2018 Advertiser/Agency Predictions

What should advertisers and their agencies expect from each other in 2018? Discover major trends that will inevitably rock your world.

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Wouldn't it be great if we could predict the future accurately? Think about all the decisions you would make differently, as an agency or advertiser. We are living in fascinating times. The advertising business has never experienced such profound change in its entire history. Quality relationships between advertisers and agencies have never been a greater catalyst of effective brand building and business growth than they are today. Yet, they've never been under more scrutiny. The expectations are high on both sides.

The pressure is mounting, and as we finish another great year, we all ponder: what will be next? French physician Michel de Nostredame, also known as Nostradamus, came up with a list of long-term predictions in 1555, which are often referenced to this day. The type of predictions I am suggesting, however, are far more immediate: What will clients value most in the next 12 months? What agency models and skills will emerge by next year? Which of the 2017 trends will accelerate, stay on course, or change direction all together? If the past is a good predictor of the future, and we connect the dots, what will 2018 look like for advertisers and agencies?

Prediction #1: Talent gap will widen, prompting regular reviews

Advertisers conducted a record number of competitive reviews, moving away from incumbent agencies unable to keep or attract top talent. The top 70 pitches in Q1-Q3 2017 added up to $6.1

billion, with another $3 billion still in play. The continuous talent gap in our industry will lead to more roster changes among top advertisers, many of which will happen without a formal review or an RFP. That was the case for Office Depot OfficeMax which hired Zimmerman Advertising without a review. The reviews will also be shorter, but happen more frequently. Look at MillerCoors, which changed its creative agency roster for its Miller brand for the fifth time in less than six years. To address the challenge, expect to see most agencies launch training programs like Dentsu's 360iU, R/GA University, or 72andSunny's 72U. Expect advertisers to also join initiatives like ANA's Pathways 2020, aimed at creating access to better pools (direct or outsourced) of marketing talent.

EXPECT **MORE**
- Agency reviews due to talent gaps
- Shorter, more frequent roster changes
- Training programs and initiatives

EXPECT **LESS**
- Formal, prolonged RFPs
- Decade long client/agency relationships

Prediction #2: Project-based relationships will grow under cost pressure

Forrester predicts that ad spend will be flat in 2018 and continue to shift to digital. Only 15% of CMOs expect major budget increases, but 67% intend to up their digital ad spend. The big spenders are applying significant cost pressure, using zero-based budgeting to eliminate waste and reduce non-working spend. Unilever cut fees by 17% in the first half of 2017. Procter & Gamble Co. will cut $2 billion in marketing over five years, and has already cut $140 million in 'largely ineffective' digital ads. Verizon plans to cut $10 billion over the next four years. Naturally, project work and deliverable-based agreements will be on the rise as advertisers oppose traditional large retainer relationships. Advertisers like Lowe's will back away from their existing AOR relationships, seeking to work with multiple shops instead. Look at Chili's Bar and Grill that terminated its 10-year partnership with IPG's Hill Holliday, seeking only agencies to work with on a project basis. As more advertisers move some of their work to deliverable-based and project relationships, their agencies will reengineer how they work, staff, bid for work, and get paid.

EXPECT **MORE**
- Zero-based budgeting and cost cutting
- Project based relationships
- Focus on budget accountability

EXPECT **LESS**
- Fat, loosely managed retainer relationships
- AOR-type exclusive relationships

Prediction #3: Regained trust will reinvigorate partnerships

Lack of transparency in media and production agency practices, ad fraud, and bad advertising all contributed to weakening the important relationship between advertisers, agencies, and the entire advertising supply chain. Advertisers wasted $6.5

billion worldwide due to bots last year, and $7.4 billion on poor-quality display ads in the US alone, leading companies like JPMorgan Chase to slash the number of sites where it advertises to 5,000 from some 400,000, with little to no impact on its performance. Industry initiatives like the Coalition for Better Ads will continue to promote worldwide standards that tackle ad blocking and frustrating ad formats. 615 million devices already use adblocking software and this number will increase. Programmatic media and video will remain the primary causes of ad fraud waste and a priority area for all. High growth agencies will adopt more transparent practices to avoid the distractions of frequent client audits and never-ending contract negotiations that keep both parties from building partnerships that deliver great work and flourish. Progress will be slow as fraudulent activities continue and trust between clients and agencies is slowly rebuilt. Leading brands and agencies will regain trust and refocus their attention to growth and mutual performance.

