

February 23, 2007

Help Wanted: 21st Century Agency

by Peter Kim

TRENDS



February 23, 2007

Help Wanted: 21st Century Agency

Firms With A Vested Interest In Traditional Media Models Need Not Apply

by **Peter Kim**

with Elana Anderson, Julie M. Katz, and Sarah Glass

EXECUTIVE SUMMARY

As chief marketers reinvent their organizations to become truly customer-centric, they need help from their trusted advisors — the advertising agency. Agencies continue to influence the marketing function; however, they struggle to help clients capitalize on emerging channels and technologies. In the meantime, marketers are diffusing agency power by turning to a portfolio of players in search of specialized expertise. As marketers select new agency partners, they must revise their evaluation criteria to build an integrated marketing team.

TABLE OF CONTENTS

2 Advertising Agencies Overestimate The Role They Play

Agencies Still Wield A Lot Of Influence...

But Media Shifts Expose Major Weaknesses

5 Customer-Centric Marketers Stem Agency Power

RECOMMENDATIONS

6 Build An Integrated Marketing Team

WHAT IT MEANS

7 Agencies Must Become Client-Centric — Or Perish

8 Supplemental Material

NOTES & RESOURCES

Forrester fielded a survey with the American Marketing Association and interviewed eight vendor and user companies, including: Avenue A | Razorfish, H&R Block, Hill Holliday, JWT, Kia Motors America, and Xerox.

Related Research Documents

[“Organic Branding”](#)

December 28, 2006, Best Practices

[“Publicis + Digitas: Interactive Goes Mainstream”](#)

December 22, 2006, Quick Take

[“Reinventing The Marketing Organization”](#)

July 13, 2006, Forrester Big Idea

[“Left Brain Marketing Planning”](#)

May 16, 2005, Best Practices

TARGET AUDIENCE

Marketing leadership professional

ADVERTISING AGENCIES OVERESTIMATE THE ROLE THEY PLAY

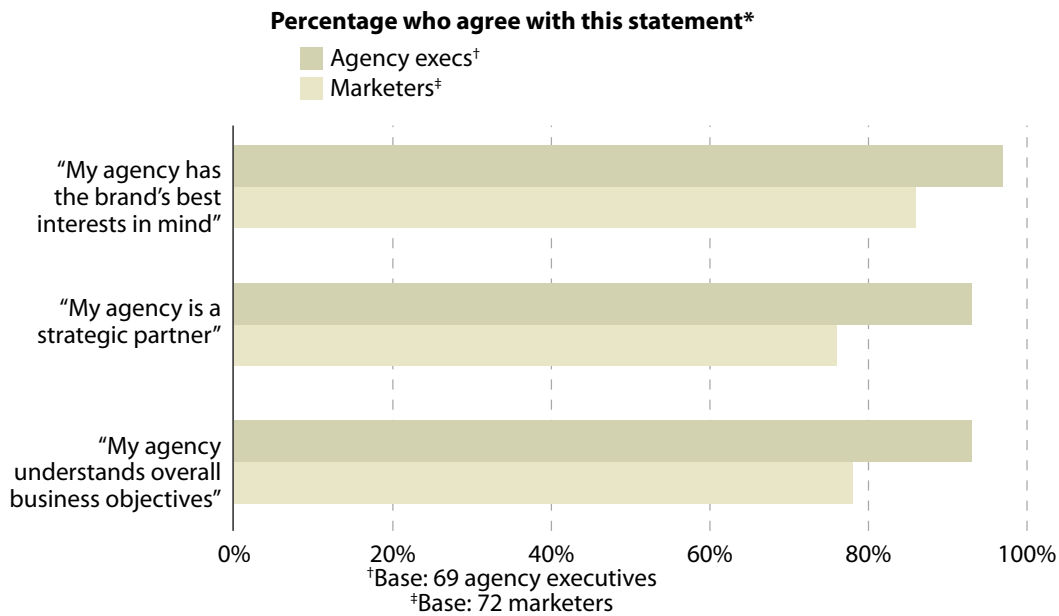
In Q4 2006, Forrester surveyed both client-side marketers and advertising agencies to measure attitudes toward agency effectiveness.¹ Agencies believe that they play a critical role in marketing success, but marketers see things differently. On aggregate, agencies score a dismal Net Promoter rating of -21%.² This rating is reflected in the market performance of ad holding companies; despite sales growth, their earnings per share lag behind the S&P 500 and profit margins are squeezed.³

Agencies Still Wield A Lot Of Influence . . .

