



AGENCIES: AND NOW, A COMMERCIAL BREAK

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Brian Wieser, Global President, Business Intelligence, GroupM

Strong work, weak industry. With the Cannes Lions International Festivity of Creativity under way this week, many of the world's creative and media agencies will deservedly receive accolades. However, it will be difficult to not notice the contrast between the high quality of the work on display against the weak business conditions of the industry which produced it. We previously explored some of the reasons behind those conditions and some alternative ways to analyze them in a note which can be found here: <https://www.groupm.com/news/agencies-basis-optimism>

A key topic we did not explicitly review in that previous assessment, but which overlaps with the factors we described (and which serves as a basis for negativity among those with bearish views on the industry), is the insourcing of work commonly provided by agencies to marketers.

In-housing was once the default option for all marketing-related activities before agencies came along. At least as far back as the mid-19th century, marketers could contemplate whether or not some of the labor required to produce the work they required should be performed by their own employees or by external specialists. By the late 20th century, most creative and media activity from large brands was outsourced to agencies. However, marketers still continued to perform many functions in-house. In many industries, without formally declaring the formation of an inhouse agency, large marketers commonly oversaw the development of creative assets as well as some media buying, especially in print). Media owners often served as partners in these processes, and agency involvement could be minimal.

Biddable media, access to data and changing needs encouraged some marketers to revisit insourcing in the past decade. In more recent years, several factors caused many marketers to revisit what they insource vs. what they outsource. Those factors include:

- The rise of search and self-service buying platforms in general
- The anticipated emergence of other forms of biddable media
- Access to sensitive customer data that could be used in trading integrated with other non-media functions and
- The increasing need for tighter time frames in accomplishing tasks.

While costs or fee concerns (or sometimes, relatedly, fee transparency) might have been cited by some marketers as they considered revisiting in-housing, those who ultimately followed through typically did so because they believed the choice presented strategic advantages. Some who have explored in-housing ultimately chose not to do so, while some who have in-housed have reversed their choices.

Others have found hybrid models to be a preferred approach and now work with agencies differently than they did in the past. Some who have followed this path have taken ownership of more of their contracts, used creative agency production decoupling services or engaged with their media agency's programmatic consulting services to complement in-housed efforts.

Knowing how much money has flown in-house is difficult (if not impossible) to assess. Knowing the advantages agencies offer is much clearer. Attempting to quantify the scale of any shift towards insourcing is tricky at an industry level, largely because marketers never publicly disclose spending on the agency-like activities they perform in the first place. Further, companies merge, demerge, grow and decline over time, making it particularly difficult to make reasonable historical estimates. It's safer to recognize that there always has been a significant amount of work performed in-house and there likely always will be.

By contrast, the reasons why marketers benefit from using agencies are much clearer. At the risk of appearing promotional – although what is the advertising industry about if not that? – it is always worthwhile to be mindful of the advantages that agencies provide to marketers when marketers choose to outsource:

- Lower fees on a like-for-like basis for most inputs vs. what the marketer can realize on its own, such as technology licenses or non-biddable media
- Application of learnings and best practices, many of which can lead to meaningful cost savings vs. not applying them. For example, a media agency will typically have superior knowledge on aspects of campaigns (such the optimal length of a campaign flight on a given medium for a given type of advertiser) which can lead to lower overall costs even where like-for-like media inventory costs are identical
- Better access to talent, both because of the breadth of the experience talent can receive and the career paths those individuals are more likely able to pursue
- Development of proprietary products for use by multiple clients who can then take advantage of an agency's scale
- More institutional experience working with tools, such as data analytics products
- Application of insights from across any one media channel to any other channel (for example, assessing the impact of a TV campaign on search effectiveness and vice versa)
- Prioritization from partners (such as media owners and technology vendors) both because of scale but also because of presence of greater numbers of staff with relevant technical expertise
- Better visibility on the critical issues facing the industry and thus a louder potential voice on topics that vendors and marketers should focus on. This can help inform the product roadmaps for media owners to better meet client needs.

The development and execution of world-class ideas will not necessarily be a growth business in any one year. As well, the work performed by agencies needs to be put into context of other priorities that marketers have, which could include driving short-term costs down or tightening the integration of agency-like-work into core operations in order to better achieve business goals which go well beyond what agencies might be able to help with. Consequently, it's not a given that every marketer will always want to work with agencies in the future. But for those who do, it's reasonable to assume that they will benefit from the generally superior capabilities that they will durably possess.