EXPECT **MORE**

- Industry efforts to address fraud and raise quality standards
- Transparency in the entire advertising supply chain

EXPECT **LESS**

- Waste and ineffective budget allocations
- Frequent, repetitive client audits

Prediction #4: AdTech/Martech will improve advertiser decision making

Per Gartner, enterprise CMOs are allocating 22% of their budget to marketing technology. Exposed to an overabundance of choices and hyper specialization, advertisers will spend more time and effort in collaboration with agencies to leverage the right marketing automation solutions. Integration will continue to be a challenge for clients, prompting much M&A in adtech/martech. The use of Agency Management software to streamline and automate the many moving parts of the client/agency relationship like scope management, performance evaluation, and agency onboarding will expand in range and popularity, improving decision-making and operational efficiencies.

EXPECT **MORE**

- Time/effort in integrating marketing automation
- Investment in Agency Management solutions

EXPECT **LESS**

- Fragmentation in adtech/martech
- Reliance on manual processes

Prediction #5: Consultancies will gain share and scale

Four consultancies (marketing services units of Accenture, PwC, IBM, and Deloitte) ranked among the 10 largest agency companies in the world with combined revenue of $13.2 billion, the result of aggressive M&A activity throughout 2017. Forrester claimed that 73% of advertisers were open to using consultancies for digital work and we are likely to see a sizeable shift in 2018. This year, Maserati hired Accenture Interactive to handle its digital channels and its sibling creative agency Karmarama for advertising and content development. Manulife picked Deloitte Digital's Heat as its global creative agency, replacing Hill Holliday, its AOR for 32 years. McDonald's hired Capgemini and Publicis.Sapient to lead its digital transformation efforts. As these consultancies gain market momentum, clients will pay a premium for these services, but competition will quickly intensify. Agencies such as Publicis Media, R/GA and 360i will strengthen business strategy services to compete with consultancies on their own turf. Expect M&A to continue at a fast pace with the large consultancies grabbing digital, creative talent, and content studios at their lowest market value.

EXPECT **MORE**

- Consultancies pitching for digital and strategic creative engagements
- M&A with consultancies gaining share

EXPECT **LESS**

- Differentiation between services offered by consultancies and agencies

Prediction #6: Independent agencies will remain appealing alternatives to advertisers

Small will be the new big in 2018. Although large holding companies will maintain a large share of the market, independent agencies will continue to position themselves as viable alternatives to larger agency networks and win accounts. Many of those shifted from well-respective international networks to independent US agencies in 2017: Honda to RPA and Darden Restaurants to The Tombras Group to name a few. Sprint hired Horizon Media as its new media agency replacing incumbent since 2011 AOR MediaVest | Spark. Other noteworthy examples included: T-Mobile hired independent Mother to handle its US brand creative. Airbnb picked independent Wieden+Kennedy. Mitsubishi selected independent Butler Shine Stern & Partners (BSSP) as its new AOR for creative, social, and digital. Disney's ESPN hired independent Droga5 as its lead strategy and creative agency for SportsCenter and its overall brand. The largest independent agencies – Doner, Richards Group, Wieden+Kennedy, Cramer-Krasslet, RPA, etc. – will maintain enough scale to attract talent, take on project work, and adequately service US based advertisers.