Despite the poor Net Promoter rating, agencies still wield a great degree of influence in the marketing organization. Although marketers claim they are unwilling to recommend agency services, few alternatives exist. Marketers need as much help as they can get to reach customers who increasingly tune out marketing communications.⁴

Advertising agencies started as media placement brokers in the 19th century, evolving into strategic advisors during the 20th century. Today, agencies:

- **Influence most of the marketing communications budget.** On average, agencies will influence nearly 60% of the marketing budget in 2007. The combination of anticipated spending on agency fees and measured media cover the bulk of marketing communications activities.⁵ According to the VP of advertising at a major insurance firm: “Access to enhanced expertise is worth all the work and costs involved. We are better for the relationship.”
- **Retain the role of strategic business partner.** Marketers and agencies generally agree on the agency’s role as strategic partner, brand champion, and business driver (see Figure 1). Agencies drive business value by bringing expertise from an external viewpoint to solve business issues. According to the VP of marketing at a large bank: “Agencies are extremely valuable. They look at the organization with a fresh perspective and bring decades of experience to meeting our challenges and goals.”
- **Expect to increase short-term billings.** It’s a good time to be in the advertising business. The US advertising market reached \$271 billion in 2005, and dollars continue to flow toward emerging digital channels.⁶ Almost all agency respondents anticipate an increase in billings during 2007, and most expect to see a gain of between 11% and 25%.

Figure 1 Agencies Are Strong Business Partners, But Problems Exist

*Percent of respondents who answered 3 (somewhat agree) or 4 (strongly agree) on a four-point scale.

41433

Source: Forrester Research, Inc.

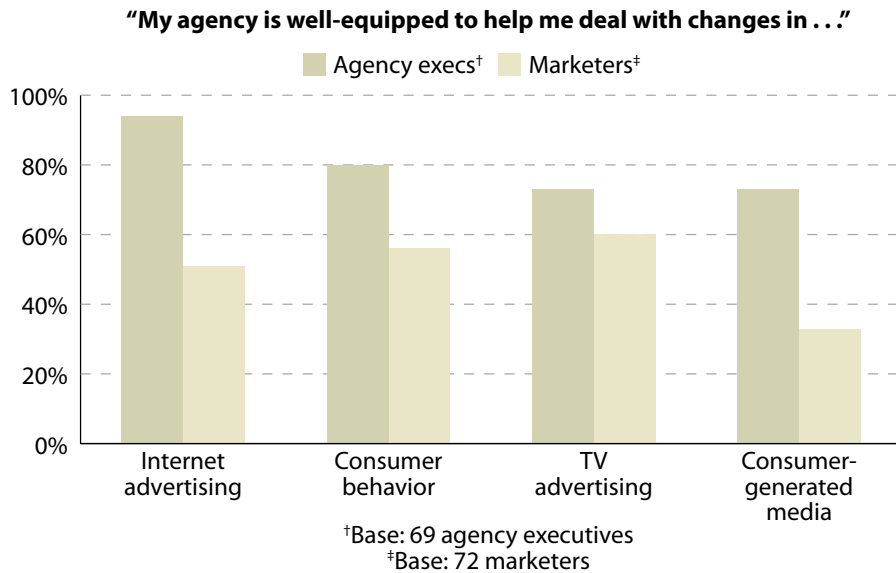
... But Media Shifts Expose Major Weaknesses

Shifting patterns in media consumption, driven by technology, expose major weaknesses in traditional agency skill sets. Today, agencies must deliver technology — in addition to creative — expertise, and many traditional agencies struggle to adapt. In fact, marketers view advertising agencies as least competent among service providers to deliver marketing technology.⁷ In the midst of this technology-induced media shift, marketers realize that agencies:

- Lack skills in emerging channels.** Marketers aren't convinced that their agencies can formulate new media strategies, and agencies aren't fully convinced themselves. Huge gaps exist between marketer and agency perceptions of ability to deal with changes in TV, Internet, and consumer-generated media (see Figure 2). For some unfortunate firms, agency blunders have resulted in public embarrassment, including programs such as Wal-Mart's fake blogs, GM's Chevy Tahoe/Apprentice user-generated ads, and Agency.com's viral video pitch for Subway.⁸
- Overstate their role in marketing success.** Almost all agencies (93%) believe their contributions drive their clients' marketing success, while only 63% of marketers feel the same. Both points of view may be correct, but the difference lies in a matter of scope. Agencies must take a realistic perspective of their fractional role in the marketing process, while their clients must orchestrate a broader mix of internal and external inputs to drive sales.

