

Industry Update

A summary of newsworthy client/agency relationship developments and relevant marketing or agency management trends from the past month.

Volume 31

Executive Summary—Monthly Recap

Holding companies are on the defensive. They've experienced poor stock performance as a result of disappointing revenue and negative organic growth, which in turn results from intense competition (the rise of in-house agencies, the push by management consulting, growing independent firms, etc.). There is greater financial pressure from clients experimenting with ZBB to right-size marketing budgets and industry trends like GRDP which caused spend to soften. A new report by Forrester, "**Agency Holding Companies Need A Brave New Business Model,**" says, "Agencies need a new business model that puts the client at the center, elevates new services, and blends creative entrepreneurialism with new executional prowess." Agency holding companies must embrace a new operating model to address the CMO's growth agenda, which continues to pose a threat to their business. After all, in-house agencies continue to gain momentum. Advertisers with in-house agencies increased to 64% from 42% a decade ago, according to a recent study. Are consulting firms still crashing the advertising party? They sure are. The marketplace is also increasingly welcoming of smaller, nimbler agencies, as some brands are moving away from large retained "agency of record" relationships in favor of more fluid agency rosters and more accountable practices like deliverables-first models. It's a brave new world indeed.



Bruno Gralpois
 Co-Founder & Principal
 Agency Mania Solutions

Newsworthy reports and recent developments

At AMS, we approach the agency management discipline as four distinct but complementary practice areas—**Talent, Work, Financials,** and **Performance and Value**—which is how we've organized industry developments to follow.

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TALENT: securing the right talent and resources

Restructuring and consolidation are behind many new recent announcements, impacting talent still too scarce to meet the requirements of an industry in dire need of new, better ways to mature. Yet, it remains a highly dynamic industry with big names leading the pack. Alex Bogusky is back to CP+B, Antonio Lucio leaves HP and goes on to save Facebook as its new CMO, and Sr. Martin Sorrell is still making headlines rebuilding his empire brick by brick.

- **Publicis Groupe's Publicis Communications** hub restructured the production departments at three of its New York-based creative agencies in an effort to streamline its efforts, reduce operating costs, and drive efficiencies to better serve clients like P&G. The group recently formed a dedicated unit called PG One dedicated to P&G. Clients like P&G are looking to agency partnerships to embrace more efficient ways to produce work and reduce waste.
- Chinese technology and ecommerce giant **Alibaba Group** formed a global partnership agreement with **Bolloré Group** to join forces in cloud services, digital transformation, mobility, AI, and content delivery, among other areas.
- **MDC Partners** laid off several corporate executives as the agency holding company undergoes a reorganization as a result of disappointing first quarter results.
- Per the In-House Agency Forum and Forrester, the penetration of **in-house agencies** has increased by 52% in the past decade and the size of in-house agency teams is growing as well, yet they are struggling to adequately staff to meet growing business demands. Brand and business acumen now rank as the top benefits, followed by cost efficiencies and time savings.
- S4 Capital (Mr. Sorrell's new firm) acquired **MediaMonks**, a marketing firm offering new media solutions combining data, content, and technology for \$352 million. Clients include Amazon, Johnson & Johnson and Netflix.
- HP Chief Marketing Officer **Antonio Lucio** is leaving HP to become Facebook's CMO. Antonio's reputation and efforts to push diversity and brand emotional connections will be assets to his new employer. Brand reputation and crisis management have been areas of focus for Facebook in recent months.

- Omnicom Group launched **Omni**, its people-based precision marketing and insights platform, designed to identify and define personalized consumer experiences at scale across creative, media, CRM, and more. Per the agency, “At the core of Omni is the industry’s most robust people-based identity graph—a database of connected consumers built from all significant identity authorities including Neustar, LiveRamp, and Experian, among several others.”
- **Alex Bogusky**, an original founder of CP+B, is returning to lead the agency as co-founder, chief creative engineer. Bogusky will oversee creative direction, innovation, strategy, and talent.
- **Omnicom Precision Marketing Group (OPMG)**, the digital and customer relationship management (CRM) specialist group within Omnicom Group Inc. acquired a majority stake in Credera, a full-service provider of management and technology consulting services.
- A newly launched agency, **TBD**, is challenging the status quo with a “collection of minds, experiences, and perspectives to close the gap between innovation and impact,” offering strategy and insights, creative communications, and experience design. TBD is part of hasan & partners group and thenetworkone, the world’s leading independent agency network.
- Over the past five years, **Spotify** has built a robust in-house creative team of now over 90 people, 35 to 40 of whom are working on creative. The in-house team also manages strategy, social impact, and production. The brand does most of its work in-house but use agencies where they need help or don’t have the skillset.
- Per **Forrester**, “WPP media agencies should operate as a single GroupM,” and the 100 creative agencies “should consolidate within the seven global networks of AKQA, Grey, JWT, Ogilvy, VML, Wunderman, and Y&R.” Forrester is offering advice to simplify the holding company offering: “WPP must dissolve its brands to meet the CMO’s need for simplicity, accountability and scale. This requires restructuring nearly 400 companies into just dozens.”
- Agencies continue to look for outside talent. WPP-owned **Burson Cohn & Wolfe (BCW)** announced the acquisition of HZ, an independent, integrated creative shop to augment its capabilities.
- **Dentsu Inc** (parent of Dentsu Aegis Network) announced that it’s considering a restructuring, becoming a pure holding company by 2020 in order to support its fast-growth objectives and to address client requirements.
- WPP-owned **Wunderman** acquired commerce experience agency Gorilla Group, which employs 370 people across the US, Canada, Poland, and Ukraine. Gorilla Group is now part of Wunderman Commerce.
- Beauty giant **Revlon** decided to replace its global agency of record WPP Grey with an in-house shop called The Red House. The agency had worked with Revlon for only a year. The in-house team is an internal center of excellence focused on content creation, as well as driving cost efficiency.
- Omnicom’s **sparks & honey**, a leader in cultural intelligence, strategy and consulting, is diversifying its offering, expanding its Human Intelligence practice that uses social sciences and primary research methods to predict cultural shifts and connect those predictions with deep human insights. The agency launched a tech platform called Q, which synthesizes everything the agency learns about the culture (they refer to it as “cultural signals”), helping advertisers figure out how to incorporate these trends into their overall marketing and content mix as close to real time as possible.
- Various boutique agencies and consultants in New York and the UK joined forces to form a new entity called **Together Group**. The London-based group offers ecommerce and digital experience services with an initial focus on purpose-driven and digital transformation efforts for fashion, beauty and hospitality brands.
- **LEGO** built a robust in-house capability in creative, media, and data analytics. The in-house agency is now producing the vast majority of its creative internally. Primary benefits include integration, speed, efficiency and effectiveness gains, and alignment with the rest of the marketing team.
- Agencies are now aggressively going after the consulting space. **Grey Group** formed a new global unit called Grey Consulting focused on business and brand design, innovation, and digital transformation issues, drawing from existing strategic and technology resources across the globe.