EXPECT **MORE**

- Choice for advertisers to pick from
- Big wins by independent shops

EXPECT **LESS**

- Dependency on international networks

Prediction #7: The rush to build in-house agencies will soften

80% of agencies predict that their clients will bring at least some marketing services in-house in 2018, according to RSW/US, and 72% of CMOs plan to bring more marketing activity in-house over the next three years according to Creativebrief. Intel's Agency Inside became in the in-house agency of the year, illustrating how its team of 90 works seamlessly with outside agencies such as McGarryBowen and TBWAChiatDay. 2017 saw huge interest by advertisers to move things in-house and drive efficiencies and operate in more agile ways. Expect a slowdown in 2018 as advertisers run into unexpected challenges (talent, financial, operational) and struggle to deliver intended benefits. Expect to see hybrid models like The&Partnership and Oliver, outsourcing talent which is then collocated with client teams or joint venture models like Spark44 with Jaguar. Media and programmatic will be the focus of most in-house agencies. Sprint, Allstate, StubHub, Unilever, and Netflix have all taken some digital ad buying in-house. Pernod Ricard saved $71.5 million by purchasing 25% of its media in-house during the first half of 2017. MGM Resorts International shifted programmatic in-house, a move that 32% of advertisers plan to make, according to Advertiser Perceptions.

EXPECT **MORE**	EXPECT **LESS**
• Experimental in-house agency concepts • Hybrid models with in-house and external agencies collaborating	• Momentum with large advertisers realizing the limitations • Less focus on creative and production

Prediction #8: Consolidation will streamline and simplify relationships

72% of marketing chiefs and 68% of agency chiefs agree that "agency structures, processes and pace of delivery" are not evolving as quickly as brands want, per Creativebrief. The cost of complexity has been too great for agencies and clients looking to move faster and operate lean and efficiently. On the agency side, Ogilvy undertook a major restructuring of its agencies to become more simplified, unified, and client-centric. To further streamline its agency operations, WPP folded shopper specialist POSSIBLE into Wunderman. On the client side, The Hershey Company trimmed its US agency roster down to two agencies. Heineken USA consolidated lead digital and social agency duties across its major brands with Red Urban. Anheuser-Busch InBev cut down the number of agencies on its roster. H&R Block consolidated media with Publicis Groupe agencies to streamline work and increase integration. McDonald's chose seven agency groups to manage local and regional advertising for its US franchises, cutting its roster down from a previous list of 60. By consolidating their roster (clients) or offering (agencies), they will simplify, streamline, and become more productive at how they engage with each other.

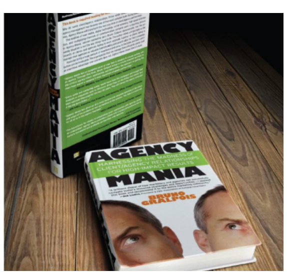
EXPECT **MORE**	EXPECT **LESS**
• Mergers of agency networks • Consolidation of client agency rosters	• Operational complexity

Prediction #9: Digital-first agencies will prevail

The continued growth in video and programmatic spend will change how agencies staff and support clients. Per Magistro, the US digital video industry will reach $135 billion this year, making video marketing nearly as large of a market as digital and TV advertising combined. Google users watch over one billion hours of YouTube content daily, many on their mobile devices. Two-thirds of the world's digital display advertising (67%) will be traded programmatically by 2019. The impact on agencies will be material as digital-first agencies become more mainstream, AOR-type agencies, handling all advertising duties for advertisers. For example, Pizza chain Papa John's selected digital-first agency Laundry Service as its new creative agency of record, replacing incumbent WPP's Grey. Samsung expanded the scope of R/GA to handle traditional advertising and broadcast TV for the brand. As budgets shift to digital advertising, advertisers will seek agencies with deep subject matter expertise to handle their accounts.

EXPECT **MORE**	EXPECT **LESS**
• Digital-first AOR assignments • Budgets shifts to digital advertising, mostly video, mobile	• Non-programmatic trades

The dynamics of the advertiser/agency relationship are being disrupted by digital technology, marketing automation, financial pressure, and talent demands. Nostradamus's prophecies have often been associated with the idea of the end of the world being imminent. In a far less dramatic way, it's obvious that the world of advertising as we've known it for the past decade is coming to an end.



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Bruno Gralpois is the co-founder of Agency Mania Solutions, a premier service and technology firm specialized in helping companies realize the transformational value of managed partnerships. Bruno is the author of best-seller "Agency Mania" and the former chair of the Association of National Advertisers (ANA) Client/Agency Committee and a faculty member of the ANA School of Marketing.

Our clients' continued accomplishments result from cutting-edge practices in the area of client/agency performance evaluations. See how stronger relationships contribute to better marketing.

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