- Must be held more accountable for results.** Despite the fact that agencies wield influence over a majority of the marketing budget, 76% of marketers do not measure the return on investment of their lead agency relationship (see Figure 3). Without measurement, marketers cannot hope to manage and improve performance. However, marketers must gain the ability to measure the ROI of all marketing investments, not just agency work. As one marketer admitted, “We are only now beginning to measure *our* return on programs we implement.”

Figure 2 Technology Shifts Expose Agency Weaknesses



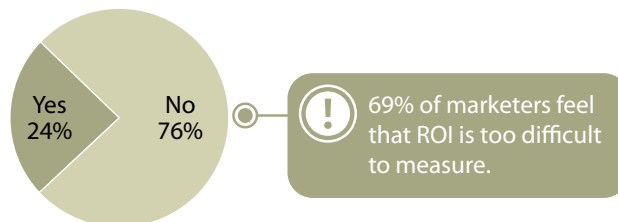
*Percent of respondents who answered 3 (somewhat agree) or 4 (strongly agree) on a four-point scale.

41433

Source: Forrester Research, Inc.

Figure 3 Few Marketers Measure The ROI Of Their Agency Relationships

“Do you measure the ROI of your lead agency relationship?”



Base: 72 marketers

41433

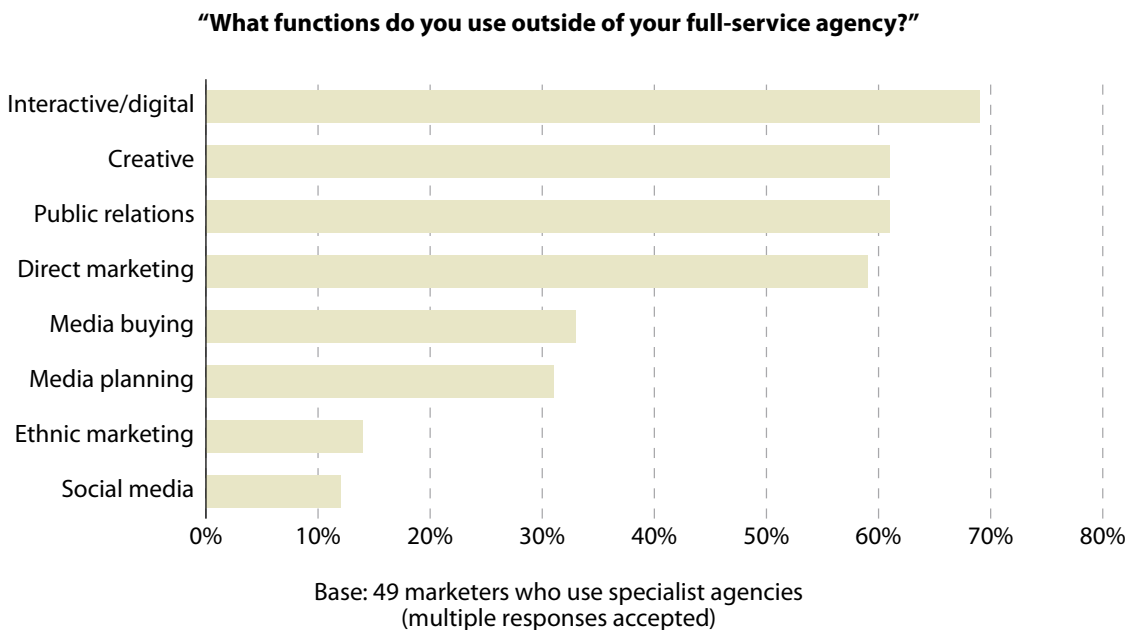
Source: Forrester Research, Inc.

