Internal and External Risks Threatening Media Agencies

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Introduction:

Media houses are relatively young, formed around thirty years ago, and include agencies that specialize in advertising, media, creative, PR, social, and marketing, but the function and influence of each of these sectors has changed greatly since their foundation. Media agencies now have an immense breadth of scope, moving beyond the purchasing of traditional media to include the planning of digital, social, and search campaigns, content creation, analytics and partnerships. The role of consumer insights, data analytics, and content creation has also substantially changed the industry. However, there's a much greater change ahead that media agencies need to be prepared for. Media agencies as a business structure are at risk due to threats within the media landscape at an internal and external level. Broadly speaking there are two types of agencies: those that are part of a large media conglomerate and smaller boutique agencies, and the risks are equally applicable. Internally, media agencies are too focused on their success with digital media to realize their internal structure is failing to accommodate digital media's demands. Externally, because the tools to support digital media are more accessible, but also due to their desire for transparency, clients are moving their media planning and buying in-house. The following details the risks and potential solutions for the industry.

Internal Risks:

1) Media agencies are all-consumed by the fast evolution of digital

Media agencies are not structured to provide the necessary manpower to tackle the complexities of digital. At full-service agencies, digital teams are structured very similarly to traditional media platforms such as print, TV, and outdoor, while the demands of the discipline actually requires more staff. Given the amount of data created by this medium, digital is a much more complex and time-consuming process to measure, analyze, and report. The need for restructuring the digital business segment is necessary regardless of industry or company size. This is supported by PwC's 2015 Chief Digital Officer study that states, "the demands of digitization will ultimately force companies to transform virtually every aspect of their business" (Friedrich, Peladeau and Mueller, 2015). Media agencies are undeniably focused on digital, especially at the senior level in an organization, but they have not yet transformed their business accordingly. Instead plenty of effort is spent showcasing their progress in the digital space which making the agency look powerful. For example, in WPP's 2014 Annual Report multiple CEO's highlighted their influence and progress in the space. Larger media agencies are trying to capture the entire industry, whereas smaller agencies typically specialize on one element of the business; so while bigger agencies have greater scope and variety, smaller agencies have very specific expertise. However, larger agencies also have more resources, so depending on a client's needs they may choose to work with just one agency that can transcend the entire space, or they may choose to work with many smaller agencies. Regardless, agencies are too distracted by being present in digital to know the best way to handle digital internally. In Forbes' 5th Annual Client/Agency Relationship survey, of more than half of the CMO's that responded only 32% "think that the traditional agencies are doing a good job of evolving and extending their digital marketing capabilities, while the overwhelming majority, 68%, believe that agencies are struggling to transition their business model and are playing catch-up in digital. Some clients don't think that digital agencies figured it out yet either" (Dan, 2014). This does not reflect well on the industry as a whole.

2) The organization of a media agency is not appropriately structured

The same devotion to digital doesn't transcend to the lower levels of the agency platform, and companies still lack the internal understanding of the extent of strain it puts on staff. It is clearly important for agencies to invest in digital media and digital tools, however, there needs to be more focus on the actual individuals at the agency. Consequently, media agencies are so focused on proving their understanding of digital's capabilities and their ability to showcase their creativity they are ignoring the necessary support of their staff. Michael Farmer, CEO of Farmer & Company, whose company consults on agency staffing and compensation, writes in his recent book, what was "once one of the most fulfilling and glamorous of industries has become a grim sweatshop for the people who do the work" (Beasley, 2016). A 2014 study executed by Media360 noted "45 per cent of media agency staff would leave their company tomorrow if offered another job" (Benady, 2014). With an industry of young, eager employees ready to seek the next best opportunity, all agencies need to improve their retention rates. Clients notice this pattern, and in Forbes' CMO study more than 50% of respondents said the "lack of quality agency people and high turnover is a problem" (Dan, 2014). These sentiments are pervasive through the industry. There are plenty of explanations on how this behavior has continued including more work, higher client demands, the need to deliver profit margins, and reliance on junior employees, but by not providing the appropriate infrastructure, the quality of work will suffer, and ultimately the client's satisfaction. In the ongoing debate of whether large agencies or boutique agencies are better, boutique agencies feel that they can manage more of these concerns better because they have greater flexibility and less overhead, hierarchy, and bureaucracy. Smaller boutique agencies may be better at a "specialised service simply not available or easily accessible at larger agencies. This may be very specific sector knowledge, but increasingly it is about application of skills" (The Guardian, 2015). With this situation agencies must realize they need to reallocate their resources immediately, provide proper training, staff appropriately, and demonstrate that their people are their greatest asset, not by telling but by showing.