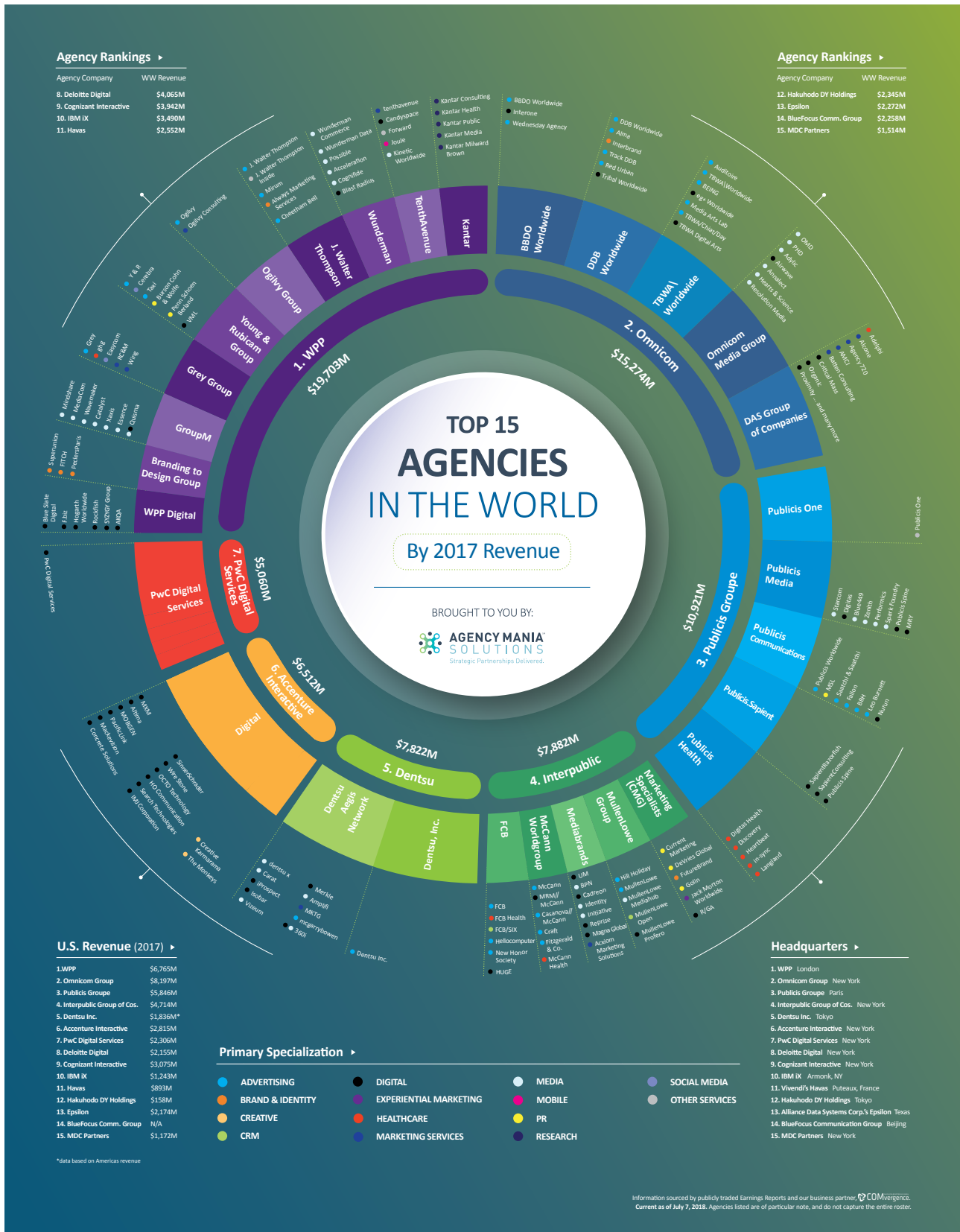


- **Dentsu Aegis Network** acquired Sydney-based Amicus Digital Ventures, a cloud consulting and technical services provider in Australia. The acquired agency, renamed Amicus Digital, will fold under Merkle and be responsible for building Salesforce Marketing Cloud capabilities.
- **Dentsu** acquired Scotland-based creative agency Whitespace. Whitespace will remain a standalone specialized agency within Dentsu Aegis Network North. The agency will continue to offer brand strategy, digital production, content, and integrated campaigns across mobile, augmented reality, and virtual reality.
- **WPP's GroupM** sold its Chicago-based sponsorship consultancy practice, IEG, to Engine Shop, a fast-growing sports and entertainment agency. WPP acquired IEG in 2006. The move is expected to expand their capabilities and GroupM's strategy pursuing sports opportunities in local markets with specialized agencies and partners.
- **Omnicom** acquired Credera through its digital and CRM specialist unit, Omnicom Precision Marketing Group (OPMG) which already includes Javelin, Organic, Proximity, RAPP, and Targetbase. Credera's specialty is in ecommerce platforms. Current clients include Southwest Airlines, National Geographic, HomeAdvisor, etc.
- **Publicis Communications** acquired Brazilian agency One Digital. The agency will join the Groupe's creative hub network which includes Publicis Brazil, DPZ&T, Talent Marcel, Leo Burnett Tailor Made, and other agencies.
- Per ExchangeWire and IPONWEB, 49% of global media agencies, and 56% in North America, use their own technology to conduct **programmatic media buys** and 34% adopt a hybrid approach with third parties. 17% leverage exclusively third-party offerings.

Noteworthy quotes:

- » "In a time when every medium requires its own message, it's a mistake to think one big idea will be repeated everywhere or that one big agency can manage the whole process. That's why it's time to shed the AOR security blanket and get to work alongside the specialists that can help you break through the noise."
—Nate Houghteling, Co-founder and Executive Producer, **Portal A**
- » "We believe the trend of clients taking more work in-house will continue, particularly with digital marketing, ecommerce, and CRM... It is a strategic asset for companies to own and control their customer experience and marketing. In-sourcing digital marketing is a means to that end."
—Jay Pattisall, Principal Analyst, **Forrester**
- » "The [in-house team] provides two things. One is complete integration—same goals, same agenda, the ability to solve problems very quickly, much greater learning across the organization. And most importantly what that leads to is they are more agile and responsive to the marketplace."
—Julia Goldin, Global CMO, **LEGO**
- » "The in-house model makes sense for some brands, but not all. It made sense for Verizon because we're on a journey of transformation. In terms of where the category and the industry are moving, it requires definition and a new approach."
—Andrew McKechnie, Chief Creative Officer, **Verizon**
- » "I didn't join Spotify with the intention of building an in-house team. For a long time, I rejected the conversation about in-house versus agency. It's not really a 'versus' in any capacity; sometimes people want to frame it that way but it's not motivating for either team."
—Jackie Jantos, Vice President of Brand and Creative, **Spotify**
- » "Externally the agencies look at their own margins and how much they charge the client, how many hours they dedicate to the project. That is not what our agencies are rewarded on-getting more out of the client. They are reward on being more productive."
—Julia Goldin, Global CMO, **LEGO**
- » "Frankly, from an efficiency perspective, it's not super-efficient to build out a big in-house agency either... The agency doesn't define it for me, which historically they have. I take control of it, the agency executes."
—Aditi Gokhale, CMO, **Northwestern Mutual**





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WORK: producing great work and outcomes

Brand advertisers' needs far exceed clever creative concepts or independently developed media plans. Marketing cannot operate in silos any longer. Advertisers must partner with agencies to combine brand strategy, data analysis and insights, customer journeys and storytelling, content strategy, and audience development across platforms. Many wonder what work they must own internally and what is best outsourced to agency partners. For many CMOs, it's a million-dollar question.

