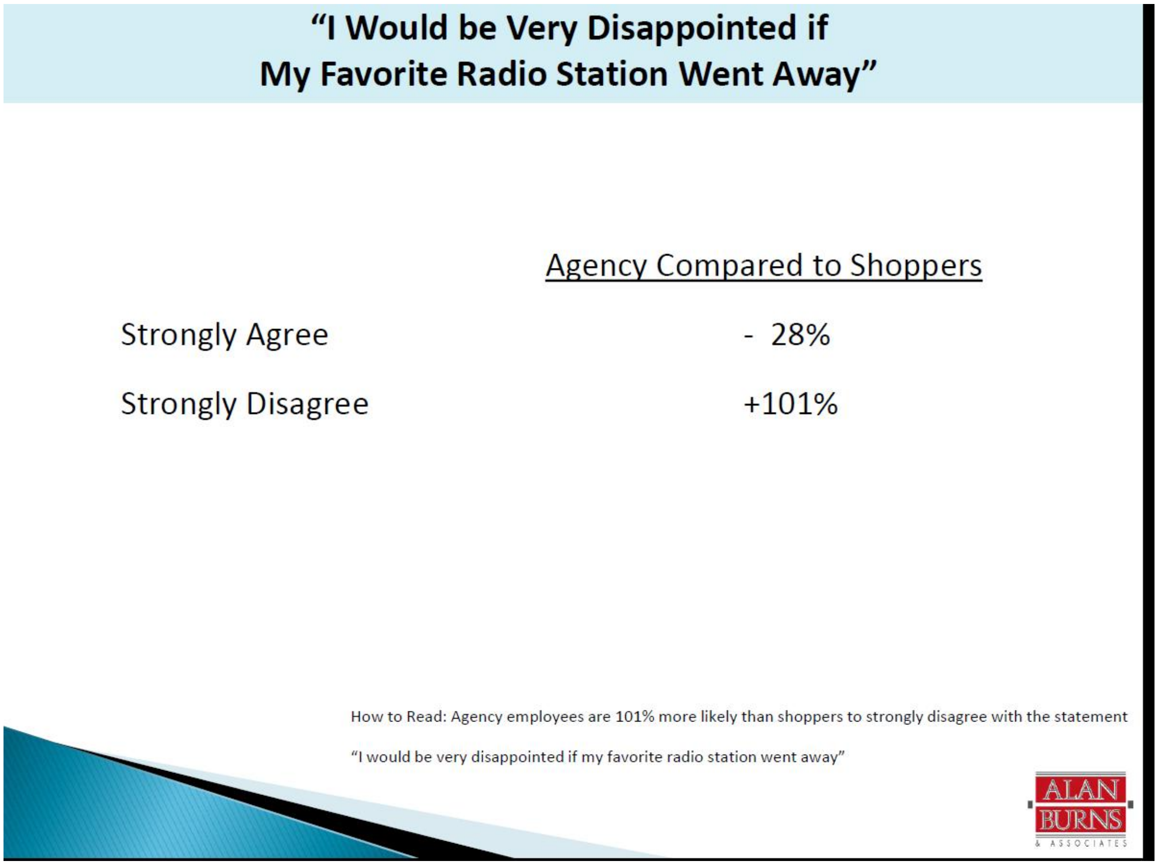
		Agency Compared to Shoppers	
	Shoppers	Radio	TV
Improves Your Mood	60.5%	-19%	+24%
Energizes You	51.9%	-14%	+48%
Has Annoying Ads	16.9%	+30%	-13%

How to Read: Agency employees are 19% less likely than shoppers to cite Radio as the medium that most improves their mood

More Agency/Shopper Differences…

	Agency Compared to Shoppers
Cume Daily Radio	-22%
Cume Customized Music Stream Internet Daily	+33%
Skips Commercials on DVR Most of the Time	-24%
Likes a Specific Morning Show or Person	-26%

How to Read: Agency employees are 22% less likely thank shoppers to cume radio on a daily basis.



We're From Mars, They're From Venus

Remember the bestselling book series from the early '90's called *Men Are from Mars, Women Are from Venus*? It delved into the differences between the sexes with the premise that if the genders began to understand and appreciate the differences between themselves, they'd be able to communicate more effectively. If this premise were applied to today's advertising practitioners and the vast majority of consumers, a similarly themed book could be written, *The Ad World Is from Mars, the Rest of the Country Is from Venus*.

It is only human nature to project our own habits, thoughts and beliefs upon others. While moderating a panel at an Advertising Research Foundation event, one of the participants said something that really hit home. It was something so obvious, yet so prescient: There can be no "me" in "media planning." She explained that as media professionals, we shouldn't let the media consumption habits of our friends, family and ourselves influence the mediums that are recommended on media plans.

This is particularly difficult for those in the ad business. We all tend to dress similarly, talk the same language and have a predilection toward the new, shiny, next big thing. The "birds of a feather flock together" axiom certainly applies to this industry and it's dangerous to believe that the other flocks are like us.

Our profession requires us to be on the cutting edge of media technology, to be familiar with, master and own many of the latest gadgets, far in excess of the rest of the population. If 2% of the population is classified as "innovators," then those of us in the advertising industry are surely over-achievers.

Living on and extending the cutting edge is what enables us to sell, solicit clients, get promoted and keep our jobs. This is not true for someone working in a factory in Detroit, a farmer in Iowa, an insurance salesman from Hartford or a flight attendant in Charlotte.

The dichotomy between us Martians and the Venusians again became apparent recently while conducting a radio seminar at a major ad agency. We began the session by asking the assembled group several questions to bring this fact to life:

- How many have smartphones? About 80% of the hands went up. Smartphone penetration is currently around 35%.

- How many own an mp3/iPod? Just about every hand went up. Mp3/iPod penetration is currently around 49%.

- How many use or own a DVR? About two-thirds of the hands were raised. The U.S. average is right around 38%.

- How many own an iPad or a tablet? About a quarter of the hands go up. Ownership of the devices is right around 12%.

- How many stream audio online each week? Again, almost all of the hands go up. Currently, about 22% do so across the U.S.

In the June issue of the *Journal of Advertising Research*, Yahoo research scientist Duncan Watts wrote, "Plans fail ... not because planners ignore common sense but rather because they rely on their own common sense to reason about the behavior of people who are different from them." We believe he is right on point.

It is particularly important to keep in mind the media consumption differences between "us" and "them." What constitutes common media consumption behavior for many of us in advertising is quite uncommon to the rest of the country.

There are hundreds of millions of people who still heavily rely on legacy mediums for their entertainment, information and news. If we project our own cutting-edge media consumption habits, which by its very definition are not representative of the majority, we just might be doing so at our clients' risk.

There's ample reason for one to exercise some caution about studies that focus what people say they do versus what they actually do as there is often a huge difference between the two. Below chronicles one such example:

Self-Reporting vs Observation

In our previous studies we found sometimes alarming
differences between how much time people told us they spent with various media and what we actually observed.

For example, TV, the Web and Computer were each
under-reported in the phone survey by 164%, 204% and 170% respectively when compared to what we observed. We also found that nearly 40% of our diary respondents reported no
incidences of concurrent
media exposure when our observations found such
episodes for all participants.

This was one of the major reasons we chose to focus our efforts on an observational approach, along with the fact that there is a dearth of such research relating to media use.