External Risk:

1) Media purchasing is becoming more accessible and brought in-house

Digital media is a much more public and accessible medium than other media types. Working with the appropriate services, advertisers now have the information and tools at their disposal to plan and purchase their own media. This is particularly applicable to the growing trend of programmatic advertising for both digital and TV. Programmatic media is an automated buying system that makes ad purchasing more efficient and effective due to technology and data. According to eMarketer, programmatic ad spend for digital display ads grew 135.5% to nearly $10 billion in 2014; estimates are that "by 2016, spend on programmatic is expected to pass $20 billion, or 63.0% of US digital display ad spending (Church, 2015)." Media houses are spending enormous amounts on programmatic themselves, with some agencies devoted solely to programmatic, but marketers too realize the power of programmatic and "many are trying to bring the function in-house, forming their own trading desks and acquiring technology that will enable implementation" (Church, 2015). As AdAge writes, "this is a radical change from traditional ad buying where a buyer agrees to run a certain number of ads with a publisher and is locked in to the contract" (Kantrowitz, 2015), and it supports analyst Ian Whittaker's commentary that advertising technology is "putting at risk the traditionally high margins of the media space, which has been the rocket fuel of the agencies' margin growth for the decade prior to 2013" (Cookson, 2015a). For example, media agencies typically have operating income margins of 20% making them more profitable than similar companies (Cookson and Bond, 2015). For all agencies, relevance in the industry means creating or maintaining a competitive advantage. All clients can bring programmatic in-house, and clients are very confident that they know how to use these tools. However, if agencies prove they are better at programmatic than the client, they are taking back their competitive advantage. Programmatic is thought of as an automated system to buy media inventory for a better price. However, there are factors including location, time, weather, and other real time events that have a direct impact on programmatic performance. This requires both analytics and creative to dig deeper to develop a satisfactory "why" and "what now" that the client team may not have the means to execute. One of the beneficial elements of clients bringing media in-house is that the clients become more familiar with media, particularly digital, and across the board agencies can reduce the amount of explanation and rationale for why this media type is crucial. Although agencies may lose some element of their expert role, it will allow them to devote their attention to more interesting elements of the business for a surprising amount of time today is still spent educating clients on the benefits of working beyond traditional media. As clients become more familiar with the digital space, they will become more comfortable, exploring the boundaries and opportunities within the media.

2) Media agencies are being scrutinized for traditional strengths

Size, high cost margins, and good rates have traditionally been the backbone of media agency success, however, this reputation is earning them negative press. Attention has recently been drawn to the fact that agency conglomerates are making money through their opaque relationship with media owners including "the "non-transparent behaviour" of rebates, barter, arbitrage, dark pools, inventory management, global transactions, and supply chain media management" (Cookson, 2015b). The Association of National Advertisers began their investigation into these accusations in October 2015. Claims, such as this, indicate that advertisers don't feel media agencies are working with their best interest in mind. In Forbes' CMO survey, "58% feel that agencies don't make recommendations that are "media neutral", even though it could be good for brands" (Dan, 2014). In fact, clients are bringing media teams in-house for it allows the company to be fully in charge of their media planning, they understand the brand better, media buying is accessible for them, it reduces costs, and they know where their costs go. These acknowledgements became so pervasive that 2015 saw an undertaking of media agency reviews, a series of events hence nicknamed Mediapocalypse (Cookson and Bond, 2015). As the FT reported, "this is worrying for the big six marketing services group [WPP, Omnicom, Publicis, IPG, Dentsu Aegis and Havas], because media agencies, which buy advertising space for clients, have been their main source of growth in recent years" (Cookson and Bond, 2015). In April 2015, analyst Brian Wieser at Pivotal Research marked the three biggest holding companies to "sell" ratings and noted that "anything that hurts the media agencies is disproportionately negative to the holding companies," (Cookson and Bond, 2015). Scrutiny of this sort is attacking the traditional prowess of the agency business model.

Learnings from other industries

Today's economic, social, and technological shifts are forcing other industries to change and reevaluate their purpose and competitive advantages. More traditional industries, such as law and banking, are facing similar, equally disrupting challenges. Luckily media has always been a rather fluid and adaptive industry so it should take advantage of this strength. In the legal field, a shift in corporations bringing more of their legal needs in-house is completely changing the need for law firms. Due to budgeting and efficiency, law firms have begun using, and hiring, in-house lawyers and paralegals for projects they would have traditionally outsourced to a law firm. In 2014, it was estimated that $1.1billion was redirected to companies' internal legal budgets, illustrating a "trend that took off during the recession, when general counsels were under pressure to rein in costs, and spiked in 2012, when companies redirected $5.8 billion in legal spending in-house" (Smith, 2014). Bringing the experience in-house and avoiding huge hourly billings is similar to advertising clients' incentive for bringing media in-house. As a consequence, law firms have had to change the structure of their business, moving away from replicable practices to more niche areas of focus, a move that media agencies will have to learn from. Media agencies will succeed by focusing on specific strengths that are too costly or too complex for clients to execute themselves.