- ANA introduces **Marketing Futures**, providing resources that will influence and inform via member cases, research studies, and insight from industry innovators, allowing them to keep up with the latest trends and technologies.
- Pepsi Frito-Lay and agency Goodby Silverstein & Partners launched the "What Do You See in Your Cheetos?" campaign for its **Cheeto brand**, inviting fans to submit unique and interesting shapes from their bags of Cheetos, snap a photo and then submit to CheetosWinWhatYouSee.com. The brand will award \$100,000 in prizes and fan-submitted designs will be displayed in their pop-up Cheetos Museum.
- Google launched a new offering called **Local Campaigns service**, which uses machine learning to help increase brick-and-mortar store visits by optimizing ad placement across various Google platforms.
- In response to a complaint from the US Department of Housing and Urban Development, **Facebook** removed over 5,000 ad targeting options (related to race, ethnicity, sexual orientation and religion) with the potential for abuse and discriminatory ads across its platform.
- Per Dentsu Aegis Network, 42% of **CMOs** say their agency partners are "strong" at delivering integrated marketing solutions. 69% claim budgets will increase in 2018, mostly to fuel growth. 85% claim they have a "clear data strategy."
- To prepare for its continued growth, ecommerce giant **Amazon** consolidated its three ad offerings—Amazon Marketing Services (AMS) for search, Amazon Ad Platform (AAP) for self-serve buying, and Amazon Media Group (AMG) for managed services—into a single platform and group.
- Iconmobile's **oral-b genius** is the world's first intelligent toothbrush system that helps to improve brushing habits. It combines cutting-edge motion sensor technology located in the brush, and video recognition using the smartphone's camera. The app is available in 100+ markets in 50+ languages. A good example of worldwide orchestration: the product was developed by iconmobile, designed in California (iconmobile Santa Monica), and developed in Germany (iconmobile Berlin).
- Ignition's CEO Tim Williams proposed we go beyond "scope of work" to "**scope of value.**" He proposes five key outcome types: business-related, marketing-related, customer-related, channel-related, and internal outcomes.

- Streaming music service **Pandora** launched three new ad formats. The service, which has 71 million active monthly users and six million paid subscribers to its ad-free service, wants to offer dynamic, sequential, and short-form (:04-:10 seconds long) audio options. Sequential audio ads allow brands to tell a story in sequential order, using multiple ads.
- Olay empowers people to go makeup-free with a campaign "**Face Anything.**" For this campaign, Olay partnered with Aly Raisman, Lilly Singh, and Denise Bidot, three women who are not only challenging beauty standards but also inspiring others to love themselves and use their voices.
- **L'Oréal** and **Facebook** announced a partnership to develop augmented reality applications for brands including Yves Saint Laurent, Lancôme, Giorgio Armani, and L'Oréal Paris. The first project is for NYX Professional Makeup, which leverages L'Oréal's ModiFace technology to enable users to try out makeup before purchasing products.

Noteworthy quotes:

- » "Make 'Scope of Value before Scope of Work' a mantra in your firm. On every proposal, every brief, and especially on every SOW document, insert a section on Scope of Value and articulate the desired outcomes related to the assignment. If you want to capture more value, start by employing tools and techniques that will help you create more value."
—Tim Williams, Founding Partner, **Ignition Consulting Group**
- » "We're reinventing how we work with agencies, which is less outsourcing and more 'hands on the keyboard.'"
—Marc Pritchard, Chief Brand Officer, **P&G**
- » "Marketers are struggling to find great content that will break through—and are moving in larger numbers than ever to find new partners. On the media side, we're seeing a 'second wave' of reviews since the release of the ANA transparency report that are looking for more transparent partners."
—Greg Paull, Principal and Co-founder, **R3**
- » "We have to be true to the customer journey; thinking about customer first drove decision to flip marketing a little more in-house. Transparency in technology from audience list to execution, knowing we have a bit of online to offline hurdle, not so easy to do with an agency."
—Michelle Alfaro, Senior Manager, Programmatic Display Advertising, **Nordstrom**
- » "This is a decisive moment for the future of the advertising industry. The needs of brands have changed, and it's high time to reexamine the best creative approach to meet those needs. My time away from advertising was largely spent advising and investing in tech startups, and I learned about the processes that drive those successes. I think advertising agencies can benefit from the lean and agile practices that have revolutionized so many other industries."
—Alex Bogusky, Co-founder, Chief Creative Engineer, **CP+B**

- » “In the new world, the consulting mindset will win out for better or worse. At the holding company level, we can see with the departure of Sir Martin Sorrell and the “retirement” of Maurice Levy, that there is a new generation of leadership. This will also filter down to the agencies themselves.”
—Alex DeGroot, Media Analyst, **DeGroot Consulting**
- » “We continue to believe in our strategy of being data agnostic and leveraging the best data sources available around the world. We continue to believe ... our clients must stop being disintermediated from their data and they need to build robust data strategies building and enhancing their own first-party data sources.”
—Steve King, CEO, **Publicis Media**
- » “You can’t drive growth unless you can bring your brand, your product, your customer experience, and everything else together into one system. The customer today is too much in control for those things to be disparate within an organization.”
—Keith Johnston, VP and Research Director CMO, **Forrester Research**
- » “At HP, for instance, we have championed a new agency partnership model—one that enables us, as a brand, to better know our customers and encourages our agencies to refocus on their creative capabilities. We’ve built a lot of media buying and analytic capabilities internally and absorbed a lot of that work in-house, so our agency partners can dedicate their time, efforts and resources to growing their creative talent.”
—Antonio Lucio, Former CMO, **HP** (now CMO at Facebook)

Keeping up with the fast-paced advertising production community

By Jillian Gibbs, CEO, Advertising Production Resources (APR)

Experiential Marketing: The Importance of GREAT Brand Ambassadors

Picture this: It’s a sunny Saturday afternoon. You’re at the BBQ Ribfest with your family. As you look around the festival/eat-athon/concert, you are enjoying all the event has to offer—from free samples of soda to bull rides—as you listen to the sweet musical stylings of CeeLo Green. Out of the corner of your eye, you spot the car of your dreams on display. “Man, that’s a sweet ride,” you think to yourself. Licking the tangy BBQ sauce from your fingers, you walk into the display to check it out. “I’ve always wanted one of those,” you think. “Now is my chance to explore this beauty in a pressure-free setting.”

A growing number of brands are concentrating more on quality engagement of the consumer over anything else. Brand Ambassadors (BAs) have the most important job in the Experiential Marketing industry; they are the face of the brand. They are representing YOUR brand. You don’t want someone representing your brand who is not committed to the consumer and is just there to get a paycheck.