CUSTOMER-CENTRIC MARKETERS STEM AGENCY POWER

As marketers reinvent their organizations to become more customer-centric, they find themselves better prepared to mitigate their dependence on an agency of record. As one CMO said, “Client-side marketers are better at managing integrated campaigns and being media-agnostic.” These marketers reduce agency influence by:

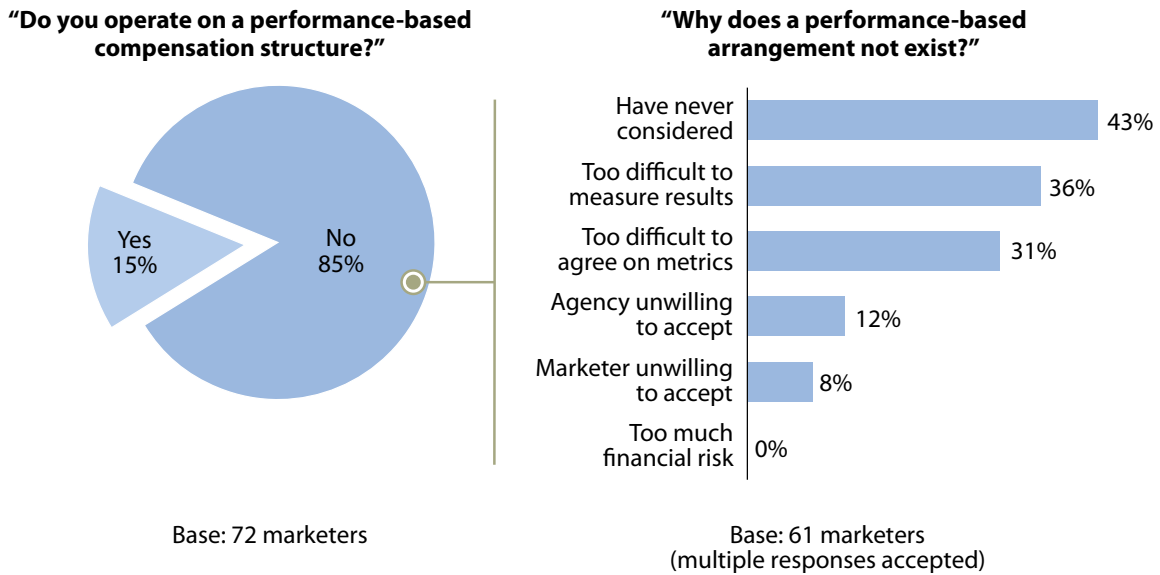
- **Spreading budgets across different agency types.** Full service agencies still play a role, but marketers are increasingly calling on specialists to fill skill gaps (see Figure 4). Marketers first turned to digital specialists to build Web sites during the dot-com bubble. Now, the specialist trend has expanded as marketers seek fresh approaches from digital shops — like Avenue A | Razorfish and Critical Mass — as well as creative independents — like Modernista!, Tugboat, and Mother — eroding the core value proposition of traditional ad firms.⁹ In fact, digital agencies have started to win “traditional” agency work as well: Agency.com has created print and outdoor ads for IKEA United Kingdom, and AKQA serves as Yell.com’s main agency.¹⁰
- **Building up internal capabilities.** In-house agencies give marketers greater control and accountability over services, while reducing fees. They also allow marketers to shift budget from agency expenses to internal accounts, improving the base for return on marketing investment calculations. Marketers build in-house agencies to assist with a diverse range of services, including creative, direct, interactive, and media buying/planning.

Figure 4 Specialists Deliver Emerging And Traditional Capabilities



- Experimenting with risk-sharing contract structures.** A small set of forward-thinking marketers engage agencies under performance-based contracts (see Figure 5). Such contracts increase agency incentive and keep them focused on the bottom line. When Hagggar Clothing established its relationship with Crispin Porter + Bogusky, it handed over a stake in its business. According to CP+B CEO Jeff Hicks, “The agency-client convergence model . . . eliminates the noise that can exist between clients and agencies.”

Figure 5 Few Firms Pay Agencies Based On Performance



41433

Source: Forrester Research, Inc.

RECOMMENDATIONS

BUILD AN INTEGRATED MARKETING TEAM

Marketers need to revise agency selection criteria in order to evaluate how well a potential partner fits in to their integrated marketing lineup. Marketers should start with a current-state skills assessment, evaluating staff, the in-house agency, and external partners. When deciding to fill resource gaps externally, marketers need to find partners that understand integrated marketing. This goes beyond the definition of integration currently practiced; as a retail marketing exec told us, “Most senior ad execs appear more comfortable with conventional channels, which they claim are ‘integrated’ because they have tacked on a Web site.” Marketers should hire agencies that:

- Possess expertise at the agency, not holding company, level.** Holding companies don’t deliver ideas — individuals at agencies do. Marketers should look for teams that employ a Left Brain planning philosophy along with jaw-dropping creative skills. Work should cover emerging tactics in addition to traditional above-the-line media.