The banking industry is experiencing a similar identity battle regarding their necessity. Banks have had a generation's old model of physical presence that is now being pushed to the side as digitalization becomes a focus, and some challenger banks are existing on a digital-only model. The traditional service elements of a retail bank branch, convenience, efficiency, and trust, can now be portrayed online. Banks are having to re-evaluate and refine how they distinguish themselves. As a 2014 PwC report stated, "by as soon as 2025 to 2030, a market economy could readily exist without banks as we have traditionally known them" (Brereton, Kennedy, Spratt, and Hewer, 2015). In an environment with changing technology, and niche competitors, banks like media agencies are having to evaluate where they can provide their best value. In a recent The New York Times article titled "The Robots Are Coming for Wall

Street," Daniel Nadler founder of an automated statistical computing system for the financial industry claims that within the next ten years, "between a third and half of the current employees in finance will lose their jobs to Kensho and other automation software" (Popper, 2016). Technology has the ability to take over more manual elements of the business, which should be forcing banks and media companies to reinvest in elements technology cannot replicate. Technology can replace humans, so these companies need to move their business into areas where human capabilities are not replicable. This would most often require moving beyond their traditional business model to discover new opportunities that neither technology or even industry competitors or clients can replicate. One of the greatest strengths of banks and media companies is their insight into the marketplace and they need to better leverage their knowledge against competitors. All of these features are strengths that can very quickly become weaknesses if companies are not prepared to devote the time and money to their employees and their organization's services.

Recommendation and opportunities

Media agencies are in an extremely vulnerable position, and key stakeholders need to take charge, otherwise the entire media agency industry is at risk. As evidenced, many industries are going through similar business challenges, but for media there is a particularly compelling need to address the internal and external factors immediately. Although the internal factors are largely unseen by those outside the walls of the agency, their effects are felt. The following recommendation transfers the industry's attention to its people and its core capabilities, and also highlights potential opportunities for agencies.

As media becomes more automated, it is important to refocus the industry's attention on its greatest asset, its people. To deal with the internal risks discussed above it is important to reorganize the digital team structure to provide these teams with the appropriate support to match the client's investment in digital, not only its monetary investment but its strategic complexity, including the number of campaigns and media partners per client. With growing competition from advertisers, who are bringing media in-house, it is even more crucial to retain current employees and find ways to attract new talent. Secondly, trust from both employees and clients also needs to be a huge focus. Like the banking industry, many outsiders feel that media agencies are purposefully opaque with their business behavior and have the agency's best interests in mind, not the client. Companies can only invoke trust by being more transparent with all parties. Thirdly, technology has the power to replace current assets of the media industry. Therefore, it is important to offset this technology risk by strengthening the agencies' best assets and realizing where their weaknesses lie. By investing in the best possible employees, the strengths of the agency will become apparent and innovation and creativity will offset the rote delivery of many aspects of the business. More drastically, however, the media industry is going to have to eliminate its weaknesses by repositioning itself. As the external risks suggest, advertisers and consumers don't need a traditional media agency. Media agencies successfully provided important services, but they are losing their core value. They will argue they bring in large sums of advertising dollars and they are investing heavily in digital which is paying off. However, management should not be distracted by current short term monetary benefits, as the risks are too large to ignore.

Making an effort to redefine the agency role is necessary. To prevent the complete abandonment of the industry, it is important to evaluate how companies can bring value to the twenty-first century. Media agencies historically advised clients on where to advertise. Today there is a greater general understanding of what media one can buy and how to purchase it meaning the media agency value proposition does not go deep enough. Creating a new internal service sector would reposition the agency as a media consulting firm. Boutique agencies may find this easier as their ability to be niche will allow them to stay relevant, however, it may also hinder their ability to expand and force them to remain within their original subset. Large agencies can benefit still from their expansive resources, but they need to be more selective about choosing the right resources. Agency consultants will differ from traditional consultants because these individuals will not only have the strategic industry expertise but also the technical operational expertise. Helping clients with the technology and software will maintain client relationships and prove media houses still know media best. In fact, a consulting service will also allow the company to spend more time understanding the media landscape and building connections with technology companies to provide advice on the future of digital. Thinking now about these threats to the industry, and addressing the internal and external risks is crucial to the survival and resilience of media agencies and media houses.

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