“We live in the land of lines, whether you’re going to the bank or through the security line at the airport, waiting at the restaurant, and so you’re going to remember good service, you’re going to remember that person who checked you in at the hotel, and you’re also going to remember the bad,” says Victor Torregroza, Program Manager, Brand & Reputation Marketing at Intel. “I brought forward the basics to Intel, whether it’s eye contact, listening, qualifying. These have worked really well at our activations, especially the trade show environments like CES, which is a huge investment, and so we put that extra effort into training.”

Gone are the days where all it took was a pretty face to represent you. You need to be able to arm your Brand Ambassadors with the adequate training they need to answer any question they get at your events—and the knowledge to know how to handle questions they can’t answer. According to Event Marketing Magazine, there are three steps you should take in cultivating the right people for your event:

Invest in the interview:

It’s easy to spot a pretty face wearing nice clothes. But it should never stop there. You want people who are outgoing, passionate, and willing to invest in your company as much as your own employees do. Also, when you are interviewing, think of yourself as one of your customers. Is this someone you would want a demonstration from?

Invest in the training:

The proper training for a BA is as essential to the event as the product. When the right people are trained properly—and when they believe in what they are doing—they will be committed and engaged.

Invest in social currency:

Employing BAs who have an intimate understanding of social media can help your brand tremendously. There are times when the customer may not be savvy with Instagram and Twitter, but Brand Ambassadors should have the ability to make it accessible, easy, and fun. Remember, your event footprint expands dramatically when people are talking about it over social media.

Bottom line: if you’re not investing in the people who are talking to your customers, your brand will suffer. By hiring the right people who are personable, passionate, and knowledgeable, you are less likely to have a customer leave your event display and go to a competitor.



FINANCIALS: driving efficient use of resources

You can't talk about money in advertising without addressing the topic of trust. Per Ignition founder Tim Williams, "Transparency is for windows, not pricing professional services." This is a controversial topic among advertisers and agencies. He then asks, "So what should be on the table in discussions about the business relationship between a marketer and its agency? The agency's costs (hourly rates) or the value of the solutions it provides?" How far should advertisers push to get transparency, and is that exchange of information always mutual? It's often about finding the right balance. McKinsey recently provided an update on progress made on increasing transparency: great progress was made as it relates to media practices and rebates, but there is more to be done, especially in programmatic and production. The years of non-transparent media supply chain are long gone. Focus is on third-party, accredited measurement verification for audience reach; transparent agency contracts; fraud prevention; and brand safety measures.

- Per PQ Media, **worldwide marketing spending** is expected to reach \$1.3 trillion by the end of 2018, a 5.5% increase YOY and one of the highest growth figures in the decade.
- **Amazon** is grabbing a significant share of the advertising industry. Amazon's advertising business hit \$2.2 billion in revenue in the second quarter, growing at 132%. A drop however as Amazon's total sales hit \$52.9 billion, an increase of 39% YOY. Amazon is on pace to do between \$4 billion and \$5 billion in ad sales for the full year, reflecting the rapid adoption of the services by brand advertisers. Analysts predict that Amazon's ad business might outgrow Amazon Web Services by 2021 with revenue to reach \$16 billion.
- Per Forrester, advertisers will spend \$102.8 billion dollars a year on **video ads** by 2023, up from \$90.7 billion this year. Online video includes both free and paid streaming from web-based services, TV networks, and social media. Online video's share of ad spending is expected to grow from 21.2% to 34.3% in 2032. The number of online video viewers in 2018 (200 million) is fast approaching the size of the TV audience (258 million).
- Per WARC, **global advertisers** are expected to spend \$29.8 billion in digital video in 2018, up 27.5%, with social video accounting for the majority of spend and 7.5 percent of the total \$170 billion anticipated to be spent on video advertising overall. Influencers accounted for 84% of video views on YouTube during the first quarter. Online video consumption is expected to reach 84.1 minutes per day in 2020, a 26.6 percent increase YOY.
- Global packaged-goods **P&G** eliminated \$1 billion in agency fees and production costs in the last four years. The brand is expected to cut another \$200 million over the next two fiscal years. It recently eliminated substantial waste in the media supply chain, reducing media costs by 20% and moving some functions in-house. Yet, overall ad spending was flat, spending close to \$7 billion globally.
- Per Merkle and its Q2 2018 Digital Marketing Report (DMR), advertisers spent more on **Sponsored Products**, up 165%, during the second quarter of 2018 (of which Amazon represents 88%).
- The **US Army** spent \$930.7 million on marketing programs that failed to demonstrate significant returns between 2013 and 2016, according to an audit by the US Army Audit Agency.
- Streaming service **Netflix** now has 130 million subscribers and a \$2 billion marketing budget. The company will spend around \$8 billion on content—including 80 new original films—in 2018.
- Per Market Research Engine, the worldwide **digital out-of-home** market is projected to grow at a rate of 10% per year, surpassing \$5 billion by 2022, partly spurred by the rise in programmatic ad sales.
- **Management consultancies** Accenture, PwC, IBM, and Deloitte entered Ad Age's ranking of the 10 largest agency companies in the world last year, with a combined revenue of \$13.2bn (£10bn). This year, their combined share is expected to have expanded significantly.
- Per IHS Markit, the estimated value of **blockchain** for the advertising and media industry will be \$122 billion by 2030—up from about \$10 billion in 2025.
- Per R3, **new business revenue** for agencies increased 36% during the first half of 2018, compared with the same period in 2017, reaching \$1.09 billion. This is a total of 3,401 agency new business wins from over 700 agencies globally. New creative business revenue jumped 57%, with a five percent increase in total new business wins and with Publicis emerging as the leader, followed by Ogilvy and Havas Worldwide.
- Per R3, total deal value for **M&A activity** in the marketing sector increased 88% in the first half of the year to \$9.3 billion, compared to the same period last year. The number of deals remained at under 200, but deals are far larger.
- Per JEGI, there were 950 **media M&A transactions** during the first half of 2018, worth roughly \$140 billion, a 43% increase YOY, mostly due to large-cap transactions. For example, AT&T spent \$2 billion on AppNexus, a top programmatic advertising platform.
- **AT&T** generated \$9.6 billion in revenue in the second quarter across WarnerMedia (formerly Time Warner), its linear and digital TV distribution businesses, and its advertising business. AT&T's advertising business, AdWorks, brought in \$461 million in Q2 revenue, up 16% YOY, and brought in over \$1.8 billion in revenue over the past year.
- Ad dollars continue to shift from Facebook to **Instagram**. Per Merkle, Facebook ad spend (excluding Instagram revenue) grew 40% YOY in Q2 2018, while spend on Instagram grew 177% during the same time period. Instagram impressions went up 209% and CPMs (average cost per 1,000 impressions) decreased by 10%.
- Strong of 200 million monthly active users, pre-IPO **Pinterest** is expected to hit \$1 billion in ad revenue this year, doubling sales since last year. Its valuation is estimated to be between \$13-15 billion.