- **Utilize a media-agnostic, customer-centric approach.** Agencies organize around their own silos, promoting either discipline-centricity (e.g., account management, creative, media, and research) or media-centricity (e.g., television, print, out of home, and digital). Marketers should select agencies that employ an approach to campaign planning that favors no particular media, but takes a customer-centric approach. Doing this well means using the customer as a campaign's organizing principle. Agencies that do this well anticipate interactions through the entire purchase funnel and build relationships, starting with awareness and closing the loop with loyalty.
- **Establish metrics and milestones that drive both marketer and agency accountability.** Marketers need to measure campaign performance so that all parties can figure out what works and what doesn't. Getting measurement right means putting new processes and tools in place, but many marketers already struggle with this. Help with measurement can come from internal resources, media planners like OMD Metrics, or independent modelers like MMA.

WHAT IT MEANS

AGENCIES MUST BECOME CLIENT-CENTRIC — OR PERISH

Agencies must effect change and reorganize into client-centric structures.¹¹ Those that do not will end up in a world where:

- **Existing holding companies become wholly irrelevant.** Clients choose their partners at an agency level, and many shops tout their ability to work with other agencies outside their corporate family. Some holding companies have started to form virtual client-centric teams. Case in point: WPP's "Team Ford." But, this interfamily service model remains the exception rather than the norm. Holding companies must deliver integrated skill sets across their agency portfolios, rather than using them to offer up an occasional business referral.
- **Emerging players use Left Brain tactics to replace agencies.** IBM, McKinsey & Company, and Accenture are helping marketers manage their agencies by delivering Left Brain marketing planning.¹² Agencies must preempt the introduction of outside management and push for accountability in existing relationships in addition to establishing ROI metrics. If not, agencies will lose their strategic advisor position to firms hired by strategy or procurement. Without metrics and accountability, agencies cannot prove why a switch shouldn't be made.
- **Clients shift agency spend toward internal technology initiatives.** The relationship between marketing and IT has improved steadily over the past four years. This has opened up possibilities for brand marketers to learn more about emerging applications — like marketing resource management and digital asset management applications — that help marketers create a holistic view of marketing activities, automate routine processes, improve collaboration, and increase marketing efficiency.¹³ Agencies must improve their ability

to deliver marketing technology. Those that don't will find their contracts reduced when marketers shift their spend to build internal solutions.

- **Consumers continue to hate ads.** Consumers shun advertising because of clutter, interruption, and irrelevance. A shift to client-centric agencies and customer-centric marketing means better-integrated marketing campaigns that engage and activate customers. If not, advertising will continue to suffer in an environment rife with consumer mistrust of corporate messaging.

SUPPLEMENTAL MATERIAL

Methodology

Forrester surveyed 141 marketing and advertising agency executives from our ongoing marketing research panel as well as members of the American Marketing Association. The panel consists of volunteers who joined on the basis of interest and familiarity with specific marketing topics. For quality assurance, panelists are required to provide contact information and answer basic questions about their firm's revenue, advertising budget, and management processes.

Forrester fielded the survey online between October and November 2006. Respondents were incented with a summary of the survey results.

Exact sample sizes are provided in this report on a question-by-question basis. Panels are not guaranteed to be representative of the population. Unless otherwise noted, statistical data is intended to be used for descriptive and not inferential purposes.

In addition to sampling error, one should bear in mind that the practical difficulties in conducting surveys can introduce error or bias into the finding of opinion polls. Other possible sources of error in polls are probably more serious than theoretical calculations of sampling error. These other potential sources of error include question wording, question ordering, and nonresponse. As with all survey research, it is impossible to quantify the errors that may result from these factors without an experimental control group, so we strongly caution against using the words "margin of error" in reporting any survey data.

