This article first appeared in *Future Marketing*, November 2006, Vol.1, No. 2

# The strategic challenge for advertising agencies
**Tony Manning**

Advertising agencies are at a strategic inflection point. Within a decade, they could go the way of fax machines, long-playing records and film photography.

Their value proposition is vague and under attack from many quarters; their costs are under pressure; their clients are trying to figure out how to deal with a hazy future. So they clearly need a new strategy. But just what that might be is hard to see.

There was a time when agencies could claim with some reason that they understood consumers better than their clients did. But the power shift that Alvin Toffler warned about thirty years ago has long since happened. Today, marketers are the ones who own that critical information. And new technologies – the Internet, cellphones, RFID – will put them even more firmly in charge.

In their quest for something new to sell, agencies are sure to set their sights on "strategy". But they'd better be very sure what they mean, and clear about what they can and will do, how they do it and how they price it. Otherwise they will hasten their own decline.

Like any business, they need a strategy to take them into the future. But they should be wary of trying to make strategy for others, except in a narrow way. For while they might rightly argue that advertising's impact ultimately hinges on a host of factors, they will blur their positioning if they poke their noses into everything.

Ad agencies are in the communication business – period. Their job is to connect sellers and buyers. Yet just how well they do this is open to question. They struggle to sell themselves because it's not clear how much they add to clients' profits, and might never be. But it is ludicrous for them to try and hide that fact that by pretending that they're business strategists.

This is not an attempt to diminish their capabilities or the value of their fresh thinking to the companies they serve. But agencies would be well reminded that just as politics is the art of the possible, so is business. It is pointless trying to be something that you cannot. It is hopeless trying to punt a line that no one believes.

If a company's communication is to be effective, it must be based on sound strategy, which in turn must be based on a clear brief. Producing that brief is logically the client's responsibility. But if in the past the communications strategy might have come from either the client or agency, now it could come from a host of others including management consultants, branding experts, PR firms, media owners, researchers, designers or web specialists. Or it might be a team effort. So ad agencies will have to fight hard to sell the idea that they're the best ones even for that job.

They will muddy the waters if they try to dive below the level of communications strategy and swim in the deep shoals of business strategy. Their problems won't be fixed by trying to do work that is not their responsibility, and getting mixed up in issues that are way beyond their competence.

Back in the early 1980s, "planning" was tagged onto the list of services ad agencies offered to try and differentiate themselves. Although it was initially a big deal in Britain, it didn't gain traction elsewhere for many years. And as creativity awards became flashier and increasingly important in agencies' own promotional efforts and new business pitches, it made sense to put "magic" before "logic". Clients loved it. After all, it was more fun to be around amusing people who dressed funny, produced wacky ideas and got you into great parties than to deal with people who were even more boring than “suits”, and were always trying to tell you how to do your business.

But things changed. Life got much tougher for advertisers. The era of hyper-competition dawned. New players emerged from every direction, not just snapping at the heels of the big guys, but actually eating their lunch. Products and services looked increasingly alike; those that stood out at launch were quickly copied and improved on. Quality became a taken-for-granted factor in customer buying decisions and price became ever more critical.

One way to deal with that problem was through branding. So a notion that had been around for decades suddenly came into its own. But just as it did, so did that pesky little accounting acronym, ROI. Suddenly “the work” that creative directors lived for was not just in the spotlight, but under the microscope too. Clients demanded a return on their advertising investment.

To make a shitty situation even worse, there was a loud sucking sound as the Internet took off and slurped audiences from traditional broadcast and print media. At first, it was just another new advertising medium. But it rapidly became a shopping mall, a booking office, a community – a place to sell stuff, swop ideas, do deals, study, chat, boast, listen to music, watch movies, explain how to build a bomb, or whatever else took your fancy.

As the race for “eyeballs” hotted up in the 1990s, agencies were quick to see the business opportunity in this new advertising medium. But despite increasing hype around the Internet, neither they, their clients, or the owners of traditional media saw what was coming.

The *Financial Times* cites a forecast that “new media advertising” will grow 17% a year for the next five years, to $69 billion by 2009. Consumer spending on cable and satellite TV, video games and the Internet will soar.

Search engine Google gets 90% of its revenues from advertising, and is the most valuable media company in the world by market capitalization. Rupert Murdoch, boss of News Corp., has a number of web companies in his sights, and could spend $2 billion on acquisitions. Smart marketers of just about everything are fighting for attention by wrapping their goods and services in entertainment, slicing and dicing markets, disaggregating audiences and becoming customer advocates.

In some ways, the Internet has already passed a tipping point. But there are more of those to come as broadband takes off, as China goes on line, as new handheld devices give consumers greater control over the messages they get and send, as blogging and podcasting win fans. The future is less about “opportunities to see”, reading and noting scores and cost-per-thousand than about complex new algorithms.

In his latest book on globalization, “*The World is Flat*”, Thomas L. Friedman warns that the playing fields have been leveled. A new era of competition is washing over us. And like everyone else, ad agencies need to rethink what they do and how they do it.

Strangely, they’re not very good at this. Although they’re in the business of ideas, and although they preach to *clients* about the need to try new things, they’ve been hopeless at changing *themselves*. In fact, they’re firmly trapped in the past. A century or so after they first emerged, they still sell the same product in the same way – and mostly get paid the same way – as they always have. And when talk turns to “results”, they are necessarily vague.

It’s impossible to tell up front if a campaign will “work”, or if a risky creative approach will beat a safe one. Awards may or may not have a link with financial returns. It’s one thing to measure how many people saw an ad, liked it, or remembered it, and another problem entirely to unravel what that did for sales. So at the level of mass communication alone, there are tricky questions.

Should a client boost the ad budget or invest below the line or in PR? Would it be wiser to buy more TV spots or develop a glitzy new website? Will this copy line do better than that one?

Whoever gets closest to answers stands to make a lot of money. New media will make clients' lives harder, because they will face more choices and need to consider a wider variety of messages. There is an opportunity here for ad agencies – and for others in the communications arena.

But there are bigger questions that they shouldn't even try to answer.

Should a client dump a chunk of the business, or start a new one? Get into alliances? Hire a new CEO or more sales people, open new branches or appoint new dealers? Hike incentives to retailers? Spend more on technology or product innovation, ramp up the supply chain, slash travel costs, or outsource manufacturing to China and support to India? The list of strategic choices is a long one.

Of course, agencies can comment on these matters – as can anyone else. But they cannot hope to compete as providers of real advice about them.

"Planning" didn't do much for agencies in earlier times, and it will not take them into the future unless clients believe it is good for them and agencies define clearly what they mean by it and how they will do it.

It is not surprising that clients are getting jumpy, and asking hard questions about the value agencies add to their marketing efforts. What is surprising is just how slow agencies have been to see the looming danger, or to respond. This inability should ring a loud warning bell for everyone.

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