Holding company earnings results:

- » **Interpublic Group** posted a 6.2% net revenue gain in the second quarter to \$1.95 billion as a result of strong performance by media and creative agencies with contributions from digital services, PR, event, and sports marketing. Recent wins included Initiative's two recent global wins—Converse and Revlon. UM expanded its business with Nestle and McCann added Godiva and L'Oréal Paris to their roster. Operating income for the period was up 10% to \$249.2 million. Organic revenue growth was 5.6% (4.6% in the US and 7.2% internationally), much better than that reported by rivals Publicis Groupe and Omnicom.
- » **Omnicom's** worldwide revenue in the second quarter of 2018 increased 1.8% to \$3.86 billion from \$3.79 billion in the second quarter of 2017. Omnicom reported a 2% increase in organic revenue (1% drop in North America but with 11.2% increase YOY in Europe). In 2017, North America contributed 57% to Omnicom's revenue, while Europe contributed 27%. Recent big wins were BBDO (Dunkin' Donuts), PHD (HSBC), and GSD&M (Pizza Hut). The disappointing numbers are the result of several advertising and media client losses that occurred in the prior periods along with reductions in scope and declines in programmatic. Advertising increased 1.6%, CRM Consumer Experience increased 7.1%, CRM Execution & Support decreased 4.4%, Public Relations increased 2.7%, and Healthcare increased 4.8%. Profits were up 10% to \$364.2 million. Operating margin for the second quarter of 2018 of 15.1% was unchanged compared to prior years.
- » **Publicis Groupe** reported H1 revenue of 4,280 million Euros, a decline of -0.5% YOY. Organic growth was 0.4% with operating margin of 611 million Euros, or an operating margin rate of 14.3%. In the second quarter, net revenue was 2,198 million Euros, with -8.3% growth (-2.4% at constant currency), organic growth decline of -2.1%. Publicis reported that GDPR-related programmatic spending pauses contributed to weaker than anticipated results.
- » **MDC Partners** reported revenue of \$379.7 million versus \$390.5 million a year ago, a decline of -2.8%. Revenue for the first six months of 2018 was \$706.7 million versus \$735.2 million for the first six months of 2017, a decline of -3.9%. The company posted weak organic growth results (-1.7%) as a result of client cutbacks, project delays, and a slower conversion of new business wins. Net new business wins totaled \$17.1 million.

Noteworthy quotes:

- » "When we procure with purpose, we don't just drive business outcomes, we drive human outcomes."
—Tifenn Dano Kwan, Chief Marketing Officer, **SAP Arriba**
- » "We never ever, ever, ever took an idea of an agency and give it to another one. That would be totally pointless for one reason. We pay them all the same. So why would I? It makes no sense."
—Olivier Francois, CMO, **FCA**
- » "So, companies have achieved between 10 and 25 percent reductions in aggregate [as a result of ZBB]. As you drill down into certain cost categories—and depending on how aggressive and transformational you want to be—you can certainly see 50 to 60 to 75 percent cost reductions in particular cost categories."
—Jan Perkins, Senior External Adviser, **McKinsey**
- » "Negotiating a contract or price with a client is a dance, and if you don't have rhythm it can be an awkward process. But price shouldn't be the only thing on your client's mind. If they seem to be only focused on money, tracking your work down to the dollars, that's a sign to walk away."
—Les Kollegian, CEO/Founder, **Jacob Tyler**
- » "To evolve internal agencies that have mastery of the business (products/services, audiences, market segments), command of the brand DNA and a high degree of digital and creative prowess, C-suite executives need to stop looking at the in-house model as a way to save and start looking at it as a corporate strategy."
—Marta Stiglin, Former In-house Agency Executive and Founding Member of the **In-house Agency Forum**
- » "We're not trying to make money in the operation. External agencies are 'profit centers.' We're here just to cover our costs. We're studying rates; it's all about getting to net zero versus showing shareholders or constituents a profit."
—Jarrett King, Director, Coca-Cola Studios, **The Coca-Cola Company**
- » "A real partnership that will stand the test of time will require radical transparency."
—Kevin Kelly, President, **BigBuzz Marketing Group**

PERFORMANCE: driving stronger performance and value from the partnership

What makes a particular client/agency relationship perform strongly? We conduct hundreds of performance evaluations on behalf of large brand advertisers, so we know that some topics are quite popular, including improving strategic guidance, encouraging innovation, fostering collaboration, reducing waste, and driving efficiencies. Strategy and creativity are still front and center of the CMO's agenda. This is increasingly seen as a competency clients must develop internally, and not just rely on partners to provide

- Per Chris Wallrapp, the formula for a **high-performing agency** is the following: Focus on gaining approval for work in the first round 75% of the time by actively engaging clients in the process, make it your goal to receive 50% of your revenue from things you didn't offer five years ago, and recruit 25% of your talent from outside advertising.
- Per Les Kollegian, CEO/Founder Jacob Tyler, here are three reasons to **walk away** from a potential new client: 1) Cultures aren't aligned; 2) They only care about money; 3) Lack of knowledge around your skill set.
- Google introduced "**Ad Strength**" as a new metric based on the relevance of an ad. The ad metric gives advertisers a barometer to measure whether the content in the ad ranges from "poor" to "excellent," and measures the relevance, quality and diversity of ad copy.
- **Twitter** removed tens of millions of suspicious accounts from follower rolls which has diminished the trust of both consumers and advertisers in their platform.
- Per the World Federation of Advertisers (WFA)'s "**Global Media Charter**: Advertisers' principles for partnership in the digital media advertising ecosystem," here are eight principles designed to improve partnerships:
 - 1) Zero tolerance to ad fraud with compensation for any breach,
 - 2) Strict brand safety protection,
 - 3) Minimum viewability thresholds,
 - 4) Transparency throughout the supply-chain,
 - 5) Third party verification and measurement as a basic,
 - 6) Addressing 'walled garden' issues,
 - 7) Improving standards with data transparency, and
 - 8) Improving the user experience.
- Per a study by SimilarWeb, the five websites receiving the **most traffic** in the US in past years have been Google, Facebook, YouTube, Yahoo, and Amazon, respectively. Facebook has seen a severe decline in monthly page visits, from 8.5 billion to 4.7 billion in the last two years while YouTube is gaining momentum, soon to surpass Facebook.
- Havas-owned agency **Victors & Spoils**, once positioned to lead the ad industry with its "crowdsourced" approach, shut its doors after nine years. The agency worked with Adidas, JCPenney, and Harley-Davidson, among others. The idea for the agency originated from a project in which CP+B called upon fans of Harley-Davidson to design a new logo.

- Butler, Shine, Stern & Partners won **Ad Age's Small Agency of the Year** award. Ad Age's small agency of the year runner-up is Santa Monica's Mistress. International Small Agency of the Year winners were Bensimon Byrne (Gold) and No Fixed Address (Silver).