Companies Interviewed For This Document

Ammo Marketing	JWT
Avenue A Razorfish	Kia Motors
H&R Block	Sheffield Marketing Partners
Hill Holliday	Xerox

ENDNOTES

- ¹ We fielded this survey in conjunction with the American Marketing Association (AMA). For more information, see the Supplemental Material: Methodology section above.
- ² A company's Net Promoter Score, developed by Fred Reicheld of Bain & Company, calculates the percentage of a company's promoters (highly likely to recommend) minus detractors (less likely to recommend). High scores are correlated with companies that exhibit high growth, profitability, and customer satisfaction. However, this should be one metric used in conjunction within a larger measurement process. See the February 2, 2007, Best Practices "[Net Promoter Scores: Good, But Not Enough](#)."
- ³ The five largest advertising agency holding companies by market capitalization are WPP Group, Omnicom Group, Publicis Groupe, Interpublic Group of Companies, and Havas. We calculated data on sales growth, earnings per share five-year growth, and net profit margin from Reuters at <http://www.reuters.com/>.
- ⁴ According to Forrester's NACTAS Q2 2006 Survey, more than 50% of North American households have implemented ad-avoiding tactics like the Do Not Call registry, spam filters, and pop-up blockers. See the November 27, 2006, Trends "[Consumers Love To Hate Advertising](#)."
- ⁵ Marketers reported allocating an average of 17% of their budget to ad agency fees and 41% of their budget to measured media.
- ⁶ Advertisers spent a total of \$271 billion on domestic US ads across all measured and unmeasured media channels in 2005, a 2.8% increase over 2004. Source: "100 Leading National Advertisers," *Advertising Age*, June 23, 2006.
- ⁷ Systems integrators, internal IT, and management consultants have all improved their perception with marketers as technology delivery partners. Conversely, advertising agencies have done little to improve their positioning. See the July 5, 2006, Trends "[The Marketing/IT Gulf Narrows](#)."
- ⁸ These agencies quickly followed up their original stumbles with well-executed responses. Richard Edelman posted a public apology and commitment to future transparency, in addition to internal process changes at the agency (http://www.edelman.com/speak_up/blog/archives/2006/10/a_commitment.html). GM launched another consumer-generated ad contest, focusing on students creating an ad for Super Bowl XLI (http://intranet.edventurepartners.com/samprograms/chevrolet_sb/default.asp). Agency.com launched a blog to collect responses to its viral experiment as proof of its success (<http://whenwerollwerollbig.com/>).
- ⁹ In June 2006, General Motors moved its \$140 million Cadillac account from Leo Burnett to Modernista! (<http://www.modernista.com/>). Mother produces campaigns with a distinct attitude and edge for clients like Unilever, Diageo, and Orange (<http://www.motherlondon.com>). Tugboat has made a name for itself in the Japanese advertising market, delivering campaigns for clients like Kirin Beer and Japan Railway Group.
- ¹⁰ Agency.com is also a candidate to become IKEA UK's agency of record. Source: "Internet Ad Shops Are Crossing the Digital Divide," *Wall Street Journal*, February 9, 2007.
- ¹¹ To regain organizational effectiveness, businesses must transition to a customer-centric marketing organization. Doing so means aligning with customers as the primary focus, not products or channels. See the July 13, 2006, Forrester Big Idea "[Reinventing The Marketing Organization](#)."

¹² Left Brain Marketing Planning provides a customer-based, marketer-led, data-driven way to decide which marketing resources — not just media — to invest in. See the May 16, 2005, Best Practices “[Left Brain Marketing Planning](#).”

¹³ Some 43% of marketers say their relationship with IT is characterized by strong communication and processes — up significantly from 31% in 2004. See the July 5, 2006, Trends “[The Marketing/IT Gulf Narrows](#).”

FORRESTER®

Making Leaders Successful Every Day

Headquarters

Forrester Research, Inc.
400 Technology Square
Cambridge, MA 02139 USA
Tel: +1 617/613-6000
Fax: +1 617/613-5000
Email: forrester@forrester.com
Nasdaq symbol: FORR
www.forrester.com

Research and Sales Offices

Australia	Israel
Brazil	Japan
Canada	Korea
Denmark	The Netherlands
France	Switzerland
Germany	United Kingdom
Hong Kong	United States
India	

*For a complete list of worldwide locations,
visit www.forrester.com/about.*

For information on hard-copy or electronic reprints, please contact the Client Resource Center at +1 866/367-7378, +1 617/617-5730, or resourcecenter@forrester.com. We offer quantity discounts and special pricing for academic and nonprofit institutions.

Forrester Research (Nasdaq: FORR) is an independent technology and market research company that provides pragmatic and forward-thinking advice about technology's impact on business and consumers. For 22 years, Forrester has been a thought leader and trusted advisor, helping global clients lead in their markets through its research, consulting, events, and peer-to-peer executive programs. For more information, visit www.forrester.com.