Noteworthy quotes:

- » "Internal agencies are supposed to make the work better and cheaper—more aligned to our businesses. Instead, almost everyone I speak to, agencies and marketers alike, is miserable and scrapping for work."
—Teresa Herd, VP and Global Creative Director at Intel and leads Intel's Internal Creative Agency, **Agency Inside**
- » "In zero-based budgeting, the mind-set or the approach is that cost is the one thing that managers have complete control over—especially fixed costs. And therefore, we should incentivize managers, or measure the performance of managers, based on that as an explicit metric rather than an implicit metric by measuring the other two."
—Kyle Hawke, Partner, **McKinsey**
- » "I think the biggest concern for the holding company model, and agencies in general, is fixing themselves. I think the competitive set will take work from the industry, but it won't take all the work. The sort of work it takes will depend a lot on how the holding companies, and the industry, reinvents itself."
—Nick Law, Global Chief Creative, **Publicis Groupe**
- » "The truth is there are probably as many [agency roster models] as there are WFA members, and that's only increasing. I think that's a reflection of people trialing out new, bespoke approaches that suit their business."
—Robert Dreblow, Global Head of Marketing Services, **WFA**
- » "If you need to outsource your strategy to an agency, then you are in trouble. I need them to come with the right spark at the right moment and help me bring the best commercial ... but the strategy should belong to the brand... You are going to cast the guy or lady who is more likely to fit the role. There is an AOR for each [brand]. When we are not happy, we change. We change very often."
—Olivier Francois, CMO, **FCA**
- » "Remember, change is inevitable. Growth and success are not. What lies before us in marketing is happening whether we like it or not. Embracing it. Adapting to it. That is the only way that change becomes growth, success and true meaningful impact."
—Antonio Lucio, former CMO, **HP** (now CMO at Facebook)
- » "The new reality of the world we are seeing is trust but verify. You have to have the discipline, the protocols, and the tools to do that."
—Robert Tas, Associate Partner, **McKinsey & Company**

Agency Mania: don't panic, it's a good thing

By Patricia Berns, Strategic Agency Consultant at Agency Mania Solutions

Meet our newest Agency Competitor

Yes, we've seen Accenture, Deloitte, McKinsey, PwC, and others acquiring advertising companies and positioning themselves deep within the marketing organizations of major brands. So, who is the most recent entry into this field? Amazon! Amazon is increasingly working directly with big brands and by-passing the brands' agencies.

The Data Tsunami

It's no surprise that Amazon is at the top of many Marketers' minds today. They have always had a robust direct line to brands via their Amazon Marketing Services offerings. However, working with brands for big media buys, without involving the agencies in the process, only started recently. eMarketer's co-founder, Geoff Ramsey, said that Amazon was the second fastest growing advertising company in 2017, second only to Snapchat. JP Morgan forecasts Amazon's ad revenue could reach \$4.5 Billion in 2018. One of Amazon's strengths that is highly valued by CMOs and brand media leads is their ability to provide a very clear assessment of what's working throughout each step of the customer journey.

Recognizing the critical role this plays with their clients, Amazon continues to invest in their ad tech, search advertising, and data intelligence products—a space that historically was owned by Agencies. Perhaps the most valued part of Amazon's growing advertising suite is the possibility of integrating data into a multi-touch attribution that will allow marketers to better define audience segments and target customers through a more holistic approach. This includes targeting at scale across behavioral, contextual, demographic, and geographic targeting—making it an ideal platform for e-commerce. Brands who have chosen to work directly with Amazon on their media buys have said the benefit of working directly with Amazon's Media Group is greater speed, operational efficiency, and the depth of the insights that Amazon brings to the table.

The Agency's opportunity ... Insights and Inspiration

One huge challenge brands face today is making sense of the sheer volume of data that comes their way. Agencies can take advantage of this "challenge" and, like Amazon, update/upgrade their technology platforms to enable more workflow automation tools, new dashboards that enhance marketing measurement, and improved content delivery to enable real-time sharing of insights, not just the data.

Brands rely on the agency's expertise to separate the actionable insights from the data tsunami, to convert those insights into inspiring campaigns, inform targeting strategies and guide them on how to become more agile and interactive throughout the entire process. No amount of raw data is going to guide clients to the key intersection of creativity and media. Creating purpose-driven platforms that bring together the context of the data with the culture of the brand enables critical thinking and creativity to merge.



AGENCY REVIEWS AND ROSTER CHANGES

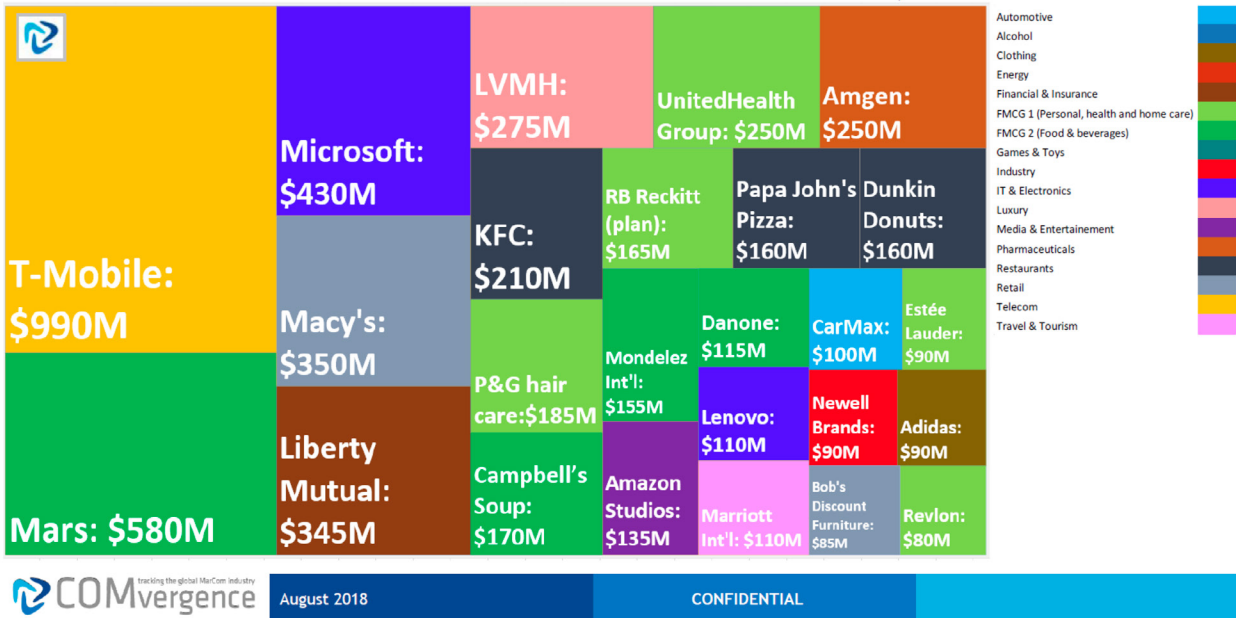
According to the latest data by our partner and research firm **COMvergence**:

- In the US, the top 25 media reviews completed YTD amounted to \$8 billion in media spending.
- Another \$3.5 billion still in play.

USA MEDIA AGENCIES - NEW BUSINESS BAROMETER

TOP 25 MEDIA PITCHES & MOVES COMPLETED IN THE USA (2018)

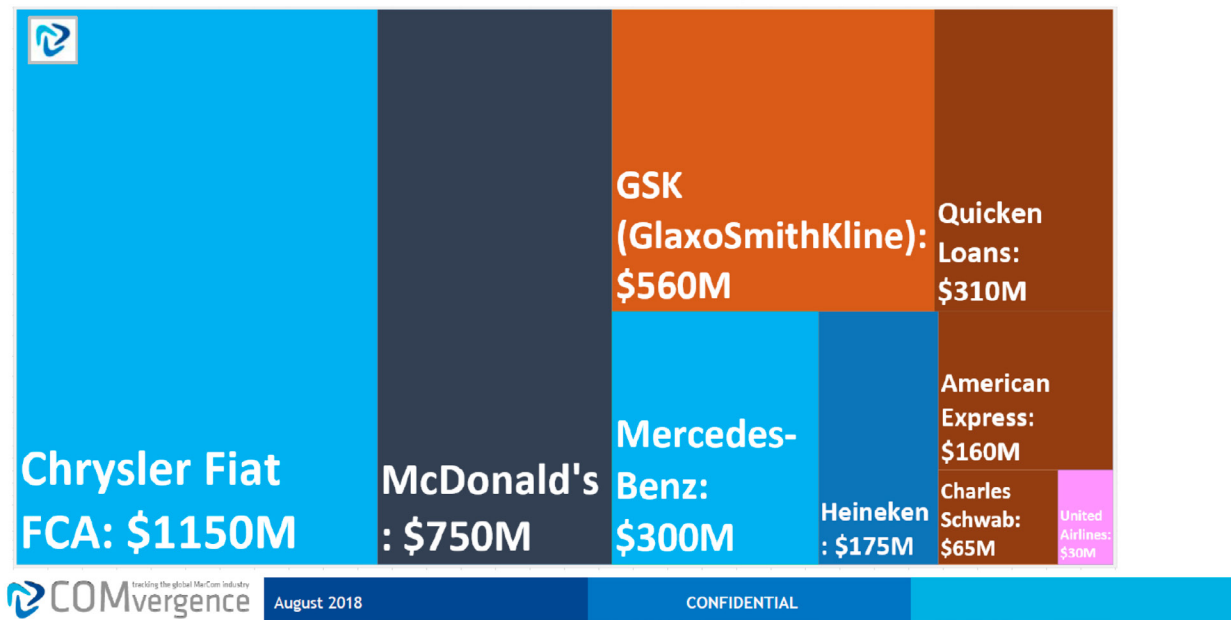
BUDGET ≥\$80M / TOTAL US SPEND REVIEWED SINCE JAN.2018: \$8B)



USA MEDIA AGENCIES - NEW BUSINESS BAROMETER

MAJOR ONGOING MEDIA REVIEWS IN THE USA

TOTAL US MEDIA SPEND CURRENTLY PUT IN PLAY: \$3.5B)



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Disclaimer: The reviews listed often capture larger review activity reported in the industry trade press, which we understand to be only a subset of total review activity. Specialist reviews (digital, social, PR, etc.) are rarely reported in the trade press. Also, due to the increasing number of project reviews (versus AOR/retainer reviews), many of those are not receiving media attention and therefore are not included here.

- **Kimberly-Clark Corp.** hired Interpublic's FCB to handle its global family-care strategic and creative account (Kleenex, Cottonelle, Scott, Andrex, etc.), replacing incumbent WPP's JWT. JWT will remain on the roster handling other brands.
- **Samsung** appointed Leo Burnett as global creative AOR for the brand's visual-display division, replacing incumbent adam&eveDDB which previously handled creative for the US and UK. Starcom will handle media planning and buying as its global media AOR.
- Luxury goods conglomerate **LVMH (Louis Vuitton Moët Hennessy)** selected Dentsu Aegis Network to handle its media buying and planning in North America following a review, replacing incumbent Havas Media. The brand has worked with Havas Media for nine years, and will continue work with Havas in other markets.
- Gaming developer and distributor **Activision Publishing** (part of Activision Blizzard—with titles like Call of Duty, Destiny, Spyro, and Crash) consolidated its global media assignment with Omnicom Media Group's OMD, without a formal review. OMD, the incumbent for the North America and Latin America regions, now adds Europe, the Middle East and Africa, and Asia-Pacific assignments to its remit, replacing EMEA and APAC incumbent GroupM's Wavemaker.
- **Northwestern Mutual** selected Horizon Next, the media agency's direct marketing division as media AOR, following a formal review, replacing incumbent Spark Foundry. The agency will handle strategic communications planning, media activation, and advanced analytics across all media channels.
- **Sparkling Ice**, part of Talking Rain Beverage Company, hired marketing agency Epsilon as its new AOR, following a review, expanding its existing relationship that began in 2014. The agency will handle creative strategy, media, analytics, and shopper marketing.
- Dietary supplement company **Thorne** appointed Droga5 New York as its marketing agency of record without a review. The agency will handle business design, branding and related marketing communications.
- GPG giant **Mondelez International** concluded its global media review by adding WPP's GroupM to its roster and shifting major work to Wavemaker and Mindshare in some regions from Carat which loses work in Asian and EMEA. Spark Foundry picked up work in China and Southeast Asia. The move was motivated by the desire to address opportunities in programmatic, transparency, and ecommerce.
- **MillerCoors's Leinenkugel** selected MDC Partners-owned Mono of Minneapolis to handle its creative duties, replacing incumbent Venables Bell & Partners.
- Pet care, confectionery and packaged food company **Mars Inc.** consolidated its global media buying and planning with GroupM's MediaCom. MediaCom previously handled media planning globally since 2014. The buying was previously handled by Publicis Groupe's Starcom, WPP MediaCom, and Omnicom Group's OMD.
- **United Airlines** kicked off its global media and digital agency reviews. Incumbent media agency Wavemaker and digital agency Wunderman will most likely defend.
- Big win for WPP. **Shell selected** Edelman, VCCP, VCCP Retail, Doremus and 4 WPP agencies—Wunderman, H+K Strategies, Geometry Global, and Mirum—to join its global "Creative Agency of the Future" roster of now eight, and reappointed WPP's MediaCom to handle global media planning and buying duties in 40 markets globally, following a review.
- Insurer **PEMCO Insurance** selected Minneapolis-based independent agency Periscope after a formal review, replacing incumbent DNA. The agency will handle strategy, creative, website development and media planning.
- **Honeywell** selected an IPG dedicated unit named C2W, combining talent from various IPG agencies under the promise of the holding company's "open architecture" strategy, as its new AOR following a review. The new entity led by digital and B2B marketing agency MRM/McCann, PR and communications firm Weber Shandwick, and experiential agency Jack Morton Worldwide, along with other specialist agencies, will handle brand, advertising, public relations, digital marketing, demand generation, and corporate marketing.
- **Rite Aid** selected Havas North America as its AOR. The agency is creating its first formal specialized in-house team called "Well Village" to serve the account. "Well Village" will assemble talent from various Havas agencies including Havas Creative, Havas Health & You, TRIPTK, Havas helia, and Havas Media.
- Laundry soap brand **Unilever's Sunlight** awarded WPP to handle integrated marketing duties for across Africa following a review. WPP Team Sunlight will include resources from J. Walter Thompson, Ogilvy, Kantar, Mindshare, and other specialty units.
- Restaurant chain **QDOBA Mexican Eats** selected Cogniscent Media (part of agency Marc USA) as its media AOR to handle its offline and digital media account, following a review. The new AOR will partner with the brand's creative agency Mistress.

- Cereal brand **Honey Bunches of Oats** selected San Francisco-based Argonaut as its AOR for creative and social media work following a review, replacing incumbent Public Works only one year after hiring the agency.
- Pizza chain **Papa John's** selected Endeavor Global Marketing as its new creative and strategic marketing AOR. Following revelations of former company CEO and chairman John Schnatter using racist language, four agencies resigned their Papa John's assignments, including Initiative, Fallon, Olson Engage, and Laundry Service.
- High-end kitchen appliances company **Breville** hired Canvas Worldwide as its global media AOR as part of a consolidation exercise. The agency was already handling the brand's US media. The agency will now handle North America, Europe, and Asia-Pacific.
- **Samsung** selected Publicis Groupe's Leo Burnett as global creative AOR for the brand's visual-display division (TVs), replacing incumbent adam&eveDDB, which previously handled creative for the US and UK. Leo Burnett joined the roster in 2004 and is now extending its grab at the advertiser. Starcom remains the AOR for media planning and buying.
- **Church & Dwight** hired 72andSunny New York as the new lead creative agency for Trojan Brand following a formal review and replacing incumbent Colangelo.
- Japan-based videogame and console maker **Nintendo** kicked off its AOR media review. Blue 449, the Publicis Media agency, is the incumbent.
- Gaming giant **Activision** retained MDC Partners' 72andSunny following a review. The agency has served as Activision's creative AOR since 2012.
- **Greyhound** selected Chicago-based Rightpoint as its digital AOR following a review. The agency will handle all digital services across web and mobile channels. The agency will partner with BSSP, the brand's creative agency.
- Freelance marketplace platform provider **Fiverr** selected Mekanism as its new creative AOR, replacing incumbent DCX. The agency will handle integrated marketing and digital.
- **Google** retained creative agency Droga5 and expanded its remit (since 2016) following a review. The agency will handle G Suite (Gmail, Google Docs, Google Calendar, etc.). Other agency relationships like Joan and Pereira O'Dell were not impacted.
- Genetic testing company **23andMe** selected 72andSunny as its new creative partner, following a review, replacing incumbent Venables Bell & Partners. The brand also worked with other agencies on projects.
- **Bayer's Companion Animal** selected a combined partnership between Omnicom's Proximity and BBDO following a review to handle the global account, which includes strategy, creative, digital, and branding duties. The brand previously worked with an array of shops.
- Chinese tech giant **Lenovo** selected a dedicated unit of Publicis Media called Lenovo One Media, directed by Performics and Spark Foundry to handle all its global media strategy, planning and buying duties across the Americas, Asia Pacific, Europe, the Middle East, and Africa, following a review. The brand previously employed various agencies worldwide. Publicis Media's Digitas won the Americas account in 2013.
- Equipment rental company **United Rentals** kicked off a creative review, which includes branding, creative, and activation. The company has been using a handful of creative agencies until now.
- **Kraft Heinz Co.** selected Droga5 as its AOR without a review to handle creative for its Philadelphia Cream Cheese and Kraft Mac & Cheese brands, replacing incumbents CP+B and Leo Burnett.
- **Hilton** selected WPP's MediaCom as its media agency of record for cross-channel planning and traditional media buying following a review, replacing incumbent Publicis Media's Digitas. Last November, Hilton appointed Omnicom TBWA its global creative agency. The brand will continue to work with iProspect, its digital agency of record.



Agency Roster Summary

Client	Incumbent	Change/Scope	Focus Area	New Agency	Review?
23andMe	Venables Bell & Partners	Creative		72andSunny	Y
Activision	72andSunny	Creative		72andSunny	Y
Activision Publishing	Wavemaker	Media	Global	OMD	N
Bayer	Unknown	Creative	Global	Proximity	Y
Bayer's Companion Animal		Creative, Digital, Brand	Global	Proximity, BBDO	Y
Breville	Canvas Worldwide	Media	Global	Canvas Worldwide	
Church & Dwight	Colangelo	Creative		72andSunny NY	Y
Google	Droga5	Creative		Droga5	Y
Google	Anomaly	Creative	Local	Droga5	Y
Greyhound		Digital	Global	Rightpoint	Y
Hilton Worldwide	Digitas	Media	Global	MediaCom	Y
Honey Bunches of Oats	Public Works	Creative, Social Media		Argonaut	Y
Honeywell		Marketing	Global	C2W Unit	
Intuit	Unknown	BCD	Local	Periscope	N
Kimberly-Clark Corp.	JWT	Creative	Global	FCB	N
Kraft Heinz	CP+B, Leo Burnett	Creative		Droga5	N
Lenova		Media	Globa	Lenova One Media (Spark Foundry, Performics)	Y
LVMH	Havas Media	Media	North America	Dentsu Aegis Network	Y
Mars Inc.		Media	Global	MediaCom	N
MillerCoors Leinenkugel	Venables Bell & Partners	Creative		Mono	Y
Molson Coors	Venables Bell & Partners	Creative	Global	DDB	N
Molson Coors	Venables Bell & Partners	BCD	Local	Mono	Y
Mondelez International	Carat	Media	Global	GroupM	Y
Nestle	Retained	Creative	Local	JWT	Y
Nestle	Unknown	BCD	Local	McCann	Y
Nestle	Retained	Creative	Local	Grey	Y
Nestle	Doner	Creative	Local	Publicis Worldwide	Y
Nestle	Retained	Creative	Local	Publicis Worldwide	Y
Nestle	Retained	Creative	Local	Grey	Y
Nintendo	Blue 449	Media			Y
Northwestern Mutual	Spark Foundry	Media	Global	Horizon Next	Y
Papa John's	Initiative, Fallon, Olson Engage, Laundry Service	Creative, Marketing		Endeavor Global Marketing	
PEMCO Insurance	DNA	Creative, Marketing		Periscope	Y
Procter & Gamble (P&G)	Unknown	BCD	Local	Badgers & Winters	N
QDOBA	Unknown	Media	Global	Cogniscent Media	Y
Revlon	Grey	Creative	Global	In-house	N
Rite Aid	Marc USA	Creative	Regional	Havas Worldwide	Y
Rite Aid	Unknown	Creative, Brand	North America	Havas	Y
Samsung Electronics	adam&eveDDB	Creative	Global	Leo Burnett	N
Samsung Electronics	adam&eveDDB	Creative	Global	Leo Burnett	Y
Shell	Unknown	Creative	Global	H+K Strategies, Geometry Global, Mirum, Wunderman	Y
Shell	Unknown	Creative	Global	Doremus	Y
Shell	Unknown	Creative	Global	Edelman	Y
Shell	Unknown	Creative	Global	VCCP, VCCP Retail	Y
Smoothie King	Unknown	Creative	Local	Rodgers Townsend	Y
Sparkling Ice	Epsilon	Marketing	Global	Epsilon	Y
Thorne	Unknown	Marketing	Global	Droga5	N
Unilever's Sunlight	Unknown	Integrated	Africa	Team Sunlight	

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